OakNorth Bank Limited
Pillar 3 Capital disclosures
for the year ended 31 December 2015

Registered number: 08595042

Contents

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

1.1 Overview and scope

OakNorth Bank Limited (herein referred to as the "Bank" or OakNorth) is a UK registered bank that is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. The Bank received its full UK Banking Licence to enable it to commence deposit taking activities with effect from 28th August 2015. The Bank is focused on servicing entrepreneurs and growth Small and Medium Sized Enterprises ("SMEs"). The strategy includes offering a wide range of lending and savings products to assist UK SMEs in financing their future growth while offering attractive savings products to retail customers interested in funding such growth.

These disclosures were prepared for the stand-alone entity OakNorth Bank Ltd (PRA reference number 629564).

1.2 Basis

This Pillar 3 report is based upon the Bank's Financial Statements for the year ended 31st December 2015. These were prepared in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD IV) which came into force on 1 January 2014.

The Bank has adopted FRS102 (Financial Reporting Standard applicable in the UK) for preparing its financial statements. The Bank recognises and measures the financial instruments in accordance with the provisions of IAS39, based on the accounting policy choice permitted under FRS102.

As this is the first year-end reporting post authorisation of the Bank, the report contains information only for the year ended 31 December 2015 and there are no comparatives for 2014.

The Bank uses the Standardised Approach for computing capital requirements for credit risk and market risk and the Basic Indicator Approach for operational risk. The disclosures in this document are based on these approaches.

1.3 Frequency of disclosures

Pillar 3 disclosures will be published annually, concurrently with the Annual Report and Accounts in accordance with regulatory guidelines.

1.4 Verification

These disclosures were subject to internal verification and reviewed by the Bank's Board Audit and Compliance Committee. These disclosures have not been externally audited and do not constitute any part of the Bank's financial statements.

1.5 Location

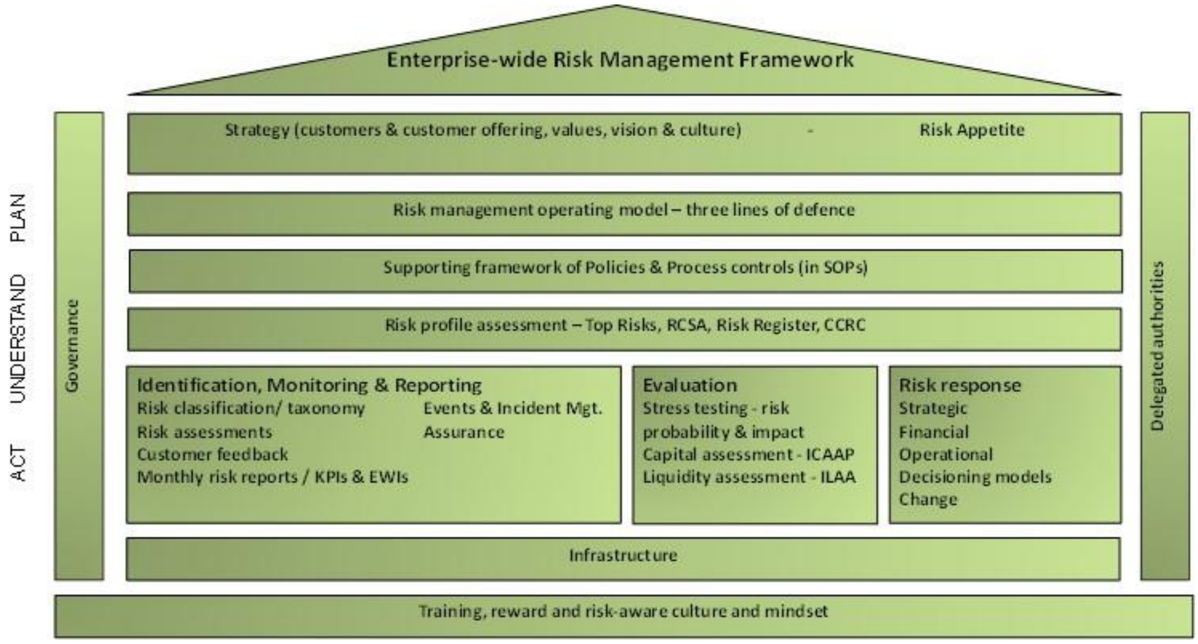
The disclosures are available to be provided on request as explained on the Bank's corporate website (www.oaknorth.com).

2 Risk management framework and policies

2.1 Overview

The Bank developed a comprehensive Entreprise-wide Risk Management Framework (ERMF) 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.

The primary goal of risk management is to ensure that the outcome of risk-taking activity is consistent with the Bank's strategies and risk appetite, and that the Bank delivers good service and good outcomes for customers from its products, whilst achieving an appropriate balance between risk and returns.



The Bank's ERMF approved by the Board provides the foundation for achieving these goals. It is set in compliance with relevant legislation including COCON, SYSC, CRD IV, and codes of conduct such as the Combined Code on Corporate Governance and the Lending Code. This framework is subject to constant re-evaluation to ensure that it meets the challenges and requirements of the markets in which the Bank operates, including the evolving regulatory standards and industry best practices and emerging issues.

The Board retains overall accountability for approving the ERMF 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. Through delegated authority from the Board, the Board Risk Committee, and the Board Credit Committee provide overall supervision and assurance of the ERMF. The CFO, CRO, Head of Credit Risk and Head of Internal Audit all have reporting lines to Board committees, which provide oversight and support to the role holders.

2.2 Principal risks

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

- Business risk: the risks which can affect the Bank's ability to achieve its strategic objectives.
- Credit risk: risk of financial loss arising from a borrower or counterparty failing to meet their contractual financial obligations to the Bank.
- Capital risk: risk that the Bank has insufficient capital to meet the regulatory requirements and growth objectives.
- Liquidity risk: risk that the Bank is unable to meet its contractual financial obligations as they fall due and is unable to fund future lending growth opportunities or is able to do so only at significantly higher funding costs.
- Interest rate risk: risk of financial loss arising due to re-pricing mismatches in the assets and liabilities positions which have not been hedged.
- Operational risk (including IT risk): the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems, or external events. This covers a number of areas including:
    - risk of financial loss or loss of reputation due to inadequate internal controls;
    - loss due to internal or external fraud;
    - failure of IT systems causing loss or reduction of service to customers;
    - risk of cyber-attack; and
    - key person dependencies.
- Conduct, compliance and regulatory risk: Conduct Risk is defined as the risk that a firm's behaviour results in poor outcomes for customers. Compliance risk is defined as the risk of impairment to the organisation's business model, reputation and/or financial condition resulting from failure to meet laws, regulations, standards and policies, and expectations of regulators and society as whole. For the Bank, this includes compliance with FCA and PRA Handbooks/Sourcebooks, as well as financial crime laws and regulations including those relating to Anti-Money Laundering and Anti-Bribery and Corruption. Regulatory risk is defined as the risk of regulatory sanction, financial loss, or loss to reputation a bank may suffer as a result of failure to comply with all laws and regulations, and the expectations of regulators.

2.3 Components of the risk management framework

Fundamental to the ERMF is defining the Bank's Risk Appetite- the level of risk that the Bank is prepared to accept whilst pursuing its business strategy. This is set at the same time as the business strategy and customer offering are developed, and sits alongside the strategy at the top of the logical structure of the ERMF. The framework is structured so that the elements support each other.

The components of the framework are as follows:

- Business strategy – sets the Bank's goals over the planning horizon and methods to achieve them;
- Risk Appetite – sets the quantum of risk the Bank is willing to accept to achieve the goals;
- Governance – defines the system by which the Bank is directed, controlled and held accountable;
- Delegated authorities – define the authority delegated by the Board and for which individuals will be held accountable; and

- Risk Management Operating model – enables each individual to understand their role in managing risk, set out according to ‘three lines of defence’ principles, and adopted in line with standard industry practice. Business is the first line of defence, with oversight provided by Risk and Finance as the second line of defence, and Internal and External Audit providing independent assurance to the Board as the third line of defence.
- Policies – principles-based policies to address the material risks in a consistent and efficient manner, and in a way proportionate to the relatively simple structure of the Bank’s business;

Controls – proportionate proportionate actions taken by management to mitigate the risks of poor customer impact or outcomes and increased costs to within the Bank’s risk appetite;

- Risk profile assessment and evaluation – the Bank uses a number of tools to assess its point-in-time risk exposure and how it is expected to evolve in the future;
- Identification, monitoring and reporting – the processes needed to provide timely, accurate information to enable management to take quality decisions;
- Infrastructure – the risk mitigants built into the IT infrastructure to strengthen its resilience; and
- Training, reward – providing training in risk management and setting reward arrangements which incentivise the correct customer-focussed and risk-aware behaviours.

2.4 Risk Appetite

The Bank’s risk appetite sets out the type and quantum of risk the Bank is prepared to accept to achieve its strategic objectives. It is cascaded top-down, deriving logically from the Bank’s high level risk objectives to the low level measures or limits used in day-to-day decision-making, and is defined and measurable. It is set at the same time as the Business Strategy and customer offering are developed, and the two support each other.

The Board has developed a Risk Appetite based on a set of Strategic Risk Objectives, which is subject to review and revision as the firm develops and the business and economic environments change.

The Board has responsibility for approval, implementation and monitoring of the Risk Appetite.

The high level Strategic Objectives which the Risk Appetite for the Bank is based on is articulated as follows:

- Manage capital and liquidity to ensure the Bank’s projected capital and liquidity needs are met, even under periods of stress.
- Build stable earnings at sufficient volume and quality/price to sustain the business model, whilst avoiding risk concentrations.
- Manage operational risks inherent in the start-up phase and proactively manage all the Bank’s operational risks to achieve a very low level of operational risk losses.
- Maintain compliance and the confidence of Regulators and minimise breaches of regulatory or legal requirements, with no tolerance of material breaches.
- Maintain integrity and the confidence of Customers - focus on the delivery of great outcomes for our customers, meeting their needs and expectations through providing suitable products.

Detailed Risk Appetite statements and quantitative and qualitative metrics have been set for all the above areas.

Monitoring of the measures and compliance with the Risk Appetite is undertaken monthly by the Executive Committee (EXCO), reporting to the Board Risk Committee, Board Credit Committee and

Board Audit and Compliance Committee, using Key Risk Indicators and Key Limits with 'Amber' and 'Red' warning levels set to prompt management action where necessary. The Business as first line of defence is responsible for monitoring risk on a continuous basis, with oversight provided by Risk and Finance as the second line of defence. Internal Audit is the third line of defence and provides independent assurance to the Board and shareholders over the effectiveness of governance, risk management and control in both the first and second lines of defence.

2.5 Control framework

The control framework for each principal risk is summarised below:

Principal risks	Business risk	Credit risk	Capital risk	Liquidity risk	Interest rate risk	Operational risk	Conduct, compliance and regulatory risk
Control documents	Strategic business plan	Credit risk policy Lending policy Risk Appetite statements	ICAAP Risk Appetite statements	ILAA Funding policy Risk Appetite statements	Interest rate risk management policy Risk Appetite statements	Operational risk policy New Product Approval policy Risk register Risk Appetite statements	Conduct & customer experience policy Compliance Manual Financial Crime, Fraud & AML policy Risk Appetite statements
Risk reporting	EXCO Reporting on performance vs plan and vs Risk Appetite	Credit pack	EXCO & ALCO reporting	EXCO & ALCO reporting	EXCO & ALCO reporting	OPCO & EXCO Operational risk reporting	EXCO reporting
Stress testing	ICAAP	ICAAP	ICAAP	ILAA	ICAAP	ICAAP	ICAAP
Monitoring committees	EXCO	CRMC	ALCO EXCO	ALCO EXCO	ALCO EXCO	OPCO EXCO	EXCO
Oversight	Board and Board Committees (Risk, Credit, Audit & Compliance, Remuneration) and independent assurance by the Internal Audit function						

ALCO: Asset and Liability management Committee; EXCO: Executive Committee, OPCO: Operations Committee, CRMC: Credit Risk Management Committee, ICAAP: Internal Capital Adequacy Assessment Process, ILAA: Individual Liquidity Adequacy Assessment; AML: Anti Money Laundering

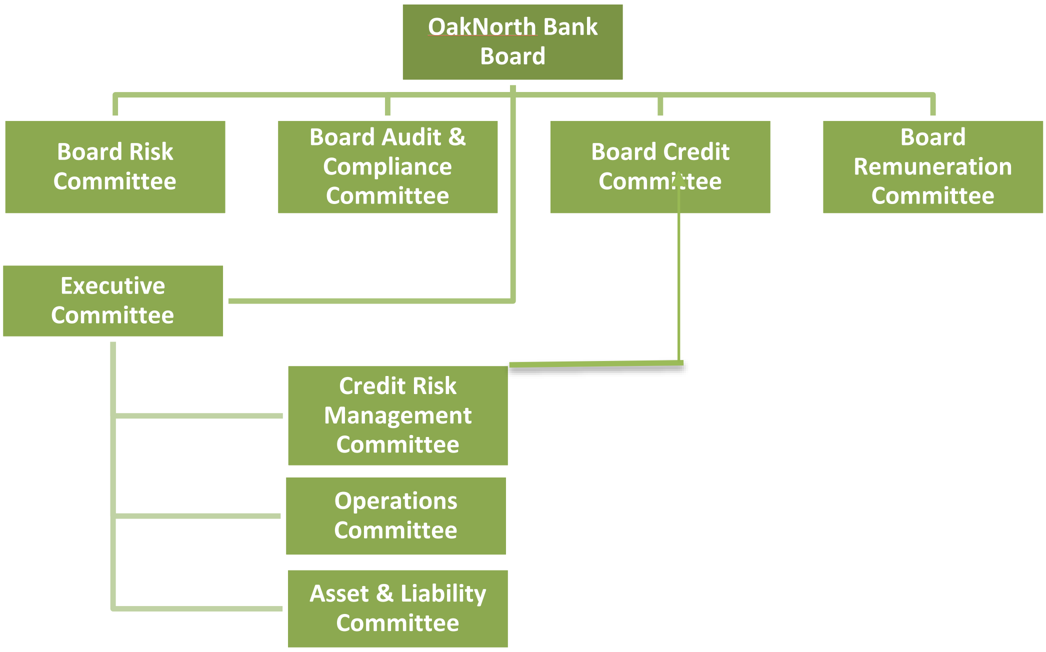
The reporting and oversight process is designed to ensure the Board Committees are informed and aware of the principal risks and that there are appropriate controls in place for the management of these risks. Reports are produced on each principal risk and the frequency is set according to what is appropriate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

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

2.6 Risk oversight, monitoring and reporting

2.6.1 Committee structure

The Bank's Board of Directors has the ultimate responsibility for managing the principal risks of the Bank. The Bank's committee structure is outlined below.



Update to the Governance structure of the Bank: During 2015, the Board Risk and Board Audit and Compliance Committee operated as a single Committee – Board Audit and Risk Committee. In March 2016 the Committees were segregated into two separate Committees as detailed in the structure above. Unless specified otherwise, this document refers to the updated Board governance structure of the Bank.

The Key responsibilities of the various Committees and the Board are summarised below:

Committees	Responsibility
Board	The Board's principal duty is to create and deliver a sustainable business model by setting the Bank's strategy and overseeing its implementation. It is responsible for maintaining a system of internal controls and ensuring that management maintains an effective Risk Management Framework with appropriate oversight processes, including oversight over the effectiveness of each Board Committee.
Executive Committee (EXCO)	The EXCO takes delegated authority from the Board and is responsible for developing the Bank's strategy, executing it across all areas/dimensions and ensuring the Bank delivers its financial plan. It also has responsibility for management and reporting of the risks to the Board. The Board also delegates authority to the EXCO for the review and approval of certain policies.

Remuneration Committee (REMCO)	The Board Remuneration Committee is responsible for ensuring that remuneration arrangements support the strategic aims of the Bank, comply with best practices and with the requirements of regulation (Remuneration Code SYSC 19D). 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, NEDs, the Chairman and key individuals, including employees captured under the scope of the Certification Regime. The Committee reviews and recommends alongside the Board, selection and appointment of Board members as well as Board structure and approval.
Board Risk Committee (BRC)	The Board Risk Committee takes delegated authority from the Board to oversee the Risk Management Framework of the Bank, with an overall view across the 1^{st} and 2^{nd} lines of defence. The Committee ensures that through its control processes and through further delegation of responsibility to the EXCO, all risks (excluding Credit Risk) taken by the Bank are identified, evaluated, mitigated, reported, managed and challenged (including fraud and money laundering risk, anti-bribery risk, and conduct risk).
Board Audit and Compliance Committee (BAC)	The Board Audit and Compliance Committee (which in 2015 operated as the Board Audit Committee) takes delegated authority from the Board for the review and approval of the Internal Audit Charter and Methodology, the Accounting Policy with a view across the 2nd and 3rd lines of defence. It monitors the integrity of financial statements and public disclosures; oversees compliance; appoints the external auditors and their remuneration; reviews the effectiveness of the internal audit function, and appoints and removes the Head of Internal Audit. As noted above, during 2015, the Board Risk and Board Audit Committees operated as a single committee - Board Audit and Risk Committee.
Board Credit Committee (BCC)	The Board Credit Committee takes delegated authority from the Board to oversee all Credit Risk related matters for the Bank, approves all material credit exposures, impairments and write-offs. It receives reports from the Credit Risk Management Committee concerning individual credit exposures and the portfolio as a whole, including watchlist accounts.

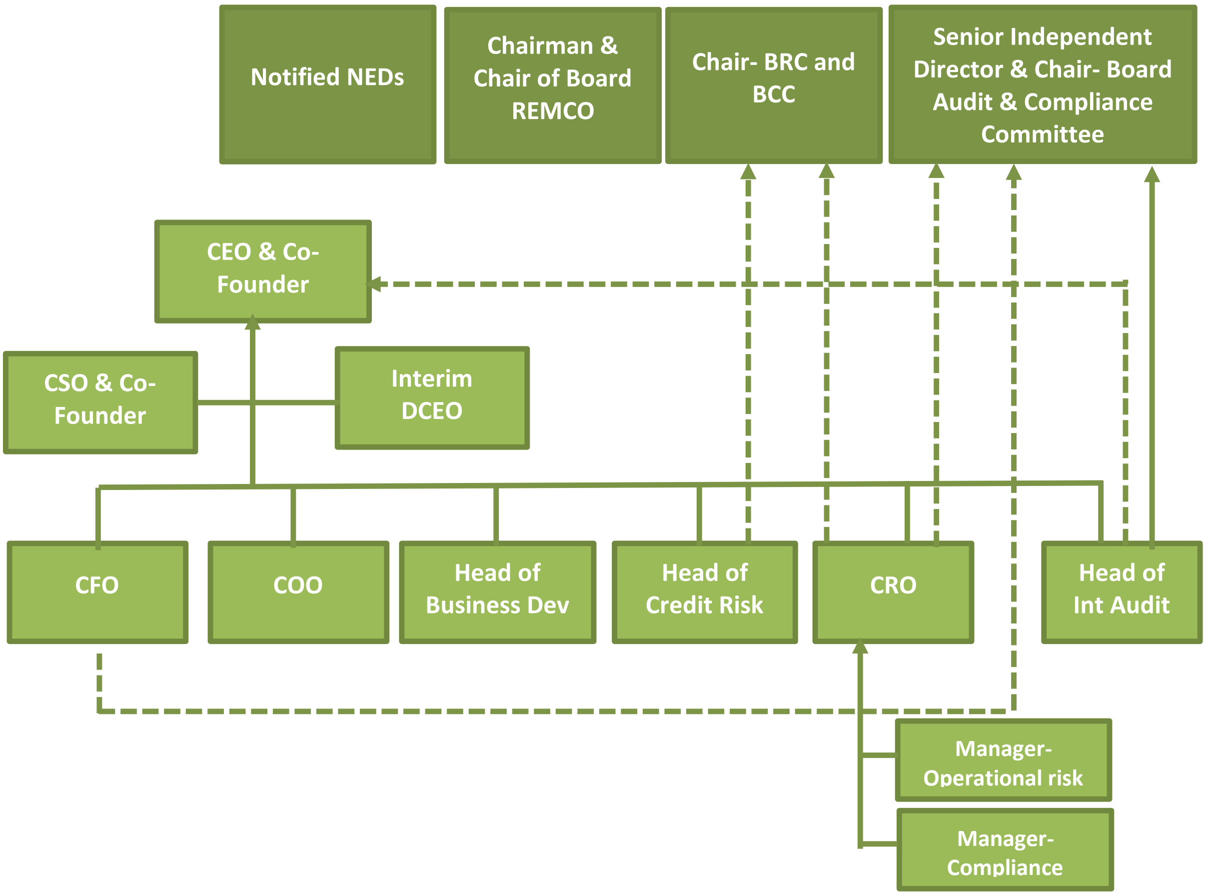
Management Committees (Subsidiary to the EXCO)	**Responsibility**
Asset and Liability Committee (ALCO)	The Asset and Liability Committee (ALCO) assesses the adequacy, and monitors the implementation of the Bank's ALM activities, including specific policies and procedures relating to Liquidity and Funding Risk, Capital Risk, Interest Rate Risk, Credit Risk of counterparties, and any Market/Investment Risk.
Credit Risk Management Committee (CRMC)	Operating under mandate from the Board Credit Committee, the Credit Risk Management Committee oversees, monitors and controls credit risk on a day-to-day basis. It ensures that all credit control processes are fit for purpose and operating effectively so that credit risk is mitigated to within the Bank's risk appetite.
Operating Committee (OPCO)	OPCO's main objective is to review the performance of all business operations, ensure efficiency, address operational issues in a timely manner and manage Operational Risk across the Bank. The Committee leads the design and review of Standard Operating Procedures (SOPs) and change management and reviews any operational issues impacting Product, Operations, IT and Transformation, Enterprise Risk, Compliance and People Operations.

All Committees meet at least once a month, with the frequency of meetings higher for the Management level committees.

During 2015, the Board Audit and Risk Committee (now operating separately as Board Risk and Board Audit & Compliance Committees) met 6 times.

The Head of Internal Audit is a standing invitee at all Committee meetings, 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.

2.6.2 Reporting structure



The Chief Risk Officer (CRO) reports to the Board in respect of oversight and challenge for the entire ERMF, with the exception of credit risk, which is the responsibility of the Head of Credit Risk. The CRO maintains oversight of the reporting of the Bank's risk management and performance against the risk appetite statements, and inputs to credit risk decisions as Member (and as alternate Chair) of the Credit Risk Management Committee . Risk reports are provided to the EXCO, Board Risk Committee and the Board Audit and Compliance Committee.

The CRO is also responsible for the direct oversight of the Operational risk and Conduct, Regulatory and Compliance risk management and reporting. Capital, liquidity and interest rate risk is managed by the CFO under report to the ALCO and through to the EXCO and the Board. Business risk is managed collectively by the EXCO and the Board. Credit Risk management and reporting is overseen by the

Head of Credit Risk, reporting to the Credit Risk Management Committee and the Board Credit Committee.

2.7 Additional information on Governance arrangements

2.7.1 Directorships held by members of the Board

The number of external directorships as at 31 December 2015 held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2015 in addition to their roles within the Bank were:

Name of Director	Position	Directorships*
Cyrus Ardalan	Chairman	-
Lord Adair Turner	Senior Independent Director	2
Robert Burgess	Independent Non-Executive Director	2
Rishi Khosla	Executive Director Chief Executive Officer and Co-Founder	1
Joel Perlman	Executive Director Chief Strategy Officer and Co-Founder	1
Murali Reddy	Executive Director Chief Financial Officer	-
Thomas Woolgrove	Executive Director Deputy Chief Executive Officer *Until 08 January 2016*	-

In addition to the list above, the following individuals were appointed as Directors in February 2016:

Name of Director	Position	Directorships*
Gagan Banga	Notified Non-Executive Director *Appointed effective 02 Feb 2016*	1
Ajit Kumar Mittal	Notified Non-Executive Director *Appointed effective 02 Feb 2016*	1
Graham Leslie Olive	Executive Director Interim Deputy Chief Executive Office *Appointed effective 29 Feb 2016*	-

**The number of directorships shown counts external directorships held within the same group of companies as a single directorship. It also excludes any directorship held by the Members in charitable/non-commercial organisations or multilateral development organisations.*

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

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

2.7.2 Board recruitment

The Board of Directors has the authority as the Nomination Committee, which, along with the Board Remuneration Committee, reviews and recommends the selection and appointment of the Board members, as well as Board structure and approval.

The REMCO determines 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, as a Nominations Committee, jointly reviews with the Board Remuneration Committee on an annual basis, 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, in conjunction with the Board Remuneration Committee takes into account 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 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 the recommendations, 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 Pre-Approved Independent Non-Executive Directors (the Chairman function, the Senior Independent Director function, the Chair of the Risk Committee function, the Chair of the Audit and Compliance Committee function, and the Chair of the Remuneration Committee function) and includes at least one Notified NED and at least three Executive Directors.

2.7.3 Board remuneration

The Board Remuneration Committee, which comprises of Independent Directors, recommends / reviews the remuneration of Directors. All Remuneration is set in line with the Remuneration Code. 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 Remuneration Committee with necessary approvals by the Board, shareholders and PRA and FCA as appropriate.

2.7.4 Board diversity

The Bank is an equal opportunities and inclusive employer. We are committed to providing equal opportunities throughout employment; including in the recruitment, training and promotion of employees. We are passionate about eliminating discrimination in the workplace, whether on grounds of age, disability, 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. We recognise and actively promote the benefits of a diverse workforce and are committed to treating all individuals with dignity and respect. Our objective is to attract job, promotion, and training applications from the best possible candidates, regardless of any Protected Characteristics. Our procedures and policies are based on this objective. This commitment applies equally to members of the Board. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Board Remuneration Committee assists the Board in determining the optimum Board size at any point of time within the legal and regulatory framework. The Board believes that its present 9-member size is adequate, given the Bank's current scale of operations and desired competencies of the Board members.

2.8 Adequacy of risk management arrangements

As detailed in the preceding sections, the Board retains overall accountability for approving the ERMF 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.

The Board considers that, as at 31 December 2015, it had in place an adequate framework of systems and controls with regard to the Bank's risk profile and business strategy.

3 Capital resources and capital adequacy

3.1 Capital management

The Bank's Risk Appetite statement and framework are designed to ensure that the Bank maintains sufficient capital, with appropriate buffers, to meet regulatory requirements for its on-going growth projections, even in periods of stress. To enable this, the Bank conducts the Internal Capital Adequacy Assessment Process ('ICAAP'), which is a formal capital planning exercise over a 5-year period. As a part of the ICAAP, the Board is required to consider all material risks the Bank faces and determine the amount, type and distribution of capital that will be required to cover such risks. This is achieved through the "Stress testing" process.

On an on-going basis, the Bank manages its capital adequacy through the monitoring of the volume of growth in the loan book. The actual and forecast capital adequacy and capital buffer positions are reported to the ALCO, EXCO, the Board Risk Committee and the Board on a monthly basis.

3.2 Stress testing

Stress testing is a process by which the Bank's business plans are subjected to severe but plausible adverse impact scenarios to assess the potential impact on the business including projected capital and liquidity positions. The results of stress testing, along with proposed actions, are reported to

EXCO, ALCO and to the Board. They are captured in the Individual Liquidity Adequacy Assessment (ILAA) and in the Internal Capital Adequacy Assessment Process (ICAAP).

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

3.3 Capital resources

The table below shows the composition of the Bank's regulatory capital position as at 31 December 2015 as per CRD IV.

	2015
	£'000
Regulatory capital	
Share capital	85,500
Retained earnings/ (losses)	(2,542)
Available for Sale (AFS) security reserve	(7)
Deductions for Intangible assets	(350)
Total Common Equity Tier 1 (CET1) capital	82,601
Total Tier 1 capital	**82,601**
Collective impairment allowance	62
Total Tier 2 capital	**62**
Total regulatory capital	**82,663**

Reconciliation to Statutory equity: The CET1 balance is based on the Share capital, Retained losses and AFS security reserve balances as per the audited financial statements of the Bank. The AFS security reserves are eligible for inclusion in regulatory capital from 1 January 2015.

Deductions from regulatory capital: Intangible assets are as defined under UKGAAP and are deducted from regulatory capital in accordance with the Capital Requirements Regulation (CRR).

Tier 2 items: The Bank had no Tier 2 instruments in issue and the only item in the Tier 2 capital resources is the latent impairment allowance.

3.4 Capital adequacy

	2015 £'000
Risk weighted assets	
Credit risk	24,516
Market risk	-
Operational risk	29,175
Total risk weighted assets	**53,691**

Capital ratios	
Common Equity Tier 1 capital ratio	153.8%
Tier 1 capital ratio	153.8%
Total capital ratio	154.0%

As at 31 December 2015, the Bank's capital base was significantly 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). 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.

3.5 Leverage Ratio

CRD IV requires firms to disclose a non-risk based leverage ratio and the processes used to manage the risk of excessive leverage. It is calculated as Tier 1 capital divided by total on and off balance sheet assets adjusted for deductions. The Basel III framework contains a minimum requirement of 3 per cent for the leverage ratio during the testing phase for the framework, which runs until 1 January 2017.

	2015 £'000
Total Common Equity Tier 1 (CET1) capital/ Tier 1 capital for the leverage ratio	**82,601**
Exposures for the leverage ratio	
Total assets per the financial statements of the Bank	94,771
Off balance sheet items	-
Other adjustments*	51
Leverage ratio exposure	**94,822**
Leverage ratio based on 31/12/2015 position	**87.1%**

**Other adjustments includes deferred fees added back for the purpose of computing loan exposures, excluding latent impairment allowance (as this is added to tier 2 capital) and intangible assets (as this is deducted from CET1).*

The off balance sheet items are required to be included after the application of credit conversion factors. As at the reporting date, the Bank did not have any off balance sheet items.

As at 31 December 2015, the Bank's leverage ratio was in excess of the minimum requirements, including the risk appetite limits. The leverage ratio is monitored by the ALCO, EXCO and reported to the Board Risk Committee and the Board on a monthly basis.

3.6 Minimum capital requirement: Pillar 1

The 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, the 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.

	2015
	£'000
Capital resources requirement – Pillar 1	
Credit risk	1,961
Market risk, Credit valuation adjustment (CVA)	-
Operational risk	2,334
Capital resources requirement under Pillar 1	**4,295**
Capital resources	**82,663**
Capital resources surplus over Pillar 1 requirement	**78,368**

4 Credit Risk

Credit Risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed, contractual terms. This risk arises from the Bank's lending activities as a result of defaulting loans and is the most significant risk faced by the Bank as the loan book grows. Although credit risk arises from the Bank's loan book, it can also arise from off balance sheet activities.

The Bank does not actively trade in financial instruments, other than for liquidity management purposes.

4.1 Composition of the minimum capital requirements for credit risk

Exposures subject to the Standardised Approach	Credit risk exposure	Minimum capital requirement
	2015	2015
	£'000	£'000
Central government and central banks	53,678	-
Institutions (subject to short term credit assessment)	21,572	868
Corporates	6,474	500
Of which SME	961	59
Retail	840	38
Of which SME	840	38
Secured by mortgages on immovable property residential property	8,045	218
Of which SME	1,136	24
Other items	4,213	337
Total	**94,822**	**1,961**

As at 31 December 2015, the Bank did not have any exposures to any other categories other than those specified in the table above.

The Bank uses the Standardised Approach in determining the appropriate level of capital to be held forRegulatory purposes. Under this approach the Bank is required to set aside capital equal to 8 per cent of its total risk weighted assets to cover its Pillar 1 capital requirements.

Of the total lending exposures, £2,937K exposures benefitted from the SME supporting factor as per the CRR guidelines.

The Bank did not have any derivative exposures outstanding as at 31 December 2015.

4.2 Maturity bucketing of the exposures

	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000
Central government and central banks	53,678	-	-	-	53,678
Institutions (subject to short term credit assessment)	14,001	-	-	7,571	21,572
Lending	3,035	12,324	-	-	15,359
Other items	-	-	-	4,213	4,213
Total	**70,714**	**12,324**	**-**	**11,784**	**94,822**

4.3 Geographical distribution

The Bank's credit risk exposures are all within the UK.

4.4 Sectoral distribution

The Sectoral break-down of the Bank's credit risk exposures as at 31 December 2015 are detailed below:

Exposure class>	Central government and central banks	Institutions*	Lending	Other items
Sector				
Government and public administration	53,678	-	-	-
Financial		21,572	-	-
Accommodation and food service activities	-	-	1,704	-
Construction	-	-	402	-
Professional, scientific and technical activities	-	-	4,336	-
Real estate activities	-	-	8,917	-
Non- customer assets	-	-	-	4,213
Total (£'000)	**53,678**	**21,572**	**15,359**	**4,213**

**subject to short term credit assessment*

4.5 Credit Risk: Loans and advances to customers

4.5.1 Overview of the Credit Risk Management Policy and Credit Risk Appetite Statement

A detailed Credit Risk Management Policy (CRMP) has been set, designed to ensure that the Bank's lending is prudent and managed in alignment with the overall Board Risk Appetite and corresponding financial and capital targets for the Bank. The Bank is particularly focussed on lending to SMEs and the aim is to develop a portfolio which has a spread of sectors and customer exposures, ensuring prudently managed concentration risks.

Credit Risk is mainly controlled by establishing and enforcing authorisation limits and by defining the creditworthiness and therefore exposure levels to counterparties. Credit risk is assessed through a combination of due diligence, reviewing financial information and credit model scores. The Bank monitors the portfolio through the design of acceptable levels of credit risk loss as measured by Probability of default (PD) and Loss Given default (LGD) and Concentration risk (Sectoral, single name).

The CRMP details the basis on which the Bank undertakes credit risk and the processes to ensure that the end to end credit process operates firmly within the confines of the regulatory framework. It lays out a range of requirements for the approval, underwriting and ongoing monitoring of transactions;

and details the risk appetite limits, including concentration limits and approach to lending and underwriting criteria.

The Board is responsible for approving the Bank's Credit Risk Appetite Statements. The Board Credit Committee is responsible for the Risk Appetite appraisals to ensure that the Credit Risk Appetite statements are up to date and relevant to the Bank's operations.

In accordance with the Board approved CRMP, specific credit risk management portfolio oversight and approval of lending decisions within authority is then delegated by the Board to the Board Credit Committee and in turn to the executive Credit Risk Management Committee and Head of Credit Risk.

Key risk indicators are monitored on an ongoing basis and reported monthly. The Head of Credit Risk is responsible for monitoring the appropriate thresholds and limits on the credit risk drivers and ensuring that the day-to-day decision making process meets the risk appetite limits. Further oversight is provided by the Chair of the Board Risk and Board Credit Risk Committees, ensuring the Bank remains on target and within its credit risk appetite.

4.5.2 Credit risk mitigation

The Bank's CRMP also details the credit risk mitigation techniques that are used by the Bank. The Bank seeks to mitigate credit risk by taking security as it improves Bank's position in the event of default. The main types of eligible credit risk mitigants that the Bank accepts include: guarantees (personal, corporate, intra-group, parent), charge on assets (such as stock/ debtors/ plant and machinery), charge over land/ mortgage, cash held as deposit pledged to the Bank. The policy details the conditions and the limits applied to the security type.

4.5.3 Review process

The credit facilities are subject to periodic (minimum annual) review based upon the risk grading. The Bank reviews its credit exposure on both a facility basis and on a portfolio basis. The Business Development team provides the first line inputs and the Credit Risk team has the overall responsibility for monitoring the exposures based on different risk levels.

4.5.4 Overview of provisioning policy

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

The provisioning policy, along with the related credit/underwriting processes and procedures is designed to ensure that the identification, recording, measurement and reporting of provisions enables the Risk Appetite target to be regularly tracked, with any early warning signs of breach of appetite to be quickly identified.

4.5.4.1 Past due and impaired exposures

The Provisioning policy details the criteria for assessing the performance of the book and identifying past due and impaired exposures. Customers experiencing financial difficulty are identified by relationship staff via Trigger Events or Early Warning Indicators, for example an internal risk rating downgrade within the last 90 days, or breach of covenants. Active monitoring takes place via a Watch List process.

The Bank defines overdue status as follows:

- PD90: Non-performing exposures that are contractually Past Due >90 days as to principal and interest.
- NAL – Non-Accrual Loans: non-performing exposures that carry a provision and do not accrue interest.
- PPL – Potential Problem Loans: reported where a loss event has occurred and cover two classes of exposures: revolving credit facilities or similar assets where days in arrears cannot be established and any assets that would qualify as PD90 but is not yet 90 days past due. PPLs are non-performing exposures that do not carry an impairment provision.

As at 31 December 2015, the Bank had no past due or over-due exposure.

4.5.4.2 Forbearance

Forbearance is said to occur when, outside of the normal terms of business, a bank seeks to provide support to a borrower struggling to meet its obligations. This may range from ignoring a breach of a loan covenant, to giving the borrower more time to meet its loan obligations, to providing some form of active payment relief. Where forbearance is granted, the customer will be included in the Watch list.
As at 31 December 2015, the Bank had no exposure in forbearance.

4.5.4.3 Impairment provisions

The Provisioning policy defines the following impairment provision categories:

- Latent provisions: These are calculated on a portfolio basis if individual impairment analysis does not trigger a provision. This is to provide for losses incurred but not identified. These are provided on non-defaulted balances. The PD (Probability of Default) and LGD (Loss Given Default) approach is used to compute the latent provisions. The PDs used in the calculation will be the point in time (‘PIT’) PDs, which are defined as the “Bank’s view of the customers’ likelihood of defaulting 1 year from now given current credit conditions”. PIT enables alignment to the current economic conditions into the calculation, and will over time be based on the observed default rate over in the last 12 months. The Emergence Period, or loss identification period, reflects the average time lag between actual loss events in the Performing Book and the observation and recording of the event by the Bank, and ensures full coverage of ‘incurred’ losses. The length of time depends on the Product Type. As at 31 December 2015, the Bank had £62K of latent provision outstanding which were provided during the year.
- Collective Provisions: are to be computed on exposures that need to be assessed on a collective basis. The methodology requires use of Historic Loss Rate / Collective LGD% based on actual loss experience of the Bank. As the Bank has no historic loss experience, it is proposed that the standard LGD matrix by asset class will be used to calculate the provisions. The Bank had no collective provisions outstanding as at 31 December 2015.
- Individual / Specific Provisions: These are required to be calculated on loans where there is objective evidence of financial difficulty, including missed payments, breach of credit limit or a court judgement, based on criteria as defined under IAS39. The provisioning policy details the

calculation of the impairment losses in line with IAS39. The Bank had no specific provisions outstanding as at 31 December 2015.

	Latent 2015 £'000
Opening balance as at 1 January 2015	-
Impairment loss for the year:	
Charge to the income statement	62
Write-offs net of recoveries	-
Closing balance as at 31 December 2015	**62**

4.6 Credit Risk: Treasury assets

4.6.1 Overview and summary

Credit risk also exists with Treasury assets such as investment securities and deposits/balances placed with other banks. The credit risk of Treasury assets is considered to be relatively low. Most of the Treasury assets as at as at 31 December 2015were held in the form of Treasury Bills and GILTS. No assets are held for speculative purposes or actively traded. The Bank had no derivative exposures as at 31 December 2015.

For determining the capital requirements on these exposures (institutional exposures and UK Central Government exposures) the Bank uses credit ratings provided by the recognised credit rating agencies- Standard & Poor's, Moody's, Fitch and DBRS.

Long term rating	**CQS 1 AA+ to AA-**	**CQS 2 A+ to A-**	**CQS 3 BBB+ to BBB-**	**CQS 4 BB+ to BB-**	**Total**
Short term rating	**A1**	**A2**	**A3**	**below A3**	
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances at central banks	-	-	-	-	-
UK Government Gilts and Treasury Bills	53,678	-	-	-	53,678
Loans & advances to banks	532	20,580	460	-	21,572
Total	**54,210**	**20,580**	**460**	**-**	**75,250**

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

4.6.2 Impairment of financial assets classified as available for sale

In accordance with IAS39 (as adopted by the Bank in accordance with the provisions of FRS102), impairment losses on available for sale debt securities are recognised by reclassifying the losses accumulated in the available for sale reserve in equity to the income statement. If in a subsequent period the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed.

As at 31 December 2015, no available for sale debt securities were past due or impaired.

5 Interest rate risk in the Banking Book

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

- Duration or Repricing Risk: The risk of mismatch in repricing of assets and liabilities. The Bank's assets reprice based on the variable base rates while the deposit liabilities are currently fixed rate.
- Basis Risk: Hedging exposure to one interest rate benchmark with exposure to another interest rate benchmark that reprices under different conditions.
- Pipeline Risk: The uncertainties of occurrence of transactions.
- Prepayment Risk: Consumers redeeming fixed rate products when market rates change.

The Bank has a detailed Interest Rate Risk Management policy, which defines, measures, sets hedging policy statements and details the governance process around the management, monitoring and reporting of the interest rate risks.

The two key measures/ reports that the Bank uses for measurement and monitoring of interest rate risk are: sensitivity to 200 basis point (bps) shift in the entire yield curve to measure the interest rate risk in the banking book (IRRBB) and the basis risk exposure report.

As at 31 December 2015, the NPV sensitivity to +-200bps shift was as follows, which was well within the risk appetite limits.

	2015 **£'000**
NPV Sensitivity to +2 shift	-1
NPV Sensitivity to -2 shift	11

As at 31 December 2015, the basis risk exposure due to a 25bps reduction in the Base rate would reduce the net interest margin of the Bank by approximately £38K in one year, which is within the Bank's risk appetite limits. As per the Interest rate risk management policy, the Interest Rate Risk is, to the extent possible, managed through natural offsetting of assets and liabilities on the book. Derivatives will only be used for the purposes of hedging its interest rate exposure and they will not be used for the purposes of trading.

The Treasurer is responsible for the day-to-day management of the interest rate risk position of the Bank. The CFO, reporting to the ALCO, takes an oversight role of this function with risk limits and current position against these limits reported back to the ALCO on a monthly basis.

As at 31 December 2015, the Bank did not have any market risk Pillar 1 requirements. The Bank currently does not take any position with trading intent. The Bank also did not have any derivatives outstanding for the purposes of hedging its interest rate risk in the banking book.

6 Liquidity risk

This is defined as the risk that the Bank is unable to meet its contractual financial obligations as they fall due and is unable to fund future lending growth opportunities or is able to do so only at significantly higher funding costs. This may result in the Bank becoming technically insolvent even though its assets are greater than its liabilities, it cannot raise the liquid funds to pay creditors.
The most important liquidity risk the Bank faces regards retail funding risk – i.e. the risk that retail funds may be withdrawn from the Bank at their earliest contractual maturity in the event of a stress occurring.

The Bank has limited appetite for liquidity risk and has targets to manage tenor distribution of assets and liabilities, adopting a business model with relatively limited maturity transformation. The Bank's liquidity position is monitored according to the Bank’s policies set out in Bank’s Liquidity Risk Management Policy.

The Bank ensures that there is adequate coverage over the Liquid Asset Buffer (LAB) requirements and over the requirements stipulated by the PRA in the Individual Liquidity guidance (ILG). The Bank also ensures that it is in compliance with all regulatory liquidity ratio requirements – LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio).

The Bank has a detailed Funding policy which sets out the approach to funding the asset book and at the same time limiting the concentration of the funding sources.

To manage Liquidity Risk, the Bank has put in place an Individual Liquidity Adequacy Assessment (ILAA). This informs the Bank’s Board of the ongoing assessment and quantification of the Bank's liquidity risks by defining the Bank’s ILAA methodology and prescribed stress tests, how the Bank intends to mitigate those risks and how much current and future liquidity is required.

The Bank has a “Contingency Funding Plan” (CFP) in place which is designed to ensure that the Bank is able to meet its obligations as they fall due even in a stress situation. To ensure that the CFP works efficiently, clearly defined trigger points have been set, with an escalation process for when these triggers are breached along with the roles and responsibilities of senior management in activating these sources of liquidity if so desired. Testing of the CFP will be carried out to ensure that the proposed actions work as expected.

In accordance with the regulatory requirements on Recovery and Resolution planning, the Bank regularly updates its Recovery plan, which is designed detail all credible options for addressing capital and liquidity challenges under a range of stress scenarios. The Bank also provides information to support resolution planning by the regulators.

The Bank has defined liquidity risk appetite alongside other numerical triggers. As with the Capital risk management, Liquidity Risk Appetite statements are approved by the Bank’s Board. The Asset and Liability Management Committee (ALCO) and the Board Risk Committee, are responsible for the Risk Appetite appraisals to ensure that the Capital and Liquidity Risk Appetite statements are up to date and relevant to the Bank’s operations.

The Finance and Treasury functions are responsible for setting the appropriate thresholds and limits on the capital and liquidity risk drivers and the day-to-day decision making process around early warning triggers, ensuring that the Bank remains on target and within its capital and liquidity risk appetite. Further oversight is provided by the Risk function.

As at 31 December 2015, the Bank held significantly higher buffer over the minimum LCR limits and over the LAB and the ILG requirements. As at 31 December 2015, the Bank held LAB eligible investments of £53.2 million.

7 Operational risk

7.1 Operational risk management

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems, or external events. The Bank aims to mitigate each risk with robust controls and monitoring through a structured approach.

The analysis of risk takes account of the likelihood, impact and financial exposure of each risk before and after mitigation and in aggregate. This data is used to create risk registers for each functional area, which rolls up to the enterprise risk register.

The Bank has an Operational Risk Policy in place. Each respective function, as the 1st line of defence, ensures that any operational risk in their area is mitigated by clearly defined and documented process documents and undertakes a Risk and Controls Self-Assessment ('RCSA') process. Appropriate risk limits and their thresholds and early warning indicators are set. Reporting of appropriate MI on process effectiveness and any events or near misses is made monthly to OPCO, EXCO and Board.

A review of the adequacy and effectiveness of the overall risk management framework and compliance management in their area is made semi-annually, in accordance with the Control and Compliance Review and Certification ('CCRC') process. The Risk function, as second line, is responsible for providing assurance that those controls are implemented, are being operated satisfactorily, and that risk and control registers are comprehensive. Internal Audit, as third line, conducts reviews in line with the Audit Plan to test the effectiveness of the operational risk framework, including 1st line controls and the quality of the 2nd line oversight.

7.2 Operational risk charge computation

The operational risk capital charge for the 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. As the Bank does not have a trading history, in accordance with the guidelines, the charge has been determined on the basis of projections submitted to the PRA as a part of the ICAAP in July 2015. Based on this computation, the capital charge has been determined at £2,334K for the period ended 31 December 2015.

8 Securitisation exposures

The Bank had no securitisation exposures as at 31 December 2015.

9 Asset encumbrance

The Bank had no encumbered assets as on 31 December 2015.

10 Remuneration disclosures

These are available in a separate document available on request as explained on the Bank's corporate website (www.oaknorth.com).