STARLING BANK

# Pillar 3


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Starling Bank Limited | Capital Requirements Directive Pillar 3 Disclosures November 2018

# 01 INTRODUCTION

## 1.1. Purpose

This document comprises Starling Bank Limited's ('Starling' or 'the Bank') Pillar 3 disclosures on capital and risk management at 30 November 2018. It has two principal purposes:

1. 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 and Committees; and
   - Information quantifying the Bank's assets and capital resources.
2. 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 and joint accounts ("Personal Current Account or PCAs"), micro-businesses ("Business Current Account or BCAs") and sole traders ("Sole Traders Account or STAs).

Established in June 2014, Starling is controlled by private investors, with the majority held by JTC Starling Holding 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 phone on API 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 2018 the Bank had total operating costs of £26,854k and reported a loss after tax of £25,070k. Total capital at 30 November 2018 was £27,999k. The Bank employed an average of 193 (2017:92) full time equivalent employees during the year and had 279 employees at 30 November 2018.

## 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.

The CRD regulations split the Bank's capital resources and reporting requirements into 3 pillars:

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# INTRODUCTION
(Continued)

### 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 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 under Part Eight of Regulation (EU) No 575/2013. In 2017, the Prudential Regulation Authority published a Consultation Paper (CP12/17) proposing that firms should disclose their Total Capital Requirement, which would enable market participants to understand each firm's Pillar 2A capital requirement enacted by Policy Statement PS30/17 "Pillar 2A capital requirements and disclosure". The Bank has 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.

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# INTRODUCTION
(Continued)

| EBA Template | 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 | Not applicable - Starling Bank is reporting as Solo entity |
| 4 | EU OV1 – Overview of RWAs | Section 5.2 |
| 5 | EU CR10 - IRB | Not Applicable - Starling Bank uses the standardised approach |
| 6 | EU INS1 | Not applicable – 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 | Appendix1 |
| 10 | EU CRB-E – Maturity of exposures | Appendix2 |
| 11 | EU CR1-A – Credit quality of exposures by exposure class and instrument | Appendix2 |



| EBA Template | Description | Location in Document |
|---|---|---|
| 12 | EEU CR1-B – Credit quality of exposures by industry or counterparty types | Appendix2 – Not Applicable |
| 13 | EU CR1-C – Credit quality of exposures by geography | Appendix2 – Not Applicable |
| 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 |
| 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 | Not applicable 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 – Not Applicable |

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(Continued)

| EBA Template | Description | Location in Document |
|---|---|---|
| 29-30 | IRB / IMM templates | Not applicable as Starling Bank does not use IRB/IMM approach |
| 31 | EU CCR5-A – Impact of netting and collateral held on exposure values | Appendix3 – Not Applicable |
| 32 | EU CCR5-B – Composition of collateral for exposures to CCR | Section 7 – Not Applicable |
| 33 | EU CCR6 – Credit derivatives exposures | Section 7 – Not Applicable |
| 34-38 | Market risk templates | Not applicable 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 2018 (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 Audited Financial Statements for the year ended 30 November 2018. 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 2018 financial statements. The processes for preparing this disclosure are set out in the Bank's Pillar 3 policy.

Starling Bank Limited is monitored and reports its risk exposures on a solo-consolidated basis for Regulatory reporting with effect from 1 December 2018, following permission from the PRA, it uses the Individual Consolidation method in accordance with Article 9 of Regulation 575/2013 of the European Parliament and European Council (the "CRR"), and has incorporated in the calculation of its requirement under Article 6 (1) of the CRR, its ancillary undertaking, Starling FS Services Ltd. The Bank's FRN registration number is 730166. The registered office is 3rd Floor, 2 Finsbury Avenue, London, EC2M 2PP.

### 1.5. Directors

Starling Bank has 2 Executives and 7 Non-Executive Directors on its Board. A summary of their experience and confirmation of any other directorships is disclosed on the Bank's website (www.starlingbank.com).

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

# 02
# GOVERNANCE AND COMMITTEES

The Board is Starling Bank's primary governing body and is responsible to the shareholders for delivering the strategy 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:

- 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, and
- 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.
- The Board is supported by sub-committees, being:

## Board Level Committees (subject to full Terms of Reference as summarised below)

### Board Risk Committee

- The Board Risk Committee's duties and responsibilities include:
  - Defining and submitting for Board approval risk management principles, frameworks and policies within the enterprise-wide risk management framework (ERMF) 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;
  - Promoting a culture of risk awareness across the Bank;
  - Providing feedback to the remuneration Committee;
  - Advising the Audit Committee and/or the Board on the adequacy of the risk-related disclosures in the annual report and accounts, Pillar3 disclosures and any other risk-related disclosures in the public domain;
  - 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:
  - 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;
  - 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.

### Board Remuneration Committee

- The Board Remuneration Committee's duties and responsibilities include:
  - 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;
  - 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.

### Board Nomination Committee

- The Board Nomination Committee's duties and responsibilities include:
  - Regularly reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes. The committee will also have responsibility for approving any changes to the structure and makeup of the Executive management team;
  - Considering succession planning for directors and other senior executives;
  - Identifying and nominating candidates, for the approval of the Board, to fill Board vacancies;
  - Reviewing the leadership needs of the organisation, both executive and non-executive to ensure that Starling can compete effectively in the marketplace.

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# GOVERNANCE AND COMMITTEES

(Continued)

### 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, policies and on-going monitoring, 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

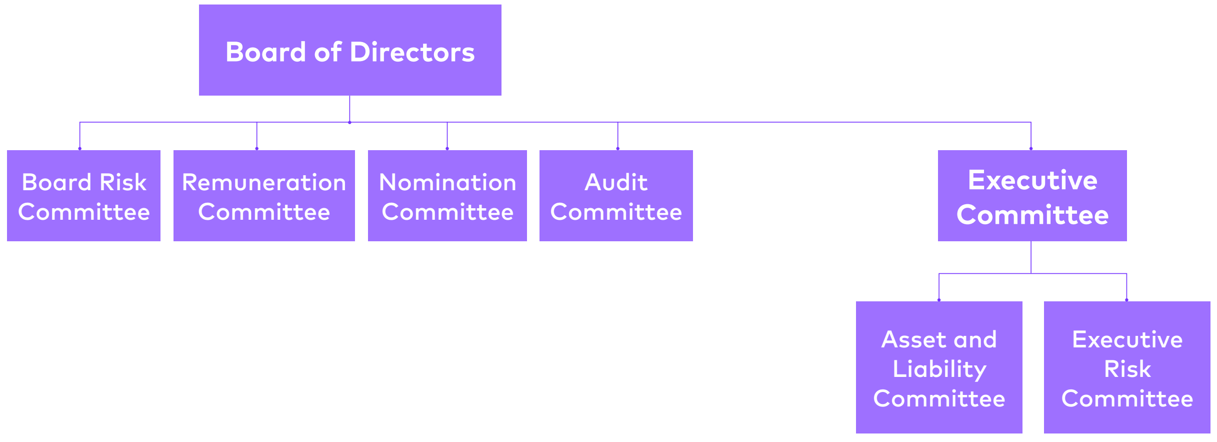
#### Executive Risk Committee (ERC)

- 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 and receive reports from the Product and Conduct Committee, Credit Risk Committee and Operational Risk Committee.

#### Asset & Liability Committee (ALCO)

- 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.

### Governance Structure



03

# RISK MANAGEMENT OBJECTIVES AND 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, cash flows, or result in poor customer outcomes.

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 the UK's Financial regulators.

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 the development of ERMF and supporting policy framework which sets out the Bank's approach to managing risks, and for the provision of independent oversight and challenge.<br>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. |
| **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. |

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# RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

The first line is responsible for owning, 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. It owns the risk policy framework 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 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.

### 3.1. Risk Oversight, Monitoring and 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 Chief Risk Officer's 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 last approved by the Board in March 2018.

### 3.2. Risk Appetite Introduction

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 Adequacy Risk
- Credit Risk (including Lending Concentration Risk)
- Funding & Liquidity Risk
- Market Risk (including Interest Rate Risk in the Banking Book)
- Operational Risk
- Conduct & Culture Risk
- Compliance Risk
- Brexit

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# RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

### 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 its strategy is sub-optimal, not well understood or is poorly executed due to inadequate planning or resources. | • 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.<br>• 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 Adequacy Risk | The risk that it fails to hold enough capital resources to meet both its regulatory capital and its business operating requirements under the business plan or in a stress environment. | 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.<br>• The Bank will maintain a conservative level of tier one capital based on a percentage of risk weighted assets.<br>• 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 that actual or expected losses are higher than planned due to market deterioration, poor underwriting (including scorecard ineffectiveness) or poor ongoing management of the credit portfolio. | • The Bank has no appetite for arrears or bad debt that would create material volatility in earnings.<br>• The Bank has no appetite for unplanned material concentrations within its lending portfolios.<br>• The Bank has a controlled and measured appetite for unsecured lending mitigated with maximum overdraft limits per individual. |
| Funding and Liquidity Risk | The risk that it is unable to raise funds at an acceptable price or to access markets in a timely manner.<br>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. | • 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.<br>• At all-time the Bank requires that it has sufficient liquid assets to meet its liabilities when they fall due.<br>• The Bank will not accept risk that would cause its 5-day cumulative outflow to exceed 75% of its High Quality Liquid Assets. |
| Conduct, Compliance and 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.<br>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.<br>• 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.<br>• The Bank seeks at all times to protect its good name in the management of the Bank and its customer relationships.<br>• 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. |
| 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. |

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# RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

| Risk | Definition | Appetite |
| --- | --- | --- |
| **Operational Risk (cont)** | 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 has a minimal appetite for failures caused by inadequate systems, processes or procedures that could materially impact its ability to service customers.<br>• 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, income or costs. | • 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:<br>• Repricing risk exposure – the exposure to timing mismatches between when assets and liabilities re-price; and<br>• 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. |

Brexit Note:

| Risk | Definition | Appetite |
| --- | --- | --- |
| **Brexit Risk** | The risk that the UK's proposed withdrawal from the European Union (EU) either will not be in orderly manner or will be a sudden departure; either could cause a shock to the UK economy. | • The Bank accepts that Brexit can have adverse impacts on the UK economy and is not considered to have a direct impact on the Bank's business model, which depend on assessment of the future economic environment and the Group's future prospect and performance.<br>• In modelling its regulatory capital requirements for its ICAAP, the Bank has assessed the effect of a severe shock to the UK economy; the result of this stress test is that the Bank has sufficient capital to withstand such an event. |

### 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

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 SS8/13 '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 2017 through to 30 November 2018. 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 opposite 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.

| | | | 2018 | 2017 |
|---|---|---|---|---|
| | **Remuneration Amount** | | **Senior Management** | **Senior Management** |
| 1 | **Fixed remuneration** | **Number of employees** | **20** | **17** |
| | | | **£'000** | **£'000** |
| 2 | | **Total fixed remuneration (3 + 5 + 7)** | **3,033** | **2,778** |
| 3 | | of which: cash-based | 2,737 | 2,696 |
| 4 | | of which deferred | | |
| 5 | | of which: shares or other share-linked instruments | 296 | 82 |
| 6 | | of which deferred | | |
| 7 | | of which: Other forms | | |
| 8 | | of which deferred | | |
| 17 | **Total remuneration (2)** | | **3,033** | **2,778** |

The Bank has no variable renumeration, hence rows 9–16 are not disclosed.

# 05
# 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 Total Capital Ratio (TCR) for each bank in excess of the minimum resources requirement of 8%. A key input to the TCR 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, the Board Risk Committee and to 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.

The TCR of the Bank set by the Regulator for the year ending 30 November 2018 is 9.3%.

As at 30 November 2018, the Bank's capital base comprised of £14,778k of CET 1 compliant Tier 1 capital and there was 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, 2017 inter-company account with Starling FS Services Limited (the Bank's wholly owned subsidiary which is treated as connected funding of capital nature).

The total assets of the Bank at 30 November 2018 were £234,669k. The eligible capital resources at 30 November 2018 totalled £14,778k.The tables below set out the Bank's capital resources at 30 November 2018, reconciles these resources to the Bank's reported regulatory capital and shows the Bank's capital ratios as at 30 November 2018.

| £'000s | 30 November 2018 | 30 November 2017 |
|---|---|---|
| Tier1 | | |
| Ordinary share capital | 5 | 5 |
| Share Premium | 67,784 | 47,846 |
| Retained earnings | (39,790) | (15,120) |
| **Total Equity** | **27,999** | **37,731** |
| Deductions: Intangibles Assets | (13,221) | *(10,330) |
| **Total Common Equity Tier1 Capital** | **14,778** | **22,401** |
| Tier2 | | |
| Total Tier 2 capital | - | - |
| **Total regulatory capital** | **14,778** | **22,401** |

| £'000s | 30 November 2018 | 30 November 2017 |
|---|---|---|
| Equity as per statement of financial position | 27,999 | 37,731 |
| Regulatory adjustment | | |
| (-) Intangible assets (*) | (13,221) | (10,330) |
| (-) Deferred Taxes | - | - |
| **Total regulatory capital** | **14,778** | **22,401** |

| % | 30 November 2018 | 30 November 2017 |
|---|---|---|
| Common equity Tier1 capital ratio | 34.5% | 129.3% |
| Tier1 capital ratio | 34.5% | 129.3% |
| **Total capital ratio** | **34.5%** | **129.3%** |

(*) 2017 Includes Interco deduction with Starling FS Services Limited

- The 2018 capital ratios, profits and reserves and operational risk charges as at 30 November 2018 have been audited and verified;
- The Principal Investor subscribed for a further £20m Share premium, in April 2018 (£10m) and September 2018 (£10m)
- The Bank's Own Funds are disclosed in the regulatory CRR format in appendix 1.

# 05
# CAPITAL RESOURCES
(Continued)

### 5.1. 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 2018 of £2,264k was agreed with the PRA at the time of authorisation. This has been translated into a Notional Risk Weighted amount of £28,300k (based on its income projections for 2017-2019) for deriving its Basic Indicator.

### 5.2. Risk Weighted Exposure Amounts and 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

| Overview of RWA (OV1) £'000 / 30 November | | | Risk Weighted Assets | | Minimum Capital Requirements | |
|---|---|---|---|---|---|---|
| **CRR Article** | **Notes** | **Description** | **2018(*)** | **2017(*)** | **2018** | **2017** |
| | 1 | Credit risk (excluding CCR) | 13,536 | 1,799 | 1,083 | 144 |
| Art 438 (c) (d) | 2 | Of which Standardised approach (SA) | 13,536 | 1,799 | 1,083 | 144 |
| Art 107 | 6 | Counterparty credit risk (CCR) | - | - | - | - |
| Art 438 (c) (d) | 9 | of which Standardised approach (SA) | - | - | - | - |
| Art 438 (f) | 23 | Operational risk | 28,300 | 15,528 | 2,264 | 1,242 |
| | 24 | of which Basic Indicator approach | 28,300 | 15,528 | 2,264 | 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** | **41,836** | **17,327** | **3,347** | **1,386** |

*after the application of SME factor where appropriate as at 30th November 2018

# 05
# CAPITAL RESOURCES
(Continued)

## Credit risk exposure and capital requirement

The tables below show the Bank's exposures at 30 November 2018 by exposure class, net of provisions.

**Credit Risk Exposure 30 November 2018**

| Exposures Breakdown | Exposure Value | Risk Weighted Exposure Value | Minimum Pillar 1 Capital Requirement (8% x risk weight) |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Government and Central banks | 189,548 | - | - |
| Institutions | 3,309 | 662 | 53 |
| Corporates | 74 | 37 | 3 |
| Retail | 8,798 | 6,599 | 528 |
| Exposures in default | - | - | - |
| Covered bonds | 15,026 | 3,005 | 240 |
| Other items | 4,886 | 3,233 | 259 |
| **Balance sheet Exposure** | **221,641** | **13,536** | **1,083** |
| Off Balance sheet commitments | 30,518 | - | - |
| Off Balance sheet Treasury bills | - | - | - |
| Total Exposure | 252,159 | 13,536 | 1,083 |
| Operational risk capital requirement | 28,300 | 28,300 | 2,264 |
| Credit Value adjustment | - | - | - |
| Total Pillar1 Capital requirement | 280,459 | 41,836 | 3,347 |

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

## Credit risk exposure by type

**Credit Risk Exposure 30 November 2018**

| Exposures Breakdown | Exposure Type | Exposure Value |
|---|---|---|
| | | £'000 |
| Government and Central banks | Repayable on demand | 186,568 |
| | Debt Securities amortized at cost | 2,980 |
| Institutions | Repayable on demand | 3,309 |
| Corporates | | 74 |
| Retail | | 8,798 |
| Exposures in default | | 0 |
| Covered bonds | | 15,026 |
| Other items | | 4,886 |
| Balance sheet Exposure | | 221,641 |
| Off Balance sheet commitments | | 30,518 |
| Off Balance sheet Treasury bills | | 0 |
| Total Exposure | | 252,159 |
| Operational risk capital requirement | | 28,300 |
| Credit Value adjustment | | 0 |
| Total Pillar1 Capital requirement | | 280,459 |

# 05 CAPITAL RESOURCES

(Continued)

### Credit risk exposure – on and off-balance sheet reconciliation

The difference between the total credit risk exposures shown above of £252,159k and the total assets per the 2018 financial statements of £234,669k can be explained as follows;

| Total Credit Risk exposure (per above) | 252,159 |
|---|---|
| **Less** | |
| Off Balance sheet Customer Loan & Advance commitments | (30,518) |
| Asset & Liabilities Re-class | (193) |
| **Add** | |
| Intangibles Assets | 13,221 |
| Total Assets per balance sheet | 234,669 |

### 5.3. 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 6.6%, 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 2018 | 30 November 2017 |
|---|---|---|---|
| | | £'000s | £'000s |
| **Total Tier 1 Capital** | | **14,778** | **22,401** |
| **Exposures** | | | |
| Balance sheet exposure | | 221,641 | 42,793 |
| Off Balance sheet exposure | | 3,052 | 4,965 |
| Total Exposures | | 224,693 | 47,758 |
| Leverage Ratio | 3% | 6.6% | 46.9% |

# 06
# CREDIT RISK



## 6. 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 current 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 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.

06
# CREDIT RISK
(Continued)

### 6.1. Credit Risk - Exposure Values

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

As at 30 November 2018

Credit Risk Mitigation techniques overview

| | £'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 | 203,561 | | | | | | |
| | Cash at Central Banks | 186,568 | | | | | | |
| | Loans and advances to banks | 3,309 | | | | | | |
| | Loans and advances to corporates | 74 | | | | | | |
| | Loans and advances to customers | 8,798 | | | | | | |
| | Other Assets | 4,886 | | | | | | |
| 2 | Investment securities | 18,006 | | | | | | |
| 3 | Total | 221,641 | | | | | | |
| 4 | Of which defaulted | 206 | | | | | | |



Starling Bank Limited | Capital Requirements Directive Pillar 3 Disclosures November 2018

# 06
# CREDIT RISK
(Continued)

**Credit Risk Exposure 30 November 2018**

| £'000 | 2018 | 2017 |
|---|---|---|
| Cash and balances at central banks | 186,568 | 35,114 |
| Loans and advances to banks | 3,309 | 2,572 |
| Loans and advances to corporates | 74 | - |
| Investment securities | 18,006 | 3,030 |
| Loans and advances to customers | 8,798 | 761 |
| Other Assets | 4,886 | 1,315 |
| **Total on balance sheet** | **221,641** | **42,793** |
| Off-balance sheet treasury bills | - | - |
| Commitments to lend* | 30,518 | 4,965 |
| Gross credit risk exposure | 252,159 | 47,758 |
| Less allowance for impairment losses | - | - |
| **Net credit risk exposure** | **252,159** | **47,758** |

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

The table opposite represents the maximum credit risk exposure to the Bank at 30 November 2018 and 2017. 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.


Starling Bank Limited | Capital Requirements Directive Pillar 3 Disclosures November 2018

# 06
# CREDIT RISK
(Continued)

**Credit risk exposure and credit risk mitigation (CRM) effects (Template EU 19 EU CR4)**

| | As at 30 November 2018 | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | £'000s | Exposures before CCF and CRM | | Exposures post-CCF and CRM | | RWA and 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 | 189,548 | - | 189,548 | - | - | 0% |
| 4 | Banks | 3,309, | - | 3,309 | - | 662 | 20% |
| 6 | Corporates | 74 | - | 74 | - | 37 | 50% |
| 7 | Regulatory retail portfolio | 8,798 | 30,518 | 8,798 | - | 6,599 | 75% |
| 13 | Covered bonds | 15,026 | | 15,026 | | 3,005 | 20% |
| 14 | Other assets | 4,886 | - | 4,886 | - | 3,233 | 66% |
| **15** | **Total** | **221,641** | **30,518** | **221,641** | **-** | **13,536** | **6%** |

**Counterparty Credit Risk Exposures by regulatory portfolio and Risk weights (Template: EU CCR3)**

| | As at 30 November 2018 | a | c | e | f | g | h | i | j |
|---|---|---|---|---|---|---|---|---|---|
| | £'000s | | | | | | | | |
| Category | Risk Weight<br>Asset Classes | 0% | 20% | 50% | 75% | 100% | 150% | Others | Total Credit amount (post CCF and post CRM |
| 1 | Sovereigns and their central banks | 189,548 | | | | | | | 189,548 |
| 4 | Banks | | 3,309 | | | | | | 3,309 |
| 6 | Corporates | | | 74 | | | | | 74 |
| 7 | Regulatory retail portfolio | 30,518 | | | 8,798 | | | | 39,316 |
| 13 | Covered bonds | | 15,026 | | | | | | 15,026 |
| 14 | Other assets (*) | 301 | 1,691 | | | 2,895 | | | 4,886 |
| **15** | **Total** | **220,366** | **20,025** | **74** | **8,798** | **2,895** | **-** | **-** | **252,159** |

(*) Principally Fixed assets and Other Debtors

06

# CREDIT RISK

(Continued)

## 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:

The Bank offered overdraft and term loans lending in 2018 with initial focus on unsecured lending to retail customers only.

| £'000 | 2018 | 2017 |
|---|---|---|
| Loans and advances to customers – Unsecured (*) | 8,798 | 761 |
| Outstanding Credit facilities - Unsecured | 30,518 | 4,965 |

(*) Net of Provision for Impairment

## 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.

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 and Investment securities. This increase reflects increased cash deposits held at the Bank of England. The Bank's liquidity increased in 2018 as a result of the growth in these balances.

| As at 30 November 2018 | | Contractual cash flows | | |
|---|---|---|---|---|
| | Total '000s | Less than 3 months | 3 months to 1 Year | Greater than 1 Year |
| Assets | | | | |
| Cash and balances at central banks | 186,568 | 186,568 | | |
| Loans and advances to banks | 3,309 | 3,309 | | |
| Loans and advances to corporates | 74 | 74 | | |
| Loans and advances to customers | 8,798 | 8,353 | | 445 |
| Investment securities | 18,006 | | | 18,006 |
| Other Assets | 4,886 | 4,886 | | |
| **Total** | **221,641** | **203,190** | **-** | **18,451** |

| As at 30 November 2017 | | Contractual cash flows | | |
|---|---|---|---|---|
| | Total '000s | 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** |

06
# CREDIT RISK
(Continued)

### 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 2018 does not have any further International geographical breakdown.


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# 07
# COUNTERPARTY CREDIT RISK / LIQUID ASSETS

## 7. Counterparty Credit Risk / Liquid Assets

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 customer funds in the process of collection. The Bank's counterparty risk arises principally as a result of its nostros 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.

The credit ratings and counterparties of the Bank's liquid asset exposures as at 30 November 2018 (on balance sheet) were as follows:

| As at 30 November | £'000 | £'000 |
|---|---:|---:|
| **Counterparty Credit Risk - Liquid Assets** | **2018** | **2017** |
| Cash and balances at central banks | 186,568 | 35,114 |
| Deposits at other banks | | |
| Rated* A or above | 3,309 | 2,572 |
| Un-rated | - | - |
| UK Government Securities | 2,980 | 3,030 |
| Covered bonds | 15,026 | - |
| **Total** | **207,883** | **40,717** |

(*) *Ratings based on Moody's long-term rating

07

# COUNTERPARTY CREDIT RISK / LIQUID ASSETS

(Continued)

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

The Bank has no interest rate derivatives. Its Investment Securities (i.e. UK Gilts and Covered Bonds) are held to maturity and measured at amortized cost with a Fair value of £17.9m at 30 November 2018 (2017: £3m).

| | As at 30 November 2018 | Counterparty Credit Risk Exposures by regulatory portfolio and Risk weights (Template: EU CCR3) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | £'000s | a | c | d | e | f | g | h | i |
| **Category** | **Risk Weight** | **0%** | **20%** | **50%** | **75%** | **100%** | **150%** | **Others** | **Total Credit Exposure** |
| | **Regulatory portfolio** | | | | | | | | |
| 1 | Sovereigns and their central banks | 189,548 | | | | | | | 189,548 |
| 4 | Banks | | 3,309 | | | | | | 3,309 |
| 6 | Corporates | | | 74 | | | | | 74 |
| 7 | Regulatory retail portfolio | 30,518 | | | 8,798 | | | | 39,316 |
| 13 | Covered bonds | | 15,026 | | | | | | 15,026 |
| 14 | Other assets (*) | 301 | 1,691 | | | 2,895 | | | 4,886 |
| **15** | **Total** | **220,366** | **20,025** | **74** | **8,798** | **2,895** | **-** | **-** | **252,159** |

(*) Comprising of Fixed Assets and Other Debtors

08

# CREDIT QUALITY - IMPAIRMENT AND PROVISIONS

### 8. Credit Quality - Impairment and 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 homogeneous 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. |

The table below provides information on the payment due status of loans and advances to customers at 30 November 2018. All of Starling Bank's overdrafts and personal loans are unsecured and UK domiciled.

| £'000s | 30 November 2018 | 30 November 2017 |
|---|---|---|
| Neither past due nor impaired | 9,401 | 804 |
| Past due but not impaired | - | - |
| Impaired | (206) | - |
| **Total** | **9,195** | **804** |
| Less allowances for impairment losses | (397) | (51) |
| **Total loans and advances to customers** | **8,798** | **753** |

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# CREDIT QUALITY - IMPAIRMENT AND PROVISIONS

**(Continued)**

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.

Impairment provisions against customer loans and advances at 30 November 2018 have been made up as follows:

| £'000s | Individual provisions | Collective provisions | Total provisions |
|---|---|---|---|
| Balance as at 1 December 2017 | 51 | - | 51 |
| Impairment loss for the year | | | |
| Charge to Income statement | 346 | - | 346 |
| Write-off net of recoveries | 206 | - | 206 |
| Provisions released | (206) | - | (206) |
| **Balance as at 30 November 2018** | **397** | **-** | **397** |

All of the Bank's customer overdrafts 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.

09

# 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. The interest rate sensitivity exposure of the Bank at 30 November 2018 is shown in the chart opposite.

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: -£321k (2017: -£377k)**
**-200bps: +£375k (2017: +£445k)**

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

**As at 30 November 2018** — **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 | 186,568 | - | - | - | - | - | 186,568 |
| Loans and advances to banks | 3,309 | - | - | - | - | - | 3,309 |
| Loans and advances to corporates | - | - | - | - | - | 74 | 74 |
| Loans and advances to customers | 8,798 | - | - | - | - | - | 8,798 |
| Investment securities - Government | 29 | - | - | 1,005 | 1,946 | - | 2,980 |
| Investment securities - Covered Bonds | 15 | - | - | 5,964 | 9,047 | - | 15,026 |
| Other Assets | - | - | - | - | - | 4,886 | 4,886 |
| **Total Assets** | **198,719** | **-** | **-** | **6,969** | **10,993** | **4,960** | **221,641** |
| **Liabilities** | | | | | | | |
| Customers accounts | 136,929 | - | - | - | - | 65,394 | 202,323 |
| Other liabilities | - | - | - | - | - | 4,540 | 4,540 |
| Total Equity | - | - | - | - | 67,789 | (53,011) | 14,778 |
| **Total liabilities** | **136,929** | **-** | **-** | **-** | **67,789** | **16,924** | **221,641** |
| **Off-balance sheet items** | | | | | | | |
| Commitments | 30,518 | | | | | | |
| Interest rate sensitivity gap | 92,308 | - | - | 6,969 | (56,796) | (11,964) | (0) |
| **Cumulative gap** | **92,308** | **92,308** | **92,308** | **99,277** | **42,482** | **30,518** | **30,518** |

# 10
# ASSET ENCUMBRANCE

### 10. Asset Encumbrance

The Bank can use its assets to support collateral requirements for central bank operations. Additionally, the Bank has placed cash deposits for payment scheme collateral at a nominated overseas bank at the request of the Bank's card scheme provider to support customers' transaction volumes.

The following tables show the appropriate disclosures in respect of the Bank's encumbered and unencumbered assets during 2018. 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**

| As at 30 November 2018 | £'000 | 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 | | | | | | 221,641 | | 194,473 | | |
| Loans on demand | 020 | 12,768 | | 10,000 | | | 198,228 | | 176,467 | | |
| Equity instruments | 030 | | | | | | | | | | |
| Debt securities | 040 | | | | | | 18,006 | | 18,006 | 17,923 | 17,923 |
| • of which: covered bonds | 050 | | | | | | 15,026 | | 15,026 | 14,950 | 14,950 |
| • of which: asset-backed securities | 060 | | | | | | | | | | |
| • of which: issued by general governments | 070 | | | | | | 2,980 | | 2,980 | 2,973 | 2,973 |
| • of which: issued by financial corporations | 080 | | | | | | | | | | |
| • of which: issued by non-financial corporations | 090 | | | | | | | | | | |
| Loans and advances other than loans | 100 | | | | | | 447 | | 0 | | |
| • of which: mortgage loans | 110 | | | | | | | | | | |
| Other assets | 120 | | | | | | 4,960 | | 0 | | |

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# ASSET ENCUMBRANCE
(Continued)

- **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 2018 as we have not encumbered any assets during the period outside of our payment system collateral held with Bank of England as a direct participant to payment schemes with BACS and Faster Payment and additional collateral placed with overseas bank for card scheme provider.
- **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.

# 11
# 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.

# 12
# 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:


Chief Financial Officer
**Tony Ellingham**

Finance Director
**Gary Sher**

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APPENDIX 01

# OWN FUNDS, LEVERAGE RATIO AND RECONCILING DIFFERENCES BETWEEN REGULATORY REPORTED VALUES AND FINANCIAL STATEMENTS

**Additional Disclosures**



## Own funds disclosure

**Own funds - Regulatory disclosure template**

| Note ref | Description | 30 November 2018 £000 |
|---|---|---|
| | **Common Equity Tier 1 (CET1) capital: instruments and reserves** | |
| 1 | Capital instruments and the related share premium accounts | 67,789 |
| 2 | Retained earnings | (39,790) |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **27,999** |
| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | |
| 8 | (-) Intangibles assets | (13,221) |
| 9 | (-) Deferred taxes | - |
| 28 | Total regulatory adjustment to Common Equity Tier 1 (CET1) | (13,221) |
| **29** | **Common Equity Tier 1 (CET1) capital** | **14,778** |
| | **Additional Tier 1 (AT1) capital: instruments** | |
| 44 | Additional Tier 1 (AT1) capital | - |
| **45** | **Tier 1 Capital (T1 - CET1 + AT1)** | **14,778** |
| | **Tier 2 (T2) capital: instruments and provisions** | |
| 58 | Tier 2 (T2) capital | - |
| **59** | **Total capital (TC = T1 + T2)** | **14,778** |
| **60** | **Total Risk weight assets** | **41,836** |
| | **Capital Ratios and buffers** | |
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 34.5% |
| 62 | Tier 1 (as a percentage of total risk exposure amount) | 34.5% |
| 63 | Total capital (as a percentage of total risk exposure amount) | 34.5% |
| 64 | Capital conservation buffer | 1.875% |
| 65 | Institution specific countercyclical capital buffer | 1% |
| 66 | Own funds requirements related to Pillar II adjustments | 1,976 |
| 67 | Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount) | 34.5% |

# APPENDIX 01
(Continued)

## Leverage ratio regulatory disclosures

| | Table LR Sum: Summary reconciliation of accounting assets and leverage ratio exposures | 30 November 2018 £'000s |
|---|---|---|
| 1 | Total assets exposures | 221,641 |
| 4 | Adjustment for derivative financial instruments | - |
| 6 | Adjustment for off-balance sheet items | 3,052 |
| 7 | Other Adjustment | - |
| **8** | **Leverage ratio total exposure measure** | **224,693** |

| | Table LRCom: Leverage ratio common disclosure | 30 November 2018 £'000s |
|---|---|---|
| 1 | On-balance sheet items per Financial Statement | 234,669 |
| 2 | Asset amount deducted in determining Tier 1 capital | (13,221) |
| 2 | Asset and Liabilities re-class | 193 |
| 3 | Total on-balance sheet exposures | 221,641 |
| | **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 | 3,052 |
| | **Capital and total exposure measure** | |
| 20 | Tier 1 capital | 14,778 |
| 21 | Leverage ratio total exposure measure | **224,693** |
| | **Leverage ratio** | |
| 22 | Leverage ratio | 6.58% |

| | Table LRSpl: split of on-balance sheet exposures | 30 November 2018 £'000s |
|---|---|---|
| EU-1 | Total on-balance sheet exposures, of which: | 221,641 |
| EU-5 | Exposures treated as sovereigns | 189,548 |
| EU-7 | Institutions | 3,309 |
| EU-8 | Retail | 8,798 |
| EU-10 | Corporate | 74 |
| EU-11 | Exposure in default | - |
| EU-12 | Covered bonds | 15,026 |
| EU-13 | Other exposures | 4,886 |

# APPENDIX 01

(Continued)

## Reconciling differences between regulatory reported values and financial statements

| | Linkage between financial statements and regulatory exposures (LI1) | | | 30 November 2018 £'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 | 186,568 | - | 186,568 | - |
| Loans and advances to banks | 3,309 | - | 3,309 | - |
| Investment securities | 18,006 | - | 18,006 | - |
| Loans and advances to customers* | 8,798 | 8,798 | - | - |
| Property, plant and equipment | 616 | 616 | - | - |
| Intangible assets | 13,221 | - | - | 13,221 |
| Other assets | 4,344 | 4,344 | - | - |
| Accrued Interest and Prepayment | - | - | - | - |
| Intercompany | - | - | - | - |
| Deferred taxation | - | - | - | - |
| **Total Assets (Per Regulatory Return)** | **234,862** | **13,758** | **207,883** | **13,221** |
| **Regulatory Reporting Adjustment** | **(193)** | **(193)** | **-** | **-** |
| **Total Assets (Per Financial Statement)** | **234,669** | **13,565** | **-** | **-** |
| Customers' accounts | 202,323 | - | - | 202,323 |
| Other Liabilities and accruals | 4,540 | - | - | 4,540 |
| **Total Liabilities (Per Regulatory Return)** | **206,863** | **-** | **-** | **206,863** |
| **Regulatory Reporting Adjustment** | **(193)** | **-** | **-** | **(193)** |
| **Total Liabilities (Per Financial Statement)** | **206,670** | **-** | **-** | **206,670** |
| **Total Equity** | **27,999** | **-** | **-** | **27,999** |

* Net of collective and specicfic provisions

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

### Cash and 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 and 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 and Investment Securities are held to maturity and measured at amortized cost and reported at their carrying value.

### Loans and 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.

# APPENDIX 01
(Continued)

| Items | Account type | Main sources of differences between regulatory exposure amounts and carrying values in Financial statements (LI2) | | 30 November 2018 £'000s |
|---|---|---|---|---|
| | | A | B | C |
| Items | Account type | Items subject to credit risk frame-work | Items subject to counterparty credit risk frame-work | TOTAL |
| 1 | Assets carrying value amount under the scope of regulatory consolidation* | 13,758 | 207,883 | 221,641 |
| 2 | Liabilities carrying value amount under the scope of regulatory consolidation | - | - | - |
| 3 | Total net amount under the scope of regulatory consolidation | 13,758 | 207,883 | 221,641 |
| 4 | Off balance sheet amounts | 30,518 | - | 30,518 |
| **10** | **Exposure amount considered for regulatory purposes** | **44,276** | **207,883** | **252,159** |

The Bank has no assets subject to Market risk or securitisation frameworks
* gross of collective provisions and excluding intangible assets

| | | Total and Average net amount of exposures (Template 7 EU CRB-B) | |
|---|---|---|---|
| | As at 30 November 2018 | 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 | 189,548 | 94,880 |
| 21 | Institutions | 3,309 | 4,417 |
| 22 | Corporates | 74 | 48 |
| 25 | Retails | 8,798 | 3,515 |
| 28 | Exposures at default | - | - |
| 29 | Items associated with particularly high risk | - | - |
| 30 | Covered bonds | 15,026 | 4,091 |
| 34 | Other Exposures | 4,886 | 3,466 |
| OBS | Off-balance sheet - Lending | 30,518 | 16,328 |
| **35** | **Total Standardised Approach** | **252,159** | **126,446** |
| **36** | **Total** | **252,159** | **126,446** |

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.

# APPENDIX 02
# ADDITIONAL CREDIT QUALITY DISCLOSURE TABLES

## Additional Credit Risk Disclosures

The table opposite shows the maturity of the Bank's assets. Central governments assets with term maturity comprise of UK Gilts and Covered Bonds.

### Loan impairments, provisions and credit mitigation

The Bank has commenced trading in 2017. Total Loans and advances to customers, representing Credit facilities offered, increased to £39,374k in 2018 (2017: £5,769k), of which £8,856k (2017: £804k) drawn balances. Specific credit risk adjustments increased to £(397k) in 2018 (2017: £(51k)). 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.

Maturity of exposures (Template 10 EU CRB-E)

| | As at 30 November 2018 – £'000s | A | B | C | D | E | F |
|---|---|---|---|---|---|---|---|
| | | | | 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 | 176,596 | | 1,005 | 1,946 | 10,000 | 189,548 |
| 21 | Institutions | 541 | | | | 2,768 | 3,309 |
| 22 | Corporates | | | | | 74 | 74 |
| 25 | Retails | 8,798 | | | | | 8,798 |
| 28 | Exposures at default | | | | | | - |
| 29 | Items associated with particularly high risk | | | | | | - |
| 30 | Covered bonds | 15 | | 5,964 | 9,047 | | 15,026 |
| 34 | Other Exposures | | | | | 4,886 | 4,886 |
| | **Total On-balance sheet** | **185,950** | **-** | **6,969** | **10,993** | **17,729** | **221,641** |
| OBS | Off-balance sheet - Lending | 30,518 | | | | | 30,518 |
| **35** | **Total Standardised Approach** | **216,468** | **-** | **6,969** | **10,993** | **17,729** | **252,159** |
| **36** | **Total** | **216,468** | **-** | **6,969** | **10,993** | **17,729** | **252,159** |

Credit quality of exposure calcs and instrument types (Template 11 EU CR1 A)

| | As at 30 November 2018 – £'000s | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|---|
| | | Gross carrying value of | | | | | | |
| Category | Asset Classes | Defaulted Exposures | Non-defaulted Exposures | 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) |
| 16 | Central governments or central banks | | 189,548 | | | | | 189,548 |
| 21 | Institutions | | 3,309 | | | | | 3,309 |
| 22 | Corporates | | 74 | | | | | 74 |
| 25 | Retails | 206 | 9,195 | 397 | | 206 | | 8,798 |
| 28 | Exposures at default | | - | | | | | - |
| 29 | Items associated with particularly high risk | | - | | | | | - |
| 30 | Covered bonds | | 15,026 | | | | | 15,026 |
| 34 | Other Exposures | | 4,886 | | | | | 4,886 |
| | **Total On-balance sheet** | **206** | **222,038** | **397** | **-** | **206** | **-** | **221,641** |
| OBS | Off-balance sheet - Lending | | 30,518 | | | | | 30,518 |
| **35** | **Total Standardised Approach** | **206** | **252,556** | **397** | **-** | **206** | **-** | **252,159** |
| **36** | **Total** | **206** | **252,556** | **397** | **-** | **206** | **-** | **252,159** |

# APPENDIX 02

(Continued)

Ageing of past-due exposures (Template 14 EU CR1-D)

| | As at 30 November 2018<br>£'000s | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|---|
| | | | | | Net Exposure Value | | | |
| Items | Exposure type | < 30 days | >30 days<br>≤ 60 days | >60 days<br>≤ 90 days | >90 days<br>≤180 days | >180 days<br>≤ 1 Year | > 1 Year | Total |
| 1 | Loans and advances to customers | - | 105 | 35 | 257 | - | - | 397 |
| 2 | Investment Securities | - | - | - | - | - | - | - |
| 3 | **Total Exposures** | **-** | **105** | **35** | **257** | **-** | **-** | **397** |

# APPENDIX 02
(Continued)

| | | | | | | | | | | | | | | | Non-Performing and forborne exposures (Template 15 EU CR1-E) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 30 November 2018 | 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 finaincial guarantees received | | Total exposures net of Provisions and Impairment |
| | £'000 | Performing | | | Non-Performing | | | | Performing | | Non-Performing | | Non-Performing | | |
| Items | Exposure type | Total Perform-ing | Of which Perform-ing but past due >30 days and <= 90 days | Of which Perform-ing forborne | Total Non Perform-ing | Of which defaulted | Of which impaired | Of which forborne | On Perform-ing exposures | of which forborne | On Non-Performing exposures | of which forborne | On Non-Perform-ing exposures | of which forborne exposures | |
| 1 | Loans (of which:) | 198,869 | 120 | - | 277 | 206 | 71 | - | 120 | - | 277 | - | - | - | 198,749 |
| - | Central governments or central banks | 186,568 | | | | | | | | | | | | | 186,568 |
| - | Institutions | 3,309 | | | | | | | | | | | | | 3,309 |
| - | Corporates | 74 | | | | | | | | | | | | | 74 |
| - | Retails | 8,918 | 120 | | 277 | 206 | 71 | | 120 | | 277 | | | | 8,798 |
| - | Exposures at default | - | | | | | | | | | | | | | - |
| 2 | Investment Securities | 18,006 | | | | | | | | | | | | | 18,006 |
| 3 | Other exposures | 4,886 | | | | | | | | | | | | | 4,886 |
| 3 | Off-balance sheet - Lending | 30,518 | | | | | | | | | | | | | 30,518 |
| **4** | **Total Standardised Approach** | **252,278** | **120** | **-** | **277** | **206** | **71** | **-** | **120** | **-** | **277** | **-** | **-** | **-** | **252,159** |
| **4** | **Total** | **252,278** | **120** | **-** | **277** | **206** | **71** | **-** | **120** | **-** | **277** | **-** | **-** | **-** | **252,159** |

Accumulated provisions reflect the specific provisions.

# APPENDIX 02
(Continued)

Changes in Stock of general and specific credit risk adjustments (Template 16 EU CR2 A)

| | As at 30 November 2018 | A | B |
|---|---|---|---|
| Category | £'000 | Accumulated specific credit adjustment | Accumulated general credit adjustment |
| **1** | **Opening Balance** | **51** | |
| 2 | Increase due to amounts set aside for estimated loan losses during the period | 346 | |
| 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** | **397** | |
| 10 | Recoveries on Credit risk adjustments recorded directly to statement of income | - | |
| 11 | Specific credit adjustment directly recorded to the statement of income | - | |

Changes in Stock of defaulted and debt securities (Template 17 EU CR2 B)

| | As at 30 November 2018 | B |
|---|---|---|
| Category | As at 30 November 2018 - £'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 | 206 |
| 3 | Returned to non-defaulted status | - |
| 4 | Amounts written off | 206 |
| 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 2018. 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. These is no Cash deposit used as collateral and credit conversion factors have been applied to the Bank's total off-balance sheet exposure.

# APPENDIX 02
(Continued)

Overdraft values are net of specific provisions, Outstanding commitments represents undrawn credit facilities which are unconditionally revocable. Utilisation rate stands at 22.4%.

**Credit Risk Mitigation techniques overview (Template 18 EU CR3)**

| | As at 30 November 2018 £'000s | A | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Gross carrying value of | | |
| **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 | 8,798 | 30,518 | | | | | | |
| 2 | Investment securities | - | | | | | | | |
| **3** | **Total** | **8,798** | **30,518** | | | | | | |
| 4 | Of which defaulted | 206 | - | | | | | | |

**Credit risk exposure and credit risk mitigation (CRM) effects (Template EU 19 EU CR4)**

| | As at 30 November 2018 | A | B | C | D | E | F |
|---|---|---|---|---|---|---|---|
| | **£'000s** | **Exposures before CCF and CRM** | | **Exposures post - CCF and CRM** | | **RWA and 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 | 189,548 | - | 189,548 | - | - | 0% |
| 4 | Banks | 3,309 | - | 3,309 | - | 662 | 20% |
| 6 | Corporates | 74 | - | 74 | - | 37 | 50% |
| 7 | Regulatory retail portfolio | 8,798 | 30,518 | 8,798 | - | 6,599 | 75% |
| 13 | Covered bonds | 15,026 | | 15,026 | | 3,005 | 20% |
| 14 | Other assets | 4,886 | - | 4,886 | - | 3,233 | 66% |
| **15** | **Total** | **221,641** | **30,518** | **221,641** | **-** | **13,536** | **6%** |

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

# APPENDIX 03
# ADDITIONAL COUNTERPARTY CREDIT QUALITY DISCLOSURE TABLES

## Counterparty Risk



## Counterparty Risk

Analysis of Counterparty Credit Risk (CCR) exposure by approach (Template 25 EU CCR1)

| | As at 30 November 2018 £'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** | | | | | | |

Credit Valuation Adjustment (CVA) charge (Template 26 EU CCR2)

| | As at 30 November 2018 £'000s | A | B |
|---|---|---|---|
| Category | Counterparty Credit Risk | 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.

# APPENDIX 04
# COMMITTEES TERMS OF REFERENCE

**Board Committees Terms of Reference**



## 1. 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 and 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.

### 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.

#### 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.

# APPENDIX 04

(Continued)

**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.

## 2. Nominations and Remuneration Committees

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.

**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.

**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.

## 3. Board Risk Committee

The Board Risk Committee has been established by the Board to determine a structure for risk management to operate effectively and ensure that the Bank 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 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.

Other responsibilities will include:

- **Frameworks & Policies:** review and recommend to the Board all new and renewed risk frameworks and policies within the enterprise-wide risk management framework to be adopted by the bank.
- **Risk Appetite & Strategy:** advise and develop recommendations for the Board on the Group's overall current and future risk appetite and ensure it remains consistent with the bank's short-term and long-term strategy, business and capital plans, risk capacity as well as compensation programs; taking into account relevant legal and regulatory requirements. Oversee the effective implementation of the risk appetite framework and strategy by the executive.

# APPENDIX 04

(Continued)

- **Capital & Liquidity:** review and recommend to the board the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Recovery Plan and any related capital and liquidity plans,
- **Control Functions:** assess and monitor the independence, resourcing and ongoing performance of the risk management and compliance functions, including the appointment or termination of the Chief Risk Officer and Head of Compliance / Money Laundering Reporting Officer and approving the annual risk and compliance budget,
- **Management Information:** review on a [quarterly] basis the Risk Report provided by risk management on the risk situation of the bank and ensure that the risk parameters and models are accurate, appropriate for the risks being taken by the bank.
- **Remuneration:** provide feedback to the Remuneration Committee on whether the remuneration system takes into account risk, capital and liquidity.
- **Statutory Reporting:** advise the Audit Committee and/or the Board on the adequacy of risk-related disclosures in the annual report and accounts, Pillar 3 disclosures and any other risk-related disclosures in the public domain.
- The BRC should be required to review the Bank' risk policies at least annually and arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.
- The committee chairman should attend the annual general meeting to respond to questions from shareholders on the committee's activities.

**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.

## 4. Executive Committee

The Executive Committee is an Executive Committee established by the Board to manage the activities of the Bank 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. 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 quorum, 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.

**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
- Reviewing draft Board papers prior to finalisation and submission to the Board
- Creating, developing and recommending the ICAAP for Board approval
- 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.
- Overseeing the Executive Risk Committee (ERC) and Asset & Liability Committee (ALCO)

**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 he Board, together with a verbal report to each Board meeting as required.

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

# APPENDIX 05
# RISK APPETITE STATEMENT

**Board Committees Terms of Reference**

## Risk Appetite Statements

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

- Strategic Risk
- Capital Adequacy Risk
- Credit Risk (Including Lending concentration Risk)
- Funding & Liquidity Risk
- Conduct & Culture Risk
- Compliance Risk
- Operational Risk
- Market Risk, including Interest Rate Risk in the Banking Book (IRRBB)

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.

## 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 and that the Bank's strategy is sub-optimal, not well understood or is poorly executed due to inadequate planning or resources.

- The Bank will maintain a clear vision, mission, strategic objectives and corporate values to support the build-out of the bank, as agreed by the board and executive.
- the Bank will not initiate projects that cannot be resourced to successful completion.
- 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.

## Capital Adequacy Risk

Capital Risk for the Bank is the risk that it fails to hold enough capital resources to meet both its regulatory capital and its business operating requirements under the business plan or in a stress environment.

- 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. Furthermore, an Early Warning Indicator (EWI) system is in place to highlight any potential future issues and prompt remedial action;
- the Bank will maintain a management buffer above required regulatory capital levels and ensure it has sufficient capital for its internally assessed requirements related to its business plan in base and stress scenarios;
- the Bank will not accept any non-financial risk it cannot assess, record and monitor;
- the Bank will not accept any financial risk that cannot be recorded in the bank's finance systems and reported in its financial statements;



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# APPENDIX 05

(Continued)

## Credit Risk, including Lending Concentration Risk

Credit Risk for the Bank is the risk of a reduction in earnings, and/or value, as a result of market deterioration, poor underwriting or poor ongoing management of the credit portfolio, leading to a counterparty failing to meet, in a timely manner, a commitment that they have entered into with the Bank.

- the Bank has a controlled appetite for providing unsecured lending to personal accounts which are mitigated by Risk limits, Credit quality monitoring;
- 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 will hold its liquid assets in Sterling or Euros or US Dollars in investment grade UK-based banks, government bonds or other instruments.

The Bank's primary aim is to lend money to personal account and 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 Risk Committee and Compliance Committee members.

## Funding & Liquidity Risk

Funding and Liquidity 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 and the risk that it is unable to meet its shot to meet its obligations as they fall due or that they can only be met at an uneconomic price.

- 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 sufficient liquidity to cover a combined idiosyncratic and market stress event of at least 60 days;
- the Bank will fund retail overdrafts / loans from customer deposits and will set a limit on available but undrawn limits to ensure any expected drawdowns can be funded from deposits.

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. The Bank monitors funding and liquidity risk daily using a range of sources and metrics including the ratio of deposits to loans, the CRD IV Liquidity Coverage Ratio.



## Conduct & Culture Risk

Conduct & Culture 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 marketplace partners.

The Bank will operate a simple, well-designed product set with charging structure and features which are clearly communicated to customers in plain English;

- the Bank will prioritise engineering support to customer-impacting activities where there is a risk of customer harm;
- Starling will maintain a "duty of care" to customers who access products or services from partners through its marketplace by conducting risk based due diligence on partners and ensuring Starling app disclosures are clear, fair and not misleading;
- the Bank will develop and adhere to a value system where all employees understand the importance of treating customers fairly and avoiding customer detriment;

## Compliance Risk

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 will screen customers based on their profile with appropriate tools to mitigate financial crime risk, including money laundering, terrorist financing, sanctions and fraud;
- the Bank will adopt a risk-based approach to transaction monitoring and will ensure alerts are managed promptly;
- the Bank does not wish to be perceived as facilitating virtual trading or transacting and all transactions will be reviewed as potentially high risk;
- the Bank has no appetite for facilitating transactions with sanctioned individuals or entities. Sanction screening will be undertaken on a risk basis, in line with prevailing market practice;
- The Bank will not accept any deliberate or systemic breaches of applicable laws and regulations and will seek to avoid inadvertent regulatory errors and omissions by maintaining robust control processes;
- Starling Payment Services will only work with PSPs who are domiciled and regulated in EEA countries (and Switzerland, Gibraltar and Isle of Man) and United States that meet FATF AML standards;
- Starling Payment Services will not tolerate regulatory or sanction breaches by its customers.

# APPENDIX 05

(Continued)

## 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 Executive Risk Committee. The Bank continues to invest in data and IT security. All staff have received training and attended presentations to ensure they remain aware of the threat of cyber-attacks and the detective and preventative measures they can employ.
- The Bank will manage its security risks and optimise its cyber resilience by ensuring its offices, system and organisational controls are in line with industry security standards as a minimum. It has little or no appetite for security breaches.

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

Market Risk for the Bank is the risk that changes in market prices and interest rates negatively impact the earnings or market value of the Bank's assets, liabilities or equity.

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 Executive Risk Committee members.
- Starling will not take any proprietary (own account) trading position other than arising from customer-related activities.
- The Bank will take Interest Rate Risk in the Banking Book (IRRBB) related to timing differences in its assets, liabilities and off-balance sheet position in order to manage its ability to fund overdrafts when required.

## 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

For more information on Starling, including our blog, visit www.starlingbank.com

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