

Pillar 3 Remuneration Disclosures
2018



OakNorth

Lending for Entrepreneurs, by Entrepreneurs



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1 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 23 “Code Staff” (see below) for the year ending 31 December 2018.

These disclosures are made in accordance with Article 450 of the Capital Requirements Regulation (CRR) and should be read in conjunction with the 2018 Annual Report.

1.1 Approach to Remuneration

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

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

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

In practically applying PRA and FCA guidance, OakNorth Bank classifies its employees as either Code or Non-Code Staff. Code staff are comprised of Senior Managers (covered by the Senior Managers Regime), Risk Managers excluding those covered by the Senior Managers Regime, and all other Material Risk Takers (MRTs). During the year ended 31 December 2018, OakNorth employed 23 Code Staff (4 Executive Directors, 6 Non-Executive Directors, and 13 Senior Managers and additional MRTs).

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.

1.2 Board Remuneration and Nomination Committee (REMCO)

The Board Remuneration and Nomination Committee is responsible for ensuring that remuneration arrangements support the strategic aims of OakNorth Bank, drive the right behaviours from staff, comply with best practices, and with the requirements of regulation. All Remuneration is set in line with the Remuneration Code (SYSC 19D, as relevant to proportionality level 3 firms). The Committee has delegated authority from the Board for the review and approval of the Remuneration Policy, setting remuneration and remuneration structure for all Executive Directors, Non-Executive Directors (NEDs) including the Chairman and other key

individuals such as Senior Managers and employees captured under the scope of the Certification Regime. The Committee reviews and recommends, alongside the Board, the selection and appointment of Board members as well as the Board structure. The independent Non-Executive Directors are entitled to yearly fees for attending Board or Committee meetings at the rate that may be agreed upon between the Shareholders and the Board of Directors from time to time. Changes in Board compensation, if any, arise out of the recommendation of the Board Remuneration and Nomination Committee with necessary approvals by the Board, Shareholders and PRA and FCA as appropriate.

The Committee's membership is formed by the Chairman (Chair of the Remuneration and Nomination Committee), the Senior Independent Director (SID) and an Independent Non-Executive Director (INED). The Chief Executive Officer (CEO), Senior Manager Director (SMD) and Notified NEDs are standing invitees at each meeting but are not voting members. The People Operations Associate acts as Secretary to the Committee. The Committee aims to meet quarterly or more frequently as called by the Committee Chairman. At least once per annum the Chief Risk Officer (CRO) and Chief Financial Officer (CFO) advise the Committee on specific risk adjustments to be applied to performance objectives of the Executive Directors and any Code Staff, set in the context of incentive packages. Three meetings were convened inside of 2018 with all members in attendance at every meeting.

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

Key example agenda items included:

- Senior Manager performance including specific objectives and key metrics;
- Succession Planning, including approval of specific departures and appointments and key-man insurance;
- REMCO Terms of Reference review and approval;
- Remuneration policy review and approval, inclusive of regulatory updates and internal changes;
- MRTs identification and Remuneration Policy Statement;
- Proposed shares to individuals as part of the Employee Share Scheme (ESS);
- Bonus pool provision mechanism and composition for 2018 performance year;
- Companywide bonuses for the 2018 performance year decided and individual bonus awards (2018) and compensation reviews (2019) for Material Risk Takers (MRTs) agreed; and
- Performance evaluation for Debt Finance Directors in line with the Debt Finance Team Incentive Scheme (DFTIS).

1.2.1 Board Diversity

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

Characteristics. Company procedures and policies are based on this objective. This commitment applies equally to members of the Board of Directors. All Board of Director appointments are made solely on merit, in the context of the skills, experience, independence and knowledge which the Board of Directors as a whole requires to be effective.

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

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

1.2.2 Board Recruitment

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

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

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

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

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

The composition of the Board includes the PRA-approved Independent Non-Executive Directors (the Chairman function, the Senior Independent Director function, the Chair of the Risk & Compliance Committee function, the Chair of the Audit Committee function, and the Chair of the Remuneration and Nomination Committee function) and includes at least one Notified NED and at least three Executive Directors.

1.3 Remuneration Policy

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

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

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

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

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

- Interests of our Employees will be aligned with the interests of our clients, long-term interests of the Bank, OakNorth Bank shareholders, investors and other stakeholders in the Bank as well as the public interest;
- Employees will not be rewarded for risks that are unwarranted;
- OakNorth Bank's First line of defence (i.e. Origination) will be incentivised on the basis of creating strong portfolio performance and long-term sustainability of performance alongside strong customer outcomes as opposed to short term loan volumes;
- OakNorth Bank's Second and Third lines of defence will not be incentivised for volumes of business. They will be incentivised on the delivery of objectives linked to their functions and the maintenance of a robust control environment. The remuneration of their senior officers will be directly overseen by the Board Remuneration and Nomination Committee;
- OakNorth Bank's Risk management and Compliance functions will have appropriate input into setting the remuneration policy for other business areas to minimise any undue risks the Bank may be otherwise subject to without this oversight;
- Bonuses will be subject to clawback and malus provisions;
- OakNorth Bank plc is a level three firm under the Remuneration Code proportionality rules. As a result, as appropriate for a level three firm (cf. the FCA's FG17/8 General Guidance on Proportionality - The

Dual-regulated firms Remuneration Code (SYSC 19D) - May 2017 - Part D guidance to firms in particular proportionality levels - paragraph 4.5), it will disapply the following rules:

1. retained shares or other instruments (SYSC 19D.3.56R);
2. deferral (SYSC 19D.3.59R); and
3. performance adjustment (SYSC 19D.3.61R – SYSC 19D.3.62R).

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

1.4 Remuneration Structure

OakNorth Bank seeks to combine various remuneration/incentive components to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's seniority in the professional activity as well as market practice. The three remuneration components that every employee is eligible to receive include: 1) Basic Salary; 2) Benefits; and 3) Cash Bonus (immediate and deferred). These remuneration components are used to reward employees firm-wide although from 2018 the pay-out to the Bank's origination team is governed under a separate scheme known as the Debt Finance Team Incentive Scheme (DFTIS) based on explicitly defined quality and risk measures designed to create long term sustainable performance and inclusive of a clawback related to loan losses.

1.4.1 Remuneration Components

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

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

- Employees will be remunerated, keeping in line with the industry norms, at a median level;
- The Bank will comply with the Remuneration Code and PRA PS12/15, at the relevant Tier, as per regulatory guidelines;
- Two primary groups of Employees are created:
 - Code Staff shall comprise of Senior Managers (covered by the Senior Managers Regime), staff that meet the qualitative or quantitative criteria set by the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 excluding those covered by the Senior Managers Regime, and all other Material Risk Takers; and
 - Non-Code Staff shall comprise of everyone other than Code Staff.
- The Bank will maintain a record of Code Staff and ensure they understand the implications of their status; and
- The majority of staff compensation shall consist of a fixed monthly salary.

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

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

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

The Bank's bonus pool provisions consist of a 'Debt Finance (DF) Team' bonus pool, ExCo bonus pool and an 'All Other Teams' bonus pool. Inside the bonus pool for the origination (DF) team, performance objectives are not solely linked to business volumes, but determined by repayments and recovery (and hence credit quality), as well as modelling good behaviours reflective of OakNorth values. Quality and risk measures are explicitly included in the incentive scheme design.

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

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

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

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

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

The following rules are applicable in rewarding cash bonuses:

- Cash bonuses may be paid upfront or some percentage deferred;
- Cash bonuses relating to the 2018 performance year will be paid in cash in Q1 2019 or deferred across a maximum of 4 years;
- All members of the Bank's origination team will be paid per a 4-year deferral schedule;
- All members of the Bank's senior management body will have all or some percentage of their cash bonus deferred;
- Maximum percentage of bonus has been fixed at an amount equivalent to 100% (one hundred percent) of base salary for all Code Staff. Bonuses for the majority of employees shall be less than 50% (fifty percent) of base salary. In certain exceptional cases, bonuses may be awarded above 100% (one hundred percent) solely at the discretion of the CEO and REMCO for non-Code Staff e.g. the DF team;
- Bonuses will be based on both overall bank risk-adjusted performance and an individual's performance;
- In line with our Remuneration Policy, bonuses of particularly high amounts, typically defined as £500,000 or above, or bonuses payable to Executive Directors may be subject to a minimum deferral of

60%. Further to Remuneration Principle 12(g), the Bank may also use its discretion when defining a 'particularly high amount' and subject lower bonus sums to this deferral rule.

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

Whether shares should be fixed or variable remuneration.

If they are entitled to them it is fixed

1.5 Remuneration for Code Staff

The following table below shows total fixed and variable remuneration awarded to Code staff in respect of the performance year 2018.

Number of Code Staff: 23

Remuneration Type	2018 Payments £'000		
	Executive Directors (4)	Non-Executive Directors (6)	Code Staff (13)
Total Fixed remuneration			
- Cash-based	1,660	460	1,877
- Shares	5	--	11
Total Variable remuneration paid in 2018			
- Cash-based	108	--	211
- Shares	--	--	--
- Other	85	--	--
Total Deferred remuneration paid in 2018			
- Cash-based	2	--	41
- Shares	--	--	--
Pension and Insurance	1	--	8
Severance Payments	--	--	--
Total Paid Remuneration in 2018	1,861	460	2,148
Total Remuneration deferred as at the end of 2018*			
Cash-based	113	--	457
Shares	11	--	24

2018 performance awards were paid in 2019 except for a small number of guaranteed payments which were issued during the 2018 financial year. As per the external guidance received, Employer NI has been excluded from all calculations shown within the tables enclosed.

*All deferred 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 2018, as well as any individuals remunerated over £1m.

Severance payments made during 2018	0
Guaranteed variable remuneration payments made during 2018	0
Individuals remunerated over £1m	1

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