

Annual report 2016

The bank for entrepreneurs, by entrepreneurs

**OakNorth
Bank**

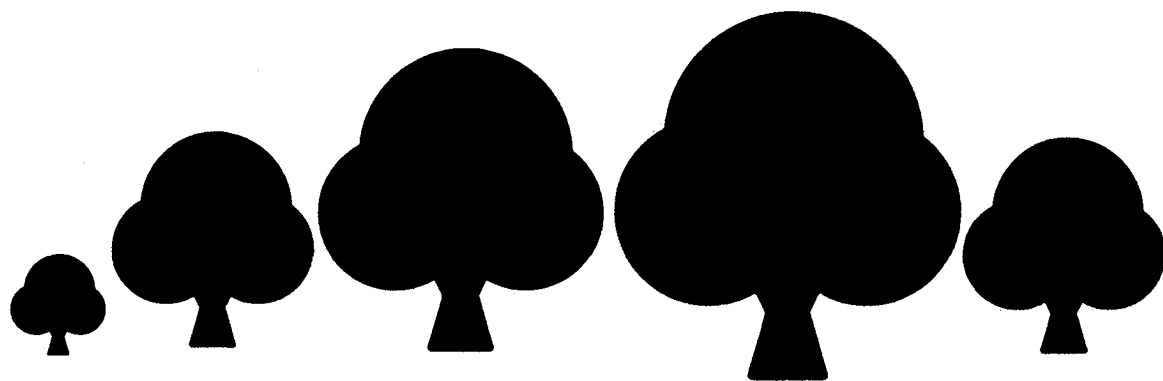
OakNorth Bank Limited Annual report and Financial
Statements for the year ended 31 December 2016

Registered number: 08595042



OakNorth Bank Limited
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Rishi Khosla

Chief Executive Officer and
Co-founder



Cyrus Ardalan

Chairman



Joel Perlman

Chief Strategy Officer and
Co-founder



Adair Turner

Senior Independent
Director



Graham Olive

Deputy Chief Executive
Officer



Robert Burgess

Non-Executive Director



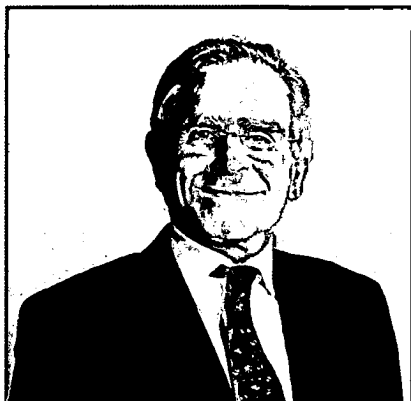
Ajit Mittal

Non-Executive Director



Gagan Banga

Non-Executive Director



"We need to ensure that the UK is not only a good place to operate a business, but also a great place to develop and grow."

Cyrus Ardalan
Chairman

OakNorth Bank launched in September 2015 with a simple and focused strategy in mind – to provide tailored lending to small and medium sized (SME) growth companies and entrepreneurs. Historically, this sector has been inadequately supported. In the short time that we have been operating, we have lent over £300 million and the gross loan book (including undrawn committed facilities) ended at £276 million¹ as on 31 December 2016 and we have a further qualified pipeline of over £500 million. We have established ourselves as a credible contender in the UK lending market, securing a number of high-profile deals.

In the last 12 months we have witnessed a number of developments which could have a significant impact on the UK banking sector - most notably Britain's decision to leave the EU. In the six months following the Brexit vote, we were able to triple our loan book and increase our lending to strong businesses as larger banks retrenched from the market. We continue to see strong demand from businesses across all sectors. This is the result of a clear structural gap in the SME financing market in the UK compared to other markets such as US or Germany. We are confident that we have the right business model to continue developing our market-leading offering and to deliver above average shareholder returns.

Through leveraging cloud technology and developing an efficient and low cost of operating model, we have been able to run at a substantially lower cost than our incumbent competitors. Our deposit raising platform is highly automated and we have managed to raise over £200 million in retail deposits from more than 5,200 savers. Furthermore, our credit analysis is extremely robust, comparable to the level of work undertaken by private equity firms.

The Bank ended 2016 with a strong balance sheet of £291.9 million (2015: £94.8 million). The Bank limited the post-tax losses to £2.4 million during the year (2015: £2.3 million). The Bank's disciplined approach towards cost management will allow it to operate efficiently and invest in delivering growth

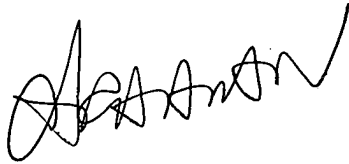
¹ Funded loan book £225.5 million, excluding unamortised fees of £3.0 million and including undrawn committed facilities of £46.5 million as at 31 December 2016.

Chairman's statement continued

in the loan book in 2017. We anticipate a significant growth in revenues and further improvement in the operating results in 2017.

The Board has a very constructive and effective relationship with the management on the Bank's strategy and its implementation. The Board committees play a key role in this process and are chaired by the independent Non-Executive Directors (NEDs) - Lord Adair Turner (Audit and Compliance), Robert Burgess (Risk and Credit), and Cyrus Ardalan (Remuneration), as well as Ajit Mittal and Gagan Banga from Indiabulls Housing Finance Limited. The Board will continue to enhance the Bank's governance and risk management framework and ensure that best practices are followed.

To conclude, I would like, on behalf of the Board, to thank all of our customers for supporting OakNorth as we continue to build *the bank for entrepreneurs, by entrepreneurs*. I would also like to acknowledge the tremendous work of all of the Bank's employees whose commitment has been vital for enabling us to achieve all that we have so far, and all that we hope to achieve in the years to come.



Chairman
Cyrus Ardalan
13 March 2017



"We're giving entrepreneurs the means to back themselves, drive forward and succeed."

Rishi Khosla
Chief Executive Officer and Co-Founder

A year of firsts

It has been a phenomenal year for OakNorth Bank ("the Bank"); we proved the gap in the UK market for our proposition and provided over £300 million of lending, and the gross loan book (including undrawn committed facilities) ended at £276 million² as on 31 December 2016.

In May 2016, we became the first bank in the UK to have its core systems fully hosted on the cloud in what the Financial Times called a "landmark move" for the industry. The achievement came after several months of working with Amazon Web Services to drive the development forward with the regulator, and enables us to continue scaling the business safely, efficiently, and at a lower cost.

Within a year since authorisation, we became the first – and so far, only – completely new UK bank launched in the last 5 years to break even on a monthly basis.

We raised over £200 million in retail deposits from more than 5,200 savers across the country.

We have established ourselves as one of the UK's fastest growing financial services companies. I would like to acknowledge and share my appreciation to the staff and Board of Directors in achieving these significant milestones.

The bank for entrepreneurs, by entrepreneurs

The Bank breaks away from the UK banking norm by offering highly bespoke and flexible loans including cash-flow lending and lending secured against a range of assets including: stock, debtors, and plant and machinery, rather than just defaulting to real estate like other banks. We also give borrowers the ability to discuss their loan requirements and growth ambitions directly with the Credit Committee. This personal and transparent process enables deals – from first meeting to disbursement of cash – to typically be completed in weeks rather than the months it takes at larger institutions.

² Funded loan book £225.5 million, excluding unamortised fees of £3.0 million and including undrawn committed facilities of £46.5 million as at 31 December 2016.

Amidst ongoing uncertainty following the UK's vote to leave the EU, we were able to establish ourselves as a credible contender to the main high-street banks, tripling our loan book in the months following Brexit and completing some of our largest deals to date. Our clients now include restaurants, bars, hotels, nurseries, care homes, property developers, co-living and co-working spaces, security companies, and law firms.

World-class technology

In addition to becoming the UK's first cloud-based bank, the Bank has also launched a machine learning and artificial intelligence initiative with the objective of providing scalability to the credit, monitoring and origination processes.

These include the creation of models that will:

- Help us to better predict real estate selling and rental prices - initially this will be focused on London and the South East, but will eventually cover the whole of the UK. By gaining a more in-depth understanding of how the pricing of our real estate collateral may change in the future, we will be able to improve our credit process across: origination, lending, and monitoring;
- Enable us to benchmark and predict performance of new borrowers in sectors such as restaurants and catering, across metrics such as: Capex per square foot, capacity per square foot, expected date of maturity and year on year growth.

Strong corporate governance

The Bank has an experienced senior management team with a Board made up of five highly experienced non-executive directors who provide oversight of all activity. This includes monitoring of credit risk, conduct risk, financial risk, regulatory risk, operational risk, reputational risk and compliance.

Our Executive Committee has strategic responsibility for the various functional areas of the firm. Strategic planning and balance sheet management is handled by the Asset and Liability Committee. The Operations Committee oversees the structure, framework, policies and process related to the operational infrastructure. The Chief Risk Officer is responsible for the oversight of all governance frameworks with independent assurance provided by the Head of Internal Audit.

We have implemented a robust and comprehensive risk appetite framework. Processes and controls have been embedded to monitor loan performance, early warning indicators and covenants.

Lord (Francis) Maude, former Minister for the Cabinet Office and for Trade and Investment, is an Independent Adviser and a member of our advisory board.

Financial performance

The Bank is fundamentally recreating the economics of lending. We have a stable and low cost of funds (retail deposits covered under the Financial Services Compensation Scheme), and leverage technology to maximise efficiency and keep costs down.

The Bank had a net loss for the 2016 calendar year of £2.4 million (2015: loss £2.3 million) which was principally driven by the operating expenses incurred in staff hiring and IT expenditure. The financial

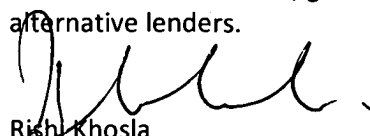
Chief Executive's Review continued

results reflect the early stage of our journey and are in line with our forecast losses for the first two years' post-incorporation.

The future – building on this momentum

In the past year, we have continued to attract industry leaders who share our values, ambition and entrepreneurial drive. Our headcount as at the end of 2016 was 51 across our offices in London and Manchester. We have already made several new hires in 2017, including Debt Finance Directors and Credit Directors. Additionally, the Bank is supported by its sister company in India – OakNorth Global Private Limited - which provides the Bank with back office services. Its total headcount was 36 as at end of 2016 and is growing.

As previously detailed, in just over one year, we managed to lend over £300 million and have a further £500 million in the pipeline for 2017. Our ability to do in-depth fundamental analysis at speed and in a cost-effective manner, gives us a significant competitive advantage over both incumbent banks and alternative lenders.



Rishi Khosla

Chief Executive Officer and Co-Founder

13 March 2017

Key business highlights

What our clients say...

Antony Perring, CFO, LEON

"The differences in OakNorth's approach are remarkable, with the most notable elements being speed, transparency and a personalised service."

John Vincent, CEO, LEON
"LEON set out to revolutionise fast food. Rishi and Joel at OakNorth are doing the same for banking."

LEON

NATURALLY FAST FOOD



BLISS
HOTELS

**Robert Agsteribbe and Daniel Broch,
managing partners at Bliss
Investment Partners**

"It was a very different experience to what we've had with other banks – we genuinely felt that we had a partner in OakNorth and that the team were available to help any time day or night."

**Reza Merchant, CEO, The
Collective**

"OakNorth provided a fantastic solution for us as entrepreneurs looking to grow; they really worked hard to understand our business."



THE COLLECTIVE

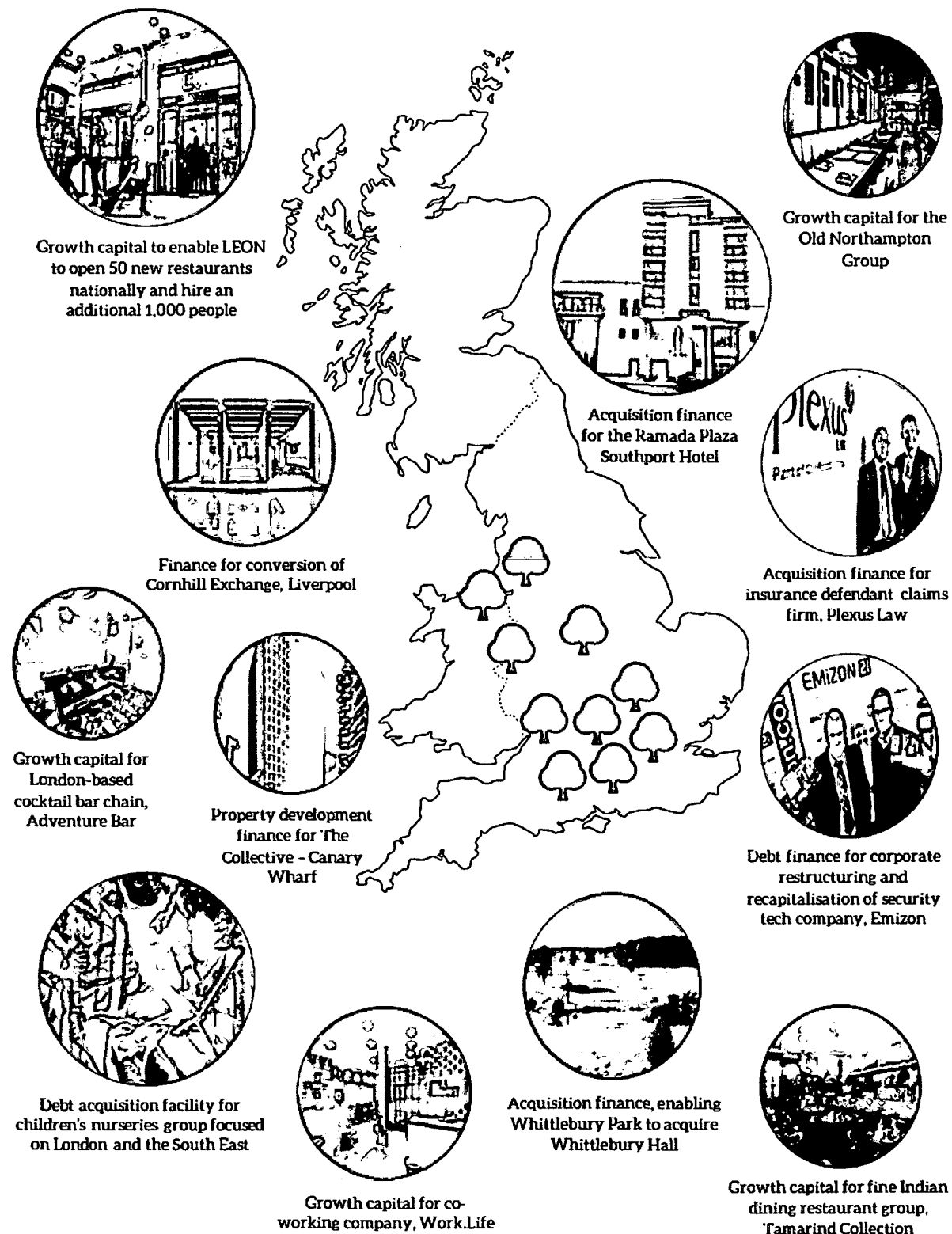


**Whittlebury
Park**

**Jeff Sargeant, Executive
Chairman of Whittlebury Park**

"OakNorth's transparent and flexible approach meant the deal was completed in just six weeks from our initial meeting."

Funding business growth across the UK...



Strategic Report

OakNorth Bank Limited

Strategic Report

The Directors' present their strategic report for the Bank for the year ended 31 December 2016.

Principal Activities and Review of the business

OakNorth Bank Limited ("the Bank") was incorporated on 3 July 2013 in the UK and is focused on providing fast, flexible and accessible debt finance for entrepreneurs and mid-sized growth businesses. The Bank received full banking licence in the UK on 28 August 2015.

The Bank provides loans of up to £20 million to its borrowers. The two main products that the Bank focuses on are: Business Lending - which is primarily cash flow based lending to companies to finance their funding requirements including (but not limited to) for growth, working capital and acquisitions; and Property Finance - which includes finance of new development, refurbishment as well as medium-term property investment funding. On the deposits side, the Bank offers attractive savings products to retail customers with fixed term deposit accounts with tenors ranging from 12 to 60 months and also offers easy access accounts.

The Bank's total gross³ loan book including undrawn committed facilities increased to £276.0 million as at 31 December 2016 (2015: £15.3 million) and the deposit book grew to £202.4 million as at 31 December 2016 (2015: £10.9 million). The total operating income grew significantly to £7.7 million for the year 2016, from £160K in 2015. The Bank maintained an average yield on its loan book of 8.4%. The operating expenses (administrative expenses and depreciation and amortisation) increased to £9.2 million during the year from £2.4 million in 2015 largely driven by the growth in the headcount and increase in IT spend to support Bank's development of its systems including analytics and machine learning. The Bank continues to invest in systems and controls to support the growth plans and deliver an enhanced proposition to its customers. The Bank is supported by back office services from its sister company in India (OakNorth Global Private Limited), which enables it to maintain high quality and cost efficiencies in its operations. An impairment provision charge for incurred but not reported losses of £875K was booked during the year (2015: £62K). No specific provisions were made through the year.

As detailed in the Chairman's and the Chief Executive Officer's statements, the Bank has a strong product proposition, systems and operating framework and governance structure to contribute to SMEs funding requirements and support their business growth plans.

Key performance indicators

Given the early growth stage of the Bank's operational activities, the Directors consider funding / liquidity strength, capital strength, credit quality of the loan book and cost containment to be the key performance indicators.

	2016 £million	2015 £million
Called up share capital	86.3	85.5
Liquid assets	51.7	53.2
Total capital adequacy ratio	26.9%	154%

³ Funded loan book £225.5 million, excluding unamortised fees of £3.0 million (2015: £0.3 million) and including undrawn committed facilities of £46.5 million as at 31 December 2016.

As at 31 December 2016, the Bank had met the Liquidity Coverage Ratio (LCR) requirements.

The Bank has robust credit underwriting and monthly monitoring processes in place to ensure that the quality of the loan book is strong and any issues which may impact the credit quality of the borrower are identified on a timely basis. The Risk management framework detailed in the subsequent sections provides more information on the Bank's Credit Risk Management processes.

The Bank has already broken-even on a monthly basis and continues to improve the profitability. During the year 2016 the Bank's paid up capital base increased by £0.8 million. The Bank is well positioned to support the growth in the loan book.

Additional performance metrics will be added as they become relevant to performance assessment.

Risk Management

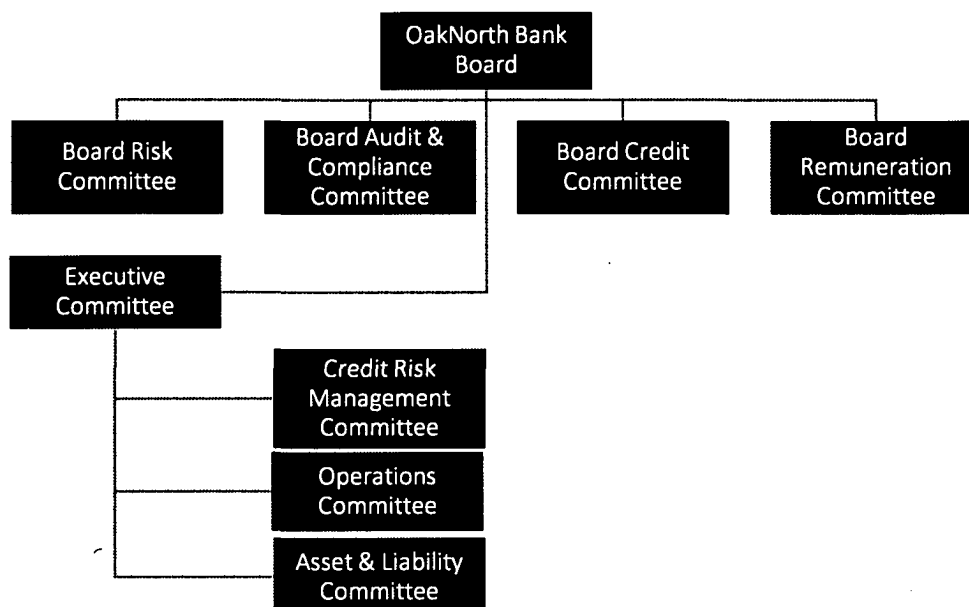
The Bank has established a strong enterprise-wide comprehensive risk management framework and strong governance structure, which underpin the Bank's operations.

Governance structure

The Bank is an unlisted company and therefore the UK Corporate Governance Code does not apply in full. However, the Bank has chosen to comply with majority of the provisions of the Code, as appropriate to the Bank's size and nature.

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

Through delegated authority from the Board, the Board Risk Committee, Board Credit Committee and Board Audit and Compliance Committee provide overall supervision and assurance of the RMF, with independent oversight reporting lines for the CFO, CRO, Head of Credit Risk and Head of Internal Audit to the relevant Board Committee Chairman, to support this.



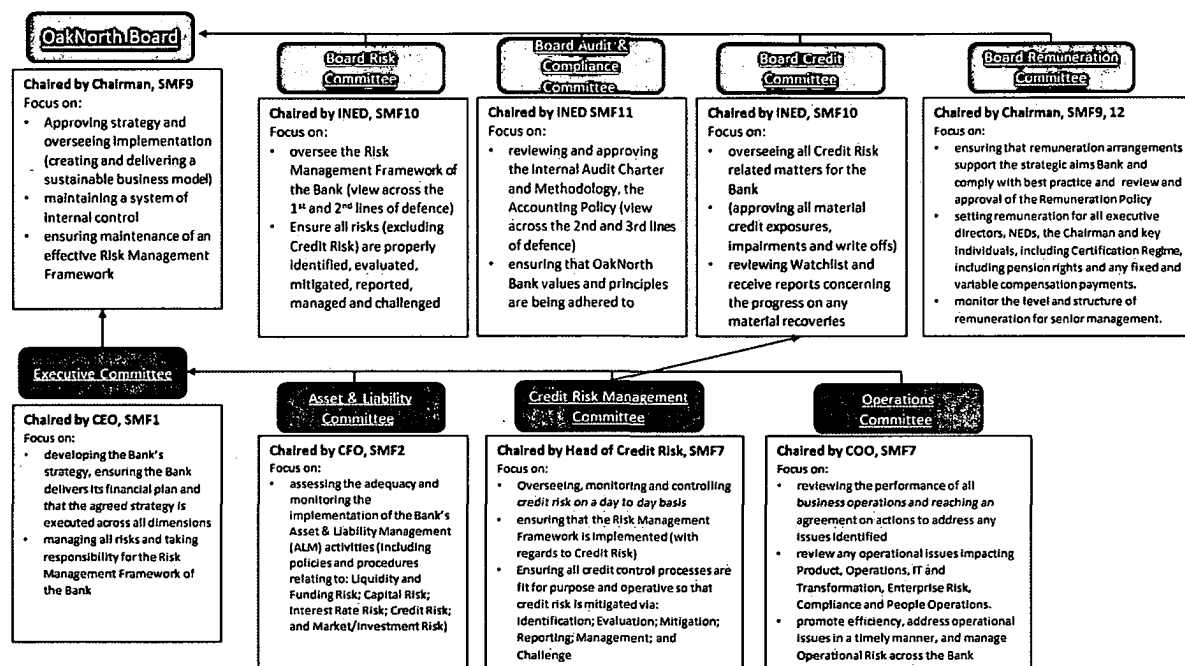
The Board usually meets every month. The Board maintains oversight of the effectiveness of each Board Committee through the receipt, review and challenge of regular standing reports, ad-hoc briefings, minutes and management information from each and will undertake a formal review annually of its own performance, that of its Committees and individual directors and the division of responsibilities.

The Board Remuneration Committee assists the Board in determining the optimum Board size at any point of time within the legal and regulatory framework. The Board believes that the optimum board size is sub-10 people given the Bank's current scale of operations and desired competencies of the Board members. The Board structure currently consists of three Executive Directors, three non-Executive Independent Directors and two notified non-Executive Directors.

The table below summarises the key responsibilities of the various Board and Management committees of the Bank. The roles are defined as Senior Manager Function (SMF) Roles under the PRA & FCA's Senior Managers and Certification Regime.

OakNorth Bank Limited

Strategic Report continued



Principal risks and uncertainties

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

The risks are defined below:

- **Business risk:** the risks which can affect the Bank's ability to achieve its strategic objectives. The Bank's Board defines and reviews performance metrics vs the strategy and business plan at least on an annual basis. The annual strategic review includes (but is not limited to) an analysis of the Bank's economic and competitive landscape and an assessment of key risks (as detailed below)- which may impact the Bank's growth and business performance.
- **Credit risk:** risk of financial loss arising from a borrower or counterparty failing to meet their contractual financial obligations to the Bank.
- **Capital risk:** risk that the Bank has insufficient capital to meet the regulatory requirements and growth objectives.
- **Liquidity risk:** risk that the Bank is unable to meet its contractual financial obligations as they fall due and is unable to fund future lending growth opportunities or is able to do so only at significantly higher funding costs.
- **Interest rate risk:** risk of financial loss arising due to re-pricing mismatches in the asset and liabilities positions which have not been hedged.
- **Operational risk (including IT risk):** the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems, or external events. This covers a number of areas including:
 - risk of financial loss or loss of reputation due to inadequate internal controls;

- loss due to internal or external fraud;
 - failure of IT systems causing loss or reduction of service to customers;
 - risk of cyber-attack; and
 - key person dependencies.
- Conduct, compliance and regulatory risk: Conduct Risk is defined as the risk that a firm's behaviour results in poor outcomes for customers. Compliance risk is defined as the risk of impairment to the organisation's business model, reputation and/or financial condition resulting from failure to meet laws, regulations, standards and policies, and expectations of regulators and society as whole. For the Bank, this includes compliance with FCA and PRA Handbooks/Rulebook, as well as financial crime laws and regulations including those relating to Anti-Money Laundering and Anti-Bribery and Corruption. Regulatory risk is defined as the risk of regulatory sanction, financial loss, or loss to reputation a bank may suffer as a result of failure to comply with all laws and regulations, and the expectations of regulators.

The Bank seeks to mitigate each of these risks through a comprehensive Risk Management Framework (RMF). The RMF enables the Bank to ensure that the key risks facing the Bank are identified, measured, monitored and managed and that appropriate policies, procedures and controls are established such that each risk is mitigated to an acceptable degree.

The Bank has a rigorous annual Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) in place. The purpose of the ICAAP and ILAAP is to ensure the Bank's Board is able to undertake a fully informed assessment of the sufficiency of the Bank's current and projected capital and liquidity resources given its strategy, risk exposure, risk management framework and exposure to stressed environments. The key risks, stress testing scenarios, and baseline projections that underpin the ICAAP and ILAAP are discussed and challenged in detail across both the executive committee and the Board.

The Board has set a Risk Appetite based on the Bank's Strategic Risk Objectives. The Bank's risk appetite sets out the type and quantum of risk the Bank is prepared to accept to achieve its strategic business objectives. It is cascaded top-down, deriving logically from the Bank's high level risk objectives to the low level measures or limits used in day-to-day decision-making by the team, and is defined and measurable.

The high level Strategic Objectives which the Risk Appetite for the Bank is based on is articulated as follows:

Risk Category	Strategic Risk Objectives	Description	Key risk appetite metrics
Financial	Manage capital and liquidity to provide for the Bank's	Ensure that the Bank has sufficient capital, with appropriate buffers, to meet regulatory requirements for its on-going growth projections, even in periods of stress (when new equity may be unavailable).	Capital adequacy buffer, capital resources in place for specified number of days forecast needs, capital ratios tested under stress testing scenarios.

OakNorth Bank Limited
Strategic Report continued

	projected needs, even under stress	Ensure that the Bank has sufficient funding and liquidity to meet all obligations as they fall due, even in periods of stress.	Total liquidity pool, daily opening cash balance, liquidity survival period under stress testing.
Credit	Build earnings at the volume and quality/price required for the Bank's business model	Build stable earnings and sufficient volume to achieve profitability, at an appropriate risk/reward balance whilst avoiding risk concentrations.	Portfolio and individual level maximum probability of default, loss given default; sectoral and single name concentration; Credit risk monitoring policies and procedures.
Regulatory matters & Compliance	Maintain compliance and keep the confidence of our Regulators	Be proactive and forward-looking in understanding, adhering to, and applying regulatory requirements in full. Staff are educated and aware of their personal obligations at all times ensuring any breaches of regulatory or legal requirements are minimised with zero tolerance for any material breaches of any nature.	Material findings reported through compliance assurance tests / internal audit reviews, monitoring of remedial action plan; satisfactory assurance checks on customer due diligence; mandatory staff training; monitoring and reporting of policy exceptions and compliance breaches.
Conduct	Maintain integrity and keep the confidence of our Customers	Focus on delivery of great outcomes for our customers, meeting their needs and expectations through providing suitable products and a high quality service.	Customer satisfaction scores and surveys for products and marketing material; complaints as % of number of customers; customer net promoter score.
Operational	Manage operational risks effectively	Proactively manage all the Bank's operational risks to achieve a low level of operational loss.	Operational risk events, fraud attempts, cybercrime event, data protection loss- "near miss", maximum loss from ops risk events as % of income; loss of key staff; Satisfactory self-assurance reviews; third-party service provider service level agreement violations; System availability and capacity utilisation.
Reputational	Protect the Bank's reputation through effective systems and controls and high levels of customer service	Reputation risk is a direct consequence of failing to control adequately all risks facing the organisation impacting on revenue streams, brand value and staff motivation. In addition to mitigating risks through effective systems and control, the Bank will further manage its reputation by continually investing in and embedding its risk management framework and control culture across the Firm.	Events likely to cause reputational impact with key stakeholders including (but not limited to) customers, regulators, service providers; actual or high likelihood of adverse coverage of the Bank in the media.

A number of detailed policies and frameworks, including stress testing framework, approved by the Board and the Board delegated committees detail the governance frameworks ensuring that the Bank's activities are consistent with the Risk Appetite approved by the Board. These policies cover all areas including (but not limited to): Operational risk, Conduct and Customer Experience, Financial Crime, Fraud and Anti-Money Laundering (AML), Compliance Manual, Code of Conduct, Credit Risk Management, Interest Rate Risk Management, Liquidity Risk Management, Business Planning and Stress Testing.

Further details are provided in the Risk Management section in the Notes to Accounts.

A review of the adequacy and effectiveness of the overall risk management framework and compliance management is made annually, in accordance with the Control and Compliance Review and Certification process. The Risk function, as second line of defence, is responsible for providing assurance that those controls are implemented, are being operated satisfactorily, and that risk and control registers are comprehensive. Internal Audit, as third line of defence, conducts reviews in line with the internal audit plan to test the effectiveness of the operational risk framework, including first line controls and the quality of the second line oversight.

Business and economic outlook

The Bank's financial position continues to improve with the growth in loan book and through cost containment initiatives. As detailed in the Chairman's statement and the CEO's review, Britain's decision to leave the EU added uncertainty to the economic environment and many of the high street banks tightened SME lending. The structural gap in the SME financing in the UK continues to be an issue. The Bank's flexible and transparent approach to the lending process has enabled the Bank to grow the loan book during 2016 and its strong pipeline is an indicator of the growth opportunities. The Directors see the opportunity to service entrepreneurs as substantial and the demand for expert, tailored financial services is growing rapidly. They expect the Bank to be active in both the lending and deposit markets in line with our strategy and plans in the forthcoming year.

The Bank is swiftly establishing itself as a credible contender in the UK lending sector and leading the change in the way entrepreneurs and mid-sized companies finance their growth. Its unique proposition of providing speed, transparency and flexibility to the lending process, will enable it to continue building on its loan book whilst ensuring strong credit quality.

The Bank's operating model is supported by services from the group company in India, OakNorth Global Private Limited, and the group will continue to expand the teams in India to enable an efficient and scalable operating platform.

Any adverse changes to the current economic conditions in the UK could affect the Bank's business and financial performance; the Bank maintains a cautious approach to the outlook for the UK economy due to uncertainties surrounding the negotiations related to 'Brexit'. The Bank's credit underwriting process focuses on a selective risk-based approach to lending, robust credit analysis and proactive monitoring.

The Bank is well positioned to withstand any adverse developments due to its current levels of surplus capital and liquidity. The Bank undertakes a comprehensive assessment of its Risk Appetite including

stress testing the business model to ensure that it can meet its objectives in severe but plausible economic conditions.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Rishi Khosla', written in a cursive style.

Rishi Khosla

Chief Executive Officer and Co-Founder

13 March 2017

OakNorth Bank Limited
Directors' Report

The Directors present their annual report on the affairs of the Bank, together with the financial statements and auditor's report, for the year ended 31 December 2016.

Going concern

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

Financial Risk Management

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

Dividends

The Directors do not recommend a dividend.

Directors

The Directors, who served throughout the year except as noted, were as follows:

Name of Director	Designation	Date of appointment	Date of resignation
Rishi Khosla	Executive Director Chief Executive Officer and Co-Founder	18 Dec 13	-
Joel Perlman	Executive Director Chief Strategy Officer and Co-Founder	18 Dec 13	-
Graham Leslie Olive	Executive Director Deputy Chief Executive Officer	29 Feb 16	-
Cyrus Ardalan	Chairman	29 Jun 15	-
Lord Adair Turner	Senior Independent Director	08 Jan 15	-
Robert Burgess	Independent Non-Executive Director	01 Jan 15	-
Gagan Banga	Notified Non-Executive Director	23 Feb 16	-
Ajit Kumar Mittal	Notified Non-Executive Director	23 Feb 16	-
Thomas Woolgrove	Executive Director Deputy Chief Executive Officer	18 Sep 15	08 Jan 16
Murali Reddy	Executive Director Chief Financial Officer	08 Jan 15	30 June 16

Directors' report continued

Directors' indemnities

The Bank 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 30 in the Notes to Accounts.

Future developments

Please refer to Strategic Report.

Auditor

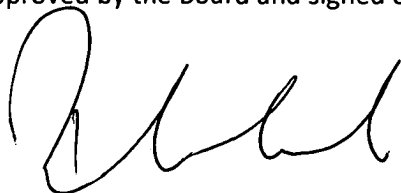
Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

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

A resolution to reappoint Deloitte LLP as auditor will be proposed at the next Annual General Meeting.

Approved by the Board and signed on its behalf by:



Rishi Khosla
Chief Executive Officer and Co-Founder
13 March 2017

Statement of Directors' responsibilities

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

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

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

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

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

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

Independent auditor's report to the members of OakNorth Bank Limited

We have audited the financial statements of OakNorth Bank Limited for the year ended 31 December 2016 which comprise the Profit and Loss statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OakNorth Bank Limited

Independent auditor's report to the members of OakNorth Bank Limited continued

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Caroline Britton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
17 March 2017

Profit and loss statement**For the year ended 31 December 2016**

	Note	2016 £'000	2015 £'000
Interest receivable		8,683	198
Interest payable		(1,490)	(42)
Net Interest income		7,193	156
Fees and commissions		474	4
Operating Income		7,667	160
Administrative expenses		(8,349)	(2,360)
Depreciation and amortisation	12, 13	(864)	(25)
Provision for impairment losses	10	(875)	(62)
		(10,088)	(2,447)
Loss on ordinary activities before tax		(2,421)	(2,287)
Taxation	3	-	-
Loss after tax from ordinary activities		(2,421)	(2,287)

OakNorth Bank Limited

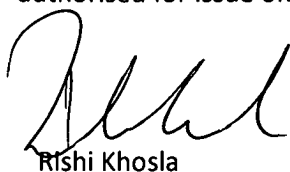
Statement of comprehensive income
For the year ended 31 December 2016

	2016	2015
	£'000	£'000
Loss after tax	(2,421)	(2,287)
Fair value changes on available for sale financial instruments	7	(7)
Total comprehensive income for the period attributable to equity shareholders	(2,414)	(2,294)

Balance sheet**For the year ended 31 December 2016**

	Note	2016 £'000	2015 £'000
ASSETS			
Cash and balances at central bank		51,175	-
Loans and advances to banks	8	9,161	21,571
Loans and advances to customers	9, 10	225,508	14,906
Debt Securities	11	500	53,238
Intangible assets	12	312	350
Tangible fixed assets	13	3,750	3,914
Prepayments and accruals	14	1,225	730
Other assets	15	291	62
Total assets		291,922	94,771
LIABILITIES			
Customer deposits	17	202,397	10,939
Accrued interest on customer deposits		1,297	39
Trade payables and other provisions	18	1,730	834
Other liabilities	19	5,137	8
			11,820
		210,561	
CAPITAL AND RESERVES			
Called up share capital	25	86,320	85,500
Capital contribution		4	-
Profit and loss account	26	(4,963)	(2,542)
Available for sale reserve	11	-	(7)
		81,361	82,951
Total liabilities and capital and reserves		291,922	94,771

The financial statements of OakNorth Bank Limited were approved by the Board of Directors and authorised for issue on 13 March 2017. They were signed on its behalf by:



Rishi Khosla
Executive Director
CEO and Co-Founder



Joel Perlman
Executive Director
CSO and Co-Founder



Cristina Alba
CFO

Statement of changes in Equity

For the year ended 31 December 2016

	Share Capital	Profit and loss account	Available for sale reserve	Capital contribution	Total
	£'000	£'000	£'000	£'000	£'000
As at 31 December 2014	1,180	(255)	-	-	925
Issue of share capital	84,320	-	-	-	84,320
Loss after tax	-	(2,287)	-	-	(2,287)
Fair value changes on available for sale financial instruments	-	-	(7)	-	(7)
As at 31 December 2015	85,500	(2,542)	(7)	-	82,951
Issue of share capital	820	-	-	-	820
Loss after tax	-	(2,421)	-	-	(2,421)
Capital contribution (employee share-based payments)	-	-	-	4	4
Fair value changes on available for sale financial instruments	-	-	7	-	7
As at 31 December 2016	86,320	(4,963)	-	4	81,361

Cash flow statement**For the year ended 31 December 2016**

	2016 £'000	2015 £'000
Loss on ordinary activities before tax	(2,421)	(2,287)
<i>Adjustments for</i>		
Depreciation and amortisation	864	25
Provisions for incurred but not reported losses	875	62
Impairment of fixed assets	96	-
Share-based payments to employees	4	-
Fair value changes on available for sale financial instruments	7	(7)
Increase in receivables	(724)	(789)
Increase in payables	7,282	670
Increase in loan receivables	(211,477)	(14,968)
Increase in customer deposits	191,458	10,939
Income taxes paid	-	-
Net cash flows (used in)/generated from operating activities	(14,036)	(6,355)
Purchase of property, plant and equipment, implementation of software and intangible assets	(758)	(3,261)
Purchase of debt securities	(499)	(53,238)
Proceeds from maturity of debt securities	53,238	-
Net cash flows from investing activities	51,981	(56,499)
Proceeds on issue of shares	820	84,320
Net cash flows from financing activities	820	84,320
Net increase in cash and cash equivalents	38,765	21,466
Cash and cash equivalents at beginning of year	21,571	105
Cash and cash equivalents at end of year	60,336	21,571
Reconciliation to cash at banks		
Cash and balances at central bank	51,175	-
Loans and advances to banks (Note 8)	9,161	21,571
Total	60,336	21,571

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies

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

1.1 General information and basis of accounting

OakNorth Bank Limited (registered number: 08595042) is a Bank incorporated in the United Kingdom under the Companies Act. The address of the registered office is at Sixth Floor, Nightingale House, 65 Curzon Street, London W1J 8PE, England. The nature of the Bank's operations and its principal activities are set out in the Strategic report and Directors' report.

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

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

1.2 Going concern

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

1.3 Tangible fixed assets

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

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

Fixtures, fittings and office equipment	5 years
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Notes to the financial statements

For the year ended 31 December 2016

Computers and IT equipment

3 - 5 years

Leasehold improvements

shorter of over the term of the lease or useful life

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

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

1.4 Intangible fixed assets

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

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

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

Banking Licence

10 years

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

De-recognition of intangible assets

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

1.5 Impairment of tangible and intangible assets

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount

Notes to the financial statements

For the year ended 31 December 2016

does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.6 Financial instruments

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

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

1.7 Fair value measurement

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

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

1.8 Loans and receivables

Loans and receivables, which include loans and advances and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not designated at fair value through profit and loss, available for sale or held to maturity. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using effective interest rate method. Loans and

Notes to the financial statements

For the year ended 31 December 2016

receivables are stated at amortised cost after deduction of amounts which are required as impairment provisions. The Bank's policy in relation to impairments and impairment provisions is detailed in note 1.10.

1.9 Available for sale financial assets

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

Any impairment losses on available for sale investment securities is required to be recognised by transferring the cumulative loss that has been recognised directly in equity to profit and loss. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity investment is recognised directly in equity since it cannot be reversed through the profit and loss account.

1.10 Impairment of assets held at amortised cost

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

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

The Bank's Provisioning policy requires specific assessment of individually significant exposures and portfolio level assessment for smaller value loans.

Notes to the financial statements

For the year ended 31 December 2016

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

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

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

1.11 Sale and repurchase transactions

Securities sold by the Bank 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.

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

The Bank is an approved participant under the "TFS" scheme. The Bank has however not made any drawings under the scheme. As an accounting policy, as the Bank will retain 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 will continue to be recognised as an asset on the balance sheet and any funding raised will be recognised as liability.

1.13 Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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.

Notes to the financial statements

For the year ended 31 December 2016

1.14 Revenue recognition

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

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

1.15 Foreign currency

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

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

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

1.16 Leases

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

1.17 Pension scheme costs

The Bank offers a defined contribution pension scheme for its employees. Any contributions required to be made by the employer, if any, under the scheme are charged to operating expenses as incurred.

Notes to the financial statements

For the year ended 31 December 2016

1.18 Share-based payments

The Bank's Parent company – OakNorth Holdings Limited, issues equity settled share-based remuneration payments to some of the Bank's employees as an incentive to support long-term business growth of the Bank. The transactions are recognised at fair value as employee compensation expense on a straight line basis in accordance with the vesting schedule, adjusted for the Bank's estimate of expected awards that will actually vest based on probability of an employee leaving and adjusted for any non-market based vesting conditions. A corresponding capital contribution from the Parent company is recognised in the books over the vesting period in the shareholders' equity.

The fair value of the shares awarded is calculated using valuation models, with adjustment for rights and restrictions attached to the shares awarded. Inputs into valuation models include the Bank's Parent company's assessment of estimated revenue and profit margins, the risk free interest rate, the expected volatility of the company's share price and other various factors which relate to performance conditions attached to the awards.

1.19 Other Provisions (excluding impairment provisions)

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event; it is probable that the Bank will be required to settle that obligation and, a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account any risks and uncertainties in relation to the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, where the effect of time value of money is material, the carrying amount is computed as the present value of those cash flows.

1.20 Share capital

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

1.21 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank'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.

Notes to the financial statements

For the year ended 31 December 2016

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

Key sources of estimation uncertainty

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

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

During the year, management reconsidered the recoverability of the costs capitalised in processing the Banking licence intangible asset which is included in its balance sheet at £312K (2015: £350K). When the Bank obtained the banking licence amortisation of the intangible asset commenced.

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

Allowance for credit losses: Credit loss allowances are established to recognise any incurred losses in the Bank's loan portfolio. Note 1.10 details the Bank's monitoring and provisioning process. In accordance with the Bank's CRMP, the Bank monitors the performance of the lending exposures, both at an account level and at portfolio level, on a monthly basis against the approved terms and conditions of sanction and covenants. Any material variances are flagged for immediate review and escalation, including where appropriate, a formal 'Watch Account' process is initiated. The governance procedures followed by the Bank in relation to Credit Risk management are summarised in the Strategic Report and in note 24 on Risk Management Framework.

Specific impairment is identified based on impairment triggers under IAS39, and impairment provisions are made where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows from the asset that can be reliably estimated. Evidence of impairment is considered at both individual and portfolio level. The Bank has reviewed its portfolio as at 31 December 2016 for any specific impairment triggers and no accounts are considered as specifically impaired.

In accordance with the provisioning policy, the Bank estimates provisions for IBNR on its performing book. As detailed in note 1.10, the estimate is based on funded exposure x PD x LGD x EP. As the Bank does not have its own loss data, the Bank uses external data to calibrate a range of PDs. The final PD scores for each exposure are determined taking into account the business profile, financials and strength of management. The LGDs are based on the Bank's estimate of the recoverable value that

Notes to the financial statements

For the year ended 31 December 2016

may be applied to the type of collateral received after factoring costs of recovery and downturn asset values. An emergence period of 12 months has been applied to the IBNR provision calculation. The Bank has assessed £937K as IBNR impairment allowance on its performing book as at 31 December 2016.

2 Loss on ordinary activities before tax

Loss on ordinary activities before tax is stated after charging:

	2016 £'000	2015 £'000
Depreciation of tangible fixed assets	826	1
Amortisation of intangible assets	38	10
Operating lease rentals	164	76
Foreign exchange loss	5	1
	<u>1,033</u>	<u>102</u>

Further information is provided in notes 12, 13 and 20

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

	2016 £'000	2015 £'000
Fees payable to the Bank's auditor and its associates for the audit of the bank's annual accounts	83	44
Total audit fees	<u>83</u>	<u>44</u>
Taxation compliance services	3	3
Other services	3	114
Total non-audit fees	<u>6</u>	<u>117</u>
Total fees to auditor	<u>89</u>	<u>161</u>

Notes to the financial statements

For the year ended 31 December 2016

3 Taxation

The current tax charge comprises	2016 £'000
Total current tax	-
Factors affecting tax charge for the current period	2016 £'000
Loss on ordinary activities before tax	(2,421)
Tax at standard UK corporation tax rate of 20%	(484)
<i>Effects of:</i>	
Expenses not deductible for tax purposes	13
Deferred tax not recognised	471
Total tax charge/(credit) for period	-

Change in tax rate: A reduction in the UK corporation tax rate from 21% to 20% (effective 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6th September 2016. This will reduce the company's future current tax charge accordingly.

4 Staff numbers and costs

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

	31 Dec 2016	31 Dec 2015
Average number of employees	50	37

Their aggregate remuneration comprised:

	2016 £'000	2015 £'000
Salaries and bonuses	4,661	1,364
Social security costs	579	130
Share-based payment	4	-
Other costs	30	8
	5,274	1,502

Notes to the financial statements

For the year ended 31 December 2016

The Bank has not made any contributions towards pension scheme for employees in 2016 (2015: nil).

5 Share-based payments

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

During the year 11,699 shares were granted under the ESS scheme at a price of £5.80 per share. No shares had vested, expired or were forfeited during the year.

6 Directors' remuneration and transactions

	2016 £'000	2015 £'000
Directors' remuneration		
Emoluments	770	683
Share-based payment	-	-
Redundancy pay	-	30
	770	713
Less: Capitalised to tangible fixed assets	-	(334)
Net amount expensed to profit and loss account	770	379
 Remuneration of the highest paid director:		
Emoluments	133	251
Share-based payment	-	-
Less: Capitalised to tangible fixed assets	-	(177)
Net amount expensed to profit and loss account	133	74

Total number of share-based payments granted to the Directors were 810 shares at the price of £5.8 per share. The remuneration to the highest paid director includes 810 shares granted at the price of £5.8 per share. The expense recognised above is recognised over the vesting period (refer note 5 for details of the scheme).

Notes to the financial statements

For the year ended 31 December 2016

Directors' advances, credits and guarantees

Details of transactions with directors during the year are disclosed in note 28.

7 Financial Services Compensation Scheme "FSCS"

As a regulated UK deposit-taker, the Bank pays levies to the FSCS which offers protection to individual deposit holders on amounts up to £75,000 (applicable as of 31 December 2016). The FSCS levy covers management expenses and compensation levies. In addition to the overall levy, FSCS also recovers costs capital and interest costs associated with Treasury loans during the banking crisis in 2008 ("Specified Deposit Default (SDD) levy"). During 2016, the Bank made a provision of £79K in respect of the FSCS levies (2015: £36K).

8 Loans and advances to banks

	2016 £'000	2015 £'000
Balance held with banks	9,161	7,039
Time deposits with banks	-	14,000
Bank balance with custodian	-	532
	9,161	21,571

The loans and advances to banks are measured at amortised cost. The fair values of financial assets are approximate to their book values.

9 Loans and advances to customers

	2016 £'000	2015 £'000
Loans and advances to customers		
Amount due:		
- within one year	58,204	2,983
- over one year but less than five years	156,256	11,985
- over five years	11,985	-
Gross loans and advances	226,445	14,968
IBNR provisions allowance	(937)	(62)
Loans and advances to customers (net)	225,508	14,906
of which repayable on demand or at short notice	-	-

Notes to the financial statements

For the year ended 31 December 2016

There were no past due or impaired accounts as at 31 December 2016. All the exposures of the Bank were in the UK. The loans and advances to customers are measured at amortised cost. The fair values of the loan financial assets are approximate to their book values. The above balances are stated net of unamortised fees for £3.0 million as at 31 December 2016 (2015: £0.3 million).

10 Provision for impairment losses

	2016 £'000	2015 £'000
IBNR provisions		
As at beginning of the year	62	-
Created during the year	875	62
Released during the year	-	-
Written off during the year	-	-
As at end of the year	937	62
Movement in the profit and loss account		
IBNR provision created	875	62
IBNR provision released	-	-
	875	62

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

11 Debt securities

	2016 £'000	2015 £'000
Analysed by class:		
Treasury Bills	500	3,198
Bonds	-	50,040
	500	53,238
Analysed by issuer		
Issued by public bodies: Government	500	53,238
Analysed by designation		
Available for sale	500	53,238
Analysed by maturity		
Due within one year	500	53,238
Fair value of debt securities		
Issued by public bodies: Government	500	53,238

Notes to the financial statements

For the year ended 31 December 2016

All the investments held have been fair valued based on market price (Level 1). None of the investments were impaired as at 31 December 2016 (2015: Nil). The GILTS and T-Bills held as at 31 December 2015 matured during the year and £7K mark to market loss as at 31 December 2015 on these instruments was reversed during the year.

12 Intangible assets

	Banking License £'000
Cost	
At 31 December 2015	360
Additions	-
At 31 December 2016	360
Amortisation	
At 31 December 2015	10
Charge for the period	38
At 31 December 2016	48
Carrying amount	
At 31 December 2016	312
At 31 December 2015	350

13 Tangible fixed assets

	Leasehold improvements £'000	Computer and IT equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
Cost				
At 31 December 2015	48	3,863	19	3,930
Additions	4	745	9	758
Impairment	-	(96)	-	(96)
At 31 December 2016	52	4,512	28	4,592
Depreciation				
At 31 December 2015	2	12	2	16
Charge for the period	11	811	4	826
Impairment	-	-	-	-
At 31 December 2016	13	823	6	842
Carrying amount				
At 31 December 2016	39	3,689	22	3,750
At 31 December 2015	46	3,851	17	3,914

Notes to the financial statements

For the year ended 31 December 2016

14 Prepayments and accruals

	2016	2015
	£'000	£'000
Accrued interest and fees receivable on loans to customers	1,067	494
Prepayments and deferred expenses	158	2
	1,225	730

15 Other assets

	2016	2015
	£'000	£'000
Security deposits	48	46
Other assets	243	16
	291	62

16 Deferred tax

No deferred tax asset has been recognised in respect of the current and prior year losses.

17 Customer deposits

	2016	2015
	£'000	£'000
Customer deposits	202,397	10,939
Amounts due:		
- within one year	93,174	7,201
- over one year but less than five years	109,050	3,738
	202,224	10,939
repayable on demand or at short notice	173	-
Total deposits	202,397	10,939

The fair values of financial liabilities are approximate to their book values.

Notes to the financial statements

For the year ended 31 December 2016

18 Trade payables and other provisions - amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors and accruals	1,496	681
Payroll taxes and social security	234	153
Corporation tax payable	-	-
	<u>1,730</u>	<u>834</u>

The carrying amount of trade payables approximates to their fair value.

19 Other liabilities

	2016 £'000	2015 £'000
Deferred income & income received in advance	4,555	-
Other payables/ Items in suspense	582	8
	<u>5,137</u>	<u>8</u>

20 Operating lease commitments

	2016 £'000	2015 £'000
Lease expense charged to the profit and loss	<u>164</u>	<u>76</u>

Operating lease payments represent rentals payable by the Bank for its office premises.

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

- within one year	48	178
- between one and five years	-	41
- after five years	-	-
	<u>48</u>	<u>219</u>

In February 2017, the Bank signed a new lease agreement in addition to the above commencing February 2017 (rent payment period commencing from April 2017) at an annual rent of £102,743

Notes to the financial statements

For the year ended 31 December 2016

(excluding VAT) for a period until September 2018. The Bank also renewed an existing lease (expiring in February 2017 at annual rent of £105,165 (excluding VAT) for period until September 2018.

21 Contingent liabilities and commitments

As on 31 December 2016, the Bank had undrawn loan commitments outstanding for £46.5 million (2015: Nil). The Bank had no other contingent liabilities as on 31 December 2016 (2015: Nil).

22 Country by country reporting

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

23 Capital management

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

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

The Bank has Tier 1 capital resources which include ordinary share capital, AFS revaluation reserve and retained earnings, reduced by the intangible assets. Tier 2 capital, includes IBNR provisions reserve. More information is provided in the Bank's Pillar 3 disclosures available in a separate document.

24 Risk Management Framework

The Bank has adopted the governance framework in line with the corporate governance practices adopted by other UK financial institutions. As a financial institution, the Bank is exposed to various types of risks. The Bank has implemented an Enterprise Wide Risk Management Framework to identify, measure and monitor the risks. The Bank has developed a risk appetite framework to manage the risks. The risk appetite statements cascade to the suite of Policies which define the

Notes to the financial statements

For the year ended 31 December 2016

controls needed to implement them. The Policies in turn cascade to Standard Operating Procedures (SOPs) which operationalise the controls.

The Board of Directors oversees the risks assumed by the Bank and specific Board committees have been constituted to facilitate focused oversight of various risks. The Board is assisted by its committees, the Board Audit and Compliance Committee, Board Risk Committee, Board Credit Committee and Board Remuneration Committee. The day-to-day responsibilities are further delegated to the Executive Committee (EXCO). The EXCO is supported by various other committees including: Credit Risk Management Committee, Operations Committee and Asset and Liability Committee.

The Bank has risk registers for each functional area, which rolls up into the enterprise risk register.

The approach to manage key risks is outlined below.

Credit Risk

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

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

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

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

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

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

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

Notes to the financial statements

For the year ended 31 December 2016

The Bank seeks to mitigate credit risk through, inter alia, eligible collateral. The Bank's CRMP details the eligible collateral that the Bank may accept for risk mitigation purposes. This includes – debenture/charge on fixed and floating assets; charge on freehold land, property; guarantees (personal, corporate); and cash reserves/deposits. The Bank has a policy guidance on the valuation conditions and methods. The Bank also has a policy in relation to the external valuation firms'/quantity surveyors who can be added to the Bank's valuation panel. Any review of collateral is done in line with the scheduled (minimum annual) review for the credit and frequency as specific to the security type, as applicable. As on 31 December 2016, 87% of the Bank's loan exposures were collateralised by security comprising of fixed assets (including property)- these exclude any charges on floating assets and guarantees not supported by charge on fixed assets.

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

The Bank had undrawn commitments of £46.5 million as at 31 December 2016 (2015: nil). Additionally, the Bank had undrawn lines which are conditional and revocable by the Bank, accordingly, they are not included in maximum exposure to credit risk.

The Bank had no overdue exposures as at 31 December 2016 (2015: Nil). The Bank had not granted any forbearance on the accounts during the year. All the risk exposures of the Bank are in the UK.

Liquidity risk

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

The Bank has a detailed Funding policy which sets out the approach to funding the asset book and at the same time limiting the concentration of the funding sources. The Bank has put in place an Individual Liquidity Adequacy Assessment Process (ILAAP), which informs the Bank's Board of the ongoing assessment and quantification of the Bank's liquidity risks by defining the Bank's ILAAP methodology and prescribed stress tests, how the Bank intends to mitigate those risks and how much current and future liquidity is required. The Bank also has a "Liquidity Contingency Funding Plan" (LCP) in place which is designed to ensure that the Bank is able to meet its obligations as they fall due even in a stress situation. The Bank also regularly updates its Recovery plan, which is designed to detail all credible options for addressing capital and liquidity challenges under a range of stress scenarios.

The Bank's liquidity position is monitored in accordance with the Bank's Liquidity Risk Management Policy and in accordance with the Liquidity Risk Appetite statements as approved by the Bank's Board.

Notes to the financial statements

For the year ended 31 December 2016

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

As at 31 December 2016, the Bank held high quality liquid assets of £51.7 million (2015: £53.2 million).

Interest rate risk

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

- **Duration or Repricing Risk:** The risk arising from repricing mismatch of assets and liabilities. The majority of the Bank's assets reprice based on the base rates while the deposit liabilities are fixed rate.
- **Basis Risk:** Unhedged exposure to one interest rate benchmark with exposure to another interest rate benchmark that reprices under different conditions.
- **Pipeline Risk:** The uncertainties of occurrence of future transactions.
- **Prepayment Risk:** Borrowers redeeming fixed rate products when interest rates change or prepaying loans for other reasons.

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

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

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

As at 31 December 2016, the NPV sensitivity to +-200bps shift was as follows, which indicates a positive effect of the rate floors on the Bank's interest rate risk:

	2016 £'000
NPV Sensitivity to +2% shift (including base/LIBOR rate floors)	3,346
NPV Sensitivity to -2% shift (including base/LIBOR rate floors)	4,003

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For the year ended 31 December 2016

As at 31 December 2016, the basis risk exposure due to a 25bps reduction in the Bank of England base rate would reduce the net interest margin of the Bank by approximately £131K (2015: £38K) in one year. The impact is low due to the base rate floors embedded within the Bank's loan agreements.

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

The Bank has an Operational Risk Policy. Each function, as the first line of defence, ensures that any operational risk in their area is mitigated by clearly defined and documented process documents and undertakes Risk and Controls Self-Assessment ('RCSA') process. Appropriate risk limits and their thresholds and early warning indicators are set. The Bank has a risk register for each functional area, which rolls up to the enterprise risk register. Reporting of appropriate MI on process effectiveness and any events or near misses is made monthly to the Operations Committee (OPCO), EXCO and Board.

Conduct, compliance and regulatory risks

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

Compliance risk is defined as the risk of impairment to the organisation's business model, reputation and/or financial condition resulting from failure to meet laws, regulations, standards and policies, and expectations of regulators and society as whole. The Bank has a zero appetite for any breach of regulation, code or standard of conduct.

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

The Bank uses the customer outcomes approach to assess conduct and regulatory compliance risk. The Bank has put in place a Compliance Manual to provide an overview of the regulatory system under which OakNorth operates, to provide an outline of the Bank's Compliance policy in each area, and to provide instructions for staff in obtaining further details of the Bank's policies and procedures for compliance.

25 Called-up share capital

	2016 £'000	2015 £'000
Allotted, called-up and fully-paid		
86,320,001 (previous year: 85,500,001)		
ordinary shares of £1 each	86,320	85,500

Notes to the financial statements

For the year ended 31 December 2016

	No of shares (in '000)
As at 31 December 2014 (restated)	1,180
Issue of shares during the year	84,320
As at 31 December 2015	85,500
Issue of shares during the year	820
As at 31 December 2016	86,320

In March 2017, OakNorth Holdings Limited has invested an additional £5.3 million in the equity share capital of the Bank and the Bank has issued ordinary shares of £1 each. As on date of issuance of the financial statements, the Bank's total issued and fully paid-up share capital stands at £91.62 million.

26 Profit and loss account

	2016 £'000	2015 £'000
As at the start of the year	(2,542)	(255)
Loss during the year	(2,421)	(2,287)
As at end of year 31 December	(4,963)	(2,542)

27 Segmental information

The Bank operates in one segment of business which is lending. All income on such loans granted arises in the United Kingdom.

Notes to the financial statements

For the year ended 31 December 2016

28 Related party transactions

Transactions with related parties include contract charges for services provided by OakNorth Global Private Limited, a fellow subsidiary entity, of £1,068K (2015: £194K) and the subscription of share capital by the Holding Company of £820K (2015: £84.3 million), as disclosed below.

	2016 £'000	2015 £'000
OakNorth Holdings Limited, Jersey		
- Subscription of shares	820	84,320
OakNorth Global Private Limited, India		
- Purchase of services	1,068	194
- Advances paid	60	135
Copal Partners (UK) Limited		
- Purchase of services	-	9
Heady LLC		
- Purchase of services	6	-

The following amounts were outstanding at the balance sheet date:

	2016 £'000	2015 £'000
Equity holding		
OakNorth Holdings Limited, Jersey	86,320	85,500
	2016 £'000	2015 £'000
Amounts owed to / (from) related parties		
OakNorth Global Private Limited, India	(60)	(135)
Key management personnel	13	6

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

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

Notes to the financial statements

For the year ended 31 December 2016

Directors' transactions

Other related party transactions

The total remuneration for key management personnel for the year totalled £497K (2015: £501K), being the remuneration as disclosed in note 6.

	2016			2015		
	Total amount paid / payable £'000	Amount capitalised £'000	Net amount expensed £'000	Total amount paid / payable £'000	Amount capitalised £'000	Net amount expensed £'000
Employee costs	420	-	420	471	268	203
Redundancy pay	-	-	-	30	23	7
Share-based payment	-	-	-	-	-	-
Other emoluments	-	-	-	-	-	-
Total	420	-	420	501	291	210

The share-based payments expense included in the above is the expense recognised as per the vesting schedule. The total number of shares granted is 810.

29 Controlling party

In the opinion of the Directors, the Bank'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.

30 Post balance sheet events

Please refer to note 20 'Operating lease commitments' and note 25 'Called-up share capital'. There have been no other material events after the balance sheet date which would require disclosure or adjustments to the 31 December 2016 financial statements.

OakNorth Bank
6th Floor, Nightingale House,
65 Curzon Street,
London W1J 8PE

www.oaknorth.com



@oaknorth



OakNorth Bank



oaknorthbankuk

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