2022

Pillar 3 disclosures

OakNorth Bank

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1.1 Overview and scope

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

OakNorth supports the UK's "Missing Middle"-growth businesses that tend to have the largest impact on economies and communities, by providing them with bespoke debt finance ranging typically from £0.25 million to tens of millions, while offering attractive online savings products to retail and business depositors.

More information on the strategy and business model of OakNorth is provided in the Annual Report and Financial statements which can be accessed at https://www.oaknorth.co.uk.

These disclosures have been prepared for the stand-alone entity OakNorth Bank plc (PRA/FCA reference number 629564). During 2022, OakNorth acquired a 50.1% stake in ASK Partners Limited, however the company is not subject to prudential consolidation and therefore these disclosures are for OakNorth Bank plc only.

1.2 Basis

The Pillar 3 disclosures have been made in accordance with part Eight of the Capital Requirements Regulation and Directive, as implemented ('CRR II') and the PRA Rulebook, and use the PRA's disclosure templates and instructions, which came into force on 1 January 2022. 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 on-shored into UK law under the European Union (Withdrawal) Act 2018.

The report contains information presented for the year ended 31 December 2022, with comparatives for 31 December 2021. All disclosures have been prepared in Pounds Sterling.

For the year ended 31 December 2022, the Bank's financial statements have been prepared for the first time in accordance with UK-adopted International Accounting Standards (IAS) as defined by the UK Endorsement Board (UKEB) and the Companies Act 2006 applicable to companies reporting under IFRS. For all periods up to and including the year ending 31 December 2021, OakNorth Bank's financial statements had been prepared in accordance with Financial Reporting Standard (FRS 102) issued by the Financial Reporting Council, including applying IFRS 9 under the accounting policy choice permitted under FRS 102. In preparing the financial statements for the year ended 31 December 2022, the comparatives for the year ended 31 December 2021 have not been restated.

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 other than Interest Rate Risk in the Banking Book (IRRBB). The disclosures in this document are based on these approaches.

Any blank cells in the relevant regulatory templates/ tables have not been included in these disclosures. 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.

1.3 Frequency of disclosures

Pillar 3 disclosures are published annually following the publication of the Bank's Annual Report and Accounts.

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 part of OakNorth Bank's financial statements.

1.5 Location

The Pillar 3 disclosures are available on OakNorth Bank's corporate website https://oaknorth.co.uk/pillar-3-disclosures/.

2. Risk management framework and policies

OakNorth is exposed to a wide range of risks through its banking operations, including credit risk, cyber-security, operational risk, liquidity, capital, interest rate risk, people risk, climate risk, regulatory and compliance risk. At OakNorth we have built a proportionate and robust Risk Management Framework (RMF) that is designed to ensure that the key risks facing OakNorth are identified, measured, monitored, and managed, and that appropriate policies, procedures and controls are established such that each risk is mitigated to an acceptable degree.

Detailed information on the RMF and review of key risks is provided in our "Risk Management" section of the Bank's Annual Report 2022.

2.1 Approach

OakNorth 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. Key risk initiatives during the year included:

- Continuation of the operational resilience and Risks and Controls Self-Assessment (RCSA) continuous improvement programmes
- Continuation of the cybersecurity and IT resilience continuous improvement programme including a major investment in hiring additional staff to expand the pace and extent of technology development and investment in additional scanning and monitoring systems
- Investment in hiring additional staff and implementing new systems and processes to enhance controls in credit risk analysis and credit quality assurance, portfolio monitoring, financial crime, and compliance
- The transition to the Agile change management approach, with enhanced test and control processes
- Enhanced models for liquidity and interest rate risk in the banking book (IRRBB) management have been introduced
- A Governance, Risk, and Compliance (GRC) system has been introduced to enhance risk testing and reporting

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 management are committed to living OakNorth's Values and setting the tone for the culture of the organisation. Our values enshrine our 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

Our strategy is set within a detailed Risk Appetite Statement which sets out the type and quantum of risk we are prepared to accept to achieve our strategic business objectives. The Risk Appetite is cascaded top-down, deriving logically from the 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 95 Risk Appetite monitoring metrics set. The Risk Appetite Statement ('RAS') is carried through into OakNorth's suite of Policies, and from the Policies into the Procedures (Standard Operating Procedures or 'SOPs') used by OakNorth staff.

2.4 Risk Management Framework (RMF)

Our 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 as adopted in UK legislation, SYSC, GENPRU, and BIPRU, 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 the 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 we meet the challenges of the markets in which we operates, including regulatory standards, industry best practices and emerging issues. The framework is being enhanced to incorporate Consumer Duty and other evolving regulation.

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 OakNorth's activities are consistent with the risk appetite approved by the Board. These policies cover all areas including (but not limited to): Business Planning and Stress Testing, Market Risk Management (including liquidity and interest rate risk management), Credit Risk Management, Compliance, 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 is a 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 OakNorth in a continuous cycle.

2.6 Top risks and emerging risks

OakNorth'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 below 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 2022 were:

Principal risks	Risk mitigation
Credit risk	
A generic risk which features in the Top Risks given the high growth achieved in the loan book. OakNorth has incurred a low level of charge-offs in the loan book in 2022 through use of advanced analytics and controls and effective portfolio management. This risk is higher compared to previous year as economic conditions have deteriorated.	– We have set detailed, prudent guidelines and policies for lending with guidelines for key areas such as Debt Service Cover and Loan to Value, and with credit risk appetite limits set for matters such as loan book average probability of default, loss given default, sectoral and single name concentration. – Credits are analysed by experienced credit risk professionals with support from the advanced credit analytics provided by ON Credit Intelligence. – Robust monitoring processes are run by an experienced Portfolio Monitoring team to ensure that all risks relating to individual borrowers are proactively identified and action taken. – The Board is also continually engaged in review of the loan book to ensure that it is performing as expected and risks are within defined limits.
Cybersecurity	
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.	– We employ a cloud-based IT platform running on AWS. Advanced cyber risk defence mitigation measures include next generation firewalls, a secure VPN, 24/7 monitoring via a Security Operations Centre service, data loss prevention tools and endpoint encryption, secure back-ups, and with various leading monitoring and cyber defence software tools operated by experienced professionals. – Regular NIST and CQUEST assessments and pen tests are run which demonstrate high security standards.

Principal risks	Risk mitigation
Operational resilience	
A generic risk. OakNorth has incurred minimal operational losses in 2022, through proactive management. This risk is stable compared to previous year.	— The resilience of our operations is founded upon up-to-date cloud-based IT infrastructure, robust use of Standard Operating Process documents for all key processes with defined controls and responsibilities, high levels of automation, and the use of strong Service Providers including AWS, Azure, Salesforce, and OakNorth's sister companies ONGPL and ON Credit Intelligence. — Processes and controls are constantly kept updated and checked through the on-going RCSA Process. — First and second line controls and monthly testing are in place. — An Operational Resilience programme has defined Key Business Processes and has set Impact Tolerances which are monitored and have not been breached during 2022.
Financial crime	
A generic risk which features in the Top Risks because attacks on the financial sector never cease. This risk is stable compared to previous year.	— We currently do not offer transactional accounts, and hence a major area of financial crime risk does not impact the business. — Detailed processes are in place for Anti-Money Laundering, Fraud Prevention, Anti-Facilitation of Tax Evasion, and Anti-Bribery and Corruption, with controls embedded in processes and systems applied by skilled staff. First line management oversight and second line assurance oversight are in place. — We employ leading financial crime prevention tools including — CIFAS, Comply Advantage, Experian, and WorldCheck. — Regular enterprise-wide risk assessments are made in all areas, and controls are subject to a continuous improvement programme.
Liquidity risk	
A generic risk which would feature as a Top Risk for all banks. This risk is stable compared to previous year.	— We have a set of series of forward-looking risk appetite metrics which are monitored daily, and which include measures around liquidity ratios (including HQLA and LCR), funding concentration, percentage of protected deposit under FSCS and deposit maturities. — These liquidity requirements and relevant deposit market information are monitored by the ALCO. A comprehensive ILAAP assessment is performed annually. — The liquidity ratios are also tested periodically under stress test scenarios.

Principal risks	Risk mitigation
Capital adequacy	
A generic risk which is relevant as a Top Risk for OakNorth as a fast-growing digital bank. This risk is stable compared to previous year.	— Our internal target amount of capital is set by the assessment of the risk profile of the business, market expectations and regulatory requirements. — Critical risk appetite limits for projected capital and leverage ratios have been set on a forward-looking basis to ensure any capital raising activities are undertaken on a timely basis to continue supporting the growth of the business, monitored monthly. This ensures that capital resources are in place for forecast growth requirements. — The capital ratios are also tested periodically under stress test scenarios. — A detailed ICAAP assessment is performed annually.
Regulatory and compliance risk	
A generic risk. There have been no reportable compliance breaches in 2022 This risk is stable compared to previous year.	— A full suite of policies and processes is in place to support full compliance, and continually updated. — Regulatory developments are actively tracked, analysed, and actioned. — Compliance training is undertaken for all staff, and policy and processes are validated for compliance and continuously revised and updated as regulation and regulatory expectations evolve. — A Compliance Monitoring Plan (CMP) is run continuously by the second line of defence, covering all areas of the business in an on-going cycle. — A Compliance Advisory function advises all areas of the business on areas from conduct to communications and marketing.
People Risk	
Recruitment of the necessary skilled staff to resource for the bank's expansion remains a challenge. This risk is stable compared to previous year.	— Benchmarking remuneration packages and adapting where required. — Strengthening internal career development frameworks and refreshing the graduate programme. — Focus on employer branding and our value proposition. — Building a pipeline of candidates to reduce time to hire. — Regular succession planning and cross-training to manage key person risk and critical roles.

Principal risks	Risk mitigation
Reputational and conduct risk	
A generic risk. This risk is stable compared to previous year.	– At OakNorth we are committed to putting the customer at the heart of its business model and strategy, being transparent in our dealings with our customers, and delivering good outcomes for them. – The foundation is a strong set of company values which include “Right Ambition”, “Say it how it Is”, “Customer delight”, which align with sound Conduct principles. – We monitor customer outcomes through close attention to Net Promoter Scores and the feedback which we receive within those surveys and customer complaints. – Senior management run a conduct assessment against FCA guidelines every year and are implementing the new Consumer Duty. – Behavioural objectives are incorporated into reward and incentives.

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.

Emerging Risks	Risk mitigation
Economic environment	
An industry-wide risk. This risk is higher compared to previous year.	– Management remains cautious on the outlook for the economy, with leading confidence indicators very negative. – Inflation rose sharply during 2022 and remains elevated. House price growth has dropped, with Halifax and Nationwide both reporting a reduction in house prices in the later months of 2022. The market reality of higher mortgage rates and higher household costs reducing disposable income is expected to contribute to further price declines in the year to come, which will have an impact on the real estate lending book. – The macroeconomic risks are taken fully into account in our credit policy for origination and in portfolio monitoring. Stress tests using the proprietary OakNorth Forward Look Rating (FLR) model are made every month to assess the macroeconomic risk to different sectors on a very granular basis. We maintain strong levels of capital and liquidity well beyond the level needed to manage economic stress such as that described in the Bank of England's Annual Cyclical Scenario.

Principal risks	Risk mitigation
Climate change	
An industry-wide risk. This risk is stable compared to previous year.	— We are taking a pro-active approach with a programme to support initiatives in climate change management and transition with a target to achieve net zero including Scope 3 financed emissions earlier than the UK target. — From a risk management perspective, we have evaluated the potential impact of physical risks and transition risks on the loan book in extensive stress-test scenarios, and the impact is very low. We do not lend to the oil and gas sectors, and we assess that our lending exposure to real estate which might be subject to climate change risk via flood risk or energy efficiency is low. — A climate scorecard has been implemented and is considered in all credit decisions, and climate risk appetite metrics have been set. — We have already offset all our direct emissions and that of our critical suppliers and have achieved net carbon zero status for our scope 1 and 2 emissions.

3. Risk oversight, monitoring and reporting structure

Please see pages 51- 56 of the Bank's Annual Report 2022 detail the Bank's Governance framework.

OakNorth 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 the OakNorth'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 Risk Management Framework 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 to discuss business performance. In addition, the Board holds deep-dive sessions with various functions 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.

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

The Board Remuneration and Nomination Committee assists the Board in determining the optimum Board size at any point in time within the legal and regulatory framework. The Board believes that its current membership comprising of three Executive and five 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 table below summarises the responsibilities of the various committees:

Committees	Responsibility
Board	The Board sets the OakNorth Bank's strategic direction and oversees its implementation. It ensures that management maintain an effective RMF with appropriate oversight processes and for embedding the principle of safety and soundness in the culture of the whole organisation.
Remuneration & Nomination Committee (REMCO)	RemCo is responsible for ensuring that remuneration arrangements support the strategic aims of OakNorthBank, comply with best practice, and enable the recruitment, motivation, and retention of senior executives. It ensures compliance with applicable regulations (Remuneration Code SYSC 19D) and ensures that principles are put in place to expressly discourage all inappropriate behaviours. The committee has delegated authority from the Board to review and approve the Remuneration Policy and is responsible for setting remuneration (including pension rights and any fixed and variable compensation payments) for all Executive Directors, NEDs, the Chairman, and key individuals, including employees captured under the scope of the Certification Regime.
Board Risk & Compliance Committee (BRCC)	BRCC takes delegated authority from the Board to oversee the entire risk agenda excluding Credit risk. It oversees the continued appropriateness of the strategy and risk appetite in the light of the OakNorth Bank's purposes, values, and sound risk management principles. It assesses the OakNorth's principal and emerging risks, and how these may affect the viability of the business model, and monitors the adequacy and effectiveness of the RMF and the quality of risk MI. It safeguards the independence of the CRO and the second line Risk function and oversees its performance and resourcing. The committee approves the annual Compliance Monitoring Plan. It ensures that all risks (excluding credit risk) are properly identified, evaluated, mitigated, reported, and managed. It challenges executive management and examines whether risk management expectations are translated into culture and duly embedded.

Committees	Responsibility
Board Audit Committee (BAC)	BAC takes delegated authority from the Board for the review and approval of the Internal Audit (IA) Charter and Methodology, and Accounting Policies, and for ensuring that the OakNorth's values and principles are being adhered to. It monitors the integrity of financial statements and public disclosures; appoints the external auditors and approves their remuneration; reviews the effectiveness of the Internal Audit function, and appoints/removes the Head of IA.
Board Credit Committee (BCC)	BCC takes delegated authority from the Board to oversee all Credit Risk related matters and reviews larger credit exposures, impairments, and write-offs. BCC receives reports from the Credit Risk Management Committee concerning individual credit exposures, and the portfolio, and from Credit Quality Assurance function. BCC oversees credit models performance monitoring. BCC reviews the Watchlist and receives reports concerning the progress on any material workouts and restructurings. BCC also oversees the management of financial risks from climate change.
Executive Committee (EXCO)	The 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.
Asset & Liability Committee (ALCO)	Operating under mandate from the ExCo, ALCO implements the OakNorth's Asset & Liability Management (ALM) policy, with a focus on active management of liquidity. ALM activities include specific policies and procedures relating to Liquidity and Funding Risk, Capital Risk, Interest Rate Risk and Market/ Investment Risk. The committee also monitors regulatory reporting.
Credit Risk Management Committee (CRMC)	Operating under mandate from the BCC, the purpose of CRMC is to oversee, monitor and control credit risk on a day-to-day basis, and to approve facilities under a delegated authority. The committee ensures that the RMF is implemented as it relates to Credit Risk and Anti-Facilitation of Tax Evasion (AFTE), and that all credit control processes are fit for purpose and operative so that credit risk is mitigated via identification, evaluation, mitigation, reporting, management, and challenge.
Operations Committee (OPCO)	Operating under mandate from ExCo, OpCo's main objective is to ensure the operational resilience, reviewing the performance of all business operations and the performance of outsourced service providers, and taking actions to address any issues identified. The committee also oversees the design and review of the IT platform and operating procedures and oversees resourcing and change management. The committee reviews, in depth, any operational issues to promote efficiency and manage Operational Risk across organisation.

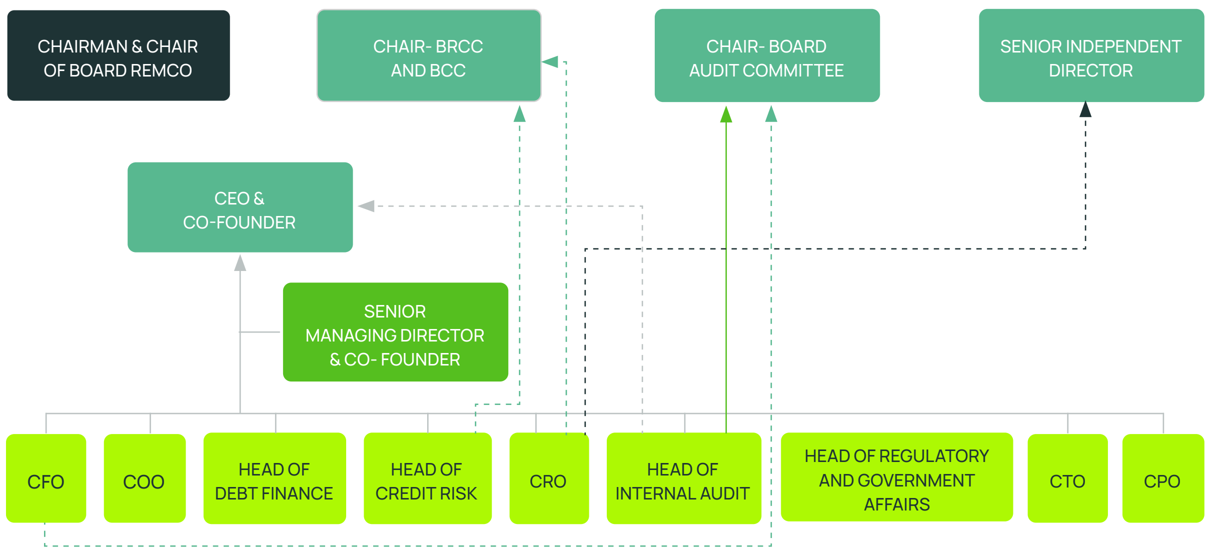
Committees	Responsibility
Executive Risk Committee (ERC)	Operating under mandate from the BRCC, the purpose of the ERC is to oversee, monitor and control the Risk agenda. It ensures that the Risk Management Framework is properly implemented and that all control processes are fit for purpose and operative so that all risks (excluding Credit Risk, which is the mandate of CRMC and BCC, and ALM which is the mandate of ALCO and Board) are mitigated via identification, evaluation, mitigation, reporting, management, and challenge.
Information Security Management System (ISMS) Committee	Operating under mandate from the ExCo, ISMS is a technical forum to drive the development and implementation of cybersecurity strategy, including IT infrastructure design, and monitor the status of cyber defence operations. Decisions on strategy, budget and investment are made by ExCo on recommendation from ISMS. ISMS would be responsible for managing a cyber event as part of our incident management process.
Reserve Adequacy Committee (RAC)	Operating under mandate from the BAC, the purpose of the RAC is to oversee the adequacy of ECL provision calculation in compliance with IFRS 9 requirements.
Model Risk Governance Committee (MRGC)	This new committee forms part of a new model governance framework which is in the process of being implemented. Its role will be to assess and oversee the model risk inherent in the use of models and user defined applications in OakNorth and to monitor their performance, and approve the models judged most important/material.

3.1 Reporting structure

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 statement.

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.



3.2 Three lines of defence model

In line with standard industry practice, we use 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.

Ownership and Accountability – the first line of defence (FLOD) is 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.

Independent Oversight and Challenge – the second line of defence (SLOD), comprising the Risk and Credit Risk functions, is responsible for monitoring the operation of the controls and adherence to risk direction and limits, and to report any control breaches / failures or appetite breaches; ensuring that risk management practices and conditions 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 collective EXCO decision-making. The Risk function operates under a Risk Charter defining its scope and mandate.

Independent Assurance – the third line of defence is responsible for understanding the key current and emerging risks affecting the Bank, leads the audit process, and owns the development and completion of the annual Internal Audit Plan. This review is undertaken by Internal Audit, and additional audits are performed by qualified external parties including the Bank's external accountants. The Independent NEDs also provide challenge.

3.3 Additional information on Governance arrangements

3.3.1 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 2022 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	2
Edward Barry Berk	Non-Executive Director	1
Timo Boldt	Non-Executive Director	3
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. For all others, the directorships are in commercial organisations.

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

- Timo Boldt was appointed as Non- Executive Director on 8 August 2022

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

3.3.2 Board recruitment

Please see detailed disclosures in section 14 of this document.

3.3.3 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.

3.3.4 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.

3.4 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 the preceding sections in this document and in the 'Governance' section of the Bank's Annual Report. The Board considers that, as at 31 December 2022, it had in place an adequate framework of systems and controls with regard to OakNorth Bank's risk profile and business strategy.

4. Capital resources and capital adequacy

4.1 Capital management

Our capital risk appetite statement and framework are designed to ensure that we maintain sufficient capital, with appropriate buffers, to meet regulatory requirements for growth, even in periods of stress. To enable this, we undertake annual ICAAP, which is a formal capital planning exercise that covers forecasts over a three to five year period. As a part of the ICAAP, the Board considers all material capital risks OakNorth faces and determines the amount, type and distribution of capital that will be required to cover such risks. On an ongoing basis, we monitor the capital adequacy considering the forecast volume of growth in the loan book. The capital adequacy and surplus over the capital buffer position (forecast and actuals) are reported to the ALCO, ExCo, the BRCC and the Board monthly.

We also conduct "Stress testing" in order to determine whether any additional capital may be required to be held over and above the Total Capital Requirement ("TCR"). 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. OakNorth has developed a range of stresses, supported by the analytical capabilities of OakNorth Credit Intelligence, to assess the likely performance of its book under a range of severe and granular stresses including a number of climate scenarios and the Bank of England Annual Concurrent Stress Test.

OakNorth uses the Standardised Approach for calculating capital requirements for credit risk and the Basic Indicator Approach for calculating operational risk Pillar 1 requirements. The Tier 1 capital resources include ordinary share capital, Fair Value through Other Comprehensive Income (FVOCI) revaluation reserve, Employee Share Scheme valuation reserves and retained earnings, with deductions for items prescribed in the regulations (e.g. intangible assets, deferred tax balances, etc). Tier 2 capital includes Subordinated debt issued by OakNorth.

The key risk appetite metrics that are used to monitor and measure capital risk include (but not limited to)- minimum CET 1, Tier 1 and Total Capital, survival days to depletion of capital surplus and changes to the surplus over OakNorth's capital requirements under stress scenarios, leverage ratio, large exposures, etc. There are risk appetite limits set for each of these metrics under 'business as usual', early warning indicators, and internal limits. The results of stress testing, along with proposed actions, are reported to ALCO, EXCO and to the Board.

OakNorth Bank is subject to prudential regulatory requirements on a 'stand-alone' (i.e. solo-consolidated) basis and its subsidiary is currently not subject to regulatory consolidation. OakNorth has complied with all regulatory capital requirements throughout the year and continues to maintain surplus over its total capital requirements and plan buffers.

.4.1.1 UK KM1 - Key metrics

	2022 (£'000)	2021 (£'000)
Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	719,977	628,446
Tier 1 capital	719,977	628,446
Total capital	769,977	678,446
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	3,840,274	3,065,585
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	18.7%	20.5%
Tier 1 ratio (%)	18.7%	20.5%
Total capital ratio (%)	20.1%	22.1%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)- Pillar 1 + Pillar 2A		
CET1 SREP requirements (%)	6.1%	7.1%
T1 SREP requirements (%)	2.1%	2.2%
T2 SREP requirements (%)	2.7%	2.3%
Total SREP own funds requirements (%)	10.9%	11.5%

	2022 (£'000)	2021 (£'000)
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	2.5%	2.5%
Institution specific countercyclical capital buffer (%)	1.0%	-
PRA Buffer	-	0.56%
Combined buffer requirement (%)	3.5%	3.1%
Overall capital requirements (%)	14.4%	14.6%
Surplus over SREP requirements (Pillar 1 + Pillar 2A)		
CET1 available after meeting the total SREP own funds requirements (%)	12.6%	13.4%
Total Capital available after meeting the total SREP own funds requirements (%)	9.1%	10.6%
Leverage ratio		
Leverage ratio total exposure measure	4,954,910	3,855,405
Leverage ratio	14.5%	16.3%
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value -average)	556,199	452,554
Cash outflows - Total weighted value	279,626	223,656
Cash inflows - Total weighted value	121,057	81,577
Total net cash outflows (adjusted value)	158,569	142,079
Liquidity coverage ratio (%)	351%	319%
Net Stable Funding Ratio[a]		
Total available stable funding	3,748,427	n/a
Total required stable funding	2,436,946	n/a
NSFR ratio (%)	154%	n/a

a. UK did not adopt the EBA NSFR in 2021 therefore comparative data cannot be presented.

4.1.2 UK OV1 – Overview of risk weighted exposure amounts

	Risk weighted exposure amounts (RWEAs)		Total own Pillar 1 capital requirements	
	2022	2021	2022	2021
Credit risk (excluding CCR)	3,577,369	2,875,251	286,190	230,020
Of which the standardised approach	3,577,369	2,875,251	286,190	230,020
Operational risk	262,904	190,334	21,032	15,227
Of which basic indicator approach	262,904	190,334	21,032	15,227
Total	3,840,274	3,065,585	307,222	245,247

4.1.3 Overview of capita surplus over Pillar 1 requirements

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.

	2022 (£'000)	2021 (£'000)
Capital resources requirement under Pillar 1	307,222	245,247
Capital resources	769,977	678,446
Capital resources surplus over Pillar 1 requirement	462,755	433,199

4.2 Capital resources

The following table shows the composition of OakNorth Bank's regulatory capital position as at 31 December 2022.

Regulatory Capital	2022 (£'000)	2021 (£'000)
Share capital	389,320	389,320
Retained earnings/ (losses)	350,074	239,670
Capital contribution	111	83
OCI relating to financial assets at FVOCI[a]	24	245
Deductions for Intangible assets	(4,290)	-
Deductions for Deferred tax assets	(1,012)	(872)
Investment in financial subsidiaries	(14,250)	-
Total Common Equity Tier 1 (CET1) capital	719,977	628,446
Total Tier 1 Capital	719,977	628,446
Subordinated debt	50,000	50,000
Total Tier 2 capital	**50,000**	**50,000**
Total regulatory capital	769,977	678,446

a. Fair Value through Other Comprehensive Income (FVOCI)

4.2.1 Movement in regulatory capital resources

	2022 (£'000)	2021 (£'000)
Total CET 1 capital at beginning of year	628,446	529,089
IFRS 9 transitional arrangements	-	(13,147)
IFRS 16 Changes	(470)	-
Profits for the year	110,874	100,392
Net change in capital contribution and other reserves	(192)	249
Net change in deductions for deferred tax assets	(140)	166
Net change in deductions for Intangible assets	(4,290)	-
Net change in deductions for investment in financial subsidiary	(14,250)	-
Net change in other deductions from CET1	-	11,697
Total CET 1 capital at end of year	**719,977**	**628,446**
Total Tier 1 capital at end of year	719,977	628,446
Total Tier 2 capital at beginning of the year and end of the year	50,000	50,000
Total regulatory capital at end of the year	769,977	678,446

4.2.2 Reconciliation to Statutory equity

	2022 (£'000)	2021 (£'000)
Equity per FS	739,529	629,318
Deductions for Intangible assets	(4,290)	-
Deductions for Deferred tax assets	(1,012)	(872)
Deduction for Investment in subsidiary	(14,250)	-
Total CET1 Capital	**719,977**	**628,446**
Add Subordinated debt (T2)	50,000	50,000
Total regulatory capital at end of the year	769,977	678,446

4.2.3 Deductions from regulatory capital

- The following items are deducted from the regulatory capital of the Bank: Deferred tax assets, intangible assets, and investment in financial unconsolidated subsidiary.
- There were no dividends proposed or approved by the Board for 2022 (2021: nil).

4.2.4 Subordinated debt Tier 2

	2022 (£'000)	2021 (£'000)
Subordinated notes (amortised cost)	49,778	49,678
Amounts due:		
- over five years	49,778	49,678

In June 2018, the 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. Write-down can only be triggered at point of non-viability under the Banking Act.

There were no payment defaults or other breaches with respect to its subordinated liabilities during the year ended 31 December 2022 (2021: Nil).

4.3 Capital adequacy

	2022 (£'000)	2021 (£'000)
Risk weighted assets		
Credit risk	3,577,369	2,875,251
Market risk	-	-
Operational risk	262,904	190,334
Total risk weighted assets	3,840,274	3,065,585
Capital ratios		
Common Equity Tier 1 capital ratio	18.7%	20.5%
Tier 1 capital ratio	18.7%	20.5%
Total capital ratio	20.1%	22.1%

4.3.1 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 10.91% for OakNorth Bank as of 31 December 2022 (2021: 11.54%).

4.3.2 Capital buffers (Pillar 2B)

The UK Countercyclical Capital Buffer (CCyB) rate was 1% as of 31 December 2022 and capital conservation buffer was 2.5%.

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 2022, 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).

Note that the CCyB applies to only relevant exposures which excludes exposures to central governments and central banks and institutions, as summarised below:

	General credit exposures		Own fund requirements				
2022 (£'000)	Exposure value under the standardised approach[a]	Total exposure value	Relevant credit risk exposures - Credit risk	Total Pillar 1 8% + CcyB	Risk-weighted exposure amounts	Own fund requirements weights (%)	Counter-cyclical buffer rate (%)
Breakdown by country:							
United Kingdom	3,200,228[b]	3,200,228	285,232	285,232	3,565,403	100.0%	1%
Rest of World	-	-	-	-	-	0%	0%
Total	3,200,228	3,200,228	285,232	285,232	3,565,403	100.0%	

a. Stated after application of credit conversion factors.

b. Relevant exposure as defined in the UK adopted EBA guidelines - total exposure less central bank exposures and exposures to institutions.

2021 (£'000)	General credit exposures: Exposure value under the standardised approach	Total exposure value	Own fund requirements: Relevant credit risk exposures - Credit risk	Total	Risk-weighted exposure amounts	Own fund requirements weights (%)	Counter-cyclical buffer rate (%)
Breakdown by country:							
United Kingdom	2,815,891	2,815,891	228,330	228,330	2,854,129	99.6%	0%
Rest of World	14,208	14,208	951	951	11,892	0.4%	0%
Total	2,830,099	2,830,099	229,282	229,282	2,866,022	100.0%	

4.4 Leverage Ratio

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.

4.4.1 UK LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	Applicable amount 2022 (£'000)	Applicable amount 2021 (£'000)
Total assets as per published financial statements	4,650,036	3,570,311
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)[a]	324,425	285,966
Other adjustments[b]	(19,551)	(872)
Total exposure measure	4,954,910	3,855,404

a. Off balance sheet items are stated after application of credit conversion factors. Gross off-balance sheet exposures before conversion factors are £1,509.6 million (2021: £1,333.5 million)

b. Other adjustments in 2022 comprise of the following which are deducted from CET1- Investment in subsidiary £14.25 million, Intangibles £4.3 million, and Deferred tax assets of £1 million

4.4.2 UK LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	Leverage ratio exposures	
	2022 (£'000)	2021 (£'000)
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**4,630,485**	3,569,441
Banking book exposures, of which:	4,630,485	3,569,441
Exposures treated as sovereigns	1,609,912	900,146
Institutions	37,507	30,019
Secured by mortgages of immovable properties	1,045,997	1,315,189
Corporates	1,823,572	1,259,567
Exposures in default	87,731	49,628
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	25,766	14,891

4.4.3 Template UK LR2 - LRCom: Leverage ratio common disclosure

	Leverage ratio exposures	
	2022 (£'000)	2021 (£'000)
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs, but including collateral)	4,630,485	3,569,441
Total on-balance sheet exposures (excluding derivatives and SFTs)	**4,630,485**	**3,569,441**
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	1,509,550	1,333,527
(Adjustments for conversion to credit equivalent amounts)	(1,184,097)	(1,047,105)
(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	(1,029)	(456)
Off-balance sheet exposures	**324,425**	**285,966**
Capital and total exposure measure		
Tier 1 capital (leverage)	719,977	628,448
Total exposure measure including claims on central banks	4,954,910	3,855,406
(-) Claims on central banks excluded	(1,235,714)	(637,755)
Total exposure measure excluding claims on central banks	**3,719,196**	**4,493,161**
Leverage ratio		
Leverage ratio excluding claims on central banks (%)	19.4%	14.0%
Leverage ratio including claims on central banks (%)	14.5%	16.3%

4.4.4 Capital and total exposures

	2022 (£'000)	2021 (£'000)
Tier 1 capital	719,977	628,446
Total leverage ratio exposures	4,954,910	3,855,405
Leverage ratio	14.5%	16.3%

As at 31 December 2022, 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.

5. Credit Risk

5.1 Credit Risk Management

Detailed information on credit risk is provided under the "Credit Risk" section of the of the Bank's Annual Report 2022.

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 given its business model's emphasis on lending. We do not actively trade in financial instruments, other than for liquidity management purposes.

5.1.1 The Bank's approach to Credit Risk Management

Throughout the year, pursuant to ongoing economic challenges and outlook, we focussed on ongoing stress testing of the loan book via the FLR tool. This tool is used to not only assess impact of known risks, but more importantly to form a view of the potential impact of emerging risks. FLR is updated monthly and applied to our existing borrower portfolio to seek out any emerging trends or specific cases of potential concern.

FLR splits the economy into granular subsectors and builds cost and revenue curves based on statistical regression of macro-economic forecasts and historical sector performance. These curves are amended for forward looking factors / structural changes in the industry which are not reflected in the forecasts of macro-economic variables but may have impacted historical correlations. It further establishes elasticity for cost and working capital projections for obligors by analysing the correlation between these line items and revenue changes over time (regression analysis). Regional subsector curves are then prepared leveraging micro subsector and region level data including sector specific KPIs, high frequency indicators and alternate data sets. These detailed sub sector forecasts are then applied to each individual OakNorth borrower and used to assess the potential impact on borrower's cash flow and likelihood of default/loss.

Climate risk is a key area of focus, and we continue to develop and enhance our approach in this area. Specific climate Key Risk Indicators have been introduced for testing. This is supported by climate risk assessment at the credit underwriting and in-life monitoring. Key elements being considered are physical and transition risks due to climate impact to our counterparties. We also continue to evolve our approach to measure our financed emissions to support OakNorth in meetings its net zero commitments. More information is provided in the ESG section of the Annual Report.

FLR forecasts are used to assess how a low-carbon policy and technological transition towards mitigating climate change could impact the loan book. The assessment for 2022 concluded that there are no expected losses under any of the three Climate Biennial Exploratory Scenario (CBES) transition scenarios that include - Early action from 2021 (1.8°C risk in temperature by 2050), Late action from 2031 (1.8°C risk in temperature by 2050), and no additional action (3.3°C risk in temperature by 2050).

During the year, we continued to strengthen and enhance our Credit Risk Management Framework (CRMF), ensuring the risks continued to be effectively managed as we grow. Several new credit policies were introduced, and material enhancements made to some of the existing policies.

5.1.2 Credit Risk Governance framework

OakNorth has a Credit Risk Management Framework (CRMF), that operates as a sub-set within the 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. This includes establishing and monitoring credit policies and procedures, credit and concentration risk appetite limits and key risk indicators, credit risk decisioning process including 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, the 'Reserves Adequacy Committee' (RAC) 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. The committee is responsible for the review and confirmation of adequacy of provision calculations, oversight of the staging approach applied, review and confirmation of scenarios and weightings, assessing appropriateness of any provision overlays and exceptions, reviewing model accuracy related matters including back-testing, model effectiveness and ensuring IFRS 9 provisions and overlays approach are consistent with the Bank's Provisions policy.

5.1.3 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.

5.1.4 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, product type, collateral, policy exception and watchlist status. Higher risk deals based on single name exposure (>£50 million) are also reviewed and challenged by the Board Credit Committee (BCC).

5.1.5 Credit risk management and monitoring

Our Portfolio monitoring team monitors the performance of all loans individually on an on-going basis. FLR stresses are run monthly at a loan level, and they provide early warning indicators against deterioration in credit quality under different scenarios (both under short term and long term). This enables our teams to prioritise portfolio actions and work proactively with our borrowers.

The early warning indicators are tracked weekly, and a formal portfolio review is done monthly which is presented to the CRMC. Both the CRMC and BCC monitor the performance of the overall portfolio at least monthly through the production of management information including- lending volumes, key credit model output performance, rating downgrades, concentration risk (including large exposures), impairments and any material recoveries and performance against the credit risk appetite limits. Our in-house monitoring and surveying team monitor property development loans.

5.1.6 Credit risk rating

Credit rating of the loan book is assessed based on assessment of PD. The Bank currently uses an industry standard model to calibrate the PD score for each loan. The PD scores obtained are integrated with the risk pricing of loans at origination and in the measurement of ECL provisions. The Bank has set risk appetite limits to monitor the PD and LGD distribution of the loan book. However, the approach for use of the external PD scores for the purposes of risk reporting and risk management is significantly evolving.

As detailed in the preceding sections, FLR is used as an integral tool to assess credit risk at origination and in-life monitoring of credit risk on a forward-look view specific to the Bank's portfolio. The Bank is therefore continuing to develop its approach to incorporate the probabilistic view within FLR to deliver a single credit model, which will enable a more sophisticated sub sector approach to lending. The aim of this evolving approach is to provide a single credit model used from origination through to IFRS 9 compliant provision calculation and periodic stress testing, ensuring consistency across all aspects of credit risk management and ECL determination.

5.1.7 Credit quality classification

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, significant adverse changes to the collateral position.

The 'Watchlist' triggers are aligned with the IFRS 9 Stage 2 category of Significant Increase in Credit Risk (SICR). For Stage 3, we assess whether there are objective impairment triggers, which include significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, breach of contract, or any other factors as the CRMC deems relevant which may result in the borrower unlikely to pay. This is aligned with the EBA guidelines on the application of the definition of Default. These include IFRS 9 backstop triggers of 30 days and 90 days past due (DPD) for Stage 2 and Stage 3 respectively. EWS and Intensive monitoring cases are part of IFRS 9 Stage 1 classification.

Each exposure is assessed and monitored individually. We do not apply a general portfolio level approach to apply staging changes to the loan book. The criteria used to trigger a risk classification/ staging review are monitored and reviewed periodically by CRMC. The Head of Portfolio Monitoring or Senior Director, Workout & Recoveries recommends higher risk loans as defined under our Customers in Financial Difficulty (CIFD) policy, to be added to Watchlist/ Stage 2 or Stage 3, as appropriate, to the Head of Credit and / or CRMC. The Head of Credit and / or CRMC approves the final staging. Transfer back from Stage 3/ Stage 2 to Stage 1 is done only when the exposure falls back within standard/ normal credit metrics and lending policy appetite and only when the exposure starts performing for a period (minimum three months of standard trading) as determined by the CRMC. In addition, staging changes are reviewed and ratified by the RAC on a quarterly basis.

5.1.8 Forbearance

Central to OakNorth's approach is trying to assist the customer to resolve their financial difficulties and return to financial health as quickly as possible. As part of our CIFD policy, we may undertake forbearance measures to ensure better outcomes for both the customer and OakNorth. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments, which OakNorth would not normally provide under its standard lending criteria 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 Watchlist process. Customers exhibiting signs of actual or potential stress are classified in an appropriate watch category and subjected to mandatory actions to ensure that an appropriate strategy is being followed to effectively manage the increased credit risk. Loans subject to forbearance continue to be reported as forborne even when they are no longer considered to be in financial stress. This includes loans that are restructured, including those where the existing agreement has been cancelled and a new agreement is made on substantially different terms. This approach is aligned with the EBA guidelines on management of non-performing and forborne exposure.

Forbearance disclosures: As at 31 December 2022, we had 9 loans that have been subject to forbearance, totalling to £96.4 million carrying value (2021: 12 loans, £124.1 million). Of these 4 loans totalling to £57.1 million were in intensive monitoring (Stage 1) and £39.3 million were in watchlist (Stage 2) (2021: 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).

5.1.9 Credit risk mitigation

We seek to mitigate credit risk through, inter alia, eligible collateral. The CRMF details the eligible collateral that OakNorth may accept for risk mitigation purposes. This includes but is not, limited to, debenture/ charge on fixed and floating assets, charge on freehold land or property, guarantees (personal, corporate), and cash reserves/ deposits. We have policy guidance on the valuation conditions and methods. We also have a Valuer panel management policy in relation to the external valuation firms/ quantity surveyors who can be added to OakNorth's valuation panel.

Any review of collateral is done in line with the scheduled (minimum annual) review for the credit and frequency as specific to the security type, as applicable. Independent valuations are refreshed every 3 years and any exceptions to this policy or waivers granted are specifically approved by the Head of Credit Risk, in line with the Valuation policy.

For the purposes of the provisioning per the enhanced PD and LGD framework, we also continue to update the values based on relevant indices, applying further stresses under the selected macroeconomic scenarios using the FLR approach.

Loan book collateralisation: As of 31 December 2022, 94% of the loan facilities were collateralised by security comprising of fixed assets (including property) and charges/ debentures on underlying portfolio of assets (primarily property) (2021: 97%). 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% (2021: 52%).

5.1.10 Maximum exposure to credit risk (Loans and advances to customers)

For on-balance sheet financial assets, maximum exposure to credit risk is the carrying value of the assets on the balance sheet after ECL provisions. For irrevocable loan commitments, the maximum exposure is the full amount of the committed facilities.

OakNorth allows for drawdowns under property development facilities only where our monitoring surveyor has verified the costs and progress of the development as well as the provision of any other condition precedent for drawdown. For other business lending, conditions precedent are always stipulated for drawdowns.

Collaterals obtained pursuant to the lending arrangements are not offset from the reporting of maximum exposure to credit risk.

As at 31 Dec 2022	On balance sheet- Loans and advances at amortised cost £'000	Allowance for ECL £'000	Net carrying amount £'000	% ECL allowance of on-balance sheet exposures %	Off- balance sheet - Undrawn Loan Commitments £'000	Allowance for ECL £'000	Net carrying amount £'000
Stage 1	2,990,755	13,311	2,977,444	0.4%	430,469	825	429,644
Stage 2	64,825	2,507	62,318	3.9%	6,458	204	6,254
Stage 3	95,415	7,684	87,731	8.1%	-	-	-
Total	3,150,995	23,502	3,127,493	0.7%	436,927	1,029	435,898

Uncommitted loan facilities: As at 31 December 2022, OakNorth had £1,072.6 million of uncommitted facilities (2021: £951.4 million). These facilities are unconditionally cancellable. This balance includes a facility of £30 million provided to the subsidiary ASK Partners Limited.

OakNorth did not have any off-balance sheet exposures on financial and other guarantees (2021: nil).

As at 31 Dec 2021	On balance sheet- Loans and advances at amortised cost	Allowance for ECL	Net carrying amount	% ECL allowance of on-balance sheet exposures	Off- balance sheet - Undrawn Loan Commitments	Allowance for ECL	Net carrying amount
	£'000	£'000	£'000	%	£'000	£'000	£'000
Stage 1	2,782,991	8,929	2,774,062	0.3%	381,193	456	380,737
Stage 2	69,097	6,481	62,616	9.4%	-	-	-
Stage 3	63,228	13,601	49,627	21.5%	909	-	909
Total	2,915,316	29,011	2,886,305	1.0%	382,102	456	381,646

5.1.11 Maximum exposure to credit risk (Financial instruments other than Loans and advances to customers)

We do not actively trade in financial instruments and have no derivatives exposures. We hold short duration UK GILTS for the purposes of liquidity management and management of collaterals under the TFSME scheme.

Cash balances are held at the Bank of England. Balances held at other banks are only on a short-term basis to facilitate inter-bank transactions with customers.

	Maximum exposure	Allowance for ECL	Net carrying amount	Maximum exposure	Allowance for ECL	Net carrying amount
	As at 31 Dec 2022			As at 31 Dec 2021		
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	1,235,711	-	1,235,711	446,374	-	446,374
Loans and advances to banks	37,507	-	37,507	30,019	-	30,019
Debt securities	204,005	-	204,005	191,849	-	191,849
Total on-balance sheet	1,477,223	-	1,477,223	668,242	-	668,242
Total off-balance sheet-financial and other guarantees	-	-	-	-	-	-

There are no offsets or netting arrangements in place for the above exposures. OakNorth did not have any other off-balance sheet exposures (2021: nil).

Cash and balances at central banks comprises of unencumbered cash balances held with Bank of England.

Loans and advances to banks are short term funds held with other banks.

Debt securities are bonds issued by HM Treasury and are UK Government liability in sterling. These are held at mark to market (MTM) through Other Comprehensive Income and the net MTM for these bonds was £24K as at 31 December 2022. The residual maturity of these bonds is within one month.

5.1.12 Credit risk concentration

Concentration risk arises in the loan book when several 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).

To mitigate this risk, we have 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. We continue to enhance our approach to concentration limit setting and develop our approach to be forward-looking and dynamic.

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. The Bank continues to enhance its approach to concentration limit setting and develop its approach to be forward-looking and dynamic.

5.2 Exposures subject to the Standardised Approach

	Credit risk exposure[a]	Avg Credit risk exposure[b]	RWA[c]	Minimum capital requirement[d]
2022	£'000	£'000	£'000	£'000
Central government and central banks	1,439,719	987,658	-	-
Institutions	37,507	39,415	11,967	957
Corporates	1,333,611	1,227,396	903,443	72,275
Secured by mortgages on immovable property	1,317,025	1,629,063	882,431	70,594
Exposures at default	92,630	63,738	131,597	10,528
Items belonging to regulatory high-risk categories	1,892,749	1,570,863	1,622,166	129,773
Other items	25,766	19,454	25,766	2,060
Total	6,139,007	5,537,586	3,577,369	286,187

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 2022 pertain to the CBILS, CLBILS and RLS guarantee scheme (2021: CBILS, CLBILS and RLS guarantee scheme).

b. Average credit risk exposures are calculated as the average of quarterly COREP returns information.

c. The RWA includes application of SME support factor where applicable.

d. 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.

2021	Credit risk exposure[a] £'000	Avg Credit risk exposure[b] £'000	RWA[c] £'000	Minimum capital requirement[d] £'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	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

OakNorth Bank did not have any derivative exposures outstanding as at 31 December 2022 (2021: Nil).

5.3 Maturity bucketing of the exposures

2022	Within 1 year £'000	After 1 year but within 5 years £'000	More than 5 years £'000	Undated/ open maturity £'000	Total £'000
Central government and central banks	1,439,719	-	-	-	1,439,719
Institutions	-	-	-	37,507	37,507
Loans to customers	1,399,421	2,991,639	244,955	-	4,636,015
Other items	-	-	-	25,766	25,766
Total	2,839,139	2,991,639	244,955	63,273	6,139,007

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

2021	Within 1 year £'000	After 1 year but within 5 years £'000	More than 5 years £'000	Undated/ open maturity £'000	Total £'000
Central government and central banks	638,225	-	-	-	638,225
Institutions	-	-	-	30,019	30,019
Loans to customers	1,249,766	2,751,976	217,634	-	4,219,376
Other items	-	-	-	14,891	14,891
Total	1,887,991	2,751,976	217,634	44,910	4,902,512

5.4 Geographical distribution

OakNorth Bank's credit risk exposures (i.e the collaterals and business cash flows) are primarily in the UK. See disclosure on Capital Buffers.

5.5 Sectoral distribution

The Sectoral break-down of OakNorth Bank's credit risk exposures as at 31 December 2022 is below. All exposures are stated including undrawn facilities and before application of conversion factors.

2022	Central government and central banks £'000	Financial sector £'000	Non-Financial sector £'000
Central governments or central banks	1,439,719	-	-
Institutions	-	37,507	-
Loans to customers	-	352,521	4,283,494
Other items	-	-	25,766
Total	1,439,719	390,028	4,309,260

2021	Central government and central banks £'000	Financial sector £'000	Non-Financial sector £'000
Central government and central banks	638,225	-	-
Institutions	-	30,019	-
Loans to customers	-	508,843	3,710,532
Other items	-	-	14,891
Total	638,225	538,862	3,725,423

5.6 Past due and impaired exposures

Please see OakNorth Bank's Annual Report 2022 pages 119-121 for the accounting policy disclosures on Expected credit loss charge on assets held at amortised cost and pages 64-79 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).

All cases that are 30 days past due are classified as IFRS 9 Stage 2 category of Significant Increase in Credit Risk (SICR). For Stage 3, OakNorth assesses whether there are objective impairment triggers, which include significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, breach of contract, or any other factors as the CRMC deems relevant which may result in the borrower unlikely to pay. This is aligned with the EBAs guidelines on the application of the definition of Default. These include IFRS 9 backstop triggers of 30 days and 90 days past due (DPD) for Stage 2 and Stage 3 respectively. EWS and Intensive monitoring cases are part of IFRS 9 Stage 1 classification.

5.6.1 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 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. The policies consider 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 include decline in 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.

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

For loans that breach the SICR triggers, we further determine 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. In cases where the credit risk on the loan is assessed as sufficiently low, the staging change to Stage 2 or 3 is not done.

5.6.2 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.

EAD: includes all current outstanding balances, interest due and judgement-based estimates of drawdowns on undrawn loan commitments.

Probability of default (PD) is the likelihood that a borrower will fail to pay back a debt.

Due to OakNorth's limited trading history, third-party models are used 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.

The external model considers both quantitative and qualitative assessment of each individual exposure, which includes (but is not limited to) information on key financial metrics, business performance, the quality of collaterals, business and borrower profile. The additional risk analysis results in calculation and application of 'qualitative adjustment' factors, that are applied in calculation of the final PD score.

In accordance with the IFRS 9 requirements, point-in-time (PIT) scenario-weighted PDs are applied in the ECL calculations. For the real-estate book, the scenario-weighted PIT PDs are directly obtained from the external PD and LGD modelling tool. For the business trading book (Commercial & Industrial- C&I) we use statistical analysis of the through-the-cycle (TTC) PDs obtained from the external tools, under a combination of macroeconomic variables, to obtain PIT PDs.

Further details on PD modelling, inputs and scenario assumptions are provided in the Annual Accounts "Credit Risk" section on pages 64-79.

Loss given default (LGD) is defined as the percentage exposure at risk that is not expected to be recovered in an event of default.

We calibrate the LGD using external PD and LGD modelling solution for both its real estate and business trading book. The solution incorporates the assumptions of impact on the collateral values, factoring any costs of sales. Limited judgement-based haircuts have been applied on certain eligible collateral for the business trading book. The actual experience in realising collaterals may differ.

Forward looking macroeconomic scenarios and scenario weightings: Judgements are applied in the choice of macroeconomic scenarios and scenario weightings. These are detailed in the "Credit Risk" section in the Bank's Annual Report on pages 64-79.

We use externally sourced macro-economic scenarios, adjusted for management views and judgement using the FLR approach.

Specific impairment assessment on Stage 3 cases: We assess 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 our Workout and Restructuring team. The scenarios and specific provisions are discussed and challenged at the Reserves Adequacy Committee and are approved by the CRMC.

Loan write-off: Loans maybe written off either partially or fully, when there is no realistic prospect of recovery. This is generally after receipt of any proceeds from the realisation of security and can also be in cases where, based on the assessment of the net realisable value of the collateral, there is no reasonable expectation of further recovery. This may include loans that are still subject to enforcement activity.

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

As at 31 Dec 2022	Carrying value (on 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 Jan 2022	2,782,991	69,097	63,228	2,915,316	8,929	6,481	13,601	29,011
Transfers between stages during the year								
– Transfers to Stage 1	29,805	(29,805)	-	-	4,934	(4,934)	-	-
– Transfers to Stage 2	(57,280)	57,280	-	-	(345)	345	-	-
– Transfers to Stage 3	(55,146)	(39,292)	94,438	-	(50)	(1,548)	1,598	-
Total transfers	(82,621)	(11,817)	94,438	-	4,539	(6,137)	1,598	-
Net additional lending/ (repayment)/ (charge-offs) and change in ECL assessment	290,385	7,545	(62,251)	235,679	(157)	2,163	(7,515)	(5,509)
As at 31 Dec	2,990,755	64,825	95,415	3,150,995	13,311	2,507	7,684	23,502

Stage 2 comments: Of the total outstanding loans in Stage 2 as at 31 December 2022, £40.0 million were past due and/or subject to forbearance measures, and the remaining £24.8 million were in breach of OakNorth's other staging criteria.

Stage 3 comments: Of the total outstanding loans in Stage 3 as at 31 December 2022, all loans continue to be past due and in breach of 90 DPD criteria. The Stage 3 loans are primarily secured on real-estate collateral.

As at 31 Dec 2022	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 Jan	381,193	-	909	382,102	456	-	-	456
Transfers between stages during the year								
– Transfers to Stage 1	-	-	-	-	-	-	-	-
– Transfers to Stage 2	(1,658)	1,658	-	-	(4)	4	-	-
– Transfers to Stage 3	-	-	-	-	-	-	-	-
Total transfers	(1,658)	1,658	-	-	(4)	4	-	-
Net additional lending/ (repayment)/ (charge-offs) and change in ECL assessment	50,934	4,800	(909)	54,825	373	200	-	573
As at 31 Dec	430,469	6,458	-	436,927	825	204	-	1,029

As at 31 Dec 2021	Carrying value (on 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 Jan 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 Dec	2,782,991	69,097	63,228	2,915,316	8,929	6,481	13,601	29,011

As at 31 Dec 2021	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 Jan	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 additional lending/ repayment and change in ECL assessment	231,482	(2,372)	(1,393)	227,717	199	(30)	-	169
As at 31 Dec	381,193	-	909	382,102	456	-	-	456

5.7 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 2022 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 2022 (2021: Nil).

OakNorth's primary exposure in this category is to the Bank of England (BOE) - which is UK's Central Bank, and, GILTS issued by the UK Government. We have 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, we use 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, we consider the worst rating or if there are three, two common rating are considered to determine the CQS.

2022	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)	25,085	(25,085)	-	-	-	-
UK Government GILTS and Treasury Bills	(29,383)	29,383	-	-	-	-
Loans & advances to banks	-	(14,655)	14,655	-	2,087	-
Total	(4,298)	(10,357)	14,655	-	2,087	-

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

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 2022, there were no impaired financial instruments at FVOCI (2021: nil).

6. Interest Rate Risk in the Banking Book (IRRBB)

OakNorth carries interest rate risk in the banking book - 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 assets reprice based on the base rates while most deposit liabilities are fixed rate and managed 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.

Our interest rate risk management policy is detailed in the Market and Liquidity Risk Management policy, which defines, measures, sets hedging policy statements, and details the governance process around management and reporting. The Senior Director- Treasury and Capital Markets 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: Economic Value of Equity (EVE) sensitivity to 200bps shift in the yield curve, application of the prescribed EBA shock scenarios, an Earning at Risk (EaR) assessment.

The primary assessment of the interest rate risk exposure is done through measurement of EVE sensitivities and EaR. During the year, we significantly enhanced our EVE models, and the models continue to evolve further with the growing complexities in our balance sheet and the increasing interest rate environment.

OakNorth's business model and pricing of assets and liabilities result in a natural hedging outcome. The loan book and cash at BOE reserve account are primarily variable rate, referenced mainly to the BOE base rate. The deposits book primarily comprises of fixed rate term deposits, notice accounts, and certain demand deposits. In an increasing interest rate scenario, the loan book reprices immediately whilst the deposit book reprices on an average with a lag, resulting in a net positive outcome. In a decreasing interest rate scenario, while term deposits and notice accounts reprice with a lag, the lag is short (less than 6 months on an average) and is offset by contractual BOE base rate floors on all variable rate loans.

Therefore, the pricing structure of our asset and liability product mix provides either a natural hedge in a rates-down scenario, covering most of the interest rate risk, or results in a net positive outcome in a rates-up scenario.

We monitor IRRBB monthly and have historically observed that in most months, even under stress, the IRRBB risk metrics have remained within our risk appetite.

Summary of these assessments as at end-December 2022 is provided below. There is no material change to the interest rate risk structure and risk management policy as compared with the prior year.

	As at 31-December 2022 (£million)
NPV Sensitivity to +2% shift (including rate floors)	20.2
NPV Sensitivity to -2% shift (including rate floors)	(3.7)

The most severe impact of 12m earnings at risk to +/- 25bps shock is -£4.6 million as of 31 December 2022 (vs +£1.1 million as of December 2021).

All metrics were within OakNorth's risk appetite limits.

7. Liquidity risk

Liquidity risk is defined as the risk that OakNorth is unable to meet its contractual financial obligations as they fall due. We consider the funding and liquidity risks as key risks that could challenge the survival in a stressed environment and limit the growth aspirations and profitability under normal conditions. The main liquidity risk faced by OakNorth is that of a retail deposit funding stress such that retail deposits may be withdrawn by customers at their earliest contractual maturity. As at 31 December 2022, over 90% of our deposit balances were protected under the Financial Services Compensation Scheme (FSCS).

We maintain a prudent approach to managing liquidity ensuring we hold sufficient high quality liquid assets and liquidity buffers to meet our financial and regulatory commitments over an extended period in line with the Board's risk appetite and the PRA requirements, both of which are detailed in the ILAAP document.

The key risk metrics that are used to monitor and measure liquidity risk include (but are not limited to) – Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), levels of High Quality Liquid Assets (HQLA) including under stress, peak deposit outflows, etc. There are risk appetite limits set for each of these metrics under 'business as usual', early warning indicators, and internal limits.

Stress testing is an integral part of the overall governance and liquidity risk management framework of OakNorth. As part of the ILAAP process, the liquidity stress testing process evaluates the levels of outflows and the adequacy of liquidity resources available under 'severe but plausible' potential stress scenarios, which are based on the key risks in the business (idiosyncratic risks) and the macro environment. The ALCO and the Board review, challenge and approve the stress scenarios and outcomes. The stress testing process helps ensure that OakNorth has sufficient liquidity under severe but plausible stress conditions and confirms the adequacy of the liquidity risk appetite limits.

The 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 indicators and ensuring that OakNorth 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 the operations.

As at 31 December 2022, OakNorth held unencumbered high-quality liquid assets of £1,235.7 million which were entirely held as cash at in the BOE reserve account

As at 31 December 2022, the Bank held unencumbered high-quality liquid assets of £1,235.7 million which were entirely held as cash at in the BOE reserve account (2021: £486.4 million). Throughout the year, OakNorth complied with all the regulatory liquidity measures and continued to maintain surplus over the requirements. The average LCR during the year was 383% (2021: 335%).

7.1 UK LIQ1 - Quantitative information of LCR

Scope of consolidation: (solo)	Total unweighted value (average £'000)				Total weighted value (average £'000)			
Quarter ending on (DD Month YYY)	Dec-22	Sep-22	Jun-22	Mar-22	Dec-22	Sep-22	Jun-22	Mar-22
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-Quality Liquid Assets								
Total high-quality liquid assets (HQLA)					702,531	557,150	491,103	474,012
Cash - Outflows								
Retail deposits and deposits from small business customers, of which:	1,202,279	1,192,381	1,166,513	1,105,406	190,177	177,636	171,563	161,064
Stable deposits	-	-	-	-	-	-	-	-
Less stable deposits	1,202,279	1,192,381	1,166,513	1,105,406	190,177	177,636	171,563	161,064
Unsecured wholesale funding	31,872	35,916	39,992	44,336	21,541	24,617	24,242	23,724
Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
Non-operational deposits (all counterparties)	31,872	35,916	39,992	44,336	21,541	24,617	24,242	23,724
Unsecured debt	-	-	-	-	-	-	-	-
Secured wholesale funding					-	-	-	-
Additional requirements	438,887	424,802	408,472	367,234	43,889	42,480	40,847	36,723
Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-

Scope of consolidation: (solo)	Total unweighted value (average £'000)				Total weighted value (average £'000)			
Quarter ending on (DD Month YYY)	Dec-22	Sep-22	Jun-22	Mar-22	Dec-22	Sep-22	Jun-22	Mar-22
Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
Credit and liquidity facilities	438,887	424,802	408,472	367,234	43,889	42,480	40,847	36,723
Other contractual funding obligations	7,779	6,094	6,142	6,119	5,584	4,173	4,284	4,355
Other contingent funding obligations	57,198	53,555	56,276	60,891	38,800	32,318	3,3951	36,534
Total Cash Outflows					299,990	281,224	274,888	262,401
Cash - Inflows								
Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
Inflows from fully performing exposures	179,373	185,917	198,970	196,809	111,751	114,769	121,931	119,676
Other cash inflows	4,123	4,409	3,944	3,625	4,123	4,409	3,944	3,625
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
(Excess inflows from a related specialized credit institution)					-	-	-	-
Total Cash Inflows					115,874	119,178	125,875	123,301
Fully exempt inflows					-	-	-	-
Inflows subject to 90% cap					-	-	-	-
Inflows subject to 75% cap					115,874	119,178	125,875	123,301

Scope of consolidation: (solo)	Total unweighted value (average £'000)				Total weighted value (average £'000)			
Quarter ending on (DD Month YYY)	Dec-22	Sep-22	Jun-22	Mar-22	Dec-22	Sep-22	Jun-22	Mar-22
Total adjusted value								
Liquidity buffer					702,531	557,150	491,103	474,012
Total net Cash Outflows					184,116	162,046	149,012	139,101
Liquidity coverage ratio					382%	344%	330%	341%

7.2 UK LIQ2: Net Stable Funding Ratio

GBP '000	Unweighted value by residual maturity (average)				Weighted value (average)
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items					
Capital items and instruments					
Own funds	622,803	-	-	50,000	672,879
Other capital instruments	-	-	-	-	-
Retail deposits					
Stable deposits	-	-	-	-	-
Less stable deposits	-	2,301,247	596,073	128,226	2,735,814
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	45,777	9,918	-	27,848
Interdependent liabilities	-	-	-	-	-
Other liabilities:					
NSFR derivative liabilities	-	-	-	-	-
All other liabilities and capital instruments not included in the above categories	-	22,172	15,024	416,166	311,886
Total available stable funding (ASF)	-	-	-	-	3,748,427

GBP '000	Unweighted value by residual maturity (average)				Weighted value (average)
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Required stable funding (RSF) Items					
Total high-quality liquid assets (HQLA)	-	-	-	-	-
Assets encumbered for more than 12m in cover pool	-	-	-	-	-
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	938,138	590,061	1,672,729	2,305,793
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut	-	-	-	-	-
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions	-	-	-	-	-
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:	-	369,545	371,869	1,067,928	1,507,832
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
Performing residential mortgages, of which:	-	192,569	139,406	485,961	360,324
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	41,607	25,818	253,257	31,691

GBP '000	Unweighted value by residual maturity (average)				Weighted value (average)
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Required stable funding (RSF) Items					
Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products	-	376,024	78,785	118,840	437,637
Interdependent assets	-	-	-	-	-
Other assets:	-	38,368	19,783	50,383	108,533
Physical traded commodities	-	-	-	-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-		-		-
NSFR derivative assets	-		-		-
NSFR derivative liabilities before deduction of variation margin posted	-		-		-
All other assets not included in the above categories	-	38,368	19,783	50,383	108,533
Off-balance sheet items	-	452,397	-	-	22,620
Total RSF	-	-	-	-	2,436,946
Net Stable Funding Ratio (%)	-	-	-	-	154.%

8. 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. We aim to mitigate each risk with robust controls and monitoring.

We have set a low risk appetite for any operational loss. We have 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 the 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 first line and second line assurance testing at a frequency determined using a risk- based approach. 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, ERC, and the BRCC.

We have a Business Continuity & Crisis Management Plan (BCP) in place that establishes systems of prevention and recovery to deal with potential threats. A Business Impact Analysis (BIA) is conducted annually to identify and quantify the operational and financial impact from foreseen crisis events. The BIA establishes the criticality of partners, applications, infrastructure, people assets, business processes, operational activities, and their respective interdependencies, defines the recovery objectives i.e., Recovery Time Objectives where applicable and Recovery Point Objectives, and links to planning for contingencies and back-up arrangements.

During the year we continued our Operational Resilience programme which focusses on continuous improvement through the identification and remediation of vulnerabilities through periodic testing. In accordance with PRA and FCA expectations, OakNorth defined its important business services and impact tolerances, and all have been met throughout the year. The services are mapped, and controls and contingencies are fully planned. A programme of individual component testing and more complex multi-component testing and drills ensures that we can identify vulnerabilities to continually strengthen our resilience.

8.1 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 2022 was £21.0 million (2021: £15.2 million).

Banking activities	2022 (£'000)				
	Relevant indicator			Own funds requirements	Risk weighted exposure amount
	Year-3	Year-2	Last year		
Banking activities subject to basic indicator approach (BIA)	104,341	140,116	176,190	21,032	262,904

Banking activities	2021 (£'000)				
	Relevant indicator			Own funds requirements	Risk weighted exposure amount
	Year-3	Year-2	Last year		
Banking activities subject to basic indicator approach (BIA)	60,078	104,341	140,116	15,227	190,334

9. Conduct, compliance, and financial crime

Adherence to all applicable regulatory rules, guidance and expectations is a key focus of OakNorth, in particular those regarding Conduct, Compliance and Financial Crime. OakNorth, at all times, aims to do the right thing for its customers and keep them, and the integrity of the markets in which they operate, at the heart of what we do. We have no appetite for any breach of law, regulation, code or standard of conduct or compliance.

We also ensure that we effectively manage reputational risk, defined as the risk to its public image from a failure to meet stakeholders' expectations in relation to performance, conduct or business profile. Stakeholders include customers, investors, employees, suppliers, government, regulators, and other group companies.

OakNorth has an independent and specialist second line Financial Crime and Compliance function, providing advice and guidance and a continuous programme of assurance through structured monitoring plans, delivered on a risk-based approach. The function also provides training, project/ new business support, policy oversight and various other risk management activities to ensure that we comply with all our legal and regulatory responsibilities. Tailored management information on all compliance themes is reported monthly to senior management. This area of risk is overseen by the Enterprise Risk Committee and the Board Risk & Compliance Committee.

10. Cyber Risk

At OakNorth, safeguarding of our information and systems by identifying, controlling, and measuring the risk of cyber threats is of utmost importance. Our unwavering commitment to preserving the confidentiality, integrity, and availability of our critical assets is reflected in our comprehensive cyber risk management program, designed to proactively identify, control, and measure the potential consequences of any cyber attack.

Our IT infrastructure has been designed to exhibit robust resiliency, with the incorporation of cloud services from the most prominent providers and best cyber security solutions. We have implemented a "defense in depth" strategy, featuring multiple layers of defense, including firewalls, VPNs, encryption, and strong monitoring and cyber defense tools. Our security operations centre, staffed 24/7, serves as a vigilant sentinel, and we engage in regular independent penetration testing to confirm the efficacy of our multi-layered defense approach.

Leading our efforts is a dedicated IT security team, under the guidance of the Bank's Chief Information Security Officer (CISO), supported by a robust second-line assurance function that continually evaluates and improves our cybersecurity posture following the National Institute of Standards and Technology (NIST) cyber risk management framework.

OakNorth is committed to staying ahead of the evolving threat landscape and maintaining the highest level of cybersecurity for our customers and stakeholders.

Cyber Resilience Assessments: Regular cybersecurity maturity assessments are made against the Bank of England's Cyber Resilience Questionnaire (CQUEST) self- assessment co-developed by the PRA and FCA, and the NIST framework. The first and second line of defence periodically re-assess the status and maturity of the cyber defences of OakNorth using these frameworks and develop continuous improvement plans against evolving threats. The risk assessments are conducted by identifying threat sources and vulnerabilities, determining the likelihood of risk occurrence and magnitude of impact, and designing a programme of continuous improvement of defences.

11. Climate Risk

Please see section "Environment" in the Bank's Annual Report 2022 for details on this section.

Climate Risk is the risk that climate change may affect our 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 we are currently developing our 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.

Details on our climate risk management programs and initiatives is provided in the "Environment, Social and Governance review" in the Bank's Annual Report 2022.

Details on impact assessment on the Bank's portfolio are discussed in "The Bank's approach to Credit Risk Management" in the Bank's Annual Report 2022 on pages 64-79.

12. 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. The liability is measured at amortised cost under IFRS 9.

As of 31 December 2022, the Bank had borrowed £200.0 million (2021: £200.0 million under BoE's TFSME 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 350 bps as at 31 December 2022 (2021: 25 bps). The borrowing is repayable after four years of drawdown in October 2025. The borrowing is collateralised against GILT portfolio of £204.0 million (2021: £151.7 million) and Nil gross loans (2021: £106.6million). The borrowing is held at amortised cost.

	2022 (£'000)	2021 (£'000)
Borrowings under the BOE's Term Funding Scheme	201,423	200,050
Amounts due:		
- over five years	201,423	200,050

12.1 UK AE1 - Encumbered and unencumbered assets

2022 (£'000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets		Fair value of unencumbered assets	
				of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	204,005		4,446,035	1,233,775		
Debt securities	204,005	204,005	-	-	-	-
of which: issued by general governments	204,005	204,005	-	-	-	-
Other assets	-		4,446,035	1,233,775		

2021 (£'000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets		Fair value of unencumbered assets	
				of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	256,892		3,313,421	40,000		
Debt securities	256,892	256,892	40,000	40,000	40,000	40,000
of which: issued by general governments	256,892	256,892	-	-	-	-
Other assets	105,044		3,273,421	40,000		

12.2 UK AE3 - Sources of encumbrance

2022 (£'000)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
Carrying amount of selected financial liabilities- over five years	201,423	204,005

20221 (£'000)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
Carrying amount of selected financial liabilities- over five years	200,050	151,849

13. Appendix- Own funds disclosures templates

Table UK CCA: 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

	CET1	Tier 2
Capital Instruments main features template		
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[a]	01-Jun-18
Perpetual or dated	Perpetual	Dated
Original maturity date	No maturity	01-Jun-28
Issuer call subject to prior supervisory approval	No	Yes
Optional call date, contingent call dates and redemption amount	N/A	01-Jun-23
Subsequent call dates, if applicable	N/A	None
Coupons / dividends		
Fixed or floating dividend/coupon	Discretionary dividend	Fixed
Coupon rate and any related index	N/A	7.750% fixed rate up to (but excluding) the optional call date payable semi-annually in arrears. Reset on the optional call date to the sum of the GBP 5-year GILT benchmark swap rate plus the reset margin payable semi-annually in arrears
Existence of a dividend stopper	N/A	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
Existence of step up or other incentive to redeem	N/A	No

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

	CET1	Tier 2
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

Template UK CC1 - Composition of regulatory own funds

Common Equity Tier 1 capital: instruments and reserves	31-Dec-22	31-Dec-21
Capital instruments and the related share premium accounts	389,320	389,320
of which: Ordinary shares	389,320	389,320
Retained earnings	350,077	239,670
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	135	328
Common Equity Tier 1 (CET1) capital before regulatory adjustments	739,532	629,318
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(18,543)	-
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)	(1,012)	(872)
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-
Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-CRR treatment	-	-
Total regulatory adjustments to common equity tier 1 capital	(19,555)	(872)
Common equity tier 1 capital	719,977	628,446
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	719,977	628,446

Common Equity Tier 1 capital: instruments and reserves	31-Dec-22	31-Dec-21
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	769,977	678,446
Total risk weighted assets	3,840,274	3,065,585
Capital ratios and buffers		
Common equity tier 1 (as a percentage of risk exposure amount)	18.7%	20.5%
Tier 1 (as a percentage of risk exposure amount)	18.7%	20.5%
Total capital (as a percentage of risk exposure amount)	20.1%	22.1%
Institution specific buffer requirement (common equity tier 1 capital requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	3.5%	3.06%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	1.0%	0.0%
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)	12.6%	13.4%

Common Equity Tier 1 capital: instruments and reserves	31-Dec-22	31-Dec-21
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

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

14. 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 29 "Code Staff" (see below) for the year ending 31 December 2022.

These disclosures are made in accordance with Article 450 of the Capital Requirements Regulation (CRR) and should be read in conjunction with the 2022 Annual Report.

14.1 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://www.handbook.fca.org.uk/handbook/SYSC/19D/?view=chapter), (as appropriate for Level 3 firms), the rules on remuneration published by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) (https://www.bankofengland.co.uk/prudential-regulation/publication/2013/fscs-changes-to-the-compensation-sourcebook), 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 heart of our thinking and 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 2022, OakNorth employed 37 Code Staff (3 Executive Directors, 5 Non-Executive Directors, and 29 Senior Managers and additional MRTs). For completeness, 8 MRTs left the organisation in 2022, making the number of Senior Managers and additional MRTs as of 31 December 2022, 29 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.

14.2 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), 2 Independent Non-Executive Directors (INED) and 1 Notified Non-Executive Director. The Chief Executive Officer (CEO), Senior Managing Director (SMD) are standing invitees at each meeting but are not voting members. The People Operations Director acts as Secretary to the Committee. The Committee held two meetings during 2022, 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 in order to carry out its duties and is able to use any forms of resources the committee deems appropriate, including external advice. A Remuneration and Performance Management audit was completed in December 2022and focused on the governance and underlying processes in place to ensure the Bank complies with the requirements of the remuneration code and various linked requirements in the Corporate Governance Code. The approach included the review of the remuneration policy, committee packs and minutes. The review received a 'Good' rating and all actions to further strengthen our remuneration practices have since been completed. The Committee will continue to 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.

14.3 Board Diversity

Through our diversity and inclusion policy, the Bank asserts its commitment to increase diversity at all levels and to provide equal opportunities throughout employment, including in recruitment, training and promotion of employees. The Bank is passionate about eliminating discrimination in the workplace, and all job applicants and employees are treated fairly and assessed solely on merit. We believe in promoting a diverse workplace in which different backgrounds, voices, and perspectives are respected and heard. We aim to attract people who possess the right competencies and talents, irrespective of gender, race, religion, sexual orientation, or social circumstance, and who contribute to a high-performing organisation. A key initiative in 2022 has been our investment in measuring and further developing the cognitive diversity within our teams. We are looking to hire people who think differently about business issues, in an effort to reduce risks associated with "group think". We have partnered with Basadur Profile, a company providing psychometric tools and measurement of individual thinking styles, to further enable our teams to capitalise on cognitive diversity and drive positive outcomes. Our diversity 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 further consider inclusion, acceptance and respect as important factors in maintaining and growing diversity. This means that with respect to external efforts we are proactive and open minded when it comes to recruitment and don't narrowly consider talent pools. Internally we encourage collaboration, decision-making, and advancement by all members, equally, across our employee population.

14.4 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 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.

In August 2022, the Bank appointed Timo Boldt as a Notified Non-Executive Director. Timo is the Founder and CEO of Gousto, which pioneered the recipe box offering in the UK when it was established in April 2012. Since then, it has grown to a profitable Unicorn business, with £315 million in revenue in 2021. Timo brings deep experience in data, technology, automation, and marketing – all of which will prove invaluable as we continue to expand our offering and digital capabilities. He also brings further entrepreneurial experience to our Board of Directors, having started and scaled a successful business in Gousto.

14.5 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 is developed and 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 administers 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 looks at risk adjusted vs. absolute outcomes that consider all risk types (e.g. credit, market, operational, liquidity, reputational and other risks, etc.). The Bank strives 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 enables 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 gives 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 are based on financial and non-financial criteria (as per SYSC 19.3.40)

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 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" are 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.

14.6 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) Base Salary; 2) Benefits; 3) Cash Bonus (immediate and deferred) and 4) Employee Shareholder Share Scheme ("ESS") / Share Option Plan Scheme ("ESOP"). These remuneration components are used to reward employees' firm-wide. 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 clawback.

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 includes:

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

14.7 Remuneration Components

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

Benefits: the Bank provides a range of benefits including enhanced maternity and paternity leave, voluntary health, dental and death in service schemes and complies with statutory guidelines to provide a pension scheme to all employees. Other incentives include complimentary meditation classes, subsidised food and drink, an employee assistance programme and a cycle to work scheme.

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 CPO, 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 are based on both overall Bank risk-adjusted performance and individual performance. The maximum variable remuneration including bonus percentage has been fixed at an amount equivalent to 100% of base salary for all Code Staff.

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 are 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.

14.8 Remuneration for Code Staff

The following table below shows total fixed and variable remuneration awarded to Code staff in respect of the performance year 2022.

Number of Code Staff: 30

	2022 Payments £'000		
Remuneration Type	Executive Directors (3)	Non-Executive Directors (5)	Code Staff (29)
Total Fixed remuneration			
- Cash-based	3,374	550	4,723
- Shares/Share based	1	-	13
Total Variable remuneration paid in 2022			
- Cash-based	725	-	1,078
- Shares/Share based	-	-	-
Total Deferred remuneration paid in 2022			
- Cash-based (# of individuals)	-	-	474 (8)
- Shares/Share based	-	-	-
Pension and Insurance	1	-	80
Severance Payments	-	-	-
Total Deferred Remuneration outstanding as at the end of 2022[a]			
Cash-based	–	–	1,472
Shares	–	–	18
Total Remuneration in 2022	4,101	550	7,858

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

The table below shows the amount of severance and guaranteed variable remuneration payments made to Code Staff during the financial year ended 31 December 2022, as well as any individuals remunerated over €1m.

Severance payments made during 2022	118
Guaranteed variable remuneration (sign on awards made during 2022)[b]	776
Individuals remunerated over €1m	4

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

OakNorth Bank

57 Broadwick Street, Carnaby,
London W1F 9QS

www.oaknorth.co.uk

oaknorthbankuk oaknorth-bank @oaknorthbank