

Annual report 2017

# Lending for Entrepreneurs, by Entrepreneurs

**OakNorth**

**OakNorth Bank Limited Annual report and Financial  
Statements for the year ended 31 December 2017**

**Registered number: 08595042**

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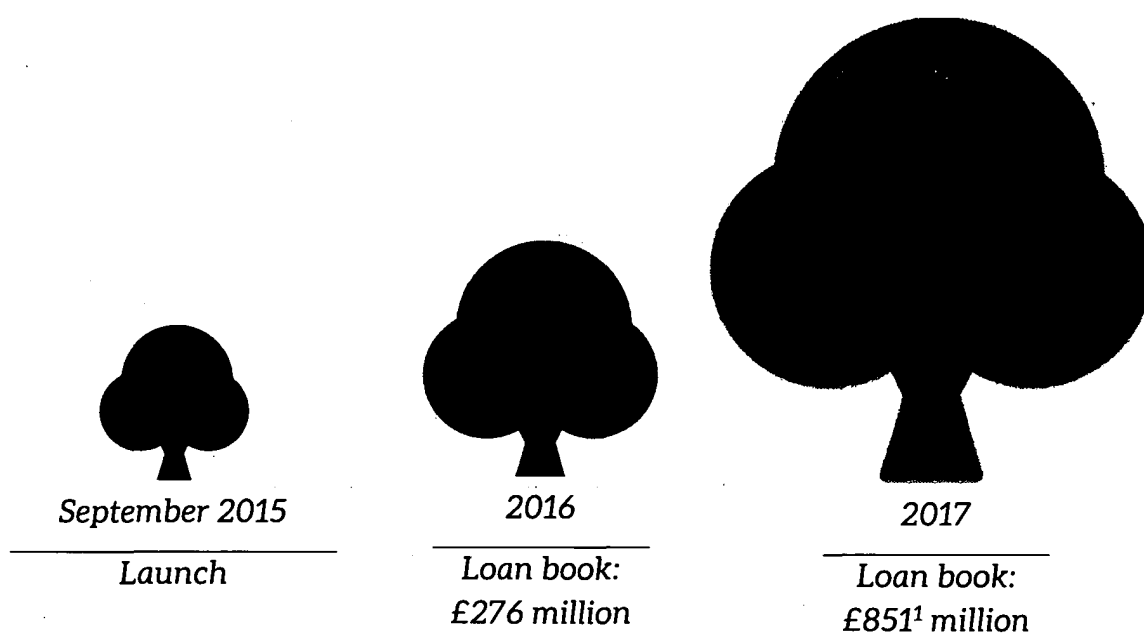
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<sup>1</sup> Funded loan book £613.1 million (2016: £229.4 million), excluding unamortised fees of £5.8 million (2016: £3.0 million) and including undrawn committed facilities of £107.7 million (2016: £46.5 million) and uncommitted facilities of £130.6 million.



**Rishi Khosla**  
Chief Executive Officer and  
Co-founder



**Cyrus Ardalan**  
Chairman



**Joel Perlman**  
Chief Strategy Officer and  
Co-founder



**Robert Burgess**  
Non-Executive Director



**Graham Olive**  
Deputy Chief Executive  
Officer



**Navtej S Nandra**  
Non-Executive Director



**Cristina Alba Ochoa**  
Chief Financial Officer



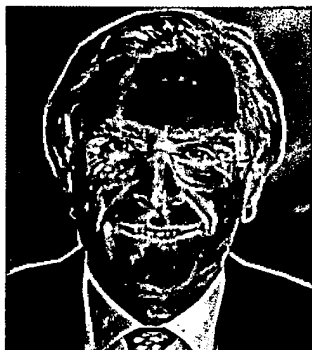
**Edward Barry Berk**  
Non-Executive Director



**Ajit Mittal**  
Non-Executive Director



**Gagan Banga**  
Non-Executive Director



*"The UK is much better at creating new companies than nurturing the ones that already exist. We're trying to change that – we want the UK to be known as a nation of scale-ups, rather than a nation of start-ups."*

**Cyrus Ardalan**  
Chairman

The ability of Small and Medium Enterprises (SMEs) to access adequate and suitable financing to grow their businesses remains a major challenge. If you consider the SME lending market today, at the smaller end of the scale (loans of sub £0.5m), large banks offer several debt options, including small general-purpose business loans, asset finance, and invoice finance. To make these propositions commercially viable, these options are standardised and typically built on automated credit models, which allow lenders to process loans quickly and efficiently. There is little flexibility in the structure and terms of these loans. At the larger end of the scale (loans of £30 million+), however, lenders can justify allocating significant amounts of time and resources to underwriting the loan because the potential returns are substantial. Borrowers with loans that fall outside these parameters see their applications extend over months and are often rejected or poorly served. OakNorth's co-founders, Rishi Khosla and Joel Perlman, launched OakNorth Bank Limited in September 2015 to tackle this problem.

During 2017 we continued to witness considerable uncertainty in the UK economy. The triggering of Article 50, a shock general election, and some of the most damaging and widespread cyber security breaches in history, impacted the financial position and confidence of many UK businesses. This led to a general deceleration of economic growth. Despite this, we saw demand for our bespoke lending services continue to rise - at the end of 2016, our loan facilities stood at £276.0 million and as at 31 December 2017, the gross funded loan book and undrawn facilities ended at £851.5 million<sup>2</sup>, and we have a further qualified pipeline of over £1 billion. We are proud to call some of the UK's most recognisable brands and renowned house builders our clients, and we have demonstrated to the market that we are a disruptor that is here to stay.

OakNorth Bank Limited ("OakNorth") ended 2017 with a strong balance sheet of £768.6 million (2016: £291.9 million) and we are pleased to have been able to deliver strong underlying operating profit before tax of £10.6 million (2016: £2.4 million loss) in our second full year of operations. Our disciplined approach towards cost management will allow us to

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<sup>2</sup> Funded loan book £613.1 million (2016: £229.4 million), excluding unamortised fees of £5.8 million (2016: £3.0 million) and including undrawn committed facilities of £107.7 million (2016: £46.5 million) and uncommitted facilities of £130.6 million.

## Chairman's statement continued

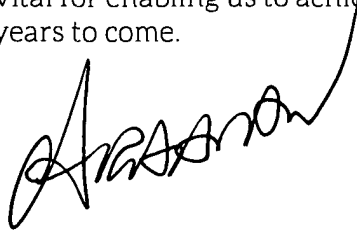
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operate efficiently and invest in delivering growth in the loan book in 2018. We anticipate a significant growth in revenues and further improvement in the operating results in 2018.

In January 2017, we became the first challenger bank to join the British Business Bank's Help to Grow Programme, providing OakNorth with guarantees on £30 million of loans to innovative UK companies over the next two years. We completed the first transaction under the scheme since it launched, in March 2017, and since then, have closed several deals under it.

The Board has a very constructive and effective relationship with the management on the firm's strategy and its implementation. The Board committees play a key role in this process and are chaired by two independent Non-Executive Directors (NEDs) - Robert Burgess, and Navtej S. Nandra; with Edward Barry Berk also a member and Ajit Mittal and Gagan Banga from Indiabulls Housing Finance Limited in attendance. The Board will continue to enhance the firm's governance and risk management framework and ensure that best practices are followed as we continue to scale.

To conclude, I would like, on behalf of the Board, to thank all our customers for supporting OakNorth. I would also like to acknowledge the tremendous work of all 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  
26 February 2018



*"Our loans have already had a significant impact on the UK economy, directly helping with the creation of thousands of new jobs and the development of thousands of new homes."*

**Rishi Khosla**

Chief Executive Officer and Co-Founder

## A year of milestones and momentum

It has been another exceptional year for OakNorth; we have solidified our position in the SME lending market, providing over £1 billion of gross lending in the UK – up from £300 million a year ago. The gross funded and undrawn loan facilities ended at £851.5 million<sup>3</sup> as at 31 December 2017. Through growing the loan book, we have upheld the quality of credit - not a single missed payment throughout the year - whilst maintaining a clear view of how each business we have lent to is performing.

While many large banks continued to retrench amidst ongoing Brexit uncertainty, we saw it as an opportunity to help UK entrepreneurs at a time when they needed it. We have now lent to 200 businesses across the UK and across sectors - from hotels, bars and restaurant chains, to care homes, nurseries, manufacturing businesses, security companies, tech firms, property developers, art galleries, catering companies, private equity houses, and media agencies.

Our lending has been supported by our incredibly strong deposit customer base - we now have thousands of deposit customers who are making the most of their savings with our FSCS-protected products. In addition to our range of competitive fixed-rate bond, easy access and notice savings accounts, we also launched easy access and fixed-rate cash ISAs this year, as well as savings accounts for businesses. We keep our cost of funding low through our deposit raising platform which is highly automated and enables individuals to open accounts in three minutes on average, and businesses to open accounts in 20 minutes on average. We raised over £491.3 million in retail deposits as of 31 December 2017 (2016: £202.4 million).

OakNorth's close association with ACORN machine, our sister entity, has been an important differentiating factor. The purpose of ACORN machine is to not only help OakNorth continue scaling its business in the UK, but also replicate our proposition globally. Through leveraging fundamental credit analysis with artificial intelligence and machine learning, we are able to fuel data-driven decision making across the loan lifecycle- from our exceptionally

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<sup>3</sup> Funded loan book £613.1 million (2016: £229.4 million), excluding unamortised fees of £5.8 million (2016: £3.0 million) and including undrawn committed facilities of £107.7 million (2016: £46.5 million) and uncommitted facilities of £130.6 million.

high-quality origination capability, to our rigorous underwriting and monitoring that's more akin to that undertaken by private equity firms.

We are incredibly humbled and grateful that in 2017, we won several industry awards and received recognition from the community for our achievements so far. These included - being named on The Leap 100: a list of the fastest-growing companies in the UK, and winning the National Technology Award for Cloud Innovation, the Property Week RESI Award for Residential Financier of the Year and City A.M.'s Bank of the Year.

In November 2017, our holding company closed an investment round of £250 million (primary and secondary), raising funds from: GIC, Toscafund, Coltrane Asset Management and The Clermont Group. Our strong capital position will allow us to lend a further £1.5 billion to UK businesses.

However, none of these significant milestones could have been achieved without the brilliant work of the team. They have lived and breathed our values - *momentum, 10X, one team, say it how it is, challenge and simplify*, and *right ambition* - and have shown incredible dedication to what we are trying to achieve for UK SMEs.

## Attracting the world's best talent

The one overarching ingredient which I believe bonds together the unique culture within our organisation is the fact that over a third of our employees have taken the opportunity to become owners of the business. As such, their instinct is to build for the long term and for the benefit of the overall company.

OakNorth's headcount at the end of 2017 was 65 across our offices in London and Manchester, and we have already made new hires in 2018, including Debt Finance Directors and Credit Directors. OakNorth is supported by other entities in the Group<sup>4</sup> which had a total headcount of 144 by the end of 2017<sup>5</sup>.

We continue to grow the ACORN machine team which currently comprises of a mix of core technologists and machine learning experts recruited from Palantir, Amazon, Google and Tencent, working alongside highly experienced SME lending practitioners.

## Robust corporate governance

OakNorth has an experienced senior management team with a Board comprising of six 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 leadership responsibility for the various functional areas of the firm. We have a strong governance framework in place with independent oversight and assurance provided by the Chief Risk Officer ('second line of defence') and Head of Internal Audit ('third line of defence'). Strategic planning and balance sheet management is handled

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<sup>4</sup> Includes entities under the ACORN OakNorth Holdings Limited - ACORN Machine and OakNorth Global Private Limited. More details are provided in Note 28 Related Party Transactions

<sup>5</sup> Excluding the Bank

by the Asset and Liability Committee. An Operations Committee oversees the structure, framework, policies, processes and performance related to the operational infrastructure.

In addition to the above, we have an advisory board including Lord (Adair) Turner, former Chairman of the Financial Services Authority and Lord (Francis) Maude, former Minister for the Cabinet Office and for Trade and Investment and Nick Lee, former Head of New Banks at the Bank of England.

We have a robust and comprehensive risk appetite framework which sets parameters and early warning indicators for the key aspects of our business. For credit risk in particular, robust processes and controls have been embedded to monitor loan performance, early warning indicators and covenants.

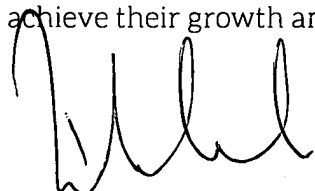
### Financial performance

OakNorth had a pre-tax income of £10.6 million for the 2017 calendar year (2016: loss £2.4 million), recovering all previously brought-forward losses. The average yield on the loan book was 8.5%<sup>6</sup> and the average cost of deposits was 1.7%, resulting in a net margin of 6.9%. We had no loan defaults and there were no specific provisions, and together with improved cost efficiencies-contributes to improved profitability which keeps increasing in line with business expectations.

The growth in income was driven by maintaining high credit quality and stable returns on the committed loan book which grew by over 2.5x from the prior year, and our continued efforts to maintain optimal operating cost base and cost of funding. The liquidity and capital position remained strong throughout the year. Details on capital adequacy can be found separately in our Pillar 3 disclosures document.

### The future - unlocking the potential in bespoke lending to SMEs

ACORN machine is our Group's fintech platform that helps automate the way OakNorth provides bespoke loans to SMEs in the UK. It does this by leveraging process excellence, machine learning and technology to fuel data-driven decision-making across the loan lifecycle. Through ACORN, we are giving foreign banks and lending institutions the opportunity to unlock the potential in bespoke lending to SMEs and replicate OakNorth's success outside the UK, and, in doing so, help thousands more SMEs around the world achieve their growth ambitions.



Rishi Khosla  
Chief Executive Officer and Co-Founder  
26 February 2018

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<sup>6</sup> Including fee income



## Key business highlights

## 2017 Highlights

- Second full year of operation
- Grew the net interest and fee income by 269% from £7.7 million to £28.3 million, with profit before tax for the year at £10.6 million, recovering all previous losses
- Grew the loan book including undrawn facilities, from £276 million to £851 million
- Attracted '000s of savings customers across our different deposit products
- Launched fixed-rate bond savings accounts for businesses, as well as personal fixed rate and easy access cash ISAs
- Received full authorisation from the Bank of England to join its Term Funding Scheme
- Increased equity base to £254 million

# Strategic Report

## OakNorth Bank Limited

# Strategic Report

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The Directors present their strategic report for OakNorth for the year ended 31 December 2017.

### **Principal Activities and Review of the business**

OakNorth Bank Limited ("Oaknorth") 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. OakNorth received its full banking licence in the UK on 28 August 2015.

OakNorth provides loans of up to £30 million to its borrowers. The two loan products that OakNorth 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, OakNorth offers attractive savings products to retail customers which include fixed term deposit accounts with tenors ranging from 6 to 60 months, easy access accounts, fixed rate ISAs and notice accounts. OakNorth also offers business customers fixed term savings accounts for up to 12 months as well as easy access and notice accounts.

OakNorth's total gross loan book including undrawn facilities increased to £851.5 million<sup>1</sup> as at 31 December 2017 (2016: £276.0 million) and the deposit book grew to £491.3 million (2016: £202.4 million). The total net interest and fee income grew significantly to £28.3 million in 2017 from £7.7 million in 2016. OakNorth maintained an average yield on its loan book of 8.5%<sup>4</sup>.

Operating expenses (administrative expenses, depreciation and amortisation) increased to £16.3 million from £9.2 million in 2016 largely driven by the growth in the headcount and increase in IT spend to support the growth of OakNorth's lending book and the development of its systems including analytics and machine learning. OakNorth continues to invest in systems and controls to support growth plans and deliver an enhanced proposition to its customers. OakNorth is supported in its operations by its sister companies- OakNorth Global Private Limited and ACORN machine, that enable it to maintain high quality and cost efficiencies in the operations. Additionally, hosting our systems in the "cloud" using Amazon Web Services, allows us to scale up more quickly with fewer resources, enabling launch of new services and products more efficiently.

An impairment provision charge for general provisions (incurred but not reported losses) of £1.4 million was booked during the year (2016: £875K). No specific provisions were made in the year.

OakNorth maintained high cash and cash equivalent balances of at least 20% of total assets and 30% of its deposit liabilities. During the year, a part of OakNorth's loan book was approved under the Bank of England's Term Funding Scheme, and a drawdown of £147.6 million had been made as of 22 February 2018 (nil as of 31 December 2017).

Following a large equity raising round at the holding company level, OakNorth received an additional £163.0 million of core equity investment. As detailed in the Chief Executive Officer's review, this investment will enable OakNorth to expand its lending further in 2018 to hundreds of more SMEs in the UK and support their business growth plans, coupled with its strong product proposition, systems and operating framework, and governance structure.

### Key performance indicators

2017 is the second full year of operations of OakNorth and we continue to be in high growth. The Directors consider the following as the key financial performance indicators, including the ability to maintain funding / liquidity strength, capital strength, credit quality of the loan book and cost containment:

	2017	2016
Called up share capital (£ million)	249.3	86.3
Cash and cash equivalent balances (£ million)	154.7	60.8
Total capital adequacy ratio	35.1%	26.9%
Yield on average loan book <sup>9</sup>	8.5%	8.9%
Cost of funds on average deposit book	1.7%	1.8%
Net margin on the average loan book <sup>10</sup>	6.9%	NM <sup>11</sup>
Specific impairment charge	Nil	Nil

OakNorth has robust credit underwriting and 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 promptly. The Risk Management Framework detailed in the subsequent sections provides more information on OakNorth's Credit Risk Management processes. As at 31 December 2017, OakNorth had no accounts in watchlist and no accounts were deemed as impaired. Approximately 92% of OakNorth's lending facilities are collateralised with a weighted average LTV of 53% as of 31 December 2017.

OakNorth has already recovered all its prior-year brought forward losses and continues to improve its profitability. With the increase in OakNorth's paid up capital base in 2017, we are well positioned to support the growth in the loan book.

As at 31 December 2017, OakNorth complied with the Liquidity Coverage Ratio (LCR) requirements.

### Risk Management

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

#### Governance structure

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

The Board's principal duty is to create and deliver a sustainable business model by setting OakNorth's strategy and overseeing its implementation. It is responsible for ensuring that a system of internal controls is designed, implemented, maintained and tested. It is also

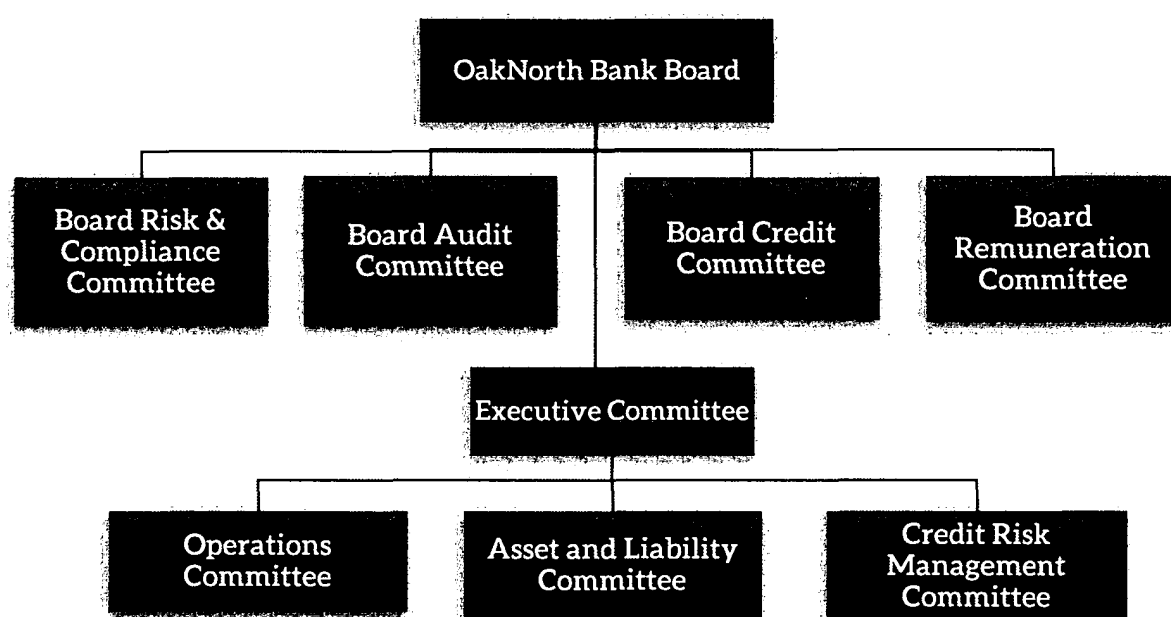
<sup>9</sup> Including fee income

<sup>10</sup> (Loan interest income + fee income less cost of deposits & borrowing)/average loans

<sup>11</sup> Not meaningful, since the loan book was largely funded with equity through most part of the year

responsible for ensuring that management maintains an effective Enterprise Risk Management Framework (RMF) with appropriate oversight processes and for embedding the principle of safety and soundness in the culture of the whole organisation. OakNorth's Board of Directors is responsible for approving the RMF and the Business Strategy, understanding major risks, ensuring that appropriate limits are set against those risks and that they are adequately controlled and monitored.

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



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

The 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 its current size of ten members, comprising of four Executive, three Non-Executive Independent Directors and three notified non-Executive Directors, is optimal given the current scale of operations and the desired competencies of the Board members. Additionally, the CEO has reputable Independent Advisors such as Lord Turner and Lord Francis Maude and Nick Lee.

The governance framework is summarised in OakNorth's Firm Management Responsibilities Map ('FMRM'), which includes:

- Senior Management Function ('SMF') structure chart

OakNorth Bank Limited  
Strategic Report continued

- Board and Committee structure chart
- Prescribed Responsibilities allocation
- Committee charters
- Role Profiles for SMFs

The table below summarised the responsibilities of the various committees:

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

OakNorth Bank Limited  
Strategic Report continued

	Committee receives reports from the Credit Risk Management Committee concerning individual credit exposures and the portfolio as a whole, including model performance. The Committee reviews the Watchlist and receive reports concerning the progress on any material recoveries.
Executive Committee (EXCO)	The EXCO takes delegated authority from the Board and is responsible for developing OakNorth's strategy and ensuring OakNorth delivers its financial plan and that the agreed strategy is executed across all dimensions. Additionally, the EXCO has responsibility for the Risk Management Framework of OakNorth and for management of all risks and reports its output to the Board. The Board also delegates authority to the EXCO for the review and approval of policies listed in the EXCO Terms of Reference.

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

### Principal risks and uncertainties

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

The risks are defined below:

- Business risk: the risks which can affect OakNorth's ability to achieve its strategic objectives. OakNorth's Board defines and reviews performance metrics vs the strategy and business plan at least annually. The annual strategic review includes (but is not limited to) an analysis of OakNorth's economic and competitive landscape and an



assessment of key risks (as detailed below) which may impact OakNorth's growth and business performance.

- Credit risk: the risk of financial loss arising from a borrower or counterparty failing to meet their contractual financial obligations to OakNorth. This also includes the risk arising out of concentration in the credit portfolio.
- Capital risk: the risk that OakNorth has insufficient capital to meet its regulatory requirements and growth objectives.
- Liquidity risk: the risk that OakNorth is unable to meet its contractual financial obligations as they fall due and is unable to fund future lending growth opportunities or is able to do so only at significantly higher funding costs.
- Interest rate risk: the risk of financial loss arising from 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 several areas including:
  - The 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;
  - The 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 OakNorth, this includes compliance with FCA and PRA Handbooks/Rulebook, as well as financial crime laws and regulations including those relating to Anti-Money Laundering, Anti-Bribery and Corruption and the facilitation of tax evasion. Regulatory risk is defined as the risk of regulatory sanction, financial loss, or loss to reputation a bank may suffer because of a failure to comply with all laws and regulations, and the expectations of regulators.
- Reputational risk: Reputation risk is a direct consequence of failing to control adequately all risks facing the organisation impacting on revenue streams, brand value and staff motivation.

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

OakNorth 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 OakNorth's Board can undertake a fully informed assessment of the sufficiency of OakNorth'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 OakNorth's strategic risk objectives. OakNorth's risk appetite sets out the type and quantum of risk OakNorth is prepared to accept to achieve its strategic business objectives. It is cascaded top-down, deriving logically from OakNorth'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 strategic objectives which the risk appetite for OakNorth is based on are articulated as follows:

Risk Category	Strategic Risk Objectives description	Key risk appetite metrics
Financial (including Capital, Liquidity, Interest rate risk)	Ensure that OakNorth has sufficient capital, with appropriate buffers, to meet regulatory requirements for its on-going growth projections, even in periods of stress (when new equity may be unavailable).	Capital adequacy buffer, capital resources in place for specified number of days forecast needs, capital ratios tested under stress testing scenarios.
	Ensure that OakNorth has sufficient funding and liquidity to meet all obligations as they fall due, even in periods of stress.	Total liquidity pool, daily cash balance, funding concentration, liquidity ratios (including LCR and NSFR), liquidity survival period under stress testing.
Credit	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 & 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	Proactively manage all OakNorth'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	<p>Protect OakNorth's reputation through effective systems and controls and high levels of customer service.</p> <p>In addition to mitigating risks through effective systems and control, OakNorth will further manage its reputation by continually investing in and embedding its risk management framework and control culture across the Firm.</p>	Events likely to cause reputational impact with key stakeholders including (but not limited to) customers, regulators, service providers; actual or high likelihood of adverse coverage of OakNorth in the media.

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

Further details are provided in the Risk Management section in the Notes to Accounts<sup>12</sup>.

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

OakNorth continues to grow its loan book and revenues, while maintaining strict credit quality and credit monitoring controls, monitoring and optimising the funding and operating cost bases, enhancing technological capabilities and continually improving process efficiencies.

As detailed in the Chairman's statement and the CEO's review, in spite of the uncertainties in the UK's economic environment, OakNorth was able to expand its loan book significantly in 2017. With its flexible and transparent approach to the lending process, OakNorth has already established itself as a credible contender in UK SME lending and has been leading the change in the way entrepreneurs and mid-sized companies finance their growth.

OakNorth's holding company attracted significant equity investment during the year, which was further invested in OakNorth and has now further strengthened OakNorth's capital position to continue to support the growth of the loan book. The Directors believe the

<sup>12</sup> Note 24

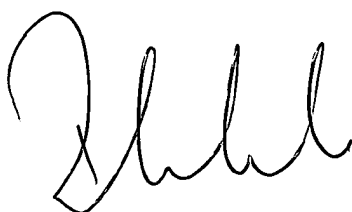
opportunity to service entrepreneurs with expert, tailored financial services remains substantial - and the strong pipeline is an indicator of these growth opportunities. They expect OakNorth to be active in both the lending and deposit markets in line with our strategy and plans in the forthcoming year.

OakNorth's operating model is supported by services from its Group companies - OakNorth Global Private Limited and ACORN machine, and the Group will continue to expand the teams in these entities in order to enable an efficient and scalable operating platform.

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

OakNorth is well positioned to withstand any adverse developments due to its current levels of surplus capital and liquidity. OakNorth undertakes a comprehensive assessment of its risk appetite and exposure 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:



Rishi Khosla

Chief Executive Officer and Co-Founder

26 February 2018

## OakNorth Bank Limited

### Directors' Report

---

The Directors present their annual report on the affairs of OakNorth, together with the financial statements and auditor's report, for the year ended 31 December 2017.

#### Going concern

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

#### Financial Risk Management

The disclosures required to be included in the Directors' report in respect of the Company's exposure to financial risk and its financial risk management policies are detailed in the Strategic report and additional information has been provided in the notes to accounts. The Pillar 3 disclosures, including disclosures on OakNorth's remuneration policy are available on request via OakNorth'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	-
Cristina Alba Ochoa	Executive Director Chief Financial Officer	06 April 17	
Cyrus Ardalan	Chairman	29 Jun 15	-
Robert Burgess	Independent Non-Executive Director	01 Jan 15	-
Navtej S Nandra	Senior Independent Non-Executive Director	14 Jun 17	-
Edward Barry Berk	Notified Non-Executive Director	09 May 17	

## Directors' report continued

Gagan Banga	Notified Non-Executive Director	23 Feb 16	-
Ajit Kumar Mittal	Notified Non-Executive Director	23 Feb 16	-
Lord Adair Turner	Senior Independent Director	08 Jan 15	30 April 17

### Directors' indemnities

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

### Political contributions

No political contributions were made during the year.

### Post balance sheet events

Please refer to note 30 in the Notes to financial statements.

### Future developments

Please refer to Strategic Report.

### Auditor

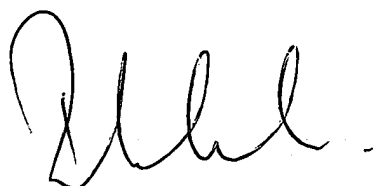
Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which OakNorth'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 OakNorth'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  
26 February 2018

## Statement of Directors' responsibilities

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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

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In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of OakNorth Bank Limited (the 'company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the statement of accounting policies; 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

### **Basis for opinion**

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We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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

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### Summary of our audit approach

<b>Key audit matters</b>	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"><li>• Loan loss provisioning; and,</li><li>• Revenue recognition</li></ul>
<b>Materiality</b>	The materiality that we used in the current year was £1.1 million which was determined on the basis of equity.
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

### Conclusions relating to going concern

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We are required by ISAs (UK) to report in respect of the following matters where:

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

**We have nothing to report in respect of these matters.**

### Key audit matters

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Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

### Loan loss provisioning

#### Key audit matter description



In accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ('FRS102'), the bank has chosen to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement*.

OakNorth Bank Limited ('OakNorth', 'the bank') holds an incurred but not reported ('IBNR') provision of £2.3 million at year end (2016: £937K) against loans and advances to customers of £607 million (2016: £225.5 million).

For further details please refer to the critical accounting judgements and key sources of estimation uncertainty note and note 9 on page 51 in the financial statements.

The IBNR involves management judgements in respect of the emergence period, probability of default and loss given default.

Given the significant level of management judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance.

#### How the scope of our audit responded to the key audit matter



We updated our understanding of the business rationale for the IBNR provision and we assessed the design and implementation of controls around the IBNR methodology.

We evaluated the IBNR approach to determine whether it is appropriate based on IAS 39 and our knowledge of the business. We also tested the inputs and assumptions for the provision to assess whether they are consistent with our understanding of current market conditions and the bank's portfolio.

We also re-performed the calculation of the IBNR provision to verify arithmetic accuracy and traced inputs to supporting documentation.

To evidence the challenge of the estimate by management and directors, we reviewed board and committee minutes and papers.

#### Key observations



Overall, we found that the IBNR provisioning methodology used by the bank is in line with IAS 39 and is reasonable given the size of the bank and its stage of early development.

The bank's provision model was found to be working as intended and the underlying assumptions are reasonable.

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

### Revenue recognition

#### Key audit matter description



The main revenue stream within OakNorth is interest income of £31.2 million (2016: £8.7 million) which should be recognised based on the effective interest rate method in accordance with IAS 39. Additional revenues are earned from fees and commissions totalling £3.4 million (2016: £480K) charged to customers for transactions. Revenue has increased significantly in 2017 due to growth in the loan book.

For further details please refer to the profit and loss statement on page 34 and the accounting policy note in the financial statements for revenue recognition.

The application of the effective interest rate method in deriving the interest income recognised involves management judgement, specifically around the interest rates. In addition, the calculation and booking of fees and commissions are manual and therefore there is potential for error and fraud through possible manipulation of this balance.

#### How the scope of our audit responded to the key audit matter



We reviewed the bank's revenue recognition policies and discussed these with management to verify their appropriateness to the bank's specific circumstances, that they are compliant with applicable accounting standards and that they have been applied consistently throughout the year.

We evaluated the design and tested the implementation of controls related to the recognition of fee income and the methodology of the fee amortisation calculation.

We considered all types of fees and commissions charged by OakNorth to its customers and assessed the accounting treatment adopted for each type by reference to the relevant contractual arrangements.

For a sample of loan facilities we recalculated the commission and fee income due based on the facility terms and checked that the income had been recognised in the correct accounting period.

#### Key observations



We found the application of the effective interest rate method in deriving the interest income recognised to be appropriate and in accordance with IAS 39.

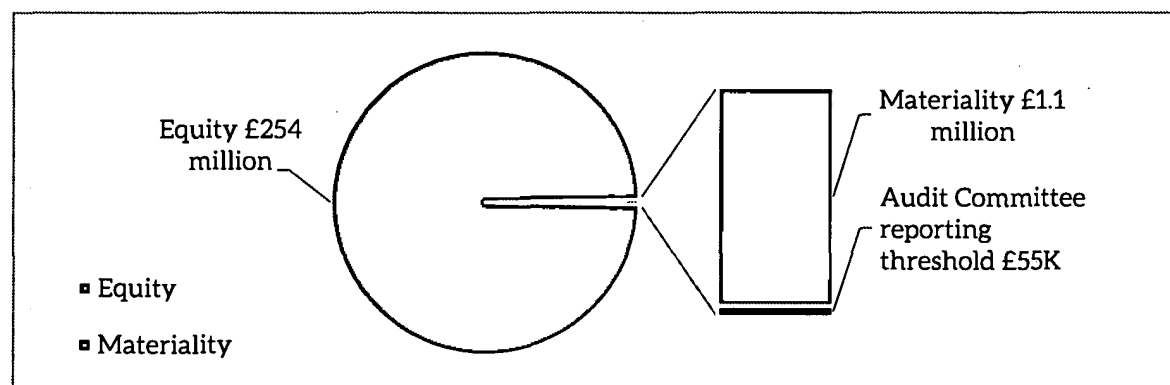
# Independent auditor's report to the members of OakNorth Bank Limited

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

<b>Materiality</b>	£1.1 million
<b>Basis for determining materiality</b>	Materiality has been determined on the basis of 1% of equity.
<b>Rationale for the benchmark applied</b>	Equity has been used as the basis for materiality to reflect what we believe to be the key external metric; regulatory capital, which is proxied by the equity balance.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £55K, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including internal controls, and assessing the risks of material misstatement. Audit work

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

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to respond to the risks of material misstatement was performed directly by the audit engagement team.

### Other information

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The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

***We have nothing to report in respect of these matters.***

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

### Responsibilities of directors

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As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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### Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

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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.

### Report on other legal and regulatory requirements

#### Opinions on other matters prescribed by the Companies Act 2006

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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 or the directors' report.

OakNorth Bank Limited

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

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### Matters on which we are required to report by exception

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#### *Adequacy of explanations received and accounting records*

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

***We have nothing to report in respect of these matters.***

- we have not received all the information and explanations we require for our audit; or
- 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.

#### *Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

***We have nothing to report in respect of this matter.***

### Other matters

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#### *Auditor tenure*

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 14 January 2015 to audit the financial statements for the period ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 31 December 2014 to 31 December 2017.

#### *Consistency of the audit report with the additional report to the audit committee*

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).



Caroline Britton (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

28 February 2018

OakNorth Bank Limited  
Profit and loss statement  
For the year ended 31 December 2017

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	Note	2017 £'000	2016 £'000
Interest receivable		31,218	8,683
Interest payable		(6,294)	(1,490)
<b>Net Interest income</b>		<u>24,924</u>	<u>7,193</u>
Fees and commissions		3,347	474
<b>Net interest and Fee income</b>		<u>28,271</u>	<u>7,667</u>
Administrative expenses		(15,291)	(8,349)
Depreciation and amortisation	12, 13	(980)	(864)
Provision for impairment losses	10	(1,420)	(875)
		<u>(17,691)</u>	<u>(10,088)</u>
<b>Profit/(Loss) from ordinary activities before tax</b>		<u>10,580</u>	<u>(2,421)</u>
Taxation	3	(1,106)	-
<b>Profit/(Loss) after tax from ordinary activities</b>		<u>9,474</u>	<u>(2,421)</u>



OakNorth Bank Limited

Statement of comprehensive income  
For the year ended 31 December 2017

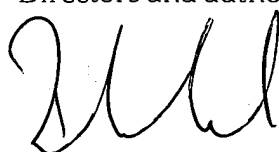
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	2017 £'000	2016 £'000
Profit/(Loss) after tax	9,474	(2,421)
Fair value changes on available for sale financial instruments	(33)	7
Taxation	6	-
Total comprehensive income/(loss) for the year	<u>9,447</u>	<u>(2,414)</u>
attributable to equity shareholders		

OakNorth Bank Limited  
Balance sheet  
As at 31 December 2017

	Note	2017 £'000	2016 £'000
<b>ASSETS</b>			
Cash and balances at central bank		148,340	51,175
Loans and advances to banks	8	5,362	9,161
Loans and advances to customers	9, 10	604,937	225,508
Debt Securities	11	2,115	500
Intangible assets	12	276	312
Tangible fixed assets	13	3,109	3,750
Prepayments and accruals	14	4,137	1,225
Other assets	15	311	291
<b>Total assets</b>		<b>768,587</b>	<b>291,922</b>
<b>LIABILITIES</b>			
Customer deposits	16	491,261	202,397
Borrowings under BOE Term funding scheme	17	1,000	-
Accrued interest on customer deposits		5,845	1,297
Trade payables and other provisions	18	4,561	1,730
Deferred tax liabilities (net)	3	6	-
Other liabilities	19	12,085	5,137
		514,758	210,561
<b>CAPITAL AND RESERVES</b>			
Called up share capital	25	249,320	86,320
Capital contribution		25	4
Profit and loss account	26	4,511	(4,963)
Available for sale reserve		(27)	-
		253,829	81,361
<b>Total liabilities and capital and reserves</b>		<b>768,587</b>	<b>291,922</b>

The financial statements of OakNorth Bank Limited were approved by the Board of Directors and authorised for issue on 26 February 2018. 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 Ochoa  
Executive Director  
CFO

## OakNorth Bank Limited

## Statement of changes in equity

As at 31 December 2017

	Called up Share Capital	Profit and loss account	Available for sale reserve	Capital contribution	Total
	£'000	£'000	£'000	£'000	£'000
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
<b>As at 31 December 2016</b>	<b>86,320</b>	<b>(4,963)</b>	<b>-</b>	<b>4</b>	<b>81,361</b>
Issue of share capital	163,000	-	-	-	163,000
Profit after tax	-	9,474	-	-	9,474
Capital contribution (employee share- based payments)	-	-	-	21	21
Fair value changes on available for sale financial instruments	-	-	(33)	-	(33)
Deferred tax impact on fair value changes on available for sale financial instruments	-	-	6	-	6
<b>As at 31 December 2017</b>	<b>249,320</b>	<b>4,511</b>	<b>(27)</b>	<b>25</b>	<b>253,829</b>

## Cash flow statement

For the year ended 31 December 2017

	2017 £'000	2016 £'000
<b>Profit/(Loss) from ordinary activities before tax</b>	<b>10,580</b>	<b>(2,421)</b>
<i>Adjustments for</i>		
Depreciation and amortisation	980	864
Provisions for incurred but not reported losses	1,420	875
Impairment of fixed assets	60	96
Share-based to employees	21	4
Fair value changes on available for sale financial instruments	-	7
Increase in receivables	(2,932)	(724)
Increase in payables	13,368	7,282
Increase in loan receivables	(380,849)	(211,477)
Increase in customer deposits	288,864	191,458
Increase in borrowings	1,000	-
Income taxes paid	(180)	-
Income tax refund received	45	-
<b>Net cash flows used in operating activities</b>	<b>(67,623)</b>	<b>(14,036)</b>
Purchase of property, plant and equipment, implementation of software and intangible assets	(363)	(758)
Purchase of debt securities	(2,148)	(499)
Proceeds from maturity of debt securities	500	53,238
<b>Net cash flows (used in)/generated from investing activities</b>	<b>(2,011)</b>	<b>51,981</b>
Proceeds on issue of shares	163,000	820
<b>Net cash flows from financing activities</b>	<b>163,000</b>	<b>820</b>
<b>Net increase in cash and cash equivalents</b>	<b>93,366</b>	<b>38,765</b>
Cash and cash equivalents at beginning of year	60,336	21,571
<b>Cash and cash equivalents at end of year</b>	<b>153,702</b>	<b>60,336</b>
<b>Reconciliation to cash at banks</b>		
Cash and balances at central bank	148,340	51,175
Loans and advances to banks (Note 8)	5,362	9,161
<b>Total</b>	<b>153,702</b>	<b>60,336</b>

## Notes to the financial statements

### For the year ended 31 December 2017

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#### 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 2006. The address of the registered office is at Sixth Floor, Nightingale House, 65 Curzon Street, London W1J 8PE, England. The nature of OakNorth's operations and its principal activities are set out in the Strategic report and Directors' report.

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

In December 2017, the Financial Reporting Council issued amendment<sup>13</sup> to FRS 102 which allowed the accounting policy choice of adopting IFRS 9 effective 01 January 2018 or retaining IAS39 until FRS 102 requirements for the impairment of financial assets have been amended to reflect IFRS 9. OakNorth has currently made an accounting policy choice to continue to apply provisions of IAS39 available under FRS 102.

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

##### 1.2 Going concern

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

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<sup>13</sup> Financial Reporting Council: Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland: Triennial review 2017 Incremental improvements and clarifications (December 2017)

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

### De-recognition of intangible assets

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

### **1.5 Impairment of tangible and intangible assets**

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

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

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

### **1.6 Financial instruments**

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

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

### **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.

## Notes to the financial statements

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

### 1.8 Loans and receivables

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

### 1.9 Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale and are not categorised into any of the other categories 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 OakNorth's Credit Risk Management Policy (CRMP), OakNorth is required to regularly review the loan accounts, including monitoring compliance with key financial covenants, track repayments against schedule and identify any Trigger Events or Early Warning Indicators. OakNorth's Provisions and Impairment Policy details the Watchlist process for monitoring of any such accounts. OakNorth classifies non-performing exposures where any principal or interest repayments are contractually past due by over 90 days. OakNorth has a forbearance policy and may provide support to a borrower struggling to meet its obligations. This may range from waiving a breach of a loan covenant, to giving the borrower more time to meet its loan obligations, to providing some form of active payment relief.

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

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

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

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

#### **1.11 Sale and repurchase transactions**

Securities sold by OakNorth under agreements to repurchase continue to be recognised as assets on the balance sheet and the associated liability is also recognised on the balance sheet. Similarly, securities purchased under commitments to sell are not recognised on the balance sheet.

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

OakNorth is an approved participant under the "TFS" scheme. During the year OakNorth pledged £1.1 million of GILTS and drew £1 million under the scheme. OakNorth had also pre-positioned £171.4 million of eligible loan collateral pool under the scheme, however no drawdowns have been made as of 31 December 2017 and no collateral has been transferred as at the reporting date. However, subsequently drawdowns had been made which have been detailed in the Notes to Accounts Post Balance Sheet events.

## Notes to the financial statements

For the year ended 31 December 2017

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As an accounting policy, as OakNorth retains the ownership of the eligible collateral assets, and therefore, all associated credit risks and ownership of the cash flows from those assets- any collateral placed with the Bank of England continue to be recognised as an asset on the balance sheet and any funding raised is recognised as liability.

### 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.

### 1.14 Revenue recognition

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

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

### 1.15 Foreign currency

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

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

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-

## Notes to the financial statements

### For the year ended 31 December 2017

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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**

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

#### **1.18 Share-based award**

OakNorth's holding company – ACORN OakNorth Holdings Limited, issues equity settled share-based remuneration awards to some of OakNorth's employees as an incentive to support long-term business growth of OakNorth, subject to vesting conditions.

#### **1.19 Other Provisions (excluding impairment provisions)**

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

#### **1.20 Share capital**

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

#### **1.21 Critical accounting judgements and key sources of estimation uncertainty**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the

revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

**Key sources of estimation uncertainty**

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

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

During the year, management reconsidered the recoverability of the costs capitalised in processing the Banking licence intangible asset which is included in its balance sheet at £276K (2016: £312K). When OakNorth obtained the banking licence amortisation of the intangible asset commenced.

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

**Allowance for credit losses:** Credit loss allowances are established to recognise any incurred losses in OakNorth's loan portfolio. Note 1.10 details OakNorth's monitoring and provisioning process. In accordance with OakNorth's CRMP, OakNorth monitors the performance of the lending exposures, both at an account level and at portfolio level, on a monthly basis against the approved terms and conditions of sanction and covenants. Any material variances are flagged for immediate review and escalation, including where appropriate, a formal 'Watch Account' process is initiated. The governance procedures followed by OakNorth in relation to Credit Risk management are summarised in the Strategic Report and in note 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. OakNorth has reviewed its portfolio as at 31 December 2017 for any specific impairment triggers and no accounts are considered as specifically impaired (2016: nil).

In accordance with the provisioning policy, OakNorth estimates provisions for IBNR on its performing book. As detailed in note 1.10, the estimate is based on funded exposure x PD x LGD x EP. As OakNorth does not have its own loss data, OakNorth uses external data to calibrate a range of PDs. The final PD scores for each exposure are determined taking into account the business profile, financials and strength of management. The LGDs are based on OakNorth's estimate of the recoverable value that may be applied to the type of collateral received after factoring costs of recovery and downturn asset values. An emergence period

# Notes to the financial statements

## For the year ended 31 December 2017

of 12 months has been applied to the IBNR provision calculation. OakNorth has assessed £2,357K (2016: £937K) as IBNR impairment allowance on its performing book as at 31 December 2017.

### 2 Profit/(Loss) on ordinary activities before tax

Profit/(Loss) on ordinary activities before tax is stated after charging:

	2017 £'000	2016 £'000
Depreciation of tangible fixed assets	944	826
Amortisation of intangible assets	36	38
Operating lease rentals	269	164
Foreign exchange loss	1	5
	<u>1,250</u>	<u>1,033</u>

Further information is provided in notes 12, 13 and 19

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

	2017 £'000	2016 £'000
Fees payable to OakNorth's auditor for the audit of OakNorth's annual accounts	110	83
Fees payable to OakNorth's auditor for Interim profit verification	18	-
Total audit fees	<u>128</u>	<u>83</u>
Taxation compliance services	-	3
Other services	-	3
Total non-audit fees	<u>-</u>	<u>6</u>
Total fees to auditor	<u>128</u>	<u>89</u>

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**3 Taxation**

	2017 £'000	2016 £'000
<b>The tax charge comprises</b>		
Total current tax	1,106	-
<b>Factors affecting tax charge for the current period</b>	<b>2017 £'000</b>	<b>2016 £'000</b>
Profit/ (Loss) on ordinary activities before tax	10,580	(2,421)
Tax at standard UK corporation tax rate	2,036	(484)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	29	13
Adjustments in respect of prior years	(45)	-
Effect of rate changes	-	-
Other timing differences on which deferred tax not previously recognised	112	-
Utilisation of losses on which no deferred tax previously recognised	(1,026)	471
<b>Total tax charge for period</b>	<b>1,106</b>	<b>-</b>
<b>Analysis of tax charge on ordinary activities</b>		
UK corporation tax	1,139	-
Adjustment in respect of prior years	(45)	-
<b>Deferred tax</b>		
Current year- P&L	12	-
Effect of rate changes in respect of prior years	-	-
<b>Total tax charge - P&amp;L</b>	<b>1,106</b>	<b>-</b>
<b>Total tax credit - equity</b>	<b>(6)</b>	<b>-</b>
Balance sheet provision for taxes payable	1,139	-
Advance tax paid	(180)	-
<b>Net tax payable</b>	<b>959</b>	<b>-</b>
Net deferred tax liability on account of timing differences- charge to P&L	12	-
Net deferred tax asset on account of timing differences- credit to other comprehensive income	(6)	-
<b>Net Deferred tax liability</b>	<b>6</b>	<b>-</b>

## Notes to the financial statements

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**Change in tax rate:** The 2017 tax provisions have been provided at a blended rate of 19.25% (20% for period January-March 2017 and 19% thereafter). 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 6 September 2016. This will reduce the company's future current tax charge accordingly.

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

#### 4 Staff numbers and costs

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

	2017	2016
Average number of employees	62	50

Their aggregate remuneration comprised:

	2017 £'000	2016 £'000
Salaries and bonuses	7,410	4,661
Social security & pension costs	963	579
Share-based payment	21	4
Other costs & statutory levies	21	30
	<u>8,415</u>	<u>5,274</u>

During the year OakNorth made £38K of contributions towards a pension scheme for employees (2016: nil).

#### 5 Restricted share scheme

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

## Notes to the financial statements

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determine the vesting outcome and the shares available for exercise. If an employee leaves, the unvested shares are bought back.

During the year 9,151 shares were granted (2016: 11,699). No shares had vested or expired during the year. 304 shares were forfeited during the year.

**6 Directors' remuneration and transactions**

	2017 £'000	2016 £'000
<b>Directors' remuneration</b>		
Emoluments	1,774	770
Share-based payment	3	-
Other taxable benefits	8	-
<b>Net amount expensed to profit and loss account</b>	<b>1,785</b>	<b>770</b>
 <b>Remuneration of the highest paid director:</b>		
Emoluments	750	133
Share-based payment	-	-
Other taxable benefits	8	-
<b>Net amount expensed to profit and loss account</b>	<b>758</b>	<b>133</b>

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

**Directors' advances, credits and guarantees**

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

**7 Financial Services Compensation Scheme "FSCS"**

As a regulated UK deposit-taker, OakNorth pays levies to the FSCS which offers protection to individual deposit holders on amounts up to £85,000 (applicable as of 31 December 2017). 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 2017, OakNorth made a provision of £108K in respect of the FSCS levies (2016: £79K).



## Notes to the financial statements

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**8 Loans and advances to banks**

	2017 £'000	2016 £'000
Balances held with other banks	5,360	9,161
Balances held with custodian	2	-
<b>Total</b>	<b>5,362</b>	<b>9,161</b>

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**

	2017 £'000	2016 £'000
<b>Loans and advances to customers</b>		
Amount due:		
- within one year	168,236	58,204
- over one year but less than five years	415,919	156,256
- over five years	23,139	11,985
<b>Gross loans and advances</b>	<b>607,294</b>	<b>226,445</b>
IBNR provisions allowance	(2,357)	(937)
<b>Loans and advances to customers (net)</b>	<b>604,937</b>	<b>225,508</b>

of which repayable on demand or at short notice - -

There were no past due or impaired accounts as at 31 December 2017 (2016: Nil). All credit risk exposures of OakNorth (i.e. the collaterals and business cash flows) are in the UK. The loans and advances to customers are measured at amortised cost. The fair values of the loan financial assets are approximate to their book values. The above balances are stated net of unamortised fees for £5.8 million as at 31 December 2017 (2016: £3.0 million).

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**10 Provision for impairment losses**

	2017 £'000	2016 £'000
<b>IBNR provisions</b>		
As at beginning of the year	937	62
Charged during the year	1,420	875
Released during the year	-	-
Written off during the year	-	-
<b>As at end of the year</b>	<b>2,357</b>	<b>937</b>
 <b>Movement in the profit and loss account</b>		
IBNR provision charged	1,420	875
	<b>1,420</b>	<b>875</b>

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

**11 Debt securities**

	2017 £'000	2016 £'000
<b>Analysed by class:</b>		
Treasury Bills	-	500
Bonds	2,115	-
	<b>2,115</b>	<b>500</b>
<b>Analysed by issuer</b>		
Issued by public bodies: Government	2,115	500
	<b>2,115</b>	<b>500</b>
<b>Analysed by designation</b>		
Available for sale	2,115	500
	<b>2,115</b>	<b>500</b>
<b>Analysed by maturity</b>		
Due within one year	2,115	500
	<b>2,115</b>	<b>500</b>
<b>Fair value of debt securities</b>		
Issued by public bodies: Government	2,115	500
	<b>2,115</b>	<b>500</b>

All the investments held have been fair valued based on market price (Level 1). None of the investments were impaired as at 31 December 2017 (2016: Nil). The T-Bills held as at 31 December 2016 matured during the year.

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12 Intangible assets

	Banking License £'000
<b>Cost</b>	
At 31 December 2016	360
Additions	-
At 31 December 2017	360
<b>Amortisation</b>	
At 31 December 2016	48
Charge for the period	36
At 31 December 2017	84
<b>Carrying amount</b>	
At 31 December 2017	276
At 31 December 2016	312

13 Tangible fixed assets

	Leasehold improvements £'000	Computer and IT equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
<b>Cost</b>				
At 31 December 2016	52	4,512	28	4,592
Additions	68	280	15	363
Impairment	-	(60)	-	(60)
At 31 December 2017	120	4,732	43	4,895
<b>Depreciation</b>				
At 31 December 2016	13	823	6	842
Charge for the period	20	916	8	944
Impairment	-	-	-	-
At 31 December 2017	33	1,739	14	1,786
<b>Carrying amount</b>				
At 31 December 2017	87	2,993	29	3,109
At 31 December 2016	39	3,689	22	3,750

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**14 Prepayments and accruals**

	2017 £'000	2016 £'000
Accrued interest and fees receivable	3,598	1,067
Prepayments & other receivables	539	158
	<u>4,137</u>	<u>1,225</u>

**15 Other assets**

	2017 £'000	2016 £'000
Security deposits	48	48
Other assets	263	243
	<u>311</u>	<u>291</u>

**16 Customer deposits**

	2017 £'000	2016 £'000
Customer deposits	491,261	202,397
Amounts due:		
- within one year	331,990	93,174
- over one year but less than five years	149,106	109,050
	<b>481,096</b>	<b>202,224</b>
repayable on demand or at short notice	10,165	173
<b>Total deposits</b>	<u><b>491,261</b></u>	<u><b>202,397</b></u>

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

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

As of 31 December 2017, OakNorth had pledged £1.1 million of GILTS as collateral and drawn £1.0 million under the TFS scheme (2016: nil). The interest payable on the borrowings is

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linked to the BOE base rate, which is currently 50bps. The borrowing is repayable after four years of drawdown which is year 2022 for this borrowing.

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

	2017 £'000	2016 £'000
Trade creditors and accruals	3,303	1,496
Payroll taxes and social security	299	234
Corporation tax payable	959	-
	<u>4,561</u>	<u>1,730</u>

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

### 19 Other liabilities

	2017 £'000	2016 £'000
Deferred income & income received in advance	11,404	4,555
Other payables/ Items in suspense	681	582
	<u>12,085</u>	<u>5,137</u>

### 20 Operating lease commitments

	2017 £'000	2016 £'000
Lease expense charged to the profit and loss	<u>269</u>	<u>164</u>

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

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

	2017 £'000	2016 £'000
- within one year	230	48
- between one and five years	-	-
- after five years	-	-
	<hr/> 230	<hr/> 48

## 21 Contingent liabilities and commitments

As on 31 December 2017, OakNorth had undrawn loan commitments outstanding for £107.7 million (2016: £46.5 million). Additionally, OakNorth also had £130.6 million of uncommitted facilities outstanding as of 31 December 2017. OakNorth had no other contingent liabilities as on 31 December 2017 (2016: Nil).

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

## 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. OakNorth is a UK based bank and only operates out of its offices in London and Manchester.

## 23 Capital management

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

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

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

#### 24 Risk Management Framework

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

The Board of Directors oversees the risks assumed by OakNorth and specific Board committees have been constituted to facilitate focused oversight of various risks. The Board is assisted by its committees, the Board Audit Committee, Board Risk & Compliance 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 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 OakNorth's lending activities as a result of defaulting loans and is the most significant risk faced by OakNorth as the loan book grows.

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

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

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and limits on the credit risk drivers and ensuring that the day-to-day decision-making process meets the risk appetite limits.

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

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

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

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

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

As on 31 December 2017, around 92% of OakNorth's loan facilities were collateralised by security comprising of fixed assets (including property) - these exclude any charges on floating assets and guarantees not supported by charge on fixed assets (2016: 87%).

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

OakNorth had no overdue exposures as at 31 December 2017 (2016: Nil). OakNorth had not granted any forbearance on the accounts during the year. All credit risk exposures of OakNorth (i.e. the collaterals and business cash flows) are in the UK.



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#### **Liquidity risk**

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

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

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

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

As at 31 December 2017, OakNorth held high quality liquid assets of £150.5 million (2016: £51.7 million) of which £1.1 million of GILTS were encumbered (2016: nil).

#### **Interest rate risk**

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

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

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

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

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

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

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

	2017	2016
	£m	£m
NPV Sensitivity to +2% shift (including base/LIBOR rate floors)	5.8	3.3
NPV Sensitivity to -2% shift (including base/LIBOR rate floors)	17.2	4.0

As at 31 December 2017, the basis risk exposure due to a 25bps reduction in the Bank of England base rate would reduce the net interest margin by approximately £406K (2016: £131K) on an annualised basis. The impact is mainly driven by the balances held at the Bank of England. The impact on the lending book is low due to the base rate floors embedded within OakNorth'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. OakNorth aims to mitigate each risk with robust controls and monitoring.

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

**Conduct, compliance and regulatory risks**

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

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

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

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

**25 Called-up share capital**

	2017 £'000	2016 £'000
<b>Allotted, called-up and fully-paid</b>		
249,320,001 (previous year: 86,320,001)		
ordinary shares of £1 each	249,320	86,320
	<b>No of shares (in '000)</b>	
As at 31 December 2015	85,500	
Issue of shares during the year	820	
As at 31 December 2016	86,320	
Issue of shares during the year	163,000	
As at 31 December 2017	249,320	

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**26 Profit and loss account**

	2017 £'000	2016 £'000
As at the start of the year	(4,963)	(2,542)
Profit/(Loss) during the year	9,474	(2,421)
As at end of year 31 December	4,511	(4,963)

**27 Segmental information**

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

**28 Related party transactions**

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

	2017 £'000	2016 £'000
ACORN OakNorth Holdings Limited, Jersey		
- Subscription of shares	163,000	820
OakNorth Global Private Limited, India		
- Purchase of services	3,386	1,068
- Advances paid	-	60
ACORN Machine (UK) Limited		
- Purchase of services	137	-
- Expenses recoverable	89	-
ACORN Machine (SG) Pte Limited		
- Expenses recoverable	274	-
Heady LLC		
- Purchase of services	69	6

The disclosures are presented including amounts accrued but not billed.

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The following amounts were outstanding at the balance sheet date:

	2017 £'000	2016 £'000
<b>Equity holding</b>		
ACORN OakNorth Holdings Limited, Jersey	249,320	86,320
<b>Amounts owed to / (from) related parties</b>		
OakNorth Global Private Limited, India	418	(60)
ACORN Machine (UK) Limited	48	-
ACORN Machine (SG) Pte Limited	(274)	-
Key management personnel	-	13

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

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

**Directors' transactions**

**Other related party transactions**

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

	2017 £'000	2016 £'000
Employee costs	1,367	420
Other taxable benefits	8	-
Share-based payment	3	-
<b>Total cost</b>	<b>1,378</b>	<b>420</b>

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

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### **29 Controlling party**

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

### **30 Post balance sheet events**

As of 09 February 2018, OakNorth had purchased £75.0 million of GILTS with maturity date of 22 July 2019 at a yield of 63bps.

As of 22 February 2018, OakNorth had drawn down £147.6 million under the Bank of England's Term Funding Scheme. £159.3 million of OakNorth's gross loan book and £75.0 million of the GILTS had been encumbered against the borrowing.

There have been no other material events after the balance sheet date which would require disclosure or adjustments to the 31 December 2017 financial statements.