

Pillar 3 Capital disclosures  
2018



OakNorth

# Lending for Entrepreneurs, by Entrepreneurs



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

### 1.1 Overview and scope

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

OakNorth is focused on servicing entrepreneurs and growth Small and Medium Sized Enterprises (“SMEs”). The strategy includes offering a wide range of loan products to assist UK SMEs in financing their business operations and future growth while offering attractive savings products to retail and SME depositors.

More information on OakNorth’s products and business performance are detailed in the Annual Report and Financial Statements<sup>1</sup>.

### 1.2 Basis

This Pillar 3 report is based upon OakNorth’s Financial Statements for the year ended 31 December 2018. These were prepared in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD IV) which came into force on 1 January 2014.

OakNorth has adopted FRS102 (Financial Reporting Standard applicable in the UK) for preparing its financial statements. OakNorth recognises and measures the financial instruments in accordance with the provisions of IAS39, based on the accounting policy choice permitted under FRS102. In December 2017, the Financial Reporting Council issued an amendment<sup>2</sup> to FRS 102 which allowed the accounting policy choice of adopting IFRS 9 effective 01 January 2018 or retaining IAS39 until FRS 102 requirements for the impairment of financial assets have been amended to reflect IFRS 9. OakNorth has currently made an accounting policy choice to continue to apply provisions of IAS39 available under FRS 102.

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

The report contains information presented for the year ended 31 December 2018, with comparatives for 31 December 2017. Any blank cells in the relevant regulatory templates/ tables have not been included in these disclosures.

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<sup>1</sup> Available from UK Companies House website <https://www.gov.uk/government/organisations/companies-house>

<sup>2</sup> Financial Reporting Council: Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland: Triennial review 2017 Incremental improvements and clarifications (December 2017)

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

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

### 1.3 Frequency of disclosures

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

### 1.4 Verification

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

### 1.5 Location

The Pillar 3 disclosures are available on OakNorth's corporate website ([www.oaknorth.com](http://www.oaknorth.com)). OakNorth's Annual report and Financial Statements for the year ended 31 December 2018 are available on the UK Companies House website<sup>3</sup>.

## 2 Risk management framework and policies

### 2.1 Overview

Underpinning OakNorth's operations is a strong and comprehensive risk management framework (RMF) and robust governance structure, designed to ensure that the key risks facing OakNorth are identified, measured, monitored and managed, and that appropriate policies, procedures and controls are established such that each risk is mitigated to an acceptable degree.

Our business strategy is set within a defined risk appetite envelope in order to ensure that we both deliver good outcomes for our customers and stakeholders and also deliver long-term, sustainable profitability.

OakNorth's RMF is agreed by the Board and is set in compliance with relevant legal and regulatory frameworks including the Senior Manager Regime, Systems and Controls (SYSC), Capital Requirements Directive (CRD IV), Mortgage Conduct of Business (MCOB), and codes of conduct (COCON), the Combined Code on Corporate Governance, and the Lending Code. This framework is subject to constant re-evaluation to ensure that it meets the challenges and requirements of the market in which OakNorth operates, including changing regulatory expectations, industry best practices and emerging issues.

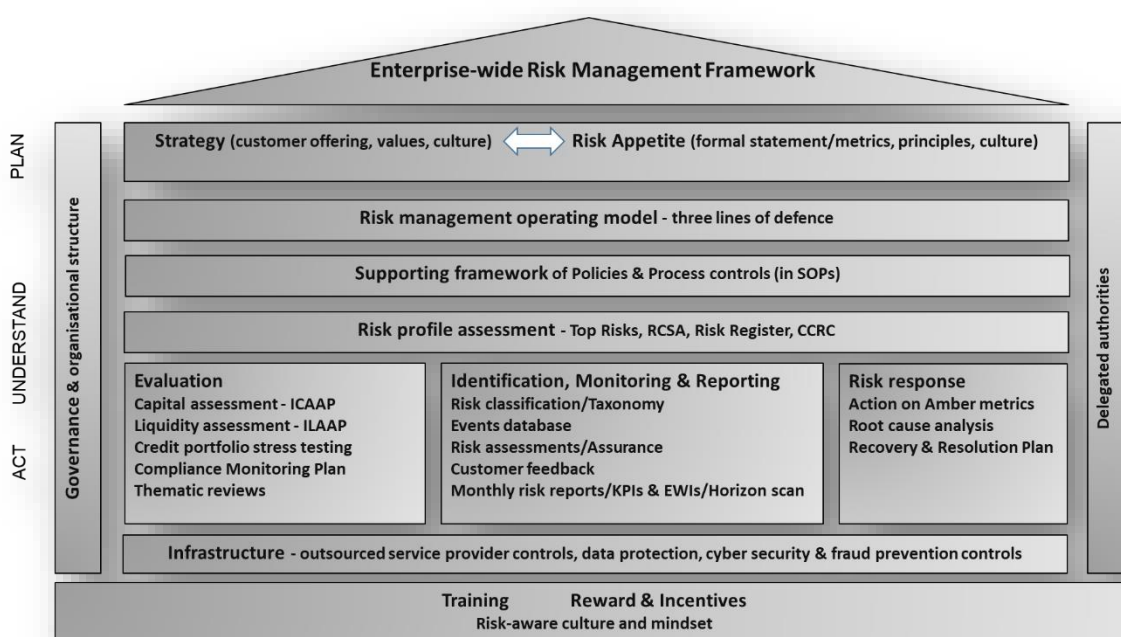
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<sup>3</sup> <https://www.gov.uk/government/organisations/companies-house>

## 2.2 Components of the Risk Management Framework

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

The RMF is shown graphically as below:



- **Strategy** – sets the Bank’s goals over the planning horizon and the methods to achieve them. Includes the Bank’s Values, and describes the target markets, product offering, and customer journey.
- **Risk Appetite** – sets the quantum of risk the Bank is willing to accept to achieve its strategic business objectives, with tangible risk metrics in place to identify when action is required. Risk management aims to protect the long-term value of the firm
- **Governance** – defines the system by which the Bank is directed, controlled and held accountable
- **Delegated authorities** – defines the authority delegated by the Board and for which individuals are held accountable
- **Risk Management operating model** – enables each individual to understand their role in managing risk, set out according to ‘three lines of defence’ principles
- **Policies** – principles-based policies to address the material risks in a consistent and efficient manner, and in a way proportionate to the relatively simple structure of the OakNorth business

- **Controls** – proportionate actions taken by management to mitigate the risks to within the Bank’s risk appetite
- **Risk profile assessment and evaluation** – in accordance with best industry practice, the Bank uses a number of tools to assess its risk exposure, both at a point in time, and how it is expected to evolve in the future. These tools include Risk Registers, Risk and Controls Self-Assessments, Compliance Monitoring Reviews, ICAAP and ILAAP, Stress-testing and Thematic Reviews of operational risk
- **Identification, monitoring and reporting** – the processes needed to provide timely, accurate information to enable management to take high quality decisions
- **Risk response** – the levers which can be used to manage and mitigate risk, including adding capital or changing risk policy parameters
- **Infrastructure** – the risk mitigants built into our IT infrastructure, such as the inherent level of resilience provided by our Cloud-based IT platform design, and the back-up arrangements in place for all processes to ensure operational resilience, in preparation for a potential failure of infrastructure
- **Training, reward** – providing training in risk management, compliance and good conduct, and setting reward and arrangements which incentivise the right behaviours. Ensuring that reward arrangements take account of risk performance and behaviours

### 2.3 Principal risks

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

A risk review is debated and approved by the EXCO and Board on a quarterly basis, and each risk has risk mitigation actions allocated.

- **Business risk:** the risks which can affect OakNorth’s ability to achieve its strategic objectives. OakNorth has a limited operating history in the UK financial services market and faces risks associated with the implementation of its strategy. A core element of OakNorth’s lending strategy is to continue to source loan originations by addressing customers who may be underserved by other banks and by providing them with high quality service. If other competitors target the same markets as OakNorth, it may lose its differentiating position.

The ExCo monitors the evolution of the business and business performance on an ongoing basis, with Risk reporting to the Board on a monthly basis. The Board defines and reviews performance metrics vs the strategy and business plan at least annually. The annual strategic review includes (but is not limited to) an analysis of OakNorth’s economic and competitive landscape and an assessment of key risks.

- **UK’s withdrawal from the European Union:** The UK is expected to formally leave the EU on 29 March 2019. However, as of early March, there is political uncertainty in relation to the process. There is also uncertainty on the future relationship between the UK and the EU, the cross-border arrangements and timelines of implementation of any such arrangements. This causes market volatility and economic risk in the UK that may potentially impact the Bank’s loan book. We continue to monitor the quality of our loan book through proactive monitoring, portfolio analysis and stress testing. In spite of this significant external uncertainty, we remain confident in our strategy, and will continue to build on positive progress.

- **Credit risk:** the risk of financial loss arising from a borrower or counterparty failing to meet their contractual financial obligations to OakNorth. This also includes the risk arising out of concentration in the credit portfolio. OakNorth's portfolio is relatively concentrated in terms of single name, sector (real estate and construction sectors), and geography (OakNorth's business is conducted almost entirely with customers operating in the UK).

OakNorth has set detailed prudent guidelines and policies for lending, delegated authorities, credit risk appetite limits and framework, provisioning for potential credit losses and credit quality assessment. OakNorth has robust monitoring processes to ensure that all risks relating to individual borrowers are proactively identified. The Board is also continually engaged in review of the portfolio to ensure that it is performing as expected and risks are within defined limits.

- **Capital risk:** the risk that OakNorth has insufficient capital to meet its regulatory requirements and growth objectives. Effective management of OakNorth's capital is critical to its ability to operate its business and to pursue its strategy.

OakNorth's internal target amount of capital is set by its own assessment of the risk profile of the business, market expectations and regulatory requirements. Critical risk appetite limits have been set on a forward-looking basis to ensure any capital raising activities are undertaken on a timely basis to continue supporting growth of the business. Detailed ICAAP assessment is also done annually.

- **Liquidity risk:** the risk that OakNorth is unable to meet its contractual financial obligations as they fall due and or unable to fund future lending growth opportunities or is able to do so only at significantly higher funding costs. OakNorth's main source of funding is retail and SME deposits, which are raised online only. The availability and pricing of retail and SME funding is impacted by competition from other deposit takers.

Liquidity requirements and deposit market information are monitored daily by the ALCO, in addition to other metrics and early warning indicators tracked monthly. A comprehensive ILAAP assessment is done on an annual basis.

- **Interest rate risk:** the risk of financial loss arising from re-pricing mismatches in the asset and liabilities positions which have not been hedged. We manage our asset and liabilities to ensure we minimise the interest rate risk. The ALCO monitors interest rate risk on a regular basis. OakNorth does not have a trading book, and therefore does not carry any other market risks.

- **Operational risk:** the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems, or external events. This covers several areas including:

- **Cyber Crime** - whereby hackers attack our systems and take control of clients' accounts and/or download their data, or internal staff abuse network access privileges. Like all banks, OakNorth is subject to a high risk of cyber-attack. We employ mitigation measures including Penetration Testing, Data Encryption in databases, applications, and interfaces, and various leading monitoring and cyber defence software tools.
- **Financial Crime** - including Money Laundering, Internal or External Fraud, and theft of assets. We do not hold cash and an Assets Register is kept covering all physical assets of the Bank. We have put in place '4 eyes' controls and segregation of duties in our processes, and employ an industry standard fraud prevention tool, CIFAS. Our AML controls are robust and use leading systems including Experian and WorldCheck
- **Third Party Service Provider risk** – risk of a key supplier failing to deliver in terms of critical services and/or systems, to include those that are deemed to be "outsourced", which have a material impact

on the operation of the Bank. All key suppliers are reviewed and vetted for their standing and resilience, and our contracts include monitoring rights and Service Level Agreements which are monitored closely. Contingency arrangements are in place for all critical systems and services.

- **People Risk** – ‘key man’ dependencies are inevitable in the Bank. This is mitigated via appropriate reward and incentive arrangements and succession planning.
- **Failure of operational processes or controls** through poor design and/or implementation, or inadequate embedding of controls, causing human error. This risk is mitigated through structured project management processes including: planning and estimating, requirements development, design, code and unit testing, testing for deployment, peer review, and configuration management. This is supported by ongoing staff training and competency assessments. Business assurance testing is performed on a monthly basis.
- **System risk** – the failure of IT systems to perform to specification. This risk is mitigated through structured change management processes and a robust Testing programme. As one of the first banks to put its IT infrastructure onto the Cloud, we have a modern and robust IT platform with the ability to expand capacity rapidly as the Bank expands.
- **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 firm’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 a whole.

OakNorth is committed via its values to putting the customer at the heart of its business model and strategy, being transparent in its dealings with its customers, and delivering good outcomes for them. OakNorth re-enforces this via behavioural objectives incorporated into reward/incentivisation, with conduct taken into account in all annual appraisals. Mechanisms to gather customer feedback are used actively.

OakNorth has a full suite of policies and processes to ensure compliance, supported by training and an oversight function, and tracks regulatory developments in order to take proactive action to meet expectations.

- **Data protection:** OakNorth processes large amounts of customer personal data (including name, address and bank details) as part of its business. OakNorth is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations.

OakNorth seeks to ensure that procedures are in place to ensure compliance with all relevant data protection regulations by its employees and any third-party service providers and implements appropriate security measures to help prevent cyber-crime. OakNorth’s Data Protection policy complies with GDPR in its role as both processor and controller of personal data.

- **Reputational risk:** Reputation risk is a direct consequence of failing to control adequately all risks facing the organisation impacting on revenue streams, brand value and staff motivation. OakNorth currently depends on a single brand and any reputational damage to that brand could adversely affect its ability to execute its strategy and grow.

At OakNorth we seek to protect our reputation through effective systems, controls, robust compliance, and high levels of customer service.



## 2.4 Risk Appetite metrics

Risk Category	Strategic Risk Objectives description	Key risk appetite metrics
Financial (including Capital, Liquidity, Interest rate risk)	Ensure that OakNorth has sufficient capital, with appropriate buffers, to meet regulatory requirements for its on-going growth projections, even in periods of stress (when new equity may be unavailable).	Capital adequacy buffer, capital resources in place for specified number of days forecast needs, capital ratios tested under stress testing scenarios.
	Ensure that OakNorth has sufficient funding and liquidity to meet all obligations as they fall due, even in periods of stress.	Total liquidity pool, daily cash balance, funding concentration, liquidity ratios (including LCR and NSFR), liquidity survival period under stress testing.
	Ensure that OakNorth does not carry any adverse interest rate risk positions.	Net Present Value (NPV) calculations, including impact of reference rate floors in loan contracts, under +/- 200 bps parallel shift in the yield curves; Basis Risk assessment.
Credit	Build stable earnings and sufficient volume to achieve profitability, at an appropriate risk/reward balance whilst avoiding risk concentrations.	Portfolio maximum probability of default, loss given default; sectoral and single name concentration; Watchlist cases, past due cases, exceptions to credit policy
Regulatory & Compliance	Maintain compliance and keep the confidence of our Regulators Be proactive, transparent and forward-looking in understanding, adhering to, and applying regulatory requirements in full.	Material findings reported through compliance assurance tests / internal audit reviews, monitoring of remedial action plans; satisfactory assurance checks on customer due diligence; mandatory staff training; monitoring and reporting of policy exceptions and compliance breaches.
Conduct	Maintain integrity and keep the confidence of our customers. Focus on delivery of great outcomes for our customers, meeting their needs and expectations through providing suitable products and a high-quality service.	We monitor customer outcomes in various ways including customer satisfaction scores.
Operational	Proactively manage all OakNorth's operational risks to achieve a low level of operational loss.	Operational risk events, fraud attempts, data protection loss "near miss events", loss of key staff; satisfactory self-assurance reviews; third-party service provider service level agreement violations; system availability and capacity utilisation.
Reputational	Protect OakNorth's reputation through effective systems and controls and high levels of customer service.	Events likely to cause reputational impact with key stakeholders including (but not limited to) customers, regulators, service providers; actual or high likelihood of adverse coverage of OakNorth in the media.

The Appetite cascades to more detailed Risk Appetite statements, which in turn cascade to the suite of Policies which define the controls needed to implement them. The controls are operationalised through Standard Operating Procedures (SOPs). Our control framework is designed to be effective whilst being proportionate and sensitive to the impact on our customers.

Detailed policies and frameworks, including a stress testing framework, approved by the Board and Board committees detail the governance frameworks ensuring that OakNorth's activities are consistent with the risk appetite approved by the Board. These policies cover all areas including (but not limited to): Operational risk, Conduct and Customer Experience, Data Protection, Financial Crime, Fraud and Anti-Money Laundering (AML), Compliance Manual, Code of Conduct, Credit Risk Management, Market Risk Management (including liquidity and interest rate risk management), Business Planning and Stress Testing. Further details are provided in the Risk Management section in the Notes to Accounts of OakNorth's Annual Report and Financial Statements.

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

## 2.5 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
<b>Control documents</b>	<ul style="list-style-type: none"> <li>▪ Strategic business plan</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit risk management policy</li> <li>▪ Lending policy</li> <li>▪ Risk Appetite statements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strategic business plan</li> <li>▪ ICAAP</li> <li>▪ Risk Appetite statements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strategic business plan</li> <li>▪ ILAAP</li> <li>▪ Funding policy</li> <li>▪ Market Risk Management Policy</li> <li>▪ Risk Appetite statements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Market risk management policy</li> <li>▪ ILAAP</li> <li>▪ Risk Appetite statements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Operational risk policy</li> <li>▪ New Product Approval policy</li> <li>▪ Outsourcing policy</li> <li>▪ IT Security policy</li> <li>▪ Risk register</li> <li>▪ Risk Appetite statements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Conduct &amp; customer experience policy</li> <li>▪ Compliance Manual</li> <li>▪ Financial Crime, Fraud &amp; AML policy</li> <li>▪ Risk Appetite statements</li> </ul>
<b>Risk reporting</b>	EXCO Reporting on performance vs plan and vs Risk Appetite	Credit and Monitoring pack reporting to the BCC	EXCO & ALCO reporting	EXCO & ALCO reporting	EXCO & ALCO reporting	OPCO & EXCO Operational risk reporting	EXCO reporting
<b>Stress testing</b>	ICAAP	ICAAP	ICAAP	ILAAP	ICAAP	<ul style="list-style-type: none"> <li>▪ ICAAP</li> <li>▪ BCP testing</li> </ul>	ICAAP
<b>Monitoring committees</b>	<ul style="list-style-type: none"> <li>▪ EXCO</li> </ul>	<ul style="list-style-type: none"> <li>▪ CRMC</li> </ul>	<ul style="list-style-type: none"> <li>▪ ALCO</li> <li>▪ EXCO</li> </ul>	<ul style="list-style-type: none"> <li>▪ ALCO</li> <li>▪ EXCO</li> </ul>	<ul style="list-style-type: none"> <li>▪ ALCO</li> <li>▪ EXCO</li> </ul>	<ul style="list-style-type: none"> <li>▪ OPCO</li> <li>▪ EXCO</li> </ul>	<ul style="list-style-type: none"> <li>▪ EXCO</li> <li>▪ CRMC</li> </ul>
<b>Oversight</b>	<b>Board and Board Committees (Risk &amp; Compliance, Credit, Audit, Remuneration and Nomination) and independent assurance by the Internal Audit function</b>						

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

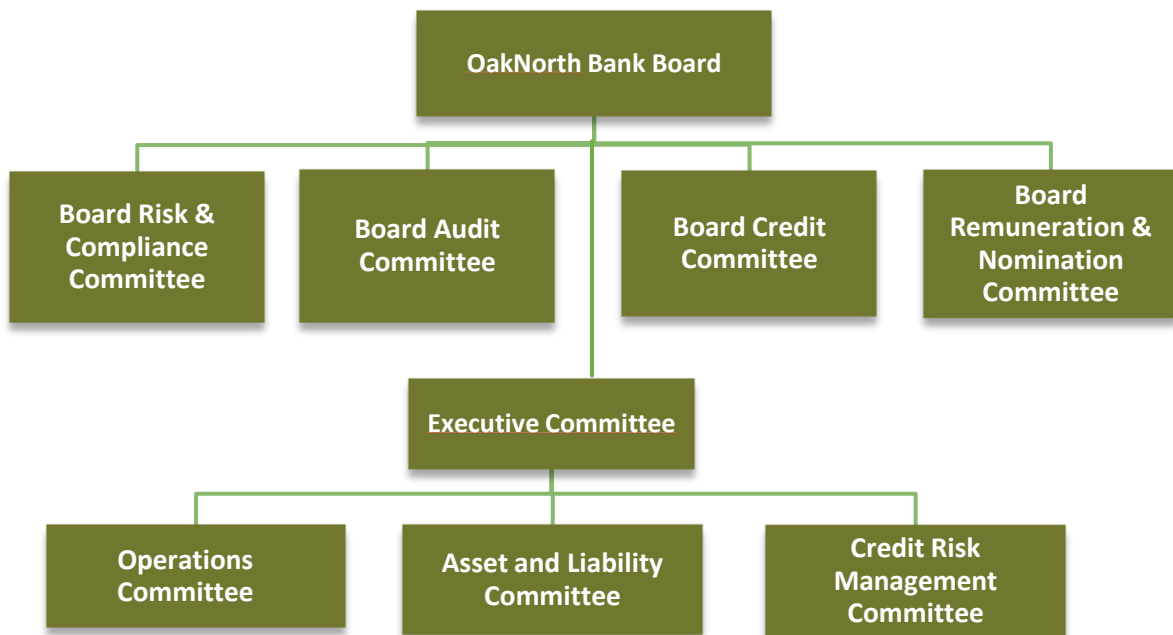
The reporting and oversight process is designed to ensure the Board Committees are informed and aware of the principal risks and that there are appropriate controls in place for the management of these risks. Reports are produced on each principal risk and the frequency is set according to what is appropriate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

**2.6.1 Committee structure**

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



The table below summarised the responsibilities of the various committees:

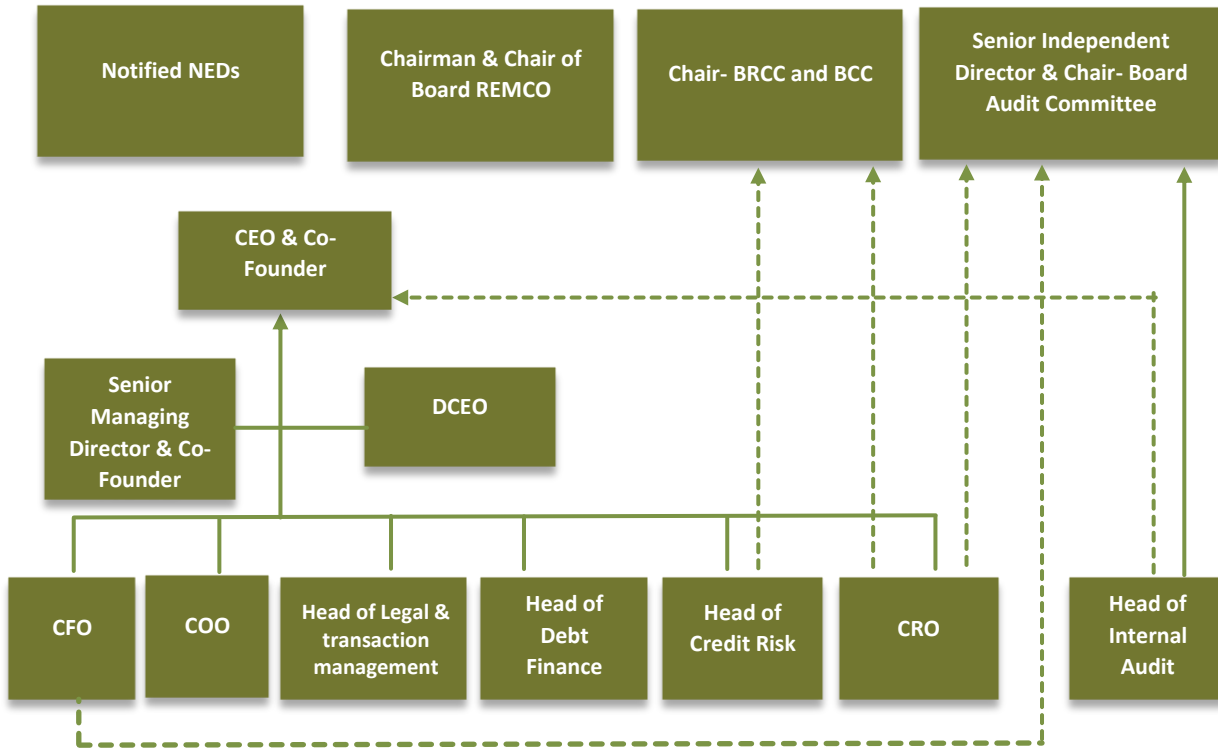
Committees	Responsibility
Board	The Board's principal duty is to create and deliver a sustainable business model by setting OakNorth Bank's strategy and overseeing its implementation. It does so with regards to the interests of customers, employees, the environment, communities and suppliers. It seeks to achieve a balance between promoting long term objectives and short term goals, and sets the culture of OakNorth, ensuring that it is focussed on delivering good customer outcomes. It is responsible for maintaining a system of internal control and ensuring that management maintain an effective Risk Management Framework with appropriate oversight processes and for embedding the principle of safety and soundness in the culture of the whole organisation, including whistleblowing.
Remuneration & Nomination Committee (REMCO)	REMCO is responsible for ensuring that remuneration arrangements support the strategic aims of OakNorth, comply with best practice and enable the recruitment, motivation and retention of senior executives. The Board Remuneration & Nomination Committee (REMCO) is also responsible for the regular review and approval of OakNorth's succession plan, including the review of role and responsibilities under SM&CR. The plan outlines the "what if" scenario and corresponding actions relating to the departure of each management team member. The Committee reviews succession planning bearing in mind diversity and gender composition. The Committee further ensures compliance with the requirements of regulation (Remuneration Code SYSC 19D) and sees its principles are put in place to expressly discourage any and all inappropriate behaviours. The Committee has delegated authority from the Board for the review and approval of the Remuneration Policy and is responsible for setting remuneration for all executive directors, Non-Executive Directors (NEDs), the Chairman and key individuals, including employees captured under the scope of the Certification Regime, including pension rights and any fixed and variable compensation payments. The Committee also recommends and monitors the level and structure of remuneration for senior management.
Board Risk & Compliance Committee (BRCC)	The BRCC takes delegated authority from the Board to oversee the Risk Management Framework of OakNorth, with an overall view across the 1 <sup>st</sup> and 2 <sup>nd</sup> 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 OakNorth Bank are properly identified, evaluated, mitigated, reported, managed and challenged. This includes fraud and money laundering risk, anti-bribery risk, compliance risk, conduct risk and risk of facilitation of tax evasion. The Committee oversees the Compliance function and approves the annual Compliance Monitoring Plan.
Board Audit Committee (BAC)	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 2 <sup>nd</sup> and 3 <sup>rd</sup> lines of defence, and for ensuring that OakNorth Bank values and principles are being adhered to. It monitors the integrity of financial statements and public disclosures; appoints the external auditors and their remuneration; reviews the effectiveness of the internal audit function and appoints and removes the Head of Internal Audit.
Board Credit Committee (BCC)	The Board Credit Committee takes delegated authority from the Board to oversee all Credit Risk related matters for OakNorth and approves all material credit exposures, impairments and write-offs. The Board Credit Committee receives reports from the Credit Risk Management Committee concerning individual credit exposures and the portfolio as a whole, including model performance. The Committee reviews the Watchlist and receives reports concerning the progress on any material recoveries.
Executive Committee (EXCO)	The EXCO takes delegated authority from the Board and is responsible for developing OakNorth's strategy and ensuring OakNorth delivers its financial plan and that the agreed strategy is executed across all dimensions. Additionally, the EXCO has responsibility for the Risk Management Framework of OakNorth and for management of all risks and reports its output to the Board. The EXCO is also responsible for the review and approval of policies listed in the EXCO Terms of Reference.

Management Committees subsidiary to EXCO	Responsibility
Asset & Liability Committee (ALCO)	The Asset & Liability Committee (ALCO) meets monthly to review capital, liquidity and interest rate risk appetite metrics. Additionally, weekly and daily meetings are held as required. It implements OakNorth's Funding Policy & Market risk management policy, with a focus on active management of liquidity. The ALM activities include specific policies and procedures relating to Liquidity and Funding Risk, Capital Risk, Interest Rate Risk, Credit Risk of counterparties, and Market/Investment Risk. It also monitors regulatory reporting.
Credit Risk Management Committee (CRMC)	Operating under mandate from the Board Credit Committee, the purpose of the Credit Risk Management Committee (CRMC) is to oversee, monitor and control credit risk on a day to day basis, and to approve facilities under a delegated authority. It ensures that the RMF is implemented as it relates to Credit Risk and 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)	OPCO's main objective is to review the performance of all business operations, business continuity and reach an agreement on actions to address any issues identified. The Committee leads the design and review of Standard Operating Procedures (SOPs) and manages change. The Committee reviews, in depth, any operational issues impacting Product, Operations, IT and Change Management, Finance, Risk, Compliance and People Operations. The Committee's main objective is to promote efficiency, address operational issues in a timely manner, and manage Operational Risk across OakNorth.

The Board generally meets once every month, with in person meetings every other month. The Board maintains oversight of the effectiveness of each Board Committee through the receipt, review and challenge of regular standing reports, ad-hoc briefings, minutes and management information from each and will undertake a formal review annually of its own effectiveness, that of its Committees and individual directors. 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.

During 2018, the Board Risk and Compliance Committee met 5 times.

2.6.2 Reporting structure



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

OakNorth has established internal control and risk management processes in relation to financial reporting and reporting of the Pillar 3 disclosures. All processes within finance are subject to maker-checker and reconciliation controls and management reviews- including the process for production and review of the disclosures. The Pillar 3 disclosures are reviewed and approved both by the ExCo and the Board- the same process which is followed for the production and review of the Bank’s Annual accounts and financial statements. Management monitors and considers developments in regulations and adopts best practices in adoption of standards and in preparation of the disclosures.

## 2.7 Additional information on Governance arrangements

### 2.7.1 Directorships held by members of the Board

The number of external directorships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2018 in addition to their roles within OakNorth are:

Name of Director	Position	Directorships*
Cyrus Ardalan	Chairman	3 <sup>1</sup>
Navtej S Nandra	Senior Independent Director	2
Robert Burgess	Independent Non-Executive Director	4 <sup>2</sup>
Rishi Khosla	Executive Director Chief Executive Officer and Co-Founder	2
Joel Perlman	Executive Director Senior Managing Director and Co-Founder	4
Graham Olive	Executive Director Deputy Chief Executive Officer	1
Cristina Alba Ochoa	Executive Director Chief Financial Officer	-
Edward Barry Berk	Notified Non-Executive Director	2 <sup>3</sup>
Gagan Banga	Notified Non-Executive Director	3
Ajit Kumar Mittal	Notified Non-Executive Director	2

\*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 2017.

<sup>1</sup> Includes directorship in one non-commercial organisation, <sup>2</sup> Includes directorship in one non-commercial organisation, <sup>3</sup> Includes directorship in one non-commercial organisation

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 to select and appoint Board members as well as define and approve the Board structure following recommendations from the relevant Board Committees.

The Board Remuneration and Nomination Committee is chaired by the PRA-approved SMF12 and SMF13 holder, currently the Board Chairman. Its membership consists of Non-Executive Directors only, including the Chairman of the Board Risk and Compliance Committee and the Chairman of the Board Audit Committee. It takes

delegated authority from the Board of Directors to determine the policy and approval process for the Executive Directors and other senior management taking-up external non-executive appointments. It also leads the Board review and approval of the conditions and terms of service agreements of the Executive Directors and, in conjunction with the Non-Executive Directors, the terms of appointment of the Chairman.

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

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

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

### **2.7.3 Board Induction**

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

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

### **2.7.4 Succession planning**

OakNorth is committed to prudent risk management and ensuring that the succession of the management team is planned out and regularly monitored and adjusted. The Bank has a succession plan which allows the Board to understand the actions that OakNorth would take should it lose a senior management team member. The plan



outlines the “what if” scenario and corresponding actions relating to the departure of each management team member. The plan is approved by the Board and is subject to, at minimum, an annual review.

### 2.7.5 Board remuneration

The Board Remuneration and Nomination Committee, which comprises exclusively of Non-Executive Directors, has delegated authority from the Board to recommend and review the remuneration of Directors. All Remuneration is set in line with the Remuneration Code (SYSC 19D, as relevant to proportionality level 3 firms). 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.

### 2.7.6 Board diversity

OakNorth has a diversity policy approved by the Board of Directors in December 2017. This is available on OakNorth’s website. Through the policy OakNorth 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. OakNorth 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 OakNorth 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 OakNorth 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.

The Board Remuneration and Nomination Committee has delegated authority to decide the Company’s diversity targets and to review the diversity policy.

With respect to age, gender and general diversity targets, OakNorth’s current Board and senior management composition, made up of a mix of ages, genders and ethnicities, represents a healthy cross section of thought, background and experiences.

OakNorth believes that the present diversity of Board and senior management members enables the Bank to govern with perspective, challenge, and collaborative decision making. At present, with targets of 10% for Board and 25% for management team, OakNorth satisfies the diversity requirements set out in the FCA Handbook and operate in line with the diversity guidelines established by the EBA Report on the Benchmarking of Diversity Practices. At the relevant juncture, in 2020, OakNorth will re-examine the diversity targets, issuing new goals as

appropriate for the organisation and its effective governance. However, as an organisation, OakNorth always endeavours to look for opportunities to exceed these targets, increasing the diversity of staff whenever possible. As per Article 88 of CRD, OakNorth publishes this policy on the corporate website, and progress against targets will also be annually updated.

## 2.8 Adequacy of risk management arrangements

As detailed in the preceding sections, the Board retains overall accountability for approving the RMF and the Business Strategy, understanding major risks, and ensuring that appropriate limits are set against those risks and that they are adequately controlled and monitored. OakNorth's risk management framework, governance arrangements and Board responsibilities are detailed in Section 2.1 through 2.6 of this document. The Board considers that, as at 31 December 2018, it had in place an adequate framework of systems and controls with regard to OakNorth's risk profile and business strategy.

## 3 Capital resources and capital adequacy

### 3.1 Capital management

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

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

### 3.2 Stress testing

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

### 3.3 Capital resources

The table below shows the composition of OakNorth's regulatory capital position as at 31 December 2018 as per CRD IV.

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Regulatory capital</b>		
Share capital	299,320	249,320
Retained earnings	31,091	4,511
Capital contribution	48	25
Available for Sale security reserve	(46)	(27)
Deductions for Intangible assets	(240)	(276)
Deductions for Deferred tax assets	(319)	-
Total Common Equity Tier 1 (CET1) capital	<u>329,854</u>	<u>253,553</u>
<b>Total Tier 1 capital</b>	<b><u>329,854</u></b>	<b><u>253,553</u></b>
General provisions	6,252	2,357
Subordinated debt	-	-
<b>Total Tier 2 capital</b>	<b><u>56,252</u></b>	<b><u>2,357</u></b>
<b>Total regulatory capital</b>	<b><u><u>386,106</u></u></b>	<b><u><u>255,910</u></u></b>

### 3.3.1 Movement in regulatory capital resources

	<b>2018</b>
	<b>£'000</b>
<b>Total CET 1 capital at beginning of year</b>	<b>253,553</b>
Shares issued during the year	50,000
Profits for the year	26,580
Net change in other reserves	4
Net change in deductions for intangible and deferred tax assets	(283)
<b>Total CET 1 capital at end of year</b>	<b><u>329,854</u></b>
<b>Total Tier 1 capital at end of year</b>	<b><u>329,854</u></b>
<b>Total Tier 2 capital at beginning of the year</b>	<b>2,357</b>
Increase in general provisions	3,895
Subordinated debt issued	50,000
<b>Total Tier 2 capital at end of the year</b>	<b><u>56,252</u></b>
<b>Total regulatory capital at end of the year</b>	<b><u><u>386,106</u></u></b>

### 3.3.2 Reconciliation to Statutory equity

The CET1 balance is based on the fully paid up Share capital, retained earnings, AFS security reserve balances and Capital Contribution balances as per the audited financial statements of OakNorth.

During the year, the retained earnings increased due to addition of the audited profits for the year 2018 for £26.6m. The fully paid up and issued share capital of the Bank increased by £50m due to additional investment made by the holding company of the Bank.

### 3.3.3 Deductions from regulatory capital

Deferred tax assets and Intangible assets are as defined under FRS102 and are deducted from regulatory capital in accordance with the Capital Requirements Regulation (CRR). These have been detailed in the table above. There were no dividends proposed or approved by the Board for 2018.

### 3.3.4 Transitional own funds

The Bank has no applicable transitional provisions and the capital position is reported on a fully loaded basis. The transitional arrangements mainly impacted banks with pre-CRDIV/CRR own fund instruments and subsequently banks impacted due to implementation of IFRS9.

### 3.3.5 Tier 2 Subordinated debt

In June 2018, OakNorth issued 10- year £50.0m subordinated notes with coupon of 7.75%. The notes are callable in June 2023. The notes are held at an amortised cost of £49.0m on the balance sheet, which includes unamortised issue expenses of £0.5m and accrued interest of £0.3m as of 31 December 2018.

### 3.3.6 Tier 2 other items

Other Tier 2 capital resources include the general impairment allowance for incurred but not reported (IBNR) losses. As detailed in section 1.2, OakNorth has adopted FRS102 for preparing its financial statements and recognises and measures the financial instruments in accordance with the provisions of IAS39, based on the accounting policy choice permitted under FRS102.

### 3.3.7 Additional disclosures on own funds

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

## 3.4 Capital adequacy

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Risk weighted assets</b>		
Credit risk	1,451,092	705,788
Market risk	-	-
Operational risk	22,600	23,700
<b>Total risk weighted assets</b>	<b>1,473,692</b>	<b>729,488</b>
<b>Capital ratios</b>		
Common Equity Tier 1 capital ratio	22.4%	34.8%
Tier 1 capital ratio	22.4%	34.8%
Total capital ratio	26.2%	35.1%

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

The total capital requirement (TCR) as set by the PRA, which is defined as the amount and quality of capital a firm is required to maintain to comply with the Pillar 1 and Pillar 2A capital requirements, was 13.26% for OakNorth as of 31 December 2018 (2017: 13.02%).

### 3.4.2 Capital buffers (Pillar 2B)

Financial Policy Committee (FPC) in the UK raised the UK Countercyclical Capital Buffer (CCyB) rate 1.0% with binding effect from November 2018. All of the Bank's credit risk exposures are to UK.

Capital conservation buffer of 1.875% applied as of 31 December 2018 and will increase to 2.5% from 1 January 2019, in line with the CRDIV Capital buffers transition arrangement.

The capital adequacy ratio, buffer over ICG and CPB- are key risk capital risk metrics monitored by the ALCO, EXCO and reported to the Board Risk Committee and the Board on a monthly basis. As at 31 December 2018, OakNorth's capital base was in excess of the minimum required as per the regulatory requirements, including the capital requirements as per the Individual Capital Guidance (ICG) and the Capital Planning Buffer (CPB).

#### *Institution specific Countercyclical buffer rate*

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

All of the Bank's exposures are in the UK (same as 2017). The CCyB requirement as of 2017 was 0%.

### 3.5 Leverage Ratio

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

The UK leverage ratio regime requires a minimum leverage ratio of 3.25%. Under the regime, the calculation also excludes assets constituting claims on central banks from the calculation of the total exposure measure. At

present, OakNorth has no minimum leverage requirement as it is currently not within the scope of the UK Leverage Ratio Framework as its deposit levels are less than £50 billion.

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Total Common Equity Tier 1 (CET1) capital/ Tier 1 capital for the leverage ratio</b>	<b>329,854</b>	<b>253,553</b>
<b>Exposures for the leverage ratio</b>		
<b>Summary reconciliation of accounting assets and leverage ratio exposures</b>		
Total assets per the financial statements of OakNorth	1,770,807	768,587
Off balance sheet items after CCF*	155,718	66,746
Other adjustments**	16,170	8,073
<b>Leverage ratio exposure</b>	<b>1,942,695</b>	<b>843,406</b>
<b>Leverage ratio based on 31/12 position (EBA calculation)</b>	<b>17.0%</b>	<b>30.1%</b>
<b>Leverage ratio based on 31/12 position- UK Leverage ratio framework- excluding claims on central banks</b>	<b>25.2%</b>	<b>41.0%</b>

\*Off balance sheet items are stated after application of credit conversion factors. Gross off-balance sheet exposures before conversion factors are £908.6m (2017: £238.3m)

\*\*Other adjustments mainly comprise- deferred fees added back for the purpose of computing loan exposures of £9.4m, exclude IBNR loss impairment allowance of £6.3m (as this is added to tier 2 capital), intangible assets of £0.2m and deferred tax assets of £0.3m (as this is deducted from CET1).

<b>Leverage ratio common disclosure</b>	<b>CRR leverage ratio exposures</b>	<b>CRR leverage ratio exposures</b>
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,787,536	776,936
(Asset amounts deducted in determining Tier 1 capital)	(559)	(276)
<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)</b>	<b>1,786,977</b>	<b>776,660</b>
<b>Derivative exposures</b>	-	-
<b>Securities financing transaction exposures</b>	-	-
<b>Other off-balance sheet exposures</b>		
Off-balance sheet exposures at gross notional amount	908,613	238,361
(Adjustments for conversion to credit equivalent amounts)	(752,895)	(171,615)
<b>Total Other off-balance sheet exposures</b>	<b>155,718</b>	<b>66,746</b>
<b>Exempted exposures</b>	N/A	N/A

<b>Leverage ratio common disclosure</b>	<b>CRR leverage ratio exposures</b>	<b>CRR leverage ratio exposures</b>
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<hr/>		
Capital and total exposures		
<hr/>		
Tier 1 capital	329,854	253,553
Total leverage ratio exposures	1,942,695	843,406
Leverage ratio	17.0%	30.1%
<b>Breakdown of on-balance sheet exposures</b>	<b>CRR leverage ratio exposures</b>	<b>CRR leverage ratio exposures</b>
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<hr/>		
<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>1,786,977</b>	<b>776,660</b>
Trading book exposures	-	-
Banking book exposures, of which:		
Exposures treated as sovereigns	461,302	150,515
Institutions	6,394	5,362
Secured by mortgages of immovable properties	677,525	271,877
Retail exposures	1,688	1,347
Corporate (including high risk category exposures)	634,354	340,930
Other exposures	5,715	6,629

As at 31 December 2018, OakNorth's leverage ratio was in excess of the minimum regulatory requirements and the Bank's risk appetite limits. The Bank manages its leverage ratio in line with the over-all capital requirements and ensures that the ratio is well above the minimum leverage ratio requirement.

### 3.6 Minimum capital requirement: Pillar 1

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

	2018 £'000	2017 £'000
<b>Capital resources requirement – Pillar 1</b>		
Credit risk	116,087	56,463
Market risk, Credit valuation adjustment (CVA)	-	-
Operational risk	1,808	1,896
<b>Capital resources requirement under Pillar 1</b>	<b>117,895</b>	<b>58,359</b>
<b>Capital resources</b>	<b>386,106</b>	<b>255,910</b>
<b>Capital resources surplus over Pillar 1 requirement</b>	<b>268,211</b>	<b>197,551</b>

## 4 Credit Risk

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

### 4.1 Composition of the minimum capital requirements for credit risk

Exposures subject to the Standardised Approach	Credit risk exposure <sup>a</sup>	Avg Credit risk exposure <sup>c</sup>	RWA <sup>d</sup>	Minimum capital requirement <sup>d</sup>
	2018 £'000	2018 £'000	2018 £'000	2018 £'000
Central government and central banks	461,302	320,042	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Multilateral development banks	-	-	-	-
Institutions (subject to short term credit assessment)	6,394	5,291	5,639	451
Corporates	522,398	347,335	338,654	27,092
Retail	1,788	1,727	993	79
Secured by mortgages on immovable property	830,962	547,294	582,038	46,563
Exposures at default <sup>b</sup>	-	-	-	-
Items belonging to regulatory high risk categories	867,032	550,694	518,053	41,444
Securitisation positions	-	-	-	-
Other items	5,715	8,622	5,715	457
<b>Total</b>	<b>2,695,590</b>	<b>1,781,005</b>	<b>1,451,092</b>	<b>116,087</b>



<sup>a</sup>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. There was no credit risk mitigation applied to the exposures (2017:nil)

<sup>b</sup>As of 31 December 2018, no exposures were specifically impaired (2017: nil)

<sup>c</sup>Average credit risk exposures are calculated as the average of quarterly COREP returns information.

<sup>d</sup>The RWA includes application of SMEs support factor where applicable per the CRR guidelines (exposures upto Eur 1.5m, only for relevant exposure categories). The retail exposures include lending to small SMEs eligible for retail risk weight of 75% as per the CRR guidelines (exposures upto Eur 1.0m).

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

The credit exposures increased significantly in 2018 versus the prior year due to growth in OakNorth's loan book. More details on the business growth and strategy have been provided in OakNorth's Annual report and Financial Statements for the year ended 31 December 2018. OakNorth did not have any derivative exposures outstanding as at 31 December 2018 (2017: Nil).

Exposures subject to the Standardised Approach	Credit risk exposure	Avg Credit risk exposure	RWA	Minimum capital requirement
	2017 £'000	2017 £'000	2017 £'000	2017 £'000
Central government and central banks	150,515	82,665	-	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Multilateral development banks	-	-	-	-
Institutions (subject to short term credit assessment)	5,362	11,947	5,350	428
Corporates	242,196	178,178	202,720	16,218
Retail	1,347	1,251	770	62
Secured by mortgages on immovable property	304,006	181,193	218,839	17,507
Exposures at default	-	-	-	-
Items belonging to regulatory high risk categories	304,967	168,155	271,481	21,718
Securitisation positions	-	-	-	-
Other items	6,629	5,364	6,629	530
<b>Total</b>	<b>1,015,022</b>	<b>628,753</b>	<b>705,788</b>	<b>56,463</b>

## 4.2 Maturity bucketing of the exposures

	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated/ open maturity	Total
	2018	2018	2018	2018	2018
	£'000	£'000	£'000	£'000	£'000
Central government and central banks Institutions (subject to short term credit assessment)	461,302	-	-	-	461,302
Lending	461,553	1,685,547	75,081	-	2,222,181
Other items	-	-	-	5,715	5,715
<b>Total</b>	<b>922,855</b>	<b>1,685,547</b>	<b>75,081</b>	<b>12,108</b>	<b>2,695,591</b>
	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated/ open maturity	Total
	2017	2017	2017	2017	2017
	£'000	£'000	£'000	£'000	£'000
Central government and central banks Institutions (subject to short term credit assessment)	150,515	-	-	-	150,515
Lending	216,565	597,407	38,544	-	852,516
Other items	-	-	-	6,629	6,629
<b>Total</b>	<b>367,080</b>	<b>597,407</b>	<b>38,544</b>	<b>11,991</b>	<b>1,015,022</b>

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

## 4.3 Geographical distribution

All credit risk exposures of OakNorth (i.e the collaterals and business cash flows) are in the UK.

Financial Policy Committee (FPC) in the UK raised the UK Countercyclical Capital Buffer (CCyB) rate 1.0% with binding effect from November 2018.

#### 4.4 Sectoral distribution

The Sectoral break-down of OakNorth's credit risk exposures as at 31 December 2018 is detailed below. All exposures above are stated including undrawn facilities and before application of conversion factors.

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

*\*subject to short term credit assessment*

Sector	Central government and central banks	Institutions*	Lending	Other items
	2017 £'000	2017 £'000	2017 £'000	2017 £'000
Government and public administration	150,515	-	-	-
Financial Services	-	5,362	60,061	-
Accommodation and food service activities	-	-	154,724	-
Administrative and support services activities	-	-	4,834	-
Construction	-	-	393,281	-
Education	-	-	-	-
Human health and social work activities	-	-	12,711	-
Information and communication	-	-	-	-
Professional, scientific and technical activities	-	-	-	-
Real estate activities	-	-	187,970	-
Wholesale & Retail trade	-	-	30,334	-
Manufacturing	-	-	1,431	-
Other Service Activities	-	-	7,170	-
Other assets	-	-	-	6,629
<b>Total</b>	<b>150,515</b>	<b>5,362</b>	<b>852,516</b>	<b>6,629</b>

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

OakNorth has set its detailed guidance and specific Lending Policy metrics. Every approved loan is assigned a risk rating (based on a Probability of Default (PD) and Loss Given Default (LGD)) which drives both pricing and the level of ongoing monitoring which OakNorth adopts.

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

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

Credit monitoring is completed by the Credit Risk Portfolio Management team on a regular/daily basis. Credit facilities are subject to formal periodic (minimum annual) review. OakNorth reviews its credit exposure both at the facility and on a portfolio level. OakNorth has processes to identify potential financial difficulty in a customer account via regular monitoring and reviews, Trigger Events or Early Warning Indicators (for example, financial performance not in line with the projections or breach of covenants). Intensive monitoring of customers with potential/ actual financial difficulty takes place via a Watch List process. OakNorth also has a forbearance policy in place.

OakNorth seeks to mitigate credit risk through, inter alia, eligible collateral. OakNorth's CRMP details the eligible collateral that OakNorth may accept for risk mitigation purposes. This includes debenture/ charge on fixed and floating assets, charge on freehold land or property, guarantees (personal, corporate), and cash reserves/deposits. OakNorth has a policy guidance on the valuation conditions and methods. OakNorth also has a policy in relation to the external valuation firms/quantity surveyors who can be added to OakNorth's valuation panel. Any review of collateral is done in line with the scheduled (minimum annual) review for the credit and frequency as specific to the security type, as applicable.

As on 31 December 2018, 92% of OakNorth's loan facilities were collateralised by security comprising of fixed assets (including property) - these exclude any charges on floating assets and guarantees not supported by charge on fixed assets (2017: 92%). When we look at any combination of PD scores, weighted average loan to values, debt service cover and leverage, 99% of the loan book is considered high quality with no default on any loan. The remaining 1% is under close monitoring, not impaired and does not require any specific provision. Both the CRMC and BCC monitor the performance of the overall portfolio on a regular basis and at least monthly through the production of management information including: lending volumes, key credit model output performance, rating downgrades, concentration risk (including large exposures), impairments and any material recoveries (if any).

OakNorth had no exposures in default as at 31 December 2018 (2017: Nil). All credit risk exposures of OakNorth (i.e. the collaterals and business cash flows) are in the UK.

#### 4.5.2 Credit risk mitigation

OakNorth's CRMP also details the credit risk mitigation techniques that are used by OakNorth. OakNorth seeks to mitigate credit risk by taking security as it improves Bank's position in an event of default. This includes debenture/ charge on fixed and floating assets, charge on freehold land or property, guarantees (personal, corporate, intra-group, parent; as well as guarantees issued under various EU or UK Government initiatives such

as the Help to Grow program), and cash reserves/deposits. The CRMP details the conditions and the limits applied to the security type.

OakNorth has a policy guidance on the valuation conditions and methods. OakNorth also has a policy in relation to the external valuation firms/quantity surveyors who can be added to OakNorth's valuation panel. Any review of collateral is done in line with the scheduled (minimum annual) review for the credit and frequency as specific to the security type, as applicable.

#### **4.5.3 Monitoring and review process**

The monitoring process includes processes for automatically tracking against repayment schedules and escalating any non-payments. Similarly, any over-payment against approved limit will be flagged for immediate review and escalation.

Monitoring is in line with the approved terms and conditions of sanction and any covenants set and OakNorth identifies potential financial difficulty in a customer account via Trigger Events or Early Warning Indicators (for example, financial performance not in line with the projections or breach of covenants). Additionally the business teams are required to escalate any other information/ credit warning signs that they may become aware of outside of the above. Intensive monitoring of customers with potential/ actual financial difficulty takes place via a Watch List process. OakNorth also has a forbearance policy in place.

The credit facilities are subject to periodic (minimum annual) review based upon the risk grading. OakNorth reviews its credit exposure on both a facility basis and on a portfolio basis. The Debt Finance team provides the first line inputs and the Portfolio Management/Credit Risk team has the overall responsibility for monitoring the exposures, reporting in to the Head of Credit Risk and Credit Risk Management Committee (CRMC) based on different risk levels. Watch list cases are formally reviewed at least monthly by the CRMC.

#### **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 the assessment of any 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 and remediated.

##### **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 the Debt Finance and Credit Risk Portfolio Management teams 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 account process.

Specifically impaired exposures are identified based on impairment triggers under IAS39, and impairment provisions are made where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows from the asset that can be reliably estimated. Losses expected as a result of future events are not recognised. Evidence of impairment is considered on both on an individual and portfolio level. OakNorth classifies non-performing exposures where any principal or interest repayments are contractually past due by over 90 days

As at 31 December 2018, OakNorth had no past due or impaired exposures (2017: Nil)

#### **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. As at 31 December 2018, OakNorth had no exposures in forbearance (2017: Nil).

#### **4.5.4.3 Impairment provisions**

The Provisioning policy defines the following impairment provision categories:

- Provisions for incurred but not reported (IBNR) losses: This is calculated as non-defaulted funded balances x Loss Given default (LGD) x probability of default (PD) x Emergence period (EP). Any impairment loss is recognised in the profit and loss account. As OakNorth does not have its own historic loss data, for estimating the PD, OakNorth uses external data calibrated for its own portfolio type to determine the PDs. The LGDs applied are based on management experience and judgement across different types of collaterals, to estimate recoverability of security received. OakNorth currently applies an emergence period of 12 months to its portfolio. As at 31 December 2018, OakNorth had total outstanding IBNR provisions of £6.3m (2017: £2.4m) . The provisions are assessed on a quarterly basis considering the trends in the economy as well as competitor banks.
- 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. OakNorth had no specific provisions outstanding as at 31 December 2018 (2017: nil).

	IBNR loss provisions	
	2018	2017
	£'000	£'000
<b>Opening balance as at 1 January</b>	2,357	937
<i>Impairment loss for the year:</i>		
Charge to the income statement	3,895	1,420
Write-offs net of recoveries	-	-
<b>Closing balance as at 31 December</b>	<b>6,252</b>	<b>2,357</b>

## 4.6 Credit Risk: Treasury assets

### 4.6.1 Overview and summary

Credit risk also exists with Treasury assets such as investment securities and deposits/balances placed with other banks. The credit risk of Treasury assets is considered to be low. Treasury assets as at 31 December 2018 were held in the form of GILTS and balances at Bank of England reserve account. No assets are held for speculative purposes or actively traded. OakNorth had no derivative exposures as at 31 December 2018 (2017: Nil).

For determining the capital requirements on these exposures (institutional exposures and UK Central Government exposures), OakNorth uses publicly available credit ratings published on the website of the banks, which include ratings given by recognised rating agencies as listed in the EBA Draft *implementing technical standards amending Implementing Regulation (EU) 2016/1799 on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013 guidance*. There may be ratings from multiple recognised agencies published on the banks' websites. We consider the worst rating if there are two different ratings and the common two if there are three ratings. For mapping of the ratings to credit quality steps and associated risk weights, the Bank has referred to the regulation EU 2018/634 and CRR Article 120 (Exposures to rated institutions). The Bank's exposures to other credit institutions is only in relation to balances held for clearing purposes (loan / deposit payments in and payments out). The Bank does not have any other type of exposure to credit institutions. All other cash balances are held at the Bank of England.



<i>Data as on 31 December 2018</i>	CQS 1	CQS 1	CQS 2	CQS 3	CQS 4	Total
Long term rating	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	
Short term rating	A1	A1	A2	A3	below A3	
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	356,881	-	-	-	-	356,881
UK Government Gilts and Treasury Bills	104,420	-	-	-	-	104,420
Loans & advances to banks	-	18	1,479	4,896	-	6,394
<b>Total</b>	<b>461,302</b>	<b>18</b>	<b>1,479</b>	<b>4,896</b>	<b>-</b>	<b>467,695</b>

<i>Data as on 31 December 2017</i>	CQS 1	CQS 1	CQS 2	CQS 3	CQS 4	Total
Long term rating	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	
Short term rating	A1	A1	A2	A3	below A3	
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	148,376	-	-	-	-	148,376
UK Government Gilts and Treasury Bills	2,139	-	-	-	-	2,139
Loans & advances to banks	-	2	21	5,339	-	5,362
<b>Total</b>	<b>150,515</b>	<b>2</b>	<b>21</b>	<b>5,339</b>	<b>-</b>	<b>155,877</b>

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 OakNorth 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 2018, no available for sale debt securities were past due or impaired (2017: nil).

## 5 Interest Rate Risk in the Banking Book

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

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

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

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

The two key measures / reports that OakNorth 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. OakNorth monitors the Net Present Value (NPV) sensitivity to the positive and negative 200 basis points shift in the yield curve including the Bank of England base rate or LIBOR-linked floors embedded within the customer loan agreements.

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

	<b>2018</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>
NPV Sensitivity to +2% shift (including base/LIBOR rate floors)	17.4	5.8
NPV Sensitivity to -2% shift (including base/LIBOR rate floors)	35.5	17.2

As at 31 December 2018, OakNorth did not have any market risk Pillar 1 requirements (2017: nil). OakNorth currently does not take any position with trading intent. OakNorth also did not have any derivatives outstanding for the purposes of hedging its interest rate risk in the banking book.

## 6 Liquidity risk

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

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

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

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

Throughout the year OakNorth's capital and liquidity position remained strong, and OakNorth complied with all regulatory liquidity and capital requirements. The average ratio of cash and cash equivalent balances to liabilities was over 25%. In addition to the funding raised through customer deposits, OakNorth had drawn £181.9m under the Bank of England's Term Funding Scheme (£1.0m as of 31 December 2017). Given the fast growth of OakNorth's lending book, the Asset and Liability Committee (ALCO) maintains a very stringent oversight of liquidity, with forward looking metrics monitored daily. The key ratios and indicators that are monitored by the ALCO include (but are not limited to)- LCR, NSFR and Liquidity Ratio.

As at 31 December 2018, OakNorth held unencumbered high -quality liquid assets (HQLA) of £356.9m (2017: £149.4m). The ratio of unencumbered HQLA as percentage of the deposit and borrowings was 26% (2017: 32%). The 30-day LCR ratio at the end of the year was 490% (2017: 713%) and a significantly high average ratio was maintained throughout 2018.

	<b>31-Dec-18</b>	<b>31-Dec-17</b>
Liquidity buffer	356.8	149.4
Net Cash outflows	72.8	21.0
Liquidity coverage ratio %	490%	713%

## 7 Operational risk

### 7.1 Operational risk management

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

The Risk function, as second line of defence, is responsible for providing assurance that those controls are implemented, are being operated satisfactorily, and that risk and control registers are comprehensive. Internal Audit, as third line of defence, conducts reviews in line with the Audit Plan to test the effectiveness of the operational risk framework, including 1st line controls and the quality of the second line oversight.

#### ***Conduct, compliance and regulatory risks***

Conduct, Compliance and Regulatory Risk is defined in Section 2.3 Principal risks. OakNorth uses the customer outcomes approach to assess conduct and regulatory compliance risk. Staff are provided with a Compliance Manual and appropriate training to provide an overview of the regulatory system under which OakNorth operates, to provide an outline of OakNorth's Compliance policy in each area, and to provide instructions on policies and procedures for compliance.

### 7.2 Operational risk capital charge computation

The operational risk capital charge for OakNorth under Pillar 1 is calculated using the Basic Indicator Approach, whereby a 15 per cent multiplier is applied to the 3-year historical average net interest and fee income. Based on this computation, the capital charge for the period ended 31 December 2017 was £1.8m (2017: £1.9m).

## 8 Securitisation exposures

OakNorth had no securitisation exposures as at 31 December 2018 (2017: nil).

## 9 Asset encumbrance

As of 31 December 2018, OakNorth had borrowed £181.9m under the Bank of England's Term Funding scheme. The scheme closed for new drawdowns in February 2018. The interest payable on the borrowings is linked to the BOE base rate, which is currently 75bps. The borrowing is repayable after four years of drawdown- £1.0m is repayable in June 2021 and £180.9m is repayable in January/February 2022. The borrowing is held at amortised

cost and includes unamortised expenses of £0.1m and accrued interest of £0.3m. The borrowing is collateralised against GILT portfolio and loans as detailed below.

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

\*includes £356.9m of balances held at Bank of England (2017: £148.3m) and £6.4m of balances held at other banks (£5.4m)

\*\*Loans and advances to customers per financial statements

2017	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	£000	£000	£000	£000
<b>Assets of the reporting institution</b>	1,109	1,109	767,478	N/A
Loans on demand*	-	-	153,702	N/A
Equity instruments	-	-	-	-
Debt securities	1,109	1,109	1,006	1,006
Loans and advances other than loans on demand**	-	-	604,937	N/A
Other assets	-	-	7,833	N/A

**Collateral received:** Nil (2017: nil)

**Carrying amount of associated liabilities:** £182.1m (£181.9m borrowing, unamortised expenses of £0.1m and accrued interest of £0.3m) (2017: £1m)

The only source of encumbrance for the Bank for both 2018 and 2017 was through positioning of loan and GILT collaterals to access the Bank of England's term funding scheme. The ALCO monitors the encumbrance ratio on a monthly basis to ensure that these remain within the Risk Appetite limits.

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

## 10 Remuneration disclosures

These are available in a separate document on OakNorth's website ([www.oaknorth.com](http://www.oaknorth.com)).

## 11 Appendix- Own funds disclosures templates

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

TABLE: CAPITAL INSTRUMENTS MAIN FEATURES TEMPLATE		
Capital Instruments main features template		
Issuer	OakNorth Bank plc	OakNorth Bank plc
Unique identifier	None	XS1713463047
Governing law(s) of the instrument	English	English
Regulatory treatment		
Transitional CRR rules	Common Equity Tier 1	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2
Eligible at solo/(sub-) consolidated/ solo&(sub-) consolidated	Solo	Solo
Instrument type (types to be specified by each jurisdiction)	Ordinary share capital	Subordinated debt
Amount recognised in regulatory capital (currency in '000, as of most recent reporting date)	£299,320	£50,000
Nominal amount of instrument ('000)	£299,320	£50,000
Issue price	N/A	98.986% of nominal amount
Redemption price	N/A	Principal plus accrued and unpaid interest
Accounting classification	Shareholders' equity	Liability – amortised cost
Original date of issuance	First issuance in June 2013 on incorporation. Subsequent multiple issuances of identical instrument were done through 2013-2018	01-Jun-18
Perpetual or dated	Perpetual	Dated
Original maturity date	No maturity	01-Jun-28
Issuer call subject to prior supervisory approval	No	Yes
Optional call date, contingent call dates and redemption amount	N/A	01-Jun-23
Subsequent call dates, if applicable	N/A	None
Coupons / dividends		
Fixed or floating dividend/coupon	Discretionary dividend	Fixed

Coupon rate and any related index	N/A	7.750% fixed rate up to (but excluding) the optional call date payable semi-annually in arrears. Reset on the optional call date to the sum of the GBP 5 year GILT benchmark swap rate plus the reset margin payable semi-annually in arrears
Existence of a dividend stopper	N/A	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory
Existence of step up or other incentive to redeem	N/A	No
Noncumulative or cumulative	N/A	Non-cumulative
Convertible or non-convertible	N/A	Non-convertible
If convertible, conversion trigger(s)	N/A	N/A
If convertible, fully or partially	N/A	N/A
If convertible, conversion rate	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A
Write-down features	N/A	None contractual. Statutory at point of non-viability under the Banking Act
If write-down, write-down trigger(s)	N/A	N/A
If write-down, full or partial	N/A	N/A
If write-down, permanent or temporary	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Eligible senior claims
Non-compliant transitioned features	No	No
If yes, specify non-compliant features	N/A	N/A



Transitional Own Funds Disclosure template		
Common Equity Tier 1 capital: instruments and reserves	31-Dec-18	31-Dec-17
Capital instruments and the related share premium accounts	299,320	249,320
of which: Ordinary shares	299,320	249,320
Retained earnings	31,091	4,511
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2	(2)
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>330,413</b>	<b>253,829</b>
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(240)	(276)
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)	(319)	-
Total regulatory adjustments to common equity tier 1 capital	(559)	(276)
<b>Common equity tier 1 capital</b>	<b>329,854</b>	<b>253,553</b>
Additional tier 1 capital: instruments		
<b>Additional tier 1 capital before regulatory adjustments</b>	<b>-</b>	<b>-</b>
Additional tier 1 capital: regulatory adjustments		
<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>
<b>Tier 1 capital</b>	<b>329,854</b>	<b>253,553</b>
Tier 2 capital: instruments and provisions		
Capital instruments and the related share premium accounts	50,000	-
Credit risk adjustments	6,252	2,357
<b>Tier 2 capital before regulatory adjustments</b>	<b>56,252</b>	<b>2,357</b>
Tier 2 capital: regulatory adjustments		
<b>Total regulatory adjustments to tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Tier 2 capital</b>	<b>56,252</b>	<b>2,357</b>
<b>Total capital</b>	<b>386,106</b>	<b>255,910</b>
<b>Total risk weighted assets</b>	<b>1,473,692</b>	<b>729,488</b>
Capital ratios and buffers		
Common equity tier 1 (as a percentage of risk exposure amount)	22.4%	34.8%
Tier 1 (as a percentage of risk exposure amount)	22.4%	34.8%

Total capital (as a percentage of risk exposure amount)	26.2%	35.1%
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)	2.875%	1.250%
of which: capital conservation buffer requirement	1.875%	1.250%
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)	12.5%	24.8%
Amounts below the thresholds for deduction (before risk weighting)	Nil	Nil
Applicable caps on the inclusion of provisions in tier 2 capital		
Credit risk adjustments included in tier 2 capital in respect of exposures subject to standardised approach (prior to the application of the cap)	6,252	2,357
Cap on inclusion of credit risk adjustments in tier 2 capital under standardised approach	18,421	9,119
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	N/A	N/A
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (continued)	N/A	N/A

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OakNorth Bank



oaknorthbankuk

OakNorth Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. (Financial Services Register number: 629564. The Financial Services Register can be accessed at [www.fca.org.uk/register](http://www.fca.org.uk/register)).

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