OakNorth Bank

2021

Pillar 3 disclosures

Lending *for Entrepreneurs by Entrepreneurs*

Contents

1	Overview, scope, basis and frequency of disclosures and location	3
2	Risk management framework and policies	4
3	Capital resources and capital adequacy	10
4	Credit Risk	17
4	Interest Rate Risk in the Banking Book (IRRBB)	26
5	Liquidity risk	27
6	Operational risk	27
7	Climate Risk	28
8	Asset encumbrance	28
9	Remuneration disclosures	30
10	Appendix- Own funds disclosures templates	35

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

1.1 Overview and scope

OakNorth Bank plc (herein referred to as "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 Bank supports the UK's "Missing 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 typically from £0.5million to £25 million, while offering attractive online savings products to retail and business depositors.

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.

This report refers to disclosures made In the Bank's Annual Report and Financial statements which can be accessed at https://www.oaknorth.co.uk/investors/.

1.2 Basis

This Pillar 3 report is based upon OakNorth Bank's Financial Statements for the year ended 31 December 2021. These were prepared in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD IV). Any reference in this document to EU regulations and directives should, as applicable, be read as references to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018.

OakNorth Bank has adopted FRS102 (Financial Reporting Standard applicable in the UK) for preparing its financial statements. The Bank has adopted IFRS 9 'Financial Instruments' based on the accounting policy choice permitted under FRS 102.

The functional currency of OakNorth Bank is Pounds Sterling because that is the currency of the primary economic environment in which OakNorth Bank operates.

The report contains information presented for the year ended 31 December 2021, with comparatives for 31 December 2020. Any blank cells in the relevant regulatory templates/ tables have not been included in these disclosures. OakNorth Bank uses the Standardised Approach for computing capital requirements for credit risk and the Basic Indicator Approach for operational risk. OakNorth Bank 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 subsequent to the Annual Report and Accounts.

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 approval by OakNorth Bank's Board Audit Committee. These disclosures have not been externally audited and do not constitute any part of OakNorth Bank's financial statements.

1.5 Location

The Pillar 3 disclosures are available on OakNorth Bank's corporate website (https://www.oaknorth.co.uk/crd-iv-disclosures/).

2 Risk management framework and policies

The Bank's Risk Management Framework and Risk Review are outlined in detail in pages 44- 68 of the Bank's Annual Report 2021.

2.1 Approach

OakNorth Bank sets a risk strategy alongside its business strategy; and seeks to manage inherent risk through systematic and disciplined risk management. We quantify the risks taken and apply mitigating action appropriately with the objective of delivering long-term value in the business.

There is a continuous improvement approach to risk management, and policies, processes and controls have been further developed during the year. New initiatives include:

- investment in hiring new people and implementing new systems and processes to enhance controls in financial crime, cyber-security, and information security
- a climate risk management programme which has developed new risk assessment methodologies and policies
- an operational resilience programme which has set Impact Tolerances for our Important Business Services, mapped the services, and is enhancing all back-up and contingency arrangements

2.2 Culture

The risk appetite framework is consistent with our risk culture and business model. The Board takes the lead in establishing a strong risk management culture which supports and provides appropriate standards and incentives for professional and responsible behaviour. The Board and the management are committed to living the Bank's Values and setting the tone for the culture of the organisation. The values of 'Customer Delight', 'Right Ambition' and 'Say it as it Is' enshrine the Bank's commitment to delivering good customer outcomes, being transparent, and managing risk responsibility to create long term value by generating steady, sustainable, risk-adjusted returns. Risk outcomes and behaviours form a key part of compensation decisions as part of a 'balanced scorecard' approach. All incentive schemes for material risk takers are subject to malus and clawback provisions.

2.3 Risk Appetite framework

OakNorth Bank's Strategy is set within a detailed Risk Appetite statement which sets out the type and quantum of risk the Bank is prepared to accept to achieve its strategic business objectives. It is cascaded top-down, deriving logically from the Bank's high-level risk objectives to the low-level measures or limits used in day-by-day decision-making, and is defined and measurable. It is based on a set of Strategic Risk Objectives which are dynamically revised according to the evolution of the business and the operating environment and risk outlook. It provides a framework which is used to inform operational management decisions and business planning.

A dashboard with the status of each metric is monitored at least monthly. Management reviews and initiates appropriate action if the risk tolerances move into 'amber' or 'red' level.

The high-level Enterprise Risk Appetite has been articulated in seven categories: Treasury & Capital, Credit, Conduct (including Regulatory and Compliance), Reputational, Strategic, Operational, and Climate. This is subdivided further into risk appetite dimensions and with 88 Risk Appetite monitoring metrics set. The Risk Appetite Statement ('RAS') is carried through into OakNorth Bank's suite of Policies, and from the Policies into the Procedures (Standard Operating Procedures or 'SOPs') used by the Bank's staff.

2.4 Risk Management Framework (RMF)

The Bank's enterprise-wide Risk Management Framework as agreed by the Board is set in compliance with relevant legislation including the PRA and FCA Handbooks, EBA standards, SYSC, GENPRU, BIPRU and CRDIV, BCOBS, MLD5 and codes of conduct such as COCON, the Combined Code on Corporate Governance, and the Lending Code, and designed to ensure that the key risks facing OakNorth Bank 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.

This framework is subject to constant re-evaluation to ensure that it meets the challenges of the markets in which the Bank operates, including regulatory standards, industry best practices and emerging issues.

Through delegated authority from the Board, the Board Risk & Compliance Committee, Board Credit Committee, and Board Audit Committee provide overall supervision and assurance of the RMF, with independent oversight lines for the CFO, CRO, Head of Credit Risk and Head of Internal Audit respectively to support and to protect their independence. Roles and responsibilities are laid out in the Firm Management Responsibilities Map (FMRM).

2.5 Risk policies and controls

Detailed policies and frameworks approved by the Board and Board committees define the governance framework that ensures the Bank'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, Code of Conduct, Conduct and Customer Experience, prevention of Financial Crime, Fraud and Anti-Money Laundering, Operational Risk and Data Protection.

Operational processes are documented in Standard Operating Procedures - detailed documents which describe all the necessary activities to complete a task in accordance with business standards and industry regulations, together with roles and responsibilities and key control processes.

Central to the operational risk management of the Bank is a Risks and Controls Self-Assessment (RCSA) framework; a risk management tool whereby risks and controls are documented and assessed process by process, to provide assurance to management that controls are adequate and effective. This is updated monthly as part of the risk management continuous improvement programme.

First line Business Assurance Testing and second line Assurance Testing is undertaken monthly. A Risk Events and Issues database is maintained to inform the processes.

An annual ExCo level review of controls is undertaken, supplemented by a programme of enterprise-wide risk assessments, thematic risk assurance reviews, and a Compliance Monitoring Plan which examines regulatory compliance in all areas of the bank in a continuous cycle.

Top risks and Emerging Risks

The Bank's Top Risks and Emerging Risks are identified, and mitigating action taken by the ExCo, overseen by the Executive Risk Committee and the Board Risk & Compliance Committee.

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

Key themes in the Top Risks analysis in 2021 were as follows. **Pages 46-48 of the Bank's Annual Report 2021 provide further details.**

- The COVID-19 crisis: A risk facing all banks that the COVID-19 crisis leads to credit losses or operational losses. This risk is stable compared to previous year
- Credit Risk: A generic risk which features in the Top Risks given the high growth achieved in the loan book. OakNorth Bank has incurred zero write-offs in the loan book in 2021 through use of advanced analytics and controls and effective portfolio management. This risk is stable compared to previous year.
- Cyber security: A generic risk which features in the Top Risks because the attacks on the financial sector never cease. This risk is stable compared to previous year.
- Operational resilience: A generic risk. OakNorth Bank has incurred virtually nil operational losses in 2021, through proactive management. This risk is stable compared to previous year.
- Financial crime: A generic risk which features in the Top Risks because the attacks on the financial sector never cease. This risk is stable compared to previous year.
- Liquidity risk: A generic risk which would feature as a Top Risk for all banks. This risk is stable compared to previous year.
- Capital adequacy: A generic risk which is relevant as a Top Risk for OakNorth Bank as a fast-growing bank. This risk is stable compared to previous year.
- Regulatory and compliance risk: A generic risk. This risk is stable compared to previous year.
- Reputational and conduct risk: A generic risk. This risk is stable compared to previous year.

In addition to the above 'inherent risks', the following risks are identified as 'emerging risks' due to their increasing impact on the Bank's business model and strategy.

- Economic environment: An industry-wide risk. This risk is higher compared to previous year.
- Climate change: An industry-wide risk. This risk is stable compared to previous year.
- Competition in the SME market: Market developments. This risk is higher compared to previous year.

2.6 Risk oversight, monitoring and reporting structure

Pages 38- 42 of the Bank's Annual Report 2021 detail the Bank's Governance framework.

OakNorth Bank voluntarily applies and reports on certain aspects of the UK Corporate Governance Code, consistent with the level of complexity and scale of the business.

The Board's principal duty is to create and deliver a sustainable business model by setting OakNorth Bank's strategy and overseeing its implementation. It is responsible for ensuring that a system of internal controls is designed, implemented, maintained, and tested. It is responsible for approving the RMF and the Business Strategy, understanding major risks, ensuring that appropriate limits are set against those risks and that they are adequately controlled and monitored.

The Board generally convenes once a quarter to discuss the standard agenda items and discuss the business performance. In addition to this, the Board holds deep-dive sessions with various functions in the Bank covering a range of topics. There are further separate meetings to review and discuss the Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP, ILAAP), Recovery and Resolution Planning (RRP), business strategy, financial and operating plans, and annual statutory accounts. During the year, most of the meetings were held via online meeting applications.

During the year, the Financial Reporting Council's (FRC) Audit Quality Review team reviewed PwC's audit of OakNorth Bank's 2020 financial statements, as part of their latest annual inspection of audit firms. The Board Audit Committee received a copy of the review and was pleased to note that it did not identify any key findings and only a limited number of improvements were required.

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 is supported by various Board Committees which include the Board Risk & Compliance Committee (BRCC), Board Audit Committee (BAC), Board Remuneration & Nomination Committee (REMCO) and the Board Credit Committee (BCC).

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 membership comprising of three Executive, four Non-Executive Independent Directors, is optimal given the current scale of operations and the desired competencies of the Board members. The Bank also benefits from an exceptional Advisory Board.

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

The Bank's Executive Committee (EXCO) takes delegated authority from the Board and is responsible for developing the Bank's strategy, ensuring the delivery of the Management Plan and that the agreed strategy is executed across all dimensions. Additionally, the ExCo has responsibility for the RMF and for management of all risks. The Board delegates authority to the ExCo for the review and approval of those policies listed in the ExCo Terms of Reference.

Business risk is managed collectively by the ExCo and the Board. The CRO reports to the Board in respect of oversight and challenge for the risk agenda and performance against the Bank's risk appetite.

Capital, liquidity, and interest rate risks are managed by the CFO with oversight from the ALCO and through to the ExCo and the Board.

Credit risk policy, management and reporting is managed by the Head of Credit Risk under report to the Credit Risk Management Committee and the Board Credit Committee.

Three lines of defence model

In line with standard industry practice, OakNorth Bank 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): comprises of business line management, including the client-facing 'front office' Debt Finance and Customer Services teams and all operational units that generate risk, including Operations, Technology, and Finance. Sound risk governance recognises that business line management owns and is responsible for identifying and managing all the risks inherent in the products, activities, processes, and systems which it creates and for which it is accountable, in line with the agreed risk appetite.

2nd Line of Defence (2LOD): comprises of the Risk and Credit Risk functions and is responsible for monitoring the operation of the controls, adherence to risk direction and limits, reporting any control breaches / failures or risk appetite breaches; ensuring that risk management practices are appropriate for the business environment; interpreting and reporting on risk exposures and outcomes; and interpreting and reporting on the Key Risk Indicators (KRIs) set in the Risk Appetite. The CRO maintains a fully independent perspective to support oversight of first line risk-taking activities, providing independent advice and challenge whilst participating in ExCo decision-making. The Risk function operates under a Risk Charter that defines its scope and mandate.

3rd Line of Defence (3LoD): comprises of Internal Audit. The Internal Audit function provides independent assurance to the Board and shareholders over the effectiveness of governance and risk management and 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 CEO and NEDs. The Board and BAC is satisfied that the Internal Audit function had the appropriate resources during the year.

2.7 Additional information on Governance arrangements

2.7.1 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 2021 in addition to their roles within OakNorth Bank are:

Name of Director	Position	Directorships[a]
Cyrus Ardalan	Chairman	5[1]
Robert Burgess	Non-Executive Director Chair of the Board Credit Committee, Chair of the Board Risk & Compliance Committee	3[2]
Carolyn Schuetz	Non-Executive Director Chair of the Board Audit Committee	-
Edward Barry Berk	Non-Executive Director	1
Rishi Khosla	Executive Director Chief Executive Officer and Co-Founder	2
Joel Perlman	Executive Director Senior Managing Director and Co-Founder	5
Rajesh Gupta	Executive Director Chief Financial Officer	-

[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 two non- commercial organisations and three commercial organisations, [2] Includes directorship in one non- commercial organisation

During the year, the following changes occurred to the Board:

- Navtej S. Nandra resigned from the position of Senior Independent Director.
- Kasia Robinski resigned from the position of Non- Executive Director and Chair of the Board Audit Committee.
- Carolyn Schuetz was appointed as Non- Executive Director and Chair of the Board Audit Committee.
- Cristina Alba Ochoa resigned from the position of the CFO and Executive Director.
- Rajesh Gupta was appointed as the CFO and Executive Director.

As required 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

2.7.2 Board recruitment

Please see detailed disclosures in section 9 of this document.

2.7.3 Board Induction

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

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 Bank. 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.

2.7.4 Succession planning

OakNorth Bank 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 Bank 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 periodically approved by the Board and is subject to, at minimum, an annual review by senior management.

2.8 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 Bank's risk management framework, governance arrangements and Board responsibilities are detailed in section 2.1 through 2.8 of this document and in the 'Governance' section of the Bank's Annual Report. The Board considers that, as at 31 December 2021, it had in place an adequate framework of systems and controls with regard to OakNorth Bank's risk profile and business strategy.

3 Capital resources and capital adequacy

3.1 Capital management

OakNorth Bank's risk appetite statement and framework are designed to ensure that the Bank maintains sufficient capital, with appropriate buffers, to meet regulatory requirements for its ongoing growth projections, even in periods of stress. To enable this, the Bank conducts the Internal Capital Adequacy Assessment Process ('ICAAP'), which is a formal capital planning exercise over a 5-year period. As a part of the ICAAP, the Board considers all material risks the Bank faces and determine the amount, type and distribution of capital that will be required to cover such risks. This is achieved through the "Stress testing" process. On an ongoing basis, the Bank monitors the capital adequacy taking into account the forecast volume of growth in the loan book. The capital adequacy and capital buffer position (forecast and actuals) are reported to the ALCO, ExCo, the Board Risk Committee and the Board on a monthly basis.

The Bank uses the Standardised Approach for computing capital requirements for credit risk and Basic Indicator Approach for operational risk. The Bank's Tier 1 capital resources include ordinary share capital, FVOCI revaluation reserve, Employee Share Scheme valuation reserves and retained earnings, reduced by the intangible assets. Tier 2 capital includes Subordinated debt issued by the Bank.

The Bank has complied with all regulatory capital requirements throughout the year and continues to maintain surplus over the requirements.

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 on a regular basis. The Bank has developed a range of stresses, supported by the analytical capabilities of OakNorth Enterprise, to assess the likely performance of its book under a range of severe and granular stresses including a number of climate scenarios. The results of stress testing, along with proposed actions, are reported to ALCO, EXCO and to the Board, including the Bank's performance against Board approved risk appetites for performance under stress.

Key stress tests are captured in the Individual Liquidity Adequacy Assessment Process (ILAAP) and in the Internal Capital Adequacy Assessment Process (ICAAP), including those which help to inform the Banks assessment of its need for a stressed loss buffer (P2B), alongside the Banks Recovery plan and regular stress testing exercises.

The result of these stresses then provide key inputs into the calibration and validation of the Banks capital risk appetites.

Additional details on Credit risk, Liquidity and Funding risk, Interest rate risk, Climate risk and Operational risk are provided in the subsequent sections of this document.

3.3 Capital resources

The following table shows the composition of OakNorth Bank's regulatory capital position as at 31 December 2021 as per CRD IV.

Regulatory Capital	2021 (£'000)	2020(£'000)
Share capital	389,320	389,320
Retained earnings	239,670	139,278
Capital contribution	83	79
Fair value changes on financial assets at FVOCI[a]	245	-
Deductions for Intangible assets	-	(168)
Deductions for Deferred tax assets	(872)	(870)
Other deductions from CET1 capital[b]	-	(11,697)
Adjustments for the IFRS 9 transitional arrangements[c]	-	13,147
Total Common Equity Tier 1 (CET1) capital	**628,446**	**529,089**
Total Tier 1 Capital	**628,446**	**529,089**
Subordinated debt	50,000	50,000
Total Tier 2 capital	**50,000**	**50,000**
Total capital	**678,446**	**579,089**

[a] Fair Value through Other Comprehensive Income (FVOCI)
[b] Deductions in 2020 primarily included synthetic securitisation position, or 'first loss' element for loans guaranteed under the British Business Bank's ENABLE scheme and lending deemed as securitisation exposure under the Regulation (EU) 2017/2402
[c] IFRS 9 transitional arrangements in 2020 included add-back of COVID overlay provisions (post tax)

3.3.1 Movement in regulatory capital resources

	2021 (£'000)	2020 (£'000)
Total CET 1 capital at beginning of year	**529,089**	**463,350**
IFRS 9 transitional arrangements	(13,147)	13,147
Profits for the year	100,392	58,534
Net change in capital contribution and other reserves	249	37
Net change in deductions for intangible and deferred tax assets	166	(282)
Net change in other deductions from CET1	11,697	(5,697)
Total CET 1 capital at end of year	**628,446**	**529,089**
Total Tier 1 capital at end of year	**628,446**	**529,089**
	2021 (£'000)	**2020 (£'000)**
Total Tier 2 capital at end of the year	**50,000**	**50,000**
Total capital at end of the year	**678,446**	**579,089**

3.3.2 Reconciliation to Statutory equity

	2021 (£'000)	2020 (£'000)
Total Capital and reserves per financial statements	**629,318**	**528,677**
Deductions for Intangible assets	-	(168)
Deductions for Deferred tax assets	(872)	(870)
IFRS 9 transitional arrangement	-	13,147
Other deductions	-	(11,697)
Total CET1 Capital	**628,446**	**529,089**
Total Tier 1 capital at end of year	**628,446**	**529,089**
Add Subordinated debt (T2)	50,000	50,000
Total capital at end of the year	**678,446**	**579,089**

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). During the year 2021 the intangible assets were written-off in the financial statements.
- As of 31 December 2021, there were no ‘Other deductions’. 2020 included deductions on account of the first loss under the BBB ENABLE guarantee scheme and lending deemed as securitisation exposure. The Bank exited the ENABLE scheme during 2021 and there were no exposures deemed as ‘securitisation’ as at the reporting date.
- There were no dividends proposed or approved by the Board for 2021 (2020: nil)

3.3.4 Transitional own funds

As of 31 December 2021, there were no IFRS 9 transitional add-backs as the COVID overlay provisions were reallocated to modelled provisions (2020: £13.1 million).

2020 included transitional adjustments required on account of COVID overlay provision of £17.4 million (post tax £13.1 million). This was added back to CET1 as allowed under the CRR quick fix measures implemented in June 2020.

	2021 (£'000)	2020 (£'000)
Available capital (amounts) – transitional		
Common equity tier 1	628,446	529,089
Common equity tier 1 capital as if IFRS 9 transitional arrangements had not been applied	*628,446*	*515,941*
Tier 1 capital	628,446	529,089
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	*628,446*	*515,941*
Tier 2 capital	50,000	50,000
Total capital	**678,446**	**579,089**
Total capital as if IFRS 9 transitional arrangements had not been applied	**678,446**	**565,941**
Risk-weighted assets (amounts)		
Total risk-weighted assets	3,065,585	2,645,393
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	*3,065,585*	*2,626,337*
Risk-based capital ratios as a percentage of RWAs	**%**	**%**
Common equity tier 1 ratio	20.5%	20.0%
Common equity tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	*20.5%*	*19.6%*
Tier 1 ratio	20.5%	20.0%
Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	*20.5%*	*19.6%*
Total capital ratio	22.1%	21.9%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied	*22.1%*	*21.5%*
Leverage ratio		
CRR leverage ratio exposure measure (£'000)	3,855,405	3,287,032
CRR leverage ratio (%)	16.3%	16.1%
CRR leverage ratio (%) as if IFRS 9 transitional arrangements had not been applied	*16.3%*	*15.8%*

3.3.5 Subordinated debt Tier 2

	2021 (£'000)	2020 (£'000)
Subordinated notes (amortised cost)	**49,678**	**49,559**
Amounts due:		
- over five years	49,678	49,559

In June 2018, OakNorth Bank 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 amortised cost. The instrument is non-convertible and there are no contractual write-down features. Writedown can only be triggered at point of non-viability under the Banking Act.

3.3.6 Additional disclosures on own funds

Template on 'Capital instruments main features' and 'Transitional own funds disclosure' are in section 10.

3.4 Capital adequacy

	2021 (£'000)	2020 (£'000)
Risk weighted assets		
Credit risk	2,875,251	2,525,393
Market risk	-	-
Operational risk	190,334	120,000
Total risk weighted assets	**3,065,585**	**2,645,393**
Common Equity Tier 1 capital ratio	**20.5%**	**20.0%**
Tier 1 capital ratio	**20.5%**	**20.0%**
Total capital ratio	**22.1%**	**21.9%**

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 11.54% for OakNorth Bank as of 31 December 2021 (2020: 11.54%).

3.4.2 Capital buffers (Pillar 2B)

The UK Countercyclical Capital Buffer (CCyB) rate was 0% as of 31 December 2021. Capital conservation buffer is 2.5% in line with the CRDIV Capital buffers.

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 2021, OakNorth Bank'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).

2021	Exposure value under the Standardised Approach[a]	Risk exposure amount (RWA)	Own funds required	Own funds required weight	Countercyclical buffer rate
	£'000	£'000	£'000	£'000	£'000
UK	4,888,303	2,863,359	229,069	100%	0.0%
Rest of the world	14,209	11,892	951	0%	0.0%
Total	**4,902,512**	**2,875,251**	**230,020**	**100%**	
Institution specific countercyclical buffer rate	**0.00%**				

[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.

2020	*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	*4,117,205*	*2,512,889*	*201,031*	*100%*	*0.0%*
Rest of the world	*14,944*	*12,504*	*1,000*	*0%*	*0.0%*
Total	***4,132,148***	***2,525,393***	***202,031***	***100%***	
Institution specific countercyclical buffer rate	***0.00%***				

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 Bank 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	**2021 (£'000)**	**2020 (£'000)**
Common Equity Tier 1 (CET1) capital	**628,446**	**529,089**
Total assets per the financial statements	3,570,311	3,116,216
Off balance sheet items after CCF[a]	285,966	160,127
Other adjustments[b]	872	10,689
Total Leverage ratio exposure	**3,855,405**	**3,287,032**
Leverage ratio based on EBA calculation	**16.30%**	**16.1%**
Leverage ratio based on UK Leverage ratio framework (excluding claims on central banks)	**21.4%**	**21.0%**

[a]Off balance sheet items are stated after application of credit conversion factors. Gross off-balance sheet exposures before conversion factors are £1,333.5 million (2020: £1,005.5 million)

[b]Other adjustments in 2021 comprise of the following which are deducted from CET1- Deferred tax assets of £0.9 million

3.5.1 Leverage Ratio common disclosures

	2021 (£'000)	2020 (£'000)
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,570,311	3,133,641
Asset amounts deducted in determining Tier 1 capital	(872)	(6,736)
Asset amounts added in determining Tier 1 capital	-	17,425
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**3,569,439**	**3,287,032**
Derivative exposures	**-**	**-**
Securities financing transaction exposures	**-**	**-**
Off-balance sheet exposures at gross notional amount	1,333,527	1,005,526
Adjustments for conversion to credit equivalent amounts	(1,047,561)	(845,399)
Other off-balance sheet exposures	-	-
Total Other off-balance sheet exposures	**285,966**	**160,127**
Exempted exposures	**N/A**	**N/A**

3.5.2 Capital and total exposures

	2021 (£'000)	2020(£'000)
Tier 1 capital	628,446	529,089
Total leverage ratio exposures	3,855,405	3,287,032
Leverage ratio	16.3%	16.1%

As at 31 December 2021, OakNorth Bank'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 Bank'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 Bank 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.

	2021 (£'000)	2020 (£'000)
Credit risk	230,020	202,031
Market risk, Credit valuation adjustment (CVA)	-	-
Operational risk	15,227	9,600
Capital requirement under Pillar 1	**245,247**	**211,631**
Capital resources	**678,446**	**579,089**
Capital resources surplus over Pillar 1 requirement	**433,199**	**367,457**

4 Credit Risk

The Bank’s Credit Risk Management Framework and Risk Review are detailed in pages 49- 63 of the Bank’s Annual Report 2021.

Credit risk is the risk of default and financial loss arising from a borrower or counterparty failing to meet their contractual financial obligations. This risk is one of the most significant risks faced by OakNorth Bank given its business model’s emphasis on lending. OakNorth Bank does not actively trade in financial instruments, other than for liquidity management purposes.

The Bank has a Credit Risk Management Framework (CRMF), that operates as a sub-set within the Bank’s overall enterprise-wide Risk Management Framework. The CRMF operates within the Board and Board Credit Committee mandate and provides an over-arching framework for management of credit risk in the Bank, including establishing and monitoring credit governance procedures and policies, credit and concentration risk appetite limits and key risk indicators, delegated authorities, portfolio performance and management, risk rating frameworks, risk-weighted assets approach, portfolio provisioning and stress testing framework, and climate risk assessment and management within the loan book.

An independent review of the credit risk policies and processes is carried out periodically by the Credit Quality Assurance (CQA) function – directly reporting to the Chief Risk Officer.

In addition to the governance as detailed in the CRMF, during the year the Bank has established a ‘Reserves Adequacy Committee’ (RAC) that is responsible for establishing and maintaining the IFRS 9 provisioning framework and associated governance. The committee operates under the mandate from Board Audit Committee and its membership includes Head of Credit Risk, Chief Financial Officer and Chief Risk Officer.

Credit risk appetite: The key foundation of the CRMF is a Board-approved risk appetite and credit risk strategy. This ensures the Bank is operating with a suitable credit risk environment that supports the safe and sustainable growth of the Bank. The risk appetite is translated into measurable Key Risk Indicators (KRIs). Specific credit KRIs include concentration risk both at an individual borrower level and sector level. Concentration limits have been set to ensure the Bank operates within these thresholds and mitigate against a significant build-up of credit risk to any one sector, product / asset class, and /or single name (aggregated exposures) exposure. Each breach of threshold is escalated to the Board with a remediation plan proposed.

Committees and delegated authorities: Portfolio oversight and approval of lending decisions are made at the Credit Risk Management Committee (CRMC) and subsidiary credit committees as delegated by the CRMC - Medium Deals Committee (MDC) and Small Deals Committee (SDC). The delegated authority of each committee is based on a matrix of key credit risk measures including quantum, internal rating, product type, collateral, policy exception and returns. Higher risk deals based on single name exposure (>£50m within policy and >£35m for outside policy) are also reviewed and challenged by the Board Credit Committee (BCC).

Credit risk mitigation: OakNorth Bank seeks to mitigate credit risk through, inter alia, eligible collateral. The CRMF details the eligible collateral that the Bank 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. The Bank has a policy guidance on the valuation conditions and methods. OakNorth Bank also has a policy in relation to the external valuation firms/ quantity surveyors who can be added to the Bank’s valuation panel.

Loan book collateralisation: As of 31 December 2021, 97% of OakNorth Bank's loan facilities were collateralised by security comprising of fixed assets (including property) and charges/debentures on underlying portfolio of assets (primarily property) (2020: 96%). These exclude any charges on floating assets and guarantees not supported by charge on fixed assets.

Weighted average LTV of the loan book: The weighted average LTV of the book collateralised by property was 52% (2020: 54%).

Lending under Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS) and Recovery Loan Scheme (RLS): Since 2020 the Bank has partnered with the British Business Bank (BBB) to offer lending under CBILS and CLBILS. During 2021 the Bank further participated under RLS scheme. Under the CBILS and CLBILS schemes the UK Secretary of State guarantees 80% of the outstanding balance, while under the RLS scheme the guarantee is 70%. As the guarantor under the scheme is the UK Government, the Bank has reported risk transfer to the UK government to the extent of the guaranteed exposure, which has been risk-weighted at 0% in accordance with Article 114(4) of the CRR.

Credit risk concentration: Concentration risk arises in the loan book when a number of borrowers or exposures have comparable characteristics so that their ability to meet contractual obligations is collectively impacted by any changes to the environment they operate in (economic, political, sector specific or other conditions). In order to mitigate this risk, the Bank has a number of controls measures that include setting and monitoring of concentration limits on single name and across a number of granular sectors and subsectors and product types and stress testing done as part of ICAAP. During 2021, the Bank has significantly evolved and enhanced its approach to concentration limit setting and continues to develop its approach to be forward-looking and dynamic.

4.1 Exposures subject to the Standardised Approach

2021	Credit risk exposure[a]	Avg Credit risk exposure[c]	RWA[d]	Minimum capital requirement[e]
	£'000	£'000	£'000	£'000
Central government and central banks	638,225	524,797	-	-
Institutions	30,019	42,144	9,229	738
Corporates	1,071,957	985,833	621,650	49,732
Secured by mortgages on immovable property	1,660,756	1,575,628	1,089,516	87,161
Exposures at default[b]	51,585	60,765	75,123	6,010
Items belonging to regulatory high-risk categories	1,435,079	1,369,441	1,064,842	85,187
Other items	14,891	15,798	14,891	1,190
Total	**4,902,512**	**4,574,406**	**2,875,251**	**230,018**

[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 2021 pertain to the CBILS, CLBILS and RLS guarantee scheme (2020: CBILS, CLBILS and ENABLE guarantee scheme).

[b]As of 31 December 2021, there were 6 group exposures in Stage 3 under IFRS 9 (2020: 6 exposures under Stage 3)

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

[d]The RWA includes application of SME support factor where applicable per the CRR II guidelines issued in June 2020.

[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.

2020	***Credit risk exposure[a]***	***Avg Credit risk exposure[c]***	***RWA[d]***	***Minimum capital requirement[e]***
	£'000	***£'000***	***£'000***	***£'000***
Central government and central banks	*600,511*	*653,760*	*-*	*-*
Institutions	*11,532*	*17,706*	*7,245*	*580*
Corporates	*816,951*	*772,723*	*506,812*	*40,545*
Secured by mortgages on immovable property	*1,362,347*	*1,224,623*	*847,657*	*67,813*
Exposures at default	*97,866*	*77,450*	*143,951*	*11,516*
Items belonging to regulatory high-risk categories	*1,232,054*	*1,220,403*	*1,008,841*	*80,707*
Other items	*10,887*	*8,934*	*10,887*	*870*
Total	***4,132,148***	***3,975,599***	***2,525,393***	***202,031***

The credit exposures increased in 2021 versus the prior year due to growth in OakNorth Bank's loan book. More details on the business growth and strategy have been provided in OakNorth Bank's Annual report and Financial Statements for the year ended 31 December 2021. OakNorth Bank did not have any derivative exposures outstanding as at 31 December 2021 (2020: Nil).

4.2 Maturity bucketing of the exposures

2021	**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	638,225	-	-	-	638,225
Institutions	-	-	-	30,019	30,019
Loans to customers	1,249,767	2,751,976	217,634	-	4,219,377
Other items	-	-	-	14,891	14,891
Total	**1,887,992**	**2,751,976**	**217,634**	**44,910**	**4,902,512**

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

2020	***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	*600,511*	*-*	*-*	*-*	*600,511*
Institutions	*-*	*-*	*-*	*11,532*	*11,532*
Loans to customers	*1,137,552*	*2,186,423*	*185,242*	*-*	*3,509,217*
Other items	*-*	*-*	*-*	*10,887*	*10,887*
Total	***1,738,063***	***2,186,423***	***185,242***	***22,419***	***4,132,148***

4.3 Geographical distribution

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

4.4 Sectoral distribution

The Sectoral break-down of OakNorth Bank's credit risk exposures as at 31 December 2021 is below. All exposures are stated including undrawn facilities and before application of conversion factors.

2021	**Central government and central banks**	**Financial sector**	**Non-Financial sector**
	£'000	**£'000**	**£'000**
Central governments or central banks	638,225	-	-
Institutions	-	30,019	-
Loans to customers	-	508,843	3,710,534
Other items	-	-	14,891
Total	**638,225**	**538,862**	**3,725,425**

2020	***Central government and central banks***	***Financial sector***	***Non-Financial sector***
	£'000	***£'000***	***£'000***
Central governments or central banks	*600,511*	-	-
Institutions	-	*11,532*	-
Loans to customers	-	*279,789*	*3,229,428*
Other items	-	-	*10,887*
Total	***600,511***	***291,321***	***3,240,316***

4.5 Past due and impaired exposures

Please see Bank's Annual Report 2021 pages 93-96 for the Bank's accounting policy disclosures on Expected credit loss charge on assets held at amortised cost and pages 52-54 and 56-63 of the for details on the Credit Risk disclosures (ECL provisions and staging, movement in staging, measurement uncertainty and sensitivity analysis of ECL, macroeconomic scenario selection and scenario probabilities and sensitivities).

Based on the analysis of the portfolio monitoring triggers, the Bank classifies the loan book into the following credit risk categories- -Standard, Early warning sign (EWS), Intensive monitoring (IM), Watchlist (WL) and default. These monitoring and loan performance triggers comprise of 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 and significant adverse changes to the collateral position.

Staging approach

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 a monthly 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 are classified as 'Stage 2'. The ECL for Stage 2 accounts is measured on a lifetime basis.
- Financial instruments that are deemed credit-impaired are classified as Stage 3. The ECL for Stage 3 accounts is also measured on a lifetime basis.

OakNorth Bank does not have any purchased or originated credit-impaired (POCI) assets - i.e. financial assets that have been purchased and had objective evidence of being "non-performing" or "credit impaired" at the point of purchase.

The criteria for stage 2 and 3 are determined in accordance with the credit policies detailed under the Credit Risk Management Framework of the Bank. The Bank's policies considers both quantitative and qualitative triggers in addition to the IFRS 9 backstop criteria of 30 days past due for Stage 2 and 90 days past due for Stage 3.

Stage 2 SICR triggers include actual or expected deterioration of financial covenant headroom, financial performance and cover ratios, cash position, quality of collaterals; additional triggers for real-estate backed loans including decline in stressed collateral values, cost over-runs, material threats to the project or project delays, and any other new qualitative information available on the borrower via our early warning sign (EWS) process.

Stage 3 criteria include objective impairment triggers, which include significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, breach of contract, significant deterioration in collateral valuation where repayment of the loans is solely dependent on the sale of such collaterals, or any other factors as the CRMC deems relevant which may result in the borrower unlikely to pay.

The Bank does not apply automatic 'PD' based migration criteria to assess SICR and transition to Stage 2 or 3. The Bank also does not apply portfolio-level assessment of SICR. SICR is assessed for each individual loan all staging changes are subject to CRMC approvals.

For loans that breach the SICR triggers, the Bank further determines whether the credit risk on the loan is sufficiently low as at the reporting date. The credit risk on a loan is considered low for the purposes of the IFRS 9 requirements if it has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. If the credit risk on the loan is assessed as sufficiently low, the Bank does not move the loan to Stage 2 or 3.

Expected credit loss charge on assets held at amortised cost

OakNorth 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. Credit loss is defined and is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate over the expected life of the financial instrument. Under IFRS 9, expected credit losses is required to reflect an unbiased and probability- weighted amount that is determined by evaluating a range of possible outcomes.

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. ECLs are discounted at the loan's interest rates.

A number of significant judgements are required for measurement of ECL. This includes:

- Determining the criteria for significant increase in credit risk (SICR), in addition to the backstop triggers specified under IFRS 9;
- Choosing appropriate PD/LGD framework and assumptions; and
- Determining forward-looking scenarios and weightings

Probability of default (PD) is the likelihood that a borrower will fail to pay back a debt. Due to OakNorth Bank's limited trading history and no realised losses till date, the Bank does not have its own default data. As a result, the Bank uses third-party models to calibrate the PD and LGD for each of the loans. These external PD and LGD models leverage historic industry default data and process borrower financial information and qualitative factors to estimate borrower PDs and LGDs.

Loss given default (LGD) is defined as the percentage exposure at risk that is not expected to be recovered in an event of default. The LGD is calibrated using external PD and LGD modelling solution for both its real estate and trading book.

Forward looking macroeconomic scenarios and scenario weightings : The Bank uses externally sourced macro-economic scenarios that are available in the external PD and LGD modelling tool for its real estate and trading book. Judgements are applied in the choice of macroeconomic scenarios and scenario weightings.

Specific impairment assessment on Stage 3 cases: The Bank assesses multiple forward-looking scenarios of recovery and recovery strategies, cash-flows, and borrower actions to assess the expected loss in each of the scenarios. The outcomes of these scenarios are assigned probabilities on the basis of which specific loss provisions are recorded. The primary inputs to the modelling of ECL on specifically impaired loans are provided by the Bank's Workout and Recoveries team. The scenarios and specific provisions are discussed and challenged at the Reserves Adequacy Committee and are approved by the CRMC.

Loan write off: The Bank may write off financial assets fully or partially, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. This may include loans that are still subject to enforcement activity. There were no loans written off during the year (2020: Nil).

Forbearance: As part of its customers in financial difficulty policies and procedures, the Bank may undertake forbearance measures in order to ensure better outcomes for both the customer and the Bank. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments and may include payments or covenant related forbearance. Payment related forbearance is only extended if it is expected that the customer will be able to meet the revised terms of the loan. Forbearance cases are reported under the appropriate risk category (EWS, WL, IM, default) and only approved through restructuring strategies presented to CRMC. Cases with significant increase in credit risk are managed via the Bank's Watchlist process.

As 31 December 2021, the Bank had 12 loans that have been subject to forbearance, totalling to £124.1 million carrying value. Of these 7 loans totalling to £85.0 million were in watchlist (Stage 2) or Default (Stage 3) and £39.1 million were in intensive monitoring (Stage 1).

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

As at 31 December 2021	Carrying value (on balance sheet) £'000				Allowance for ECL £'000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	2,342,432	82,112	100,579	**2,525,123**	19,928	1,432	11,514	**32,874**
Of which overlay provisions					*10,926*		*6,499*	***17,425***
Transfers between stages during the year								
– Transfers to Stage 1	25,085	(25,085)	-	-	553	(553)	-	-
– Transfers to Stage 2	(29,383)	29,383	-	-	(5,884)	5,884	-	-
– Transfers to Stage 3	-	(14,655)	14,655	-	(1,805)	(282)	2,087	-
Total transfers	**(4,298)**	**(10,357)**	**14,655**	**-**	**(7,136)**	**5,049**	**2,087**	**-**
Net additional lending/ repayment and change in ECL assessment	444,857	(2,658)	(52,006)	**390,193**	(3,863)	-	-	**(3,863)**
As at 31 December 2021	**2,782,991**	**69,097**	**63,228**	**2,915,316**	**8,929**	**6,481**	**13,601**	**29,011**

These balances do not include undrawn uncommitted facilities, which are included in the risk exposures for the purposes of COREP reporting. As on 31 December 2021, OakNorth Bank had undrawn loan commitments outstanding for £382.1 million (2020: £154.4 million). OakNorth Bank also had £951.4 million of uncommitted facilities outstanding as of 31 December 2021 (2020: £865.4 million).

As at 31 December 2021	Nominal exposure (off-balance sheet) £'000				Allowance for ECL £'000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 1 January	**149,711**	**2,372**	**2,302**	**154,385**	**257**	**30**	**-**	**287**
Transfers between stages during the year	-	-	-	-	-	-	-	-
– Transfers to Stage 1	-	-	-	-	-	-	-	-
– Transfers to Stage 2	-	-	-	-	-	-	-	-
– Transfers to Stage 3	-	-	-	-	-	-	-	-
Total transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net increase/ (reduction) in ECL arising from transfer of stage	-	-	-	**-**	-	-	-	**-**
Net additional lending/ repayment	231,482	(2,372)	(1,393)	**227,717**	199	(30)	-	**169**
As at 31 December	**381,193**	**-**	**909**	**382,102**	**456**	**-**	**-**	**456**

As at 31 December 2020	Carrying value (on balance sheet) £'000				Allowance for ECL £'000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	1,968,550	65,317	40,426	2,074,293	7,831	1,581	1,896	11,308
Transfers between stages during the year								
– Transfers to Stage 1	1,457	(1,457)	-	-	28	(28)	-	-
– Transfers to Stage 2	(64,977)	64,977	-	-	(202)	202	-	-
– Transfers to Stage 3	(26,114)	(46,964)	73,078	-	(159)	(1,032)	1,191	-
Total transfers	(89,634)	16,556	73,078	-	(333)	(858)	1,191	-
Net (reduction)/ increase in ECL arising from transfer of stage	-	-	-	-	(28)	948	44	964
Net additional lending/ repayment and change in ECL assessment	463,516	239	(12,925)	450,830	1,532	(239)	1,884	3,177
Addition of COVID overlay provisions	-	-	-	-	10,926	-	6,499	17,425
As at 31 December 2020	2,342,432	82,112	100,579	2,525,123	19,928	1,432	11,514	32,874

As at 31 December 2020	Nominal exposure (off-balance sheet)				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 January	116,695	-	-	116,695	265	-	-	265
Transfers between stages during the year	-	-	-	-	-	-	-	-
– Transfers to Stage 1	-	-	-	-	-	-	-	-
– Transfers to Stage 2	(4,287)	4,287	-	-	(8)	8	-	-
– Transfers to Stage 3	-	-	-	-	-	-	-	-
Total transfers	(4,287)	4,287	-	-	(8)	8	-	-
Net increase/ (reduction) in ECL arising from transfer of stage	-	-	-	-	-	22	-	22
Net additional lending/ repayment	37,303	(1,915)	2,302	37,690	-	-	-	-
As at 31 December	149,711	2,372	2,302	154,385	257	30	-	287

4.6 Credit Risk: Treasury assets

Credit risk also exists in relation to Treasury assets such as investment securities and deposits/balances placed with other banks. The credit risk associated with Treasury assets is considered to be low. Treasury assets as at 31 December 2021 were held in the form of UK GILTS and balances at Bank of England reserve account. No assets are held for speculative purposes or actively traded. OakNorth Bank had no derivative exposures as at 31 December 2021 (2020: Nil).

OakNorth Bank'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 Bank 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 Bank 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.

2021	**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)	446,377	-	-	-	-	446,377
UK Government GILTS and Treasury Bills	191,848	-	-	-	-	191,848
Loans & advances to banks	-	25,987	-	4,032	-	30,019
Total	**638,225**	**25,987**	-	**4,032**	**-**	**668,244**

2020	***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)	*469,459*	-	-	-	-	*469,459*
UK Government GILTS and Treasury Bills	*131,053*	-	-	-	-	*131,053*
Loans & advances to banks	-	-	*8,574*	*2,958*	-	*11,532*
Total	***600,512***	**-**	***8,574***	***2,958***	**-**	***612,044***

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). 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 2021, there were no impaired financial instruments at FVOCI (2020: nil).

4 Interest Rate Risk in the Banking Book (IRRBB)

OakNorth Bank carries interest rate risk in the banking book (IRRBB)- the risk of loss arising from changes in the interest rates associated with banking book exposures. The risk may arise due to the following:

- Gap Risk: risk arising from repricing mismatch of assets and liabilities. The majority of the Bank'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., BoE and SONIA)
- Option or Prepayment Risk: borrowers redeeming fixed rate products when interest rates change, or prepaying loans for other reasons

The Bank's interest rate risk management policy is detailed in the Market Risk Management policy, which defines, measures, sets hedging policy statements, and details the governance process around management and reporting. The Treasurer is responsible for the day-to-day management of interest rate risk, reporting to ALCO. Monthly ALCO updates include several risk appetite and monitoring metrics including: NPV sensitivity to 200bps shift in the yield curve, application of the prescribed EBA shock scenarios, an Earning at Risk (EaR) assessment and the basis risk exposure report.

The primary assessment of its interest rate risk exposure is its monthly modified FSA017 GAP assessment. This assessment is built off the regulatory FSA017 assessment to capture the duration and relevant optionality interest rate risks inherent in OakNorth Bank's balance sheet This is then amended to then reflect:

- Greater granularity.
- The impact of the interest rate floors OakNorth has in place, which in effect can lead to loans repricing in line with fixed rate products at maturity when the floor is in effect for the duration of the period.
- The impact of higher early repayments when interest rate floors have come into effect in the rates down shock.
- Inclusion of a zero-lower bound in line with the EBA's guidance.

In addition to this assessment, the Bank also conducts a monthly assessment against its risk appetite for the impact of 25bps shock on 12m Net interest income (NII) which is reported to ALCO and ExCo on a monthly basis. A summary of these assessments as at end-December 2021 is shown below, with all metrics within the Bank's stated risk appetites:

	2021 (£m)	2020 (£m)
NPV Sensitivity to +2% shift (including base/ LIBOR rate floors)	2.5	20.9
NPV Sensitivity to -2% shift (including base/ LIBOR rate floors)	59.8	35.5

The shift in outputs between end 2021 and end 2020 is predominantly driven by enhancements in the Bank's assessment methodology over this period.

The worst impact of 12m NII at risk at risk to +/- 25bps shock is +£1.1 million as of 31 December 2021 (vs -£0.6 million as of 31 December 2020).

5 Liquidity risk

Liquidity risk is defined as the risk that OakNorth Bank is unable to meet its contractual financial obligations as they fall due. OakNorth Bank considers its funding and liquidity risks as key risks that could challenge its survival in a stressed environment and limit its growth aspirations and profitability normal conditions. The main liquidity risk faced by the Bank is that of a retail deposit funding stress such that retail deposits may be withdrawn by customers at their earliest contractual maturity.

The Bank has a prudent approach to managing liquidity ensuring it holds sufficient high quality liquid assets and liquidity buffers to meet its financial commitments over an extended period of time in line with the Board's risk appetite and the PRA requirements, both of which are documented in the firm's ILAAP.

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 Bank remains on target and within its capital and liquidity risk appetite. Independent oversight is provided by the second line Risk function. 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 Bank's operations.

As at 31 December 2021, OakNorth Bank held unencumbered high-quality liquid assets of £486.4 million (2020: £469.5 million). Throughout the year, the Bank complied with all the regulatory liquidity measures and continued to maintain surplus over the requirements. Average Liquidity Coverage Ratio (LCR) during the year was 335% (2020: 338%).

6 Operational risk

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 Bank aims to mitigate each risk with robust controls and monitoring.

The Bank has set a low-risk appetite for any operational loss. It has a defined Operational Risk policy and a framework of risk mitigation processes. The first line of defence ensures that any operational risk in their area is assessed and mitigated through clearly defined and documented process documents (Standard Operating Procedures) which are continuously updated. The control framework is defined, reviewed, and monitored through a Risks and Controls Self-Assessment ('RCSA') process, again continuously updated. In addition, a programme of second-line and third-line thematic reviews and monitoring ensures independent challenge and review. Appropriate risk limits and their thresholds and early warning indicators are set, and the key processes are reviewed for effectiveness through monthly first line and second line assurance testing and business continuity testing drills. Appropriate MI on process effectiveness and any events or near misses, and the root cause analysis thereof, is reported monthly to senior management. This area of risk is overseen by the OpCo and ERC, and the BRCC.

Operational risk capital charge computation

The operational risk capital charge for OakNorth Bank 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 2021 was £15.2 million (2020: £9.6 million).

7 Climate Risk

Climate Risk is the risk that Climate change may affect the Bank’s business and operating model through financial or reputational risks generated by the transition to a low carbon economy, or directly through assets exposed to the physical effects of Climate change or failing to seize market opportunities. Climate change can affect the Banking industry in a broad way, either directly or indirectly and the Bank is currently developing its risk management framework in line with industry best practice, embedding the management of Climate Risk within all potentially impacted areas. This primarily includes Credit Risk, Operational Risk and Reputational risk.

In 2021, for the first-time, we undertook a granular scenario analysis of the possible impact of climate risks on our borrowers and therefore our capital requirements. Through leveraging the scenarios and time horizons from the Bank of England’s Biennial Exploratory Scenario (BES), and the ON Climate Impact Framework (part of the ON Credit Intelligence from our sister company), we have reviewed the most material climate specific risks to our borrowers and evaluated the possible impact this would have on credit risk of our loan book.

Our analysis concluded that while climate risk will have an impact on a number of customers, the impact is well within the collateral and financial coverage already in place in nearly all instances. Only 0.15% of our total book – which equates to a few borrowers – would be directly impacted under the transitional risk assessment, and they can survive across the three scenarios with minimal impact compared to base case. There are no expected losses across the loan book under all the three BES transition scenarios applied up to 2050.

Details on our climate risk management programs and initiatives is provided in the “Environment, Social and Governance review” on page 26 of the Bank's Annual Report 2021. Details on impact assessment on the Bank’s portfolio are discussed in “OakNorth Bank’s approach to Credit Risk Management” on page 49 of the Bank's Annual Report 2021.

8 Asset encumbrance

OakNorth Bank is an approved participant under the TFSME scheme. The borrowing is collateralised against UK GILTS and the Bank’s loan book. As OakNorth Bank 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.

As of 31 December 2021, OakNorth Bank had borrowed £200.0 million (2020: £181.9 million under BoE’s TFS scheme) under the Bank of England’s (BOE) Term Funding scheme for SME (TFSME). The scheme closed for new drawdowns in October 2021. The interest payable on the borrowings is linked to the BOE base rate, which was 25bps as at 31 December 2021 (2020: 10 bps). The borrowing is repayable after four years of drawdown in October 2025.

The borrowing is collateralised against GILT portfolio of £151.7 million (2020: £131.1 million) and gross loans of £106.6 million (2020: £122.2million). The borrowing is held at amortised cost.

	2021 (£'000)	2020 (£'000)
Borrowings under the BOE's Term Funding Scheme	**200,050**	**181,796**
Amounts due:		
- over five years	200,050	181,796

2021	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	**256,892**	**151,849**	**3,313,421**	**N/A**
Loans on demand[a]	-	-	476,396	N/A
Debt securities	151,848	151,848	40,000	N/A
Loans and advances other than loans on demand[b]	105,044	-	2,781,261	N/A
Other assets	-	-	15,764	N/A

[a]Includes £446.3 million of balances held at Bank of England (2020: £469.5 million) and £30.0 million of balances held at other banks (2020: £11.5 million)
[b]Loans and advances to customers per financial statements

2020	*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	***251,687***	***131,053***	***2,864,530***	***N/A***
Loans on demand[a]	-	-	*480,991*	*N/A*
Debt securities	*131,053*	*131,053*	-	*N/A*
Loans and advances other than loans on demand[b]	*120,634*	-	*2,371,615*	*N/A*
Other assets	-	-	*11,924*	*N/A*

Collateral received: Nil (2020: nil)

9 Remuneration disclosures

This document describes the remuneration policy and governance of OakNorth Bank plc ("OakNorth Bank", "OakNorth", "the Bank") and discloses details of the remuneration of the Bank's 30 "Code Staff" (see below) for the year ending 31 December 2021.

These disclosures are made in accordance with Article 450 of the Capital Requirements Regulation (CRR) and should be read in conjunction with the 2021 Annual Report.

9.1 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), 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 & NOMCO) further serves to assure, through its 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 2021, OakNorth employed 30 Code Staff (3 Executive Directors, 4 Non-Executive Directors, and 23 Senior Managers and additional MRTs). For completeness, 2 Non-Executive Directors, 1 Executive Director and 2 MRTs left the organisation in 2021 but were replaced within the same calendar year, making the number of Senior Managers and additional MRTs as of 31 December 2021 30 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.

9.2 Board Remuneration and Nomination Committee (REMCO & NOMCO)

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 2 Independent Non-Executive Directors (INED). The Chief Executive Officer (CEO), Senior Managing Director (SMD) 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 two-four 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.

The Board Remuneration and Nomination Committee has access to sufficient resources 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.

9.3 Board Diversity

Through our diversity and inclusion policy, the Bank asserts its commitment to increase cognitive 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, and all 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. 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. We recruit candidates from all types of backgrounds, and internally we encourage collaboration, decision-making, and advancement by all members, equally, across our employee population.

9.4 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 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.

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 new position becoming open or 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.

9.5 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 & NomCo] and a review is undertaken annually to assess its implementation and compliance with the Remuneration Code, EBA Guidelines and other relevant rules and guidance. Additionally, as required in the dual-regulated firms Remuneration Code, the Bank sets forth its compliance with Article 96 of the Capital Requirements Directive on its website under CRD IV Disclosures and Article 450 of the Capital Requirement Regulation in line with CRD V.

The Bank's Remuneration Policy was developed, and will be implemented in line with, the Bank's values and long-term strategic interests. A key objective of the Policy is to enable OakNorth 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 FCA and PRA.

A further objective of the Policy is to ensure that the remuneration practices of the Bank are consistent with and promote sound and effective risk management. To achieve the balanced aim of rewarding performance based on value generation and maintaining prudent controls, the Bank will administer a transparent system of granting rewards and variable remuneration that meets the stated performance objectives of the institution, business areas and staff. When evaluating performance objectives, the Bank will always look at risk adjusted vs. absolute outcomes that consider all risk types (e.g., credit, market, operational, liquidity, reputational and other risks, etc.). The Bank will always strive to incorporate financial services best practices in its remuneration planning, while maintaining and valuing ethics and customer interests as a central tenet and top priority.

The Bank's Policy does not encourage the assumption of risks that exceed the risk appetite of the Bank. The Remuneration Policy will enable the provision of incentives to staff that both promote the Bank's long-term strategic objectives and protect its underlying financial health and operational integrity. The Bank will always give priority to considerations of risk management, regulatory and compliance legislation and guidelines, key stakeholder expectations and Bank procedures.

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

- Interests of our Employees are aligned with the long-term interests of the Bank, shareholders, investors, and other stakeholders in the Bank as well as the public interest.
- All remuneration, including variable and deferred, shall be paid, or vested according to the financial situation of OakNorth as a whole, and justified on the basis of the performance of OakNorth including the business unit and the individual concerned.

- Incentives will be based on financial and non-financial criteria (as per SYSC19.3.40) including an employee's adherence to risk management guidelines and compliance with regulatory requirements both onshore and overseas as applicable.
- 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 and provide appropriate input into the initial objective setting and subsequent assessment of the First line's individual and team performance.
- Principles of "malus" and "clawback" will be implemented where relevant.

Based on the FCA Guidance on proportionality, OakNorth Bank is a proportionality level 3 firm as its total assets average less than £4bn over the 4 years preceding the current financial year. Accordingly, OakNorth may disapply under the Dual-regulated firms remuneration principles proportionality rule.

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.

9.6 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 four 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 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 was designed in accordance with the guiding principles of this policy, including being based on risk-adjusted performance measures, taking into account the cost of capital and liquidity, and being subject to claw back.

Any measurement of performance used to calculate variable remuneration components, or pools of variable remuneration components, shall take into account all types of current and future risks. This will include:

- adjustments for all types of current and future risks, including the cost and quantity of the capital and the liquidity required
- the need for consistency with the timing and likelihood of the Company receiving potential future revenues incorporated into current earnings.

9.7 Remuneration Components

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

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 code staff 2) it is limited to the first year of service (typically where new hires are forgoing any cash compensation); and 3) the firm has a strong and sound capital base.

Variable remuneration (cash bonus immediate and deferred) is discretionary, risk-adjusted and based on a combination of Bank and individual performance. A performance bonus pool is accrued annually at a level proposed by the CEO, after consulting with the CFO and CRO, and approved by the Board Remuneration and Nomination Committee. Key business performance indicators measured include a) business growth, b) profitability and c) credit losses. Bonuses will be based on both overall Bank risk-adjusted performance and individual performance.

Employee Shareholder Share ("ESS") and Share Option Plan schemes: help incentivise the achievement of the Bank's long-term objectives i.e., by aligning executive and shareholder interests and by retaining key individuals. A select group of key employees will be issued a new class of restricted shares in Holdings. Other employees may alternatively or in addition to the restricted shares, be granted employee stock options in Holdings. The ESS / Share Option schemes aim to encourage staff to display the correct behaviour, live the OakNorth values, and drive performance by aligning commercial interests to those of shareholders.

9.8 Remuneration for Code Staff

The following table below shows total fixed and variable remuneration awarded to Code staff in respect of the performance year 2021.

Number of Code Staff: 30

Remuneration Type	2021 Payments £'000		
	Executive Directors (4)	Non-Executive Directors (6)	Code Staff (25)
Total Fixed remuneration			
- Cash-based	3,053	575	4,514
- Shares/Share based	1	--	6
Total Variable remuneration paid in 2021			
- Cash-based	464	--	870
- Shares/Share based	--	--	--
Total Deferred remuneration paid in 2021			
- Cash-based	60	--	415
- Shares/Share based	--	--	--
Pension and Insurance	1	--	103
Severance Payments	--	--	--
Total Deferred Remuneration outstanding as at the end of 2021*			
Cash-based	--	--	1,063
Shares	--	--	27
Total Remuneration in 2021	**3,579**	**575**	**6,998**

**All outstanding remuneration is subject to ongoing business conditions such as performance, claw back 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 2021, as well as any individuals remunerated over £1m.

Severance payments made during 2021	30
Guaranteed variable remuneration (sign on awards made during 2021)**	426
Individuals remunerated over £1m	1

***Does not include remuneration which was awarded to employees but will not be paid as the payment conditions are not satisfied by the awardee.*

10 Appendix- Own funds disclosures templates

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

TABLE: CAPITAL INSTRUMENTS MAIN FEATURES TEMPLATE		
	CET1	**Tier 2**
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 - June 2013 (incorporation). Subsequent issuances in 2014, 2015, 2016, 2017 and 2018. Filings for all issuances available under "Statement of capital following an allotment of shares" available on UK Companies House*	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

TABLE: CAPITAL INSTRUMENTS MAIN FEATURES TEMPLATE		
	CET1	**Tier 2**
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	Non- 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

* https://beta.companieshouse.gov.uk/company/08595042/filing-history

Transitional Own Funds Disclosure template		
Common Equity Tier 1 capital: instruments and reserves	31-Dec-21	31-Dec-20
Capital instruments and the related share premium accounts	389,320	389,320
of which: Ordinary shares	389,320	389,320
Retained earnings	239,670	139,278
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	328	79
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**629,318**	**528,677**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	-	(168)
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)	(872)	(870)
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		(6,000)
Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-CRR treatment	-	13,147
Total regulatory adjustments to common equity tier 1 capital	(872)	412
Common equity tier 1 capital	**628,446**	**529,089**
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	**628,446**	**529,089**
Tier 2 capital: instruments and provisions		
Capital instruments and the related share premium accounts	50,000	50,000
Credit risk adjustments	-	-
Tier 2 capital before regulatory adjustments	**50,000**	**50,000**
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to tier 2 capital	**-**	**-**
Tier 2 capital	**50,000**	**50,000**
Total capital	**678,446**	**579,089**
Total risk weighted assets	**3,065,585**	**2,645,393**
Capital ratios and buffers		
Common equity tier 1 (as a percentage of risk exposure amount)	20.5%	20.0%
Tier 1 (as a percentage of risk exposure amount)	20.5%	20.0%

Transitional Own Funds Disclosure template		
Total capital (as a percentage of risk exposure amount)	22.1%	21.9%
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)	3.06%	3.06%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	0.0%	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)	11.8%	11.3%
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)	-	-
Cap on inclusion of credit risk adjustments in tier 2 capital under standardised approach	N/A	N/A
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

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