

Annual report 2018



OakNorth

Lending for Entrepreneurs, by Entrepreneurs

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2015

March 2015

We secured the third new banking licence in the UK in 150 years

November 2015

The holding company secured a £66m equity investment from IndiaBulls - India's largest non-bank SME lender

2016

June 2016

We won "Fast Growth Champion of the Year" at the Growing Business Awards

September 2015

We launched after being granted full authorisation from the PRA and FCA

May 2016

We became the first UK bank to have its core systems fully hosted in the Cloud

September 2016

We became the first new bank in the UK to reach cash flow break-even in its first year of operations

2017

January 2017

We became the first non-incumbent bank to join the British Business Bank's Help to Grow Programme

May 2017

We won the "Cloud Innovation of the Year" Award at the FS Tech Awards, and the "Residential Financier of the Year" at Property Week's RESI Awards

November 2017

The holding company secured a £90m secondary investment from GIC, the Singaporean sovereign wealth fund.

April 2017

We won the "Banking in the Cloud" Award at the Celent Model Bank Awards

October 2017

The holding company secured £160m equity investment, attracting new investors on board

December 2017

We were approved as participants in the Bank of England's Term Funding Scheme

We won "Bank of the Year" at the City A.M. Awards

2018

April 2018

OakNorth legal entity re-registered from a private company to a public company

June 2018

We issued £50m of Subordinated debt listed on the Irish Stock Exchange

October 2018

The holding company rebranded ACORN machine to OakNorth Analytical Intelligence

March 2018

We announced a profit of £9.5m for the year ended December 2017, just our second year of operations

May 2018

We won "Property Lender of the Year" at the PROPS Awards

September 2018

The holding company secured £74m equity investment from new and existing investors

We won the "Lender of the Year" at the Estates Gazette Awards

2019

February 2019

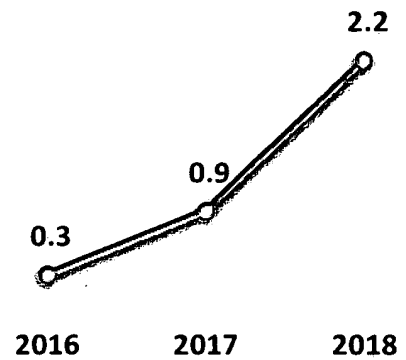
The holding company secured equity investment from Softbank and the Clermont group for £335m (£300m primary and £35m secondary)

Key highlights

Total loan facilities¹

£2.2bn

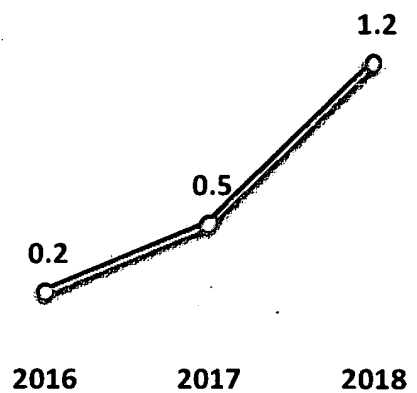
160% growth year-on-year



Total customer deposits

£1.2bn

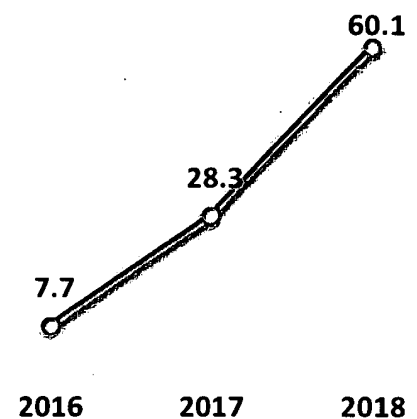
139% growth year-on-year



Total operating income

£60.1m

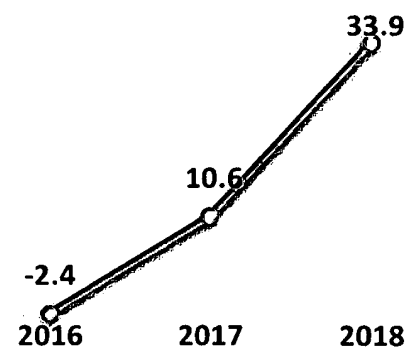
113% growth year-on-year



Total profit before tax

£33.9m

220% growth year-on-year

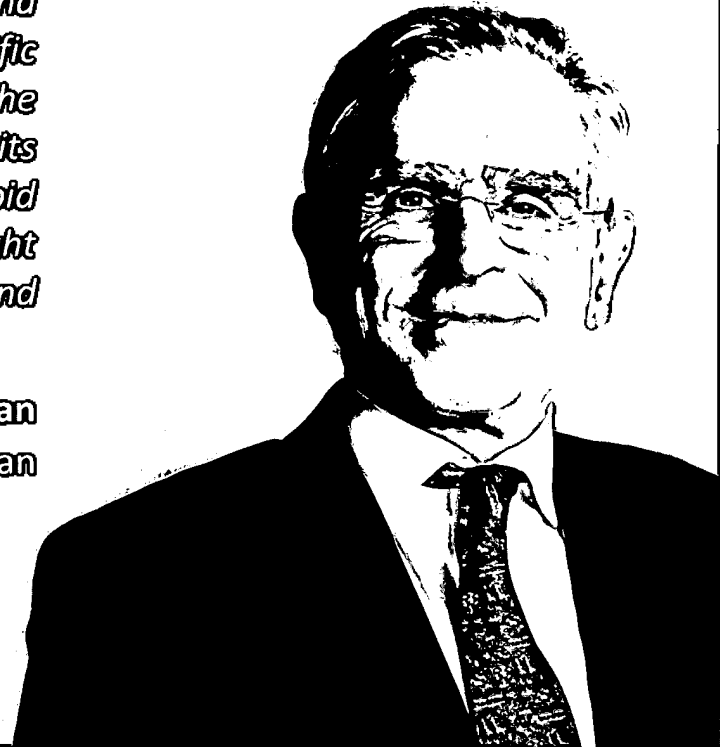


¹ Including drawn and undrawn (both committed and uncommitted) facilities

Chairman's statement

OakNorth continues to experience rapid growth and strong profitability through addressing the specific needs of entrepreneurs. We are confident that the Bank's unique analytical platform underpinning its credit decisions, will enable it to maintain its rapid growth notwithstanding any challenges that might emerge from uncertainties surrounding Brexit and beyond.

Cyrus Ardalan
Chairman



Our Mission

OakNorth was conceived by the Bank's founders Rishi Khosla and Joel Perlman with a simple but important mission in mind – to enable entrepreneurs like themselves to secure the debt finance they need to pursue their growth ambitions. The idea was born out of their own negative experience when trying to secure debt finance to scale their first business, Copal Amba (now part of Moody's Corp.)

Owner-managed businesses looking for a £500,000 loan, or growth firms in scale-up mode looking for a £40 million loan, all face the same challenge – how to obtain a bespoke, structured lending solution to meet the specific requirements of their businesses, without having to wait months for an answer.

The technology platform which we use - OakNorth Analytical Intelligence (ONAI), is the solution to this problem. In the UK, it has been a key factor in the successful growth of OakNorth Bank plc, and throughout the rest of the world, ONAI licenses the platform to other banks, enabling them to replicate the OakNorth model in their own markets.

Setting a new standard for SME lending

The strength and viability of this proposition and the business model underlying it have been clearly demonstrated since we began trading in September 2015. We have grown our loan book to £2.2 billion with a qualified pipeline of a further £2 billion for 2019. We have done this profitably – profit before tax for 2018 was £33.9 million, up from £10.6 million in 2017. We have received over £400 million in repayments and have built a loyal customer base, with one-third of our lead generation now coming from existing borrowers.

Businesses across the UK are increasingly realising that their options to fund their growth are not limited to their clearing bank. At OakNorth, clients receive 'yes' or 'no' decisions quickly, transact loans in weeks rather than the months it takes incumbent institutions, discuss their borrowing needs directly with the decision makers (Credit Committee) rather than having to deal with an opaque process, and obtain a financing package with a bespoke structure tailored to their individual business needs.

Financing the best in Britain

We are delighted that our clients are some of the fastest-growing and most successful businesses in the UK. These have included: Inception Group and LEON - both listed in the 'Sunday Times Fast Track 100', Z Hotels in City A.M.'s 'Leap 100', Galliard and Frogmore's development at The Chilterns winning the 'Best Apartment Award' at the London Evening Standard's New Home Awards, NetPay winning the coveted 'B2B of the Year' Award at the Growing

Business Awards, Brasserie Blanc winning the 'Evolution Award' at the Retailer Awards, ICP Nurseries winning the 'Top 20 Large Nursery Group Award' from daynurseries.co.uk. The list goes on.

OakNorth's financial support to our clients, backed by the Bank's rigorous underwriting standards, has been an important endorsement and vote of confidence in our clients' businesses. This, in turn, is helping them to secure equity investment more easily, attract the attention of prospective M&A partners, and strengthen their market position at a time when many of their industry peers are struggling.

A loyal and growing savings customer base

The OakNorth brand is appealing to an ever-growing number of loyal deposit customers – 28,000 account holders, more than doubled from 12,000 at the end of 2017.

These savers have taken advantage of our competitively-priced savings products, with terms to suit a range of needs. Our website makes it easy for customers to navigate, apply for, and fund an account with us on-line. It also facilitates comparison of our rates to other banks in the market and calculates how much interest savers could earn depending on the product and term they choose. Our quick and simple application process, supported by a dedicated UK-based customer service team, has seen customers leave over one thousand Feefo reviews of OakNorth, giving us a 4.5-star rating.

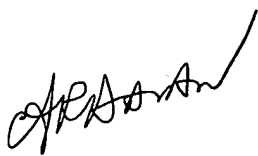
As a result, a high proportion of customers stay with us, and over 70% of savings balances are being reinvested by our customers at maturity.

Continuing to support businesses despite Brexit

The latest data from UK Finance shows that net new lending to SMEs in 2018 was actually negative², so it is clear that the high-street banks have continued retrenching from the SME lending market in light of ongoing Brexit uncertainty.

However, while our larger peers may see conditions as a challenge, we see it as an opportunity and a chance to help SMEs.

Our lending pipeline remains very strong and we continue to see growing demand from strong businesses in many sectors across the UK. ONAI provides the Bank with a rigorous and forward-looking evaluation of market conditions facilitating our lending activities in these more uncertain times.



Cyrus Ardalan
Chairman
5 March 2019

The Bank has yet to go through a credit cycle. However, the rigorous analytical underpinning to the Bank's credit decisions, and the close ongoing monitoring and stress-testing of our loans, give us confidence in the underlying quality and resilience of the lending portfolio.

This is further reinforced by the quality of our clients – many of whom have gone through a previous economic cycle. We are therefore confident that should the current uncertainties negatively impact the economy, we will be able nonetheless to continue growing our high-quality loan book in 2019 and beyond.

On that note, I would like, on behalf of the Board, to thank all our customers for supporting OakNorth as we continue to build *the bank for entrepreneurs, by entrepreneurs*. I would also like to acknowledge the tremendous work of all the Bank's employees whose commitment has enabled us to build a business that continues to set a new standard for SME lending globally.

² UK Finance's Invoice and Asset Based Lending Update for Q3 2018 – <https://www.ukfinance.org.uk/asset-based-lending-continues-to-show-steady-growth-in-q3/>

Chief Executive's Review



Since our launch, we have focused on a single mission – to enable growth businesses to secure the debt finance they need to pursue their ambitions. The £2.6 billion we've lent to British businesses has directly helped with the creation of 10,000 new homes and 11,000 new jobs in the UK, as well as adding several billion pounds to the economy.

Rishi Khosla
Chief Executive Officer & Co-Founder

In September 2018, we celebrated OakNorth's third birthday, and whilst it's incredible to think of all that has been achieved in just three years, this is still only the beginning. We have a very long way to go, and an exciting journey ahead of us. There are tens of thousands of SMEs around the world who we feel we can help - either through direct balance sheet lending, or through licensing our group's platform, OakNorth Analytical Intelligence.

Continuing to support businesses despite Brexit

Ongoing economic uncertainty has meant that overall lending to British businesses has remained subdued, with a (1.7) percent reduction over the last 12 months². However, at a time when many of our larger competitors are retrenching from the SME lending market, we have continued to support SMEs. In 2018, our loan book grew to £2.2 billion – an increase of £1.4 billion or 160% in a year. The OakNorth Analytical Intelligence platform has helped ensure that we maintain the quality of credit and a clear view of how each business we've lent to is performing. To date, we have not had a single default, and the last 12 months saw us receive and

Chief Executive's Review continued

lend out again over £400 million of repayments from the businesses that borrowed from us.

Having a positive social and economic impact

Since our launch, we have focused on a single mission – to enable growth businesses to secure the debt finance they need to pursue their ambitions. The £2.6 billion we've lent to British businesses has directly helped with the creation of 10,000 new homes and 11,000 new jobs in the UK, as well as adding several billion pounds to the economy.

Our clients are the home-builders, job-creators, and productivity-boosters who are helping to ensure that Britain can continue to thrive in a post-Brexit world. To name just a few:

- Caridon Group, the award-winning company which specialises in providing private-rented homes and social housing for tenants who may otherwise be homeless. In April, we lent £20.5 million to build 629 new homes in Bristol.
- The Inn Collection Group, a leading pub company in the North of England, to whom we lent £10 million, enabling it to more than double the size of its portfolio by 2022 to 21 Inns, creating dozens of jobs in the process.
- Pocket Living, London's fastest-growing affordable homes provider, to whom we lent £2 million. This developer is working with several Boroughs to deliver over 1,000 affordable homes over the next three years.
- Literacy Capital, the private equity firm, who earlier this year borrowed £4.2 million from us to acquire a significant minority position in Dartmouth Partners, an award-winning recruitment consultancy. This financing package will enable the firm to increase its team from 60

people to 100 by 2020 and to expand its footprint in Europe and further afield.

- NetPay, the award-winning FinTech whose technology delivers payment services to 7,000 UK businesses, was supported with a £1 million facility. Later in the year, First Data, one of the largest card payments business in the world, invested in the group, leading them to repay their loan from us in full. Nick Churchill, the co-founder and CEO of the business wrote to me personally to say: *"OakNorth came at a critical time for us and without your support, it is likely this deal could never have happened."*

Expanding our national footprint

From the outset we have provided loans across the regions of the UK, and we will continue to do so. Some 32% of our loan facilities are to businesses outside London.

We have always had a world-class technology and operations function managed out of Manchester. We now want to build on this, tapping into the local talent pool, to broaden and deepen our regional business loans offering. We have now hired a team of debt finance directors who will be based in Manchester, and we will continue to grow this team.

Flying the flag for British FinTech

In 2018, OakNorth was recognised on Tech Nation's 'Future Fifty' – a list of the UK's leading late-stage tech companies, FinTech City's 'FinTech50' – an

Chief Executive's Review continued

annual list of the hottest FinTechs in Europe and Asia selected from a list of over 1,800 applicants, and in the global Top 20 of KPMG and H2 Ventures' 'FinTech 100', which recognises leading *fintech* innovators from around the world.

We participated in several of the Department of International Trade's FinTech Trade Missions, including those to: New York City, Australia, Japan and Hong Kong, and I personally sat as an Insight Peer on Tech Nation's FinTech Growth Programme, helping UK FinTech startups scale at home and abroad³, as well as giving oral evidence to the Treasury Select Committee's recent inquiry into SME Finance.

In September 2018, our holding company closed an investment round of £74 million, raising funds from: Clermont Group, Coltrane, GIC, NIBC Bank, and EDBI of Singapore, and solidifying our position as the fastest-growing FinTech in Europe by assets and valuation.

Attracting the world's best talent

We're fortunate to continue to attract some of the most ambitious and talented people in the industry who also share our values.

Those values are: working together as *'One Team'* to deliver products and services to our customers that are *'10X'* better than the competition, ensuring that we put energy and *'Momentum'* into everything we do, not being afraid to *'Say it how it is'* or challenge the status quo.

Joel and I have said numerous times that we want to continue building this business for the next decades.

We are not looking for a quick exit. This reflects our value of *'Right Ambition'*, and one that is shared by our team. Almost half of our employees have taken the opportunity to become shareholders in the business, investing their own money and in doing so, helping to build for the long term.

Delivering strong financial performance

2018 marked the third full year of operations of OakNorth. Our pre-tax profits grew more than three times to £33.9 million, up from £10.6 million a year ago.

We continued to lend profitably, with a net interest margin of 6.3%, and supported by improved cost efficiencies driven by automation and analytical intelligence.

We launched several new deposit products during the year, giving our customers more flexibility, and helping us to build a strong retail deposit customer franchise.

The strong credit quality of the loan book was maintained, which meant that we had only a nominal increase in general provision coverage which was in line with the growth of the loan book. We will continue with our credit-centric, technology-driven, and customer focussed approach as we grow our business.

³ <https://technation.io/programmes/fintech/>

Donating 1% of our profits to charitable causes and social entrepreneurship

Since we launched in 2015, philanthropy has become a vital part of the OakNorth culture. Over the course of this year alone, our team has: run marathons and 'tough-mudder' events, climbed mountains, done sponsored sleep-outs, and even participated in amateur boxing matches to raise tens of thousands of pounds for numerous charities and causes that are close to their hearts and communities. We are proud to have supported their efforts.

However, we want to solidify this as part of what OakNorth stands for. Therefore, going forward we will be donating 1% of our profits to support charitable causes and social entrepreneurship.

Looking ahead

We started 2019 with the closing of a £335 million (£300 million primary) investment at the holding company, from SoftBank's Vision Fund and Clermont Group. The funding will be used by:

- Our Bank to continue growing its loan book here in the UK
- Our Group companies to:
 - expand our loan origination and credit capabilities to North American banks and lending institutions, helping them build the scale and quality of their small to mid-sized enterprises' loan books; and

- continue driving the growth of the OakNorth Analytical Intelligence platform, which is being used by OakNorth and by banks across the US, Europe and Asia whose combined assets total over \$800 billion.

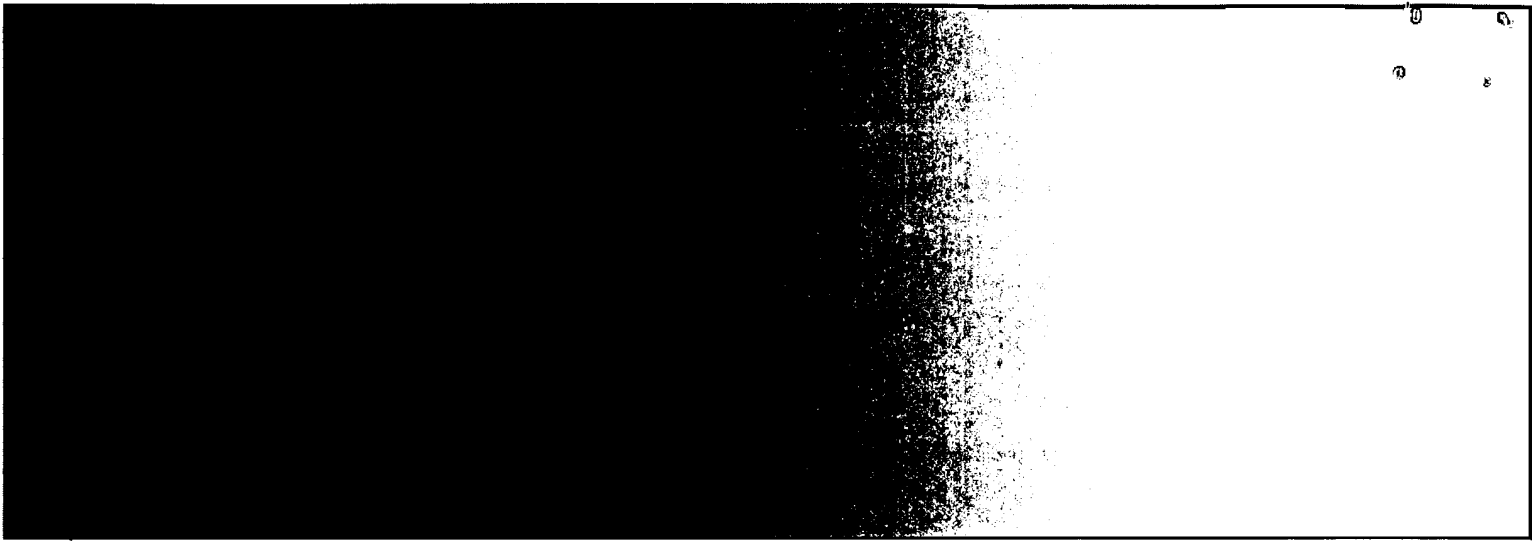
Irrespective of what the future might hold in terms of Brexit and the economy, we will remain focused on helping small and medium sized growth businesses access better financing to fund their development. These businesses are the backbone of economies and communities, as evidenced by the thousands of new homes and jobs created from the loans we've made so far, so it is vital that we continue to support them.



Rishi Khosla

Chief Executive Officer & Co-Founder

5 March 2019



Strategic Report



Strategic report

The Directors present their strategic report for OakNorth for the year ended 31 December 2018.

Principal Activities and Review of the business

Product offering and business growth

OakNorth continued its strong and profitable growth in 2018. In the third full year of operations, total facilities (drawn and undrawn) increased to £2,212.4 million⁴, driving total operating income up 113% to £60.1 million.

Whilst many of the incumbent banks continue to retrench amidst ongoing uncertainty relating to the economy and Brexit, OakNorth views such uncertainty as an opportunity to help UK businesses at a time when they need it, and we continue to lend to SMEs across many regions of the UK and across many sectors of business.

OakNorth aims to support SME businesses which boost employment and growth, providing loans of typically between £500k and £40 million. OakNorth seeks to unlock the growth potential of lending to SMEs with a proposition based on responsiveness, transparency and detailed understanding of a borrower's business.

We are committed to providing a quick and efficient service to our SME customers, responsive to their needs and tailoring the right lending solution for them. The proof that our radically more effective business model is delivering real value for our customers, which they are prepared to pay for, can be seen in our numbers. We have achieved a strong yield of 8.2% and a net interest margin of 6.3%.

The outcome can also be seen in OakNorth's remarkably good customer satisfaction ratings, achieving a Net Promoter Score of 79 as at December 2018.

From the outset, OakNorth has pursued operational excellence and efficiency and rigorous execution. The first bank in the UK to establish its IT infrastructure on the Cloud, OakNorth has built on that sound foundation a robust and scalable operation. Free of the legacy IT issues seen at many of the big banks, we have been able to use automation and good process design to drive efficiency. OakNorth is supported in its operations by its Group companies: OakNorth Global Private Limited and OakNorth Analytical Intelligence, and we have a focus on continuous improvement. In 2018, the cost/income ratio reduced from 58% to 37%, and it continues a downward trajectory, exiting 2018 with a ratio of under 30%.

This has been achieved without compromising credit quality. We have not had a single default in 3 years and have seen over £400m of repayments. OakNorth conducts in-depth fundamental credit research on each borrower in order to understand the dynamics of the business; an approach similar in its depth to that used by a Private Equity house, and probably unmatched by most lenders due to their higher cost base. OakNorth overcame this challenge principally via its bespoke analytics platform, ONAI.

OakNorth believes in combining the traditional fundamental rigour of credit underwriting, using professionals well experienced over many years in the industry, with very high-quality data-driven analysis from a team of skilled systems developers and data scientists at ONAI – a '*person plus machine*' approach. This allows OakNorth to conduct very granular benchmarking of operating and financial metrics across industry sub-sectors and property types, including stress-testing these based on the performance of that sub-sector in previous business cycles.

⁴ Gross drawdown (excluding accrued interest, unamortised fees and general provisions) and including all undrawn facilities

Strategic report continued

The credit underwriting process is complemented by a robust Portfolio Monitoring process which leverages ONAI analytics to track monthly performance and trends and is able to take timely and proactive action. Whilst the bank has not yet been through a credit cycle, we keep very close to our customers and have a good forward view of their performance against budgets and covenants and are confident in the quality of our portfolio.

As at 31 December 2018, OakNorth had lent to businesses across a number of sectors, including: hotels, care homes, nurseries, manufacturing, technology firms, property developers, property investors, catering companies, bars and restaurant chains, private equity houses, and media agencies.

OakNorth's total drawn loan book increased to £1,303.9 million as at 31 December 2018, from £613.1 million as at 31 December 2017⁵. Total credit facilities including undrawn, increased to £2,212.4 million as at 31 December 2018 (2017: £851.5 million).

OakNorth's lending is supported by its strong deposit customer base. We keep investing in expanding and developing our deposit product offering, so that our customers have a range of options for their savings and regard OakNorth as their first choice. OakNorth is a digital-only bank offering attractive savings products to retail customers which include: fixed term deposit accounts with tenors ranging from 6 to 60 months, easy access accounts, ISAs both fixed rate and easy access, and a range of notice accounts. OakNorth also offers business customers fixed term savings accounts for up to 12 months. As at 31 December 2018, OakNorth had 28,000 deposit customers (2017: 12,000).

OakNorth keeps its cost of funding low through a highly automated deposit raising platform which enables individuals to open accounts on average in just three minutes. As at 31 December 2018, OakNorth had raised over £1,174.8 million in deposits (2017: £491.3 million)⁶.

Financial performance

As a result of the strong growth in lending, total operating income grew significantly to £60.1 million in 2018 from £28.3 million in 2017, which was a 113% year-on-year increase.

Operating expenses increased to £22.3 million from £16.3 million in 2017, reflecting a year-on-year increase of 37%, which was largely driven by the growth in headcount supporting the business growth, but the cost-to-income ratio reduced to 37% from 58%.

A general impairment provision for incurred but not reported losses of £3.9 million was booked during the year (2017: £1.4 million). There were no specific impairments during the year. OakNorth has robust credit underwriting and monitoring processes in place to ensure that the quality of its loan book is strong and any issues which could impact the credit quality of a borrower are identified promptly. 92% of the portfolio is backed by collateral (2017: 92%), with the average portfolio loan to value ratio for property backed loans of 56% as at 31 December 2018 (2017: 55%). Overall leverage on cash flow loans also continues to be conservative. The credit environment remains benign, but in growing our loan book we have assessed every loan on a through-the-cycle stress basis.

⁵ Gross drawn (excluding accrued interest, unamortised fees and general provisions)

⁶ Gross deposits (excluding accrued interest)

Strategic report continued

Throughout the year OakNorth's capital and liquidity position remained strong, and OakNorth complied with all regulatory liquidity and capital requirements. The average ratio of cash and cash equivalent balances to liabilities was over 25%. In addition to the funding raised through customer deposits, OakNorth had drawn £181.9 million⁷ under the Bank of England's Term Funding Scheme (£1.0 million as of 31 December 2017). Given the fast growth of OakNorth's lending book, the Asset and Liability Committee (ALCO) maintains a very stringent oversight of liquidity, with forward looking metrics monitored daily.

To support its growth plans, OakNorth continued capital-raising activities during the year. In 2017 OakNorth received £163.0 million of equity investment. In 2018, existing and new investors made additional investments at the holding company, resulting in OakNorth receiving an additional £50 million equity funding. OakNorth also issued subordinated debt of £50 million during the year, which is eligible as a regulatory capital instrument.

The table below summarises some of the key financial performance metrics for OakNorth:

Key metrics	As at 31 December 2018	As at 31 December 2017
Total Facilities (£m) ¹	2,212	851
Loans & Advances to customers (£m) ²	1,304	613
% of loans collateralised ³	92%	92%
LTV of property backed loans ⁴	56%	55%
Profit before tax (£m)	33.9	10.6
Net interest Margin (%) ⁵	6.3%	6.9%
Provision coverage (%) ⁶	0.5%	0.4%
Loan write-off (%) ⁷	0.0%	0.0%
90 days past due' as % of portfolio ⁸	0.0%	0.0%
Cost-to-income ratio (%) ⁹	37%	58%
Capital Adequacy Ratio (%) ¹⁰	26%	35%
Liquidity Ratio (%) ¹¹	26%	32%
Return on Required Equity (%) ¹²	19%	13%

¹Includes all committed and un-committed facilities. Excludes any fees or interest receivable and unamortised fees

²Gross drawn balances

³Total [committed and un-committed] facility amount of collateral backed loans as a percentage of total [committed and un-committed] facility amounts in the portfolio

⁴Total [committed and un-committed] facility amount of property backed loans as a percentage of the value of the underlying collateral

⁵NIM is calculated as net interest & fee income as a percentage of average drawn loans and advances to customers

⁶Provision coverage is calculated as Balance-sheet Provisions for loan assets as a percentage of gross drawn loans & advances to customers

⁷Loan write-off is calculated as amount of loans and advances to customers written off during the year as a percentage of gross drawn loans & advances to customers outstanding as at the year-end

⁸Number of borrowers with payment delayed for over 90 days as a percentage of total number of borrowers in the portfolio

⁹Efficiency ratio is calculated as operating expense relative to net operating income

¹⁰Capital adequacy ratio is OakNorth's regulatory capital expressed as a percentage of risk weighted assets. Details are available as part of separately published Pillar 3 disclosures

¹¹Liquidity ratio is calculated as OakNorth's liquid assets relative to OakNorth's deposits and borrowings

¹²Return on Required Equity is calculated as net income expressed as a percentage of regulatory equity capital required

⁷ Excluding accrued interest and deferred expenses

Strategic report continued

Team and values

OakNorth's management team has a strong execution track record. We are fortunate in having a Board of Directors which is both very senior in the industry and highly engaged in the business, made up of six independent Non-Executive directors, the two founders and two Executive Committee members. We also have a four-member advisory Board with deep banking experience: Lord (Adair) Turner (former Chairman of the Financial Services Authority, now the FCA), Lord (Francis) Maude (former Minister for the Cabinet Office and for Trade and Investment), Martin Stewart (former Director of Banks, Building Societies & Credit Unions at the Bank of England) and Nick Lee (former Head of New Banks at the Bank of England). This results in a robust governance structure with a strong leadership team for the Bank.

The overarching ingredient which bonds together the team within OakNorth are its core values of:

- ✓ **10X:** aiming to offer OakNorth's customers products and services that are ten times better than the competition, not simply an incremental improvement
- ✓ **One team:** working collaboratively to achieve the best results for our customers
- ✓ **Momentum:** ensuring that the team puts energy and drive into everything it does
- ✓ **Saying it as it is:** being open and transparent with all stakeholders
- ✓ **Right ambition:** conducting business in an ethical way for the long term
- ✓ **Challenge and simplify:** questioning the status quo and striving for efficiency

OakNorth has a strong entrepreneurial team culture, reinforced by a high level of employee ownership of the business. A number of employees have taken the opportunity to buy shares at the holding company level. At the end of 2018, OakNorth had 70 employees across its offices in London and Manchester (2017: 65), and has continued to expand its headcount with new hires.

OakNorth Bank is supported by other entities in the Group including OakNorth Global Private Limited and OakNorth Analytical Intelligence Limited. The total number of employees in the rest of the Group was 236 at the end of 2018 (2017: 144), totalling to 306 on a group-wide level (2017: 209).

At OakNorth, we believe in promoting a diverse workplace in which different backgrounds, voices and perspectives can be brought to bear for our customers' benefit. We aim to attract people who possess the right competencies and talents, irrespective of individual differences, and those who are capable of contributing to a high-performing organisation. We do not impose any cultural, geographical or organisational barriers in setting or achieving our recruitment goals. 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.

Business and economic outlook

As detailed in the Chairman's statement and the CEO's review, Brexit has resulted in uncertainties in the UK's economic environment, which was evidenced in reduced lending to SMEs. OakNorth has, however, been able to grow its loan book, though its flexible and transparent approach to lending. Going into 2019, we continue to see demand for credit from good businesses in the UK, evident from a strong pipeline.

OakNorth has put in place a strong risk management framework and we undertake comprehensive assessments of our risk appetite and exposure, including stress-testing the business model to ensure that the Bank can meet

its objectives in severe but plausible adverse economic conditions. We consider our risk appetite carefully in setting our strategy, putting risk appetite monitoring mechanisms in place to protect our business model. We continue to maintain a rigorous approach to credit underwriting and monitoring, which we expect will help us in growing our high-quality loan book.

OakNorth's capital position is strong, with an additional £100 million of regulatory capital raised by the Bank during 2018 through equity investment and subordinated debt issuance. With further recent equity investment secured at the holding company level from SoftBank and one of the existing investors, the Clermont group, OakNorth's capital position is expected to continue to be strong and will support the projected growth of the loan book.

Risk Management

Risk Management Framework

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

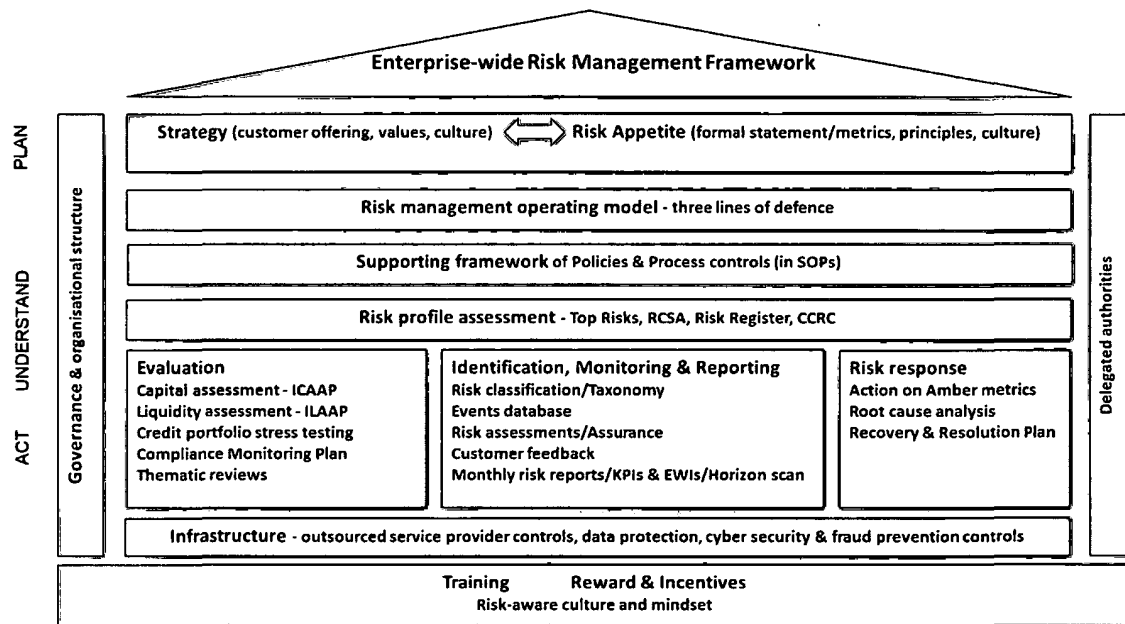
Our business strategy is set within a defined risk appetite envelope in order to ensure that we both deliver good outcomes for our customers and stakeholders and also deliver long-term, sustainable profitability.

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

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

The RMF is shown graphically as below:

Strategic report continued



- **Strategy** – sets the Bank’s goals over the planning horizon and the methods to achieve them. Includes the Bank’s Values, and describes the target markets, product offering, and customer journey. Reviewed annually
- **Risk Appetite** – sets the quantum of risk the Bank is willing to accept to achieve its strategic business objectives, with tangible risk metrics in place to identify when action is required. Risk management aims to protect the long-term value of the firm
- **Governance** – defines the system by which the Bank is directed, controlled and held accountable
- **Delegated authorities** – defines the authority delegated by the Board and for which individuals are held accountable
- **Risk Management operating model** – enables each individual to understand their role in managing risk, set out according to ‘three lines of defence’ principles
- **Policies** – principles-based policies to address the material risks in a consistent and efficient manner, and in a way proportionate to the relatively simple structure of the OakNorth business
- **Controls** – proportionate actions taken by management to mitigate the risks to within the Bank’s risk appetite
- **Risk profile assessment and evaluation** – in accordance with best industry practice, the Bank uses a number of tools to assess its risk exposure, both at a point in time, and how it is expected to evolve in the future. These tools include Risk Registers, Risk and Controls Self-Assessments, Compliance Monitoring Reviews, ICAAP and ILAAP, Stress-testing and Thematic Reviews of operational risk
- **Identification, monitoring and reporting** – the processes needed to provide timely, accurate information to enable management to take high quality decisions
- **Risk response** – the levers which can be used to manage and mitigate risk, including adding capital or changing risk policy parameters

Strategic report continued

- **Infrastructure** – the risk mitigants built into our IT infrastructure, such as the inherent level of resilience provided by our Cloud-based IT platform design, and the back-up arrangements in place for all processes to ensure operational resilience, in preparation for a potential failure of infrastructure
- **Training, reward** – providing training in risk management, compliance and good conduct, and setting reward and arrangements which incentivise the right behaviours. Ensuring that reward arrangements take account of risk performance and behaviours

Principal risks and uncertainties

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

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

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

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

- **UK's withdrawal from the European Union:** The UK is expected to formally leave the EU on 29 March 2019. However, as of early March, there is political uncertainty in relation to the process. There is also uncertainty on the future relationship between the UK and the EU, the cross-border arrangements and timelines of implementation of any such arrangements. This causes market volatility and economic risk in the UK that may potentially impact the Bank's loan book. We continue to monitor the quality of our loan book through proactive monitoring, portfolio analysis and stress testing. In spite of this significant external uncertainty, we remain confident in our strategy, and will continue to build on positive progress.
- **Credit risk:** the risk of financial loss arising from a borrower or counterparty failing to meet their contractual financial obligations to OakNorth. This also includes the risk arising out of concentration in the credit portfolio. OakNorth's portfolio is relatively concentrated in terms of single name, sector (real estate and construction sectors), and geography (OakNorth's business is conducted almost entirely with customers operating in the UK).

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

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

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

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

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

- **Interest rate risk:** the risk of financial loss arising from re-pricing mismatches in the asset and liabilities positions which have not been hedged. We manage our asset and liabilities to ensure we minimise the interest rate risk. The ALCO monitors interest rate risk on a regular basis. OakNorth does not have a trading book, and therefore does not carry any other market risks.
- **Operational risk:** the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems, or external events. This covers several areas including:
 - **Cyber Crime** - whereby hackers attack our systems and take control of clients' accounts and/or download their data, or internal staff abuse network access privileges. Like all banks, OakNorth is subject to a high risk of cyber-attack. We employ mitigation measures including Penetration Testing, Data Encryption in databases, applications, and interfaces, and various leading monitoring and cyber defence software tools.
 - **Financial Crime** - including Money Laundering, Internal or External Fraud, and theft of assets. We do not hold cash and an Assets Register is kept covering all physical assets of the Bank. We have put in place '4 eyes' controls and segregation of duties in our processes, and employ an industry standard fraud prevention tool, CIFAS. Our AML controls are robust and use leading systems including Experian and WorldCheck
 - **Third Party Service Provider risk** – risk of a key supplier failing to deliver in terms of critical services and/or systems, to include those that are deemed to be "outsourced", which have a material impact on the operation of the Bank. All key suppliers are reviewed and vetted for their standing and resilience, and our contracts include monitoring rights and Service Level Agreements which are monitored closely. Contingency arrangements are in place for all critical systems and services.
 - **People Risk** – 'key man' dependencies are inevitable in the Bank. This is mitigated via appropriate reward and incentive arrangements and succession planning.
 - **Failure of operational processes or controls** through poor design and/or implementation, or inadequate embedding of controls, causing human error. This risk is mitigated through structured project management processes including: planning and estimating, requirements development, design, code and unit testing, testing for deployment, peer review, and configuration management. This is supported by ongoing staff training and competency assessments. Business assurance testing is performed on a monthly basis.
 - **System risk** – the failure of IT systems to perform to specification. This risk is mitigated through structured change management processes and a robust Testing programme. As one of the first banks to put its IT infrastructure onto the Cloud, we have a modern and robust IT platform with the ability to expand capacity rapidly as the Bank expands.

- **Conduct, compliance and regulatory risk:** Conduct Risk is defined as the risk that a firm's behaviour results in poor outcomes for customers. Compliance risk is defined as the risk of impairment to the firm's business model, reputation and/or financial condition resulting from failure to meet laws, regulations, standards and policies, and expectations of regulators and society as a whole.

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

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

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

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

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

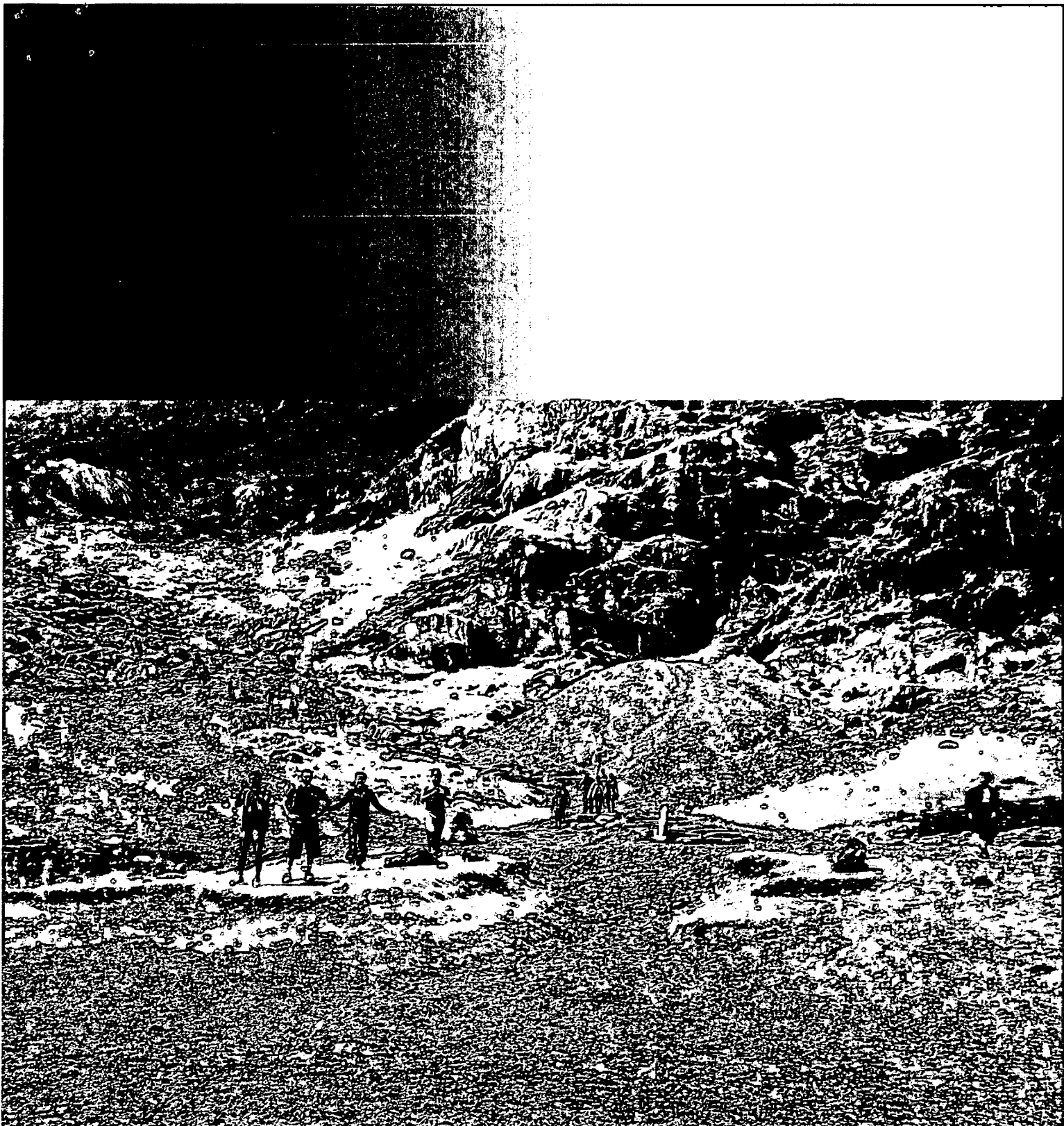
At OakNorth we seek to protect our reputation through effective systems, controls, robust compliance, and high levels of customer service.

Strategic report continued

Risk Appetite metrics

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

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



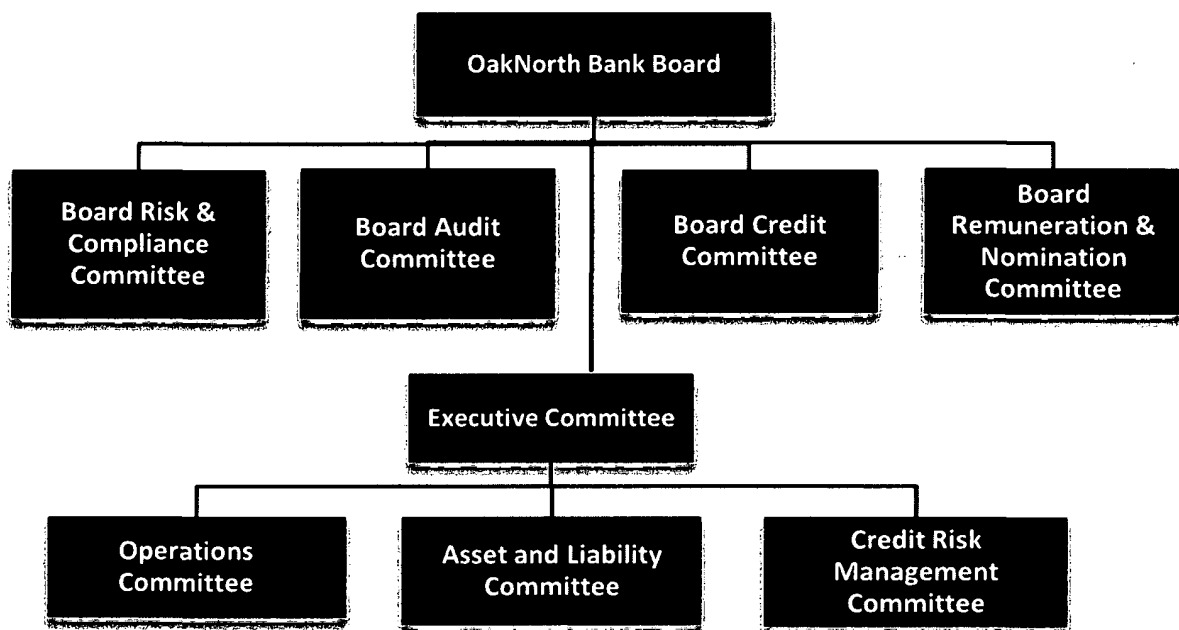
Governance

Governance overview continued

Governance structure

OakNorth has no listed equity shares and therefore the UK Corporate Governance Code does not apply in full. However, OakNorth has chosen to comply with the majority of the provisions of the Code, as appropriate for its level of complexity and size of operations.

The Board's principal duty is to create and deliver a sustainable business model by setting OakNorth'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'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 meets once every month, with in person meetings every other month. The Board maintains oversight of the effectiveness of each Board Committee through the receipt, review and challenge of regular standing reports, ad-hoc briefings, minutes and management information from each and will undertake a formal review annually of its own effectiveness, that of its Committees and individual directors. The Head of Internal Audit is a standing invitee at all committee meetings, and other individuals may be invited to attend all or part of any meeting as and when appropriate and necessary at the invitation of the Committee Chairman.

The Board Remuneration and Nomination Committee assists the Board in determining the optimum Board size at any point of time within the legal and regulatory framework. The Board believes that its current size of ten members, comprising of four Executive, three Non-Executive Independent Directors and three notified non-Executive Directors, is optimal given the current scale of operations and the desired competencies of the Board members. Additionally, the CEO has reputable Independent Advisors such as Lord Turner, Lord Maude, Martin Stewart and Nick Lee.

Governance overview continued

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

Responsibilities

The table below summarised the responsibilities of the various committees:

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

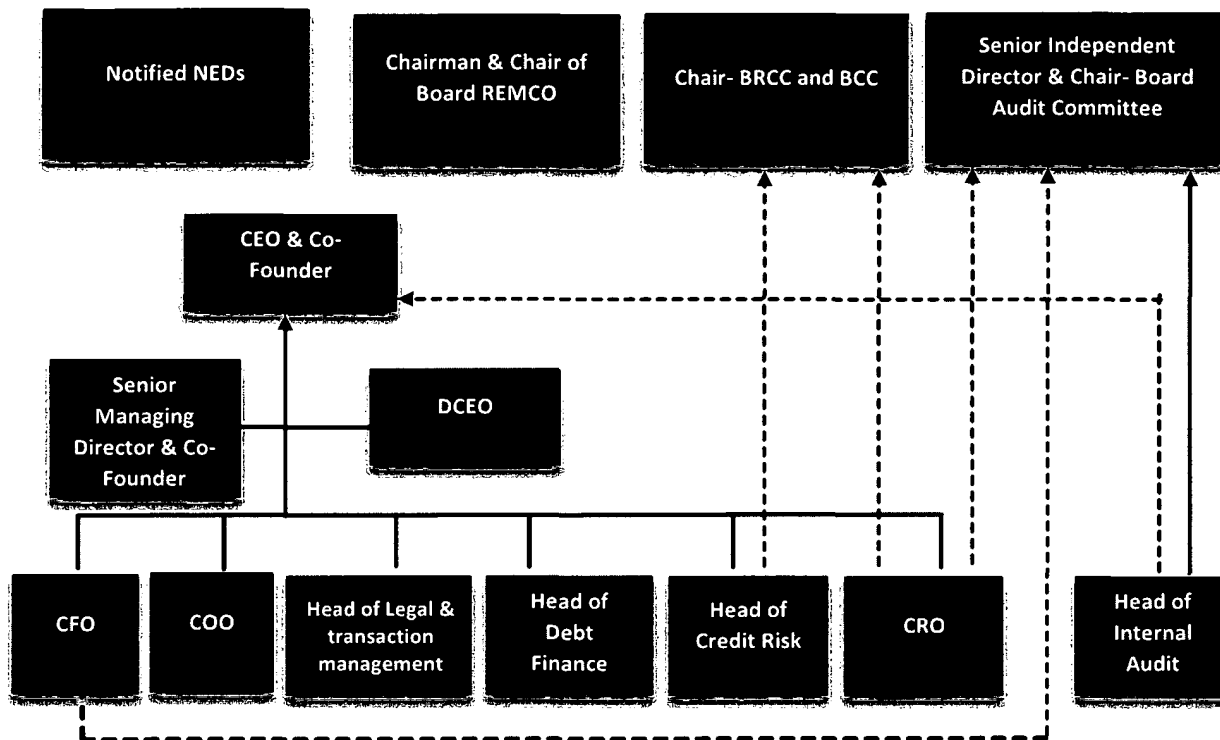
Governance overview continued

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

Governance overview continued

Reporting structure



The Chief Risk Officer (CRO) reports to the Board in respect of oversight and challenge for the entire RMF, with the exception of credit risk, which is the responsibility of the Head of Credit Risk. The CRO maintains oversight of the reporting of OakNorth's risk management and performance against the risk appetite statements, and inputs to credit risk decisions as Member (and as alternate Chair) of the Credit Risk Management Committee. Risk reports are provided to the EXCO and Board Risk Committee. The CRO is also responsible for the direct oversight of the Operational risk and Conduct, Regulatory and Compliance risk management and reporting. Capital, liquidity and interest rate risk is managed by the CFO under report to the ALCO and through to the EXCO and the Board. Business risk is managed collectively by the EXCO and the Board. Credit Risk management and reporting is overseen by the Head of Credit Risk, reporting to the Credit Risk Management Committee and the Board Credit Committee.

OakNorth has established internal control and risk management processes in relation to financial reporting. OakNorth's financial accounting and reporting processes are governed via the established policies and procedures and SOP documents. Finance processes are additionally subject to periodic reviews by Compliance and Internal audit functions. 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 adoption of accounting standards and in preparation of the Bank's Financial Statements and management accounts. The Board Audit Committee is apprised of all developments/ significant matters impacting the Bank's accounting and reporting processes.

Directors



Rishi Khosla
Co-founder &
Chief Executive Officer
Appointed December 2013



Cyrus Ardalan
Chairman
Chair of the Board Remuneration &
Nomination Committee
Appointed June 2015



Joel Perlman
Co-founder &
Senior Managing Director
Appointed December 2013



Robert Burgess
Non-Executive Director
Chair of the Board Credit Committee
Chair of the Board Risk &
Compliance Committee
Appointed January 2015



Graham Leslie Olive
Executive Director
Deputy Chief Executive Officer
Appointed February 2016



Navtej S Nandra
Senior Independent Director
Chair of the Board Audit Committee
Appointed June 2017



Cristina Alba Ochoa
Executive Director
Chief Financial Officer
Appointed April 2017



Edward Barry Berk
Notified Non-Executive Director
Appointed May 2017



Gagan Banga
Notified Non-Executive Director
Appointed February 2016



Ajit Mittal
Notified Non-Executive Director
Appointed February 2016

Directors' report

The Directors present their audited annual report on the affairs of OakNorth, together with the financial statements and Auditors' report, for the year ended 31 December 2018.

Going concern

The Directors confirm they are satisfied that OakNorth has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts.

Financial Risk Management

The disclosures required to be included in the Directors' report in respect of the Company's exposure to financial risk and its financial risk management policies are detailed in the Strategic report and additional information has been provided in the notes to accounts. The Pillar 3 disclosures, including disclosures on OakNorth's remuneration policy are available on OakNorth's website- www.oaknorth.com.

Dividends

The Directors do not recommend a dividend.

Directors' indemnities

OakNorth has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Political contributions

No political contributions were made during the year.

Post balance sheet events

Please refer to note 31 in the Notes to financial statements.

Future developments

Please refer to Strategic Report.

Independent Auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which OakNorth's auditors are unaware; and

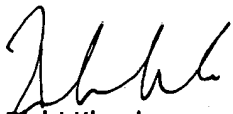
Directors' report continued

- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that OakNorth's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP (PWC) were appointed as the Bank's Auditors on 6 September 2018. Approval to reappoint PWC as auditors will be proposed at the next board meeting.

Approved by the Board and signed on its behalf by:



Rishi Khosla
Chief Executive Officer & Co-Founder
5 March 2019



Financial statements

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

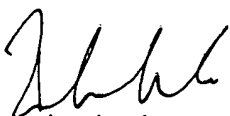
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Rishi Khosla

Chief Executive Officer & Co-Founder

5 March 2019

Independent auditors' report to the members of OakNorth Bank plc

Report on the audit of the financial statements

Opinion

In our opinion, OakNorth Bank plc's ("the Company") financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the profit and loss statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

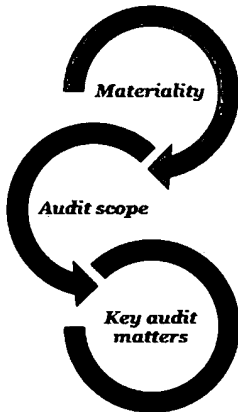
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018

Independent auditors' report continued

Our audit approach

Overview



Overall materiality: £3.3 million, based on 1% of Net assets.

The scope of our audit and the nature, timing and extent of our audit procedures were determined with consideration of our risk assessment, the financial significance of account balances, and other qualitative factors.

Audit procedures were performed over all account balances and disclosures which are considered material and/or represent a risk of material misstatement to the financial statements.

Impairment of loans and advances to customers.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Financial Conduct Authority's regulations and the Prudential Regulation Authority's regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in assumptions used in critical accounting estimates and posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Review of key correspondence with and reports to regulators
- Review of internal audit reports in so far as they related to the financial statements
- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of loans and advances to customers (see related key audit matters below)
- Identifying and testing journal entries, in particular any journal entries posted with unusual revenue account combinations.

Independent auditors' report continued

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of loans and advances to customers</i></p> <p>See notes 1.10, 1.22 and 10 for relevant disclosures including critical accounting estimate, accounting policies and analysis of the provision.</p> <p>Impairment provisions represent management's best estimate of credit losses incurred at the balance sheet date. Management carry out individual impairment assessments where there are observed impairment indicators (watchlist loans) and calculate an incurred but not reported (IBNR) provision using internally developed methodology. At 31 December 2018 the provision relates solely to the IBNR provision of £6.2m (2017: £2.3m) against loans and advances of £1,304m (2017: £608m).</p> <p>The calculation of the IBNR provision requires management judgement when determining the appropriate assumptions to be used in the calculations, including the probability of default (PD), loss given default (LGD) and loss emergence period (LEP).</p> <p>Our work focused on the following areas:</p>	<p>We understood and evaluated the design of the key controls over the impairment process and tested their operating effectiveness. These controls included:</p> <ul style="list-style-type: none">• the governance over the impairment provisioning process which includes review of the calculations and approval and the review of key assumptions;• the use of valuation experts and quantity surveyors to support management assumptions in relation to collateral values; and• identification by management of impairment risks and indicators through the Credit Risk Management Committee meetings and individual loan credit reviews <p>We noted no significant exceptions in the design, implementation or operating effectiveness of these controls. Accordingly, we relied on them for the purposes of our audit. In addition, we performed the substantive procedures described below.</p> <p>We tested a sample of performing loans (including loans on management's watch list) to evaluate</p>

Independent auditors' report continued

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<ul style="list-style-type: none">• Timely identification of impaired indicators and the principal assumptions applied by management in estimating any impairment allowance needed, such as the value of collateral and forecast cash flows• The calculation of required impairment provisions, including the use of calculations, and the critical assumptions used in those calculations.	<p>whether all impairment events had been identified by management in a timely manner. We did not identify any further impairment events.</p> <p>For the IBNR provision, we critically assessed the methodology used to ensure compliance with the accounting standards and tested the mathematical accuracy of the calculations. We performed sensitivity analysis in order to identify higher risk inputs which included PD and LGD assumptions. In these areas we performed additional targeted procedures to challenge the appropriateness of the assumptions. This included selecting a sample of loans and testing the collateral values held to supporting evidence as well as agreeing information used to calibrate the individual PDs to supporting credit files. We also assessed the appropriateness of the LEP assumption based on available external data and benchmarking. We concluded that the inputs used were reasonable.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

At the planning stage we obtained an understanding of the entity and its environment, considering the Company's operations, ownership and governance structures, accounting framework, selection of accounting policies and the Company's objectives and strategies. We obtained an understanding of the internal control environment, including in relation to IT. Industry level factors were also considered, including applicable laws and regulations.

Based on these initial audit planning procedures, we performed our risk assessment at the account balance and assertion level, considering risks of material misstatement through fraud or error.

The scope of our audit and the nature, timing and extent of our audit procedures were designed, planned and executed with consideration of our risk assessment, the financial significance of account balances, and other qualitative factors (e.g. history of error or misstatements). We performed audit procedures over all account balances and disclosures which we considered to be material and/or represent a risk of material misstatement to the financial statements.

Independent auditors' report continued

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£3.3 million.
How we determined it	1% of Net assets.
Rationale for benchmark applied	We have used net assets as our benchmark for materiality as management's focus is to continue to grow the balance sheet in a sustainable manner, including compliance with capital and liquidity requirements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £165,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report continued

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 32, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report continued

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 6 September 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.



Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
5 March 2019

Profit and loss statement

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Interest receivable		70,770	31,218
Interest payable		(17,094)	(6,294)
Net Interest income		<u>53,676</u>	<u>24,924</u>
Fees and commission		6,402	3,347
Net interest and Fee income		<u>60,078</u>	<u>28,271</u>
Administrative expenses		(21,117)	(15,291)
Depreciation and amortisation	12, 13	(1,212)	(980)
Provision for impairment losses	10	(3,895)	(1,420)
		<u>(26,224)</u>	<u>(17,691)</u>
Profit from ordinary activities before tax		<u>33,854</u>	<u>10,580</u>
Taxation	3	(7,274)	(1,106)
Profit after tax from ordinary activities		<u>26,580</u>	<u>9,474</u>

Statement of comprehensive income

For the year ended 31 December 2018

	2018	2017
	£'000	£'000
Profit after tax	26,580	9,474
Fair value changes on available for sale financial instruments	(25)	(33)
Taxation	6	6
Total comprehensive income/(loss) for the year attributable to equity shareholders	26,561	9,447

Balance sheet

As at 31 December 2018

		2018	2017
	Note	£'000	Restated £'000
ASSETS			
Cash and balances at central bank		356,881	148,376
Loans and advances to banks	8	6,394	5,362
Loans and advances to customers	9, 10	1,297,937	608,474
Debt Securities	11	104,420	2,139
Intangible assets	12	240	276
Tangible fixed assets	13	3,497	3,109
Deferred tax assets	3	319	-
Prepayments and accruals	14	628	540
Other assets	15	491	311
Total assets		1,770,807	768,587
LIABILITIES			
Customer deposits	16	1,185,860	497,105
Borrowings under BOE Term funding scheme	17	182,110	1,001
Subordinated debt	18	49,358	-
Trade payables and other provisions	19	9,406	4,561
Deferred tax liabilities		-	6
Other liabilities	20	13,660	12,085
		1,440,394	514,758
CAPITAL AND RESERVES			
Called up share capital	26	299,320	249,320
Share-based payments		48	25
Profit and loss account	27	31,091	4,511
Available for sale reserve		(46)	(27)
		330,413	253,829
Total liabilities and capital and reserves		1,770,807	768,587

The financial statements of OakNorth Bank plc were approved by the Board of Directors and authorised for issue on 5 March 2019. They were signed on its behalf by:


Rishi Khosla
Chief Executive Officer
& Co-Founder


Joel Friedman
Senior Managing Director
& Co-Founder


Cristina Alba Ochoa
Chief Financial Officer

Statement of changes in equity

For the year ended 31 December 2018

	Called up Share Capital £'000	Profit and loss account £'000	Available for sale reserve £'000	Share- based payment £'000	Total £'000
As at 1 January 2017	86,320	(4,963)	-	4	81,361
Issue of share capital	163,000	-	-	-	163,000
Profit after tax	-	9,474	-	-	9,474
Employee share-based payments	-	-	-	21	21
Fair value changes on available for sale financial instruments	-	-	(33)	-	(33)
Deferred tax impact on fair value changes on available for sale financial instruments	-	-	6	-	6
As at 31 December 2017	249,320	4,511	(27)	25	253,829
Issue of share capital	50,000	-	-	-	50,000
Profit after tax	-	26,580	-	-	26,580
Employee share-based payments	-	-	-	23	23
Fair value changes on available for sale financial instruments	-	-	(25)	-	(25)
Deferred tax impact on fair value changes on available for sale financial instruments	-	-	6	-	6
As at 31 December 2018	299,320	31,091	(46)	48	330,413

Cash flow statement

For the year ended 31 December 2018

	2018	2017
	£'000	Restated £'000
Profit from ordinary activities before tax	33,854	10,580
<i>Adjustments for</i>		
Depreciation and amortisation	1,212	980
Provisions for incurred but not reported losses	3,895	1,420
Impairment of fixed assets	-	60
Share-based payment to employees	23	21
Net change in other assets/liabilities	3,123	8,399
Increase in loan receivables	(693,358)	(383,324)
Increase in customer deposits	688,755	293,412
Income taxes paid	(4,759)	(180)
Income tax refund received	3	45
Net cash flows generated/(used) in operating activities	32,748	(68,587)
Purchase of property, plant and equipment, implementation of software and intangible assets	(1,564)	(363)
Purchase of debt securities	(103,663)	(2,148)
Proceeds from maturity of debt securities	2,139	500
Net cash flows used in investing activities	(103,088)	(2,011)
Increase in TFS borrowings	180,900	1,000
Increase in subordinated debt	48,977	-
Proceeds on issue of shares	50,000	163,000
Net cash flows generated from financing activities	279,877	164,000
Net increase in cash and cash equivalents	209,537	93,402
Cash and cash equivalents at beginning of year	153,738	60,336
Cash and cash equivalents at end of year	363,275	153,738
Reconciliation to cash at banks		
Cash and balances at central bank	356,881	148,376
Loans and advances to banks	6,394	5,362
Total	363,275	153,738

Notes to the financial statements

For the year ended 31 December 2018

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding reporting period.

1.1 General information and basis of accounting

OakNorth Bank plc (registered number: 08595042) is incorporated in the United Kingdom under the Companies Act 2006. The nature of OakNorth's operations and its principal activities are set out in the Strategic report and Directors' report. The company re-registration from a private company to a public company effective April 2018.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. OakNorth has adopted IAS39 for recognition and measurement of financial instruments based on the accounting policy choice permitted under FRS 102. The accounting policies detailed below have been applied consistently to all periods presented in these financial statements.

In December 2017, the Financial Reporting Council issued an amendment⁸ to FRS 102 which allowed the accounting policy choice of adopting IFRS 9 effective 01 January 2018 or retaining IAS39 until FRS 102 requirements for the impairment of financial assets have been amended to reflect IFRS 9. OakNorth has currently made an accounting policy choice to continue to apply provisions of IAS39 available under FRS 102.

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

Restatement of 2017 balances – reclassification of accrued interest and fee receivable

In 2018 financial instruments measured at amortised cost are presented net of any fees and accrued interest receivable/payable. These were previously presented on a gross basis. As a result, there has been a reclassification of the comparatives for certain balance sheet line items and related disclosures. The affected line items and the impact of the reclassification are as follows:

	2017	2017	Difference
		Restated	
	£'000	£'000	£'000
Cash and balances at central bank	148,340	148,376	36
Loans and advances to customers	604,937	608,474	3,537
Debt Securities	2,115	2,139	24
Prepayments and accruals	4,137	540	(3,597)
Customer deposits	491,261	497,105	5,844
Borrowings under BOE Term funding scheme	1,000	1,001	1
Accrued interest	5,845	-	(5,845)

⁸ Financial Reporting Council: Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland: Triennial review 2017 Incremental improvements and clarifications (December 2017)

Notes to the financial statements

For the year ended 31 December 2018

1.2 Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that OakNorth has adequate resources to continue operating in the foreseeable future. Information on OakNorth's business strategy, performance and outlook as detailed in the Chairman's statement, CEO's statement and the Strategic Report. The Strategic report further details the key risks faced by OakNorth and mitigants and provides an overview of OakNorth's Risk Management Framework. The Directors, in making their assessment, have also considered OakNorth's business forecasts and projections, including stress testing and scenario analysis and future profitability, which show that OakNorth will be able to operate at adequate capital and liquidity levels for the foreseeable future.

1.3 Tangible fixed assets

Fixtures, fittings and office equipment and Computer and IT equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Computer and IT equipment includes laptops, desktops, software, licences and core banking platform. Consultancy and other costs incurred in acquiring and developing software for internal use which is directly attributable to the functioning of the computer hardware is capitalised as tangible fixed assets where software supports a significant business system and the expenditure leads to the creation of an identifiable durable asset.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Fixtures, fittings and office equipment	5 years
Computers and IT equipment	3 - 5 years
Leasehold improvements	shorter of over the term of the lease or useful life

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of tangible fixed assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales' proceeds and the carrying amount of the asset and is recognised in income.

1.4 Intangible fixed assets

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following basis:

Banking Licence	10 years
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Notes to the financial statements

For the year ended 31 December 2018

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

De-recognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the asset is derecognised.

1.5 Impairment of tangible and intangible assets

At each balance sheet date, OakNorth reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a reduction to the revalued amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.6 Financial instruments

OakNorth uses IAS39 for the recognition and measurement of financial instruments based on the accounting policy choice permitted under UK GAAP FRS 102.

OakNorth initially recognises loans and advances, deposits, and other market borrowings debt securities issued and subordinated liabilities on the date of origination at fair value. OakNorth classifies its financial assets in the following categories: Loans and receivables; and available for sale financial assets. Management determines the classification of financial assets at initial recognition. The financial assets are de-recognised when the rights to receive cash flows have expired or OakNorth has transferred substantially all the risks and rewards of ownership. Financial instruments are recognised at trade date, being the date on which OakNorth commits to purchase or sell the instruments. Financial liabilities (other than derivatives) are measured at amortised cost and are recognised at value date. They are de-recognised when liabilities are extinguished. Details of accounting policy in relation to the measurement and recognition of the various financial instruments are detailed in the subsequent notes.

Notes to the financial statements

For the year ended 31 December 2018

1.7 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, on the measurement date. This is determined by reference to the quoted bid price or asking price (as appropriate) in an active market wherever possible.

When independent prices are not available or if the market for a financial instrument is not active, fair values are determined by using valuation techniques. These may refer to observable market data, comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. However, some of the inputs to the techniques may be based on unobservable data, e.g. in case of unlisted entities, if there is little or no current market data available, in which case valuation adjustments are done to reflect uncertainties in fair values resulting from a lack of market data inputs.

1.8 Loans and receivables

Loans and receivables, which include loans and advances and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not designated at fair value through profit and loss, available for sale or held to maturity. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using effective interest rate method. Loans and receivables are stated at amortised cost after deduction of amounts which are required as impairment provisions. OakNorth's policy in relation to impairments and impairment provisions is detailed in note 1.10.

1.9 Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale and are not categorised into any of the other categories. These are initially recognised at fair value including direct and incremental transaction costs and subsequently held at fair value. Gains and losses arising from changes in fair value are included in the available for sale securities reserve until sale or de-recognition, when the cumulative gain or loss is transferred to the profit and loss account.

Any impairment losses on available for sale investment securities is required to be recognised by transferring the cumulative loss that has been recognised directly in equity to profit and loss. If, in a subsequent period, the fair value of an impaired available for sale debt security 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 of an impaired available for sale equity investment is recognised directly in equity since it cannot be reversed through the profit and loss account.

1.10 Impairment of assets held at amortised cost

Impairment provisions are made where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows from the asset that can be reliably estimated. Losses expected as a result of future events are not recognised. Evidence of impairment is considered both on an individual and on portfolio basis.

Notes to the financial statements

For the year ended 31 December 2018

In accordance with OakNorth's Credit Risk Management Policy (CRMP), OakNorth is required to regularly review the loan accounts, including monitoring compliance with key financial covenants, track repayments against schedule and identify any Trigger Events or Early Warning Indicators. OakNorth's Provisions and Impairment Policy details the Watchlist process for monitoring of any such accounts. OakNorth classifies non-performing exposures where any principal or interest repayments are contractually past due by over 90 days. OakNorth has a forbearance policy and may provide support to a borrower struggling to meet its obligations. This may range from waiving a breach of a loan covenant, to giving the borrower more time to meet its loan obligations, to providing some form of active payment relief.

OakNorth's Provisioning policy provides for specific assessment of individually significant exposures and portfolio level assessment for smaller value loans.

Wherever there is an objective trigger of impairment as defined under IAS39, the specific impairment provision as per the policy is required to be calculated on net present value basis including any legal and professional fees/charges, accrued interest, and discounting is based on the effective interest rate.

OakNorth also has a provisioning policy for incurred but not reported losses (IBNR). This is calculated as non-defaulted funded balances x Loss Given default (LGD) x probability of default (PD) x Emergence period (EP). Any impairment loss is recognised in the profit and loss account. As OakNorth does not have its own historic loss data, for estimating the PD, OakNorth uses external data calibrated for its own portfolio type to determine the PDs. The LGDs applied are based on management experience and judgement across different types of collaterals, to estimate recoverability of security received. OakNorth currently applies an emergence period of 12 months to its portfolio.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

1.11 Sale and repurchase transactions

Securities sold by OakNorth under agreements to repurchase continue to be recognised as assets on the balance sheet and the associated liability is also recognised on the balance sheet. Similarly, securities purchased under commitments to sell are not recognised on the balance sheet. As at 31 December 2018, the Bank did not have any repos outstanding.

1.12 Bank of England "Term Funding Scheme" (TFS)

OakNorth is an approved participant under the "TFS" scheme. The borrowing is collateralised against UK GILTS and the Bank's loan book (details in Note 17). As an accounting policy, as OakNorth retains the ownership of the eligible collateral assets, and therefore, all associated credit risks and ownership of the cash flows from those assets- any collateral placed with the Bank of England continue to be recognised as an asset on the balance sheet and any funding raised is recognised as liability.

Notes to the financial statements

For the year ended 31 December 2018

1.13 Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. In the UK, this includes additional levies such as the Banking Corporation Tax Surcharge of 8% which are levied on a bank's taxable profits over £25 million.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

1.14 Revenue recognition

Interest income and interest expense are recognised in the profit and loss account as accrued using effective interest rate (EIR) method. The EIR is the rate which discounts the expected future cash flows, over the expected life of the financial instrument, to its net carrying value. Fees which are an integral part of the EIR of a financial instrument are amortised over the expected life of the instrument. When calculating the effective interest rate, OakNorth estimates the future cash flows considering all contractual terms of the financial instruments but not the credit losses. The effective interest rate is established on initial recognition (or upon reclassification) of the financial asset and liability and is not revised subsequently.

Fees and commission are recognised in the profit and loss account when the service has been rendered, except when those fees are an adjustment to the yield on the related asset. Fees and commissions and transaction costs payable on borrowings are expensed to the profit and loss account over the life of the borrowing raised using the effective interest rate method and are included in interest expense.

Fees and commissions relating to undrawn commitments are amortised over the life of the commitment to the profit and loss and recognised in other liabilities

1.15 Foreign currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which OakNorth operates (its functional currency).

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates as at the balance sheet date and the translation gains or losses are recognised in the profit and loss account. Income and expenses denominated in foreign currencies are converted into the functional currency at the exchange rate at the date of the transaction.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

1.16 Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the non-cancellable lease term provided the same is ascertainable unless another basis is more appropriate.

Notes to the financial statements

For the year ended 31 December 2018

1.17 Pension scheme costs

OakNorth offers a defined contribution pension scheme for its employees. Any contributions made by OakNorth are charged to operating expenses as incurred.

1.18 Share-based award

OakNorth Holdings Limited, grants shares to some of OakNorth's employees, subject to vesting conditions.

1.19 Other Provisions (excluding impairment provisions)

Provisions are recognised when OakNorth has a present obligation (legal or constructive) as a result of a past event; it is probable that OakNorth will be required to settle that obligation and, a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account any risks and uncertainties in relation to the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, where the effect of time value of money is material, the carrying amount is computed as the present value of those cash flows. As at 31 December 2018, the Bank did not have any other impairment provisions on the balance sheet.

1.20 Charitable donations

Charitable donations are accounted for as an expense when paid and included as a part of the operating expenses in the P&L.

1.21 Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs, if any, directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

1.22 Critical accounting judgements and key sources of estimation uncertainty

In the application of OakNorth's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimation uncertainty, that the Directors have made in the process of applying OakNorth's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Notes to the financial statements

For the year ended 31 December 2018

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives and recoverability of tangible fixed assets and intangible assets: As described above, OakNorth reviews the estimated useful life and recoverability of fixed assets at the end of each reporting period.

During the year, management reconsidered the recoverability of the costs capitalised in processing the Banking licence intangible asset which is included in its balance sheet at £240K (2017: £276K). When OakNorth obtained the banking licence amortisation of the intangible asset commenced.

Detailed sensitivity analysis has been carried out and management is confident that the carrying amounts of the tangible fixed assets and intangible assets will be recovered in full, even if returns are reduced. The recoverability will be monitored, and any adjustments as deemed appropriate will be made.

Allowance for credit losses: Credit loss allowances are established to recognise any incurred losses in OakNorth's loan portfolio. Note 1.10 details OakNorth's monitoring and provisioning process. In accordance with OakNorth's CRMP, OakNorth monitors the performance of the lending exposures, both at an account level and at portfolio level, on a monthly basis against the approved terms and conditions of sanction and covenants. Any material variances are flagged for immediate review and escalation, including where appropriate, a formal 'Watch Account' process is initiated. The governance procedures followed by OakNorth in relation to Credit Risk management are summarised in the Strategic Report and in note 25 on Risk Management Framework.

Specific impairment is identified based on impairment triggers under IAS39, and impairment provisions are made where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows from the asset that can be reliably estimated. Evidence of impairment is considered at both individual and portfolio level. OakNorth has reviewed its portfolio as at 31 December 2018 for any specific impairment triggers and no accounts are considered as specifically impaired (2017: nil).

In accordance with the provisioning policy, OakNorth estimates provisions for IBNR on its performing book. As detailed in note 1.10, the estimate is based on funded exposure x PD x LGD x EP. As OakNorth does not have its own loss data, OakNorth uses external data to calibrate a range of PDs. The final PD scores for each exposure are determined taking into account the business profile, financials and strength of management. The LGDs are based on OakNorth's estimate of the recoverable value that may be applied to the type of collateral received after factoring costs of recovery and downturn asset values. An emergence period of 12 months has been applied to the IBNR provision calculation. OakNorth has assessed £6,252K (2017: £2,357K) as IBNR impairment allowance on its performing book as at 31 December 2018.

Notes to the financial statements

For the year ended 31 December 2018

2 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:

	2018	2017
	£'000	£'000
Depreciation of tangible fixed assets	1,176	944
Amortisation of intangible assets	36	36
Operating lease rentals	599	269
Foreign exchange loss	1	1
	<u>1,812</u>	<u>1,250</u>

Further information is provided in notes 12, 13 and 21

The analysis of the Auditors' remuneration is as follows (including VAT):

	2018	2017
	£'000	£'000
Fees payable to OakNorth's auditors for the audit of OakNorth's annual accounts	132	110
Fees payable to OakNorth's auditors for Client Assets Sourcebook (CASS) audit	4	-
Fees payable to OakNorth's auditors for Interim profit verification	-	18
Total audit fees	<u>136</u>	<u>128</u>
Other non-audit services	-	-
Total fees to auditors	<u>136</u>	<u>128</u>

Notes to the financial statements

For the year ended 31 December 2018

3 Taxation

	2018	2017
	£'000	£'000
The tax charge comprises		
Total current tax	<u>7,274</u>	<u>1,106</u>
	2018	2017
	£'000	£'000
Factors affecting tax charge for the current period		
Profit on ordinary activities before tax	33,854	10,580
Tax at standard UK corporation tax rate	6,432	2,036
<i>Effects of:</i>		
Expenses not deductible for tax purposes	70	29
Adjustments in respect of prior years	-	(45)
Effect of rate changes	(75)	-
Other timing differences on which deferred tax not previously recognised	-	112
Utilisation of losses on which no deferred tax previously recognised	-	(1,026)
Tax refund relating to earlier years	(3)	-
Bank surcharge tax	850	-
Total tax charge for period	<u>7,274</u>	<u>1,106</u>
Analysis of tax charge on ordinary activities		
UK corporation tax	7,620	1,139
Adjustment in respect of prior years	(27)	(45)
Deferred tax		
Current year- P&L	(351)	12
Adjustment in respect of prior years	23	-
Effect of rate changes in respect of prior years	9	-
Total tax charge - P&L	<u>7,274</u>	<u>1,106</u>
Total tax credit - equity	<u>(6)</u>	<u>(6)</u>
Balance sheet provision for taxes payable	7,595	1,139
Advance tax paid	(3,800)	(180)
Net tax payable	<u>3,795</u>	<u>959</u>
Net Deferred tax asset (liability)	<u>319</u>	<u>(6)</u>

Change in tax rate: The current tax rate is 19% (effective 1 April 2017). This is expected to reduce to 18% effective 1 April 2020. These rate changes were substantively enacted on 26 October 2015. An additional

Notes to the financial statements

For the year ended 31 December 2018

reduction to 17% (effective 1 April 2020) was substantively enacted on 6th September 2016. This will reduce the company's future current tax charge accordingly.

Deferred tax provisions have arisen on accounting of timing differences in relation to annual capital allowances for fixed assets, bonus provisions and unrealised loss on mark to market for GILTS.

During the year the Bank was also subject to the Banking Corporation Tax Surcharge of 8% which is levied on the annual taxable profits of banking companies over £25 million. As a result, the effective tax rate for the year ended 31 December 2018 was 21%.

4 Staff numbers and costs

The average number of employees (including executive and non-executive directors) was:

	2018	2017
	Number	Number
Average number of employees	70	62

Their aggregate remuneration comprised:

	2018	2017
	£'000	£'000
Salaries and bonuses	10,220	7,410
Social security & pension costs	1,337	963
Share-based payment	23	21
Other costs & statutory levies	30	21
	11,610	8,415

During the year OakNorth made £50K (2017: £38K) of contributions towards a pension scheme for employees.

5 Restricted share scheme

OakNorth's holding company operates an employee share scheme (ESS) which was introduced in 2016. The shares granted vest over a period of six years, with vesting commencing only from year three at 50%, increasing equally per year up to 100% by end of year 6. The vesting is subject to business performance conditions which must be met. The Remuneration Committee will assess the outcome of the performance conditions and determine the vesting outcome and the shares available for exercise. If an employee leaves, the unvested shares are bought back.

Notes to the financial statements

For the year ended 31 December 2018

During the year 6,450 shares were granted (2017: 9,151 shares). 3,307 shares had vested during the year (2017: nil). 1,379 shares were forfeited during the year (2017: 304).

6 Directors' remuneration and transactions

	2018 £'000	2017 £'000
Directors' remuneration		
Emoluments	2,231	1,774
Share-based payment	5	3
Other taxable benefits	85	8
Net amount expensed to profit and loss account	2,321	1,785
Remuneration of the highest paid director:		
Emoluments	950	750
Share-based payment	-	-
Other taxable benefits	61	8
Net amount expensed to profit and loss account	1,011	758

Total number of share-based payments granted to the Directors was 750 shares (2017: 3,034). No shares were granted to the highest paid director during the year (2017: Nil). The expense recognised above is recognised over the vesting period (refer note 5 for details of the scheme).

Directors' advances, credits and guarantees

Details of transactions with directors during the year are disclosed in note 29.

7 Financial Services Compensation Scheme "FSCS"

As a regulated UK deposit-taker, OakNorth pays levies to the FSCS which offers protection to individual deposit holders on amounts up to £85,000 (applicable as of 31 December 2018). The FSCS levy covers management expenses and compensation levies. In addition to the overall levy, FSCS also recovers costs, capital and interest costs associated with Treasury loans during the banking crisis in 2008 ("Specified Deposit Default (SDD) levy"). During 2018, there was a net release of accruals of £35K (2017: charge of £108K) from 2017. A total payment of £48K was made in respect of all FSCS levies during the year.

Notes to the financial statements

For the year ended 31 December 2018

8 Loans and advances to banks

	2018	2017
	£'000	£'000
Balances held with other banks	6,376	5,360
Balances held with custodian	18	2
Total	6,394	5,362

The loans and advances to banks are measured at amortised cost. All balances held are short term and therefore book value is deemed equivalent to fair value

9 Loans and advances to customers

	2018	2017
	£'000	Restated £'000
Loans and advances to customers		
Amount due:		
- within one year	358,017	171,773
- over one year but less than five years	888,241	415,919
- over five years	57,931	23,139
Gross loans and advances	1,304,189	610,831
IBNR provisions allowance	(6,252)	(2,357)
Loans and advances to customers (net)	1,297,937	608,474
of which repayable on demand or at short notice	-	-

There were no past due or impaired accounts as at 31 December 2018 (2017: Nil). All credit risk exposures of OakNorth (i.e. the collaterals and business cash flows) are in the UK. The loans and advances to customers are measured at amortised cost. The above balances are stated net of unamortised fees of £9.4 million as at 31 December 2018 (2017: £5.8 million) and accrued fees and interest receivable of £9.7 million as at 31 December 2018 (2017: £3.5 million)

Notes to the financial statements

For the year ended 31 December 2018

10 Provision for impairment losses

	2018 £'000	2017 £'000
IBNR provisions		
As at beginning of the year	2,357	937
Charged during the year	3,895	1,420
Released during the year	-	-
Written off during the year	-	-
As at end of the year	<u>6,252</u>	<u>2,357</u>
Movement in the profit and loss account		
IBNR provision charged	<u>3,895</u>	<u>1,420</u>
	<u>3,895</u>	<u>1,420</u>

There were no specific impairment charges on OakNorth's lending portfolio during the year.

11 Debt securities

	2018 £'000	2017 Restated £'000
Analysed by class:		
Bonds	<u>104,420</u>	<u>2,139</u>
	104,420	2,139
Analysed by issuer		
Issued by public bodies: Government	<u>104,420</u>	<u>2,139</u>
	104,420	2,139
Analysed by designation		
Available for sale	<u>104,420</u>	<u>2,139</u>
	104,420	2,139
Analysed by maturity		
Due within one year	<u>104,420</u>	<u>2,139</u>
	104,420	2,139
Fair value of debt securities		
Issued by public bodies: Government	<u>104,420</u>	<u>2,139</u>
	104,420	2,139

All the investments held have been fair valued based on market price (Level 1). None of the investments were impaired as at 31 December 2018 (2017: Nil). GILTS held as at 31 December 2017 matured during the year.

Notes to the financial statements

For the year ended 31 December 2018

12 Intangible assets

	Banking License £'000
Cost	
At 1 January 2018	360
Additions	-
At 31 December 2018	<u>360</u>
Accumulated amortisation	
At 1 January 2018	84
Charge for the period	36
At 31 December 2018	<u>120</u>
Carrying amount	
At 31 December 2018	<u>240</u>
At 1 January 2018	<u>276</u>

13 Tangible fixed assets

	Leasehold improvements	Computer and IT equipment	Fixtures, fittings and office equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2018	120	4,732	43	4,895
Additions	1,060	307	197	1,564
Impairment	(121)	(1)	(32)	(154)
At 31 December 2018	1,059	5,038	208	6,305
Accumulated depreciation				
At 1 January 2018	33	1,739	14	1,786
Charge for the period	157	979	40	1,176
Impairment	(121)	(1)	(32)	(154)
At 31 December 2018	<u>69</u>	<u>2,717</u>	<u>22</u>	<u>2,808</u>
Carrying amount				
At 31 December 2018	<u>990</u>	<u>2,321</u>	<u>186</u>	<u>3,497</u>
At 1 January 2018	<u>87</u>	<u>2,993</u>	<u>29</u>	<u>3,109</u>

Notes to the financial statements

For the year ended 31 December 2018

14 Prepayments and accruals

	2018	2017
	£'000	Restated £'000
Prepayments	533	314
Receivables	95	226
	628	540

15 Other assets

	2018	2017
	£'000	£'000
Security deposits	9	48
Bank of England- Cash Ratio Deposit	397	-
Other assets	85	263
	491	311

16 Customer deposits

	2018	2017
	£'000	Restated £'000
Customer deposits	1,185,860	497,105
Amounts due:		
- within one year	904,435	335,959
- over one year but less than five years	236,583	150,980
Total notice and term deposits	1,141,018	486,939
Easy access accounts	44,842	10,166
Total deposits	1,185,860	497,105

The above amounts include accrued interest payable of £11.1 million (2017: £5.8 million).

Notes to the financial statements

For the year ended 31 December 2018

17 Borrowings under the Bank of England (BOE) Term funding scheme (TFS)

	2018	2017
	£'000	£'000
Borrowings under the BOE's Term Funding Scheme	182,110	1,001

As of 31 December 2018, OakNorth had borrowed £181.9 million under the Bank of England's Term Funding scheme. The scheme closed for new drawdowns in February 2018. The interest payable on the borrowings is linked to the BOE base rate, which is currently 75bps. The borrowing is repayable after four years of drawdown- £1.0 million is repayable in June 2021 and £180.9 million is repayable in January/February 2022. The borrowing is held at amortised cost and includes unamortised expenses of £0.1 million and accrued interest of £0.3 million.

The borrowing is collateralised against GILT portfolio of £103.6 million and £161.7 million of gross loans (2017: £1.1 million of GILTS were pledged as a collateral and £1.0 million was drawn under the TFS scheme).

18 Subordinated debt

	2018	2017
	£'000	£'000
Subordinated notes	49,358	-

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 an amortised cost of £49.0 million, which includes unamortised issue expenses of £0.5 million and accrued interest of £0.3 million as of 31 December 2018.

19 Trade payables and other provisions

	2018	2017
	£'000	£'000
Trade creditors and accruals	5,188	3,303
Payroll taxes and social security	423	299
Corporation tax payable	3,795	959
	9,406	4,561

All amounts above are payable within one year.

Notes to the financial statements

For the year ended 31 December 2018

20 Other liabilities

	2018	2017
	£'000	£'000
Deferred income & income received in advance	13,444	11,404
Other payables/ Items in suspense	216	681
	<u>13,660</u>	<u>12,085</u>

21 Operating lease commitments

	2018	2017
	£'000	£'000
Lease expense charged to the profit and loss	<u>599</u>	<u>269</u>

Operating lease payments represent rentals payable by OakNorth for its office premises and for flat rented for use of full-time employees.

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
	£'000	£'000
- within one year	482	230
- between one and five years	3,085	-
- after five years	-	-
	<u>3,567</u>	<u>230</u>

22 Contingent liabilities and commitments

As on 31 December 2018, OakNorth had undrawn loan commitments outstanding for £162.2 million (2017: £107.7 million). Additionally, OakNorth also had £746.4 million of uncommitted facilities outstanding as of 31 December 2018 (2017: £130.6 million). OakNorth had no other contingent liabilities as on 31 December 2018 (2017: Nil).

OakNorth allows for drawdowns under property development facilities only where our quantity surveyor has verified the costs and progress of the development. For other business lending, OakNorth always stipulates conditions precedent for drawdown.

Notes to the financial statements

For the year ended 31 December 2018

23 Country by country reporting

The Capital Requirements Directive 4 (“CRD IV”) requirements stipulate reporting on a consolidated basis, by country where the reporting institution has an establishment, the name, nature of activities, geographical location, number of employees, turnover, pre-tax profit/loss, corporation taxes paid, and any public subsidies received. OakNorth is a UK based bank and only operates out of its offices in London and Manchester.

24 Capital management

OakNorth’s risk appetite statement and framework are designed to ensure that OakNorth maintains sufficient capital, with appropriate buffers, to meet regulatory requirements for its ongoing growth projections, even in periods of stress. To enable this, OakNorth 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 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 monitors the capital adequacy through the 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 uses the Standardised Approach for computing capital requirements for credit risk and market risk and the Basic Indicator Approach for operational risk. The disclosures in this document are based on these approaches. OakNorth has complied with all regulatory capital requirements throughout the year.

OakNorth has Tier 1 capital resources which include ordinary share capital, Available for sale revaluation reserve, Employee Share Scheme valuation reserves and retained earnings, reduced by the intangible assets. Tier 2 capital includes IBNR provisions reserve. More information is provided in OakNorth’s Pillar 3 disclosures available in a separate document.

25 Risk Management Framework

OakNorth has adopted the governance framework in line with the corporate governance practices at other UK financial institutions. As a financial institution, OakNorth is exposed to various types of risks. OakNorth has implemented a Risk Management Framework to identify, measure and monitor these risks. OakNorth has developed a risk appetite statement to manage the risks. The risk appetite statements cascade to the suite of Policies which define the controls needed to implement them. The Policies in turn cascade to Standard Operating Procedures (SOPs) which operationalise the controls.

The OakNorth 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. 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). 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.

Notes to the financial statements

For the year ended 31 December 2018

Credit Risk

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

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

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

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

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

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

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

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

As on 31 December 2018, 92% of OakNorth's loan facilities were collateralised by security comprising of fixed assets (including property) - these exclude any charges on floating assets and guarantees not supported by charge on fixed assets (2017: 92%). When we look at any combination of PD scores, weighted average loan to values, debt service cover and leverage, 99% of the loan book is considered high quality with no default on any loan. The remaining 1% is under close monitoring, not impaired and does not require any specific provision.

Notes to the financial statements

For the year ended 31 December 2018

Both the CRMC and BCC monitor the performance of the overall portfolio on a regular basis and at least monthly through the production of management information including: lending volumes, key credit model output performance, rating downgrades, concentration risk (including large exposures), impairments and any material recoveries (if any).

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

Liquidity risk

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

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

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

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

As at 31 December 2018, OakNorth held unencumbered high -quality liquid assets of £356.9 million (2017: £149.4 million).

Interest rate risk

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

- **Duration or Repricing Risk:** The risk arising from repricing mismatch of assets and liabilities. The majority of OakNorth's assets reprice based on the base rates while most deposit liabilities are fixed rate.
- **Basis Risk:** Unhedged exposure to one interest rate benchmark with exposure to another interest rate benchmark that reprices under different conditions (e.g. Bank of England Base rate and LIBOR).

Notes to the financial statements

For the year ended 31 December 2018

- Pipeline Risk: The uncertainties of occurrence of future transactions.
- Prepayment Risk: Borrowers redeeming fixed rate products when interest rates change or prepaying loans for other reasons.

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

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

The two key measures / reports that OakNorth uses for measurement and monitoring of interest rate risk are: sensitivity to 200 basis point (bps) shift in the entire yield curve to measure the interest rate risk in the banking book (IRRBB) and the basis risk exposure report. OakNorth monitors the Net Present Value (NPV) sensitivity to the positive and negative 200 basis points shift in the yield curve including the Bank of England base rate or LIBOR-linked floors embedded within the customer loan agreements.

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

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

Operational Risk

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

OakNorth has implemented a rigorous Operational Risk policy and risk mitigation processes. Each function, as the first line of defence, ensures that any operational risk in their area is mitigated by clearly defined and documented process documents and undertakes a thorough Risk and Controls Self-Assessment ('RCSA') process. Appropriate risk limits and their thresholds and early warning indicators are set. Reporting of appropriate MI on process effectiveness and any events or near misses is made monthly to the OPCO, EXCO and Board.

Conduct, compliance and regulatory risks

Conduct Risk is defined as the risk that a firm's behaviour results in poor outcomes for customers. Conduct risk is seen across regulatory, operational and reputational risk categories. OakNorth is focussed on delivering good outcomes for its customers.

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For the year ended 31 December 2018

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. OakNorth has a zero appetite for any breach of regulation, code or standard of conduct.

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

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

26 Called up share capital

	2018 £'000	2017 £'000
Allotted, called up and fully-paid		
299,320,001 (previous year: 249,320,001) ordinary shares of £1 each	299,320	249,320
	No of shares (in '000)	
As at 1 January 2017	86,320	
Issue of shares during the year	163,000	
As at 31 December 2017	249,320	
Issue of shares during the year	50,000	
As at 31 December 2018	299,320	

Notes to the financial statements

For the year ended 31 December 2018

27 Profit and loss account

	2018	2017
	£'000	£'000
As at the start of the year	4,511	(4,963)
Profit during the year	26,580	9,474
As at end of year 31 December	<u>31,091</u>	<u>4,511</u>

28 Segmental information

OakNorth offers lending products to borrowers across different sectors. However, OakNorth does not operate different business divisions within the Bank. The business currently operates as a single integrated unit with all other functions such as liquidity management, deposit product and other support functions supporting the growth of the lending business.

29 Related party transactions

Transactions with related parties include contract charges for services provided by OakNorth Global Private Limited, OakNorth Analytical Intelligence (UK) Limited- fellow subsidiary entities of the group and subscription of share capital by the Holding Company, as disclosed below.

	2018	2017
	£'000	£'000
OakNorth Holdings Limited (formerly ACORN OakNorth Holdings Limited)		
- Subscription of shares	50,000	163,000
- Sale of warrants	34	-
OakNorth Global Private Limited, India		
- Purchase of services	4,658	3,386
- Advances paid	-	-
OakNorth Analytical Intelligence (UK) Limited (formerly ACORN Machine (UK) Limited)		
- Purchase of services	240	137
- Expenses recoverable	287	89
OakNorth Analytical Intelligence (SG) Pte Limited (formerly ACORN Machine (SG) Pte Limited)		
- Expenses recoverable	-	274
Heady LLC		
- Purchase of services	-	69

The disclosures are presented including amounts accrued but not billed.

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For the year ended 31 December 2018

The following amounts were outstanding at the balance sheet date:

	2018	2017
	£'000	£'000
Equity holding		
OakNorth Holdings Limited	299,320	249,320
Amounts owed to / (from) related parties		
OakNorth Holdings Limited	(34)	-
OakNorth Global Private Limited, India	524	418
OakNorth Analytical Intelligence (UK) Limited	(61)	48
OakNorth Analytical Intelligence (SG) Pte Limited	-	(274)
Key management personnel	-	-

OakNorth Holdings Limited, Jersey is a related party of OakNorth because it is the holding company. OakNorth Global Private Limited, OakNorth Analytical Intelligence (UK) Limited, OakNorth Analytical Intelligence (SG) Pte Limited are related parties of OakNorth because they are fellow subsidiaries. Heady LLC is related party of OakNorth as some of the Directors of OakNorth or their close relatives had the ability to exercise significant influence on the financial and operational policies.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Directors' transactions

Other related party transactions

The total remuneration for key management personnel are as detailed in note 6.

	2018	2017
	£'000	£'000
Employee costs	1,771	1,367
Other taxable benefits	85	8
Share-based payment	5	3
Total cost	1,861	1,378

The share-based payments expense included in the above is the expense recognised as per the vesting schedule.

Notes to the financial statements

For the year ended 31 December 2018

30 Controlling party

In the opinion of the Directors, OakNorth's immediate and ultimate controlling party is OakNorth Holdings Limited, Jersey, with registered office at- Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW.

31 Post balance sheet events

In February 2019, the holding company of the Bank, OakNorth Holdings Limited, secured a £335 million investment from the SoftBank Vision Fund and the Clermont Group (£300 million primary and £35 million secondary investment). The investment is subject to standard closing conditions and regulatory approval. No additional equity investments have been made in the Bank as of the date of approval and adoption of the 2018 financial statements.

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

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