OakNorth Bank

Pillar 3 disclosures 2019

Lending for Entrepreneurs, by Entrepreneurs

Contents

1	Overview, scope, basis and frequency of disclosures and location		3
	1.1	Overview and scope	3
	1.2	Basis	3
	1.3	Frequency of disclosures	4
	1.4	Verification	4
	1.5	Location	4
2	Risk management framework and policies		4
	2.1	Overview	4
	2.2	Components of the Risk Management Framework	4
	2.3	Principal risks and uncertainties and Risk appetite metrics	6
	2.4	Control framework	12
	2.5	Risk oversight, monitoring and reporting structure	13
	2.6	Additional information on Governance arrangements	17
	2.7	Adequacy of risk management arrangements	19
3	Capital resources and capital adequacy		19
	3.1	Capital management	19
	3.2	Stress testing	19
	3.3	Capital resources	20
	3.4	Capital adequacy	22
	3.5	Leverage Ratio	23
	3.6	Minimum capital requirement: Pillar 1	24
4	Credit Risk		25
	4.1	Exposures subject to the Standardised Approach	25
	4.2	Maturity bucketing of the exposures	26
	4.3	Geographical distribution	27
	4.4	Sectoral distribution	27
	4.5	Credit Risk Management: Loans and advances to customers	28
	4.6	Credit Risk: Treasury assets	34
5	Interest Rate Risk in the Banking Book		36
6	Liquidity risk		37
7	Operational risk		38
8	Securitisation exposures		39
9	Asset encumbrance		39
10	Remuneration disclosures		40
	10.1	Approach to remuneration	40
	10.2	Board Remuneration and Nomination Committee (REMCO)	41
	10.2.1	Board Diversity	42
	10.2.2	Board Recruitment	43
	10.3	Remuneration Policy	44
	10.4	Remuneration Structure	45
	10.5	Remuneration Components	45
	10.6	Remuneration for Code Staff	48
11	Appendix- Own funds disclosures templates		49

1 Overview, scope, basis and frequency of disclosures and location

1.1 Overview and scope

OakNorth Bank plc (herein referred to as "OakNorth" or "the Bank") is a UK registered bank that is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

OakNorth supports the UK's "middle"- growth businesses that tend to have the largest impact on economies and communities but have been overlooked and underserved for decades- by providing these businesses with bespoke debt finance ranging from £500k to £50 million, while offering attractive online savings products to retail and business depositors. More information on OakNorth's products and business performance are detailed in the Annual Report and Financial Statements[1].

These disclosures were prepared for the stand-alone entity OakNorth Bank plc (PRA/FCA reference number 629564). There are no consolidated entities in OakNorth Bank plc. All information and applicable requirements detailed in this document apply to the Bank on an Individual basis only.

1.2 Basis

This Pillar 3 report is based upon OakNorth's Financial Statements for the year ended 31 December 2019. These were prepared in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD IV) which came into force on 1 January 2014.

OakNorth has adopted FRS102 (Financial Reporting Standard applicable in the UK) for preparing its financial statements. On 1 January 2019, the Bank adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement', based on the accounting policy choice permitted under FRS 102. This resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated; accordingly, all comparative period information is presented in accordance with our previous accounting policies. According to the requirements of IFRS 9, impact of the transition has been recognised in the opening retained earnings of the current period.

In January 2018 the EBA published guidelines on transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. The Bank has not adopted any transitional arrangements and the impact of IFRS 9 transition has been fully included in the CET1 capital.

The functional currency of OakNorth Bank plc is pounds sterling because that is the currency of the primary economic environment in which OakNorth operates.

The report contains information presented for the year ended 31 December 2019, with comparatives for 31 December2018. Any blank cells in the relevant regulatory templates/ tables have not been included in these disclosures.

[1] Available from UK Companies House website https://www.gov.uk/government/organisations/companies-house

OakNorth uses the Standardised Approach for computing capital requirements for credit risk and the Basic Indicator Approach for operational risk. OakNorth does not have any market risk. The disclosures in this document are based on these approaches.

1.3 Frequency of disclosures

Pillar 3 disclosures are published annually subsequently to the Annual Report and Accounts in accordance with regulatory guidelines. We continue to develop and enhance the quality and transparency of Pillar 3 disclosures to ensure that they are as clear and informative as possible.

1.4 Verification

These disclosures were subject to internal verification and approved by OakNorth's Board. These disclosures have not been externally audited and do not constitute any part of OakNorth's financial statements.

1.5 Location

The Pillar 3 disclosures are available on OakNorth's corporate website (www.oaknorth.co.uk).

2 Risk management framework and policies

2.1 Overview

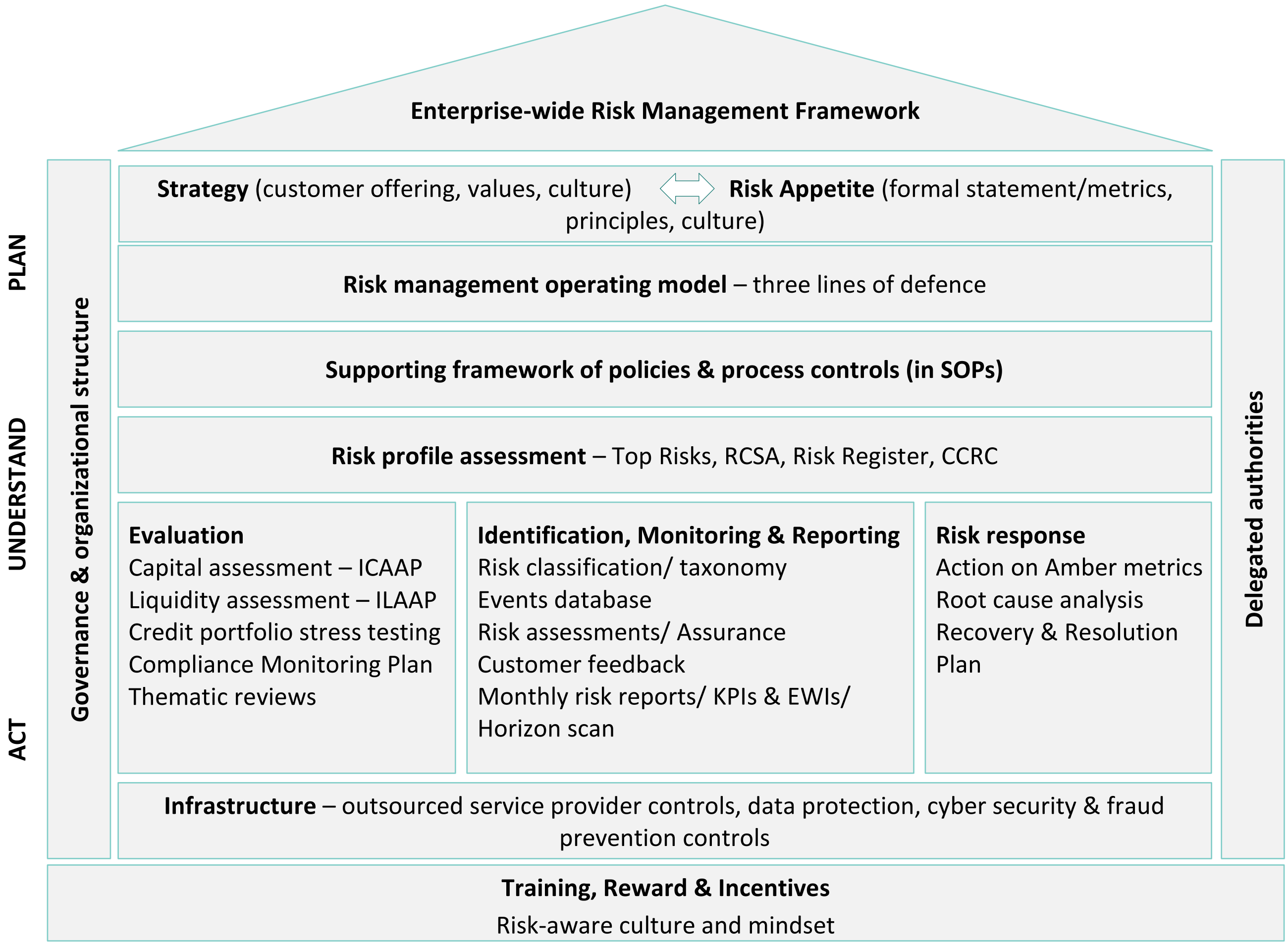
Underpinning OakNorth's operations is a strong and comprehensive risk management framework (RMF) and robust governance structure, designed to ensure that the key risks facing OakNorth are identified, measured, monitored and managed, and that appropriate policies, procedures and controls are established such that each risk is mitigated to an acceptable degree. Our business strategy is set within a defined risk appetite to ensure that we both deliver good outcomes for our customers and stakeholders and build a long-term, sustainable business.

OakNorth's RMF is agreed by the Board and is set in compliance with relevant legal and regulatory frameworks including the FCA and PRA Handbooks, Money Laundering, Anti-Bribery, and CFA regulations, Lending and Conduct codes, the General Data Protection Regulations (GDPR) and accounting rules, the Senior Manager Regime (SMCR), Capital Requirements Directive (CRD IV), codes of conduct (COCON), the Combined Code on Corporate Governance, and the Lending Code. This framework is subject to constant re-evaluation to ensure that it meets the challenges and requirements of the markets in which OakNorth operates, including changing regulatory expectations, industry best practices, and emerging issues.

The RMF details, inter alia, the 'three lines of defence' ('3LOD') model and its operation; the roles and responsibilities of the Committees in place to govern risk; the roles and responsibilities of the individuals responsible for managing the key risks, in accordance with the SMCR; how oversight operates, together with the reporting structure to ensure independent oversight of risk decisions; and the suite of policies, processes and controls employed.

2.2 Components of the Risk Management Framework

The RMF is shown graphically below, and each element is described:



- **Strategy** – Sets the Bank's goals over the planning horizon and the methods to achieve them. Includes the Bank's Values, and describes the target markets, product offering, and customer journey. Reviewed annually

- **Risk Appetite** – Sets the quantum of risk the Bank is willing to accept to achieve its strategic business objectives, with tangible risk metrics in place to identify when action is required. Risk management aims to protect the long-term value of the firm

- **Governance** – Defines the system by which the Bank is directed, controlled and held accountable

- **Delegated authorities** – Defines the authority delegated by the Board and for which individuals are held accountable

- **Risk Management operating model** – Enables each individual to understand their role in managing risk, set out according to 'three lines of defence' principles

- **Policies** – Principles-based policies to address the material risks in a consistent and efficient manner, and in a way proportionate to the relatively simple structure of the OakNorth business

- **Controls** – Proportionate actions taken by management to mitigate the risks within the Bank's risk appetite

- **Risk profile assessment and evaluation** – In accordance with best industry practice, the Bank uses several tools to assess its risk exposure, both at a point in time and over the planning horizon. These tools include: Risk Registers, Risk & Controls Self-Assessments, Compliance Monitoring Reviews, Enterprise-Wide Risk Assessments on a range of subjects, ICAAP and ILAAP, Recovery and Resolution Plans, Stress-testing and Thematic Reviews of Operational Risk.

- **Identification, monitoring and reporting** – The processes needed to provide timely, accurate information to enable management to take high quality decisions
- **Risk response** – The levers which can be used to manage and mitigate risk, including adding capital or changing risk policy parameters
- **Infrastructure** – The risk mitigants built into our IT infrastructure, such as the inherent level of resilience provided by our Cloud-based IT platform, and the back-up arrangements in place for all processes to ensure operational resilience, in preparation for a potential failure
- **Training, reward** – Providing training in risk management, compliance and good conduct, and setting reward and arrangements which incentivise the right behaviours. Ensuring that reward arrangements take account of risk performance and behaviours

2.3 Principal risks and uncertainties and Risk appetite metrics

Given the nature of the activities undertaken, the principal risks that OakNorth faces are: business risk, credit risk, capital risk, liquidity risk, interest rate risk, operational risk (including outsourcing risk, IT systems and cyber-security risk) and conduct, compliance and regulatory risk.

A risk review is debated and approved by the Executive Committee (EXCO) and Board on a quarterly basis, and each risk has risk mitigation actions allocated. The table in the following page summarises the key risks, the key mitigating actions/ approach and the key risk appetite metrics used to monitor the risks.

Risk Category	Risk Description	Key mitigating actions/ approach	Key risk appetite/ monitoring metrics
Business	**Business Risk**: the risks which can affect OakNorth's ability to achieve its strategic objectives. ❑ Whilst OakNorth's management team has through the cycle experience, OakNorth itself has a limited operating history in the UK financial services market and faces risks associated with the implementation of its strategy. ❑ A core element of OakNorth's lending strategy is to continue to source loan originations by addressing customers who may be underserved by other banks and by providing them with high quality service. If we don't continue investing in developing and improving our proposition, we risk other lenders catching up.	❑ The ExCo monitors the evolution of the business and business performance on an ongoing basis, with Risk reporting to the Board on a monthly basis. ❑ The Board defines and reviews performance metrics versus the strategy and business plan at least annually. The annual strategic review includes (but is not limited to) an analysis of OakNorth's economic and competitive landscape and an assessment of key risks.	❑ UK Credit Default Swap (CDS) monitoring, Real Estate Prices (Annual UK House Price Index) ❑ Periodic strategic review of the lending portfolio. ❑ Ongoing monitoring of financial, operational and credit metrics ❑ Stress testing ❑ Development of other credit and operational metrics in relation to climate change are in progress ❑ Under the COVID-19 pandemic, the Bank is continually monitoring key metrics at a higher frequency
	UK's withdrawal from the European Union: On 31 January 2020, UK formally exited the EU. This will be followed by a transition period until end of 2020, while UK and the EU negotiate the future relationship - trade, cross-border and other arrangements. The withdrawal agreement allows for the transition to be extended beyond the end of December 2020 if necessary. This is expected to continue to cause market volatility and economic uncertainty in the UK, which may impact the performance of the Bank's loan book.	❑ We continue to monitor the quality of our loan book through proactive monitoring, portfolio analysis and stress testing.	
	Coronavirus disease 2019 (COVID-19) outbreak: In March 2020, the WHO has declared that Coronavirus is a global pandemic and many countries, including the UK are in an unprecedented situation whereby normal course	❑ In relation to the COVID outbreak, OakNorth's management team has quickly responded to it and has created daily monitoring and relevant actions to ensure that the interests of customers, employees, shareholders, suppliers and regulators are preserved	

	of business has been interrupted to different degrees in different sectors of society and economy.	❑ We continue to monitor the quality of our loan book through proactive monitoring, portfolio analysis and stress testing. ❑ We continue to monitor our operational resilience	
	Climate change: Climate change has become a defining factor in companies' long-term prospects and is redefining how we assess risk and asset values. At OakNorth, we are building a sustainable, long-term business - conducting our business in an environmentally responsible way is central to this.	❑ We are addressing scope 1, 2 and 3 greenhouse gas (GHG) emissions in a phased manner. We're amongst the first banks globally to offset our estimated direct emissions (Scope 1 – Direct GHG) and that of our critical suppliers (Scope 2 – Electricity indirect GHG) to be net carbon zero. The largest element of Scope 1 relates to air travel; the largest element of Scope 2 relates to the electricity used by the suppliers of our IT infrastructure. These suppliers have plans themselves to reduce their carbon emissions, but until they have implemented these plans we will continue to use offsets. ❑ Scope 3 (Other indirect emissions, including emissions from our clients): as a lender, we proactively screen for businesses that conduct their businesses in a sustainable way. For our real-estate book, climate change may impact our collateral values and income, so we continue to monitor our exposures closely. Our exposure to carbon un-friendly lending is minimized as we lend primarily to new housing and new growth trading businesses who tend to be more technologically advanced and meet the applicable energy efficiency standards.	
Financial	**Capital Risk**: Risk that OakNorth has insufficient capital to meet its regulatory requirements and growth objectives.	❑ OakNorth's internal target amount of capital is set by its own assessment of the risk profile of the business, market expectations and regulatory requirements. ❑ Critical risk appetite limits have been set on a forward-looking basis to ensure any capital raising activities are undertaken on a timely basis to continue supporting growth of the business. ❑ Detailed ICAAP assessment is also performed annually.	❑ Capital adequacy buffer, ❑ Capital resources in place for a forecast period of growth requirements, ❑ Capital ratios tested quarterly under stress testing scenarios
	Liquidity Risk: Risk that OakNorth is unable to meet its contractual financial obligations as they fall due and is unable to fund future lending growth opportunities or is able to do so only at significantly higher funding costs.	❑ Liquidity requirements and deposit market information are monitored daily by the ALCO, in addition to other metrics and early warning indicators tracked monthly. ❑ A comprehensive ILAAP assessment is performed annually.	❑ Total liquidity pool, daily cash balance and projected requirements ❑ Funding concentration, ❑ Liquidity ratios (including LCR and NSFR),

	OakNorth primarily raises funding through online retail and business deposits. The availability and pricing of such funding is impacted by competition from other deposit takers.		❑ Liquidity survival period under quarterly stress testing.
	Interest rate risk: Risk of financial loss arising from re-pricing mismatches in the assets and liabilities positions which have not been hedged.	❑ We manage our asset and liabilities to ensure we minimise the interest rate risk. ❑ The ALCO monitors interest rate risk on a regular basis. ❑ OakNorth does not have a trading book, and therefore does not carry any other market risks.	❑ Net Present Value (NPV) calculations, including impact of reference rate floors in loan contracts, under +/- 200 bps parallel shift in the yield curves; ❑ 12-month NII at risk to +/- 25 bps shock, ❑ Earnings at risk for 25 bps reference rate dislocation ❑ Economic Value (EV) sensitivity to shifts in current gap to rate floors, ❑ EV sensitivity to prepayments
Credit	**Credit Risk**: Risk of financial loss arising from a borrower or counterparty failing to meet their contractual financial obligations when they are due, to OakNorth. This also includes the risk arising from concentration in the credit portfolio (single name, sectoral and geographic concentration).	❑ OakNorth has set detailed prudent guidelines and policies for lending, delegated authorities, credit risk appetite limits and framework, provisioning for potential credit losses and credit quality assessment. ❑ OakNorth has robust monitoring processes to ensure that all risks relating to individual borrowers are proactively identified. ❑ The Board is also continually engaged in review of the portfolio to ensure that it is performing as expected and risks are within defined limits.	❑ Portfolio probability of default (PD), loss given default (LGD); ❑ Sectoral and single name concentration; ❑ Watchlist cases, past due cases, ❑ Portfolio collateralization, ❑ Exceptions to credit policy
Conduct, Compliance and Regulatory Risks	**Compliance and Regulatory Risk**: The risk of regulatory sanction, financial loss, or loss to reputation a bank may suffer as a result of failure to comply with all laws and regulations, and the expectations of regulators. For OakNorth, this includes compliance with PRA Rulebook and FCA Handbook, as well as financial crime laws and regulations including those relating to Anti-Money Laundering/ Financial	❑ OakNorth has a full suite of policies and processes to ensure compliance, supported by training and an oversight function, and tracks regulatory developments in order to take proactive action to meet expectations.	❑ Material findings reported through Compliance monitoring / Internal Audit reviews, monitoring of remedial action plans; ❑ Assurance checks on Customer Due Diligence; ❑ Mandatory staff training;

<table>
<tr><td></td><td>crime, Anti-Bribery and Corruption and Anti-Facilitation of Tax Evasion</td><td></td><td>❑ Monitoring and reporting of policy exceptions and compliance breaches.</td></tr>
<tr><td></td><td>Conduct Risk: Risk that a firm's behaviour results in poor outcomes for customers.</td><td>❑ OakNorth is committed to putting the customer at the heart of its business model and strategy, being transparent in its dealings with its customers, and delivering good outcomes for them. This is based on a strong set of company values which include "Right Ambition", "Say it how it Is", "Customer delight" and sound Conduct principles. OakNorth reinforces this via behavioural objectives incorporated into reward/ incentives, with conduct taken into account in all annual appraisals. Mechanisms to gather customer feedback are used actively.</td><td>We monitor customer outcomes in various ways including
❑ Customer satisfaction scores and surveys;
❑ Complaints as % of number of customers;
❑ Customer Net Promoter Score.</td></tr>
<tr><td>Operational resilience</td><td>Operational Risk: Risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems, or external events. This covers a number of areas including:
❑ Cyber Crime - whereby hackers attack our systems and download their data, or internal staff abuse network access privileges or steal data
❑ Financial Crime - including Money Laundering and Terrorist Financing, Internal or External Fraud, Bribery, Tax Evasion risk, and theft of assets.
❑ Third Party Service Provider risk – risk of a key supplier failing to deliver in terms of critical services and/ or systems, to include those that are deemed to be "outsourced", which have a material impact on the operation of the Bank.
❑ People Risk – 'key man' dependencies
❑ Failure of operational processes or controls through poor design and/ or</td><td>❑ Cyber-crime: We employ mitigation measures including various leading monitoring and cyber defence software tools: inter alia a 'next generation' firewall, deception capabilities, a Threat Intelligence platform with Centralised Incident Correlation, data loss prevention tools, and managed security services (a 24/7 Security Operations Centre) plus Penetration Testing, Data Encryption at rest and in transit in databases, applications, and interfaces.
❑ Financial crime: We do not offer transactional accounts; hence a major area of financial crime risk is not present in this business. We have put in place '4 eyes' controls and segregation of duties in our processes, and employ an industry standard fraud prevention tool, CIFAS. Our AML/CTF controls are robust and use leading systems including Experian and WorldCheck.
❑ Anti-Facilitation of Tax Evasion (AFTE) controls are operational.
❑ Anti-Bribery and Corruption (ABC) controls are operational in all parts of the Bank.
❑ Third Party Service Provider risk: All key suppliers are reviewed and vetted for their standing and resilience, and our contracts include monitoring rights and Service Level Agreements which are monitored closely. Contingency arrangements are in place for all critical systems and services.</td><td>❑ Operational risk events, fraud attempts, cybercrime events,
❑ Loss of key staff
❑ Satisfactory self-assurance reviews
❑ Satisfactory Second Line of Defence assurance reviews
❑ Third-party service provider service level agreement monitoring
❑ System availability and capacity utilization
❑ Cyber security metrics
❑ Data loss events and near-misses
❑ GDPR-related complaints
❑ Regulatory actions</td></tr>
</table>

	implementation, or inadequate embedding of controls, causing human error. ❑ **Systems risk** – the failure of IT systems to perform to specification. ❑ **Data protection:** OakNorth processes large amounts of customer personal data (including name, address and bank details) as part of its business. OakNorth is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations.	❑ **'Key man' dependencies** are inevitable in the Bank. This is mitigated via appropriate reward and incentive arrangements and succession planning. ❑ **Operation process/ control failure:** This risk is mitigated through structured project management processes including: planning and estimating, requirements development, design, code and unit testing, testing for deployment, peer review, and configuration management. This is supported by ongoing staff training and competency assessments. Business assurance testing is performed on a monthly basis. ❑ **Systems risk:** This risk is mitigated through structured change management processes and a robust testing programme. As one of the first banks to put its IT infrastructure in the cloud, we have a modern and robust IT platform with the ability to expand capacity rapidly as the Bank expands. ❑ **Data protection:** OakNorth seeks to ensure that procedures are in place to ensure compliance with all relevant data protection regulations by its employees and any third-party service providers and implements appropriate security measures to help prevent cyber-crime. OakNorth's Data Protection policy complies with GDPR in its role as both processor and controller of personal data.	
Reputational	**Reputational Risk**: Reputation risk is a direct consequence of failing to control adequately all risks facing the organisation impacting on revenue streams, brand value, customer perception and staff motivation. OakNorth currently depends on a single brand and any reputational damage to that brand could adversely affect its ability to execute its strategy and grow.	❑ At OakNorth we seek to protect our reputation through effective systems, controls, robust compliance, and high levels of customer service.	Monitoring of events which might have the potential to cause reputational impact.

The Appetite cascades to more detailed Risk Appetite statements, which in turn cascade to the suite of Policies which define the controls needed to implement them. The controls are operationalised through Standard Operating Procedures (SOPs). Our control framework is designed to be effective whilst being proportionate and sensitive to the impact on our customers. Controls are constantly monitored for adequacy and effectiveness through a Risk & Controls Self-Assessment framework (RCSA) overseen by the second line of defence.

Detailed policies and framework approved by the Board and Board committees detail the governance frameworks ensuring that OakNorth's activities are consistent with the risk appetite approved by the Board. These policies cover all areas including (but not limited to): Business Planning and Stress Testing, Market Risk Management (including liquidity and interest rate risk management), Credit Risk Management, Compliance Manual, Code of Conduct, Conduct and Customer Experience, Financial Crime, Fraud and Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF), Operational Resilience and Data Protection.

A review of the adequacy and effectiveness of the overall risk management framework and compliance management is made annually, in accordance with the Control and Compliance Review and Certification process. The Risk function, as second line of defence, is responsible for providing assurance that those controls are implemented, are being operated satisfactorily, and that risk and control registers are comprehensive. Internal Audit, as third line of defence, conducts reviews in line with the internal audit plan to test the effectiveness of the operational risk framework, including first line controls and the quality of the second line oversight.

2.4 Control framework

The control framework for each principal risk is summarised below:

Principal risks	Business risk	Credit risk	Capital risk	Liquidity risk	Interest rate risk	Operational risk	Conduct, compliance and regulatory risk
Control documents	▪ Strategic business plan	▪ Credit risk management policy ▪ Lending policy ▪ Risk Appetite statements	▪ Strategic business plan ▪ ICAAP ▪ Risk Appetite statements	▪ Strategic business plan ▪ ILAAP ▪ Funding policy ▪ Market Risk Management Policy ▪ Risk Appetite statements	▪ Market risk management policy ▪ ILAAP ▪ Risk Appetite statements	▪ Operational risk policy ▪ New Product Approval policy ▪ Outsourcing policy ▪ IT Security policy ▪ Risk Registers ▪ Risk Appetite statements	▪ Conduct & customer experience policy ▪ Compliance Manual ▪ Financial Crime & AML policy ▪ Fraud Prevention Policy ▪ Risk Appetite statements
Risk reporting	EXCO, ERC reporting on performance vs plan and vs Risk Appetite	Credit and Monitoring pack reporting to the CRMC and BCC	EXCO & ALCO reporting	EXCO & ALCO reporting	EXCO & ALCO reporting	OPCO, EXCO, ERC, ISMS Operational risk reporting	EXCO, ERC reporting
Stress testing	ICAAP	ICAAP	ICAAP	ILAAP	ICAAP	▪ ICAAP ▪ ILAAP ▪ BCP testing	ICAAP
Monitoring committees	▪ EXCO	▪ CRMC	▪ ALCO ▪ EXCO	▪ ALCO ▪ EXCO	▪ ALCO ▪ EXCO	▪ OPCO ▪ EXCO ▪ ERC ▪ ISMS	▪ EXCO ▪ CRMC ▪ ERC
Oversight	**Board and Board Committees (Risk & Compliance, Credit, Audit, Remuneration and Nomination) and independent assurance by the Internal Audit function**						

ALCO: Asset and Liability Committee; EXCO: Executive Committee, OPCO: Operations Committee, CRMC: Credit Risk Management Committee, ERC: Executive Risk Committee, Information Security Management System (ISMS) Steering Committee
ICAAP: Internal Capital Adequacy Assessment Process, ILAAP: Individual Liquidity Adequacy Assessment Process; AML: Anti Money Laundering

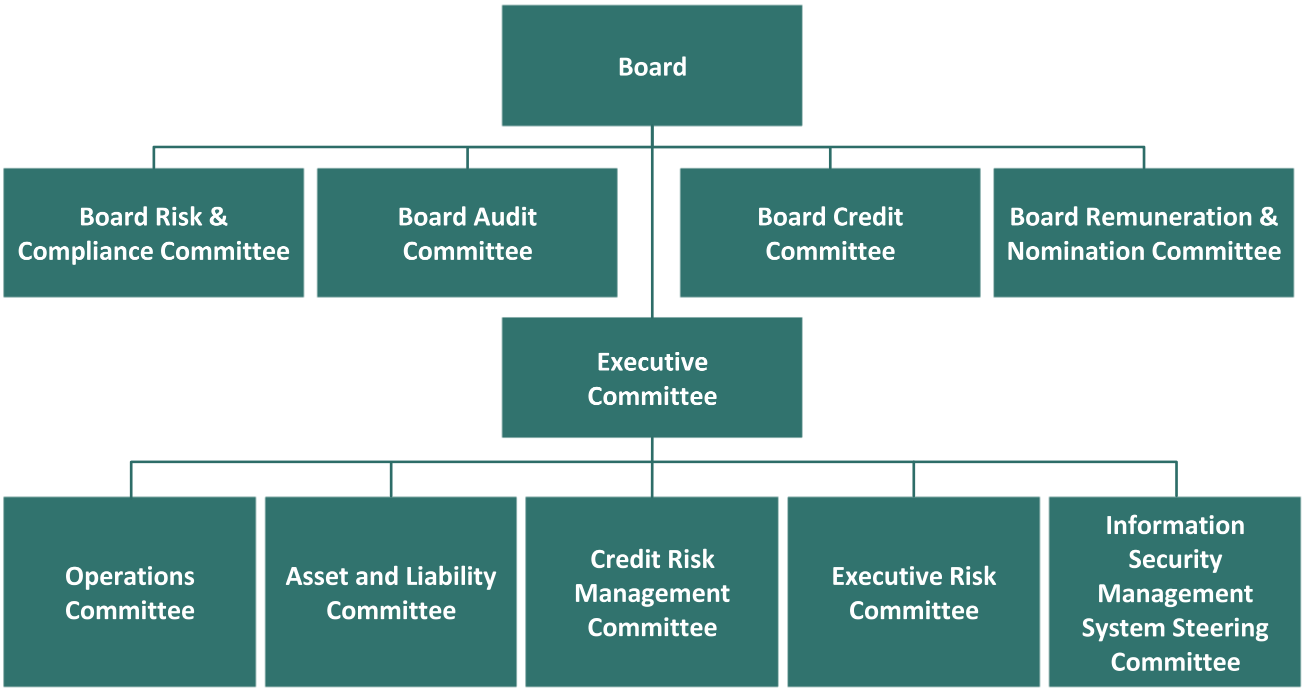
The reporting and oversight process are designed to ensure the Board Committees are informed and aware of the principal risks and that there are appropriate controls in place for the management of these risks. Reports are produced on each principal risk and the frequency is set according to what is appropriate for the risk type.

For each of the Board Committees, the Chair provides an update to the Board with the issues arising from the previous meeting, citing any areas of specific concern and any follow-up actions.

2.5 Risk oversight, monitoring and reporting structure

2.5.1 Committee structure

OakNorth's committee structure is outlined below. The responsibilities of the Board, Board Committees and the Management Committees are summarised in the table below.



The table below summarised the responsibilities of the various committees:

Committees	Responsibility
Board	The Board's principal duty is to create and deliver a sustainable business model by setting ON Bank's strategy and overseeing its implementation. It does so with regard to the interests of customers, employees, the environment, communities and suppliers. It seeks to achieve a balance between promoting long term objectives whilst meeting short term goals, and sets the culture of the Bank, ensuring that it is focussed on delivering good customer outcomes. It is responsible for maintaining a system of internal control and ensuring that management maintain an effective RMF with appropriate oversight processes and for embedding the principle of safety and soundness in the culture of the whole organisation, including whistleblowing. The Board maintains oversight over the effectiveness of each Board Committee through the receipt, review and challenge of regular updates, minutes and management information from each.

Remuneration & Nomination Committee (REMCO)	Responsible for ensuring that remuneration arrangements support the strategic aims of OakNorth, comply with best practice and enable the recruitment, motivation and retention of senior executives. The Committee further ensures compliance with the requirements of regulation (Remuneration Code SYSC 19D) and sees its principles are put in place to expressly discourage any and all inappropriate behaviours. The Committee has delegated authority from the Board for the review and approval of the Remuneration Policy and is responsible for setting remuneration for all executive directors, NEDs, the Chairman and key individuals, including employees captured under the scope of the Certification Regime, including pension rights and any fixed and variable compensation payments. The Committee also recommends and monitors the level and structure of remuneration for senior management.
Board Risk & Compliance Committee (BRCC)	BRCC takes delegated authority from the Board to oversee the RMF of the Bank, with an overall view across the 1st and 2nd lines of defence. The Committee ensures that through its control processes and further delegation of responsibility to the EXCO, all risks (excluding Credit Risk) taken by the Bank are properly identified, evaluated, mitigated, reported, managed and challenged. This includes operational risk, liquidity risk, fraud, money laundering and terrorist financing risk, anti-bribery risk, compliance and conduct risk. The Committee oversees the Compliance function and approves the annual Compliance Monitoring Plan.
Board Audit Committee (BAC)	BAC takes delegated authority from the Board for the review and approval of the Internal Audit Charter and Methodology, the Accounting Policy with a view across the 2nd and 3rd lines of defence, and for ensuring that OakNorth values and principles are being adhered to. It monitors the integrity of financial statements and public disclosures; appoints the external auditors and approves their remuneration; reviews the effectiveness of the internal audit function and appoints and removes the Head of Internal Audit.
Board Credit Committee (BCC)	BCC takes delegated authority from the Board to oversee all Credit Risk related matters for the Bank and approves larger credit exposures, impairments and write offs. BCC receives reports from the Credit Risk Management Committee concerning individual credit exposures, and the portfolio as a whole including model performance. The Committee reviews the Watchlist and receives reports concerning the progress on any material recoveries.
Executive Committee (EXCO)	The EXCO takes delegated authority from the Board and is responsible for developing the Bank's strategy and ensuring the Bank delivers its financial plan and that the agreed strategy is executed across all dimensions. Additionally, the EXCO has delegated responsibility for the RMF and for management of all risks and reports its output to the Board. The Board also delegates authority to the EXCO for the review and approval of policies listed in the EXCO Terms of Reference.

Management Committees subsidiary to EXCO	Responsibility
Asset & Liability Committee (ALCO)	ALCO meets at least on a monthly basis. It implements the Bank's Asset & Liability Management (ALM) policy, with a focus on active management of liquidity. The ALM activities include specific policies and procedures relating to Liquidity and Funding Risk, Capital Risk, Interest Rate Risk, Credit Risk of banking counterparties, and Market/ Investment Risk. It also monitors regulatory reporting
Credit Risk Management Committee (CRMC)	Operating under mandate from the BCC, the purpose of the committee is to oversee, monitor and control credit risk on a day-to-day basis, and to approve facilities under a delegated authority. It ensures that the RMF is implemented as it relates to Credit Risk and AFTE, and that all credit control processes are fit for purpose and operative

	so that credit risk is mitigated via: Identification; Evaluation; Mitigation; Reporting; Management and Challenge.
Operating Committee (OPCO)	OPCO's main objective is to review the performance of all business operations and reach an agreement on actions to address any issues identified. The Committee leads the design and review of Standard Operating Procedures (SOPs) and manages change. The Committee reviews, in depth, any operational issues impacting Product, Operations, IT and Change Management, Finance, Risk, Compliance and People Operations. The Committee's main objective is to promote efficiency, address operational issues in a timely manner, and manage Operational Risk across the Bank.
Executive Risk Committee (ERC)	Operating under mandate from the BRCC, the purpose of the ERC is to oversee, monitor and control Risk on a day to day basis. It ensures that the Risk Management Framework is properly implemented and that all control processes are fit for purpose and operative so that all risks to OakNorth - aside from Credit Risk, which is the mandate of CRMC and BCC, and Asset & Liability Management which is the mandate of ALCO and Board - is mitigated via identification, evaluation, mitigation, reporting, management and challenge.
Information Security Management System (ISMS) Steering Committee	The role of the ISMS Steering Committee is to manage information and cyber security risk on behalf of the business as a governance forum, and sub-committee of EXCO. This group meets on a regular cadence to review key risks to the organization, ensure continued maturity of security practices, and adjust strategic direction as appropriate. This committee operates with delegated authority to execute on risks beyond a tolerable threshold, in the event that an executive officer is unreachable. Any other direction or recommendations made to Senior Management is based on consensus of the Committee membership.

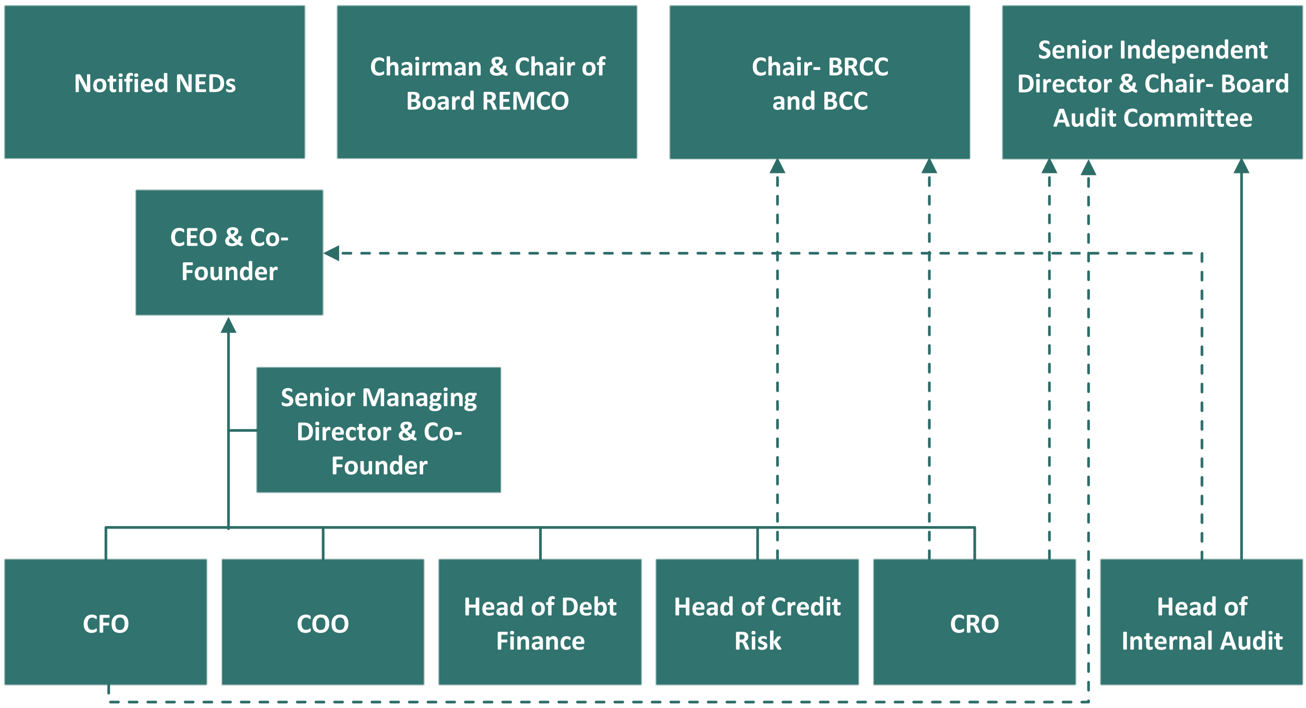
The Board generally convenes once every month, with in-person meetings every quarter. The Board maintains oversight of all areas of the business through the Board Committees and undertakes a formal review annually of its own effectiveness, its Committees' and individual directors. The Head of Internal Audit is a standing invitee at all Committee meetings (except Remuneration and Nomination), and other individuals may be invited to attend all or part of any meeting as and when appropriate and necessary at the invitation of the Committee Chairman.

The Board Remuneration and Nomination Committee assists the Board in determining the optimum Board size at any point in time within the legal and regulatory framework. The Board believes that its current size of seven members, comprising of three Executive, three Non-Executive Independent Directors and one notified Non-Executive Director, is optimal given the current scale of operations and the desired competencies of the Board members. Additionally, the CEO has reputable Independent Advisors such as Philip Hammond (Former Chancellor of the Exchequer), Lord (Adair) Turner (former Chairman of the Financial Services Authority, now the FCA/ PRA), Lord (Francis) Maude (former Minister for the Cabinet Office and for Trade and Investment) and Martin Stewart (former Director of Banks, Building Societies & Credit Unions at the Bank of England).

The governance framework is summarised in OakNorth's Firm Management Responsibilities Map ('FMRM').

During 2019, the Board Risk and Compliance Committee met 5 times.

2.5.2 Reporting structure



The Chief Risk Officer (CRO) reports to the Board in respect of oversight and challenge for the entire RMF, with the exception of credit risk, which is the responsibility of the Head of Credit Risk. The CRO maintains oversight of the reporting of OakNorth's risk management and performance against the risk appetite statements, and inputs to credit risk decisions as Member (and as alternate Chair) of the Credit Risk Management Committee. Risk reports are provided to the EXCO and Board Risk & Compliance Committee. The CRO is also responsible for the direct oversight of Operational risk and Conduct, Regulatory and Compliance risk management and reporting. Capital, liquidity and interest rate risks are managed by the CFO under report to the ALCO and through to the EXCO and the Board. Business risk is managed collectively by the EXCO and the Board. Credit Risk management and reporting is the responsibility of the Head of Credit Risk, reporting to the Credit Risk Management Committee and the Board Credit Committee.

In line with standard industry practice, OakNorth uses a Three Lines of Defence ('3LOD') operating model which sets out roles and responsibilities for risk management. Risk management is the responsibility of all. The 3LOD principles are built into all role profiles. The structure is reviewed on a continuous basis by EXCO and Board to ensure that it develops and evolves in step with the development of the business.

- **1st Line of Defence (1LOD):** This comprises of the business areas or 'front office', where the client relationship sits, and which run operational activities designed to support the business / front office and associated controls (Debt Finance, Customer Services, IT & Operations, People Operations and Treasury).
- **2nd Line of Defence (2LOD):** This comprises of Risk and Credit Risk functions, who have limited client interface. These functions are responsible for challenging the business / front office, approving or rejecting credit proposals (requiring manual underwriting) and ensuring that all controls are designed appropriately and are operating effectively.
- **3rd Line of Defence (3LoD):** This comprises of Internal Audit, External Audit and the Independent Non-Executive Directors (NEDs). The Internal Audit function provides independent assurance to

the Board and shareholders over the effectiveness of governance and risk management & control in both the first and second lines of defence. Internal Audit is independent of both the first and second lines, with direct access to the NEDs.

OakNorth has established internal control and risk management processes in relation to financial reporting and reporting of the Pillar 3 disclosures. OakNorth's financial accounting and reporting processes are governed via established policies and procedures and SOP documents. Finance processes are additionally subject to periodic reviews by the Compliance and Internal Audit functions. All processes within Finance are subject to maker-checker and reconciliation controls and management reviews. The annual accounts and the Pillar 3 disclosures are reviewed and approved both by the EXCO and the Board. Management monitors and considers developments in accounting and regulatory reporting regulations and adopts best practices in adoption of accounting standards and in preparation of the Bank's financial statements, management accounts and Pillar 3 disclosures. The Board Audit Committee is appraised of all developments/ significant matters impacting the Bank's accounting and reporting processes.

2.6 Additional information on Governance arrangements

2.6.1 Directorships held by members of the Board

The number of external directorships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2019 in addition to their roles within OakNorth are:

Name of Director	Position	Directorships[a]
Cyrus Ardalan	Chairman	2[1]
Navtej S Nandra	Senior Independent Director	3
Robert Burgess	Independent Non-Executive Director	3[2]
Rishi Khosla	Executive Director Chief Executive Officer and Co-Founder	1
Joel Perlman	Executive Director Senior Managing Director and Co-Founder	4
Cristina Alba Ochoa	Executive Director Chief Financial Officer	-
Edward Berk	Notified Non-Executive Director	1

[a]Note that in line with CRD Article 91(4), one type of directorship for multiple entities within a group is counted as one directorship. The above includes directorships in non-commercial organisations in accordance with the EBA guidelines EBA/GL/2016/11 published in August 2018. These are in addition to any positions held outside of the OakNorth group entities.

[1] Includes directorship in one non- commercial organisation, [2] Includes directorship in one non- commercial organisation

During the year, the following Directors resigned from their Directorship:

- Graham Olive- previously Executive Director and Deputy Chief Executive Officer
- Ajit Kumar Mittal- previously Notified Non-Executive Director
- Gagan Banga- previously Notified Non-Executive Director

As per the Terms of Reference of the Board, no Board member may hold simultaneously more than either

- 1 x Executive Director and 2 x Non-Executive Director Roles or
- 4 x Non- Executive Director Roles, unless otherwise agreed

2.6.2 Board recruitment

The Board of Directors has the authority to select and appoint Board members as well as define and approve the Board structure following recommendations from the relevant Board Committees.

The Board Remuneration and Nomination Committee is chaired by the PRA-approved SMF12 and SMF13 holder, currently the Board Chairman. Its membership consists of Non-Executive Directors only, including the Chairman of the Board Risk and Compliance Committee and the Chairman of the Board Audit Committee. It takes delegated authority from the Board of Directors to determine the policy and approval process for the Executive Directors and other senior management taking-up external non-executive appointments. It also leads the Board review and approval of the conditions and terms of service agreements of the Executive Directors and, in conjunction with the Non-Executive Directors, the terms of appointment of the Chairman.

The Board reviews annually, following recommendations from the Remuneration and Nomination Committee, the appropriate skills, characteristics and experience required of the Board as a whole and from its individual members. The objective is to have a Board comprising of members with extensive banking experience, and additionally diverse background experience in such areas as business, government, academics and technology. OakNorth's current management team has a strong execution track record. The Board of Directors is very senior and highly experienced, bringing in diverse experience from both UK and international markets, academics, financial services sector experience.

In evaluating the suitability of individual Board members, the Board, following recommendations from the Board Remuneration and Nomination Committee, takes into account many factors, including a general understanding of OakNorth's business dynamics, social perspective, educational and professional background and personal achievements. Directors are required to possess experience at policy-making and operational levels in banks or financial institutions that will indicate their ability to make meaningful contributions to the Board's discussion and decision-making in the array of complex issues facing OakNorth. Directors are required to possess the highest personal and professional ethics, integrity and values. The Committee evaluates each individual with the objective of having a group that best enables the success of OakNorth.

Both the Board and the Board Remuneration and Nomination Committee have the responsibility for identifying suitable candidates in the event of a vacancy being created on the Board on account of retirement, resignation or demise of an existing Board member. Based on recommendations from the Board Remuneration and Nomination Committee, the Board evaluates the candidate(s) and selects the appropriate member.

2.6.3 Board Induction

As a policy, new Directors appointed by the Board are given formal induction with respect to OakNorth's vision, strategy, and core values including ethics, corporate governance practices, Risk Management Framework, financial matters, and business operations.

The management also provides all the necessary documents, reports and internal policies to the new Directors so that they get acquainted with various procedures and practices in OakNorth. Apart from the above, OakNorth Bank's management team makes periodic presentations on business and performance updates of the Bank at Board and Committee meetings.

2.6.4 Succession planning

OakNorth is committed to prudent risk management and ensuring that the succession of the management team is planned out and regularly monitored and adjusted. The Bank has a succession plan which allows the Board to understand the actions that OakNorth would take should it lose a senior management team member. The plan outlines the “what if” scenario and corresponding actions relating to the departure of each management team member. The plan is approved by the Board and is subject to, at minimum, an annual review.

2.7 Adequacy of risk management arrangements

As detailed in the preceding sections, the Board retains overall accountability for approving the RMF and the Business Strategy, understanding major risks, and ensuring that appropriate limits are set against those risks and that they are adequately controlled and monitored. OakNorth’s risk management framework, governance arrangements and Board responsibilities are detailed in Section 2.1 through 2.6 of this document. The Board considers that, as at 31 December 2019, it had in place an adequate framework of systems and controls with regard to OakNorth’s risk profile and business strategy.

3 Capital resources and capital adequacy

3.1 Capital management

OakNorth has rigorous annual Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) in place. ICAAP is a formal capital planning exercise over a 5-year period. The purpose of the ICAAP and ILAAP is to ensure OakNorth’s Board can undertake a fully informed assessment of the sufficiency of OakNorth’s current and projected capital and liquidity resources given its strategy, risk exposure, risk management framework and exposure to stressed environments. The key risks, stress testing scenarios, and baseline projections that underpin the ICAAP and ILAAP are discussed and challenged in detail across both the Executive Committee and the Board.

OakNorth manages its capital adequacy through the monitoring of the volume of growth in the loan book on an ongoing basis. The actual and forecast capital adequacy and capital buffer positions are reported to ALCO, EXCO, the Board Risk & Compliance Committee and the Board monthly.

3.2 Stress testing

Stress testing is a process by which OakNorth’s business plans are subjected to severe but plausible adverse impact scenarios to assess the potential impact on the business including projected capital and liquidity positions. The results of stress testing, along with proposed actions, are reported to ALCO, EXCO and to the Board. They are captured in the Individual Liquidity Adequacy Assessment Process (ILAAP) and in the Internal Capital Adequacy Assessment Process (ICAAP). Additional details on Credit risk, Liquidity and Funding risk, Interest rate risk and Operational risk are provided in the subsequent sections of this document.

3.3 Capital resources

The table below shows the composition of OakNorth's regulatory capital position as at 31 December 2019 as per CRD IV.

Regulatory Capital	2019 (£'000)	2018(£'000)
Share capital	389,320	299,320
Retained earnings	80,744	31,091
Capital contribution	66	48
Fair value changes on financial assets at FVOCI[a] (2019) /AFS (2018)	(24)	(46)
Deductions for Intangible assets	(204)	(240)
Deductions for Deferred tax assets	(552)	(319)
Other deductions from CET1 capital[b]	(6,000)	-
Total Common Equity Tier 1 (CET1) capital	**463,350**	**329,854**
Total Tier 1 Capital	**463,350**	**329,854**
General provisions	-	6,252
Subordinated debt	50,000	50,000
Total Tier 2 capital	**50,000**	**56,252**
Total regulatory capital	**513,350**	**386,106**

[a] Fair Value through Other Comprehensive Income (FVOCI); Available for sale (AFS)
[b] See notes 3.3.3, 4.5.5 and 8

3.3.1 Movement in regulatory capital resources

	2019 (£'000)	2018 (£'000)
Total CET 1 capital at beginning of year	**329,854**	**253,553**
Shares issued during the year	90,000	50,000
IFRS 9 transition adjustment (net of tax) as of 1 January 2019	(323)	-
Profits for the year	49,976	26,580
Net change in capital contribution and other reserves	40	4
Net change in deductions for intangible and deferred tax assets	(197)	(283)
Net change in other deductions from CET1[a]	(6,000)	-
Total CET 1 capital at end of year	**463,350**	**329,854**
Total Tier 1 capital at end of year	**463,350**	**329,854**
	2019 (£'000)	**2018 (£'000)**
Total Tier 2 capital at beginning of the year	**56,252**	**2,357**
Net change in general provisions (IAS 39)	(6,252)	3,895
Subordinated debt issued	-	50,000
Total Tier 2 capital at end of the year	**50,000**	**56,252**
	2019 (£'000)	**2018 (£'000)**
Total regulatory capital at end of the year	**513,350**	**386,106**

[a] See notes 3.3.3, 4.5.5 and 8

3.3.2 Reconciliation to Statutory equity

	2019 (£'000)	2018 (£'000)
Total Capital and reserves per financial statements	**470,106**	**330,413**
Deductions for Intangible assets	(204)	(240)
Deductions for Deferred tax assets	(552)	(319)
Other deductions	(6,000)	-
Total CET1 Capital	**463,350**	**329,854**
Total Tier 1 capital at end of year	**463,350**	**329,854**
Add Subordinated debt (T2)	50,000	50,000
Add general provisions (T2)	-	6,252
Total regulatory capital at end of the year	**513,350**	**386,106**

3.3.3 Deductions from regulatory capital

- Deferred tax assets and Intangible assets are as defined under FRS102 and are deducted from regulatory capital in accordance with the Capital Requirements Regulation (CRR).
- There were no dividends proposed or approved by the Board for 2019.
- Other deductions of £6m pertains to synthetic securitisation position, or 'first loss' element for loans guaranteed under the British Business Bank's ENABLE scheme. Please see note 4.5 and note 8 for further information on the scheme.
- General provisions under the IAS 39 accounting standards which the Bank applied until 2018, were eligible to be added back as Tier 2 capital. The Bank adopted IFRS 9 effective 1 January 2019, under which all provisions are treated as specific provisions and therefore deducted from the exposure instead of being added to Tier 2 capital.

3.3.4 Transitional own funds

The Bank has no applicable transitional provisions and the capital position is reported on a fully loaded basis, including the full transition impact of IFRS 9.

3.3.5 Tier 2 Subordinated debt

In June 2018, OakNorth issued 10-year £50.0 million subordinated notes with coupon of 7.75%, issued at a yield of 8%. The notes are callable in June 2023. The notes are held at an amortised cost of £49.5 million.

3.3.6 Additional disclosures on own funds

Template on 'Capital instruments main features' and 'Transitional own funds disclosure' are in note 11.

3.4 Capital adequacy

	2019 (£'000)	2018 (£'000)
Risk weighted assets		
Credit risk	2,176,926	1,451,092
Market risk	-	-
Operational risk	60,000	22,600
Total risk weighted assets	**2,236,926**	**1,473,692**
Common Equity Tier 1 capital ratio	**20.7%**	**22.4%**
Tier 1 capital ratio	**20.7%**	**22.4%**
Total capital ratio	**22.9%**	**26.2%**

3.4.1 Total capital requirement (TCR) as set by the PRA (Pillar 1 + Pillar 2A)

The total capital requirement (TCR) as set by the PRA, which is defined as the amount and quality of capital a firm is required to maintain to comply with the Pillar 1 and Pillar 2A capital requirements, was 13.26% for OakNorth as of 31 December 2019 (2018: 13.26%).

3.4.2 Capital buffers (Pillar 2B)

The UK Countercyclical Capital Buffer (CCyB) rate was 1.0%, which applied until 11 March 2020. Capital conservation buffer increased to 2.5% from 1 January 2019, in line with the CRDIV Capital buffers transition arrangement.

The capital adequacy ratio, buffer over ICG and CPB- are key risk capital risk metrics monitored by the ALCO, EXCO and reported to the Board Risk Committee and the Board on a monthly basis. As at 31 December 2019, OakNorth's capital base was in excess of the minimum required as per the regulatory requirements, including the capital requirements as per the Individual Capital Guidance (ICG) and the Capital Planning Buffer (CPB).

2019	Exposure value under the Standardised Approach[a]	Risk exposure amount (RWA)	Own funds required	Own funds required weight	Countercyclical buffer rate[a]
	£'000	£'000	£'000	£'000	£'000
UK	3,797,762	2,161,731	172,938	99%	1.0%
Rest of the world	15,195	15,195	1,216	1%	0.0%
Total	**3,812,957**	**2,176,926**	**174,154**	**100%**	
Institution specific countercyclical buffer rate	**0.99%**				

[a] Note that the CCyB applies to only relevant exposures which excludes exposures to central governments and central banks and institutions. The above table presents the breakdown of all exposures by geography rather than only relevant exposures used in the calculations of CCyB requirement.

2018	Exposure value under the Standardised Approach[a]	Risk exposure amount (RWA)	Own funds required	Own funds required weight	Countercyclical buffer rate[a]
	£'000	£'000	£'000	£'000	£'000
UK	2,695,590	1,451,092	116,087	100%	1.0%
Total	**2,695,590**	**1,451,092**	**116,087**	**100%**	
Institution specific countercyclical buffer rate	**1.0%**				

3.5 Leverage Ratio

CRD IV requires firms to disclose a non-risk based leverage ratio (LR) and the processes used to manage the risk of excessive leverage. It is calculated as Tier 1 capital divided by total on and off-balance sheet assets adjusted for deductions. The EBA leverage ratio regime comes into force in 2018, according to which a minimum level of 3% based on Tier 1 capital applies for the LR from 1 January 2018 onwards.

The UK leverage ratio regime requires a minimum leverage ratio of 3.25%. Under the regime, the calculation also excludes assets constituting claims on central banks from the calculation of the total exposure measure. At present, OakNorth has no minimum leverage requirement as it is currently not within the scope of the UK Leverage Ratio Framework as its deposit levels are less than £50 billion.

Summary reconciliation of accounting assets and leverage ratio exposures	2019 (£'000)	2018 (£'000)
Common Equity Tier 1 (CET1) capital	**463,350**	**329,854**
Total assets per the financial statements	2,729,924	1,770,807
Off balance sheet items after CCF[a]	154,842	155,718
Other adjustments[b]	338	16,170
Total Leverage ratio exposure	**2,885,104**	**1,942,695**
Leverage ratio based on EBA calculation	**16.1%**	**17.0%**
Leverage ratio based on UK Leverage ratio framework (excluding claims on central banks)	**22.2%**	**25.2%**

[a]Off balance sheet items are stated after application of credit conversion factors. Gross off-balance sheet exposures before conversion factors are £1,082.9m (2018: £908.6m)

[b]Other adjustments in 2019 mainly comprise- intangible assets of £0.2m and deferred tax assets of £0.6m (these are deducted from CET1), and deferred expenses on borrowings.

3.5.1 Leverage Ratio common disclosures

	2019 (£'000)	2018 (£'000)
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,731,018	1,787,536
(Asset amounts deducted in determining Tier 1 capital)	(756)	(559)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**2,730,262**	**1,786,977**
Derivative exposures	**-**	**-**
Securities financing transaction exposures	**-**	**-**
Off-balance sheet exposures at gross notional amount	1,082,959	908,613
(Adjustments for conversion to credit equivalent amounts)	(928,117)	(752,895)
Other off-balance sheet exposures	-	-
Total Other off-balance sheet exposures	**154,842**	**155,718**
Exempted exposures	**N/A**	**N/A**

3.5.2 Capital and total exposures

	2019 (£'000)	2018 (£'000)
Tier 1 capital	463,350	329,854
Total leverage ratio exposures	2,885,104	1,942,695
Leverage ratio	16.1%	17.0%

As at 31 December 2019, OakNorth's leverage ratio was in excess of the minimum regulatory requirements and the Bank's risk appetite limits. The Bank manages its leverage ratio in line with the over-all capital requirements and ensures that the ratio is well above the minimum leverage ratio requirement.

3.6 Minimum capital requirement: Pillar 1

OakNorth's overall capital resources requirement under Pillar 1 are calculated by adding the capital resources requirements for credit risk and operational risk. As at the reporting date, OakNorth did not have any market risk capital requirement and credit valuation adjustment ('CVA'). Pillar 1 capital requirement is computed as 8% of the risk weighted assets.

	2019 (£'000)	2018 (£'000)
Credit risk	174,154	116,087
Market risk, Credit valuation adjustment (CVA)	-	-
Operational risk	4,800	1,808
Capital resources requirement under Pillar 1	**178,954**	**117,895**
Capital resources	**513,350**	**386,106**
Capital resources surplus over Pillar 1 requirement	**334,395**	**268,211**

4 Credit Risk

Credit Risk is defined as the risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed, contractual terms. This risk arises from OakNorth's lending activities and is the most significant risk faced by OakNorth. Although credit risk arises from OakNorth's loan book, it can also arise from off balance sheet activities. OakNorth does not actively trade in financial instruments, other than for liquidity management purposes.

4.1 Exposures subject to the Standardised Approach

2019	Credit risk exposure[a]	Avg Credit risk exposure[c]	RWA[d]	Minimum capital requirement[e]
	£'000	£'000	£'000	£'000
Central government and central banks	645,372	575,406	-	-
Institutions	13,877	12,784	12,173	974
Corporates	708,790	602,981	485,555	38,844
Retail	608	1,033	347	28
Secured by mortgages on immovable property	1,134,627	1,026,816	810,457	64,837
Exposures at default[b]	38,961	39,217	57,794	4,624
Items belonging to regulatory high-risk categories	1,262,693	1,035,185	802,571	64,205
Other items	8,029	6,936	8,029	642
Total	**3,812,957**	**3,300,357**	**2,176,926**	**174,154**

[a]The gross exposures include all drawn and undrawn and committed and uncommitted facilities. These are stated prior to application of any credit conversion factors or credit risk mitigants. The credit risk mitigation applied to exposures in the 2019 pertain to the ENABLE guarantee scheme (2018: nil).

[b]As of 31 December 2019, there were two exposures in Stage 3 under IFRS9 (2018: no exposures were specifically impaired under IAS 39)

[c]Average credit risk exposures are calculated as the average of quarterly COREP returns information.

[d]The RWA includes application of SMEs support factor where applicable per the CRR guidelines

[e]As stated earlier, the Bank uses the Standardised Approach to determine the capital requirements. Under this approach, eight percent of the risk weighed assets is required to be held as Pillar 1 capital.

2018	Credit risk exposure[a]	Avg Credit risk exposure[c]	RWA[d]	Minimum capital requirement[e]
	£'000	£'000	£'000	£'000
Central government and central banks	461,302	320,042	-	-
Institutions	6,394	5,291	5,639	451
Corporates	522,398	347,335	338,654	27,092
Retail	1,788	1,727	993	79

Secured by mortgages on immovable property	830,962	547,294	582,038	46,563
Exposures at default[b]	-	-	-	-
Items belonging to regulatory high-risk categories	867,032	550,694	518,053	41,444
Other items	5,715	8,622	5,715	457
Total	**2,695,590**	**1,781,005**	**1,451,092**	**116,087**

The credit exposures increased significantly in 2019 versus the prior year due to growth in OakNorth's loan book. More details on the business growth and strategy have been provided in OakNorth's Annual report and Financial Statements for the year ended 31 December 2019. OakNorth did not have any derivative exposures outstanding as at 31 December 2019 (2018: Nil).

4.2 Maturity bucketing of the exposures

2019	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated/ open maturity	Total
	£'000	£'000	£'000	£'000	£'000
Central government and central banks	645,372	-	-	-	645,372
Institutions	-	-	-	13,877	13,877
Loans to customers	1,159,176	1,926,461	60,042	-	3,145,679
Other items	-	-	-	8,029	8,029
Total	**1,804,548**	**1,926,461**	**60,042**	**21,906**	**3,812,957**

All exposures above are stated including undrawn facilities and before application of conversion factors.

2018	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated/ open maturity	Total
	£'000	£'000	£'000		£'000
Central government and central banks	461,302	-	-	-	461,302
Institutions	-	-	-	6,394	6,394
Loans to customers	461,553	1,685,547	75,081	-	2,222,181
Other items	-	-	-	5,715	5,715
Total	**922,855**	**1,685,547**	**75,081**	**12,108**	**2,695,591**

4.3 Geographical distribution

OakNorth's credit risk exposures (i.e the collaterals and business cash flows) are primarily in the UK, with only one corporate exposure outside of the UK, in Channel Islands. See disclosure on Capital Buffers.

4.4 Sectoral distribution

The Sectoral break-down of OakNorth's credit risk exposures as at 31 December 2019 is detailed below. All exposures above are stated including undrawn facilities and before application of conversion factors.

2019	Central government and central banks	Institutions[a]	Lending	Other items
	£'000	£'000	£'000	£'000
Central governments or central banks	645,372	-	-	-
Financial Services	-	13,877	245,175	-
Accommodation and food service activities	-	-	356,937	-
Administrative and support services activities	-	-	18,698	-
Construction	-	-	1,550,418	-
Education	-	-	24,527	-
Human health and social work activities	-	-	68,919	-
Information & Communication	-	-	483	-
Manufacturing	-	-	15,807	-
Other assets	-	-	-	-
Other Service Activities	-	-	449	-
Professional, scientific and technical activities	-	-	1,499	-
Real estate activities	-	-	821,273	-
Retail	-	-	1,907	-
Waste management & remediation activities	-	-	2,422	-
Wholesale & Retail trade	-	-	37,165	-
Other assets	-	-	-	8,029
Total	**645,372**	**13,877**	**3,145,679**	**8,029**

[a]Subject to short term credit assessment

2018	Central government and central banks	Institutions[a]	Lending	Other items
	£'000	£'000		£'000
Central government and central banks	461,302	-	-	-
Financial Services		6,394	166,302	-
Accommodation and food service activities	-	-	277,588	-
Administrative and support services activities			10,231	
Construction	-	-	1,091,526	-
Education			15,050	
Human health and social work activities			27,316	
Real estate activities	-	-	578,980	-
Wholesale & Retail trade	-	-	37,052	-
Manufacturing	-	-	11,871	-
Other Service Activities	-	-	6,264	-
Other assets	-	-	-	5,715
Total	**461,302**	**6,394**	**2,222,180**	**5,715**

4.5 Credit Risk Management: Loans and advances to customers

4.5.1 Governance

A detailed Credit Risk Management Policy (CRMP) has been set, designed to ensure that OakNorth's lending is prudent and is managed in alignment with the overall Board risk appetite and corresponding financial and capital targets for OakNorth. The Board Credit Committee (BCC) is responsible for ensuring that the Credit risk appetite strategy is up to date and relevant to OakNorth's operations. Specific credit risk management portfolio oversight and approval of lending decisions within authority is delegated by the Board to the BCC and in turn to the executive Credit Risk Management Committee (CRMC) and Head of Credit Risk. The Head of Credit Risk is responsible for monitoring the appropriate thresholds and limits on the credit risk drivers and ensuring that the day-to-day decision-making process meets the risk appetite limits.

Credit proposals are approved by the CRMC or the BCC based on a matrix of components such as the amount and/ or the internal risk rating/ complexity of the facility. All credit considered by the BCC are initially recommended by the CRMC.

Concentration risk is managed through the risk appetite framework which also stipulates the various limits to manage exposure concentrations within OakNorth.

4.5.2 Lending criteria and assignment of risk grade

OakNorth has set its detailed guidance and specific Lending Policy metrics. Every approved loan is assigned a risk rating (based on a Probability of Default (PD) and Loss Given Default (LGD)) which drives both pricing and the level of ongoing monitoring which OakNorth adopts. All risk exposures are assessed based on the maximum drawdown that could be expected for each loan, including any committed or uncommitted facilities. Any collateral coverage is also assessed based on the maximum facility amount.

4.5.3 Credit monitoring

Monitoring in OakNorth is considered extremely high priority. OakNorth reviews its credit exposure both at the facility and on a portfolio level.

Credit monitoring is completed by the Credit Risk Portfolio Management team on a regular/ daily basis, with reporting to the CRMC on a monthly basis. Any missed payments are tracked daily and escalated to the Monitoring team and Head of Credit risk daily. Credit facilities are subject to formal periodic (minimum annual) review. OakNorth has processes to identify potential financial difficulty in a customer account via regular monitoring and reviews, Trigger Events or Early Warning Indicators (for example, financial performance not in line with the projections, significant delays in projects, or breach of covenants). Intensive monitoring of customers with potential/ actual financial difficulty takes place via a Watch List process.

All drawdowns requested by a borrower in relation to a facility are specifically approved by the Head of Monitoring or the Head of Credit Risk. Drawdowns are normally only permitted provided the conditions precedent to the drawdown and any applicable financial covenants, are fully complied with.

OakNorth also has a forbearance policy and may provide support to a borrower struggling to meet its obligations. This may range from waiving a breach of a loan covenant, to giving the borrower more time to meet its loan obligations, to providing some form of active payment relief. Impact of loan modifications is done in accordance with Finance issued guidelines- wherein all modifications (substantial and non-substantial) require day 1 P&L impact analysis and credit and CRMC processes include finance analysis before any modifications are approved.

On a portfolio level, OakNorth has an approved set of Key Risk Indicators which are set as part of the annual Business Strategy. The metrics are tracked monthly as part of the Credit MI reporting pack discussed with the Board and shared with all key stakeholders. Tracking also takes place daily by Head of Credit to ensure each new loan complies with the risk appetite.

Both the CRMC and BCC monitor the performance of the overall portfolio on a regular basis and at least monthly through the production of management information including: lending volumes, key credit model output performance, rating downgrades, concentration risk (including large exposures), impairments and any material recoveries (if any).

4.5.4 Credit risk mitigation

OakNorth seeks to mitigate credit risk through, inter alia, eligible collateral. OakNorth's CRMP details the eligible collateral that OakNorth may accept for risk mitigation purposes. This includes but is not, limited to, debenture/ charge on fixed and floating assets, charge on freehold land or property, guarantees (personal, corporate), and cash reserves/ deposits. OakNorth has a policy guidance on the valuation conditions and methods. OakNorth also has a policy in relation to the external valuation firms/ quantity surveyors who can be added to OakNorth's valuation panel. Any review of collateral is done in line with the scheduled (minimum annual) review for the credit and frequency as specific to the security type, as applicable. As a backstop policy measure, OakNorth refreshes independent, external valuations minimum every 3 years.

As of 31 December 2019, 96% of OakNorth's loan facilities were collateralised by security comprising of fixed assets (including property) and charges/ debentures on underlying portfolio of assets (primarily property) (2018: 92%). These exclude any charges on floating assets and guarantees not supported by charge on fixed assets. The weighted average LTV of the book collateralised by property was 56% (2018: 56%).

The loans in Stage 3 are secured with property collateral and consist of a mix of completed and development properties. The Bank has assessed the exposures and recognised an expected credit loss charge £1.9 million on the exposure of £40.4 million for the year ended 31 December 2019 (2018: Impaired exposures: Nil).

4.5.5 ENABLE guarantee scheme

OakNorth is a participant in "ENABLE" Guarantee programme with the British Business Bank, which is designed to encourage additional lending to smaller businesses.

The programme provides UK government-backed portfolio guarantee to cover a portion of a designated lending portfolio's net credit losses in excess of an agreed 'first loss' threshold. The guarantee therefore provides eligible unfunded credit protection for the eligible loans, with the Bank still exposed to the 'first loss' charge, which results in a synthetic securitisation position under the CRR.

The eligibility criteria under the ENABLE guarantee are set both at a loan level as well as at a portfolio level. The guarantee was effective from Q4-2019, when the Bank had adequate eligible portfolio to activate the guarantee in accordance with its terms and conditions. A maximum of £133m facilities can be included in the guarantee, with vertical risk retention of 25%. Any maturing loans can be replaced with eligible new loans originated until two years of the effective date, after which the guarantee continues for the loans already in the scheme.

A stop addition trigger applies on occurrence of a demand event in respect of any guaranteed facility. The guarantee can be terminated earlier by Oaknorth, as a result of defined regulatory changes or the guaranteed maximum balance portfolio amount becoming less than 10 per cent of the guaranteed maximum balance portfolio limit.

All the loans covered under the guarantee are subject to the Bank's standard lending, monitoring and work-out management procedures. All exposures are retained on the Bank's balance sheet, with the fee paid on the guarantee charged to the Bank's operating expenses.

As the guarantor under the scheme is the UK Government, the Bank applies credit risk mitigation and risk-weights the guaranteed exposure at 0% in accordance with Article 114(4) of the CRR. The synthetic securitisation position originating from the retained 'first loss' charge is deducted from Own Funds in accordance with Article 244(2)(b) of the CRR. The guaranteed portion of the eligible portfolio was £74m (2018: nil), of which the first loss charge which was deducted from CET1 at year end was £6m (2018: nil).

4.5.6 Overview of provisioning policy

A provisioning policy is in place to ensure that Bank's financial statements accurately reflect the current value of problem credit assets and level of credit loss, and that defined methodologies and appropriate parameters are in place to calculate provisions. These are aligned with internal and external accounting standards and regulatory requirements which require the assessment of any requirement for impairment at an early stage and frequently thereafter.

OakNorth adopted IFRS 9 effective 1 January 2019, and accordingly the Bank assesses on a forward-looking basis, the Expected Credit Loss (ECL) on the financial assets held at amortised cost and FVOCI, including the exposure arising from loan commitments. This includes provision for lifetime ECL where the risk on the asset has significantly increased. ECL is computed as: exposure at default (EAD) x probability of default (PD) x loss given default (LGD). Depending on the staging of the loan, the ECL is either 12 month or lifetime. The ECL assessment is done at an individual loan level.

4.5.6.1 PD and LGD approach

Due to OakNorth's limited trading history, it does not have its own loss data to calibrate an internal assessment of PD and LGD. As a result, the Bank uses external PD information based on company insolvencies in the UK SME market to calibrate the PD score. This is supplemented by a quantitative and qualitative assessment of each individual exposure, which includes (but is not limited to) information on key financial metrics, business performance, the quality of collaterals, business and borrower profile. This assessment together is used to determine the internal risk rating and the associated PD for each loan individually. The Bank assesses the economic environment and market information on a quarterly basis to determine whether there are any material changes that warrant a change in the methodology or increase in the ECL allowances to address the current and expected changes in the economic environment.

The Bank uses expert judgement-based haircuts depending on the collateral type, to determine the LGD for each loan. The primary collateral type for the Bank's lending exposures is real estate and the haircut applied reflects loss in collateral value under macroeconomic stresses, in addition to haircuts reflecting costs of realising the collateral.

4.5.6.2 Exposure at default

This includes all current outstanding balances and judgement-based estimates of draw-downs on undrawn loan commitments. Expected repayments/ prepayments are currently not considered and as such we believe the calculation is conservative in that regard for computing the ECL. Each drawdown request by the borrower is specifically approved by the Head of Credit Risk or Head of Monitoring. The Bank does not normally allow any drawdowns for exposures that have or are expected to breach financial covenants or are not in compliance of conditions of draw-down.

The undrawn loan commitments are separately identified and the ECL allowance on these is recognised as part of 'Other liabilities'. The ECL on the drawn balances is reduced from the gross carrying value of the loans

4.5.6.3 Staging approach based on credit quality of loans

IFRS 9 requires the loans to be classified into 3 stages for assessment of impairment:

- Financial instruments that are not credit impaired at initial recognition are classified as 'Stage 1'. Instruments in Stage 1 have ECL measured for next 12 months. These accounts are monitored on an ongoing basis to ensure that there is no significant increase in the credit risk. Where there is an increase in the credit risk, the account is re-assessed and moved into Stage 2 if triggers are met.

- Financial instruments where there is significant increase in the credit risk is classified as 'Stage 2'. The ECL for Stage 2 accounts is measured on a lifetime basis.

- Financial instruments that are deemed credit-impaired is classified as Stage 3. The ECL for Stage 3 accounts is also measured on a lifetime basis and the interest is recognised net of expected credit losses.

The CRMC has defined criteria to ascertain the staging of the loans. This includes a combination of qualitative and quantitative factors, which include, but are not limited to – trend of business performance versus plan, trend of cash flow position, significant adverse changes to external factors that may impact the performance of the loan, significant increase to PD based on management judgement, significant adverse changes to the collateral position. Backstop triggers continue to apply – any account with payments 30 day past due are automatically moved to Stage 2 and all 90 days past due accounts are classified as Stage 3 impaired. The Head of Portfolio monitoring or Senior Director, Workout & Recoveries recommends loan accounts to be added to intensive monitoring for any increased monitoring and to Watchlist/ Stage 2 or Stage 3, as appropriate, to the CRMC. The CRMC approves the final staging.

The criteria used to identify significant increase in credit risk are monitored and reviewed periodically for appropriateness by the Credit Risk team. For Stage 3, the CRMC assesses whether there are objective impairment triggers, which include significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, breach of contract, or any other factors as the CRMC deems relevant which may result in the borrower unlikely to pay.

4.5.6.4 Staging classification of drawn and undrawn committed exposures under IFRS 9

Gross carrying/ nominal amount (drawn)	**2019**	**2019**	**2019**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
At 1 January 2019	**1,288,306**	**15,883**	**-**	**1,304,189**
Transfers between stages during the year				
– transfers to Stage 1	15,883	(15,883)		-
– transfers to Stage 2	(48,122)	48,122	-	-
– transfers to Stage 3	(36,919)	-	36,919	-
Total transfers	**(69,158)**	**32,239**	**36,919**	-
Net additional lending/ repayment	749,402	17,195	3,507	**770,104**
As at 31 December 2019	**1,968,550**	**65,317**	**40,426**	**2,074,293**

Nominal exposure- undrawn committed[a]	**2019**	**2019**	**2019**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
At 1 January 2019	**162,108**	**138**	**-**	**162,246**
Transfers between stages during the year				
– transfers to Stage 1	138	(138)		-
– transfers to Stage 2	(1,500)	1,500	-	-
– transfers to Stage 3	-	-	-	-
Total transfers	**(1,362)**	**1,362**	**-**	**-**
Net additional lending/ repayment	(44,051)	(1,500)	-	**(45,551)**
As at 31 December 2019	**116,695**	**-**	**-**	**116,695**

[a]These balances do not include undrawn uncommitted facilities, which are included in the risk exposures for the purposes of COREP reporting. The total amount of uncommitted facilities as at 31/12/2019 was £966m (2018: £746m)

4.5.6.5 Expected Credit Loss (ECL) allowance under IFRS 9

Allowance for ECL- Drawn balances	2019 £'000 Stage 1	2019 £'000 Stage 2	2019 £'000 Stage 3	2019 £'000 Total
At 1 January 2019	**5,868**	**384**	**-**	**6,252**
Transfers between stages during the year				
– transfers to Stage 1	384	(384)	-	-
– transfers to Stage 2	(257)	257	-	-
– transfers to Stage 3	(195)	-	195	-
Total transfers	**(69)**	**(127)**	**195**	-
Net increase/(reduction) in ECL arising from transfer of stage	(311)	1,323	1,701	**2,713**
Net additional lending/ repayment	2,343	-	-	**2,343**
As at 31 December 2019	**7,831**	**1,581**	**1,896**	**11,308**

Allowance for ECL- undrawn commitments	2019 £'000 Stage 1	2019 £'000 Stage 2	2019 £'000 Stage 3	2019 £'000 Total
At 1 January 2019[a]	**430**	**1**	**-**	**431**
Transfers between stages during the year				
– transfers to Stage 1	1	(1)	-	-
– transfers to Stage 2	(13)	13	-	-
– transfers to Stage 3	-	-	-	-
Total transfers	**(12)**	**12**	**-**	**-**
Net increase/ (reduction) in ECL arising from transfer of stage[b]	-	(13)	-	**(13)**
Net additional lending/ repayment	(153)	-	-	**(153)**
As at 31 December 2019	**265**	**-**	**-**	**265**

[a] The opening balances stated here have been directly adjusted to the opening balance of the retained earnings and are not a part of the 31 December 2018 closing Balance Sheet
[b] The impact of reduction in ECL charge on account of transfer from Stage 2 to Stage 1 was £0.4K and therefore appears as rounded to nil in the above table

4.6 Credit Risk: Treasury assets

4.6.1 Overview and summary

Credit risk also exists with Treasury assets such as investment securities and deposits/balances placed with other banks. The credit risk of Treasury assets is considered to be low. Treasury assets as at 31 December 2019 were held in the form of GILTS and balances at Bank of England reserve account. No assets are held for speculative purposes or actively traded. OakNorth had no derivative exposures as at 31 December 2019 (2018: Nil).

OakNorth's primary exposure in this category is to the Bank of England (BOE) – which is UK's Central Bank, and, GILTS issued by the UK Government. OakNorth has very limited exposure to balances with other financial institutions, which are only held temporarily for clearing purposes (to facilitate any loan / deposit flows). For these banks, where available, OakNorth uses publicly available credit ratings from relevant External Credit Assessment Institutions ('ECAIs'), which are mapped to credit quality steps (CQS) as per CRD IV rules, in order to assess the risk weight for standardised credit risk. Where there are two ratings available, the Bank considers the worst rating or if there are three, two common rating are considered to determine the CQS.

2019	CQS 1	CQS 1	CQS 2	CQS 3	CQS 4	Total
Long term rating		AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	
Short term rating		A1	A2	A3	below A3	
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks (BOE)	540,035	-	-	-	-	540,035
UK Government GILTS and Treasury Bills	105,337	-	-	-	-	105,337
Loans & advances to banks	-	-	3,408	10,469	-	13,877
Total	**645,372**	**-**	**3,408**	**10,469**	**-**	**659,249**

All loans and advances to Banks have been assessed under short term credit assessment rating.

2018	CQS 1	CQS 1	CQS 2	CQS 3	CQS 4	Total
Long term rating		AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	
Short term rating		A1	A2	A3	below A3	
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks (BOE)	356,881	-	-	-	-	356,881
UK Government GILTS and Treasury Bills	104,420	-	-	-	-	104,420
Loans & advances to banks	-	18	1,479	4,896	-	6,394
Total	**461,302**	**18**	**1,479**	**4,896**	**-**	**467,695**

4.6.2 Impairment of financial assets classified as FVOCI

The GILTS held by the Bank are classified as and measured at fair value through other comprehensive income (FVOCI). Accordingly, Impairment losses are required to be recognised by transferring the expected credit loss that has been recognised directly in equity to profit and loss statement. If, in a subsequent period, the fair value increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value is recognised directly in equity since it cannot be reversed through the profit and loss statement. As at 31 December 2019, there were no impaired financial instruments at FVOCI (2018: nil Available for sale financial instruments).

5 Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is defined as the risk of losses arising from changes in the interest rates associated with OakNorth's banking book exposures. The risk may arise due to the following:

- Duration or Repricing Risk: The risk arising from repricing mismatch of assets and liabilities. The majority of OakNorth's assets reprice based on the base rates while most deposit liabilities are fixed rate.
- Basis Risk: Unhedged exposure to one interest rate benchmark with exposure to another interest rate benchmark that reprices under different conditions (e.g. Bank of England Base rate and LIBOR).
- Pipeline Risk: The uncertainties of occurrence of future transactions.
- Prepayment Risk: Borrowers redeeming fixed rate products when interest rates change or prepaying loans for other reasons.

OakNorth's interest rate risk management policy is detailed in OakNorth's Market and Liquidity Risk Management policy, which defines, measures, sets hedging policy statements and details the governance process around the management, monitoring and reporting of the interest rate risks.

The Head of Treasury is responsible for the day-to-day management of the interest rate risk position of OakNorth. The CFO, reporting to the ALCO, takes an oversight role of this function with risk limits and current position against these limits reported monthly.

The Bank uses a number of measures for measurement and monitoring of interest rate risk. These include:

- NPV sensitivity to 200 basis point (bps) parallel shift in the entire yield curve to measure the interest rate risk in the banking book (IRRBB) and the basis risk exposure report. OakNorth monitors the Net Present Value (NPV) sensitivity to the positive and negative 200 basis points shift in the yield curve including the Bank of England base rate or LIBOR-linked floors embedded within the customer loan agreements and conditional assumptions on prepayments.
- NPV sensitivity for parallel shift in the yield curve, equivalent to gap to loan rate floors
- Basis risk metrics including: Earnings at Risk (EAR) measures for 25bps reference rate dislocation (Base rate/ LIBOR/ Customer deposit cost of funding).
- Additionally, we also track NPV sensitivity of 1bps shift in the reference rate gap to rate floors; and other metrics in relation to prepayment increases.

As at 31 December, the NPV sensitivity to +-200bps shift was as follows, which indicates a positive effect of the rate floors on OakNorth's interest rate risk:

	2019 (£m)	2018 (£m)
NPV Sensitivity to +2% shift (including base/ LIBOR rate floors)	19.0	17.4
NPV Sensitivity to -2% shift (including base/ LIBOR rate floors)	25.7	35.5

As at 31 December 2019, OakNorth did not have any market risk Pillar 1 requirements (2018: nil). OakNorth currently does not take any position with trading intent. OakNorth also did not have any derivatives outstanding for the purposes of hedging its interest rate risk in the banking book.

6 Liquidity risk

This is defined as the risk that OakNorth is unable to meet its contractual financial obligations as they fall due and is unable to fund future lending growth opportunities or is able to do so only at significantly higher funding costs. The most important liquidity risk OakNorth faces is retail funding risk – i.e. the risk that retail funds may be withdrawn from OakNorth at their earliest contractual maturity in the event of a stress occurring.

OakNorth has a detailed Funding policy which sets out the approach to funding the asset book and at the same time limiting the concentration of the funding sources. OakNorth has put in place an Individual Liquidity Adequacy Assessment Process (ILAAP), which informs OakNorth’s Board of the ongoing assessment and quantification of OakNorth's liquidity risks by defining OakNorth’s ILAAP methodology and prescribed stress tests, how OakNorth mitigates those risks and how much current and future liquidity is required. OakNorth also has a liquidity contingency funding plan, which is a part of its Recovery and Resolution plan which has been designed to ensure that OakNorth can meet its obligations as they fall due even in a stress situation. OakNorth’s Recovery plan further details a range of credible options for addressing capital and liquidity challenges under a range of stress scenarios.

OakNorth's liquidity position is monitored in accordance with OakNorth’s Liquidity Risk Management Policy and in accordance with the Liquidity risk appetite statements as approved by OakNorth’s Board.

The Asset and Liability Management Committee (ALCO) is responsible for setting and monitoring the appropriate thresholds and limits on the capital and liquidity risk drivers, the day-to-day decision-making process around early warning triggers and ensuring that OakNorth remains on target and within its capital and liquidity risk appetite. Further oversight is provided by the Risk function. The ALCO also conducts risk appetite appraisals to ensure that the Capital and Liquidity risk appetite statements are up to date and remain relevant to OakNorth’s operations.

Throughout the year OakNorth’s capital and liquidity position remained strong, and OakNorth complied with all regulatory liquidity and capital requirements. The average ratio of cash and cash equivalent balances to liabilities was over 25%. Given the fast growth of OakNorth’s lending book, the Asset and Liability Committee (ALCO) maintains a very stringent oversight of liquidity, with forward looking metrics monitored daily. The key ratios and indicators that are monitored by the ALCO include (but are not limited to)- LCR, NSFR and Liquidity Ratio.

As at 31 December 2019, OakNorth held unencumbered high-quality liquid assets of £540.0 million (2018: £356.9 million). The ratio of unencumbered HQLA as percentage of the deposit and borrowings was 12% (2018: 26%). The 30-day LCR ratio at the end of the year was 377% (2018: 490%) and the quarterly average was 395% for 2019.

	2019	2018
Liquidity buffer	539.9	356.8
Net Cash outflows	143.2	72.8
30-day liquidity coverage ratio %	377%	490%

7 Operational risk

7.1 Operational risk management

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems, or external events. OakNorth aims to mitigate each risk with robust controls and monitoring.
OakNorth has implemented a rigorous Operational Risk policy and risk mitigation processes. Each function, as the first line of defence, ensures that any operational risk in their area is mitigated by clearly defined and documented process documents and undertakes a thorough Risk and Controls Self-Assessment ('RCSA') process. Appropriate risk limits and their thresholds and early warning indicators are set. Reporting of appropriate MI on process effectiveness and any events or near misses is made monthly to the OPCO, EXCO and Board.

Conduct, compliance and regulatory risks

Conduct Risk is defined as the risk that a firm's behaviour results in poor outcomes for customers. Conduct risk is seen across regulatory, operational and reputational risk categories. OakNorth is focussed on delivering good outcomes for its customers.

Compliance risk is defined as the risk of impairment to the organisation's business model, reputation and/ or financial condition resulting from failure to meet laws, regulations, standards and policies, and expectations of regulators and society as whole. OakNorth has a zero appetite for any breach of regulation, code or standard of conduct.

Regulatory risk is defined as the risk of regulatory sanction, financial loss, or loss to reputation OakNorth may suffer because of failure to comply with all laws and regulations, and the expectations of regulators.

OakNorth uses the customer outcomes approach to assess conduct and regulatory compliance risk. Staff are provided with a Compliance Manual and appropriate training to provide an overview of the regulatory system under which OakNorth operates, to provide an outline of OakNorth's Compliance policy in each area, and to provide instructions on policies and procedures for compliance.

7.2 Operational risk capital charge computation

The operational risk capital charge for OakNorth under Pillar 1 is calculated using the Basic Indicator Approach, whereby a 15 per cent multiplier is applied to the 3-year historical average net interest and fee income. Based on this computation, the capital charge for the period ended 31 December 2019 was £4.8m (2018: £1.8m).

8 Securitisation exposures

OakNorth is a participant in "ENABLE" Guarantee programme with the British Business Bank, which is designed to encourage additional lending to smaller businesses. The programme provides UK government-backed portfolio guarantee to cover a portion of a designated lending portfolio's net credit losses in excess of an agreed 'first loss' threshold. The guarantee therefore provides eligible unfunded credit protection for the eligible loans, with the Bank still exposed to the 'first loss' charge, which results in a synthetic securitisation position under the CRR. The guaranteed portion of the eligible portfolio was £74m (2018: nil), which has been risk weighted at 0% in accordance with Article 114(4) of the CRR. The 'first loss' charge of £6m (2018: nil) has been deducted from Own Funds in accordance with Article 244(2)(b) of the CRR. All the exposures remain fully on balance sheet, with the guarantee treated as eligible unfunded credit protection. As at 31 December 2019, all the loans under the guarantee were performing, with no events of default. Further information on the ENABLE guarantee programme is provided in section 4.5 of this document.

OakNorth had no other securitisation exposures as at 31 December 2019 (2018: nil).

9 Asset encumbrance

As of 31 December 2019, OakNorth had borrowed £181.9m under the Bank of England's Term Funding scheme. The interest payable on the borrowings is linked to the BOE base rate, which was 75bps throughout 2019. The borrowing is repayable after four years of drawdown- £1.0m is repayable in June 2021 and £180.9m is repayable in January/February 2022. The borrowing is held at amortised cost. The borrowing is collateralised against GILT portfolio and loans as detailed below.

2019	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	£'000	£'000	£'000	£'000
Assets of the reporting institution	**328,763**	**105,337**	**2,401,161**	**N/A**
Loans on demand*	-	-	551,333	N/A
Equity instruments	-	-	-	-
Debt securities	105,337	105,337	-	N/A
Loans and advances other than loans on demand**	223,426	-	1,839,559	N/A
Other assets	-	-	10,268	N/A

*includes £540m of balances held at Bank of England (2018: £357m) and £11m of balances held at other banks (2018: £6m)
**Loans and advances to customers per financial statements

2018	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	£'000	£'000	£'000	£'000
Assets of the reporting institution	**263,622**	**103,614**	**1,507,185**	**N/A**
Loans on demand*	-	-	363,188	N/A
Equity instruments	-	-	-	-
Debt securities	103,614	103,614	-	N/A
Loans and advances other than loans on demand**	160,008	-	1,137,929	N/A
Other assets	-	-	6,067	N/A

*includes £357m of balances held at Bank of England (2017: £148m) and £6m of balances held at other banks (2017: £5m)
**Loans and advances to customers per financial statements

Collateral received: Nil (2018: nil)

Carrying amount of associated liabilities: £182.0m (2018: £182.1m)

The only source of encumbrance for the Bank for both 2019 and 2018 was through positioning of loan and GILT collaterals to access the Bank of England's term funding scheme. The ALCO monitors the encumbrance ratio on a monthly basis to ensure that these remain within the Risk Appetite limits.

As an accounting policy, as OakNorth retains the ownership of the eligible collateral assets, and therefore, all associated credit risks and ownership of the cash flows from those assets- any collateral placed with the Bank of England continue to be recognised as an asset on the balance sheet and any funding raised is recognised as liability.

10 Remuneration disclosures

This section describes the remuneration policy and governance of OakNorth Bank plc and discloses details of the remuneration of the Bank's 24 "Code Staff" (see below) for the year ending 31 December 2019.

These disclosures are made in accordance with Article 450 of the Capital Requirements Regulation (CRR) and should be read in conjunction with the 2019 Annual Report.

10.1 Approach to remuneration

The approach taken by OakNorth Bank in respect of remuneration emanates from a combination of regulatory guidance, in particular the dual-regulated firm's Remuneration Code (https://fshandbook.info/FS/html/handbook/SYSC/19D), [as appropriate for Level 3 firms], the rules on remuneration published by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) (http://www.bankofengland.co.uk/pra/Pages/publications/ps/2015/ps1215.aspx) on 23 June 2015, and our own best judgement regarding the design of attractive awards and incentive packages which are effective in not only recruiting and retaining staff, but also in meeting the judicious risk appetite and long term interests of the Bank. Fundamentally, our approach to remuneration is based on promoting and rewarding the right behaviours which ensure that the interests of our customers and long-term value creation are at the forefront of everything we do.

Our Board Remuneration and Nomination Committee (REMCO) further serves to assure, through its principle oversight function, the alignment of remuneration with both the strategic aims of OakNorth Bank and regulatory compliance requirements.

Additionally, due to the size and maturity of our business, OakNorth Bank applies the proportionality principle (SYSC 19A.3.3R(2)) to ensure the practices and processes we promote are “appropriate to [our] size, internal organisation and the nature, the scope and the complexity of [our] activities.”

In practically applying PRA and FCA guidance, OakNorth Bank classifies its employees as either Code or Non-Code Staff. Code staff are comprised of Senior Managers (covered by the Senior Managers Regime), Risk Managers excluding those covered by the Senior Managers Regime, and all other Material Risk Takers (MRTs). During the year ended 31 December 2019, OakNorth employed 24 Code Staff (4 Executive Directors, 6 Non-Executive Directors, and 14 Senior Managers and additional MRTs). For clarity, since December 2019, 1 Executive Director, 2 Non-Executive Directors and 3 MRTs have since left the organisation, hence making the number of Code Staff as of 31 December 2019 18 in total.

OakNorth Bank further seeks to calibrate its approach to remuneration through a regular review of its remuneration policy and practices, at least annually. We use both external benchmarks issued by various professional bodies as well as internal reviews by our first line owners, second line oversight and, as relevant, the Remuneration and Nomination Committee and Internal Audit.

10.2 Board Remuneration and Nomination Committee (REMCO)

The Board Remuneration and Nomination Committee is responsible for ensuring that remuneration arrangements support the strategic aims of OakNorth Bank, drive the right behaviours from staff, comply with best practices, and with the requirements of regulation. All remuneration is set in line with the Remuneration Code (SYSC 19D, as relevant to proportionality level 3 firms). The Committee has delegated authority from the Board for the review and approval of the Remuneration Policy, setting remuneration and remuneration structure for all Executive Directors, Non-Executive Directors (NEDs) including the Chairman and other key individuals such as Senior Managers and employees captured under the scope of the Certification Regime. The Committee reviews and recommends, alongside the Board, the selection and appointment of Board members as well as the Board structure. The independent Non-Executive Directors are entitled to yearly fees for attending Board or Committee meetings at the rate that may be agreed upon between the Shareholders and the Board of Directors from time to time. Changes in Board compensation, if any, arise out of the recommendation of the Board Remuneration and Nomination Committee with necessary approvals by the Board, Shareholders and PRA and FCA as appropriate.

The Committee’s membership is formed by the Chairman (Chair of the Remuneration and Nomination Committee), the Senior Independent Director (SID) and an Independent Non-Executive Director (INED). The Chief Executive Officer (CEO), Senior Managing Director (SMD) and Notified NEDs are standing invitees at each meeting but are not voting members. The People Operations Associate Director acts as Secretary to the Committee. The Committee aims to meet three times a year as called by the Committee Chairman. At least once per annum the Chief Risk Officer (CRO) and Chief Financial Officer (CFO) advise the

Committee on specific risk adjustments to be applied to performance objectives of the Executive Directors and any Code Staff, set in the context of incentive packages. Three meetings were convened inside of 2019 with all members in attendance at every meeting.

The Board Remuneration and Nomination Committee has access to sufficient resources in order to carry out its duties and is able to use any forms of resources the committee deems appropriate, including external advice. The Committee will receive appropriate funding as and when required and shall oversee any investigation of activities which are within its terms of reference and address any other matters referred to it by the Board.

Key example agenda items included:

- Senior Manager performance including specific objectives and key metrics;
- Succession Planning, including approval of specific departures and appointments, and key-man insurance;
- MRTs identification and Remuneration Policy Statement;
- Bonus pool provision mechanism and composition for 2019 performance year;
- Companywide bonuses for the 2019 performance year decided and individual bonus awards (2019) and compensation reviews (2019) for Material Risk Takers (MRTs) agreed; and
- Performance evaluation for Debt Finance Directors in line with the Debt Finance Team Incentive Scheme (DFTIS).

10.2.1 Board Diversity

The Bank has a diversity policy duly approved by the Board of Directors. This is available on the Bank's website. Through the policy the Bank asserts its commitment to increase diversity at all levels and to provide equal opportunities throughout employment; including in the recruitment, training and promotion of employees. The Bank is passionate about eliminating discrimination in the workplace, whether on grounds of age, disability, gender or gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation (the "Protected Characteristics"). All job applicants and employees are treated fairly and assessed solely on merit. The aim of the Bank is to have a balanced age distribution and no gender or age limit on any career opportunities. A further objective of the Bank is to attract job, promotion, and training applications from the best possible candidates, regardless of any Protected Characteristics. Company procedures and policies are based on this objective. This commitment applies equally to members of the Board of Directors. All Board of Directors appointments are made solely on merit, in the context of the skills, experience, independence and knowledge which the Board of Directors as a whole requires to be effective.

We believe in promoting a diverse workplace in which different backgrounds, voices and perspectives foster a stronger collective. We further consider inclusion, acceptance and respect as important factors in maintaining and growing diversity. This means that with respect to external efforts we are proactive and open minded when it comes to recruitment and don't narrowly consider talent pools. Internally we encourage collaboration, decision-making, and advancement by all members, equally, across our employee population.

The Board Remuneration and Nomination Committee has delegated authority to decide the Company's diversity targets and to review the diversity policy. Diversity targets will be set for three years at a time.

OakNorth believes that the present diversity of Board and senior management members enables the Bank to govern with perspective, challenge, and collaborative decision making. At present, with targets of 10% for Board and 25% for management team, OakNorth satisfies the diversity requirements set out in the FCA Handbook and operate in line with the diversity guidelines established by the EBA Report on the Benchmarking of Diversity Practices. At the relevant juncture, in 2020, OakNorth will re-examine the diversity targets, issuing new goals as appropriate for the organisation and its effective governance. However, as an organisation, OakNorth always endeavours to look for opportunities to exceed these targets, increasing the diversity of staff whenever possible. As per Article 88 of CRD, OakNorth publishes this policy on the corporate website2, and progress against targets will also be annually updated.

10.2.2 Board Recruitment

The Board of Directors has the authority to select and appoint Board members as well as define and approve the Board structure following recommendations from the relevant Board Committees.

The Board Remuneration and Nomination Committee is chaired by the PRA-approved SMF9, 12 and 13-holder, currently the Board Chairman. Its membership consists of the Chairman and two Non-Executive Directors only: including (i) the Chairman of the Board Risk & Compliance Committee and Board Credit Committee and (ii) the Senior Independent Director and Chairman of the Board Audit Committee. It takes delegated authority from the Board of Directors to determine the policy and approval process for the Executive Directors and other Senior Management taking-up external non-executive appointments. It also leads the Board review and approval of the conditions and terms of service agreements of the Executive Directors and, in conjunction with the Executive Directors, the terms of appointment of the Chairman.

The Board reviews annually, following recommendations from the Remuneration and Nomination Committee, the appropriate skills, characteristics and experience required of the Board as a whole and from its individual members. The objective is to have a Board comprising of members with extensive banking experience, and additionally diverse background experience in such areas as business, government, academics and technology.

In evaluating the suitability of individual Board members, the Board, following recommendations from the Board Remuneration and Nomination Committee, considers many factors, including a general understanding of the Bank's business dynamics, social perspective, educational and professional background and personal achievements. Directors must possess experience at policy-making and operational levels in banks or financial institutions that will indicate their ability to make meaningful contributions to the Board's discussion and decision-making in the array of complex issues facing the Bank. Directors should possess the highest personal and professional ethics, integrity and values. The Committee evaluates each individual with the objective of having a group that best enables the success of the Bank.

Both the Board and the Board Remuneration and Nomination Committee have the responsibility for identifying suitable candidates in the event of a vacancy being created on the Board on account of retirement, resignation or demise of an existing Board member. Based on recommendations from the Board Remuneration and Nomination Committee, the Board evaluates the candidate(s) and selects the appropriate member. The Committee also considers candidates recommended by shareholders, if any.

The composition of the Board includes the PRA-approved Non-Executive Directors (the Chairman function, the Senior Independent Director function, the Chair of the Risk & Compliance Committee function, the

[2] https://www.oaknorth.co.uk/diversity-policy/

Chair of the Audit Committee function, and the Chair of the Remuneration and Nomination Committee function) and includes at least three Executive Directors. The majority of Board members are Non-Executive Directors.

10.3 Remuneration Policy

OakNorth Bank's Remuneration Policy is applicable to all employees [the Board of Directors has adopted the Remuneration Policy at the proposal of RemCo] and a review is undertaken annually to assess its implementation and compliance with the Remuneration Code, PRA PS12/15 and other relevant rules and guidance.

The objective of the Policy is to enable OakNorth Bank to recruit and retain the highest calibre talent capable of achieving the Bank's objectives and to encourage and reward superior performance and creation of shareholder value, within the guidelines of the Remuneration Code and PRA PS12/15. The Policy further sets out to establish that OakNorth Bank will use performance-based remuneration to motivate and only reward high performers who strengthen long-term customer relations, generate income, demonstrate the required behaviours (teamwork, co-operation, customer focus, risk awareness), deliver good customer outcomes and protect/enhance shareholder value.

To achieve this objective, OakNorth Bank's Remuneration Policy defines effective remuneration and incentives that can be used to attract and retain high performing employees who contribute to the long-term success of the Bank while ensuring they manage risks in an appropriate and compliant manner. The Policy further aims to promote sound and effective risk management and achieve and incorporate financial services best practices in its remuneration planning, while maintaining and valuing ethics and customer interests as a central tenet and top priority.

Our Remuneration Policy does not encourage the assumption of risks that exceed the risk appetite of the Bank. The Policy is consistent with the business strategy, objectives, values and long-term interests of the Bank. The Remuneration Policy enables incentives to be provided (in the form of additions or reductions to grants and/or bonuses) for the purpose of meeting the Bank's long-term strategic objectives and general goals in the areas of risk management, positive customer outcomes, regulatory and statutory compliance, regulatory and other key stakeholder expectations and Bank procedures.

The following Guiding Principles underpin OakNorth Bank's Remuneration Policy:

- Interests of our Employees will be aligned with the interests of our clients, long-term interests of the Bank, OakNorth Bank shareholders, investors and other stakeholders in the Bank as well as the public interest;
- Employees will not be rewarded for risks that are unwarranted;
- OakNorth Bank's Origination team will be incentivised on the basis of creating strong portfolio performance and long-term sustainability of performance alongside strong customer outcomes as opposed to short term loan volumes;
- OakNorth Bank's Second and Third lines of defence will not be incentivised for volumes of business. They will be incentivised on the delivery of objectives linked to their functions and the maintenance of a robust control environment. The remuneration of their senior officers will be directly overseen by the Board Remuneration and Nomination Committee;

- OakNorth Bank's Risk management and Compliance functions will have appropriate input into setting the remuneration policy for other business areas to minimise any undue risks the Bank may be otherwise subject to without this oversight;

- Bonuses will be subject to clawback and malus provisions;

- OakNorth Bank plc is a level three firm under the Remuneration Code proportionality rules. As a result, as appropriate for a level three firm (cf. the FCA's FG17/8 General Guidance on Proportionality - The Dual-regulated firms Remuneration Code (SYSC 19D) - May 2017 - Part D guidance to firms in particular proportionality levels - paragraph 4.5), it will disapply the following rules:

    1. retained shares or other instruments (SYSC 19D.3.56R);

    2. deferral (SYSC 19D.3.59R); and

    3. performance adjustment (SYSC 19D.3.61R – SYSC 19D.3.62R).

In summary, our Remuneration Policy and Approach considers, and will continue to evaluate throughout its evolution: risk-adjusted business performance, delivering good customer outcomes and customer satisfaction, behaviours such as teamwork, collaboration and maintaining a high-quality control environment.

10.4 Remuneration Structure

OakNorth Bank seeks to combine various remuneration/incentive components to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's seniority in the professional activity as well as market practice. The three remuneration components that every employee is eligible to receive include: 1) Basic Salary; 2) Benefits; 3) Cash Bonus (immediate and deferred) and 4) Employee Shareholder Share Scheme ("ESS"). These remuneration components are used to reward employees firm-wide although from 2019 the pay-out to the Bank's origination team is governed under a separate scheme known as the Debt Finance Team Incentive Scheme (DFTIS). The DFTIS is based on explicitly defined quality and risk measures designed to create long term sustainable performance and includes clawback related to loan losses.

10.5 Remuneration Components

Basic Salary is a critical component in attracting and retaining high quality people in all salaried roles.

We deem the following factors relevant in connection with the Basic Salary:

- Employees will be remunerated, keeping in line with the industry norms, at a median level;

- The Bank will comply with the Remuneration Code and PRA PS12/15, at the relevant Tier, as per regulatory guidelines;

- Two primary groups of Employees are created:

    - Code Staff shall comprise of Senior Managers (covered by the Senior Managers Regime), staff that meet the qualitative or quantitative criteria set by the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 excluding those covered by the Senior Managers Regime, and all other Material Risk Takers; and

    - Non-Code Staff shall comprise of everyone other than Code Staff.

- The Bank will maintain a record of Code Staff and ensure they understand the implications of their status; and
- The majority of staff compensation shall consist of a fixed monthly salary.

Base salaries are typically reviewed annually in February with an increase normally taking effect from April 1st each year. OakNorth Bank does not guarantee compensation increases to staff. We consider the rate of inflation as well as individual merit when deciding staff salary increases, but in all cases Company performance is a foremost concern.

Benefits: the Bank complies with statutory guidelines to provide a pension scheme to all employees.

Guaranteed bonuses: are awarded on an exceptional basis: 1) it occurs in the context of incentivising recruitment of new staff 2) it is limited to the first year of service and 3) the firm has a strong and sound capital base.

Variable remuneration (cash bonus immediate and deferred) is discretionary, risk-adjusted (with ex-ante and ex-post adjustments where relevant) and based on a combination of Bank and individual performance. A performance bonus pool is accrued annually at a level proposed by the CEO and approved by the Board Remuneration and Nomination Committee.

The Bank's bonus pool provisions consist of a 'Debt Finance (DF) Team' bonus pool, ExCo bonus pool and an 'All Other Teams' bonus pool. The three bonus pools (Debt Finance, ExCo and all Other Employees) are added to determine the total bonus pool which is sanity checked against our profitability, capital and liquidity surpluses against regulatory requirements and Board risk appetite statements. The pool is also checked in relation to the size and maturity as a bank, in order to assess whether it is prudent for our bank to pay a bonus pool of that amount.

Inside the bonus pool for the origination (DF) team, performance objectives are measured on several qualitative factors such as behaviours reflective of OakNorth values, brand cultivation, customer service, and ongoing risk awareness. The scheme focuses on team targets, driving strong loan quality and high credit standards. Additionally, the Bank's Second line of defence (Risk, Compliance and/or Credit functions) provide appropriate input into the initial objectives setting and subsequent assessment of individual and team performance. Quality and risk measures are explicitly included in the incentive scheme design and is aligned with long term sustainable performance.

The Bank performs an assessment of its capital base and profits before confirming any bonus pool amounts. The Bank employs a bottom-up approach to determine the bonus pool i.e. beginning the process with an evaluation of every individual staff member and calculating a potential bonus. Bonus amount is based on a combination of 1) historical bonus for that person; 2) their performance with respect to their job; 3) job market/economic outlook and 4) adherence to the Bank's values, culture and long-term performance objectives. The Bank then aggregates these figures to come up with a total which is then evaluated alongside company performance (profitability), strategic outlook and institutional size. Once the bonus pool provisions are decided, the Bank then performs ex-ante and ex-post adjustments to assess whether we need to apply a bonus pool adjustment. We consider a combination of financial and non-financial criteria including, an assessment of operational risk, conduct risk, client outcomes, values and strategy as well as (where they exist) material losses, significant risk events, etc.

The quantum of the bonus pool is at a level that does not limit the Bank's ability to strengthen its capital base. The bonus pool is allocated to individual staff based on performance and senior management judgment.

Direct oversight for remuneration for second-line and third-line functions (e.g. risk, compliance, internal audit) is provided by the Board Remuneration and Nomination Committee, to ensure independence from commercial staff and performance.

Part of an individual's bonus award may be deferred. The deferred portion will include provisions such as malus and clawback.

Bonuses are only awarded to employees whose performance has been objectively measured and it is more than that required to fulfil the employee's job description as part of their terms of employment.

The following rules are applicable in rewarding cash bonuses:

- Cash bonuses may be paid upfront or some percentage deferred;
- Cash bonuses relating to the 2019 performance year will be paid in cash in Q1 2020 or deferred across a maximum of 4 years;
- All members of the Bank's origination team will be paid per a 4-year deferral schedule;
- All members of the Bank's senior management body will have all or some percentage of their cash bonus deferred;
- Maximum percentage of bonus has been fixed at an amount equivalent to 100% (one hundred percent) of base salary for all Code Staff. Bonuses for the majority of employees shall be less than 50% (fifty percent) of base salary. In certain exceptional cases, bonuses may be awarded above 100% (one hundred percent) solely at the discretion of the CEO and REMCO for non-Code Staff e.g. the DF team;
- Bonuses will be based on both overall bank risk-adjusted performance and an individual's performance; and
- In line with our Remuneration Policy, bonuses of particularly high amounts, typically defined as £500,000 or above, or bonuses payable to Executive Directors may be subject to a minimum deferral of 60%. Further to Remuneration Principle 12(g), the Bank may also use its discretion when defining a 'particularly high amount' and subject lower bonus sums to this deferral rule.

Every employment contract of the Bank has malus and clawback provisions as well as other provisions for amendment/cancellation of bonus schemes, as and when required.

Employee Shareholder Share ("ESS") scheme: helps to incentivise the achievement of the Bank's long-term objectives i.e., by aligning executive and shareholder interests and by retaining key individuals. Selected senior members of staff will be issued an agreed number of a new class of restricted shares in Holdings. The ESS scheme aims to encourage selected staff to display the correct behaviour, serve as stalwarts of OakNorth's values, and drive performance by aligning commercial interests to those of shareholders. The ESS scheme will be made available both to OakNorth employees as well as to other individuals that Bank/Holdings determines. Whether shares should be fixed or variable remuneration; If they are entitled to them, it is fixed.

10.6 Remuneration for Code Staff

The following table below shows total fixed and variable remuneration awarded to Code staff in respect of the performance year 2019.

Number of Code Staff: 24

Remuneration Type	2019 Payments £'000		
	Executive Directors (4)	Non-Executive Directors (6)	Code Staff (14)
Total Fixed remuneration			
- Cash-based	2,779	460	2,458
- Shares	4	--	10
Total Variable remuneration paid in 2019			
- Cash-based	195	--	306
- Shares	--	--	--
Total Deferred remuneration paid in 2019			
- Cash-based	8	--	129
- Shares	--	--	--
Pension and Insurance	--	--	19
Severance Payments	--	--	--
Total Deferred Remuneration outstanding as at the end of 2019*			
Cash-based	27	--	409
Shares	5	--	11
Total Remuneration in 2019	**3,018**	**460**	**3,341**

2019 performance awards were paid in 2020 except for a small number of guaranteed payments which were issued during the 2019 financial year. As per the external guidance received, Employer NI has been excluded from all calculations shown within the tables enclosed.

**All outstanding remuneration is subject to ongoing business conditions such as performance, clawback or if the employee leaves the company.*

The table below shows the amount of severance and guaranteed variable remuneration payments made to Code Staff during the financial year ended 31 December 2019, as well as any individuals remunerated over £1m.

Severance payments made during 2019	nil
Guaranteed variable remuneration payments made during 2019 (£'000)	70
Number of individuals remunerated over £1m	1

11 Appendix- Own funds disclosures templates

Note that any blank cells have been removed from this disclosure.

TABLE: CAPITAL INSTRUMENTS MAIN FEATURES TEMPLATE		
Capital Instruments main features template		
Issuer	OakNorth Bank plc	OakNorth Bank plc
Unique identifier	None	XS1713463047
Governing law(s) of the instrument	English	English
Regulatory treatment		
Transitional CRR rules	Common Equity Tier 1	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2
Eligible at solo/(sub-) consolidated/ solo&(sub-) consolidated	Solo	Solo
Instrument type (types to be specified by each jurisdiction)	Ordinary share capital	Subordinated debt
Amount recognised in regulatory capital (currency in '000, as of most recent reporting date)	£389,320	£50,000
Nominal amount of instrument ('000)	£389,320	£50,000
Issue price	N/A	98.986% of nominal amount
Redemption price	N/A	Principal plus accrued and unpaid interest
Accounting classification	Shareholders' equity	Liability – amortised cost
Original date of issuance	First issuance in June 2013 on incorporation. Subsequent multiple issuances of identical instrument were done through 2013-2019	01-Jun-18
Perpetual or dated	Perpetual	Dated
Original maturity date	No maturity	01-Jun-28
Issuer call subject to prior supervisory approval	No	Yes
Optional call date, contingent call dates and redemption amount	N/A	01-Jun-23
Subsequent call dates, if applicable	N/A	None
Coupons / dividends		
Fixed or floating dividend/coupon	Discretionary dividend	Fixed
Coupon rate and any related index	N/A	7.750%% fixed rate up to (but excluding) the optional call date payable semi-annually in arrears. Reset on the optional call date to the sum of the GBP 5-year GILT benchmark swap rate plus the reset margin payable semi-annually in arrears
Existence of a dividend stopper	N/A	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory

Existence of step up or other incentive to redeem	N/A	No
Noncumulative or cumulative	N/A	Non-cumulative
Convertible or non-convertible	N/A	Non-convertible
If convertible, conversion trigger(s)	N/A	N/A
If convertible, fully or partially	N/A	N/A
If convertible, conversion rate	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A
Write-down features	N/A	None contractual. Statutory at point of non-viability under the Banking Act
If write-down, write-down trigger(s)	N/A	N/A
If write-down, full or partial	N/A	N/A
If write-down, permanent or temporary	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Eligible senior claims
Non-compliant transitioned features	No	No
If yes, specify non-compliant features	N/A	N/A

Transitional Own Funds Disclosure template		
Common Equity Tier 1 capital: instruments and reserves	31-Dec-19	31-Dec-18
Capital instruments and the related share premium accounts	389,320	299,320
of which: Ordinary shares	389,320	299,320
Retained earnings	80,744	31,091
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	42	2
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**470,106**	**330,413**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(204)	(240)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	(552)	(319)
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(6000)	-
Total regulatory adjustments to common equity tier 1 capital	(6,756)	(559)
Common equity tier 1 capital	**463,350**	**329,854**
Additional tier 1 capital: instruments		
Additional tier 1 capital before regulatory adjustments	**-**	**-**
Additional tier 1 capital: regulatory adjustments		
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital	**463,350**	**329,854**
Tier 2 capital: instruments and provisions		
Capital instruments and the related share premium accounts	50,000	50,000
Credit risk adjustments	-	6,252
Tier 2 capital before regulatory adjustments	**50,000**	**56,252**
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to tier 2 capital	**-**	**-**
Tier 2 capital	**50,000**	**56,252**
Total capital	**513,350**	**386,106**
Total risk weighted assets	**2,236,926**	**1,473,692**
Capital ratios and buffers		
Common equity tier 1 (as a percentage of risk exposure amount)	20.7%	22.4%
Tier 1 (as a percentage of risk exposure amount)	20.7%	22.4%
Total capital (as a percentage of risk exposure amount)	22.9%	26.2%

Institution specific buffer requirement (common equity tier 1 capital requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	3.5%	2.875%
of which: capital conservation buffer requirement	2.5%	1.875%
of which: countercyclical buffer requirement	1.0%	1.0%
of which: systemic risk buffer requirement	N/A	N/A
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	N/A	N/A
Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	10.8%	12.5%
Amounts below the thresholds for deduction (before risk weighting)	Nil	Nil
Applicable caps on the inclusion of provisions in tier 2 capital		
Credit risk adjustments included in tier 2 capital in respect of exposures subject to standardised approach (prior to the application of the cap)	-	6,252
Cap on inclusion of credit risk adjustments in tier 2 capital under standardised approach	N/A	18,421
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	N/A	N/A
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (continued)	N/A	N/A

OakNorth Bank
57 Broadwick St, Soho,
London W1F 9QS
www.oaknorth.co.uk

@oaknorth

OakNorth Bank

oaknorthbankuk