OakNorth Bank

2021

Annual Report

Lending | *for Entrepreneurs* *by Entrepreneurs*

Strategic

Risk Management Framework and Risk Review

Environment, Social and Governance review

Directors' Report

Financial Statements

Our Story: Key Highlights

£6.9bn
Lent since inception

22,300
New Homes development supported by OakNorth Bank lending

31,600
New Jobs creation supported by OakNorth Bank lending

167,000+
Savings Customers have chosen to save with OakNorth Bank

Top 1%
Performance metrics of listed Banks globally[1]

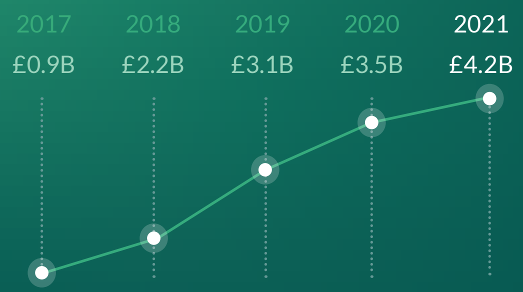
30%
Return on Required Equity[2]

26%
Efficiency Ratio[3]

80%
New lending origination is through referrals

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

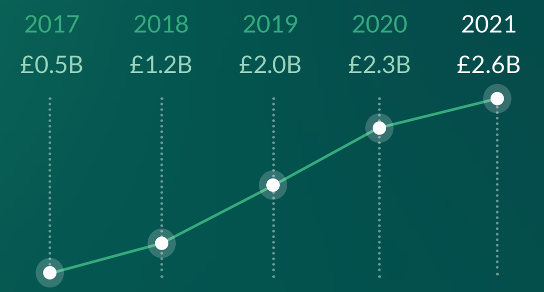
Business Performance: Key Highlights



£4.2B

TOTAL LOAN FACILITIES[4]

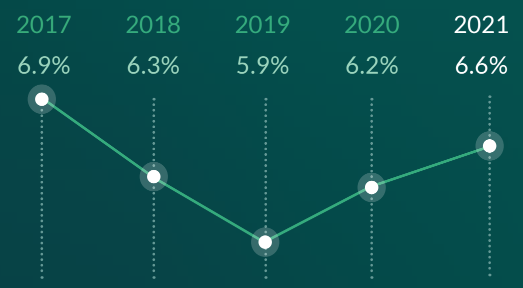
20% growth in 2021



£2.6B

TOTAL CUSTOMER DEPOSITS

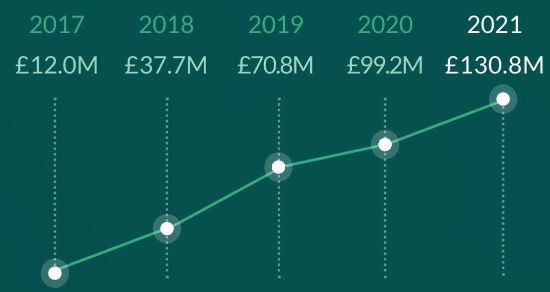
13% growth in 2021



6.6%

NIM ON LOAN BOOK

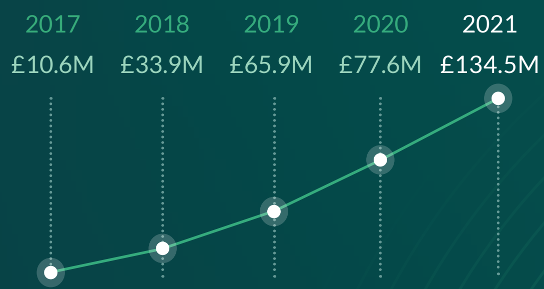
6% growth in 2021



£130.8M

TOTAL PROFIT BEFORE PROVISIONS AND TAXES

32% growth in 2021



£134.5M

TOTAL PROFIT BEFORE TAX[5]

73% growth in 2021

4 Including drawn and undrawn and both committed and uncommitted facilities
5 Includes write-back of ECL provisions of £3.7 million

Chairman's Statement

Cyrus Ardalan
CHAIRMAN

The past twelve months have been particularly challenging for the global and the UK economy. Thanks to the exceptional efforts of our healthcare workers, the UK has had one of the most successful vaccine rollouts in the world providing most of the UK population with significant protection.

Whilst we are beginning to come out of the pandemic, new challenges have arisen - the war in Ukraine and inflation. The recent invasion of Ukraine by Russia, in addition to resulting in a humanitarian crisis, is also broadly impacting global economic growth and stability. The situation remains volatile, and we continue to monitor the developments. Inflationary pressures continue to be exacerbated as prices in the UK have been rising at their fastest pace in 30 years, impacting household income , which is expected to slow down both pace and quantum of economic recovery expected in the UK.

With all the challenges we have faced and will be facing, supporting the "Missing Middle" is more important than ever and we remain steadfast in our resolve to do so.

Supporting the "Missing Middle"

In July 2015, OakNorth's CEO and co-founder, Rishi Khosla, appeared on CNBC outlining the Bank's plan to lend £1 billion to UK businesses "in the next few years". In just over 6 years, the Bank has lent close to £6.9 billion across a broad range of UK businesses and companies.

Notwithstanding COVID-19 and the challenges it has brought, the Bank has continued to support the UK's "Missing Middle" by lending more than £2.9 billion to these businesses in the 24 months to December 2021. It has managed to do this while continuing to maintain an exceptionally strong credit track record with minimal defaults and losses to date.

One of the Bank's key value propositions is providing customers with a superior borrowing experience and service. By consistently exceeding customers' expectations, the Bank has been rewarded with repeat business (c80 percent of our new lending comes via referrals). These factors have helped generate a strong expanding pipeline of business.

The Bank's approach of providing customers with a quick 'yes' or 'no' decision followed by rapid and efficient access to funding to run their businesses is key to its differentiated value proposition. OakNorth Bank's extensive emphasis on data analytics, underpinned by the OakNorth Credit Intelligence Suite, have been critical in enabling it to provide quick decisions and achieve high growth while maintaining an exceptional credit track record.

OakNorth's attractive business proposition combined with the sizeable "Missing Middle" funding gap across the UK provides the Bank with significant room to grow and increase its market share. Through continued investment in data and analytics capabilities, product development, as well as deepening its regional footprint across the UK during one of the most challenging economic periods in modern history, OakNorth Bank has been able to sustain its double-digit growth and support companies when most in need. This bodes well for the future of the Bank.

Facilitating innovation and growth in the economy

Beyond its own work in data and credit analytics, the Bank is supporting other innovative businesses that are helping the UK establish itself as a world leader in key sectors such as life sciences. This sector demonstrated a remarkable ability to innovate, pivot and push boundaries at breakneck speed – as evidenced by the record development of several COVID-19 vaccines. Bruntwood SciTech is one such business OakNorth supports. Dedicated to driving the growth of the UK science and technology sector, its network is home to over 500 science and tech businesses across the UK. Earlier this year, we lent to this business to support the development of vital new life science lab space in the West Midlands at two locations: Innovation Birmingham (the region's leading digital tech campus situated in the heart of the city's Knowledge Quarter), and Birmingham Health Innovation Campus (co-located with the city's universities and NHS hospital trusts), which is set to become a world leading healthcare technologies campus.

The life sciences sector, as well as other areas promoting innovation, require continuous investment to grow and carry out research to benefit public health and the economy as a whole, which is why lenders like OakNorth Bank have such a vital role to play.

Helping households make their money go further

The UK deposit market is currently estimated at £1.6 trillion and over the next five years, is expected to grow at an average three percent per annum. OakNorth Bank's deposit book of £2.6 billion (as at December 31 2021) represents just 0.2 percent of market share, which means that there remains huge capacity for the Bank's rapid growth. The Bank continues to offer a convenient, competitive, and frictionless experience where savers can apply for an account in minutes and manage their savings online and via its mobile app.

Retaining and growing existing customer relationships will be a priority for the Bank's continued growth strategy. With more than 57 percent of deposit customers reinvesting their funds at maturity, the Bank is in a strong position to help more UK savers make the most of their money.

Building a high growth business in a safe and resilient way

In its fairly short history, OakNorth Bank has faced not one, but two unprecedented events – Brexit and the withdrawal process that followed, and a global pandemic which created the worst recession in three centuries. Numerous challenges still lie ahead: geopolitical challenges, the possibility of future pandemic related restrictions due to new variants, continued supply chain disruption, the risk of cyber and ransomware attacks, mounting inflationary pressures, changing regulations, extreme weather events resulting from climate change, and shifting consumer demand as the world transitions to a greener economy. In times such as these, a strong banking sector, able and willing to support small and mid-sized companies, is essential in sustaining the health of the economy. That is precisely why OakNorth has focused on building an incredibly strong business model and stable and robust business dynamics behind it, ensuring it has the capital and liquidity needed to manage future challenges we may face. OakNorth's exceptional track record of lending and profitability, combined with its strong capital base and customer satisfaction, makes it well positioned to continue growing its lending operations and supporting the UK economy in these uncertain times.

Leading in unprecedented times

Strong leadership and an ability to leverage the expertise and experience of those who have been through numerous economic cycles, is also critical. That is why we are particularly grateful for the support of both our exceptional board and our advisory board.

In addition to myself and OakNorth's founders, Rishi Khosla and Joel Perlman, our board includes our CFO, Rajesh Gupta (previously CFO at GE Capital and at Kensington Mortgages), and Non-Executive Directors: Ted Berk (senior lecturer of business administration at Harvard Business School and previously Partner at Bain Capital) and Robert Burgess (previously Chief Executive and Group Board Director at Alliance Trust Savings). In June 2021, the Bank was delighted to welcome Carolyn Schuetz (previously Global Chief Operating Officer, Group Retail Banking & Wealth Management at HSBC) as a Non-Executive Director.

Our advisory board includes Lord Philip Hammond (former Chancellor of the Exchequer in the UK Government from 2016 to 2019), Lord Adair Turner (former Chairman of the FSA), and Martin Stewart (former Director of Banks, Building Societies & Credit Unions at the Bank of England).

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

Cyrus Ardalan
Chairman
17 March 2022

Chief Executive's Review

Rishi Khosla
CEO & CO-FOUNDER

In last year's message, I noted that as challenging as 2020 was, the years that would follow would be even more so, and we certainly saw this in 2021. The challenges communities and economies continue to face have made us more committed than ever to our mission to empower the Missing Middle.

Over the last year, we've continued to support the change-makers, productivity-drivers, job-creators, and innovators who are helping fuel the economic recovery; we've continued to provide a safe place for tens of thousands of savers who want to make their money work harder for them; we've continued to innovate and invest in our technology and our tech talent to ensure we deliver outsized outcomes for our customers; and we've continued to achieve exceptional growth – reaching the milestone of £100 million in net income after just six years of operation.

The funding gap we're addressing

The Missing Middle are businesses which are the most significant contributors of economic and employment growth, yet still struggle to access fast, flexible debt finance. Providing them with capital has always been highly important – especially now as the country rebuilds post-pandemic – but most banks have not found this easy to do. This is because they simply don't have the data and analytical capabilities to develop a granular, forward-looking view of each business, and many still use antiquated and paper-based processes. Finding the optimal balance between offering a great customer experience and managing the cost to serve has therefore proven difficult. Loans are either too big for automated decision models or too small for the unit economics of banks' manual approach to make commercial sense. Commercial lending has consequently been characterised by slow, commoditised, computer-says-no lending, rather than fast, bespoke, customer-centric lending. The mainstream banks have not prioritised it, leaving many businesses feeling overlooked and underserved. These businesses are the Missing Middle.

Building the data rails of the commercial economy

OakNorth was founded on the belief that the Missing Middle can be effectively served by leveraging cloud technology and using data and analytics to develop a forward-looking view of their business. OakNorth Credit Intelligence has one of the largest commercial lending data sets[6] in the world – c.$365 billion of which c.$320 billion is Commercial and Industrial (C&I) data – so are well positioned to expand beyond lending (via the Bank) and software-as-a-service (via OakNorth Credit Intelligence), and transition commercial lending from a backward-looking, spreadsheet-based approach, to a forward-looking, platform based, data-driven approach that combines business intelligence with artificial intelligence.

The loans we underwrite are based on where a business is likely to go, in addition to where it's been or where it is today. Through leveraging credit intelligence, cloud computing, and machine learning, we are unlocking the growth potential of the Missing Middle with loans which typically range between £0.5 million to £25 million. This is underpinned by faster transaction times (we approve new loans in days versus the months it typically takes incumbent banks), transparency, and building and maintaining a granular understanding of each borrower's business. We will continue to evolve our data and analytics capabilities, and exponentially increase the expansive data sets we already have.

Redefining commercial banking, powered by technology

Our approach splits the economy into 273 sub-sectors with detailed sub-sector forecasts applied to each individual borrower. For example, with the senior living sector, we develop cost and revenue curves based on different segments – i.e. independent living communities, assisted living, nursing or care homes, continuous or hybrid care, domiciliary care, etc. and produce base case forecasts at a granular sub-sector and regional level.

Our granular understanding of each business, coupled with our forward-looking view, means we can identify potential credit issues early on and work with our borrowers to address them. This, in turn, helps minimise losses and defaults as evidenced by our credit track record to date. We

6 This represents lending portfolio of the banks/institutions that are clients of OakNorth Credit Intelligence.

have only had twelve cases in default since inception, six of which have been resolved with 100 percent recovery, and the total expected credit loss on the remaining six is £13.6 million (equating to an average annual cost of risk of 0.07 percent[7] of average facilities).

Our approach has resulted in positive outcomes for borrowers...

Since our launch in September 2015, we have lent £6.9 billion, to some of the fastest growing and most successful businesses across the UK. With our support, these businesses have gone on to create more than 31,600 new jobs and over 22,300 new homes. In 2021, we lent £1.8 billion to these businesses, which was an increase of c60 percent over 2020.

Our high growth to date has been largely fuelled by our highly satisfied customer base – which in turn, has led to 80 percent of our qualified new business leads coming from referrals, and repeat business from almost 40 percent of customers.

To continue creating this exceptional experience for customers as we scale, we will continue investing in our digital offering, providing the speed, transparency, bespoke approach, and insights to customers which have become key differentiators in our proposition.

Our high customer satisfaction in lending is mirrored in our deposit offering which has helped us attract over 167,000 loyal savings customers. We have Feefo and Trustpilot ratings of 4.5 stars, and app store ratings exceeding 4 out of 5 stars.

...and unique growth and profitability characteristics for our business

Our data-driven and forward-looking approach has helped us achieve performance metrics which place us in the top 1 percent of commercial banks globally[8]:

- RORE[9] = 30 percent
- Efficiency ratio[9] = 26 percent
- YoY[9] revenue growth = 26 percent
- Income CAGR[9] over the last five years = 87 percent

This year, we are humbled to reach the milestone of £100 million in net income, growing revenue by 26 percent. Our high level of return on required equity means our growth has been predominantly self-financed, enabling further growth in the customer base, products, and talent.

This year we grew total facilities by 20 percent and increased our CET 1[10] and total capital ratio through organic net income generation. To continue driving new lending volume and support expansion into new geographies, sectors, and distribution channels, we will be investing in marketing. The flywheel effect has propelled customer acquisition creating high organic growth, enabling us to outperform our original business plan by 4x with very little investment in marketing to date. By increasing our investment in marketing, we will be able to further accelerate our growth and profitability, and continue driving new lending volume across new regions, sectors, and distribution channels. We will also be open to evaluating acquisition opportunities which help us further our mission.

Climate change – a significant challenge for the economy as well as an opportunity for us

In early 2021, as Storm Christoph blew across the North of England, our colleagues in Manchester experienced extreme flooding. A few

7 Annual specific impairment charge divided by average facilities outstanding for each years from 2016- 2021.

8 Based on Efficiency ratio and RORE measure of global listed banks. Latest information as available from various external sources.

9 RORE- Return on Required Equity-computed as net income expressed as a percentage of regulatory equity capital required, Efficiency ratio is cost-to-income ratio, YoY- Year on Year, PBT- Profit before tax, CAGR- Compound Annual Growth Rate. RORE for the other banks is estimated using their capital adequacy ratios.

10 Common equity tier 1 ratio.

months after that, the same happened to our colleagues in Bangalore. And a few months after that, it happened to our colleagues in New York City. Events like these should be rare and unprecedented, but instead are becoming regular occurrences all over the world that leave damage, disruption, and in some cases, death, in their path.

At the same time, businesses across the country are assessing how to reduce their carbon footprint – homebuilders are having to consider the sustainability of the materials they use or risk seeing planning applications rejected; restaurants are updating menus to cater to vegan, vegetarian and flexitarian diets; retailers are looking into replacing the type of packaging they use with recyclable alternatives; farmers are examining how to reduce their use of fertilisers and pesticides. The list goes on. With the UK having hosted COP26 in Q4-2021, the urgency to act has been pushed front and centre.

According to McKinsey[11], the net cost of the world reaching net zero by 2050 would be £257 trillion, or £9.2 trillion per year. This represents a massive opportunity for banks like OakNorth to help their commercial customers transition to the green economy – whether by helping those homebuilders invest in greener building materials; or those restaurants introduce more plant-based food options to their menus; or enabling those retailers to switch to recycled packaging materials; or providing those farmers with the capital to invest in more sustainable agriculture products.

The road to net zero

Since 2019, we have been carbon neutral through offsetting our Scope 1 (direct emissions from sources we own and control) and Scope 2 (indirect emissions from the generation of purchased electricity, heat, and cooling) emissions. We continue working with our clients and third parties on addressing Scope 3 emissions (all other indirect emissions, including from our lending activity and our supply chain).

We are proud to be supporting some of the businesses leading the charge in their industries and making the right choices to minimise their impact on the environment. Some examples include: Verto Homes, the UK's first housebuilder to specialise in the design, build and sale of smart homes which produce zero carbon emissions; Deliciously Ella, the family-run, plant-based food and beverage business; and the joint venture between FORE Partnership and Amicala which intend to deliver up to £300 million worth of ultra-sustainable, net zero extra care living schemes across the UK.

In June 2021, we joined Tech Zero, the climate action group for tech companies. As mentioned earlier, the Bank has already reached net zero for its Scope 1 and 2 emissions, but our ambition is to be net zero by 2035 for all our emissions, including all Scope 3 from our lending activity and supply chain. We will keep our focus and momentum to achieve this target sooner.

Encouraging future generations of sustainable businesses

Since 2018, we have committed to donating 1 percent of Group profits to supporting charitable causes and socially driven businesses. So, this year as part of that commitment and in partnership with the London School of Economics (LSE) where Joel and I first met whilst studying for our Master's, we launched the 'Mentorpreneurship' programme with LSE Generate. The programme aims to support the development of socially conscious businesses and

11 https://www.weforum.org/platforms/shaping-the-future-of-financial-and-monetary-systems/articles/net-zero-cost-3-5-trillion-a-year.

inspire entrepreneurial thinking, by focusing on the fundamental role of mentorship in business. There is even the opportunity for aspiring mentors to receive formal training and recognition through obtaining a Certificate in Mentorship via LSE's entrepreneurship department.

Mentoring and having mentors has been an essential part of the development of so many of us here at OakNorth. Through this programme, we want to inspire students and alumni to start and scale businesses that have a positive impact on society, and equip them with the skills, knowledge, and confidence to mentor future generations of entrepreneurs who will do the same. Through working with dozens of schools and hundreds of students across the country – including the Girls' Day School Trust where there is a particular focus on supporting the female founders of the future – we are helping inspire and develop future generations of entrepreneurs and exposing children and young adults to entrepreneurship and enterprise at an earlier age.

Six years old but 20 years+ in the making

OakNorth is the second data analytics business Joel and I have founded. Our first, Copal Amba, was a leading provider of research and analytics services to the global financial and corporate sectors. And it was the experience of trying to secure growth capital for that business which enabled us to identify the Missing Middle funding gap and inspired the launch of OakNorth.

In six years, we've gone from a blank sheet of paper to successfully supporting £6.9 billion of lending, helping businesses across the UK, and achieving market-leading performance metrics - propelled by the flywheel effect.

Thank you for your ongoing support

"My sincere thanks to our borrowers for choosing us as their trusted funding partner, our deposit customers for choosing us as the safe place for their savings, the regulators for being willing to give us a chance when Joel and I first came to them with the idea for OakNorth, our investors for their ongoing support, and of course our team for their unwavering commitment to supporting customers. We have come an incredibly long way in an incredibly short amount of time and I'm so excited about all the future has in store for our customers and our business."

Rishi Khosla
CEO & Co-Founder
17 March 2022

We provided Ottolenghi with a £3.7 million working capital loan

"The experience with OakNorth Bank was refreshingly different to what we've had with other lenders. They took a forward-looking view of our business, considering its future growth and potential, rather than purely fixating on historic data. It felt more like working with other entrepreneurs, rather than bankers.

Noam Bar
Co-founder of Ottolenghi

We provided Melrose Education, with growth capital to pursue its "buy and build" of Special Educational Needs schools

"Our aim with Melrose Education is to create one of the UK's leading independent Special Educational Needs providers in what is a £7 billion, fragmented market, serving 430,000 children with Education & Health Care Plans ("EHCP"). We expect to complete another 1-2 acquisitions this year with many more to come, so are delighted to have the support of OakNorth Bank once again. The bespoke facility the team designed for us in 2017 played a vital role in the incredible growth and success of ICP Education, which culminated in its sale to Oakley Capital in June 2021.

Tracey Storey
Executive Chair of Melrose Education

We provided £8.6 million loan to Verto, the leading sustainable housebuilder delivering award-winning Zero Carbon Smart Homes, for two new residential developments in Cornwall

"The OakNorth Bank team operated quickly and transparently, with the entrepreneurial approach and commercial acumen that was promised.

Tom Carr
Co-founder of Verto

Strategic Report

The Directors present their Strategic Report for OakNorth Bank Plc for the year ended 31 December 2021.

Our mission, strategy and business model

OakNorth Bank (herein referred to as 'the Bank') has a simple business model – we leverage data and analytics to develop a granular, forward-looking view of each business which is used to provide lending. We offer loans of typically between £0.5 million to £25 million. We compete on customer experience, not credit terms and our offering is underpinned by faster transaction times, transparency, and bespoke deal structuring.

Our core lending products fall into two categories:

- Cash-flow based trading loans to businesses, typically for growth, working capital, and acquisitions; and
- Property Finance, which includes finance of property development, refurbishment, and medium-term property Investment

Through these products, we support businesses across a diverse and carefully selected range of sub-sectors, including: healthcare (nursing homes, specialist care homes, and retirement villages), consumer goods, vehicle and parts manufacturing, capital goods manufacturing, household professional services (including educational services), education (nurseries and special educational needs schools), business support services, hospitality and recreation (hotels, resorts, restaurants and bars, fast food outlets and limited service restaurants), SME affordable housing developers and specialist property investors.

Integral to our underwriting and portfolio management are data-driven credit expertise and forward-looking stress testing techniques. Stress testing is applied on a loan-by-loan basis throughout the lending life cycle via our Forward Look Rating (FLR) tool, which has been developed by our sister company as part of OakNorth Credit Intelligence Suite. Further information on "FLR" is provided in "OakNorth Bank's approach to Credit Risk Management" on page 49.

The Bank's lending is primarily funded through a digital deposits model, which benefits from the operational simplicity of online deposit markets. Through our award-winning savings platform which serves over 167,000 customers, we offer a range of competitive and FSCS-protected products both directly and via strategic partnerships. These include - easy access, notice and fixed-term savings products for both retail customers and small businesses, and ISAs for retail customers offered via our strategic partners.

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

Our Values, vision and culture

Our leadership team and the Board take the lead in establishing a strong risk management culture and are committed to living the firm's values and setting the tone for the culture of the organisation.

The seven values of the Bank are:

10X
Better is good, ten times better is great. We set ambitious goals and work to deliver outsized results.

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

ONE TEAM
We collaborate across different continents and cultures to achieve our mission.

ZERO BASE
If it isn't working we start from scratch to produce the best solutions for customers and colleagues.

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

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

SAY IT AS IT IS
Being open and transparent with all our stakeholders.

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

Conducting business in a sustainable way

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

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

Detailed information is provided in our "Environmental, Social and Governance review" on page 26.

2021 Financial Review- A year of continued strong financial performance

Key metrics (Unaudited)	As of 31 Dec 2021	As of 31 Dec 2020	Year-on-year variance
Loan book measures			
Total Facilities (£m)[a]	4,224	3,524	20%
Loans & Advances to customers (£m)[b]	2,915	2,525	15%
% of loans collateralised[c]	97%	96%	1%
% LTV of property backed loans[d]	52%	54%	(4%)
ECL allowance coverage (%)[e]	1.0%	1.3%	(23%)
Key performance measures			
Profit before tax (£m)	134.5	77.6	73%
Profit before ECL allowances and taxes (£m)	130.8	99.2	32%
Write-offs on loan book (£m)	-	-	0%
Net Interest Margin (%)[f]	6.6%	6.2%	6%
Efficiency ratio (%)[g]	26%	29%	(10%)
Return on required equity (%)[h]	30.1%	19.3%	56%
Capital, leverage, and liquidity measures			
Total capital ratio (%)[i]	22.1%	21.8%	1%
Common equity Tier 1 ratio (%)[j]	20.5%	19.9%	3%
Leverage Ratio (%)[k]	16.3%	16.1%	1%
High-quality liquid assets (£m)[l]	486	469	4%

a Includes all facilities (committed and un-committed)
b Gross loan balances outstanding
c Total (committed and un-committed) facility amount of collateral backed loans as a percentage of total (committed and un-committed) facility amounts in the loan book
d Total (committed and un-committed) facility amount of property backed loans as a percentage of the value of the underlying collateral
e ECL -expected credit loss allowance coverage on loan assets- Balance-sheet ECL allowance on loan assets as a percentage of gross loan balances outstanding
f Interest and fee income on loan assets, less all interest expense on funding sources, as a percentage of average loan balances
g Operating expenses expressed as a percentage of operating income
h Net income expressed as a percentage of regulatory equity capital required
i Regulatory capital expressed as a percentage of risk weighted assets. Details are available as part of separately published Pillar 3 disclosures
j Regulatory common equity Tier 1 capital expressed as a percentage of risk weighted assets. Details are available as part of separately published Pillar 3 disclosures
k Regulatory Tier 1 capital expressed as a percentage of exposure as measured under EBA guidelines. Details are available as part of separately published Pillar 3 disclosures
l Unencumbered cash balances held at Bank of England and unencumbered GILTS

During 2021, OakNorth Bank continued to support the UK's Missing Middle, approving over £1.8 billion of gross new loans during the year (2020: £1.1 billion) whilst maintaining a cautious approach to lending. The total drawn loan book increased by 15% to £2,915.3 million as at 31 December 2021, from £2,525.1 million as at 31 December 2020. In 2021, we saw very high levels of redemptions of 32%[12] (2020: 17%). This was driven by a number of factors including lower redemptions in 2020 when clients were seeking to hold onto cash in the early stages of the COVID-19 pandemic, an unexpectedly strong housing market in the UK and high levels of liquidity in the economy. Nonetheless, our lending proposition continued to help drive new volume growth resulting in our total facilities balance growing by 20% during the year to £4.2 billion as at 31 December 2021 (2020: £3.5 billion).

With our strong customer-led proposition, our deposit book grew by 13% during the year to £2,643.6 million as at 31 December 2021, from £2,313.6 million as at 31 December 2020.

Throughout the year the Bank's capital and liquidity position remained strong. The high-quality liquid assets (HQLA) balances were at £486.4 million as at 31 December 2021, broadly at similar levels as the prior year (2020: £469.5 million). The total regulatory capital ratio and the CET1 ratio improved to 22.1% and 20.5% respectively as at 31 December 2021 (2020: 21.8% and 19.9% respectively), as the Bank's profitability continued to strengthen our available capital position and fund growth in the balance sheet.

The Bank's operating income grew by 26% to £176.2 million during the year, compared with £140.1 million last year. We continued to maintain a strong yield on the loan book at 7.6% (2020: 7.8%) whilst the cost of funding reduced to 0.9% from 1.4% in 2020. The combined impact of these drivers was that our net interest margin increased to 6.6% as compared to 6.2% in the prior year. Strict cost discipline was maintained throughout the year resulting in the efficiency ratio improving to 26% in 2021 versus 29% in 2020.

Due to improvement in the economic outlook and strong credit quality of our loan book, there was a net release of £3.7 million of expected credit loss (ECL) allowance versus a charge of £21.6 million in 2020. The ECL charge in 2020 included specific COVID-19 related overlay provisions of £17.4 million. The credit quality of our loan book remained stable, and we continued to proactively manage our loan book with our strong portfolio monitoring and stress testing capabilities, and our effective work out strategies. The Stage 3 loan book reduced as at 31 December 2021 primarily due to repayments.

Operational resilience through COVID-19 and beyond

During the year, most of our colleagues continued to work from home, coordinating effectively online. COVID-19 has continued to be one of the biggest challenges and the outbreak of the Delta variant of the COVID-19 virus in India significantly impacted our colleagues at our sister companies in India. However, work from home measures were already in place and our cloud-based IT and cyber-security infrastructure proved robust and resilient, and systems and processes continued to perform

12 Redemptions during the year as percentage of opening facility balances

well. There were no notable system downtimes, service disruptions, operational incidents, or security breaches during the year. Our cyber risk teams continued to actively respond to any threats and there were no successful attacks on our systems. Our offices continued to remain open throughout the year, operating under strict COVID-19 secure guidelines.

Our customer service continued to perform well. We continued to invest in technology and roll out new initiatives, resulting in increased customer engagement and enhanced customer experience.

Business and economic outlook

The economic outlook for the UK and global economies, whilst positive on recovery from the pandemic, remains challenging as we enter 2022. The recent invasion of Ukraine by Russia and sanctions imposed on Russia add further uncertainties to the geopolitical environment; this is likely to impact economic growth and stability broadly and companies with material exposure to Russia. Whilst OakNorth and its clients have no direct material exposure to Russia, we may see the impact of contagion of the global impact on our 2022 performance. We also face the continued risks of economic disruptions from new variants of the COVID-19 virus, impact of Brexit, supply chain issues, rising inflation and interest rates and labour and skills shortages. The Bank of England has already increased the base rates twice in the past five months, with the expectation of inflationary pressures to be higher than previously envisaged. In addition to these challenges, climate change continues to remain a critical global issue that impacts all of us.

The events of the past years have put to the test our business model and our approach to lending, the predictive capabilities of the forward-looking view and stress testing frameworks we have adopted for management of credit risk, our technology capabilities, and our overall risk management framework- all of which have proved resilient. With our capabilities and strong capital position, looking forward into 2022 and beyond, we will continue to support the Missing Middle to ensure these businesses have the capital to create new jobs, make new investments, boost productivity, and contribute to economic recovery.

Over the past year we have also made significant progress in developing our climate change management programme and climate risk management framework. Leveraging FLR, we have built the capability to evaluate the impact of both physical and transition risks of climate change on our portfolio. We are proud to be supporting some of the businesses leading the charge in their industries and making the right choices to minimise their impact on the environment and we will continue to focus on embedding climate risk across the Bank's decision making and risk management processes.

We will continue to monitor closely the impact of the developments in the global economy and the impact of fiscal and monetary policy changes implemented to address the challenges.

Risk Management framework and Risk review

OakNorth is exposed to a wide range of risks through its banking operations, including credit risk, cyber-security, operational risk, liquidity, capital, interest rate risk, people risk, climate risk, regulatory and compliance risk. At OakNorth we have built a proportionate and robust Risk Management Framework (RMF) that is designed to ensure that the key risks facing OakNorth are identified, measured, monitored, and managed, and that appropriate policies, procedures and controls are established such that each risk is mitigated to an acceptable degree.

Detailed information on the RMF is provided in our "Risk Management" report on page 44. Review of the key risks is provided in the "Risk Review" report on page 46.

Section 172 statement

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

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

The Board's principal duty is to create and deliver a sustainable business model by setting OakNorth Bank's strategy and overseeing its implementation. It does so with regard to the interests of investors, customers, communities, employees, the environment, regulators, and suppliers.

The Board considers, reviews, and provides robust and independent challenge to the reports and management information that it receives from the ExCo, ensuring that impact on the Bank's operations as well as impact on the interests of the Bank's key stakeholders is fully understood. The Board monitors the progress in the delivery of strategic initiatives through information packs and reports, enterprise-wide risk assessments and monitoring metrics it receives on a regular basis from all areas across the Bank.

The Board sets clear expectations of conduct to the Executive Committees of the Bank. These are formally captured in the Vision, Values, Methods, Obstacles and Metrics ("V2MoMs") framework that it sets. This framework applies to all teams and individuals within the Bank.

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

More information on initiatives undertaken by the Bank with regards to its material stakeholders is provided in the "Environmental, Social and Governance review" report on page 26.

Investors

The Board continued to monitor the health and performance of the Bank's loan book by reviewing the portfolio performance metrics, capital and liquidity position, stress testing outcomes and ongoing review of the business and economic environment.

During the year, the Board approved enhancements to the Bank's risk appetite framework, ensuring it was consistent with our objective to be a prudent lender with a risk-aware culture delivering low credit losses via advanced credit analytics, with a highly cost efficient and resilient operating model.

The Board reviewed, challenged, and approved the Bank's annual and long-term plan strategic plan, which was updated factoring the cautionary economic outlook, to ensure we deliver sustainable business growth to the investors. The Board reviewed, challenged, and approved the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), ensuring that the Bank had adequate liquidity and capital resources to survive under multiple severe stress scenarios.

The Board held 'deep-dive' sessions across several initiatives focussing on governance, scalability, operational effectiveness, and resilience including cyber-security and climate risks.

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

The Board approved appointments of new Chief Financial Officer (CFO), Chief Operating Officer (COO) and Chief People Officer (CPO) at the Bank.

Employees

During the year the Board reviewed outcomes of various staff surveys, whistleblowing reports, employee engagement feedback on various matters. This also included assessment of future of work under flexible/hybrid working environment. The Board continued to monitor reports on robustness of the Bank's operational, IT and Cyber risk management infrastructure to ensure all teams across the Bank were supported appropriately and were able to continue working remotely. They received regular updates on efforts made by the Management teams to ensure employees stay connected and supported throughout multiple lockdowns.

The Board also approved appointment of a new Chief People Officer, who now takes on the responsibility for developing and executing people strategy at the Bank.

The Bank's operations are supported by our sister companies in India. During the year, our colleagues at the Bank's sister companies in India were significantly affected by the spread of the Delta variant of the COVID-19 virus. The Board continued to receive and review ongoing updates on support measures initiated by the OakNorth group on the ground to support our colleagues and their families.

Customers

The Board monitored the Bank's engagement with its customers through regular reports it received on customer Net Promoter Scores, customer surveys and data on customer complaints. During the year, the Board reviewed and approved a revised operational resilience programme which set impact tolerances for important business services.

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

The Board also reviewed and noted progress on successful transition of substantially all of the Bank's lending contracts from LIBOR-linked to BOE Base rate, with minimal to no impact on the Bank's loan customers.

Suppliers

The Board monitored the impact assessments and business continuity measures during the year, in particular due to the spread of the Delta variant of the COVID-19 virus in India, which affected the Bank's sister companies in India that support the Bank's business operations. With the work from home arrangements already in place, there were no material operational disruptions noted.

The Board also continued to monitor other supplier initiatives during the year. The Bank has a robust Supplier management policy in place, which serves to actively manage relationships with and the performance of all our service providers. During the year, the Bank further enhanced its focus on suppliers by creating a dedicated in-life Supplier management function to further improve the Bank's third-party risk management practices as well as to develop and innovate further with its trusted partners.

Regulators

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

The Bank continued to contribute to consultations on important areas of regulatory policy to ensure future regulation is proportionate and risk-based, and takes into account both financial stability and competition issues.

Communities and the environment

The Board allocated the SMF responsibility for climate risk at the Bank to the Chief Risk Officer. The Board continued to monitor the Bank's progress on incorporating the climate agenda in the RMF and in the business planning and stress testing process. During the year the Bank established a 'Climate Steering Committee' to provide appropriate oversight and challenge to its environmental programmes and initiatives and also appointed a Director of ESG Strategy.

The Board reviewed updates provided by the ExCo on a number of relief initiatives contributed to by the Bank to support communities affected by the continued COVID-19 crisis.

Environmental, Social and Governance Review

Environment

As a business, our mission is to empower the Missing Middle and in doing so, improve communities and economies globally – but this will be a wasted effort if there is no planet left for future generations to inherit. We have passed the point of no return, so drastic action is needed from us all to protect our earth and reduce the impact of climate change. We have a responsibility to all our stakeholders – our customers, our employees, the regulators, our investors, our suppliers, and society as a whole – to make this happen.

This report discusses our continued leadership on the path to net zero, climate risk, and disclosure in line with the TCFD recommendations. Our climate risk and net zero work are related and reinforce each other – our net zero work focuses on our impacts on the climate and achieving our ambitious net zero emissions targets, while our climate risk work focuses on the integration of climate risk into our risk management governance, processes, and strategies.

Our responsibility to the environment: transitioning to net zero

Given the data and analytics capabilities we have, and the fact that we can share best practices and learnings with other banks through our sister company (OakNorth Credit Intelligence), we have an opportunity, responsibility, and ambition to lead and deliver for ourselves and communities at large in what is the most critical challenge of our time. As a business, we started our journey in this regard from 2019, offsetting our Scope 1 and Scope 2 emissions to be net carbon zero. This made us one of the first banks globally to do so – and we continue to seek ways to reduce our operational emissions with minimal reliance on offsets. We invest only in high quality, certified offsets that are independently verified by Gold Standard. We place equal weighting on projects that support both carbon removal and carbon reduction initiatives to ensure that our impact is comprehensive and well-rounded.

Given the age and complexity of many commercial banks' business models, most have committed to aligning their lending and investment portfolios with net zero emissions by 2050. To the extent that it's possible we should all aim to beat the 2050 target and achieve net zero sooner than this. As a young, digitally led lender that has never lent to businesses that are in engaged in oil or gas production, we feel it is our duty to be more ambitious than this. That is why we have committed to achieving net zero by 2035 for all our emissions, including all Scope 3 from our lending activity. We know that right now, this is just a commitment and that what's important is achieving this goal. We don't yet have all the answers as to how we will get there, but setting ourselves this target means it is firmly on the Board agenda and the entire organisation is invested in us getting there.

As a bank that lends to high-growth businesses, we have a crucial role to play in helping drive the transition to a net zero economy, helping our borrowers make the necessary changes and investments in their business models and operations to reduce their carbon footprints. In order to continue being a trusted partner to our borrowers, we need to work with them to help them understand their climate sensitivity and vulnerability, and how that may impact their future credit worthiness.

We are proud to be supporting numerous businesses that are leading the ESG charge in their respective industries, and will continue to work with all our borrowers to develop credible plans to transition to net zero together.

We are fortunate to have Lord Adair Turner, Chair of the Energy Transitions Commission and the first ever chair of the UK's Climate Change Committee, on our Advisory Board. His expertise and leadership have been invaluable in helping shape our approach and thinking in this area.

Participation with the industry on net zero

We are regular and active participants in industry-led forums, events, trade bodies, and working groups focused on wide ranging themes in sustainable finance – from guidance on regulatory reform to solutions for enabling commercial growth and opportunities.

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

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

We are also members of Bankers for Net Zero, an initiative being led by the All-Party Parliamentary Group for Fair Business Banking that brings together banks, businesses, and regulators to enable banks to successfully support their clients, accelerate the transition to net zero and deliver on the UK government's ambitions for addressing climate change.

Sharing best practice with other banks

Through our sister company, OakNorth Credit Intelligence, we are able to share best practices and learnings with some of the leading banks it is working with, including: Capital One, PNC, Fifth Third, Old National and SMBC. The business launched a Climate Consortium – of which we are founding members – last September, which brings together innovative, climate-forward institutions driving commercial lending's approach to climate risk and opportunity. At the most recent Consortium hosted in February 2022, participants included 77 industry leaders from 29 commercial banks with assets ranging from $22B to over $3.3T.

Some examples:

- Verto Homes, the UK's first housebuilder to specialise in the design, build and sale of smart homes which produce zero carbon emissions
- Ottolenghi, the restaurant chain which carefully considers sustainability in the sourcing of its ingredients
- Grosvenor Hill, a newly formed social impact fund
- Deliciously Ella, the family-run, plant-based food and beverage business
- Mr Fothergill's Seeds, a family-run international horticulture supplier providing gardening products ranging from seeds and bulbs
- Fore Advisors LLP, a certified B Corp and purpose-driven, values-based real estate investment firm that aims to drive social and environmental innovation in the built environment
- Gr33n Homes, the SME housebuilder committed to building greener and more sustainable homes

Timeline of climate action

Dec 2019
Became one of the first banks globally to offset our estimated direct emissions to be net carbon zero

Apr 2020
Decided to stand up a product team focused on the ON Climate Impact Framework, which is helping inform our approach to climate change risk management

Mar 2021
Switched to green gas and electricity supplier as our corporate energy supplier

Apr 2021
Launched an initiative to plant a tree to celebrate team members' work anniversaries

Jun 2021
Became one of the first fintechs to join Tech Zero

Sep 2021
Participated in the inaugural ON Climate Consortium

Oct 2021
OakNorth's co-founder and CEO, Rishi Khosla, discussed collaboration for a greener world at Innovate Finance's Fintech For Good Conference

Dec 2021
Committed to be net zero for all our emissions by 2035

Feb 2022
Joined the Glasgow Financial Alliance for Net Zero (GFANZ) through the Net Zero Banking Alliance (NZBA) vertical

Feb 2022
Hosted the second ON Climate Consortium

Feb 2022
OakNorth Bank hosted its inaugural "Green Week" to increase engagement around and awareness of environmental sustainability throughout the organisation

Mar 2022
Joined bankers for Net Zero

Our approach to climate change risk management

In 2021, for the first-time, we undertook a granular scenario analysis of the possible impact of climate risks on our borrowers and therefore our capital requirements. Through leveraging the scenarios and time horizons from the Bank of England's Biennial Exploratory Scenario, and the ON Climate Impact Framework (part of the ON Credit Intelligence from our sister company), we have reviewed the most material climate specific risks to our borrowers and evaluated the possible impact this would have on credit risk our loan book. This analysis and the conclusions from it are discussed in detail in the following paragraphs.

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

The desired outcomes of the Bank of England's CBES are to:

- Size the financial exposures of participants and the financial system more broadly to climate-related risks.
- Understand the challenges to participants' business models from these risks; and gauge their likely responses and the implications for the provision of financial services.
- Assist participants in enhancing their management of climate-related financial risks. This includes engaging counterparties to understand their vulnerability to climate change.

The exercise considers two routes to net zero greenhouse gas emissions and a scenario for growing emission:

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

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

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

	Early Action	Late Action	No Additional Action
TRANSITION RISKS	☐ Medium	☐ High	☐ Limited
Transition begins in	2021	2031	n.a.
Nature of transition	Early and orderly	Late and disorderly	Only policies that were in place before 2021
Peak UK shadow carbon price (carbon tax and other policies) (2010 US$/tonne carbon dioxide equivalent)	900	1,100	30
PHYSICAL RISKS	☐ Limited	☐ Limited	☐ High
Mean global warming relative to pre-industrial times by the end of scenario (°C)	1.8	1.8	3.3

Summary of key climate risk considerations by Bank of England as per their Biennial Exploratory Scenario (2021)

The ON Climate Impact Framework

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

Transition Risks

The Framework's transition risk methodology considers six climate scenarios aligned to the Network for Greening the Financial System (NGFS). These are evaluated through the lens of an orderly transition (i.e. where policy action starts immediately / in the near term), disorderly transition (i.e. where policy actions are delayed until 2030), and Hot House World (i.e. where there are no further policy actions):

- Net Zero 2050 (Orderly - 1.5°C risk in temperature by 2050)
- Below 2°C (Orderly - 1.7°C risk in temperature by 2050)
- Divergent Net Zero (Disorderly - 1.5°C risk in temperature by 2050)
- Delayed Transition (Disorderly - 1.8°C risk in temperature by 2050)
- Nationally Determined Contributions (Hot House World – 2.5°C risk in temperature by 2050)
- Current Policies (Hot House World - > 3°C risk in temperature by 2050)

In order to evaluate the impact of transition risk, the Framework divides the universe of subsectors (OakNorth's existing repository of 273 unique subsector scenarios) based on the degree of impact into three distinct categories i.e. Direct Impact, Indirect Impact and Residual Impact based on the carbon intensity of individual subsectors.

- **Direct Impact:** considers subsectors with high Scope 1 emissions (calculated as a percentage of sector revenue) in this category.
- **Indirect Impact:** considers subsectors with material Scope 2 emissions (calculated as a percentage of sector revenue) in this category. In addition, sectors with material indirect impact (incremental raw material cost pass through) are also classified under this category.
- **Residual Impact:** Sectors which are not classified under direct and indirect impact are included here. These will be assessed for any residual impacts from carbon taxation through supply chain analysis.

Direct impact	Indirect impact	Residual impact
• Subsectors with high Scope 1 emissions (calculated as a % of sector revenue) • Around 15% of the sub-sectors will be classified in this category • Point of incidence for penalties / regulatory levies/ taxation	• Subsectors with scope-2 emissions, and/or impacted by incremental raw material cost pass through from primary emitters • Around 40% of the sub-sectors will be classified in this category	• Subsectors not classified under direct and indirect impact • They have minimal Scope 1 and Scope 2 emissions • We assess any material impact through supply chain analysis • Remaining 45% of the sub-sectors will be classified in this category
Examples (general): • Power Plants • Oil and Gas • Metals and Mining • Basic industry (Iron & steel, Aluminum smelting, Cement etc.) • Transportation	Examples (general): • Construction • Automotive parts and accessories stores • Manufacturing (excluding basic industry) • Data Centers	Examples (general): • Retail Trade • Wholesale Trade • Services • Information • Software development
OakNorth Loan book: ~0.15% of total	OakNorth Loan book: ~93% of totall	OakNorth Loan book: ~7% of total

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

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

We will continue to assess impact from transition risk scenarios derived from the OakNorth Climate Impact Framework across all our borrowers, including those with minimal / residual impact. Our analysis concluded that while climate risk will have an impact on a number of customers, the impact is well within the collateral and financial coverage already in place in nearly all instances. Only 0.15% of our total book – which equates to a few borrowers – would be directly impacted under the transitional risk assessment, and they can survive across the three scenarios with minimal impact compared to base case. As summarised in following table, there are no expected losses across the loan book under all the three transition scenarios applied up to 2050.

Climate risk scenario	Climate risk impact
Early action from 2021 (1.8°C risk in temperature by 2050)	No expected losses; No loan with LTV >100%
Late action from 2031 (1.8°C risk in temperature by 2050)	No expected losses; No loan with LTV>100%
No additional action (3.3°C risk in temperature by 2050)	No expected losses; No loan with LTV>100%

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

Streamlined Energy and Carbon Reporting (SECR)

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

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

Organisational boundary

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

Reporting period

The reporting period is 1 January to 31 December each year.

Quantification and reporting methodology

Our energy use and greenhouse gas emissions are calculated with reference to the GHG protocol framework, which has guided our approach. We have utilised the energy consumption information provided by our energy suppliers for our buildings. In some cases, we have used monthly averages to arrive at full year numbers for the final quarter of the year, when data was unavailable. To convert our energy consumption to our carbon footprint, we have used the 2021 country specific electricity grid greenhouse emissions factors from carbonfootprint.com to translate /kWh into $kgCO_2e$.

Information on business travel undertaken by staff, including mileage, using their own cars or train and flights has been consolidated based on internal systems maintained by the Bank. The Bank does not own any vehicles. This data has then been used to convert into kgCO2e using conversion factors published by the Department for Business, Energy & Industrial Strategy.

Calculations of emissions from ONGPL also include emissions from purchased electricity and business travel.

(Unaudited)

GHG Emissions and Energy Use Summary	2021 (Tonnes CO_2e)	2020 (Tonnes CO_2e)[1]
Emissions from activities for which the company own or control including combustion of fuel & operation of facilities	-	-
Total Scope 1 emissions	**-**	**-**
Emissions from purchase of electricity, heat, steam, and cooling purchased for own use	32	30
Total Scope 2 emissions	**32**	**30**
Emissions from activities of key outsourcing supplier (ONGPL)	32	95
Emissions from employee business travel including flights, train, rental cars	36	10
Emissions from employee vehicles used for business travel	20	33
Emissions from activities relating to third party server use (AWS)[a]	128	127
Total reported Scope 3 emissions	**216**	**265**
Total location-based emissions	**248**	**295**
Intensity ratio – Tonnes CO2e/yr per employee[b]	0.72	1.06
Energy consumption used in calculated emissions (kWh)[c]	230,306	208,155

a 2020 figures restated to include comparative for Scope 3 emissions from activities relating to third party server use.

b The employee intensity ratio is computed based on average number of employees for both the Bank and ONGPL. This includes average employees at the Bank – 160 in 2021 and 132 in 2020 plus average number of employees at ONGPL servicing the Bank – 185 in 2021 and 142 in 2020.

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

COVID-19 continued to impact the reported emissions due to changes in working practices, with variable levels of office occupancy and business travel. Reduction of emissions from our key outsourcing supplier was primarily driven by closure of their office premises through most part of the year. There was a marginal increase in business travel activity compared to the prior year. During the year, the Bank continued to undertake measures to minimise its carbon emissions and improve sustainability. This included adding further recycling points, sourcing sustainable supplies, and launching cycle to work schemes.

Social

Our responsibility to society

As has been shared throughout this report, we're on a mission to empower the Missing Middle. These high-growth businesses create jobs, boost productivity, drive innovation, and help increase GDP. To continue reinforcing the positive impact they have on communities and the economy, we donate 1% of our group profits to supporting charitable causes and socially-minded enterprises around the world. This is a formal commitment we have made every year since 2018 although we have been supporting charitable causes and socially-minded enterprises since inception.

Our giving is centred around five core areas that are aligned with our mission:

- **Entrepreneurship and mentoring:** we want to expose more people to entrepreneurship and a key part of this is in ensuring they have strong mentors who help guide them on their journey. Whether as a school student gaining exposure to entrepreneurship for the first time, a university student who's recently founded their first start-up, a successful entrepreneur who's considering the next move in their growth journey, or a serial entrepreneur who's started and scaled numerous businesses – having strong mentors is an essential part of any entrepreneur's success.
- **Social mobility:** in order to build a strong pipeline of entrepreneurial talent, it is vital that all children and young people have equal access to education and opportunities irrespective of their social circumstance.
- **Female empowerment with a particular focus on STEAM education:** STEAM education is an approach to learning that uses Science, Technology, Engineering, the Arts and Mathematics as access points for guiding student inquiry, dialogue, and critical thinking. However, too often, girls and young women are indirectly or directly discouraged from pursuing further education or careers in these areas. By helping to break down these barriers and bust some of the myths around what it means to be a woman working in STEAM, we can increase the pipeline of female entrepreneurs and enterprising talent around the world.
- **Mental health and wellbeing:** over the last two years with COVID-19, mental health and wellbeing has become more important than ever. Developing strong entrepreneurs, new innovations, and enterprising mindsets, requires a health body as well as a healthy mind.
- **The preservation of natural resources:** as noted earlier in this report, our efforts will be wasted if there is no planet left for future generations to inherit, so supporting causes that help preserve and protect the planet underlines our entire approach to giving.

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

Entrepreneurship and mentoring

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

Social Mobility

Founded by two teachers, Give. Help. Share. is a newly-formed charity that provides vulnerable children across London and Herts with free healthy food bags and teaches food education workshops to primary school kids. With the ongoing Ukraine Crisis, the charity launched an urgent appeal which OakNorth supported by getting lorries full of goods to Ukrainian refugees in Poland. Seva Mandir and Yuva Unstoppable are grassroots NGOs that we've supported in India for several years. Over the last 12 months, we provided nutrition, immunization, and education to hundreds of children, as well as improving sanitation infrastructure in several government schools.

Female empowerment with a particular focus on STEAM education

We supported Prajwala, an anti-trafficking organisation, to provide emergency shelter to victims of sexual trafficking across India. Through our support of the British Asian Trust, we are helping thousands of marginalised women across South Asia to build resilience against poverty, providing them with economic empowerment through increased access to finance, learning about financial management and seeking control of resources.

Mental health and wellbeing

Pro Bono Economics is a charity we have supported since 2014. With its network of 700 volunteer economists, it uses economics to empower the social sector and increase wellbeing across the UK. It helps small-to-mid-sized charities measure, understand, and better articulate their impact and influence, inform policy, and make best use of their data. We have also been supporting the Centre for Economic Performance's Wellbeing Programme, which aims to understand the causes of wellbeing and how people's wellbeing affects their life, with a particular focus on improving mental health.

The preservation of natural resources

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

Our Responsibility to our team

As a business led by Asian and Hispanic founders, we believe in promoting a diverse workplace in which different backgrounds, voices, and perspectives are respected and heard. We aim to attract people who possess the right competencies and talents, irrespective of gender, race, religion, sexual orientation, or social circumstance, and who contribute to a high-performing organisation. We do not impose any cultural or organisational barriers in setting or achieving our recruitment goals.

In a world that is increasingly polarised, by focusing our people on our OneTeam value we have created an environment of tolerance in which instead of focusing so much on our differences we focus on our similarities and on extensively collaborating and being helpful to each other across the organisation, creating a work environment that is conducive to enjoyment and mental health.

During the year we launched "WE@ON"- a forum that brings our women employees across all geographies onto a common platform.

Our colleagues at the Bank's sister companies in India were significantly affected by the spread of the Delta variant of the COVID-19 virus and we sadly lost two of our valued team members to the virus. As a group we initiated a number of measures on the ground to support our colleagues and their families. Our efforts in India included supplying medical equipment (oxygen tanks), bereavement support and insurance.

Human Rights and Modern Slavery Act

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

Since 2020, we have enhanced our vendor due diligence process to ensure that our suppliers' approach to modern slavery is documented. We continue to evolve our vendor due diligence process, with a bias towards working with those that share our commitments to sustainability and take their role in the environment seriously.

We assess our employment arrangements annually and have determined that the risk of offences in relation to modern slavery being committed is low. Our Whistleblowing policy allows for anyone who has a concern to raise it anonymously and safely. If any concerns were raised, they would be investigated with appropriate actions being taken.

Anti-Bribery and Corruption

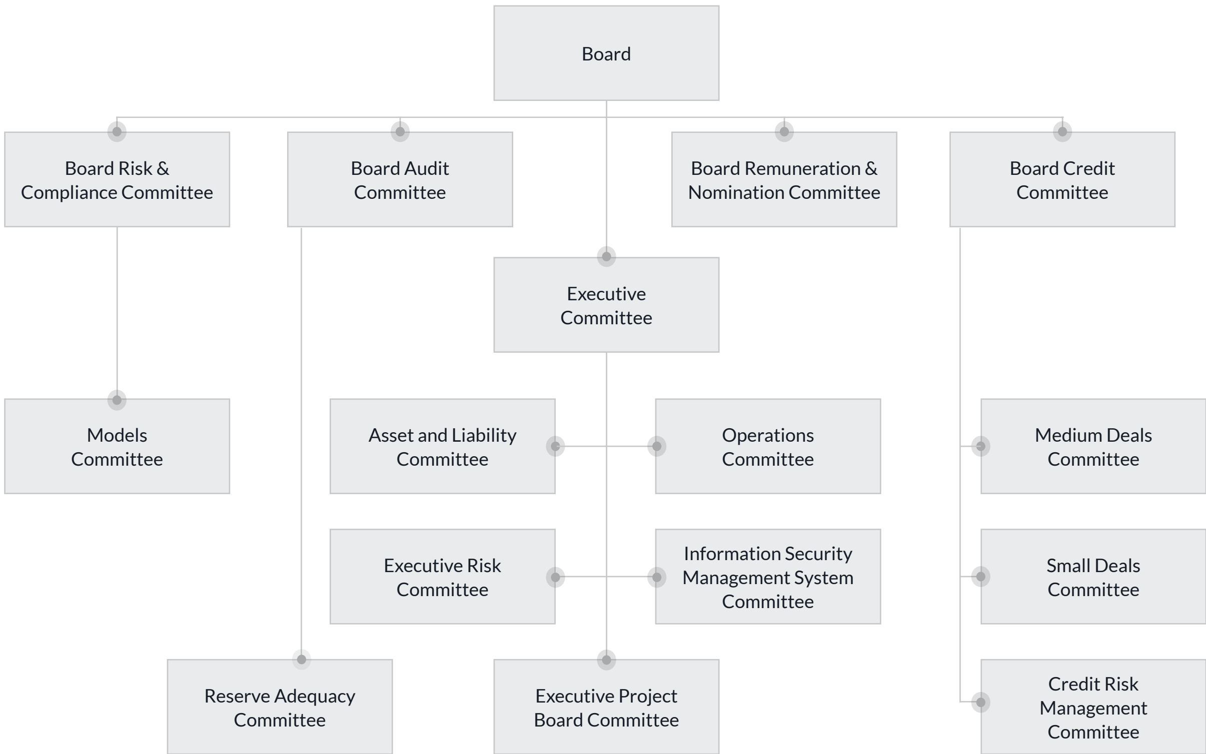
We have an Anti-bribery and Corruption policy which governs our operations across all business areas and functions. We have a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all relationships and business dealings; and to implementing and enforcing effective systems to counter bribery and corruption in all forms.

Governance

Committees

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

The Board's principal duty is to create and deliver a sustainable business model by setting OakNorth Bank's strategy and overseeing its implementation. It is responsible for ensuring that a system of internal controls is designed, implemented, maintained, and tested. It is responsible for approving the RMF and the Business Strategy, understanding major risks, ensuring that appropriate limits are set against those risks and that they are adequately controlled and monitored.



The Board generally convenes once a quarter to discuss the standard agenda items and discuss the business performance. In addition to this, the Board holds deep-dive sessions with various functions in the Bank covering a range of topics. There are further separate meetings to review and discuss the Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP, ILAAP), Recovery and Resolution Planning (RRP), business strategy, financial and operating plans, and annual statutory accounts. During the year, most of the meetings were held via online meeting applications.

During the year, the Financial Reporting Council's (FRC) Audit Quality Review team reviewed PwC's audit of OakNorth Bank's 2020 financial statements, as part of their latest annual inspection of audit firms. The Board Audit Committee received a copy of the review and was pleased to note that it did not identify any key findings and only a limited number of improvements were required.

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

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

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

The table below summarises the responsibilities of the various committees:

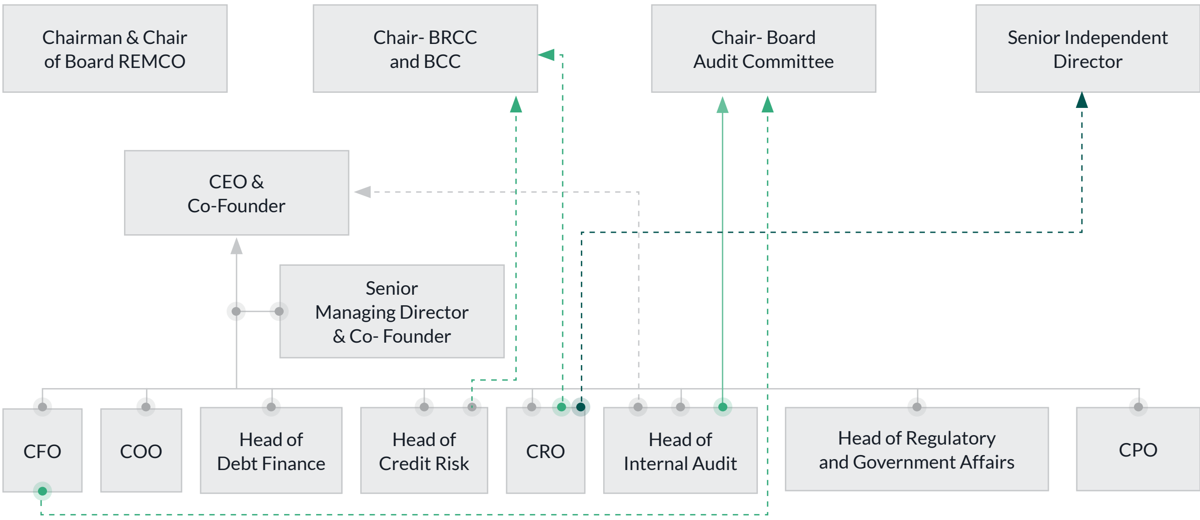
Committees	Responsibility
Board	The Board sets OakNorth Bank's strategic direction and oversees its implementation. It ensures that management maintain an effective RMF with appropriate oversight processes and for embedding the principle of safety and soundness in the culture of the whole organisation.
Remuneration & Nomination Committee (REMCO)	RemCo is responsible for ensuring that remuneration arrangements support the strategic aims of OakNorth Bank, comply with best practice, and enable the recruitment, motivation, and retention of senior executives. It ensures compliance with applicable regulations (Remuneration Code SYSC 19D) and also ensures that its principles are put in place to expressly discourage all inappropriate behaviours. The committee has delegated authority from the Board to review and approve the Remuneration Policy and is responsible for setting remuneration (including pension rights and any fixed and variable compensation payments) for all Executive Directors, NEDs, the Chairman, and key individuals, including employees captured under the scope of the Certification Regime.
Board Risk & Compliance Committee (BRCC)	BRCC takes delegated authority from the Board to oversee the entire risk agenda excluding Credit risk. It oversees the continued appropriateness of the strategy and risk appetite in the light of OakNorth Bank's purposes, values, and sound risk management principles. It assesses the Bank's principal and emerging risks, and how these may affect the viability of the business model, and monitors the adequacy and effectiveness of the RMF and the quality of risk MI. It safeguards the independence of the CRO and the second line Risk function and oversees its performance and resourcing. The committee approves the annual Compliance Monitoring Plan. It ensures that all risks (excluding credit risk) are properly identified, evaluated, mitigated, reported, and managed. It challenges executive management and examines whether risk management expectations are translated into culture and duly embedded.
Board Audit Committee (BAC)	BAC takes delegated authority from the Board for the review and approval of the Internal Audit (IA) Charter and Methodology, and Accounting Policies, and for ensuring that OakNorth Bank values and principles are being adhered to. It monitors the integrity of financial statements and public disclosures; appoints the external auditors and approves their remuneration; reviews the effectiveness of the Internal Audit function, and appoints/removes the Head of IA.

Committees	Responsibility
Board Credit Committee (BCC)	BCC takes delegated authority from the Board to oversee all Credit Risk related matters for the Bank and reviews larger credit exposures, impairments, and write-offs. BCC receives reports from the Credit Risk Management Committee concerning individual credit exposures, and the portfolio, and from Credit Quality Assurance function. BCC also oversees credit models performance monitoring. BCC reviews the Watchlist and receives reports concerning the progress on any material workouts and recoveries. BCC also oversees the management of financial risks from climate change.
Executive Committee (EXCO)	The ExCo takes delegated authority from the Board and is responsible for developing the Bank's strategy, ensuring the delivery of the Management Plan and that the agreed strategy is executed across all dimensions. Additionally, the ExCo has responsibility for the RMF and for management of all risks. The Board delegates authority to the ExCo for the review and approval of those policies listed in the ExCo Terms of Reference.

Management Committees subsidiary to ExCo	Responsibility
Asset & Liability Committee (ALCO)	Operating under mandate from the ExCo, ALCO implements the Bank's Asset & Liability Management (ALM) policy, with a focus on active management of liquidity. ALM activities include specific policies and procedures relating to Liquidity and Funding Risk, Capital Risk, Interest Rate Risk and Market/ Investment Risk. The committee also monitors regulatory reporting.
Credit Risk Management Committee (CRMC)	Operating under mandate from the BCC, the purpose of CRMC is to oversee, monitor and control credit risk on a day-to-day basis, and to approve facilities under a delegated authority. The committee ensures that the RMF is implemented as it relates to Credit Risk and Anti Facilitation of Tax Evasion (AFTE), and that all credit control processes are fit for purpose and operative so that credit risk is mitigated via identification, evaluation, mitigation, reporting, management, and challenge.
Small Deals Committee (SDC)	Operating under mandate from the BCC, the committee has authority to sanction loans of up to £3 million within specified sectors.
Medium Deals Committee (MDC)	Operating under mandate from the BCC, the committee has authority to sanction loans from £3 million up to £7 million within specified sectors.
Operations Committee (OPCO)	Operating under mandate from ExCo, OpCo's main objective is to ensure the operational resilience of the Bank, reviewing the performance of all business operations and the performance of outsourced service providers, and taking actions to address any issues identified. The committee also oversees the design and review of the IT platform and operating procedures and oversees resourcing and change management. The committee reviews, in depth, any operational issues to promote efficiency and manage Operational Risk across the Bank.
Executive Risk Committee (ERC)	Operating under mandate from the BRCC, the purpose of the ERC is to oversee, monitor and control the Risk agenda. It ensures that the Risk Management Framework is properly implemented and that all control processes are fit for purpose and operative so that all risks to OakNorth Bank (excluding Credit Risk, which is the mandate of CRMC and BCC, and ALM which is the mandate of ALCO and Board) are mitigated via identification, evaluation, mitigation, reporting, management, and challenge.

Management Committees subsidiary to ExCo	Responsibility
Information Security Management System (ISMS) Committee	Operating under mandate from the ExCo, ISMS is a technical forum to drive the development and implementation of cyber-security strategy, including IT infrastructure design, and monitor the status of cyber defence operations. Decisions on strategy, budget and investment are made by ExCo on recommendation from ISMS. ISMS is responsible for managing cyber crisis as part of our incident management process.
Reserve Adequacy Committee (RAC)	Operating under mandate from the BAC, the purpose of the RAC is to oversee the adequacy of provision calculation in compliance with the IFRS 9 requirements.

Reporting structure



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

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

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

Three lines of defence model

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

1st Line of Defence (1LOD): comprises business line management, including the client-facing 'front office' Debt Finance and Customer Services teams and all operational units that generate risk, including Operations, Technology, and Finance. Sound risk governance recognises that business line management owns and is responsible for identifying and managing all the risks inherent in the products, activities, processes, and systems which it creates and for which it is accountable, in line with the agreed risk appetite.

2nd Line of Defence (2LOD): comprises the Risk and Credit Risk functions and is responsible for monitoring the operation of the controls, adherence to risk direction and limits, reporting any control breaches / failures or risk appetite breaches; ensuring that risk management practices are appropriate for the business environment; interpreting and reporting on risk exposures and outcomes; and interpreting and reporting on the Key Risk Indicators (KRIs) set in the Risk Appetite. The CRO maintains a fully independent perspective to support oversight of first line risk-taking activities, providing independent advice and challenge whilst participating in ExCo decision-making. The Risk function operates under a Risk Charter that defines its scope and mandate.

3rd Line of Defence (3LoD): comprises Internal Audit. The Internal Audit function provides independent assurance to the Board and shareholders over the effectiveness of governance and risk management and control in both the first and second lines of defence. Internal Audit is independent of both the first and second lines, with direct access to the CEO and the Board through reporting directly to the Chair of Audit Committee. The Board and BAC is satisfied that the Internal Audit function had the appropriate resources during the year.

Financial reporting internal controls and governance process

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

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

Risk Management Framework and Risk Review

Risk Management

Approach

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

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

- investment in hiring additional staff and implementing new systems and processes to enhance controls in financial crime, cyber-security, and information security
- a climate risk management programme which has developed new risk assessment methodologies and policies
- an operational resilience programme which has set Impact Tolerances for our Important Business Services, mapped the services, and is enhancing all back-up and contingency arrangements

Culture

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

Risk Appetite framework

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

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

The high-level Enterprise Risk Appetite has been articulated in seven categories: Treasury & Capital, Credit, Conduct (including Regulatory and Compliance), Reputational, Strategic, Operational, and Climate. This is subdivided further into risk appetite dimensions and with 88 Risk Appetite monitoring metrics set. The Risk Appetite Statement ('RAS') is carried through into OakNorth Bank's suite of Policies, and from the Policies into the Procedures (Standard Operating Procedures or 'SOPs') used by the Bank's staff.

Risk Management Framework (RMF)

The Bank's enterprise-wide Risk Management Framework as agreed by the Board is set in compliance with relevant legislation including the PRA and FCA Handbooks, EBA standards, SYSC, GENPRU, BIPRU and CRDIV, BCOBS, MLD5 and codes of conduct such as COCON, the Combined Code on Corporate Governance, and the Lending Code, and designed to ensure that the key risks facing OakNorth Bank are identified, measured, monitored and managed, and that appropriate policies, procedures and controls are established such that each risk is mitigated to an acceptable degree.

This framework is subject to constant re-evaluation to ensure that it meets the challenges of the markets in which the Bank operates, including regulatory standards, industry best practices and emerging issues.

Through delegated authority from the Board, the Board Risk & Compliance Committee, Board Credit Committee, and Board Audit Committee provide overall supervision and assurance of the RMF, with independent oversight lines for the CFO, CRO, Head of Credit Risk and Head of Internal Audit respectively to support and to protect their independence. Roles and responsibilities are laid out in the Firm Management Responsibilities Map (FMRM).

Risk policies and controls

Detailed policies and frameworks approved by the Board and Board committees define the governance framework that ensures the Bank's activities are consistent with the risk appetite approved by the Board. These policies cover all areas including (but not limited to): Business Planning and Stress Testing, Market Risk Management (including liquidity and interest rate risk management), Credit Risk Management, Compliance, Code of Conduct, Conduct and Customer Experience, prevention of Financial Crime, Fraud and Anti-Money Laundering, Operational Risk and Data Protection.

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

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

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

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

Risk Review

Top risks and Emerging Risks

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

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

Key themes in the Top Risks analysis in 2021 were:

Top Risk Description	Risk mitigation
The COVID-19 crisis A risk facing all banks that the COVID-19 crisis leads to credit losses or operational losses. This risk is lower compared to previous year.	• The Bank successfully implemented its contingency plans and has been operating with most employees working from home with no interruption in service to customers. OakNorth Bank has complied with all government guidance and best practice and been able to provide a fully sustainable service to customers whilst taking care of employees' health. • The Bank has participated in the CBILs, CLBILs and RLS programmes and is supporting its customers through the crisis. • The Bank has undertaken portfolio stress tests in line with Regulatory guidance and its own detailed sectoral stress tests and incorporated the impact in the capital planning exercise.
Credit risk A generic risk which features in the Top Risks given the high growth achieved in the loan book. OakNorth Bank has incurred zero write-offs in the loan book in 2021 through use of advanced analytics and controls and effective portfolio management. This risk is lower compared to previous year.	• OakNorth Bank has set detailed, prudent guidelines and policies for lending with guidelines for key areas such as Debt Service Cover and Loan to Value, and with credit risk appetite limits set for matters such as loan book average probability of default, loss given default, sectoral and single name concentration. • Credits are analysed by experienced credit risk professionals with support from the advanced credit analytics provided by OakNorth Credit Intelligence Suite. • OakNorth Bank has robust monitoring processes run by an experienced Portfolio Monitoring team to ensure that all risks relating to individual borrowers are proactively identified. • The Board is also continually engaged in review of the loan book to ensure that it is performing as expected and risks are within defined limits.
Cyber security A generic risk which features in the Top Risks because the attacks on the financial sector never cease. This risk is higher compared to previous year.	• OakNorth Bank employs a cloud-based IT platform running on AWS. Advanced cyber risk defence mitigation measures include next generation firewalls, a secure VPN, 24/7 monitoring, data loss prevention tools and endpoint encryption, with various leading monitoring and cyber defence software tools operated by experienced professionals.
Operational resilience A generic risk. OakNorth Bank has incurred virtually nil operational losses in 2021, through proactive management. This risk is stable compared to previous year.	• The resilience of OakNorth Bank's operations is founded upon up-to-date cloud-based IT infrastructure, robust use of Standard Operating Process documents for all key processes with defined controls and responsibilities, high levels of automation and the use of strong Service Providers including AWS, Azure, Salesforce, and the Bank's sister companies ONGPL and OakNorth Credit Intelligence. • Processes and controls are constantly kept updated and checked through the on-going Risk and Controls Self-Assessment Process (RCSA). • First and second line controls and monthly testing are in place. • An Operational Resilience programme has defined Key Business Processes and has set Impact Tolerances which are monitored and have not been broken during 2021.

Top Risk Description	Risk mitigation
Financial crime A generic risk which features in the Top Risks because the attacks on the financial sector never cease. This risk is stable compared to previous year.	• OakNorth Bank does not offer transactional accounts, and hence a major area of financial crime risk does not impact the business. • Detailed processes are in place for Anti-Money Laundering, Fraud prevention, Anti-Facilitation of Tax Evasion, and Anti-Bribery and Corruption, with controls embedded in processes and systems applied by skilled staff. First line management oversight and second line assurance oversight are in place. • OakNorth Bank employs leading financial crime prevention tools including CIFAS, Comply Advantage, Experian, and World Check. • Regular enterprise-wide risk assessments are made in all areas and controls are subject to a continuous improvement programme.
Liquidity risk A generic risk which would feature as a Top Risk for all banks. This risk is stable compared to previous year.	• OakNorth Bank has set a series of forward-looking risk appetite metrics in place which are monitored daily, and which include measures around liquidity ratios (including HQLA and LCR), funding concentration and deposit maturities. • These liquidity requirements and relevant deposit market information are monitored by the ALCO. A comprehensive ILAAP assessment is performed annually. • The liquidity ratios are also tested periodically under stress testing scenarios.
Capital adequacy A generic risk which is relevant as a Top Risk for OakNorth Bank as a fast-growing bank. This risk is stable compared to previous year.	• OakNorth Bank's internal target amount of capital is set by its own assessment of the risk profile of the business, market expectations and regulatory requirements. • Critical risk appetite limits for projected capital and leverage ratios have been set on a forward-looking basis to ensure any capital raising activities are undertaken on a timely basis to continue supporting the growth of the business, monitored monthly. This ensures that capital resources are in place for forecast growth requirements. • The capital ratios are also tested periodically under stress testing scenarios. • A detailed ICAAP assessment is performed annually.
Regulatory and compliance risk A generic risk. This risk is stable compared to previous year.	• Compliance training is undertaken for all staff, and policy and processes are validated for compliance and continuously revised and updated as regulation and regulatory expectations evolve. • A Compliance Monitoring Plan (CMP) is run continuously by the second line of defence, covering all areas of the business in an on-going cycle. • Regulatory developments are actively tracked and actioned. • Product design and customer communications are carefully checked to ensure compliance.
Reputational and conduct risk A generic risk This risk is stable compared to previous year.	• OakNorth Bank is committed to putting the customer at the heart of its business model and strategy, being transparent in its dealings with its customers, and delivering good outcomes for them. • The foundation is a strong set of company values which include "Right Ambition", "Say it how it Is", "Customer delight", which align with sound Conduct principles. • We monitor customer outcomes through close attention to Net Promoter Scores and the feedback which we receive within those surveys. • Senior management runs a conduct assessment against FCA guidelines every year. • Behavioural objectives are incorporated into reward and incentives.

In addition to the above 'inherent risks', the following risks are identified as 'emerging risks' due to their increasing impact on the Bank's business model and strategy.

Emerging Risk Description	Risk mitigation
Economic environment An industry-wide risk. This risk is higher compared to previous year.	• In management's view, whilst the economy has bounced back strongly from the pandemic, there is uncertainty in 2022 as a number of government support measures unwind and there is continued disruption to supply chains, labour shortages, and rapidly mounting inflationary pressures with expectations of rising interest rates. All these affects are expected to worsen, slowing down global economic recovery as a consequence of the recent invasion of Ukraine by Russia. • The macroeconomic risks are taken fully into account in our credit policy for origination and in portfolio monitoring. Stress tests using the OakNorth FLR model assess the macroeconomic risk to different sectors on a very granular basis. We stress test for the risks of, for example, a slow recovery in revenue for the hardest-hit sectors and slowdown in the buoyant residential property market. • The Bank maintains strong levels of capital and liquidity well beyond the level needed to manage economic stress such as that described in the Bank of England's Annual Cyclical Scenario.
Climate change An industry-wide risk. This risk is stable compared to previous year.	• We are taking a pro-active approach with a programme to support initiatives in climate change management • From a risk management perspective, we have evaluated the impact of physical risks and transition risks on the Bank's portfolio and the impact is expected to be minimal. • We have already offset all our direct emissions and that of our critical suppliers and have achieved net carbon zero status. • We assess our risk as very low. We do not lend to the oil and gas sectors, and we assess that our lending exposure to real estate which might be subject to climate change risk via flood risk or energy efficiency is low.
Competition in the SME market Market developments. This risk is higher compared to previous year.	• We continue to monitor our competition and new entrants and take continuous action to maintain the advantages of our business model which have won OakNorth Bank multiple awards. • We believe that the advanced credit analytics tool developed by our sister company, OakNorth Credit Intelligence, which the Bank uses throughout the credit risk cycle, is difficult for our competitors to replicate. • We continue to adhere to strict 'credit and pricing' discipline. This approach has helped us mitigate competitive pressures and enabled us to grow the loan book whilst maintaining both our margins and portfolio quality.

The following sections provide further details on the material risks associated with the Bank's operations. The "Credit Risk" section includes enhanced disclosures as recommended by the FCA, PRA and FRC joint taskforce, which are detailed in the paper "Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures". The disclosures made herein are as deemed proportionate and appropriate for the Bank's portfolio size and complexity. We continue to endeavour to improve the quality of disclosures on an ongoing basis.

Credit Risk

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

Credit risk review

COVID-19 again continued to be the key challenge of 2021. We saw a mixed period of business performance wherein during some part of the year businesses trading reached well above pre-COVID-19 levels, while there were some periods when businesses struggled to generate sufficient revenues. We also saw businesses impacted by Brexit, Suez canal issues resulting in supply shortages in the building trade in particular and rising costs. Government support has helped some of these businesses to be able to maintain strong cash positions. House prices have been stable or increasing. We have seen unprecedented level of loan redemptions as borrowers complete development schemes ahead of plan or make use of high quantum of liquidity available in the market to refinance their loans.

Against the above backdrop, we are encouraged that the overall credit quality of the Bank's loan book has remained stable as we continued to grow. We maintained low average Loan To Value (LTV) across our loan book at 52% (2020: 54%) and 97% (2020: 96%) of our book continues to be collateralised.

Staging distribution of loans improved with loans in Stages 2 and 3 at 4% of the book as at 31 December 2021, down from 7% at 31 December 2020. During the year, Stage 3 balances reduced materially by £52.0 million primarily through redemptions, offset partially by increase of £14.7 million due to 2 new loans moving from Stage 2 to Stage 3. Stage 2 balances reduced by £13.0 million in the same period. Stage 1 loan balances grew by £440.0 million due to net new lending.

ECL allowance reduced by £3.7 million. This was consistent with the improvement in the forward economic outlook versus the previous year wherein there was significant volatility and uncertainty in the macroeconomic forecasts. Stage 1 ECL allowances reduced primarily due to improvement in macroeconomic forecasts. Stage 2 ECL allowances increased due to higher ECL requirement on loans that moved into Stage 2 during the year. Stage 3 ECL allowances increased due to loans that moved into Stage 3 during the year. The movement in loan book staging and the ECL allowances is detailed in **Table 1** in the "Credit Quality Classification" section.

During the year the Bank integrated the probabilistic approach of externally sourced PD and LGD data models with the FLR approach on its portfolio to compute the scenario weighted ECL allowances on the Stage 1 and Stage 2 loan book as at 31 December 2021. Specific details on the IFRS 9 provisions are detailed in subsequent sections in this report.

OakNorth Bank's approach to Credit Risk Management

During 2021, pursuant to ongoing economic challenges, the Bank focussed on ongoing stress testing of the loan book via OakNorth's proprietary Forward Look Rating (FLR) tool.

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

Climate risk is now a key area of focus, and the Bank continues to develop its approach on this. As part of the annual Internal Capital Adequacy Assessment Process (ICAAP) stress testing process, the Bank has leveraged the FLR forecasts to assess how a low-carbon policy and technological transition towards mitigating climate change could impact the loan book. The assessment concluded that there are no expected losses under any of the three Climate Biennial Exploratory Scenario (CBES) transition scenarios that include - Early action from 2021 (1.8°C risk in temperature by 2050), Late action from 2031 (1.8°C risk in temperature by 2050), and no additional action (3.3°C risk in temperature by 2050). The Bank has started to evaluate impact from transition risk as part of its origination analysis for new loans as well. The Bank has also evaluated the impact of the key physical risks for its loan book. Based on the work done during ICAAP, the Bank concluded that there are no expected losses under our current scenarios.

During the year, the Bank also strengthened and enhanced its Credit Risk Management Framework (CRMF), including concentration risk framework, ensuring the risks continued to be effectively managed as the Bank grows. The Bank has an enterprise-wide RMF, which previously included specific policies and operating procedures related to credit risk. During the year, a dedicated Credit RMF was implemented that captures all of the controls, infrastructure and risk taxonomy pertaining to credit risk, supporting the overall RMF approach. The ownership of the CRMF sits with the BCC.

Credit Risk Governance framework

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

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

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

Credit risk appetite

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

Committees and delegated authorities

Portfolio oversight and approval of lending decisions are made at the Credit Risk Management Committee (CRMC) and subsidiary credit committees as delegated by the CRMC - Medium Deals Committee (MDC) and Small Deals Committee (SDC). The delegated authority of each committee is based on a matrix of key credit risk measures including quantum, internal rating, product type, collateral, policy exception and returns. Higher risk deals based on single name exposure (>£50m within policy and >£35m for outside policy) are also reviewed and challenged by the Board Credit Committee (BCC).

Credit risk management and monitoring

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

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

Our in-house monitoring and surveying team monitor property development loans.

Credit risk rating

Credit rating of the loan book is assessed based on assessment of Probability of Default (PD). The Bank currently uses an industry standard model to calibrate the PD score for each loan. Due to its limited trading history and no realised losses till date, the Bank currently does not yet have adequate default data to calibrate an internal assessment of probability of default (PD) and loss given default (LGD).

The PD scores obtained are integrated with the risk pricing of loans at origination and in the measurement of expected credit loss (ECL) provisions. The Bank has set risk appetite limits to monitor the PD and LGD distribution of the loan book. However, the approach for use of the external PD scores for the purposes of risk reporting and risk management is significantly evolving.

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

Credit quality classification

(Audited)

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

The Bank's Watchlist triggers are aligned with the IFRS 9 Stage 2 category of significant increase in credit risk (SICR). For Stage 3, the Bank assesses whether there are objective impairment triggers, which include significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, breach of contract, or any other factors as the CRMC deems relevant which may result in the borrower unlikely to pay. These include IFRS 9 backstop triggers of 30 days and 90 days past due (DPD) for Stage 2 and Stage 3 respectively. EWS and Intensive monitoring cases are part of IFRS 9 Stage 1 classification.

Each exposure is assessed and monitored individually. The Bank does not apply a general portfolio level approach to apply staging changes to its loan book. The criteria used to trigger a risk classification/staging review are monitored and reviewed periodically by CRMC. The Head of Portfolio monitoring or Senior Director, Workout & Recoveries recommends higher risk loan (as defined under our CIFD policy) accounts to be added to intensive monitoring for any increased monitoring and to Watchlist/ Stage 2 or Stage 3, as appropriate, to the CRMC. The CRMC approves the final staging. Transfer back from Stage 3/ Stage 2 to Stage 1 is done only when the exposure falls back within standard/normal credit metrics and lending policy appetite and only when the exposure starts performing for a period of time (minimum three months of standard trading) as determined by the CRMC.

Staging classification of loan book: The classification of the loan book across different IFRS 9 stages and the corresponding expected credit loss charge allowance is provided in Table 1. Please see note 1.8 in Notes to Accounts for accounting policy guidelines on staging.

Please see note 1.7 in Notes to Accounts for accounting policy guidelines on loan write-offs.

COVID-19 Business support measures

(Audited)

Since 2020 the Bank has continued its efforts to support loan clients and the wider economy. In 2020 the Bank partnered with the British Business Bank (BBB) to provide loans under Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS). Both these schemes concluded in 2021 and a new scheme - Recovery Loan Scheme (RLS) was launched. The Bank continues to partner with the BBB to offer loans under the RLS scheme. The performance of the loans is monitored in line with the covenants set at the time of lending. The Bank has also agreed COVID-19 payment deferrals with some of its borrowers. All measures are agreed at an individual borrower level, on a case-by-case basis. These loans continued to be monitored as part of the Bank's EWS or IM categories, as applied on a case-by-case basis.

Borrowers that have been impacted due to COVID-19 and have availed financing under the aforesaid government supported loan schemes or requested payment deferrals - are not subject to automatic stage changes to Stage 2 or Stage 3. These loans are assessed individually if the temporary support measures enable the borrower to revert to standard credit risk metrics over a certain period of time and that there is no significant increase in credit risk. In-life monitoring and staging of the loans is as per the same policies and procedures as detailed in the preceding sections.

Deferred payment arrangements: During the year, deferred payment arrangements were agreed with 4 clients for £1.5 million of which all resumed full payment or repaid the full loan. There were no deferred payments outstanding as at 31 December 2021 (2020: 32 clients with total deferred payments of £4.6 million and outstanding deferred payments of £2.4 million).

Forbearance

(Audited)

Central to OakNorth Bank's approach is trying to assist the customer to resolve their financial difficulties and return to financial health as quickly as possible. As part of its customers in financial difficulty policies and procedures, the Bank may undertake forbearance measures in order to ensure better outcomes for both the customer and the Bank. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments and may include payments or covenant related forbearance.

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

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

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

Please see note 1.7 in Notes to Accounts for accounting policy guidelines on loan modifications.

Credit risk mitigation

(Audited)

OakNorth Bank seeks to mitigate credit risk through, inter alia, eligible collateral. The CRMF details the eligible collateral that the Bank may accept for risk mitigation purposes. This includes but is not, limited to, debenture/ charge on fixed and floating assets, charge on freehold land or property, guarantees (personal, corporate), and cash reserves/ deposits. The Bank has a policy guidance on the valuation conditions and methods. OakNorth Bank also has a policy in relation to the external valuation firms/ quantity surveyors who can be added to the Bank's valuation panel.

Any review of collateral is done in line with the scheduled (minimum annual) review for the credit and frequency as specific to the security type, as applicable. The Bank refreshes independent valuations minimum every 3 years and any exceptions to this policy or waivers granted are specifically approved by the Head of Credit Risk.

For the purposes of the provisioning per the enhanced PD and LGD framework, we also continue to update the values based on relevant indices.

Loan book collateralisation: As of 31 December 2021, 97% of OakNorth Bank's loan facilities were collateralised by security comprising of fixed assets (including property) and charges/debentures on underlying portfolio of assets (primarily property) (2020: 96%). These exclude any charges on floating assets and guarantees not supported by charge on fixed assets.

Weighted average LTV of the loan book: The weighted average LTV of the book collateralised by property was 52% (2020: 54%).

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

(Audited)

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

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

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

Details of maximum exposure to credit risk on the loan book are provided in Table 1. Please see note 1.8 in Notes to Accounts for accounting policy guidelines on measurement of exposure at default (EAD).

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

(Audited)

The Bank does not actively trade in financial instruments and has no derivatives exposures. The Bank holds UK GILTS for the purposes of liquidity management only.

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

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

Credit risk concentration

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

In order to mitigate this risk, the Bank has a number of controls measures that include setting and monitoring of concentration limits on single name and across a number of granular sectors and subsectors and product types and stress testing done as part of ICAAP. During 2021, the Bank has significantly evolved and enhanced its approach to concentration limit setting and continues to develop its approach to be forward-looking and dynamic.

Concentration risk disclosures: The Bank discloses its Sectoral concentration and Geographic concentration in the Pillar 3 disclosures, that are published annually on the Bank's website.

ECL allowance assessment and impairment methodology

(Audited)

Please see note 1.8 in Notes to Accounts for accounting policy guidelines on impairment.

Please see page 59 to 63 for details on ECL measurement uncertainty and sensitivity analysis.

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

(Audited)

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

	On balance sheet-Loans and advances at amortised cost	Allowance for ECL	Net carrying amount	% ECL allowance of on-balance sheet exposures	Off- balance sheet - Undrawn Loan Commitments	Allowance for ECL	Net carrying amount
As at 31 December 2020	**£'000**	**£'000**	**£'000**	**%**	**£'000**	**£'000**	**£'000**
Stage 1	2,342,432	19,928	2,322,504	0.9%	149,711	257	149,454
Stage 2	82,112	1,432	80,680	1.7%	2,372	30	2,342
Stage 3	100,579	11,514	89,065	11.4%	2,302	-	2,302
Total	**2,525,123**	**32,874**	**2,492,249**	**1.3%**	**154,385**	**287**	**154,098**

Uncommitted loan facilities: As at 31 December 2021, the Bank had £951.4 million of uncommitted facilities (2020: £865.4 million). These facilities are unconditionally cancellable.

The Bank did not have any off-balance sheet exposures on financial and other guarantees (2020: Nil).

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

(Audited)

	Maximum exposure	Allowance for ECL	Net carrying amount	Maximum exposure	Allowance for ECL	Net carrying amount
	As at 31 December 2021			As at 31 December 2020		
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	446,374	-	446,374	469,459	-	469,459
Loans and advances to banks	30,019	-	30,019	11,532	-	11,532
Debt Securities	191,849	-	191,849	131,053	-	131,053
Total on-balance sheet	**668,242**	**-**	**668,242**	**612,044**	**-**	**612,044**
Total off-balance sheet- financial and other guarantees	**-**	**-**	**-**	-	-	-

There are no offsets or netting arrangements in place for the above exposures. The Bank did not have any other off-balance sheet exposures (2020: Nil).

Table 3: Movement in gross exposures and impairment allowance including provisions for loan commitments

(Audited)

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

Stage 2 comments: Of the total outstanding loans in Stage 2 as at 31 December 2021, £0.4 million continued to be 30 days past due. All other loans had been previously subject to renegotiation/ forbearance.

Stage 3 comments: Of the total outstanding loans in Stage 3 as at 31 December 2021, all, except two loans that were added to Stage 3 during the year, had been previously subject to renegotiation/ forbearance. One addition to stage 3 during the year was due to Bank's quantitative and qualitative impairment assessment and one due to breach of 90 DPD criteria.

COVID overlay provisions: During the year , the opening COVID overlay provisions were reallocated to modelled provisions and there was a net release to the P&L for £3.8 million. The current year ECL Post Model Adjustments of £1.4 million are modelled across Stage 1 and 2 ECL allowances and not reported as overlays.

	Nominal exposure (off-balance sheet)				Allowance for ECL			
As at 31 December 2021	**Stage 1 (£'000)**	**Stage 2 (£'000)**	**Stage 3 (£'000)**	**Total (£'000)**	**Stage 1 (£'000)**	**Stage 2 (£'000)**	**Stage 3 (£'000)**	**Total (£'000)**
As at 1 January 2021	149,711	2,372	2,302	154,385	257	30	-	287
TRANSFERS BETWEEN STAGES DURING THE YEAR								
– Transfers to Stage 1	-	-	-	-	-	-	-	-
– Transfers to Stage 2	-	-	-	-	-	-	-	-
– Transfers to Stage 3	-	-	-	-	-	-	-	-
Total transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net increase/ (reduction) in ECL arising from transfer of stage	-	-	-	-	-	-	-	-
Net additional lending/ repayment	231,482	(2,372)	(1,393)	227,717	199	(30)	-	169
As at 31 December 2021	**381,193**	**-**	**909**	**382,102**	**456**	**-**	**-**	**456**

	Carrying value (on balance sheet)				Allowance for ECL			
As at 31 December 2020	**Stage 1 (£'000)**	**Stage 2 (£'000)**	**Stage 3 (£'000)**	**Total (£'000)**	**Stage 1 (£'000)**	**Stage 2 (£'000)**	**Stage 3 (£'000)**	**Total (£'000)**
As at 1 January 2020	1,968,550	65,317	40,426	2,074,293	7,831	1,581	1,896	11,308
TRANSFERS BETWEEN STAGES DURING THE YEAR								
– Transfers to Stage 1	1,457	(1,457)	-	-	28	(28)	-	-
– Transfers to Stage 2	(64,977)	64,977	-	-	(202)	202	-	-
– Transfers to Stage 3	(26,114)	(46,964)	73,078	-	(159)	(1,032)	1,191	-
Total transfers	**(89,634)**	**16,556**	**73,078**	**-**	**(333)**	**(858)**	**1,191**	**-**
Net (reduction)/ increase in ECL arising from transfer of stage	-	-	-	-	(28)	948	44	964
Net additional lending/ repayment and change in ECL assessment	463,516	239	(12,925)	450,830	1,532	(239)	1,884	3,177
Addition of COVID overlay provisions	-	-	-	-	10,926	-	6,499	17,425
As at 31 December 2020	**2,342,432**	**82,112**	**100,579**	**2,525,123**	**19,928**	**1,432**	**11,514**	**32,874**

As at 31 December 2020	Nominal exposure (off-balance sheet) Stage 1 (£'000)	Stage 2 (£'000)	Stage 3 (£'000)	Total (£'000)	Allowance for ECL Stage 1 (£'000)	Stage 2 (£'000)	Stage 3 (£'000)	Total (£'000)
As at 1 January 2020	116,695	-	-	116,695	265	-	-	265
TRANSFERS BETWEEN STAGES DURING THE YEAR								
– Transfers to Stage 1	-	-	-	-	-	-	-	-
– Transfers to Stage 2	(4,287)	4,287	-	-	(8)	8	-	-
– Transfers to Stage 3	-	-	-	-	-	-	-	-
Total transfers	**(4,287)**	**4,287**	**-**	**-**	**(8)**	**8**	**-**	**-**
Net increase/ (reduction) in ECL arising from transfer of stage	-	-	-	-	-	22	-	22
Net additional lending/ repayment	37,303	(1,915)	2,302	37,690	-	-	-	-
As at 31 December 2020	**149,711**	**2,372**	**2,302**	**154,385**	**257**	**30**	**-**	**287**

Measurement uncertainty and sensitivity analysis of ECL estimates

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

Macroeconomic scenario selection and scenario probabilities

(Audited)

The Bank reviewed macro scenarios provided by a number of different forecasters to understand the range of economic assessments and judge which were best suited to the Bank's purposes for both base and stress test forecasting.

Four scenarios were considered – baseline, upside and two downside scenarios, which have been detailed in section "Description of economic scenarios" on page 61. In management's and the Board's view, whilst we believe as the economy gradually and cautiously emerges from the worst impacts of the pandemic, there is continued uncertainty in the outcomes as we see a number of government measures unwind, challenges emerging from new strains of virus, continued disruption to supply chains, labour shortages, mounting inflationary pressures and structural changes to the regional and UK economy. Further, the recent geo-political event of Russia's invasion of Ukraine has added uncertainty to the speed of global economic recovery.

Given the outlook and the range of uncertainties, the baseline and downside scenarios were considered relevant and appropriate for the IFRS 9 ECL process. The Bank has not given any weightage to the upside scenario as the macroeconomic variables were extremely optimistic versus the market outlook.

The allocation of weights aligns with the Bank's view of the deviations and likelihood of uncertainties in the economic outlook. The approach captures both a range of forward-looking forecasts and the material non-linearities in the ECL calculation. The following probability weightings have been assigned to the scenarios – Baseline- 60%, Downside 1 – 35% and Downside 2- 5% (2020: For real estate backed book- Baseline - 60%, downside- 40% ; for trading book – Baseline – 60%, downside 1 – 30% and downside 2- 10%). The baseline scenario reflects a balanced view of the performance of the economy, while the downside scenarios reflect plausible stresses. The consideration of the Downside 2 scenario is aligned with the Bank's stress testing approach for the purposes of internal capital planning. Management judgement is applied on selection of scenario weightings, and they reflect management's view of scenario risks and likelihood. Sensitivity analysis of different combinations of scenario weightings were considered and there were no material deviations in ECL outcomes observed to the other plausible combinations considered.

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

Table 4: Key macroeconomic variables forecast

(Audited)

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

Economic uncertainties

There are multiple areas of uncertainties in the macroeconomic scenarios and assumptions, that may need to be dynamically updated as a number of geo-political events unfold and government actions and any other policy measures are rolled out.

As at the date of publication of the Bank's Annual Financial Statements, Russia had commenced invasion of Ukraine. This event is expected to further impact the global economy with higher inflation, increased disruptions to supply chain, and slower economic recovery.

In the UK, the BOE base rate had already previously been increased to 50 bps to address the increasing inflationary pressures. The UK Government has also announced removal of a number of restrictions previously put in place to combat spread of new variants of the COVID-19 virus, which may accelerate or improve baseline growth forecasts.

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

Description of economic scenarios

(Audited)

Baseline scenario key assumptions/risks

Existing vaccines are effective against the new variants, and the death rate remains low compared with the prior periods. The UK government is able to run an effective booster vaccination programme for vulnerable segments of the population. The unemployment rate spikes in early 2022 as a result of the end of the Coronavirus Job Retention Scheme, which was extended to the end of September, and the recovery remains fragile. Inflation starts to accelerate because of the reopening of the economy, the increase in demand, and the energy crisis. The EU and the UK sign a new financial services agreement, and the UK continues operating in European markets.

Downside 1 scenario key assumptions/risks

The pandemic lingers for a prolonged period, vaccine take-up is lower than expected and vaccines prove less effective against new variants of the virus. As a result, restrictions stay in place for long periods of time, as imperfect compliance makes them ineffective, curbing economic activity and resulting in a further GDP contraction at the end of the year. Rising numbers of cases and pessimism about the vaccine rollout erode consumer confidence and spending. Spending on air travel, retail and hotels remains significantly constrained and the EU and the UK do not agree to a trade deal on services. BoE reduces the interest rate at 10 bps for a prolonged period. Shrinking real incomes lead to increases in household arrears and increase in defaults. The housing market quickly relapses and real estate transactions grind to a halt and house prices undergo a significant correction.

Downside 2 scenario key assumptions/risks

A new, vaccine-resistant strain of COVID-19 emerges, leading to a large rise in cases and hospitalizations. Governments respond by reimposing lockdowns, which are less strict than previous lockdowns but are long-lasting partly because of imperfect compliance from an already-weary population. Fear of contagion keeps households and businesses from buying goods and services, especially air travel, retail and hotel stays. The large-scale, long-term shutdowns cause massive bankruptcies and layoffs, leading to additional demand shocks during 2022. The EU and the UK do not agree to a trade deal on services.

Approach to modelling macroeconomic impacts to compute ECL

(Audited)

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

Use of FLR in ECL assessment

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

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

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

PD and LGD

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

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

Modelling limitations in the ECL process and Post-model adjustments (PMAs)

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

In order to ensure that the output ECL from the external modelling tool appropriately reflects the impact of the intended FLR borrower financial metrics as well as the effect of changes to the underlying PD curves in the different scenarios, the Bank has computed and applied PMAs. PMAs have also been added to address some of the input data quality issues. The total PMA applied is £1.4 million as at 31 December 2021. PMAs are monitored, reviewed, and challenged by the RAC and where applicable, considered in future enhancements and developments of the frameworks and models used in the IFRS 9 provisioning process.

Sensitivity analysis of ECL under different scenarios

Table 5: Key scenario sensitivities

Sensitivity	2021 (£million)
Reported ECL	29.0
INCREASE/ (DECREASE)	
100% Baseline scenario	(2.0)
100% Downside 1 scenario	3.5
100% Downside 2 scenario	6.7

These scenarios do not assume any staging changes.

(2020: Assigning a 100% weight to the most severe scenarios resulted in an increase in provisions by £3 million, while assigning a 100% weight to the baseline scenario resulted in reduction of provisions by £2 million).

Capital management

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

The Bank uses the Standardised Approach for computing capital requirements for credit risk and Basic Indicator Approach for operational risk. The Bank's Tier 1 capital resources include ordinary share capital, FVOCI revaluation reserve, Employee Share Scheme valuation reserves and retained earnings, reduced by the intangible assets. Tier 2 capital includes Subordinated debt issued by the Bank. More information is provided in OakNorth Bank's Pillar 3 disclosures available in a separate document.

The Bank has complied with all regulatory capital requirements throughout the year and continues to maintain surplus over the requirements.

Interest rate risk

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

- Gap Risk: risk arising from repricing mismatch of assets and liabilities. The majority of the Bank'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., BoE and SONIA)
- Option or Prepayment Risk: borrowers redeeming fixed rate products when interest rates change, or prepaying loans for other reasons

The Bank's interest rate risk management policy is detailed in the Market Risk Management policy, which defines, measures, sets hedging policy statements, and details the governance process around management and reporting. The Treasurer is responsible for the day-to-day management of interest rate risk, reporting to ALCO. Monthly ALCO updates include several risk appetite and monitoring metrics including: NPV sensitivity to 200bps shift in the yield curve, application of the prescribed EBA shock scenarios, an Earning at Risk (EaR) assessment and the basis risk exposure report.

The primary assessment of its interest rate risk exposure is its monthly modified FSA017 GAP assessment. This assessment is built off the regulatory FSA017 assessment to capture the duration and relevant optionality interest rate risks inherent in OakNorth Bank's balance sheet This is then amended to then reflect:

- Greater granularity.
- The impact of the interest rate floors OakNorth has in place, which in effect can lead to loans repricing in line with fixed rate products at maturity when the floor is in effect for the duration of the period.
- The impact of higher early repayments when interest rate floors have come into effect in the rates down shock.
- Inclusion of a zero-lower bound in line with the EBA's guidance.

In addition to this assessment, the Bank also conducts a monthly assessment against its risk appetite for the impact of 25bps shock on 12m Net interest income (NII) which is reported to ALCO and ExCo on a monthly basis. A summary of these assessments as at end-December 2021 is shown below, with all metrics within the Bank's stated risk appetites:

	2021 (£ million)	2020 (£ million)
NPV Sensitivity to +2% shift (including base/ LIBOR rate floors)	2.5	20.9
NPV Sensitivity to -2% shift (including base/ LIBOR rate floors)	59.8	35.5

The shift in outputs between end 2021 and end 2020 is predominantly driven by enhancements in the Bank's assessment methodology over this period.

The worst impact of 12m NII at risk at risk to +/- 25bps shock is +£1.1 million as of 31 December 2021 (vs -£0.6 million as of 31 December 2020).

Liquidity risk

Liquidity risk is defined as the risk that OakNorth Bank is unable to meet its contractual financial obligations as they fall due. OakNorth Bank considers its funding and liquidity risks as key risks that could challenge its survival in a stressed environment and limit its growth aspirations and profitability normal conditions. The main liquidity risk faced by the Bank is that of a retail deposit funding stress such that retail deposits may be withdrawn by customers at their earliest contractual maturity.

The Bank has a prudent approach to managing liquidity ensuring it holds sufficient high quality liquid assets and liquidity buffers to meet its financial commitments over an extended period of time in line with the Board's risk appetite and the PRA requirements, both of which are documented in the firm's ILAAP.

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

(Audited)

As at 31 December 2021, OakNorth Bank held unencumbered high-quality liquid assets of £486.4 million (2020: £469.5 million). Throughout the year, the Bank complied with all the regulatory liquidity measures and continued to maintain surplus over the requirements. Average Liquidity Coverage Ratio (LCR) during the year was 335% (2020: 338%).

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

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

The Bank has a Business Continuity & Crisis Management Plan (BCP) in place that establishes systems of prevention and recovery to deal with potential threats. A Business Impact Analysis (BIA) is conducted annually to identify and quantify the operational and financial impact from foreseen crisis events. The BIA establishes the criticality of partners, applications, infrastructure, people assets, business processes, operational activities, and their respective interdependencies, defines the recovery objectives i.e., Recovery Time Objectives and Recovery Point Objectives, and links to planning for contingencies and back-up arrangements. The BCP was triggered during the COVID-19 crisis and was proven in action as services were maintained without interruption throughout.

During 2021 the Bank has run an Operational Resilience programme to focus on continuous improvement and, in accordance with PRA and FCA expectations, the Bank has defined its Important Business Services and Impact Tolerances, which have all been met throughout the year. The services are mapped, and controls and contingencies are fully planned. A programme of testing and drills ensures continuous improvement.

Conduct, compliance and regulatory risks

Conduct Risk is defined as the risk of treating customers unfairly and delivering poor outcomes that lead to customer detriment or undermine market integrity. It also includes the risk of legal /regulatory sanctions or material financial loss from a failure to comply with applicable laws, regulation, rules, standards, and codes of conduct. It is the risk of failing to understand and comply with relevant laws and regulatory requirements and regulatory expectations.

Compliance risk is the threat posed to ON's financial, organisational, or reputational standing resulting from the risk of legal /regulatory sanctions or material financial loss from a failure to comply with applicable laws, regulation, rules, standards, and codes of conduct. The risk also relates to inadvertently facilitating financial crime.

Reputational Risk is defined as the risk to ON's public image from a failure to meet stakeholders' expectations in relation to performance, conduct or business profile. Stakeholders include customers, investors, employees, suppliers, government, regulators, and other group companies.

OakNorth Bank has no appetite for any breach of regulation, code, or standard of conduct. OakNorth Bank uses a "customer outcomes" focussed approach to assess conduct performance. Staff are provided with a Compliance Manual to provide instructions on policies and procedures for compliance, and appropriate training. The manual is supported by an annual employee declaration and a comprehensive suite of regulatory training modules and advice.

The Bank has an independent and specialist second line Compliance function which operates under a Compliance Charter, providing advice and guidance and a continuous programme of assurance through a structured Compliance Monitoring Plan, structured on a risk-based approach. The Charter defines the guidance, roles, and responsibilities which the function has in supporting the Bank to remain compliant with applicable laws, rules, and regulations. Appropriate MI on conduct and compliance is reported monthly to senior management. This area of risk is overseen by the ERC and the Board Risk & Compliance Committee.

Climate Risk

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

Details on our climate risk management programs and initiatives is provided in the "Environment, Social and Governance review" on page 26.

Details on impact assessment on the Bank's portfolio are discussed in "OakNorth Bank's approach to Credit Risk Management" on page 49.

Cyber Risk

Identifying, controlling, and measuring the risk of cyber-attacks remains a key priority for OakNorth Bank. At all levels of the organisation, measures are taken to ensure that the likelihood and potential impact of a cyber-attack to maintain the confidentiality, integrity, and availability of our information and systems. A proactive, adaptive, and rigorous cyber risk management programme is a critical constituent of the RMF.

OakNorth Bank has good inherent IT resiliency, with matured architecture design and multiple cloud services including Amazon Web Services, Salesforce, Microsoft Azure & O365. The Bank employs a range of defence measures at a number of levels, including firewalls, a VPN, Data Encryption, and various leading monitoring and cyber defence software tools. 24/7 monitoring is in place via a Security Operations Centre, and external independent Penetration Testing is undertaken.

A specialist IT team in the first line headed by the Bank's CISO is supported by a specialist second line assurance function providing ongoing review.

The Bank leverages a structured cyber risk management framework based on principles outlined in NIST, serving to link risk management processes with organisation-level governance with operational actions.

Cyber Resilience Assessments

Regular cyber security maturity assessments are made against the CQUEST self-assessment co-developed by the PRA and FCA, and the NIST framework. The first and second line of defence re-assess the status and maturity of the cyber defences of the bank using these frameworks on a half-yearly basis, and develop continuous improvement plans against evolving threats.

The risk assessments are conducted by identifying threat sources and vulnerabilities, determining the likelihood of risk occurrence and magnitude of impact, and designing a programme of continuous improvement of defences.

Directors' Report

Executive Directors

RISHI KHOSLA

Co-founder &
Chief Executive Officer
Appointed: Dec 2013

JOEL PERLMAN

Co-founder &
Senior Managing Director
Appointed: Dec 2013

RAJESH GUPTA

Executive Director
Chief Financial Officer
Appointed: Feb 2021

Non-Executive Directors

CYRUS ARDALAN

Chairman
Chair of the Board Remuneration & Nomination Committee
Appointed: Jun 2015

ROBERT BURGESS

Non-Executive Director
Chair of the Board Credit Committee,
Chair of the Board Risk & Compliance Committee
Appointed: Jan 2015

CAROLYN SCHUETZ

Non-Executive Director
Chair of the Board Audit Committee
Appointed: Jun 2021

EDWARD BARRY BERK

Non-Executive Director
Appointed: May 2017

Directors' Report

The Directors present their annual report on the affairs of OakNorth Bank Plc (registered number: 08595042), together with the audited financial statements, for the year ended 31 December 2021.

Going concern

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

- The Bank continues to maintain surplus over the minimum regulatory capital and liquidity requirements. Additionally, the credit and operational performance measures continue to be well within the risk appetite metrics limits. All the metrics are monitored via monthly and bi-monthly MI reports reviewed by the Board.
- During the year, the Board approved the Bank's 5-year business plan and financial forecasts with consideration to the Risk Management Framework and Risk Appetite. The stress testing and capital and liquidity planning performed as a part of the Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) which were approved by the Board and submitted to the PRA, indicate adequate capital and liquidity buffers and ability to effectively manage stresses and resources.
- The ECL assessment based on the combination of 'Forward Look Rating (FLR)' borrower fundamentals and PD and LGD framework, the macroeconomic scenarios and scenario weightings and the addition of Post Model Adjustments (PMAs), provide the Board with the comfort that the credit risks have been appropriately assessed and quantified.
- The Bank's staff have been able to effectively continue working largely remotely and the Bank's IT and cyber security infrastructure proved to be robust. No material disruptions or operational risk events or service disruptions were noted during the year.

Financial Risk Management

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

Stakeholder engagement

The disclosures required in respect of the Company's engagement with its key stakeholders including the investors, customers, suppliers, regulators, wider community, and the environment - are provided in the section "Board engagement and consideration of stakeholder interests in the board's decision-making processes- Section 172 statement" of the Strategic report on page 22.

Streamlined Energy and Carbon Reporting (SECR)

The SECR disclosures are provided in the "Environmental, Social and Governance review" on page 26.

Dividends

The Directors do not recommend a dividend during the year.

Directors' indemnities

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

Political contributions

No political contributions were made during the year.

Post balance sheet events

Please refer to note 29 in the Notes to the financial statements.

Future developments

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

Independent Auditors

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

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

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

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

Approved by the Board and signed on its behalf by:

Rishi Khosla
CEO & Co-Founder
17 March 2022

Financial Statements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Statement of Directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are 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 also 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.

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

Rishi Khosla
CEO & Co-Founder
17 March 2022

Independent auditors' report to the directors of OakNorth Bank Plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 December 2021; the profit and loss statement, the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual report.
- The scope of our audit and the nature, timing and extent of our audit procedures were determined with consideration of our risk assessment, the financial significance of account balances, and other qualitative factors.
- Audit procedures were performed over all account balances and disclosures which are considered material and/or represent a risk of material misstatement to the annual report.

Key audit matters

- Impairment of loans and advances to customers

Materiality

- Overall materiality: £6,727,000 (2020: £3,879,000) based on 5% of profit before tax.
- Performance materiality: £5,045,000 (2020: £2,909,000).

The scope of our audit

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

Key audit matters

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

This is not a complete list of all risks identified by our audit.

Impact of Covid-19, which was a key audit matter last year, is no longer included because our consideration of the pandemic in the current year is adequately captured by the 'Impairment of loans and advances to customers' key audit matter and it does not represent an area of increased audit focus in its own right. Otherwise, the key audit matter below is consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers An impairment provision of £29.01m (2020: £32.87m) was recognised on loans and advances to customers in the year. Under IFRS 9, impairment losses are recognised on an 'expected credit loss' (ECL) basis which requires the use of forward looking information, reflecting management's view of potential future economic scenarios. The standard also requires management to make judgements regarding when a loan has experienced a 'significant increase in credit risk'. The ECL for Stage 1 and Stage 2 loans is estimated by impairment models which use judgemental assumptions regarding expected customer default rates and loss given default. In the current year, Forward Looking Rating (FLR) model outputs are used in the models, replacing a Covid-19 model overlay first included in the 2020 ECL. The FLR model uses statistical methodologies to produce forecast curves which are based on applying linear regression and qualitative adjustments to macroeconomic scenarios. These forecast curves are applied on borrower financial output metrics which are critical inputs into the Probability of Default (PD) and Loss Given Default (LGD) models. Using the FLR approach has increased the use of judgemental adjustments to modelled ECL in the current year. Our work focused on the appropriateness of methodologies and assumptions used in the PD, LGD and FLR models. Individual impairment assessments are performed for credit impaired loans and advances (which are categorised as Stage 3 loans). Our focus was on the principal assumptions applied by management such as the valuation of collateral, forecast cash flows and the reasonableness of the probability weighting of expected outcomes. Further information can be found on Note 1 to the annual report, which includes the directors' disclosures of the related accounting policies, judgements and estimates; and in Note 10 for detailed disclosures.	We tested the accuracy of source data for macroeconomic variables used in the FLR model and tested the completeness and accuracy of material data inputs used in the model. We involved our credit risk modelling experts to test the forecast curves in the FLR model along with assessing the linear regression and qualitative adjustments to macroeconomic variables. We assessed whether the methodology used in the FLR model is appropriate and selected a sample of loans to determine if the methodology was appropriately applied. We tested the completeness and accuracy of data used in the PD and LGD models and agreed a sample of cases to underlying documentation. We tested the accuracy of outputs from the FLR model used in the PD and LGD models. We compared management's forward-looking economic assumptions to alternative external forecasts to assess their reasonableness. The severity and magnitude of the different scenarios used within the model were compared to external stress scenarios and data from historical economic downturns to determine whether they represented sufficient downside to meet the requirements of the standard. We used this analysis to test the reasonableness of management's assigned weightings to each scenario in the ECL calculation. For a sample of individually impaired loans, we evaluated the specific circumstances of the borrower, including the latest developments (sale proceeds and property valuations), scenarios and weightings assigned for measuring the impairment provision, and whether key judgements were appropriate. This included considering the impact of possible alternative scenarios on the provision. We assessed the appropriateness of disclosures in the financial statements as part of our audit procedures and assessed them to be appropriate. Overall, based on the procedures performed and the evidence obtained, we found management's determination of impairment on loans and advances to be reasonable.

How we tailored the audit scope

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

At the planning stage we obtained an understanding of the entity and its environment, considering the company's operations, ownership and governance structures, accounting framework, selection of accounting policies and the company's objectives and strategies. We obtained an understanding of the internal control environment, including in relation to IT. Industry level factors were also considered, including applicable laws and regulations. Based on these initial planning procedures, we performed our risk assessment at the account balance and assertion level, considering the risks of material misstatement through fraud or error. The scope of our audit and the nature, timing and extent of our audit procedures were designed, planned and executed with consideration of our risk assessment, the financial significance of account balances, and other qualitative factors (e.g. history of error or misstatements). We performed audit procedures over all account balances and disclosures which we considered to be material and/or represent a risk of material misstatement to the financial statements.

Materiality

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

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

Overall company materiality	£6,727,000 (2020: £3,879,000).
How we determined it	5% of profit before tax
Rationale for benchmark applied	Profit based materiality is considered to be the most appropriate benchmark to use for the company, as the users of financial statements remain focused on the company's performance. Profit before tax is used is assessed to be the appropriate benchmark which is consistent with the materiality benchmark used in the prior year.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £5,045,000 (2020: £2,909,000) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 336,000 (2020: 193,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Assess and challenge key assumptions used by directors in their determination of the going concern of the company;
- Assess the liquidity and capital forecasts prepared by management to support the going concern assessment with stress testing performed to challenge their reasonableness;
- Corroborated legal and regulatory correspondence with audit procedures performed to ensure that there are no compliance issues which may impact the going concern of the company;
- Consider the ongoing impact of Covid-19 on the business, and whether any further risks to going concern have arisen as a result; and
- Consideration as to whether our audit procedures have identified events or conditions which may impact the going concern of the company.

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

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

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

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Review of key correspondence with and reports to regulators;
- Review of internal audit reports in so far as they related to the financial statements;
- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging significant accounting estimates and judgements made by management, in particular in relation to impairment of loans and advances to customers (see related key audit matter below); and
- Testing of journal entries which contained unusual account combinations back to corroborating evidence.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 6 September 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2018 to 31 December 2021.

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
17 March 2022

Profit and loss statement

For the year ended 31 December 2021

OakNorth Bank Plc (registered number: 08595042)

	Note	2021 (£'000)	2020 (£'000)
Interest receivable		188,540	166,433
Interest payable		(25,852)	(35,331)
Net Interest income		**162,688**	**131,102**
Fees and commission		13,502	9,014
Net interest and Fee income		**176,190**	**140,116**
Administrative expenses		(44,385)	(39,512)
Depreciation and amortisation	12, 13	(959)	(1,433)
Provision for impairment losses	10	3,694	(21,588)
Operating expenses and provisions		**(41,650)**	**(62,533)**
Profit from ordinary activities before tax		**134,540**	**77,583**
Taxation	3	(34,148)	(19,049)
Profit after tax from ordinary activities		**100,392**	**58,534**

The profit for the year derives wholly from continuing operations.

The notes on page 88 to 111 form a part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2021

OakNorth Bank Plc (registered number: 08595042)

	2021 (£'000)	2020 (£'000)
Profit after tax	**100,392**	**58,534**
Fair value changes on financial assets at FVOCI (net of tax)	245	24
Total comprehensive income for the year attributable to equity shareholders	**100,637**	**58,558**

The notes on page 88 to 111 form a part of these financial statements.

Balance Sheet

As at 31 December 2021

OakNorth Bank Plc (registered number: 08595042)

	Note	2021 (£'000)	2020 (£'000)
ASSETS			
Cash and balances at central bank	8	446,374	469,459
Loans and advances to banks	9	30,019	11,532
Loans and advances to customers	10	2,886,305	2,492,249
Debt Securities	11	191,849	131,053
Intangible assets	12	-	168
Tangible fixed assets	13	512	1,246
Deferred tax assets	3	872	870
Prepayments and accruals	14	4,915	4,174
Other assets	15	9,465	5,465
Total assets		**3,570,311**	**3,116,216**
LIABILITIES			
Customer deposits	16	2,643,603	2,313,628
Borrowings under BOE Term funding scheme	17	200,050	181,796
Subordinated debt (Tier 2)	18	49,678	49,559
Trade payables and other provisions	19	23,396	24,363
Other liabilities	20	24,266	18,193
Total liabilities		**2,940,993**	**2,587,539**
CAPITAL AND RESERVES			
Called up share capital	24	389,320	389,320
Share-based payments	5	83	79
Retained earnings	25	239,670	139,278
Other comprehensive income relating to financial assets at FVOCI		245	-
Total capital and reserves		**629,318**	**528,677**
Total liabilities and capital and reserves		**3,570,311**	**3,116,216**

The notes on page 88 to 111 form a part of these financial statements. The financial statements of OakNorth Bank Plc were approved by the Board of Directors and authorised for issue on 17 March 2022. They were signed on its behalf by:

Rishi Khosla
CEO & Co-Founder

Joel Perlman
Senior Managing Director & Co-Founder

Rajesh Gupta
CFO

Statement of changes in equity

For the year ended 31 December 2021

OakNorth Bank Plc (registered number: 08595042)

	Called up Share Capital £'000	Retained earnings[a] £'000	Financial assets at FVOCI £'000	Share-based payment £'000	Total £'000
As at 1 January 2020	**389,320**	**80,744**	**(24)**	**66**	**470,106**
Issue of share capital	-	-	-	-	-
Profit or loss for the year	-	58,534	-	-	58.534
Other comprehensive income for the year	-	-	24	-	24
Employee share-based payments	-	-	-	13	13
As at 31 December 2020	**389,320**	**139,278**	**-**	**79**	**528,677**
As at 1 January 2021	**389,320**	**139,278**	**-**	**79**	**528,677**
Issue of share capital	-	-	-	-	-
Profit or loss for the year	-	100,392	-	-	100,392
Other comprehensive income for the year	-	-	245	-	245
Employee share-based payments	-	-	-	4	4
As at 31 December 2021	**389,320**	**239,670**	**245**	**83**	**629,318**

a The retained earnings form the distributable reserves of OakNorth Bank Plc

The notes on page 88 to 111 form a part of these financial statements.

Cash flow statement

For the year ended 31 December 2021

OakNorth Bank Plc (registered number: 08595042)

	2021 (£'000)	2020 (£'000)
Profit from ordinary activities before tax	**134,540**	**77,583**
ADJUSTMENTS FOR		
Depreciation and amortisation	646	1,433
Write-off of tangible and intangible assets	313	-
Expected credit loss allowance	(3,694)	21,588
Share-based payment to employees	4	13
Net change in other assets/ liabilities	(2,050)	(3,300)
Increase in loan receivables	(390,362)	(450,852)
Increase in customer deposits	329,975	326,989
Income taxes paid	(31,850)	(17,948)
Interest received on investing cash flows	(150)	(446)
Interest paid on financing cash flows	4,237	4,475
Net cash flows generated from/ (used in) operating activities	**41,609**	**(40,465)**
Purchase of property, plant and equipment, implementation of software and intangible assets	(57)	(46)
Purchase of debt securities	(191,086)	(262,057)
Proceeds from maturity of debt securities	126,771	229,000
Interest on debt securities	4,029	7,817
Net cash flows used in investing activities	**(60,343)**	**(25,286)**
Increase in TFS borrowings	18,100	-
Interest on TFS and subordinated debt	(3,964)	(4,591)
Net cash flows generated from financing activities	**14,136**	**(4,591)**
Net increase/ (decrease) in cash and cash equivalents	**(4,598)**	**(70,342)**
Cash and cash equivalents at beginning of year	480,991	551,333
Cash and cash equivalents at end of year	**476,393**	**480,991**
RECONCILIATION TO CASH AT BANKS		
Cash and balances at central bank	446,374	469,459
Loans and advances to banks	30,019	11,532
Total	**476,393**	**480,991**

The notes on page 88 to 111 form a part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2021

1. Accounting policies

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

1.1 General information and basis of accounting

OakNorth Bank Plc (registered number: 08595042), herein referred to as 'the Bank', is incorporated in the United Kingdom under the Companies Act 2006. The nature of OakNorth's operations and its principal activities are set out in the Strategic report and Directors' report. The Bank is a Public limited Company- however the Bank's equity is not listed on an exchange. The Bank is a wholly owned subsidiary of OakNorth Holdings Limited (see note 28). The Bank has issued Subordinated Notes which are listed on Irish Stock Exchange (ISE) (see note 18).

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. Since 1 January 2019, the Bank has adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement', based on the accounting policy choice permitted under FRS 102[13].

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

1.2 Going concern

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

- the Bank's available capital and liquidity resources and surplus over the requirements- the levels of which remain sufficiently robust;
- the credit quality of the loan book and overall balance sheet. The Board reviews the monthly credit MI packs to enable review and monitoring of the performance of the loan book and portfolio metrics as measured against the risk appetite limits;
- the adequacy of ECL provisions. The Board considers the macroeconomic assumptions, scenarios and weightings applied under the enhanced PD framework, which has loss data and scenarios calibrated using third-party sources, supplemented with the granular sub-sector level downside scenarios applied on the whole loan book using OakNorth's proprietary FLR framework, as comprehensive consideration to compute the ECL provisions as at 31 December 2021;
- the Bank's business strategy and its short term (12 month) and long range (5 year) financial plan which has considered the implications of COVID-19, structural changes in the economy and climate risk. The Board undertook a review of the Bank's strategy and believes that the Bank has a robust business model to enable it to continue growing in the future;

13 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)

- the Bank's risk appetite limits. The Board reviewed and tightened a number of risk appetite metrics. The Bank's performance against the metrics across all the risk areas remained well within limits;
- the stress testing and capital and liquidity planning performed as a part of the Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP), which were approved by the Board and submitted to the PRA, indicate adequate capital and liquidity buffers and ability to effectively manage stresses and resources. A number of severe and plausible scenarios were considered as part of the stress testing process including a combination of severe idiosyncratic and macroeconomic scenarios. Capital reverse stress tests were also assessed and reviewed by the Board, albeit the scenario was considered as unlikely; and
- the resilience and adaptability of the Bank's operational and IT infrastructure. The Bank's operational and IT infrastructure proved robust with no material issues noted and the staff largely continued to work from home.

Information on OakNorth Bank's business strategy, performance and outlook are detailed in the Chairman's statement, Chief Executive's review and the Strategic Report. The Strategic report further details the key risks faced by OakNorth Bank and mitigants and provides an overview of OakNorth Bank's Risk Management Framework.

1.3 Changes in accounting policies

There were no changes to the accounting policy during the current financial year (2021).

1.4 Tangible fixed assets

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

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

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

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

Notes to the financial statements

For the year ended 31 December 2021

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.

During the year, Bank wrote off tangible fixed assets with written down value (WDV) of less than £10K amounting to £160K (2020: Nil)

1.5 Intangible fixed assets

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

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

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

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

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

During the year, Bank wrote off intangible assets with net book value of £153K (2020: £123K).

1.6 Impairment of tangible and intangible assets

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

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

1.7 Financial instruments

1.7.1 Recognition and derecognition of financial instruments

Financial instruments are recognised at trade date, being the date on which OakNorth Bank commits to purchase or sell the instruments. OakNorth Bank initially recognises loans and advances, deposits, and other market borrowings debt securities issued and subordinated liabilities on the date of origination at fair value. Management determines the classification of financial assets at initial recognition based on the applicable accounting standards (IFRS 9 for period commencing 1 January 2019).

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

1.7.2 Loan modifications under IFRS 9

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

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

1.7.3 Loan write off

The Bank may write off financial assets fully or partially, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. This may include loans that are still subject to enforcement activity. There were no loans written off during the year (2020: Nil).

1.7.4 Fair value measurement

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

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

Notes to the financial statements

For the year ended 31 December 2021

1.7.5 Amortised cost and effective interest rate (EIR) method

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

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

1.7.6 Classification of financial instruments under IFRS 9

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

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

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

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

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

1.7.7 Loans and advances to customers

OakNorth Bank's Loans and advances to customers are classified as held at amortised cost, in line with the criteria defined under IFRS 9. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using EIR method. Loans and receivables are stated after deduction of amounts which are required as expected credit loss allowance. The Bank's policy in relation to determination of the ECL allowance are detailed separately in the Notes to the financial statements.

1.7.8 Debt securities

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

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

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

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

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

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

1.7.9 Financial liabilities

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

1.8 Expected credit loss charge on assets held at amortised cost

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

1.8.1 Definition of ECL

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

1.8.2 Components of ECL and key areas of judgement

ECL is computed as: exposure at default (EAD) x probability of default (PD) x loss given default (LGD). Depending on the staging of the loan, the ECL is either

Notes to the financial statements

For the year ended 31 December 2021

12 month or lifetime. The ECL assessment is done at an individual loan level. ECLs are discounted at the loan's interest rates.

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

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

1.8.3 Exposure at default (EAD)

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

1.8.4 Staging approach based on credit quality of loans

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

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

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

The criteria for stage 2 and 3 are determined in accordance with the credit policies detailed under the Credit Risk Management Framework of the Bank. The Bank's policies considers both quantitative and qualitative triggers in addition to the IFRS 9 backstop criteria of 30 days past due for Stage 2 and 90 days past due for Stage 3.

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

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

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

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

As detailed in the "Credit Risk" sections, COVID-19 impacted borrowers that have been subject to any temporary measures, have not been subject to automatic stage changes to Stage 2 or Stage 3. These loans are assessed individually if the temporary support measures enable the borrower to revert to standard credit risk metrics over a certain period of time and that there is no significant increase in credit risk.

1.8.5 Probability of default (PD)

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

Due to OakNorth Bank's limited trading history and no realised losses till date, the Bank does not have its own default data. As a result, the Bank uses third-party models to calibrate the PD and LGD for each of the loans. These external PD and LGD models leverage historic industry default data and process borrower financial information and qualitative factors to estimate borrower PDs and LGDs.

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

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

Further details on PD modelling, inputs and scenario assumptions are detailed in the "Credit Risk" section page 59 to 63 .

1.8.6 Loss given default (LGD)

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

Notes to the financial statements

For the year ended 31 December 2021

The LGD is calibrated using external PD and LGD modelling solution for both its real estate and trading book. The solution incorporates the assumptions of impact on the collateral values, factoring any costs of sales. Limited judgement-based haircuts have been applied on certain eligible collateral for the trading book. The actual experience of the Bank in realising collaterals may differ. Due to low LTVs on the loan book, the Bank did not have any realised losses on the exposures it exited via workouts during the year.

1.8.7 Forward looking macroeconomic scenarios and scenario weightings

Judgements are applied in the choice of macroeconomic scenarios and scenario weightings. These are detailed in the "Credit Risk " section page 59 to 63 .

The Bank uses externally sourced macro-economic scenarios that are available in the external PD and LGD modelling tool for its real estate and trading book.

1.8.8 Other areas of management judgements and approach to PMAs/overlays

In 2020 the Bank had adopted OakNorth Credit Intelligence Suite's COVID Vulnerability (CVR) framework, which was a sophisticated scenario modelling approach, on the entire loan book. The framework was implemented to address key forward-looking gaps, lack of granularity and uncertainties (including modelling gaps in traditional PD and LGD models) in the assessment of ECL provisions under IFRS 9, in an environment of heightened uncertainties, unprecedented shocks and the 'new normal'. During 2021, £13.6 million of the overlay provisions held as at 2020 have been reallocated to modelled provisions across both Stage 1, 2 and 3 and £3.8 million have been reversed. Enhanced approach to ECL calculations has been implemented (see below).

OakNorth's Forward Looking Rating (FLR) and interaction with the PD/ LGD framework: In view of the management, the lack of granularity in the assessment of sub-sectors and underlying borrower fundamentals continues to remain in the external PD/LGD frameworks currently available. In order to address this continued gap, for the year end 2021, we have integrated the FLR approach with the external PD and LGD modelling tool to derive the associated PIT PDs and LGDs for each of the scenarios, which then together drive the ECL provision calculations. The key assumptions and sensitivities are disclosed in the "Credit Risk" section page 59 to 63.

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

1.9 Sale and repurchase transactions

Securities sold by OakNorth Bank under agreements to repurchase continue to be recognised as assets on the balance sheet and the associated liability is also recognised on the balance sheet. Similarly, securities purchased under commitments to sell are not recognised on the balance sheet. As at 31 December 2021, the Bank did not have any repos outstanding.

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

OakNorth Bank is an approved participant under the TFSME scheme. The borrowing is collateralised against UK GILTS and the Bank's loan book. As OakNorth Bank retains the ownership of the eligible collateral assets, and therefore, all associated credit risks and ownership of the cash flows from those assets - any collateral placed with the Bank of England continue to be recognised as an asset on the balance sheet and any funding raised is recognised as liability. The liability is measured at amortised cost under IFRS 9.

1.11 Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. In the UK, this includes additional levies such as the Banking Corporation Tax Surcharge of 8% which are levied on a bank's taxable profits over £25 million as at 31 December 2021. From 1 April 2023, Surcharge allowance available for banking groups will be increased from £25 million to £100 million.

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

1.12 Revenue recognition

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

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

Notes to the financial statements

For the year ended 31 December 2021

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

1.13 Foreign currency

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

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

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

1.14 Leases

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

1.15 Employee benefits

Pension scheme costs

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

Share-based payments

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

1.16 Other Provisions (excluding loan expected credit loss charge)

Provisions are recognised when OakNorth Bank has a present obligation (legal or constructive) as a result of a past event; it is probable that OakNorth Bank will be required to settle that obligation and, a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account any risks and uncertainties in relation to the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, where the effect of time value of money is material, the carrying amount is computed as the present value of those cash flows. As at 31 December 2021, the Bank did not have any other provisions on the balance sheet (2020: Nil).

1.17 Charitable donations

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

1.18 Share capital

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

1.19 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

- Determining the staging of the loans – please see note 1.8.
- Probability of default– please see note 1.8.
- Loss given default – please see note 1.8.
- Forward looking macroeconomic scenarios – please see section "Credit Risk" page 59 to 63 .
- Post Model adjustments (PMA) – please see section "Credit Risk" page 59 to 63 and note 1.8.

Notes to the financial statements

For the year ended 31 December 2021

2. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:

	2021 (£'000)	2020 (£'000)
Depreciation of tangible fixed assets	631	1,397
Amortisation of intangible assets	15	36
Write-off of tangible and intangible assets	313	-
Operating lease rentals	703	768
Foreign exchange loss	2	8
Total	**1,664**	**2,209**

Further information is provided in notes 12, 13 and 21

The analysis of the Auditors' remuneration is as follows:

	2021 (£'000)	2020 (£'000)
Fees payable to OakNorth Bank's auditors' for the audit of OakNorth Bank's financial statements	192	155
Total audit fees	**192**	**155**
Fees payable to OakNorth Bank's auditors' for Client Assets Sourcebook (CASS) audit	4	4
Fees payable to OakNorth Bank's auditors' for TFSME audit	25	-
Total assurance related fees	**29**	**4**
Total fees to auditors'	**221**	**159**

3. Taxation

	2021 (£'000)	2020 (£'000)
THE TAX CHARGE COMPRISES		
Total current and deferred tax	**34,148**	**19,049**
FACTORS AFFECTING TAX CHANGE FOR THE CURRENT YEAR		
Profit on ordinary activities before tax	134,540	77,583
Tax at standard UK corporation tax rate	25,562	14,741
Effects of:		
Expenses not deductible for tax purposes	29	53
Adjustments in respect of prior years	1	-
Timing differences at 19% for current tax but 32% for deferred tax	(204)	(78)
Bank surcharge tax	8,760	4,333
Total tax charge for the year	**34,148**	**19,049**
ANALYSIS OF TAX CHARGE ON ORDINARY ACTIVITIES		
UK corporation tax	34,315	19,373
Adjustment in respect of prior years	(49)	-
Deferred tax:		
Current year - profit and loss statement	36	(324)
Adjustment in respect of prior years	50	-
Effect of rate changes in respect of prior years	(204)	-
Total tax charge – profit and loss statement	**34,148**	**19,049**
Total tax credit – equity	**(115)**	**(5)**

Balance sheet provision for taxes payable	53,697	19,431
Balance sheet provision for tax recoverable on behalf of group entities	(20,589)	(12,266)
Advance tax paid	(36,800)	(10,500)
Net tax recoverable	**(3,692)**	**(3,335)**

Net Deferred tax asset	**872**	**870**

During the year the Bank was subject to Corporation tax rate of 19% and additionally subject to the Banking Corporation Tax Surcharge of 8% which is levied on the annual taxable profits of banking companies over £25 million. As a result, the effective tax rate for the year ended 31 December 2021 was 25% (2020: 25%).

Change in tax rate: In accordance with the March 2021 budget announcement, the UK corporation tax rate was increased from 19% to 25% starting April 2023, which was substantively enacted on 24 May 2021. However, surcharge reduction from 8% to 3% and increase in surcharge allowance from £25 million to £100 million announced in Autumn budget has still not been enacted as of December 31, 2021. Therefore, deferred tax asset is based on the substantively enacted tax rates as at the balance sheet date which includes

Notes to the financial statements

For the year ended 31 December 2021

only the increase in UK corporation tax rate. If the surcharge reduction had also been enacted as of 31 December 2021, deferred tax asset would have reduced by £0.2 million. Deferred tax provisions have arisen on accounting of timing differences in relation to annual capital allowances for fixed assets, bonus provisions, unrealised loss on mark to market for GILTS and adjustment on account of IFRS 9 transition impact.

Balance sheet provision for corporation tax payable are stated net of £8.3 million tax recoverable on account of surrender of losses from other group entities subject to UK corporation tax. Gross provisions for the year 2021 are £34.3 million for the Bank.

4. Staff numbers and costs

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

	2021 (Number)	2020 (Number)
Average number of employees	107	94

Their aggregate remuneration comprised:

	2021 (£'000)	2020 (£'000)
Salaries and bonuses	19,646	17,135
Social security & pension costs	2,769	2,397
Share-based payment	4	12
Other costs & statutory levies	275	248
Total	**22,694**	**19,792**

During the year OakNorth Bank made £226K (2020: £175K) of contributions towards a pension scheme for employees. The above remuneration costs are stated net of cost recharge to other group companies.

5. Share-based payments

OakNorth Group operates share schemes and arrangements for eligible employees. OakNorth's Holding Company currently operates restricted employee share scheme (ESS) and employee stock option scheme (ESOP).

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

The shares under these schemes vest over a period of five to six years. For the five- year scheme, vesting is 20% per annum. For the six-year scheme, vesting commences only from year three at 50%, thereafter, increasing equally per annum. Vesting may be subject to business performance conditions which must be met. The Remuneration & Nomination Committee will assess the outcome of the performance conditions and determine the vesting outcome and the shares available for exercise. If an employee leaves, the unvested shares are forfeited.

The shares of OakNorth's Holding Company were split as 1:100 during 2021. Under ESS scheme, 221K shares (2020: 1,595) were issued and 435K shares (2020: 7,600) vested during the year. 261K shares were forfeited during the year (2020: Nil). Under ESOP scheme, 576K share options (2020: Nil) were granted during the year. No share options vested or were forfeited during the year (2020: Nil). The number of shares for 2020 are quoted pre stock split.

6. Directors' remuneration and transactions

	2021 (£'000)	2020 (£'000)
DIRECTORS' REMUNERATION		
Emoluments	3,942	3,657
Share-based payment	1	3
Other taxable benefits	82	76
Net amount expensed to profit and loss statement	**4,025**	**3,736**
REMUNERATION OF HIGHLY PAID DIRECTOR:		
Emoluments	1,920	1,920
Other taxable benefits	65	61
Net amount expensed to profit and loss statement	**1,985**	**1,981**

The above remuneration is reported as net excluding any cost recharges for the time spent by the directors for other group companies. Total number of share-based payments granted to the Directors was 200K shares (2020: Nil). The expense recognised above is recognised over the vesting period (refer note 5 for details of the scheme). The total number of shares forfeited during the year were 193K shares (2020: Nil).

Directors' advances, credits, and guarantees: Details of transactions with directors during the year are disclosed in note 27. There were no loans, credits or guarantees issued to the directors during the year (2020: Nil).

7. Financial Services Compensation Scheme "FSCS"

As a regulated UK deposit-taker, OakNorth Bank pays levies to the FSCS which offers protection to individual deposit holders on amounts up to £85,000 (applicable as of 31 December 2021). The FSCS levy covers management expenses and compensation levies. In addition to the overall levy, FSCS also recovers costs, capital and interest costs associated with any "Specified Deposit Default (SDD) levy".

During 2021, there was a net charge of £199K (2020: £157K). A total payment of £170K was made in respect of all FSCS levies during the year (2020: £128K).

8. Cash & balances at central bank

	2021 (£'000)	2020 (£'000)
Cash & balances at central bank	446,374	469,459
Total	**446,374**	**469,459**

Notes to the financial statements

For the year ended 31 December 2021

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

9. Loans and advances to banks

	2021 (£'000)	2020 (£'000)
Balances held with other banks	30,019	11,532
Total	**30,019**	**11,532**

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

10. Loans and advances to customers

	2021 (£'000)	2020 (£'000)
LOANS AND ADVANCES TO CUSTOMERS		
AMOUNT DUE:		
- Within three months	489,869	157,832
- Over three months but less than one year	765,746	979,718
- Over one year but less than five years	1,610,558	1,323,238
- Over five years	49,143	64,335
Gross loans and advances	**2,915,316**	**2,525,123**
Allowance for ECL	(29,011)	(15,449)
Allowance for ECL (COVID Overlay provisions)	-	(17,425)
Total allowance for ECL	**(29,011)**	**(32,874)**
Loans and advances to customers (net)	**2,886,305**	**2,492,249**

11. Debt securities

	2021 (£'000)	2020 (£'000)
ANALYSED BY TYPE		
UK GILTS	**191,849**	**131,053**
ANALYSED BY DESIGNATION		
Financial instruments at FVOCI	**191,849**	**131,053**

All the debt securities held have been fair valued based on market price (Level 1). These debt securities are bonds issued by HM Treasury and are UK Government liability in sterling. The residual maturity is within one year (2020: one year). None of the debt securities were impaired as at 31 December 2021 (2020: Nil). The securities held as at 31 December 2020 matured during the year.

12. Intangible assets

	2021 (£'000)	2020 (£'000)
COST		
As at 1 January	360	360
Additions	-	-
Write-off	(360)	-
As at 31 December	**-**	**360**
ACCUMULATED AMORTISATION		
As at 1 January	192	156
Charge for the year	15	36
Write-off	(207)	-
As at 31 December	**-**	**192**
CARRYING AMOUNT		
As at 31 December	**-**	**168**

During the year, Bank wrote off intangible asset with net book value of £153K (2020: Nil).

13. Tangible fixed assets

	Leasehold improvements 2021 (£'000)	Computer and IT equipment 2021 (£'000)	Fixtures, fittings and office equipment 2021 (£'000)	Total 2021 (£'000)
COST				
At 1 January 2021	1,209	5,233	334	6,776
Additions	-	50	7	57
Write-off of assets of less than £10K net book value	(39)	(5,053)	(277)	(5,369)
At 31 December 2021	**1,170**	**230**	**64**	**1,464**
ACCUMULATED DEPRECIATION				
At 1 January 2021	528	4,849	153	5,530
Charge for the year	242	317	72	631
Write-off of assets of less than £10K net book value	(24)	(4,988)	(197)	(5,209)
As at 31 December 2021	**746**	**178**	**28**	**952**
CARRYING AMOUNT				
As at 31 December 2021	**424**	**52**	**36**	**512**

During the year, Bank wrote off tangible fixed assets with written down value (WDV) of less than £10K amounting to £160K (2020: Nil).

	Leasehold improvements 2020 (£'000)	Computer and IT equipment 2020 (£'000)	Fixtures, fittings and office equipment 2020 (£'000)	Total 2020 (£'000)
COST				
At 1 January 2020	1,207	5,316	330	6,853
Additions	2	35	9	46
Write-off	-	(118)	(5)	(123)
As at 31 December 2020	**1,209**	**5,233**	**334**	**6,776**
ACCUMULATED DEPRECIATION				
At 1 January 2020	285	3,892	79	4,256
Charge for the year	243	1,075	79	1,397
Write-off	-	(118)	(5)	(123)
As at 31 December 2020	**528**	**4,849**	**153**	**5,530**
CARRYING AMOUNT				
As at 31 December 2020	**681**	**384**	**181**	**1,246**

14. Prepayments and accruals

	2021 (£'000)	2020 (£'000)
Prepayments	1,060	697
Receivables	163	142
Corporation tax receivable (net)	3,692	3,335
Total	**4,915**	**4,174**

15. Other assets

	2021 (£'000)	2020 (£'000)
Security deposits	4	4
Bank of England - Cash Ratio Deposit	7,320	5,393
Other assets	2,141	68
Total	**9,465**	**5,465**

Other assets in 2021 includes balances receivable from BBB for interest under CBILS facility for £2.7 million, which is settled in the subsequent quarter.

16. Customer deposits

	2021 (£'000)	2020 (£'000)
Customer deposits	2,643,603	2,313,628
AMOUNTS DUE:		
- Within three months	472,207	372,986
- Over three months but less than one year	957,705	760,708
- Over one year but less than five years	124,072	306,183
Total notice and term deposits	**1,553,984**	**1,439,877**
Easy access accounts	1,089,619	873,751
Total deposits	**2,643,603**	**2,313,628**

17. Borrowings under BOE's Term funding scheme

	2021 (£'000)	2020 (£'000)
Borrowings under the BOE's Term Funding Scheme	**200,050**	**181,796**
AMOUNTS DUE:		
- Over one year but less than five years	200,050	181,796

As of 31 December 2021, OakNorth Bank had borrowed £200.0 million (2020: £181.9 million under BoE's TFS scheme) under the Bank of England's (BOE) Term Funding scheme for SME (TFSME). The scheme closed for new drawdowns in October 2021. The interest payable on the borrowings is linked to the BOE base rate, which was 25bps as at 31 December 2021 (2020: 10 bps). The borrowing is repayable after four years of drawdown in October 2025.

The borrowing is collateralised against GILT portfolio of £151.7 million (2020: £131.1 million) and gross loans of £106.6 million (2020: £122.2million). The borrowing is held at amortised cost.

18. Subordinated debt Tier 2

	2021 (£'000)	2020 (£'000)
Subordinated notes	**49,678**	**49,559**
Amounts due:		
- Over five years	49,678	49,559

In June 2018, OakNorth Bank issued 10-year £50.0 million subordinated notes with coupon of 7.75%, issued at a yield of 8%. The notes are callable in June 2023. The notes are held at amortised cost. The instrument is non-convertible and there are no contractual write-down features. Write-down can only be triggered at point of non-viability under the Banking Act.

Notes to the financial statements

For the year ended 31 December 2021

19. Trade payables and other provisions

	2021 (£'000)	2020 (£'000)
Trade creditors and accruals	13,053	11,248
Payroll taxes and social security	850	849
Payable to group entities -Corporation tax on group losses	9,493	12,266
Total	**23,396**	**24,363**

All amounts above are payable within one year. Corporation tax payable to group entities is on account of surrender of group losses to OakNorth Bank. Details by entities is provided in note 27.

20. Other liabilities

	2021 (£'000)	2020 (£'000)
Unamortised fees	4,678	5,069
Interest reserves maintained pursuant to lending agreements	18,948	12,728
Other liabilities	184	109
Provision on undrawn loan commitments	456	287
Total	**24,266**	**18,193**

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

The expected credit loss allowance on undrawn loan commitments is calculated in accordance with the policies as detailed in note 1.8 and "Credit risk" section.

21. Operating lease commitments

	2021 (£'000)	2020 (£'000)
Lease expense charged to the profit and loss statement	**703**	**768**

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

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

	2021 (£'000)	2020 (£'000)
Within one year	1,050	892
Between one and five years	530	1,580
Total	**1,580**	**2,472**

22. Contingent liabilities and commitments

As on 31 December 2021, OakNorth Bank had undrawn loan commitments outstanding for £382.1 million (2020: £154.4 million). OakNorth Bank also had £951.4 million of uncommitted facilities outstanding as of 31 December 2021 (2020: £865.4 million). OakNorth Bank had no other contingent liabilities as on 31 December 2021 (2020: Nil). OakNorth Bank allows for drawdowns under property development facilities only where our monitoring surveyor has verified the costs and progress of the development as well as the provision of any other condition precedent for drawdown. For other business lending, OakNorth Bank always stipulates conditions precedent for drawdown.

23. Country by country reporting

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

24. Called up share capital

	2021 (£'000)	2020 (£'000)
ALLOTTED, CALLED UP AND FULLY PAID		
389,320,001 (previous year: 389,320,001) Ordinary shares of £1 per share	389,320	389,320

	No of shares (in '000)
As at 1 January 2020	389,320
Issue of shares during the year	-
As at 31 December 2020	389,320
Issue of shares during the year	-
As at 31 December 2021	389,320

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

25. Retained earnings

	2021 (£'000)	2020 (£'000)
Brought forward as at 1 January	139,278	80,744
Profit during the year	100,392	58,534
As at end of year 31 December	**239,670**	**139,278**

Notes to the financial statements

For the year ended 31 December 2021

26. Segmental information

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

27. Related party transactions

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

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

	2020 (£'000)	
	Net payments to / (recharges from)	Balance due to
OakNorth Global Private Limited, India	10,691	921
OakNorth India Private Limited	31	31
OakNorth (UK) Limited	4,094	5,095
OakNorth (SG) Pte Limited	7,928	7,809
OakNorth International (UK) Limited	258	100
OakNorth Global (US) Inc.	(43)	-
OakNorth US Inc.	(7)	-
OakNorth Holdings Limited	298	-

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

	2021 (£'000)	2020 (£'000)
OAKNORTH HOLDINGS LIMITED		
Deposits placed	25,315	25,095
Equity holding	389,320	389,320

OakNorth Holdings Limited, Jersey is a related party of the Bank because it is the Holding Company. All other entities mentioned in the table above are sister companies of the Bank. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Other related party transactions: Directors' transactions: There were no loans, credits or guarantees issued to the directors during the year (2020: Nil).

28. Controlling party

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

29. Post balance sheet events

There are no post balance sheet events.

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