STARLING BANK

CAPITAL REQUIREMENTS DIRECTIVE

Pillar 3 Disclosures

30TH NOVEMBER 2017

Contents

01

INTRODUCTION

1.1 What’s this document's purpose?

This document comprises Starling Bank Limited’s (‘Starling’ or ‘the Bank’) Pillar 3 disclosures on capital and risk management at 30 November 2017. It has two principal purposes:

It provides information on the policies and approach taken by Starling Bank to manage risk and to maintain its capital resources. It also includes details of:

- The governance structure of the Bank, including Board & Committees; and
- Information quantifying the Bank’s assets and capital resources to meet the regulatory disclosure requirements under the Capital requirements Regulation (EU) No 575/2013 (“CRR”), Part 8 and the rules of the Prudential Regulation Authority (“PRA”).

1.2 Business Overview

Starling Bank is a UK registered bank that provides transactional current accounts and overdraft facilities to UK-resident individuals ("Personal Current Account or PCA's") via a mobile app-only API infrastructure.

Established in June 2014, Starling is controlled by private investors, with majority held by JTC Starling Holdings Limited, and Anne Boden (Starling Bank Limited CEO).

The Bank is authorised by the Prudential Regulation Authority, and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority; it is registered under the Financial Services Compensation Scheme.

- OUR DISTRIBUTION NETWORK
  Starling provides personal current account and overdraft facilities via an open infrastructure (Application Programming Interface) directly to customers via their mobile device on Apple and Android operating systems.

- FINANCIAL PERFORMANCE
  Full details of the Bank's financial results are reported in its statutory accounts which are published on its website (www.starlingbank.com). For the year ended 30 November 2017 the Bank had operating costs of £14,827k and reported pre-tax loss of £10,843k. Total capital at 30 November 2017 was £32,731k. The Bank employed an average of 92 full time equivalent employees during the year and had 125 employees from 29 different countries at 30th November 2017.

1.3 Legislative Framework

Starling Bank Limited is subject to the European Union Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR) implemented on 1 January 2014. The CRR and CRD, commonly known as CRD IV, provide consistent capital adequacy standards for financial services companies and an associated supervisory framework across the European Union and are enforced in the UK by the Prudential Regulation Authority (PRA). The legislation sets out the rules that determine the amounts of capital financial institutions must hold in order to provide security for members and depositors.

1.3 Legislative Framework (CONT.)

The CRD regulations split the Bank's capital resources and reporting requirements into three pillars:

PILLAR ①

Pillar 1 capital is the Bank's minimum regulatory capital requirement relating to credit, market and operational risk.

The Bank has followed the Standardised Approach when calculating the minimum capital requirements for credit risk (which includes counterparty credit risk).

The Bank has no Pillar 1 capital requirement for market risk as it does not operate a Trading Book or offer Securities Financing Transactions. The Bank uses the Basic Indicator Approach (BIA) for operational risks requirements.

PILLAR ②

To calculate its Pillar 2 capital requirements the Board has performed a detailed assessment of the risks facing the Bank including the impact of a severe economic downturn. It has calculated the amount of capital that it considers necessary to cover these risks within its Internal Capital Adequacy Assessment Process (ICAAP).

The Bank's ICAAP is reviewed and assessed by the PRA under its Supervisory Review and Evaluation Process.

PILLAR ③

Pillar 3 sets out the disclosures that all banks are required to make in order to promote market discipline through the external disclosure of its risk management and risk exposures. The Bank is required to publish a Pillar 3 report annually. In December 2016, the European Banking Authority (EBA) published its final guidelines on regulatory disclosure requirements following an update of the Pillar 3 requirements by the Basel Committee in January 2015. These guidelines apply from 31 December 2017.

The Bank have implemented the EBA guidelines in terms of the tables and qualitative data being disclosed in this report. The table below sets out where each table is presented.

1.3 Legislative Framework (CONT.)

EBA	DESCRIPTION	LOCATION IN DOCUMENT
-	Own Funds	Appendix1
-	Leverage ratio	Appendix1
1	EU LI – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Appendix1
2	EU LI2 – main sources of differences between regulatory exposure amount and carrying values in financial statements	Appendix1
3	EU LI3 – outline of the differences in the scope of consolidation	N/A – Starling Bank is reporting as Solo entity
4	EU OV1 – Overview of RWAs	Section 5.2
5	EU CR10 - IRB	N/A – Starling Bank uses the standardised approach
6	EU INS1	N/A – No Insurance undertaking
7	EU CRB-B – Total and average net amount of exposures	Appendix1
8	EU CRB-C – Geographical breakdown of exposures	Appendix1
9	EU CRB-D – Concentration of exposures by industry or counterparty types	Appendix2
10	EU CRB-E – Maturity of exposures	Appendix2
11	EU CR1-A – Credit quality of exposures by exposure class and instrument	Appendix2
12	EU CR1-B – Credit quality of exposures by industry or counterparty types	Appendix2
13	EU CR1-C – Credit quality of exposures by geography	Appendix2
14	EU CR1-D – Ageing of past-due exposures	Appendix2
15	EU CR1-E – Non-performing and forborne exposures	Appendix2
16	EU CR2-A – Changes in the stock of specific credit risk	Appendix2

1.3 Legislative Framework (CONT.)

EBA	DESCRIPTION	LOCATION IN DOCUMENT
17	EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities	Appendix2
18	EU CR3-CRM Techniques – Overview	Appendix2
19	EU CR4-Standard approach – Credit risk exposure and CRM effects	Appendix2
20	EU CR5 – Standard approach	Section 6.1
21-24	IRB approach	N/A – as Starling Bank does not use IRB approach
25	EU CCR1 – Analysis of CCR exposure by approach	Appendix3 – Not Applicable
26	EU CCR2 – CVA capital charge	Appendix3 – Not Applicable as Starling does not have derivatives or SFT
27	EU CCR8 – Exposures to CCPs	Appendix3 – Not Applicable
28	EU CCR3 – Standard approach – CCR exposure by regulatory portfolio and risk	Section 7
29-30	IRB / IMM templates	N/A – as Starling Bank does not use IRB/IMM approach
31	EU CCR5-A – Impact of netting and collateral held on exposure values	Appendix3
32	EU CCR5-B – Composition of collateral for exposures to CCR	Section 7
33	EU CCR6 – Credit derivatives exposures	Section 7
34-38	Market risk templates	N/A – as Starling Bank does not have a trading book

1.4 Scope of Application

All the figures, governance, objectives and policies included within this document are as at 30 November 2017 (unless stated otherwise) and have been prepared to meet the disclosure requirements of CRD IV.

The Pillar 3 report is based upon the Bank's annual report and financial statements for the year ended 30 November 2017. Pillar 3 disclosures are issued on an annual basis in conjunction with the publication of the annual report and financial statements in accordance with regulatory guidelines.

These disclosures have been reviewed by the Executive Risk Committee and the Board Audit Committee and approved by the Board.

The disclosures are not subject to external audit; however, some of the information within these Pillar 3 disclosures also appear in the audited 2017 financial statements. The processes for preparing this disclosure are laid out in the Bank's Pillar 3 policy.

Starling Bank Limited is monitored on a solo basis for Regulatory reporting requirement and reports its risk exposures on individual basis. The Bank FRN registration number is 730166. The registered office is 3rd Floor, 2 Finsbury Avenue, London, EC2M 2PP.

1.5 Directors

Starling Bank has two Executives and six Non-Executive Directors on its Board. A summary of their experience and confirmation of any other directorships is disclosed on the Bank's website (starlingbank.com).

Our recruitment policy for selection of all staff, including Directors, can also be found on the Bank's website (starlingbank.com). This policy covers both recruitment and diversity.

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GOVERNANCE & COMMITTEES

2.0 Responsibilities

The Board is Starling Bank's primary governing body and is responsible to the shareholders for delivering the long-term success of the bank. It has ultimate responsibility for setting the bank's strategy, corporate objectives and enterprise risk management framework, taking into consideration the interests of customers and shareholders.

IN ADDITION, THE BOARD IS RESPONSIBLE FOR

- Maintaining a sufficient control environment to manage the principal risks, and ensuring the capital and liquidity resources are adequate to achieve the Bank's objectives without taking undue risk.
- Approving overall policy in relation to the types and level of risk that the bank is permitted to assume in the implementation of its strategic and business plans.

THE BOARD IS ALSO SUPPORTED BY SUB-COMMITTEES:

BOARD LEVEL COMMITTEES			EXECUTIVE LEVEL COMMITTEES		
BOARD RISK COMMITTEE	BOARD AUDIT COMMITTEE	BOARD REMUNERATION COMMITTEE	EXECUTIVE COMMITTEE	EXECUTIVE RISK COMMITTEE	ALCO

2.1 Board Level Committees (CONT.)

(Subject to full Terms of Reference as summarised below)

THE BOARD RISK COMMITTEE

The Board Risk Committee's duties and responsibilities include:

- Defining and submitting for Board approval risk management principles, frameworks and policies under which risk is managed and controlled within the Bank;
- Advising and developing recommendations for the Board on the risk appetite and risk strategy;
- Reviewing and recommending to the Board the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP);
- Overseeing the Risk & Compliance Functions;
- Determining the management information necessary to oversee the risk situation of the Group; and
- Evaluating and recommending to the Board the risks related to any new activities, such as new markets, companies or business ventures.

BOARD AUDIT COMMITTEE

The Board Audit Committee's duties and responsibilities include:

- Overseeing the relationship with the provider of internal audit services, including its plan, as well as the adequacy and effectiveness of the internal control and information systems based on reports from the internal audit function, external auditors and supervisory authorities; and
- Overseeing management's actions to address control weaknesses identified by internal or external audit, compliance or supervisory authorities.
- Monitoring the integrity, accuracy and reliability of the financial reporting process and Financial Statements, including provisions and accounting policies and practices;
- Overseeing the relationship with external auditors, including their appointment, effectiveness and other non-auditing services;

2.1 Board Level Committees (CONT.)

(Subject to full Terms of Reference as summarised below)

BOARD REMUNERATION COMMITTEE

The Board Remuneration Committee's duties and responsibilities include:

- Reviewing whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings; and
- Preparing proposals for Board approval on the remuneration packages, including retirement and other benefits, of Executive and Non-Executive Members of the Board, as well as of the Chief Executive Officer and her direct reports.
- Defining and recommending for Board approval the Remuneration Policy, including pensions and variable compensation, and the Remuneration Principles for the Group that are aligned to the Group's strategic objectives and values;

2.2 Executive Level Committees

(Subject to full Terms of Reference as summarised below)

EXECUTIVE COMMITTEE

To direct the day-to-day business activities and oversee the execution of the Bank's strategy within the risk appetite defined by the Board, in compliance with applicable laws, regulations and corporate governance principles, including:

- Ensuring implementation of effective risk and compliance frameworks and policies and on-going monitoring and management of risk and compliance matters; and
- Considering all major findings and periodic reports by all control functions and supervisory authorities and ensure such findings are appropriately addressed.

SUB-COMMITTEES OF THE EXECUTIVE COMMITTEE

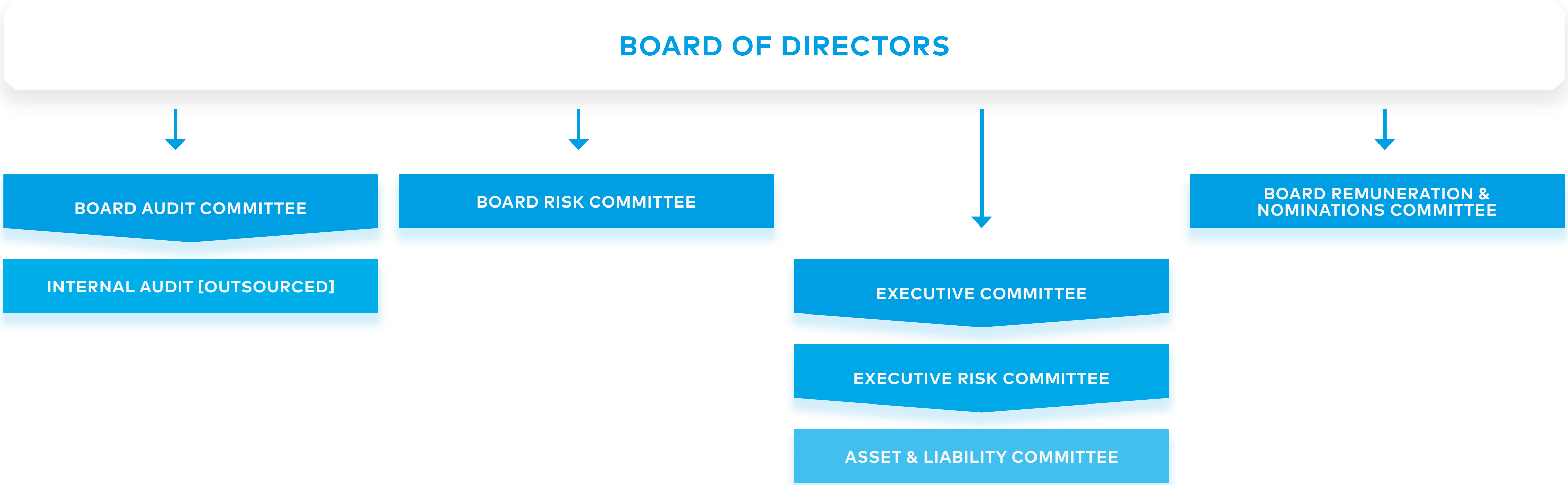
<u>Executive Risk Committee (ERC)</u>

- To oversee all risks types across Starling Bank, including monitoring and reviewing Risk Appetite and other approved policy limits and reviewing and making recommendations on all risk matters where the Board has reserved authority;
- To define and submit to the Board Risk Committee / Board for approval all risk principles, frameworks and policies under which risk is taken, managed and controlled;
- To review risk related papers to be submitted by executive management to the Board Risk Committee or Board Audit Committee;
- To cultivate a robust risk culture to support decision-making processes; and
- To oversee the operation of the Product & Conduct Committee.

<u>Asset & Liability Committee (ALCO)</u>

- To manage interest rate policy, set the strategy and limits for liquidity management, monitor gapping and market risk within the parameters set by the Board; and
- To oversee the operation of the Pricing Committee.

2.3 Governance Structure



03

RISK MANAGEMENT OBJECTIVES & POLICIES

3.1 Risk Management Objectives & Policies

Risk is defined in Starling Bank as any unexpected future event that could damage the Bank's ability to achieve its strategic, financial or overall business objectives, including damage to earnings capacity, capital positioning, business reputation or cash flows.

Risk taking is fundamental to Starling Bank's business profile and hence prudent risk management, limitation and mitigation form an integral part of the Bank's governance structure.

Starling adopts an Enterprise Risk Management Framework (ERMF) which sets out the bank's approach to the identification, assessment and management of risk.

The ERMF is the Bank's highest-level risk framework where the Board sets out the governance of individual risk policies, processes, skills and systems required by the Bank to effectively manage risk, in compliance at a minimum with applicable laws and regulations in the jurisdictions in which Starling does business, in particular, the regulations set by the Prudential Regulation Authority and the Financial Conduct Authority as home regulators.

3.1 Risk Management Objectives & Policies (CONT.)

The objectives of the ERMF are to:

- Reduce unacceptable performance deviations by evaluating the likelihood and impact of major risks occurring, and developing effective responses;
- Align and integrate varying views of risk management into critical management activities, including strategy setting, business planning and capital assessment;
- Build confidence of shareholders, customers, regulators and other stakeholders by demonstrating the Bank's capabilities for understanding and managing risk;
- Enhance corporate governance by ensuring strong board and executive management oversight, clear roles and responsibilities and clear authorities and risk boundaries;
- Successfully respond to changing business environments by identifying, prioritizing and planning for risk; and
- Align strategy and corporate culture by creating risk awareness and an open, positive approach with respect to risk and risk management.

Starling Bank operates a three lines of defence model, with:

LINE	BUSINESS FUNCTION	DESCRIPTION
First Line of defence	Operational Management	Operational Functions are taking, owning and managing the risks with oversight provided by the Executive Committee.
Second line of defence	Risk and Compliance functions	Risk and Compliance functions are responsible for providing policies to manage those risks and provide independent oversight and challenge.
Third line of defence	Internal Audit	Internal audit is entirely independent of the operational functions of the Bank, and reports directly to the Audit Committee. The function is outsourced to BDO LLP to ensure further independence. Their role is to assess the Bank's control environment and provide the Audit Committee with an independent view of the effectiveness of the Banks's systems and controls.

3.1 Risk Management Objectives & Policies (CONT.)

The first line is responsible for identifying and managing the risks which are inherent in the products, processes, systems and activities they are responsible for. They should ensure their control framework is robust and effective in mitigating such risks. They should have a clear understanding of the Bank's risk appetite and define appropriate KRIs in order to produce regular management information, which demonstrates the level of residual risk relative to the risk appetite. They should also comply with all Bank policies and any legal and regulatory requirements in the fulfilment of their responsibilities.

The second line comprises the Risk and Compliance functions, including Financial Crime, owns the risk policies approved by the Board and provides independent oversight and challenge of the first line's risk management, making sure all risks are identified, assessed and monitored and assessing adherence to internal policies and procedures. It provides tools, frameworks and techniques to assist the first line in managing risk. It devises policies to help control the business. It proposes risk appetite to the Board and it monitors the residual risk profile of the Bank, recommending appropriate action as needed.

The third line of defence is Internal Audit. Starling is using an external accountancy firm (BDO LLP) to fulfil this function. They provide independent assurance of the effectiveness of the overall risk management system and the first and second lines' implementation thereof. They undertake regular reviews of risk management policies and procedures, the quality of internal controls and compliance with policies.

The internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss.

The Risk and Compliance function assesses the principal risks, challenges the operational managers and provides assurance to the Board that the Bank is managing its risks and operating within its appetite for risk. Risk reports are provided to the Board Risk Committee and Board. The Bank's Risk and Compliance function operates independently and reports to the Bank's Chief Risk Officer.

3.2 Risk Oversight, Monitoring & Management

Oversight and direction from the Board remains central to the risk management process. The Board ensures, through its sub-committees, that appropriate policies, procedures and processes are implemented across the business to control and monitor the risk exposures which arise from the Bank's operations.

Regular management information presented to the Board ensures that the management of risk is aligned to the Board's risk appetite and that unacceptable risk exposures are identified and, where possible, mitigated.

In addition to the ongoing assessment of known risk exposures, the quarterly risk report, combined with a forward-looking assessment from the Risk and Compliance function ensures that new risks are adequately captured and monitored.

The Board is ultimately responsible for the risk management process and defines, through its risk appetite statements, the acceptable levels of risk exposure that should be taken in the delivery of the Bank's strategic objectives. As noted above, the Board's oversight of risk is supported by the structure of sub-committees. Each of the sub-committees provides a forum for the direction and challenge of the Bank's management, whilst monitoring business performance and risk exposures.

In order for Starling Bank Limited to fulfil its strategic plan, in line with the objectives of the Bank's shareholders, the Board is committed to maintaining a sound risk management culture within the Bank. To this end, they have established a set of risk culture objectives and a risk appetite statement. The risk appetite is a set of qualitative and quantitative statements that are used to ensure that the management and staff of the bank understand the level of risk that is acceptable to the board.

As well as limiting the total level of risk exposure taken on by the business, the Bank's risk appetite is a way of articulating the Board's level of risk tolerance to our key external stakeholders and regulators. The Bank's risk appetite is kept under review and updated for new businesses as they arise. The core risk appetite statement was approved by the board in September 2016 and supplemented by risk appetite statements for Payment Services and Marketplace in August 2017.

3.3 Risk Appetite Statements

The Bank is committed to maintaining a sound risk management culture that underpins the safe delivery of its strategic objectives. This is supported by qualitative and quantitative policies and Risk Appetite Statements for each of the major risk categories faced by the Bank; these are detailed below. For each of the risk appetite statements there are a range of defined key risk and early warning indicators (KRIs and EWIs) that facilitate an assessment of the risk and performance against appetite.

It should be noted that a breach in any single KRI / EWI does not necessarily indicate that the overall Risk Appetite has been breached.

The major risks to which the Bank is exposed are as follows:

- Strategic Risk
- Capital Risk
- Credit Risk
- Liquidity Risk
- Funding Risk
- Conduct, Compliance and Regulatory Risks
- Operational Risk
- Market Risk (including Interest Rate Risk in the Banking Book)
- Treasury Counterparty Risk

3.3 Risk Appetite Statements

The Risk Appetite statements below describe each risk and articulates the Bank's appetite. The Bank's full risk appetite statement is set out in Appendix 5.

RISK	DEFINITION	APPETITE
Strategic Risk	The risk that it fails to execute its strategic plan due to either internal or external factors.	• The Bank has little appetite for significant variance from the strategic plan or budget, without Board approval. The Bank seeks to meet all metrics agreed with to shareholders in terms of delivering strategy, budgets and published targets. • The Bank only has an appetite for strategic risk where it supports its business model, sustainable growth, operational efficiency, high quality lending and a conservative approach to funding and liquidity.
Capital Risk	The risk that it fails to hold enough capital resources to meet both its regulatory capital and its business operating requirements.	• The Bank's Board will not accept a level of capital resources that is less than the regulatory capital requirement in either normal or stressed scenarios. • The Bank will maintain a conservative level of tier one capital based on a percentage of risk weighted assets. • The Bank will not accept Financial and Non-Financial risk it cannot assess, record and monitor through the bank core systems.
Credit Risk	The risk of a reduction in earnings, and/or value, as a result of the failure of a customer or counterparty failing to meet, in a timely manner, a commitment that they have entered into with the Bank.	• The Bank has no appetite for arrears or bad debt that would create material volatility in earnings. • The Bank has no appetite for unplanned material concentrations within its lending portfolios. • The Bank has a controlled and measured appetite for unsecured lending mitigated with maximum overdraft limits per individual.

3.3 Risk Appetite Statements (CONT.)

The Risk Appetite statements below describe each risk and articulates the Bank's appetite. The Bank's full risk appetite statement is set out in Appendix 5.

RISK	DEFINITION	APPETITE
Operational Risk	The Risk that failures arising from inadequate or failed internal processes, people and systems or from external events that may cause monetary loss, service disruption or customer detriment	• The Bank accepts that operational risk cannot be fully eliminated and applies a cost/benefit approach to limit its exposure with a focus on protecting its earnings, information assets, customer service, legal and regulatory compliance, and reputation. • The Bank has a minimal appetite for failures caused by inadequate systems, processes or procedures that could materially impact its ability to service customers. • The Bank has no tolerance for internal and external fraud, corruption and breaches of Service Level Agreement with critical outsourced providers or vendors.
Market Risk, including Interest Rate Risk in the Banking Book (IRRBB) and FX Risk sensitivity	The risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities.	• Market Risk can take many forms, but the Bank's only significant exposure relates to IRRBB. The limit of the Bank's appetite for IRRBB is 1% of the last 6 months revenue. • The Bank monitors its exposure to changes in interest rates based on two measures: • Repricing risk exposure – the exposure to timing mismatches between when assets and liabilities re-price; and • Basis Risk exposure – the exposure to assets and liabilities being linked to different interest rate bases (Bank Base Rate, LIBOR, etc.), which do not move in parallel with each other.

3.3 Risk Appetite Statements (CONT.)

The Risk Appetite statements below describe each risk and articulates the Bank's appetite. The Bank's full risk appetite statement is set out in Appendix 5.

RISK	DEFINITION	APPETITE
Liquidity Risk	The risk that it is unable to meet its short to medium term commitments as they fall due or that they can only be met at an uneconomic price.	• At all-time the Bank requires that it has sufficient liquid assets to meet its liabilities when they fall due. • The Bank will not accept risk that would cause its 5-day cumulative outflow to exceed 75% of its High Quality Liquid Assets.
Funding Risk	The risk that it is unable to raise funds at an acceptable price or to access markets in a timely manner.	• The Bank's funding Risk Appetite is defined as ensuring that the Bank has access to sufficient and diverse financial resources (in terms of source, type and tenor) to fund the Bank and maintain a sound level of liquidity.
Treasury Counterparty Risk	The risk of wholesale Treasury counterparties being unable or unwilling to meet a commitment that they have entered into with the Bank.	• The Bank has a zero tolerance for losses relating to the failure of treasury counterparties.

3.3 Risk Appetite Statements (CONT.)

The Risk Appetite statements below describe each risk and articulates the Bank's appetite. The Bank's full risk appetite statement is set out in Appendix 5.

RISK	DEFINITION	APPETITE
Conduct, Compliance & Regulatory Risk	Conduct risk is the risk that its customers suffer loss or detriment due to failures in product design, sales marketing processes and operational delivery or failures in the behaviour or ethics of its staff or its third-party distributors / suppliers. Compliance and Regulatory Risk is the risk that non- compliance with laws or regulation could give rise to fines, litigation, sanctions and the potential for material adverse impact on the Bank	• The Bank has zero tolerance for any material breach of laws or regulations. The Bank defines "material" as being of a significance that would expose the Bank or its management to legal or regulatory sanction. • The Bank has zero tolerance for any consciously unfair treatment of customers. Any accidental unfair treatment will be remediated as soon as the Bank becomes aware and root cause analysis undertaken to prevent recurrence. • The Bank seeks at all times to protect its good name in the management of the Bank and its customer relationships. • The Bank has zero tolerance for any consciously unethical behaviour by its staff. Again, any unconsciously unethical behaviour will be remediated and subject to root cause analysis to prevent recurrence.

3.4 Embedding of Risk Appetites within the Business

- **STRATEGIC PLANNING**
  The Bank's risk appetite is a key input into strategic and financial planning decisions. Risk appetite tolerances are also considered and factored into the stress testing work that is undertaken relating to the Bank's capital and liquidity requirements (in the ICAAP and ILAAP processes respectively).

- **RISK LIMITS**
  The Bank's risk appetite statements are linked to the day-to-day running of the business through individual Key Risk Indicators and Early Warning indicators which are managed through policies and protocols under the oversight of the Board and its sub-committees.

- **MANAGEMENT INFORMATION**
  In order to monitor the Bank's performance against stated risk appetites, the Board and its sub-committees receive regular management information containing key current and forecast metrics linked to the risk appetite statements.

04

REMUNERATION

4. Remuneration

As a Bank with less than £15bn of assets, the Bank is classified as a "Tier 3" firm for the purposes of the disclosure of remuneration under the Capital Requirements Regulations (CRR). In compliance with the requirements, as laid out in the PRA Supervisory Statement LSS8/13 'Remuneration standards: the application of proportionality', the Bank has taken note of the regulator's guidance on materiality and proportionality.

The period covered by this declaration is from 1 December 2016 through to 30 November 2017. The following disclosures meet the requirements for a Tier 3 firm:

- The Bank's Remuneration Committee is responsible for designing and implementing the reward structure of the Bank. The committee ensures that effective risk management is a key component of remuneration and incentive structures. Membership is restricted to Non-Executive Directors only.
- The committee's terms of reference describe the committee's responsibilities. The committee's terms of reference are set out in Appendix 4.
- The Remuneration Committee met quarterly, The Board is committed to adhering to the Financial Services Remuneration Code, thus ensuring that the Bank has risk-focused remuneration policies, which are consistent with and promote effective risk management and does not expose the Bank to excessive risk. This is done in a manner which is appropriate to the Bank's size, internal organisation and the nature, scope and the complexity of its activities.
- Starling ensures that its remuneration policies, practices and procedures are clear and documented. To record those policies, practices and procedures, and assess its compliance with the Code, the Bank's Remuneration Policy is reviewed annually to take account of any changes to policies, practices and procedures and is approved by the Board.
- The table below sets out the remuneration of the Bank's Executive and Non-Executive Directors, and others included under the Senior Managers & Certification Regime (SMCR). These members of staff have been classified as 'Code Staff' as they could have a material impact on the profit of the Bank.

PERIOD	TOTAL REMUNERATION - £'000	NUMBER OF BENEFICIARIES
2017	2,696	17
2016	982	11

05

CAPITAL RESOURCES

5.1 Capital Resources

The Bank manages its capital under the Capital Requirements Regulation (CRR) and Capital Requirements Directive (together referred to as CRD IV) framework which came into force on 1 January 2014. The framework is enforced in the UK by the PRA. The PRA sets and monitors capital requirements for the Bank.

The PRA's approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the capital resources requirement to available capital resources. The regulator sets Individual Capital Guidance (ICG) for each bank in excess of the minimum resources requirement of 8%. A key input to the ICG-setting process is the Bank's ICAAP.

The Bank's policy is to maintain a strong capital base to maintain investor and market confidence and to sustain the future development of the business. The Board manages its capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP. The ICAAP is used by the Board, management and shareholders to understand the levels of capital required to be held and to assess the reliance of the Bank against failure. The Bank presents regular reports on the current and forecast level of capital, as well as the results of the stress scenarios to ALCO and the Board. The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported and any material deviation from the forecast and risk profile of the Bank would mean the ICAAP would need to be reviewed.

The Bank has complied with all externally imposed capital requirements. The Bank has elected to use the standardised approach for credit risk. Under CRD IV the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its 'Pillar 1' capital requirements. The Bank must also set aside additional 'Pillar 2' capital to provide for additional risks.

5.1 Capital Resources (CONT.)

As at 30 November 2017, the Bank's capital base was made up of £22,401k of CET 1 compliant Tier 1 capital and no Tier 2 capital. The Bank's regulatory capital consists of the following elements:

- **TIER 1 CAPITAL**
  Tier 1 capital includes ordinary share capital, share premiums, retained earnings, reserves, and deductions for intangible assets, and inter-company account with Starling FS Services which are included in equity but treated differently for capital adequacy purposes.

- **TIER 2CAPITAL**
  The Bank does not have any Tier 2 Capital.

The total assets of the Bank at 30 November 2017 were £53,170k. The eligible capital resources at 30 November 2017 totalled £22,401k. The tables below set out the Bank's capital resources at 30 November 2017, reconciles these resources to the Bank's reported regulatory capital and shows the Bank's capital ratios as at 30 November 2017.

£'000S	30 NOVEMBER 2017	30 NOVEMBER 2016
TIER1		
Ordinary share capital	5	3
Share Premium	47,846	17,889
Retained earnings	(15,120)	(4,217)
Deductions: Intangibles Assets	(10,330)	(6,006)
Total Common equity Tier1 Capital	22,401	7,669
TIER2		
Total Tier 2 capital	-	-
Total regulatory capital	22,401	7,669

5.1 Capital Resources (CONT.)

£'000S	30 NOVEMBER 2017	30 NOVEMBER 2016
Equity as per statement of financial position	32,731	13,675
Regulatory adjustment		
(-) Intangible assets (*)	(10,330)	(6,006)
(-) Deferred Taxes	-	-
Total regulatory capital	22,401	7,669
%	30 NOVEMBER 2017	30 NOVEMBER 2016
Common equity Tier1 capital ratio	129.3%	43.8%
Tier1 capital ratio	129.3%	43.8%
Tier2 capital ratio	-	-
Total capital ratio	129.3%	43.8%

- The 2017 capital ratios assume the verification of 2017 profits and reserves as at 30 November 2017 and operational risk charges as at 30 November 2017.
- Private Investor subscribed for a further £30m Share premium in April 2017
- The Bank's Own Funds are disclosed in the regulatory CRR format in Appendix 1

(*) Includes Interco deduction with Starling FS Services Limited

5.2 Operational Risk Capital

Operational risk is defined in section 3 of this report. The Bank identifies, assesses and monitors its operational risks via an agreed framework and methodology which is reviewed on a regular basis by the Board Risk Committee. The Bank calculates its operational risk capital requirement using the Basic Indicator Approach as set out below.

The Bank's operational risk capital requirement at 30 November 2017 of £1,242k was agreed with the PRA at the time of authorisation. This has been translated into a Notional Risk Weighted amount of £15,528k (based on its income projections for 2016-2018) for deriving its Basic Indicator.

5.3 Risk Weighted Exposure Amounts & Operational Risk Capital

The assets of the Bank are analysed by risk category and given weightings according to the level of risk entailed. The Bank's credit risk consists of counterparty credit risk and all other credit risk (this principally arises from its loans and advances (overdrafts) to customers). The Bank's minimum capital requirements are calculated by applying credit risk weightings to the risk weighted assets. The credit risk weighting is determined by the "Standardised Approach" as set out in the CRR.

OVERVIEW OF RWA (OV1) — £'000 / 30 NOVEMBER

CRR ARTICLE	NOTES	DESCRIPTION	RISK WEIGHTED ASSETS		MINIMUM CAPITAL REQUIREMENTS
			2017 (*)	2016	2017
	1	Credit risk (excluding CCR)	1,799	1,986	144
Art 438 (c) (d)	2	Of which Standardised approach (SA)	1,799	1,986	144
Art 107	6	Counterparty credit risk (CCR)	-	-	-
Art 438 (c) (d)	9	of which Standardised approach (SA)	-	-	-
Art 438 (f)	23	Operational risk	15,528	15,528	1,242
	24	of which Basic Indicator approach	15,528	15,528	1,242
Art 437 (2), Art 48 and Art 60	27	Amount below the thresholds for deduction (Subject to 250% risk weight)	-	-	-
	28	Floor adjustment	-	-	-
	29	Total	17,327	17,514	1,386

*After the application of SME factor where appropriate as at 30th November 2017

5.3 Risk Weighted Exposure Amounts & Operational Risk Capital (CONT.)

The tables below show the Bank's exposures at 30 November 2017 by exposure class, net of provisions.

CREDIT RISK EXPOSURE & CAPITAL REQUIREMENT

	CREDIT RISK EXPOSURE 30 NOVEMBER 2017		
EXPOSURES BREAKDOWN	EXPOSURE VALUE	RISK WEIGHTED EXPOSURE VALUE	MINIMUM PILLAR 1 CAPITAL REQUIREMENT (8% X RISK WEIGHT)
	£'000	£'000	£'000
Government and Central banks	38,144	-	-
Institutions	2,572	514	41
Corporates	-	-	-
Retail	761	571	46
Exposures in default	-	-	-
Other items	1,315	714	57
Balance sheet Exposure	**42,793**	**1,799**	**144**
Off Balance sheet commitments	4,965	-	-
Off Balance sheet Treasury bills	-	-	-
Total Exposure	**47,758**	**1,799**	**144**
Operational risk capital requirement	15,528	15,528	1,242
Credit Value adjustment	-	-	-
Total Pillar1 Capital requirement	**63,286**	**17,327**	**1,386**

- Off Balance sheet commitments represent undrawn overdraft facilities offered to retail customers;
- Retail exposures comprise of unsecured overdrafts net of impairment provisions.

5.3 Risk Weighted Exposure Amounts & Operational Risk Capital (CONT.)

CREDIT RISK EXPOSURE BY TYPE

CREDIT RISK EXPOSURE 30 NOVEMBER 2017

EXPOSURES BREAKDOWN	EXPOSURE TYPE	EXPOSURE VALUE £'000
Government and Central banks	Repayable on demand	35,114
	Debt Securities amortized at cost	3,030
Institutions	Repayable on demand	2,572
Retail		761
Other items		1,315
Balance sheet Exposure		42,793
Off Balance sheet commitments		4,965
Off Balance sheet Treasury bills		0
Total Exposure		47,758
Operational risk capital requirement		15,528
Credit Value adjustment		0
Total Pillar1 Capital requirement		63,286

5.3 Risk Weighted Exposure Amounts & Operational Risk Capital (CONT.)

CREDIT RISK EXPOSURE – ON AND OFF-BALANCE SHEET RECONCILIATION

The difference between the total credit risk exposures shown above of £47,758k and the total assets per the 2017 financial statements of £53,170k can be explained as follows;

	£'000
Total Credit Risk exposure (per above)	**47,758**
Less	
Off Balance sheet Customer Loan & Advance commitments	(4,965)
Asset & Liabilities Reclass	48
Add	
Intangibles Assets	10,330
Total Assets per balance sheet	**53,170**

5.4 Leverage Ratio

The CRD IV framework requires firms to calculate a non-risk based leverage ratio that is a supplementary measure to the risk-based capital requirements. The ratio is defined as Tier 1 capital divided by the total of on and off-balance sheet exposures expressed as a percentage. At 46.9%, the Bank's ratio is in excess of the minimum regulatory requirement of 3%.

Further analysis of the Bank's leverage ratio calculation and disclosures set out by the EBA and Basel Committee can be found in appendix 1.

LEVERAGE RATIO	REGULATORY MINIMUM	30 NOVEMBER 2017 £'000s	30 NOVEMBER 2016 £'000s
Total Tier 1 Capital		22,401	7,668
Exposures			
Balance sheet exposure		42,793	9,871
Off Balance sheet exposure		4,965	-
Total Exposures		47,758	9,871
Leverage Ratio	3.0%	46.9%	77.7%

06

CREDIT RISK

6.0 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer, or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Bank's receivables from customers. The risk of financial loss from the Bank's exposures to other financial institutions and investment securities is reported as counterparty credit risk and is reported in section 7.

The Bank's credit risk appetite is set out in its Risk Appetite Statement in appendix 5. The Bank's credit risk arises as a result of its lending activities. The Bank lends to eligible customers as part of its unsecured facilities offered with their personal account. The Bank's risk appetite is reviewed at least annually and approved by the Board.

Credit risks associated with lending are managed through the use of detailed lending policies which outline the approach to lending, underwriting criteria, concentration limits and product terms. The Bank seeks to mitigate credit risk by focusing on areas where it has specific expertise. Credit risk is principally assessed through a retail scorecard process addressing probability of default and affordability.

The Bank has separately managed credit, operational risk and compliance functions and it outsources its internal audit function to BDO. The Executive Risk Committee has oversight responsibility for credit risk at management level and the Board Risk Committee at board level, with Credit Risk MI provided on a regular basis, including comparisons with the Board-approved credit risk appetite.

6.1 Credit Risk: Exposure Values

The Bank's maximum exposure to credit risk after provisions for impairment is as follows:

CREDIT RISK MITIGATION TECHNIQUES OVERVIEW

CREDIT RISK EXPOSURE 30 NOVEMBER 2017

	£'000s	A	B	C	D	E	F	G
CATEGORY	ASSET CLASSES	Exposures unsecured: carrying value	Exposures secured by collateral	Exposures secured by collateral, of which secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which secured amount	Exposures secured by secured derivatives	Exposures secured by secured derivatives, of which secured amount
1	Loans	39,763						
	Cash at Central Banks	35,114						
	Loans & advances to banks	2,572						
	Loans & advances to customers	761						
	Other Assets	1,315						
2	Investment securities	3,030						
3	**Total**	**42,793**						
4	Of which defaulted	-						

6.1 Credit Risk: Exposure Values (CONT.)

£'000	2017	2016
Cash and balances at central banks	35,114	-
Loans and advances to banks	2,572	9,855
Investment securities	3,030	-
Loans and advances to customers	761	-
Other Assets	1,315	16
Total on balance sheet	42,793	9,871
Off-balance sheet treasury bills	-	-
Commitments to lend*	4,965	-
Gross credit risk exposure	47,758	9,871
Less allowance for impairment losses	-	-
Net credit risk exposure	**47,758**	**9,871**

*Commitments to lend represent agreements entered into but not advanced as at 30 November.

The table represents the maximum credit risk exposure to the Bank at 30 November 2017 and 2016. The following table breaks down the Bank's credit risk exposure by asset class and risk weighting. The assets of the Bank are analysed by risk category and given weightings according to the level of risk entailed. Credit risk weightings are determined by the "Standardised Approach" as set out in the CRR.

6.1 Credit Risk: Exposure Values(CONT.)

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION (CRM) EFFECTS (TEMPLATE EU 19 EU CR4)

		A	B	C	D	E	F
	£'000S	EXPOSURES BEFORE CCF & CRM		EXPOSURES POST-CCF & CRM		RWA & RWA DENSITY	
CATEGORY	ASSET CLASSES	ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	RWA	RWA DENSITY
1	Sovereigns and their central banks	38,144	-	38,144	-	-	0%
4	Banks	2,572	-	2,572	-	514	20%
6	Corporates	-	-	-	-	-	0%
7	Regulatory retail portfolio	761	4,965	761	4,965	571	10%
13	Other assets	1,315	-	1,315	-	714	54%
14	**Total**	**42,793**	**4,965**	**42,793**	**4,965**	**1,799**	**4%**

6.1 Credit Risk: Exposure Values (CONT.)

	£'000S	A	C	E	F	G	H	I	J
CATEGORY	RISK WEIGHT ASSET CLASS	0%	20%	50%	75%	100%	150%	OTHERS	TOTAL CREDIT AMOUNT (POST CCF & POST CRM)
1	Sovereigns and their central banks	38,144							38,144
4	Banks		2,572						2,572
6	Corporates			-					-
7	Regulatory retail portfolio	4,965			761				5,726
13	Other assets (*)	292	387			636		0	1,315
14	**Total**	**43,401**	**2,960**	**-**	**761**	**636**	**-**	**0**	**47,758**

*Comprising mainly fixed assets and other debtors.

6.2 Credit Risk: Security

The Bank enters into agreements with customers as part of their personal account overdraft facilities offering and does not take any security in the form of guarantees or cash collateral. The security profile of the loans and advances receivable book is shown below:

£'000	2017	2016
Loans and advances to customers - Unsecured (*)	761	-
Outstanding Credit facilities - Unsecured	4,965	-

(*) Net of Provision for Impairment

The Bank offered overdraft lending in 2017 with initial focus on unsecured lending to personal customers only.

6.3 Credit Risk: Maturity Profile

The table below analyses the Bank's contractual undiscounted cash flows of its financial assets. The table reflects both counterparty credit risk and all other credit risk.

£'000S		CONTRACTUAL CASH FLOWS		
AS AT 30 NOVEMBER 2017	TOTAL	LESS THAN 3 MONTHS	3 MONTHS TO 1 YEAR	GREATER THAN 1 YEAR
Assets				
Cash and balances at central banks	35,114	35,114		
Loans and advances to banks	2,572	2,572		
Loans and advances to customers	761	761		
Investment securities	3,030			3,030
Other Assets	1,315	1,315		
Total	**42,793**	**39,763**	**-**	**3,030**

6.3 Credit Risk: Maturity Profile (CONT.)

£'000S AS AT 30 NOVEMBER 2016	TOTAL	CONTRACTUAL CASH FLOWS LESS THAN 3 MONTHS	3 MONTHS TO 1 YEAR	GREATER THAN 1 YEAR
Assets				
Cash and balances at central banks	-	-		
Loans and advances to banks	9,855	9,855		
Loans and advances to customers	0	0		
Investment securities	-			-
Other Assets	16	16		
Total	**9,871**	**9,871**	**-**	**-**

The main change in the maturity of the Bank's cash flows over the past twelve months has been the increase in cash and balances at Central Banks. This increase reflects increased cash deposits held at the Bank of England. The Bank's liquidity increased in 2017 as a result of the growth in these balances.

6.4 Credit Risk: Geographical Breakdown

All of the Bank's overdrafts are to customers resident in the UK, therefore, the Bank's credit exposure at 30 November 2017 does not have any further geographical breakdown.

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COUNTERPARTY CREDIT RISK / LIQUID ASSETS

7.1 Counterparty Credit Risk / Liquid Assets (CONT.)

The Bank's counterparty credit risk is governed by the bank's risk appetite statement and counterparty credit policy and mainly relates to the management of the bank's liquidity, deposits with service providers or funds in the process of collection. The Bank's counterparty risk arises principally as a result of its nostro accounts (held with Lloyds, Natwest, and Barclays), and its Bank of England reserve account.

The selection of counterparties and the approval of limits is governed by the Bank's Counterparty Credit Policy and involves consideration of background credit rating information as well as up to date credit reports and other market intelligence.

ALCO reviews counterparty exposure on a monthly basis and recommends changes to the Executive Risk Committee for approval. Credit risk weightings for treasury counterparties are determined by the "Standardised Approach" using credit quality steps as set out in the CRR.

7.1 Counterparty Credit Risk / Liquid Assets (CONT.)

The credit ratings and counterparties of the Bank's liquid asset exposures as at 30 November 2017 (on balance sheet) were as follows:

AS AT 30 NOVEMBER £'000		
COUNTERPARTY CREDIT RISK - LIQUID ASSETS	2017	2016
Cash and balances at central banks	35,114	-
Deposits at other banks		
Rated* A or above	2,572	9,617
Unrated	-	-
UK Government Securities	3,030	-
Total	**40,717**	**9,617**

*Ratings based on Moody's long-term rating

7.1 Counterparty Credit Risk / Liquid Assets (CONT.)

The Bank has appointed UK clearing banks with a Moody's credit rating of single-A or above as its bankers. The table below sets out the Bank's counterparty credit risk exposures by regulatory portfolio and risk weight.

COUNTERPARTY CREDIT RISK EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS (TEMPLATE: EU CCR3)

	£'000S	A	C	E	F	G	H	I
CATEGORY	REGULATORY PORTFOLIO / RISK WEIGHT	0%	20%	75%	100%	150%	OTHERS	TOTAL CREDIT EXPOSURE
1	Sovereigns and their central banks	38,144						38,144
4	Banks		2,572					2,572
6	Corporates							-
7	Regulatory retail portfolio	4,965		761				5,726
13	Other assets (*)	292	387		636		0	1,315
14	**Total**	**43,401**	**2,960**	**761**	**636**	**-**	**0**	**47,758**

The Bank has no interest rate derivatives. Its Investment Securities (i.e. UK Gilts) are held to maturity and measured at amortized cost with a nominal value of £3m at 30 November 2017 (2016: nil).
*Comprising mainly fixed assets and other debtors.

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CREDIT QUALITY: IMPAIRMENT & PROVISIONS

8. Credit Quality -Impairment & Provisions

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment and assets are categorised as detailed in the table below:

TYPE OF IMPAIRMENT ASSESSMENT	DESCRIPTION
Individual impairment	Where specific circumstances indicate that a loss is likely to be incurred
Collective impairment	Impairment allowances are calculated on a collective basis, given the homogenous nature of the assets in the portfolio
Neither past due nor impaired	Loans that are not in arrears and have not been subject to forbearance solutions
Past due but not impaired	Loans that are in arrears for less than 90 days or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount
Impaired assets	Loans that are in arrears for more than 90 days or where there is objective evidence of impairment and where the carrying value of the loan exceeds the expected recoverable amount

8. Credit Quality -Impairment & Provisions (CONT.)

The table below provides information on the payment due status of loans and advances to customers at 30 November. All of Starling Bank's overdrafts are unsecured and UK domiciled.

£'000S	30 NOVEMBER 2017	30 NOVEMBER 2016
Neither past due nor impaired	804	
Past due but impaired		
Impaired		
Total	804	
Less allowances for impairment losses	(51)	
Total loans and advances to customers	753	

8. Credit Quality -Impairment & Provisions (CONT.)

Impairment provisions against loans and advances to customers are based on a period end appraisal of recoverability of all advances.

Specific provisions are made against exposures which have been identified as bad or doubtful to reduce the carrying amount, including interest in arrears. The Bank estimates the ultimate net realisable value of the overdrafts to determine the amount of the provision. Provisions are utilised in part or in full when the extent of loss has been confirmed and there is no longer any realistic prospect of recovery.

A collective provision is made against those loans that are not identified as individually impaired. The losses are provided for as a percentage of the total drawn facilities. This percentage is based on management experience, economic and market conditions.

8. Credit Quality -Impairment & Provisions (CONT.)

Impairment provisions against customer loans and advances at 30 November 2017 have been made up as follows:

£'000S	INDIVIDUAL PROVISIONS	COLLECTIVE PROVISIONS	TOTAL PROVISIONS
Balance as at 1 December 2016	-	-	-
Impairment loss for the year			
Charge to Income statement	-	51	51
Write-off net of recoveries	-	-	-
Provisions released	-	-	-
Balance as at 30 November 2017	**-**	**51**	**51**

8. Credit Quality -Impairment & Provisions (CONT.)

All of the Bank's customer overdraft are UK based and are unsecured. The Bank classifies a loan as being in default once a contractual obligation is more than 3 months overdue, where there have been no credits to an overdrawn account for more than 3 months or where there is evidence of impairment at another lender from information received about the borrower from a Credit Reference Agency.

Further disclosures on the Bank's credit quality are included in appendix 2.

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INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

9. Interest Rate Risk in the Banking Book (IRRBB)

The Bank's exposure and risk appetite in respect to Interest Rate Risk in the Banking Book is set out in appendix 5.

To assess the impact of interest rate change, the Bank's assets and liabilities are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

9. Interest Rate Risk in the Banking Book (IRRBB)(CONT.)

The interest rate sensitivity exposure of the Bank at 30 November 2017 was:

At 30 November 2017	Interest Rate Risk in the Banking Book (IRRBB)						
Category	Within 3 months	More than 3 but less than 6 months	More than 6 but less than 1 year	More than 1 but less than 5 years	More than 5 years	Non-interest bearing	Total £'000s
Assets							
Cash and Balances at Central Bank	35,114	-	-	-	-	-	35,114
Loans and advances to banks	2,572	-	-	-	-	-	2,572
Loans and advances to customers	761	-	-	-	-	-	761
Investment Securities	-	-	-	1,043	1,987	-	3,030
Other Assets	-	-	-	-	-	1,315	1,315
Total Assets	**38,448**	**-**	**-**	**1,043**	**1,987**	**1,315**	**42,793**
Liabilities							
Customers accounts	18,083	-	-	-	-	-	18,083
Other liabilities	-	-	-	-	-	2,310	2,310
Total Equity	-	-	-	-	47,850	(25,451)	22,400
Total liabilities	**18,083**	**-**	**-**	**-**	**47,850**	**(23,141)**	**42,793**
Off-balance sheet items							
Notional value of derivatives							
Commitments							
Interest rate sensitivity gap	20,365	-	-	1,043	(45,863)	24,456	-
Cumulative gap	**20,365**	**20,365**	**20,365**	**21,408**	**(24,456)**	**-**	**0**

9. Interest Rate Risk in the Banking Book (IRRBB)(CONT.)

The Bank considers a 200 basis points ("bps") movement to be appropriate for scenario testing given the current economic outlook and industry expectations.

The Bank estimates that a +/-200bps movement in interest rates paid/received would have impacted the overall balance sheet values as follows: +200bps: -£377k (2016: Nil) -200 bps: +£445k (2016: Nil)

This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

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ASSET ENCUMBRANCE

10. Asset Encumbrance

The Bank can use its assets to support collateral requirements for central bank operations or third party repurchase transactions. There were no Assets that have been set aside for such purposes are classified as 'encumbered assets'.

The following tables show the appropriate disclosures in respect of the Bank's encumbered and unencumbered assets during 2017. The tables show the median balance sheet values for the past 12 months basis as prescribed in the regulatory requirements.

- Template A - Overview of encumbered and unencumbered assets
- Template B - The Bank meets the criteria set by the PRA to waive the requirement to report Table B- Characteristics of received collateral. The Bank's Table B return would have in any case have been a nil return in 2017 as we have not encumbered any assets during the period.
- Template C – Encumbered assets/collateral received and associated liabilities have also been excluded as Starling has no encumbered collateral.
- Template D - Disclosures required to meet the requirements of Template D – "Accompanying narrative information on the impact of the business model on assets encumbrance and the importance of encumbrance to the institution's business model" have been included in the above narrative.

10. Asset Encumbrance (CONT.)

F 32.01 (AE-ASS) ASSET ENCUMBRANCE: ENCUMBRANCE OVERVIEW - ASSETS

Template A

£'000s

As at 30 November 2017		Carrying amount of encumbered assets	of which: issued by other entities of the group	of which: central bank's eligible	Fair value of encumbered assets	of which: central bank's eligible	Carrying amount of unencumbered assets	of which: issued by other entities of the group	of which: central bank's eligible	Fair value of unencumbered assets	of which: central bank's eligible
		010	020	030	040	050	060	070	080	090	100
Assets of the reporting institution	010						42,793		37,882		
Loans on demand	020										
Equity instruments	030										
Debt securities	040						3,030		3,030	2,995	2,995
of which: covered bonds	050										
of which: asset-backed securities	060										
of which: issued by general governments	070						3,030		3,030	2,995	2,995
of which: issued by financial corporations	080										
of which: issued by non-financial corporations	090										
Loans and advances other than loans on demand	100						753				
of which: mortgage loans	110										
Other assets	120						39,010		34,852		

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OTHER DISCLOSURE REQUIREMENTS

11. Other Disclosure Requirements

The Bank has:

- No exposures to securitisation positions;
- No trading book;
- Not been identified as having any global or domestic systemic importance;
- All of its credit exposures are in the UK.

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CONCLUSION / CONTACTS

12. Conclusion / Contacts

This Pillar 3 disclosure document has been prepared in accordance with the requirements of the CRD, CRR and the PRA, as appropriate to the size and complexity of Starling Bank Limited.

If a user of these disclosures requires further information please contact:

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APPENDIX 1

Own funds, leverage ratio and reconciling differences between regulatory reported values and financial statements

13. Appendix 1: Own Funds, Leverage Ratio & Reconciling differences between regulatory reported values & financial statements (CONT.)

OWN FUNDS DISCLOSURE

Note Ref	Description	30 November 2017 £'000
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	47,850
2	Retained earnings	(15,119)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	32,731
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	(-) Intangibles assets	(10,330)
9	(-) Deferred taxes	-
28	Total regulatory adjustment to Common Equity Tier 1 (CET1)	(10,330)
29	Common Equity Tier 1 (CET1) capital	22,401
Additional Tier 1 (AT1) capital: instruments		
44	Additional Tier 1 (AT1) capital	-
45	Tier 1 Capital (T1 - CET1 + AT1)	22,401
Tier 2 (T2) capital: instruments and provisions		
58	Tier 2 (T2) capital	-
59	Total capital (TC = T1 + T2)	22,401
60	Total Risk weight assets	17,327
Capital Ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	129.3%
62	Tier 1 (as a percentage of total risk exposure amount)	129.3%
63	Total capital (as a percentage of total risk exposure amount)	129.3%
64	Capital conservation buffer	339
65	Institution specific countercyclical capital buffer	1,134
66	Own funds requirements related to Pillar II adjustments	1,000
67	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	122.2%

13. Appendix 1: Own Funds, Leverage Ratio & Reconciling differences between regulatory reported values & financial statements(CONT.)

LEVERAGE RATIO REGULATORY DISCLOSURES

TABLE LRSUM: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		30 November 2017 £'000s
1	Total assets exposures	42,793
4	Adjustment for derivative financial instruments	-
6	Adjustment for off-balance sheet items	4,965
7	Other Adjustment	-
8	**Leverage ratio total exposure measure**	**47,758**

13. Appendix 1: Own Funds, Leverage Ratio & Reconciling differences between regulatory reported values & financial statements (CONT.)

LEVERAGE RATIO REGULATORY DISCLOSURES (CONT.)

TABLE LRCOM: LEVERAGE RATIO COMMON DISCLOSURE

		30 NOVEMBER 2017 £'000S
1	On-balance sheet items per Financial Statement	53,170
2	Asset amount deducted in determining Tier 1 capital	(10,330)
2	Asset and Liabilities reclass	(48)
3	Total on-balance sheet exposures	42,793
	Derivative exposures	
5	add-on amount for PFE associated with all derivatives transactions	-
11	Total derivatives exposure	-
	SFT exposures	
16	Total securities financing transaction exposures	-
	Off-balance sheet exposures	
19	Total Other off-balance sheet exposures	4,965
	Capital & total exposure measure	
20	Tier 1 capital	22,401
21	Leverage Ratio total exposure measure	47,758
	Leverage Ratio	
22	Leverage Ratio	46.9%

13. Appendix 1: Own Funds, Leverage Ratio & Reconciling differences between regulatory reported values & financial statements(CONT.)

LEVERAGE RATIO REGULATORY DISCLOSURES (CONT.)

TABLE LRSPL: SPLIT-UP OF ON BALANCE SHEET EXPOSURES

		30 NOVEMBER 2017 £'000s
EU-1	Total on-balance sheet exposures, of which:	42,793
EU-5	Exposures treated as sovereigns	38,144
EU-7	Institutions	2,572
EU-8	Retail	761
EU-10	Corporate	-
EU-11	Exposure in default	-
EU-12	Other exposures	1,315

13. Appendix 1: Own Funds, Leverage Ratio & Reconciling differences between regulatory reported values & financial statements(CONT.)

Reconciling differences between regulatory reported values and financial statements (CONT.)

LINKAGE BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES (LI1)

30 November 2017
£'000s

	A	C	D	G
Account type	Carrying value as reported in published financial account	Carrying value of items subject to credit risk framework	Carrying value of items subject to counterparty credit risk framework	Carrying value of items not subject to capital requirements or subject to deduction from capital
Cash and balances at central banks	35,114	-	35,114	-
Loans and advances to banks	2,572	-	2,572	-
Investment securities	3,030	-	3,030	-
Loans and advances to customers*	753	753	-	-
Property, plant and equipment	250	250	-	-
Other assets and prepayments	1,073	1,073	-	-
Intercompany	10,322	-	-	10,322
Property, plant and equipment	250	250	-	-
Intangible assets	9	-	-	9
Deferred taxation	-	-	-	-
Total Assets	**53,124**	**2,076**	**40,717**	**10,331**
Customers' accounts	18,083	-	-	18,083
Derivatives financial Liabilities	-	-	-	-
Other Liabilities and accruals	2,310	-	-	2,310
Total Liabilities	**20,393**	**-**	**-**	**20,393**
Total Equity	**32,730**			**32,730**

*net of collective and specific provisions

13. Appendix 1: Own Funds, Leverage Ratio & Reconciling differences between regulatory reported values & financial statements(CONT.)

Reconciling differences between regulatory reported values and financial statements (CONT.)

MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS (LI2)

30 NOVEMBER 2017
£'000s

		A	B	C
Items	Account type	Items subject to credit risk framework	Items subject to counterparty credit risk framework	TOTAL
1	Assets carrying value amount under the scope of regulatory consolidation*	2,076	40,717	42,793
2	Liabilities carrying value amount under the scope of regulatory consolidation	-	-	-
3	Total net amount under the scope of regulatory consolidation	2,076	40,717	42,793
4	Off balance sheet amounts	4,965	-	4,965
9	PFE - derivatives	-	-	-
10	**Exposure amount considered for regulatory purposes**	**7,041**	**40,717**	**47,758**

The Bank has no assets subject to Market risk or securitisation frameworks

*gross of collective provisions and excluding intangible assets

13. Appendix 1: Own Funds, Leverage Ratio & Reconciling differences between regulatory reported values & financial statements (CONT.)

The following processes and interpretations have been followed to calculate the above carrying values:

- CASH & BALANCES AT CENTRAL BANKS

These represent amounts with an initial maturity of less than 3 months and their carrying value is considered to be the fair value.

- LOANS & ADVANCES TO BANKS

These represent amounts with a maturity of less than 3 months, where adjustments to fair value in respect of the credit rating of the counterparty are not considered necessary as the credit counterparty is rated A and above. The carrying value of the asset is considered to be the fair value after taking into account any provisions.

- INVESTMENT SECURITIES

Where securities are actively traded in a recognised market, with available and quoted prices, these have been used to value these instruments. UK Gilts are held to maturity and measured at amortized cost and reported at their carrying value.

- LOANS & ADVANCES TO CUSTOMERS

The majority of the Bank's lending is via products with a variable interest rate which it considers equivalent to a current market product rate. Therefore, the Bank considers the discounted future cash flows of these overdrafts to be equal to the carrying value.

- CUSTOMERS' DEPOSIT ACCOUNTS

Customers' deposit accounts are administered at variable rates and set at or above current market rate, therefore the Bank regards the fair value to be equal to the carrying value.

13. Appendix 1: Own Funds, Leverage Ratio & Reconciling differences between regulatory reported values & financial statements(CONT.)

TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES (TEMPLATE 7 EU CRB-B)

	As at 30 November 2017 £'000s	A	B
Items	Account type	Net value of exposures at the end of the period	Average net exposures over the period (*)
16	Central governments or central banks	38,144	27,602
21	Institutions	2,572	2,184
22	Corporates	-	0
25	Retails	761	231
28	Exposures at default	-	-
29	Items associated with particularly high risk	-	-
34	Other Exposures	1,315	996
OBS	Off-balance sheet - Lending	4,965	1,842
OBS	Off-balance sheet - Derivatives	-	-
35	Total Standard Approach	47,758	32,855
36	Total	47,758	32,855

The above table includes off-balance sheet exposures in respect of the Bank's lending commitments which give rise to a credit risk exposure.

All of the above exposures are in the UK and therefore template 8 EU CRB-C geographical exposures is not shown separately.

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APPENDIX 2

Additional Credit Risk Disclosures

14. Appendix 2: Additional Credit Risk Disclosures (CONT.)

The following table splits the Bank's loans and advances to customer by industry sector.

CONCENTRATION OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPE (TEMPLATE 9 EU CRB-D)

	As at 30 November 2017 £'000s	A	B	C	D	...	...	...	R	S
Items	Exposure type	Agriculture, forestry, and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air condition supply	...	...	...	Other services	Total
16	Central governments or central banks								38,144	38,144
21	Institutions								2,572	2,572
22	Corporates								-	-
25	Retails								761	761
28	Exposures at default								-	-
29	Items associated with particularly high risk								-	-
34	Other Exposures								1,315	1,315
OBS	Off-balance sheet - Lending								4,965	4,965
OBS	Off-balance sheet - Dzerivatives								-	-
35	**Total Standard Approach**	-	-	-	-	-	-	-	**47,758**	**47,758**
36	**Total**	-	-	-	-	-	-	-	**47,758**	**47,758**

14. Appendix 2: Additional Credit Risk Disclosures (CONT.)

The following table shows the maturity of the Bank's assets. Central governments assets with term maturity comprise of UK Gilts.

MATURITY OF EXPOSURES (TEMPLATE 10 EU CRB-E)

	AS AT 30 NOVEMBER 2017	A	B	C	D	E	F
	£'000	NET EXPOSURE VALUE					
Items	Exposure type	On Demand	<= 1 Year	>1 year <= 5 years	>5 years	No Dated maturity	Total
16	Central governments or central banks			1,043	1,971	35,130	38,144
21	Institutions	2,572					2,572
22	Corporates						-
25	Retails	761					761
28	Exposures at default						-
29	Items associated with particularly high risk						-
34	Other Exposures					1,315	1,315
OBS	Off-balance sheet - Lending	4,965					4,965
OBS	Off-balance sheet - Derivatives						-
35	Total Standard Approach	8,299	-	1,043	1,971	36,445	47,758
36	Total	8,299	-	1,043	1,971	36,445	47,758

14. Appendix 2: Loan impairments, provisions & credit mitigation (CONT.)

The Bank has commenced trading in 2017. Total Loans and advances to customers, representing Credit facilities offered, increased to £5,769k in 2017, of which £804k drawn balances. Specific credit risk adjustments increased to £(51k) at 30 November 2017. This increase represents provisions against drawn facilities which remain unfunded after 90 days. The following tables show further analysis on the split of the Bank's lending and the breakdown of overdraft in arrears and the balance of provisions.

CREDIT QUALITY OF EXPOSURE CALCS AND INSTRUMENT TYPES (TEMPLATE 11 EU CR1 A)

	AS AT 30 NOVEMBER 2017	A	B	C	D	E	F	G
	£'000s	Gross carrying value of		Specific Credit Risk adjustment	General Credit Risk adjustment	Accumulated write-offs	Credit risk Adjustment charges from the prior period	Net values (a+b-c-d-e)
Category	Asset Classes	Defaulted Exposures	Non-defaulted Exposures					
16	Central governments or central banks		38,144					38,144
21	Institutions		2,572					2,572
22	Corporates		-					-
25	Retails		812	51				761
28	Exposures at default		-					-
29	Items associated with particularly high risk		-					-
34	Other Exposures		1,315					1,315
OBS	Off-balance sheet - Lending		4,965					4,965
OBS	Off-balance sheet - Derivatives		-					-
35	Total Standard Approach	-	47,809	51	-	-	-	47,758
36	Total	-	47,809	51	-	-	-	47,758

14. Appendix 2: Loan impairments, provisions & credit mitigation (CONT.)

CREDIT QUALITY OF EXPOSURE CALCS AND INSTRUMENT TYPES (TEMPLATE 12 EU CR1 B)

	AS AT 30 NOVEMBER 2017	A	B	C	D	E	F	G
	£'000s	GROSS CARRYING VALUE OF		Specific Credit Risk adjustment	General Credit Risk adjustment	Accumulated write-offs	Credit risk Adjustment charges from the prior period	Net values (a+b-c-d-e)
Category	Asset Classes	Defaulted Exposures	Non-defaulted Exposures					
01	Agriculture, Forestry & Fishing							
02	Mining & Quarrying							
03	Manufacturing							
04	Electricity, Gas, Steam & Air Conditioning Supply							
05	Water Supply							
06	Construction							
07	Wholesale & Retail Trade							
08	Transport & Storage							
09	Accomodation & Food Service Activities							
10	Information & Communication							
11	Real Estate activities							
12	Professional, Scientific & Technical							
13	Administrative & Support Service Activities							
14	Public Administration & Defence, Compulsory Social Security							
15	Education							
16	Human Health Services & Social Work Activities							
17	Arts, Entertainment & Recreation							
18	Other Services		47,809	51				47,758
19	TOTAL		47,809	51				47,758

14. Appendix 2: Additional Credit Risk Disclosures (CONT.)

Loan impairments, provisions and credit mitigation (CONT.)

AGEING OF PAST-DUE EXPOSURES (TEMPLATE 14 EU CR1-D)

	As at 30 November 2017	A	B	C	D	E	F	G
	£'000	Net Exposure Value						
Items	Exposure type	< 30 days	>30 days < 60 days	>60 days < 90 days	>90 days <180 days	>180 days < 1 Year	> 1 Year	Total
1	Loans (of which:)	38,284	115	47	2	-	-	38,448
-	Central governments or central banks	35,114						35,114
-	Institutions	2,572						2,572
-	Corporates	-						-
-	Retails	598	115	47	2	-	-	761
-	Exposures at default							-
2	Investment Securities	3,030						3,030
3	Other Exposures	1,315						1,315
3	Off-balance sheet - Lending	4,965						4,965
4	**Total Standard Approach**	**47,595**	**115**	**47**	**2**	**-**	**-**	**47,758**
4	**Total**	**47,595**	**115**	**47**	**2**	**-**	**-**	**47,758**

14. Appendix 2: Additional Credit Risk Disclosures (CONT.)

Loan impairments, provisions and credit mitigation (CONT.)

NON-PERFORMING AND FORBORNE EXPOSURES (TEMPLATE 15 EU CR1-E)

As at 30 November 2017	A	B	C	D	E	F	G	H	I	J	K	L	M	N
	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collateral and financial guarantees received		Total exposures net of Provisions & Impairment
£'000	Performing			Non-Performing				Performing		Non-Performing		Non-Performing		
Exposure type	Total Performing	Of which Performing but past due >30 days and <= 90 days	Of which Performing forborne	Total Non Performing	Of which defaulted	Of which impaired	Of which forborne	On Performing exposures	of which forborne	On Non-Performing exposures	of which forborne	On Non-Performing exposures	of which forborne exposures	
Loans (of which:)	38,499	164	-	-	-	-	-	51	-	-	-	-	-	38,448
Central governments or central banks	35,114													35,114
Institutions	2,572													2,572
Corporates	-													-
Retails	812	164						51						761
Exposures at default	-													-
Investment Securities	3,030													3,030
Other Exposures	1,315													1,315
Off-balance sheet - Lending	4,965													4,965
Total Standard Approach	**47,809**	**164**	-	-	-	-	-	**51**	-	-	-	-	-	**47,758**
Total	**47,809**	**164**	-	-	-	-	-	**51**	-	-	-	-	-	**47,758**

Accumulated provisions reflect the specific provisions.

14. Appendix 2: Additional Credit Risk Disclosures (CONT.)

Loan impairments, provisions and credit mitigation (CONT.)

CHANGES IN STOCK OF GENERAL & SPECIFIC CREDIT RISK ADJUSTMENTS (TEMPLATE 16 EU CR2 A)

	AS AT 30 NOVEMBER 2017	A	B
	£'000	ACCUMULATED SPECIFIC CREDIT ADJUSTMENT	ACCUMULATED GENERAL CREDIT ADJUSTMENT
1	**Opening Balance**	-	-
2	Increase due to amounts set aside for estimated loan losses during the period	51	-
3	Decrease due to amounts reversed for estimated loan losses during the period	-	-
4	Decrease due to amounts taken against accumulated credit risk adjustment	-	-
5	Transfer between credit adjustment	-	-
6	Impact of exchange rate differences	-	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	-	-
9	**Closing Balance**	51	-
10	Recoveries on Credit risk adjustments recorded directly to statement of income	-	-
11	Specific credit adjustment directly recorded to the statement of income	-	-

14. Appendix 2: Additional Credit Risk Disclosures (CONT.)

Loan impairments, provisions and credit mitigation (CONT.)

CHANGES IN STOCK OF DEFAULTED AND DEBT SECURITIES (TEMPLATE 17 EU CR2 B)

Category	As At 30 November 2017 - '000s	Gross carrying value defaulted exposures
1	Defaulted loans and debt securities at the end of previous reporting period	
2	Loans and debt securities that have defaulted since the last reporting period	
3	Rturned to non-defaulted status	
4	Amounts written off	
5	Other changes	
6	Defaulted loans and debt securities at the end of reporting period (1+2-3-4+/-5)	

There has been no change in the Bank's use of credit mitigation techniques in 2017. The Bank's credit exposures are 100% unsecured and all repayable on demand. The Bank uses bureaux data to provide ageing of exposures, individual specific provisions and monitoring of credit limits as a credit mitigation method. There is no Cash deposit used as collateral and credit conversion factors have been applied to the Bank's total off-balance sheet exposure.

14. Appendix 2: Additional Credit Risk Disclosures (CONT.)

Loan impairments, provisions and credit mitigation (CONT.)

CREDIT RISK MITIGATION TECHNIQUES OVERVIEW (TEMPLATE 18 EU CR3)

	AS AT 30 NOVEMBER 2017								
	£'000s	A	B	C	D	E	F	G	H
Category	Asset Classes	Exposures unsecured: carrying value	Exposures unsecured: outstanding commitments	Exposures secured by collateral	Exposures secured by collateral, of which secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which secured amount
1	Loan and advances to customers	761	4,965						
2	Investment securities								
3	**Total**	**761**	**4,965**						
4	Of which defaulted								
	Non Financial Earning Assets only Net of provisions								

14. Appendix 2: Additional Credit Risk Disclosures (CONT.)

Loan impairments, provisions and credit mitigation (CONT.)

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION (CRM) EFFECTS (TEMPLATE EU 19 EU CR4)

	As At 30 November 2017	A	B	C	D	E	F
	£'000s	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA & RWA Density	
Category	Asset Classes	On-Balance sheet amount	Off-Balance sheet amount	On-Balance sheet amount	Off-Balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	38,144		38,144			0%
4	Banks	2,572		2,572		514	20%
6	Corporates						0%
7	Regulatory retail portfolio	761	4,965	761	4,965	571	10%
13	Other assets	1,315		1,315		714	54%
14	**Total**	**42,793**	**4,965**	**42,793**	**4,965**	**1,799**	**4%**

*Other assets include the Bank's tangible assets and other debtors

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APPENDIX 3

Counterparty Risk

15. Appendix 3: Counterparty Risk

	AS AT 30 NOVEMBER 2017	ANALYSIS OF COUNTERPARTY CREDIT RISK (CCR) EXPOSURE BY APPROACH (TEMPLATE 25 EU CCR1)					
	£'000S	A	B	C	D	E	F
Category	Counterparty Credit Risk	Replacement Cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)				1.4		
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigaiton (for STFs)						
5	VaR for SFTs						
6	**Total**						

15. Appendix 3: Counterparty Risk

CREDIT VALUATION ADJUSTMENT (CVA) CHARGE (TEMPLATE 26 EU CCR2)

	As at 30 November 2017	A	B
	£'000	EAD post-CRM	RWA
	Total portfolios subject to the advanced CVA capital charge		
1	(i) VaR component (including the 3 x multiplier)		
2	(ii) Stressed VaR component (including the 3 x multiplier)		
3	All portfolios subject to the Standardised CVA capital charge		
4	**Total subject to the CVA capital charge**		

The Bank's credit Valuation Adjustment capital charge is nil as the Bank has not entered into Trading book, Securities Financing Trades or Derivatives instruments.

The Bank has no exposure to counterparty credit risk to central counterparties as defined in template 27 EU CCR8 (exposures due to operations, margins, contributions to default funds) and has therefore not reproduced this table.

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APPENDIX 4

Board Committees Terms of Reference

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Audit Committee

The Audit Committee has been established by the Board to provide an independent interface with the external auditors, to direct the work of the Internal Audit and to provide oversight of the Bank's control environment.

Membership & Meetings

The Committee shall be appointed by the Board. All members of the Committee must be non-executive directors of the Bank. A quorum shall be a minimum of two members.

The Committee will hold meetings as required, but normally quarterly. Meetings may be held in person, by telephone, fax or email as the Committee may decide.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Audit Committee (CONT.)

Responsibilities
The Committee will:

External Audit
• Hold annual meetings with the External Auditors
• Consider the appointment (and on an annual basis the re-appointment) of the External Auditors to the Company and review their performance;
• Following the detailed review of above appointment, make a recommendation to the Board to either
  a. Renew the appointment of the current auditors *or*
  b. Instigate such processes as are necessary to effect a change in the auditing arrangements
• Recommend the audit fee and terms of engagement to the Board;
• Consider and approve the Bank's policy in relation to non-audit services;
• Consider objectivity/independence and obtain confirmation from auditor;
• Review and approve audit plan and scope of audit work;
• Review the draft annual accounts and audit report and recommend approval to the Board of Directors;
• Review any management points identified by the auditors.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Audit Committee (CONT.)

Internal Audit

- Establish an overall work programme for the Internal Audit function;
- Review and approve the audit plan and scope of audit work;
- Review and discuss all reports produced by Internal Audit;
- Consider the appointment (and on an annual basis the re-appointment) of the Internal Auditors to the Company and review their performance.
- Following the review detailed in above appointment, make a recommendation to the Board to either
    - a. Renew the appointment of the current auditors *or*
    - b. Instigate such processes as are necessary to effect a change in the auditing arrangements

Control Environment

- Review and assess the effectiveness of the Bank's control environment. The Committee shall make recommendations to the Board as appropriate on the above.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Audit Committee (CONT.)

Delegated Authority
The Committee is authorised by the Board to handle any activity within its Terms of Reference, authorised to seek any information it requires from any employee, and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Limitations on Authority
The Committee shall have no authority to commit the Company to unbudgeted expenditure or new areas of activity other than where delegated to do so by the Board.

Reporting
The Committee will maintain Minutes and these will be copied to the Board.

Review
The Terms of Reference for the Committee will be reviewed annually.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Nominations & Remuneration Committee

The Nominations and Remuneration Committee has been established by the Board to oversee the appointment, remuneration and other benefits of all Directors and Executive Management and to make recommendations as appropriate to the Board concerning such matters.

Membership and Meetings

The Committee shall be appointed by the Board. All members of the Committee shall be non-executive directors of the Bank. The Chief Executive Officer may attend meetings, or parts of meetings, as required. A quorum will be a minimum of two members (One Independent Non-Executive Director, One Investor Director).

The Committee will hold meetings at least twice per year but as required. Meetings may be held in person, by telephone, fax or email as the Committee may decide.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Nominations & Remuneration Committee (CONT.)

Responsibilities — The Committee will

- Review the structure, size and composition required of the Board.
- Consider the appointment of new Executive and Non-Executive Directors.
- Prepare all new Directors and Executive Management contracts and/or remuneration arrangements.
- Review all Directors and Executive Management's remuneration arrangements.
- Oversee and implement the operation of the Annual Bonus Scheme and any discretionary bonus payments.
- Review annually all staff remuneration levels together with the Chief Executive Officer.
- Ensure all responsibilities are undertaken with due consideration given to the Bank's Strategic plan, its Business Plan, Board approved policies and conduct risks, specifically those associated with remuneration.
- Consider the Remuneration policy for recommendation to the Board for approval.

The Committee shall make recommendations to the Board as appropriate on the above.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Nominations & Remuneration Committee (CONT.)

Limitations on Authority
The Committee shall have no authority to commit the Company to unbudgeted expenditure or new areas of activity other than where delegated to do so by the Board.

Delegated Authority
The Committee is authorised by the Board to handle any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Reporting
The Committee shall maintain Minutes and these will be copied to the Board.

Review
The Terms of Reference for the Committee will be reviewed annually.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Risk & Compliance Committee

The Risk and Compliance Committee has been established by the Board to determine a structure for risk management to operate effectively and ensure that the Company operates within the overall risk appetite approved by the Board, in order
to achieve its business/corporate objectives. The committee will also provide oversight of the Bank's Risk and Compliance function.

Membership and Meetings

The Committee shall be appointed by the Board and shall comprise a minimum of three members of which a majority of Independent Non-Executive Directors, and Investor Directors. A quorum shall be two members.

The Committee will normally hold meetings monthly and at least quarterly and report to the Board at each Board meeting.

Responsibilities

The principle objectives of the Committee are to identify, control and manage the risks inherent in the Company (including conduct / compliance risk) ensuring that these risks are fully documented for approval, and to recommend to the Board on appetite of risk statement.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Risk & Compliance Committee (CONT.)

Other responsibilities will include:

- To review the Risk Register
- To Approve the Terms of Reference and responsibilities of the Credit Committee and the Assets and Liabilities Committee (ALCO) and receiving minutes from these Committees.
- Consider and recommend for approval by the Board the following policies:

- Anti-Bribery and Corruption
- Anti-Fraud
- Anti-Money Laundering and Counter Terrorist Finance
- Complaint Handling
- Conduct Risk
- Counterparty
- Customer Acceptance and Identification Procedures
- Foreign Exchange
- Interest Rate Risk in the Banking Book
- IT and Data Protection
- Lending
- Liquidity
- Pillar 3
- Risk Management

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Risk & Compliance Committee (CONT.)

Other responsibilities (cont.)

- To approve any recommendations made by ALCO for amendments to the authorised list of counterparties and limits, to initiate any changes to this list and instruct ALCO to act accordingly.
- To assess and sanction lending recommendations made by the Credit Committee that fall outside its delegated lending authority.
- In order to consider these risks, to understand the strategies and business/corporate objectives, and the key factors used to measure performance.
- To ensure that the Risk Management systems, including people and processes, are appropriately resourced.
- To review risk related Management Information to understand and manage the overall risk position of the bank, making recommendations to the board as appropriate.
- To ensure that the Company has a culture that promotes openness and challenge.
- To ensure that the Company has a culture that embeds the principles of good customer outcomes and Treating Customers Fairly (TCF), and to provide oversight and Conduct Risk and TCF related Management Information to the Board.
- To consider whether the Board is fulfilling its risk oversight obligations and to recommend any training needs, either for individuals or for the whole Board.
- To consider any emerging or inter-related risks that may impact the Company and any training requirements as a result.
- To ensure there is a satisfactory relationship with and between other areas of the business e.g. Strategy, Risk, Controls, Compliance, Remuneration and Resources
- Establish the overall work programme of the Compliance function
- Review and discuss all reports produced by the Compliance function.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Risk & Compliance Committee (CONT.)

Delegated Authority

The Committee is authorised by the Board to handle any activity within its Terms of Reference. authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Limitations on Authority

The Committee has no authority to commit the Company to unbudgeted expenditure or new areas of activity other than where delegated to do so by the Board.

Reporting Procedures

The Committee shall maintain Minutes and theses will be copied to the Board.

Review

The Terms of Reference for the Committee will be reviewed annually.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Executive Committee

The Executive Committee is an Executive Committee established by the Board to manage the activities of the Company on an on-going basis, within the framework of the Business Plan and subject to the overall control of the Board.

Membership and Meetings

The Committee will consist of: The Chief Executive Officer (Chairman), the Chief Risk Officer, the Chief Financial Officer, the Chief Customer Officer. A quorum will be a minimum of two members, at least one of whom are the Chief Executive Officer or the Chief Finance Officer. The Committee will hold meetings as required, but normally at least monthly. Where, because of staff holidays, absences through sickness, other unforeseen absences or emergencies a quorum of the Committee cannot be convened as required, then the Committee may itself co-opt additional members to remedy the position on a temporary basis. A majority of the Committee must approve the temporary appointments and the matter must be reported to the Board. The temporary appointments will be limited to such number of additional members as is required to make the Committee quorate, and shall continue for only so long as the situation which gave rise to the lack of quorum persists. On the temporary appointment terminating, the matter will be reported to the Board. Regular attendance of business Directors who are members of the Business Management Group will be arranged as necessary on non-voting terms.

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Executive Committee (CONT.)

Delegated Authority
The Committee is authorised by the Board to handle any activity within its Terms of Reference. authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee. The Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Limitations on Authority
The Committee shall have no authority to commit the Company to unbudgeted expenditure or new areas of activity other than where delegated to do so by the Board.

Reporting
The Committee shall provide Minutes of its own and sub committees and these shall be copied to the Board, together with a verbal report to each Board meeting as required.

Review
The Terms of Reference for the Committee will be reviewed annually

16. Appendix 4: Board Committees Terms of Reference (CONT.)

Executive Committee (CONT.)

Responsibilities — The Committee will be responsible for:

- Implementation of the strategic objectives of the Bank in accordance with the Business Plan and compliance with the Company's Budget
- All day to day operational issues of the Bank which are delegated to the Business Management Group
- Reviewing draft Board papers prior to finalisation and submission to the Board
- Creating, developing and recommending the ICAAP for Board approval
- Approving the Terms of Reference and responsibilities of the Business Management Committee, the Product Committee and the Marketing Committee, and receive Minutes from these committees.
- Ensuring all responsibilities are undertaken with due consideration given to the Bank's Strategic plan, its Business Plan, Board approved policies and good customer outcomes.
- Formulation of the following policies for recommendation to the Board for approval: Anti/Bribery and Corruption / Anti-Fraud / Anti/Money Laundering & Counter Terrorist Finance / Board Governance and Control / Complaint Handling / Conduct Risk including Treating Customers Fairly / Conflict of Interest including Gifts & Hospitality / Corporate and Social Responsibility / Customer Acceptance and Identification Procedures / Data Retention /Environment and Sustainability / Expenditure Policy / Freedom of Information Act Policy / IT and Data Protection / Risk Management / Recruitment and Selection / Remuneration / Staff Rules and Regulations / Tax Risk / Whistleblowing

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APPENDIX 5

Risk Appetite Statements

17. Appendix 5: Risk Appetite Statements (CONT.)

The types of risk, to which the Bank is exposed are:

- Strategic Risk
- Capital Risk
- Credit Risk
- Liquidity Risk
- Funding Risk
- Conduct Compliance and Regulatory Risk
- Operational Risk
- Market Risk, including Interest Rate Risk in the Banking Book (IRRBB)
- Treasury Counterparty Risk

The Risk Appetite statements below describe each risk, articulate the Bank's appetite and set out how performance against Risk Appetite is assessed and reported.

17. Appendix 5: Risk Appetite Statements (CONT.)

Strategic Risk

Strategic Risk for the Bank is the risk that it fails to execute its strategic plan due to either internal or external factors.

- the Bank has little appetite for significant variance from the strategic plan or budget, without Board approval. The Bank seeks to meet all promises to shareholders in terms of delivering strategy, budgets and published targets.
- the Bank only has an appetite for strategic risk where it supports its business model, sustainable growth, operational efficiency, high quality lending and a conservative approach to funding and liquidity. Regular financial and balance sheet MI is presented to the Board to enable it to monitor actual performance against budgeted performance. In addition, any planned or inadvertent deviation from the agreed strategic plan is discussed by the Board.

17. Appendix 5: Risk Appetite Statements (CONT.)

Capital Risk

Capital Risk for the Bank is the risk that it fails to hold enough capital resources to meet its regulatory capital requirements.

- the Bank's Board will not accept a level of capital resources that is less than the regulatory capital requirement in either normal or stressed scenarios.
- the Bank will maintain a conservative level of tier one capital based on a percentage of risk weighted assets On a monthly basis, both the Bank's capital adequacy position and a rolling 12 months forecast are produced and reported to ALCO and Risk & Compliance Committee members. Furthermore, an Early Warning Indicator (EWI) system is in place to highlight any potential future issues and prompt remedial action.

17. Appendix 5: Risk Appetite Statements (CONT.)

Credit Risk

Credit Risk for the Bank is the risk of a reduction in earnings, and/or value, as a result of a counterparty failing to meet, in a timely manner, a commitment that they have entered into with the Bank.

- the Bank has no appetite for arrears or bad debt that would create material volatility in earnings.
- the Bank has no appetite for unplanned material concentrations within its lending portfolios.
- the Bank has a controlled appetite for providing unsecured lending to personal accounts mitigated by Risk limits and Credit quality monitoring.

The Bank's primary aim is to lend money to small and medium sized enterprises. It recognises that some losses are inevitable through the full range of the economic cycle, but desires low overall losses and stable earnings in line with its strategic risk appetite. The Bank has implemented portfolio level protocols across its major business lines, setting out limits and EWIs on credit risk and portfolio concentrations. Key Risk Indicators (KRIs) relating to the lending book are produced and reported on a daily basis. Furthermore, risk positions are reported monthly to Credit Committee and Risk & Compliance Committee members.

17. Appendix 5: Risk Appetite Statements (CONT.)

Funding Risk

Funding Risk for the Bank is the risk that it is unable to raise funds at an acceptable price or to access markets in a timely manner.

- The Bank's funding Risk Appetite is defined as ensuring that the Bank has access to sufficient and diverse financial resources (in terms of source, type and tenor) to fund the Bank and maintain a sound level of liquidity.

At all-times the Bank requires that it has sufficient liquid assets to meet its liabilities as and when they fall due. To ensure that this is the case over the longer term, the Bank seeks to ensure that there are no significant spikes of refinancing risk exposure, that there is a long maturity profile of liabilities and that excessive concentrations of depositor types, deposit tenors and deposit maturity dates are avoided. Risk exposures are monitored daily and reported monthly to both ALCO and Risk & Compliance Committee members. The Bank monitors funding risk using a range of sources and metrics including the ratio of deposits to loans.

17. Appendix 5: Risk Appetite Statements (CONT.)

Liquidity Risk	*Liquidity Risk for the Bank is the risk that it is unable to meet its short to medium term commitments as they fall due or that they can only be met at an uneconomic price.*	• At all-times the Bank requires that it has sufficient liquid assets to meet its liabilities when they fall due.
	To ensure that this is the case over the short to medium term, the Bank seeks to attract liquidity from a diverse range of sources and monitors day to day liquidity against indicators including:	• The CRD IV Liquidity Coverage Ratio; and • The Survival Days measure. Risk exposures are monitored daily and reported monthly to ALCO and Risk & Compliance Committee members.

17. Appendix 5: Risk Appetite Statements (CONT.)

Conduct, Compliance & Regulatory Risk

Conduct Risk for the Bank is the risk that its customers suffer loss or detriment due to failures in product design, sales marketing processes and operational delivery or failures in the behaviour or ethics of its staff or its third-party distributors / suppliers. Compliance & Regulatory Risk is the risk that non-compliance with laws or regulation could give rise to fines, litigation, sanctions and the potential for material adverse impact on the Bank.

- the Bank has zero tolerance for any material breach of laws or regulations. The Bank defines "material" as being of a significance that would expose the Bank or its management to legal or regulatory sanction.
- the Bank has zero tolerance for any consciously unfair treatment of customers. Any accidental unfair treatment will be remediated as soon as the Bank becomes aware and root cause analysis undertaken to prevent recurrence.
- the Bank seeks at all times to protect its good name in the management of the Bank and its customer relationships.
- the Bank has zero tolerance for any consciously unethical behaviour by its staff. Again, any unconsciously unethical behaviour will be remediated and subject to root cause analysis to prevent recurrence. Oversight of Conduct, Compliance & Regulatory Risk is provided by a number of bodies including: Audit Committee, Risk & Compliance Committee, Executive Committee, Product Committee and the Compliance Team. Regular MI is provided to both Risk & Compliance Committee and Audit Committee.

17. Appendix 5: Risk Appetite Statements (CONT.)

Operational Risk

Operational Risk for the Bank is the risk that failures arising from inadequate or failed internal processes, people and systems or from external events that may cause monetary loss, service disruption or customer detriment.

- the Bank accepts that operational risk cannot be fully eliminated and applies a cost/benefit approach to limit its exposure with a focus on protecting its earnings, information assets, customer service, legal and regulatory compliance, and reputation.
- the Bank has a minimal appetite for failures caused by inadequate systems, processes or procedures that could materially impact its ability to service customers. The Bank has a low tolerance for operational losses; however, the Bank recognises that some operational losses are inevitable. Both losses and near misses are reported to Risk & Compliance Committee. The Bank continues to invest in data and IT security. All staff have received training and attended presentations during 2017 to ensure they remain aware of the threat of cyber-attacks and the detective and preventative measures they can employ.

17. Appendix 5: Risk Appetite Statements (CONT.)

Market Risk, (this includes Interest Rate Risk in the Banking Book (IRRBB))

Market Risk for the Bank is the risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities. Market Risk can take many forms, but the Bank's only significant exposure relates to IRRBB. The Bank monitors its exposure to changes in interest rates based on two measures:

- Repricing risk exposure - the exposure to timing mismatches between when assets and liabilities re-price; and
- Basis Risk exposure – the exposure to assets and liabilities being linked to different interest rate bases (Bank Base Rate, LIBOR etc.), which do not move in parallel with each other. All risk limits are monitored regularly and reported monthly to both ALCO and Risk & Compliance Committee members.
- Starling will not take any proprietary (own account) trading position other than arising from customer-related activities.

17. Appendix 5 Risk Appetite Statements (CONT.)

Treasury Counterparty Risk	Treasury Counterparty Risk for the Bank is the risk of wholesale Treasury counterparties being unable or unwilling to meet a commitment that they have entered into with the Bank. • The Bank has a zero tolerance for losses relating to the failure of treasury counterparties. • As such, the Bank will only invest in institutions that meet minimum credit quality criteria. In addition, no limit for an individual counterparty or group of related counterparties, will exceed 100% of the Bank's capital except for limits to zero risk-weighted Central Banks and Sovereigns. • The risk exposure limits are monitored daily and performance against these is reported monthly to both ALCO and Risk & Compliance Committee members.

17. Appendix 5: Risk Appetite Statements (CONT.)

Embedding of Risk Appetites within the Business

- **STRATEGIC PLANNING**

The Bank's risk appetite is a key input into strategic and financial planning decisions. Risk appetite tolerances are also tested in the stress testing work undertaken relating to the adequacy firm's capital and liquidity requirements. This allows the Bank to compare its appetite for risk with its capacity to take risk.

- **RISK LIMITS**

The Bank's risk appetite statements, both overarching and supporting, are linked to the day-to-day running of the business through individual Key Risk and Early Warning Indicators, which are managed through policies and protocols under the oversight of the Board and its sub-committees.

- **MANAGEMENT INFORMATION**

In order to monitor the Bank's performance against stated risk appetites, the Board and its sub-committees receive regular management information containing key current and forecast metrics linked to the risk appetite statements.

STARLING BANK

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