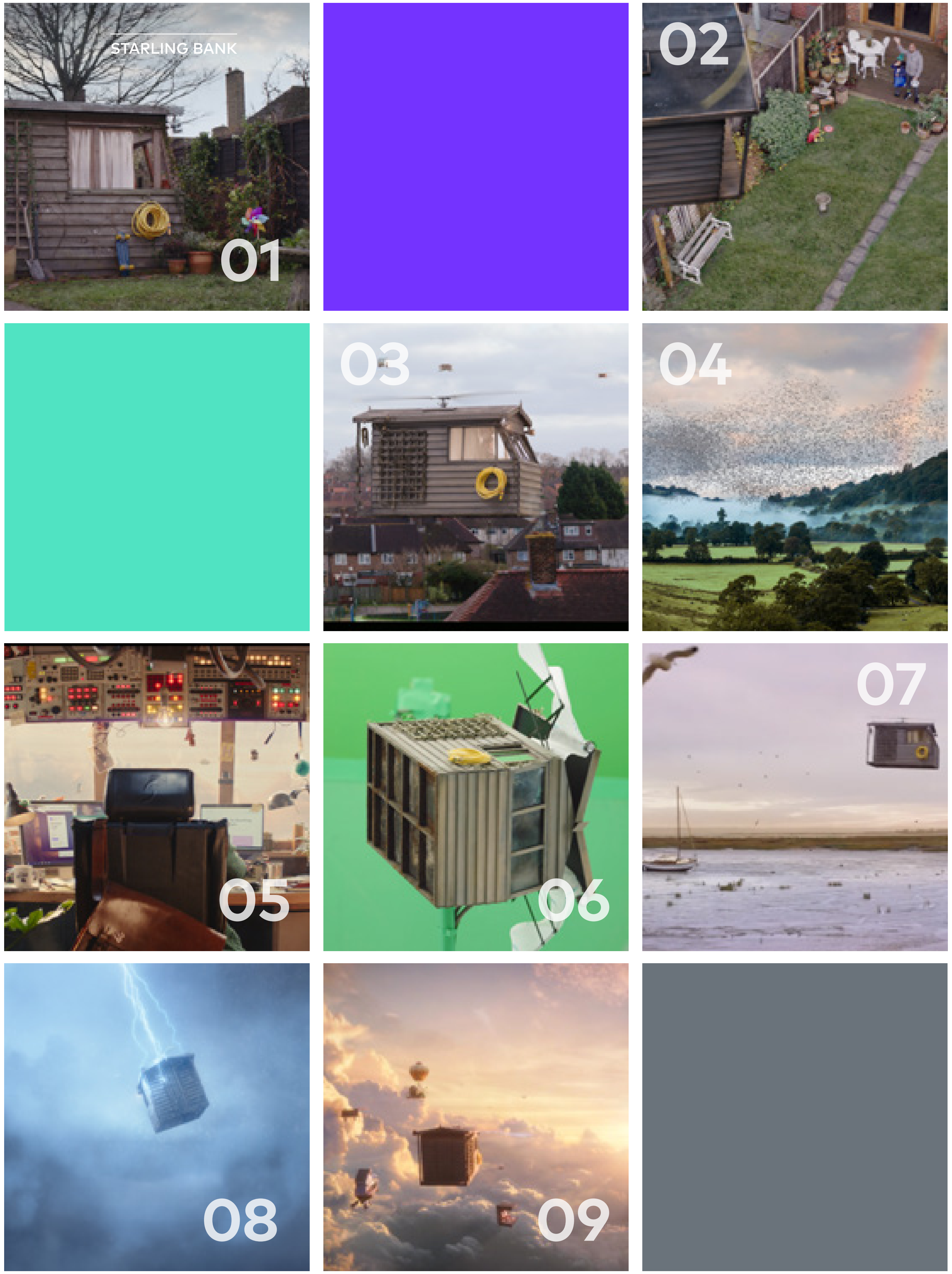
STARLING BANK

ANNUAL REPORT

STARLING BANK

Starling Bank Limited Annual Report and Consolidated Financial Statements. For the year ended 30 November 2019.



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COMPANY INFORMATION

Directors

Oliver Stocken CBE
(Independent Non-Executive Chairman)

Mark Winlow
(Independent Non-Executive Director)

Steve Colsell
(Independent Non-Executive Director)

Victoria Raffé
(Independent Non-Executive Director)

Marian Martin
(Independent Non-Executive Director, appointment effective 26 June 2019)

Marcus Traill
(Non-Executive Director)

Lazaro Campos
(Non-Executive Director)

Anne Boden MBE
(Chief Executive Officer)

Tony Ellingham
(Chief Financial Officer)

Company Secretary

Matthew Newman

Registered Office

3rd Floor
2 Finsbury Avenue
London
EC2M 2PP

Company Registration Number

09092149
(England and Wales)

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

926,000+

Number of GBP personal accounts

87,000+
Number of GBP business + sole trader accounts

44,000+
Number of euro personal accounts

700+
Number of euro business + sole trader accounts

£1,660m+
Volume of retail card transactions, GBP

£217m+
Volume of business + sole trader card transactions, GBP

€994m+
Volume of retail card transactions, EUR

£504m+
Retail GBP deposits

£467m+
Business + sole trader GBP deposits

£940+
Average retail deposits

€41m+
Volume of business + sole trader card transactions, EUR

£28m
In retail transactions through Post Office pcm

£5m
In business + sole trader transactions through Post Office pcm

£8,550+
Average business + sole trader deposits

€33m+
Retail Euro deposits

€2m
Business + sole trader Euro deposits

4.87/5
Average Apple App Store Rating

886
Employees

4
Offices in London, Southampton, Dublin, Cardiff

The last financial year saw continued growth for Starling; we passed one million customer accounts and £1 billion on deposit, and saw a near tripling of our customer base in the space of a year.

BUSINESS REVIEW

Starling provides banking – but not as you know it. Built for the millions of people who live their lives on their mobile phones, our banking app provides personal, joint, euro and business accounts for individuals and small business owners.

At Starling we want to help customers feel more in control of their finances. That's why we've built our banking app with real time balances, instant notifications, spending insights, no fees overseas, 24/7 support and an application process that only takes minutes.

With no branches, we offer a different customer proposition in the world of retail banking as well as multiple revenue streams for the business. Through the Starling Marketplace, we give customers in-app access to third party financial services. We also provide ground-breaking B2B banking and payments services.

Covid-19

At the time of signing these accounts, the world is experiencing unprecedented disruption caused by the Coronavirus pandemic. This represents not only a public health and economic crisis, but a massive societal upheaval that is touching each and every one of us.

At Starling, we are fortunate to have investors who are willing to stand behind the business as evidenced by our recent capital raise. We are focused on all of our customer's long-term financial wellbeing and to help support our business customers in particular we have applied to the British Business Bank for accreditation to the Government's Coronavirus Business Interruption Loan Scheme (CBILS).

These unprecedented events mean that the basis on which the Group is reporting and planning its future is changing rapidly. At the time of writing, we have read and interpreted the announcements that have been made by the UK Government, the Financial Reporting Council, the Bank of England, the PRA and the FCA. The Board will continue to assess the impact of Covid-19 on the Group and its business model as well as undertaking stress tests in line with regulatory guidance. In the light of the current economic outlook and high levels of uncertainty, the Board has taken action to revise the Group's growth targets for 2020 and to preserve capital.

At the heart of Starling's strategy is the smart use of modern technology. This means that we are uniquely positioned to ensure business continuity and to support our customers. Additionally, the safety and wellbeing of our employees is equally our priority. In contrast to incumbent Banks that rely on outsourced expertise, legacy systems or a mosaic of vendor packages and their own data centres, Starling has in-house engineering teams and its own core Banking software running in public cloud infrastructure. As a digital bank, Starling offers a scalable and resilient service that's not tied to a location and that can continue to be available to customers, 24/7, with a workforce that can work from the safety of their own homes.

Looking back on 2019

The last financial year saw continued growth for Starling; we passed one million customer accounts and £1 billion on deposit. This amounts to a near tripling of our customer base in the space of a year and a five-fold increase in our deposit base. We also more than doubled our headcount to nearly 900, raised £91.5 million more in funding, after issuance costs, were awarded a £100 million grant and opened three new offices.

We succeeded in taking the Company to scale without losing sight of what makes it different and special and while staying true to our original goals: to build a current account around customer needs. We had a little help from our friends along the way; our customers continue to provide feedback that has helped make our app functionality better.

BUSINESS REVIEW

During the 2018-2019 financial year, we processed in excess of 82 million in transactions through our card management system and issued more than 730,000 debit cards.

Our achievements have been widely recognised. During 2019:

- We were voted Best British Bank and Best Current Account at the Smart Money People Awards 2019 for the second consecutive year and were also named Best Business Account.
- We became a Which? recommended provider for current account banking.
- Our customer ratings rose to 4.87 in the Apple App Store and 4.68 in the Android Play Store.

Some highlights for the period included:

- raising a total of £75 million in new capital, with a £50 million investment from Merian Global Investors, including the Merian Chrysalis Investment Company Limited, and a further £25 million from our existing investor, JTC Starling Holdings Limited (February 2019)
- being awarded a grant of £100 million from the Capability and Innovation Fund ("CIF"), administered by Banking Competition Remedies Limited ("BCR"), an independent body, to help transform banking for small and medium sized business owners (February 2019)
- launching euro accounts for personal customers (February 2019)
- opening our first regional office, bringing 150 new jobs to Southampton (March 2019)
- providing extra security for contactless payments, card magstripe payments and online with 3D secure (March 2019)
- launching multi-owner business accounts for limited companies (July 2019)
- unveiling a web app for business customers, enabling them to manage their account on a laptop or desktop (September 2019)
- raising a further £30 million of new capital from our investors (October 2019), bringing total funding to £263 million
- launching Euro accounts for business customers and announced that debit card for spending in pounds and euros can now be directed to either currency account for both personal and business (October 2019)
- adding a host of new Marketplace partnerships with a wide range of companies, providing business with services such as accounts, insurance, early stage capital and credit scores
- offering new Banking Services partnerships, including with SumUp
- commencing our first national TV campaign promoting our accounts for individuals and small businesses (October 2019).

Balance sheet strength

Starling is in a strong position among neobanks, not only having high growth but also having high value and high-quality deposits. These are growing at double digit rates every month. At 30 November 2019, the bank held more than £1 billion in deposits, up from £202 million a year earlier. This means we are well-positioned to support our customers as we grow our organic lending business, with overdrafts and loans to both its consumers and SME markets.

For our personal account customers, the average deposit per active customer was £875 and the average overdraft balance per active customer was £420, as of 30 November 2019.

Since launching our business accounts in the first quarter of 2018, we've seen customer numbers grow rapidly to more than 87,000 (as at 30 November 2019). There was an approximate 60:40 split between small limited companies and sole traders, with average deposit balances of more than £11,600 and £1,800 respectively. The average lending balance for small limited companies and sole traders was £343 and £101 respectively.

Whilst we have been building our own lending capability during 2019, we have been deploying some of our deposits in forward flow arrangements with selected lenders. We carefully consider such inorganic opportunities that match our strict risk-return criteria with a view to sustainably growing our balance sheet.

The Marketplace approach: money management, all from one app

It's not just banking we want to streamline. With the Starling Marketplace, we are building a financial ecosystem where consumers can choose from a carefully selected range of digitally enabled financial products and services from third-party providers.

Through our open APIs, we offer customers access to a wide range of third-party products and services, from long-term savings and investments, mortgage brokers and credit scores through to different types of insurances. Customers can link these to their Starling account, both personal and business. We never charge customers more for accessing a service in the Marketplace than if they had signed up to the provider directly on their website or app - it's our Starling Promise.

During the year we added ten Marketplace partners, including Xero, FreeAgent and Churchill Insurance (Direct Line), Growth Street and Credit Ladder to bring the total to 16 by 30 November 2019.

Starling Banking Services: payments revolutionised

Starling Banking Services is rewriting the playbook for payment clearing and cash management. Having built best-in-class infrastructure services to support our own operations, we provide fintechs, e-money institutions, banks, government and corporates innovative B2B banking solutions, through simple and secure APIs.

Banking Services offers three core products: Payment Services, Account Services and Banking-as-a-Service. With these services, scaling businesses are able to offer their own real-time services and develop new products for their customers without long implementation times and incurring high costs.

During the year we added eight new Banking Services partners, to bring the total of live clients to 24 by 30 November 2019. Clients include fintechs such as Curve, Square, SumUp, CurrencyCloud and Raisin. The number of payments processed by Starling Banking Services is doubling month on month.

Transforming banking for small business owners

At Starling we believe that financial technology can, and should, make SME banking quicker, smoother, fairer and more transparent. It should put small and medium sized businesses in control, giving them an instant overview of their finances whilst freeing up time for owners to run their businesses, helping them to track their transactions and seamlessly connecting them with new sources of capital, services and software. It should also have customer support on hand 24/7, at precisely the moments they need it with the right level of expertise.

In February 2019, Starling was awarded a £100 million grant from the CIF, in the face of stiff competition from other banks. The CIF Grant, administered by an independent body, the BCR, came from a £775 million fund created by RBS and HM Treasury to boost competition and innovation in the SME banking market. We believe this grant will enable us to radically transform SME banking for customers in the UK.

We have set a goal of attracting over 450,000 customers by the end of 2023 and expect to achieve a 6.7% market share within five years. This will allow us to have the market size to make an enduring change to competition in the SME market.

BUSINESS REVIEW

We have also committed to use the CIF grant to help build a full suite of 52 digital banking products. Examples include flexible deposit accounts, multiuser card functionality, instant invoicing, VAT management, advanced invoice financing, smart FX, supply chain finance using blockchain based technology and secured business lending.

We have pledged to use the CIF grant to create 398 new jobs in the UK and to co-invest £95 million of our own money to help build a better bank for SMEs. We intend to make £913 million of balance sheet lending available to SME customers by the end of 2023 to help to boost their growth and productivity.

After receiving the money, we expanded our Marketplace for our business account holders, adding partners such as FreeAgent, an accounting platform, CyberSmart, a cyber security platform, as well as Digital Risks and Nimbla, both insurers. We also launched multi-owner business accounts and euro business accounts.

Life as a small business owner can be a bit of a balancing act, so we designed our small business and sole trader bank accounts to suit busy people on the go. But we realised they needed something more. So, in September we launched a web app enabling them to access their Starling account on their desktop or laptop as well as directly from their smartphone.

As part of our commitment to build a bank for all regions, we have opened an office in Southampton, in June 2019. Since then, we have opened a further regional office, in Cardiff, in November 2019. We are committed to draw at least 60% of all future business customers from outside of London.

During the period, Starling was also accepted onto the BCR's Incentivised Switching Scheme (ISS), designed to provide cash incentives to switch to a new provider for 120,000 business customers of an RBS subsidiary, Williams & Glyn. One of 11 providers in ISS, Starling had achieved a 16% share of switched accounts as of the end of December 2019.

Brexit: we are open

We were ready for Brexit and stand prepared for the end of the transition period.

Starling remains open to the EU with euro accounts for personal and business customers who want and need to transact in euros and we're preparing for the end of the transition period with advanced plans to seek a banking licence in the EU.

Along with our in-app European payment process features, which we provide directly to our customers, we use other banks and electronic money institutions to provide a frictionless customer journey. All of them confirmed their readiness for Brexit during 2019 and have again confirmed in 2020.

Sustainability

We are committed to the pursuit of ecological sustainability and to combating climate change. As a branchless, digital and largely paperless bank built in the cloud, we endeavour to protect the natural environment through practising energy and resource efficiency through recycling and waste management. Our offices in London, Southampton and Dublin use sustainable energy suppliers and we are working towards the same standard in our Cardiff office. Ninety per cent of our cloud related expenditure is with a data centre that is carbon neutral. We do not invest in environmentally or socially damaging industries, including fossil fuel companies. We work to improve our environmental performance all the time.

On a journey with our employees

We know that our bank is only as good as the people who build it. From customer support and engineering to marketing and business development, we're proud to bring together people of all backgrounds and experiences who love working together to solve problems.

When it comes to hiring, we focus on aptitude and attitude rather than specific experience or qualifications and we nurture a culture of innovation which differentiates us from other banks. Over the last financial year, staff numbers have increased by 497 employees to 736, of which 296 are women and 440 are men.

As a digital bank, we operate at the axis of two traditionally male-dominated professions, banking and technology. As a new company, starting from scratch, we have an opportunity to change that and achieve a better gender balance. That's why we signed the Women in Finance Charter. When we signed up in 2017, 27% of our staff in senior management roles were women and we set ourselves a target to increase this to 30% by 2021. In 2019 we raised that target to 40% and are pleased to say that we are currently at 41%. Half of our Executive Committee are women.

We're committed to be an inclusive workplace, one that strongly believes that what you know is more important than gender, race, religion or anything else. Recruitment and promotion are conducted on the basis of merit and against objective criteria that avoids discrimination. If applicants or employees are disabled or become disabled, we encourage them to tell us about their condition so we can consider what reasonable adjustments or support may be appropriate.

From day one, we have always wanted our employees to feel as if we are all on the same journey together. As we scale up, that aspiration remains true. We provide employees with regular updates about our performance, objectives and strategy. This includes monthly company-wide meetings and one off 'town hall' style events.

We have encouraged employees' involvement in our performance by a range of benefits which include offering share incentive arrangements to certain employees. But we want to take this one step further. Unusually for a company at our stage, we believe it is important to reward all of our employees with shares so that Starling really will be 'their company'. We believe there is intrinsic merit in aligning the interests of our employees and our shareholders in this way and making them as one. On a practical level, we believe it will help us attract and retain talent and, ultimately, better serve our customers. But more than that, it also aligns with a new public dialogue on the need for corporations to focus on the value they deliver to all stakeholders (customers, workers, suppliers and communities as well as shareholders) and a growing expectation on corporations not just to do well, but also to do good.

FINANCIAL REVIEW

Starling (also referred to as the Group and in the case of Starling Bank Limited also referred to as the Bank) reported a loss before tax for the year of 30 November 2019 £(53,603)k (2018: £(26,856)k). The loss after tax for the period was £(52,065)k (2018: £(25,070)k).

During the year the Group received income of £17,042k (2018: £3,075k) comprising interest income on its capital and customer deposits placed with the Bank of England, investing in high quality liquid assets, lending activities and fees and commissions from its customers' use of their debit cards and client transaction charges arising from our Banking as a Service products. The Bank paid interest expense on its customers' deposits and card fees and commissions on its customers' card transactions totalling £(2,306)k (2018: £(2,325)k). The Group incurred operating overheads of £(91,534)k (2018: £(32,723)k) some of which was directly attributable to the cost of designing, specifying, building, testing and implementing the software to support its banking platform.

During the period an assessment was made of the future economic benefit of the software developed and an amount of £5,440k (2018: £5,464k) was capitalised in the Statement of Financial Position as an Intangible Asset resulting in total operating costs before recognition of the CIF grant, of £86,146k (2018: £(27,259)k) in the Statement of Comprehensive Income.

During the year the Group received £100m under the CIF, administered by the BCR. The purpose of the CIF is to facilitate the development of more advanced business current accounts offerings and ancillary products for SMEs in the UK. The Group submits quarterly returns to the BCR for approval detailing the qualifying expenditure for that relevant period. At 30 November 2019, the Group had incurred qualifying expenditure of £19,738k, of which £4,482k was spent in relation to the development of software which will provide future economic benefit and has been classified as an Intangible Asset.

Starling places the majority of its customer deposits with the Bank of England and this is reflected in its overall net interest income margin of 101bps (2018: 98 bps). On Loans and Advances to Customers, the Bank's gross interest income margin was on average 12.7% (2018: 14.8%) and its cost of deposits was on average 0.19% (2018: 0.4%). Starling has a strong deposit base that is widely diversified for the size of the organisation. At the reporting date its Liquidity Coverage Ratio was 934% and its Net Stable Funding Ratio was 736%.

The Bank's relatively small total for lending balances comprises individual customer overdrafts and loans acquired through forward flow agreements. At 30 November 2019, the Bank's loan to deposit ratio was 5.4% (2018: 4.3%). The Group's cost of risk was 3.37% (2018: 1.84%).

During the year the Group raised CET 1 compliant capital of £91.5m from its Investors. At the reporting date, its Tier 1 Ratio was 42% and its UK Leverage Ratio was 21.3%.

The key performance indicators used to monitor the success of the business are set out on pages 04 and 05.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks and Uncertainties

The Board considers the principal risks and uncertainties to be strategic, capital adequacy, credit (including concentration and counterparty), funding and liquidity, market, conduct, operational and compliance.

Risk and Mitigating Controls

Risk	Mitigating Controls
Strategic Risk is the risk that Starling fails to execute its business strategy as a result of poor decision taking, substandard execution of decisions, inadequate resource allocation or from a failure to effectively respond to changes in the business/market environment.	Starling has a clearly defined Board-approved strategy and has assumed a Corporate Governance framework with a Board of experienced executive and non-executive Directors, Board sub-committees and executive committees to oversee and address strategic issues as they arise. This is supported by a detailed business plan, capital plan, Risk Appetite Statement, recovery plan and resolution pack as well as a skilled and experienced executive team.
Capital Adequacy Risk is the risk that capital is insufficient to meet regulatory or internal requirements under the business plan or in a stress environment.	Starling assesses its capital requirements under an Internal Capital Adequacy Assessment Process (ICAAP) that is aligned to its business plan and capital-raising activities. Key metrics are monitored daily and regularly reviewed by the Board, including the adequacy of capital and its consumption from operational requirements and balance sheet consumption.
Retail and Commercial Credit Risk, is the current or prospective risk that a customer of the bank (personal or business) defaults on their contractual obligations to Starling or fails to perform their obligations in a timely manner.	Starling's Board approved Credit Policy and Risk Appetite Statement prescribe the Bank's approach to managing credit risk. Adherence with risk appetite is ensured via processes covering the full credit risk lifecycle that include manual and automated strategies. These are outlined in detailed procedure guides and overseen by second line credit risk. Any process changes are agreed at Credit Risk Committee (CRC). Credit exposures are monitored daily with oversight from CRC, as well as reporting to the Board Risk Committee (BRC) and to the Board.
Wholesale Credit Risk is the current or prospective risk that a wholesale counterparty of the bank defaults on their contractual obligations to Starling or fails to perform their obligations in a timely manner.	Wholesale credit risk is the responsibility of the Assets and Liability Committee ("ALCO") as part of its mandate to oversee Treasury activities. Counterparty limits are set to ensure compliance with both the Large Exposures overseen in Finance and with the overall Starling Risk Appetite Framework. Wholesale Credit exposures are monitored daily with an oversight from ALCO as well as reporting to the BRC and to the Board.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Mitigating Controls
Funding and Liquidity Risk is the risk that Starling could fail to meet its obligations as they fall due, or is only able to do so at an excessive cost, including having the right type and quantity of funds, in the right place, at the right time and in the correct currency.	Starling has a Funding and Liquidity Risk Policy supported by a suite of procedures with the risk managed and reported by a designated Treasury function. Starling has assessed its day to day liquidity requirements under an Internal Liquidity Adequacy Assessment Process (ILAAP), mitigated by a Contingency Funding Plan. The end to end process is overseen by ALCO. Key metrics are monitored daily and regularly reviewed by the BRC and the Board.
Market Risk is the risk to capital or earnings from the adverse movement of market prices. For Starling, this is principally the exposure to interest rate risk in the banking book.	Starling seeks to minimise its interest rate risk wherever possible and performs a suite of stress tests and scenario analysis on residual positions. Risk limits are reviewed and set by the Board and the measuring, monitoring and control of interest rate risk is mandated through Policy documentation at the ALCO with regular reporting to the BRC and to the Board. Starling's Risk Appetite for interest rate risk is aligned with the capital set aside under its Pillar 2A provision. Treasury is principally responsible for identifying, reporting and mitigating market risks.
Operational Risk is the risk of loss, whether direct or indirect, to which Starling Bank is exposed due to inadequate or failed internal processes or systems, human error or external events.	Starling has a suite of operational risk policies and procedures covering the identification, management and reporting of the risks associated with internal and external fraud, people risk, execution and delivery risk, supplier and outsource management, legal risk, business continuity management and disaster recovery, information management, and data protection. Compliance with these policies is monitored by the second line of defence, which provides assurance with risk management oversight through the Operational Risk Committee, with regular reporting to the BRC and the Board.
Conduct and Culture Risk is the risk of creating harm to a customer, counterparty or market arising from inappropriate behaviour by Starling or its partners in the execution of business activities. This includes, but is not limited to inappropriate product design, selling and delivery.	Starling's conduct risk policy sets the framework for the fair treatment of customers as well as ensuring appropriate conduct by staff in line with the Bank's expectations and the Financial Conduct Authority's (FCA's) Conduct Rules. The Bank has a range of measures and thresholds covering the Bank's management of conduct risk across the customer journey and these are monitored at Executive Risk Committee with regular reporting to the BRC and to the Board.

Risk	Mitigating Controls
Compliance Risk is the risk of financial loss, reputational damage and/or regulatory censure arising from failing to comply with existing/future regulatory or legislative requirements.	Starling manages regulatory compliance under a series of policies, procedures and manuals, including anti-money laundering, countering financing of terrorism, sanctions, conflicts of interest and regulatory compliance alongside a mandatory staff training program. Compliance oversight is monitored by the second line of defence, which provide assurance with risk management oversight throughout the Executive Risk Committee with regular reporting to the BRC and to the Board.

Brexit

In addition to the above, the Bank has considered the risk that the UK's withdrawal from the European Union (EU) either will not be in an orderly manner and/or could cause a shock to the UK economy. The impact of Brexit is not considered to have a direct impact on the Bank's business model. In modelling its regulatory capital requirements for its ICAAP, the Bank has already assessed the effect of a severe shock to the UK economy based on the Bank of England's Anchor Scenario; the result of this stress test is that the Bank has sufficient capital to withstand such an event.

LIBOR

Regulators and central banks have set the goal of improving the robustness of financial benchmarks, especially interest rate benchmarks. As a result of this initiative, the ongoing availability of, among other benchmarks, the London Interbank Offered Rate ("LIBOR") is uncertain. In the UK, the FCA has announced that it will no longer compel panel banks to submit rates for the calculation of LIBOR after 2021.

As a result, LIBOR may be modified or discontinued after 2021. The Working Group on Sterling Risk-Free Reference Rates has proposed the Sterling Overnight Index Average ("SONIA") as the basis of a replacement for LIBOR.

The Bank has therefore commenced a project to transition away from LIBOR to using a compounded SONIA rate on the assumption that this will replace LIBOR as the market standard. Whilst not directly impacting the Bank, the impact of this transition will be achieved through the migration of LIBOR to SONIA as required through the market basis for LIBOR linked financial instruments.

PRINCIPAL RISKS AND UNCERTAINTIES

Covid-19

As already noted, the world is experiencing unprecedented disruption caused by the Coronavirus pandemic.

At the time of writing, we have read and interpreted the announcements that have been made by the UK Government, the Financial Reporting Council, the Bank of England, the PRA and the FCA. The Board will continue to assess the impact of Covid-19 on the Group and its business model as well as undertaking stress tests in line with regulatory guidance. In the light of the current economic outlook and high levels of uncertainty, the Board has taken action to revise the Group's growth targets for 2020 and to preserve capital.

All of the risks that are set out above will be impacted by Covid-19 to a greater or lesser extent. The Board believes that the following comprise the areas that are most under threat:

- Strategic risk;
- Retail and Commercial Credit Risk;
- Wholesale Credit risk;
- Funding and Liquidity Risk;
- Market Risk;
- Operational Risk;
- Conduct and Culture Risk.

Whilst it is too early to assess all of the risks to Starling's business model and the long-term impact, the Board recognises that Covid-19 could have a significant impact on consumer confidence, deposits, spending and borrowing both in the UK and Overseas and has taken these into account in considering the risks associated with the current level of uncertainty.

Given the sudden onset of the Covid-19 virus, the PRA has guided banks that they believe that there is very little such information available as yet and regards the preparation of reliable and detailed forecasts as very challenging currently. In making its forecasts, the Group has noted that the PRA expects firms to reflect the temporary nature of the shock, and to fully take into account the significant economic support measures already announced by global fiscal and monetary authorities.

The Bank has articulated its approach to ensuring its operational continuity in a number of Board approved documents.

Financial Resilience

Starling maintains sufficient capital in form of Pillar 2A and Pillar 2B Buffers.

- **Pillar 2A Add-ons:**

  Starling maintains Pillar 2A add-ons to cover a number of risks not adequately covered by the CRD IV Pillar 1 calculations. In particular, the Bank has assessed Concentration Risk, Interest Rate Risk in the Banking Book ("IRRBB") and Operational Risk. A conservative approach is adopted in all cases, and the add-ons are based on a mixture of expert judgment, application of prescribed calculations, and/or scenario-based approaches which are sufficient to cover extreme but plausible impact scenarios.

- **Pillar 2B Buffers:**

  In drawing up its assessment of the amount of regulatory capital that the Bank should hold, the Board has reviewed the forward looking information used for borrowers and incorporated that into the expected credit loss (ECL) estimates that are both reasonable and supportable for the purposes of IFRS9.

The credit risk implication of Covid-19 is currently anticipated to be within the assessed range of stress scenarios undertaken by the Bank as part of the ICAAP, which is based on the PRA's Anchor Scenario and the application of mitigating actions through credit risk management techniques.

Operational Resilience

Starling uses a combination of approaches in order to deliver its critical services:

- **Outsourcing:** Where critical services are outsourced, Starling has ensured that regulatory responsibility remains with the Bank.
- **Insourcing:** Where critical services are delivered within the business, operational continuity relies on a degree of independence.

Starling's core systems are outsourced to a major cloud services provider. Each service within its core system is distributed in an active-active configuration across multiple availability zones so that even in the event of one entire zone failing the traffic will automatically be diverted to others, meaning that a total failure of the Bank's systems is unlikely.

The Bank complies with the EBA recommendations on Cloud Outsourcing. It conducts a materiality assessment of its outsourcing activities and maintains an updated register of information on all its material and non-material activities outsourced to cloud service providers.

Starling has ensured that none of its service providers are permitted to change the arrangements of service provision with clauses in agreements for critical services (such as customer service, core technology, treasury services, payment operations) allowing for continued use of services in stress situations.

We have sought assurances from our key suppliers that they have appropriate continuity arrangements in place and are able to execute them. We are closely monitoring this for early detection of any potential service disruption.

We have taken immediate precautionary steps to ensure the continued safety of our employees and the smooth running of the bank for the benefit of our customers. Our Business Continuity Plan ensures operational continuity in support of all of our customers' activities. We took the immediate action to isolate key engineering staff, including those who support the maintenance of our access to payments systems. We have the ability to run the bank entirely remotely. These processes are currently in full operation.

RISK MANAGEMENT STRATEGY

The overarching direction of the Board is to "take risk consciously and methodically in order to deliver the Group's strategic and business objectives, whilst demonstrating management of material risks to levels that preserve financial and operational resilience, and which ensure the ongoing confidence of customers, regulators and investors."

The risk management strategy is aligned to the Board's approved business strategy and the Group's associated control environment. The Board recognises the importance of having a robust risk culture and supports the key factors that contribute to an open and transparent environment where well-trained and informed individuals take intelligent risk, under clear policies, in pursuit of achieving the Bank's business strategy.

Starling's risk strategy is to create and maintain a robust risk culture and embed effective risk management practices in order to ensure that it delivers a reputable, responsible and sustainable bank. The Group's growth plans are underpinned by pricing appropriately for risk, ensuring operational resilience, protecting and enhancing our reputation and focussing on controlling both credit and non-credit losses.

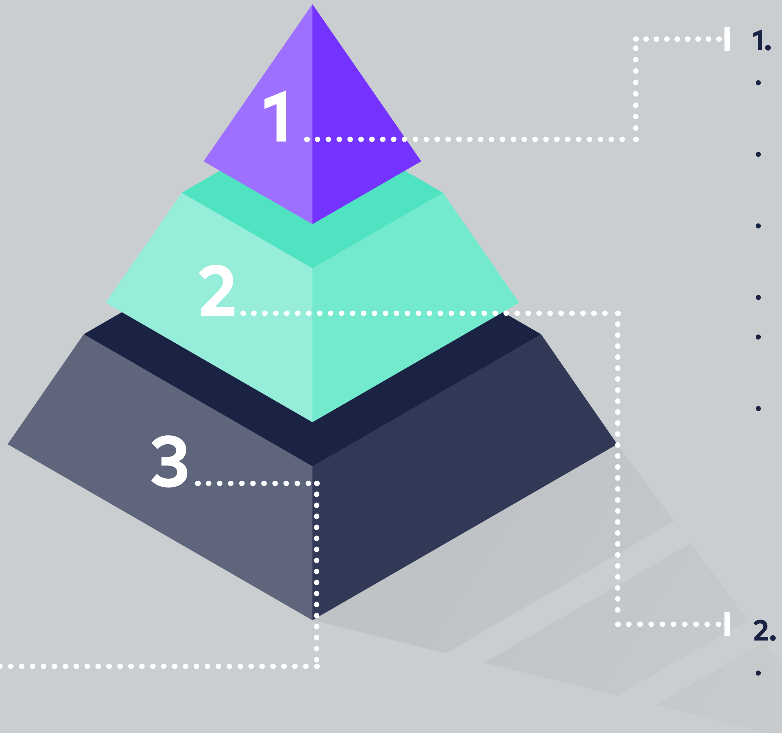
The risk management strategy is reviewed annually and recommended to the Board for approval by the Board Risk Committee to ensure that it remains consistent with the Board's requirements and with the Group's overarching business strategy.

The following objectives summarise Starling's risk strategy position:

- Starling adopts a strategic approach to risk management to make better informed decisions;
- We set the 'tone from the top' on the level of risk we are prepared to accept in our service delivery activities and setting priorities;
- We acknowledge that even with good risk management and our best endeavours, things can go wrong. Where this happens, we use the lessons learned to try to prevent recurrences;
- We continually develop leadership capacity and skills in identifying, understanding and managing the risks facing the bank;
- We integrate risk management into how we run the business. Sound risk management processes will help us to achieve our core purpose, priorities and outcomes;
- We support a culture of well-measured risk taking throughout the bank. This includes setting risk ownership and accountabilities and responding to risk in a balanced way, considering the level of risk, reward, impact and cost of control measures;
- We ensure that the bank continues to meet all statutory and best practice requirements in relation to risk management; and
- We ensure that risk management continues to be a key and effective element of our corporate governance arrangements.

POLICY MANAGEMENT FRAMEWORK

The Group's Policy Management Framework is illustrated below:



1. Board Level Documents

- Provide high-level direction and guidance.
- Establish key principles and responsibilities.
- Define fundamental requirements and limits.
- Bank-wide in application.
- Cover material risk exposure categories.
- Require Board or Board sub-committee approval.

2. Executive Level Documents

- Provide further detail to level 1 documents or stand alone as minimum standards.
- Cover matters that are the responsibility of Executive management rather than the Board.
- Potentially Bank-wide in application but may be more targeted/localised.
- Normally require Executive-level committee review and approval e.g. ExCo, ALCO, ERC etc.

3. Detailed/Local Documents

- Further step-by-step details on the implementation of Policies and Frameworks.
- Potentially Bank-wide in application but may be more targeted/localised.
- Likely to be detailed and procedural in nature.

RISK MANAGEMENT FRAMEWORK

1. **Board Level Documents** (Level 1) are documents that are retained within the authority of the relevant Board to review and approve. They are distinguished by the fact that they provide the highest-level rules, strategy and guiding principles that define Starling's approach to its activities and/or most material risk exposures.

   Three Level 1 documents exist at group level:

- Group Enterprise Risk Management Framework ("ERMF");
- Group Risk Appetite Framework ("RAF") and Risk Appetite Statements ("RAS"); and
- Group Policy Management Framework.

   Level 1 documents are reviewed and re-approved by the Board or Board sub-committees at least annually and more often where there is a material change in Starling's strategy or business plan which necessitates a restatement of the Group's principles and appetites.

2. **Executive Level Documents** (Level 2) typically provide more granular detail than Level 1 documents or are more targeted / specific / local in application. They cover matters that are the responsibility of Executive management rather than the Board. These documents require approval through Executive-level committees (e.g. EXCO, ALCO, ERC). Review and re-approval is conducted at least every 3 years, but more often where there has been a change in the group's approach which necessitates a restatement.

3. **Detailed / Local Documents** (Level 3) typically provide very granular information and instructions. They are likely to be detailed and procedural in nature. Whilst some may have company wide application, many will be specific to a process / department / activity. They cover matters that are the responsibility of individuals in Executive management and their delegates. These documents require approval by individual Executives and their nominated delegates / subject matter experts. Review and re-approval is conducted where there has been a change in Starling's approach which necessitates a re-statement.

The Group's ERMF outlines Starling's approach to risk management and how the key risk types to which the Bank is exposed are identified, assessed, managed, controlled, monitored and reported. The ERMF is designed to ensure a holistic and consistent approach to the aggregation and management of all risks, which is integrated into business management and decision making.

The key objectives of the ERMF are to:

- Describe and facilitate the delivery of Starling's risk strategy;
- Establish standards for the consistent identification, assessment, measurement, management, controlling, monitoring and reporting of risk exposures;
- Define the categories of risk to which Starling is exposed;
- Provide an overview of Starling's key risk management frameworks and processes;
- Define the Three Lines of Defence model; (See Page 25)
- Outline the approach taken in respect of setting and defining risk appetite and associated tolerances; and
- Identify the governance committees that will provide oversight and challenge of the risk management process.

The ERMF is a Board defined document, designed to support the identification and assessment of the material risks that threaten the achievement of Starling's objectives, and to ensure that these are managed and controlled effectively within an agreed risk appetite. It applies to the whole of Starling's business. The activities and risk exposures of all group entities must fall within the remit and parameters of this Framework.

The ERMF is aligned to the Bank's strategic business plan and is underpinned by a variety of supporting frameworks, including, but not limited to, the RAF, RAS and the Policy Framework. The scope of the ERMF extends to all material risk types faced by Starling. Additionally, the 'Risk Register' sets out the population of key categories of risk that are most pertinent to the Bank's operations. The purpose of categorising Starling's identified risks is to facilitate the consistent identification, measurement, management, monitoring and reporting of those risks.

The Group's RAF outlines Starling's overall approach, including policies, processes, systems and controls through which risk appetite is established, communicated, controlled, managed and monitored. The RAF considers the material risks to the Group, with consideration given to the potential impact on elements such as the balance sheet, profit and loss, customers, employees, reputation, regulators and other stakeholders. It includes an assessment of the capacity for risk that will have amongst its boundaries regulatory minima for capital and liquidity, as well as conduct boundaries in terms of customer treatment.

The RAF is embedded through the use of quantitative and qualitative measures that provide direction to all areas of business within the Group and set clear tolerances for activities that are both within and outside risk appetite. The RAF is designed to assist in identifying instances of breaches in appetite and ensure that they are escalated and managed appropriately.

The Group's RAS sets out its risk limit structures and outlines the roles and responsibilities for those overseeing the implementation and monitoring of the RAF. The RAS is reviewed every 12 months (or on a material change to the business) to ensure that it remains up to date.

The Group's Policy Framework governs a range of documents, including policies, framework documents, strategies and plans. It also distinguishes these higher-level documents from supporting standards and procedures, which are more granular and task-focused. The Group's policies communicate the risk management philosophy and our appetite for taking risk. Policies and supporting procedures establish the internal control structure necessary to achieve our business goals and comply with laws and regulations.

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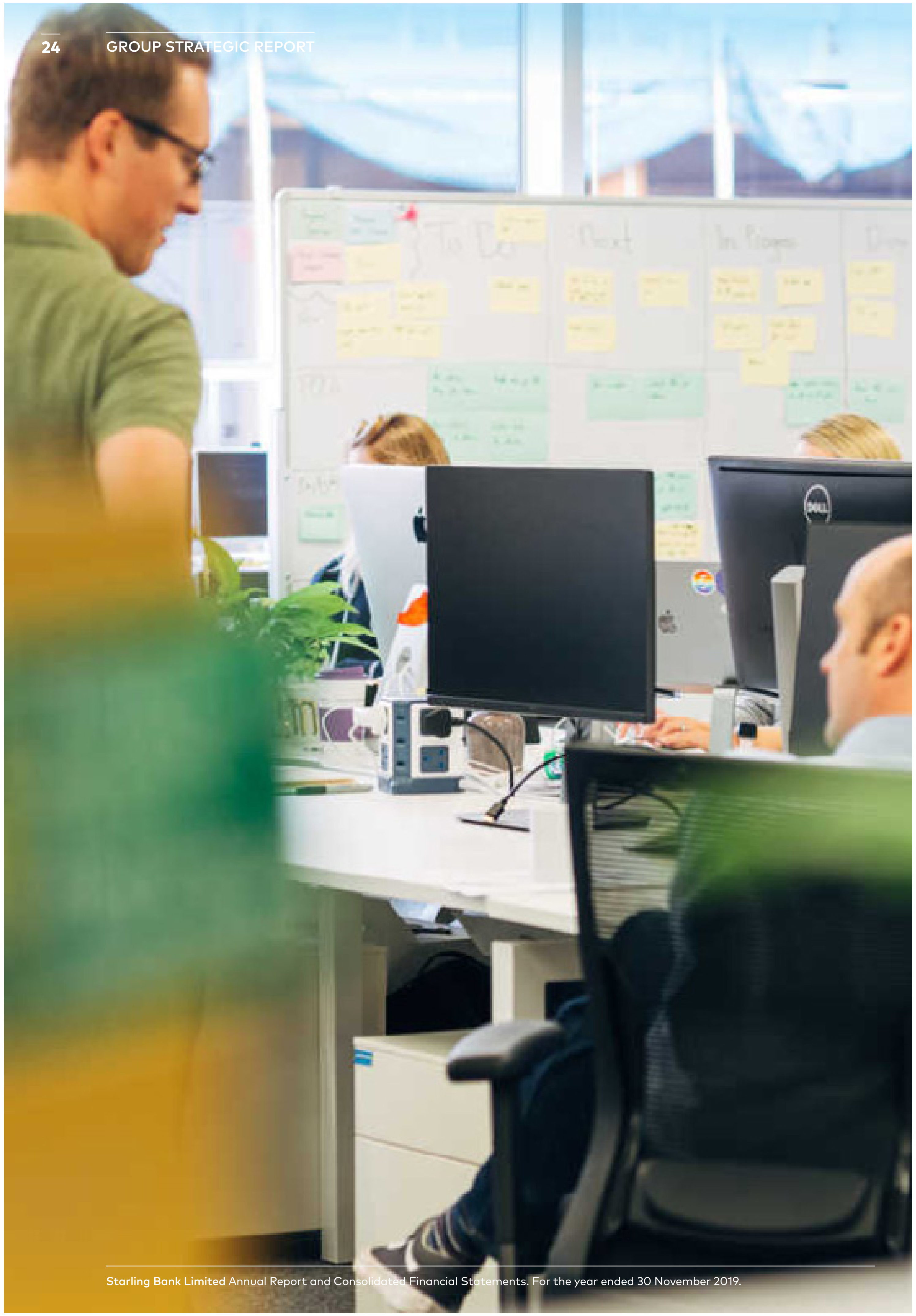


RISK OPERATING MODEL

In order to support risk management activities, the risk management framework operates within the principles of the "Three Lines of Defence" model. The respective roles of the three lines are described opposite.

1. First Line of Defence (the Business)

The first line of defence is responsible for identifying, assessing and managing risks and controls related to their own business line activities on a day-to-day basis.

The first line operates the business in accordance with the ERMF and ensures that the requirements of the framework are translated into effective operating processes and procedures.

It is the responsibility of senior management, who are the risk takers in the business, to ensure relevant risk management processes and procedures are followed to meet the Board's agreed risk profile as set out in the RAS and that all risks within new and existing products and processes are effectively considered, controlled and managed in accordance with the RAF.

2. Second Line of Defence (the Risk Function)

The second line is fully independent from the first line and is responsible for overseeing the application of the risk management framework, challenging the information presented by the first line and monitoring and reporting on risks and controls to the relevant committees, ensuring that the first line continues to operate within the risk appetite and tolerances that have been set. The Risk Function is responsible for oversight of forward-looking risk at an aggregate level relative to the risk appetite of the Bank.

3. Third Line of Defence (Internal Audit)

Internal Audit acts as the third line of defence and is accountable for providing independent assurance. Starling is using an external assurance firm to fulfil this function. The third line provides independent assessment over the adequacy of first- and second-line activities in relation to all aspects of the business, including risk management.

Internal Audit regularly assesses the appropriateness and operational effectiveness of Starling's ERMF, RAF, RAS and Policy Framework to ensure that they are aligned to regulatory expectations and industry standards.

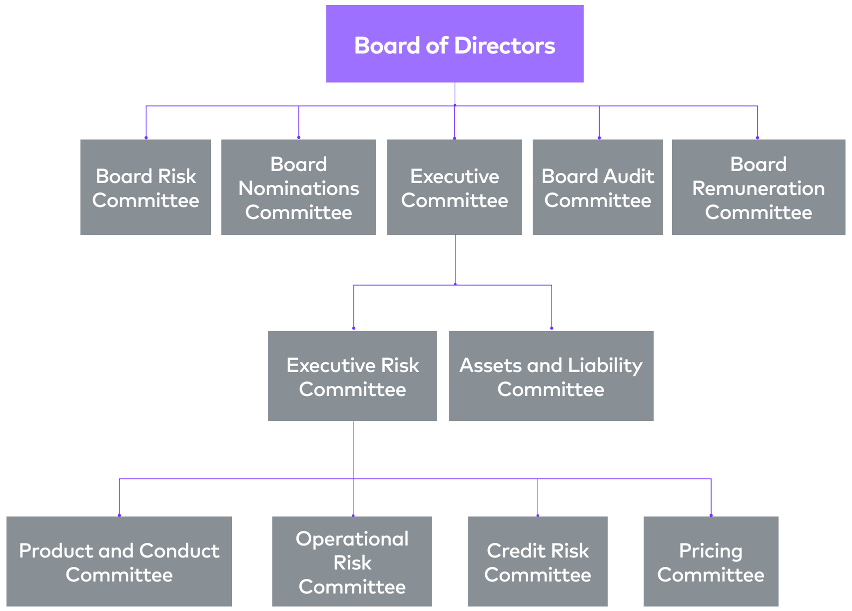
CORPORATE GOVERNANCE

Starling has created a corporate governance structure that aims to provide maximum protection for consumers and investors. This structure is documented within the Bank's Corporate Governance Framework. The Framework sets out the details of Starling's corporate governance arrangements. It provides information on the structures, responsibilities and processes established that ensure proper and effective management and oversight of Starling's affairs.

Starling's corporate governance policies are designed to ensure the independence of the Board and its ability to effectively supervise management's operation of the Bank. The policies are reviewed regularly and in accordance with changing regulation and emerging best practice information.

Starling believes that effective and successful corporate governance enhances long-term shareholder value, and it has therefore implemented a corporate governance structure that aligns to best market practices and relevant regulatory requirements for an organisation of its size.

Governance Structure



The Board of Directors (the "Board")

The Board is the Group's governing body. It sets the strategic aims and ensures that the necessary financial and human resources are in place to meet the strategic and operational objectives of the Bank. In order to discharge its duties effectively the Board normally meets monthly. Additional meetings are held as required.

The Board operates based on the principle of collective responsibility therefore all Board members are collectively and individually accountable for all actions and decisions of the Board.

The Board comprises an independent non-executive Chairman, four independent non-executive directors, plus two non-executive investor directors, along with the Chief Executive and the Chief Financial Officer.

CORPORATE GOVERNANCE

Responsibilities of the Board

The main responsibilities of the Board include:

- Setting strategic goals, monitoring management's performance against those goals, setting the overall risk appetite and ensuring the Bank is resourced and that effective controls are in place and remains within the delegated authority of the Group.
- Setting the Bank's risk appetite, strategy, corporate objectives and risk management framework, taking into consideration the interests of customers and shareholders and the Group.
- Maintaining a control environment to manage the material risks and is responsible for ensuring the capital and liquidity resources are adequate to achieve the Bank's objectives without taking undue risk and operates within the appetite delegated by the Group.
- Maintaining close oversight of current and future activities, through a combination of monthly board reports and periodic reviews of risk.
- Setting and overseeing a robust and transparent organisational structure with effective communication and reporting channels.
- Setting and overseeing a remuneration framework that is in line with the risk strategies of the Bank.
- Setting and overseeing an adequate and effective internal control framework, that includes well functioning risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework.

Additional responsibilities of the Board include:

- Approving the Annual Report and the Consolidated Financial Statements;
- Approving the design and implementation of the ERMF, the RAF, the risk appetite framework and individual Risk Appetite Statements;
- Reviewing and challenging the Board Risk Committee reports on the effectiveness of the ERMF;
- Approving the Bank's governance and committee structure;
- Approving the Bank's ICAAP, ILAAP, and its Recovery and Resolution Plans;
- Ensuring clear and appropriate apportionment of significant responsibilities amongst the Bank's directors and senior management and ensuring such responsibilities are discharged appropriately;
- Overseeing the Bank's compliance with the Fitness and Probity requirements;
- Oversight of systems and controls appropriate to the business;
- Ensuring compliance with the relevant regulations set out by the EU, the European Banking Authority, and local regulatory bodies;
- Overseeing risk disclosures, such as those presented in the Annual Report and Pillar III Disclosures; and
- Ensuring that senior management are managing operational resilience and that the Group has adequate resilience arrangements in place. The Board is also responsible for approving the operational resilience tolerance levels.

The Board is assisted by four sub-committees:

- Board Risk Committee ('BRC');
- Board Audit Committee ('BAC');
- Board Remuneration Committee; and
- Board Nominations Committee.

Additionally, the Board oversees the Executive Committee.

This report was approved by the Board on 31/03/2020.

Matthew Newman
Company Secretary

Starling Bank Limited Annual Report and Consolidated Financial Statements. For the year ended 30 November 2019.

GROUP DIRECTORS' REPORT

The Directors of Starling present their report along with the consolidated financial statements of the Group for the period ended 30 November 2019.

Principal Activities

The principal activity of the Group in the period under review has continued to be the development and enhancement of the offering of a digital bank to support retail, small and medium sized business customers, including lending both originated and acquired, through feature rich current accounts in the UK along with the associated operational infrastructure. Refer to the Group Strategic Report for further details.

Results and Dividends

The results of the Group for the year ended 30 November 2019, are shown on pages 45 to 49. The Directors do not propose the payment of any dividend in respect of the ordinary shares for the year (2018: nil).

Directors

The Directors of Starling shown below held office during the period as follows:

Oliver Stocken CBE
Mark Winlow
Steve Colsell
Victoria Raffé
Marian Martin (appointment approved by the Board on 26 June 2019)
Marcus Traill
Lazaro Campos
Anne Boden MBE
Tony Ellingham

Directors' Indemnities

The Board of Directors have effected a Directors' and Officers' liability insurance policy to indemnify the Directors and Officers of the Company against loss arising from any claim made against them jointly or severally for any failure of duty of care in their capacity as Director or Officer of the Company.

Political and Charitable Donations

The Group made no political donations during the period (2018: nil).

The Group made six charitable donations (2018: two charitable donations) during the period totalling £24,017 (2018: £2,610) to Movember (Charity Number: 1137948), Parkinsons Disease (Charity Number: 258197), Save the Children (Charity Number: 213890), Code Your Future (Charity Number: 1174929), Diabetes UK (Charity Number: 215199) and MyBnk (Charity Number: 1123791).

Employee Benefit Trust

During the year, share awards were made to employees under the Employee Benefit Trust (EBT), the details of which are set out in Note 23 to the Financial Statements.

Subsequent Events

The Directors acknowledge the stimulus actions taken in response to the Covid-19 outbreak by HM Government in the 2020 Budget and subsequent announcements to protect consumers and businesses during this period of uncertainty along with the actions taken by the Bank of England on 11 March 2020 to reduce the Base Rate by 50bps to 0.25% and on 19 March 2020 to reduce Base Rates further to 0.10%. The Group carries out regular stress and scenario analysis as part of its ongoing activities which incorporate factors such as interest rate reductions and changes in macro-economic indicators. Whilst the situation is rapidly evolving, the Directors have not seen any material change that would indicate an impact on the Group's financial position or performance as at the date of this report. Further information in respect of the Directors' consideration of Going Concern is set out on the following page.

GROUP DIRECTORS' REPORT

Going Concern

In preparing the consolidated financial statements, the Directors must satisfy themselves that it is reasonable for them to adopt the going concern basis.

After making the necessary enquiries, the Directors have a reasonable expectation that the Group/Company has adequate resources to continue in operational existence for the foreseeable future. In assessing the impact of all of the risks that could impact its business model the Group/Company has considered the potential impact of Brexit and Covid-19. Projections for the Group/Company have been prepared concerning its future financial performance, its capital available and requirements and its liquidity for a period of at least 12 months from the signing of these financial statements, in support of its business plan; these include stress tests carried out in support of the Company's ICAAP and ILAAP. In response to the uncertainty arising from Covid-19, the Directors prepared a new forecast, including stress tests aligned to the ICAAP. This stress scenario and forecast demonstrated that the Group/Company would continue to operate as a going concern. To meet its projections the Group is dependent on the continued support of its Investors (the Investors). The Directors have a reasonable expectation that such support will be forthcoming, and the Investors have indicated their intention and ability to support the Group in line with the Group's/Company's financial projections.

As with any company placing reliance on other entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the going concern basis of accounting has been used to prepare these financial statements.

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant information and to establish that the Group's auditor is aware of that information.

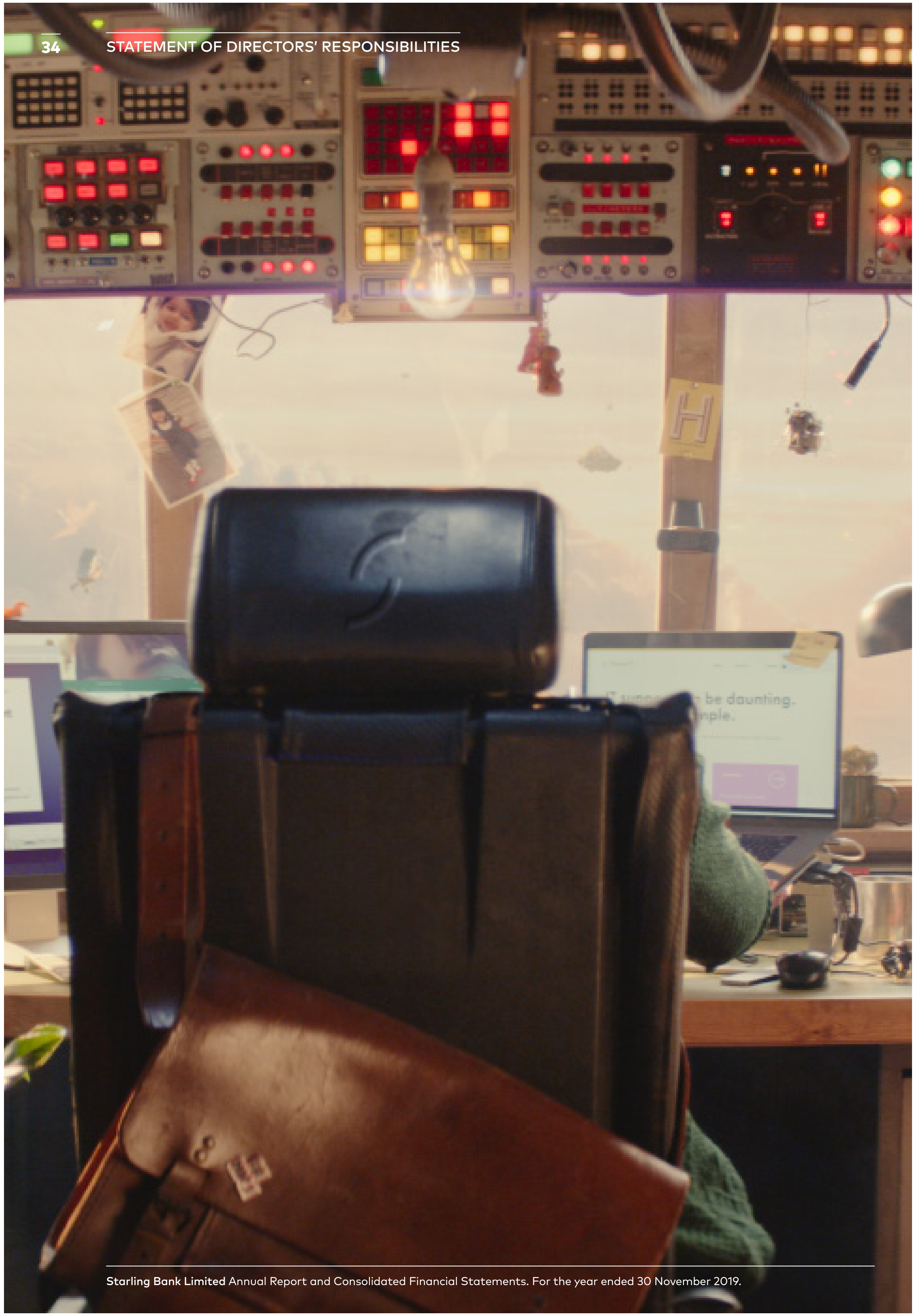
Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the Board on 31/03/2020.

Matthew Newman
Company Secretary

Registered in England and Wales.
Company No. 09092149



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of Directors' responsibilities in respect of the Annual Report, Strategic Report, the Directors' Report and the Financial Statements.

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Signed on behalf of the board by:

Anne Boden MBE,
Chief Executive Officer
Director
31/03/2020

Tony Ellingham,
Chief Financial Officer
Director
31/03/2020

INDEPENDENT AUDITOR'S REPORT

To the members of Starling Bank Limited

KPMG

Independent auditor's report

to the members of Starling Bank Limited

1. Our opinion is unmodified

We have audited the financial statements of Starling Bank Limited ("the Company") for the year ended 30 November 2019 which comprise the consolidated and company statements of comprehensive income, consolidated and company statements of financial position, consolidated and company cash flow statements, consolidated and company statements of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 November 2019 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

— the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by directors on 9 February 2016. The period of total uninterrupted engagement is for the 4 financial years ended 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£1.8m (2018:£1.1m) 3.4% (2018: 4.1%) of Loss before tax	
Coverage	100% (2018:100%) of group loss before tax	
Key audit matters		**vs 2018**
Event driven	Brexit Uncertainty	◄►
	New: Impairment of loans acquired from third parties	▲
Recurring risks	Going Concern	◄►

INDEPENDENT AUDITOR'S REPORT

Key audit matter	The risk	Our response
Going concern Refer to Note 1: Accounting policies – Going Concern.	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to adversely affect the Group's and Company's available financial resources over this period was insufficient regulatory capital to meet minimum regulatory capital levels over the course of the next 12 months. There are also less predictable but realistic second order impacts, such as the impact of Coronavirus COVID-19, which could result in a rapid increase in the level of impairment in loans and advances to customers. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Our procedures included:** **Key dependency assessment:** ▪ We assessed management's conclusion that the Group and Company is currently dependent on the continued support of its principal investor. ▪ We assessed whether the assumptions made in the capital plan/forecast are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit. ▪ We assessed the ability and intent of the principal investor to provide the required support to the Group and Company through making direct inquiry of the Group and Company directors, the principal investors representative and obtaining a copy of a formal letter of support offered by the principal investor to the Group and Company for a period of at least 12 months from the date of approval of the Group and Company financial statements. **Sensitivity analysis:** ▪ We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; ▪ We challenged the stress testing undertaken by the Directors of the identified critical factors in their financial forecasts. . **Evaluating directors' intent:** ▪ We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable (2018: acceptable).

KPMG

Key audit matter	The risk	Our response
Impairment of loans acquired from third parties Refer to note 1 accounting policy and note 6.	**Subjective estimate with limited data** IFRS 9 was implemented by the Group on 1 December 2018. This new and complex standard requires the Group to recognise expected credit losses ("ECL") on financial instruments. In September 2019 the Bank engaged with a third party lending platform to expand their lending portfolio. As at 30 November 2019 £37.3 million of loans and advances in respect of such loans have been recognised in the statement of financial position. Impairment of loans acquired from third parties requires management to make significant judgements and estimates over the recoverability of loans and advances that is open to both fraud and error. The key areas where we identified greater levels of management judgment and therefore increased levels of audit focus in the Impairment of loans acquired from third parties are: ▪ **Data availability** – As the loan book is new and historical data is not readily available, there is a risk ECL determined by management maybe understated resulting in an overstatement of loans acquired from third parties. ▪ **Model limitation** – As the ECL is a new process with limited historic data for calibration, the model is subject to inherent limitations (including reliance on backstop indicators for default and significant increase in credit risk). **Disclosure quality** The disclosures regarding the Group's application of IFRS 9 are key to explaining the key judgments and material inputs to Impairment of loans acquired from third parties. The effect of these matters is that, as part of our risk assessment, we determined that Impairment of loans acquired from third parties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Group.	**Our procedures included:** **Our financial risk modelling expertise**: ▪ We involved our own financial risk modelling specialists in evaluating the appropriateness of the Group's IFRS 9 impairment methodologies for loans acquired from third parties (including the significant increase in credit risk criteria used). We used our experience to independently assess probability of default, loss given default and exposure at default assumptions. We assessed the reasonableness of the model prediction by comparing them against actual results post year end. **Test of details:** ▪ We built an independent model to determine whether the Group's Impairment of loans acquired from third parties is within an acceptable provision range. **Assessing transparency:** ▪ We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the expected credit losses. As part of this, we assessed the sensitivity analysis that is disclosed. In addition we challenged whether the disclosure of the key judgements and assumptions made was sufficiently clear. **Our results** We found the resulting estimate of the Impairment of loans acquired from third parties and the related disclosures to be acceptable.

KPMG

Starling Bank Limited Annual Report and Consolidated Financial Statements. For the year ended 30 November 2019.

INDEPENDENT AUDITOR'S REPORT

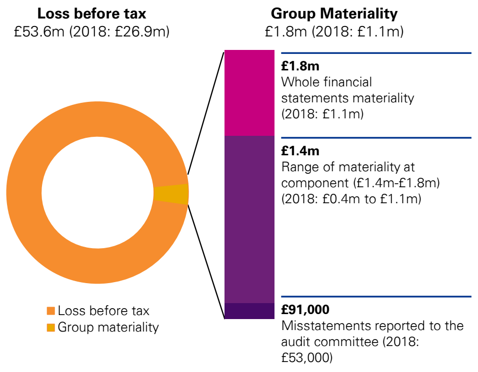
3. Our application of materiality and an overview of the scope of our audit

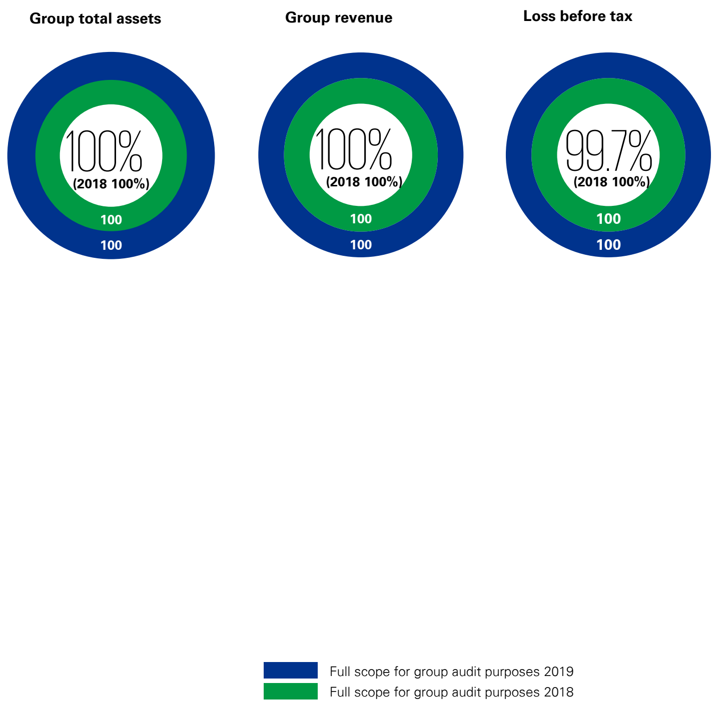
Materiality for the group financial statements as a whole was set at £1.8m (2018: £1.1m), determined with reference to a benchmark of loss before tax of which it represents 3.4% (2018: 4.1%).

Materiality for the parent Company financial statements as a whole was set at £1.7m (2018: £1.0m), determined with reference to a benchmark of loss before tax, of which it represents 3.5% (2018: 3.7%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £91,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level[s] set out above.





4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 23, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are

Starling Bank Limited Annual Report and Consolidated Financial Statements. For the year ended 30 November 2019.

INDEPENDENT AUDITOR'S REPORT

considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and prudential regulation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London,
E14 5GL

31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 November 2019

	Notes	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	Company 30 Nov 2019 £'000	Company 30 Nov 2018 £'000
Net Interest Income	3	5,967	929	5,967	929
Net Fee and Commission	4	7,483	(386)	7,483	(386)
Other Income		751	207	10,495	4,545
Total Income/(Expense)		**14,201**	**750**	**23,945**	**5,088**
Administrative Expenses	5	(83,241)	(27,054)	(88,256)	(31,771)
Credit for CIF Eligible Spend	2	19,738	-	19,738	-
Impairment and Write Offs	**6**	**(4,300)**	**(552)**	**(4,300)**	**(552)**
Loss before Taxation		(53,602)	(26,856)	(48,873)	(27,235)
Taxation	7	1,538	1,786	39	173
Loss after Taxation		**(52,064)**	**(25,070)**	**(48,834)**	**(27,062)**

There is no difference between the loss after taxation and the total comprehensive income of the Group. All amounts are attributable to the Equity Holders.

The notes to these financial statements can be found on pages 51 to 119.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 30 November 2019

	Notes	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	Company 30 Nov 2019 £'000	Company 30 Nov 2018 £'000
Assets					
Loans and Advances to Banks	8	764,705	187,008	764,602	186,905
Debt Securities	9	331,597	18,039	331,597	18,039
Loans and Advances to Customers	10	54,290	8,698	54,290	8,698
Other Assets	12	31,642	7,087	29,535	6,815
Property, Plant and Equipment	13	2,393	616	2,393	616
Intangible Assets	13	16,055	13,221	10	16
Investment in Subsidiaries and Inter-company Account	15	-	-	19,494	11,568
Total Assets		**1,200,682**	**234,669**	**1,201,921**	**232,657**
Liabilities					
Customer Deposits	16	1,007,282	202,323	1,007,299	202,323
Provisions for Liabilities and Charges	17	1,575	202	1,575	202
Other Liabilities and Accruals	18	40,542	3,784	40,514	3,751
Deferred Income	19	83,357	361	83,357	361
Total Liabilities		**1,132,756**	**206,670**	**1,132,745**	**206,637**
Equity					
Share Capital	20	7	5	7	5
Share Premium	21	159,332	67,784	159,332	67,784
Other Reserves	22	761	319	761	319
Accumulated losses	22	(92,174)	(40,109)	(90,924)	(42,088)
Total Equity		**67,926**	**27,999**	**69,176**	**26,020**
Total Liabilities and Equity		**1,200,682**	**234,669**	**1,201,921**	**232,657**

The notes to these financial statements can be found on pages 51 to 119.

Signed on behalf of the board by:

Anne Boden MBE,
Chief Executive Officer
Director
31/03/2020.

Tony Ellingham,
Chief Financial Officer
Director
31/03/2020.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 November 2019

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	Company 30 Nov 2019 £'000	Company 30 Nov 2018 £'000
Cash Flows from Operating Activities				
Loss for the Period after Taxation	(52,064)	(25,070)	(48,834)	(27,062)
Adjustments for Non-Cash items				
Depreciation and Amortisation	3,074	1,786	474	203
FV of shares allocated/options granted to employees	643	330	643	330
Net changes in Operating Assets and Liabilities				
Net increase in Loans and Advances to Customers	(45,592)	(7,895)	(45,592)	(7,895)
Net increase in Other Assets	(24,555)	(4,755)	(22,720)	(4,608)
Net increase in the Inter-Company Account	-	-	(7,926)	(1,245)
Net increase in Customer Deposits	804,959	184,240	804,976	184,240
Net increase/(decrease) in Other Liabilities	32,557	1,853	32,559	1,940
Net increase/(decrease) in Deferred Income	(17,004)	-	(17,004)	-
Net increase/(decrease) in Provisions	1,373	19	1,373	19
Net Cash Flows from Operating Activities	**703,391**	**150,508**	**697,949**	**145,922**
Cash Flows from Investing Activities				
Purchases of Property Plant and Equipment	(2,249)	(568)	(2,249)	(568)
Net increase in Debt Securities	(309,558)	(15,025)	(309,558)	(15,025)
Disposal of Property Plant and Equipment	5	5	5	5
Capitalisation of Intangible Assets	(5,442)	(5,477)	-	(13)
Receipt of CIF Grant	100,000	-	100,000	-
Net Cash Flows from Investing Activities	**(217,244)**	**(21,065)**	**(211,802)**	**(15,601)**
Cash Flows from Financing Activities				
Issuance of ordinary shares less cost of issuance	91,550	19,938	91,550	19,938
Acquisition of shares by Employee Benefit Trust	-	83	-	83
Net Cash Flows from Financing Activities	**91,550**	**20,021**	**91,550**	**20,021**
Net increase in Cash and Cash Equivalents	**577,697**	**149,464**	**577,697**	**150,342**
Cash and Cash Equivalents at beginning of period	187,008	37,544	186,905	36,563
Cash and Cash Equivalents at end of period	**764,705**	**187,008**	**764,602**	**186,905**

The notes to these financial statements can be found on pages 51 to 119.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group	Notes	Share Capital £'000	Share Premium £'000	Other Reserves £'000	Retained Earnings £'000	Total Equity £'000
As at 30 November 2017		**5**	**47,846**	**(93)**	**(15,039)**	**32,719**
Proceeds from issue of shares, less expenses	20,21	-	19,938	-	-	19,938
Loss for the Period	22	-	-	-	(25,070)	(25,070)
Fair Value of Shares allocated to employees	23	-	-	412	-	412
As at 30 November 2018		**5**	**67,784**	**319**	**(40,109)**	**27,999**
Proceeds from issue of shares, less expenses	20,21	2	91,548	-	-	91,550
Loss for the Period	22	-	-		(52,065)	(52,065)
Fair Value of Shares allocated to employees	23	-	-	442	-	442
As at 30 November 2019		**7**	**159,332**	**761**	**(92,174)**	**67,926**

Company	Notes	Share Capital £'000	Share Premium £'000	Other Reserves £'000	Retained Earnings £'000	Total Equity £'000
As at 30 November 2017		**5**	**47,846**	**(93)**	**(15,026)**	**32,732**
Proceeds from issue of shares, less expenses	20,21	-	19,938	-	-	19,938
Loss for the period	22	-	-	-	(27,062)	(27,062)
Fair Value of Shares allocated to employees	23	-	-	412	-	412
As at 30 November 2018		**5**	**67,784**	**319**	**(42,088)**	**26,020**
Proceeds from issue of shares, less expenses	20,21	2	91,548	-	-	91,550
Loss for the Period	22	-	-	-	(48,835)	(48,835)
Fair Value of Shares allocated to employees	23	-	-	442	-	442
As at 30 November 2019		**7**	**159,332**	**761**	**(90,924)**	**69,177**

The notes to these financial statements can be found on pages 51 to 119.

NOTES TO THE FINANCIAL STATEMENTS

01 Accounting Policies

a) Basis of Preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and with International Financial Reporting Standards (IFRS) and Interpretations (IFRICs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU). The financial statements have been prepared under the historical cost convention.

The financial statements have been presented using the following conventions:

- Currency: GBP £
- Rounding: £'000
- Statement of Financial Position is presented second in the Primary Statements and Assets are listed in order of liquidity.

The amounts expected to be recovered or settled for assets and liabilities in the financial statements are due no more than twelve months after the reporting period unless specifically stated.

The accounting policies that were relevant in 2019 have been consistently applied.

b) Changes to significant account policies / New standards adopted

IFRS 9

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement. It introduced significant changes for the classification and measurement of financial instruments, including a new impairment approach, and new hedge accounting requirements. IFRS 9 also amended other standards dealing with financial instruments, including IFRS 7 Financial Instruments: Disclosures.

The impact of IFRS 9 adoption for the Group and the Company is the same. The following analysis only references the Group.

Impact of Initial Adoption

The Group adopted IFRS 9 from 1 December 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2018 has not been restated and transitional adjustments have been accounted for through retained earnings as at 1 December 2018, the date of initial application, and as a result the accumulated losses increased by £(233)k, driven by the effect of additional impairment provisions following the implementation of the expected credit loss methodology.

NOTES TO THE FINANCIAL STATEMENTS

01 Accounting Policies

	IAS 39		IFRS 9	
Financial Assets [1]	**Measurement Category**	**Carrying Amount** £'000	**Measurement Category [2]**	**Carrying Amount** £'000
Cash and Balances with Banks [3]	Amortised Cost	187,008	Amortised Cost	187,008
Loans and Advances to Customers	Amortised Cost	8,698	Amortised Cost	8,465
Debt Securities	Amortised Cost	18,038	Amortised Cost	18,038
Financial Assets[4]		**213,744**		**213,511**

Classification and Measurement of Financial Assets

The table above summarises the measurement and carrying value of Financial Assets on the adoption of IFRS 9 on 1 December 2018.

Note 1 - Financial Assets that were previously classified as loans and receivables which are now classified as amortised cost under IFRS 9, are initially recognised and subsequently measured using the same method of accounting as they were under IAS 39, except that IFRS 9 introduces new impairment requirements.

Note 2 – The Group has assessed the characteristics of financial assets and have concluded that they are all held to maturity and comprise cash flows that are solely payments of principal and interest and as such are held at amortised cost.

Note 3 – Cash and Balances with Banks have been reclassified as Loans and Advances to Banks under IFRS 9.

Note 4 – Difference in carrying value set out below.

2019	**IAS 39 Carrying Amount at 30 Nov 18** £'000	Reclassifications £'000	Impairment[1] £'000	**IFRS 9 Carrying Amount at 1 Dec 18** £'000
Loans and Advances to Banks[2]	187,008	-	-	187,008
Loans and Advances to Customers[3]	8,958	-	(233)	8,725
Debt Securities[4]	18,038	-	-	18,038
Financial Assets	**213,744**	**-**	**(233)**	**213,511**

Reconciliation of carrying value of financial assets from IAS 39 to IFRS 9

The table above reconciles the carrying amount of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement category under IFRS 9.

Note 1 – IFRS 9 replaced the incurred loss model in IAS 39 with a forward-looking expected credit loss (ECL). This impairment model applies to financial assets held at amortised cost.

Note 2 – Cash and Balances with Banks have been reclassified as Loans and Advances to Banks under IFRS 9.

Note 3 – The transition from IAS 39 to IFRS 9 resulted in an increase to the ECL of £233k, broken down as £38k for Retail overdrafts in Stage 1 (12-Month ECL) and £195k provision for undrawn balances.

Note 4 – Investment securities have been reclassified as Debt Securities under IFRS 9. On adoption of IFRS 9 there was no difference in the carrying value.

NOTES TO THE FINANCIAL STATEMENTS

01 Accounting Policies

Impact on Financial Liabilities
IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. There is no impact for the Group on initial adoption.

IFRS 15
IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces previous revenue recognition requirements, including IAS 18 Revenue. The Group has adopted IFRS 15 using the cumulative effect method, i.e. any impact of initially applying IFRS 15 was recognised on 1 December 2018 and therefore the financial information presented for the year ended 30 November 2018 has not been restated. For details of the accounting policies applied to information presented for 2018 refer to Note 1 (y) of the accounting policies.

IFRS 15 requires that income is recognised by the Group in a way that depicts the transfer of goods or services to customers. The amount of revenue so recognised should reflect the consideration to which the Group expects to be entitled in exchange for those goods or services. IFRS 15 introduces a new five-step process that is followed in order to determine the appropriate revenue recognition policies. For each significant revenue, the Group applied the new five-step process to determine how and when revenue should be recognised under IFRS 15.

Recognition of Grant
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance outlines how to account for government grants and other assistance. Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets requires setting up the grant as deferred income or deducting it from the carrying amount of the asset.

During the year the Group received a grant under the CIF.

The Group has determined that the economic substance and nature of the receipt of the funds under the CIF grant are similar to that of a government grant and as such has applied IAS 20. The Group has recognised the CIF grant as deferred Income on initial receipt and subsequently applies the funds as the related expenditure is incurred (Disclosure of the grant is made in Note 2).

c) Basis of Consolidation
The Group accounts consolidate the assets, liabilities and results of Starling Bank Limited ("The Parent Company") and its Subsidiaries (See Note 15). Consistent accounting policies are used by the Group, the Parent Company and the Subsidiaries.

All Subsidiaries have been fully consolidated from the date of incorporation which coincided with the date on which control was acquired by the Parent Company. Upon consolidation, inter-company transactions and balances are eliminated.

Investments in Subsidiary undertakings are stated in the accounts of Starling Bank Limited at cost less any provisions for impairment in value. The Directors consider it appropriate for administrative and commercial reasons that Subsidiary undertakings have financial years ending on 30 November 2019, the Parent Company's year-end.

The assets and liabilities of the Employee Benefit Trust have been included within these financial statements in accordance with IFRS 2 and are accounted for as an extension of the Company's own business.

d) Going Concern
In preparing the consolidated financial statements, the Directors must satisfy themselves that it is reasonable for them to adopt the going concern basis.

After making the necessary enquires, the Directors have a reasonable expectation that the Group/Company has adequate resources to continue in operational existence for the foreseeable future. In assessing the impact of all of the risks that could impact its business model the Group/Company has considered the potential impact of Brexit and Covid-19. Projections for the Group/Company have been prepared concerning its future financial performance, its capital available and requirements and its liquidity for a period of at least 12 months from the signing of these financial statements, in support of its business plan; these include stress tests carried out in support of the Company's ICAAP and ILAAP. In response to the uncertainty arising from Covid-19, the Directors prepared a new forecast, including stress tests aligned to the ICAAP. This stress scenario and forecast demonstrated that the Group/Company would continue to operate as a going concern. To meet these projections the Group is dependent on the continued support of its Investors ("the Investors").

The Directors have a reasonable expectation that such support will be forthcoming and the Investors have indicated their intention to support the Group, so as to ensure that the Group/Company can continue as a going concern for at least 12 months from the date of signing of the financial statements.

As with any company placing reliance on other entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the going concern basis of accounting has been used to prepare these financial statements.

e) Use of Judgements and Estimates
The preparation of these financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of: (i) assets and liabilities at the date of the financial statements and (ii) revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant, although, the amount, event or action, and ultimate result may differ from the estimates used.

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

- Going Concern (see Note 1 (d) on page 55).
- Impairment of Intangible Assets (see Note 1 (m) on page 64).
- Recognition of Deferred Tax assets (see Note 1 (q) page 66).
- Recognition of cash settled contribution (See Note 1 (i) on page 58).

The following are those items where the Directors have made estimates:

- Impairment of Loans and advances to customers.
- Estimated useful economic life of the of the Intangible Asset.
- Estimated vesting period of Share Based Payments.

NOTES TO THE FINANCIAL STATEMENTS

01 Accounting Policies

Sources of estimation uncertainty relate to assumptions and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. They include the useful economic life of intangible assets, the expected vesting period of Share Based Payments and the impairment of Loans and Advances to Customers.

The following summarises the sensitivity to assumptions made by the Bank with respect to the calculation of:

- The amortisation of intangible assets: as at 30 November the expected useful life of the intangible asset is 7 years. A change in the estimate will have an impact on the period over which the capitalised expenditure is amortised. A shortening of the estimated useful life by 1 year (to 6 years) would have the effect of increasing the Group's loss before tax for the year ended 30 November 2019 by £263k (2018: £78k). A lengthening of the estimated useful life by 1 year (to 8 years) would have the effect of decreasing the Group's loss before tax for the year ended 30 November 2019 by £198k (2018: £59k).
- The expected vesting period of Share Based Payments of the EBT: as at 30 November 2019, the remaining period over which the beneficial interests in the shares granted in the current year and prior periods, was 5.4 years. A shortening of the estimated useful life by 1 year (to 4.4 years) would have the effect of increasing the Group' loss before tax by £96k. A lengthening of the estimated useful life by 1 year (to 6.4 years) would have the effect of decreasing the Group's loss before tax by £69k for the year ended 30 November 2019.
- The calculation of the IFRS 9 impairment of Loans and Advances to Customers. IFRS 9 was adopted for the year commencing 1 December 2018 and as such prior year numbers have not been restated. For its organic lending (primarily Overdrafts and Term Loans to customers), the Group deployed the first iteration of its overdraft IFRS9 ECL model in December 2018, this was reviewed during the period. Upon review certain empirical data was used to refine the key estimates and judgments used in the model. The key judgements for the organic loan book are as follows:
  i. Loss Given Default ("LGD") – See Note 1 (k) on page 58: An update to reflect an estimated 15% cure rate 6 months post default, based on empirical data.
  ii. Probability of Default ("PD") - See Note 1 (k) page 58: During the period, there was a revision in the lending criteria and the resultant portfolio concentration risk. As such the PD was recalibrated to 2.3%.
  iii. Forward Looking Adjustment ("FLA") - See Note 1 (k) page 58: This has been updated to reflect expert judgement, obtained from a third party, of the impact of the portfolio under a number of upside and downside scenarios.

An increase of 10% in the ECL provision for the organic lending would an impact of increasing the impairment provision by c£80k.

- For its non-organic lending acquired via forward flow transactions, the Group deployed its first iteration of its ECL model in September 2019. The key judgements are as follows:
  i. LGD: The Group has adopted an estimated rate of 60%.
  ii. PD: The Group has modelled the expected loss using data received from its forward flow supplier.
  iii. FLA: The Group has used expert judgement, obtained from a third party.

An increase of 10% in the ECL provision for the non-organic lending would an impact of increasing the impairment provision by c£80k.

f) Foreign Currency Translation

The Consolidated financial statements are presented in sterling, which is the functional currency of the Group. Items included in the financial statements of each of the Group's entities are measured using their financial functional currency. Foreign currency transactions are translated into sterling using the exchange rate prevailing at the dates of the transactions.

Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the reporting date. Foreign exchange gains and losses resulting from the retranslation of these items are recognised in the Statement of Comprehensive Income.

g) Revenue Recognition

The Group applies IFRS 15 Revenue from Contracts with Customers.

Income is recognised when the transfer of goods or services to customers has satisfied contractual performance obligations. The amount of revenue recognised reflects the consideration to which the Group expects to be entitled in exchange for goods or services. For each significant item of revenue as described below in h), i) and p) the Group applies the required five-step process to determine how and when revenue should be recognised. For details of the accounting policies applied to information presented for 2018 refer to Note 1 (y) of the accounting policies.

h) Interest Income and Interest Expense

Interest Income on financial assets that are classified as Debt Securities is recognised in the Statement of Comprehensive Income using the effective yield to maturity method, this method provides a result that appropriates the effective interest rate method. Those costs directly attributable to generating a financial instrument are recognised on an accruals basis on the transaction date.

Interest receivable and similar income on financial assets that are classified as Loans and Advances to Banks and Customers, and interest payable on financial liabilities that are classified as Customer Deposits, are recognised as Interest Income and Interest Expense respectively in the Statement of Comprehensive Income, using the effective interest rates of the financial assets or financial liabilities to which they relate.

NOTES TO THE FINANCIAL STATEMENTS

01 Accounting Policies

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the gross carrying amount of the financial asset or liability. The effective interest rate method calculates the amortised cost of a financial asset or liability and allocates the interest income or expense over the relevant period. The Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses.

i) Fees and Commission

The Group recognises fees and commissions in accordance with IFRS 15 Revenue from Contracts with Customers. Fees and commissions receivable and payable are recognised when the service is provided, or when transactions are processed on an accruals basis.

For contracts that cover multiple periods, the recognition of Fees and Commission is recognised proportionally as and when the performance obligations have been met.

For details of the accounting policies applied to information presented for 2018 refer to Note 1 (y) of the accounting policies.

j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash deposits with banks, including Central Banks, at call and are categorised in the Statement of Financial Position as Loans and Advances to Banks.

k) Financial Assets

In accordance with IFRS 9, the financial assets of the Group are classified into one of three categories (amortised cost, FVOCI or FVTPL). In classifying each financial asset, the Group assesses:

- The objective of the business model in which the financial asset is held; and
- Whether the contractual cash flows of the financial asset are 'solely payments of principal and interest' (SPPI).

Financial assets are reclassified when, and only when, the Group changes its business model for managing the assets.

Business model assessment

The Group's business model assessment is made at a portfolio level as this best reflects the way the business is managed and how information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, matching the duration of the financial assets to the duration of any related liabilities or realising cash flows through the sale of the assets.
- How the performance of the portfolio is evaluated and reported to the Group's management.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

SPPI assessment

For the purposes of the Group's SPPI assessment, 'principal' is defined as the fair value of the financial asset or liability on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Contingent events that would change the amount or timing of cash flows;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

As a result of the assessments outlined above, the financial assets of the Group have been classified as follows:

Assets held at amortised cost

The following have been assessed by the Group to be in a 'held to collect' business model and to have cash flows that pass the SPPI test:

- Loans and Advances to Banks
- Debt Securities
- Loans and Advances to Customers.

The Group's financial assets measured at amortised cost are initially recognised at fair value less any directly attributable transaction costs. The assets are subsequently measured at amortised cost using the effective interest method, less impairment loss allowances. For financial assets that are not credit-impaired, interest revenue is calculated by applying the effective interest rate to the gross carrying amount of the asset. For financial assets that are credit-impaired, interest revenue is calculated by applying the effective interest rate to the amortised cost of the asset.

Impairment of Financial Assets

The Group recognises impairment loss allowances for ECLs, where appropriate, on the following financial assets that are not measured at FVTPL:

- Loans and Advances to Banks
- Debt Securities
- Loans and Advances to Customers

Measurement of ECLs

ECLs are an unbiased probability-weighted estimate of the present value of credit losses, taking account of forward-looking information that includes a range of possible economic outcomes. ECLs are measured as the difference between contractual cash flows and expected cash flows, discounted at the asset's effective interest rate.

When measuring ECLs, the Group assesses the probability of default, the expected exposure at the time of default, and the loss that is expected to arise on default. The maximum period considered is the maximum contractual period over which the Group is exposed to credit risk. The probabilities of default are adjusted to take account of expected customer redemptions.

NOTES TO THE FINANCIAL STATEMENTS

01 Accounting Policies

IFRS 9 requires an impairment loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date.

Impairment loss allowance is measured at an amount equal to 12-month ECL except for the following:

- Debt Securities that are determined to have low credit risk at the reporting date. The Group consider Debt Securities to have low credit risk when its credit rating is equivalent to the globally understood definition of 'investment grade'; and
- Other financial assets on which credit risk has not increased significantly since their initial recognition (except trade receivables without a financing component, for which the Group will always recognise lifetime ECLs in accordance with the simplified approach in IFRS 9).

Lifetime ECLs are required where the credit risk on a financial asset has increased significantly since initial recognition.

Measurement of ECLs depends on the 'stage' of the financial asset, based on changes in credit risk occurring since initial recognition, as described below:

- **Stage 1:** when a financial asset is first recognised it is assigned to Stage 1. If there is no significant increase in credit risk from initial recognition the financial asset remains in Stage 1. Stage 1 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1, a 12-month ECL is recognised.
- **Stage 2:** when a financial asset shows a significant increase in credit risk from initial recognition it is moved to Stage 2. Stage 2 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 3. For financial assets in Stage 2, a lifetime ECL is recognised.
- **Stage 3:** when there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit-impaired, it is moved to Stage 3. For financial assets in Stage 3, a lifetime ECL is recognised.

Purchased or originated credit-impaired (POCI): POCI assets are financial assets that are credit-impaired on initial recognition. On initial recognition they are recorded at fair value. ECLs are only recognised or released to the extent that there is a subsequent change in the ECLs. Their ECL is always measured on a lifetime basis.

In relation to the above:

- **Lifetime ECL** is defined as ECLs that result from all possible default events over the expected behavioural life of a financial instrument. These are assets in Stage 3, as described above.
- **12-month ECL** is defined as the expected loss that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

For overdraft facilities, where the commitment relates to the undrawn component of the overdraft facility, it is assigned to the same stage as the drawn component.

Under the requirements of IFRS 9, the Group considers whether a loss allowance is necessary for Loans and Advances to Banks, Loans and Advances to Customers and Debt Securities.

The Group's definitions of 'significant increase in credit risk' and 'credit-impaired' are set out below.

Measurement Inputs

Key inputs into the measurement of ECL are:

- Probability of Default (PD) - the likelihood of default within a given time period.

For each product, the Bank has calibrated portfolio default rates in line with both the risk profile and empirical analysis identifying the difference between observed default rates and the weighted expected default rate for current distribution of maturity. This approach acknowledges the maturity of existing lending indexing portfolio assessments toward revised lending strategies (where applicable).

- Loss Given Default (LGD) - the net value of loss in the event of a default.

For organic Overdrafts and Term Lending, the Bank has used an LGD of 85% that reflects observed cure rates. For non-organic forward flow loans, the Bank has estimated the LGD to be 60%.

- Exposure at Default (EAD) - the gross value of loss in the event of a default.

For revolving products such as organic Overdrafts, utilisation can vary over time. Where unutilised balances exist, e.g. in the example of overdrafts, then the EAD is calculated as the sum of the drawn balance and the undrawn balance adjusted by Credit Conversion Factor (CCF). Due to the immaturity of the Bank's portfolio and the limited information available to empirically determine the CCF, a value of 100% was used. This assumes that any undrawn limit would be utilised in the event of a default.

The Bank has used an overlay on the IFRS 9 ECL model for non-organic lending to capture limitations in the modelled ECL arising from historic data constraints.

For non-organic forward flow term lending, the EAD is calculated as the amount outstanding at each reporting date.

- Expected Credit Losses (ECL) is calculated such that ECL = PD * LGD * EAD.

Where management judgement has been applied, sensitivity analysis has been undertaken as part of the modelling process to assess the appropriateness of this position. As empirical data becomes available this will be further validated and / or adjusted as appropriate.

Forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECLs. The time period over which the Group assesses forward-looking information is the maximum period over which the Group is exposed to credit risk. The Group determines a range of representative scenarios for the possible future direction of key economic variables. The scenarios are derived by reference to external information where this is publicly available and appropriate, together with internally generated views. A probability-weighting, based on management judgement, is assigned to each scenario.

The Group has a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on market data and internal management experience and judgement. The process involves developing additional economic scenarios and considering the relative probabilities of each outcome. The Group uses external market data to develop these scenarios. These scenarios include economic data and forecast published by Governmental bodies, such as the Bank of England and selected private sector and academic forecasters.

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The Group's 'base case' scenario represents a view of the most likely outcome and is aligned with the information used by the Group for other purposes such as monitoring and maintaining regulatory capital, strategic planning and budgeting. The selection of alternative scenarios is intended to model the non-linear impact of economic factors on ECLs for the Group's financial assets.

Significant increase in credit risk

A credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments.

The Group monitors all financial assets and loan commitments that are subject to IFRS 9's impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition of the asset. The Group includes a rebuttable presumption that credit risk has significantly increased when contractual payments are more than 30 days past due. In making this assessment, for organic lending, the Group uses information from the behaviour observed on an individual customer's account and for non-organic lending, uses information received from credit bureaux as part the Group's customer credit management processes.

The Group uses credit risk metrics that reflect its assessment of the probability of default (PD) of individual Loans and Advances. The credit risk of each exposure is assessed at initial recognition, based on the available information about the borrower.

Definition of arrears

Loans and Advances are classified as in arrears if either a scheduled payment for a term loan has failed or been missed by a customer or a customer has exceeded their authorised overdraft limit due to either a payment (scheduled or customer instigated) or due to Bank fees/interest being applied.

Definition of default

Loans and Advances are classified as in default if any of the following criteria has been met: the outstanding balance is overdue for more than 90 days; the Group has entered into a forbearance arrangement with the customer; any security/personal guarantee has been taken into the Bank's possession; or if the customer is bankrupt or has proposed an Individual Voluntary Arrangement; or the customer is subject to a Debt Relief Order; or the customer is deceased.

Credit-impaired financial assets

At each reporting date, the Group assesses whether its financial assets are credit impaired. For those assets that have become credit-impaired, interest revenue is subsequently calculated by applying the effective interest rate to the amortised cost of the asset, up to 180 days past due. Interest is not charged once the asset is more than 180 days past due.

Derecognition

Derecognition is the point at which the Group ceases to recognise a financial asset (or financial liability) on its statement of financial position.

The Group derecognises a financial asset (or a part of a financial asset) when:

- the contractual rights to the cash flows from the financial asset have expired.
- the Group transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred; or
- the Group transfers the financial asset in a transaction in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the asset. If the Group retains control of the asset it continues to recognise the transferred asset only to the extent of its continuing involvement and derecognises the remainder.

On derecognition of a financial asset the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the Statement of Comprehensive Income.

A financial asset is 'credit-impaired' when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the financial asset. Evidence that a financial asset is credit-impaired includes the following:

- notification of a breach of contract such as a default; or
- non-payment of amounts past due.

To assess whether sovereign and corporate Debt Securities are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Forbearance

Forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired.

Forbearance is granted on a selective basis if the customer is currently in default on their debt. Collections activity commences immediately after a customer moves into a position of arrears.

Where appropriate, the following types of forbearance are then made available to customers: Payment arrangement (payment plan with a reasonable timeframe); Concessionary arrangement (payment plan for demonstrably temporary financial difficulties); Extension (increased product term); Reduced interest; Deferment/ Capitalisation of arrears; full and final offers (Bank will accept less than full settlement of balance); and Possession of collateral (In exceptional circumstances as a last resort, it maybe be appropriate to pursue security in the form of a charging order over any identified property or an application for an attachment to earnings). Both retail and commercial loans are subject to the forbearance policy.

Charge-offs

A financial asset is charged-off (in full) when the Group judges there to be no reasonable expectation that the asset can be recovered (in full). This is typically the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to charge-off. This assessment is performed at the individual asset level.

The related impairment loss allowance is also charged-off once all the necessary procedures have been completed and the loss amount has crystallised. Financial assets that are charged-off could still be subject to enforcement activities and subsequent recoveries of amounts previously charged-off decrease the amount of the total charge for impairment losses recorded in the Consolidated Statement of Comprehensive Income.

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The Group sometimes renegotiates or otherwise modifies the contractual cash flow of a financial asset. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that substantially affects the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate; and
- insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms and cash flows of the modified asset are deemed to be substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. This meets the derecognition criteria outlined above and as such the original financial asset is derecognised and a 'new' financial asset is recognised at fair value. The difference between the carrying amount of the derecognised financial asset and the new financial asset with modified terms is recognised in the Consolidated Statement of Comprehensive Income.

l) Property, Plant and Equipment

Fixtures, Fittings and Equipment are included as Property, Plant and Equipment in the Statement of Financial Position at historical cost less accumulated depreciation and any accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments. Depreciation on Property, Plant and Equipment is included in Other Operating Costs in the Statement of Comprehensive Income according to the type:

- Fixtures and Fittings: 3 year expected life.
- IT Equipment: 3 year expected life.

Gains and losses on disposals are included in Other Operating Income in the Statement of Comprehensive Income.

m) Intangible Assets

The Group applies IAS 38 Intangible Assets to the categorisation of certain expenditure relating to software development costs and the cost of creating its brand, website and associated domain names.

The carrying values of Intangible Assets are reviewed whenever there are indicators of impairment, or at least annually for Intangible Assets with indefinite life, and thus the carrying amount may not be recoverable. The Bank considers both internal and external factors when determining whether there are indicators that the intangible asset is impaired.

If there are no indicators of impairment, then there are no requirements to perform value in use calculations. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Software Development

Software development costs are capitalised as Intangible Assets if it is probable that the asset created will generate future economic benefits. Software costs, including the design, specification, build, test and implementation of the Group's banking software and mobile application, are recognised in the Statement of Financial Position as Intangible fixed assets and amortised using the straight-line method over their estimated useful lives either from the date the software becomes operational or from the date the expenditure incurred is deemed to have created an asset that will have future economic benefits.

Intangible Asset arising from recognition of CIF Grant

Expenditure incurred in the development of software to support the Bank's obligations under the CIF award is capitalised as an intangible asset, where it is considered that the asset created will generate future economic benefit for the Bank.

Amortisation of Software Development is included in the Operating Costs in the Statement of Comprehensive Income over the estimated useful economic life of 7 years. The amortisation period used is reviewed annually.

Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense in the Statement of Comprehensive Income.

Brand, Domains and Website

The cost of brand and domain names acquired for trademark protection and website development costs are capitalised and classified as Intangible Assets in the Statement of Financial Position. Intangible Assets are carried at cost less accumulated amortisation and impairment. Amortisation of Brand, Domains, and Website is included in Operating Costs in the Statement of Comprehensive Income, using the straight-line method over their estimated useful lives of 5 years. The amortisation period is reviewed annually.

n) Other Assets, Accrued Interest Receivable and Prepayments

Other assets, accrued interest receivable and prepayments are initially recognised at fair value and subsequently measured at amortised cost, or in the case of interest accruals the amount receivable, using the effective interest method.

Payment Scheme Collateral is recognised at the fair value of the amount placed with nominated banks.

o) Leases

The Group has entered operating leases for all its premises. Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership to the lessee. Operating lease payments (adjusted for any rent-free periods) are charged to the Statement of Comprehensive Income on a straight-line basis over the life of the benefit of the lease.

p) Financial Liabilities

In accordance with IFRS 9, the financial liabilities of the Group are classified as measured at either amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

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01 Accounting Policies

The Group does not carry any financial liabilities classified as FVTPL. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with any interest expense being recognised in Statement of Comprehensive Income. Any gain or loss on derecognition is also recognised in profit or loss.

The Group derecognises a financial liability (or a part of a financial liability) when its contractual obligations are extinguished (i.e. discharged, cancelled, or expired). On derecognition of a financial liability, the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration paid (including any new asset obtained less any new liability assumed) is recognised in the statement of profit and loss.

q) Taxation including Deferred Tax

Taxation in the Statement of Comprehensive Income comprises current tax and Deferred Tax. Income tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in equity.

Current Tax

Current tax is the tax expected to be payable on the taxable profit, calculated using tax rates enacted or substantively enacted by the Statement of Financial Position date, and any adjustment to tax payable in respect of previous year.

Research and Development (R&D) tax credits, are recognised as income in the period in which the R&D income is receivable.

Corporation tax recoverable from losses, is determined using tax rate and legislation in force in the UK at the reporting date and are carried forward for future recovery.

Deferred Tax

Deferred Tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Statement of Financial Position and the amounts attributed to such assets and liabilities for tax purposes. Deferred Tax liabilities are generally recognised for all taxable temporary differences, and Deferred Tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised and to the extent that there is reasonable certainty that taxable losses can be offset within the foreseeable future. Deferred Tax is determined using tax rates and legislation in force at the reporting date and those expected to apply when the deferred tax asset is realised, or the Deferred Tax liability is settled.

r) Customer Deposits

Customer Deposits are measured at amortised cost using effective interest rate, in accordance with IFRS 9. Deposits are initially recognised at fair value and are subsequently measured at amortised cost.

s) Other Liabilities, Interest Payable and Accrued Expenses

Other liabilities and Accrued Expenses comprise amounts incurred but unpaid for goods and services provided to the Group prior to the end of the financial year. The amounts are unsecured and are usually paid within 30 days of recognition. Other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

t) Deferred Income

Represents the following:

- The residual amount received from the Capability and Innovation Fund ("CIF") that has not been recognised in the Statement of Comprehensive Income at the reporting date. As set out in Note 2, the Group has adopted IAS 20, consequently, the CIF Grant cannot be recognised until certain qualifying expenditure has been incurred. CIF income is recognised in the Statement of Comprehensive income on a systematic basis over the periods in which the Bank recognises the related costs for which the Grant is intended to compensate. In accordance with IAS 20, as set out in Note 2, the Group presents its financial information in relation to the CIF Grant on a gross basis.
- Amounts received from the Group's Payment Scheme provider that cannot be recognised in the Statement of Comprehensive Income until certain conditions on volume thresholds have been reached. An objective assessment of whether the Bank has achieved those thresholds is carried out at each reporting date.

u) Provisions

Provisions other than impairment provisions (See Note 1 (k) above) are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

v) Contingent Liabilities

Contingent liabilities occur during the ordinary course of business if the Group is subject to threatened or actual legal proceedings. All such material cases are periodically assessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. The Group does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote or where such disclosure could be seriously prejudicial to the conduct of the claim(s).

w) Related Party Transactions

Transactions with related parties have been included in the financial statements in accordance with IAS 24. Related parties comprise persons or a person, a company or a group of companies and/or an unincorporated entity or a group of unincorporated entities who either have individual control, joint control of the Group or can exercise significant influence or is a member of the key management personnel.

Key management personnel is defined as the Board.

x) Employee Benefits

The Group applies IAS 19 Employee Benefits in its accounting for direct staff costs.

Short-term employee benefit

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Share based payments

The Group applies IFRS 2 in accounting for Share Based Payments.

- Joint Share Ownership Scheme ("JSOP")

  An Employee Benefit Trust (EBT) has been created to facilitate the efficient transfer of the beneficial interests in shares of the Bank to its employees, as a reward to those individuals that help to build Starling, therefore aligning the interests of key employees with the interests of shareholders. To fund the purchase, employees are granted a bonus (grossed up for income tax and national insurance) that is used by the employees to subscribe for the right to the beneficial interest at each award date. The grossed-up bonus amounts are expensed in the Statement of Comprehensive Income in the financial year that the awards are granted.

  The award of beneficial interests is considered as equity settled. The fair values of equity settled share-based payments are calculated at each grant date and recognised over a vesting period that matches to the predicted life of the payments. The amount is recognised in Staff Costs in the Statement of Comprehensive Income with a corresponding entry through reserves.

- Phantom Option Scheme

  A Phantom Option Scheme has been created to reward certain individuals that help to build Starling, therefore aligning the interests of key employees with the interests of shareholders.

  The award of options is considered as cash settled. The fair values of option awards are calculated at each reporting date and recognised over a four-year vesting period. The amount is recognised in Staff Costs in the Statement of Comprehensive Income with a corresponding entry through Other Liabilities.

y) Policies Applicable for the year ended 30 November 2018

1. Investment Securities and Other Financial Assets

The Group classifies its financial assets in its Statement of Financial Position into the following categories:

(i) Investment Securities, and

(ii) Loans and Advances.

The classification depends on the purpose for which the Investments or Other Financial Assets were acquired or originated. Management determines the classification at initial recognition and, in the case of assets classified as Investment Securities that are held-to-maturity, re-evaluates the designation at the end of each reporting period.

Loans and Advances comprise overdrafts and term lending to customers.

The Group does not hold any collateralised positions and therefore has no enforceable rights to net-off or offset assets against liabilities.

(i) Investment Securities; and

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of the ownership.

Measurement

At initial recognition, the Group measures an Investment Security at its fair value plus related transaction costs that are directly attributable to the acquisition of the financial asset.

The Group designates its Investment Securities as Held to Maturity investment assets and subsequently measures them at amortised cost using the effective yield to maturity method.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.

Impairment

The Group assesses at each reporting date whether there is objective evidence that an Investment Security is impaired. An Investment Security would be impaired and impairment losses incurred as a result of one or more events that occur after the initial recognition of the asset (a "loss event") and that could have an impact in the estimated future cash flow of the financial asset and could be reliably estimated.

When an Investment Security is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired Investment Securities is recognised using the original effective interest rate.

(ii) Loans and Advances

Recognition

The Group applies IAS 39 to its Loans and Advances to Customers. Under IAS 39, Loans and Advances are classified as "Loans and Receivables" and are initially recognised as fair value, being the amount of outstanding overdraft or term loan balance. All overdraft facilities and term loans provided to customers of Starling are unsecured exposures to individuals.

Measurement

The Group measures its Loans and Advances at their amortised cost using the effective interest rate method.

Impairment

Under IAS 39 an individual impairment provision is recognised upon objective evidence that a loan (e.g. an overdraft) is impaired. If there is such evidence, the amount of impairment loss is calculated. For Loans and Advances, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and it can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in Statement of Comprehensive Income.

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01 Accounting Policies

Definition of default and credit impaired assets
Loans and Advances are classified as in default if any of the following criteria has been met: the outstanding balance is overdue for more than 90 days; the Bank has entered into a forbearance arrangement with the customer; any security/personal guarantee has been taken into the Bank's possession; or if the customer is bankrupt or has proposed an Individual Voluntary Arrangement; or the customer is subject to a Debt Relief Order; or the customer is deceased.

Write off policy
Loans and Advances are written off either partially or in full against the related provision when the proceeds from realising any available security/guarantee have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. At the point of write off, interest is no longer accrued. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Statement of Comprehensive Income.During the period there were some write-offs recognised in the financial statements in accordance with the accounting policy (refer to Note 6).

2. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described above in h) and i).

3. Interest Income and Interest Expense

Interest Income on financial assets that are classified as Held-to-Maturity Investment Securities is recognised in the Statement of Comprehensive Income using the effective yield to maturity method.

Interest receivable and similar income on financial assets that are classified as Loans and Advances, and interest payable on financial liabilities that are classified as Deposits, are recognised as Interest Income and Interest Expense respectively in the Statement of Comprehensive Income, using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the gross carrying amount of the financial asset or liability.

The effective interest rate method calculates the amortised cost of a financial asset or liability and allocates the interest income or expense over the relevant period. The Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses.

4. Fees and Commissions

Fees and commissions receivable and payable are recognised when the service is provided, or when transactions are processed on an accruals basis. Those directly attributable to generating a financial instrument are recognised on the accruals basis on the transaction date.

z) Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019; however, the Bank has not yet applied the following new or amended standards in preparing these financial statements.

New or amended standards	Summary of the requirements	Possible impact on financial statements
IFRS 16 Leases	IFRS 16, issued in January 2016, replaces the existing lease standard IAS 17. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 is effective for annual reporting on or after 1 January 2019.	The Group plans to adopt IFRS 16 from 1 December 2019 and will not apply any practical expedients. The most significant impact on adoption of IFRS 16 is that the Group will recognise new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leased will change as IFRS 16 replaces the straight-line operating expense with a depreciation charge for right-of-use assets and an interest expense on lease liabilities. The Group plans to apply IFRS 16 initially on 1 December 2019, using the modified retrospective approach. As permitted by IFRS 16, the Group will measure the right-of-use asset at 1 December 2019 at an amount equal to the lease liability. Based on the transition method to be applied, there will be impact to the Groups opening balance of retained earnings at 1 December 2019 as a result of adopting IFRS 16. In accordance with this transition approach, comparative information will not be restated. The Groups estimates that the day 1 impact of adopting IFRS 16 on the Groups consolidated Statement of Financial Position at 1 December 2019 will be as follows: • New right-of use asset of approximately £5,000k. • New lease liability of approximately £5,000k. The Group estimates that the impact of adopting IFRS 16 on the Groups income statement for the year ending 30 November 2020 will be immaterial. For regulatory capital purposes, The Group expects to treat IFRS 16 right-of-use assets in the same way as owned tangible assets, i.e. right-of-use assets will be 100% risk weighted. The Group would be required to hold approximately £540k of extra regulatory capital.

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New or amended standards	Summary of the requirements	Possible impact on financial statements
IFRIC 22: Foreign Currency Transactions and Advance Consideration	IFRIC interpretation 22 considers how to determine the date of the transaction when applying IAS 21. IFRIC 22 is effective for annual reporting periods commencing on or after 1 January 2019, with early adoption permitted.	The Group does not intend to adopt IFRIC 22 until the reporting period commencing 1 December 2019. The bank has assessed the adoption of IFRIC 22 will not have a significant impact on the group.
IFRIC 23: Uncertainty over Income Tax Treatments	IFRIC interpretation 23 was issued on 7 June 2018 and clarifies how the recognition and measurement requirements of IAS 12 Income taxes are applied where there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods commencing on or after 1 January 2019, with early adoption permitted.	The Group does not intend to adopt IFRIC 23 until the date it becomes effective. The Group has assessed the adoption of IFRIC 23 will not have a significant effect on its results, particularly until such time as it recognises a Deferred Tax assets.

02 Capability and Innovation Fund ("CIF")

Recognition of grant received from BCR under CIF	Group 2019 £'000
Grant Received	100,000
Credit for eligible spend	(19,738)
Carrying value in Deferred Income	**80,262**

During the year the Group received a grant of £100m under the Capability and Innovation Fund ("CIF"); the granting of the award and the continuing performance of the Bank against its stated objectives is administered by Banking Competitions Remedies Limited ("BCR"). The purpose of the CIF award is to facilitate the development of a more advanced business current account offering and ancillary products for SMEs in the UK.

In its successful submission for an award, the Bank made several commitments to the BCR; these are known as the public commitments. Full details are available at bcr-ltd.com.

There is no difference between the amount received and recognised in the Group Accounts and that of the Bank.

Included in the £19,738k of eligible spend is £4,482k that has been subsequently classified as capital expenditure, in relation to software development (See Note 13).

The Group has pledged to use the CIF Grant to create 398 new jobs in the UK and to co-invest £95 million of its own money to help build a better bank for SMEs. The Group intends to make £913 million of balance sheet lending available to SME customers by the end of 2023 to help to boost their growth and productivity.

The Group submits quarterly returns to the BCR for approval detailing the qualifying expenditure for that relevant period. At the time of the signing of these Financial Statements, the BCR have confirmed their satisfaction with the evidence and information submitted by the Group for all Assessment Periods up to and including 31 December 2019. Furthermore, the BCR have confirmed that the amount spent by the Group in the Assessment Period from 1 April 2019 to 31 December 2019 has been used for Permitted Purposes (and not for Prohibited Purposes) and in accordance with the Business Case.

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03 Net Interest Income

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	Company 30 Nov 2019 £'000	Company 30 Nov 2018 £'000
Interest Incomes				
Loans and Advances to Banks[1]	**3,400**	550	**3,400**	550
Debt Securities[2]	**1,318**	67	**1,318**	67
Loans and Advances to Customers[1]	**2,177**	527	**2,177**	527
Total Interest Income	**6,895**	1,144	**6,895**	1,144
Interest Expense				
Customer Deposits [1]	**(928)**	(215)	**(928)**	(215)
Total Interest Expense	**(928)**	(215)	**(928)**	(215)
Net Interest Income	**5,967**	929	**5,967**	929

Note 1 - The calculation of interest income from Loans and Advances to Banks and Loans and Advances to Customers, and interest expenses on Customer Deposits, all use the effective interest rate method.

Note 2 - The calculation of interest income from Debt Securities uses the effective yield to maturity method, which includes all amounts received or paid by the Bank that are an integral part of the overall return including, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

04 Net Fee and Commission

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	Company 30 Nov 2019 £'000	Company 30 Nov 2018 £'000
Fee and Commission Income				
Customer card transaction revenue[1]	**9,457**	1,476	**9,457**	1,476
Payment and Platform Services	**1,566**	213	**1,566**	213
Marketplace	**72**	35	**72**	35
Total	**11,095**	1,724	**11,095**	1,724
Fee and Commission Expense				
Customer card transaction costs	**(3,085)**	(1,892)	**(3,085)**	(1,892)
Payment Systems and other related costs	**(527)**	(218)	**(527)**	(218)
Total	**(3,612)**	(2,110)	**(3,612)**	(2,110)
Net Fee and Commission Income	**7,483**	(386)	**7,483**	(386)

Note 1 - Included within customer card transaction revenue is £1,700k recognised under a performance contract, signed during the current financial year with the Bank's card scheme provider. The unrecognised balance of the performance contract is disclosed in Note 19 – Deferred Income.

NOTES TO THE FINANCIAL STATEMENTS

05 Administrative Expenses

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	Company 30 Nov 2019 £'000	Company 30 Nov 2018 £'000
Staff costs	**35,246**	14,356	**35,132**	14,352
Other Administrative and General Expenses	**53,435**	18,162	**53,124**	17,419
Sub-total	**88,681**	32,518	**88,256**	31,771
Capitalisation of Intangible Assets (Note 13)	**(5,440)**	(5,464)	**-**	-
Total	**83,241**	27,054	**88,256**	31,771

The deduction of £5,440k relates to administrative expenses that have been capitalised during the period as they relate to the development of the intangible assets for use.

Included within Staff Costs are the following:

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	Company 30 Nov 2019 £'000	Company 30 Nov 2018 £'000
Salaries, Wages and Other Costs	**31,530**	12,705	**31,428**	12,701
Social Security Costs	**2,727**	1,235	**2,716**	1,235
FV of Options Granted to Employees	**201**	-	**201**	-
FV of Shares Issued to Employees under EBT	**442**	330	**442**	330
Pension Contributions	**346**	86	**345**	86
Total	**35,246**	14,356	**35,132**	14,352

Average number of persons employed by the Group (Including Directors) during the year was 497 (2018: 193).

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	Company 30 Nov 2019 £'000	Company 30 Nov 2018 £'000
Directors Costs:				
Wages and Salaries	**994**	844	**994**	844
Social Security Costs	**129**	98	**129**	98
Total	**1,123**	942	**1,123**	942
Highest Paid Director:				
Wages and Salaries	**398**	319	**398**	319
Social Security Costs	**54**	43	**54**	43
Total	**452**	362	**452**	362

The Directors do not participate in the Bank's pension arrangement or The Employee Benefit Trust or the Phantom Option Scheme. There were no pension contributions paid by the Bank on behalf of Directors and no awards made to Directors under the Bank's share-based payment arrangement.

NOTES TO THE FINANCIAL STATEMENTS

05 Administrative Expenses

Included within Other Administrative and General Expenses are the following amounts:

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	**Company 30 Nov 2019 £'000**	Company 30 Nov 2018 £'000
Amortisation of Intangible Assets	**2,606**	1,586	**6**	5
Depreciation of Tangible Assets	**468**	200	**468**	198
Total	**3,074**	1,786	**474**	203

Included within Other Administrative and General Expenses are the following amounts for audit and non-audit fees:

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	**Company 30 Nov 2019 £'000**	Company 30 Nov 2018 £'000
Audit of Consolidated Financial Statements	**400**	114	**400**	114
Audit of the Financial Statements of the Subsidiaries	**9**	9	**-**	-
Total	**409**	123	**400**	114

06 Impairment and Write Offs

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	**Company 30 Nov 2019 £'000**	Company 30 Nov 2018 £'000
Provisions on Loans and Advances to Customers (Note 10)	**3,772**	552	**3,772**	552
Provisions on Undrawn Overdraft Facilities (Note 17)	**528**	-	**528**	-
Total	**4,300**	552	**4,300**	552

NOTES TO THE FINANCIAL STATEMENTS

07 Taxation

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	**Company 30 Nov 2019 £'000**	Company 30 Nov 2018 £'000
Loss on ordinary activities before Tax	(53,602)	(26,856)	(48,873)	(27,235)
Add back: Tax Loss Adjustments and Deductions	1,026	372	866	370
Taxable Loss	**(52,576)**	**(26,484)**	**(48,007)**	**(26,865)**
Standard Rate of Corporation Tax	19%	19%	19%	19%
Corporation Tax on Losses	(9,990)	(5,032)	(9,121)	(5,104)
Prior Period Tax rate adjustments	91	(1,074)	-	537
Short-Term Temporary Differences	1,966	1,708	-	3
Potential Deferred Tax Asset	**(7,933)**	**(4,398)**	**(9,121)**	**(4,564)**
R&D Tax Credit	1,538	1,786	39	173
Deferred Tax unrecognised (see Note 11)	7,933	4,398	9,121	4,564
Total Tax Credit	**1,538**	**1,786**	**39**	**173**

The tax effect of tax losses has not been recognised in these financial statements as the Group is not yet generating a trading profit and consequently there is no evidence that future taxable profits will be available.

R&D eligible deductions in the prior period resulted in a tax credit from HMRC of £1,538k (2018: £1,786k) being receivable in the year to 30 November 2019.

No corporation tax liabilities are payable nor receivable from HMRC for the year (2018: Nil).

08 Loans and Advances to Banks

	Group 2019 £'000	Group 2018 £'000	**Company 2019 £'000**	Company 2018 £'000
Cash and Cash Equivalent	**764,705**	187,008	**764,602**	186,905

Loans and Advances to Banks are held at amortised cost and comprise balances placed at central banks and commercial banks. At the reporting date £668,099k (2018: £176,079k) was held at the Bank of England and £29,875k (2018: £388k) was held at the Central Bank of Ireland. Included within balances held at the Bank of England was £64,000k (2018: £10,000k) held as collateral for payment schemes.

There is no impairment recognised on the carrying value of the Loans and Advances to Banks as amounts placed are with institutions rated A or above; the Directors have calculated the probability of default to be materially zero. The unencumbered balance held at the Bank of England is included within the Bank's HQLA. Included within Loans and Advances Banks is £103k held by the EBT.

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NOTES TO THE FINANCIAL STATEMENTS

09 Debt Securities

	Group 2019	Group 2018	**Company 2019**	Company 2018
	£'000	£'000	**£'000**	£'000
Debt Securities	**331,597**	18,039	**331,597**	18,039

All debt securities are held at amortised cost and rated as AAA or AA and qualify as HQLA items held for liquidity management purposes.

	Opening Balance 2019	Additions 2019	Disposals 2019	**Closing Balance 2019**
	£'000	£'000	£'000	**£'000**
Debt Securities	**18,039**	313,558	**-**	331,597

	Group 2019 £'000	Group 2018 £'000	**Company 2019 £'000**	Company 2018 £'000
Debt Securities				
Issued by Governments and Supranational bodies	**42,961**	2,995	**42,961**	2,995
Covered Bonds issued by Banks and Building Societies	**264,420**	15,044	**264,420**	15,044
Residential Mortgage Backed Securities ("RMBS") issued by Banks and Building Societies	**11,027**	-	**11,027**	-
Other Asset Backed Securities	**13,189**	-	**13,189**	-
Total	**331,597**	18,039	**331,597**	18,039

10 Loans and Advances to Customers

Loan and Advances to Customers	**Group 2019**	Group 2018	**Company 2019**	Company 2018
	£'000	£'000	**£'000**	£'000
Customer Overdrafts	**20,309**	8,856	**20,309**	8,856
Term Lending[1]	**38,356**	445	**38,356**	445
Amounts charged-off	**(2,126)**	(206)	**(2,126)**	(206)
Gross carrying value	**56,539**	9,095	**56,539**	9,095
Less impairment provisions for Overdrafts	(1,442)	(397)	(1,442)	(397)
Less impairment provisions for Term Lending[2]	(807)	-	(807)	-
Total Impairment	**(2,249)**	(397)	**(2,249)**	(397)
Net carrying value	**54,290**	8,698	**54,290**	8,698

Note 1 – Term Lending includes loans acquired from third parties under forward flow arrangements of £37,274k (2018: £Nil).

Note 2 – Impairment provision for Term Lending includes impairment for loans acquired from third parties of £780k (2018: £Nil).

Loans and Advances to Customers are held at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

10 Loans and Advances to Customers

	Total provisions for impairment on Loans and Advances to Customers £'000
Group / Company As at 1 December 2018	**397**
Total charge for the year (Note 6)	3,772
Charged-off against overdrafts and term loans in current year[1]	(1,920)
As at 30 November 2019	**2,249**

Note 1 - Lending charged-off still under enforcement activity.

Loans that are charged off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The cumulative contractual amount outstanding on loans and advances that has been charged-off but are still subject to enforcement activity, is £2,126k (2018: £206k).

Loans and Advances to Customers are held at amortised cost.

At the reporting date, the following undrawn facilities are available to customers:

Overdraft facilities with customers

	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Undrawn credit facilities	**71,068**	30,518	**71,068**	30,518

Under IFRS 9 an ECL is calculated on total overdraft facilities; the amount provided against the undrawn element is included in Note 17.

11 Deferred Tax

	Group 2019 £'000	Group 2018 £'000	**Company 2019 £'000**	Company 2018 £'000
Balance brought forward – 1 December 2018	-	-	-	-
Unrecognised Deferred Tax – B/F	**(6,926)**	(1,221)	**(6,856)**	**(2,364)**
B/F Prior Year computation adjustment	**(493)**	(3,093)	**935**	**(101)**
Less R&D Tax credit received	**1,538**	1,786	**39**	**173**
	(5,881)	(2,528)	**(5,882)**	(2,292)
Current Year Deferred Tax unrecognised (see Note 7)	**(7,933)**	(4,398)	**(9,121)**	(4,564)
Unrecognised Deferred Tax	**(13,814)**	(6,926)	**(15,003)**	(6,856)
Deferred Tax not recognised	**13,814**	6,926	**15,003**	6,856
Balance carried forward – 30 November 2019	-	-	-	-

Tax losses are expected during the build phase and the early years of operational growth of the Bank, largely due to the cost of establishing mobilisation and client on-boarding when the volume of customers is not sufficient to cover the fixed costs of the business.

The tax effects of such tax losses are available for carry forward against future profits.

The Finance Act 2016 provides that the corporation tax rate will reduce from 19% to 17% from 1 April 2020. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The Directors have concluded that it is not appropriate to recognise a Deferred Tax asset at the reporting date as the utilisation of those losses will not occur during the foreseeable future (12 months from the reporting date).

Were it to have been recognised, the deferred tax asset would have an estimated value of £15,234k (2018: £6,926k), in relation to trading losses carried forward and other temporary differences taxed at the expected rate of 17% (2018: 17%) corporation tax, being the rate for 2021 which is the expected year of utilisation. These amounts may be recognised in the future as taxable profits arise.

NOTES TO THE FINANCIAL STATEMENTS

12 Other Assets

	Group 2019	Group 2018	Company 2019	Company 2018
	£'000	£'000	£'000	£'000
Payment scheme collateral[1]	**17,019**	2,768	**17,019**	2,768
Prepayments	**4,839**	1,461	**4,835**	1,337
Other assets	**9,784**	2,858	**7,681**	2,710
Total	**31,642**	7,087	**29,535**	6,815

Note 1 - Payment scheme collateral comprises security deposits placed at a nominated bank at the request of the Bank's card scheme provider to support customers' transaction volumes.

13 Property, Plant and Equipment and Intangible Assets

Group 2019 **Cost**	**Property, Plant and Equipment**	**Intangible Assets**	**Total Property, Plant and Equipment and Intangible Assets**
	£'000	£'000	£'000
As at 1 December 2018	**953**	**15,287**	**16,240**
Additions[1]	2,249	9,922	12,171
Disposals	(5)	(-)	(5)
Deferred Income – CIF Intangible[2]	-	(4,482)	(4,482)
As at 30 November 2019	**3,197**	**20,727**	**23,924**
Depreciation and Amortisation As at 1 December 2018	**337**	**2,066**	**2,403**
Charge for the year	468	2,606	3,074
As at 30 November 2019	**805**	**4,672**	**5,477**
Net Book Value	**2,392**	**16,055**	**18,448**

Note 1 - Included within additions is £4,482k in relation to software development to support some of the 52 products that are being developed to meet the Public Commitments under the CIF Grant.

Note 2 - Deferred Income CIF Intangible – amount that arises from the capitalisation of Grant related expenditure arising from the creation of software. The balance is amortised through the Statement of Comprehensive Income over 7 years.

During the year the Group capitalised as Intangible Assets expenditure incurred on the design, specification, build, test and implementation of its banking software.
The average remaining amortisation period of capitalised software as at 30 November 2019 was 6 years (2018: 7 years). The Directors have reviewed both internal and external indicators of impairment, including evidence of obsolescence and have concluded that there are no material indicators of impairment and thus there is no requirement to review the value in use.

NOTES TO THE FINANCIAL STATEMENTS

13 Property, Plant and Equipment and Intangible Assets

Group 2018 Cost	Property, Plant and Equipment £'000	Intangible Assets £'000	Total Property, Plant and Equipment and Intangible Assets £'000
As at 1 December 2017	389	9,810	10,199
Additions	569	5,477	6,046
Disposals	(5)	-	(5)
As at 30 November 2018	953	15,287	16,240
Depreciation and Amortisation As at 1 December 2017	137	479	616
Charge for the year	200	1,586	1,786
As at 30 November 2018	337	2,065	2,402
Net Book Value	616	13,221	13,837

Company 2019 Cost	Property, Plant and Equipment £'000	Intangible Assets £'000	Total Property, Plant and Equipment and Intangible Assets £'000
As at 1 December 2018	949	30	979
Additions	2,249	-	2,249
Disposals	(5)	-	(5)
As at 30 November 2019	**3,193**	**30**	**3,223**
Depreciation and Amortisation As at 1 December 2018	333	14	347
Charge for the year	468	6	474
As at 30 November 2019	**801**	**21**	**822**
Net Book Value	**2,392**	**10**	**2,402**

Included within the Company's Statement of Comprehensive Income is Other Income of £9,921k (2018: £4,545k), of which £9,921k (2018: £4,110k) relates to costs borne in the development of the intangible asset that were re-charged from the Parent Company to its Subsidiary.

Company 2018 Cost	Property, Plant and Equipment £'000	Intangible Assets £'000	Total Property, Plant and Equipment and Intangible Assets £'000
As at 1 December 2017	386	17	403
Additions	569	13	582
Disposals	(5)	-	(5)
As at 30 November 2018	950	30	980
Depreciation and Amortisation As at 1 December 2017	135	9	144
Charge for the year	198	5	203
As at 30 November 2018	333	14	347
Net Book Value	616	16	632

NOTES TO THE FINANCIAL STATEMENTS

14 Operating Leases

At 30 November, the future minimum lease payments under operating leases were payable as follows:

	Group 2019	Group 2018	Company 2019	Company 2018
	£'000	£'000	£'000	£'000
Less than one year	**2,032**	1,142	**2,032**	1,142
Between one and five years	**2,769**	667	**2,769**	667
More than five years	**957**	-	**957**	-
Total	**5,758**	1,809	**5,758**	1,809

During the year £2,893k (2018: £610k) was recognised as an expense in the Consolidated Statement of Comprehensive Income in respect of operating leases. The Bank leases its head office in London under two operating leases, as well its regional offices outside London under four leases. The leases exist independently of each other and have different lease terms. Lease break provisions and rent-free periods are included in all the lease arrangements. The Bank recognises rent expense for all leases on a straight-line-basis.

There are no options to purchase any of the premises at the completion of the lease terms or to extend the lease periods.

The Group plans to adopt the new standard for leases (IFRS 16) from 1 December 2019. Further details are shown in Accounting Policies Note 1 (z).

15 Inter-company Account and Investment in Subsidiaries

Company **Inter-company account:**	**As at 30 November 2018**	Net Increase/ (Decrease) during period	**As at 30 November 2019**
	£'000	£'000	**£'000**
Starling FS Services Limited	11,568	7,771	19,339
Murmur Financial Services DAC	-	155	155
Balance on Inter-Company account	11,568	7,926	19,494

See Note 27 for further information on related party and transactions.

The Parent Company has two wholly owned subsidiary companies:

- Starling FS Services Limited. This Subsidiary has been established to design, specify, build, test and implement banking software and operates from the same premises as its parent.
- Murmur Financial Services International DAC. This Subsidiary has been established as the vehicle through which the Group is applying for an Irish banking licence in order to provide Starling products to the European market.

The Parent company is charged a monthly licence fee for the use of the software owned by Starling FS Services Limited. In addition, any direct costs attributed to the design, specification, build, test and implementation of the App are charged from the Parent company to Starling FS Services Limited on a monthly basis. These costs are settled on the date of receipt of the invoice, for the costs incurred, through the Inter-Company balance. The balance on the Inter-company account is repayable on demand and is interest free. No guarantees have been given or received. No provisions have been made for impairment in respect of the amounts owned.

During the year, the Parent Company charged Starling FS Services Limited £9,922k (2018: £4,992k) for the attributable proportion of staff salaries, employers NIC and other identified costs incurred by the Parent Company in the design, specification, build, test and implementation of the mobile phone App and associated infrastructure.

During the year the Parent Company granted an interest-bearing loan of £155k to Murmur Financial Services International DAC, to fund the establishment of the Group's Irish office. The balance on the Inter-company account is repayable on demand and interest is charged at 3% per annum. No guarantees have been given or received. No provisions have been made for impairment in respect of the amounts owned.

NOTES TO THE FINANCIAL STATEMENTS

15 Inter-company Account and Investment in Subsidiaries

Investment in Subsidiaries:	As at 30 November 2019 £'000	Net Increase/ (Decrease) during period £'000	As at 30 November 2018 £'000
Balance on Investment in Subsidiaries A/c	-	-	-

The Company has a 100% interest in the Subsidiary, Starling FS Services Limited registered in England and Wales (3rd Floor, 2 Finsbury Avenue, London, EC2M 2PP, registration number 10091094). The issued ordinary share capital is £1 nominal value.

The Company has a 100% interest in the Subsidiary, Murmur Financial Services International DAC registered in Ireland (Riverside One Sir John Rogerson's Quay, Dublin, DO2 X576, registration number 648846). The issued ordinary share capital is €100 nominal value.

16 Customer Deposits

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Personal current accounts	**514,492**	136,929	**514,492**	136,929
SME current accounts	**469,177**	64,061	**469,194**	64,061
Payment services accounts	**23,613**	1,333	**23,613**	1,333
Total	**1,007,282**	202,323	**1,007,299**	202,323

Starling Bank Limited is a member of the Financial Services Compensation Scheme (FSCS), the UK Deposit Guarantee Scheme. Its eligible Customer Deposits are guaranteed up to £85,000 per individual customer.

Included in the above are Euro deposits from personal customers of £35,131k (2018: £nil).

17 Provisions for Liabilities and Charges

Group / Company	Impairment Provision on Undrawn overdraft facilities [1] £'000	Other Provisions[2] £'000	Total provisions for liabilities and charges £'000
As at 1 December 2018	-	202	202
Adjustment for IFRS 9 transition (Note 6)	195	-	195
Charge for the year (Note 6)	333	1,877	2,210
Provisions utilised and other movements	-	(1,032)	(1,032)
As at 30 November 2019	**528**	**1,047**	**1,575**

Note 1 - Under IFRS 9 an ECL is recognised on Undrawn Overdraft Facilities (see Note 6 above).

Note 2 - Other Provisions relate to items awaiting indemnities from third party banks where the amount is suspected or confirmed as being proceeds of crime.

18 Other Liabilities and Accruals

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Customer Transactions in course of settlement	**22,342**	-	**22,342**	-
Debt Securities in course of settlement	**4,000**	-	**4,000**	-
Fair Value of Phantom Options Awards to Employees (Note 24)	**201**	-	**201**	-
Other Liabilities and Accruals	**13,999**	3,784	**13,971**	3,751
Total	**40,542**	3,784	**40,514**	3,751

NOTES TO THE FINANCIAL STATEMENTS

19 Deferred Income

	Group 2019	Group 2018	Company 2019	Company 2018
	£'000	£'000	£'000	£'000
Deferred Income – CIF Grant (See Note 2)	**80,263**	-	**80,263**	-
Deferred Income – Cash settled contribution	**3,094**	361	**3,094**	361
Total	**83,357**	361	**83,357**	361

Deferred Income comprises:

- CIF Grant - represents the amounts received from the Capability and Innovation Fund ("CIF"), that cannot be recognised in the Statement of Comprehensive Income until certain qualifying expenditure has been incurred. Income is recognised in the Statement of Comprehensive income on a systematic basis over the periods in which the Bank recognises the CIF related costs for which the Grant is intended to compensate.
- Other - a cash settled contribution from the Bank's card services provider; recognition in the Statement of Comprehensive Income is contingent solely upon meeting certain customer volume thresholds for types of transactions, which had not been achieved at the reporting date.

20 Share Capital

For the period 1 December 2018 to 30 November 2019	**Shares Numbers**	**Nominal Value £'000**
As at 1 December 2018	**515,456**	**5.155**
Shares Issued of £0.01 each	**135,645**	1.356
Subdivision of all Shares 1 for 1,000[1]	**650,449,901**	-
As at 30 November 2019	**651,101,002**	**6.511**

Note 1 - As a result of the Company's subdivision of capital by a quotient of 1,000 on 26 June 2019, all shares issued prior to that date were adjusted accordingly.

At the reporting date the shares in issue comprised:

	Shares Numbers	**Nominal Value £'000**
Ordinary Shares	85,050,000	0.850
A Shares	72,450,000	0.725
B Shares	385,084,000	3.850
C Shares	108,517,002	1,085
As at 30 November 2019	**651,101,002**	**6.511**

The Ordinary shares, B and C shares have voting rights.
All shares are fully paid.

NOTES TO THE FINANCIAL STATEMENTS

21 Share Premium

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Total Share Premium[1]	**159,332**	67,784	**159,332**	67,784

Note 1 - The Company incurred transaction costs of £3,451k (2018:£30k) in respect of the issue of ordinary B and C shares and this has been deducted from the share premium account.

22 Other Reserves and Retained Earnings

Group	Other Reserves £'000	Retained Earnings £'000	Total Reserves £'000
As at 30 November 2017	**(94)**	**(15,039)**	**(15,133)**
Employee Benefit Trust	413	-	413
Loss for the period	-	(25,070)	(25,070)
As at 30 November 2018	**319**	**(40,109)**	**(39,790)**
Employee Benefit Trust	442	-	442
Loss for the period	-	(52,065)	(52,065)
As at 30 November 2019	**761**	**(92,174)**	**(91,413)**

Company	Other Reserves £'000	Retained Earnings £'000	Total Reserves £'000
As at 30 November 2017	**(94)**	**(15,026)**	**(15,120)**
Employee Benefit Trust	413		413
Loss for the period		(27,062)	(27,062)
As at 30 November 2018	**319**	**(42,088)**	**(41,769)**
Employee Benefit Trust	442	-	442
Loss for the period	-	(48,835)	(48,835)
As at 30 November 2019	**761**	**(90,923)**	**(90,162)**

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	Company 30 Nov 2019 £'000	Company 30 Nov 2018 £'000
Employee Benefit Trust				
Reserves – Shares held by EBT	(103)	(10)	(103)	(10)
Reserves – Fair Value Share awards	**864**	**329**	**864**	**329**
As at 30 November 2019	**761**	**319**	**761**	**319**

NOTES TO THE FINANCIAL STATEMENTS

23 Employee Benefit Trust

The Starling FS Employee Benefit Trust (EBT) was established on 18th December 2015 to provide for future obligations of the Company and to reward certain employees that help build Starling, therefore ensuring that the interests of key employees continue to be aligned with the interests of shareholders.

Starling has created four schemes for the benefit of employees:

- In May 2016, an equity settled share scheme – Scheme 1 (share awards granted in May and June 2016);
- In December 2016, a Joint Ownership Scheme – Scheme 2 (share awards granted in December 2016 and April 2017);
- In December 2017, a Joint Ownership Scheme – Scheme 3 (share awards granted in December 2017 and March 2018); and
- In October 2018, a Joint Ownership Scheme – Scheme 4 (share awards granted in October and November 2018; March and July 2019).

Under Scheme 1, certain employees purchased from the EBT, 100% of the beneficial interest in the shares in any capital return on a Realisation, as well as the right to receive dividends (depending on the time held).

Under Schemes 2, 3 and 4 certain employees purchased from the EBT the beneficial interest in any capital return above a hurdle on a Realisation, as well as the right to receive dividends (depending on the time held).

Under each scheme, the legal title (and the beneficial interest to a capital return in relation to sums below the hurdle in the case of schemes 2, 3 and 4) remains with the EBT throughout the lifetime of the schemes. Each scheme vests over a 4-year holding period that commences on the date of the relevant grant.

The scheme trustee is Estera Trust (Jersey) Limited (formerly Appleby Trust (Jersey) Limited), a company registered in Jersey (number: 21755) and whose registered office is at 13-14 Esplanade, St Helier, Jersey, JE1 1BD.

The shares held by the EBT at the reporting date were as follows:

	Shares Number	Nominal Value £'000	Average Cost £'000
Outstanding as at 1 December 2018	22,889	228.89	184,474
Share subdivision on 26 June 2019[1]	22,866,111	-	-
As at 30 November 2019	22,889,000	228.89	184,474

Note 1- As a result of the Company's subdivision of capital by a quotient of 1,000 on 26 June 2019, all awards issued prior to that date were adjusted accordingly. Consequently, the specified price per-share for each award has been divided by £1,000. All awards subsequent to June 2019 have been granted at the new nominal amount and the price per share also amended.

The cumulative recognised cost of awards charged to the Statement of Comprehensive Income made under EBT is shown in Other Reserves in accordance with IFRS 2.

	Opening Balance £'000	Shares held by EBT £'000	Charge for the year £'000	Closing Balance £'000
Fair Value of Shares allocated to employees	319	103	442	864

NOTES TO THE FINANCIAL STATEMENTS

23 Employee Benefit Trust

Scheme 1	Number of shares purchased	Number of elapsed months	Percentage applied	Value per share to be applied	Amount recognised £'000
Purchases made during May 2016	2,473,000	42.5	44.27%	£0.001	1
Purchases made during June 2016	277,000	41.5	43.23%	£0.001	-
Scheme 2					
Purchases made during December 2016	5,380,000	35.5	40.81%	£0.06316	139
Purchases made during April 2017	5,603,000	31.5	38.36%	£0.06257	134
Scheme 3					
Purchases made during December 2017	3,409,000	24.0	25.62%	£0.2635	230
Purchases made during February 2018	250,000	22.0	26.48%	£0.2639	17
Purchases made during March 2018	2,450,000	20.5	25.34%	£0.2636	164
Purchases made during October 2018	600,000	13.5	18.38%	£0.50583	56
Purchases made during November 2018	650,000	13.0	17.42%	£0.50457	57
Purchases made during March 2019	200,000	8.5	12.61%	£0.66000	17
Purchases made during July 2019	1,200,000	4.0	6.62%	£0.62000	49

The above tables show the allocation of shares from the EBT to employees of the Company since inception in accordance with the relevant share schemes. The amount recognised is the cumulative to the reporting date.

The fair value of the shares at the Grant date were valued using a Binomial Option Pricing Model. The Company has decided to change its valuation model from a Black-Scholes-Merton model as the Binomial Option Pricing Model allows for the valuation of the early exercise of options that can be exercised at any point in their life after vesting and for changes in assumptions about volatility and interest rates throughout an option's life.

The change in model has had no significant impact upon the valuation of the options granted in prior years because the awards granted under the JSOP schemes were valued at their grant date.

The assumptions used are as follows:

Grant date:	Dec 16	Apr 17	Dec 17	Feb 18	Mar 18	Oct 18	Nov 18	Mar 19	Jul 19
Expected volatility:	62%	51%	39%	38%	38%	36%	36%	35%	38.33%
Risk free interest rate:	1.50%	1.07%	1.25%	1.52%	1.43%	1.57%	1.32%	0.85%	0.45%
Dividend yield:	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected life:	8.00 years	7.67 years	7.00 years	6.83 years	6.75 years	6.17 years	6.08 years	5.8 years	5.4 years

Analysis of shares held by Employee Benefit Trust	Shares Number[1]	Nominal Value £	Fair Value £
May 2016 – Shares allocated to employees	2,486,000	25	373
June 2016 – Shares allocated to employees	350,000	3	44
December 2016 – Shares allocated to employees	6,221,000	54	59,203
April 2017 – Shares allocated to employees	6,010,000	56	48,857
December 2017 – Shares allocated to employees	3,675,000	34	135,355
February 2018 – Shares allocated to employees	250,000	2	7,838
March 2018 – Shares allocated to employees	2,450,000	24	67,927
October 2018 – Shares allocated to employees	600,000	6	6,603
November 2018 – Shares allocated to employees	650,000	7	3,388
November 2018 – Unallocated Shares	197,000	2	-
As at 30 November 2018	**22,889,000**	**229**	**329,588**

NOTES TO THE FINANCIAL STATEMENTS

23 Employee Benefit Trust

Analysis of shares held by Employee Benefit Trust	Shares Number[1]	Nominal Value £	Fair Value £
May 2016 – Shares allocated to employees	2,473,000	25	1,094
June 2016 – Shares allocated to employees	277,000	3	151
December 2016 – Shares allocated to employees	5,380,000	54	138,665
April 2017 – Shares allocated to employees	5,603,000	56	134,471
December 2017 – Shares allocated to employees	3,409,000	34	230,138
February 2018 – Shares allocated to employees	250,000	2	17,471
March 2018 – Shares allocated to employees.	2,450,000	24	163,655
October 2018 – Shares allocated to employees	600,000	6	55,788
November 2019 – Shares allocated to employees	650,000	7	57,160
March 2019 – Shares allocated to employees	200,000	2	16,643
July 2019 – Shares allocated to employees	1,200,000	12	49,218
November 2019 – Unallocated Shares	397,000	4	-
As at 30 November 2019	**22,889,000**	**229**	**864,454**

Note 1 - As a result of the Company's subdivision of capital by a quotient of 1,000 on 26 June 2019, all awards issued prior to that date were adjusted accordingly.

The fair values are based on an independent valuation carried out for the Company by each Scheme's Independent Valuer at each Grant date. In accordance with IFRS 2, the shares are classified as equity-settled and the fair value of shares at the Grant date, as modified by a graded recognition, is charged to the Statement of Comprehensive Income with a corresponding credit to Reserves (see Note 22). The Charge to the Statement of Comprehensive Income for the year was £412k (2018: £329k).

24 Phantom Option Scheme

The 2018 Phantom Option Scheme was established in December 2018 to provide for future obligations of the Company and to reward certain employees that help build Starling, therefore ensuring that the interests of key employees are aligned with the interests of shareholders.

Awards under the 2018 Share Option Scheme were granted to senior employees in:

- December 2018: awards of 1,000 and 750; and
- June 2019: awards of 500,000.

As a result of the Company's subdivision of capital by a quotient of 1,000 on 26 June 2019, all awards issued prior to that date were adjusted accordingly. Consequently, the specified price per-share for each award was also divided by £1,000.

2018 Share Option Scheme	Number of options granted	Number of elapsed months	Percentage applied	Value per share to be applied	Amount recognised £'000
Awards made during December 2018	1,750,000	11.5	23.9%	£0.42000	175
Awards made during June 2019	500,000	4.5	12.08%	£0.43000	26

The fair values are based on an independent valuation carried out for the Company by an Independent Valuer at the reporting date and were valued using a Binomial Option Pricing Model. The assumptions used were as follows:

Grant date:	Dec 18	Jun19
Expected volatility:	40.0%	40.0%
Risk free interest rate:	0.46%	0.46%
Dividend yield:	0.00%	0.00%
Expected life:	4.0 years	4.0 years

NOTES TO THE FINANCIAL STATEMENTS

24 Phantom Option Scheme

The fair value of the shares at the reporting date were valued using a Binomial Option Pricing Model. The Company has decided to use a Binomial Option Pricing Model to value the Phantom Options scheme as it allows for early exercise of options that can be exercised at any point in their life after vesting and for changes in assumptions about volatility and interest rates throughout an option's life. Although the Binomial Option Pricing Model assumes predictable constant volatility this is not observed in real markets. In order to estimate the annualised volatility, Management have assessed the past standard deviation of the stock price of comparable quoted banks over various time frames.

In accordance with IFRS 2, the options granted are classified as cash-settled and the fair value of shares at the reporting date, as modified by a graded recognition, iis charged to the Statement of Comprehensive Income with a corresponding credit to Other Liabilities (see Note 18). The Charge to the Statement of Comprehensive Income for the year was £202k (2018: £Nil).

The cumulative recognised cost of awards charged to the Statement of Comprehensive Income made under the Phantom Option Scheme is shown in Other Liabilities in accordance with IFRS 2.

	Opening Balance	**Charge for the year**	**Closing Balance**
	£'000	**£'000**	**£'000**
Fair Value of Options granted to employees	-	201	201

25 Risk Management

a. Credit Risk Exposure

Credit risk is the current or prospective risk that a customer of the Bank defaults on their contractual obligations to Starling or fails to perform their obligations in a timely manner. The maximum exposure to credit risk includes the total committed facility and Loans and Advances to Customers on the Statement of Financial Position. As a material risk to the Group, there is significant management focus on setting credit risk appetite and embedding appropriate risk mitigation.

b. Credit Quality

The following tables set out information about the credit quality of financial assets measured at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the tables represent the amounts committed.

The maximum exposure to credit risk that the Bank is exposed to is as follows:

Credit Risk	**Group 2019**	Group 2018	**Company 2019**	Company 2018
	£'000	£'000	**£'000**	£'000
Loans and Advances to Banks	**764,705**	187,008	**764,602**	186,905
Debt Securities	**331,597**	18,039	**331,597**	18,039
Overdraft and Term Lending to Customers	**56,539**	9,095	**56,539**	9,095
Undrawn Overdraft Facilities to Customers	**71,068**	30,518	**71,068**	30,518
Maximum Credit Risk	**1,223,909**	244,660	**1,223,806**	244,557

NOTES TO THE FINANCIAL STATEMENTS

25 Risk Management

Credit Quality (Unaudited) (1)	Maximum Credit Risk	Impairment Allowance	Carrying amount	
	£'000	£'000	£'000	%
Loans and Advances to Banks - AA	761,974		761,974	62.4
Loans and Advances Banks – A	2,731	-	2,731	0.2
Debt Securities - AAA	288,934	-	288,934	23.7
Debt Securities – AA	42,663	-	42,663	3.5
Overdraft Facilities and Term Lending to Customers:				
Low risk (Stage 1)	125,610	(1,325)	124,285	10.2
Medium risk (Stage 2)	1,168	(739)	429	0.0
Higher risk (Stage 3)	829	(714)	115	0.0
	1,223,909	(2,777)	1,221,132	100

Note 1 – Ratings of AAA to A are derived from Standard and Poor's.

The Fair Value of Debt Securities is the closing market price as at 30 November 2019.

The ageing of the Group's Customer profile at 30 November 2019 is as follows:

Credit Ageing	Total	Under 31 days	Over 31 days and No more than 60 days	Over 60 days and no more than 90 days	Over 90 days
	£'000	£'000	£'000	£'000	£'000
Impairment on Drawn Facilities	2,249	502	1,712	34	1
Impairment on Undrawn Facilities	528	118	402	8	-
Total Impairment Allowance	**2,777**	**620**	**2,114**	**42**	**1**

Credit Concentration

The Group maintains operating cash balances at the Bank of England and the Central Bank of Ireland. At the reporting date £668,099k (2018: £176,079k) was held at the Bank of England and £29,875k (2018: £388k) was held at the Central Bank of Ireland. Additionally, £64,000k was placed at the Bank of England as collateral for UK payment schemes.

The group also maintains cash balances with commercial banks for intra-day liquidity and settlement purposes.

The Bank's portfolio of Debt Securities is managed within a Board approved investment strategy that restricts concentration of exposures. The portfolio comprises assets that qualify for HQLA. No ECL is recognised as any differences between the carrying value and the current fair value are considered to be temporary; each asset is held to maturity and the Bank considers that full repayment will occur.

The Group offers Overdraft Facilities and Term Loans to the personal and SME markets in the UK. There is no concentration of credit risk by any particular feature within the lending balances to Customers. A geographical breakdown of its customer credit concentration is not provided as credit risk is managed on portfolio basis.

Credit Risk – Loans and Advances to Customers held at amortised cost

As there is no difference in Loans and Advances to Customers for Group or Company the tables below do not distinguish between the two.

The following table summarises the Group's lending to customers including undrawn balances at 30 November by impairment stage and associated provision.

As at 30th November 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Overdrawn Balances	14,945	1,776	1,502	**18,223**
Overdraft Facilities (Undrawn)	70,379	689	-	**71,068**
Term Lending	38,143	131	41	**38,315**
Maximum Credit Risk	**123,467**	**2,596**	**1,543**	**127,606**
Overdrawn Balances	26	726	691	**1,443**
Overdraft Facilities (Undrawn)	307	221	-	**528**
Term Lending	771	13	23	**807**
Impairment Provision	**1,104**	**960**	**714**	**2,777**
Overdrawn Balances	14,919	1,050	811	16,780
Overdraft Facilities (Undrawn)	70,540	-	-	70,540
Term Lending	37,372	118	17	37,508
Net Carrying Amount	**122,831**	**1,168**	**829**	**124,828**

NOTES TO THE FINANCIAL STATEMENTS

25 Risk Management

The tables below provide information on impairment movement between stages on Loans and Advances to Customers.

Impairment	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Opening Balance as at 1 Dec 18[1]	234	122	274	630
New Loans and Overdrafts	2,992	660	270	3,921
Transfer to Stage 2	(2,126)	2,304		178
Transfer to Stage 3		(2,126)	2,296	170
Impact on ECL of transfers between stages	4			4
De-recognition			(2,126)	(2,126)
Closing Balance at 30 Nov 19	**1,103**	**960**	**714**	**2,777**

Note 1 – The opening impairment balance has been restated to include the increased impairment of £233k on adoption of IFRS 9.

b. Liquidity Risk

Liquidity Risk is the risk that the Group is unable to meet its current or future financial obligations as they fall due or is only able to do so at excessive cost. At 30 November 2019 the Group's contractual maturities of the financial assets and liabilities were as follows:

2019 Contractual Maturity	Total £'000	On Demand £'000	No more than 3 months £'000	Over 3 months and no more than 1 Year £'000	Over 1 year and no more than 3 Years £'000	Over 3 Years and no more than 5 Years £'000	Over 5 years £'000
Loans and Advances to Banks	764,705	764,705	-	-	-	-	-
Debt Securities	331,597	-	1,000	5,796	50,811	272,042	1,948
Loan and Advances to Customers	54,290	16,128	2,460	7,790	9,394	18,518	-
Total Financial Assets	**1,150,592**	**780,833**	**3,460**	**13,586**	**60,205**	**290,560**	**1,948**
Other Assets	54,571	54,571	-	-	-	-	-
Total Assets	**1,205,163**	**835,404**	**3,460**	**13,586**	**60,205**	**290,560**	**1,948**
Customer Deposits	1,007,282	1,007,282	-	-	-	-	-
Total Financial Liabilities	**1,007,282**	**1,007,282**	**-**	**-**	**-**	**-**	**-**
Other Liabilities	129,956	129,956	-	-	-	-	-
Total Liabilities	**1,137,238**	**1,137,238**	**-**	**-**	**-**	**-**	**-**

The Group's exposure to Loan and Advances to Banks are either to Central Banks or Commercial Banks with a rating better than A (See section 25b).

The Group's exposure to Debt Securities is monitored by the Group's ALCO and follows a prescribed investment strategy that ensures that the HQLA Assets are diversified as to tenor and issuer.

The Group has a single deposit product which is aimed at the personal and SME current account markets in the UK, consequently its Customer Deposits are from a highly diverse population and do not give rise to a concentration for liquidity purposes. Similarly, its overdrafts and lending products do not give rise to a single obligor risk that is material.

NOTES TO THE FINANCIAL STATEMENTS

25 Risk Management

2018 Contractual Maturity	Total £'000	On Demand £'000	No more than 3 months £'000	Over 3 months and no more than 1 Year £'000	Over 1 year and no more than 3 Years £'000	Over 3 Years and no more than 5 Years £'000	Over 5 years £'000
Loans and Advances to Banks	187,008	187,008	-	-	-	-	-
Investment Securities	18,039	-	-	-	33	7,013	10,993
Loan and Advances to Customers	8,698	8,257	-	178	192	71	-
Total Financial Assets	**213,745**	**195,265**	**-**	**178**	**225**	**7,084**	**10,993**
Other Assets	20,924	-	-	-	-	-	-
Total Assets	**234,669**	**-**	**-**	**-**	**-**	**-**	**-**
Customer Deposits	202,323	202,323	-	-	-	-	-
Total Financial Liabilities	**202,323**	**202,323**					
Other Liabilities	4,347	-	-	-	-	-	-
Total Liabilities	**206,670**	**-**	**-**	**-**	**-**	**-**	**-**

c. Market Risk

Market Risk is the risk that the value of, or income from, the Group's assets and liabilities change as a result of changes in market prices, the principal element being interest rate risk.

Measuring exposure to interest rate risk
Interest rate risk exposure is measured by calculating both positive and negative instantaneous shocks to interest rates on:

- Earnings at Risk (EaR) is considered for assets and liabilities on the forecast Statement of Financial Position over 12 months period, measuring the adverse change to net interest income from a movement in interest rates.
- The regulatory PV200 measure is a key metric used by the Bank to evaluate its interest rate risk sensitivity. The PV200 test assesses the change in the net present value of the Bank's net cash-flows if market interest rates were to experience a parallel shift, both upwards and downwards of 200 basis points.

Market Risk Metrics – Rate Sensitivity
Sensitivity analysis of Net Interest Income (NII) is performed on the Banks's consolidated Statement of Financial Position. As at 30 November 2019, the projected change in Net Interest Income in response to an immediate parallel upwards and downwards shift in all relevant interest rates would be an increase of £16m and a decrease of £18m from 200bps interest rate move, respectively. The measure assumes all interest rates, for all currencies and maturities move at the same time.

Market Risk Metrics - FX Sensitivity
Sensitivity analysis to Foreign Exchange ("FX") movements is performed at the Bank's net foreign exchange position. The majority of the Bank's FX position comprises the unrecognised deferred income arising from the cash settled contribution from the Bank's card services provider. The Bank has economically hedged the exposure and consequently has little exposure to the movement in FX rates.

d. Fair Value

IFRS13 Fair Value Measurement requires the Bank to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2 valuations are those where quoted market prices are not available, or valuation techniques are used to determine fair value and the inputs are based significantly on observable market data.
- Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

Book Value	Group 2019	Group 2018	Company 2019	Company 2018
Assets	**£'000**	£'000	**£'000**	£'000
Loans and Advances to Banks	**764,705**	187,008	**764,602**	186,905
Debt Securities	**331,597**	18,039	**331,597**	18,039
Loans and Advances to Customers	**56,539**	9,095	**56,539**	9,095
Undrawn Overdraft Facilities to Customers	**71,068**	30,518	**71,068**	30,518
Financial Assets – Book Value	**1,223,909**	244,660	**1,223,806**	244,557

NOTES TO THE FINANCIAL STATEMENTS

25 Risk Management

Fair Value		Group 2019	Group 2018	Company 2019	Company 2018
Assets		**£'000**	£'000	**£'000**	£'000
Loans and Advances to Banks	Level 2	**764,705**	187,008	**764,602**	186,905
Debt Securities	Level 1	**327,819**	18,071	**327,819**	18,071
Loans and Advances to Customers	Level 3	**54,290**	8,698	**54,290**	8,698
Undrawn Credit Facilities to Customers	Level 3	**70,540**	30,323	**70,540**	30,323
Financial Assets – Fair Value		**1,217,354**	244,100	**1,217,251**	243,997

The fair value of Loans and Advances to Banks is considered to be the Book Value and the Group has not recognised an ECL provision.

The deposits from customers of £1,007,282k (2018: £202,323k) are at market rate and are callable on demand. Accordingly, the fair value of deposits from customers is considered to be the book value.

All Debt Securities qualify as HQLA items held for liquidity management and are valued using quoted market price and therefore classified as Level 1 assets. The Bank is holding these assets to maturity at historical cost and they are measured at amortised cost. The Group has not recognised an ECL provision on its Debt Securities portfolio as it considers the difference between the carrying value and their Fair Value to be a temporary diminution in value that arises from short-term movements in quoted prices. The Bank has reviewed each asset within its Debt Securities portfolio to ensure that the underlying assets remain of good quality and that there have been no breaches of covenants within the individual instruments.

26 Regulatory Capital

The below table presents a reconciliation between shareholders equity in the IFRS Statement of Financial Position and the Regulatory capital available to support the Group's risk activities.

The Bank has complied with all externally imposed capital requirements during the period. The amount of capital held is measured against the regulatory framework defined by the Capital Requirement Directive and Regulation (CRR & CRD IV) as implemented in the UK by the PRA. Full details of the Bank's regulatory capital and calculation of its regulatory total capital requirement are provided in the Bank's Pillar 3 report published on our website.

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 Bank's ICAAP. The ICAAP represents the Board's view of the Bank's risk appetite and is used in conjunction with the Group's capital plan by the Board, management and shareholders to understand the levels of capital required to be held over the medium term and to assess the resilience of the Bank against shocks.

a) Audited	Group 30 Nov 2019	Group 30 Nov 2018	Company 30 Nov 2019	Company 30 Nov 2018
	£'000	£'000	**£'000**	£'000
Shareholder equity as per the statement of financial position	**67,925**	**27,999**	**69,176**	**26,020**
Regulatory deductions:				
Intangible assets / Intercompany loan	(16,055)	(13,221)	(19,504)	(11,583)
Other Reserves	(761)	-	(761)	-
Common Equity Tier 1 (CET1) capital	**51,109**	**14,778**	**48,911**	**14,437**
Total Regulatory Capital	**51,109**	**14,778**	**48,911**	**14,437**

NOTES TO THE FINANCIAL STATEMENTS

26 Regulatory Capital

b) Unaudited	RWA[1] Group 30 Nov 2019 £'000	RWA[1] Group 30 Nov 2018 £'000	RWA[1] Company 30 Nov 2019 £'000	RWA[1] Company 30 Nov 2018 £'000
Credit Risk Exposure	92,339	13,536	92,303	13,392
Operational Risk Exposure	28,250	28,300	28,250	28,300
Market Risk Exposure	1,712	-	1,712	-
Total Risk Weighted Assets	**122,301**	**41,836**	**122,265**	**41,692**
Common Equity Tier 1 (CET1) ratio	41.8%	34.5%	40.0%	34.6%
Total Tier 1 ratio	41.8%	34.5%	40.0%	34.6%
(EU) Leverage Ratio	4.3%	6.6%	4.1%	6.3%
(UK) Leverage Ratio	21.5%	69.0%	21.1%	72.0%

Note 1 - RWA = Risk Weighted Asset.

27 Related Party Transactions

a. Parent and Controlling Entities

The immediate holding company at the reporting date was JTC Starling Holdings Limited and is deemed the ultimate controlling party.

At the reporting date, JTC Starling Holding Limited holds 62% (2018: 67%) of the total shares in issue and is entitled to 62% (2018: 67%) of the voting rights.

Deposit balances held by individuals associated with JTC Starling Holdings Limited comprised:	**As at 30 Nov 2019 £'000**	Net Increase/ (decrease) during period **£'000**	**As at 30 Nov 2018 £'000**
Balances on Deposit accounts	**382**	303	**79**

The terms and conditions applied to the above balances are the same as those applied to customers.

Anne Boden MBE, who is also the CEO, holds 12% (2018: 17%) of the total shares in issue and is entitled to 23% of the voting rights (2018: 29%) and consequently is deemed a related party.

Director Loan Account - Amounts due to Anne Boden MBE:	**Due to Director as at 30 Nov 2019 £'000**	Repaid during period **£'000**	**Due to Director as at 30 Nov 2018 £'000**
Balance on Director Loan Account	-	254	**254**

A loan of £254k from a director to the company was repaid by the Company in full during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

27 Related Party Transactions

b. Key Management Personnel Transactions

Key Management Personnel is defined as the Board, their spouses or partners and children and other dependents over whom the Board member can exert influence.

Deposits balances held by Key Management Personnel comprised:	As at 30 Nov 2019 £'000	Net Increase/ (Decrease) during period £'000	As at 30 Nov 2018 £'000
Balances on Deposit Accounts	**124**	(68)	**192**

The terms and conditions applied to the above balances are the same as those applied to Customers.

Overdraft and Term Loan balances held by Key Management Personnel comprised:	As at 30 Nov 2019 £'000	Net Increase/ (Decrease) during period £'000	As at 30 Nov 2018 £'000
Balances on Deposit Accounts	-	-	-

c. Key Management Personnel Compensation

	For period ended 30 Nov 2019 £'000	Net Increase/ (Decrease) during period £'000	For period ended 30 Nov 2018 £'000
Wages and Salaries	**994**	150	**844**
Social Security Costs	**129**	31	**98**
Total	**1,123**	181	**942**

d. Subsidiaries and Affiliates

Interest in the Subsidiaries is set out in Note 15.

	As at 30 Nov 2019 £'000	Net Increase/ (Decrease) during period £'000	As at 30 Nov 2018 £'000
Inter-company balances with the Subsidiary entities	**19,494**	7,927	**11,567**

The balances on both inter-company accounts are repayable on demand. The balance on the inter-company account with Starling FS Services Limited is interest free. The balance on the inter-company account with Murmur Financial Services International DAC is charged at a rate of 3%.

The Parent Company employs product and software development teams and incurs the cost of salaries, NIC and other benefits; a proportion of this is recharged to the Starling FS Services Limited. A licencing agreement exists between Starling FS Services and its parent, related to intellectual property rights, of the banking app, the licence fee agreement is on a cost-plus basis after capital expenditure, allowing a margin of 5% + VAT (OECD Transfer Pricing method at arm's length level).

During the year, the Starling Bank Limited charged its Starling FS Services Limited £9,922k (2018: £4,992k) for the attributable proportion of staff salaries, employers NIC and other identified costs incurred by the Parent Company in the design, specification, build, test and implementation of the mobile phone App and associated infrastructure.

During the year, Starling Bank Limited provided funding to Murmur Financial Services International DAC for the establishment of an Irish office and provided funding of £155k.

NOTES TO THE FINANCIAL STATEMENTS

28 Capital Commitments

At 30 November 2019, the Company had no committed capital expenditure that had not been provided for in the accounts (2018: £Nil).

29 Contingent Liabilities

At 30 November 2019, the Company had no contingent liabilities (2018: £Nil).

30 Events After Reporting Period

The following events have taken place between 30 November 2019 and the date of approval of these accounts by the Board:

- On 5 February 2020, a new investment of £54m by existing shareholders.
- The Bank carries out regular stress and scenario analysis as part of its ongoing activities which incorporate factors such as interest rate reductions and changes in macro-economic indicators and in response to Covid-19 additional stress and scenario analyses have been carried out. The Directors consider this event a non-adjusting post balance sheet event. As the situation is rapidly evolving, it is not considered practicable to provide a quantitative estimate of the potential impact.

31 Country by Country Reporting

The Capital Requirements (Country by Country Reporting) Regulation 2013 places certain reporting obligations on financial institutions that are within the scope of EU Capital Requirement Directive (CRD IV).

The Objective of the country by country reporting requirements is to provide increased transparency regarding the source of the financial institution's income and locations of its operations. Starling is a UK registered entity.

Name, nature of activities and geographical location: Starling is a deposit taker and lender and operated in the United Kingdom during the financial year.

	Group 30 Nov 2019 £'000	Group 30 Nov 2018 £'000	**Company 30 Nov 2019 £'000**	Company 30 Nov 2018 £'000
Turnover (£'000)[1]	**14,201**	750	**23,945**	5,088
Loss before Tax (£'000)	**(53,603)**	(26,856)	**(48,874)**	(27,235)
Corporation Tax paid (£'000)	**Nil**	Nil	**Nil**	Nil
Number of Employees on full time equivalent basis	**740**	279	**740**	279
Subsidy amounts received (£'000)	**Nil**	Nil	**Nik**	Nil
Jurisdictions in which operated	**UK**	UK	**UK**	UK

Note 1 - Turnover is defined as total income/(expense).

32 Non-IFRS Measures

The following non-IFRS performance measures were included in this document to provide additional disclosure to the users of the financial statements:

- Cost of risk is calculated as impairment charges net of debt recoveries divided by simple average of gross Loans and Advances to Customers for the year.
- Cost of deposits is calculated as interest expense divided by the average total for customer deposits for the year.
- Loan-to-deposit ratio represents Loans and Advances to Customers expressed as a percentage of total customer deposits.
- Net Interest Margin (NIM) represents net interest income as a percentage of average interest-earning assets.

ABBREVIATIONS AND ACRONYMS

AI	Artificial Intelligence
ALCO	Assets and Liabilities Committee
AML	Anti-Money Laundering
API	Application Programming Interface
BCR	Banking Competition Remedies
BRC	Board Risk Committee
CASS	Current Account Switching Service
CCF	Credit Conversion Factor
CET1	Common Equity Tier 1
CIF	Capability and Innovation Fund
CRC	Credit Risk Committee
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EAD	Exposure at Default
EaR	Earnings at Risk
EBT	Employee Benefits Trust
ECL	Expected Credit Losses
ERC	Executive Risk Committee
ERMF	Enterprise Risk Management Framework
EU	European Union
EXCO	Executive Committee
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
FV	Fair Value
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit or Loss
HQLA	High-Quality Liquid Assets
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
NII	Net Interest Income
NIM	Net Interest Margin
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Co-operation and Development
OLAR	Overall Liquidity Adequacy Requirement
PD	Probability of Default
PRA	Prudential Regulation Authority
PSD2	Payment Services Directive
R&D	Research and Development
RWA	Risk-Weighted Asset
SME	Small and Medium-Sized Enterprises
SPPI	Solely Payments of Principal and Interest

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