



OakNorth
Bank

OakNorth Bank Limited
Pillar 3 Remuneration Disclosures
31/12/2016

Registered number: 08595042

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1 Remuneration Disclosures

1.1 Approach to Remuneration

The approach taken by OakNorth Bank in respect of remuneration emanates from a combination of regulatory guidance, in particular the dual-regulated firm's Remuneration Code (<https://fshandbook.info/FS/html/handbook/SYSC/19D>), [as appropriate for Level 3 firms], the rules on remuneration published by the Prudential Regulation Authority (PRA) and FCA on 23 June 2015 (<http://www.bankofengland.co.uk/pru/Pages/publications/ps/2015/ps1215.aspx>), 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 Committee (REMCO) further serves to assure, through its principle oversight function, the alignment of remuneration with both the strategic aims of OakNorth Bank and regulatory compliance requirements.

Additionally, due to the size and maturity of our business, OakNorth 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). Inside the year ended 31 December 2016, OakNorth employed 31 Code Staff (5 Executive Directors, 5 Non-Executive Directors, 5 Senior Managers and 16 additional MRTs).

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

1.2 Board Remuneration Committee (REMCO)

The Board Remuneration 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 (Remuneration Code SYSC 19D). The Committee has delegated authority from the Board for the review and approval of the Remuneration Policy, setting remuneration and remuneration structure for all Executive Directors, 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 Committee's membership is formed by the Chairman (Chair of the Remuneration Committee), the Senior Independent Director (SID) and Independent Non-Executive Director (INED). The Chief Executive Officer (CEO), Chief Strategy Officer (CSO) and Notified NEDs are standing invitees at each meeting but are not voting members. The Head of People Operations acts as Secretary to the Committee. Meetings are held quarterly or more frequently as called by the Committee Chairman. At

least once per annum the Chief Risk Officer advises 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. Four meetings were convened inside of 2016 with all members in attendance at every meeting.

Key example agenda items included:

- Approval of job descriptions for Senior Managers including specific objectives and key metrics;
- Succession Plan policy approval and specific departures and appointments discussed and planned for;
- Formal handover of Board RemCo Chair duties from INED to Board Chairman;
- Employee Shareholder Share Scheme approved and proposed shares to individuals subsequently signed off;
- Review and approval of Business Development Team Incentive Scheme (what determines the bonus pool allocation and awards for the origination team) revisions following a 3rd party compliance thematic review. 2017 bonus pool targets agreed;
- Approval of revised Remuneration policy which included the Employee Shareholder Share Scheme as a replacement for the Long Term Incentive Plan (LTIP);
- Companywide bonus pool for the 2015 performance year decided and individual bonus awards (2015) and salary increases (2016) for Material Risk Takers (MRTs) agreed; and
- SWOT analysis of Deputy CEO conducted and recommendation of formal appointment sent to OakNorth Bank Board for approval.

1.3 Remuneration Policy

OakNorth Bank's Remuneration Policy is applicable to all of its employees [the Board of Directors has adopted the Remuneration Policy at the proposal of the Remuneration Committee] and a review will be 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 regulations 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 will enable incentives to be provided (in the form of additions or reductions to grants and/or bonuses) for the purpose of meeting the bank's long-term strategic objectives and general goals in the areas of risk management, positive customer outcomes,

regulatory and statutory compliance, regulatory and other key stakeholder expectations and bank procedures.

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

- Interests of our Employees will be aligned with the interests of our clients, long-term interests of the bank, OakNorth Bank shareholders, investors and other stakeholders in the bank as well as the public interest;
- Employees will not be rewarded for risks that are unwarranted;
- OakNorth Bank's First line of defence (i.e. Origination) will be incentivised on the basis of creating strong portfolio performance and long term sustainability of performance alongside strong customer outcomes as opposed to short term loan volumes;
- OakNorth Bank's Second and Third lines of defence will not be incentivised for volumes of business. They will be incentivised on the delivery of objectives linked to their functions and the maintenance of a robust control environment. The remuneration of their senior officers will be directly overseen by the Board Remuneration 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;
- Principles of "malus" and "clawback" will be implemented where relevant;
- OakNorth Bank Ltd is a level three firm under the Remuneration Code proportionality rules. As a result, as is normally appropriate for a level three firm (cf. paragraph 4.5 of the FCA's Annex 4 (Part 3) – Finalised non-handbook guidance - General Guidance on Proportionality - The Dual-regulated firms Remuneration Code (SYSC 19D) of 1 July 2015), it will disapply the following rules:
 - 1 retained shares or other instruments (SYSC 19D.3.56R);
 - 2 deferral (SYSC 19D.3.59R); and
 - 3 performance adjustment (SYSC 19D.3.61R – SYSC 19D.3.62R).

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

1.4 Remuneration Structure

OakNorth Bank seeks to combine various remuneration/incentive components to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in the professional activity as well as market practice. The three remuneration components that every employee is eligible to receive include: 1) Basic Salary; 2) Benefits; and 3) Cash Bonus (immediate and deferred). These remuneration components will be used to reward employees firm-wide although from 2017 onwards the payout of the bank's origination team will be governed under a separate scheme based on explicitly defined quality and risk measures designed to create long term sustainable performance and inclusive of a clawback related to loan losses.

1.4.1 Remuneration Components

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

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

- Employees will be remunerated, keeping in line with the industry norms, at a median level;
-

- The bank will comply with the Remuneration Code and PRA PS12/15, at the relevant Tier, as per regulatory guidelines;
- Two primary groups of Employees are created:
 - Code Staff shall comprise of Senior Managers (covered by the Senior Managers Regime), Risk Managers excluding those covered by the Senior Managers Regime, and all other Material Risk Takers; and
 - Non-Code Staff shall comprise of everyone other than Code Staff.
- The bank will maintain a record of Code Staff and ensure they understand the implications of their status; and
- The majority of staff compensation shall consist of a fixed monthly salary.

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

Benefits: the bank will comply with statutory guidelines to provide a pension scheme to all employees.

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

The Bank's bonus pool provision shall consist of a 'Business Development (BD) Team' bonus pool and an 'All Other Teams' bonus pool. Inside the bonus pool for the origination (BD) team, performance objectives will not solely be linked to business volumes, but rather determined by repayments and recovery (and hence credit quality), as well as modelling good behaviours reflective of Company values.

In accordance with best practice, the Bank will perform an assessment of its capital base before confirming any bonus pool amounts. The Bank will employ 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 will be based on 1) a combination of historical bonus for that person; 2) their performance with respect to their job, and; 3) adherence to the Bank's values, culture and long term performance objectives. The Bank will then aggregate these figures to come up with a total which will then be evaluated alongside company performance (profitability), strategic outlook and institutional size. Once the bonus pool provisions are decided the Bank will then perform ex-ante and ex-post adjustments which take into consideration a combination of financial and non-financial criteria including among other things, an assessment of operational risk, conduct risk, client outcomes, values and strategy as well as material losses, significant risk events, etc.

The quantum of the bonus pool will be at a level that does not limit the bank's ability to strengthen its capital base.

The bonus pool will be allocated to individual staff based on performance and senior management judgment.

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

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

Bonuses are only awarded to employees whose performance has been objectively measured as in excess of that required to fulfil the employee's job description as part of the terms of employment.

The following rules will be applicable in rewarding cash bonuses:

- Cash bonuses may be paid upfront or some percentage deferred;
- Cash bonuses relating to the 2016 performance year will be paid in cash in Q2 2016 or deferred across a maximum of 4 years;
- All members of the bank's origination team will be paid per a 4-year deferral schedule;
- All members of the bank's senior management body will have all or some percentage of their cash bonus deferred;
- Maximum percentage of bonus has been fixed at an amount equivalent to 100% (one hundred percent) of base salary for all Code Staff. Bonus for majority of employees shall be less than 50 % (fifty percent) of base salary. In certain exceptional cases, bonus may be awarded above 100% (one hundred percent) solely at the discretion of the CEO and RemCo for non-Code Staff;
- Bonuses will be based on both overall bank risk-adjusted performance and an individual's performance;
- In line with our Remuneration Policy, bonuses of particularly high amounts, typically defined as £500,000 or above, or bonuses payable to executive directors may be subject to a minimum deferral of 60%. Further to Remuneration Principle 12(g), the bank may also use its discretion when defining a 'particularly high amount' and subject lower bonus sums to this deferral rule.

Every employment contract of the bank shall have malus and claw-back provisions as well as other provisions for amendment/cancellation of bonus schemes, as and when required.

1.5 Remuneration for Code Staff

The following table below shows total fixed and variable remuneration awarded to Code staff in respect of the performance year 2016.

Number of Code Staff: 31

| Remuneration Type | | 2016 Payments £'000 | | |
|---------------------------------|--|-------------------------|-----------------------------|-----------------|
| | | Executive Directors (5) | Non-Executive Directors (5) | Code Staff (21) |
| Total Fixed remuneration | | | | |
| - Cash-based | | 422 | 350 | 2,029 |
| - Shares | | -- | -- | 3 |

| | | | | |
|---|--|------------|------------|--------------|
| - Other | | -- | -- | -- |
| Total Variable remuneration paid in 2016 | | | | |
| - Cash-based | | 17 | -- | 63 |
| - Shares | | -- | -- | -- |
| - Other | | -- | -- | -- |
| Total Deferred remuneration paid in 2016 | | | | |
| - Cash-based | | -- | -- | 20 |
| - Shares | | -- | -- | -- |
| - Other | | -- | -- | -- |
| Pension and Insurance | | -- | -- | -- |
| Severance Payments | | -- | -- | -- |
| Total Remuneration | | 439 | 350 | 2,115 |

2016 performance awards were paid in 2017 except for a small number of guaranteed payments which were issued during the 2016 financial year. As per the external guidance received by OakNorth Bank from Deloitte, Employer NI has been excluded from all calculations shown within the tables enclosed.

The table below shows the amount of severance and guaranteed variable remuneration payments made to Code Staff during the financial year ended 31 December 2016, as well as any individuals remunerated over £1m.

| | |
|---|----|
| Severance payments made during 2016 | 0 |
| Guaranteed variable remuneration payments made during 2016 | 25 |
| Individuals remunerated over £1m | 0 |