OakNorth Bank

Pillar 3 disclosures 2020

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 “the Bank”) is a UK registered bank that is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

OakNorth Bank supports the UK’s “Missing Middle”- growth businesses that tend to have the largest impact on economies and communities but have been overlooked and underserved for decades- by providing these businesses with bespoke debt finance ranging from £500k to £50 million, while offering attractive online savings products to retail and business depositors. More information on OakNorth Bank’s products and business performance are detailed in the Annual Report and Financial Statements[1].

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.

1.2 Basis

This Pillar 3 report is based upon OakNorth Bank’s Financial Statements for the year ended 31 December 2020. 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 Bank has adopted FRS102 (Financial Reporting Standard applicable in the UK) for preparing its financial statements. On 1 January 2019, the Bank adopted IFRS 9 ‘Financial Instruments’, which replaced IAS 39 ‘Financial Instruments: Recognition and Measurement’, based on the accounting policy choice permitted under FRS 102.

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

From 27 June 2020, amendments to the Capital Requirements Regulation (CRR) - the CRR ‘Quick Fix’ applied that respond to the COVID-19 pandemic. In accordance with the European Union (Withdrawal Agreement) Act, the CRR ‘Quick Fix’ applies directly to PRA-regulated firms. The CRR ‘Quick Fix’ introduces new transitional arrangements for the capital impact of IFRS 9 Expected Credit Loss provisions. For relevant expected credit loss provisions raised from 1 January 2020, the CET1 add-back percentages are set at 100% in 2020 and 2021, 75% in 2022, 50% in 2023, and 25% in 2024. The Bank has utilised this guidance and applied these to the COVID overlay provisions recorded in the financial statements during the year 2020. Detailed accounting disclosures in relation to the provisions are provided in the Bank’s Annual Accounts and Financial statements for 2020.

The report contains information presented for the year ended 31 December 2020, with comparatives for 31 December 2019. Any blank cells in the relevant regulatory templates/ tables have not been included in these disclosures. OakNorth Bank uses the Standardised Approach for computing capital requirements for credit risk and the Basic Indicator Approach for operational risk. OakNorth Bank does not have any market risk. The disclosures in this document are based on these approaches.

[1] Available on Companies House website (https://www.gov.uk/government/organisations/companies-house)

1.3 Frequency of disclosures

Pillar 3 disclosures are published subsequent to the Annual Report and Accounts. We continue to develop and enhance the quality and transparency of Pillar 3 disclosures to ensure that they are as clear and informative as possible.

1.4 Verification

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

1.5 Location

The Pillar 3 disclosures are available on OakNorth Bank's corporate website (www.oaknorth.co.uk).

2 Risk management framework and policies

2.1 Risk Management

OakNorth Bank sets a risk strategy alongside its business strategy; and seeks to manage inherent risk through systematic and disciplined risk management. We quantify the risks taken and apply mitigating action appropriately with the objective of delivering long-term value in the business. There is a continuous improvement approach to risk management, and policies, processes and controls have been further developed in 2020 with major investment in scaling up the credit process and headcount. Additionally, we have invested in hiring new people and implementing systems to manage key areas such as financial crime, cyber-security, and information security.

The OakNorth Bank approach incorporates a strong risk-aware Culture, the setting of a Risk Appetite, and the maintenance of a robust Risk Management Framework underpinned by clear Governance.

2.2 Culture

The OakNorth Bank team is driven by a clear sense of purpose - OakNorth Bank's mission is to empower the Missing Middle and in doing so, have a positive impact on local communities and economies in terms of productivity, job creation and GDP growth.

The Board takes the lead in establishing a strong risk management culture which supports and provides appropriate standards and incentives for professional and responsible behaviour. The Board and the management are committed to living the Bank's Values and setting the tone for the culture of the organisation. We work hard to ensure our teams are risk-aware and mindful of customer-focussed principles of good conduct. This includes doing the right thing for our customers, and making decisions on a risk/reward basis, with the focus on the long term and the aim of generating steady, sustainable, risk-adjusted returns. Risk outcomes and behaviours form a key part of compensation decisions as part of a 'balanced scorecard' approach.

2.3 Risk Appetite framework

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

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

The high-level Enterprise Risk Appetite has been articulated in categories shown in the table below, which shows the key Risk Factors: Financial, Credit, Regulatory and Compliance, Conduct, Operational, Reputational, and Macroeconomic. This is subdivided further into risk appetite dimensions and with 85 Risk Appetite monitoring metrics set. For example, the Financial Risk is subdivided into the management of Capital, Liquidity, and Interest Rate Risk in the Banking Book, and subdivided into contributory risk factors such as Net Interest Margin, Funding Concentration and Deposit Maturity profile. The Risk Appetite Statement ('RAS') is carried through into OakNorth Bank's suite of Policies, and from the Policies into the Procedures (Standard Operating Procedures or 'SOPs') used by the Bank's staff.

The Business, as first line of defence, monitors against the metrics on a continuous basis, with oversight by Risk as the second line of defence.

Risk Category	Strategic Risk Objectives	Description
Financial	Manage capital, profitability and liquidity to provide for OakNorth Bank's projected needs, even under stress.	Ensure that OakNorth Bank has sufficient capital and liquidity, with appropriate buffers, to meet regulatory requirements for its on-going growth projections, even in periods of stress (when new equity may be unavailable).
Credit	Write business in a prudent manner, to minimise losses.	Build stable earnings, at an appropriate risk/reward balance, in order to create long-term value. Manage risk concentrations.
Regulatory	Maintain compliance and keep the confidence of our Regulators	Be proactive and forward-looking in understanding and adhering to regulatory requirements in full. Staff are educated and aware of their personal obligations at all times, ensuring any breaches of regulatory or legal requirements are minimised with zero tolerance of any material breaches of any nature.
Conduct	Maintain integrity and keep the confidence of our Customers.	Focus on delivery of good outcomes for our customers, meeting their needs and expectations through providing suitable products and a high-quality service.
Operational	Manage operational risks effectively.	Proactively manage all OakNorth Bank's operational risks to achieve a low level of operational loss and minimal service disruption. This includes managing the cyber-security risks under a rigorous cyber risk management programme.

Risk Category	Strategic Risk Objectives	Description
Reputational	Protect OakNorth Bank's reputation and brand through effective controls and good conduct.	Abide by both the spirit and the letter of regulation, conduct principles and good control disciplines. Sustain a good set of corporate values.
Macro-economic	Monitor macro-economic risk and mitigate possible impacts effectively.	Monitor signals of deterioration in economic conditions and mitigate impacts.

The risk appetite framework is consistent with our risk culture and business model. The principal elements which define the business model and risk appetite are:

- a leading credit risk analysis capability with conservative metrics for debt service ratios and loan-to-value
- a conservative but efficient liquidity profile and strong capital ratios to support rapid growth
- an infrastructure and operations designed for operational resilience

2.4 Risk Management Framework (RMF)

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

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

OakNorth Bank's RMF is agreed by the Board and is set in compliance with relevant legal and regulatory frameworks including the Senior Managers Regime, the PRA and FCA Handbooks, and EBA standards. This framework is subject to constant re-evaluation to ensure that it meets the challenges and requirements of the markets in which OakNorth Bank operates, including changing regulatory expectations, industry best practices, and emerging issues.

Each risk area is covered by a Risk Appetite Statement, Policy and Standard Operating Procedures (SOPs), to mitigate the risks to within Board risk appetite.

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; and the roles and responsibilities of the individuals responsible for managing the key risks, together with the reporting structure to ensure independent oversight of risk decisions; and the suite of policies, processes and controls employed.

2.5 Control framework

The control framework for each principal risk is summarised below:

Principal risks	Business risk	Credit risk	Capital risk	Liquidity risk	Interest rate risk	Operational risk	Conduct, compliance and regulatory risk
Control documents	▪ Strategic business plan	▪ Credit risk management policy ▪ Lending policy ▪ Risk Appetite statements	▪ Strategic business plan ▪ ICAAP ▪ Risk Appetite statements	▪ Strategic business plan ▪ ILAAP ▪ Funding policy ▪ Market Risk Management Policy ▪ Risk Appetite statements	▪ Market risk management policy ▪ ILAAP ▪ Risk Appetite statements	▪ Operational risk policy ▪ New Product Approval policy ▪ Outsourcing policy ▪ IT Security policy ▪ Risk Registers ▪ Risk Appetite statements	▪ Conduct & customer experience policy ▪ Compliance Manual ▪ Financial Crime & AML policy ▪ Fraud Prevention Policy ▪ Risk Appetite statements
Risk reporting	EXCO, ERC reporting on performance vs plan and vs Risk Appetite	Credit and Monitoring pack reporting to the CRMC and BCC	EXCO & ALCO reporting	EXCO & ALCO reporting	EXCO & ALCO reporting	OPCO, EXCO, ERC, ISMS Operational risk reporting	EXCO, ERC reporting
Stress testing	ICAAP	ICAAP	ICAAP	ILAAP	ICAAP	▪ ICAAP ▪ ILAAP ▪ BCP testing	ICAAP
Monitoring committees	▪ EXCO	▪ CRMC	▪ ALCO ▪ EXCO	▪ ALCO ▪ EXCO	▪ ALCO ▪ EXCO	▪ OPCO ▪ EXCO ▪ ERC ▪ ISMS	▪ EXCO ▪ CRMC ▪ ERC
Oversight	**Board and Board Committees (Risk & Compliance, Credit, Audit, Remuneration and Nomination) and independent assurance by the Internal Audit function**						

ALCO: Asset and Liability Committee; EXCO: Executive Committee, OPCO: Operations Committee, CRMC: Credit Risk Management Committee, ERC: Executive Risk Committee, Information Security Management System (ISMS) Steering Committee
ICAAP: Internal Capital Adequacy Assessment Process, ILAAP: Individual Liquidity Adequacy Assessment Process; AML: Anti Money Laundering

The reporting and oversight processes are 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 policies and controls

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

Operational processes are documented in Standard Operating Procedures (SOPs). A SOP is a detailed document that describes all the necessary activities to complete a task in accordance with business standard and industry regulations, together with roles and responsibilities and key control processes.

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

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

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

Top risks and Emerging Risks

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

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

Key themes in the Top Risks analysis are as follows:

Top Risk Description	Risk mitigation
The COVID-19 crisis A risk facing all banks that the COVID-19 crisis leads to severe credit losses or operational losses	▪ OakNorth Bank successfully implemented its contingency plans and has been operating with most employees working from home with no interruption in service to customers. OakNorth Bank has complied with all government guidance and best practice and been able to provide a fully sustainable service to customers whilst taking care of employees' health. ▪ OakNorth Bank has participated in the CBILs and CLBILs programmes and is supporting its customers through the crisis. ▪ OakNorth Bank has undertaken portfolio stress tests in line with Regulatory guidance and its own detailed sectoral stress tests, and has taken full account in its 2020 results.
Credit risk A generic risk which features in the Top Risks given the high growth achieved in the loan book. OakNorth Bank has incurred zero write-offs in the loan book in 2020 through use of advanced analytics and controls and effective management of its exposures by the workout and recoveries team	▪ OakNorth Bank has set detailed prudent guidelines and policies for lending with guidelines for key areas such as Debt Service Cover and Loan to Value, and with credit risk appetite limits set for matters such loan book average probability of default, loss given default; sectoral and single name concentration; and watchlist cases. ▪ Credits are analysed by experienced credit risk professionals with support from the advanced credit analytics provided by ON Credit Intelligence Suite. ▪ OakNorth Bank has robust monitoring processes run by an experienced Portfolio Monitoring team to ensure that all risks relating to individual borrowers are proactively identified.

Top Risk Description	Risk mitigation
	▪ The Board is also continually engaged in review of the loan book to ensure that it is performing as expected and risks are within defined limits.
Cyber security A generic risk which features in the Top Risks because the attacks on the financial sector never cease	▪ OakNorth Bank employs a cloud-based IT platform running on AWS. Advanced cyber risk defence mitigation measures include next generation firewalls, a secure VPN, 24/7 monitoring, data loss prevention tools and endpoint encryption, with various leading monitoring and cyber defence software tools operated by experienced professionals.
Operational resilience A generic risk. OakNorth Bank has incurred zero operational losses in 2020, through proactive management.	▪ The resilience of OakNorth Bank's operations is founded upon up-to-date cloud-based IT infrastructure, robust use of Standard Operating Process documents for all key processes with defined controls and responsibilities, high levels of automation and the use of strong Service Providers including AWS and the Bank's own sister companies, ONGPL and OakNorth UK Ltd. ▪ Processes and controls are constantly kept updated and checked through the on-going Risk and Controls Self-Assessment Process (RCSA). ▪ First and second line controls and monthly testing are in place. ▪ An Operational Resilience programme has defined Key Business Processes and has set Impact Tolerances.
Financial crime A generic risk which features in the Top Risks because the attacks on the financial sector never cease	▪ OakNorth Bank does not offer transactional accounts, and hence a major area of financial crime risk does not impact the business. ▪ Detailed processes are in place for Anti-Money Laundering, Fraud prevention, Anti-Facilitation of Tax Evasion, and Anti-Bribery and Corruption, with controls embedded in processes and systems applied by skilled staff. First line management oversight and second line assurance oversight are in place. ▪ OakNorth Bank employs leading financial crime prevention tools including CIFAS, Comply Advantage, Experian, and World Check. ▪ Regular enterprise-wide risk assessments are made in all areas and controls are subject to a continuous improvement programme.
Liquidity risk A generic risk which is relevant as a Top Risk for ON as a relatively new bank	▪ OakNorth Bank has set a series of forward-looking risk appetite metrics in place which are monitored daily, which include measures around liquidity ratios (including LCR and NSFR), funding concentration and deposit maturities. ▪ These liquidity requirements and relevant deposit market information are monitored by the ALCO. A comprehensive ILAAP assessment is performed annually. ▪ The liquidity ratios are also tested quarterly under stress testing scenarios, and a detailed ILAAP assessment is performed annually.

Top Risk Description	Risk mitigation
Capital adequacy A generic risk which is relevant as a Top Risk for OakNorth Bank as a fast-growing bank	▪ OakNorth Bank'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 for projected capital ratios 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, monitored monthly. This ensures that capital resources are in place for forecast growth requirements. ▪ The capital ratios are also tested quarterly under stress testing scenarios, and a detailed ICAAP assessment is performed annually.
Regulatory and compliance risk A generic risk	▪ Compliance training is undertaken for all staff, and policy and processes are validated for compliance and continuously revised and updated as regulation and regulatory expectations evolve. ▪ A Compliance Monitoring Plan (CMP) is run continuously by the second line of defence, covering all areas of the business in an on-going cycle. Regulatory developments are tracked an actioned. ▪ Product design and customer communications are carefully checked to ensure compliance.
Reputational and conduct risk A generic risk	▪ OakNorth Bank is committed 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. The Bank ended 2020 with a new high in its Net Promoter Score of 87 and an average over the year score of 80. ▪ The foundation is a strong set of company values which include *"Right Ambition"*, *"Say it how it Is"*, *"Customer delight"*, which align with sound Conduct principles. ▪ OakNorth Bank reinforces this via behavioural objectives incorporated into reward and incentives, with conduct taken into account in all annual appraisals. Mechanisms to gather customer feedback are used actively each month. ▪ We monitor customer outcomes in various ways including customer satisfaction scores and surveys, complaints as a proportion of customer numbers and by root cause analysis and action, and Net Promoter Score.

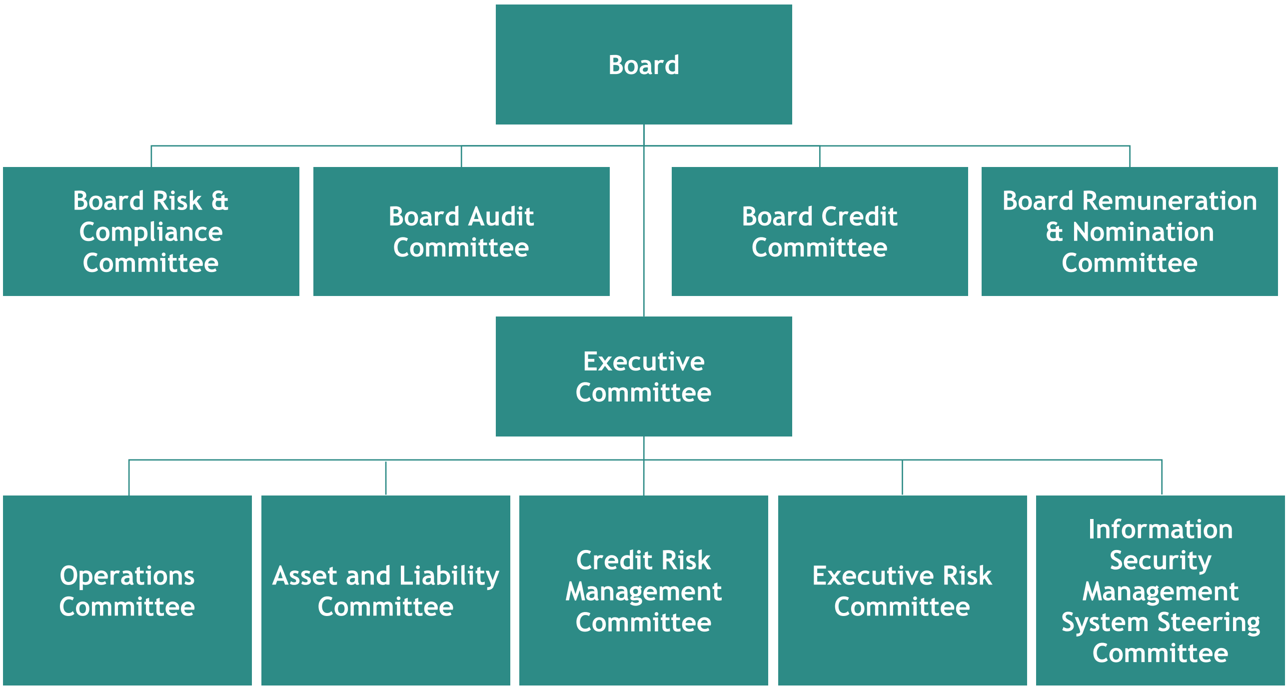
Emerging Risk Description	Risk mitigation
Economic environment An industry-wide risk	▪ The economic backdrop is now challenging. The economic cycle downturn has been crystallised by the COVID-19 crisis, with a risk of further impact from the effects of Brexit in 2021. ▪ The downturn has been unprecedentedly severe, and we are assuming a slow recovery in revenue for hard-hit sectors, with

Emerging Risk Description	Risk mitigation
	GDP not fully recovering until 2023, as reflected in the Bank of England forecasts. ▪ OakNorth Bank has made a comprehensive revision of its credit risk appetite in response, and has completed a detailed loan level stress test which has assessed the full inherent risk level. ▪ We are supporting existing and new customers through the downturn with new facilities on a carefully managed basis using our advanced forward-looking credit analytics, including over £400m in CBILs and CLBILs loans.
Climate change An industry-wide risk	▪ We are taking a pro-active approach with a programme to mitigate risk and meet all regulatory requirements. ▪ We have already offset all our direct emissions and that of our critical suppliers and have achieved net carbon zero status. ▪ We do not lend to the oil and gas sectors, and we assess that our lending exposure to real estate which might be subject to climate change risk is low. We have adjusted our credit policies accordingly.
Competition in the SME market Market developments	▪ We monitor competition and new entrants and take continuous action to maintain the advantages of our business model which have won OakNorth Bank multiple awards in recent years.

2.7 Risk oversight, monitoring and reporting structure

2.7.1 Committee structure

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



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

The Board's principal duty is to create and deliver a sustainable business model by setting OakNorth Bank's strategy and overseeing its implementation. It is responsible for ensuring that a system of internal controls is designed, implemented, maintained and tested. It is also responsible for ensuring that management maintains an effective Risk Management Framework (RMF) with appropriate oversight processes and for embedding the principle of safety and soundness in the culture of the whole organisation. OakNorth Bank's Board of Directors is responsible for approving the RMF and the Business Strategy, understanding major risks, ensuring that appropriate limits are set against those risks and that they are adequately controlled and monitored.

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

The Board Remuneration and Nomination Committee assists the Board in determining the optimum Board size at any point in time within the legal and regulatory framework. The Board believes that its current membership comprising of three Executive, five Non-Executive Independent Directors, is optimal given the current scale of operations and the desired competencies of the Board members. The Bank also benefits from an exceptional Advisory Board.

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

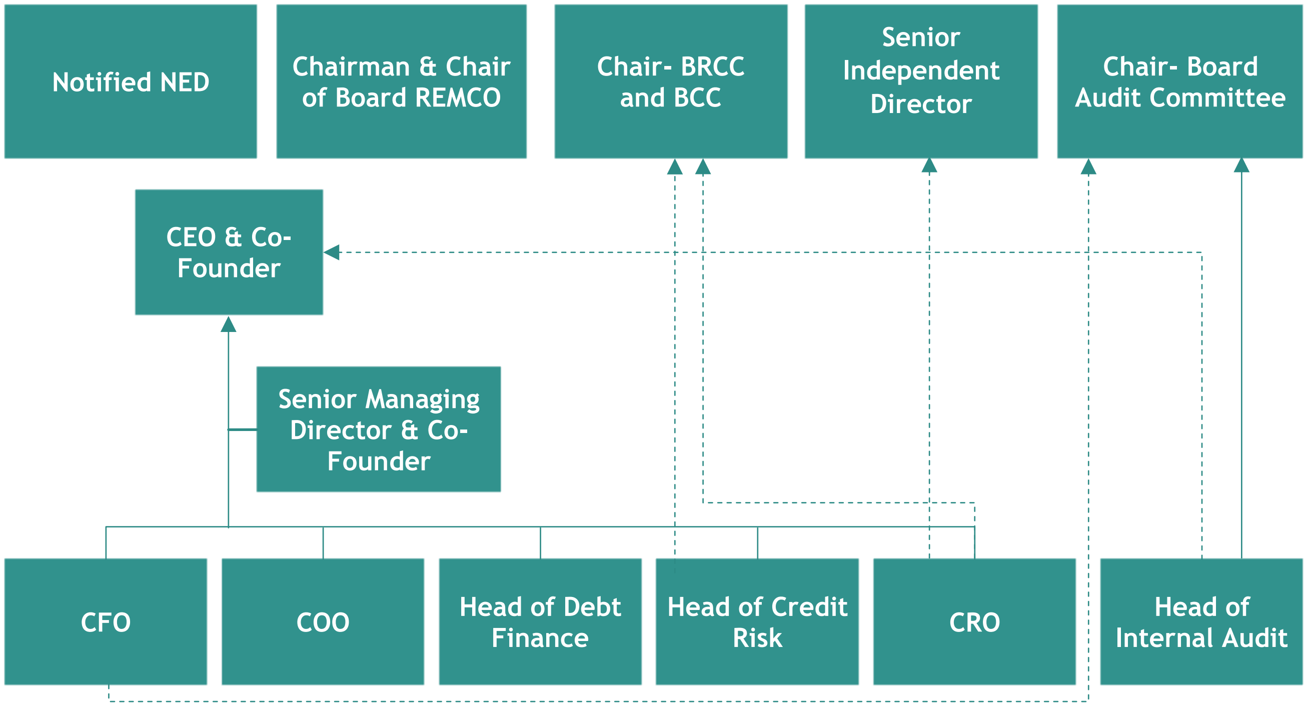
The table below summarises the responsibilities of the various committees:

Committees	Responsibility
Board	The Board sets OakNorth Bank's strategic direction and oversees its implementation. It ensures that management maintain an effective RMF with appropriate oversight processes and for embedding the principle of safety and soundness in the culture of the whole organisation. The Board's principal duty is to create and deliver a sustainable business model by setting the Bank's strategy and overseeing its implementation. It does so with regard to the interests of customers, employees, the environment, communities and suppliers. It seeks to achieve a balance between promoting long term objectives whilst meeting short term goals, and sets the culture of the Bank, ensuring that it is focussed on delivering good customer outcomes.
Remuneration & Nomination Committee (REMCO)	RemCo is responsible for ensuring that remuneration arrangements support the strategic aims of OakNorth Bank, comply with best practice and enable the recruitment, motivation and retention of senior executives. The Committee ensures compliance with regulation (Remuneration Code SYSC 19D) and sees its principles are put in place to expressly discourage any and all inappropriate behaviours. It has delegated authority from the Board for the review and approval of Remuneration Policy and is responsible for setting remuneration for all 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.
Board Risk & Compliance Committee (BRCC)	BRCC takes delegated authority from the Board to oversee the entire risk agenda excluding Credit risk. It oversees the continued appropriateness of the strategy and risk appetite in the light of OakNorth Bank's purposes, values, and sound risk management principles. It assesses OakNorth Bank's principal and emerging risks, and how these may affect the viability of the business model, and monitors the adequacy and effectiveness of the RMF and the quality of risk MI. It safeguards the independence of the CRO and the 2nd line Risk function and oversees its performance and resourcing. It approves the annual Compliance Monitoring Plan. It ensures that all risks - from operational resilience to liquidity and capital but excluding Credit risk - are properly identified, evaluated, mitigated, reported, and managed. It challenges executive management and examines whether risk management expectations are translated into culture and duly embedded.
Board Audit Committee (BAC)	BAC takes delegated authority from the Board for the review and approval of the Internal Audit (IA) Charter and Methodology, and Accounting Policies, and for ensuring that 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/removes the Head of IA.
Board Credit Committee (BCC)	BCC takes delegated authority from the Board to oversee all Credit Risk related matters for the Bank and approves larger credit exposures, impairments and write-offs. BCC receives reports from the Credit Risk Management Committee concerning individual credit exposures, and the portfolio as a whole. BCC also oversees model performance. BCC reviews the Watchlist and receives reports concerning the progress on any material Workouts and Recoveries. BCC also oversees the management of financial risks from climate change.
Executive Committee (EXCO)	The ExCo takes delegated authority from the Board and is responsible for developing the Bank's strategy, ensuring the delivery of the Management Plan and that the agreed strategy is executed across all dimensions. Additionally, the ExCo has responsibility for

Committees	Responsibility
	the RMF and for management of all risks. The Board delegates authority to the ExCo for the review and approval of those policies listed in the ExCo ToR (Terms of Reference).

Management Committees subsidiary to ExCo	Responsibility
Asset & Liability Committee (ALCO)	ALCo implements the Bank's Asset & Liability Management (ALM) 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.
Credit Risk Management Committee (CRMC)	Operating under mandate from the BCC, the purpose of the committee 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 AFTE, and that all credit control processes are fit for purpose and operative so that credit risk is mitigated via: Identification; Evaluation; Mitigation; Reporting; Management and Challenge.
Operating Committee (OPCO)	OpCo's main objective is to review the performance of all business operations 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 the Bank.
Executive Risk Committee (ERC)	Operating under mandate from the BRCC, the purpose of the ERC is to oversee, monitor and control the Risk agenda. It ensures that the Risk Management Framework is properly implemented and that all control processes are fit for purpose and operative so that all risks to OakNorth Bank - aside from Credit Risk, which is the mandate of CRMC and BCC, and ALM which is the mandate of ALCo and Board - is mitigated via identification, evaluation, mitigation, reporting, management and challenge.
Information Security Management System (ISMS) Steering Committee	ISMS is an additional technical forum to drive the development and implementation of security strategy, including IT infrastructure design. Any decisions on strategy, budget and investment are made by ExCo on recommendation from ISMS. ISMS would manage a cyber crisis as part of our incident management process.

2.7.2 Reporting structure



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

Capital, liquidity and interest rate risks are managed by the CFO under report to the ALCo and through to the ExCo and the Board.

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

2.7.3 Three lines of defence model

In line with standard industry practice, OakNorth Bank uses a Three Lines of Defence ('3LOD') operating model which sets out roles and responsibilities for risk management. Risk management is the responsibility of all. The 3LOD principles are built into all role profiles. The structure is reviewed on a continuous basis by ExCo and Board to ensure that it develops and evolves in step with the development of the business.

1st Line of Defence (1LOD): comprises of the business areas or 'front office', where the client relationship sits, and which run operational activities designed to support the business / front office and associated controls (Debt Finance, Customer Services, IT & Operations, People Operations, Treasury and Finance).

2nd Line of Defence (2LOD): operates independently and comprises of the Enterprise Risk function, who have limited client interface. These functions are responsible for challenging the business / front office, analysis and management of credit proposals and ensuring that all controls are designed appropriately and are operating effectively.

3rd Line of Defence (3LoD): comprises of Internal Audit. The Internal Audit function provides independent assurance to the Board and shareholders over the effectiveness of governance and risk management &

control in both the first and second lines of defence. Internal Audit is independent of both the first and second lines, with direct access to the CEO and NEDs. The Board is satisfied that the Internal Audit function had the appropriate resources during the year.

OakNorth Bank has established internal control and risk management processes in relation to financial reporting. OakNorth Bank's financial accounting and reporting processes are governed via established policies and procedures and SOP documents. Finance processes are additionally subject to periodic reviews by the Internal Audit function. All processes within Finance are subject to maker-checker and reconciliation controls and management reviews, including the process for production and review of the annual financial statements.

The annual accounts and disclosures are reviewed and approved both by the ExCo and the Board. Management monitors and considers developments in accounting regulations and adopts best practices in the adoption of accounting standards and in preparation of the Bank's financial statements and management accounts. The Board Audit Committee is appraised of all developments/ significant matters impacting the Bank's accounting and reporting processes.

2.8 Additional information on Governance arrangements

2.8.1 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 2020 in addition to their roles within OakNorth Bank are:

Name of Director	Position	Directorships[a]
Cyrus Ardalan	Chairman	2[1]
Navtej S Nandra	Senior Independent Director	3
Robert Burgess	Independent Non-Executive Director	3[2]
Kasia Robinski	Independent Non-Executive Director	4
Rishi Khosla	Executive Director Chief Executive Officer and Co-Founder	2
Joel Perlman	Executive Director Senior Managing Director and Co-Founder	4
Cristina Alba Ochoa	Executive Director Chief Financial Officer	-
Edward Berk	Notified Non-Executive Director	1

[a]Note that in line with CRD Article 91(4), one type of directorship for multiple entities within a group is counted as one directorship. The above includes directorships in non-commercial organisations in accordance with the EBA guidelines EBA/GL/2016/11 published in August 2018. These are in addition to any positions held outside of the OakNorth group entities.

[1] Includes directorship in one non- commercial organisation, [2] Includes directorship in one non- commercial organisation

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

- Navtej S Nandra resigned from the position of the Chair of the Board Audit Committee. He continues to Senior Independent Director
- Kasia Robinski was appointed as Independent Non-Executive Director and as Chair of the Board Audit Committee

Post year-end changes:

- Cristina Alba Ochoa resigned from the position of the CFO and Executive Director in January 2021
- Rajesh Gupta was appointed as the CFO and Executive Director in February 2021

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

2.8.2 Board recruitment

Please see disclosures in section 10 of this document.

2.8.3 Board Induction

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

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 Bank. Apart from the above, OakNorth Bank's management team makes periodic presentations on business and performance updates of the Bank at Board and Committee meetings.

2.8.4 Succession planning

OakNorth Bank is committed to prudent risk management and ensuring that the succession of the management team is planned out and regularly monitored and adjusted. The Bank has a succession plan which allows the Board to understand the actions that OakNorth Bank would take should it lose a senior management team member. The plan outlines the "what if" scenario and corresponding actions relating to the departure of each management team member. The plan is approved by the Board and is subject to, at minimum, an annual review.

2.9 Adequacy of risk management arrangements

As detailed in the preceding sections, the Board retains overall accountability for approving the RMF and the Business Strategy, understanding major risks, and ensuring that appropriate limits are set against those risks and that they are adequately controlled and monitored. OakNorth Bank's risk management framework, governance arrangements and Board responsibilities are detailed in section 2.1 through 2.8 of this document. The Board considers that, as at 31 December 2020, it had in place an adequate framework of systems and controls with regard to OakNorth Bank's risk profile and business strategy.

3 Capital resources and capital adequacy

3.1 Capital management

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

OakNorth Bank uses the Standardised Approach for computing capital requirements for credit risk and Basic Indicator Approach for operational risk. The disclosures in this document are based on these approaches. OakNorth Bank has complied with all regulatory capital requirements throughout the year.

OakNorth Bank has Tier 1 capital resources which include ordinary share capital, FVOCI revaluation reserve, Employee Share Scheme valuation reserves and retained earnings, reduced by the intangible assets. Tier 2 capital includes Subordinated debt issued by the Bank.

3.2 Stress testing

Stress testing is a process by which OakNorth Bank's business plans are subjected to severe but plausible adverse impact scenarios to assess the potential impact on the business including projected capital and liquidity positions on a regular basis. The results of stress testing, along with proposed actions, are reported to ALCO, EXCO and to the Board, including the Bank's performance against Board approved risk appetites for performance under stress.

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

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

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

3.3 Capital resources

The table below shows the composition of OakNorth Bank's regulatory capital position as at 31 December 2020 as per CRD IV.

Regulatory Capital	2020 (£'000)	2019(£'000)
Share capital	389,320	389,320
Retained earnings	139,278	80,744
Capital contribution	79	66
Fair value changes on financial assets at FVOCI[a]	-	(24)
Deductions for Intangible assets	(168)	(204)
Deductions for Deferred tax assets	(870)	(552)
Other deductions from CET1 capital[b]	(11,697)	(6,000)
Adjustments for the IFRS 9 transitional arrangements	13,147	-
Total Common Equity Tier 1 (CET1) capital	**529,089**	**463,350**
Total Tier 1 Capital	**529,089**	**463,350**
Subordinated debt	50,000	50,000
Total Tier 2 capital	**50,000**	**50,000**
Total regulatory capital	**579,089**	**513,350**

[a] Fair Value through Other Comprehensive Income (FVOCI)
[b] See section 3.3.3, 4.5.7 and 8

3.3.1 Movement in regulatory capital resources

	2020 (£'000)	2019 (£'000)
Total CET 1 capital at beginning of year	**463,350**	**329,854**
Shares issued during the year	-	90,000
IFRS 9 Adjustment	-	(323)
IFRS 9 transitional arrangements	13,147	-
Profits for the year	58,534	49,976
Net change in capital contribution and other reserves	37	40
Net change in deductions for intangible and deferred tax assets	(282)	(197)
Net change in other deductions from CET1[a]	(5,697)	(6,000)
Total CET 1 capital at end of year	**529,089**	**463,350**
Total Tier 1 capital at end of year	**529,089**	**463,350**
	2020 (£'000)	**2019 (£'000)**
Total Tier 2 capital at beginning of the year	**50,000**	**56,252**
Net change in general provisions (IAS 39)	-	(6,252)
Subordinated debt issued	-	-
Total Tier 2 capital at end of the year	**50,000**	**50,000**
	2020 (£'000)	**2019 (£'000)**
Total regulatory capital at end of the year	**579,089**	**513,350**

[a] See section 3.3.3, 4.5.7 and 8

3.3.2 Reconciliation to Statutory equity

	2020 (£'000)	2019 (£'000)
Total Capital and reserves per financial statements	**528,677**	**470,106**
Deductions for Intangible assets	(168)	(204)
Deductions for Deferred tax assets	(870)	(552)
IFRS 9 transitional arrangement	13,147	-
Other deductions	(11,697)	(6,000)
Total CET1 Capital	**529,089**	**463,350**
Total Tier 1 capital at end of year	**529,089**	**463,350**
Add Subordinated debt (T2)	50,000	50,000
Total regulatory capital at end of the year	**579,089**	**513,350**

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).
- There were no dividends proposed or approved by the Board for 2020.

- Other deductions of £11.7 million pertains to :
    - synthetic securitisation position, or 'first loss' element for loans guaranteed under the British Business Bank's ENABLE scheme for £6.0 million.
    - lending deemed as securitisation exposure under the Regulation (EU) 2017/2402 (Securitisation Regulations) for £5.7 million.

Please see section 4.5 and section 8 for further information.

3.3.4 Transitional own funds

Following the adoption of IFRS 9 from 1 January 2018 the CRR introduced transitional rules to phase in the full CET1 effect over a five year period .The transition period has been further amended by the CRR COVID-19 Amendment Regulation, the effect of this is to fully mitigate the increases in expected credit loss provisions arising in 2020, due to the COVID-19 pandemic. To ensure the ongoing challenges and the uncertainties due to COVID-19 are addressed, the Bank has assessed and recorded a COVID overlay provision of £17.4 million during the year (post tax £13.1 million). This is added back to CET1 as allowed under the CRR quick fix measures implemented in June 2020 (see section 1.2).

	2020 (£'000)	2019 (£'000)
Available capital (amounts) – transitional		
Common equity tier 1	529,089	463,350
Common equity tier 1 capital as if IFRS 9 transitional arrangements had not been applied	515,941	463,350
Tier 1 capital	529,089	463,350
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	515,941	463,350
Tier 2 capital	50,000	50,000
Total capital	**579,089**	**513,350**
Total capital as if IFRS 9 transitional arrangements had not been applied	**565,941**	**513,350**
Risk-weighted assets (amounts)		
Total risk-weighted assets	2,645,393	2,236,926
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	2,626,337	2,236,926
Risk-based capital ratios as a percentage of RWAs	**%**	**%**
Common equity tier 1 ratio	20.0%	20.7%
Common equity tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	19.6%	20.7%
Tier 1 ratio	20.0%	20.7%
Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	19.6%	20.7%
Total capital ratio	21.9%	22.9%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied	21.5%	22.9%
Leverage ratio		
CRR leverage ratio exposure measure (£'000)	3,287,032	2,885,104
CRR leverage ratio (%)	16.1%	16.1%
CRR leverage ratio (%) as if IFRS 9 transitional arrangements had not been applied	15.8%	16.1%

3.3.5 Subordinated debt Tier 2

	2020 (£'000)	2019 (£'000)
Subordinated notes (amortised cost)	**49,559**	**49,459**
Amounts due:		
- over five years	49,559	49,459

In June 2018, OakNorth issued 10-year £50.0 million subordinated notes with coupon of 7.75%, issued at a yield of 8%. The notes are callable in June 2023. The notes are held at amortised cost.

3.3.6 Additional disclosures on own funds

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

3.4 Capital adequacy

	2020 (£'000)	2019 (£'000)
Risk weighted assets		
Credit risk	2,525,393	2,176,926
Market risk	-	-
Operational risk	120,000	60,000
Total risk weighted assets	**2,645,393**	**2,236,926**
Common Equity Tier 1 capital ratio	**20.0%**	**20.7%**
Tier 1 capital ratio	**20.0%**	**20.7%**
Total capital ratio	**21.9%**	**22.9%**

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

The total capital requirement (TCR) as set by the PRA, which is defined as the amount and quality of capital a firm is required to maintain to comply with the Pillar 1 and Pillar 2A capital requirements, was 11.54% for OakNorth Bank as of 31 December 2020 (2019: 13.26%).

3.4.2 Capital buffers (Pillar 2B)

The UK Countercyclical Capital Buffer (CCyB) rate was 0% as of 31 December 2020. Capital conservation buffer is 2.5% in line with the CRDIV Capital buffers.

The capital adequacy ratio, buffer over ICG and CPB- are key risk capital risk metrics monitored by the ALCO, EXCO and reported to the Board Risk Committee and the Board on a monthly basis. As at 31 December 2020, OakNorth Bank's capital base was in excess of the minimum required as per the regulatory requirements, including the capital requirements as per the Individual Capital Guidance (ICG) and the Capital Planning Buffer (CPB).

2020	Exposure value under the Standardised Approach[a]	Risk exposure amount (RWA)	Own funds required	Own funds required weight	Countercyclical buffer rate
	£'000	£'000	£'000	£'000	£'000
UK	4,117,205	2,512,889	201,031	100%	0.0%
Rest of the world	14,944	12,504	1,000	0%	0.0%
Total	**4,132,148**	**2,525,393**	**202,031**	**100%**	

2020	Exposure value under the Standardised Approach[a]	Risk exposure amount (RWA)	Own funds required	Own funds required weight	Countercyclical buffer rate
	£'000	£'000	£'000	£'000	£'000
Institution specific countercyclical buffer rate	**0.00%**				

a Note that the CCyB applies to only relevant exposures which excludes exposures to central governments and central banks and institutions. The above table presents the breakdown of all exposures by geography rather than only relevant exposures used in the calculations of CCyB requirement.

2019	Exposure value under the Standardised Approach[a]	Risk exposure amount (RWA)	Own funds required	Own funds required weight	Countercyclical buffer rate[a]
	£'000	£'000	£'000	£'000	£'000
UK	3,797,762	2,161,731	172,938	99%	1.0%
Rest of the world	15,195	15,195	1,216	1%	0.0%
Total	**3,812,957**	**2,176,926**	**174,154**	**100%**	
Institution specific countercyclical buffer rate	**0.99%**				

3.5 Leverage Ratio

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

The UK leverage ratio regime requires a minimum leverage ratio of 3.25%. Under the regime, the calculation also excludes assets constituting claims on central banks from the calculation of the total exposure measure. At present, OakNorth Bank has no minimum leverage requirement as it is currently not within the scope of the UK Leverage Ratio Framework as its deposit levels are less than £50 billion.

Summary reconciliation of accounting assets and leverage ratio exposures	2020 (£'000)	2019 (£'000)
Common Equity Tier 1 (CET1) capital	**529,089**	**463,350**
Total assets per the financial statements	3,116,216	2,729,924
Off balance sheet items after CCF[a]	160,127	154,842
Other adjustments[b]	10,689	338
Total Leverage ratio exposure	**3,287,032**	**2,885,104**
Leverage ratio based on EBA calculation	**16.1%**	**16.1%**
Leverage ratio based on UK Leverage ratio framework (excluding claims on central banks)	**21.0%**	**22.2%**

[a]Off balance sheet items are stated after application of credit conversion factors. Gross off-balance sheet exposures before conversion factors are £1,005.5 million (2019: £1,082.9 million)
[b]Other adjustments in 2020 comprise of the following which are deducted from CET1- intangible assets of £0.2m , deferred tax assets of £0.9 million and drawn loan exposure deemed as securitisation , which is deducted from capital for £5.7 million and overlay provisions of £17.4 million which are added back to CET1 post tax.

3.5.1 Leverage Ratio common disclosures

	2020 (£'000)	2019 (£'000)
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,133,641	2,731,018
Asset amounts deducted in determining Tier 1 capital	(6,736)	(756)
Asset amounts added in determining Tier 1 capital	17,425	-
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**3,287,032**	**2,730,262**
Derivative exposures	**-**	**-**
Securities financing transaction exposures	**-**	**-**
Off-balance sheet exposures at gross notional amount	1,005,526	1,082,959
Adjustments for conversion to credit equivalent amounts	(845,399)	(928,117)
Other off-balance sheet exposures	-	-
Total Other off-balance sheet exposures	**160,127**	**154,842**
Exempted exposures	**N/A**	**N/A**

3.5.2 Capital and total exposures

	2020 (£'000)	2019 (£'000)
Tier 1 capital	529,089	463,350
Total leverage ratio exposures	3,287,032	2,885,104
Leverage ratio	16.1%	16.1%

As at 31 December 2020, OakNorth Bank's leverage ratio was in excess of the minimum regulatory requirements and the Bank's risk appetite limits. The Bank manages its leverage ratio in line with the over-all capital requirements and ensures that the ratio is well above the minimum leverage ratio requirement.

3.6 Minimum capital requirement: Pillar 1

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

	2020 (£'000)	2019 (£'000)
Credit risk	202,031	174,154
Market risk, Credit valuation adjustment (CVA)	-	-
Operational risk	9,600	4,800
Capital requirement under Pillar 1	**211,631**	**178,954**
Capital resources	**579,089**	**513,350**
Capital resources surplus over Pillar 1 requirement	**367,457**	**334,395**

4 Credit Risk

Credit Risk is defined as the potential that a borrower will fail to meet its obligations in accordance with contractual lending terms resulting in partial or full loss. This risk remains one of the most significant risk faced by OakNorth Bank as the loan book continues to scale. OakNorth Bank does not actively trade in financial instruments, other than for liquidity management purposes.

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

4.1 Exposures subject to the Standardised Approach

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

[a]The gross exposures include all drawn and undrawn and committed and uncommitted facilities. These are stated prior to application of any credit conversion factors or credit risk mitigants. The credit risk mitigation applied to exposures in the 2020 pertain to the CBILS, CLBILS and ENABLE guarantee scheme (2019: ENABLE guarantee scheme only).

[b]As of 31 December 2020, there were 6 group exposures in Stage 3 under IFRS 9 (2019: 2 exposure under Stage 3)

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

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

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

2019	Credit risk exposure	Avg Credit risk exposure	RWA[d]	Minimum capital requirement
	£'000	£'000	£'000	£'000
Central government and central banks	645,372	575,406	-	-
Institutions	13,877	12,784	12,173	974
Corporates	708,790	602,981	485,555	38,844
Retail	608	1,033	347	28
Secured by mortgages on immovable property	1,134,627	1,026,816	810,457	64,837

2019	Credit risk exposure	Avg Credit risk exposure	RWA[d]	Minimum capital requirement
	£'000	£'000	£'000	£'000
Exposures at default	38,961	39,217	57,794	4,624
Items belonging to regulatory high-risk categories	1,262,693	1,035,185	802,571	64,205
Other items	8,029	6,936	8,029	642
Total	**3,812,957**	**3,300,357**	**2,176,926**	**174,154**

The credit exposures increased in 2020 versus the prior year due to growth in OakNorth Bank's loan book. More details on the business growth and strategy have been provided in OakNorth Bank's Annual report and Financial Statements for the year ended 31 December 2020. OakNorth Bank did not have any derivative exposures outstanding as at 31 December 2020 (2019: Nil).

4.2 Maturity bucketing of the exposures

2020	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated/ open maturity	Total
	£'000	£'000	£'000	£'000	£'000
Central government and central banks	600,511	-	-	-	600,511
Institutions	-	-	-	11,532	11,532
Loans to customers	1,137,552	2,186,423	185,242	-	3,509,217
Other items	-	-	-	10,887	10,887
Total	**1,738,063**	**2,186,423**	**185,242**	**22,419**	**4,132,148**

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

2019	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated/ open maturity	Total
	£'000	£'000	£'000	£'000	£'000
Central government and central banks	645,372	-	-	-	645,372
Institutions	-	-	-	13,877	13,877
Loans to customers	1,159,176	1,926,461	60,042	-	3,145,679
Other items	-	-	-	8,029	8,029
Total	**1,804,548**	**1,926,461**	**60,042**	**21,906**	**3,812,957**

4.3 Geographical distribution

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

4.4 Sectoral distribution

The Sectoral break-down of OakNorth Bank's credit risk exposures as at 31 December 2020 is detailed below. All exposures above are stated including undrawn facilities and before application of conversion factors.

2020	Central government and central banks	Institutions	Lending	Other items
	£'000	£'000	£'000	£'000
Central governments or central banks	600,511	-	-	-
Financial Services	-	11,532	279,789	-
Accommodation and food service activities	-	-	540,355	-
Administrative and support services activities	-	-	14,413	-
Construction	-	-	1,339,449	-
Human health and social work activities	-	-	83,907	-
Information & Communication	-	-	1,678	-
Manufacturing	-	-	16,893	-
Professional, scientific and technical activities	-	-	3,390	-
Real estate activities	-	-	1,224,862	-
Waste management & remediation activities	-	-	2,035	-
Wholesale & Retail trade	-	-	2,447	-
Other assets	-	-	-	10,887
Total	**600,511**	**11,532**	**3,509,218**	**10,887**

2019	Central government and central banks	Institutions	Lending	Other items
	£'000	£'000	£'000	£'000
Central governments or central banks	645,372	-	-	-
Financial Services	-	13,877	245,175	-
Accommodation and food service activities	-	-	356,937	-
Administrative and support services activities	-	-	18,698	-
Construction	-	-	1,550,418	-

2019	Central government and central banks	Institutions	Lending	Other items
	£'000	£'000	£'000	£'000
Education	-	-	24,527	-
Human health and social work activities	-	-	68,919	-
Information & Communication	-	-	483	-
Manufacturing	-	-	15,807	-
Other Service Activities	-	-	449	-
Professional, scientific and technical activities	-	-	1,499	-
Real estate activities	-	-	821,273	-
Retail	-	-	1,907	-
Waste management & remediation activities	-	-	2,422	-
Wholesale & Retail trade	-	-	37,165	-
Other assets	-	-	-	8,029
Total	**645,372**	**13,877**	**3,145,679**	**8,029**

4.5 Credit Risk Management: Loans and advances to customers

4.5.1 Risk Appetite

The Board Credit Committee (BCC) is responsible for setting the Credit risk appetite strategy in line with business plan. Key risk appetite metrics are monitored through periodic reporting and reviewed at least annually by the board. Risk appetite metrics are tracked to measure performance and credit concentration of the loan book.

Credit Risk Management Policy (CRMP) underpins OakNorth Bank's approach to credit risk management and is designed to ensure lending is prudent and is managed in alignment with the overall Board risk appetite and corresponding financial and capital targets for OakNorth Bank.

OakNorth Bank's CRMP is supported by a suite of sector credit risk policies which determine risk management approach and sets out minimum requirements including specific lending parameters. All credit risk policies are reviewed at least annually to ensure the Bank has the appropriate foundations for growth whilst also considering the macro economic and regulatory environment.

Credit risk management portfolio oversight and approval of lending decisions are done at Board Credit Committee and credit committees as delegated by the Board. Credit committees are set across three levels - Board Credit Committee, Credit Risk Management Committee ('CRMC') and Small Deals Committee. The delegated authority of each committee is based on a matrix of key credit risk measures including quantum, internal rating, collateral, policy exception and returns.

The following functions are key to OakNorth Bank credit risk assessment and monitoring:

- Credit risk team- who review, challenge and recommend credit proposals, operating under the CRMP
- Portfolio monitoring team- who are responsible for the ongoing Credit monitoring of the loan book, supported by in-house analytics and monitoring & surveying team. Minimum reporting requirements on a portfolio and individual borrower basis are applied with key metrics and early warning signals tracked daily and escalated accordingly
- Workout & Recoveries team- who solve for problem cases by working with borrowers to arrive at mutually acceptable solutions.

A Credit Quality Assurance ('CQA') function was implemented during 2020, which emphasizes the strong value placed on credit risk governance & controls. This provides robust challenge to the credit risk management framework and provides assurance on compliance. CQA reviews are carried out on a periodic basis.

COVID-19 has resulted in widespread disruption globally, impacting macro environment and individual borrowers. OakNorth Bank has implemented appropriate monitoring in response to the pandemic. This includes regular Executive Credit Risk Management Committee updates on key risks and mitigants for our individual borrowers and application CVR downside scenario to assess impact on the loan book.

4.5.2 Approach to credit monitoring

OakNorth Bank combines the traditional approach to commercial underwriting i.e. using historical borrower data, with forward looking scenarios. We do this by using domain models, and specific forward-looking scenarios from the ON Credit Intelligence Suite. This same approach is used to monitor loans, providing early warning indicators against deterioration in credit quality, enabling our team to have early conversations with borrowers. Our in-house monitoring and surveying team monitor property development loans. Stress tests are run monthly at an individual loan level, which provide a clear trend analysis of credit risk across our loan book.

The early warning indicators tracked weekly, and a formal portfolio review is done monthly which is presented to the CRMC. Both the CRMC and BCC monitor the performance of the overall portfolio 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 and performance again the credit risk appetite limits.

4.5.3 Measuring Credit Risk Quality

The IFRS 9 approach is applied in measuring credit risk of the book. Defined criteria have been set to ascertain the staging of the loans, including criteria for COVID impacted lending exposures. This includes a combination of qualitative and quantitative factors, which include, but are not limited to – trend of business performance versus plan, trend of cash flow position, significant adverse changes to external factors that may impact the performance of the loan, significant adverse changes to the collateral position. Enhancements made to the OakNorth Bank PD framework has ensured a range of forward-looking scenarios and macro views are applied when calculating IFRS 9 provisioning.

The Head of Portfolio monitoring or Senior Director, Workout & Recoveries recommends loan accounts to be added to intensive monitoring for any increased monitoring and to Watchlist/ Stage 2 or Stage 3, as appropriate, to the CRMC. The CRMC approves the final staging. The criteria used to trigger a staging review are monitored and reviewed periodically by CRMC. Where loans in Stage 1 have been COVID impacted and have utilised government support measures such as payment holidays or deferrals or have availed additional lending under CBILS or CLBILS- the staging for these loans is not automatically moved to Stage 2. They are assessed individually if these measures enable the borrower to revert to standard credit risk metrics over a certain period of time. These cases are subject to intensive monitoring where required, but not classified as Stage 2 unless there is a significant increase in credit risk and cannot be resolved by any temporary measures.

For Stage 3, the CRMC assesses whether there are objective impairment triggers, which include significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, breach of contract, or any other factors as the CRMC deems relevant which may result in the borrower unlikely to pay.

The classification of the loan book across different Stages and the corresponding expected credit loss charge allowance is provided in the Annual accounts.

4.5.4 Business support measures during COVID

In order to continue supporting our borrowers and the wider economy, the Bank agreed COVID payment deferrals with some of its borrowers. All measures are agreed at an individual borrower level. During the year, deferred payment arrangements were agreed with 32 clients for £4.6 million. As of 31 December 2020, 24 of these clients had already resumed full payments and total deferred payments outstanding as at the year-end were £2.4 million. These loans were retained as Stage 1.

Central to OakNorth Bank's approach is trying to assist the customer to resolve their financial difficulties and return to financial health as quickly as possible. As part of its customers in financial difficulty policies and procedures, the Bank may undertake forbearance measures in order to ensure better outcomes for both the customer and the Bank.

Cases with significant increase in credit risk are managed via the Bank's Watchlist process. Customers exhibiting signs of actual or potential stress are classified in an appropriate watch category and subjected to mandatory actions to ensure that an appropriate strategy is being followed to effectively manage the increased credit risk.

4.5.5 Credit risk mitigation

OakNorth Bank seeks to mitigate credit risk through, inter alia, eligible collateral. OakNorth Bank's CRMP details the eligible collateral that OakNorth Bank may accept for risk mitigation purposes. This includes but is not, limited to, debenture/ charge on fixed and floating assets, charge on freehold land or property, guarantees (personal, corporate), and cash reserves/ deposits. OakNorth Bank has a policy guidance on the valuation conditions and methods. OakNorth Bank also has a policy in relation to the external valuation firms/ quantity surveyors who can be added to OakNorth Bank'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 a backstop policy measure, OakNorth Bank refreshes independent, external valuations minimum every 3 years. For the purposes of the provisioning per the enhanced PD and LGD framework, we continue to update the values based on relevant indices.

As of 31 December 2020, 96% of OakNorth Bank's loan facilities were collateralised by security comprising of fixed assets (including property) and charges/ debentures on underlying portfolio of assets (primarily property) (2019: 96%). These exclude any charges on floating assets and guarantees not supported by charge on fixed assets. The weighted average LTV of the book collateralised by property was 54% (2019: 56%).

The loans in Stage 3 are secured with property collateral and consist of a mix of completed and development properties. The Bank has assessed the exposures and recognised an expected credit loss charge £5.0 million (2019: £1.9 million) and allocated COVID overlay provisions of £6.5 million (2019: nil) on the drawn exposure of £100.6 million for the year ended 31 December 2020 (2019: £40.4 million).

4.5.6 Lending under Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS)

During 2020 the Bank partnered with the British Business Bank (BBB) to offer lending under CBILS and CLBILS. Under both schemes the Secretary of State guarantees 80% of the Outstanding Balance. As the guarantor under the scheme is the UK Government, the Bank has reported risk transfer to the UK government to the extent of the guaranteed exposure, which has been risk-weighted at 0% in accordance with Article 114(4) of the CRR.

4.5.7 ENABLE guarantee scheme

OakNorth Bank is a participant in “ENABLE” Guarantee programme with the British Business Bank, which is designed to encourage additional lending to smaller businesses. There are a number of loan and portfolio eligibility conditions that apply for loans placed under the programme.

The programme provides UK government-backed portfolio guarantee to cover a portion of a designated lending portfolio’s net credit losses in excess of an agreed ‘first loss’ threshold. The guarantee therefore provides eligible unfunded credit protection for the eligible loans, with the Bank still exposed to the ‘first loss’ charge, which results in a synthetic securitisation position under the CRR.

As the guarantor under the scheme is the UK Government, the Bank applies credit risk mitigation and risk-weights the guaranteed exposure at 0% in accordance with Article 114(4) of the CRR. The synthetic securitisation position originating from the retained ‘first loss’ charge is deducted from Own Funds in accordance with Article 244(2)(b) of the CRR. The guaranteed portion of the eligible portfolio was £48.9 million (2019: £74.0 million), of which the first loss charge which was deducted from CET1 at year end was £6.0 million (2019: £6.0 million).

4.5.8 Overview of provisioning policy

OakNorth Bank assesses on a forward-looking basis, the Expected Credit Loss (ECL) on the financial assets held at amortised cost and FVOCI, including the exposure arising from loan commitments. This includes provision for lifetime ECL where the risk on the asset has significantly increased.

ECL is computed as: exposure at default (EAD) x probability of default (PD) x loss given default (LGD). Depending on the staging of the loan, the ECL is either 12 month or lifetime. The ECL assessment is done at an individual loan level.

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

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

4.5.8.1 Staging approach

IFRS 9 requires the loans to be classified into 3 stages for assessment of impairment:

- Financial instruments that are not credit impaired at initial recognition are classified as 'Stage 1'. Instruments in Stage 1 have ECL measured for next 12 months. These accounts are monitored on an ongoing basis to ensure that there is no significant increase in the credit risk. Where there is an increase in the credit risk, the account is re-assessed and moved into Stage 2 if triggers are met.

- Financial instruments where there is significant increase in the credit risk is classified as 'Stage 2'. The ECL for Stage 2 accounts is measured on a lifetime basis.

- Financial instruments that are deemed credit-impaired is classified as Stage 3. The ECL for Stage 3 accounts is also measured on a lifetime basis and the interest is recognised net of expected credit losses.

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

The criteria for stage 2 and 3 are determined in accordance with the Credit Risk Management policy of the Bank. The approach considers both quantitative and qualitative triggers. IFRS9 backstop criteria of 30 days past due for Stage 2 and 90 days past due for Stage 3 continue to apply for all non-COVID impacted cases. For cases impacted due to COVID-19 and have availed government supported measures such as payment holidays, deferrals, refinancing, or additional lending under CBILS or CLBILS- these loans are not automatically moved to Stage 2 or 3. The loans are assessed individually if the temporary support measures enable the borrower to revert to standard credit risk metrics over a certain period of time and there is no significant increase in credit risk, in which case they are not classified as Stage 2. They are, however, subject to intensive monitoring procedures and periodic stress testing using the Bank's CVR framework. All loans disbursed under the CBILS or CLBILS have been classified as Stage 1.

Further information on the Bank's credit monitoring procedures and credit risk management is provided in the 'Credit Risk' section of the 'Risk Management Framework' note in the Annual Accounts.

4.5.8.2 Probability of Default (PD)

During the year the Bank updated the PD/LGD information solution for real estate and cash-flow based trading business from third-party data. Due to OakNorth Bank's limited trading history and no realised losses till date, the Bank does not have its own loss data to calibrate an internal assessment of PD and LGD. As a result, the Bank uses external data sources to calibrate the PD score for each loan individually. This is supplemented by a quantitative and qualitative assessment of each individual exposure, which includes (but is not limited to) information on key financial metrics, business performance, the quality of collaterals, business and borrower profile. The PDs used for computing the ECL provisions are based on scenario weighted macroeconomic forecasts.

Real estate PDs : As large part of the Bank's lending exposure is to the real estate and construction sector, the Bank has utilised third-party scenarios for computing the scenario-based forward-looking PDs for its real estate book- with judgement applied on the probability weighting of the scenarios. The third-party real estate information includes calibration of the PDs under three scenarios for the real estate loan book, which includes no growth, mean -reverting and market crash. These third-party scenarios assume forecasts of real estate market factors including - vacancy rates, rent, net operating income, yield/price assumptions- which are offered as a part of the solution. These factors are determined by property type/sub-types, location etc. These scenarios do not directly link to macro-economic variables, however are specific to the changes in the listed real estate market factors:

- No growth scenario: Under this scenario, no-growth is assumed in real estate market factor levels from current market conditions. The Bank has assigned no weighting to this scenario.
- Mean Reverting (baseline): Under this scenario, the key market factors are assumed to revert to their historical mean from the current state. The Bank has assigned 60% weighting to this scenario.
- Market Crash (severe) : Under this scenario, deterioration of the factors is considered under extreme, but plausible adverse market events. The Bank has assigned 40% weighting to this scenario.

The scenarios applied on the year-end loan book were based on the updates released by the third-party in the 2020 summers, which incorporated the impact of COVID on the real estate market.

Cash-flow backed/ trading book PD information: For the cash-flow backed lending/trading book, the Bank has used regression-based analysis of the external PDs obtained from the third-party, under a combination of macroeconomic variables forecast scenarios. The Bank has applied judgement on the choice of the key macroeconomic variables, scenarios and the probability -weighting of the scenarios. The key variables the Bank considers as relevant for the portfolio include GDP, HPI growth, BOE base rate, CPI growth and Unemployment, the highest weight being assigned to GDP.

The scenarios include baseline, adverse and severely adverse scenarios. The Bank has utilised forecasts for the UK economy published by HM treasury, which contains a comparison of independent forecasts to estimate the forecasted variables for the scenarios.

Scenarios Average 2021 – 23	Baseline	Adverse	Severely adverse
GDP growth	3.8%	2.9%	1.9%
UK Unemployment	5.1%	6.5%	7.9%
HPI Growth	3.6%	1.7%	-0.3%
BOE base rate	0.1%	0.06%	0.03%
Weighting	**60%**	**30%**	**10%**

For both the real estate and the cash-flow backed/ trading book, the Bank has assigned 60% weight to the baseline scenario which includes impact of current market conditions and 40% weight to the adverse/severe scenarios. The total outstanding ECL provisions based on the above methodology are £15.5 million as of 31 December 2020. Assigning a 100% weight to the most severe scenarios for both the real estate and trading book would result in an increase in provisions by £3.0 million, while a 100% weight assignment to the baseline scenarios will result in reduction of provisions by £2.0 million.

4.5.8.3 Loss given default (LGD)

The Bank uses expert judgement-based haircuts applied on valuations depending on the collateral type, to determine the LGD for each loan. The primary collateral type for the Bank's lending exposures is real estate and the haircut applied reflects loss in collateral value including costs of realising the collateral. The LGD is calibrated using the third-party solution.

4.5.8.4 Exposure at default

This includes all current outstanding balances and judgement-based estimates of draw-downs on undrawn loan commitments. Expected repayments/ prepayments are currently not considered and as such we believe the calculation is conservative in that regard for computing the ECL. Each drawdown request by the borrower is specifically approved by the Head of Credit Risk or Head of Monitoring. The Bank does not normally allow any drawdowns for exposures that have or are expected to breach financial covenants or are not in compliance of conditions of draw-down.

The undrawn loan commitments are separately identified and the ECL allowance on these is recognised as part of 'Other liabilities'. The ECL on the drawn balances is reduced from the gross carrying value of the loans.

4.5.8.5 COVID ECL Overlay Provisions

In addition to the provisions booked under the PD/LGD methodology, the Bank has booked an additional COVID expected credit loss overlay provisions.

In the past 12 months, macro-economic forecasting has been unreliable and historic relationships/correlations have broken due to COVID-19. The lockdowns have resulted in structural changes in the economy, including changes in consumer behaviour, the way businesses operate, and the unprecedented fiscal support measures implemented by the government. Further, the environment has impacted different sub-sectors of the economy in very varied ways. As a consequence, the existing industry PD/LGD outputs are not able to capture the heightened risks due to COVID, and may therefore, not accurately represent the level of expected credit losses.

To address these risks, the ON Credit Intelligence Suite's COVID Vulnerability (CVR) framework was implemented at the Bank in early 2020, which has enabled the Bank to run a sophisticated stress scenario modelling approach on the entire loan book, which is more granular than industry PD/LGD outputs.

- The CVR framework provides us with granular sub-sector based forward-looking scenarios, which enable the Bank to run 'bottom-up' stresses on the loan book at an underlying borrower level.
- These scenarios help assess the performance of each borrower through the various stages of impact, including- waves of COVID-19 and lockdowns, short-term reboots and the 'new normal', factoring the impact of structural changes. They help forecast cash-flow curves, revenue curves and a number of performance metrics for each borrower.
- The outcomes for each borrower indicate potential levels of losses under different scenarios. These outcomes are probability weighted to determine the IFRS9 COVID overlay provisions. The weightings assigned to the scenarios are based on management judgement.

Specifically, the overlay approach, therefore, addresses the following key forward-looking gaps and uncertainties in the assessment of ECL provisions under IFRS9 which includes potential future SICR, as well as increase in potential losses for each borrower:

- Future performance evolution (cash flow forecasts, coverage ratios etc) of the underlying loan book under different scenarios, considering impact of various COVID specific factors including application and unwinding of fiscal support measures and near and long-term adaptability of client business models.
- Potential inability of industry PD frameworks to assess with adequate granularity, the impact of COVID across industry sectors and sub-sectors due to the unprecedented levels of shock and unanticipated levels of fiscal support, and accelerated shifts of behaviours/business models triggered during the COVID pandemic. For example, the experience of an airport or conference hotel catering to business travellers throughout this crisis will likely have been very different to an

aparthotel or destination resort catering to domestic tourists. Yet, all of these would typically be classified as "hospitality" businesses.

- Scenarios factoring both without and with management actions.
- Stressed views of collateral cover, including evaluating any additional funding requirements for clients and/or increase in exposure due to cost over-runs, simultaneously with potential deterioration of collateral value.

Expert credit judgement has been used in the design of the scenarios. For 2020, three scenarios have been considered which include- scenario based on BOE macroeconomic forecasts which has been assigned 20% weighting and ON Credit Intelligence Suite's CVR scenarios without and with management actions, which have been assigned 50% and 30% weightings.

The ECL provisions output from the PD/LGD framework and the COVID overlay provisions determined using the CVR framework are both reviewed together monthly by the ExCo and quarterly by the Board to ensure these reflect the Bank's assessment of the expected performance of the entire loan book.

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

Gross carrying/ nominal amount (drawn)	2020	2020	2020	2020
	£'000	£'000	£'000	£'000
	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	1,968,550	65,317	40,426	**2,074,293**
Transfers between stages during the year				
– transfers to Stage 1	1,457	(1,457)	-	-
– transfers to Stage 2	(64,977)	64,977	-	-
– transfers to Stage 3	(26,114)	(46,964)	73,078	-
Total transfers	**(89,634)**	**16,556**	**73,078**	-
Net additional lending/ repayment	463,516	239	(12,925)	**450,830**
As at 31 December 2020	**2,342,432**	**82,112**	**100,579**	**2,525,123**

[a]These balances do not include undrawn uncommitted facilities, which are included in the risk exposures for the purposes of COREP reporting. The total amount of uncommitted facilities as at 31 December 2020 was £865.4 million (2019: £966.2 million)

Nominal exposure- undrawn committed	2020	2020	2020	2020
	£'000	£'000	£'000	£'000
	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	116,695	-	-	**116,695**
Transfers between stages during the year				
– transfers to Stage 1	-	-		-
– transfers to Stage 2	(4,287)	4,287	-	-
– transfers to Stage 3	-	-	-	-
Total transfers	**(4,287)**	**4,287**	**-**	**-**

Nominal exposure- undrawn committed	2020 £'000 Stage 1	2020 £'000 Stage 2	2020 £'000 Stage 3	2020 £'000 Total
Net additional lending/ repayment	37,303	(1,915)	2,302	**37,690**
As at 31 December 2020	**149,711**	**2,372**	**2,302**	**154,385**

4.5.8.7 Expected Credit Loss (ECL) allowance under IFRS 9

Allowance for ECL- Drawn balances	2020 £'000 Stage 1	2020 £'000 Stage 2	2020 £'000 Stage 3	2020 £'000 Total
At 1 January 2020	7,831	1,581	1,896	**11,308**
Transfers between stages during the year				
– transfers to Stage 1	28	(28)	-	-
– transfers to Stage 2	(202)	202	-	-
– transfers to Stage 3	(159)	(1,032)	1,191	-
Total transfers	**(333)**	**(858)**	**1,191**	-
Net increase/(reduction) in ECL arising from transfer of stage	(28)	948	44	**964**
Net additional lending/ repayment	1,532	(239)	1,884	**3,177**
Addition of COVID overlay provisions	10,926	-	6,499	**17,425**
As at 31 December 2020	**19,928**	**1,432**	**11,514**	**32,874**

Allowance for ECL- undrawn commitments	2020 £'000 Stage 1	2020 £'000 Stage 2	2020 £'000 Stage 3	2020 £'000 Total
At 1 January 2020	265	-	-	**265**
Transfers between stages during the year				
– transfers to Stage 1	-	-	-	-
– transfers to Stage 2	(8)	8	-	-
– transfers to Stage 3	-	-	-	-
Total transfers	**(8)**	**8**	-	-
Net increase/ (reduction) in ECL arising from transfer of stage	-	22	-	**22**
Net additional lending/ repayment	-	-	-	-
As at 31 December 2020	**257**	**30**	-	**287**

4.6 Credit Risk: Treasury assets

4.6.3 Overview and summary

Credit risk also exists in relation to Treasury assets such as investment securities and deposits/balances placed with other banks. The credit risk associated with Treasury assets is considered to be low. Treasury assets as at 31 December 2020 were held in the form of UK GILTS and balances at Bank of England reserve account. No assets are held for speculative purposes or actively traded. OakNorth Bank had no derivative exposures as at 31 December 2020 (2019: Nil).

OakNorth Bank's primary exposure in this category is to the Bank of England (BOE) - which is UK's Central Bank, and, GILTS issued by the UK Government. OakNorth Bank has very limited exposure to balances with other financial institutions, which are only held temporarily for clearing purposes (to facilitate any loan / deposit flows). For these banks, where available, OakNorth Bank uses publicly available credit ratings from relevant External Credit Assessment Institutions ('ECAIs'), which are mapped to credit quality steps (CQS) as per CRD IV rules, in order to assess the risk weight for standardised credit risk. Where there are two ratings available, the Bank considers the worst rating or if there are three, two common rating are considered to determine the CQS.

2020	CQS 1	CQS 1	CQS 2	CQS 3	CQS 4	Total
Long term rating		AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	
Short term rating		A1	A2	A3	below A3	
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks (BOE)	469,459	-	-	-	-	469,459
UK Government GILTS and Treasury Bills	131,053	-	-	-	-	131,053
Loans & advances to banks	-	-	8,574	2,958	-	11,532
Total	**600,512**	**-**	**8,574**	**2,958**	**-**	**612,044**

2019	CQS 1	CQS 1	CQS 2	CQS 3	CQS 4	Total
Long term rating		AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	
Short term rating		A1	A2	A3	below A3	
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks (BOE)	540,035	-	-	-	-	540,035
UK Government GILTS and Treasury Bills	105,337	-	-	-	-	105,337
Loans & advances to banks	-	-	3,408	10,469	-	13,877
Total	**645,372**	**-**	**3,408**	**10,469**	**-**	**659,249**

4.6.4 Impairment of financial assets classified as FVOCI

The GILTS held by the Bank are classified as and measured at fair value through other comprehensive income (FVOCI). Accordingly, impairment losses are required to be recognised by transferring any expected credit losses recognised directly in equity, to the profit and loss statement. If, in a subsequent period, the fair value increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value is recognised directly in equity since it cannot be reversed through the profit and loss statement. As at 31 December 2020, there were no impaired financial instruments at FVOCI (2019: nil Available for sale financial instruments).

5 Interest Rate Risk in the Banking Book (IRRBB)

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

- Repricing and Basis Risk: The risk arising from repricing mismatch of assets and liabilities. The majority of OakNorth Bank's assets reprice based on variable rates (BOE base rate and LIBOR) while most deposit liabilities are fixed rate.
- 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 Bank's interest rate risk management policy is detailed in OakNorth Bank's Market and Liquidity 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 managing the interest rate risk in the Bank. The Asset and Liability Management Committee (ALCO) is responsible for setting and monitoring the appropriate thresholds and risk appetite limits on the interest rate risk. The reporting of the IRRBB is done on a monthly basis to the ALCO.

The Bank uses a number of measures for measurement and monitoring of interest rate risk. These include:

- NPV sensitivity to 200 basis point (bps) parallel shift in the entire yield curve to measure the interest rate risk in the banking book (IRRBB) and the basis risk exposure report. OakNorth Bank 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 and conditional assumptions on prepayments.
- NPV sensitivity for the 6 pre-defined non-linear rate shocks from the EBA.
- Basis risk metrics including: Earnings at Risk (EAR) measures for 25bps reference rate dislocation (Base rate/ LIBOR/ Customer deposit cost of funding).
- Additionally, we also track NPV sensitivity of 1bps shift in the reference rate gap to rate floors contractually agreed with our borrowers.

The Bank has Risk Appetite metrics to ensure levels are managed within the tolerance of the Board for such risks. To support the Bank in managing within these risks, OakNorth Bank has in place reference rate floors that provide significant protection against adverse rate movements versus origination rates. The Bank does not hold balances in any other currencies.

As at 31 December, the NPV sensitivity to +/-200bps shift including the impact of rate floors was as follows. The impact is positive in both +/- shift:

	2020 (£m)	2019 (£m)
NPV Sensitivity to +2% shift (including base/ LIBOR rate floors)	20.9	19.0
NPV Sensitivity to -2% shift (including base/ LIBOR rate floors)	35.5	25.7

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

6 Liquidity risk

This is defined as the risk that OakNorth Bank is unable to meet its contractual financial obligations as they fall due and is unable to fund future loan draw-downs. The main liquidity risk OakNorth Bank faces is retail deposits funding risk – i.e. the risk that retail funds may be withdrawn from OakNorth Bank at their earliest contractual maturity in the event of a stress occurring.

OakNorth Bank’s Funding policy sets out its approach to funding its requirements and at the same time limiting the concentration of the funding sources. OakNorth Bank has put in place an Individual Liquidity Adequacy Assessment Process (ILAAP), which includes an on-going assessment and quantification of OakNorth Bank's liquidity requirements and risks in various stress scenarios and how OakNorth Bank plans to manage/mitigate risks arising in such stress scenarios. OakNorth Bank also has a liquidity contingency funding plan, which is a part of its Recovery and Resolution plan; this Recovery plan further details a range of credible options for addressing capital and liquidity challenges under a range of stress scenarios.

OakNorth Bank's liquidity position is monitored in accordance with OakNorth Bank’s Liquidity Risk Management Policy and in accordance with the Liquidity risk appetite statements as approved by OakNorth Bank’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 Bank remains on target and within its capital and liquidity risk appetite. Independent oversight is provided by the second line Risk function. ALCO also conducts risk appetite appraisals to ensure that the Capital and Liquidity risk appetite statements are up to date and remain relevant to OakNorth Bank’s operations.

As at 31 December 2020, OakNorth Bank held unencumbered high-quality liquid assets of £469.5 million (2019: £540.0 million).

	2020	2019
Liquidity buffer	469.4	539.9
Net Cash outflows	139.1	143.2
30-day liquidity coverage ratio %	338%	377%

7 Operational risk

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

OakNorth Bank has implemented an Operational Risk policy and robust risk mitigation processes. 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. Second-line and Third-line reviews and monitoring ensure independent challenge and review of the management of material operational risk in the first line functions.

Conduct, compliance and regulatory risks

Conduct Risk is defined as the risk that a firm's behaviour results in poor outcomes for customers. OakNorth Bank is committed to delivering good outcomes for its customers.

Compliance risk is defined as the risk of impairment to the organisation's business model, reputation and/ or financial condition resulting from failure to meet laws, regulations, standards and policies, and expectations of regulators and society as whole.

Regulatory risk is defined as the risk of regulatory sanction, financial loss, or loss to reputation OakNorth Bank may suffer because of failure to comply with all laws and regulations, and the expectations of regulators.

OakNorth Bank has no appetite for any breach of regulation, code or standard of conduct. OakNorth Bank uses a "customer outcomes" focussed approach to assess conduct performance. Staff are provided with a Compliance Manual and appropriate training to provide an overview of the regulatory system under which OakNorth Bank operates, to provide an outline of OakNorth Bank's Compliance policy in each area, and to provide instructions on policies and procedures for compliance.

7.6 Operational risk capital charge computation

The operational risk capital charge for OakNorth Bank under Pillar 1 is calculated using the Basic Indicator Approach, whereby a 15 per cent multiplier is applied to the 3-year historical average net interest and fee income. Based on this computation, the capital charge for the period ended 31 December 2020 was £9.6 million (2019: £4.8 million).

8 Securitisation exposures

Synthetic securitisation: OakNorth Bank is a participant in "ENABLE" Guarantee programme with the British Business Bank, which is designed to encourage additional lending to smaller businesses. The programme provides UK government-backed portfolio guarantee to cover a portion of a designated lending portfolio's net credit losses in excess of an agreed 'first loss' threshold. The guarantee therefore provides eligible unfunded credit protection for the eligible loans, with the Bank still exposed to the 'first loss' charge, which results in a synthetic securitisation position under the CRR. The guaranteed portion of the eligible portfolio was £48.9 million (2019: £74.0 million), which has been risk weighted at 0% in accordance with Article 114(4) of the CRR. The 'first loss' charge of £6.0 million (2019: £6.0 million) has been deducted from Own Funds in accordance with Article 244(2)(b) of the CRR. All the exposures remain fully on balance sheet, with the guarantee treated as eligible unfunded credit protection. As at 31 December 2020, all the loans under the guarantee were performing, with no events of default. Further information on the ENABLE guarantee programme is provided in section 4.5 of this document.

Securitisations impact of (EU) 2017/2402 (Securitisation Regulations) on the loan book: The Bank as part of its lending operations provides loans to financial services companies (non-bank) with lending via a special purpose vehicle (SPV) or lending to a trading entity that onward lends to multiple underlying borrowing SPVs. Specific legal review has been conducted on these loans to consider whether any of these loans qualify as "securitisations". As of the reporting date 31 December 2020, the Bank had one loan of £5.7 million , which was deemed to be a securitisation exposure. Therefore, in accordance with CRR Article 36, this exposure has been deducted from CET1 capital as at the 31 December 2020 reporting date.

9 Asset encumbrance

As of 31 December 2020, OakNorth Bank had borrowed £181.9 million (2019: £181.9 million) under the Bank of England's (BOE) Term Funding scheme (TFS). The interest payable on the borrowings is linked to the BOE base rate, which is currently 10bps (2019: 75bps). The borrowing is repayable after four years of drawdown - £1.0 million is repayable in June 2021 and £180.9 million is repayable in January/ February 2022.

The borrowing is collateralised against UK GILT portfolio of £131.1 million and loans at amortised cost of £120.6 million The borrowing is held at amortised cost.

2020	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	£'000	£'000	£'000	£'000
Assets of the reporting institution	**251,687**	**131,053**	**2,864,530**	**N/A**
Loans on demand[a]	-	-	480,991	N/A
Equity instruments	-	-	-	-
Debt securities	131,053	131,053	-	N/A
Loans and advances other than loans on demand[b]	120,634	-	2,371,615	N/A
Other assets	-	-	11,924	N/A

[a]includes £469.5 million of balances held at Bank of England (2019: £540.0 million) and £11.5 million of balances held at other banks (2019: £11.3 million)
[b]Loans and advances to customers per financial statements

2019	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	£'000	£'000	£'000	£'000
Assets of the reporting institution	**328,763**	**105,337**	**2,401,161**	**N/A**
Loans on demand	-	-	551,333	N/A
Equity instruments	-	-	-	-
Debt securities	105,337	105,337	-	N/A
Loans and advances other than loans on demand	223,426	-	1,839,559	N/A
Other assets	-	-	10,268	N/A

Collateral received: Nil (2019: nil)

Carrying amount of associated liabilities: £181.8 million (2019: £182.0 million)

The only source of encumbrance for the Bank for both 2020 and 2019 was through positioning of loan and UK 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.

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

10 Remuneration disclosures

This section describes the remuneration policy and governance of OakNorth Bank and discloses details of the remuneration of the Bank's 20 "Code Staff" (see below) for the year ending 31 December 2020.

These disclosures are made in accordance with Article 450 of the Capital Requirements Regulation (CRR) and should be read in conjunction with the 2020 Annual Report.

10.1 Approach to remuneration

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

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

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

In practically applying PRA and FCA guidance, OakNorth Bank classifies its employees as either Code or Non-Code Staff. Code staff are comprised of Senior Managers (covered by the Senior Managers Regime), Risk Managers excluding those covered by the Senior Managers Regime, and all other Material Risk Takers (MRTs). During the year ended 31 December 2020, OakNorth Bank employed 20 Code Staff (3 Executive Directors, 5 Non-Executive Directors, and 12 Senior Managers and additional MRTs). For completeness, 1 MRT left the organisation in March 2020, and is not included in the 31 December 2020 numbers.

OakNorth Bank further seeks to calibrate its approach to remuneration through a regular review of its remuneration policy and practices, at least annually. We use both external benchmarks issued by various professional bodies as well as internal reviews by our first line owners, second line oversight and, as relevant, the Remuneration and Nomination Committee and Internal Audit.

10.2 Board Remuneration and Nomination Committee (REMCO & NOMCO)

The Board Remuneration and Nomination Committee is responsible for ensuring that remuneration arrangements support the strategic aims of OakNorth Bank, drive the right behaviours from staff, comply with best practices, and with the requirements of regulation. All remuneration is set in line with the Remuneration Code (SYSC 19D, as relevant to proportionality level 3 firms). The Committee has delegated authority from the Board for the review and approval of the Remuneration Policy, setting remuneration and remuneration structure for all Executive Directors, Non-Executive Directors (NEDs) including the Chairman and other key individuals such as Senior Managers and employees captured under the scope of the Certification Regime. The Committee reviews and recommends, alongside the Board, the selection and appointment of Board members as well as the Board structure. The independent Non-Executive Directors are entitled to yearly fees for attending Board or Committee meetings at the rate that may be agreed upon between the Shareholders and the Board of Directors from time to time. Changes in Board compensation, if any, arise out of the recommendation of the Board Remuneration and Nomination Committee with necessary approvals by the Board, Shareholders and PRA and FCA as appropriate.

The Committee's membership is formed by the Chairman (Chair of the Remuneration and Nomination Committee), the Senior Independent Director (SID) and 2 Independent Non-Executive Directors (INED). The Chief Executive Officer (CEO), Senior Managing Director (SMD) and Notified NED are standing invitees at each meeting but are not voting members. The People Operations Associate Director acts as Secretary to the Committee. The Committee aims to meet three times a year as called by the Committee Chairman. At least once per annum the Chief Risk Officer (CRO) and Chief Financial Officer (CFO) advise the Committee on specific risk adjustments to be applied to performance objectives of the Executive Directors and any Code Staff, set in the context of incentive packages. Three meetings were convened inside of 2020 with all members in attendance at every meeting.

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

Key example agenda items included:

- Senior Manager performance including specific objectives and key metrics;
- Succession Planning, including approval of specific departures and appointments, and key-man insurance;
- Appointment of Senior Managers including the new CFO;
- Bonus pool provision mechanism and composition for 2020 performance year;
- Companywide bonuses for the 2019 performance year decided and individual bonus awards (2019) and compensation reviews (2019) for Material Risk Takers (MRTs)
- Performance evaluation for Debt Finance Directors in line with the Debt Finance Team Incentive Scheme (DFTIS); and
- Board nominations in line with the UK corporate governance code.

10.2.1 Board Diversity

The Bank has a diversity policy duly approved by the Board of Directors. Through the policy the Bank asserts its commitment to increase diversity at all levels and to provide equal opportunities throughout employment, including in the recruitment, training and promotion of employees. The Bank is passionate about eliminating discrimination in the workplace, whether on grounds of age, disability, gender or gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation (the "Protected Characteristics"). All job applicants and employees are treated fairly and assessed solely on merit. The aim of the Bank is to have a balanced age distribution and no gender or age limit on any career opportunities. A further objective of the Bank is to attract job, promotion, and training applications from the best possible candidates, regardless of any Protected Characteristics. Company procedures and policies are based on this objective. This commitment applies equally to members of the Board of Directors. All Board of Directors appointments are made solely on merit, in the context of the skills, experience, independence and knowledge which the Board of Directors as a whole requires to be effective.

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

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

10.2.2 Board Recruitment

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

The Board Remuneration and Nomination Committee is chaired by the PRA-approved SMF9, 12 and 13-holder, currently the Board Chairman. Its membership consists of Non-Executive Directors only, including the Chairman of the Board Risk and Compliance Committee and the Chairman of the Board Audit Committee and the Senior Independent Director. 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 Bank'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 Bank'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 Bank. 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 Bank.

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

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

10.3 Remuneration Policy

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

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

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

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

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

- Interests of our Employees will be aligned with the interests of our clients, long-term interests of the Bank, OakNorth Bank shareholders, investors and other stakeholders in the Bank as well as the public interest;

- Employees will not be rewarded for risks that are unwarranted;

- OakNorth Bank's Origination team will be incentivised on the basis of creating strong portfolio performance and long-term sustainability of performance alongside strong customer outcomes as opposed to short term loan volumes;

- OakNorth Bank's Second and Third lines of defence will not be incentivised for volumes of business. They will be incentivised on the delivery of objectives linked to their functions and the maintenance of a robust control environment. The remuneration of their senior officers will be directly overseen by the Board Remuneration and Nomination Committee;

- OakNorth Bank's Risk management and Compliance functions will have appropriate input into setting the remuneration policy for other business areas to minimise any undue risks the Bank may be otherwise subject to without this oversight;

- Bonuses will be subject to clawback and malus provisions;

- OakNorth Bank plc is a level three firm under the Remuneration Code proportionality rules. As a result, as appropriate for a level three firm (cf. the FCA's FG17/8 General Guidance on Proportionality - The Dual-regulated firms Remuneration Code (SYSC 19D) - May 2017 - Part D guidance to firms in particular proportionality levels - paragraph 4.5), it will disapply the following rules:

    - retained shares or other instruments (SYSC 19D.3.56R);

    - deferral (SYSC 19D.3.59R); and

- performance adjustment (SYSC 19D.3.61R – SYSC 19D.3.62R).

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

10.4 Remuneration Structure

OakNorth Bank seeks to combine various remuneration/incentive components to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's seniority in the professional activity as well as market practice. The three remuneration components that employees are eligible to receive include: 1) Basic Salary; 2) Benefits; 3) Cash Bonus (immediate and deferred) and 4) Employee Shareholder Share Scheme ("ESS"). These remuneration components are used to reward employees firm-wide although from 2020 the pay-out to the Bank's origination team is governed under a separate scheme known as the Debt Finance Team Incentive Scheme (DFTIS). The DFTIS is based on explicitly defined quality and risk measures designed to create long term sustainable performance and includes clawback related to loan losses.

10.5 Remuneration Components

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

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

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

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

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

Guaranteed bonuses: are awarded on an exceptional basis: 1) it occurs in the context of incentivising recruitment of new staff 2) it is limited to the first year of service and 3) the firm has a strong and sound capital base.

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

The Bank's bonus pool provisions consist of a 'Debt Finance (DF) Team' bonus pool, ExCo bonus pool and an 'All Other Teams' bonus pool. The three bonus pools (Debt Finance, ExCo and all Other Employees) are added to determine the total bonus pool which is sanity checked against our profitability, capital and liquidity surpluses against regulatory requirements and Board risk appetite statements. The pool is also checked in relation to the size and maturity as a bank, in order to assess whether it is prudent for our bank to pay a bonus pool of that amount.

Inside the bonus pool for the origination (DF) team, performance objectives are measured on several qualitative factors such as behaviours reflective of OakNorth Bank values, brand cultivation, customer service, and ongoing risk awareness. The scheme focuses on team targets, driving strong loan quality and high credit standards. Additionally, the Bank's Second line of defence (Risk, Compliance and/or Credit functions) provide appropriate input into the initial objectives setting and subsequent assessment of individual and team performance. Quality and risk measures are explicitly included in the incentive scheme design and are aligned with long term sustainable performance.

The Bank performs an assessment of its capital base and profits before confirming any bonus pool amounts. The Bank employs a bottom-up approach to determine the bonus pool i.e. beginning the process with an evaluation of every individual staff member and calculating a potential bonus. Bonus amount is based on a combination of 1) historical bonus for that person; 2) their performance with respect to their job; 3) job market/economic outlook and 4) adherence to the Bank's values, culture and long-term performance objectives. The Bank then aggregates these figures to come up with a total which is then evaluated alongside company performance (profitability), strategic outlook and institutional size. Once the bonus pool provisions are decided, the Bank then performs ex-ante and ex-post adjustments to assess whether we need to apply a bonus pool adjustment. We consider a combination of financial and non-financial criteria including an assessment of operational risk, conduct risk, client outcomes, values and strategy as well as (where they exist) material losses, significant risk events, etc.

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

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

Part of an individual's bonus award may be deferred. The deferred portion will include provisions such as malus and clawback. Bonuses are only awarded to employees who have met the performance criteria.

The following rules are applicable in rewarding cash bonuses:

- Cash bonuses may be paid upfront or some percentage deferred;

- Cash bonuses relating to the 2020 performance year will be paid in cash in Q1 2021 or deferred across a maximum of 4 years;
- All members of the Bank's origination team will be paid per a 4-year deferral schedule;
- All members of the Bank's senior management body will have some percentage of their cash bonus deferred;
- Maximum percentage of bonus has been fixed at an amount equivalent to 100% (one hundred percent) of base salary for all Code Staff. Bonuses for the majority of employees shall be less than 50% (fifty percent) of base salary. In certain exceptional cases, bonuses may be awarded above 100% (one hundred percent) solely at the discretion of the CEO and REMCO & NOMCO for non-Code Staff e.g. the DF team;
- Bonuses will be based on both overall bank risk-adjusted performance and an individual's performance; and
- In line with our Remuneration Policy, bonuses of particularly high amounts, typically defined as £500,000 or above, or bonuses payable to Executive Directors may be subject to a minimum deferral of 60%. Further to Remuneration Principle 12(g), the Bank may also use its discretion when defining a 'particularly high amount' and subject lower bonus sums to this deferral rule.

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

Employee Shareholder Share ("ESS") scheme: helps to incentivise the achievement of the Bank's long-term objectives i.e., by aligning executive and shareholder interests and by retaining key individuals. Selected senior members of staff will be issued an agreed number of a new class of restricted shares in Holdings. The ESS scheme aims to encourage selected staff to display the correct behaviour, serve as stalwarts of OakNorth Bank's values, and drive performance by aligning commercial interests to those of shareholders. If the shares are fixed, then this shall count towards fixed remuneration vs variable remuneration.

10.6 Remuneration for Code Staff

The following table below shows total fixed and variable remuneration awarded to Code staff in respect of the performance year 2020.

Number of Code Staff: 20

Remuneration Type	2020 Payments £'000		
	Executive Directors (4)	Non-Executive Directors (6)	Code Staff (14)
Total Fixed remuneration			
- Cash-based	3,031	478	2,210
- Shares	3	--	5
Total Variable remuneration paid in 2020			
- Cash-based	197	--	387
- Shares	--	--	--
Total Deferred remuneration paid in 2020			
- Cash-based	27	--	185
- Shares	--	--	--
Pension and Insurance	--	--	14
Severance Payments	--	--	--
Total Deferred Remuneration outstanding as at the end of 2020*			
Cash-based	60	--	755
Shares	--	--	6
Total Remuneration in 2020	**3,318**	**478**	**3,561**

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

The table below shows the amount of severance and guaranteed variable remuneration payments made to Code Staff during the financial year ended 31 December 2020, as well as any individuals remunerated over £1.0 million.

Severance payments made during 2020	0
Guaranteed variable remuneration payments made during 2020 (£'000)	274
Number of individuals remunerated over £1 million	1

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

11 Appendix- Own funds disclosures templates

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

TABLE: CAPITAL INSTRUMENTS MAIN FEATURES TEMPLATE		
	CET1	**Tier 2**
Capital Instruments main features template		
Issuer	OakNorth Bank plc	OakNorth Bank plc
Unique identifier	None	XS1713463047
Governing law(s) of the instrument	English	English
Regulatory treatment		
Transitional CRR rules	Common Equity Tier 1	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2
Eligible at solo/(sub-) consolidated/ solo&(sub-) consolidated	Solo	Solo
Instrument type (types to be specified by each jurisdiction)	Ordinary share capital	Subordinated debt
Amount recognised in regulatory capital (currency in '000, as of most recent reporting date)	£389,320	£50,000
Nominal amount of instrument ('000)	£389,320	£50,000
Issue price	N/A	98.986% of nominal amount
Redemption price	N/A	Principal plus accrued and unpaid interest
Accounting classification	Shareholders' equity	Liability – amortised cost
Original date of issuance	First issuance in June 2013 on incorporation. Subsequent multiple issuances of identical instrument were done through 2013-2019	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

TABLE: CAPITAL INSTRUMENTS MAIN FEATURES TEMPLATE		
	CET1	**Tier 2**
		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-20	31-Dec-19
Capital instruments and the related share premium accounts	389,320	389,320
of which: Ordinary shares	389,320	389,320
Retained earnings	139,278	80,744
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	79	42
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**528,677**	**470,106**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(168)	(204)
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)	(870)	(552)
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(11,697)	(6,000)
Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-CRR treatment	13,147	-
Total regulatory adjustments to common equity tier 1 capital	412	(6,756)
Common equity tier 1 capital	**529,089**	**463,350**
Additional tier 1 capital: instruments		
Additional tier 1 capital before regulatory adjustments	**-**	**-**
Additional tier 1 capital: regulatory adjustments		
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital	**529,089**	**463,350**
Tier 2 capital: instruments and provisions		
Capital instruments and the related share premium accounts	50,000	50,000
Credit risk adjustments	-	-
Tier 2 capital before regulatory adjustments	**50,000**	**50,000**
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to tier 2 capital	**-**	**-**
Tier 2 capital	**50,000**	**50,000**
Total capital	**579,089**	**513,350**
Total risk weighted assets	**2,645,393**	**2,236,926**
Capital ratios and buffers		
Common equity tier 1 (as a percentage of risk exposure amount)	20.0%	20.7%
Tier 1 (as a percentage of risk exposure amount)	20.0%	20.7%

Transitional Own Funds Disclosure template		
Total capital (as a percentage of risk exposure amount)	21.9%	22.9%
Institution specific buffer requirement (common equity tier 1 capital requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	3.06%	3.5%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical buffer requirement	0.0%	1.0%
of which: systemic risk buffer requirement	N/A	N/A
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	N/A	N/A
Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.3%	10.8%
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)	-	-
Cap on inclusion of credit risk adjustments in tier 2 capital under standardised approach	N/A	N/A
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	N/A	N/A
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (continued)	N/A	N/A

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