

Annual report 2019

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

September 2015
We launched after being granted full authorisation from the PRA and FCA

2016

May 2016
We became the first UK bank to have its core systems fully cloud hosted

June 2016
We won "Fast Growth Champion of the Year" at the Growing Business Awards

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

April 2017
We won the "Banking in the Cloud" Award at the Celent Model Bank Awards

May 2017
We won the "Cloud Innovation of the Year" Award at the FS Tech Awards, and "Residential Financier of the Year" at Property Week's RESI Awards

October/ November 2017
The Holding company secured institutional investment from Clermont Group, Coltrane Asset Management, GIC (the Singaporean sovereign wealth fund), and Toscafund, raising £250m (£160m primary)

December 2017
We were approved as participants in the Bank of England's Term Funding Scheme

2018

April 2018
OakNorth legal entity re-registered from a private company to a public company

March 2018
We announced a profit of £9.5m for the year ended December 2017, our second full year of operations

June 2018
We issued £50m of Tier 2 capital listed on the Irish Stock Exchange

May 2018
We won "Property Lender of the Year" at the PROPS Awards

September 2018
The Holding Company secured £74m investment from Clermont Group, Coltrane, EDBI of Singapore, GIC, and NIBC Bank

2019

February 2019
The Holding Company secured £335m investment from Clermont Group and Softbank's Vision Fund

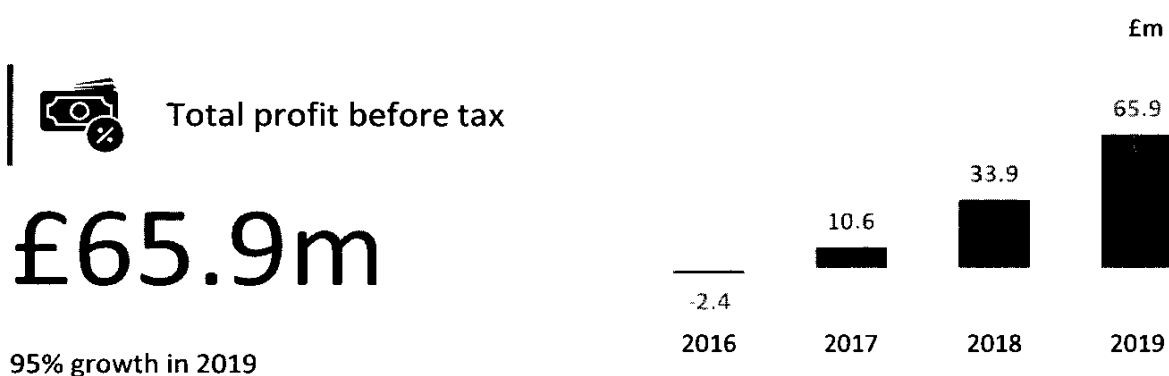
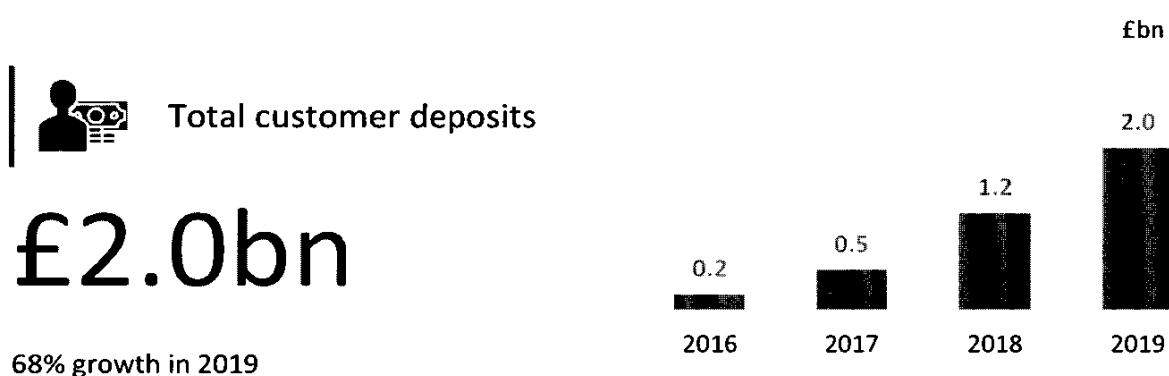
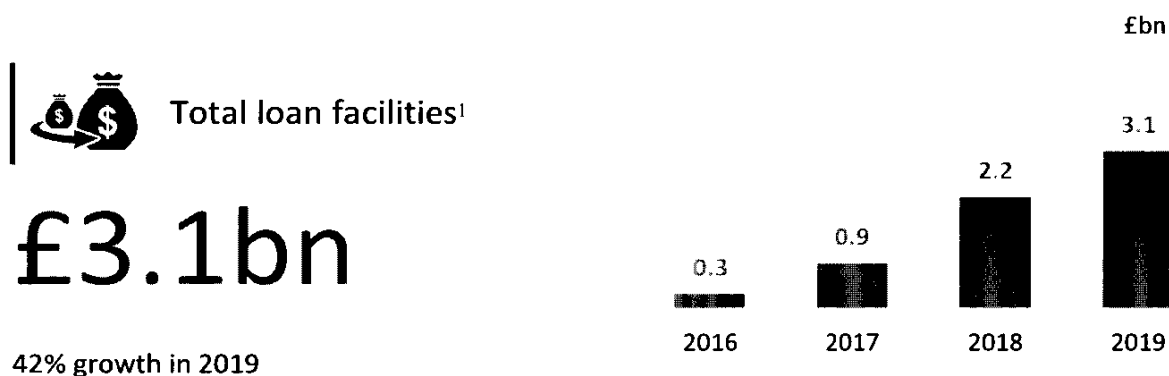
March 2019
We announced participation in the ENABLE Guarantee programme, securing a guarantee of £133m from the British Business Bank

March/ July 2019
We announced several partnerships with other leading fintechs to bring our award-winning savings proposition to their customers

May/ December 2019
We established Debt Finance teams in Manchester, the Midlands, the South West and East Anglia

November 2019
We were named Best Challenger Bank at the 2019 Growth Finance Awards

Business performance - key highlights



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

Chairman's Statement



Cyrus Ardalan
Chairman

My career in financial services began 46 years ago at the World Bank. Today for some, the idea of spending almost half a century in the same industry may seem difficult to imagine, but banking has seen such immense change over the decades that it has transformed almost beyond recognition. Unprecedented changes in technology, regulation and consumer behaviour, have forced this industry to evolve, and banks have had to adapt in order to survive. Many still struggle as they are challenged by new players in the field, free of outdated systems and antiquated business models. For OakNorth this has been a tremendous opportunity.

Looking back over the decades, I have had the opportunity to work with some of the world's oldest and largest institutions – the *'Goliaths'* of the industry. But these last few years with OakNorth² – the *'David'* – has impressed upon me the tremendous good banking can do for our country, if properly adapted to the state-of-the-art technology and analytics. I see every day the impact we're having across the UK – the businesses who are growing as a result of our loans, the SME housebuilders who are getting projects off the ground brick-by-brick, and the jobs that are being created in professions that didn't even exist ten years ago. Like *'David'*, it's often the smaller businesses that can have the largest impact.

Last year has been extremely challenging for the British economy – the combination of Brexit, the general election, and flooding across huge stretches of Northern England in the final quarter of the year - created unprecedented uncertainty. Despite this, OakNorth managed, once again, to have an exceptional year. We increased total loan facilities by 42 percent to £3.1bn and grew customer deposits by 68 percent to £2bn. Furthermore, we boosted profit before tax by 95 percent to £65.9m. This was all achieved without jeopardising the credit quality of the loan book, despite having lent over £4bn since September 2015. This is in large part down to the insight and foresight that our state-of-the-art Platform³ provides, and its ability to continually self-optimize and adapt to changing market conditions. The next 12 months will provide us with an exciting

² "OakNorth" and "the Bank" are used interchangeably in this document for "OakNorth Bank Plc"

³ "Platform" refers to the next-generation credit and monitoring platform which is a solution developed by the Bank's sister companies

Chairman's Statement

opportunity to prove the strength of our proposition and the businesses we lend to through an economic cycle.

Boosting the regions

At our inception, we had two offices in the UK, our headquarters in London and an operations and customer support office in Manchester. Given the increasing demand we have been seeing from businesses in regions outside of London and the South East, we made the decision this year to expand our regional footprint and establish Debt Finance teams in other parts of the UK.

In the last 12 months, we set up a Debt Finance team out of our office in Manchester, as well as additional regional hubs with Debt Finance Directors in the Midlands, the South West and East Anglia. As a result, the number of directors on our Debt Finance team doubled to 25 people, with half of these being based in the regions. We expect to continue to expand our regional footprint in 2020 and beyond with over 30 percent of our current new business coming from outside of London and the South East. This year we have supported the following businesses among many others:

- ❑ Bright Minds Daycare, an independent nursery group founded in Birmingham that is able to invest in further improving its childcare proposition
- ❑ Cressey College, a specialist school for students with social, emotional and attachment difficulties, that is helping these children prepare for adulthood and equipping them with the employability skills to succeed in the future
- ❑ House of Gods, a newly-launched boutique hotel brand in Scotland founded by two brothers
- ❑ Kexgill, a Yorkshire-based student accommodation provider which is bringing new homes to students at the University of Hull

- ❑ Inn Collection Group, Northumberland's largest independent accommodation provider which is doubling its portfolio to 21 sites and creating dozens of new jobs in the process
- ❑ Care Concern Group, a general nursing and dementia care business which continues offering vital care for hundreds of patients

Becoming the savings partner of choice

Our lending to the "middle" – growth businesses that tend to have the largest impact on economies and communities but have been overlooked and underserved for decades – has been supported by a loyal base of deposit customers. These savers benefit from competitive rates, Financial Services Compensation Scheme (FSCS) protection, and the ability to apply for, fund and manage their account online and via our app. Our dedicated customer service team has a 4.5-star Feefo rating and answer customer calls in just 11 seconds on average. The combination of these factors has won us several awards this year, including: Best Online Savings Provider at the MoneyNet Awards, Best Internet Account Provider at the Moneyfacts Awards and Best Internet Savings Provider at the Moneycomms Awards.

Not resting on our laurels

Our Net Promoter Score of 80.5 with our borrowers is amongst the best in the industry. We know that in order to maintain this, we need to continuously innovate and improve our proposition, which we are actively doing through the OakNorth Platform and other Bank systems.

Our participation in the British Business Bank's ENABLE Guarantee programme has provided us with a £133m guarantee to further strengthen our lending

Chairman's Statement (continued)

support to the middle. The programme is designed to encourage banks to increase their lending to smaller businesses by reducing the amount of capital required to be held against such lending.

Conducting our business in a socially-minded way

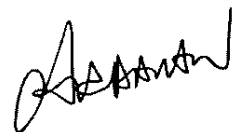
From the outset, we have been very clear on our mission – to champion business lending to the middle in a socially minded way. We have always placed social and environmental consideration at the centre of our business model. We target our lending to have a direct positive environmental and social impact. We support growth whilst ensuring transition to a low carbon environment through developing partnerships with like-minded eco-friendly stakeholders. We don't lend to businesses that are engaged in - oil or gas production, leather tanning or manufacturing, dressing or dyeing of fur, armaments or defence activities, gambling or betting activities. We are amongst the first banks to become net carbon zero.

On behalf of the Board, I would like to thank all our customers for choosing OakNorth as we build the bank for entrepreneurs, by entrepreneurs. I would also like to acknowledge the exceptional work of the OakNorth team, whose dedication has enabled us to build a strong and sustainable business that, in turn, enables businesses around the UK to prosper.

Supporting British businesses as the UK lays out a new path for its future

Britain's exit from the EU in 2020 is a major event in our nation's history. Brexit will bring significant challenges but also potentially new opportunities, so we remain cautiously optimistic.

We have seen a slowing in borrowing demand from certain businesses in certain sectors, but an increase in demand from others. As a bank that raises deposits from UK savers to lend to UK businesses, we do not have to deal with the challenges of passporting or potentially having to relocate thousands of staff as some of our larger counterparts do. This creates an opportunity for us to double-down on our proposition, staying laser-focused as larger lenders become distracted with the challenges Brexit presents. We are determined to support the nation's middle by providing them with access to the debt finance they need to grow. We ended 2019 with a record year in profits, increased efficiency and a strong loan book. We believe we are well positioned to meet the challenges of 2020 and to support the middle at a time when many larger lenders will be retrenching from the market.



Cyrus Ardalan
Chairman
5 March 2020

Chief Executive's Review



Rishi Khosla

Chief Executive Officer & Co-Founder

I begin this address with a sense of pride for OakNorth - the hundreds of businesses across the UK that we've helped support since our launch in September 2015, and the impact this has had on job creation (17,000 new jobs), GDP growth and bringing more social and affordable housing to the country (over 13,000 new homes).

As I look back over the past 12 months — an unprecedented period of change for the UK — it is humbling to see how much we've accomplished and how much more we can do both here and internationally. This is only the beginning.

Joel and I built OakNorth to reimagine business borrowing for the middle — the growth businesses who have been overlooked and underserved for decades but are the backbone of economies and communities globally. These are the change makers, the job creators, the productivity drivers, and the home builders who, like us when we were building our first business, struggle to obtain fast, flexible debt finance to grow. They are the businesses governments and regulators continue to identify as those in need of support, but who continue to be ignored.

It wasn't always like this. In the 80s and 90s, the relationship managers at bank branches had credit training, individual decisioning authority and held personal relationships with local businesses, but this

has been replaced with centralised credit models which yield 'computer says no' decisions. Most technology investment by fintechs and traditional banks has been in the consumer lending or small business sectors, rather than commercial lending, and as a result, the borrowing experience for the middle has remained unchanged for decades — in fact, it's slower, less personal and less credit-informed.

We're building a cloud-native, technology-first, relationship-centric commercial bank that's changing the industry. We're proving it's possible to delight customers and put them at the heart of your business, whilst generating a profitable and sustainable balance sheet. Our credit analysis and monitoring platform helps us provide the middle

Chief Executive’s Review (continued)

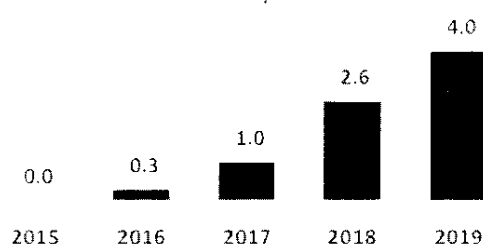
with the bespoke deal structuring that’s typically reserved for large corporations. This hasn’t been possible to date because of the human cost of in-depth credit analysis – a traditionally manual process that is time-intensive and costly. But by leveraging machine learning, massive data sets and cloud computing, we’re building a long-term, sustainable business that is bringing a fundamentally better borrowing experience to the middle.

Building the next-generation commercial bank

Our Platform enables OakNorth’s Debt Finance Directors to have fundamentally different conversations and engage with borrowers in a dramatically different way. It brings credit insight about our borrowers’ businesses back to the front line, democratising this knowledge so that our Debt Finance Directors have a deep understanding of the individual business, its industry and its sub-sector. As a result, our teams have more relevant and thoughtful conversations with the business owner. Instead of wasting time on the things that don’t matter, they are able to spend more time on the things that do – structuring a loan for our borrowers’ needs in the time frame they need it.

Since our launch in 2015, we’ve lent over £4bn⁴ with an average of eight Debt Finance Directors. In a year, they complete four times the number of deals on average than they did in the same role at previous banks. Over the last 12 months, they’ve originated £1.4bn in new facilities.

Cumulative loan facilities originated (£bn)



However, the Platform doesn’t only assist them with credit analysis and data optimisation, it also aids in portfolio monitoring. By proactively monitoring clients’ financial and operational data, it is able to provide early warning indicators in case of deterioration in credit quality, enabling our Debt Finance Directors to have a preliminary conversation with the client, well before a negative credit issue arises. This results in better outcomes for our clients.

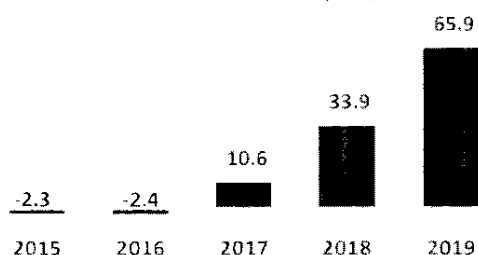
This is evidenced by the fact that OakNorth has been able to lend over £4bn in four years without credit losses and only two defaults (both of which are collateralised) that equate to 1 percent of our originated facilities.

Our Platform has enabled us to achieve results which put us in the top 1 percent of banks in developed countries, across every metric that’s measured:

- our return on required equity is 19 percent
- our cost-to-income ratio is 32 percent
- our borrower Net Promoter Score is 80.5

This is with a team of less than 270⁵ people. In addition to this, we reached cash flow break-even just nine months post-launch repaying all accrued losses in 25 months, and pre-tax profits in 2019 near-doubled to £65.9m from £33.9m.

Profit before tax (£m)



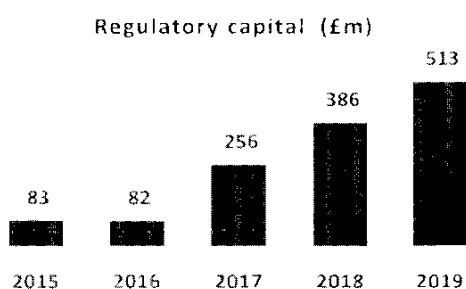
⁴ Gross facilities originated

⁵ 96 direct bank headcount and c172 of staff supporting from other entities in the OakNorth group

Chief Executive's Review (continued)

OakNorth is well capitalised with a total capital ratio of 23 percent, and we will keep a comfortable buffer position that will allow us to grow and meet regulatory requirements.

We intentionally don't pay dividends so that we can reinvest all our profit into continuing to grow our business and support the middle. However, regulation in regard to capital requirements as a new, fast-growing bank subject to the standardised approach, coupled with the 8 percent Corporation Tax Surcharge means we have less capital to deploy to do this. Creating a more level playing-field between the new banks like us and the traditional incumbents, would help boost competition and increase net lending to the UK economy, so we welcome recent discussions with policy makers on this.



Building a sustainable, long-term business

The £335m Group-level investment round with SoftBank and the Clermont Group that we completed in February is a clear measure of how the investment community measures our progress over the last four years and has provided us with additional capital to invest in accelerating our technology platform, which in turn helps drive the growth of the Bank. In the last 12 months, the OakNorth Group has invested in data architecture in the Platform, which is enabling modelling for highly complex and varied client cases. We also continued to invest in hiring the right talent across our Platform business – particularly in product, engineering, design and credit science.

As a founder-led organisation, we believe in building a business as if you're going to own it for life as this ensures you make the right long-term decisions. From the outset, we have pursued operational excellence, efficiency and rigorous execution. We were the first bank in the UK to establish its core banking infrastructure in the cloud, and upon that, have built a robust and scalable operation that is free of the legacy IT issues found at many of the traditional banks. It is for this same reason that we see the time and effort we spend looking at bank regulation – much of which is consistent with what is essential to build a strong long-term business – as an investment, rather than overhead. We respond to regulatory changes as a matter of priority and work closely with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) to share our perspective and the nuances of our unique business model and financial profile so we build a robust business for the long term.

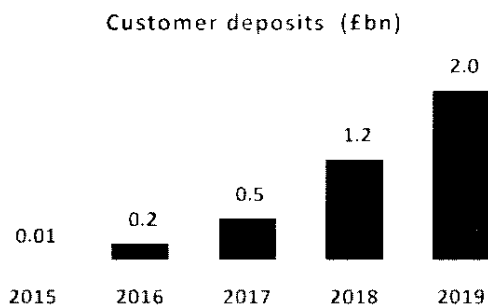
We're fortunate to be supported by an incredibly strong Board and Advisory Board, including the recent addition of Philip Hammond, Former Chancellor of the Exchequer. Between them, our Board and Advisory Board members have over two centuries of experience in financial services, providing us with invaluable expertise to ensure we can continue our strong growth with discipline and rigour, even in a down cycle. The fact that we're profitable and have a strong capital buffer sets us apart from other new banks, and we see strong growth opportunities for both our lending and savings businesses.

We have over £2.4bn of qualified deals in our pipeline, with more than one thirds of new borrowing leads coming from client referrals. In the last 12 months, we set up Debt Finance teams out of our office in Manchester, as well as adding new regional hubs in the Midlands, the South West and East Anglia. We are committed to taking OakNorth's positive multiplicative effect on local economies across the country.

This continued lending to British businesses is only made possible thanks to the trust and loyalty of our deposit customers. This year we diversified our

Chief Executive's Review (continued)

sources of funding and brought our award-winning savings platform to a wider universe of customers. The launch of our app is helping us attract a wider demographic and getting younger people to think about saving. Through strategic partnerships with other leading fintechs, we've been able to attract over 102,000 new savings customers, in addition to the 42,000 who have come to us direct. We've also been able to bring new and exciting products to an otherwise stale and stagnant market. For example, our partnership with Moneybox involved launching a market-leading Cash Lifetime ISA designed to help customers saving for their first home to take that next step towards property ownership.



Doing well by doing good

Building a strong business can only be done with care for customers, employees, communities and the environment. In 2018, we announced a commitment to donate 1 percent of our group-level profits to supporting charitable causes and social enterprise. Our focus over the last 12 months has been on creating and supporting opportunities for social mobility, female empowerment, increased engagement in the STEAM subjects at schools, and the inclusive development of underprivileged communities globally.

Making a meaningful impact in addressing climate change

We cannot build a long-term, sustainable, and profitable business without embracing purpose and considering the needs of a broad range of stakeholders. Ensuring that we conduct our business in a way that helps mitigate the physical impacts of climate change is critical to our stakeholders – and therefore, us.

We are proud to be one of the first banks globally to become net carbon zero by offsetting our estimated direct emissions (Scope 1) and electricity-generated indirect emissions related to suppliers of our IT infrastructure (Scope 2). Our suppliers have plans themselves to reduce their carbon emissions, but until they have implemented these plans we will continue to use offsets. Our approach in relation to the impact of emissions from our clients and all other indirect emissions (Scope 3) is in progress and will be formalised in 2020, but as a lender, we currently proactively screen for businesses that conduct their businesses in a sustainable way.

To navigate the challenges of the future, we must first understand the challenges of our past

It has been over a decade since the world experienced the worst financial crisis in living memory and whilst it brought with it a huge amount of suffering that is still being felt by millions, it also helped catalyse the birth of new sectors such as fintech and new players like ourselves.

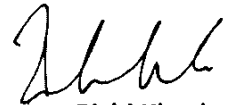
On 31 January 2020, the UK ended its 47-year membership with the EU, with this comes huge challenges but also opportunity. For us, it will be a chance to prove the strength of our proposition and the businesses we lend to. No matter how the trade negotiations unfold, we will remain committed to re-imagining business borrowing for the middle. There will always be good businesses to lend to and we are

Chief Executive's Review (continued)

experts at identifying and lending to them. The UK can position itself for exceptional growth over the next decade if it unlocks the productivity and human capital in the regions outside of London and

continues to support those businesses who are making the biggest impact on the economy and local communities. We are well-positioned and excited to enable this growth over the coming decades.

It has been an unparalleled journey over these last four years, and we have managed to get this far, with such momentum, thanks to the incredible commitment, passion and determination of our team, our customers and our investors. Together, we are re-imagining borrowing for businesses around the UK, and in doing so, ensuring that communities and economies globally can thrive.



Rishi Khosla

Chief Executive Officer & Co-Founder

5 March 2020



Strategic Report

Strategic Report

The Directors present their strategic report for OakNorth for the year ended 31 December 2019.

Principal Activities and Review of the Business

Product offering and business growth

OakNorth Bank Plc (herein referred to as 'OakNorth' or 'the Bank') continued its strong and profitable growth in 2019. In the fourth full year of operations, total facilities (drawn and undrawn) increased to £3,149 million, driving total operating income up 74% to £104.3 million.

OakNorth aims to support the UK's *middle*⁶ by providing these businesses with bespoke debt finance ranging from £500k to £50 million. OakNorth seeks to unlock the growth potential of the middle with a lending proposition based on faster transaction times, transparency and building a detailed understanding of the borrower's business. In our continued drive to support these businesses throughout 2019, we established Debt Finance teams in Manchester, the Midlands, the South West and East Anglia.

OakNorth's total drawn loan book increased to £2,066 million as at 31 December 2019, from £1,304 million as at 31 December 2018⁷. As at 31 December 2019, OakNorth had lent to businesses across sectors such as: hotels, care homes, nurseries, manufacturing companies, retailers, property developers, property investors, catering companies, bars and restaurant chains, private equity houses and other financial companies.

At OakNorth, we continue to leverage our Platform which combines machine learning, decades of credit expertise and massive data sets to model a forward-looking view of the borrowers' financial situation, that's informed by industry benchmarks, macro-economic drivers, and scenario analysis specific to that business. Larger data sets and deeper analysis enable more informed credit decisions and proactive portfolio monitoring deliver better credit outcomes.

Whilst the Bank's lending book has not yet been through a credit cycle, we continue to 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 and ability to manage any performance issues.

During the year, two loan accounts were classified as Stage 3 under IFRS 9. We are proactively taking actions to ensure that the losses are not material. Both the exposures are collateralised with real estate. We have expanded our workout team, enabling us to manage accounts in stress even more effectively. The credit quality and the performance of the remaining book continues to be strong - over £800 million has been repaid to date, which reaffirms the effectiveness of our credit underwriting and monitoring processes, and 96% of the loan book is collateralised. Given the current economic environment, we continue to exercise caution whilst growing the loan book and closely monitor the performance of the existing book.

OakNorth's lending is supported by its strong deposit customer base. We invest in expanding and developing our deposit product offering, so that our customers have a range of options for their savings and can regard OakNorth as their first choice for deposits. OakNorth is a digital-only bank for deposits, offering competitive and FSCS-protected savings products to retail customers which include: fixed term deposit accounts with tenors ranging from 6 to 60 months, easy access accounts, cash ISAs (both fixed rate and easy access), a range of notice accounts, and a cash LISA via a partnership with Moneybox. During 2019, OakNorth launched strategic partnerships with several other leading fintechs, enabling us to grow and diversify our customer base.

⁶ "The Middle" refers to growth businesses that tend to have the largest impact on economies and communities but have been overlooked and underserved for decades

⁷ Gross drawn (excluding accrued interest, unamortised fees and general provisions)

Strategic Report (continued)

For business customers, OakNorth now offers notice and easy access accounts, in addition to fixed term savings accounts.

OakNorth is able to keep its cost of funding low through a highly automated deposit raising platform, which enables individuals to open accounts in just three minutes on average. As at 31 December 2019, OakNorth had a deposit book of £1,971 million (2018: £1,175 million)⁸, with over 144,000 deposit customers (2018: 28,000).

From the outset, OakNorth has pursued operational excellence, efficiency and rigorous execution. The first bank in the UK to establish its IT infrastructure in the cloud, OakNorth has built on this solid foundation with 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 by its fellow group companies in its operations.

With our continued focus on enhancing operational efficiencies, in 2019 our cost / income ratio reduced to 32% from 37% in 2018.

Financial performance

As a result of the strong growth in lending, total operating income grew significantly to £104.3 million during 2019 from £60.1 million in the prior year, which was a 74% year-on-year increase.

In 2019, we continued to achieve a strong yield of 7.95% on the loan book⁹. The cost of deposits also remained stable at 1.8% for 2019. The outcome can also be seen in OakNorth's good deposit customer satisfaction ratings, with a Net Promoter Score of 67.0 and a score of 80.5 for borrowers, as at December 2019.

In 2019, OakNorth transitioned to the accounting standard IFRS 9 from IAS 39. There was no significant impact on the financials of the Bank as a result of this transition. During the year, an expected credit loss (ECL) charge of £4.9 million was booked (2018: £3.9 million was booked as impairment provision for incurred but not reported losses). Of the total charge booked during the year, Stage 3 ECL charge was £1.9 million (2018: nil specific impairments). Furthermore, due to the adoption of IFRS 9 from 1 January 2019, a charge £0.3 million¹⁰ was directly booked to retained earnings. The charge was driven by the expected credit loss computed on the loan commitments as of 1 January 2019. Detailed information is provided in the Note 1.3, 1.7 and 1.8 to the financial statements.

The credit quality of the portfolio continued to remain strong. The average portfolio loan to value ratio for property backed loans was 56% as at 31 December 2019 (2018: 56%). Overall leverage on cash flow loans also continues to be conservative at 2.0x net leverage on average (2018: 2.0x).

Operating expenses increased to £33.6 million from £22.3 million in the prior year, reflecting a year-on-year increase of 50%, which was largely driven by the growth in headcount supporting business growth and taking prudent steps to increase our portfolio monitoring and workout capability in case of an economic downturn. Nonetheless, the cost-to-income ratio reduced to 32% from 37%, and we are continuing to reduce this further, exiting 2019 with a ratio of 27.9%¹¹.

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

⁸ Gross deposits (excluding accrued interest)

⁹ Loan net interest & fee income as a percentage of average drawn loans and advances to customers

¹⁰ Net of deferred tax

¹¹ As of Q4-2019

Strategic Report (continued)

liabilities throughout the year was 25%, similar to the prior year. 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 2019 OakNorth received £90 million equity investment from its Holding Company¹². The Bank's capital position remains strong given the success in raising equity capital and Tier 2 subordinated debt issuance ahead of planned growth since inception.

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

Key metrics*	As of 31 December 2019	As of 31 December 2018
Total Facilities (£m) ¹	3,149	2,212
Loans & Advances to customers (£m) ²	2,066	1,304
% of loans collateralised ³	96%	92%
LTV of property backed loans ⁴	56%	56%
Profit before tax (£m)	65.9	33.9
Yield on loan book (%) ⁵	7.95%	8.23%
Cost of deposits (%) ⁶	1.8%	1.8%
ECL allowance coverage (2018: Provision coverage) (%) ⁷	0.5%	0.5%
Capital Adequacy Ratio (%) ⁸	23%	26%
Liquidity Ratio (%) ⁹	24%	26%
Cost-to-income (%) ¹⁰	32%	37%
Return on loan book (%) ¹¹	2.8%	2.7%
Return on Required Equity (%) ¹²	19.4%	19.0%

2019 required capital includes the higher CRDIV buffer to be maintained in form of CET1 capital

* These metrics are unaudited

¹Includes all facilities (committed and un-committed). 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

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

⁶Interest expense on deposits as a percentage of average customer deposits

⁷ECL – or expected credit loss allowance coverage is as determined under IFRS 9. For 2018 this reflects the impairment provision coverage under IAS 39. The ratio is calculated as Balance-sheet ECL allowance (2019)/ impairment provisions (2018) for loan assets as a percentage of gross drawn loans & advances to customers

⁸OakNorth's regulatory capital expressed as a percentage of risk weighted assets. Details are available as part of separately published Pillar 3 disclosures

⁹OakNorth's liquid assets relative to OakNorth's deposits and borrowings

¹⁰Operating expenses expressed as a percentage of operating income

¹¹Net income expressed as a percentage of average drawn loans and advances to customers

¹²Net income expressed as a percentage of regulatory equity capital required

¹² Holding company refers to OakNorth Holdings Limited, Jersey

Strategic Report (continued)

Team and Values

The Bank benefits from a Board of Directors that is both highly experienced and highly engaged in the business, made up of four independent Non-Executive directors and three Executive directors.

We also have a strong Advisory Board with deep expertise of banking and financial services: Lord (Adair) Turner (former Chairman of the Financial Services Authority, now the FCA/ PRA), Lord (Francis) Maude (former Minister for the Cabinet Office and for Trade and Investment) and Martin Stewart (former Director of Banks, Building Societies & Credit Unions at the Bank of England). In January 2020, former Chancellor of the Exchequer, Philip Hammond, joined the Advisory Board. Philip Hammond brings both an international perspective, having worked with finance ministers across the globe, as well as a deep understanding of the British economy and financial services. Nick Lee (former Head of New Banks at the Bank of England), who was previously on our Advisory Board, joined OakNorth's Executive team as the Head of Regulatory Affairs in June 2019.

Together, the Board and the Advisory Board give OakNorth a robust governance structure with a strong leadership team for the Bank.

What binds our Board, leadership & team together are our shared core values:

- ✓ 10X: Aiming to offer OakNorth's customers products and services that are ten times better than the competition
- ✓ One team: Working collaboratively to achieve the best results for our customers
- ✓ Momentum: Ensuring that we put energy and drive into everything we do
- ✓ Saying it as it is: Being open and transparent with all stakeholders
- ✓ Right ambition: Understanding our purpose and conducting our business in an ethical way
- ✓ Zero base: Not being captive to outdated thinking; constantly adapting to our changing environment
- ✓ Customer delight: Consistently delivering customer experience that goes above and beyond their expectations

OakNorth has a strong entrepreneurial 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 2019, the Bank had 96 employees across the UK (2018: 70). The Bank is supported by other entities in the Group including OakNorth Global Private Limited (ONGPL) and OakNorth (UK) Limited (ONUK). The total number of employees across the whole Group was 779 at the end of 2019 (2018: 306).

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 gender, race, religion, sexual orientation or background, and 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.

Strategic Report (continued)

Business and Economic Outlook

On 31 January 2020, the UK formally exited the EU. However, the transition period will continue throughout 2020, during which the UK and EU are expected to negotiate and agree the terms of future trade relationships. This will impact the UK's trade relationships with all non-EU countries as well. The exact terms of negotiations are currently uncertain and OakNorth will continue to monitor the impact of proposed changes through the transition period and beyond.

OakNorth is committed to its goal of supporting the growth of the middle in the UK. Going into 2020, we continue to see demand for credit from strong British businesses as evidenced by the fact that we have over £2.4bn of qualified deals in the 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 our 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. 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 and through a down cycle. OakNorth's capital position is strong, and is expected to continue to be strong, supporting the projected growth of the business.

Coronavirus disease 2019 (COVID-19) outbreak: The recent coronavirus epidemic is an ongoing public health emergency of international concern. We are monitoring the situation closely. We are mindful of this risk on our new loans and are incorporating this in the stress testing scenarios on the existing loan book.

Climate change - Scope 1 and Scope 2 net carbon zero

Climate change has become a defining factor in companies' long-term prospects and is redefining how we assess risk and asset values. As we have noted on several occasions in this report, we are building a sustainable, long-term business - conducting our business in an environmentally responsible way is central to this.

As such, we are addressing scope 1, 2 and 3 greenhouse gas (GHG) emissions¹³ in a phased manner:

- We're amongst the first banks globally to offset our estimated direct emissions (Scope 1 – Direct GHG) and that of our critical suppliers (Scope 2 – Electricity indirect GHG) to be net carbon zero. The largest element of Scope 1 relates to air travel; the largest element of Scope 2 relates to the electricity used by the suppliers of our IT infrastructure. These suppliers have plans themselves to reduce their carbon emissions, but until they have implemented these plans we will continue to use offsets.
- Scope 3 (Other indirect emissions, including emissions from our clients): as a lender, we proactively screen for businesses that conduct their businesses in a sustainable way. For our real-estate book, climate change may impact our collateral values and income, so we continue to monitor our exposures closely. Our exposure to carbon un-friendly lending is minimized as we lend primarily to new housing and new growth trading businesses who tend to be more technologically advanced and meet the applicable energy efficiency standards.

¹³ The definitions for Scope 1, 2 and 3 emissions were set by the Greenhouse Gas Protocol (GHGP), a partnership between the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). The Greenhouse Gas Protocol (GHGP) provides accounting and reporting standards, sector guidance, calculation tools, and trainings for business and government, establishing a comprehensive, global, standardized framework for measuring and managing emissions.

Strategic Report (continued)

Our approach is ever evolving, as we seek to be leaders in this space for the good of our business and our world. We will enhance our policy and stance in more detail in 2020 to both reflect market best practices and to be market leaders in this area.

Risk Management

Risk Management Framework

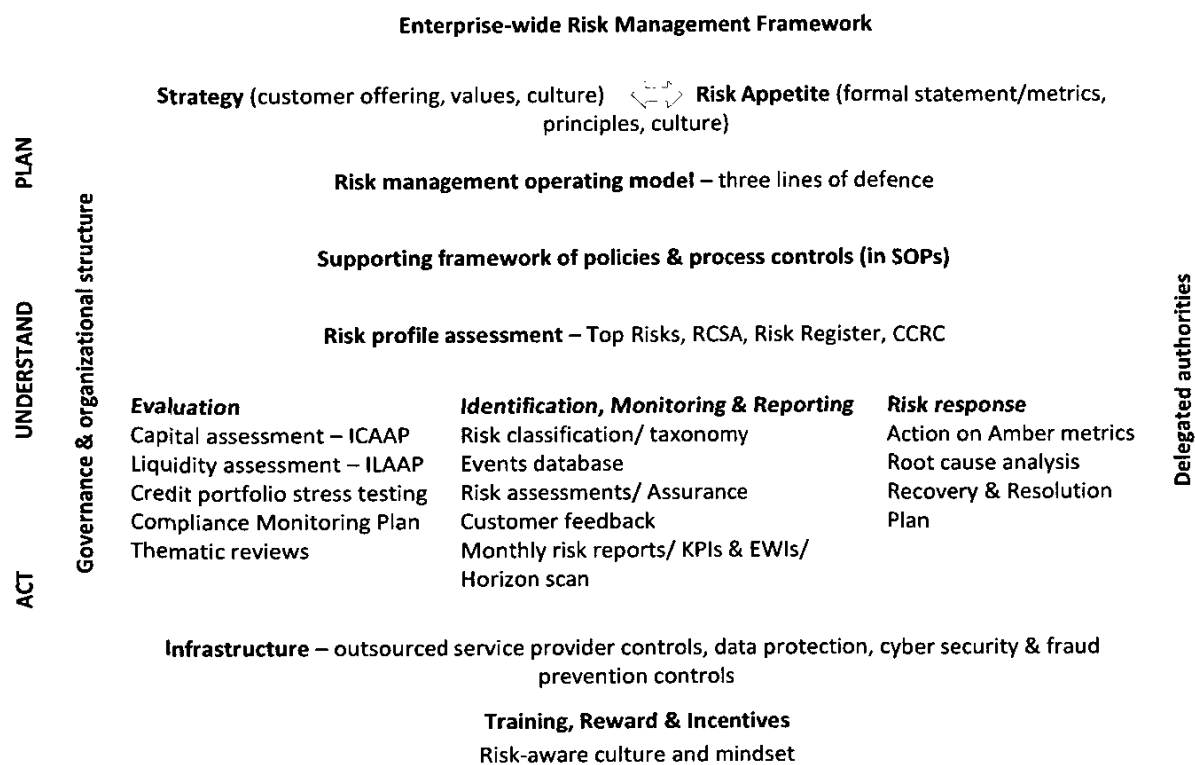
Underpinning OakNorth's operations is a strong and comprehensive risk management framework (RMF) and robust governance structure, designed to ensure that the key risks facing OakNorth are identified, measured, monitored and managed, and that appropriate policies, procedures and controls are established such that each risk is mitigated to an acceptable degree. Our business strategy is set within a defined risk appetite to ensure that we both deliver good outcomes for our customers and stakeholders and build a long-term, sustainable business.

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 markets 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 below, and each element is described:

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 within the Bank’s risk appetite
- **Risk profile assessment and evaluation** – In accordance with best industry practice, the Bank uses several tools to assess its risk exposure, both at a point in time and over the planning horizon. These

Strategic Report (continued)

tools include: Risk Registers, Risk and Controls Self-Assessments, Compliance Monitoring Reviews, Enterprise-Wide Risk Assessments on a range of subjects, ICAAP and ILAAP, Stress-testing and Thematic Reviews of Operational Risk.

- **Identification, monitoring and reporting** – The processes needed to provide timely, accurate information to enable management to take high quality decisions
- **Risk response** – The levers which can be used to manage and mitigate risk, including adding capital or changing risk policy parameters
- **Infrastructure** – The risk mitigants built into our IT infrastructure, such as the inherent level of resilience provided by our Cloud-based IT platform, and the back-up arrangements in place for all processes to ensure operational resilience, in preparation for a potential failure
- **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 and Risk appetite metrics

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 Executive Committee (EXCO) and Board on a quarterly basis, and each risk has risk mitigation actions allocated. The table in the following page summarises the key risks, the key mitigating actions/ approach and the key risk appetite metrics used to monitor the risks.

Strategic Report (continued)

Risk Category	Risk Description	Key mitigating actions/ approach	Key risk appetite/ monitoring metrics
Business	<p>Business Risk: the risks which can affect OakNorth's ability to achieve its strategic objectives.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Whilst OakNorth's management team has through the cycle experience, OakNorth itself has a limited operating history in the UK financial services market and faces risks associated with the implementation of its strategy. <input type="checkbox"/> 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 we don't continue investing in developing and improving our proposition, we risk other lenders catching up. 	<ul style="list-style-type: none"> <input type="checkbox"/> 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. <input type="checkbox"/> The Board defines and reviews performance metrics versus 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. 	<ul style="list-style-type: none"> <input type="checkbox"/> UK Credit Default Swap (CDS) monitoring, Real Estate Prices (Annual UK House Price Index) <input type="checkbox"/> Periodic strategic review of the lending portfolio. <input type="checkbox"/> Monthly monitoring of financial and credit metrics
	<p>UK's withdrawal from the European Union: On 31 January 2020, UK formally exited the EU. This will be followed by a transition period until end of 2020, while UK and the EU negotiate the future relationship - trade, cross-border and other arrangements. The withdrawal agreement allows for the transition to be extended beyond the end of December 2020 if necessary. This is expected to continue to cause market volatility and economic uncertainty in the UK, which may</p>	<ul style="list-style-type: none"> <input type="checkbox"/> We continue to monitor the quality of our loan book through proactive monitoring, portfolio analysis and stress testing. 	

Strategic Report (continued)

impact the performance of the Bank's loan book.

- Capital Risk:** Risk that OakNorth has insufficient capital to meet its regulatory requirements and growth objectives.
- 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.
 - Capital adequacy buffer, Capital resources in place for a forecast period of growth 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.
 - Capital ratios tested quarterly under stress testing scenarios
 - Detailed ICAAP assessment is also performed annually.

- Liquidity Risk:** 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.
- Liquidity requirements and deposit market information are monitored daily by the ALCO, in addition to other metrics and early warning indicators tracked monthly.
 - Total liquidity pool, daily cash balance,
 - A comprehensive ILAAP assessment is performed annually.
 - Funding concentration,
 - Liquidity ratios (including LCR and NSFR),

OakNorth primarily raises funding through online retail and business deposits. The availability and pricing of such funding is impacted by competition from other deposit takers.

Financial

- Interest rate risk:** Risk of financial loss arising from re-pricing mismatches in the assets and liabilities positions which have not been hedged.
- We manage our asset and liabilities to ensure we minimise the interest rate risk.
 - Net Present Value (NPV) calculations, including impact of reference rate floors in loan contracts, under +/- 200 bps parallel shift in the yield curves;
 - The ALCO monitors interest rate risk on a regular basis.
 - Liquidity survival period under quarterly stress testing.
 - OakNorth does not have a trading book, and therefore does not carry any other market risks.
 - 12-month NII at risk to +/- 25 bps shock,
 - Earnings at risk for 25 bps reference rate dislocation

Strategic Report (continued)

	Economic Value (EV)
<p><input type="checkbox"/> sensitivity to shifts in current gap to rate floors,</p> <p><input type="checkbox"/> EV sensitivity to prepayments</p>	<p><input type="checkbox"/> Portfolio probability of default, loss given default;</p> <p><input type="checkbox"/> Sectoral and single name concentration;</p> <p><input type="checkbox"/> Watchlist cases, past due cases,</p> <p><input type="checkbox"/> Portfolio collateralization,</p> <p><input type="checkbox"/> Exceptions to credit policy</p>
<p><input type="checkbox"/> 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.</p> <p><input type="checkbox"/> OakNorth has robust monitoring processes to ensure that all risks relating to individual borrowers are proactively identified.</p> <p><input type="checkbox"/> 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.</p>	<p><input type="checkbox"/> Material findings reported through Compliance monitoring / Internal Audit reviews, monitoring of remedial action plans;</p> <p><input type="checkbox"/> Assurance checks on customer due diligence;</p> <p><input type="checkbox"/> Mandatory staff training;</p> <p><input type="checkbox"/> Monitoring and reporting of policy exceptions and compliance breaches.</p>
<p>Credit</p> <p>Credit Risk: Risk of financial loss arising from a borrower or counterparty failing to meet their contractual financial obligations when they are due, to OakNorth.</p> <p>This also includes the risk arising from concentration in the credit portfolio (single name, sectoral and geographic concentration).</p>	<p><input type="checkbox"/> 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.</p>
<p>Conduct, Compliance and Regulatory Risks</p> <p>For OakNorth, this includes compliance with PRA Rulebook and FCA Handbook, as well as financial crime laws and regulations including those relating to Anti-Money Laundering/ Financial crime, Anti-Bribery and Corruption and Anti-Facilitation of Tax Evasion</p> <p>Conduct Risk: Risk that a firm's behaviour results in poor outcomes for customers.</p>	<p><input type="checkbox"/> OakNorth is committed to putting the customer at the heart of its business model and strategy, being transparent in its dealings with its customers, and delivering good outcomes for them. This is based on a strong set of company values which include "Right Ambition", "Say it how it is", "Customer</p> <p>We monitor customer outcomes in various ways including</p> <p><input type="checkbox"/> Customer satisfaction scores and surveys;</p>

Strategic Report (continued)

<p>delight” and sound Conduct principles. OakNorth reinforces this via behavioural objectives incorporated into reward/incentives, with conduct taken into account in all annual appraisals. Mechanisms to gather customer feedback are used actively.</p> <p>Operational Risk: Risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems, or external events. This covers a number of areas including:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Cyber Crime - whereby hackers attack our systems and download their data, or internal staff abuse network access privileges or steal data <input type="checkbox"/> Financial Crime - including Money Laundering, Internal or External Fraud, and theft of assets. <input type="checkbox"/> 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. <input type="checkbox"/> People Risk – ‘key man’ dependencies <input type="checkbox"/> Failure of operational processes or controls through poor design and/ or implementation, or inadequate embedding of controls, causing human error. <input type="checkbox"/> System risk – the failure of IT systems to perform to specification. 	<ul style="list-style-type: none"> <input type="checkbox"/> Complaints as % of number of customers; <input type="checkbox"/> Customer Net Promoter Score. <input type="checkbox"/> Operational risk events, fraud attempts, cybercrime events, <input type="checkbox"/> Loss of key staff <input type="checkbox"/> Satisfactory self-assurance reviews <input type="checkbox"/> Third-party service provider service level agreement monitoring <input type="checkbox"/> System availability and capacity utilization <input type="checkbox"/> Cyber security metrics <input type="checkbox"/> Data loss events and near-misses <input type="checkbox"/> GDPR-related complaints <input type="checkbox"/> Regulatory actions <p>Financial crime: We do not offer transactional accounts; hence a major area of financial crime risk is not present in this business. 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.</p> <p>Anti-Facilitation of Tax Evasion (AFTE) controls are operational.</p> <p>Anti-Bribery and Corruption (ABC) controls are operational in all parts of the Bank.</p> <p>Third Party Service Provider risk: 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.</p> <p>‘Key man’ dependencies are inevitable in the Bank. This is mitigated via appropriate reward and incentive arrangements and succession planning.</p> <p>Operation process/ control failure: 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</p>
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Strategic Report (continued)

<p><input type="checkbox"/> 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.</p> <p><input type="checkbox"/> Data protection: 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.</p> <p><input type="checkbox"/> Reputational Risk: Reputation risk is a direct consequence of failing to control adequately all risks facing the organisation impacting on revenue streams, brand value, customer perception and staff motivation.</p> <p>Reputational</p> <p>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.</p>	<p>staff training and competency assessments. Business assurance testing is performed on a monthly basis.</p> <p><input type="checkbox"/> System risk: 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 in the cloud, we have a modern and robust IT platform with the ability to expand capacity rapidly as the Bank expands.</p> <p><input type="checkbox"/> Data protection: 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.</p> <p><input type="checkbox"/> At OakNorth we seek to protect our reputation through effective systems, controls, robust compliance, and high levels of customer service.</p> <p>Monitoring of events which might have the potential to cause reputational impact.</p>
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Detailed policies and 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): Business Planning and Stress Testing, Market Risk Management (including liquidity and interest rate risk management), Credit Risk Management, Compliance Manual, Code of Conduct, Conduct and Customer Experience, Financial Crime, Fraud and Anti-Money Laundering (AML), Operational risk and Data Protection. Further details are provided in the Risk Management section in the Notes to the financial statements.

Strategic Report (continued)

Section 172 statement

Our business model and strategy

OakNorth was launched in September 2015 to help the UK's growth businesses prosper. Our business proposition is based on quick transaction times, transparency and gaining a detailed understanding of a borrower's business. We believe in combining the traditional fundamental rigour of credit underwriting with very high-quality data-driven analysis. From the outset, OakNorth has pursued operational excellence, efficiency and rigorous execution. The first bank in the UK to establish its IT infrastructure in the cloud, OakNorth has built on this solid foundation with 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. At OakNorth, we leverage our Platform which combines machine learning, decades of credit expertise and massive data sets to enhance traditional credit analysis and model a forward-looking view of the borrowers' financial situation, that's informed by industry benchmarks, macro-economic drivers, and scenario analysis specific to that business. Larger data sets and deeper analysis enable more informed credit decisions and proactive portfolio monitoring deliver better credit outcomes. Our lending is supported by a strong and expanding depositor customer base. We continue to invest in developing our savings proposition, so that our UK savers have a range of attractive options for their deposits.

Section 172 statement

In overseeing delivery of OakNorth's strategy, the Directors are mindful of their duties under the Companies Act 2006, including as set out in section 172.

The Board's principal duty is to create and deliver a sustainable business model by setting OakNorth's strategy and overseeing its implementation. It does so with regard to the interests of investors, customers, communities, employees, the environment, regulators and suppliers. The Board seeks to achieve a balance between promoting long-term objectives whilst meeting short-term goals, and sets the culture of OakNorth, ensuring that it is focussed on delivering good customer outcomes. The Board provides robust and independent challenges to the executive and management information it receives. It monitors, discusses and challenges the progress in the delivery of strategic initiatives through information packs, reports, enterprise-wide risk assessments and monitoring metrics it receives on a regular basis on all areas and from all stakeholders across the Bank.

The Bank continually maintains high standards of business conduct. As it defines our corporate values and sets the tone from the top, the Board sets clear expectations of conduct to the Executive Committees of the Bank. These are formally captured in the Vision, Values, Methods Obstacles and Measures ("V2MoMs") framework that it sets, and which applies to all teams and individuals within the Bank.

The governance framework of the Bank is critical to supporting the Directors in discharging their responsibilities with due consideration to all stakeholders. The framework includes, but is not limited to, the Firm Management Responsibilities Map, the Terms of Reference (of the Board, Board Committees and the Executive-level Committees) and the three lines of defence model as defined in the Risk Management framework (RMF). The third line of defence, the Internal Audit function, regularly performs an independent Board Effectiveness Review to confirm that the Board discharges its responsibilities effectively. Any areas of development that are identified, are tracked through an action plan.

Throughout the year, the Board proactively engaged with the Bank's stakeholders in strategic matters, taking into account their interests, which are further discussed below.

Strategic Report (continued)

Investors

The Board approved the annual and long-term plan during the year, in line with the Bank's strategy and business model, to deliver sustainable business growth to the investors in the Bank. The Board made no recommendations for any dividend payments for the year and the profit generated by the Bank continues to be fully reinvested in its operations.

During the year, the Board continued to monitor, through monthly management information packs, the business performance versus the plan. Due to the uncertainty in the economic environment caused by UK's exit from the EU, the Board ensured, through detailed discussions and analysis on the portfolio, review of concentration risk appetites, that the Bank was growing safely, and the portfolio was performing as expected. In order to support business growth whilst mitigating geographic concentration risk, the Board recommended the strategy of expansion of the Bank's Debt Finance Team in other regions of UK, in addition to London and South East. The Bank now has teams based in Manchester, the Midlands, the South West and East Anglia.

Given the economic environment, liquidity management was one of the key focus areas for the Board during the year. The Board approved a number of revised risk appetite limits in relation to funding concentration and increasing liquidity buffers.

During 2019, the Bank also enhanced processes to manage the Board agenda and improve the Board MI packs to drive more effective discussions. These enhancements were also implemented at the Executive Committee level. To enhance focussed governance and monitoring, two new Management Committees were recently established: Executive Risk Committee (ERC) and the Information Security Management System (ISMS) Steering Committee. The ERC supports dedicated monitoring and compliance with the RMF of the Bank, whilst the ISMS Steering Committee manages information and cyber-security risk.

In addition to the above specific areas, the Board reviewed and discussed other key performance and risk metrics and specific topics, covering a wider range of functions and risk areas across the Bank. The Board also focussed on several initiatives on governance, scalability, operational effectiveness and resilience including cyber-security.

Employees

The Board acknowledges the exceptional work of the OakNorth team, whose dedication has enabled the Bank to build a strong and sustainable business that is enabling small and medium-sized businesses around the UK to prosper.

As an equal opportunity employer, OakNorth is proud of its diverse and entrepreneurial team. We believe in promoting a diverse workplace in which different backgrounds, voices and perspectives foster a stronger collective. We actively work to create an environment in which individual differences and the contributions of our staff are recognised and valued.

During the year, the Board reviewed the annual employee satisfaction survey and regular reports on hiring, employee attrition, training and new employee initiatives, and a number of new employee welfare, development and engagement initiatives were introduced. The Board Remuneration & Nomination Committee reviewed the Remuneration Policy to ensure that the remuneration practices of the Bank are consistent with, and promote, sound and effective risk management. To support the growth of the business, the Board reviewed the scaling plan for critical functions and approved a number of automation

Strategic Report (continued)

and workflow improvements to ensure that the teams are appropriately supported with improving efficiencies across various processes in the Bank.

Customers

Fundamental to its business model is OakNorth's commitment to putting customers at the heart of its business model and strategy, being transparent in its dealings with them, and delivering good outcomes for them.

The Board monitored the Bank's engagement with its customers through regular reports it received on customer Net Promoter Scores (NPS), and the volume of customer complaints. The Board reviewed the Risk appetite in relation to these, which were enhanced and made more granular during the year. The Board also reviewed the operational strategy for improving and simplifying customer communications, in addition to supporting the strategy for investing in technology for continually improving customer experience for its digital deposit products. At the same time, fundamental to any customer onboarding is ongoing focus on customer due diligence and the Bank has strong governance and risk management procedures around financial crime. In accordance with the Bank's policies there are certain sectors and jurisdictions that the Bank does not lend to.

Suppliers

Some of the suppliers to the Bank are key to the success of the Bank's operations. This includes support provided by other entities within the OakNorth Group, OakNorth Global Private Ltd in India, OakNorth Platform and OakNorth (UK) Ltd. As a philosophy, the Bank promotes a culture of 'One Team' across the whole group. The Bank also has a robust Supplier Management policy in place, which serves to actively manage relationships with and the performance of all our service providers. During the year, the Board reviewed the vendor management processes, including an assessment of due diligence, contingency planning and performance metrics. As a provider of online financial services in the UK, the Bank's supply chain mainly consists of online IT-enabled services, enterprise and software service suppliers, as well as suppliers of office related goods in the UK. Our vendor onboarding process also requires assessment of the vendors in relation to modern slavery, in addition to a number of other factors.

Regulators

The Directors maintain an open and cooperative engagement with Regulators. During the year, we also appointed a Head of Regulatory Affairs who, alongside the Chief Executive Officer, Chief Finance Officer, and Chief Risk Officer, maintains direct regular communication with the Regulators. The Head of Regulatory Affairs also attends Board and the Executive Committee meetings as relevant to ensure that regulatory impact is considered throughout the Bank's activities.

Other non-financial disclosures

Communities and environment

At OakNorth we believe strong business can only be done with care for customers, employees, communities and the environment. In 2018, we announced a commitment to donate 1 percent of our group-level profits to supporting charitable causes and social enterprise. Our focus over the last 12 months has been on creating and supporting opportunities for social mobility, female empowerment, increased engagement in the STEAM subjects at schools, and the inclusive development of underprivileged communities globally.

Strategic Report (continued)

Climate change is a grave global issue that impacts us, our customers, partners and suppliers. We are proud to be amongst the first banks globally to offset our estimated direct emissions (Scope 1) and electricity-generated indirect emissions (Scope 2) used by the suppliers of our IT infrastructure, to net carbon zero. These suppliers have plans themselves to reduce the carbon emissions, but until they have implemented these plans we will continue to use offsets. We are formalising our approach to Scope 3 (emissions from our clients and other indirect emissions) in 2020. As a lender, we primarily lend to new housing and new growth trading businesses who tend to be more technologically advanced and meet the applicable energy efficiency standards. For our real-estate book, climate change may impact our collateral values and income, so we continue to monitor our exposures closely and proactively screen for businesses that conduct their businesses in a sustainable way.

Further information on the strategy, risk management and governance, financial performance is available in our financial statements available from the companies house website - <https://www.gov.uk/government/organisations/companies-house>.

A high-contrast, black and white photograph of a rocky riverbed. The foreground is filled with large, dark, rounded rocks. In the background, a wooden signpost with several horizontal planks is visible, though the text on it is illegible. The overall scene is dark and textured, with strong highlights on the rocks and the signpost.

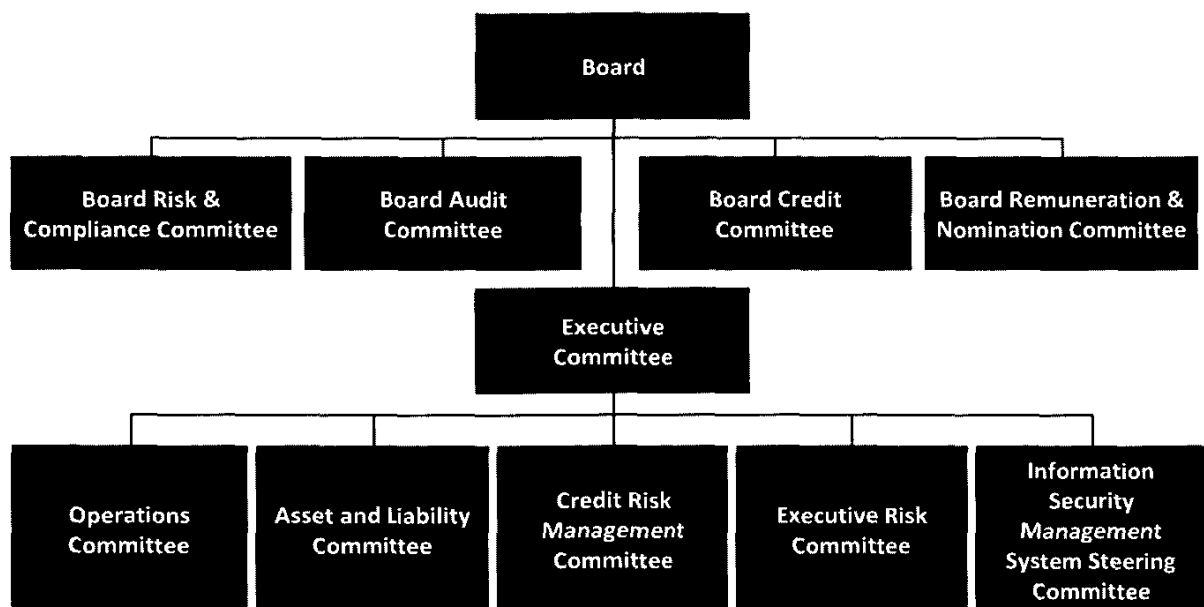
Governance

Governance overview

Governance structure

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

The Board's principal duty is to create and deliver a sustainable business model by setting OakNorth'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 convenes once every month, with in-person meetings every quarter. The Board maintains oversight of all areas of the business through the Board Committees and undertakes a formal review annually of its own effectiveness, its Committees' and individual directors. The Head of Internal Audit is a standing invitee at all Committee meetings (except Remuneration and Nomination), and other individuals may be invited to attend all or part of any meeting as and when appropriate and necessary at the invitation of the Committee Chairman.

The Board Remuneration and Nomination Committee assists the Board in determining the optimum Board size at any point in time within the legal and regulatory framework. The Board believes that its current size of seven members, comprising of three Executive, three Non-Executive Independent Directors and one notified Non-Executive Director, 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 Philip Hammond, Lord Turner, Lord Maude and Martin Stewart.

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	<p>The Board's principal duty is to create and deliver a sustainable business model by setting ON Bank's strategy and overseeing its implementation. It does so with regard to the interests of customers, employees, the environment, communities and suppliers. It seeks to achieve a balance between promoting long term objectives whilst meeting short term goals, and sets the culture of the Bank, ensuring that it is focussed on delivering good customer outcomes. It is responsible for maintaining a system of internal control and ensuring that management maintain an effective RMF with appropriate oversight processes and for embedding the principle of safety and soundness in the culture of the whole organisation, including whistleblowing. The Board maintains oversight over the effectiveness of each Board Committee through the receipt, review and challenge of regular updates, minutes and management information from each.</p>
Remuneration & Nomination Committee (REMCO)	<p>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 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, 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.</p>
Board Risk & Compliance Committee (BRCC)	<p>BRCC takes delegated authority from the Board to oversee the RMF of the Bank, with an overall view across the 1st and 2nd lines of defence. The Committee ensures that through its control processes and further delegation of responsibility to the EXCO, all risks (excluding Credit Risk) taken by the Bank are properly identified, evaluated, mitigated, reported, managed and challenged. This includes operational risk, liquidity risk, fraud, money laundering risk, anti-bribery risk, compliance and conduct risk. The Committee oversees the Compliance function and approves the annual Compliance Monitoring Plan.</p>
Board Audit Committee (BAC)	<p>BAC takes delegated authority from the Board for the review and approval of the Internal Audit Charter and Methodology, the Accounting Policy with a view across the 2nd and 3rd lines of defence, and for ensuring that OakNorth values and principles are being adhered to. It monitors the integrity of financial statements and public disclosures; appoints the external auditors and approves their remuneration; reviews the effectiveness of the internal audit function and appoints and removes the Head of Internal Audit.</p>
Board Credit Committee (BCC)	<p>BCC takes delegated authority from the Board to oversee all Credit Risk related matters for the Bank and approves larger credit exposures, impairments and write offs. BCC receives reports from the Credit Risk Management Committee concerning individual credit exposures, and the portfolio as a whole including model</p>

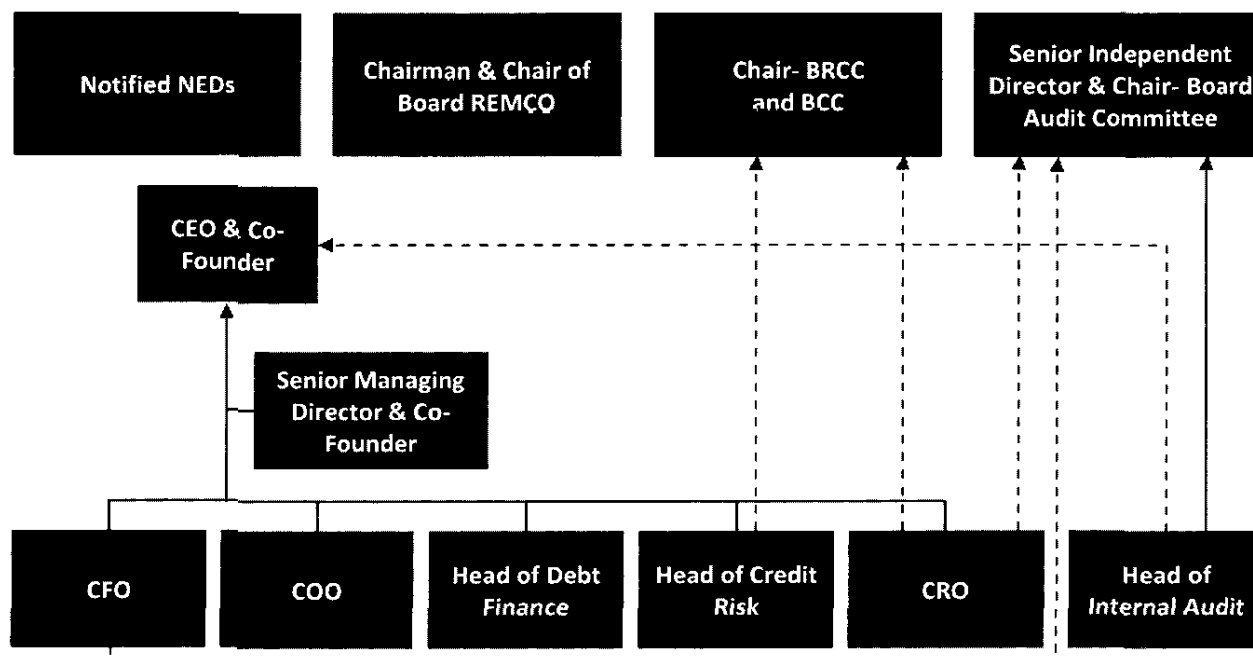
Governance Overview (continued)

Executive Committee (EXCO)	<p>performance. The Committee reviews the Watchlist and receives reports concerning the progress on any material recoveries.</p> <p>The EXCO takes delegated authority from the Board and is responsible for developing the Bank's strategy and ensuring the Bank delivers its financial plan and that the agreed strategy is executed across all dimensions. Additionally, the EXCO has delegated responsibility for the RMF and for management of all risks and reports its output to the Board. The Board also delegates authority to the EXCO for the review and approval of policies listed in the EXCO Terms of Reference.</p>
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Management Committees subsidiary to EXCO	Responsibility
Asset & Liability Committee (ALCO)	<p>ALCO meets at least on a monthly basis. It implements the Bank's Asset & Liability Management (ALM) policy, with a focus on active management of liquidity. The ALM activities include specific policies and procedures relating to Liquidity and Funding Risk, Capital Risk, Interest Rate Risk, Credit Risk of banking counterparties, and Market/ Investment Risk. It also monitors regulatory reporting</p>
Credit Risk Management Committee (CRMC)	<p>Operating under mandate from the BCC, the purpose of the committee is to oversee, monitor and control credit risk on a day-to-day basis, and to approve facilities under a delegated authority. It ensures that the RMF is implemented as it relates to Credit Risk and AFTE, and that all credit control processes are fit for purpose and operative so that credit risk is mitigated via: Identification; Evaluation; Mitigation; Reporting; Management and Challenge.</p>
Operating Committee (OPCO)	<p>OPCO's main objective is to review the performance of all business operations and reach an agreement on actions to address any issues identified. The Committee leads the design and review of Standard Operating Procedures (SOPs) and manages change. The Committee reviews, in depth, any operational issues impacting Product, Operations, IT and Change Management, Finance, Risk, Compliance and People Operations. The Committee's main objective is to promote efficiency, address operational issues in a timely manner, and manage Operational Risk across the Bank.</p>
Executive Risk Committee (ERC)	<p>Operating under mandate from the BRCC, the purpose of the ERC is to oversee, monitor and control Risk on a day to day basis. It ensures that the Risk Management Framework is properly implemented and that all control processes are fit for purpose and operative so that all risks to OakNorth - aside from Credit Risk, which is the mandate of CRMC and BCC, and Asset & Liability Management which is the mandate of ALCO and Board - is mitigated via Identification, Evaluation, Mitigation, Reporting, Management and Challenge.</p>
Information Security Management System (ISMS) Steering Committee	<p>The role of the ISMS Steering Committee is to manage information and cyber security risk on behalf of the business as a governance forum, and sub-committee of EXCO. This group meets on a regular cadence to review key risks to the organization, ensure continued maturity of security practices, and adjust strategic direction as appropriate. This committee operates with delegated authority to execute on risks beyond a tolerable threshold, in the event that an executive officer is unreachable. Any other direction or recommendations made to Senior Management is based on consensus of the Committee membership.</p>

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 & Compliance Committee. The CRO is also responsible for the direct oversight of Operational risk and Conduct, Regulatory and Compliance risk management and reporting. Capital, liquidity and interest rate risks are 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.

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

- **1st Line of Defence (1LOD):** This comprises of the business areas or 'front office', where the client relationship sits, and which run operational activities designed to support the business / front office and associated controls (Debt Finance, Customer Services, IT & Operations, People Operations and Treasury).
- **2nd Line of Defence (2LOD):** This comprises of Risk, Credit Risk and Finance functions, who have *limited client interface*. These functions are responsible for challenging the business / front office, approving or rejecting credit proposals (requiring manual underwriting) and ensuring that all controls are designed appropriately and are operating effectively.
- **3rd Line of Defence (3LOD):** This comprises of Internal Audit, External Audit and the Independent Non-Executive Directors (NEDs). The Internal Audit function provides independent assurance to

Governance Overview (continued)

the Board and shareholders over the effectiveness of governance and risk management & control in both the first and second lines of defence. Internal Audit is independent of both the first and second lines, with direct access to the NEDs.

OakNorth has established internal control and risk management processes in relation to financial reporting. OakNorth's financial accounting and reporting processes are governed via established policies and procedures and SOP documents. Finance processes are additionally subject to periodic reviews by 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



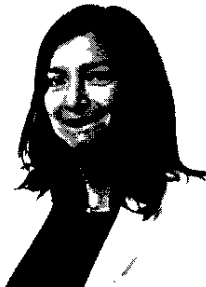
Cyrus Ardalan
Chairman
Chair of the Board Remuneration &
Nomination Committee
Appointed June 2015



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



Cristina Alba Ochoa
Executive Director
Chief Financial Officer
Appointed April 2017



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



Edward Barry Berk
Notified Non-Executive Director
Appointed May 2017

Directors' Report (continued)

The Directors present their annual report on the affairs of OakNorth Bank plc (registered number: 08595042), together with the financial statements and Auditors' report, for the year ended 31 December 2019.

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 financial statements.

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 the financial statements. The Pillar 3 disclosures, including disclosures on OakNorth's remuneration policy are available on OakNorth's website- www.oaknorth.co.uk.

Stakeholder engagement

The disclosures required in respect of the Company's engagement with its key stakeholders including the investors, customers, suppliers, regulators, wider community and the environment - are provided under the "Section 172 statement" of the Strategic report.

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 the financial statements.

Future developments

Please refer to the Strategic Report.

Independent Auditors

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

Directors' Report (continued)

- so far as the Director is aware, there is no relevant audit information of which OakNorth's auditors are unaware; and
- 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 2020



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.

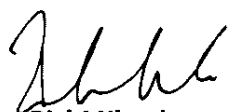
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 2020

Independent auditors' report

Report on the audit of the financial statements

Opinion

In our opinion, OakNorth Bank plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; 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.

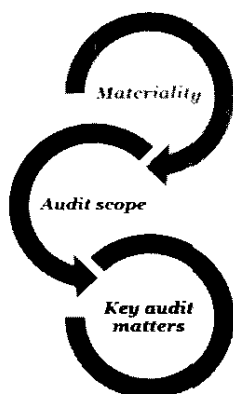
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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 2019 to 31 December 2019.

Independent auditors' report (continued)

Our audit approach

Overview



- Overall materiality: £3.3m (2018: £3.3m), based on 5% of profit before tax (2018: 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.
- First time adoption of IFRS 9 Financial Instruments – 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 breaches of 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.

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

Independent auditors' report (continued)

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.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>First time adoption of IFRS 9 Financial Instruments – impairment of loans and advances to customers</i></p> <p>In accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ('FRS102') the Bank have elected to adopt the recognition and measurement provisions of IFRS 9 – Financial Instruments ('IFRS 9') from 1 January 2019.</p> <p>IFRS 9 requires the recognition of expected credit losses ('ECL') rather than incurred credit losses as previously under IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 requires ECLs to be estimated on a probability weighted basis incorporating forward looking information. Management is required to determine the expected loss that may occur over either a 12-month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the borrower since initial recognition of the loan.</p> <p>Management has made a number of interpretations and judgements when designing and implementing models that are compliant with IFRS 9. The models use risk parameters, such as loss given default ('LGD') and probability of default ('PD') to calculate an ECL.</p> <p>We consider the appropriateness of the model methodologies and the following judgements</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 calculation's approval of key assumptions; and • The use of valuation experts to support management's assumptions in relation to collateral values. <p>In addition, we performed the substantive procedures described below:</p> <ul style="list-style-type: none"> • We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, making use of our credit risk modelling experts and our industry knowledge. This included an evaluation of the criteria set by management for determining whether there had been a SICR. • We independently recalculated model parameters described in the left column, re-performed the calculation of ECL for a sample of loans and ensured that the ECL calculations were consistent with the approved model methodologies. • We performed sensitivity analysis on the key modelling parameters used, including LGD, to challenge the judgement's made by management. <p>For individually impaired loans, we evaluated the specific circumstances of the borrower, including</p>

Independent auditors' report (continued)

used in the determination of the modelled expected credit loss to be significant:

- The thresholds and definitions applied by management to determine a significant increase in credit risk; and
- Management judgement applied when setting the LGD model parameter due to the length of time that the company has been in operation, which means there is limited past experience to draw upon.

Individual impairment assessments are performed for credit impaired loans and advances (which are categorised as Stage 3 loans). Judgement is required to estimate the level of any provision for these loans. Our focus was on the principal assumptions applied by management such as the valuation of collateral, forecast cash flows and the reasonableness of the probability weighting of expected likely outcomes.

the latest developments, scenarios and weightings assigned for measuring the impairment provision, and whether key judgements were appropriate. This included considering the impact of possible alternative scenarios on the provision.

We re-performed management's impairment calculations and tested key inputs. We reviewed the valuation of collateral using our own valuation experts.

Overall, based on the procedures performed and the evidence obtained, we found management's judgements used in the determination of the ECLs to be reasonable.

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 planning procedures, we performed our risk assessment at the account balance and assertion level, considering the 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	£3.3m (2018: £3.3m).
How we determined it	5% of profit before tax (2018: 1% of net assets).
Rationale for benchmark applied	In 2018, we used net assets as our benchmark as management's focus was to grow the balance sheet in a sustainable manner, including compliance with capital and liquidity requirements. Whilst this remains a focus, the profit before tax has grown significantly from 2018 as the business focuses on maximising profit and therefore, we consider profit before tax to be a more appropriate benchmark for 2019.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £164,000 (2018: £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 of the United Kingdom's withdrawal from the European Union 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 or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

Independent auditors' report (continued)

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 2019 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 41, 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.

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

Independent auditors' report (continued)

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. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2018 to 31 December 2019.



Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
5 March 2020

Profit and loss statement

For the year ended 31 December 2019

OakNorth Bank plc (registered number: 08595042)

	Note	2019 (£'000)	2018 (£'000) ^a
Interest receivable		130,792	70,770
Interest payable		(34,968)	(17,094)
Net Interest income		95,824	53,676
Fees and commission		8,517	6,402
Net interest and Fee income		104,341	60,078
Administrative expenses		(32,098)	(21,117)
Depreciation and amortisation	12, 13	(1,487)	(1,212)
Provision for impairment losses	10	(4,890)	(3,895)
		(38,475)	(26,224)
Profit from ordinary activities before tax		65,866	33,854
Taxation	3	(15,890)	(7,274)
Profit after tax from ordinary activities		49,976	26,580

^aNote: As explained in Note 1.1, the Bank has adopted IFRS 9 'Financial Instruments' with effect from 1 January 2019 and comparatives have not been restated. The Profit and Loss statement is therefore presented on an IFRS 9 basis as at 31 December 2019 and an IAS 39 basis as at 31 December 2018.

The profit for the year derives wholly from continuing operations.

The notes on page 54 to 84 form a part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2019

OakNorth Bank plc (registered number: 08595042)

	2019(£'000)	2018(£'000) ^a
Profit after tax	49,976	26,580
Fair value changes on available for sale financial instruments (net of tax)	-	(19)
Fair value changes on financial assets at FVOCI (net of tax)	22	-
Total comprehensive income for the year attributable to equity shareholders	49,998	26,561

^aNote: As explained in Note 1.1, the Bank has adopted IFRS 9 'Financial Instruments' with effect from 1 January 2019 and comparatives have not been restated. The Statement of comprehensive income is therefore presented on an IFRS 9 basis as at 31 December 2019 and an IAS 39 basis as at 31 December 2018.

The notes on page 54 to 84 form a part of these financial statements.

Balance sheet

As at 31 December 2019

OakNorth Bank plc (registered number: 08595042)

	Note	2019 (£'000)	2018 (£'000) ^a
Assets			
Cash and balances at central bank		540,035	356,881
Loans and advances to banks	8	11,298	6,394
Loans and advances to customers	9, 10	2,062,985	1,297,937
Debt Securities	11	105,337	104,420
Intangible assets	12	204	240
Tangible fixed assets	13	2,597	3,497
Deferred tax assets	3	552	319
Prepayments and accruals	14	946	628
Other assets	15	5,970	491
Total assets		2,729,924	1,770,807
Liabilities			
Customer deposits	16	1,986,639	1,185,860
Borrowings under BOE Term funding scheme	17	182,013	182,110
Subordinated debt (Tier 2)	18	49,459	49,358
Trade payables and other provisions	19	16,894	9,406
Other liabilities	20	24,813	13,660
		2,259,818	1,440,394
Capital and reserves			
Called up share capital	26	389,320	299,320
Share-based payments	5	66	48
Retained earnings	27	80,744	31,091
Available for sale reserve		-	(46)
Other comprehensive income relating to financial assets at FVOCI		(24)	-
Total liabilities		470,106	330,413
Total liabilities and capital and reserves		2,729,924	1,770,807

^aNote: As explained in Note 1.1, the Bank has adopted IFRS 9 'Financial Instruments' with effect from 1 January 2019 and comparatives have not been restated. The Balance Sheet is therefore presented on an IFRS 9 basis as at 31 December 2019 and an IAS 39 basis as at 31 December 2018.

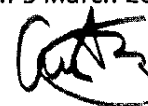
The notes on page 54 to 84 form a part of these financial statements. The financial statements of OakNorth Bank plc were approved by the Board of Directors and authorised for issue on 5 March 2020. They were signed on its behalf by:



Rishi Khosla
Chief Executive Officer & Co-Founder



Joel Perlman
Senior Managing Director & Co-Founder



Cristina Alba Ochoa
Chief Financial Officer

Statement of changes in equity

For the year ended 31 December 2019

OakNorth Bank plc (registered number: 08595042)

	Called up Share Capital	Retained earnings	Financial assets at FVOCI	Available for sale reserve	Share- based payment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 January 2018	249,320	4,511	-	(27)	25	253,829
Issue of share capital	50,000	-	-	-	-	50,000
Total comprehensive income for the year	-	26,580	-	(19)	-	26,561
Employee share-based payments	-	-	-	-	23	23
As at 31 December 2018	299,320	31,091	-	(46)	48	330,413
IFRS 9 transition adjustment (net of tax) as of 1 January 2019	-	(323) ^a	(46)	46	-	(323)
As at 1 January 2019	299,320	30,768	(46)	-	48	330,090
Issue of share capital	90,000	-	-	-	-	90,000
Total comprehensive income for the year	-	49,976	22	-	-	49,998
Employee share-based payments	-	-	-	-	18	18
As at 31 December 2019	389,320	80,744	(24)	-	66	470,106

^aNote: Retained earnings impact of £323K comprises of £431K gross impact less £108K deferred tax impact.

As explained in Note 1.1, the Bank has adopted IFRS 9 'Financial Instruments' with effect from 1 January 2019 and comparatives have not been restated. The Statement of changes in equity is therefore presented on an IFRS 9 basis as at 31 December 2019 and an IAS 39 basis as at 31 December 2018.

The notes on page 54 to 84 form a part of these financial statements.

Cash flow statement

For the year ended 31 December 2019

OakNorth Bank plc (registered number: 08595042)

	2019 (£'000)	2018 (£'000)
Profit from ordinary activities before tax	65,866	33,854
Adjustments for		
Depreciation and amortisation	1,487	1,212
Expected credit loss allowance (2019)/ Provisions for incurred but not reported losses (2018)	4,890	3,895
Share-based payment to employees	18	23
Net change in other assets/ liabilities	8,706	2,917
Increase in loan receivables	(769,938)	(693,358)
Increase in customer deposits	800,779	688,755
Income taxes paid	(12,312)	(4,759)
Income tax refund received	-	3
Interest received on investing cash flows	(713)	(554)
Interest paid on financing cash flows	5,396	2,661
Net cash flows generated from operating activities	104,179	34,649
Purchase of property, plant and equipment, implementation of software and intangible assets	(551)	(1,564)
Purchase of debt securities	(105,826)	(103,663)
Proceeds from maturity of debt securities	103,000	2,139
Interest on debt securities	2,652	760
Net cash flows used in investing activities	(725)	(102,328)
Increase in TFS borrowings	-	180,900
Increase in subordinated debt	-	48,977
Interest on TFS and subordinated debt	(5,396)	(2,661)
Proceeds on issue of shares	90,000	50,000
Net cash flows generated from financing activities	84,604	277,216
Net increase in cash and cash equivalents	188,058	209,537
Cash and cash equivalents at beginning of year	363,275	153,738
Cash and cash equivalents at end of year	551,333	363,275
Reconciliation to cash at banks		
Cash and balances at central bank	540,035	356,881
Loans and advances to banks	11,298	6,394
Total	551,333	363,275

The notes on page 54 to 84 form a part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2019

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, unless stated otherwise.

1.1 General information and basis of accounting

OakNorth Bank plc (registered number: 08595042), herein referred to as "OakNorth" or "the Bank", 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 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.

On 1 January 2019, the Bank adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement', based on the accounting policy choice permitted under FRS 102¹⁴. This resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated; accordingly, all comparative period information is presented in accordance with our previous accounting policies. According to the requirements of IFRS 9, impact of the transition has been recognised in the opening retained earnings of the current period.

The functional currency of OakNorth is considered to be pounds sterling because that is the currency of the primary economic environment in which OakNorth operates. The financial statements are presented in pound sterling and rounded to thousands.

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, Chief Executive's review 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 Changes in accounting policy

As mentioned above, the Bank adopted IFRS 9 'Financial Instruments' effective 1 January 2019. The following tables detail the impacts. In summary:

¹⁴ 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 2019

- There was a change in classification of financial instruments. There was no material impact of re-measurement of the financial instruments as at 1 January 2019. These are detailed in the tables below. The classification and measurement of the financial instruments was done in accordance with the business model test and the SPPI test (solely payments of principal and interest).
- The debt instruments purchased by the Bank were fair valued through other comprehensive income and this measurement remained the same in the new category under IFRS 9.
- There was no material impact on the expected credit loss (ECL) allowance on the drawn balances of loans and advances. New Stage 1 expected credit losses were booked on the outstanding loan commitments to customers. The ECL charge for such commitments has been recognised as provisioning on the balance sheet as part of 'Other liabilities'. The impact of movement in the opening impairment provision have been presented as an adjustment to opening retained earnings (capital), net of deferred tax impact. There were some accounts meeting the Stage 2 criteria as of 1 January 2019. There were no accounts meeting the Stage 3 criteria as of 1 January 2019.

The following tables reconcile the carrying amount of financial assets and liabilities, from their previous measurement category in accordance with IAS 39 as at 31 December 2018 to their new measurement categories upon transition to IFRS 9 on 1 January 2019:

	IAS39- 31 December 2018		IFRS9- 1 January 2019	
	Measurement category	Carrying amount (£'000)	Measurement category	Carrying amount (£'000)
Financial assets				
Cash and balances at central bank	Loans and receivables	356,881	Amortised cost	356,881
Loans and advances to banks	Loans and receivables	6,394	Amortised cost	6,394
Loans and advances to customers	Loans and receivables	1,297,937	Amortised cost	1,297,937
Debt Securities	Available for sale	104,420	FVOCI*	104,420
Total		1,765,632		1,765,632
Financial liabilities				
Customer deposits	Financial liabilities at amortised cost	1,185,860	Amortised cost	1,185,860
Borrowings under BOE Term funding scheme	Financial liabilities at amortised cost	182,110	Amortised cost	182,110
Subordinated debt	Financial liabilities at amortised cost	49,358	Amortised cost	49,358
Total		1,417,328		1,417,328

*FVOCI- fair value through other comprehensive income

Notes to the financial statements

For the year ended 31 December 2019

The following tables summarises the impact of the reclassification and remeasurement of upon transition to IFRS 9 on 1 January 2019:

Reconciliation of carrying value from IAS39 to IFRS9	Carrying value under IAS39 transferred as at 1 Jan 2019 (£'000)	Reclassification as at 1 Jan 2019 (£'000)	Remeasurement as at 1 Jan 2019 (£'000)	Remeasurement of impairment allowance as at 1 Jan 2019 (£'000)	Carrying value under IFRS9 as at 1 Jan 2019 (£'000)
Measurement category IAS39/ IFRS9					
Loans and receivables/ Financial assets at amortised cost	1,661,212	-	-	-	1,661,212
Available for sale financial assets/ Financial assets at FVOCI	104,420	-	-	-	104,420
Total	1,765,632	-	-	-	1,765,632

The following tables summarises the impact of the reclassification and remeasurement on the loan loss allowance on drawn loan balances upon transition to IFRS 9 on 1 January 2019:

Reconciliation of impairment allowance balance from IAS39 to IFRS9	Loss allowance under IAS39 as at 1 Jan 2019 (£'000)	Reclassification as at 1 Jan 2019 (£'000)	Remeasurement as at 1 Jan 2019 (£'000)	Loss allowance under IFRS9 as at 1 Jan 2019 (£'000)
Measurement category IAS39/ IFRS9				
Loans and receivables/ Financial assets at amortised cost	6,252	-	-	6,252
Available for sale financial assets/ Financial assets at FVOCI	-	-	-	-
Total	6,252	-	-	6,252

Notes to the financial statements

For the year ended 31 December 2019

The following tables summarises the impact of the remeasurement on the loss allowance on undrawn loan commitments upon transition to IFRS 9 on 1 January 2019. The gross impact was £431K and net of deferred tax impact in equity was £323K.

Reconciliation of expected credit loss charge on undrawn loan commitments from IAS39 to IFRS9	Notional balance as at 1 Jan 2019 (£'000)	Loss allowance under IAS39 as at 1 Jan 2019 (£'000)	Remeasurement as at 1 Jan 2019 (£'000)	Loss allowance under IFRS9 as at 1 Jan 2019 (£'000)
Undrawn loan commitments	162,246	-	431	431

1.4 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	lesser of the lease term 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.

1.5 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 2019

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

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.

1.6 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.* There may be other qualitative factors also considered in the assessment depending on the relevance to the asset.

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.*

1.7 Financial instruments

1.7.1 Recognition and derecognition of financial instruments

Financial instruments are recognised at trade date, being the date on which OakNorth commits to *purchase or sell the instruments.* 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. Management determines the classification of financial assets at initial recognition based on the applicable accounting standards (IAS 39 for period until 31 December 2018 and IFRS 9 for period commencing 1 January 2019).

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 liabilities are derecognised from the balance sheet when the Bank has discharged its obligations, the contract is cancelled, or the contract expires.

Notes to the financial statements

For the year ended 31 December 2019

1.7.2 Modifications of loans under IFRS 9

The Bank may renegotiate/ modify the contractual cash flows of the loans to customers. Accordingly, the Bank assesses whether the new terms are substantially different from the original terms. This includes whether – borrower is in financial difficulty or not, the new terms substantially affect the purpose/ risk profile of the loan, significant extension of the loan when the borrower is not under financial difficulty, significant changes in the interest rate, collaterals/ credit enhancements associated with the loan or any other factors that maybe relevant to the loan.

In case the terms are substantially different, the Bank derecognises the old asset and recognises the new financial asset at a new EIR. The Bank also assesses whether the new loan is deemed credit impaired at initial recognition. Where the terms are not substantially different, the differences in carrying amount are recognised in the profit and loss statement as modification gain/ loss.

1.7.3 Loan write off

The Bank may write off financial assets fully or partially, when its has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. This may include loans that are still subject to enforcement activity. There were no loans written off during the year (2018: nil).

1.7.4 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.

1.7.5 Amortised cost and effective interest rate (EIR) method

Amortised cost is the amount at which the financial instrument is measured at initial recognition, less the principal repayments, cumulative (net) amortisation using effective interest rate method of any difference between the initial amount and the maturity amount and, adjusted for any loss allowance for financial assets.

Under IFRS 9, effective for the financial year ending 31 December 2019, where there is a change in the estimates of the future cash flows, the carrying amount of the financial instrument is adjusted to reflect the new estimated discount using the original EIR. Any changes are recognised in profit and loss statement.

1.7.6 Classification of financial instruments

Notes to the financial statements

For the year ended 31 December 2019

1.7.6.1 Classification under IAS 39 (applied until 31 December 2018)

OakNorth has applied IAS 39 for the recognition and measurement of financial instruments based on the accounting policy choice permitted under UK GAAP FRS 102. Accordingly, the financial assets have been categorised as Loans and receivables and available for sale financial assets. Loans and receivables are measured at amortised cost and available for sale financial assets are held at fair value, with the gains/losses on remeasurement recognised in other comprehensive income, net of tax impact.

1.7.6.2 Classification under IFRS 9 (applied effective 1 January 2019)

The financial assets are classified into the following categories under IFRS 9

- Measured at amortised cost
- Measured at fair value through other comprehensive income (FVOCI)
- Measured at fair value through profit or loss (FVPL)

The criteria applied to determine the classification and measurement is as follows:

- **Business model test:** Whether an entity manages the financial assets in order to generate cash flows by collecting contractual cash flows or selling financial assets, or both. To determine the classification, OakNorth has used the used both past experience and intent of how the asset is expected to be managed/ held. As such, currently the Bank originates loans to collect the contractual cash flows.
- **SPPI test:** whether contractual cash flows only comprise of solely principal and interest payments (SPPI) per the basic lending arrangements; interest includes only consideration for the time value of money, credit risk, cost of funding and a profit margin consistent with a lending arrangement.

OakNorth has measured assets that meet the business model test of holding the assets for collection of contractual cash flows and meet the SPPI test, at amortised cost.

1.7.7 Loans and advances to customers

OakNorth's Loans and advances to customers are classified as held at amortised cost, in line with the criteria defined above. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using EIR method. Loans and receivables are stated after deduction of amounts which are required as expected credit loss allowance. The Bank's policy in relation to determination of the ECL allowance are detailed separately in the Notes to the financial statements.

1.7.8 Debt securities

Debt securities held by the Bank may be classified as held at amortised cost, FVOCI or FVPL. Currently all the debt securities held by the Bank are entirely composed of UK GILTS. While the Bank holds these debt securities to collect contractual cashflows, these may be sold if the need arises for the purposes of liquidity management by the Treasury function of the Bank. The cash flows on these securities also meet the SPPI test. Therefore, **OakNorth has classified the debt securities as FVOCI.**

Notes to the financial statements

For the year ended 31 December 2019

Debt securities held at FVOCI are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at fair value with gains/ losses recognised in other comprehensive income. Interest is calculated using EIR method. Impairment losses are required to be recognised by transferring the expected credit loss that has been recognised directly in equity to profit and loss statement. If, in a subsequent period, the fair value increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value is recognised directly in equity since it cannot be reversed through the profit and loss statement.

The Bank does not hold any debt securities at FVPL as there are no eligible debt securities held for trading under the current business model.

The Bank reclassifies debt securities only when the business model for managing those assets changes. The Bank does not expect such changes in the near future and none occurred during the period.

Fair Value hierarchy in relation to measurement of fair value of debt securities: Investment securities are classified as Level 1 if their value is evidenced by a quoted price in an active market where the transactions occur on arm's length basis with sufficient volume and frequency.

The Bank values the debt securities at the quoted market prices and any changes to the fair value are recorded in other comprehensive income.

1.7.9 Financial liabilities

All financial liabilities on the balance sheet of OakNorth are classified and subsequently measured at amortised cost. There are no significant differences relating to the classification and measurement of our financial liabilities from the previous accounting standard (IAS 39) when compared to the current accounting standard (IFRS 9).

1.8 Expected credit loss charge on assets held at amortised cost – policy applied effective 1 January 2019.

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

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

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

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

Notes to the financial statements

For the year ended 31 December 2019

i. Staging approach based on credit quality of loans

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

1. *Financial instruments that are not credit impaired at initial recognition are classified as 'Stage 1'. Instruments in Stage 1 have ECL measured for next 12 months. These accounts are monitored on an ongoing basis to ensure that there is no significant increase in the credit risk. Where there is an increase in the credit risk, the account is re-assessed and moved into Stage 2 if triggers are met.*
2. *Financial instruments where there is significant increase in the credit risk is classified as 'Stage 2'. The ECL for Stage 2 accounts is measured on a lifetime basis.*
3. *Financial instruments that are deemed credit-impaired is classified as Stage 3. The ECL for Stage 3 accounts is also measured on a lifetime basis and the interest is recognised net of expected credit losses.*

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

The criteria for stage 2 and 3 are determined in accordance with the Credit Risk Management policy of the Bank, including any backstop triggers as stipulated under IFRS 9. The approach considers both quantitative and qualitative triggers. Further information on the Bank's credit monitoring procedures and credit risk management is provided in the 'Credit Risk' section of the 'Risk Management Framework' note.

ii. Probability of default

Due to OakNorth's limited trading history, it does not have its own loss data to calibrate an internal assessment of PD and LGD. As a result, the Bank uses external PD information based on company insolvencies in the UK SME market to calibrate the PD score. This is supplemented by a quantitative and qualitative assessment of each individual exposure, which includes (but is not limited to) information on key financial metrics, business performance, the quality of collaterals, business and borrower profile. This assessment together is used to determine the internal risk rating and the associated PD for each loan individually.

The Bank assesses the economic environment and market information on a quarterly basis to determine whether there are any material changes that warrant a change in the methodology or increase in the ECL allowances to address the current and expected changes in the economic environment.

iii. Loss given default

The Bank uses expert judgement-based haircuts depending on the collateral type, to determine the LGD for each loan. The primary collateral type for the Bank's lending exposures is real estate and the haircut applied reflects loss in collateral value under macroeconomic stresses, in addition to haircuts reflecting costs of realising the collateral.

Notes to the financial statements

For the year ended 31 December 2019

iv. Exposure at default

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

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

1.8.1 Impairment of assets held at amortised cost – policy applied until 31 December 2018

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.

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 EIR.

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 statement. 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.

Notes to the financial statements

For the year ended 31 December 2019

1.9 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 2019, the Bank did not have any repos outstanding.

1.10 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. 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. The liability is measured at amortised cost under IFRS 9.

1.11 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. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

1.12 Revenue recognition

Interest income and interest expense are recognised in the profit and loss statement as accrued using 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 EIR, OakNorth estimates the future cash flows considering all contractual terms of the financial instruments but not the credit losses. The EIR is established on initial recognition (or upon reclassification) of the financial asset and liability and is not revised subsequently. For financial assets that are subsequently deemed as credit-impaired, interest income is calculated by applying the EIR to their amortised cost net of expected credit loss provision.

Fees and commission are recognised in the profit and loss statement 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 statement over the life of the borrowing raised using the EIR 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 statement and recognised in Other liabilities.

Notes to the financial statements

For the year ended 31 December 2019

1.13 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 statement. 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.

1.14 Leases

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

1.15 Employee benefits

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.

Share-based award

OakNorth Holdings Limited, the Holding Company of the Bank, grants share to some of OakNorth's employees, subject to vesting conditions.

1.16 Other Provisions (excluding loan expected credit loss charge)

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 2019, the Bank did not have any other provisions on the balance sheet.

1.17 Charitable donations

Charitable donations are accounted for as an expense when paid and included as a part of the operating expenses in the profit and loss statement.

1.18 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.

Notes to the financial statements

For the year ended 31 December 2019

1.19 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.

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.

Allowance for expected credit losses: As detailed in the preceding sections, expected credit loss allowances are established to recognise losses in OakNorth's loan portfolio.

As detailed in note 1.8, there are a number of components to the calculation of expected credit losses on the loan portfolio and there are a number of areas of judgement and uncertainties in relation to those, which are also summarised below:

- **Probability of default:** OakNorth does not have its own loss data due to limited trading history / through the cycle experience. As a result, we cannot calibrate an internal assessment of PD. Therefore, we rely on external PD information which is based on business insolvencies in the UK SME market, which maybe different versus the actual observed performance of our loan book till date. We further supplement the risk analysis by a quantitative and qualitative assessment of each individual exposure which also results in application of judgement in determining the final internal risk rating and the associated PD for each loan.
- **Loss given default:** The Bank uses expert judgement-based haircuts depending on the collateral type, to determine the LGD for each loan. For the real estate collaterals, we apply haircuts reflecting loss in the value under macroeconomic stresses, with additional haircuts to reflect estimated costs of realising the collateral.
- **Assessment of economic environment:** The Bank assesses the economic environment and market information on a quarterly basis. The management determines whether there are any material changes that warrant a change in the methodology or increase in the ECL allowances to address the current and expected changes in the economic environment.
- **Determining the staging of the loans:** The criteria for stage 2 and 3 consider both quantitative and qualitative triggers, in addition to the backstop triggers under IFRS 9. The thresholds for the triggers are set by the management based on the expert view of the Credit Risk function.

Notes to the financial statements

For the year ended 31 December 2019

2. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:

	2019 (£'000)	2018 (£'000)
Depreciation of tangible fixed assets	1,451	1,176
Amortisation of intangible assets	36	36
Operating lease rentals	803	599
Foreign exchange loss	1	1
Total	2,291	1,812

Further information is provided in notes 12, 13 and 21

The analysis of the Auditors' remuneration is as follows:

	2019 (£'000)	2018 (£'000)
Fees payable to OakNorth's auditors' for the audit of OakNorth's financial statements	137	110
Total audit fees	137	110
Fees payable to OakNorth's auditors' for Client Assets Sourcebook (CASS) audit	4	3
Fees payable to OakNorth's auditors' for Interim profit verification	18	-
Total assurance related fees	22	3
Total fees to auditors'	159	113

Notes to the financial statements

For the year ended 31 December 2019

3. Taxation

	2019 (£'000)	2018 (£'000)
The tax charge comprises		
Total current and deferred tax	15,890	7,274
	2019 (£'000)	2018 (£'000)
Factors affecting tax charge for the current period		
Profit on ordinary activities before tax	65,866	33,854
Tax at standard UK corporation tax rate	12,515	6,432
<i>Effects of:</i>		
Expenses not deductible for tax purposes	62	70
Adjustments in respect of prior years	(5)	-
Effect of rate changes	-	(75)
Timing diffs at 19% for current tax but 25% for deferred	(66)	-
Tax refund relating to earlier years	-	(3)
Bank surcharge tax	3,384	850
Total tax charge for period	15,890	7,274
	2019 (£'000)	2018 (£'000)
Analysis of tax charge on ordinary activities		
UK corporation tax	16,172	7,620
Adjustment in respect of prior years	(150)	(27)
Deferred tax		
Current year - profit and loss statement	(278)	(351)
Adjustment in respect of prior years	146	23
Effect of rate changes in respect of prior years	-	9
Total tax charge – profit and loss statement	15,890	7,274
Total tax credit – equity	(7)	(6)
	2019 (£'000)	2018 (£'000)
Balance sheet provision for taxes payable	23,618	7,595
Advance tax paid	(16,112)	(3,800)
Net tax payable	7,506	3,795
	2019 (£'000)	2018 (£'000)
Net Deferred tax asset	552	319

Change in tax rate: A reduction in the UK corporation tax rate from 21% to 20% (effective 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional 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, unrealised loss on mark to market for GILTS and adjustment on account of IFRS9 transition impact. During the year the Bank was also subject to the Banking Corporation Tax Surcharge of 8% which is levied on the annual

Notes to the financial statements

For the year ended 31 December 2019

taxable profits of banking companies over £25 million. As a result, the effective tax rate for the year ended 31 December 2019 was 24% (2018: 21%).

4. Staff numbers and costs

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

	2019 (Number)	2018 (Number)
Average number of employees	86	70

Their aggregate remuneration comprised:

	2019 (£'000)	2018 (£'000)
Salaries and bonuses	14,682	10,220
Social security & pension costs	2,007	1,337
Share-based payment	18	23
Other costs & statutory levies	57	30
Total	16,764	11,610

During the year OakNorth made £97K (2018: £50K) 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. During the year 1,286 shares were granted (2018: 6,450 shares). 3,802 shares had vested during the year (2018: 3,307). 1,822 shares were forfeited during the year (2018: 1,379).

6. Directors' remuneration and transactions

	2019 (£'000)	2018 (£'000)
Directors' remuneration		
Emoluments	3,373	2,231
Share-based payment	4	5
Other taxable benefits	69	85
Net amount expensed to profit and loss statement	3,446	2,321
	2019 (£'000)	2018 (£'000)
Remuneration of the highest paid director:		
Emoluments	1,778	950
Other taxable benefits	54	61
Net amount expensed to profit and loss statement	1,832	1,011

Notes to the financial statements

For the year ended 31 December 2019

Total number of share-based payments granted to the Directors was 0 shares (2018: 750). No shares were granted to the highest paid director during the year (2018: 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 2019). 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 any "Specified Deposit Default (SDD) levy".

During 2019, there was a net charge of £120K (2018: net release of accruals of £35K). A total payment of £90K was made in respect of all FSCS levies during the year (2018: £48K).

8. Loans and advances to banks

	2019 (£'000)	2018 (£'000)
Balances held with other banks	11,298	6,376
Balances held with custodian	-	18
Total	11,298	6,394

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

9.1 Loans and advances to customers - maturity bucketing

	2019 (£'000)	2018 (£'000)
Loans and advances to customers		
Amount due:		
- within one year	933,402	358,017
- over one year but less than five years	1,085,298	888,241
- over five years	55,593	57,931
Gross loans and advances	2,074,293	1,304,189
Allowance for ECL (2019)/ IBNR provisions allowance (2018)	(11,308)	(6,252)
Loans and advances to customers (net)	2,062,985	1,297,937
of which repayable on demand or at short notice	-	-

Notes to the financial statements

For the year ended 31 December 2019

The above balances are stated net of unamortised fees of £12.0 million (2018: £9.4 million) and accrued fees and interest receivable of £20.1 million (2018: £9.7 million). During the year, the Bank transitioned from IAS 39 to IFRS 9 for accounting for Financial instruments. Accordingly, the exposures are classified as Stage 1, Stage 2 and Stage 3, as detailed in the following table.

9.2 Loans and advances to customers - Movement in staging

	Gross carrying/ nominal amount			Allowance for ECL			Net carrying amount					
	2019			2019			2019					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total		
At 1 January 2019	1,288,306	15,883	-	1,304,189	5,868	384	-	6,252	1,282,438	15,499	-	1,297,937
Transfers between stages during the year												
- transfers to Stage 1	15,883	(15,883)	-	-	384	(384)	-	-	15,499	(15,499)	-	-
- transfers to Stage 2	(48,122)	48,122	-	-	(257)	257	-	-	(47,865)	47,865	-	-
- transfers to Stage 3	(36,919)	-	36,919	-	(195)	-	195	-	(36,724)	-	36,724	-
Total transfers	(69,158)	32,239	36,919	-	(69)	(127)	195	-	(69,089)	32,366	36,724	-
Net increase/(reduction) in ECL arising from transfer of stage	-	-	-	(311)	1,323	1,701	2,713	311	(1,323)	(1,701)	(2,713)	
Net additional lending/ repayment	749,402	17,195	3,507	770,104	2,343	-	-	2,343	747,059	17,195	3,507	767,761
As at 31 December 2019	1,968,550	65,317	40,426	2,074,293	7,831	1,581	1,896	11,308	1,960,719	63,736	38,530	2,062,985

Notes to the financial statements

For the year ended 31 December 2019

10. Provision for impairment losses

	2019 (£'000)	2018 (£'000)
ECL allowances on loan book (2019) / IBNR provisions (2018)		
As at beginning of the year	6,252	2,357
Net charge during the year	5,056	3,895
As at end of the year	11,308	6,252
	2019 (£'000)	2018 (£'000)
Movement in the profit and loss statement		
Expected credit loss charge (2019)/ IBNR provision charge (2018) on drawn book	5,056	3,895
Expected credit loss charge on undrawn loan commitments	(166)	-
Total	4,890	3,895

11. Debt securities

	2019 (£'000)	2018 (£'000)
Analysed by class		
Bonds	105,337	104,420
Analysed by designation		
Available for sale	-	104,420
Financial instruments at FVOCI	105,337	-

All the debt securities held have been fair valued based on market price (Level 1). These debt securities are bonds issued by HM Treasury and are UK Government liability in sterling. The residual maturity is within one year as at 31 December 2019 (2018: one year). None of the debt securities were impaired as at 31 December 2019 (2018: Nil). The securities held as at 31 December 2018 matured during the year.

12. Intangible assets

	2019 (£'000)	2018 (£'000)
Cost		
At 1 January	360	360
Additions	-	-
At 31 December	360	360
Accumulated amortisation		
At 1 January	120	84
Charge for the period	36	36
At 31 December	156	120
Carrying amount		
At 31 December	204	240

Notes to the financial statements

For the year ended 31 December 2019

13. Tangible fixed assets

	Leasehold improvements (£'000)	Computer and IT equipment (£'000)	Fixtures, fittings and office equipment (£'000)	Total (£'000)
Cost				
At 1 January 2019	1,059	5,038	208	6,305
Additions	148	278	125	551
Impairment	-	-	(3)	(3)
At 31 December 2019	1,207	5,316	330	6,853
Accumulated depreciation				
At 1 January 2019	69	2,717	22	2,808
Charge for the period	216	1,175	60	1,451
Impairment	-	-	(3)	(3)
At 31 December 2019	285	3,892	79	4,256
Carrying amount				
At 31 December 2019	922	1,424	251	2,597

	Leasehold improvements (£'000)	Computer and IT equipment (£'000)	Fixtures, fittings and office equipment (£'000)	Total (£'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	69	2,717	22	2,808
Carrying amount				
At 31 December 2018	990	2,321	186	3,497

14. Prepayments and accruals

	2019 (£'000)	2018 (£'000)
Prepayments	787	533
Receivables	159	95
Total	946	628

Notes to the financial statements

For the year ended 31 December 2019

15. Other assets

	2019 (£'000)	2018 (£'000)
Security deposits	12	9
Bank of England - Cash Ratio Deposit	3,321	397
Other assets	2,637	85
Total	5,970	491

Other assets include £2.5m of balances held with solicitors as at the end of the reporting period. The balances were subsequently settled after the month end.

16. Customer deposits

	2019 (£'000)	2018 (£'000)
Customer deposits	1,986,639	1,185,860
Amounts due:		
- within one year	1,126,835	904,435
- over one year but less than five years	251,003	236,583
Total notice and term deposits	1,377,838	1,141,018
Easy access accounts	608,801	44,842
Total deposits	1,986,639	1,185,860

The above amounts include accrued interest payable of £15.5 million (2018: £11.1 million).

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

	2019 (£'000)	2018 (£'000)
Borrowings under the BOE's Term Funding Scheme	182,013	182,110
Amounts due:		
- over one year but less than five years	182,013	182,110

As of 31 December 2019, 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 collateralised against GILT portfolio of £103.8 million (2018: £103.6million) and gross loans of £182.2 million (2018: £161.7million). The borrowing is held at amortised cost.

Notes to the financial statements

For the year ended 31 December 2019

18. Subordinated debt

	2019 (£'000)	2018 (£'000)
Subordinated notes	49,459	49,358
Amounts due:		
- over five years	49,459	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 £49.5 million.

19. Trade payables and other provisions

	2019 (£'000)	2018 (£'000)
Trade creditors and accruals	8,630	5,188
Payroll taxes and social security	758	423
Corporation tax payable	7,506	3,795
Total	16,894	9,406

All amounts above are payable within one year.

20. Other liabilities

	2019 (£'000)	2018 (£'000)
Deferred income & income received in advance	20,216	13,444
Other liabilities	4,332	216
Provision on undrawn loan commitments	265	-
Total	24,813	13,660

Other liabilities mainly include funds received for deposits pending appropriation as at the end of the reporting period, subsequently cleared after the month end.

The expected credit loss allowance on undrawn loan commitments is calculated in accordance with the policies as detailed in note 1.8. Movements in the undrawn loan commitment ECL allowances is provided below:

Notes to the financial statements

For the year ended 31 December 2019

	Nominal exposure				Allowance for ECL			
	2019 (£'000)				2019 (£'000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019 ^a	162,108	138	-	162,246	430	1	-	431
Transfers between stages during the year								
– transfers to Stage 1	138	(138)	-	-	1	(1)	-	-
– transfers to Stage 2	(1,500)	1,500	-	-	(13)	13	-	-
– transfers to Stage 3	-	-	-	-	-	-	-	-
Total transfers	(1,362)	1,362	-	-	(12)	12	-	-
Net increase/ (reduction) in ECL arising from transfer of stage ^b	-	-	-	-	-	(13)	-	(13)
Net additional lending/ repayment	(44,051)	(1,500)	-	(45,551)	(153)	-	-	(153)
As at 31 December 2019	116,695	-	-	116,695	265	-	-	265

^aThe opening balances stated here have been directly adjusted to the opening balance of the retained earnings and are not a part of the 31 December 2018 closing Balance Sheet

^bThe impact of reduction in ECL charge on account of transfer from Stage 2 to Stage 1 was £0.4K and therefore appears as rounded to nil in the above table

21. Operating lease commitments

	2019 (£'000)	2018 (£'000)
Lease expense charged to the profit and loss statement	803	599

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:

	2019 (£'000)	2018 (£'000)
within one year	842	482
between one and five years	2,631	3,085
Total	3,473	3,567

22. Contingent liabilities and commitments

As on 31 December 2019, OakNorth had undrawn loan commitments outstanding for £116.7 million (2018: £162.2 million). OakNorth also had £966.2 million of uncommitted facilities outstanding as of 31 December 2019 (2018: £746.4 million). OakNorth had no other contingent liabilities as on 31 December 2019 (2018: Nil). Undrawn loan commitments are measured as the amount of expected credit loss allowance calculated in accordance with the policies as detailed in note 1.8. The Bank has not provided any loan commitments at below market interest rate or that can be settled net in cash by delivering or issuing another financial instrument.

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For the year ended 31 December 2019

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

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 the UK.

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 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 Subordinated debt issued by the Bank. 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

Notes to the financial statements

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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.

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 one of 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.

Governance

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 strategy is 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.

Credit proposals are approved by the CRMC or the BCC based on a matrix of components such as the amount and/ or the internal risk rating/ complexity 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.

Lending criteria and assignment of risk grade

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. All risk exposures are assessed based on the maximum drawdown that could be expected for each loan, including any committed or uncommitted facilities. Any collateral coverage is also assessed based on the maximum facility amount.

Credit monitoring

Credit monitoring is completed by the Credit Risk Portfolio Management team on a regular/ daily basis, with reporting to the CRMC on a monthly basis. Any missed payments are tracked daily and escalated to the Monitoring team and Head of Credit risk daily. 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, significant delays in projects, or breach of covenants). Intensive monitoring of customers

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with potential/ actual financial difficulty takes place via a Watch List process. OakNorth also has a forbearance policy in place.

All drawdowns requested by a borrower in relation to a facility are specifically approved by the Head of Monitoring or the Head of Credit Risk. Drawdowns are normally only permitted provided the conditions precedent to the drawdown and any applicable any financial covenants, are fully complied with.

Staging criteria and process

The CRMC has defined criteria to ascertain the staging of the loans. This includes a combination of qualitative and quantitative factors, which include, but are not limited to – trend of business performance versus plan, trend of cash flow position, significant adverse changes to external factors that may impact the performance of the loan, significant increase to PD based on management judgement, significant adverse changes to the collateral position. Backstop triggers continue to apply – any account with payments 30 day past due are automatically moved to Stage 2 and all 90 days past due accounts are classified as Stage 3 impaired. The Head of Portfolio monitoring or Senior Director, Workout & Recoveries recommends loan accounts to be added to intensive monitoring for any increased monitoring and to Watchlist/ Stage 2 or Stage 3, as appropriate, to the CRMC. The CRMC approves the final staging.

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Credit Risk team. For Stage 3, the CRMC assesses whether there are objective impairment triggers, which include significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, breach of contract, or any other factors as the CRMC deems relevant which may result in the borrower unlikely to pay.

The classification of the loan book across different Stages and the corresponding expected credit loss charge allowance is provided in note 9.

Credit risk mitigation

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 but is not, limited to, debenture/ charge on fixed and floating assets, charge on freehold land or property, guarantees (personal, corporate), and cash reserves/ deposits. OakNorth 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 a backstop policy measure, OakNorth refreshes independent, external valuations minimum every 3 years.

As of 31 December 2019, 96% of OakNorth's loan facilities were collateralised by security comprising of fixed assets (including property) and charges/ debentures on underlying portfolio of assets (primarily property) (2018: 92%). These exclude any charges on floating assets and guarantees not supported by charge on fixed assets. The weighted average LTV of the book collateralised by property was 56% (2018: 56%).

The loans in Stage 3 are secured with property collateral and consist of a mix of completed and development properties. The Bank has assessed the exposures and recognised an expected credit loss

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charge £1.9 million on the exposure of £40.4 million for the year ended 31 December 2019 (2018: Impaired exposures: Nil).

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).

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 2019, OakNorth held unencumbered high-quality liquid assets of £540.0 million (2018: £356.9 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.

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- ❑ **Basis Risk:** Unhedged exposure to one interest rate benchmark with exposure to another interest rate benchmark that reprices under different conditions (e.g. Bank of England Base rate and LIBOR).
- ❑ **Pipeline Risk:** The uncertainties of occurrence of future transactions.
- ❑ **Prepayment Risk:** Borrowers redeeming fixed rate products when interest rates change or prepaying loans for other reasons.

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

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

- ❑ NPV sensitivity to 200 basis point (bps) parallel shift in the entire yield curve to measure the interest rate risk in the banking book (IRRBB) and the basis risk exposure report. OakNorth monitors the Net Present Value (NPV) sensitivity to the positive and negative 200 basis points shift in the yield curve including the Bank of England base rate or LIBOR-linked floors embedded within the customer loan agreements and conditional assumptions on prepayments.
- ❑ NPV sensitivity for parallel shift in the yield curve, equivalent to gap to loan rate floors
- ❑ Basis risk metrics including: Earnings at Risk (EAR) measures for 25bps reference rate dislocation (Base rate/ LIBOR/ Customer deposit cost of funding).
- ❑ Additionally, we also track NPV sensitivity of 1bps shift in the reference rate gap to rate floors; and other metrics in relation to prepayment increases.

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:

	2019 (£m)	2018 (£m)
NPV Sensitivity to +2% shift (including base/ LIBOR rate floors)	19.0	17.4
NPV Sensitivity to -2% shift (including base/ LIBOR rate floors)	25.7	35.5

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

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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.

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

	2019 (£'000)	2018 (£'000)
Allotted, called up and fully-paid		
389,320,001 (previous year: 299,320,001)	389,320	299,320
Ordinary shares of £1 each		

	No of shares (in '000)
As at 1 January 2018	249,320
Issue of shares during the year	50,000
As at 31 December 2018	299,320
Issue of shares during the year	90,000
As at 31 December 2019	389,320

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27. Retained earnings

	2019 (£'000)	2018 (£'000)
Brought forward from prior year	31,091	4,511
IFRS 9 transition adjustment (net of tax) as of 1 January 2019	(323)	-
Profit during the year	49,976	26,580
As at end of year 31 December	80,744	31,091

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 the Bank's fellow subsidiary entities and the Holding Company are as disclosed below:

	2019 (£'000)	2018 (£'000)
OakNorth Holdings Limited		
- Subscription of shares	90,000	50,000
- Deposits placed with the Bank	20,801	-
- Sale of warrants	-	34
- Expenses recoverable paid on their behalf	18	-
- Expenses payable paid on our behalf	86	-
OakNorth Global Private Limited, India		
- Purchase of services	7,589	4,658
OakNorth (UK) Limited (formerly OakNorth Analytical Intelligence (UK) Limited)		
- Purchase of services	-	240
- Expenses recoverable	1,111	287
OakNorth (SG) Pte Limited (formerly OakNorth Analytical Intelligence (SG) Pte Limited)		
- Expenses recoverable	350	-
OakNorth International (UK) Limited		
- Expenses recoverable paid on their behalf	305	-
OakNorth US Inc.		
- Expenses recoverable paid on their behalf	84	-

The disclosures are presented including amounts accrued but not billed. The following amounts were outstanding at the balance sheet date:

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	2019 (£'000)	2018 (£'000)
Equity holding		
OakNorth Holdings Limited	389,320	299,320
	2019 (£'000)	2018 (£'000)
Deposits placed		
OakNorth Holdings Limited	20,801	-
	2019 (£'000)	2018 (£'000)
Amounts owed to / (from) related parties		
OakNorth Global Private Limited	856	(34)
OakNorth Holdings Limited	66	524
OakNorth (UK) Limited	(78)	(61)
OakNorth International (UK) Limited	4	-
OakNorth US Inc.	(84)	-

OakNorth Holdings Limited, Jersey is a related party of the Bank because it is the Holding Company. All other entities mentioned in the table above are sister companies of the Bank.

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.

	2019 (£'000)	2018 (£'000)
Employee costs	2,913	1,771
Other taxable benefits	69	85
Share-based payment	4	5
Total cost	2,986	1,861

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

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

There are no post balance sheet events.

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OakNorth Bank



oaknorthbankuk

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

Registered in England No. 08595042



Companies House

COMPANY NAME: OAKNORTH BANK PLC
COMPANY NUMBER: 08595042

**Pages containing unnecessary material in the accounts were
administratively removed from the public register on 23/03/2020**