2022

OakNorth Bank

Annual Report 2022

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15 Old Bailey, Hotel
OakNorth Bank customer

Business performance - key highlights

Brasserie Blanc,
OakNorth Bank customer

£8.5BN

Lent since inception

38,000

New jobs creation supported

27,000

New homes (mainly affordable) development supported

214,000+

Savings customers

Top 1%

Performance metrics of listed banks globally[1]

26%

Return On Required Equity[2]

26%

Efficiency Ratio[3]

80%+

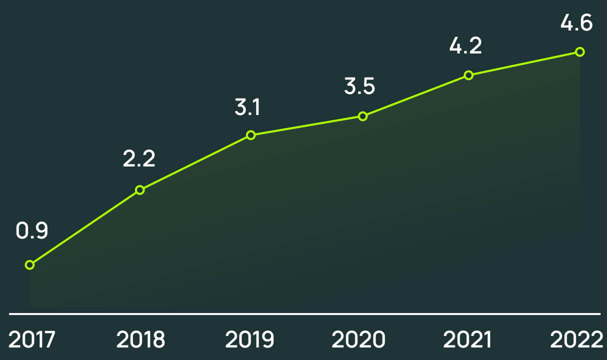
New lending through referrals

1. Based on efficiency ratio, loss ratio and ROE measure of global listed banks. Latest information as available from various external sources
2. Net income expressed as a percentage of regulatory equity capital required (total regulatory capital required less Tier 2)
3. Efficiency ratio is Cost to income ratio

Bruntwood SciTech, OakNorth Bank customer

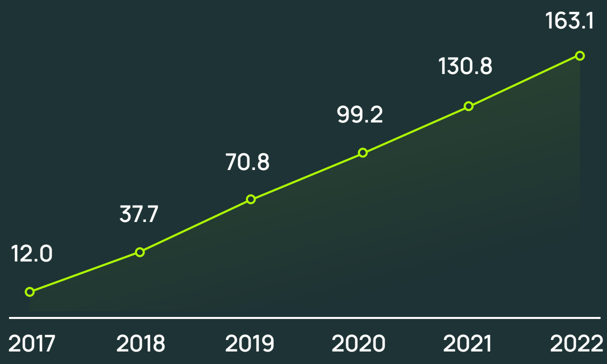
£4.6BN

Total loan facilities



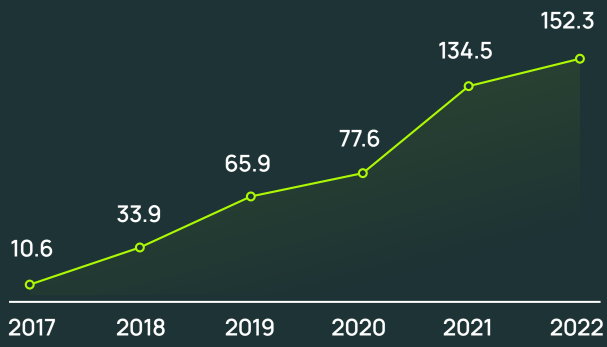
£163.1M

Profit before provisions and taxes



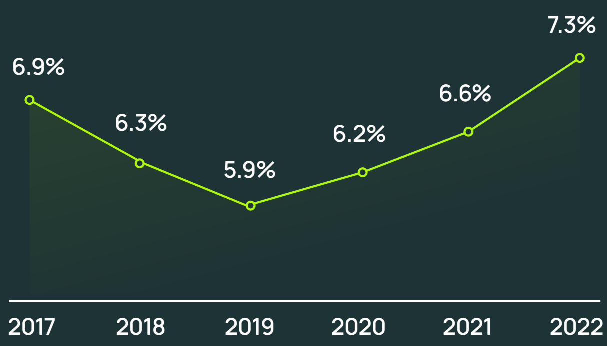
£152.3M

Profit before taxes



7.3%

Net interest margin



Chairman's statement

Cyrus Ardalan

Chairman

We currently face a highly challenging economic environment fraught with uncertainty. These are particularly difficult times for the UK's 'Missing Middle', our term for established small-to-medium enterprises (SMEs) seeking to scale, but whose needs are routinely overlooked or underserved. Strong, supportive, and reliable banking relations are vital to their ability to navigate through these difficult and unpredictable times. Yet it is in times such as these that our traditional high street banks have so often fallen short by restricting access to funding and severing rather than strengthening their interaction with these companies. At OakNorth, we believe the hallmark of good banking is to work with your clients through the cycle, provide consistency and to be there to support them in the good times, as well as the more challenging.

Having worked in banking for decades through multiple economic cycles, I've witnessed first-hand the impact on banks as economic conditions worsen. Risk aversion sets in, indicative loan terms are withdrawn or revised, and overall lending on new projects is paused, often with no reason given. Late payments and covenant breaches only fuel this behaviour. Meanwhile, lacking clarity on the bank's current lending strategy, relationship managers struggle to keep existing and prospective business customers informed and upto date.

Economic conditions today stand in sharp contrast to those we have recently experienced. Until recently, capital was readily available. During the COVID-19 pandemic, the government introduced strong incentives, such as Bounce Back Lending and the Covid Business Interruption Loan Scheme, to encourage banks to continue lending. This was followed by a period of easy, even at times irrational, credit being extended by lenders, often priced at levels that appeared inappropriate. Markets, however, changed materially from the middle of the year as a growing number of banks began decreasing their business lending.

In addition to the above, the failure of Silicon Valley Bank (SVB), which was the largest US bank failure since the 2008 financial crisis, and the consequent contagion and failure of Signature Bank, highlighted the severity of the impact of rapidly rising interest rate environment and weaknesses in the risk management practices of a number of similar banks. This has led to regulators both in the US and UK to undertake extraordinary measures to protect the uninsured deposits and extend liquidity lines. The recent failure of Credit Suisse and takeover by UBS, represents further challenges for the banking system. While it is still early to understand how these events impact the wider economy, it is clear there will be many ways in which the rate raising cycle drives changes - for example whether that be to negative cash flow venture, or high leverage private equity or commercial real estate transactions.

At OakNorth, our operations have been and will continue to be underpinned by a comprehensive and conservative risk management framework, as we continue our journey to support the Missing Middle.

A reliable funding partner come rain or shine

At OakNorth, we understand that relationships are key and are built over many years - through the good and bad times. This is the first credit cycle we will have lent through. As the digital bank for entrepreneurs, by entrepreneurs, we know that the key to good banking is being a supportive and flexible funding partner to help our customers through the challenges they will be facing, supported by leading and flexible technology which enables this. This is what we did through Brexit and COVID-19, and will continue to do through the cost-of-living crisis and a possible 2023 recession.

Businesses will inevitably have very different profiles and capability to withstand external shocks. It is precisely for that reason that our lending policies are based on two key premises - taking a highly idiosyncratic approach to lending, and a sophisticated forward looking stress testing process through our proprietary machine learning driven product- ON Credit Intelligence. These two pillars of our lending credit technology allow us to develop bespoke lending structures best suited to the needs of our clients. It also provides us with the ability to undertake a sophisticated and ongoing risk assessment of each loan.

At the end of 2021, our forward-looking scenarios made it clear that there were headwinds on the horizon, such as rising inflation and increasing interest rates. This foresight enabled us to continue to lend to our business customers in a responsible manner. It has also enabled us to protect the tens of thousands of individuals who have trusted us with their savings and for whom we have a duty of care. As a result, while other lenders retrenched from lending in the latter half of 2022, we were able to double down on our support, seeing new loan origination materially increase in Q4-2022, and providing over £1.5 billion of new lending to UK businesses through 2022.

We believe that well-structured lending underpinned by strong tech enables robust ongoing support and interaction for our clients, whether strong or challenged, to survive and indeed thrive through these uncertain times. That is why at OakNorth, we're committed to continuing to lend and support the UK's Missing Middle through the economic cycle.

From Newcastle to Newquay, OakNorth is powering business growth across the UK

Since our launch in September 2015, we've been supporting the Missing Middle across the UK. These are companies that are making a real economic contribution to their local communities. With teams in London, Manchester, Bristol, Birmingham, Leeds, Newcastle, and East Anglia, almost 60% of our new clients in 2022 were headquartered outside of London.

Inception Group,
OakNorth customer

SENTRY DOORS

Doncaster-based timber frame fire safety, and security door manufacturers.

Strawberry Fields

Newly developed nursery in Lancashire, with a swimming academy.

BTTC

Manchester-based management consultancy focussed on rail.

bruntwood SciTech

UK's leading property provider dedicated to the growth of the science and tech sector.

Mr. Fothergill's

Suffolk based family-run horticulture business providing gardening products and supplementary products.

VERDANT

Trading company for the development of New Stanton Park, which is set to create 4,000 jobs in Derbyshire.

Prue Freeman, Daisy Green Collection, OakNorth Bank customer

In the previous page we have provided a snapshot of some of the regional transactions we've done this year. These are, by no means exhaustive, as we have supported hundreds of other businesses as well, but demonstrates the breadth and depth of our support across the UK.

As a result of the above, our regional teams have received industry-wide recognition for the impact they are having to businesses across the UK. Insider Media named OakNorth as Alternative Finance Provider of the Year at its 2022 Central & East Dealmakers Awards. Meanwhile, the Business Desk named OakNorth as Best Finance Provider at its 2022 Yorkshire, East Midlands, and West Midlands regional Business Masters Awards.

Helping our savings customers make their money go further

With inflation at an all-time high and the cost of the living crisis taking its toll, we know savers need to maximise the return from their savings. That's why, when the Bank of England's base rates increased, so did ours – for new accounts and non-fixed existing ones too.

Over the year, we've listened closely to the feedback from our 214,000+ savings customers, and increased interest rates on their existing Easy Access and Notice accounts. This means that regardless of when they opened their account, our depositors benefited from the interest rate rises, earning higher interest without having to open and fund new accounts. Aside from making our accounts even more competitive, we are continually enhancing our technology to improve customer experience.

Strong headwinds require strong leadership

The ability to leverage the expertise and experience of our exceptional Board and Advisory Board members will be critical as we go into 2023. The Board represents a diverse group of senior individuals with business and governance expertise who have been through numerous economic cycles.

In addition to myself and OakNorth's founders, Rishi Khosla and Joel Perlman, our Board includes our CFO, Rajesh Gupta (previously CFO at GE Capital and at Kensington Mortgages), and Non-Executive Directors: Ted Berk (senior lecturer of business administration at Harvard Business School and previously Partner at Bain Capital), Robert Burgess (previously Chief Executive and Group Board Director at Alliance Trust Savings) and Carolyn Schuetz (previously Global Chief Operating Officer, Group Retail Banking & Wealth Management at HSBC).

In August, we were delighted to announce the appointment of Timo Boldt as the newest Non-Executive Director on our Board. Timo brings deep experience in data, technology, automation, and marketing – all of which will prove invaluable as OakNorth continues to expand its offering and digital capabilities. Crucially, he also brings further entrepreneurial experience to our Board – having started and scaled an incredibly successful business in Gousto. As Founder and CEO of Gousto, he pioneered the recipe box offering in the UK when it was established in April 2012.

Our Advisory Board includes Lord Philip Hammond (former Chancellor of the Exchequer in the UK Government from 2016 to 2019), Lord Adair Turner (current Chair of the Energy Transitions Commission, former member of the Social Democratic Party and former Chairman of the FSA), and Martin Stewart (former Director of Banks, Building Societies & Credit Unions at the Bank of England).

> "On behalf of the Board, I would like to thank all our customers, investors, the regulators, and our employees for their ongoing support as OakNorth continues to pursue its mission to empower the "Missing Middle"."

Cyrus Ardalan
Chairman
20 March 2023

Chief Executive's review

Rishi Khosla

CEO & Co-Founder

Last year, I wrote about the challenges that lay ahead in 2022 and detailed the measures we were taking at OakNorth to help our customers not only face them, but to thrive. Looking back a year later, I am proud to say that our hyperfocus on customer outcomes, coupled with our unique approach to lending enabled through a technology and data-enabled forward-looking 360° view of risk, allowed us to do just that. In 2022, we provided over £1.5 billion in new lending to the UK's Missing Middle, even as the economic outlook deteriorated, while maintaining the same strong growth trajectory and profitability we've been known for since inception – achieving £152 million in pre-tax profit.

As ever, our lending to the 'Missing Middle' has been a driver of vital economic growth and social benefit: our lending has helped fund over 38,000 new jobs and 27,000 new homes, mainly affordable, to date. As we continue to expand across sectors, these benefits also expand: our lending of c.£500 million to care homes and nurseries has helped provide crucial capacity for these industries under severe stress. Within the independent financial advisory sector, our lending has enabled M&A activity, and more broadly we have helped empower ambitious entrepreneurs to grow their businesses in an ever-evolving market.

As our Chairman illustrates with the list of select regional transactions, OakNorth's lending has expanded geographically as well, growing into a national footprint, and allowing us to support businesses across the UK. Our range of deal sizes remains broad, from £250,000 to tens of millions, reflecting our support of diverse SMEs across all stages of their scaling journeys.

Even as we grow, our credit profile remains strong, driven by our data focussed approach, with defaults remaining low since inception of the business, and charge-offs averaging an annual risk cost of twelve basis points. Our ability to continue to grow with minimum defaults, reflects our unique machine learning powered, granular forward-looking approach to credit risk management and our active, partnership approach to customer relationships, helping them withstand challenging and ever-changing market conditions.

Through our strong governance and sound risk management frameworks and practices, we ensure that we manage our risks appropriately and maintain adequate surplus liquidity and capital resources to withstand impact under severe stress scenarios. Our stress testing frameworks are embedded throughout the organisation and are fundamental to how we operate as a business.

We currently hold c.£1 billion of surplus liquidity as cash in Bank Of England reserve account. As at end 2022, 90%+ of our £3.6 billion deposits were protected under the Financial Services Compensation Scheme (FSCS) and 70% of the deposits were either term deposits or 90+ days notice accounts. We currently hold c.£200 million of investments in UK GILTS that are held at mark to market on the balance sheet and have an average duration of 90 days. Our loan book is fully floating rate based and therefore re-prices with the changes in the interest rates.

We operate with a tech-first mindset. We focus on implementing technologies and automated workflows to enhance customer journey, improve operational efficiencies and resilience, build scalability, and maintain the highest standards of risk management controls.

In 2022 we invested in ourselves, acquiring expertise and technology that is empowering us to build even more delightful solutions for our customers across a wider range of products – allowing us to go 'beyond banking' and customise for the hyper-specific needs of the businesses we work with. Internally, we continue to build out our technology teams across product, engineering, and data. Complementing this internal investment, OakNorth group's acquisition of Fluidly has materially expanded our group tech talent. Additionally, our purchase of a majority stake in property specialist ASK has bolstered OakNorth with its team of digitally oriented, like-minded entrepreneurs focussed on delivering customer value.

Across both internal investment and M&A, it all comes back to understanding and anticipating our customers' needs and pushing ahead to deliver for them. This has always been part of OakNorth's DNA, and we are doubling down on it.

Our culture reinforces the constant evolution of our customer-centric approach and our commitment to sustainable growth. As our Chairman outlines, the exceptional breadth and depth of expertise across our Board and Advisory Board reflects this culture. The addition of Timo Boldt, with his exceptional entrepreneurial record in using technology to transform the food sector in the UK, is an example of the diversity of talent that we will continue to add. The same applies across our entire staff. I want to take this opportunity to thank them for their hard work, skill, and commitment in delivering the outcomes we proudly present in this report.

OakNorth is a special place to work, and our team is exceptionally committed to driving our journey to deliver for customers. Their dedication extends to helping others through our expanded 1% + 1% scheme, which builds on OakNorth's tradition of donating 1% of its group profits to charitable causes by also enabling every employee to devote 1% of their working time to voluntary work in our communities and for the sake of our environment.

We continue to see the impact of climate change as a significant challenge for the economy, but equally, as an opportunity for OakNorth to demonstrate its leadership. As the demand for sustainable solutions increases, the banking industry will be responsible for supporting the transition to a more sustainable future. With this in mind, I am proud that 2022 was another year that saw OakNorth play its part in financing investment in companies who are leading the transition, as well as promoting more sustainable living via businesses who are rolling out EV charging points, helping transition energy efficiency of buildings, and developing sustainable homes to vegan food companies.

The ON Climate solution, which is part of our proprietary tech product ON Credit Intelligence, helps amplify the OakNorth group's impact by providing more banks with the ability to assess the climate transition risk within their loan books, enabling their teams to support their clients through the transition.

> "Seven years into our journey at OakNorth I remain as passionate as I was on day zero about empowering ambitious entrepreneurs to grow their businesses and deliver prosperity for our nation. Their success is our success and we have demonstrated our ability to achieve it through commitment and constant evolution, whatever the conditions."

Rishi Khosla
CEO & Co-Founder
20 March 2023

Our Mission

OakNorth is a digital bank which was founded in 2015 to empower the 'Missing Middle'- established small-to-medium enterprises (SMEs) that are key contributors of economic and employment growth, but whose needs are routinely overlooked or underserved.

We provide the UK's fastest-growing and most ambitious businesses with the fast, flexible debt finance (loans of £250K up to tens of millions) they need to scale, while also helping savers make their money go further via our award-winning savings platform.

OakNorth was built on the foundation of customer frustrations. In 2005, when our founders tried to get business finance from the established commercial banks for their financial analytics company, Copal, the 'computers said no'. As entrepreneurs, they responded by creating a new type of commercial bank, the type they would have wanted to be served by when building Copal and secured the third new UK banking licence in 150 years.

They built a bank with the capabilities to serve the 'Missing Middle' and to radically shift commercial banking into the future through technology and data powering forward-looking analytics, that allows for more informed lending decisions to be made about the status and potential of business. While traditional commercial banks assess businesses based on broad views of sector and market, our approach enables us to assess each company's circumstances with a much more granular analytical framework covering 274 industries. These frameworks are the foundation of the ON Credit Intelligence suite: the 'secret sauce' in OakNorth's data-led tech approvals analysis that is used by OakNorth throughout the life cycle for each client.

The ON Credit Intelligence Suite is our proprietary machine learning technology product that provides a forward-looking view of a borrower's financial position. It provides real-time granular sector and subsector analysis and insights. It also enables application of portfolio-wide stress, providing early warning indicators for at-risk loans. We use these insights to make decisions about how we lend to our clients, how we manage our portfolio, and how we make decisions around credit policy and origination strategy. This allows us to continue lending with confidence to support the Missing Middle through different phases of the credit cycle. We also share these insights with businesses themselves, to help drive positive outcomes and enable them to adapt and thrive regardless of the economic environment.

In addition to supporting the UK's Missing Middle, OakNorth is also on a mission to help savers make their money go further. Since its launch, OakNorth has built an award-winning and technology-led savings platform with a convenient, competitive, and frictionless offering, that has attracted hundreds of thousands of customers and achieved a Trustpilot rating of 4.6/5 stars. We leverage open banking solutions to enable our deposit customers to transfer funds.

We continue make significant investment in technology to build a comprehensive ecosystem of value-added software with embedded financial solutions. We focus on digitising customer journey and at the same time building an agile and resilient infrastructure using cognitive technologies.

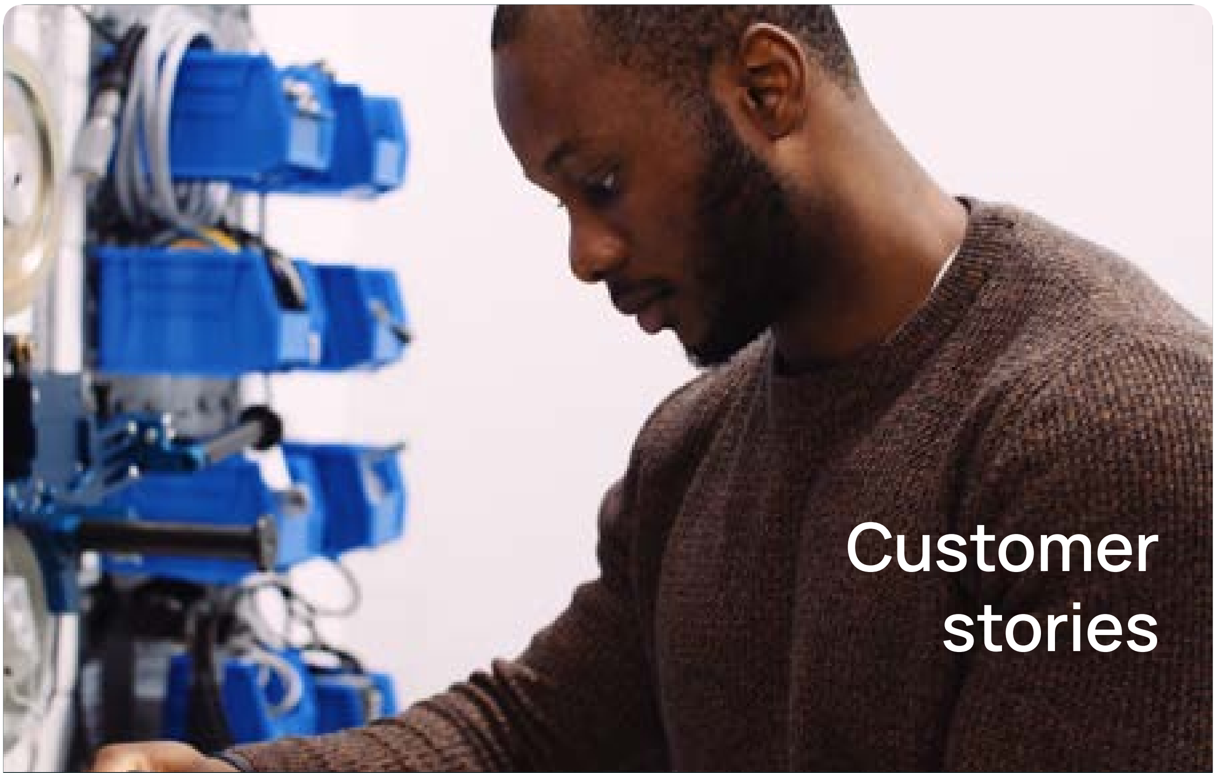
We want to help the most ambitious and effective entrepreneurs achieve their goals by providing them with all the tools, services and insights they need to succeed and scale their businesses. Our support of the Missing Middle in scaling to their full potential amplifies the impact they have in our communities through innovation, jobs, ESG impact and economic growth, in-turn powering the future success of the UK.

Europa Wools

In July, we completed a £2.1 million loan to West Yorkshire-based family-run, textile business, Europa Wools.

"Since my parents founded Europa Wools over three decades ago, we've strived to build a business that knows everything there is to know about every kind of textile fibre available. This includes where to source materials at the most competitive price, anticipating customer demand, and ensuring we stock the required range of fibres to meet every order. This management buy-out will allow for the managed exit of my sister, Gina, in addition to powering the scaling of Europa Wools moving forward, as we look to further strengthen our new retail offering. It was great to see the team at OakNorth Bank take their time to really get to know our business inside and out, before then completing the transaction in only a few weeks."

Richard Morsley
Managing Director of Europa Wools



Clavis IDS

In June, we completed a £1.4 million business loan to Clavis IDS, a Newcastle-based manufacturer.

"The global Industrial Assembly Equipment market is worth $136 billion and has seen exponential growth over the last few years against a backdrop of efficiency improvements such as assembly robots in the production and assembling processes. Despite the impact of COVID on our customers, we've managed to deliver against our plan since the management buyout, and thanks to this capital from OakNorth Bank, are well placed to continue growing as the automotive sector recovers and production lines are restarted. We've taken out business loans before, but the OakNorth experience was very different – speedy, transparent, and entrepreneurial. As a business celebrated for its innovation, we appreciate the innovative approach OakNorth Bank has taken to commercial lending."

Andrew Punton

Managing Director of Clavis IDS

Sentry Doors

In November, we completed a £14.3 million transaction with Cairngorm Capital-backed manufacturer Sentry Doors.

"We are pleased to have successfully completed this transaction for Sentry Doors – a strong manufacturing business we have been backing since early 2019. This debt facility from OakNorth will help position the business for future investment and growth and enable the swift integration of the Knowles group following the acquisition earlier this year. We appreciated the speed and responsiveness of the OakNorth team – the team have strong commercial acumen and demonstrated a clear understanding of the business and its future growth potential."

Stuart Whiteford

Sentry Director and Cairngorm Capital Investment Director

Strategic report

The Directors present their Strategic Report for OakNorth Bank plc for the year ended 31 December 2022.

Our strategy and business model

OakNorth Bank plc (herein referred to as 'OakNorth' or 'OakNorth Bank' or 'the Bank') is a founder-led business that is on a mission to empower the 'Missing Middle' since its inception in September 2015,

Our core lending products fall into two categories:

- Cash-flow based business trading loans to businesses, typically for growth, working capital, M&A, management buy-outs, etc; and
- Property Finance, which includes finance of property development, refurbishment, and property investment

Through these products, we support businesses in a diverse and carefully selected range of market sub-segments. These include: hospitality and leisure (hotels, bars, restaurants), education (nurseries and schools), healthcare (care homes, dentists, pharmacies, medical GPs), professional, scientific and technical activities, funds and lender finance, manufacturing, administrative and support activities, information and communication, wholesale and retail trade, residential development (residential accommodation, co-living, retirement living, and student accommodation) and commercial development (office, retail, and industrial/warehouse). We take a very granular approach in evaluating credits and monitor these on an ongoing basis through sophisticated stress testing.

For our deposit customers in the UK, OakNorth has built an award-winning savings platform using tech to offer customer-friendly, flexible saving products designed to meet the varied needs of UK consumers. We offer digital-only, non-complex and FSCS protected deposit products.

OakNorth operates with a tech-first mindset. We focus on implementing technologies and automated workflows to enhance customer journey and experience, improve operational efficiencies and resilience, build scalability, and maintain the highest standards of risk management controls. We set the industry standards by becoming 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 tech issues found at many of the traditional banks.

Our Values, Vision and Culture

OakNorth has a set of values that help guide the way it works and keep it accountable and on the right path towards its Mission. Our leadership team and the Board take the lead in establishing a strong risk management culture and are committed to living the firm's values and setting the tone for the culture of the organisation.

THE SIX VALUES OF OAKNORTH ARE:

10X

Better is good, ten times better is great. We set ambitious goals and work to deliver outsized results.

One team

We work together to achieve our goals, whether it's across teams, countries, departments, or people in a room.

Momentum

We're go-getters so we take decisive action, at pace. It helps us turn dreams into accomplishments.

Right ambition

Success is better shared. We channel the right ambition as individuals to meet our collective goals.

Zero base

We use the 'beginner's mindset' to ask the right basic questions.

Customer delight

Our customers drive everything we do. We go beyond satisfaction to deliver delight at every opportunity.

As a founder-led organisation, entrepreneur-ialism is in OakNorth's DNA and is reinforced by a high level of employee ownership of the business - over 90% (2021: 70%) of employees have participated in OakNorth's employee share schemes.

Conducting business in a sustainable way

Acting sustainably and responsibly goes hand-in-hand with OakNorth's mission. Entrepreneurs, SMEs, and fast-growth businesses of the UK are the cornerstone of our economy, and by placing environmental and social considerations at the heart of our business model, we directly support UK's innovators, challengers, and future leaders to respond to society's most pressing needs.

We continue to reinforce the positive impact that growth businesses have on communities and economies globally by supporting charitable causes and socially driven enterprises through our 1% + 1% initiative and by continuing to develop and deliver on our environmental programs and commitments.

Detailed information is provided in our "Environmental, social and governance review" on page 30.

2022 Financial Review - A year of continued strong financial performance

Key metrics (Unaudited)	As of 31 Dec 2022	As of 31 Dec 2021	Year-on-year variance
Loan book measures			
Total Facilities (£m)[a]	4,598	4,224	9%
Loans and advances to customers (£m)[b]	3,151	2,915	8%
% of loans collateralised[c]	94%	97%	(3%)
Net leverage on non-collateralised loans[d]	1.29x	1.24x	0.05x
% LTV of property backed loans[e]	52%	52%	-
ECL allowance coverage pre charge-offs (%)[f]	1.2%	1.0%	0.2%
ECL allowance coverage (%)[f]	0.7%	1.0%	(0.3%)
Key performance measures[g]			
Profit before tax (£m)	152.3	134.5	13%
Profit before ECL allowances and taxes (£m)	163.1	130.8	25%
Net Interest Margin (%)[h]	7.3%	6.6%	0.7%
Efficiency ratio (%)[i]	26%	26%	-
Return on required equity (%)[j]	26%	27%	(1%)

a. Includes all facilities (committed and uncommitted)

b. Gross loan balances outstanding

c. Total (committed and uncommitted) facility amount of collateral backed loans as a percentage of total (committed and uncommitted) facility amounts in the loan book

d. Borrower leverage on non-collateralised portfolio of performing loans where leverage covenant is tested

e. Total (committed and uncommitted) facility amount of property backed loans as a percentage of the value of the underlying collateral

f. On balance sheet expected credit loss (ECL) allowance as a percentage of gross loans outstanding. These are stated here both on a pre and post charge-off basis.

g. These metrics are stated on a consolidated basis for OakNorth Bank and its subsidiary ASK Partners

h. Interest and fee income on loan assets, less all interest expense on funding sources, as a percentage of average loan balances

i. Operating expenses expressed as a percentage of operating income

j. Net income expressed as a percentage of regulatory equity capital required (total regulatory capital requirement less Tier 2 capital)

Key metrics (Unaudited)	As of 31 Dec 2022	As of 31 Dec 2021	Year-on-year variance
Capital, leverage, and liquidity measures			
Total capital ratio (%)[k]	20.1%	22.1%	(2.0%)
Common equity Tier 1 ratio (%)[l]	18.7%	20.5%	(1.8%)
Leverage Ratio (%)[m]	14.5%	16.3%	(1.8%)
High-quality liquid assets (£m)[n]	1,236	486	154%
Customer retention measures			
New lending originated via referrals	>80%	>80%	-
Repeat borrowers	>40%	>40%	-

k. Regulatory capital expressed as a percentage of risk weighted assets. Details are available as part of separately published Pillar 3 disclosures. The ratios are presented for OakNorth Bank only as ASK Partners was not subject to regulatory consolidation in 2022.

l. Regulatory common equity Tier 1 capital expressed as a percentage of risk weighted assets. Details are available as part of separately published Pillar 3 disclosures. The ratios are presented for OakNorth Bank only as ASK Partners was not subject to regulatory consolidation in 2022.

m. Regulatory Tier 1 capital expressed as a percentage of balance sheet and off balance sheet exposures as measured under EBA guidelines. Details are available as part of separately published Pillar 3 disclosures. The ratios are presented for OakNorth Bank only as ASK Partners was not subject to regulatory consolidation in 2022.

n. Unencumbered cash balances held at Bank of England and unencumbered GILTS. The information is presented for OakNorth Bank only as ASK Partners was not subject to regulatory consolidation in 2022. This includes cash balances held in advance of exiting a deposit partnership in 2023.

During 2022, we continued to support the UK's Missing Middle, providing over £1.5 billion of gross new loans during the year whilst maintaining a cautious approach to lending. The total drawn loan book increased to £3.2 billion as at 31 December 2022, from £2.9 billion as at 31 December 2021. Redemptions during the year marginally declined to 27%[4] (2021: 32%). Our lending proposition continued to help drive new volume growth resulting in our total facilities balance growing to £4.6 billion as at 31 December 2022 (2021: £4.2 billion).

With our strong customer-led proposition, our deposit book grew to £3.6 billion as at 31 December 2022, from £2.6 billion as at 31 December 2021.

Throughout the year OakNorth's capital and liquidity position remained strong. The total regulatory capital ratio and the CET1 remained at high levels at 20.1% and 18.7% respectively as at 31 December 2022 (2021: 22.1% and 20.5% respectively). Our profitability continued to add to our available capital resources. There was an overall increase in the risk weighted assets (RWA) following a net increase of lending in higher RWA categories.

Our operating income grew by 25% to £221.1 million during the year compared with £176.2 million in the prior year. The yield on the loan book improved to 8.4% (2021: 7.6%), primarily driven by the increase in the Bank of England base rates. The cost of deposit funding also increased, albeit slower, to 1.4% from 0.9% in 2021. The combined impact of these drivers was that our net interest margin on the loan

4. Redemptions during the year as percentage of opening facility balances.

book increased to 7.3% as compared to 6.6% in the prior year.

Despite inflationary pressures and stepped-up investments into product and tech functions, the efficiency ratio remained stable at 26% in 2022 (2021: 26%). A large part of this spend was associated with building new capabilities to provide an ecosystem of digital services to the Missing Middle.

Expected credit losses (ECL) provisions charge for the year was £10.8 million, versus a release of £3.7 million in 2021 reflecting the impact of deterioration in the economic environment and weaker outlook that were incorporated in the modelled assumptions- increasing interest rates, high inflation, and slowdown in the economic activity. The credit quality of our loan book remained stable, and we continued to proactively manage our loan book using the ON Credit Intelligence Suite- which underpins our credit approach.

During the year, we completed the acquisition of 50.1% stake in ASK Partners Limited to deepen its support for UK property entrepreneurs. ASK is a UK-based fintech founded in 2016, that has enabled over £1 billion of lending through its platform, with funding from a network of over 300 family offices, high net worth individuals and institutional partners. We have partnered with them over several years, bringing together comprehensive lending solutions for our clients. The acquisition contributed £1.2 million of post-tax income to the consolidated financials in 2022 after deducting non-controlling interest.

Technology and operational resilience

Throughout the year, our cloud-based tech and cyber-security infrastructure proved robust and resilient, and systems and processes continued to perform well. There were no notable system downtimes, operational incidents or cybersecurity breaches during the year.

During the year a number of tech and product workstreams commenced focussing on new products, building a new data infrastructure, enhancing customer journey and experience through increased digitisation and improving operating efficiencies.

Business and economic outlook

We entered a phase of significant economic challenges in 2022, as rising inflation and cost of living crisis across the developed world, triggered a series of aggressive central bank monetary policy tightening measures. In a very short span of time, central bank rates have been increased multiple times, that has put to test the resilience of risk management models of many financial institutions. The recent failures of Silicon Valley Bank and Signature Bank, both midsized US based banks, sent shockwaves through the global financial markets, highlighting the vulnerabilities in their liquidity and interest rate risk management models. The failure of Credit Suisse and take over by UBS, has highlighted more challenges in the global banking systems and financial markets.

The UK economic outlook going into 2023 remains challenging, exacerbated by the recent events in the financial markets. It is expected that UK will be the only major economy to shrink in the coming year. The recent budget announcement on March 15th by the UK Chancellor proposed fiscal measures expected to speed up recovery and support households, albeit the business confidence, productivity and expectations of investment continue to remain low.

In addition to these challenges, climate change continues to remain a critical global issue that impacts us all – 2022 was another record-breaking year in the UK with summer temperatures surpassing 40 degrees celsius for the first time. Meanwhile, storms Dudley, Eunice, and Franklin all wreaked havoc across the UK, causing flooding, power outages, and temporary population displacement in several regions.

The events of the past years have put to the test our business model and our approach to lending. The predictive capabilities of the ON Credit Intelligence have meant we have continued lending and supporting the 'Missing Middle', with robust credit criteria to reflect the challenges.

Our data and analytics capabilities enable us to build a granular, forward-looking view of risk – coupled with our strong capital position, we are looking ahead to 2023 with optimism. We are excited about the opportunity to prove the robustness of the ON Credit Intelligence approach and the strength of the businesses we support through the economic cycle and are confident in our ability to continue lending to them. We will continue to closely monitor the impact of the developments in the global economy, as well as fiscal and monetary policy changes, so that we are well-positioned to continue supporting customers in the years ahead.

Our strong risk management capability and practices across all areas of risk, including but not limited to -credit, capital, liquidity, interest rate, cyber- have enabled us to grow safely. We continue to maintain high quality surplus liquidity resources held in the form of cash deposits with the BOE and high quality surplus Common Equity Tier 1 capital resources, that support our growth ambitions and enable us to withstand severe stresses.

We will continue to make significant investments in technology to build upon our fast, data-driven, relationship-led foundations to unlock scalable ways of delivering customer value end-to-end powered by – rather than led by – solutions-oriented financial products. We will continue to develop end-to-end digital journeys that are hyper customer focussed and continue to enable material efficiencies across the company and all our products and services.

Risk Management framework and Risk review

OakNorth is exposed to a wide range of risks through its banking operations, including credit, cybersecurity, operational, liquidity, capital, interest rate, people, climate, regulatory and compliance. At OakNorth we have built a proportionate and robust Risk Management Framework (RMF) that is 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.

Detailed information on the RMF and review of key risks is provided in our "Risk Management" report on page 57.

Section 172 statement

Board engagement and consideration of stakeholder interests in the board's decision-making processes

In overseeing delivery of OakNorth Bank'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 considers, reviews, and provides robust and independent challenge to the reports and management information that it receives from the Executive Committee (ExCo), ensuring that impact on OakNorth's operations as well as impact on the interests of the key stakeholders is fully understood. The Board monitors the progress in the delivery of strategic initiatives through information packs and reports, enterprise-wide risk assessments and monitoring metrics it receives on a regular basis from all areas across OakNorth. Deep dive sessions are additionally held on critical agenda items to support deeper engagement.

The Board sets clear expectations of conduct to the Executive Committees of OakNorth. These are formally captured in our mission, vision, and our Objectives and Key Results (OKRs) framework. The OKRs set out our annual and quarterly priorities, connected to our vision, mission, and commercial plan, and cascade across teams and individuals.

Key areas of Board review and engagement impacting OakNorth's key stakeholders are discussed below. During the year, there was no change to the list of identified key stakeholders.

More information on initiatives undertaken by OakNorth with regards to the material stakeholders is provided in the "Environmental, social and governance review" report on page 30.

Investors

The Board continued to monitor the health and performance of the loan book by reviewing the portfolio performance metrics, capital and liquidity position, stress testing outcomes and ongoing review of the business and economic environment. The Board maintained close oversight on acquisition activities and new product launches and associated governance procedures with these initiatives.

The Executive Board maintained continuous engagement with the investors throughout the year, updating them on the financial results and discussing key strategic initiatives and actions.

During the year, the Board approved enhancements to the risk appetite framework and associated policies ensuring consistency with our objective to be a prudent lender with a risk-aware culture. Significant enhancements were made to the liquidity risk management framework, including-comprehensive and granular analysis of the key liquidity and funding risks and the associated behavioural characteristics and developing a more comprehensive risk appetite and risk measurement system.

The Board reviewed, challenged, and approved the annual and long-term strategic plan, which was updated factoring the potential recession in 2023, to ensure we deliver sustainable business growth to the investors. The Board reviewed, challenged, and approved the Internal Liquidity Adequacy Assessment Process (ILAAP), ensuring that OakNorth had adequate liquidity to survive under multiple severe stress scenarios.

The Board held 'deep-dive' sessions across several initiatives focussing on business strategy (including acquisitions), technology, governance, scalability, operational effectiveness, and resilience, cybersecurity, and climate risks.

The Board made no recommendations for any dividend payments for the year and the profit generated by OakNorth continued to be reinvested in its operations.

Employees

During the year the Board reviewed outcomes of various staff surveys, whistleblowing reports, employee engagement feedback on various matters.

The Executive Board maintained continuous employee engagement and communication via OakNorth's weekly 'all-party' calls. In these calls, we bring together OakNorth employees across the group to keep them updated on what is happening across OakNorth as well as giving them a platform to ask questions. OakNorth's Non-Executive Directors and members of the Advisory Board also occasionally join these calls to provide updates.

The Board received updates on organisational culture and risk culture and continued to monitor enhancements to the conduct dashboard. The Board reviewed the ongoing work on the development of OakNorth's diversity policy. The Board noted the ongoing work on employee engagement, training, and update on OakNorth's Graduate Rotational Programme.

The Board continued to monitor reports on robustness of the operational, tech and Cyber risk management infrastructure to ensure all teams across OakNorth were supported appropriately and were able to continue working in a hybrid work environment.

The Board approved the appointments of new General Counsel and Company Secretary, Chief People Officer, Chief Technology Officer, and Chief Data Officer and welcomed Timo Boldt as the newest Non-Executive Director on the board.

Customers

The Board monitored OakNorth's engagement with customers through regular reports it received on customer surveys and data on customer complaints. The Executive Board maintained engagement with the lending customers via customer events and also inviting some of the key customers to share their experiences and recommendations in OakNorth's all-party calls. The Board continued to monitor progress under OakNorth's operational resilience programme which sets impact tolerances for important business services.

The Board continued to support OakNorth's strategy of investing in technology to continually improve customer experience, enhance operational resilience and support in maintaining the highest standards of risk management and controls.

The Board also reviewed and approved a programme to implement actions on the FCA's Consumer Duty and nominated Ted Berk as the Board champion to support the implementation plan. The Board continues to maintain high focus on this, embedding the considerations throughout all matters and decisions impacting our customers (or potential customers), in addition to maintaining oversight on the progress on the implementation of the regulations.

Suppliers

The Board received regular reports and updates on supplier matters from the supplier management team. The Executive Board maintained regular engagement with some of OakNorth's key suppliers directly throughout the year. We have a robust supplier management policy in place, which serves to actively manage relationships with and the performance of all our service providers. Some of our suppliers are key to the success of our operations. This includes support provided by other entities within the OakNorth group. As a philosophy, OakNorth promotes a culture of 'One Team' across the whole group.

Our dedicated in-life supplier management function continued to deliver on improving third-party risk management practices and vendor engagement. The team was expanded to manage relationships for long-term partner value and drive consistent approach and governance across our vendors.

The Board received an update on development of a new 'Supplier Code of Conduct' which was implemented during the year. The Board also renewed the approval of material outsourcing providers.

Regulators

The Board and the ExCo continued to maintain an open and cooperative engagement with OakNorth's regulators. Throughout the year, the ExCo and the Board engaged proactively with the regulators ensuring that they were updated on the business and operational performance of the management. The Board reviewed dashboards to ensure that all regulatory requirements were identified, tracked, and acted upon by OakNorth on an ongoing basis and that regulatory issues were fully considered throughout OakNorth's operations.

OakNorth continued to contribute to consultations on important areas of regulatory policy to ensure future regulation is proportionate and risk-based and, considers both financial stability and competition issues.

Communities and the environment

The Board allocated the Senior Management Function responsibility for climate risk to the Chief Risk Officer. The Board continued to monitor the progress on incorporating the climate agenda in the Risk Management Framework and in the business planning and stress testing process. The Board reviewed updates and reports from OakNorth's 'ESG Steering Committee' to provide oversight and challenge to its environmental and social programmes and initiatives.

The Board engaged with industry leaders to discuss climate initiatives, risks, and opportunities for commercial lenders. The Executive Board contributed to a number of cross-industry forums during the year to discuss opportunities to support and drive UK's net-zero ambitions through finance and policy.

The Board reviewed updates provided by the ExCo on a number of other community initiatives.

The Board maintained oversight of the policies and updates in relation to anti-bribery and corruption, financial crime, conduct and compliance and human rights and modern slavery.

Environment, social and governance review

Environment

Our mission to support the Missing Middle, and in doing so improve communities and the wider economy, is only worthwhile if society has a safe and hospitable planet for future generations to inherit. With record temperatures, severe storms, flooding, and wildfires now abundant, the world has reached a critical moment in preventing further warming. All of us need to get serious now to protect the earth and limit the impact of climate change, and as a business we have a responsibility to help all our stakeholders make this happen.

Below, we discuss our path to net zero, climate risk, and disclosure guided by the Task Force on Climate- Related Financial Disclosures (TCFD) recommendations. Our ambitious target to become fully net zero by 2035 across all our scope 1, 2 and 3 emissions is the goal that guided our efforts towards decarbonisation while our climate risk work focusses on integrating climate considerations into our risk frameworks, governance, credit appetites, processes, and strategies.

Our responsibility to the environment: transitioning to net zero

At OakNorth, we have the ambition, responsibility, and opportunity to take the lead on addressing the most critical challenge of our time. Our strong data and analytics capabilities, coupled with sharing best practice and learnings with other banks through our sister entity (ON Credit Intelligence), leaves us well placed to make an impact in the fight against climate change. We started our own journey in this regard back in 2019, offsetting and reducing our Scope 1 and 2 emissions to net zero, while we continue to seek ways to reduce our operational emissions without reliance on offsets.

A growing number of banks have begun making commitments that align their lending and investment portfolios on pathways to net zero by 2050. As a young digital bank unconstrained by the age and complexity of many other commercial banks' business models and having never lent to businesses directly engaged in fossil fuel production, we feel it is our call to be more ambitious. Our target of achieving net zero by 2035 for all our emissions, including all Scope 3 from our supply chain and lending activity, demonstrates that ambition. While we don't yet have all the answers as to how we will get there, the entire organisation from the grassroots to the Board are committed to us reaching our goal.

The high-growth businesses we support are ideally placed to help drive the economy towards net zero by making the necessary changes, investments and innovations across their products, business models and operations to reduce their carbon footprints. As a trusted partner to our borrowers, we have a crucial role to play in assisting their transition to a low carbon economy and helping them understand how their climate sensitivities and vulnerabilities may impact their future creditworthiness.

We are proud to be supporting numerous businesses that have strong ESG credentials in their respective industries and are continuing to work with all our borrowers to develop credible plans to transition to net zero together. Further details of our net zero transition planning and approach will be outlined in a TCFD report later in 2023.

Some examples

Newcore Capital

A UK social infrastructure real estate investment manager, with £350m of assets under management.

Grosvenor Hill

A newly formed social impact fund.

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deliciously ella

A family-run, plant-based food and beverage business.

NINEPOINTS PROPERTY

A specialist commercial landlord focussed on acquiring existing care homes and residential properties and refurbishing them into homes for young adults, family assessment centres and specialist schools.

Mr. Fothergill's

A family-run international horticulture supplier providing gardening products ranging from seeds and bulbs.

WAVE GARDEN

Developers of a derelict brownfield site near Edinburgh into a multi-purpose country park and leisure facility, delivering sustainability and community benefits to help regenerate the local area.

VERTO

UK's first housebuilder to specialise in the design, build and sale of smart homes which produce zero carbon emissions.

FORE

A certified B Corp and purpose-driven, values-based real estate investment firm that aims to drive social and environmental innovation in the built environment.

OTTOLENGHI

A restaurant chain which carefully considers sustainability in the sourcing of its ingredients.

GR33N HOMES

SME housebuilder committed to building greener and more sustainable homes.

Participation with the industry on net zero

As regular participants in industry-led forums, events, trade bodies, and working groups focussed on a wide array of themes in sustainable finance, we actively contribute to collaborative efforts ranging from guidance on regulatory reform to solutions for enabling commercial growth and opportunities.

In June 2021, we became one of the first fintechs to join Tech Zero, the climate action group for tech companies, and as part of this initiative, we made a number of commitments including to continue to measure and publish our Scope 1, 2 and 3 emissions, ensure that a member of our executive team is responsible and accountable for our net zero target, and report progress on targets to our Board at least annually, and on our website.

We are members of the Glasgow Financial Alliance for Net Zero (GFANZ) via the Net Zero Banking Alliance (NZBA) vertical. GFANZ assembles existing and new net zero finance initiatives in one sector-wide coalition, providing a forum for leading financial institutions to accelerate the transition to a net zero global economy, while the NZBA brings together banks which are committed to aligning their lending and investment portfolios with net zero emissions by 2050.

We are also members of Bankers for Net Zero, an initiative being led by the All-Party Parliamentary Group for Fair Business Banking. The initiative brings together banks, businesses, policymakers, and regulators to enable cross-sector collaboration, clear potential roadblocks on the path to net zero for UK banks, and bridge high-level net zero commitments with implementation on the ground.

We have contributed to a range of Bankers for Net Zero workstreams during the year, including those that focus on financing net zero for SMEs, property retrofitting, and achieving net zero through finance and policy. In 2023 we will continue to engage on work focussed on transforming the Missing Middle emissions reporting to help them accelerate the transition to net zero, and projects aimed to accelerate green retrofits and decarbonisation of the built environment.

Sharing best practice with other banks

Through ON Credit Intelligence, we are able to share best practices and learnings with some of the leading banks including Capital One, PNC, Fifth Third, Old National and SMBC. In September 2021, we launched a Climate Consortium which meets at regular intervals to bring together innovative, climate-forward institutions driving commercial lending's approach to climate risk and opportunity. At the most recent Consortium hosted in November 2022, participants have included 25 industry leaders representing 15 commercial banks with assets ranging from $22B to over $3.3T.

Timeline of OakNorth's climate action

December 2019

OakNorth became one of the first banks globally to offset our estimated direct emissions to be net carbon zero

April 2020

We put together a product team focussed on the ON Climate Impact Framework, to help inform our approach to climate change risk management

March 2021

Switched to green gas and electricity supplier as our corporate energy supplier

April 2021

Launched an initiative to plant a tree to celebrate team members' work anniversaries

June 2021

Became one of the first fintechs to join Tech Zero

September 2021

Participated in the inaugural ON Climate Consortium

December 2021

Committed to be net zero for all our emissions by 2035

Timeline of OakNorth's climate action (cont.)

February 2022

Joined the Glasgow Financial Alliance for Net Zero (GFANZ) through the Net Zero Banking Alliance (NZBA) vertical

February 2022

Hosted the second ON Climate Consortium

February 2022

Hosted our inaugural "Green Week" to increase engagement around and awareness of environmental sustainability throughout the organisation

March 2022

Joined Bankers for Net Zero, the UK chapter of the NZBA that brings together banks, businesses, policymakers and regulators to accelerate the UK economy's transition to net zero

April 2022

ON Credit Intelligence published the Ultimate Guide to Commercial Lending & Climate Impact

June 2022

Marked World Environment Day with employee events, activities and external speaker

July 2022

Hosted the third ON Climate Consortium

November 2022

Hosted the fourth ON Climate Consortium

November 2022

ON Climate solution wins bronze at the 2022 Qorus-Accenture Banking Innovation Awards

February 2023

Joined the Partnership for Carbon Accounting Financials ("PCAF"), the industry-led global standard on carbon accounting and disclosure for financial institutions

Our approach to climate change risk management

In 2022, we broadened the scope of our granular, sector specific scenario analysis of the possible impact of climate risk on our borrowers using ON Climate (part of ON Credit Intelligence Suite) to assess impact on our capital requirements. By leveraging the scenarios and time horizons from the Bank of England's Biennial Exploratory Scenario, and the ON Climate solution, we have assessed each of our loans including those with only negligible or residual impact from climate change and evaluated the possible impact this would have on credit risk across our loan book. This analysis and the conclusions from it are discussed in detail in the following paragraphs.

Additionally, during 2022 we embedded our climate risk modelling capabilities into our origination analysis of new loans, evaluating the impact of transition risk on all new business. In respect of physical climate risks, we have applied the five key perils of flood, cyclones, heatwaves, wildfire, and drought highlighted by the Bank of England and evaluated their impact on our loan book. Even though this assessment presented no expected losses under any scenario, OakNorth also ensures that borrowers are sufficiently covered with insurance against physical climate risks wherever relevant as part of our origination analysis of new lending as well as in-life portfolio management.

Furthermore, we have included a specific climate risk questionnaire and scorecard for all customers to better understand our borrowers' awareness, governance processes and strategy towards the risks and opportunities of climate change. Questionnaires are tailored for particular types of borrowers or transaction, with the outputs and responses included in credit papers for prospective loans and regular existing customer reviews for consideration. We have also included several climate risk measures within our risk appetite metrics, limiting or restricting our exposure to carbon intensive sectors, higher climate risk business, borrowers not factoring climate into their strategic planning, and low energy efficiency ratings specifically around property lending.

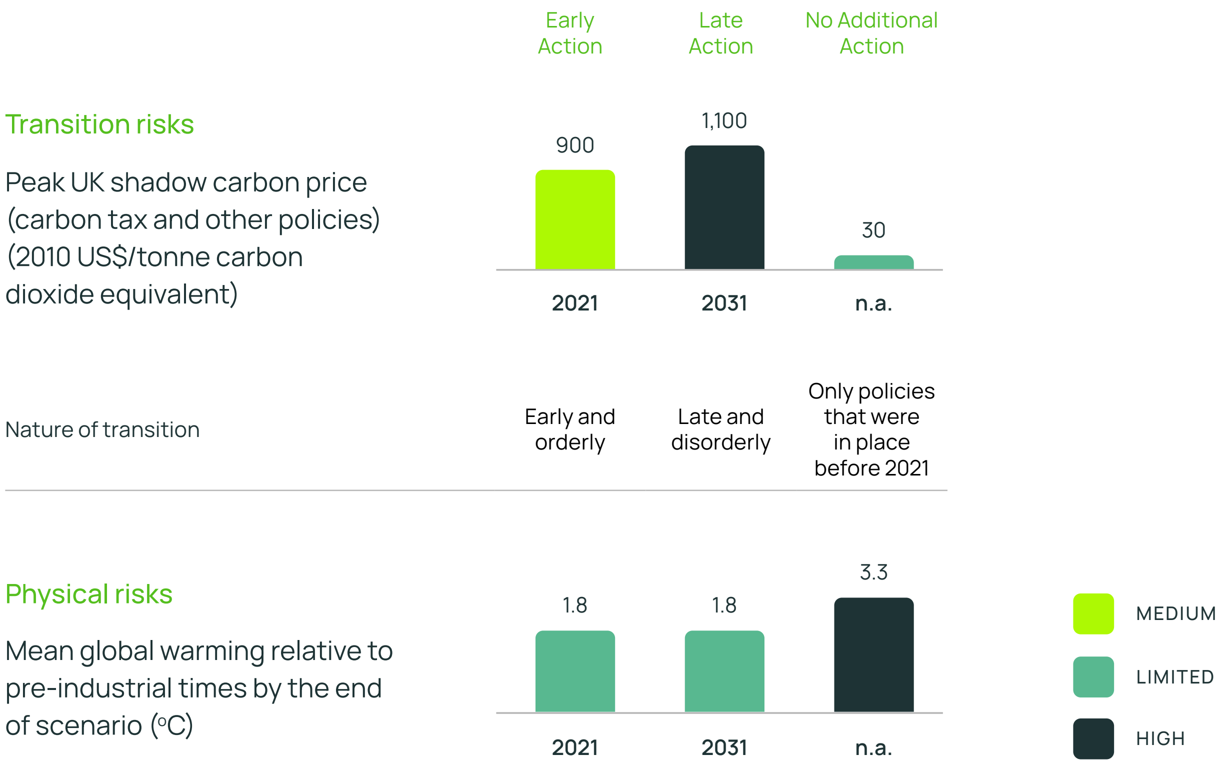
Bank of England's Climate Biennial Exploratory Scenario (CBES)

As set out last year, we continue to apply the Bank of England's CBES scenarios to our loan book. The exercise considers two routes to net zero greenhouse gas emissions and a scenario for growing emission:

- Early Action: the transition to a net-zero economy starts in 2021 so carbon taxes and other policies intensify relatively gradually over the scenario horizon. Global carbon dioxide emissions are reduced to net-zero by around 2050. Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels.
- Late Action: The implementation of policy to drive the transition is delayed until 2031 and is then more sudden and disorderly. Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels.
- The No Additional Action: Scenario primarily explores physical risks from climate change. Here, there are no new climate policies introduced beyond those already implemented. The absence of transition policies leads to a growing concentration of greenhouse gas emissions in the atmosphere and, as a result, global temperature levels continue to increase, reaching 3.3°C relative to pre-industrial levels by the end of the scenario (2050).

As a digital bank, we have not only sized the financial exposures as per the guidelines but have also quantified the business impact and expected losses emanating from the climate risk under the three scenarios.

Summary of impacts in the CBES scenarios from the Bank of England



The years in the above charts refer to the year in which transition begins.

The ON Climate Impact Framework

The ON Climate Impact Framework provides powerful insights which enable us to understand climate risk with a forward-looking view of the evolving policy landscape and climate events at a granular, subsector-specific level. We have built the same credit processes into origination as are being used for ongoing monitoring and while stress-testing. Our climate scenarios have focussed on transitionary climate risk which looks at how low-carbon policies, technological disruption / evolution, changes in price elasticity, and evolving consumer sentiment, could impact specific sub-sectors and the resulting credit risk within a bank's loan book. We continue to build on our physical climate risk scenarios. Findings and conclusions from this analysis are summarised below.

Transition Risks

The Framework's transition risk methodology considers six climate scenarios aligned to the Network for Greening the Financial System (NGFS):

- Net Zero 2050 scenario (orderly 1.5°C rise in temperature by 2050)
- Below 2°C- scenario (orderly 1.7°C rise in temperature by 2050)
- Divergent Net Zero scenario (disorderly 1.5°C rise in temperature by 2050)
- Delayed transition scenario (disorderly 1.8°C rise in temperature by 2050)
- Nationally Determined Contributions scenario (Hot House World 2.5°C rise in temperature by 2050)
- Current policies scenario (Hot House World >3°C rise in temperature by 2050)

The scenarios are evaluated through the lens of an orderly transition (i.e., where policy action starts immediately / in the near term), disorderly transition (i.e., where policy actions are delayed until either 2025 or 2030), and Hot House World (i.e., where there are no further policy actions).

In order to evaluate the impact of transition risk, the Framework divides the universe of subsectors (OakNorth's existing repository of 274 unique subsector scenarios) based on the degree of impact into three distinct categories i.e., Direct Impact, Indirect Impact and Residual Impact based on the carbon intensity of individual subsectors.

- **Direct Impact:** considers subsectors with high Scope 1 emissions (calculated as a percentage of sector revenue) in this category.
- **Indirect Impact:** considers subsectors with material Scope 2 emissions (calculated as a percentage of sector revenue) in this category. In addition, sectors with material indirect impact (incremental raw material cost pass through) are also classified under this category.
- **Residual Impact:** Sectors which are not classified under direct and indirect impact are included here. These will be assessed for any residual impacts based on the impact to macro-economic variables across the three climate pathways (early, late or no transition).

Sub-sector classification as per OakNorth framework on climate-related risks

Direct impact	Indirect impact	Residual impact
— Subsectors with high Scope 1 emissions (calculated as a % of sector revenue) — Around 15% of the sub-sectors will be classified in this category — They are under regulatory radar — Point of incidence for penalties / taxation	— Subsectors with Scope 2 emissions, and/or impacted by incremental raw material cost pass through from primary emitters — Around 40% of the sub-sectors will be classified in this category	— Subsectors not classified under direct and indirect impact — They have minimal Scope 1 and Scope 2 emissions — We assess any material impact through impact to the macro-economic variables impacting the sector fundamentals — Remaining 45% of the sub-sectors will be classified in this category
Examples (general): — Power Plants — Oil and Gas — Metals and Mining — Iron & steel, Aluminum smelting, Cement etc. — Transportation	Examples (general): — Construction — Automotive parts and accessories stores — Manufacturing (excluding basic industry) — Data Centers	Examples (general): — Retail Trade — Wholesale Trade — Services — Information — Software development
OakNorth loan book: ~0.6% of total	OakNorth loan book: ~82% of total	OakNorth loan book: ~15% of total

Scope 1 emissions: These are direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by an organisation (e.g., emissions associated with fuel combustion in boilers, furnaces, vehicles). These are most significantly impacted from policy, regulation change.

Scope 2 emissions These are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling. Scope-2 emissions are driven by source of energy, hence would largely impact from change to energy price and/or source.

Using the Framework, the scenarios are overlaid on borrower's current performance / base case forecasts. This provides the forecast performance of the borrower as well as impact metrics over the short term (2025) to target policy year (2050). For OakNorth, this provides the estimated key credit metrics such as gross leverage, Interest Coverage Ratio (ICR), Debt Service Coverage Ratio (DSCR), LTV (for collateralised loan book) and other relevant metrics, over the time horizon. The credit metrics are further assessed to see if the borrower is within our credit risk appetite, outside risk appetite, or in losses.

We continue to assess impact from transition risk scenarios derived from the ON Climate Impact Framework across all our borrowers, including those with minimal / residual impact. Our analysis conducted that while climate risk will have an impact on a number of customers, the impact is well within the collateral and financial coverage already in place in nearly all instances. Only 0.6% of our total book - which equates to a few borrowers - would be directly impacted under the transitional risk assessment, and they can survive across the three scenarios with minimal impact compared to base case. As summarised in the following table, there are no expected losses across the loan book under all the three transition scenarios applied up to 2050.

Summary of climate change impact on the overall OakNorth loan book under each scenario.

Climate risk scenario	Short term (2025)	Medium term (2030)	Long term (2050)
1. Early action from 2021 (1.8°C risk in temperature by 2050)	2 loans where DSCR <1x; No loans with LTV >100%	2 loans where DSCR < 1.0x; No loans with LTV >100%	No loans where DSCR < 1.0x; No loans with LTV >100%
2. Late action from 2031 (1.8°C risk in temperature by 2050)	No loans where DSCR <1x, or LTV>100%	No loans where DSCR <1x, or LTV>100%	No loans where DSCR <1x, or LTV>100%
3. No additional action (3.3°C risk in temperature by 2050)	No loans where DSCR < 1.0x, or LTV >100%	No loans where DSCR < 1.0x, or LTV >100%	No loans where DSCR < 1.0x, or LTV >100%

Streamlined Energy and Carbon Reporting (SECR)

Our disclosures and reporting on climate change are guided by TCFD recommendations and will continue to evolve as we make progress through our commitments.

The following disclosures are presented pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations"), implementing the UK government's policy on Streamlined Energy and Carbon Reporting (SECR). These SECR disclosures are not audited.

Organisational boundary

The disclosures made are for OakNorth Bank plc. For transparency we have also included the impact from our key sister company – OakNorth Global Private Limited, India (ONGPL) to the extent of services consumed by OakNorth Bank.

Reporting period

The reporting period is 1 January to 31 December.

Quantification and reporting methodology

Our energy use and greenhouse gas emissions are calculated with reference to the World Resources Institute GHG protocol framework, which has guided our approach.

During the year we significantly enhanced our data collection process, particularly in relation to estimating our Scope 3 footprint across all emissions types. Given the challenges and complexities around data and calculation of scope 3 emissions, many organisations only partially estimate their impact for more material or straightforward emissions categories. However, we believe that full transparency over our emissions impact is critical, and the only way to set a meaningful and understandable transition plan towards net zero. We have therefore worked hard to estimate our full Scope 3 footprint across all emission types this year, the totals of which are shown below. As the current year (2022) information is materially new in relation to Scope 3 reporting versus the prior year information, comparatives for 2021 have not been included.

To further aid our thinking and the development of our financed emissions methodologies, in February 2023 we became signatories to PCAF (the Partnership for Carbon Accounting Financials), the leading recognised industry body for developing approaches to assessing and disclosing greenhouse gas emissions associated with loans and investments.

Scope 1 and 2 emissions

- We have calculated location-based emissions utilising energy consumption information provided by the energy suppliers for our buildings. In some cases, we have used monthly averages to arrive at full year numbers for the final quarter of the year, when data was unavailable. To convert our energy consumption to our carbon footprint, we have used the latest country specific electricity grid greenhouse emissions factors from carbonfootprint.com to translate /kWh into kgCO2e.

Scope 3 emissions

- For the majority of supply chain categories, we have estimated supplier emissions using a spend-based environmentally-extended input-output ("EEIO") model. Wherever possible, we have replaced estimated supplier emissions with actual figures obtained directly from material suppliers. In some instances, emissions associated with newer supplier relationships have been estimated using pro-rated 2021 expenditure.
- Information on business travel undertaken by staff, including mileage, using their own cars or train and planes has been

consolidated based on internal data systems. For employee commuting and home working, estimates have been extrapolated based on a representative sample of data obtained from a direct survey of employees.

- Calculations of Scope 3 emissions from ONGPL also include emissions from purchased electricity and business travel. In calculating emissions estimates for Scope 3 categories 1 – 8, we have utilised emissions factors published by the Department for Business, Energy and Industrial Strategy, the World Resources Institute, and the World Input-Output Database.

Scope 3 emissions- Category 15: Investments, including financed emissions

Category 15 represents our lending activity, and in all instances, emissions estimates have been based on economic activity conversion factors for each borrower's industry, or for property, known EPC ratings and floor areas. Our analysis currently excludes emissions associated with specialty finance and embodied carbon associated with construction or refurbishment.

As would be expected for a finance provider, the most material element of our Scope 3 emissions lies with our financed emissions, and we have followed the guidance and methodologies of the Partnership for Carbon Accounting Financials ("PCAF") for these. In calculating our financed emissions impact, the PCAF methodology requires reporting of financed emissions metrics related to outstanding funds. This approach recognises the funding used by borrowers at a point in time but can fluctuate as a result of drawdown and repayment levels that are unrelated to a customer's emissions. For our purposes, we have therefore decided to use average drawn balance as a more accurate reflection of the amount we have financed during the year. In certain instances, this is likely to result in a larger attribution of emissions than the year-end outstanding balance would suggest but is a better representation of the emissions impact of our financing during the year and as a baseline for setting out our net zero transition planning.

- For business trading loans, this has involved applying standardised emissions factors to the sector, industry, or activity of each borrower by way of estimating the carbon emissions of each. Additionally, for our financing of property investments where there is no construction or development involved, we have estimated the operational carbon emissions of such properties and recognised our attributable share of these from our financing.
- For property development and construction loans, we have initially taken the sector-based approach as for business trading loans in estimating the emissions of these customers based on standardised emissions factors for the construction sector.

In relation to 'Embodied carbon' associated with construction, we are aware that this is likely to be a material contribution of our financing. We are therefore consulting with industry bodies, specialist experts and customers on arriving at a solution for estimating the embodied carbon associated with our lending. We intend to enhance our carbon emissions totals to include embodied carbon during 2023, as despite this being a measure of our borrowers' Scope 3 rather than directly our own, it is a more appropriate and representative view of our overall carbon impact to include in our calculations.

(Unaudited)

GHG Emissions and Energy Use Summary	2022 (Tonnes CO_2e)
Emissions from activities for which the company own or control including combustion of fuel & operation of facilities	-
Total Scope 1 emissions	-
Emissions from purchase of electricity, heat, steam, and cooling purchased for own use	28
Total Scope 2 emissions	28
Category 1: Purchased goods and services	4,437
Category 2: Capital goods	134
Category 3: Fuel and energy activity	16
Category 4: Upstream transportation and distribution	9
Category 5: Waste generated in operations	1
Category 6: Business travel	351
Category 7: Employee commuting	1,409
Category 8: Upstream leased assets	168
Total reported Scope 3 supply chain emissions[a]	6,525
Category 15: Investments, including financed emissions	110,795
Total reported Scope 3 emissions	117,320
Total location-based emissions	117,348
Operational Scope 1 and 2 tonnes CO_2e/yr per employee[b]	0.06
Operational Scope 1, 2 and 3 tonnes CO_2e/yr per employee[b]	14.59
Financed emissions tonnes CO_2e per £m[c]	42.0
Energy consumption used in calculated emissions (kWh)[d]	272,615

a. Calculated using the Greenhouse Gas Protocol Corporate Standard and covers all greenhouse gases converted to tCO2e. Scope 3 categories 9 to 14 are not applicable for OakNorth Bank's business activities with nil CO2e emissions.

b. The employee intensity ratio is computed based on average number of employees for both OakNorth Bank and ONGPL. This includes 131 average employees at OakNorth Bank and 318 average number of employees at ONGPL.

c. Includes calculated Scope 3 Category 15: Investments only and based on average monthly drawn balance.

d. Energy use reported includes kWh from Scope 2 purchased electricity and Scope 3 employee vehicles only (as required by SECR standards).

Whilst these estimates of financed carbon emissions are not perfect, we believe it is our responsibility to arrive at a basis for estimating and recognising our attributable share of these emissions and include them in our scope 3 totals. We continue to work on refining and enhancing our estimates, which in turn will feed into our efforts to identify the means to reduce our impact and assist our borrowers in finding ways to reduce theirs.

We have undertaken a spend-based approach to calculating our supply chain emissions, but for some of our more material suppliers we have engaged with them directly to estimate the actual emissions associated with the activity or service provided. We intend to further broaden our engagement with suppliers on sustainable business practices and our decarbonization strategy during 2023. We send zero waste to landfill from our primary London and Manchester offices.

There was an increase in business travel activity compared to the prior year, with greater levels of office occupancy following the impact of COVID-19 in previous years. During the year, we continued to undertake measures to minimise its carbon emissions and improve sustainability. This included adding further recycling points, sourcing sustainable supplies, and promoting cycle to work schemes. In 2022 we held our inaugural green week, raising awareness of environmental considerations internally, engaging with our staff on sustainable ideas and improvements to help combat climate change, and setting out personal goals and pledges to track progress against throughout the year.

Since 2019 we have utilised carbon offsets in eliminating our Scope 1 and 2 carbon emissions. Last year we moved to purchasing a balanced mix of carbon avoidance (60%) and carbon removal (40%) credits but will continue to move towards supporting a greater proportion of carbon removal projects over time. The carbon offsets we have purchased to date are focussed on reforestation and solar power projects with Gold Standard, one of the highest-quality providers in the market, giving us assurance that these are fully verified and cancelled credits.

Social

Our responsibility to society

Since our launch, we've provided over £8.5 billion lending facilities to businesses across the UK. Our dedication to fostering a diverse economy has helped to create more than 38,000 new jobs in dozens of industries. To date, OakNorth funding has resulted in over 27,000 new homes being built, mainly affordable housing, while care homes and senior living businesses have benefited from the creation of over 500 new beds, and over £400 million has been lent to support childcare and education businesses.

Our employees are instrumental in embedding a culture of responsible and sustainable practice across the organisation. We are committed to broadening our programmes and initiatives for developing our people and supporting a diverse and inclusive environment. Investing in learning and development opportunities for our people is one of the many ways we support them, and we offer specially curated courses on many personal and professional skills including communication, leadership, teamwork, sales and marketing. Knowledge sharing sessions and technical onboarding bootcamps are available for all employees and we provide leadership training for new managers, as well as soft-skills training on topics that are key to most roles, such as presentation, time-management and negotiation skills.

Our 1% + 1% commitment

To continue reinforcing the positive impact they have on communities and the economy, we donate 1% of our group profits to supporting charitable causes and socially minded enterprises around the world. This is a formal commitment we have made every year since 2018 although we have been supporting charitable causes and socially minded enterprises since inception.

Enabling our people to directly support the causes that are important to them is a key part of our charitable strategy, which is why this year we have launched our 1% of time initiative, giving all staff the opportunity to take 2 days off per year to do pro-bono work, volunteer, engage in formal mentoring programmes, or participate in fundraising activities for charities.

Guided by our mission, our charitable giving is focussed on three pillars, enabling us to maximise our impact through deep and narrow concentration:

01 Entrepreneurship and mentorship

MENTOR PRENEURSHIP

We seek to create sustainable communities of socially minded entrepreneurs and entrepreneurial mindsets. A key part of exposing more people to entrepreneurship is ensuring they have strong mentors who help guide them on their journey. Whether as a school student gaining exposure to entrepreneurship for the first time, a university student who's recently founded their first start-up, a successful entrepreneur who's considering the next move in their growth journey, or a serial entrepreneur who's started and scaled numerous businesses – having strong mentors is an essential part of any entrepreneur's success.

02 STEAM education with a focus on female empowerment

LSE

Bookmark
Change a child's story

Our initiatives aim to empower future generations through Science, Technology, Engineering, Arts and Mathematics as access points for guiding student inquiry, dialogue, and critical thinking. However, too often, girls and young women are indirectly or directly discouraged from pursuing further education or careers in these areas. By helping to break down these barriers and bust some of the myths around what it means to be a woman working in STEAM, we can increase the pipeline of female entrepreneurial talent around the world.

03 Supporting other causes aligned to our mission

BLOOMSBURY FOOTBALL

This pillar provides us with the flexibility to support a range of other themes aligned with our mission, which could include areas such as social mobility, the preservation of natural resources, and mental health and wellbeing, amongst others.

Modelled around charitable sector best practice, we take an impact-focussed approach to supporting charitable causes and social enterprises. To help us identify and allocate our donations most effectively, we conduct sector-level materiality assessments to identify areas of greatest need and where we can have maximum impact. This helps guide the design and implementation of our strategy, with extensive longer-term programme building initiatives with charitable partners the backbone of our approach, as well as grant donations, employee-led initiatives, and support for global emergencies.

Below, we have highlighted several charitable causes and social enterprises that we have supported over the last 12 months. This is by no means an extensive list but provides a snapshot of some of the fantastic work and outcomes that are being delivered.

Entrepreneurship and mentorship

In 2021, we launched the 'Mentorpreneurship' programme in partnership with London School of Economics (LSE). The programme has been designed to encourage entrepreneurship as a meaningful path to drive local change and create enduring communities of impact. It includes a diverse range of online and offline activity, including mentor bootcamps, founders' retreats, keynotes and pitching practices, alongside a series of podcasts and audiobooks to connect entrepreneurs with mentors locally and internationally. With several international entrepreneurship chapters across the world including Mumbai, Chengdu, Los Angeles, and Lisbon, with Ghana, Berlin and Shanghai on the horizon, the Programme aims to create an ongoing global community of support for socially conscious entrepreneurs. **Over 2,000+ students** benefited from the programme since its launch.

STEAM education with a focus on female empowerment

OakNorth have partnered with ChildFund India to **support the education of 2,000+ children** from underprivileged communities in Bangalore, including the running of remedial learning centres in 15 schools, teacher, and staff training, and establishing 15 community libraries for children. We have also partnered with Buddy4Study to launch "OakNorth STEM Scholarships" to **provide scholarships for 100+ girls** from low-income communities across India to pursue BTech studies from government colleges.

Supporting other causes aligned to our mission

OakNorth will be transforming two government schools in Delhi NCR into green and environmentally resilient schools, with assistance from the Centre for Urban and Regional Excellence. This project will improve water, sanitation, and hygiene, and **provide rainwater harvesting infrastructure for the benefit of 1,000+ children.** Work with parents, teachers, and children to encourage behaviour change and communicate issues related to water, sanitation and hygiene will support the drive towards making zero waste schools.

We have also provided relief for Ukrainian refugees through the British Red Cross and Akshaya Patra Foundation, assisted with the provision of haulage, transportation, food, and resources to child refugees through our partnership with Give Help Share, and supported Bookmark in their work to assist Ukrainian child refugees with reading and education. Furthermore, through our continued support of United Hatzalah of Israel, the largest independent, non-profit, fully volunteer Emergency Medical Service organisation, we aided the relief mission following the earthquakes in Turkey.

On an ongoing basis we partner with The Future Forest Company and the SankalpTaru Foundation to celebrate team member's work anniversaries by planting a tree in their name. With several hundred team members celebrating anniversaries every year at OakNorth, we hope to have planted several forests' worth of trees over the next decade.

Our Responsibility to our team

This year, we were delighted that our people gave us an employee engagement score of 8/10, stating they would recommend OakNorth to others as a place to work. This is based on a response rate of 80%, our highest participation to date. These numbers are mirrored on Glassdoor where we have a 4.2-star rating, and 89% of reviewers would recommend working at OakNorth Bank to a friend.

We believe in promoting a diverse workplace in which different backgrounds, voices, and perspectives are respected and heard. We aim to attract people who possess the right competencies and talents, irrespective of gender, race, religion, sexual orientation, or social circumstance, and who contribute to a high-performing organisation. We do not impose any cultural or organisational barriers in setting or achieving our recruitment goals. As such, OakNorth is home to a talented team of individuals with unique backgrounds, perspectives, and experiences, led by founders of Asian and Hispanic origins. A key initiative this year has been our investment in measuring and further developing the cognitive diversity within our teams. We want to hire people who think differently about business issues to help us reduce the risk of 'group think'. We have partnered with Basadur Profile – a company that provides objective psychometric tools to measure individual thinking styles, which enables our team to capitalise on their strengths and drive positive outcomes as a team.

Over the years, we have demonstrated our commitment to our employees, investing in their training and development and creating an environment where they can continue to learn and thrive. In 2018 for example, we underwent the process of becoming an SRA (Solicitors Regulation Authority)-approved employer, so that we could offer legal training contracts and enable budding lawyers to qualify in-house with us. We are still one of the only fintechs in the UK to offer this. In addition, we have supported many employees in pursuing ACCA qualifications, Memberships to the Royal Institute of Chartered Surveyors, and Certification for the Association of Certified Anti-Money Laundering Specialists. This year, we strengthened our quarterly training calendar offering opportunities for personal development in line with professional aspirations, including maximising personal productivity; building an innovation mindset; developing people and building teams. Given the hybrid work environment, our focus has been on making training accessible to all using alternative solutions such as e-learning, virtual sessions, bite-size modules, and gamification platforms.

We launched our Graduate Rotational Programme in 2021 with the aim of finding the next generation of OakNorthers who are passionate about our mission to empower the Missing Middle, and who could bring a fresh perspective on how to innovate, automate and apply ingenuity across key areas of our business as we look ahead to the future. With the programme having welcomed its second cohort this year, we have seen 12 graduates gain a wealth of diverse experience and exposure to senior leaders through rotations across several key business areas, including: finance, operations, credit risk, portfolio management, people operations, and regulatory affairs. Upon successful completion of the programme, graduates have been placed in a role that matches their personal aspirations and skillsets.

Human Rights and Modern Slavery Act

As a provider of financial services, our supply chain primarily consists of software service partners, as well as suppliers of office related goods and services in the UK. We source our products and supplies from suppliers globally and expect that suppliers do not use any form of modern slavery and human trafficking.

We ask our suppliers to provide their statement or policies relating to slavery and human trafficking and check that they comply with or are equivalent to the requirements of the Act. We have a dedicated Supplier Relationship Management team which oversees a rigorous supplier risk management process which includes engaging with suppliers to seek assurance about their anti-slavery and human trafficking policies and whether they are taking steps to prevent slavery and human trafficking in their respective business and supply chains. Additionally, we conduct regular performance reviews of our supplier relationships to address any material changes within the supply chain. Our Code of Conduct supports our zero-tolerance policy to Modern Slavery, and we continue to review this on an ongoing basis. All staff at OakNorth Bank and its main supplier, its sister company OakNorth Global Private Limited in India, are required to undertake mandatory online training annually. We believe that the risk of modern slavery and human trafficking across our supply chain is low and have not identified any supplier that fails to meet our expectations.

Conduct and Compliance Principles

We have a wide array of robust arrangements in place to manage conduct and compliance risk within OakNorth. Our Whistleblowing Policy allows for anyone who has a concern to raise it anonymously and safely. If any concerns are raised, they would be investigated thoroughly and timely, with appropriate actions being taken. Conduct and compliance risks are governed by a variety of policies such as the Compliance Manual and key conduct and compliance risks are subject to a going compliance monitoring programme. There is also a mandatory annual compliance training program in place that applies to all staff.

Financial Crime

We have several policies in place that manage the risk of bribery and corruption, money laundering, terrorist financing, fraud, and sanctions evasion. The policies govern our operations across all business areas, are implemented within all our first line business functions and are overseen regularly by senior management. We have a zero-tolerance approach to financial crime and are committed to acting professionally, fairly and with integrity in all relationships and business dealings, and to implementing and enforcing effective systems to counter financial crime in all forms.

Corporate social responsibility

ChildFund India

"The pandemic has impacted children's SEL and mental well-being to a large extent. So, this project was based on one of ChildFund India's flagship programs - PENCIL (Protective, Effective N Context-based Initiation of Learning). Through this project, we created child-friendly experiential learning environment, supported social and emotional, along with psycho-social well-being of children and made their homes good learning environments. Instructors, teachers and parents were oriented to identify signs of psychosocial distress in children. We are immensely grateful for the partnership with OakNorth, in working towards achieving the desired outcome."

Mr. Rajesh Ranjan Singh
Board Member, ChildFund India

Corporate social responsibility

Give.Help.Share.

"In 2022, OakNorth's support enabled us to provide wholesome food parcels to 50 children, and conduct 40 educational workshops to classes of 30 children from some of London's most deprived neighbourhoods."

Amanda Barbanel and Jacqueline Harris
Co-founders, Give.Help.Share UK

Governance review

Governance

Committees

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 responsible for approving the Risk Management Framework 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 a quarter to discuss standing agenda items and to discuss business performance. In addition, the Board holds deep-dive sessions with various functions covering a range of topics. There are further separate meetings to review and discuss the Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP, ILAAP), Recovery and Resolution Planning (RRP), business strategy, financial and operating plans, and annual statutory accounts.

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

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

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

The table below summarises the responsibilities of the various committees:

Committees	Responsibility
Board	The Board sets OakNorth Bank's strategic direction and oversees its implementation. It ensures that management maintain an effective RMF with appropriate oversight processes and for embedding the principle of safety and soundness in the culture of the whole organisation.
Remuneration & Nomination Committee (REMCO)	RemCo is responsible for ensuring that remuneration arrangements support the strategic aims of OakNorth Bank, comply with best practice, and enable the recruitment, motivation, and retention of senior executives. It ensures compliance with applicable regulations (Remuneration Code SYSC 19D) and ensures that principles are put in place to expressly discourage all inappropriate behaviours. The committee has delegated authority from the Board to review and approve the Remuneration Policy and is responsible for setting remuneration (including pension rights and any fixed and variable compensation payments) for all Executive Directors, NEDs, the Chairman, and key individuals, including employees captured under the scope of the Certification Regime.

Committees	Responsibility
Board Risk & Compliance Committee (BRCC)	BRCC takes delegated authority from the Board to oversee the entire risk agenda excluding Credit risk. It oversees the continued appropriateness of the strategy and risk appetite in the light of OakNorth Bank's purposes, values, and sound risk management principles. It assesses OakNorth's principal and emerging risks, and how these may affect the viability of the business model, and monitors the adequacy and effectiveness of the RMF and the quality of risk MI. It safeguards the independence of the CRO and the second line Risk function and oversees its performance and resourcing. The committee approves the annual Compliance Monitoring Plan. It ensures that all risks (excluding credit risk) are properly identified, evaluated, mitigated, reported, and managed. It challenges executive management and examines whether risk management expectations are translated into culture and duly embedded.
Board Audit Committee (BAC)	BAC takes delegated authority from the Board for the review and approval of the Internal Audit (IA) Charter and Methodology, and Accounting Policies, and for ensuring that OakNorth's 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/removes the Head of IA.
Board Credit Committee (BCC)	BCC takes delegated authority from the Board to oversee all Credit Risk related matters and reviews larger credit exposures, impairments, and write-offs. BCC receives reports from the Credit Risk Management Committee concerning individual credit exposures, and the portfolio, and from Credit Quality Assurance function. BCC oversees credit models performance monitoring. BCC reviews the Watchlist and receives reports concerning the progress on any material workouts and restructurings. BCC also oversees the management of financial risks from climate change.
Executive Committee (EXCO)	The ExCo takes delegated authority from the Board and is responsible for developing the strategy, ensuring the delivery of the Management Plan, and that the agreed strategy is executed across all dimensions. Additionally, the ExCo has responsibility for the RMF and for management of all risks. The Board delegates authority to the ExCo for the review and approval of those policies listed in the ExCo Terms of Reference.

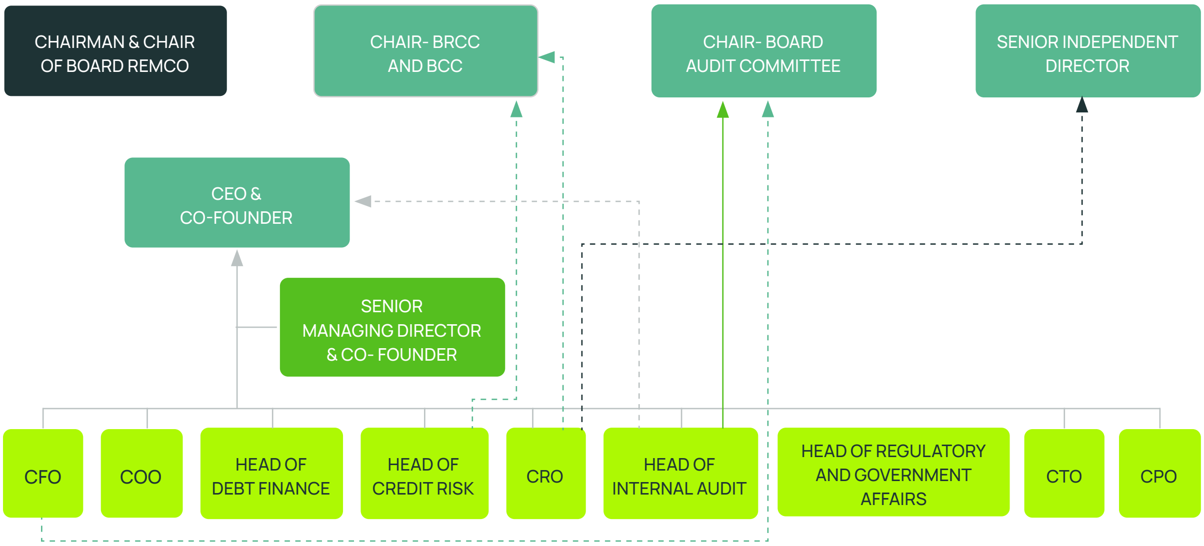
Management Committees subsidiary to ExCo	Responsibility
Asset & Liability Committee (ALCO)	Operating under mandate from the ExCo, ALCO implements the OakNorth's Asset & Liability Management (ALM) policy, with a focus on active management of liquidity. ALM activities include specific policies and procedures relating to Liquidity and Funding Risk, Capital Risk, Interest Rate Risk and Market/ Investment Risk. The committee also monitors regulatory reporting.
Credit Risk Management Committee (CRMC)	Operating under mandate from the BCC, the purpose of CRMC is to oversee, monitor and control credit risk on a day-to-day basis, and to approve facilities under a delegated authority. The committee ensures that the RMF is implemented as it relates to Credit Risk and Anti Facilitation of Tax Evasion (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.
Operations Committee (OPCO)	Operating under mandate from ExCo, OpCo's main objective is to ensure the operational resilience, reviewing the performance of all business operations and the performance of outsourced service providers, and taking actions to address any issues identified. The committee also oversees the design and review of the IT platform and operating procedures and oversees resourcing and change management. The committee reviews, in depth, any operational issues to promote efficiency and manage Operational Risk across organisation.
Executive Risk Committee (ERC)	Operating under mandate from the BRCC, the purpose of the ERC is to oversee, monitor and control the Risk agenda. It ensures that the Risk Management Framework is properly implemented and that all control processes are fit for purpose and operative so that all risks (excluding Credit Risk, which is the mandate of CRMC and BCC, and ALM which is the mandate of ALCO and Board) are mitigated via identification, evaluation, mitigation, reporting, management, and challenge.
Information Security Management System (ISMS) Committee	Operating under mandate from the ExCo, ISMS is a technical forum to drive the development and implementation of cybersecurity strategy, including IT infrastructure design, and monitor the status of cyber defence operations. Decisions on strategy, budget and investment are made by ExCo on recommendation from ISMS. ISMS would be responsible for managing a cyber event as part of our incident management process.
Reserve Adequacy Committee (RAC)	Operating under mandate from the BAC, the purpose of the RAC is to oversee the adequacy of ECL provision calculation in compliance with IFRS 9 requirements.
Model Risk Governance Committee (MRGC)	This new committee forms part of a new model governance framework which is in the process of being implemented. Its role will be to assess and oversee the model risk inherent in the use of models and user defined applications in OakNorth and to monitor their performance, and approve the models judged most important/material.

Reporting structure

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

Capital, liquidity, and interest rate risks are managed by the CFO with oversight from the ALCO and through to the ExCo and the Board.

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



Three lines of defence model

In line with standard industry practice, we use 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.

Ownership and Accountability – the first line of defence (FLOD) is business line management, including the client-facing 'front office' Debt Finance and Customer Services teams and all operational units that generate risk, including Operations, Technology, and Finance. Sound risk governance recognises that business line management owns and is responsible for identifying and managing all the risks inherent in the products, activities, processes, and systems which it creates and for which it is accountable, in line with the agreed risk appetite.

Independent Oversight and Challenge – the second line of defence (SLOD), comprising the Risk and Credit Risk functions, is responsible for monitoring the operation of the controls and adherence to risk direction and limits, and to report any control breaches / failures or appetite breaches; ensuring that risk management practices and conditions are appropriate for the business environment; interpreting and reporting on risk exposures and outcomes; and interpreting and reporting on the Key

Risk Indicators (KRIs) set in the Risk Appetite. The CRO maintains a fully independent perspective to support oversight of first line risk-taking activities, providing independent advice and challenge whilst participating in collective ExCo decision-making. The Risk function operates under a Risk Charter defining its scope and mandate.

Independent Assurance – the third line of defence is responsible for understanding the key current and emerging risks affecting OakNorth, leads the audit process, and owns the development and completion of the annual Internal Audit Plan. This review is undertaken by Internal Audit, and additional audits are performed by qualified external parties including OakNorth's external accountants. The Independent NEDs also provide challenge.

Financial reporting internal controls and governance process

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

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

Risk Management Framework and risk review

Risk Management

Approach

OakNorth sets a risk strategy alongside its business strategy; and seeks to manage inherent risk through systematic and disciplined risk management. We quantify the risks taken and apply mitigating action appropriately with the objective of delivering long-term value in the business.

There is a continuous improvement approach to risk management, and policies, processes and controls have been further developed during the year. Key risk initiatives during the year included:

- Continuation of the operational resilience and Risks and Controls Self-Assessment (RCSA) continuous improvement programmes
- Continuation of the cybersecurity and IT resilience continuous improvement programme including a major investment in hiring additional staff to expand the pace and extent of technology development and investment in additional scanning and monitoring systems
- Investment in hiring additional staff and implementing new systems and processes to enhance controls in credit risk analysis and credit quality assurance, portfolio monitoring, financial crime, and compliance
- The transition to the Agile change management approach, with enhanced test and control processes
- Enhanced models for liquidity and interest rate risk in the banking book (IRRBB) management have been introduced
- A Governance, Risk, and Compliance (GRC) system has been introduced to enhance risk testing and reporting

Culture

The risk appetite framework is consistent with our risk culture and business model. The Board takes the lead in establishing a strong risk management culture which supports and provides appropriate standards and incentives for professional and responsible behaviour. The Board and management are committed to living OakNorth's Values and setting the tone for the culture of the organisation. Our values enshrine our commitment to delivering good customer outcomes, being transparent, and managing risk responsibility to create long term value by generating steady, sustainable, risk-adjusted returns. Risk outcomes and behaviours form a key part of compensation decisions as part of a 'balanced scorecard' approach. All incentive schemes for material risk takers are subject to malus and clawback provisions.

Risk Appetite framework

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

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

The high-level Enterprise Risk Appetite has been articulated in seven categories: Treasury & Capital, Credit, Conduct (including Regulatory and Compliance), Reputational, Strategic, Operational, and Climate. This is subdivided further into risk appetite dimensions and with 95 Risk Appetite monitoring metrics set. The Risk Appetite Statement ('RAS') is carried through into OakNorth's suite of Policies, and from the Policies into the Procedures (Standard Operating Procedures or 'SOPs') used by OakNorth staff.

Risk Management Framework (RMF)

Our enterprise-wide Risk Management Framework as agreed by the Board is set in compliance with relevant legislation including the PRA and FCA Handbooks, EBA standards, SYSC, GENPRU, BIPRU and CRDIV, BCOBS, MLD5 and codes of conduct such as COCON, the Combined Code on Corporate Governance, and the Lending Code, and designed to ensure that the key risks 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.

This framework is subject to constant re-evaluation to ensure that it meets the challenges of the markets in which we operate, including regulatory standards, industry best practices and emerging issues. The framework is being enhanced to incorporate Consumer Duty and other evolving regulation.

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 support and to protect their independence. Roles and responsibilities are laid out in the Firm Management Responsibilities Map (FMRM).

Risk policies and controls

Detailed policies and frameworks approved by the Board and Board committees define the governance framework that ensures 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, Code of Conduct, Conduct and Customer Experience, prevention of Financial Crime, Fraud and Anti-Money Laundering, Operational Risk and Data Protection.

Operational processes are documented in Standard Operating Procedures - detailed documents which describe all the necessary activities to complete a task in accordance with business standards and industry regulations, together with roles and responsibilities and key control processes.

Central to the operational risk management is a RCSA framework; a risk management tool whereby risks and controls are documented and assessed process by process, to provide assurance to management that controls are adequate and effective. This is updated monthly as part of the risk management continuous improvement programme.

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

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

Risk Review

Top risks and Emerging Risks

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

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

Key themes in the Top Risks analysis in 2022 were:

Principal risks	Risk mitigation
Credit	
A generic risk which features in the Top Risks given the high growth achieved in the loan book. OakNorth has incurred a low level of charge-offs in the loan book in 2022 through use of advanced analytics and controls and effective portfolio management. This risk is higher compared to previous year as economic conditions have deteriorated.	— We have set detailed, prudent guidelines and policies for lending with guidelines for key areas such as Debt Service Cover and Loan to Value, and with credit risk appetite limits set for matters such as loan book average probability of default, loss given default, sectoral and single name concentration. — Credits are analysed by experienced credit risk professionals with support from the advanced credit analytics provided by ON Credit Intelligence. — Robust monitoring processes are run by an experienced Portfolio Monitoring team to ensure that all risks relating to individual borrowers are proactively identified and action taken. — The Board is also continually engaged in review of the loan book to ensure that it is performing as expected and risks are within defined limits.
Cybersecurity	
A generic risk which features in the Top Risks because the attacks on the financial sector never cease. This risk is stable compared to previous year.	— We employ a cloud-based IT platform running on AWS. Advanced cyber risk defence mitigation measures include next generation firewalls, a secure VPN, 24/7 monitoring via a Security Operations Centre service, data loss prevention tools and endpoint encryption, secure back-ups, and with various leading monitoring and cyber defence software tools operated by experienced professionals. — Regular NIST and CQUEST assessments and pen tests are run which demonstrate high security standards.

Principal risks	Risk mitigation
Operational resilience	
A generic risk. OakNorth has incurred minimal operational losses in 2022, through proactive management. This risk is stable compared to previous year.	— The resilience of our operations is founded upon up-to-date cloud-based IT infrastructure, robust use of Standard Operating Process documents for all key processes with defined controls and responsibilities, high levels of automation, and the use of strong Service Providers including AWS, Azure, Salesforce, and OakNorth's sister companies ONGPL and ON Credit Intelligence. — Processes and controls are constantly kept updated and checked through the on-going RCSA Process. — First and second line controls and monthly testing are in place. — An Operational Resilience programme has defined Key Business Processes and has set Impact Tolerances which are monitored and have not been breached during 2022.
Financial crime	
A generic risk which features in the Top Risks because attacks on the financial sector never cease. This risk is stable compared to previous year.	— We currently do not offer transactional accounts, and hence a major area of financial crime risk does not impact the business. — Detailed processes are in place for Anti-Money Laundering, Fraud Prevention, Anti-Facilitation of Tax Evasion, and Anti-Bribery and Corruption, with controls embedded in processes and systems applied by skilled staff. First line management oversight and second line assurance oversight are in place. — We employ leading financial crime prevention tools including CIFAS, Comply Advantage, Experian, and WorldCheck. — Regular enterprise-wide risk assessments are made in all areas, and controls are subject to a continuous improvement programme.
Liquidity	
A generic risk which would feature as a Top Risk for all banks. This risk is stable compared to previous year.	— We have a set a series of forward-looking risk appetite metrics which are monitored daily, and which include measures around liquidity ratios (including HQLA and LCR), funding concentration, percentage of protected deposit under FSCS and deposit maturities. — These liquidity requirements and relevant deposit market information are monitored by the ALCO. A comprehensive ILAAP assessment is performed annually. — The liquidity ratios are also tested periodically under stress test scenarios.

Principal risks	Risk mitigation
Capital adequacy	
A generic risk which is relevant as a Top Risk for OakNorth as a fast-growing digital bank. This risk is stable compared to previous year.	– Our internal target amount of capital is set by the assessment of the risk profile of the business, market expectations and regulatory requirements. – Critical risk appetite limits for projected capital and leverage ratios have been set on a forward-looking basis to ensure any capital raising activities are undertaken on a timely basis to continue supporting the growth of the business, monitored monthly. This ensures that capital resources are in place for forecast growth requirements. – The capital ratios are also tested periodically under stress test scenarios. – A detailed ICAAP assessment is performed annually.
Regulatory and compliance	
A generic risk. There have been no reportable compliance breaches in 2022. This risk is stable compared to previous year.	– A full suite of policies and processes is in place to support full compliance, and continually updated. – Regulatory developments are actively tracked, analysed, and actioned. – Compliance training is undertaken for all staff, and policy and processes are validated for compliance and continuously revised and updated as regulation and regulatory expectations evolve. – A Compliance Monitoring Plan (CMP) is run continuously by the second line of defence, covering all areas of the business in an on-going cycle. – A Compliance Advisory function advises all areas of the business on areas from conduct to communications and marketing.
People	
The risk of increased attrition and longer time to hire due to tight recruitment market conditions. This risk is higher compared to previous year.	– Benchmarking remuneration packages and adapting where required. – Strengthening internal career development frameworks and refreshing the graduate programme. – Focus on employer branding and our value proposition. – Building a pipeline of candidates to reduce time to hire. – Regular succession planning and cross-training to manage key person risk and critical roles.

Principal risks	Risk mitigation
Reputational and conduct	
A generic risk. This risk is stable compared to previous year.	— At OakNorth we are committed to putting the customer at the heart of its business model and strategy, being transparent in our dealings with our customers, and delivering good outcomes for them. — The foundation is a strong set of company values which include “Right Ambition”, “Say it how it Is”, “Customer delight”, which align with sound Conduct principles. — We monitor customer outcomes through close attention to Net Promoter Scores and the feedback which we receive within those surveys and customer complaints. — Senior management runs a conduct assessment against FCA guidelines every year and is implementing the new Consumer Duty. — Behavioural objectives are incorporated into reward and incentives.

In addition to the above ‘inherent risks’, the following risks are identified as ‘emerging risks’ due to their increasing impact on our business model and strategy.

Emerging Risks	Risk mitigation
Economic environment	
An industry-wide risk. This risk is higher compared to previous year.	— Management remains cautious on the outlook for the economy, with leading confidence indicators very negative. — Inflation rose sharply during 2022 and remains elevated. House price growth has dropped, with Halifax and Nationwide both reporting a reduction in house prices in the later months of 2022. The market reality of higher mortgage rates and higher household costs reducing disposable income is expected to contribute to further price declines in the year to come, which will have an impact on the real estate lending book. — The macroeconomic risks are taken fully into account in our credit policy for origination and in portfolio monitoring. Stress tests using the proprietary OakNorth Forward Look Rating (FLR) model are made every month to assess the macroeconomic risk to different sectors on a very granular basis. We maintain strong levels of capital and liquidity well beyond the level needed to manage economic stress such as that described in the Bank of England’s Annual Cyclical Scenario.

Emerging Risks	Risk mitigation
Climate change	
An industry-wide risk. This risk is stable compared to previous year.	— We are taking a pro-active approach with a programme to support initiatives in climate change management and transition with a target to achieve net zero including Scope 3 financed emissions earlier than the UK target. — From a risk management perspective, we have evaluated the potential impact of physical risks and transition risks on the loan book in extensive stress-test scenarios, and the impact is very low. We do not lend to the oil and gas sectors, and we assess that our lending exposure to real estate which might be subject to climate change risk via flood risk or energy efficiency is low. — A climate scorecard has been implemented and is considered in all credit decisions, and climate risk appetite metrics have been set. — We have already offset all our direct emissions and that of our critical suppliers and have achieved net carbon zero status.

The following sections provide further details on the material risks associated with OakNorth's operations.

Credit Risk

Credit risk is the risk of default and financial loss arising from a borrower or counterparty failing to meet their contractual financial obligations. This risk is one of the most significant risks faced by OakNorth given its business model's emphasis on lending. We do not actively trade in financial instruments, other than for liquidity management purposes.

This section includes enhanced disclosures as recommended by the FCA, PRA and FRC joint taskforce, which are detailed in the paper "Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures". The disclosures made herein are as deemed proportionate and appropriate for our balance sheet size and complexity. We continue to endeavour to improve the quality of disclosures on an ongoing basis.

Credit risk review

2022 was marked by significant geopolitical instability and economic impacts of these events, including the Russia-Ukraine war, changes to the UK government's fiscal strategy (and resulting actions from the Bank of England), cost of living crisis and, continued impact resulting from the COVID-19 pandemic, supply chain disruptions and Brexit.

However, post 2020/2021 economic recovery was expected and the business performance of our borrowers in general improved during 2022 with improved cash levels and growth in revenues. House prices and the business activity in the real estate book remained stable. Given the increasing interest rates, we did see several borrowers reconsider investment in capital projects. The growth in the loan volumes remained stable through the year, albeit within a tightened risk appetite. There were no material changes to the volume of redemptions versus the prior year.

We are encouraged that the overall credit quality of our loan book remained stable as we continued to grow. We maintained a conservative average Loan To Value (LTV) across our loan book at 52% (2021: 52%) and 94% (2021: 97%) of our loan book is collateralised. The distribution of the loan book across the three IFRS 9 staging categories remained broadly similar to the prior year, with 95% of our loan book in Stage 1.

Going into 2023, high inflation, high interest rates and a recessionary economic outlook have affected the business confidence in the UK market. The impact has also been factored into our ECL models. During 2022, the ECL charge increased by £10.8 million, versus a release of £3.7 million in 2021.

We assess the scenario weighted ECL allowances for the Stage 1 and 2 book based on an integrated methodology that combines the probabilistic approach of externally sourced Probability of Default (PD) and Loss Given Default (LGD) data models with the OakNorth's proprietary FLR approach. Specific details on the IFRS 9 provisions are provided in subsequent sections in this report. Our ECL estimates based on this methodology reflect a balanced conservatism in our approach to estimation of the impact of the uncertainty in the macro-economic environment on our loan book.

The movement in loan book staging and the ECL allowances is detailed in Table 1 in the "Credit Quality Classification" section.

OakNorth's approach to Credit Risk Management

Throughout the year, pursuant to ongoing economic challenges and outlook, we focussed on ongoing stress testing of the loan book via the FLR tool. This tool is used to not only assess impact of known risks, but more importantly to form a view of the potential impact of emerging risks. FLR is updated monthly and applied to our existing borrower portfolio to seek out any emerging trends or specific cases of potential concern.

FLR splits the economy into granular subsectors and builds cost and revenue curves based on statistical regression of macro-economic forecasts and historical sector performance. These curves are amended for forward looking factors / structural changes in the industry which are not reflected in the forecasts of macro-economic variables but may have impacted historical correlations. It further establishes elasticity for cost and working capital projections for obligors by analysing the correlation between these line items and revenue changes over time (regression analysis). Regional subsector curves are then prepared leveraging micro subsector and region level data including sector specific KPIs, high frequency indicators and alternate data sets. These detailed sub sector forecasts are then applied to each individual OakNorth borrower and used to assess the potential impact on borrower's cash flow and likelihood of default/loss.

Climate risk is a key area of focus, and we continue to develop and enhance our approach in this area. Specific climate Key Risk Indicators have been introduced for testing. This is supported by climate risk assessment at the credit underwriting and in-life monitoring. Key elements being considered are physical and transition risks due to climate impact to our counterparties. We also continue to evolve our approach to measure our financed emissions to support OakNorth in meetings its net zero commitments. More information is provided in the ESG section of the Annual Report.

FLR forecasts are used to assess how a low-carbon policy and technological transition towards mitigating climate change could impact the loan book. The assessment for 2022 concluded that there are no expected losses under any of the three Climate Biennial Exploratory Scenario (CBES) transition scenarios that include - Early action from 2021 (1.8°C risk in temperature by 2050), Late action from 2031 (1.8°C risk in temperature by 2050), and no additional action (3.3°C risk in temperature by 2050).

During the year, we continued to strengthen and enhance its Credit Risk Management Framework, ensuring the risks continued to be effectively managed as we grow. Several new credit policies were introduced, and material enhancements made to some of the existing policies.

Credit Risk Governance framework

OakNorth has a Credit Risk Management Framework (CRMF), that operates as a sub-set within the overall enterprise-wide Risk Management Framework. The CRMF operates within the Board and Board Credit Committee mandate and provides an over-arching framework for management of credit risk. This includes establishing and monitoring credit policies and procedures, credit and concentration risk appetite limits and key risk indicators, credit risk decisioning process including delegated authorities, portfolio performance and management, risk rating frameworks, risk-weighted assets approach, portfolio provisioning and stress testing framework, and climate risk assessment and management within the loan book.

An independent review of the credit risk policies and processes is carried out periodically by the Credit Quality Assurance (CQA) function – directly reporting to the Chief Risk Officer.

In addition to the governance as detailed in the CRMF, the 'Reserves Adequacy Committee' (RAC) is responsible for establishing and maintaining the IFRS 9 provisioning framework and associated governance. The committee operates under the mandate from Board Audit Committee and its membership includes Head of Credit Risk, Chief Financial Officer, and Chief Risk Officer. The committee is responsible for the review and confirmation of adequacy of provision calculations, oversight of the staging approach applied, review and confirmation of scenarios and weightings, assessing appropriateness of any provision overlays and exceptions, reviewing model accuracy related matters including back-testing, model effectiveness and ensuring IFRS 9 provisions and overlays approach are consistent with the Provisions policy.

Credit risk appetite

The key foundation of the CRMF is a Board-approved risk appetite and credit risk strategy. This ensures that we operate within a suitable credit risk framework that supports the safe and sustainable growth of OakNorth. The risk appetite is translated into measurable Key Risk Indicators (KRIs). Specific credit KRIs include concentration risk both at an individual borrower level and sector level. Concentration limits have been set to ensure we operate within these thresholds and mitigate against a significant build-up of credit risk to any one sector, product / asset class, and /or single name (aggregated exposures) exposure.

Committees and delegated authorities

Portfolio oversight and approval of lending decisions are made at the Credit Risk Management Committee (CRMC) and subsidiary credit committees as delegated by the CRMC - Medium Deals Committee (MDC) and Small Deals Committee (SDC). The delegated authority of each committee is based on a matrix of key credit risk measures including quantum, product type, collateral, policy exception and watchlist status. Higher risk deals based on single name exposure (>£50 million) are also reviewed and challenged by the Board Credit Committee (BCC).

Credit risk management and monitoring

Our Portfolio monitoring team monitors the performance of all loans individually on an on-going basis. FLR stresses are run monthly at a loan level, and they provide early warning indicators against deterioration in credit quality under different scenarios (both under short term and long term). This enables our teams to prioritise portfolio actions and work proactively with our borrowers.

The early warning indicators are tracked weekly, and a formal portfolio review is done monthly which is presented to the CRMC. Both the CRMC and BCC monitor the performance of the overall portfolio at least monthly through the production of management information including- lending volumes, key credit model output performance, rating downgrades, concentration risk (including large exposures), impairments and any material recoveries and performance against the credit risk appetite limits. Our in-house monitoring and surveying team monitor property development loans.

Credit risk rating

Credit rating of the loan book is assessed based on assessment of PD. We currently use an industry standard model to calibrate the PD score for each loan. The PD scores obtained are integrated with the risk pricing of loans at origination and in the measurement of ECL provisions. We have set risk appetite limits to monitor the PD and LGD distribution of the loan book. However, the approach for use of the external PD scores for the purposes of risk reporting and risk management is significantly evolving.

As detailed in the preceding sections, FLR is used as an integral tool to assess credit risk at origination and in-life monitoring of credit risk on a forward-look view specific to our loan book. We therefore continue to develop our approach to incorporate the probabilistic view within FLR to deliver a single credit model, which will enable a more sophisticated sub sector approach to lending. The aim of this evolving approach is to provide a single credit model used from origination through to IFRS 9 compliant provision calculation and periodic stress testing, ensuring consistency across all aspects of credit risk management and ECL determination.

Credit quality classification

(Audited)

Based on the analysis of the portfolio monitoring triggers, the loan book is classified into the following credit risk categories -Standard, Early warning sign (EWS), Intensive monitoring (IM), Watchlist (WL) and Default. These monitoring and loan performance triggers comprise of a combination of qualitative and quantitative factors, which include, but are not limited to – trend of business performance versus plan, trend of cash flow position, significant adverse changes to external factors that may impact the performance of the loan, significant adverse changes to the collateral position.

The 'Watchlist' triggers are aligned with the IFRS 9 Stage 2 category of Significant Increase in Credit Risk (SICR). For Stage 3, we assess 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. This is aligned with the EBA guidelines on the application of the definition of Default. These include IFRS 9 backstop triggers of 30 days and 90 days past due (DPD) for Stage 2 and Stage 3 respectively. EWS and Intensive monitoring cases are part of IFRS 9 Stage 1 classification.

Each exposure is assessed and monitored individually. We do not apply a general portfolio level approach to apply staging changes to the loan book. The criteria used to trigger a risk classification/ staging review are monitored and reviewed periodically by CRMC. The Head of Portfolio Monitoring or Senior Director, Workout & Recoveries recommends higher risk loans as defined under our Customers in Financial Difficulty (CIFD) policy, to be added to Watchlist/ Stage 2 or Stage 3, as appropriate, to the Head of Credit and / or CRMC. The Head of Credit and / or CRMC approves the final staging. Transfer back from Stage 3/ Stage 2 to Stage 1 is done only when the exposure falls back within standard/ normal credit metrics and lending policy appetite and only when the exposure starts performing for a period (minimum three months of standard trading) as determined by the CRMC. In addition, staging changes are reviewed and ratified by the RAC on a quarterly basis.

Staging classification of loan book: The classification of the loan book across different IFRS 9 stages and the corresponding expected credit loss charge allowance is provided in Table 1. Please see note 1.12 in Notes to Accounts for accounting policy guidelines on staging.

Please see note 1.11 in Notes to Accounts for accounting policy guidelines on loan write-offs.

Forbearance

(Audited)

Central to OakNorth's approach is trying to assist the customer to resolve their financial difficulties and return to financial health as quickly as possible. As part of our CIFD policy, we may undertake forbearance measures to ensure better outcomes for both the customer and OakNorth. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments, which OakNorth would not normally provide under its standard lending criteria and may include payments or covenant related forbearance.

Payment related forbearance is only extended if it is expected that the customer will be able to meet the revised terms of the loan.

Forbearance cases are reported under the appropriate risk category (EWS, WL, IM, default) and only approved through restructuring strategies presented to CRMC. Cases with significant increase in credit risk are managed via the Watchlist process. Customers exhibiting signs of actual or potential stress are classified in an appropriate watch category and subjected to mandatory actions to ensure that an appropriate strategy is being followed to effectively manage the increased credit risk. Loans subject to forbearance continue to be reported as forborne even when they are no longer considered to be in financial stress. This includes loans that are restructured, including those where the existing agreement has been cancelled and a new agreement is made on substantially different terms. This approach is aligned with the EBA guidelines on management of non-performing and forborne exposures.

Forbearance disclosures: As at 31 December 2022, we had 9 loans that have been subject to forbearance, totalling to £96.4 million carrying value (2021: 12 loans, £124.1 million). Of these 4 loans totalling to £57.1 million were in intensive monitoring (Stage 1) and £39.3 million were in watchlist (Stage 2) (2021: 7 loans totalling to £85.0 million were in watchlist (Stage 2) or Default (Stage 3) and £39.1 million were in intensive monitoring (Stage 1)).

Please see note 1.11 in Notes to Accounts for accounting policy guidelines on loan modifications.

Credit risk mitigation

(Audited)

We seek to mitigate credit risk through, inter alia, eligible collateral. The CRMF 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. We have policy guidance on the valuation conditions and methods. We also have a Valuer panel management 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. Independent valuations are refreshed every 3 years and any exceptions to this policy or waivers granted are specifically approved by the Head of Credit Risk, in line with the Valuation policy.

For the purposes of the provisioning per the enhanced PD and LGD framework, we also continue to update the values based on relevant indices, applying further stresses under the selected macroeconomic scenarios using the FLR approach.

Loan book collateralisation: As of 31 December 2022, 94% of the loan facilities were collateralised by security comprising of fixed assets (including property) and charges/ debentures on underlying portfolio of assets (primarily property) (2021: 97%). These exclude any charges on floating assets and guarantees not supported by charge on fixed assets.

Weighted average LTV of the loan book: The weighted average LTV of the loan book facilities collateralised by property was 52% (2021: 52%).

Maximum exposure to credit risk (Loans and advances to customers)

(Audited)

For on-balance sheet financial assets, maximum exposure to credit risk is the carrying value of the assets on the balance sheet after ECL provisions. For irrevocable loan commitments, the maximum exposure is the full amount of the committed facilities.

OakNorth allows for drawdowns under property development facilities only where our monitoring surveyor has verified the costs and progress of the development as well as the provision of any other condition precedent for drawdown. For other business lending, conditions precedent are always stipulated for drawdowns.

Collaterals obtained pursuant to the lending arrangements are not offset from the reporting of maximum exposure to credit risk.

Details of maximum exposure to credit risk on the loan book are provided in Table 1. Please see note 1.12 in Notes to Accounts for accounting policy guidelines on measurement of exposure at default (EAD).

Maximum exposure to credit risk (Financial instruments other than Loans and advances to customers)

(Audited)

We do not actively trade in financial instruments and have no derivatives exposures. We hold short duration UK GILTS for the purposes of liquidity management and management of collaterals under the TFSME scheme.

Cash balances are held at the Bank of England. Balances held at other banks are only on a short-term basis to facilitate inter-bank transactions with customers.

Details of maximum exposure to credit risk on financial instruments other than the loan book are provided in Table 2.

Credit risk concentration

Concentration risk arises in the loan book when several borrowers or exposures have comparable characteristics so that their ability to meet contractual obligations is collectively impacted by any changes to the environment they operate in (economic, political, sector specific or other conditions).

To mitigate this risk, we have a number of controls measures that include setting and monitoring of concentration limits on single name and across a number of granular sectors and subsectors and product types and stress testing done as part of ICAAP. We continue to enhance our approach to concentration limit setting and develop our approach to be forward-looking and dynamic.

Concentration risk disclosures: Sectoral concentration and Geographic concentration is disclosed in the Pillar 3 disclosures, that are published annually on OakNorth's website. OakNorth is primarily a UK- based bank and therefore affected by the UK macroeconomic environment. All of OakNorth's exposure is to small to mid size businesses in the UK and 92% of the exposure is to non-financial sector. Classification of the products in risk categories is also detailed in the Pillar 3 disclosures.

ECL allowance assessment and impairment methodology

(Audited)

Please see note 1.12 in Notes to Accounts for accounting policy guidelines on impairment.

Please see page 75 for details on ECL measurement uncertainty and sensitivity analysis.

Table 1: Maximum exposure to credit risk in the loan book, ECL provisions and Staging (OakNorth Bank)

(Audited)

As at 31 Dec 2022	On balance sheet- Loans and advances at amortised cost £'000	Allowance for ECL £'000	Net carrying amount £'000	% ECL allowance of on-balance sheet exposures %	Off- balance sheet - Undrawn Loan Commitments £'000	Allowance for ECL £'000	Net carrying amount £'000
Stage 1	2,990,755	13,311	2,977,444	0.4%	430,469	825	429,644
Stage 2	64,825	2,507	62,318	3.9%	6,458	204	6,254
Stage 3	95,415	7,684	87,731	8.1%	-	-	-
Total	3,150,995	23,502	3,127,493	0.7%	436,927	1,029	435,898

Uncommitted loan facilities: As at 31 December 2022, OakNorth had £1,072.6 million of uncommitted facilities (2021: £951.4 million). These facilities are unconditionally cancellable. This balance includes a facility of £30 million provided to the subsidiary ASK Partners Limited.

OakNorth did not have any off-balance sheet exposures on financial and other guarantees (2021: nil).

(Audited)

As at 31 Dec 2021	On balance sheet- Loans and advances at amortised cost £'000	Allowance for ECL £'000	Net carrying amount £'000	% ECL allowance of on-balance sheet exposures %	Off- balance sheet - Undrawn Loan Commitments £'000	Allowance for ECL £'000	Net carrying amount £'000
Stage 1	2,782,991	8,929	2,774,062	0.3%	381,193	456	380,737
Stage 2	69,097	6,481	62,616	9.4%	-	-	-
Stage 3	63,228	13,601	49,627	21.5%	909	-	909
Total	2,915,316	29,011	2,886,305	1.0%	382,102	456	381,646

Table 2: Maximum exposure to credit risk (Financial instruments other than loans and advances to customers) (OakNorth Bank)

(Audited)

	Maximum exposure	Allowance for ECL	Net carrying amount	Maximum exposure	Allowance for ECL	Net carrying amount
	As at 31 Dec 2022			As at 31 Dec 2021		
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	1,235,711	-	1,235,711	446,374	-	446,374
Loans and advances to banks	37,507	-	37,507	30,019	-	30,019
Debt securities	204,005	-	204,005	191,849	-	191,849
Total on-balance sheet	1,477,223	-	1,477,223	668,242	-	668,242
Total off-balance sheet-financial and other guarantees	-	-	-	-	-	-

There are no offsets or netting arrangements in place for the above exposures. OakNorth did not have any other off-balance sheet exposures (2021: nil).

Cash and balances at central banks comprises of unencumbered cash balances held with Bank of England.

Loans and advances to banks are short term funds held with other banks.

Debt securities are bonds issued by HM Treasury and are UK Government liability in sterling. These are held at mark to market (MTM) through Other Comprehensive Income and the net MTM for these bonds was £24K as at 31 December 2022. The residual maturity of these bonds is within one month.

Table 3: Movement in gross exposures and impairment allowance including provisions for loan commitments (OakNorth Bank)

(Audited)

As at 31 Dec 2022	Carrying value (on balance sheet)				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 Jan 2022	2,782,991	69,097	63,228	2,915,316	8,929	6,481	13,601	29,011
Transfers between stages during the year								
– Transfers to Stage 1	29,805	(29,805)	-	-	4,934	(4,934)	-	-
– Transfers to Stage 2	(57,280)	57,280	-	-	(345)	345	-	-
– Transfers to Stage 3	(55,146)	(39,292)	94,438	-	(50)	(1,548)	1,598	-
Total transfers	(82,621)	(11,817)	94,438	-	4,539	(6,137)	1,598	-
Net additional lending/ (repayment)/ (charge-offs) and change in ECL assessment	290,385	7,545	(62,251)	235,679	(157)	2,163	(7,515)	(5,509)
As at 31 Dec	2,990,755	64,825	95,415	3,150,995	13,311	2,507	7,684	23,502

Stage 2 comments: Of the total outstanding loans in Stage 2 as at 31 December 2022, £40.0 million were past due and/or subject to forbearance measures, and the remaining £24.8 million were in breach of OakNorth's other staging criteria.

Stage 3 comments: Of the total outstanding loans in Stage 3 as at 31 December 2022, all loans continue to be past due and in breach of 90 DPD criteria. The Stage 3 loans are primarily secured on real-estate collateral.

(Audited)

As at 31 Dec 2022	Nominal exposure (off-balance sheet)				Allowance for ECL			
	Stage 1 (£'000)	Stage 2 (£'000)	Stage 3 (£'000)	Total (£'000)	Stage 1 (£'000)	Stage 2 (£'000)	Stage 3 (£'000)	Total (£'000)
As at 1 Jan	381,193	-	909	382,102	456	-	-	456
Transfers between stages during the year								
– Transfers to Stage 1	-	-	-	-	-	-	-	-
– Transfers to Stage 2	(1,658)	1,658	-	-	(4)	4	-	-
– Transfers to Stage 3	-	-	-	-	-	-	-	-
Total transfers	(1,658)	1,658	-	-	(4)	4	-	-
Net additional lending/ (repayment)/ (charge-offs) and change in ECL assessment	50,934	4,800	(909)	54,825	373	200	-	573
As at 31 Dec	430,469	6,458	-	436,927	825	204	-	1,029

(Audited)

As at 31 Dec 2021	Carrying value (on balance sheet)				Allowance for ECL			
	Stage 1 (£'000)	Stage 2 (£'000)	Stage 3 (£'000)	Total (£'000)	Stage 1 (£'000)	Stage 2 (£'000)	Stage 3 (£'000)	Total (£'000)
As at 1 Jan 2021	2,342,432	82,112	100,579	2,525,123	19,928	1,432	11,514	32,874
Of which overlay provisions					10,926		6,499	17,425
Transfers between stages during the year								
– Transfers to Stage 1	25,085	(25,085)	-	-	553	(553)	-	-
– Transfers to Stage 2	(29,383)	29,383	-	-	(5,884)	5,884	-	-
– Transfers to Stage 3	-	(14,655)	14,655	-	(1,805)	(282)	2,087	-
Total transfers	(4,298)	(10,357)	14,655	-	(7,136)	5,049	2,087	-
Net additional lending/ (repayment)/ (charge-offs) and change in ECL assessment	444,857	(2,658)	(52,006)	390,193	(3,863)	-	-	(3,863)
As at 31 Dec	2,782,991	69,097	63,228	2,915,316	8,929	6,481	13,601	29,011

(Audited)

As at 31 Dec 2021	Nominal exposure (off-balance sheet)				Allowance for ECL			
	Stage 1 (£'000)	Stage 2 (£'000)	Stage 3 (£'000)	Total (£'000)	Stage 1 (£'000)	Stage 2 (£'000)	Stage 3 (£'000)	Total (£'000)
As at 1 Jan	149,711	2,372	2,302	154,385	257	30	-	287
Transfers between stages during the year								
– Transfers to Stage 1	-	-	-	-	-	-	-	-
– Transfers to Stage 2	-	-	-	-	-	-	-	-
– Transfers to Stage 3	-	-	-	-	-	-	-	-
Total transfers	-	-	-	-	-	-	-	-
Net additional lending/ repayment and change in ECL assessment	231,482	(2,372)	(1,393)	227,717	199	(30)	-	169
As at 31 Dec	381,193	-	909	382,102	456	-	-	456

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation including –estimation of PDs, LGDs, EAD; consideration of a range of future economic scenarios and interpretation of economic impact; probability weightings assigned to different scenario ECL outcomes to determine an unbiased ECL estimate; expert credit judgements applied on assessing significant increase in credit risk; and, management adjustments for data and model limitations and model deficiencies.

Macroeconomic scenario selection and scenario probabilities

(Audited)

We reviewed macro scenarios provided by several different forecasters to understand the range of economic assessments and judge which were best suited to our purpose for both base and stress test forecasting.

Three scenarios were considered – baseline and two downside scenarios, which have been detailed in section “Description of economic scenarios” on page 77.

Economic outlook and uncertainties

In management and Board’s view, we currently see multiple dynamics at play contributing to significant levels of uncertainty in the geopolitical and economic environment. Whilst not all these factors are unprecedented in isolation, the sheer number of factors interacting simultaneously paints a very uncertain picture for the next 12-18 months. The key factors include the ongoing Russia-Ukraine war, pressure on energy supply and costs, residual supply chain disruption on the back of the Covid-19 pandemic, higher raw material prices, ongoing trade frictions (US- China), a tight labour market with record low levels of unemployment, very high levels of inflation and a series of aggressive rate hikes from the major central banks. In addition to these, the recent reopening of China, whilst expected to boost global growth, is also expected to add significantly more pressure on global demand and inflation, especially in commodities. There are, however emerging market views that the recessionary forecasts might not be as deep as initially anticipated and that the current level of interest rates may be close to peak. Additionally, there are risks arising from the instability in the US banking sector that may lead to some contagion impact which is currently difficult to estimate.

Given the outlook and the range of uncertainties, the baseline and downside scenarios were considered relevant and appropriate for the IFRS 9 ECL process and upside scenarios were excluded.

The allocation of weights aligns with our view of the deviations and likelihood of uncertainties in the economic outlook. The approach captures both a range of forward-looking forecasts and the material non-linearities in the ECL calculation. The following probability weightings have been assigned to the scenarios – Baseline- 50%, Downside 1 – 40% and Downside 2- 10% (2021: Baseline - 60%, Downside 1- 35%, Downside 2 – 5%). The baseline scenario reflects a balanced view of the performance of the economy, while the downside scenarios reflect plausible stresses. The consideration of the downside scenarios is aligned with our stress testing approach for the purposes of internal capital planning. Management judgement is applied on selection of scenario weightings, and they reflect management's view of scenario risks and likelihood. Sensitivity analysis of different combinations of scenario weightings were considered and there were no material deviations in ECL outcomes observed to the other plausible combinations considered.

In management's judgement, material identified risks to our loan book have been incorporated into the forward-looking borrower financials via the FLR approach and the weighting assigned to the macroeconomic scenarios. There are several emerging risks as highlighted above, and we will continue to closely monitor the impact and incorporate in our stress testing assumptions.

Table 4 below summarise select key macroeconomic variables used in the three scenarios, along with the scenario weightings.

Table 4: Key macroeconomic variables forecast

(Audited)

OakNorth adopted scenarios 2022	Baseline		Downside 1		Downside 2	
Scenario weightings	50%		40%		10%	
Key Macroeconomic variables	2023	2024	2023	2024	2023	2024
GDP change	(1.2)	0.8	(1.8)	(0.8)	(5.8)	(3.8)
ILO Unemployment Rate	4.2	4.4	4.8	6.7	5.9	8.3
Official Discount Rate, BOE	4.0	4.0	5.0	5.0	5.0	5.0
Average Nominal House Price change	(2.4)	(0.3)	(7.8)	(14.6)	(11.7)	(17.3)
CPI change	7.1	3.6	7.7	5.3	11.2	0.2

OakNorth adopted scenarios 2021	Baseline		Downside 1		Downside 2	
Scenario weightings	60%		35%		5%	
Key Macroeconomic variables	2022	2023	2022	2023	2022	2023
GDP change	5.5	3.5	0.4	5.3	(0.9)	4.8
ILO Unemployment Rate	5.7	5.0	7.0	7.2	7.7	8.1
Official Discount Rate, BOE	0.2	0.5	0.1	0.1	(0.1)	(0.1)
Average Nominal House Price change	3.2	6.5	(8.7)	(3.2)	(14.2)	(7.3)

Description of economic scenarios

(Audited)

Baseline scenario key assumptions/risks

The UK economy is already in recession, and GDP remains contracted until the second quarter of 2023, with a slow recovery thereafter. Inflation peaks and remains above target until the end of 2025 because of elevated wage pressures. Global oil prices remain at current high levels until mid-2023. Global supply-chain bottlenecks do not completely abate before 2023. The Bank of England continues to tighten monetary policy, bringing the bank rate to 4.5% by the spring of 2023. Rates remain at 4.5% for almost 18 months. Fiscal policy focusses on offering support to households and businesses to ease pressures arising from high energy and food prices. Russia's invasion of Ukraine continues but does not expand beyond Ukraine, preventing geopolitical tensions.

Downside 1 scenario key assumptions/risks

The acute phase of the Russian invasion of Ukraine lasts longer than anticipated. In response, import and insurance bans on Russian oil purchases increase the loss of oil on the global market and, as a result, oil prices remain elevated throughout 2023. Other commodity prices, including food, also remain elevated. Supply bottlenecks remain tight for longer. As a result of this, inflation does not decline as fast as in the baseline. This leads to gradual de-anchoring of inflation expectations and eventually a meaningful wage-price spiral starts to develop. The onset of the wage-price spiral in 2023 causes the Bank of England to raise interest rates at a more aggressive pace during 2023 and 2024. The government offers limited fiscal support to households and businesses to help ease inflation pressures. The long-lasting recession leads to an increase in unemployment, which further slows down consumption.

Downside 2 scenario key assumptions/risks

Russia completely cuts off natural gas supplies to Europe, while the supply of oil to Europe is drastically reduced in line with the embargo agreed upon by the EU in June. Exports to third nations are also hampered by the price cap enforced by the ban on insurance for Russian oil. This causes a jump in global oil and European natural gas prices. The disruption further damages supply chains and exacerbates shortages of manufactured goods, pushing up prices. The escalating geopolitical tensions combined with pressure on private and public finances lead to the re-emergence of domestic political tensions that cause a selloff in financial markets. A sustained period of low investment in innovative industries and human capital weighs on productivity growth, lowering the long-term level of GDP.

As a consequence, the UK economy falls below its pre-pandemic output levels, affected by massive bankruptcies and layoffs. Consumers reduce their spending because of soaring inflation, unavailability of consumer credit and of the dramatic worsening in the employment outlook. Turmoil in financial markets results in shrinking of available funding. Unemployment rate starts climbing due to the collapse in economic demand.

Approach to modelling macroeconomic impacts to compute ECL

(Audited)

We have implemented a two-step approach to modelling the impact of the above detailed macroeconomic factors and scenarios - leveraging the FLR ability to forecast stressed individual borrower-level financials and using those as inputs into the externally calibrated models to obtain the borrower level PDs and LGDs. This is consistent with the approach that we have adopted for the purposes of internal stress testing. The FLR approach is embedded in OakNorth's credit risk management practices and is reflective of how we quantify risk and prioritises actions as part of on-going portfolio management.

Use of FLR in ECL assessment

Borrower-specific performance inputs and modelling borrower behaviour in relation to both idiosyncratic and systematic macroeconomic factors, is core to any credit risk model, including for the purposes of ECL calculations. Most industry PD and LGD models lack adequate granularity to assess sub-sector level dynamics to address the heterogeneity/idiosyncrasies within a broader sector classification to enable users to manage their portfolio risks effectively, particularly in the SME space.

As detailed in our "Credit Risk Management approach", we address this gap by applying the FLR approach to our portfolio. The FLR approach uses statistical methodologies to analyse historic performance and macroeconomic correlations and incorporates forward looking factors to produce forecast curves for several variables such as revenues, costs, rental yields; as well as potential delays to any projects we have provided funding towards, cost over-runs, etc, as relevant for each granular sub-sector. The forecast curves are obtained for each of the selected macro-economic scenarios adopted by OakNorth (see section "Description of economic scenarios"). These are then applied to individual OakNorth borrower and used to assess the potential impact on borrower's financials under each of the scenarios, including key credit risk performance metrics (e.g., Interest Cover Ratio, Loan to Value, profits, cashflow).

The stressed borrower financial output metrics are therefore critical inputs into the externally sourced PD and LGD models to compute ECL provisions. This approach captures the OakNorth risk-assessed view of its own portfolio.

PD and LGD

We do not have adequate default data to calibrate our own PD and LGD models, we have used external models to obtain the point-in-time (PIT) forward-looking PDs as well as LGDs under different macroeconomic scenarios. These external PD and LGD models leverage historic industry default data and process borrower financial information and qualitative factors to estimate borrower PDs and LGDs.

As detailed in the preceding section, the FLR borrower forecast financials under the different forward-looking macroeconomic scenarios, are input into the external models to obtain PD and LGD for each loan. For the real-estate book, the PIT PDs are directly obtained from the external PD and LGD modelling tool. For the business trading book (Commercial & Industrial- C&I) the external model provides through-the-cycle (TTC) PDs. We use statistical modelling to convert the TTC PDs to PIT PDs using a combination of macroeconomic variables.

Modelling limitations in the ECL process and approach to Post Model Adjustments (PMA)

As we have used a combination of FLR borrower forecast inputs and externally sourced PD and LGD modelling tools, the forecast macroeconomic pathway stresses are applied on each borrower's financial metrics both as a part of the FLR as well as within the external PD and LGD models. Therefore, there is an inherent risk that the output ECL is affected by the two processes simultaneously, both on the positive side under baseline scenarios as well as on the negative side in the downside scenarios.

The RAC monitors and reviews model limitations, the levels of PDs and LGDs under different scenarios, and challenges the adequacy of the provisions and the requirement and quantum of any PMAs. PMAs are monitored, reviewed and challenged by the RAC and where applicable, considered in future enhancements and developments of the frameworks and models used in the IFRS 9 provisioning process. For 2022, no additional PMAs were considered necessary (2021: £1.4 million). The PMAs as of 2021 were reversed post the update of scenarios for 2022.

Sensitivity analysis of ECL on the drawn loan book under different scenarios

Table 5: Key scenario sensitivities

(Audited)

Sensitivity	2022 (£million)	2021 (£million)
Reported ECL	23.5	29.0
Increase/ (Decrease)		
100% Baseline scenario	(2.3)	(2.0)
100% Downside 1 scenario	1.9	3.5
100% Downside 2 scenario	4.9	6.7

These scenarios do not assume any staging changes. On the undrawn commitments, for 2022, a 100% weighting to the baseline scenario would reduce the provisions by £0.2 million, whilst a 100% allocation to the worst scenario would increase the provisions by £0.4 million.

Capital management

Our capital risk appetite statement and framework are designed to ensure that we maintain sufficient capital, with appropriate buffers, to meet regulatory requirements for growth, even in periods of stress. To enable this, we undertake annual ICAAP, which is a formal capital planning exercise that covers forecasts over a three to five year period. As a part of the ICAAP, the Board considers all material capital risks OakNorth faces and determines the amount, type and distribution of capital that will be required to cover such risks. We also conduct "Stress testing" in order to determine whether any additional capital may be required to be held over and above the Total Capital Requirement ("TCR"). On an ongoing basis, we monitor the capital adequacy considering the forecast volume of growth in the loan book. The capital adequacy and surplus over the capital buffer position (forecast and actuals) are reported to the ALCO, ExCo, the BRCC and the Board monthly.

OakNorth uses the Standardised Approach for calculating capital requirements for credit risk and the Basic Indicator Approach for calculating operational risk Pillar 1 requirements. The Tier 1 capital resources include ordinary share capital, Fair Value through Other Comprehensive Income (FVOCI) revaluation reserve, Employee Share Scheme valuation reserves and retained earnings, with deductions for items prescribed in the regulations (e.g. intangible assets, deferred tax balances, etc). Tier 2 capital includes Subordinated debt issued by OakNorth. More information on the capital resources and requirements is provided in the Pillar 3 disclosures (published on OakNorth's website separately).

The key risk appetite metrics that are used to monitor and measure capital risk include (but not limited to)- minimum CET 1, Tier 1 and Total Capital, survival days to depletion of capital surplus and changes to the surplus over OakNorth's capital requirements under stress scenarios, leverage ratio, large exposures, etc. There are risk appetite limits set for each of these metrics under 'business as usual', early warning indicators, and internal limits.

OakNorth Bank is subject to prudential regulatory requirements on a 'stand-alone' (i.e. solo-consolidated) basis and its subsidiary is currently not subject to regulatory consolidation. OakNorth has complied with all regulatory capital requirements throughout the year and continues to maintain surplus over its total capital requirements and plan buffers.

As at 31 December 2022, OakNorth Bank had total capital ratio of 20.1% (2021: 22.1%) and CET1 ratio of 18.7% (2021: 20.5%). The total regulatory capital requirement was 10.9% (2021: 11.5%) and therefore the total surplus over regulatory requirements was 9.1% (2021: 10.6%).

Interest rate risk

OakNorth carries interest rate risk in the banking book - the risk of loss arising from changes in the interest rates associated with banking book exposures. The risk may arise due to the following:

- Gap Risk: risk arising from repricing mismatch of assets and liabilities. The majority of the assets reprice based on the base rates while most deposit liabilities are fixed rate and managed rate.
- Basis Risk: unhedged exposure to one interest rate benchmark with exposure to another interest rate benchmark that reprices under different conditions (e.g., BOE and SONIA).
- Option or Prepayment Risk: borrowers redeeming fixed rate products when interest rates change, or prepaying loans for other reasons.

Our interest rate risk management policy is detailed in the Market and Liquidity Risk Management policy, which defines, measures, sets hedging policy statements, and details the governance process around management and reporting. The Senior Director- Treasury and Capital Markets is responsible for the day-to-day management of interest rate risk, reporting to ALCO. Monthly ALCO updates include several risk appetite and monitoring metrics including: Economic Value of Equity (EVE) sensitivity to 200bps shift in the yield curve, application of the prescribed EBA shock scenarios, an Earning at Risk (EaR) assessment.

The primary assessment of the interest rate risk exposure is done through measurement of EVE sensitivities and EaR. During the year, we significantly enhanced our EVE models, and the models continue to evolve further with the growing complexities in our balance sheet and the increasing interest rate environment.

OakNorth's business model and pricing of assets and liabilities result in a natural hedging outcome. The loan book and cash at BOE reserve account are primarily variable rate, referenced mainly to the BOE base rate. The deposits book primarily comprises of fixed rate term deposits, notice accounts, and certain demand deposits. In an increasing interest rate scenario, the loan book reprices immediately whilst the deposit book reprices on an average with a lag, resulting in a net positive outcome. In a decreasing interest rate scenario, while term deposits and notice accounts reprice with a lag, the lag is short (less than 6 months on an average) and is offset by contractual BOE base rate floors on all variable rate loans.

Therefore, the pricing structure of our asset and liability product mix provides either a natural hedge in a rates-down scenario, covering most of the interest rate risk, or results in a net positive outcome in a rates-up scenario.

We monitor IRRBB monthly and have historically observed that in most months, even under stress, the IRRBB risk metrics have remained within our risk appetite.

Summary of these assessments as at end-December 2022 is provided below. There is no material change to the interest rate risk structure and risk management policy as compared with the prior year.

Sensitivity	As at 31 Dec 2022 (£million)
NPV Sensitivity to +2% shift (including reference rate floors)	20.2
NPV Sensitivity to -2% shift (including reference rate floors)	(3.7)

The most severe impact of 12m earnings at risk to +/- 25bps shock is -£4.6 million as of 31 December 2022 (vs +£1.1 million as of December 2021).

All metrics were within OakNorth's risk appetite limits.

Liquidity risk

Liquidity risk is defined as the risk that OakNorth is unable to meet its contractual financial obligations as they fall due. We consider the funding and liquidity risks as key risks that could challenge the survival in a stressed environment and limit the growth aspirations and profitability under normal conditions. The main liquidity risk faced by OakNorth is that of a retail deposit funding stress such that retail deposits may be withdrawn by customers at their earliest contractual maturity. As at 31 December 2022, over 90% of our deposit balances were protected under the Financial Services Compensation Scheme (FSCS).

We maintain a prudent approach to managing liquidity ensuring we hold sufficient high quality liquid assets and liquidity buffers to meet our financial and regulatory commitments over an extended period in line with the Board's risk appetite and the PRA requirements, both of which are detailed in the ILAAP document.

The key risk metrics that are used to monitor and measure liquidity risk include (but are not limited to) – Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), levels of High Quality Liquid Assets (HQLA) including under stress, peak deposit outflows, etc. There are risk appetite limits set for each of these metrics under 'business as usual', early warning indicators, and internal limits.

Stress testing is an integral part of the overall governance and liquidity risk management framework of OakNorth. As part of the ILAAP process, the liquidity stress testing process evaluates the levels of outflows and the adequacy of liquidity resources available under 'severe but plausible' potential stress scenarios, which are based on the key risks in the business (idiosyncratic risks) and the macro environment. The ALCO and the Board review, challenge and approve the stress scenarios and outcomes. The stress testing process helps ensure that OakNorth has sufficient liquidity under severe but plausible stress conditions and confirms the adequacy of the liquidity risk appetite limits.

The 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 indicators and ensuring that OakNorth remains on target and within its capital and liquidity risk appetite. Independent oversight is provided by the second line Risk function. ALCO also conducts risk appetite appraisals to ensure that the Capital and Liquidity risk appetite statements are up to date and remain relevant to the operations.

(Audited)

As at 31 December 2022, OakNorth held unencumbered high-quality liquid assets of £1,235.7 million which were entirely held as cash at in the BOE reserve account

(2021: £486.4 million). Throughout the year, OakNorth complied with all the regulatory liquidity measures and continued to maintain surplus over the requirements. The average LCR during the year was 383% (2021: 335%).

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. We aim to mitigate each risk with robust controls and monitoring.

We have set a low risk appetite for any operational loss. We have a defined Operational Risk policy and a framework of risk mitigation processes. The first line of defence ensures that any operational risk in their area is assessed and mitigated through clearly defined and documented process documents (Standard Operating Procedures) which are continuously updated. The control framework is defined, reviewed, and monitored through the RCSA process, again continuously updated. In addition, a programme of second-line and third-line thematic reviews and monitoring ensures independent challenge and review. Appropriate risk limits and their thresholds and early warning indicators are set, and the key processes are reviewed for effectiveness through first line and second line assurance testing at a frequency determined using a risk-based approach. Appropriate MI on process effectiveness and any events or near misses, and the root cause analysis thereof, is reported monthly to senior management. This area of risk is overseen by the OpCo, ERC, and the BRCC.

We have a Business Continuity & Crisis Management Plan (BCP) in place that establishes systems of prevention and recovery to deal with potential threats. A Business Impact Analysis (BIA) is conducted annually to identify and quantify the operational and financial impact from foreseen crisis events. The BIA establishes the criticality of partners, applications, infrastructure, people assets, business processes, operational activities, and their respective interdependencies, defines the recovery objectives i.e., Recovery Time Objectives where applicable and Recovery Point Objectives, and links to planning for contingencies and back-up arrangements.

During the year we continued our Operational Resilience programme which focusses on continuous improvement through the identification and remediation of vulnerabilities through periodic testing. In accordance with PRA and FCA expectations, OakNorth defined its important business services and impact tolerances, and all have been met throughout the year. The services are mapped, and controls and contingencies are fully planned. A programme of individual component testing and more complex multi-component testing and drills ensures that we can identify vulnerabilities to continually strengthen our resilience.

Conduct, compliance, and financial crime

Adherence to all applicable regulatory rules, guidance and expectations is a key focus of OakNorth, in particular those regarding Conduct, Compliance and Financial Crime. OakNorth, at all times, aims to do the right thing for its customers and keep them, and the integrity of the markets in which they operate, at the heart of what we do. We have no appetite for any breach of law, regulation, code or standard of conduct or compliance.

We also ensure that we effectively manage reputational risk, defined as the risk to its public image from a failure to meet stakeholders' expectations in relation to performance, conduct or business profile. Stakeholders include customers, investors, employees, suppliers, government, regulators, and other group companies.

OakNorth has an independent and specialist second line Financial Crime and Compliance function, providing advice and guidance and a continuous programme of assurance through structured monitoring plans, delivered on a risk-based approach. The function also provides training, project/ new business support, policy oversight and various other risk management activities to ensure that we comply with all our legal and regulatory responsibilities. Tailored management information on all compliance themes is reported monthly to senior management. This area of risk is overseen by the Enterprise Risk Committee and the Board Risk & Compliance Committee.

Climate Risk

Climate Risk is the risk that climate change may affect our business and operating model through financial or reputational risks generated by the transition to a low carbon economy, or directly through assets exposed to the physical effects of climate change or failing to seize market opportunities. Climate change can affect the banking industry in a broad way, either directly or indirectly and we are currently developing our risk management framework in line with industry best practice, embedding the management of Climate Risk within all potentially impacted areas. This primarily includes Credit Risk, Operational Risk and Reputational risk.

Details on our climate risk management programs and initiatives is provided in the "Environment, Social and Governance review" on page 30.

Details on impact assessment on our loan book are discussed in "OakNorth's approach to Credit Risk Management" on page 65.

Cyber Risk

At OakNorth, safeguarding of our information and systems by Identifying, controlling, and measuring the risk of cyber threats is of utmost importance. Our unwavering commitment to preserving the confidentiality, integrity, and availability of our critical assets is reflected in our comprehensive cyber risk management program, designed to proactively identify, control, and measure the potential consequences of any cyber attack.

Our IT infrastructure has been meticulously designed to exhibit remarkable resiliency, with the incorporation of cloud services from the most prominent providers and best cyber security solutions. We have implemented a "defense in depth" strategy, featuring multiple layers of defense, including firewalls, VPNs, encryption, and top-notch monitoring and cyber defense tools. Our security operations centre, staffed 24/7, serves as a vigilant sentinel, and we engage in regular independent penetration testing to confirm the efficacy of our multi-layered defense approach.

Leading our efforts is a dedicated IT team, under the guidance of bank's Chief Information Security Officer (CISO), supported by a robust second-line assurance function that continually evaluates and improves our cybersecurity posture following the National Institute of Standards and Technology (NIST) cyber risk management framework.

OakNorth is committed to staying ahead of the evolving threat landscape and maintaining the highest level of cybersecurity for our customers and stakeholders.

Cyber Resilience Assessments

Regular cybersecurity maturity assessments are made against the Bank of England's Cyber Resilience Questionnaire (CQUEST) self-assessment co-developed by the PRA and FCA, and the NIST framework. The first and second line of defence periodically re-assess the status and maturity of the cyber defences of OakNorth using these frameworks and develop continuous improvement plans against evolving threats. The risk assessments are conducted by identifying threat sources and vulnerabilities, determining the likelihood of risk occurrence and magnitude of impact, and designing a programme of continuous improvement of defences.

Directors' report

Executive Directors

Rishi Khosla

Co-founder & Chief Executive Officer

APPOINTED: DEC 2013

Joel Perlman

Co-founder & Senior Managing Director

APPOINTED: DEC 2013

Rajesh Gupta

Executive Director, Chief Financial Officer

APPOINTED: FEB 2021

Non-Executive Directors

Cyrus Ardalan

Chairman, Chair of the Board Remuneration & Nomination Committee

APPOINTED: JUN 2015

Robert Burgess

Non-Executive Director,
Chair of the Board Credit Committee,
Chair of the Board Risk & Compliance Committee

APPOINTED: JAN 2015

Carolyn Schuetz

Non-Executive Director,
Chair of the Board Audit Committee

APPOINTED: JUN 2021

Edward Barry Berk

Senior Independent Director

APPOINTED: MAY 2017

Timo Boldt

Non-Executive Director

APPOINTED: AUG 2022

The Directors present their annual report on the affairs of OakNorth Bank plc (registered number: 08595042), together with the audited consolidated financial statements, for the year ended 31 December 2022.

Going concern

The Directors are satisfied that OakNorth Bank and its subsidiary have the resources to continue in business for the foreseeable future and that there are no material uncertainties to disclose. In making this assessment, the Directors have considered – OakNorth and its subsidiary's current available capital and liquidity resources, the credit quality of the loan book and overall balance sheet; the business financial projections (including profitability, liquidity and capital resources and requirements), long term strategy and the resilience and adaptability of the operational and IT infrastructure and that of its staff.

- OakNorth continues to maintain surplus over the minimum regulatory capital and liquidity requirements. Additionally, the credit and operational performance measures continue to be well within the risk appetite metrics limits. All the metrics are monitored via monthly and bi-monthly MI reports reviewed by the Board.
- During the year, the Board approved the 3-year business plan, capital plan and financial forecasts with consideration to the Risk Management Framework and Risk Appetite. Liquidity planning and stress testing was performed as part of the ILAAP which was approved by the Board and submitted to the PRA.
- The ECL assessment based on the combination of FLR borrower fundamentals and PD and LGD framework, the macroeconomic scenarios and scenario weightings, provide the Board with the comfort that the credit risks have been appropriately assessed and quantified.
- OakNorth's staff have been able to effectively continue working in a hybrid environment. No material disruptions or operational risk events or service disruptions were noted during the year and the IT and cybersecurity infrastructure proved to be robust.
- OakNorth's subsidiary, ASK Partners has adequate cash to fund its business operations. As such the company does not take any credit risk on its own balance sheet and has no regulatory capital and liquidity requirements.

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 the 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 in the section "Board engagement and consideration of stakeholder interests in the board's decision-making processes- Section 172 statement" of the Strategic report on page 27.

Streamlined Energy and Carbon Reporting (SECR)

The SECR disclosures are provided in the "Environmental, social and governance review" on page 30.

Dividends

The Directors do not recommend a dividend during the year.

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 37 in the Notes to the financial statements.

Strategic report review

Strategic report is reviewed and signed-off by the Board

Future developments

Please refer to the Strategic Report section "Business and economic outlook' and 'Risk Review".

Independent Auditors

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

- So far as the Director is aware, there is no relevant audit information of which OakNorth's auditors are unaware; and
- The Director has taken all the steps that he/ she ought to have taken as a Director 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 OakNorth'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
CEO & Co-Founder
20 March 2023

Financial statements

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards (IFRS).

Under company law, 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 group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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.

Directors' confirmations

Each of the directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards (IFRS), give a true and fair view of the assets, liabilities and financial position of the group and company, and of the profit of the group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

Rishi Khosla
CEO & Co-Founder
20 March 2023

Independent auditors' report to the members of OakNorth Bank Plc

Report on the audit of the financial statements

Opinion

In our opinion, OakNorth Bank Plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; 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, which comprise: the consolidated and company balance sheets as at 31 December 2022; consolidated statement of profit and loss and comprehensive income, consolidated and company statements of changes in equity, and consolidated and company cash flow statements 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 group 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 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.

Other than those disclosed in Note 2, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

This is our first year of auditing consolidated financial statements. The financial results of the entity acquired during the year are not material to the consolidated financial statements. The Bank has also transitioned from FRS 102 to UK-adopted International Financial Reporting Standards (IFRS) from 1 January 2022.

Overview

Audit scope

- We performed a full scope audit of the consolidated and company financial statements of OakNorth Bank Plc. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.
- The scope of the audit and the nature, timing and extent of 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.

Key audit matters

- Impairment of loans and advances to customers (group and parent)

Materiality

- Overall group materiality: £7.6m based on 5% of profit before tax.
- Overall company materiality: £7.5m (2021: £6.7m) based on 5% of profit before tax.
- Performance materiality: £5.7m (Group) and £5.6m (2021: £5.0m) (Bank).

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.

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.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers (group and parent) An impairment provision of £23.5m (2021: £29.0m) was recognised on loans and advances to customers in the year. Under IFRS 9, impairment losses are recognised on an 'expected credit loss' (ECL) basis which requires the use of forward looking information, reflecting management's view of potential future economic scenarios. The standard also requires management to make judgements regarding when a loan has experienced a 'significant increase in credit risk'. The ECL for Stage 1 and Stage 2 loans is estimated by impairment models which use judgemental assumptions regarding expected customer default rates and loss given default. A Forward Looking Rating (FLR) model's outputs are integrated within an external Probability of Default (PD) and Loss Given Default (LGD) modelling tool, which together determine the ECL provision. The FLR model uses statistical methodologies to analyse historic performance and macroeconomic correlations and incorporates forward looking factors to produce forecast curves for variables such as revenues, costs and rental yields as well as potential delays to projects. The forecast curves are obtained for each of the selected macroeconomic scenarios. These forecast curves are applied on borrower financial output metrics which are inputs into the Probability of Default (PD) and Loss Given Default (LGD) models. Our work focused on the appropriateness of methodologies and assumptions used in the PD, LGD and FLR models. Individual impairment assessments are performed for credit impaired loans and advances (which are categorised as Stage 3 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 outcomes. Further information can be found on Note 1 to the annual report, which includes the disclosures of the related accounting policies, judgements and estimates; and in Note 13 for detailed disclosures.	We tested the accuracy of source data for macroeconomic variables used in the FLR model and tested the completeness and accuracy of other critical data inputs used in the model. We involved our credit risk modelling specialists to test the forecast curves in the FLR model along with assessing the linear regression and qualitative adjustments on macroeconomic variables. We assessed whether the methodology used in the FLR model is appropriate and selected a sample of loans to determine if the methodology was appropriately applied. We tested the completeness and accuracy of critical data inputs used in the PD and LGD models and agreed a sample of cases to underlying documentation. We tested the accuracy of outputs from the FLR model used in the PD and LGD models. We compared management's forward-looking economic assumptions to external forecasts to assess their reasonableness. The severity and magnitude of the different scenarios used within the model were compared to external stress scenarios and data from historical economic downturns to determine whether they represented sufficient downside. We used this analysis to test the reasonableness of management's assigned weightings to each scenario in the ECL calculation. For a sample of individually impaired loans, we evaluated the specific circumstances of the borrower, including the latest developments, sales offers and confirmation of offers completion, 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 assessed the appropriateness of disclosures in the financial statements as part of our audit procedures and assessed them to be appropriate. Overall, based on the procedures performed and the evidence obtained, we found management's determination of impairment on loans and advances to be reasonable and materially compliant with the requirements of IFRS 9.

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 group and the company, the accounting processes and controls, and the industry in which they operate.

The group comprises OakNorth Bank Plc and A.S.K. Partners Limited. OakNorth Bank Plc is considered as the only financially significant component for consolidated financial statements.

At the planning stage we obtained an understanding of the group and its environment, considering the group's operations, ownership and governance structures, accounting framework, selection of accounting policies and the 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.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group and Bank's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group's and Bank's financial statements.

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:

	Financial statements - group	Financial statements - company
Overall materiality	£7.6m	£7.5m (2021: £6.7m)
How we determined it	5% of profit before tax	5% of profit before tax
Rationale for benchmark applied	Profit before tax is a key measure used by management and stakeholders in assessing performance of the group and is a generally accepted auditing benchmark.	Profit before tax is a key measure used by management and stakeholders in assessing performance of the company and is a generally accepted auditing benchmark.

For the significant component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The materiality allocated to the significant component was £7.2m.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £5.7m for the group financial statements and £5.6m (2021: £5.0m) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £381,000 (group audit) and £373,000 (company audit) (2021: 336,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- assessing and challenging key assumptions used by directors in their determination of going concern of the group and company;
- assessing the liquidity and capital forecasts prepared by management to support the going concern assessment with stress testing performed to challenge their reasonableness;
- corroborating legal and regulatory correspondence with audit procedures performed to ensure that there are no compliance issues which may impact the going concern of the group and company;
- consideration as to whether our audit procedures have identified events or conditions which may impact the going concern of the company.
- critically evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2022 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 group and company and their 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 in respect of the financial statements, 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 group's and 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 group or 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of Financial Conduct Authority 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 financial statements such as the Companies Act 2006. 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 posting inappropriate journal entries and management bias in accounting estimates, including impairment of loans and advances to customers. Audit procedures performed by the engagement team included:

- enquiries of management, internal audit and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- reviewing key correspondence with regulatory authorities (such as the PRA and the FCA);
- assessing matters reported through whistleblowing and reviewing management's consideration of matters raised, and their results;
- identifying and testing journal entries that we assessed as having a higher risk of being fraudulent;
- challenging assumptions and judgements made by management in their accounting estimates, in particular in relation to impairment of loans and advances to customers; and
- incorporating unpredictability into the nature, timing and/or extent of our testing above.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 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 obtained 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 company 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 5 years, covering the years ended 31 December 2018 to 31 December 2022.

Other matter

The group financial statements for the year ended 31 December 2021, forming the corresponding figures of the group financial statements for the year ended 31 December 2022, are unaudited.

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
20 March 2023

Consolidated Statement of profit and loss and comprehensive income

for the year ended 31 December 2022

OakNorth Bank Plc (registered number: 08595042)

“Bank Group” refers to the consolidated accounts of OakNorth Bank plc and its subsidiary ASK Partners.

“Bank” refers to standalone accounts of OakNorth Bank plc

		Bank Group	
	Note	2022 (£'000)	2021 (£'000)
Interest income	3	248,605	188,540
Interest expense	3	(47,936)	(25,852)
Net Interest income	3	200,669	162,688
Fees and commission	4	20,421	13,502
Net interest and Fee income		221,090	176,190
Administrative expenses	6,7,8,9	(57,105)	(44,385)
Depreciation and amortisation	16, 17, 18	(887)	(959)
Provision for impairment losses		(10,762)	3,694
Operating expenses and provisions		(68,754)	(41,650)
Profit from ordinary activities before tax		152,336	134,540
Taxation	5	(39,077)	(34,148)
Profit after tax from ordinary activities		113,259	100,392
Other Comprehensive (expense)/ Income			
Items that will be reclassified to profit and loss:			
Fair value changes on financial assets at FVOCI (net of tax)		(221)	245
Total comprehensive income for the year		113,038	100,637
Profit attributable to:			
Holders of ordinary shares of the Bank		112,069	100,392
Non-Controlling Interest	35	1,190	-
Profit after tax from ordinary activities		113,259	100,392
Total comprehensive income attributable to:			
Holders of ordinary shares of the Bank		111,848	100,637
Non-Controlling Interest	35	1,190	-
Total comprehensive income for the year		113,038	100,637

Note: OakNorth Bank plc has transitioned from FRS102 to UK-adopted IAS (IFRS) for year ending 31 December 2022. See note 1.6. The profit for the year derives wholly from continuing operations. The notes on page 108 to 153 form a part of these financial statements.

Consolidated Balance sheet

as at 31 December 2022

OakNorth Bank Plc (registered number: 08595042)

"Bank Group" refers to the consolidated accounts of OakNorth Bank plc and its subsidiary ASK Partners.

"Bank" refers to standalone accounts of OakNorth Bank plc

		Bank Group		
	Note	2022 (£'000)	2021 (IFRS Restated) (£'000)	Opening 1 Jan 2021 (£'000)
Assets				
Cash and balances at central bank	11	1,235,711	446,374	469,459
Loans and advances to banks	12	42,127	30,019	11,532
Loans and advances to customers	13	3,127,950	2,886,305	2,492,249
Debt securities	14	204,005	191,849	131,053
Goodwill	15	11,647	-	-
Intangible assets	16	4,293	28	464
Tangible fixed assets	17	305	484	950
Right of use ("ROU") assets	18	2,557	-	-
Deferred tax assets (net)	5	1,012	872	870
Other assets	19	27,813	14,380	9,639
Total assets		4,657,420	3,570,311	3,116,216
Liabilities				
Customer deposits	20	3,613,260	2,643,603	2,313,628
Borrowings under BOE Term funding scheme	21	201,423	200,050	181,796
Subordinated debt (Tier 2)	22	49,778	49,678	49,559
Trade payables and other provisions	23	14,619	23,396	24,363
Other liabilities	24	33,955	24,266	18,193
Total liabilities		3,913,035	2,940,993	2,587,539

Consolidated Balance sheet (cont.)

as at 31 December 2022

		Bank Group		
	Note	2022 (£'000)	2021 (IFRS Restated) (£'000)	Opening 1 Jan 2021 (£'000)
Capital and reserves				
Called up share capital	34	389,320	389,320	389,320
Share-based payments	7	111	83	79
Retained earnings	35	351,208	239,670	139,278
Other comprehensive income relating to financial assets at FVOCI		24	245	-
Non-controlling interests	29	3,722	-	-
Total equity		744,385	629,318	528,677
Total liabilities and equity		4,657,420	3,570,311	3,116,216

Note: OakNorth Bank plc has transitioned from FRS102 to UK-adopted IAS (IFRS) for year ending 31 December 2022. See note 1.6.

The notes on page 108 to 153 form a part of these financial statements. The financial statements of OakNorth Bank plc and OakNorth Bank Group were approved by the Board of Directors and authorised for issue on 20 March 2023. They were signed on its behalf by:

Rishi Khosla
Chief Executive Officer
& Co-Founder

Joel Perlman
Senior Managing Director
& Co-Founder

Rajesh Gupta
Chief Financial Officer

Company Balance sheet

as at 31 December 2022

OakNorth Bank Plc (registered number: 08595042)

“Bank Group” refers to the consolidated accounts of OakNorth Bank plc and its subsidiary ASK Partners.

“Bank” refers to standalone accounts of OakNorth Bank plc

		Bank		
	Note	2022 (£'000)	2021 (IFRS Restated) (£'000)	Opening 1 Jan 2021 (£'000)
Assets				
Cash and balances at central bank	11	1,235,711	446,374	469,459
Loans and advances to banks	12	37,507	30,019	11,532
Loans and advances to customers	13	3,127,493	2,886,305	2,492,249
Investment in subsidiary	28	14,250	-	-
Debt securities	14	204,005	191,849	131,053
Intangible assets	16	4,293	28	464
Tangible fixed assets	17	246	484	950
Right of use (“ROU”) assets	18	2,557	-	-
Deferred tax assets (net)	5	1,012	872	870
Other assets	19	22,962	14,380	9,639
Total assets		4,650,036	3,570,311	3,116,216
Liabilities				
Customer deposits	20	3,613,260	2,643,603	2,313,628
Borrowings under BOE Term funding scheme	21	201,423	200,050	181,796
Subordinated debt (Tier 2)	22	49,778	49,678	49,559
Trade payables and other provisions	23	12,191	23,396	24,363
Other liabilities	24	33,855	24,266	18,193
Total liabilities		3,910,507	2,940,993	2,587,539

Company Balance sheet (cont.)

as at 31 December 2022

		Bank		
	Note	2022 (£'000)	2021 (IFRS Restated) (£'000)	Opening 1 Jan 2021 (£'000)
Capital and reserves				
Called up share capital	34	389,320	389,320	389,320
Share-based payments	7	111	83	79
Retained earnings	35	350,074	239,670	139,278
Other comprehensive income relating to financial assets at FVOCI		24	245	-
Total equity		739,529	629,318	528,677
Total liabilities and equity		4,650,036	3,570,311	3,116,216

Note 1: OakNorth Bank plc profit after tax for the year was £110.9 million (2021: £100.4 million).

Note 2: OakNorth Bank plc has transitioned from FRS102 to UK-adopted IAS (IFRS) for year ending 31 December 2022. See note 1.6.

The notes on page 108 to 153 form a part of these financial statements. The financial statements of OakNorth Bank plc and OakNorth Bank Group were approved by the Board of Directors and authorised for issue on 20 March 2023. They were signed on its behalf by:

Rishi Khosla
Chief Executive Officer
& Co-Founder

Joel Perlman
Senior Managing Director
& Co-Founder

Rajesh Gupta
Chief Financial Officer

Consolidated Statement of changes in equity

for the year ended 31 December 2022

OakNorth Bank Plc (registered number: 08595042)

“Bank Group” refers to the consolidated accounts of OakNorth Bank plc and its subsidiary ASK Partners.

“Bank” refers to standalone accounts of OakNorth Bank plc

		Called up Share Capital	Retained earnings	Financial assets at FVOCI	Share-based payment	Non-controlling payment	Total
Bank Group	Note	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 January 2021		389,320	139,278	-	79	-	528,677
Profit for the year	35	-	100,392	-	-	-	100,392
Other comprehensive income for the year		-	-	245	-	-	245
Employee share-based payments	7	-	-	-	4	-	4
As at 31 December 2021		389,320	239,670	245	83	-	629,318
As at 1 January 2022		389,320	239,670	245	83	-	629,318
IFRS transition adjustment (net of tax)	1.6	-	(470)	-	-	-	(470)
As at 1 January 2022 (IFRS Restated)		389,320	239,200	245	83	-	628,848
Non-Controlling interest on acquisition of subsidiary	28	-	-	-	-	2,593	2,593
Profit for the year	35	-	112,069	-	-	1,190	113,259
Other comprehensive expense for the year		-	-	(221)	-	-	(221)
Employee share-based payments	7	-	-	-	28	-	28
Unwinding of investment in ASK entities		-	(61)	-	-	(61)	(122)
As at 31 December 2022		389,320	351,208	24	111	3,722	744,385

Company Statement of changes in equity

for the year ended 31 December 2022

OakNorth Bank Plc (registered number: 08595042)

“Bank Group” refers to the consolidated accounts of OakNorth Bank plc and its subsidiary ASK Partners.

“Bank” refers to standalone accounts of OakNorth Bank plc

Bank	Note	Called up Share Capital £'000	Retained earnings £'000	Financial assets at FVOCI £'000	Share-based payment £'000	Total £'000
As at 1 January 2021		389,320	139,278	-	79	528,677
Profit for the year	35	-	100,392	-	-	100,392
Other comprehensive income for the year		-	-	245	-	245
Employee share-based payments	7	-	-	-	4	4
As at 31 December 2021		389,320	239,670	245	83	629,318
As at 1 January 2022		389,320	239,670	245	83	629,318
IFRS transition adjustment (net of tax)	1.6	-	(470)	-	-	(470)
As at 1 January 2022 (IFRS Restated)		389,320	239,200	245	83	628,848
Profit for the year	35	-	110,874	-	-	110,874
Other comprehensive expense for the year		-	-	(221)	-	(221)
Employee share-based payments	7	-	-	-	28	28
As at 31 December 2022		389,320	350,074	24	111	739,529

Note: OakNorth Bank plc has transitioned from FRS102 to UK-adopted IAS (IFRS) for year ending 31 December 2022. See note 1.6.

The notes on page 108 to 153 form a part of these financial statements.

Consolidated and Company Cash flow statement

for the year ended 31 December 2022

OakNorth Bank Plc (registered number: 08595042)

“Bank Group” refers to the consolidated accounts of OakNorth Bank plc and its subsidiary ASK Partners.

“Bank” refers to standalone accounts of OakNorth Bank plc

		Bank Group		Bank	
	Note	2022 (£'000)	2021 (£'000)	2022 (£'000)	2021 (£'000)
Profit from ordinary activities before tax		152,336	134,540	149,519	134,540
Adjustments for					
Changes to Non-cash items					
Depreciation and amortisation	2	887	646	860	646
Write-off of tangible and intangible assets	2	-	313	-	313
Expected credit loss allowance		10,762	(3,694)	10,762	(3,694)
Share-based payment to employees	7	28	4	28	4
Interest expense on lease liability	18	397	-	397	-
Interest income on debt securities	3	(2,060)	(150)	(2,060)	(150)
Interest expense on TFSME borrowing	3	2,946	261	2,946	261
Interest expense on subordinated debt	3	3,976	3,976	3,976	3,976
Changes to operating assets & liabilities					
Net change in other assets/ liabilities	33	(14,137)	(2,050)	(11,993)	(2,050)
Increase in loan receivables		(251,805)	(390,362)	(251,950)	(390,362)
Increase in customer deposits		969,657	329,975	969,657	329,975
Income taxes paid		(39,766)	(31,850)	(39,766)	(31,850)
Net cash flows generated from operating activities		833,221	41,609	832,376	41,609
Purchase of intangible assets	16	(4,358)	-	(4,358)	-
Purchase of tangible assets	17	(19)	(57)	(19)	(57)
Acquisition of subsidiary, net of cash acquired	28	(10,475)	-	(14,250)	-
Purchase of debt securities		(202,501)	(191,086)	(202,501)	(191,086)
Proceeds from maturity of debt securities		191,000	126,771	191,000	126,771
Interest received on debt securities		1,076	4,029	1,076	4,029
Net cash flows used in investing activities		(25,277)	(60,343)	(29,052)	(60,343)

Consolidated and Company Cash flow statement (cont.)

for the year ended 31 December 2022

OakNorth Bank Plc (registered number: 08595042)

		Bank Group		Bank	
	Note	2022 (£'000)	2021 (£'000)	2022 (£'000)	2021 (£'000)
Increase in TFS borrowings		-	18,100	-	18,100
Interest paid on TFSME borrowings		(1,573)	(107)	(1,573)	(107)
Interest paid on subordinated debt		(3,876)	(3,857)	(3,876)	(3,857)
Cash outflow on lease liability	18	(1,050)	-	(1,050)	-
Net cash flows generated from/ (used in) financing activities		(6,499)	14,136	(6,499)	14,136
Net increase/ (decrease) in cash and cash equivalents		801,445	(4,598)	796,825	(4,598)
Cash and cash equivalents at beginning of year		476,393	480,991	476,393	480,991
Cash and cash equivalents at end of year		1,277,838	476,393	1,273,218	476,393
Reconciliation to cash at banks					
Cash and balances at central bank	11	1,235,711	446,374	1,235,711	446,374
Loans and advances to banks	12	42,127	30,019	37,507	30,019
Total		1,277,838	476,393	1,273,218	476,393

The notes on page 108 to 153 form a part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2022

1. Accounting policies

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

1.1 General information and basis of accounting

OakNorth Bank plc (registered number: 08595042), herein referred to as 'OakNorth' or 'OakNorth Bank' 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 OakNorth Bank is a Public limited Company- however the equity is not listed on an exchange. The OakNorth Bank is a wholly owned subsidiary of OakNorth Holdings Limited (see note 36). OakNorth has issued Subordinated Notes which are listed on the Irish Stock Exchange (ISE) (see note 22).

During the year, OakNorth Bank acquired 50.1% stake in ASK Partners Limited. The financial statements have therefore been presented both for OakNorth Bank (herein referred to as 'the Bank') standalone entity as well as on a consolidated OakNorth Bank group (herein referred to as 'Bank Group') basis. Accounting policy disclosures referred throughout the Notes to the Financial Statements refer to OakNorth's accounting policies. References have been added where the accounting policy is also material to OakNorth Bank's subsidiary.

For the year ended 31 December 2022, both the Bank group consolidated and Bank standalone financial statements have been prepared for the first time in accordance with UK-adopted International Accounting Standards (IAS) (IFRS) as defined by the UK Endorsement Board (UKEB) and the Companies Act 2006 applicable to companies reporting under IFRS.

For all periods up to and including the year ending 31 December 2021, the financial statements had been prepared in accordance with Financial Reporting Standard (FRS 102) issued by the Financial Reporting Council, including applying IFRS 9 under the accounting policy choice permitted under FRS 102.

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (classified as debt securities) that have been measured at fair value.

No individual 'Statement of profit and loss and comprehensive income' or related disclosures are presented for OakNorth Bank as permitted by Section 408 of the Companies Act 2006.

1.2 Reporting currency

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

1.3 Statutory audit status of subsidiary

For the financial year ended 31 December 2022, OakNorth Bank's subsidiary, ASK Partners Limited has not been subject to statutory audit as the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

1.4 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.

OakNorth Bank and its subsidiary do not currently have any material foreign currency transactions.

1.5 Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that OakNorth Bank and its subsidiary have adequate resources to continue operating in the foreseeable future. In making this assessment, the Directors have considered –

- the available capital and liquidity resources and surplus over the requirements- the levels of which remain sufficiently robust;
- the credit quality of the loan book and overall balance sheet. The Board reviews the monthly credit MI packs to enable review and monitoring of the performance of the loan book and portfolio metrics as measured against the risk appetite limits;
- the adequacy of ECL provisions. The Board considers the macro economic assumptions, scenarios and weightings applied under the enhanced PD framework, which has loss data and scenarios calibrated using third-party sources, supplemented with the granular sub-sector level downside scenarios applied on the whole loan book using OakNorth's proprietary FLR framework, as comprehensive consideration to compute the ECL provisions as at 31 December 2022;
- the business strategy and short term (12 month) and mid range (3 year) financial plan which has considered the implications of the macroeconomic outlook and climate risk. The Board undertook a review of the strategy and believes that OakNorth has a robust business model to enable it to continue growing in the future;
- the risk appetite limits. The Board reviewed and approved tightening of a number of risk appetite metrics. OakNorth's performance against the metrics across all the risk areas remained well within limits;
- the stress testing and capital and liquidity planning performed as a part of the Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP), which indicate adequate capital and liquidity buffers and ability to effectively manage stresses and resources. A number of severe and plausible scenarios were considered as part of the stress testing process including a combination of severe idiosyncratic and macroeconomic scenarios. Capital reverse stress tests were also assessed and reviewed by the Board, albeit the scenario was considered as unlikely and
- the resilience and adaptability of the operational and IT infrastructure. OakNorth's operational and IT infrastructure proved robust with no material issues noted.
- OakNorth Bank's subsidiary, ASK Partners has adequate cash to fund its business operations. As such the company does not take any credit risk on its own balance sheet and has no regulatory capital and liquidity requirements.

Information on OakNorth's business strategy, performance and outlook are 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 the Risk Management Framework.

1.6 First time adoption of UK-adopted IAS (IFRS)

In 2022, OakNorth adopted the UK-adopted IAS (IFRS) for the first time. Accordingly, the financial statements for the year-ended 31 December 2022 are prepared under IFRS. For periods up to and including the year ended 31 December 2021, OakNorth prepared its financial statement in accordance with FRS 102 (including IFRS 9).

The comparatives for 2021 have not been restated for any accounting adjustments, other than balance sheet classification changes. In preparing the financial statements, the opening statement of financial position was prepared as at 1 January 2021, the date of transition to IFRS. This note summarises the principal adjustments made by OakNorth in presenting its financial statements prepared under FRS 102, including the statement of financial position as at 1 January 2021 and the financial statements as of, and for, the year ended 31 December 2021.

1.6.1 Exemptions applied

OakNorth has applied the following exemptions:

- Tangible and Intangible assets: Carrying value as per the FRS 102 financial statements has been considered as 'deemed cost' for IFRS.
- Impact of IFRS 16: Recognition of the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings as at 1 January 2022 and no restatement of comparatives for 2021.

Lease liabilities were measured at the present value of the lease payments as if IFRS 16 had been applied since commencement of the leases but discounted using OakNorth's incremental borrowing rate at the date of transition. Rights-of use assets were measured at the amount equal to the lease liabilities. The lease payments associated with leases for which the lease term ends within 12 months of the date of transition to IFRS and leases for which the underlying asset is of low value, have been recognised as an expense on a straight-line basis.

No exemptions were applicable for IFRS 9 as OakNorth had already adopted IFRS 9 on 1 January 2019 based on the accounting policy choice permitted under FRS 102.

No exemptions were applicable for IFRS 3 as this is the first year OakNorth has prepared consolidated financial statements.

1.6.2 Accounting Estimates

The accounting estimates at 1 January 2021 and at 31 December 2021 under IFRS are consistent with those made for the same dates in accordance with FRS 102 (after adjustments to reflect any differences in accounting policies).

The estimates used to present these amounts in accordance with IFRS reflect conditions on 1 January 2021, the date of transition to IFRS, and, as of 31 December 2021. Refer note 1.9 on 'Critical accounting judgements and key sources of estimation uncertainty'.

1.6.3 Reconciliation of balance sheet as at 1 January 2021 (date of transition to IFRS) and as at 31 December 2021

Bank	As at 31 December 2021 FRS 102 (£'000)	As at 31 December 2021 Reclassification/ Remeasurement (£'000)	As at 31 December 2021 IFRS as at 31 Dec 2021 (£'000)	As at 1 January 2021 FRS 102 (£'000)	As at 1 January 2021 Reclassification/ Remeasurement (£'000)	As at 1 January 2021 IFRS as at 1 Jan 2021 (£'000)
Assets						
Cash and balances at central bank	446,374	-	446,374	469,459	-	469,459
Loans and advances to banks	30,019	-	30,019	11,532	-	11,532
Loans and advances to customers	2,886,305	-	2,886,305	2,492,249	-	2,492,249
Debt securities	191,849	-	191,849	131,053	-	131,053
Intangible assets	-	28	28	168	296	464
Tangible fixed assets	512	(28)	484	1,246	(296)	950
Deferred tax assets (net)	872	-	872	870	-	870
Other assets	14,380	-	14,380	9,639	-	9,639
Total assets	3,570,311	-	3,570,311	3,116,216	-	3,116,216
Liabilities						
Customer deposits	2,643,603	-	2,643,603	2,313,628	-	2,313,628
Borrowings under BOE Term funding scheme	200,050	-	200,050	181,796	-	181,796
Subordinated debt (Tier 2)	49,678	-	49,678	49,559	-	49,559
Trade payables and other provisions	23,396	-	23,396	24,363	-	24,363
Other liabilities	24,266	-	24,266	18,193	-	18,193
Total liabilities	2,940,993	-	2,940,993	2,587,539	-	2,587,539

Bank	As at 31 December 2021 FRS 102 (£'000)	Reclassification/ Remeasurement (£'000)	IFRS as at 31 Dec 2021 (£'000)	As at 1 January 2021 FRS 102 (£'000)	Reclassification/ Remeasurement (£'000)	IFRS as at 1 Jan 2021 (£'000)
Capital and reserves						
Called up share capital	389,320	-	389,320	389,320	-	389,320
Share-based payments	83	-	83	79	-	79
Retained earnings	239,670	-	239,670	139,278	-	139,278
Other comprehensive income relating to financial assets at FVOCI	245	-	245	-	-	-
Non-controlling interests	-	-	-	-	-	-
Total capital and reserves	629,318	-	629,318	528,677	-	528,677
Total liabilities and capital and reserves	3,570,311	-	3,570,311	3,116,216	-	3,116,216

Computer software has been presented under 'Intangible assets' under UK-adopted IAS (IFRS), which was previously classified as part of 'Tangible fixed assets' as per the accounting policy choice permitted under FRS 102.

1.6.4 Reconciliation of total profit and loss and total comprehensive income for the year ended 31 December 2021

Bank	FRS 102 (£'000)	Remeasurement (£'000)	IFRS for year ending 2021 (£'000)
Interest income	188,540	-	188,540
Interest expense	(25,852)	-	(25,852)
Net Interest income	162,688	-	162,688
Fees and commission	13,502	-	13,502
Net interest and Fee income	176,190	-	176,190

Bank	FRS 102 (£'000)	Remeasurement (£'000)	IFRS for year ending 2021 (£'000)
Administrative expenses	(44,385)	-	(44,385)
Depreciation and amortisation	(959)	-	(959)
Provision for impairment losses	3,694	-	3,694
Operating expenses and provisions	(41,650)	-	(41,650)
Profit from ordinary activities before tax	134,540	-	134,540
Taxation	(34,148)	-	(34,148)
Profit after tax from ordinary activities	100,392	-	100,392
Other Comprehensive Income			
Items that will be reclassified to profit and loss:			
Fair value changes on financial assets at FVOCI (net of tax)	245	-	245
Total comprehensive income for the year attributable to equity shareholders	100,637	-	100,637

No restatements that have been done on account of GAAP differences to the total profit and loss and total comprehensive income for 2021.

1.6.5 Reconciliation of opening equity as at 1 January 2022 with transition impact

Bank	Called up Share Capital £'000	Retained earnings £'000	Financial assets at FVOCI £'000	Share-based payment £'000	Total £'000
As at 1 January 2022 (as per FRS 102)	389,320	239,670	245	83	629,318
Transitional adjustments:					
Recognition of ROU assets	-	3,067	-	-	3,067
Recognition of lease liability	-	(4,265)	-	-	(4,265)
De-recognition of lease equalisation reserve	-	571	-	-	571
Recognition of deferred tax	-	157	-	-	157
As at 1 January 2022 (as per UK-adopted IAS (IFRS))	389,320	239,200	245	83	628,848

The transitional adjustments to the equity are driven by GAAP differences in lease accounting.

Under FRS 102, a lease is classified as a finance lease or an operating lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term. Whereas, under IFRS, a lessee applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets and recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Under IFRS, we have measured the lease liabilities at the present value of the lease payments as if IFRS 16 has been applied since commencement of the lease and discounted using OakNorth's incremental borrowing rate at the date of transition to IFRS (see note 1.6 on exemptions applied), which has been estimated as c.10%. We have assessed and considered extension of one lease agreement as at balance sheet.

As a result of the accounting changes, an increase of £4.3 million of lease liabilities and £3.1 million of right-of-use assets has been recognised. Opening lease equalisation reserve of £0.6 million, which was created under FRS 102 was reversed on transition to IFRS. The difference between lease liabilities, right-of-use assets and lease equalisation reserve has been recognised in opening retained earnings as of 1 January 2022. Deferred tax asset of £0.2 million has been recognised due to the timings difference on account of these IFRS 16 transitional adjustments.

1.7 New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting year and have not been early adopted by OakNorth. These standards, amendments or interpretations are not expected to have a material impact on OakNorth.

1.8 Basis of Consolidation

The consolidated "Bank Group" financial statements presented herein comprise the financial statements of OakNorth Bank and its subsidiary ASK Partners Limited as at 31 December 2022.

The financial statements are consolidated based on an assessment of "control" in accordance with IFRS 3. Control is primarily achieved when OakNorth has the necessary majority voting rights to influence decisions at the board of the subsidiary undertaking. Additional factors that are considered and assessed include: influence over/ exposure to variable returns from the investee, power to direct activities.

We account for business combinations using the acquisition method. The amount of non-controlling interest can be measured at fair value or as the non-controlling interest's proportionate share of the identifiable net assets. This decision is made on an acquisition-by-acquisition basis. Post-acquisition, all income and expenses are included in the consolidated income statement on a line-by-line basis and all intra-group transactions are eliminated on consolidation.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with OakNorth's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. In the event of loss of control, Oaknorth derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at cost in accordance with the applicable IFRS standards.

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1.9 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 the accounting policies and that have the most significant effect on the amounts recognised in financial statements.

- **Determining the staging of the loans** – please see note 1.12
- **Probability of default** – please see note 1.12
- **Loss given default** - please see note 1.12
- **Forward looking macroeconomic scenarios**- please see section "Credit Risk" page 75 to 79.
- **Recognition of intangible assets and impairment**– Please see note 1.17 and note 16

Of the above, determining the loan staging, forward looking macroeconomic scenarios, measures of probability of default and loss given default- are areas of judgement that impact the ECL provisions. Recognition of intangible assets and impairment is primarily an area of accounting estimate.

1.10 Operating segments

OakNorth offers lending products to borrowers across different sectors. However, we currently do not operate different business divisions/ operating segments. The business operates as a single integrated unit with all other functions such as liquidity management, deposits and other support functions supporting the growth of the lending business. The subsidiary of OakNorth Bank is also a specialist lender providing bespoke lending solutions, and therefore no separate reportable operating segment was considered specifically for the subsidiary.

1.11 Financial instruments

1.11.1 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. Loans and advances, deposits, and other market borrowings, debt securities issued and subordinated liabilities are recognised at fair value on the date of origination. Management determines the classification of financial assets at initial recognition based on the applicable accounting standards.

Financial assets are de-recognised when the rights to receive cash flows have expired or substantially all the risks and rewards of ownership have been transferred. Financial liabilities are derecognised from the balance sheet when OakNorth has discharged its obligations, the contract is cancelled, or the contract expires.

1.11.2 Loan modifications

OakNorth may renegotiate/ modify the contractual cash flows of the loans to customers. Accordingly, we assess 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 may be relevant to the loan.

Where the terms are substantially different, we derecognise the old asset and recognise the new financial asset at a new effective interest rate (EIR). We also assess 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.

1.11.3 Loan write-off

Loans maybe written off either partially or fully, when there is no realistic prospect of recovery. This is generally after receipt of any proceeds from the realisation of security and can also be in cases where, based on the assessment of the net realisable value of the collateral, there is no reasonable expectation of further recovery. This may include loans that are still subject to enforcement activity.

1.11.4 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.

1.11.5 Fair value hierarchy

Fair value of the financial instruments is measured using the following fair value hierarchy, which reflects the significance of the inputs used in determining the valuation.

- Level 1 financial instruments – valuation is based on unadjusted quoted market prices in an active market for identical assets or liabilities that we have access to at the measurement date.
- Level 2 financial instruments – valuation derived either directly or indirectly from observable market data. This may include quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets and or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 financial instruments – valuation derived from inputs that are unobservable or include one or more unobservable input that is significant to the measurement as whole.

1.11.6 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.

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 cash flows discounted using the original EIR. Any changes are recognised in profit and loss statement.

1.11.7 Classification of financial instruments under IFRS 9

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, we use both past experience and intent of how the asset is expected to be managed/ held. As such, currently OakNorth 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.

1.11.8 Loans and advances to customers

Loans and advances to customers are classified as held at amortised cost, in line with the criteria defined under IFRS 9. 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. Policy in relation to determination of the ECL allowance is detailed separately in the Notes to the financial statements.

1.11.9 Debt securities

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

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.

No debt securities are held at FVPL as there are no eligible instruments held for trading under the current business model.

Reclassification of debt securities between categories is done only when the business model for managing those assets changes. No such changes occurred during the year.

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.

Debt securities are valued at the quoted market prices and any changes to the fair value is recorded in other comprehensive income.

1.11.10 Financial liabilities

All financial liabilities on the balance sheet of OakNorth Bank are classified and subsequently measured at amortised cost.

1.12 Expected credit loss charge on assets held at amortised cost

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

1.12.1 Definition of ECL

Credit loss is defined and is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate over the expected life of the financial instrument. Under IFRS 9, expected credit losses is required to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

1.12.2 Components of ECL and key areas of judgement

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. ECL amount is discounted at the loan's interest rates.

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

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

1.12.3 Exposure at default (EAD)

EAD includes all current outstanding balances, interest due and judgement-based estimates of drawdowns on undrawn loan commitments.

1.12.4 Staging approach based on credit quality of loans

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

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

classified as 'Stage 2'. The ECL for Stage 2 accounts is measured on a lifetime basis.

- Financial instruments that are deemed credit-impaired are classified as Stage 3. The ECL for Stage 3 accounts is also measured on a lifetime basis.

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 policies detailed under the Credit Risk Management Framework. The policies consider both quantitative and qualitative triggers in addition to the IFRS 9 backstop criteria of 30 days past due for Stage 2 and 90 days past due for Stage 3.

Stage 2 SICR triggers include actual or expected deterioration of financial covenant headroom, financial performance and cover ratios, cash position, quality of collaterals; additional triggers for real-estate backed loans include decline in collateral values, cost over-runs, material threats to the project or project delays, and any other new qualitative information available on the borrower via our early warning sign (EWS) process.

Stage 3 criteria include objective impairment triggers, which include significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, breach of contract, significant deterioration in collateral valuation where repayment of the loans is solely dependent on the sale of such collaterals, or any other factors as the CRMC deems relevant which may result in the borrower unlikely to pay.

We do not apply automatic 'PD' based migration criteria to assess SICR and transition to Stage 2 or 3. We also do not apply portfolio-level assessment of SICR. SICR is assessed for each individual loan and all staging changes are subject to CRMC approvals.

For loans that breach the SICR triggers, we further determine whether the credit risk on the loan is sufficiently low as at the reporting date. The credit risk on a loan is considered low for the purposes of the IFRS 9 requirements if it has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. In cases where the credit risk on the loan is assessed as sufficiently low, the staging change to Stage 2 or 3 is not done.

1.12.5 Probability of default (PD)

Probability of default (PD) is the likelihood that a borrower will fail to pay back a debt.

Due to OakNorth's limited trading history, third-party models are used to calibrate the PD and LGD for each of the loans. These external PD and LGD models leverage historic industry default data and process borrower financial information and qualitative factors to estimate borrower PDs and LGDs.

The external model considers both quantitative and qualitative assessment of each individual exposure, which includes (but is not limited to) information on key financial metrics, business performance, the quality of collaterals, business and borrower profile. The additional risk analysis results in calculation and application of 'qualitative adjustment' factors, that are applied in calculation of the final PD score.

In accordance with the IFRS 9 requirements, point-in-time (PIT) scenario-weighted PDs are applied in the ECL calculations. For the real-estate book, the scenario-weighted PIT PDs are directly obtained from the external PD and LGD modelling tool. For the business trading book (Commercial & Industrial- C&I) we use statistical analysis of the through-the-cycle (TTC) PDs obtained from the external tools, under a combination of macroeconomic variables, to obtain PIT PDs.

Further details on PD modelling, inputs and scenario assumptions are provided in the "Credit Risk" section page 75 to 79.

1.12.6 Loss given default (LGD)

Loss given default (LGD) is defined as the percentage exposure at risk that is not expected to be recovered in an event of default.

We calibrate the LGD using external PD and LGD modelling solution for both its real estate and business trading book. The solution incorporates the assumptions of impact on the collateral values, factoring any costs of sales. Limited judgement-based haircuts have been applied on certain eligible collateral for the business trading book. The actual experience in realising collaterals may differ.

1.12.7 Forward looking macroeconomic scenarios and scenario weightings

Judgements are applied in the choice of macroeconomic scenarios and scenario weightings. These are detailed in the "Credit Risk" section page 75 to 79.

We use externally sourced macro-economic scenarios, adjusted for management views and judgement using the FLR approach.

1.12.8 Other areas of management judgements

OakNorth's Forward Looking Rating (FLR) and interaction with the PD/LGD framework: In the view of the management, the lack of granularity in the assessment of sub-sectors and underlying borrower fundamentals continues to remain in the external PD/ LGD frameworks currently available. In order to address this gap, we have integrated the FLR approach with the external PD and LGD modelling tool to derive the associated PIT PDs and LGDs for each of the scenarios, which then together drive the ECL provision calculations. The key assumptions and sensitivities are disclosed in the "Credit Risk" section page 75 to 79.

Specific impairment assessment on Stage 3 cases: We assess multiple forward-looking scenarios of recovery and recovery strategies, cash-flows, and borrower actions to assess the expected loss in each of the scenarios. The outcomes of these scenarios are assigned probabilities on the basis of which specific loss provisions are recorded. The primary inputs to the modelling of ECL on specifically impaired loans are provided by our Workout and Restructuring team. The scenarios and specific provisions are discussed and challenged at the Reserves Adequacy Committee and are approved by the CRMC.

1.13 Cash and cash equivalents

Cash and cash equivalents include unencumbered balances with the central bank and amounts due from other banks with a maturity of less than three months that are readily convertible to known amount of cash and which are subject to an insignificant risk of change in value.

1.14 Sale and repurchase transactions

Securities sold 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.

1.15 Bank of England Term Funding Scheme for SMEs (TFSME)

OakNorth is an approved participant under the TFSME scheme. The borrowing is collateralised against UK GILTS. 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.

1.16 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 and desktops.

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 year, 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.

1.17 Intangible assets and Goodwill

1.17.1 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over our interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the value of the non-controlling interest in the acquiree. Goodwill is initially measured at cost. After initial recognition, goodwill is not amortised and is tested for impairment at the end of each reporting year.

Goodwill is allocated to individual cash-generating unit (CGU) and the CGU is tested for impairment on an annual basis. The residual value of CGU is computed by discounting the future cashflows and compared with the carrying value of CGU including Goodwill. In case the residual value is lower than the carrying value, the Goodwill is first impaired followed by other assets in the CGU.

1.17.2 Software

Purchased software is recognised at cost of acquisition. Internally developed software is initially capitalised at cost which includes directly attributable costs of preparing the asset for its intended use. Costs associated with research and maintaining the software are expensed as incurred. Costs associated with development of the banking platform that we use to service our loans and deposits products are capitalised.

Subsequent to initial recognition, software assets are reported at cost less accumulated amortisation and impairment.

Amortisation of software is recognised on a straight-line method in profit or loss over the estimated useful life less any residual value, from the date on which it is available for use. The estimated useful life is generally assessed between 3 to 5 years.

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

1.17.3 Other intangible assets as part of acquisitions

Other identifiable intangible assets may arise as part of business combinations. These may include marketing related intangibles (trademarks, internet domain), customer contracts / customer relationships, etc.

The value of these intangibles is assessed in accordance with the methodologies prescribed under IFRS, including whether these have finite or infinite life.

For intangibles with finite life, assessment of useful life is done on a case by case basis but is not expected to exceed 10 years in general.

1.17.4 Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from asset in use. 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.

1.17.5 Impairment of tangible and intangible assets

At each balance sheet date, the carrying amounts of its tangible and intangible assets is reviewed to determine whether there is any indication of impairment. If any such indication exists, the carrying value of the asset is compared with the recoverable amount, which is the higher of fair value less costs to sell and value in use. There may be other qualitative factors also considered in the assessment depending on the relevance to the asset.

If the carrying value exceeds the recoverable amount, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset is reduced to that extent. Where an impairment loss subsequently reverses, the carrying value of the asset is increased only to the extent that would not exceed the carrying value of the asset that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

1.18 Leases

Assets and liabilities arising from a lease are initially measured on a present value basis.

Right-of-Use ("ROU") asset and a lease liability are recognised at the lease commencement date. The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. Right-of-use assets are generally depreciated over the lease term on a straight-line basis.

The lease liability is initially measured at the present value of lease payments that are not paid at the lease commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, OakNorth's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not be exercised.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

ROU assets and lease liabilities for most leases, except those that are low value (less than £100k annual cost), in which case the lease payments are expensed on a straight-line basis.

1.19 Revenue recognition

Interest income and interest expense are recognised in the profit and loss statement as accrued using Effective Interest Rate (EIIR) 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. Transaction costs associated with originating borrowings that are integral to the EIR, are amortised over the life of the borrowing. No costs associated with originating financial assets are deferred. When calculating the EIR, future cash flows are estimated 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 recognised in the profit and loss statement include: fees arising from transactions or services that are performed over a period of time and are recognised over the life of these transactions or services-this includes fees charged on any undrawn commitments which is applicable over the life of the commitment; and fees relating to services provided in a single act or point in time and are recognised when the single act is completed.

The revenue recognition policy is consistently applied to both OakNorth Bank and its subsidiary. There are no material judgements applied in relation to revenue recognition.

1.20 Employee benefits

Pension scheme costs

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

Share-based payments

OakNorth Holdings Limited's (the Holding Company of OakNorth Bank) employee benefit trust issues growth shares and gives share options to the employees, subject to vesting conditions. The vesting is subject to business performance conditions and other employment conditions which must be met. The expenses are recognised in the P&L for the fair value of the shares over the vesting period by credit to equity. If an employee leaves, the unvested shares are bought back by the employee benefit trust and the reserves in equity are reversed.

1.21 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.

1.22 Other Provisions (excluding expected credit loss provision)

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event; it is highly probable that we 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, considering 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.

1.23 Taxation

Current tax comprises expected tax to be paid (or recovered) on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. It is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and any adjustments. 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 as at 31 December 2022. From 1 April 2023, the surcharge rate will be reduced from 8% to 3% and the surcharge allowance limit available for banking groups will be increased from £25 million to £100 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 year end and that are expected to apply to the reversal of the timing difference.

1.24 Share capital and reserves

1.24.1 Issued share capital

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

1.24.2 Non-Controlling Interest (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Post acquisition, profit or loss and each component of other comprehensive income (OCI) are attributed to NCI, even if this results in the non-controlling interests having a deficit balance.

1.24.3 Reserves – fair value reserves

The fair value reserves comprise of the cumulative net change in the fair value of debt securities measured at FVOCI.

1.24.4 Reserves – share based payments

The capital contribution represents the fair value of the shares and options granted by OakNorth's Holding company's employee benefit trust, to the employees of OakNorth. These are recognised as credit to equity over the vesting period.

2. Profit on ordinary activities before tax (Bank Group)

Profit on ordinary activities before tax is stated after charging:

	2022 (£'000)	2021 (IFRS Restated) (£'000)
Depreciation of tangible fixed assets	284	378
Amortisation of intangible assets	93	268
Write-off of tangible and intangible assets	-	313
Amortisation of right of use ("ROU") assets	510	-
Operating lease rentals	147	703
Foreign exchange loss / (gain)	(29)	2
Total	1,005	1,664

Further information is provided in notes 16, 17 and 18

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

	2022 (£'000)	2021 (£'000)
Fees payable to Bank's for the audit of consolidated financial statements	313	192
Total audit fees	313	192
Fees payable to Bank's auditors' for Client Assets Sourcebook (CASS) audit	4	4
Fees payable to Bank's auditors' for TFSME audit	-	25
Total assurance related fees	4	29
Total fees to auditors'	317	221

3. Net Interest Income (Bank Group)

	2022 (£'000)	2021 (£'000)
Interest income		
Cash and balances at central bank	11,083	470
Loans and advances to customers	235,462	187,920
Investment securities at FVOCI	2,060	150
Total interest income calculated using the effective interest method	248,605	188,540
Interest expense		
Customer deposits	41,014	21,615
Borrowings under BOE TFSME	2,946	261
Subordinated debt	3,976	3,976
Total Interest Expense	47,936	25,852
Net Interest Income	200,669	162,688

Interest income on Investment securities at FVOCI includes (£1.3) million of amortisation of premium/ discount during the year (2021: £3.6 million). Interest expense on Subordinated debt includes £0.1 million of amortisation of discount and issue expenses (2021: £0.1 million).

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Financial assets measured at amortised cost	4,363,661	3,332,679	2,961,708
Financial assets measured at FVOCI	204,005	191,849	131,053
Total	4,567,666	3,524,528	3,092,761
Financial liabilities measured at amortised cost	3,864,461	2,893,331	2,544,983

4. Fee and commission income (Bank Group)

The fee and commission income entirely include fee income earned on lending activities. See note 1.19 for further details on revenue recognition.

5. Taxation (Bank Group)

	2022 (£'000)	2021 (£'000)
The tax charge comprises of		
Total current and deferred tax	39,077	34,148
Factors affecting tax change for the current year		
Profit on ordinary activities before tax	152,336	134,540
Tax at standard UK corporation tax rate of 19%	28,944	25,562
Effects of:		
Expenses not deductible for tax purposes	140	29
Adjustments in respect of prior years	(8)	1
Timing differences at 19% for current tax but 28% for deferred tax (2021: 32%)	123	(204)
Tax refund relating to prior years	(122)	-
Bank surcharge tax	10,000	8,760
Total tax charge for the year	39,077	34,148
Analysis of tax charge on ordinary activities		
UK corporation tax	39,054	34,315
Adjustment in respect of prior years	(101)	(49)
Deferred tax (refer movement below)		
Current year – profit and loss statement	30	36
Adjustment in respect of prior years	(29)	50
Effect of rate changes in respect of prior years	123	(204)
Total tax charge – Profit and Loss Statement	39,077	34,148
Total tax credit – Equity	107	(115)

Bank Group	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Balance sheet provision for taxes payable	39,562	53,697	19,431
Balance sheet provision for tax recoverable on behalf of group entities	(516)	(20,589)	(12,266)
Advance tax paid	(37,300)	(36,800)	(10,500)
Net tax recoverable	1,746	(3,692)	(3,335)
Net Deferred tax asset	1,012	872	870

2022

Bank Group	Net balance at 1 Jan (£'000)	Recognised in profit or loss (£'000)	Recognised in OCI (£'000)	Balance at 31 December Net (£'000)	Deferred tax assets (£'000)	Deferred tax liabilities (£'000)
Movement in deferred tax balances						
Property and equipment, and intangible assets	359	(41)	-	318	318	-
Investment securities at FVOCI	(115)	-	107	(8)	-	(8)
Unpaid bonus and pension	541	(58)	-	483	483	-
Share-based payments	(10)	8	-	(2)	-	(2)
Allowance for expected credit Losses	97	(24)	-	73	73	-
Allowance for IFRS transitional adjustment (refer note 1.6)	157	(9)	-	148	148	-
Tax asset/ (liabilities)	1,029	(124)	107	1,012	1,022	(10)
Net Tax asset/ (liabilities)					1,012	

2021				Balance at 31 December		
Bank Group	Net balance at 1 Jan (£'000)	Recognised in profit or loss (£'000)	Recognised in OCI (£'000)	Net (£'000)	Deferred tax assets (£'000)	Deferred tax liabilities (£'000)
Movement in deferred tax balances						
Property and equipment, and intangible assets	222	137	-	359	359	-
Investment securities at FVOCI	(2)	-	(113)	(115)	-	(115)
Unpaid bonus and pension	569	(28)	-	541	541	-
Share-based payments	(7)	(3)	-	(10)	-	(10)
Allowance for expected credit Losses	86	11	-	97	97	-
Allowance for IFRS transitional adjustment	2	(2)	-	-	-	-
Tax asset/ (liabilities)	870	115	(113)	872	997	(125)
Net Tax asset/ (liabilities)					872	

During the year the Bank Group was subject to Corporation tax rate of 19% and additionally the Bank was subject to the Banking Corporation Tax Surcharge of 8% which is levied on the annual taxable profits of banking companies over £25 million. As a result, the effective tax rate for the year ended 31 December 2022 was 26% (2021: 25%).

Change in tax rate: In accordance with the March 2021 budget announcement, the UK corporation tax rate was increased from 19% to 25% starting April 2023, which was substantively enacted on 24 May 2021. With the budget announcement in October 2022, the banking surcharge rate has been reduced from 8% to 3% and surcharge allowance has been increased from £25 million to £100 million. Both the corporate tax rate and banking surcharge has been enacted as at balance sheet and hence deferred tax asset has been created at effective rate of 28% (2021: 32%).

Upcoming tax legislations expected in the UK in relation to introduction of global minimum tax rates are not expected to apply to the Bank Group companies as the required revenue thresholds and effective tax rate conditions are not met.

6. Staff numbers and costs (Bank Group)

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

	2022	2021
Average number of employees	146	107

Their aggregate remuneration comprised:

	2022 (£'000)	2021 (£'000)
Wages and salaries	23,976	19,646
Social security & pension costs	3,790	2,769
Share-based payment	28	4
Other costs & statutory levies	367	275
Total	28,161	22,694

The above remuneration costs are stated net of cost recharge to other OakNorth companies and net of software capitalisation costs. During the year the Bank Group made £407K (2021: £226K) of contributions respectively towards a pension scheme for employees.

7. Share-based payments (Applicable to Bank only)

OakNorth currently operates a restricted employee share scheme (ESS) and an employee stock option scheme (ESOP) for eligible employees of OakNorth.

In case of ESS, shares with restrictions such as vesting are issued to the employees. In case of ESOP, options are granted whereby the employee can buy ordinary shares of the company at a later date on a pre-agreed price. Both the schemes are equity settled and the economic benefit will flow to the employees on an exit event i.e., share sale or listing.

The shares under these schemes vest over a period of five to six years. For the five- year scheme, vesting is 20% per annum. For the six-year scheme, vesting commences only from year three at 50%, thereafter, increasing equally per annum. If an employee leaves, the unvested shares are forfeited.

Below is the reconciliation of outstanding share under ESS and ESOP schemes

	2022		2021	
	ESS (Nos in 000s)	ESOP (Nos in 000s)	ESS (Nos in 000s)	ESOP (Nos in 000s)
Outstanding at the beginning of the year	2,509	576	2,549	-
Granted during the year	-	95	221	576
Forfeited during the year	(102)	(48)	(261)	-
Outstanding at the end of the year	2,407	623	2,509	576
Vested during the year	398	108	435	-
Exercisable at the end of the year	845	108	447	-

8. Directors' remuneration and transactions (Applicable to Bank only)

	2022 (£'000)	2021 (£'000)
Directors' remuneration:		
Emoluments[a]	4,272	3,942
Share-based payment	1	1
Other taxable benefits	75	82
Net amount expensed to profit and loss statement	4,348	4,025
Remuneration of highest paid director:		
Emoluments	2,153	1,920
Other taxable benefits	60	65
Net amount expensed to profit and loss statement	2,213	1,985

a. £1K was paid for one director to whom, retirement benefits are accruing under money purchase pension schemes in respect of qualifying services (2021: £85K)

The above remuneration is reported as net excluding any cost recharges for the time spent by the directors for other group companies. Total number of share-based payments granted to the directors was Nil in 2022 (2021: 200K shares granted to one director). The expense recognised above is recognised over the vesting period (refer note 7 for details of the scheme). The total number of shares forfeited during the year were Nil (2021: 193K shares).

Directors' advances, credits, and guarantees: Details of transactions with directors during the year are disclosed in note 27. There were no loans, credits or guarantees issued to the directors during the year (2021: Nil).

9. Financial Services Compensation Scheme "FSCS" (Applicable to Bank only)

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 2022). 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 2022, there was a net charge of £177K (2021: £199K). A total payment of £185K was made in respect of all FSCS levies during the year (2021: £170K).

10. Classification of financial assets and financial liabilities (Bank Group and Bank)

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments

	Bank Group			Bank		
31 December 2022 (£'000)	FVOCI	Amortised cost	Total carrying amount	FVOCI	Amortised cost	Total carrying amount
Cash and balances at central bank	-	1,235,711	1,235,711	-	1,235,711	1,235,711
Loans and advances to banks	-	42,127	42,127	-	37,507	37,507
Loans and advances to customers	-	3,127,950	3,127,950	-	3,127,493	3,127,493
Investment in subsidiary	-	-	-	-	14,250	14,250
Debt securities	204,005	-	204,005	204,005	-	204,005
Other assets	-	26,074	26,074	-	21,335	21,335
Total financial assets	204,005	4,431,862	4,635,867	204,005	4,436,296	4,640,301
Customer deposits	-	3,613,260	3,613,260	-	3,613,260	3,613,260
Borrowings under BOE Term funding scheme	-	201,423	201,423	-	201,423	201,423
Subordinated debts	-	49,778	49,778	-	49,778	49,778
Trade payables and other provisions	-	12,873	12,873	-	11,495	11,495
Lease liabilities	-	3,612	3,612	-	3,612	3,612
Total financial liabilities	-	3,880,946	3,880,946	-	3,879,568	3,879,568

31 December 2021 (£'000)	Bank Group FVOCI	Bank Group Amortised cost	Bank Group Total carrying amount	Bank FVOCI	Bank Amortised cost	Bank Total carrying amount
Cash and balances with central bank	-	446,374	446,374	-	446,374	446,374
Loans and advances to banks	-	30,019	30,019	-	30,019	30,019
Loans and advances to customers	-	2,886,305	2,886,305	-	2,886,305	2,886,305
Debt securities	191,849	-	191,849	191,849	-	191,849
Other assets	-	7,487	7,487	-	7,487	7,487
Total financial assets	191,849	3,370,185	3,562,034	191,849	3,370,185	3,562,034
Customer deposits	-	2,643,603	2,643,603	-	2,643,603	2,643,603
Borrowings under BOE Term funding scheme	-	200,050	200,050	-	200,050	200,050
Subordinated debt	-	49,678	49,678	-	49,678	49,678
Trade payables and other provisions	-	23,396	23,396	-	23,396	23,396
Total financial liabilities	-	2,916,727	2,916,727	-	2,916,727	2,916,727

Opening 1 January 2021 (£'000)	Bank Group FVOCI	Bank Group Amortised cost	Bank Group Total carrying amount	Bank FVOCI	Bank Amortised cost	Bank Total carrying amount
Cash and balances with central bank	-	469,459	469,459	-	469,459	469,459
Loans and advances to banks	-	11,532	11,532	-	11,532	11,532
Loans and advances to customers	-	2,492,249	2,492,249	-	2,492,249	2,492,249
Debt securities	131,053	-	131,053	131,053	-	131,053
Other assets	-	5,539	5,539	-	5,539	5,539
Total financial assets	131,053	2,978,779	3,109,832	131,053	2,978,779	3,109,832
Deposits from customers	-	2,313,628	2,313,628	-	2,313,628	2,313,628
Borrowings under BOE Term funding scheme	-	181,796	181,796	-	181,796	181,796
Subordinated debt	-	49,559	49,559	-	49,559	49,559
Trade payables and other provisions	-	24,363	24,363	-	24,363	24,363
Total financial liabilities	-	2,569,346	2,569,346	-	2,569,346	2,569,346

11. Cash and balances at central bank (Applicable to Bank only)

	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Cash and balances at central bank	1,235,711	446,374	469,459
Total	1,235,711	446,374	469,459

The Cash and balances at central bank are measured at amortised cost. All balances are available to withdraw immediately and therefore the book value is deemed equivalent to fair value.

12. Loans and advances to banks (Bank Group and Bank)

	Bank Group			Bank		
	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Balances held with other banks	42,127	30,019	11,532	37,507	30,019	11,532
Total	42,127	30,019	11,532	37,507	30,019	11,532

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.

13. Loans and advances to customers (Bank Group and Bank)

	Bank Group			Bank		
	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Loans and advances to customers						
Amount due:						
- Within three months	340,468	489,869	157,832	340,468	489,869	157,832
- Over three months but less than one year	1,067,076	765,746	979,718	1,066,991	765,746	979,718
- Over one year but less than five years	1,715,016	1,610,558	1,323,238	1,714,644	1,610,558	1,323,238
- Over five years	28,892	49,143	64,335	28,892	49,143	64,335
Gross loans and advances	3,151,452	2,915,316	2,525,123	3,150,995	2,915,316	2,525,123

	Bank Group			Bank		
	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Allowance for ECL	(23,502)	(29,011)	(15,449)	(23,502)	(29,011)	(15,449)
Allowance for ECL (COVID Overlay provisions)	-	-	(17,425)	-	-	(17,425)
Total allowance for ECL	(23,502)	(29,011)	(32,874)	(23,502)	(29,011)	(32,874)
Loans and advances to customers (net)	3,127,950	2,886,305	2,492,249	3,127,493	2,886,305	2,492,249

Details on the ECL by staging of the loans is provided in the Credit risk management section "ECL allowance assessment and impairment methodology" on page 70 to 79.

14. Debt securities (Applicable to Bank only)

	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Analysed by type			
UK GILTS	204,005	191,849	131,053
Analysed by designation			
Financial instruments at FVOCI	204,005	191,849	131,053

All the debt securities held have been fair valued based on market price (Level 1). The net mark to market through OCI for these bonds was £24K as at 31 December 2022. These debt securities are bonds issued by HM Treasury and are UK Government liability in sterling. The residual maturity of these bonds is within one month (2021: seven months). None of the debt securities were impaired as at 31 December 2022 (2021: Nil). The securities held as at 31 December 2021 matured during the year.

15. Goodwill (Bank Group)

	Goodwill (£'000)	Total (£'000)
Cost		
As at 1 January 2022	-	-
Additions	-	-
Acquisition through business combination	11,647	11,647
As at 31 December 2022	11,647	11,647

No impairment loss on Goodwill was recognised during the year ended 31 December 2022 (2021: Nil).

16. Intangible assets (Bank Group)

	Purchased software (£'000)	Internally developed software (£'000)	Capital work-in-progress (£'000)	Total (£'000)
Cost				
As at 1 January 2022	203	-	-	203
Additions	-	2,376	1,982	4,358
As at 31 December 2022	203	2,376	1,982	4,561
Accumulated amortisation				
As at 1 January 2022	175	-	-	175
Charge for the year	28	65	-	93
As at 31 December 2022	203	65	-	268
Carrying amount				
As at 31 December 2022	-	2,311	1,982	4,293

The internally developed software and capital work-in-progress are banking platforms for OakNorth's loans and deposit customers. The software is amortised in line with the amortisation periods detailed in the accounting policy (see note 1.17).

IFRS Restated	Purchased Software (£'000)	Total (£'000)
Cost		
As at 1 January 2021	5,365	5,365
Additions	-	-
Write-off of assets of less than £10K net book value	(5,162)	(5,162)
As at 31 December 2021	203	203
Accumulated amortisation		
As at 1 January 2021	4,901	4,901
Charge for the year	268	268
Write-off of assets of less than £10K net book value	(4,994)	(4,994)
As at 31 December 2021	175	175
Carrying amount		
As at 31 December 2021	28	28

There were no intangible assets written-off during the year ended 31 December 2022 (2021: £168K). There was also no impairment loss recognised on these assets during the year (2021: Nil).

17. Tangible fixed assets (Bank Group and Bank)

Bank Group 2022	Leasehold improvements (£'000)	Computer and IT equipment (£'000)	Fixtures, fittings and office equipment (£'000)	Total (£'000)
Cost				
As at 1 January 2022	1,170	28	64	1,262
Additions	-	19	-	19
Acquired through business combination	-	13	73	86
As at 31 December 2022	1,170	60	137	1,367
Accumulated depreciation				
As at 1 January 2022	746	4	28	778
Charge for the year	234	15	35	284
As at 31 December 2022	980	19	63	1,062
Carrying amount				
As at 31 December 2022	190	41	74	305

Bank Group 2021 (IFRS Restated)	Leasehold improvements (£'000)	Computer and IT equipment (£'000)	Fixtures, fittings and office equipment (£'000)	Total (£'000)
Cost				
As at 1 January 2021	1,209	229	334	1,772
Additions	-	50	7	57
Write-off of assets of less than £10K net book value	(39)	(251)	(277)	(567)
As at 31 December 2021	1,170	28	64	1,262

Bank Group 2021 (IFRS Restated)	Leasehold improvements (£'000)	Computer and IT equipment (£'000)	Fixtures, fittings and office equipment (£'000)	Total (£'000)
Accumulated depreciation				
As at 1 January 2021	528	141	153	822
Charge for the year	242	64	72	378
Write-off of assets of less than £10K net book value	(24)	(201)	(197)	(422)
As at 31 December 2021	746	4	28	778
Carrying amount				
As at 31 December 2021	424	24	36	484

Bank 2022	Leasehold improvements (£'000)	Computer and IT equipment (£'000)	Fixtures, fittings and office equipment (£'000)	Total (£'000)
Cost				
As at 1 January 2022	1,170	28	64	1,262
Additions	-	19	-	19
As at 31 December 2022	1,170	47	64	1,281
Accumulated depreciation				
As at 1 January 2022	746	4	28	778
Charge for the year	234	10	13	257
As at 31 December 2022	980	14	41	1,035
Carrying amount				
As at 31 December 2022	190	33	23	246

Bank 2021 (IFRS Restated)	Leasehold improvements (£'000)	Computer and IT equipment (£'000)	Fixtures, fittings and office equipment (£'000)	Total (£'000)
Cost				
As at 1 January 2021	1,209	229	334	1,772
Additions	-	50	7	57
Write-off of assets of less than £10K net book value	(39)	(251)	(277)	(567)
As at 31 December 2021	1,170	28	64	1,262
Accumulated depreciation				
As at 1 January 2021	528	141	153	822
Charge for the year	242	64	72	378
Write-off of assets of less than £10K net book value	(24)	(201)	(197)	(422)
As at 31 December 2021	746	4	28	778
Carrying amount				
As at 31 December 2021	424	24	36	484

There were no tangible assets written-off during the year (2021: £145K).

18. Leases (Bank)

The disclosures below apply from 2022 on adoption of IFRS and comparatives for 2021 have not been restated (see note 1.6 and note 1.18).

18.1 Lease assets and liabilities

	2022 (£'000)
Right-of-use (ROU) assets	
Cost	
As at 1 January (First time recognition)	3,067
Additions	-
Deletions	-
As at 31 December	3,067

	2022 (£'000)
Accumulated depreciation	
As at 1 January (First time recognition)	-
Charge for the year	510
Deletions	-
As at 31 December	510
Carrying value	
As at 31 December	2,557
Lease liabilities	3,612
- within one year	237
- between one and five years	2,914
- after five years	461

18.2 Amounts recognised in the statement of profit and loss

	2022 (£'000)	2021 (£'000)
Depreciation charge of ROU assets	510	-
Interest on lease liabilities	397	-
Expense relating to short term/ low values leases	147	-
Total expense recognised in profit and loss	1,054	-

18.3 Amounts recognised in the statement of cash flows

	2022 (£'000)	2021 (£'000)
Total cash outflows for leases	1,050	-

18.4 Extension options

Extension and termination options are included in a number of leases for office premises and are used to maximise operational flexibility in terms of managing the assets used in OakNorth's operations. The majority of extension and termination options held are exercisable only by OakNorth (the lessee) and not by the lessor. OakNorth has assessed and considered extension of one lease agreement as at balance sheet.

18.5 Disclosure in respect of non-cancellable leases under IAS 27 for 2021

	2022 (£'000)	2021 (£'000)
Lease expense charged to the profit & loss during the year	-	703
Future minimum lease payments with respect to non-cancellable leases		
- within one year	-	1,050
- between one and five years	-	530
- after five years	-	-

19. Other assets (Bank Group and Bank)

	Bank Group			Bank		
	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Security deposits	119	4	4	4	4	4
Bank of England – Cash ratio deposit	9,401	7,320	5,393	9,401	7,320	5,393
Prepayments	1,574	1,060	697	1,462	1,060	697
Receivables	16,554	163	142	11,930	163	142
Corporation tax receivable (net)	-	3,692	3,335	-	3,692	3,335
Other assets	165	2,141	68	165	2,141	68
Total	27,813	14,380	9,639	22,962	14,380	9,639

Receivables in 2022 includes balances due from OakNorth UK group entities for £13.5 million in relation to surrender of tax losses deferred at the year end.

20. Customer deposits (Applicable to Bank only)

	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Customer deposits	3,613,260	2,643,603	2,313,628
Amounts due:			
- Within three months	1,027,688	472,207	372,986
- Over three months but less than one year	1,280,963	957,705	760,708
- Over one year but less than five years	138,554	124,072	306,183
Total notice and term deposits	2,447,205	1,553,984	1,439,877
Easy access accounts	1,166,055	1,089,619	873,751
Total deposits	3,613,260	2,643,603	2,313,628

21. Borrowings under BOE's Term funding scheme (Applicable to Bank only)

	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Borrowings under the BOE's Term Funding Scheme	201,423	200,050	181,796
Amounts due:			
- over one year but less than five years	201,423	200,050	181,796

As of 31 December 2022, OakNorth had borrowed £200.0 million (2021: £200.0 million under BOE's TFS scheme) under the Bank of England's (BOE) Term Funding scheme for SME (TFSME). The scheme closed for new drawdowns in October 2021. The interest payable on the borrowings is linked to the BOE base rate, which was 350bps as at 31 December 2022 (2021: 25 bps). The borrowing is repayable after four years of drawdown in October 2025. The borrowing is collateralised against GILT portfolio of £204.0 million (2021: £151.7 million) and Nil gross loans (2021: £106.6million). The borrowing is held at amortised cost.

22. Subordinated debt Tier 2 (Applicable to Bank only)

	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Subordinated notes	49,778	49,678	49,559
Amounts due:			
- over five years	49,778	49,678	49,559

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 mature in June 2028 and are callable in June 2023. The notes are held at amortised cost. The instrument is non-convertible and there are no contractual write-down features. Write-down can only be triggered at point of non-viability under the Banking Act.

There were no payment defaults or other breaches with respect to its subordinated liabilities during the year ended 31 December 2022 (2021: Nil).

23. Trade payables and other provisions (Bank Group and Bank)

	Bank Group			Bank		
	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Trade creditors and accruals	10,878	13,053	11,248	10,357	13,053	11,248
Payroll taxes and social security	1,919	850	849	1,062	850	849
Payable to group entities - Corporation tax on group losses	76	9,493	12,266	76	9,493	12,266
Corporation tax payable (net)	1,746	-	-	696	-	-
Total	14,619	23,396	24,363	12,191	23,396	24,363

All amounts above are payable within one year.

24. Other liabilities (Bank Group and Bank)

	Bank Group			Bank		
	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)	2022 (£'000)	2021 (£'000)	Opening 1 Jan 2021 (£'000)
Lease liabilities	3,612	-	-	3,612	-	-
Unamortised fees on undrawn loan commitments	3,373	4,678	5,069	3,373	4,678	5,069
Interest reserves maintained pursuant to lending agreements	11,709	18,948	12,728	11,609	18,948	12,728
Other liabilities	14,232	184	109	14,232	184	109
Provision on undrawn loan commitments	1,029	456	287	1,029	456	287
Total	33,955	24,266	18,193	33,855	24,266	18,193

Other liabilities mainly include funds received for deposits pending appropriation and payments received in advance for loans as at the end of the reporting year, which have been subsequently settled.

The expected credit loss allowance on undrawn loan commitments is calculated in accordance with the policies as detailed in note 1.12 and "Credit risk" section.

25.Segmental information (Bank Group)

There are no reportable segments. Please see note 1.10 in the Accounting Policies.

26. Country by country reporting (Bank Group)

No country-by-country reporting is required for the OakNorth Bank Group as the business is based only in the UK and does not meet reporting revenue thresholds.

27. Related party transactions (Applicable to Bank only)

Transactions with related parties include contract charges for services provided by OakNorth's sister companies and the Holding Company are as disclosed below:

	2022 (£'000)	
	Net payments to / (recharges from) (£'000)	Balance due to/ (by) (£'000)
OakNorth Global Private Limited, India	16,783	30
OakNorth India Private Limited	171	-
OakNorth (UK) Limited	(6,567)	(10,932)
OakNorth (SG) Pte Limited	334	-
OakNorth International (UK) Limited	1	1
OakNorth Global (US) Inc.	-	-
OakNorth Americas (US) Inc.	4	4
OakNorth Holdings Limited	208	(59)
Fluidly Limited	2,121	23

	2021 (£'000)	
	Net payments to / (recharges from) (£'000)	Balance due to (£'000)
OakNorth Global Private Limited, India	13,758	3,076
OakNorth India Private Limited	259	34
OakNorth (UK) Limited	7,438	610
OakNorth (SG) Pte Limited	1,048	8,857
OakNorth International (UK) Limited	4	4
OakNorth Global (US) Inc.	(49)	-
OakNorth Americas (US) Inc.	191	168
OakNorth Holdings Limited	268	48

Amount outstanding with Holding company as at balance sheet is shown below:

	2022 (£'000)	2021 (£'000)
OakNorth Holdings Limited		
Deposits placed	25,630	25,315
Equity holding	389,320	389,320

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

Other related party transactions: Directors' transactions: There were no loans, credits or guarantees issued to the directors during the year (2021: Nil).

28. Business combinations

In October 2022, following the receipt of regulatory approvals, OakNorth Bank plc, completed the acquisition of ASK Partners acquiring 50.1% shares and 56.6% voting rights (since voting rights are assigned to specific class of shareholders). ASK Partners is treated as a subsidiary following control assessment done as per IFRS 3 and was accounted for full consolidation in accordance with IFRS 10.

OakNorth Bank has recognised ASK Partners as a subsidiary effective 01 October 2022, the date on which control transferred to OakNorth Bank. In three months of consolidation, ASK Partners has contributed a net interest and fee income of £2.1 million and profit before tax of £1.4 million to the Group's results, after reducing share of non-controlling interests. ASK Partner's full year 2022 net interest and fee income was £10.7 million and profit before tax was £6.0 million- of which OakNorth Bank's share would have been £5.4 million and £3.0 million respectively, had the acquisition been effective 1 January 2022.

In accordance with the requirements of IFRS 3 'Business Combinations', details of the purchase consideration, net assets acquired, and goodwill are as follows:

Consideration transferred: OakNorth Bank plc paid £14.25 million as cash to acquire a 50.1% stake in ASK Partners. There are no contingent consideration arrangements.

Identifiable assets acquired and liabilities assumed: The carrying amount of the net assets acquired at the date of acquisition was £5.2 million. No fair value adjustment was recognised, for any separately identifiable intangible assets in the business combination. The fair value of the assets acquired was £5.2 million as summarised in the following table:

	Fair value (£ 000s)
Cash at banks	3,775
Current & Fixed Assets	3,164
Loans	602
Current and Non-Current Liabilities	(2,345)
Total identifiable net assets acquired	5,196

Current assets include accrued income receivable £2.6 million, all of which was expected to be collectable as at the date of acquisition.

Goodwill: Goodwill arising from the acquisition has been recognised as follows:

	(£ 000s)
Fair value of consideration transferred	14,250
Non-Controlling interest acquired	2,593
Fair value of identifiable net assets acquired	(5,196)
Goodwill recognised	11,647

The goodwill recognised is mainly attributable to the synergies expected to be achieved from integrating ASK Partners into the Group. None of the goodwill recognised is expected to be tax deductible for trading purposes.

Purchase consideration: Cash outflow on acquisition, net of cash acquired.

	(£ 000s)
Cash consideration	14,250
Less: Balances acquired	
Cash at bank	(3,775)
Net outflow of cash- Investing activities	10,475

Acquisition related costs: Acquisition related costs of £359K are recognised in the administrative expenses in the statement of profit and loss for 2022 (2021: Nil)

Non-Controlling Interest: OakNorth has recognised non-controlling interests in the acquired entity as proportionate share of the acquiree's net identifiable assets (see note 1.8 for the accounting policy on consolidation and non-controlling interest).

There were no acquisitions in the year ending 31 December 2021.

29. Bank Group subsidiaries

List of subsidiaries and Non-Controlling Interest (NCI) in subsidiary

The table below provides details of the significant subsidiaries of the Bank Group.

Entity	Principal place of business/ Country of incorporation	Ownership Interest		Non-Controlling Interest	
		2022	2022	2022	2021
ASK Partners[a]	UK[b]	50.1%	50.1%	49.9%	-

a. OakNorth Bank has 56.6% voting rights in ASK Partners while the NCI has 43.4% voting rights. Voting rights are assigned to specific class of shareholders.

b. Registered address: 35 Harley Street London W1G 9QU

Financial and cash flow statements of the subsidiary consolidated in the Group accounts, including details of non-controlling interest

	2022 (£'000)
Cash at banks	4,620
Current & Fixed Assets	4,910
Loans	457
Current & Non-Current Liabilities	(2,527)
Net Assets	7,460
Carrying amount of NCI	3,722
Revenue	4,090
Profits	2,385
Total Comprehensive Income	2,385
Profit allocated to NCI	1,190
Cash flows from operating activities	845
Cash flows from investing activities	-
Cash flows from financing activities	-
Net increase in cash and cash equivalent	845

30. Fair value measurement (Bank Group and Bank)

30.1 Financial instruments measured at fair value – Fair value hierarchy

The following table analyses the financial instruments into the fair value hierarchy. There were no transfers between the levels of the fair value hierarchy during either of the reported years.

2022 (£'000)	Bank Group			Bank		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Debt securities	204,005	-	-	204,005	-	-

2021 (£'000)	Bank Group			Bank		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Debt securities	191,849	-	-	191,849	-	-

Opening 1 Jan 2021 (£'000)	Bank Group			Bank		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Debt securities	131,053	-	-	131,053	-	-

30.2 Financial instruments measured at amortised cost

The following table analyses the financial instruments measured at amortised cost into the fair value hierarchy. There were no transfers between the levels of the fair value hierarchy during either of the reported years.

Bank Group 2022	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	Total fair value (£'000)	Total carrying amount (£'000)
Assets					
Loans and advances to banks	-	42,127	-	42,127	42,127
Loans and advances to customers	-	-	3,128,411	3,128,411	3,127,950
Liabilities					
Customer deposits	-	-	3,624,865	3,624,865	3,613,260
Borrowings under BOE Term funding scheme	-	201,423	-	201,423	201,423
Subordinated debt (Tier 2)	-	49,778	-	49,778	49,778

Bank Group 2021	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	Total fair value (£'000)	Total carrying amount (£'000)
Assets					
Loans and advances to banks	-	30,019	-	30,019	30,019
Loans and advances to customers	-	-	2,869,194	2,869,194	2,886,305
Liabilities					
Customer deposits	-	-	2,644,440	2,644,440	2,643,603
Borrowings under BOE Term funding scheme	-	200,050	-	200,050	200,050
Subordinated debt (Tier 2)	-	49,778	-	49,678	49,678

Bank 2022	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	Total fair value (£'000)	Total carrying amount (£'000)
Assets					
Loans and advances to banks	-	37,507	-	37,507	37,507
Loans and advances to customers	-	-	3,127,954	3,127,954	3,127,493
Liabilities					
Customer deposits	-	-	3,624,865	3,624,865	3,613,260
Borrowings under BOE Term funding scheme	-	201,423	-	201,423	201,423
Subordinated debt (Tier 2)	-	49,778	-	49,778	49,778

Bank 2021	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	Total fair value (£'000)	Total carrying amount (£'000)
Assets					
Loans and advances to banks	-	30,019	-	30,019	30,019
Loans and advances to customers	-	-	2,869,194	2,869,194	2,886,305
Liabilities					
Customer deposits	-	-	2,644,440	2,644,440	2,643,603
Borrowings under BOE Term funding scheme	-	200,050	-	200,050	200,050
Subordinated debt (Tier 2)	-	-	49,678	49,678	49,678

Fair value of loans is calculated by discounting future cashflows at the average market rate of interest charged on new disbursements. The loans reprice based on the Bank of England base rates. For cash held with other banks on a short-term basis, the fair value approximates to the carrying value as the balances are held on immediately withdrawable basis. Debt securities are fair valued using quoted market prices as at the balance sheet date. Fair value for borrowings under TFSME scheme approximates to the carrying value because of low credit risk and frequent repricing to reflect market rates. For subordinated debt, fair value is calculated by discounting using market rates.

In addition to the above, we hold £1.3 billion as at 31 December 2022 (2021: £0.4 billion) as cash and balances at central bank which consists of demand deposits held with Bank of England. The fair value of this cash is deemed same as the carrying value. Other assets and other liabilities are held at amortised cost and treated as Level 3 instruments with fair value deemed equivalent to carrying value.

Fair value disclosures are not required for lease liabilities in accordance with IFRS 7.

31. Contingent liabilities and commitments (Applicable to Bank only)

As on 31 December 2022, OakNorth had undrawn loan commitments outstanding for £436.9 million (2021: £382.1 million). OakNorth also had £1,042.9 million of uncommitted facilities outstanding as of 31 December 2022 (2021: £951.4 million). This excludes £29.7 million uncommitted facility provided to ASK Partners Limited. OakNorth had no other contingent liabilities as on 31 December 2022 (2021: Nil). OakNorth allows for drawdowns under property development facilities only where our monitoring surveyor has verified the costs and progress of the development as well as the provision of any other condition precedent for drawdown. For other business lending, OakNorth always stipulates conditions precedent for drawdown.

32. Risk management disclosures

For OakNorth's Capital, Liquidity and Interest rate risk Management disclosures, please see section "Risk Management Framework and Risk Review", page 57-83.

Credit risk disclosures are provided on pages 64-79. Further details on OakNorth's portfolio are provided in the Pillar 3 disclosures that are published annually on OakNorth's website.

Details on the ECL methodology, scenarios and sensitivities is provided in the Credit risk disclosures under section "ECL allowance assessment and impairment methodology" on pages 70- 79.

33. Additional notes to Cash Flow Statement

	Bank Group		Bank	
	2022 (£'000)	2021 (£'000)	2022 (£'000)	2021 (£'000)
Changes to operating assets & liabilities				
Net change in other assets	(14,047)	(4,383)	(12,274)	(4,383)
Net change in Trade payables and other provisions	(6,546)	(3.740)	(6,267)	(3,740)
Net change in other liabilities	6,456	6,073	6,548	6,073
Total	(14,137)	(2,050)	(11,993)	(2,050)

34. Called up share capital (Applicable to Bank only)

	2022 (£'000)	2021 (£'000)	1 Jan 2021 (£'000)
Authorised, allotted, called up and fully paid			
389,320,001 (previous year: 389,320,001) Ordinary shares of £1 per share	389,320	389,320	389,320

	No of shares (in '000)
As at 31 December 2020	389,320
Issue of shares during the year	-
As at 31 December 2021	389,320
Issue of shares during the year	-
As at 31 December 2022	389,320

OakNorth only has fully paid-up ordinary shares in issue. There are no restrictions in the articles on distribution of dividends or repayment of capital- however these are subject to regulatory approvals from the PRA.

35. Retained earnings (Bank Group and Bank)

	Bank Group		Bank	
	2022 (£'000)	2021 (£'000)	2022 (£'000)	2021 (£'000)
Brought forward as at 1 January	239,670	139,278	239,670	139,278
IFRS transition adjustment (net of tax)	(470)	-	(470)	-
Profit during the year	113,259	100,392	110,874	100,392
Non-Controlling Interest share in profits	(1,190)	-	-	-
Unwinding of investment in ASK entities	(61)			
As at 31 December	351,208	239,670	350,074	239,670

The retained earnings form part of the distributable reserves of OakNorth Bank Group and OakNorth Bank plc.

36. Controlling party (Applicable to Bank only)

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.

37. Post balance sheet events (Bank Group and Bank)

There are no post balance sheet events.

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