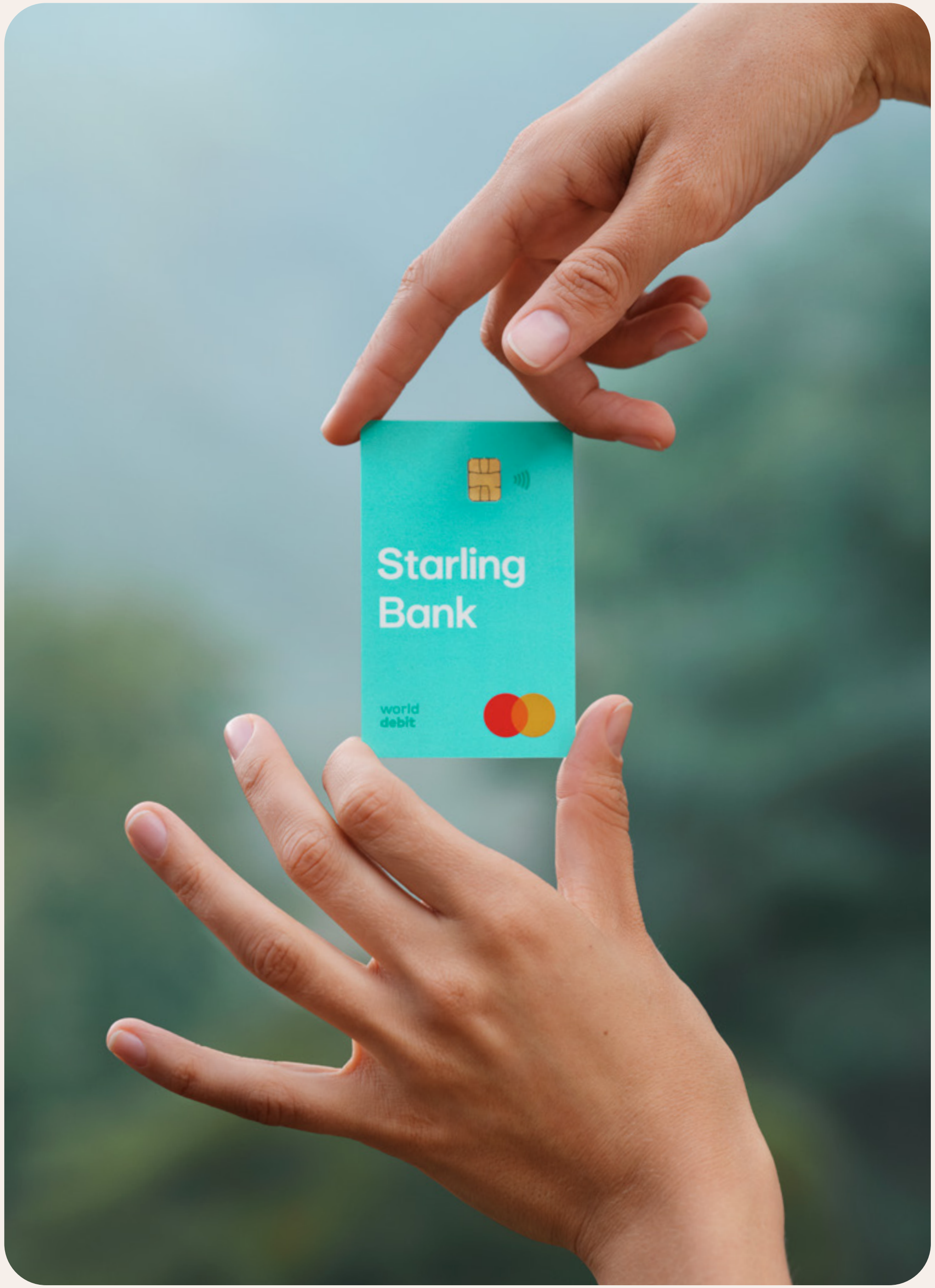
Starling Bank

Banking.
But better.



Starling Bank Limited

Annual Report 2023

Contents

Throughout this document Starling and Group are used interchangeably. Group includes Starling Bank Limited and all of its direct and indirect subsidiaries. Company and Bank are used interchangeably. Bank refers to Starling Bank Limited. The regulatory solo-consolidated Group only includes the company Starling Bank Limited and the subsidiary Starling FS Services Limited.

“The magic of Starling is not just the brand, but also our technology. When we set out to build Starling, we decided that it was only possible with technology crafted by our own engineers so that we could solve big problems that had been shied away from by big bank tech.”

Anne Boden
Founder and CEO

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Strategic Report

Group Chairman's Statement

Another year of exceptional progress

"Starling has a sustainable business model, generating record profits, but maintaining the highest levels of service."

David Sproul
Chairman, May 2023

It has been another year of exceptional progress for Starling. We have surpassed new milestones, furthered our growth, developed new products, invested heavily in talent and continued to create lasting engagement with our customers.

It has been a year that has proved the value of our strategy, in spite of wider uncertainty in the banking sector, with continued strong growth in customer numbers and deposit balances built on the high level of trust and engagement our customers have with us. We have released a series of exciting new products and services and seen measured growth in our lending, all supported by a well capitalised balance sheet. I am particularly proud of the impact we are having in supporting over 510,000 small and medium-sized enterprise (SME) customers, a critical segment of the UK economy.

Starling has a sustainable business model, generating record profits this year but importantly maintaining the highest levels of customer service.

It's sometimes said that there are no such things as good ideas, there are only good people. That's certainly true at Starling. I'm struck by how invested the Starling team is in the Group's mission to change banking for good. This defining purpose is supported by a strong company culture and brings a very real competitive advantage. And it's why Starling consistently appears at the top of customer service rankings.

The Board's role is to ensure that the Group's values, and the culture they help support, are embedded in all of our activities, both internal and external. In the past year this has been clearly manifested in a suite of new products and features designed expressly to help our customers better understand and manage their daily spending, against the backdrop of the cost of living crisis. From our free virtual cards and Bills Manager feature to our enhanced Spending Insights and the free online Budget Planner, we're giving our customers smart money management tools that are useful and relevant to their lives.

These values also underpin the continuing investment in our risk management systems and capability to ensure they develop in line with our strategic priorities and growth.

It's also evident in our Always Open employee-led groups that champion diversity and our Green Shoots Ambassadors, an internal group of volunteers who help push forward sustainability projects.

Starling was built to be a new kind of bank, one that puts customers first. Embedded in our processes and in our culture from day one has been a focus both on delivering good outcomes for our customers and also on ensuring they can understand our products and services and make good decisions. This leaves us well-placed to implement the new Consumer Duty regulations introduced by the Financial Conduct Authority (FCA), which come into effect in July 2023.

I would like to thank all my colleagues across the Group for all of their hard work, dedication and talent.

Group Chief Executive Officer's Statement

The headline: 6x increase in profitability

"We strive constantly to focus on creating a delightful user experience combined with maximum utility."

Anne Boden
Chief Executive Officer, May 2023

At Starling we never forget the people we serve. We believe that if you set out to do right by your customers, you will do right by the business. At this time of rising prices, squeezed wages and uncertainty on the world stage, this approach has never been more important.

It is top of mind as we report our second full year of profitability. For the financial year ending 31 March 2023, we recorded a pre-tax profit of £195m, a 6x increase from last year's figure of £32m. Our total Revenue more than doubled from £216m to £453m, supported by a high interest rate environment. Total lending stands at £4.7bn.

People trust us with their money; we hold £10.6bn in deposits across more than 3.6m accounts. Our customers spent £16.5bn using their Starling cards during the year, up from £11.9bn in the previous year.

I'm proud of the recognition that we've received from our customers. Starling sits at the top of the latest independent banking performance customer service tables compiled by the UK Government's Competition and Markets Authority (CMA), based on a survey of bank customers. We've been voted "Best Bank" by the consumer organisation, Which?, for two successive years, and in April 2022 we were voted Best Current Account Provider at the British Bank Awards by our customers.

We now employ over 2,700 people across our offices in London, Southampton, Cardiff, and, our most recent location, Manchester.

The big picture: innovation

In the past year, our Engineering and Product teams have continued to innovate in response to changing customer needs. Our free virtual cards, together with our Bills Manager feature, add to the Bank's money management tools, designed to help people track their spending and provide greater visibility of, and control over, their budgets.

We're in no danger of running out of ideas. Our new Kite Link feature enables trusted friends and family members to send birthday money and other top-ups to a child's Kite debit card through a secure link.

We strive constantly to improve and to focus on creating a delightful user experience combined with maximum utility. This is evident in the super slick opening process for our new Fixed Saver product, and the ability now for customers to add photos to payees, set their own date range in Spending Insights and to see their notification history.

Our engineers and data scientists are continuously helping us build new internal capabilities. We've built from scratch our own in-house customer service communication system that allows us to respond to customers with greater agility. And, to help better combat fraud, we're using data and machine learning for system security, fraud detection and behavioural analytics.

Group Chief Executive Officer's Statement continued

I'm pleased to confirm that the programme of work we undertook to challenge the status quo and build a better business bank with a £100m grant from the Capability and Innovation Fund (CIF) came to a successful conclusion in December 2022, with all of our commitments delivered.

The great opportunity: deep markets

We stand before a vast total addressable market for current accounts in the UK. With a share of around 2.4% in the Retail banking market and of 9.4% in the banking market for SMEs, Starling has a significant runway ahead of us. As we dive further into this deep market, our focus will continue to be not just on numbers, but also on customer engagement.

We've built a bank account for everyone, with an offering that includes joint accounts, Connected cards, the Kite debit card for 6 to 16 year olds and our teen account for 16 and 17 year olds. Starling's offering also includes the ability to open and move seamlessly between US dollar and euro accounts.

We've designed our banking app to be self-serve - no need to go into branches to complete complex transactions. But, when help is needed, we offer 24/7 in-app human help. No ifs, no bots.

On the international scene, we also see a significant total addressable market for our software. Our proprietary technology already enables us to service customers highly efficiently. Our preferred approach with all services, such as card processing, has always been to build them in-house wherever we can. This allows us to rapidly scale products and features entirely in-house. It also reduces our dependence on outside suppliers, gives us greater control and better equips us to respond to market changes and new opportunities.

Crucially, it also presents us with the opportunity to license the technology underlying our core banking platform to new and well-known banking brands in other countries that want to build their own financial capability. That is where Engine by Starling (Engine), our Software-as-a-Service (SaaS) subsidiary, comes in. Engine provides all the components needed to run a highly competitive and cost-effective digital bank. In the year to 31 March 2023, Engine made great strides in the European and Australian markets. Watch this space.

The good friends: partnerships with purpose

Supporting our wider community is important to us. It's been a privilege this year to work with our two new charity partners, Action for Children and Smart Works. We've also been delighted with our Kick On with Starling campaign, run with the Gift of Kit sports agency, through which we have supplied kit to 189 grassroots girls' and women's football clubs across the UK. This followed from Starling's sponsorship of the Women's Euro 2022 football championships, which took place in July 2022 in nine English venues. What a delight to see the women's game becoming so popular again.

In the year to 31 March 2023 we completed our second carbon emissions audit, and reaffirmed our ambitious reduction targets as well as our commitment to offset emissions from our own operations and supply chain. We're actively participating in industry bodies such as the Partnership for Carbon Accounting Financials and are finalising our application to the Science Based Targets initiative (SBTi).

In 2023 we'll be investing in innovative projects through our ongoing carbon offsetting programme that delivers against several of the United Nations' Sustainable Development Goals, supporting both renewable energy initiatives as well as carbon capture projects.

The long view: new ventures

We are a sophisticated financial institution, with deep expertise across our Finance, Treasury and Capital Markets teams.

The asset side of Starling's business comprises personal and SME loans, mortgages, securities and cash. The majority of these assets are considered by the Bank of England as High Quality Liquid Assets, which means that they are able to meet short-term liquidity needs. All this adds up to making Starling a very safe and profitable bank.

We have built a diverse and low-risk loan portfolio, predominantly of mortgages. Despite the turbulent mortgage market this year, our subsidiary Fleet Mortgages completed £1.3bn of specialist buy-to-let mortgages in the year to March 2023.

In the future, Starling plans to draw on its unbeatable user experience to offer our customers UK residential mortgages, enhancing our Retail product offering and generating a reliable source of high quality assets.

Being so well capitalised, we're still on the lookout for good M&A opportunities. But if we can't find a company with the right fit, we'll wait. We do not seek growth at any cost.

The last word: our people

The team at Starling, as always, proved to be our greatest asset as we completed the financial year. I am immensely grateful for their hard work, resilience, motivation, ingenuity and good humour. Thanks to them, and also to the critical input and engagement of our customers, investors and Board, we've built strong momentum and a firm foundation for further growth.

Anne Boden
Chief Executive Officer, May 2023

Starling Bank

High growth, profitable UK digital bank with a **sustainable, low-risk** business model

engine

Taking Starling's **market-leading technology international** through a **SaaS proposition**

Strategic Review and Business Model[1] continued

Starling's proven strategy is driving profitability

"Starling is the case study for how technology can transform banking."

Declan Ferguson
Chief Financial Officer, May 2023

Starling has delivered a 6x increase in profitability

We have ramped up profitability on the foundation of a solid and low-risk balance sheet, resulting in a self-sufficient business model that sets us in a category of one.

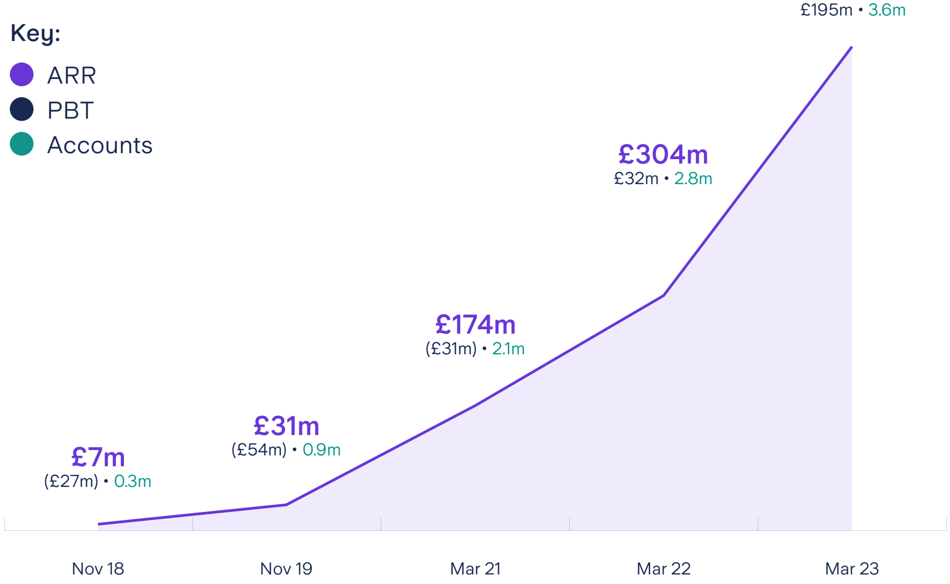
We are the leading digital bank in the UK, holding £10.6bn in deposits, supporting over 3.6m accounts and delivering pre-tax profits of £195m.

We are engineering-led and digitally native. Our ongoing success is underpinned by our unique proprietary technology, giving us a marked advantage over incumbents and other new entrants in driving profitability.

Originally founded to fix a broken banking industry, Starling's strategy has always been focused on placing customers at the core; using technology to support their evolving needs.

With best-in-class financial performance, Starling is the case study for how technology can transform banking.

ARR, PBT and Total Accounts
(November 2018 - March 2023)[2]



1 To measure the performance of the Group, a range of metrics is considered. These metrics include a combination of financial (IFRS and non-IFRS based) and non-financial metrics.

2 Annualised Revenue Rate. Profit Before Tax.

Strategic Review and Business Model continued

A technology-led approach to innovation won us best current account for five years in a row

Our technology is paving the way for continued customer-focused innovation. Since debuting on the app store in 2017, Starling has significantly expanded its proposition through new products and features, all focused on supporting UK customers to lead healthier financial lives.

The ability to innovate and iterate at pace enables us to respond quickly to evolving customer needs. This financial year saw the cost of living crisis force consumers to change their financial habits as they looked for ways to save and to reduce discretionary spending in order to meet the rising cost of bills and household items.

Starling recognised this. First, we released our Bills Manager feature to allow consumers to better manage their day-to-day spending. Then, we released our Fixed Saver account to support those looking to save.

Our customer-focused innovation has been repeatedly recognised by the industry and we are proud to have received several more awards this year, including Banking Brand of the Year (Which?) and Best Current Account (British Bank Awards) in April 2022.

We also consistently top the ranks of independent surveys on Retail and SME overall service quality conducted by the CMA, pulling clear of the UK's Big Five incumbent banks by over 15% in both categories.

Awards

Banking Brand of the Year	2021-2022
Recommended Provider	2021-2022
Best Current Account	2018-2022
Best British Bank	2018-2021
#1 Overall Cust. Experience	Autumn 2022
#1 Customer Trust	Autumn 2022

Overall Service Quality[3]

SME (Feb 2023)

1 =	Starling Bank	82%
6	Lloyds Bank	60%
7	Santander	59%
8	NatWest	56%
10	Barclays	54%
14	HSBC UK	43%

Retail (Feb 2023)

1 =	Starling Bank	81%
6	Barclays	65%
7=	Lloyds Bank	64%
10	NatWest	57%
11=	Santander	56%
11=	HSBC UK	56%

3 Source: CMA data February 2023.

Strategic Review and Business Model continued

We are creating lasting engagement with our customers, with 77.1% of them currently active

The value of the Starling proposition has created a strong sense of engagement among our customers.

Our Active Core Account base continues to grow, with 2.4m of our 3.2m Core Accounts considered active. Once a customer is active, they tend to stay active. These engaged customers spent and received £143.4bn in the year, of which £16.5bn was attributed to transactions through cards.

Our active customers are also entrusting us with more of their money over time. Our deposit base has grown to £10.6bn (16.9% over the last year), while our current account focus has allowed us to maintain a low Cost of Funds.

Total Transactions
FY2022-23

Strategic Review and Business Model continued

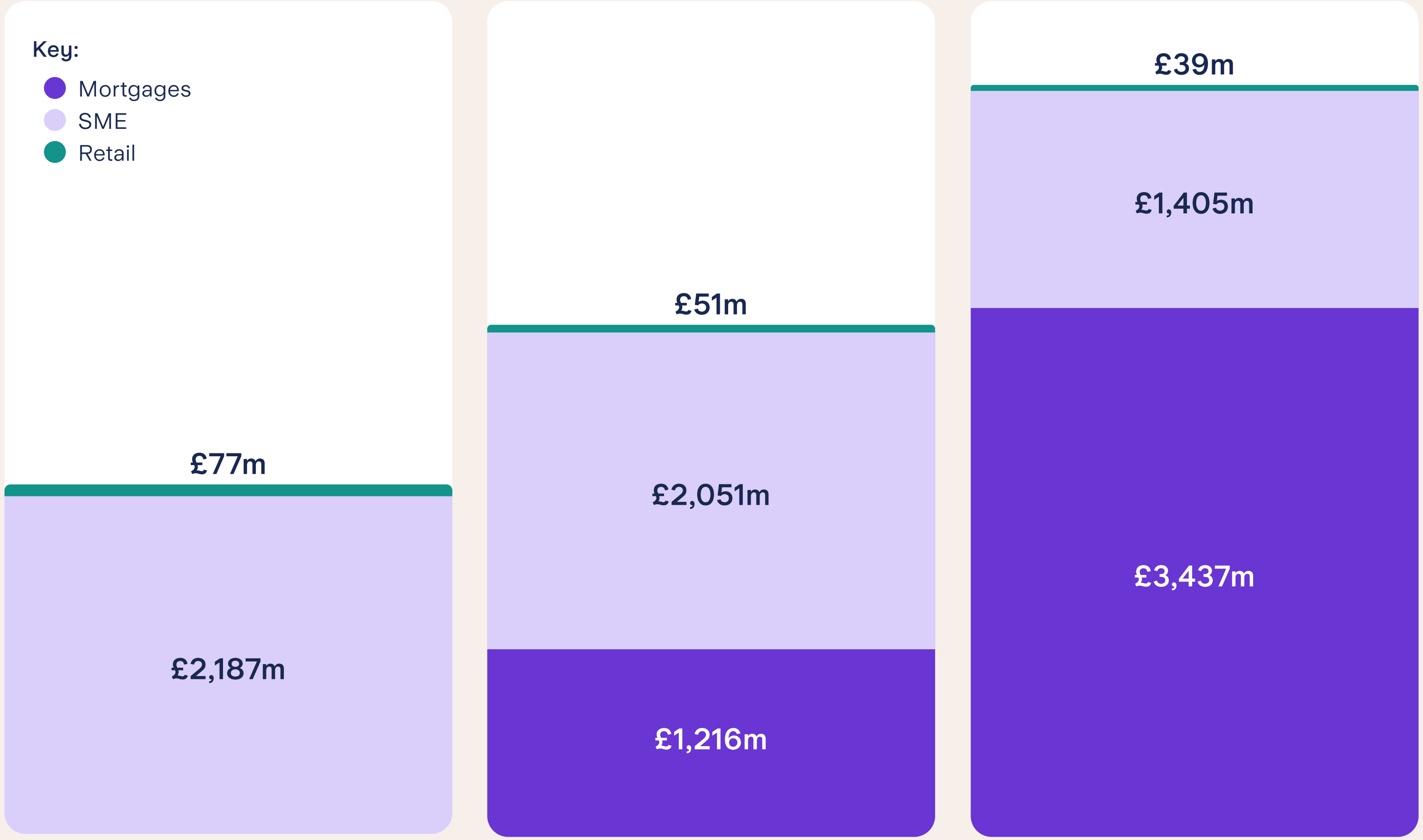
Our robust lending strategy allows us to generate additional returns above the risk-free rate driving our Net Interest Margin (NIM) to 2.72%

We have a well defined and established asset strategy focusing on three pillars:

- **Robust through-the-cycle credit performance –** holding assets that are highly resilient to adverse economic conditions and provide significant loss absorption. In 2023 the Cost of Risk on our lending assets was 0.2%.
- **Low capital intensity –** maximising surplus capital as efficiently as possible.
- **Strong risk-adjusted return on capital –** we assess lending opportunities against risk-adjusted yield above the risk-free rate.

In March 2023, our Loan-to-Deposit Ratio (LDR) stood at 46.2% with total gross lending at £4.9bn (2022: £3.3bn) which has increasingly been driven by new originations from Fleet Mortgages (Fleet) following Starling's successful acquisition of the business in 2021, and supplemented by tactical portfolio purchases.

	NIM	Risk Weight Density	LDR
Mar 21	1.21% [4]	3.4%	38.3%
Mar 22	1.27%	7.3%	36.4%
Mar 23	2.72%	12.5%	46.2%



4 NIM of 1.21% for March 21 is based on the unaudited 12-month period to March 21. NIM for the audited 16-month period to March 21 was 1.26%.

Strategic Review and Business Model continued

2023 saw Starling generate an exceptional £202.86 Average Revenue Per Active Customer (ARPAC)

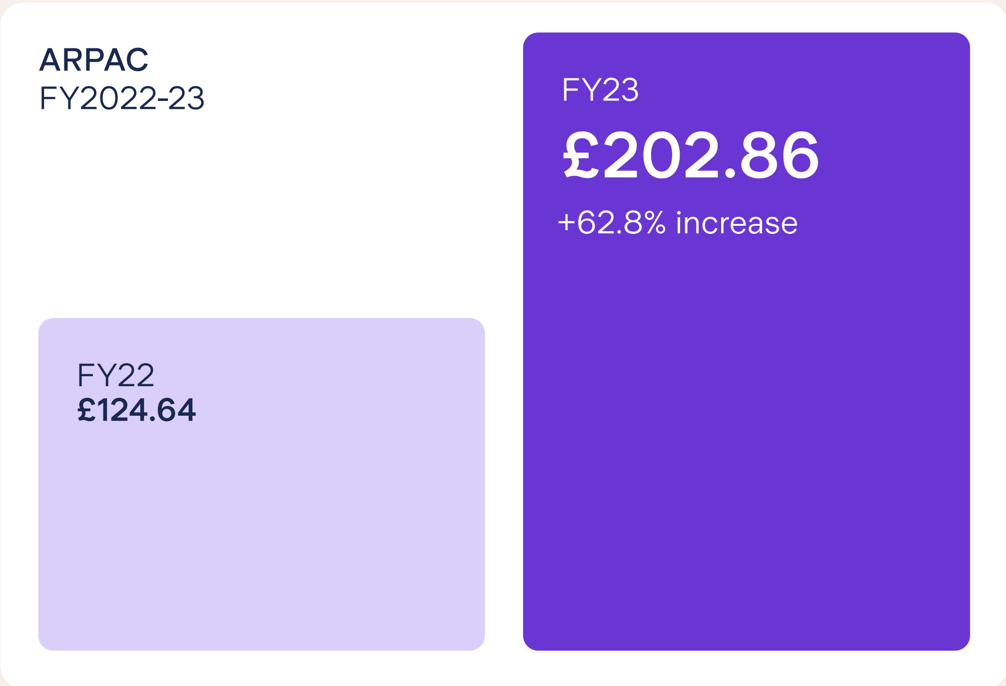
Our asset strategy supports additional revenue generation, enabling us to achieve an exceptional ARPAC of £202.86 for 2023 across our main revenue streams:

- Deploying assets generated from customer deposits in line with our asset strategy, supported by ongoing increases in interest rates; and
- Interchange revenue from card spending.

We have reduced our technology-driven non-staff unit running costs by 15.8% since last year, and will achieve further efficiencies as we continue to scale

We anticipate realising greater operating leverage as we scale. Our proprietary technology already enables us to service customers more efficiently, with an annual Cost to Serve of £38 (including impairment and fraud) per active customer (equating to an 81.6% gross margin). The cost advantage provided by our technology enables us to provide critical features that customers love, such as 24-hour customer service.

We have been progressively reducing our Cost to Serve by bringing outsourced technology services, such as card processing, in-house, consequently lowering our overall account running costs.



Strategic Review and Business Model continued

Highly engaged customers coupled with a defined asset strategy and efficient service model generated £165 of unit contribution

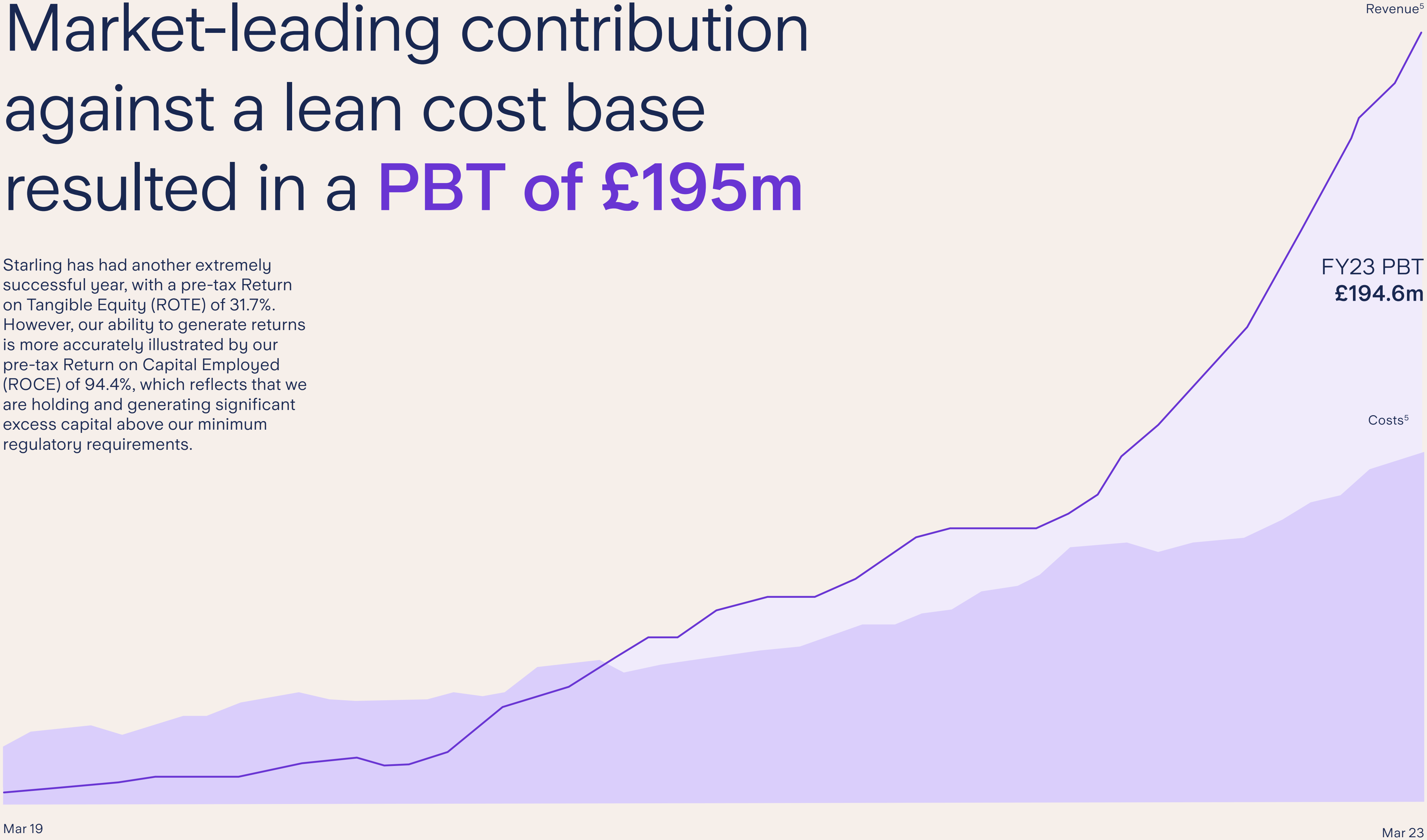
Over the last year, we have observed the compounding effects of increasing unit contribution and customer growth. This, combined with rising rates, has facilitated exceptional Revenue growth, reaching £453m for 2023; a 109.3% year-on-year increase.

	Average Active Core Accounts	×	Unit Contribution	=	Total Contribution
FY22	1.6m	×	£88	=	£144m
	+33%		+88.1%		+150.7%
FY23	2.2m	×	£165	=	£362m

Strategic Review and Business Model continued

Market-leading contribution against a lean cost base resulted in a **PBT of £195m**

Starling has had another extremely successful year, with a pre-tax Return on Tangible Equity (ROTE) of 31.7%. However, our ability to generate returns is more accurately illustrated by our pre-tax Return on Capital Employed (ROCE) of 94.4%, which reflects that we are holding and generating significant excess capital above our minimum regulatory requirements.



5 Graph shows the 3-month averages for Revenue and costs.

Strategic Review and Business Model continued

Starling Bank

We still have significant headroom for growth in both the Retail and SME current account markets

Starling is attracting more and more users by consistently delivering what customers want. In the last 12 months alone, our customer base has grown by 28.1% with a strong product pipeline expected to drive this even further.

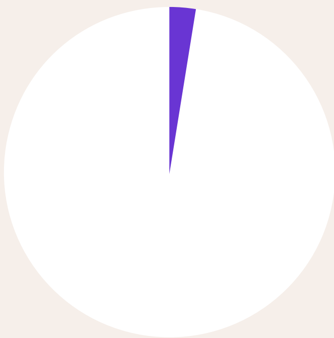
Starling now serves 2.4%[6] of the Retail current account market and 9.4%[7] of the SME current account market in the UK. We have barely scratched the surface of the opportunity within the UK, with significant runway for further growth within our existing business lines and additional upside from targeted M&A. Fundamentally, our strong business model has the potential to generate unrivalled returns at scale.

Starling's SME Market Share

9.4%

Starling's Retail Market Share

2.4%



Declan Ferguson
Chief Financial Officer, May 2023

engine

A further £53bn opportunity lies in licensing our technology through Engine

Worldwide spend on core banking software was £53bn in 2020, with many of the biggest players having to commit significant resources to maintain outdated technology stacks while simultaneously trying to compete with the digital banks.

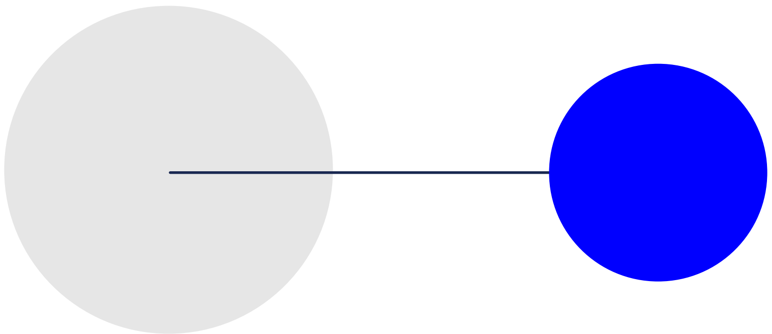
We are uniquely positioned to win market share through Engine, our banking platform SaaS business. Through Engine, other businesses can harness Starling's powerful technology with proven capability to build a successful, profitable and highly scalable digital bank.

Banking and Securities Market Global IT Spend

£466bn+

Spend on Core Banking Software
Engine Total Addressable Market

£53bn



6 Total market based on FCA Strategic Review of Retail Banking Business Models, January 2022.

7 Total market based on Institute of Chartered Accountants in England and Wales (ICAEW) UK business creations and closures (Feb 2023) and gov.uk business population estimates (2022 statistical release).

Financial Review

The Group continues to **build earnings and scale**

"The Group pre-tax profits for the year to 31 March 2023 were £195m, a 6x increase over the prior year."

Declan Ferguson
Chief Financial Officer, May 2023

Financial Highlights
The Group's results are prepared in accordance with International Financial Reporting Standards (IFRS) as detailed in the financial statements starting on page 113.

To measure the performance of the Group, a range of metrics is considered. These include a combination of financial (IFRS and non-IFRS based) and non-financial metrics. Other key performance indicators can be found in the Strategic Review and Business Model on page 7. Further information on how these metrics are calculated can be found on page 202.

Review of the Year
In its second year of profitability, Starling continued to attract new customers by launching more innovative products, reaching more than 3.6m accounts as at 31 March 2023. Starling's deposit base increased to £10.6bn by the year end, acting as a sustainable source of funding for further asset growth.

Metric	2023	2022
Profit Before Tax	£194.6m	£32.1m
Total Revenue	£452.8m	£216.4m
Total Accounts	3.6m	2.8m
ROTE (Pre-tax)	31.7%	9.3%
Cost-to-Income Ratio	50.7%	77.3%
Loan-to-Deposit Ratio	46.2%	36.4%
CET1 Ratio	37.50%	39.96%
Net Interest Margin	2.72%	1.27%

Financial Review continued

During the year, the Group acquired two additional mortgage portfolios, with a combined balance of £984m on acquisition, and further expanded its specialist buy-to-let mortgage lending through Fleet, reaching more than £1.5bn in lending as at 31 March 2023. As a result, mortgages now account for the majority of Starling's lending, while the UK Government-backed lending from the Bounce Back Loan Scheme (BBLS), Coronavirus Business Interruption Loan Scheme (CBILS) and the Recovery Loan Scheme (RLS), continues to reduce.

Starling's ambitious, customer-focused and innovation-driven strategy, combined with a proven scalable business model, enabled the Bank to successfully raise funds once again in the year. The Bank raised £131m in Series D funding in April 2022 from its existing shareholders.

With a growing, diversified balance sheet funded by an increasing deposit base, and aided by higher interest rates, Starling delivered a strong financial performance in the year to 31 March 2023. The Group continued to generate its own capital, achieving positive distributable reserves for the first time, six years after receiving its banking licence.

The Group PBT for the year to 31 March 2023 was £194,596k, a 6x increase over the prior year (2022: £32,052k). The Group Profit After Tax for the year was £142,856k (2022: £44,938k). The Group delivered average ROTE on a pre-tax basis of 31.7% (2022: 9.3%) and on a post-tax basis of 23.3% (2022: 13.1%).

	Group 31 March 2023 £'000	Group 31 March 2022 £'000
Net Interest Income	348,845	121,712
Net Fees and Commissions	74,390	57,730
Other (Expense) / Income	(8,421)	8,624
Total Income	**414,814**	**188,066**
Operating Expenses Net of Grants	(210,227)	(145,378)
Impairment and Charge-offs	(9,991)	(10,636)
Profit Before Taxation[1]	**194,596**	**32,052**
Taxation	(51,740)	12,886
Profit After Taxation	**142,856**	**44,938**

1 Included within PBT of the Group is £17,637k (2022: £4,897k) profit relating to the wholly owned subsidiary Fleet, which was acquired in the previous year.

Total Income increased by 120.6% to £414,814k, attributable to the uplift in Net Interest Income (NII) of 186.6% to £348,845k. Higher interest rates drove significant NIM expansion across the Group's Interest-Earning Assets. Net Fees and Commissions grew by 28.9% to £74,390k as a result of more active customers and greater spend. Other (Expense) / Income decreased by 197.6% to an expense of £8,421k, arising mostly from fair value losses from hedge ineffectiveness and the unwind of fair value adjustments for terminated hedge relationships.

Although the Group's 2023 Cost-to-Income Ratio (CIR) decreased to 50.7% (2022: 77.3%), primarily driven by the Group's strong Total Income growth, Operating Expenses Net of Grants increased by 44.6% to £210,227k, driven by increased staff numbers and other administrative expenses incurred to support the growth in the business.

Total Impairment and Charge-offs decreased during the year by 6.1% to £9,991k, as a result of the reduction in unsecured SME exposures, and a release of SME Post Model Adjustment (PMA) provisioning. This was partially offset by the growth and continued seasoning of the secured mortgage lending. The Impairment Charge for Expected Credit Losses (ECL), which accounted for the majority of the charge, decreased by 12.9% to £8,550k (2022: £9,817k). This reflects the robust credit quality across the Group's portfolios, with low levels of new arrears and limited evidence of deterioration across credit metrics, despite ongoing economic headwinds. The current year Impairment Charge includes the release of prior year SME PMAs raised to reflect the economic uncertainty that followed the COVID-19 pandemic. The release of these PMAs partially offsets any increase in the Impairment Charge resulting from new mortgage originations, portfolio seasoning and any PMAs recognised in respect of the more current economic challenges facing the Group.

As a result of the increase in profitability, the Group incurred a taxation charge for the year, having recognised a tax credit in the prior year. The Group has utilised almost all remaining prior period corporation tax losses in the current year.

Financial Review continued

Statement of Comprehensive Income

The movements in the Statement of Comprehensive Income for the year are analysed in the section below.

Net Interest Income

	Group 31 March 2023 £'000	Group 31 March 2022 £'000
Interest Income	403,103	126,614
Interest Expense	(54,258)	(4,902)
Net Interest Income	**348,845**	**121,712**
Net Interest Margin	2.72%	1.27%
Average Interest-Earning Assets	12,805,532	9,588,924
Average Interest-Earning Liabilities	(12,206,258)	(9,167,169)

Interest Income continues to be the main source of revenue for the Group. During the year, Starling further diversified its lending with the acquisition of two new mortgage portfolios. The Group acquired a £503m portfolio of mostly residential mortgage loans in April 2022 and in September 2022 it acquired a £482m portfolio of mainly buy-to-let mortgages. Through the addition of these two portfolios the Group continued to build further revenue and make best use of surplus capital and liquidity resources. Mortgage yields increased by 162bps to 4.08% compared to 2.46% in the prior year, driven primarily by the Group's hedging strategy that has benefitted significantly from increased interest rates.

In the year ended 31 March 2023, Interest Income grew by 218.4% to £403,103k (2022: £126,614k) as a result of increases in interest rates and the growth in Interest-Earning Assets, both through acquisitions, as noted above, and through Fleet's mortgage originations. The Group increased its placement of excess cash with the Bank of England (BoE) and invested further in High Quality Liquid Assets (HQLA), which further contributed to the growth in Interest Income. These asset classes also benefitted from rising interest rates, with the average investment yield increasing by 107bps to 1.27% (2022: 0.20%).

Interest Expense increased to £54,258k (2022: £4,902k) mostly as a result of the impact of rate increases on the Group's long-term funding from the BoE. Average Interest-Earning Liabilities grew by £3,039m to £12,206m from the prior year, reflecting the growth in both SME and Retail customers and the increase in average SME deposits. Cost of Funds increased at a slower rate than asset yields, increasing by 39bps to 0.44% (2022: 0.05%).

The combination of higher interest rates and a sustained low Cost of Funds supported the increase of NIM to 2.72% (2022: 1.27%). Average Interest-Earning Assets grew 33.5% from the prior year, driven by the change in asset mix as the Group's increased mortgage activity continued to outpace the run-off of the SME UK Government-backed lending. Asset yields increased by 181bps to 3.13% (2022: 1.32%), as a result of higher swap interest resulting from interest rate increases throughout the year. The Group uses interest rate derivatives as part of the interest rate risk management strategy to swap fixed rates for floating and to lock in the spread over funding costs.

Net Fees and Commissions

	Group 31 March 2023 £'000	Group 31 March 2022 £'000
Fees and Commissions Income	112,413	86,041
Fees and Commissions Expense	(38,023)	(28,311)
Net Fees and Commissions	**74,390**	**57,730**

Starling earned the majority of its Fees and Commissions Income from customers' use of debit cards as spending levels improved from the prior year. The Group's Fees and Commissions Income grew by 30.7% to £112,413k (2022: £86,041k) driven by an increase in the average number of Active Core Accounts in the year, which grew by 33.3% to 2.2m, and a higher spend per customer. Additionally, the Group earned fees on its Banking-as-a-Service (BaaS) products and these fees grew by 6.8% to £541k (2022: £506k) during the year.

Fees and Commissions Expense increased by 34.3% to £38,023k (2022: £28,311k), mostly as a result of higher loan servicing costs associated with growth in lending and higher card transaction related expenses driven by customer growth.

Financial Review continued

Other (Expense) / Income

	Group 31 March 2023 £'000	Group 31 March 2022 £'000
Net Fair Value (Loss) / Gains from Hedge Relationships	(7,271)	7,697
Net (Loss) / Gain from Foreign Exchange	(2,007)	25
Other Operating Income	857	902
Other (Expense) / Income	**(8,421)**	**8,624**

During the year, the Group incurred £7,271k losses (2022: £7,697k gain) from its hedging activities. Such losses are driven by interest rate volatility and arise from short term movements in interest rates that are expected to be economically neutral over the lifetime of the hedging activity. The Net Fair Value Loss for the year also includes the unwind of fair value adjustments for terminated hedge relationships and other gains from economic hedges that did not qualify for hedge accounting.

Operating Expenses

	Group 31 March 2023 £'000	Group 31 March 2022 £'000
Staff Costs	136,369	99,137
Other Administrative Expenses	84,305	79,199
Total Operating Expenses	**220,674**	**178,336**
Credit for Eligible Spend on Staff Costs	(8,133)	(15,517)
Credit for Eligible Spend on Other Administrative Expenses	(2,314)	(17,441)
Total Operating Expenses Net of Grants	**210,227**	**145,378**

The Group's CIR was 50.7% (2022: 77.3%), reflecting Starling's focus on cost discipline in times of high income growth. Total Operating Expenses Net of Grants have increased by 44.6% compared to the prior year, as a result of the increase in headcount by 821 to 2,762 and account numbers by 789k to 3.6m.

Other Administrative Expenses include the cost of the Group's award winning customer servicing activities as well as the infrastructure cost of the Group and central functions, including the costs incurred in meeting the commitments agreed with the Banking Competition Remedies (BCR) under the CIF and the Incentivised Switching Scheme (ISS). By December 2022, Starling had fully utilised the £100m CIF grant and had met, on time, the public commitments made when receiving that grant in April 2019. By the end of 2022, Starling had exceeded both its five-year SME customer target of 452k customers and its target market share of over 6.7%.

Staff Costs increased by 37.6% to £136,369k (2022: £99,137k) as a result of the growth in employee numbers of 42.3% to 2,762 (2022: 1,941); a reflection of Starling's investment to support the future growth of the Group. Other Administrative Expenses increased by 6.4% to £84,305k (2022: £79,199k), mostly incurred to support Starling's customer growth, new product propositions and costs associated with headcount growth.

Both Staff Costs and Other Administrative Expenses were partially, but to a lesser extent than the prior year, offset by recognition of the remaining BCR grant funds totalling £10,447k (2022: £32,958k). These funds comprised eligible expenditure under both CIF and ISS schemes for staff costs of £8,133k (2022: £15,517k) and other expenses of £2,314k (2022: £17,441k).

Financial Review continued

Loans and Advances to Customers

	Group 31 March 2023 £'000	Group 31 March 2022 £'000
Mortgage Lending	3,436,789	1,215,887
SME Lending	1,404,301	2,050,761
Retail Lending	32,543	45,031
Gross Carrying Value	**4,873,633**	**3,311,679**
UK Government Guarantee on SME Lending	(1,280,371)	(1,900,652)
Gross Carrying Value Net of UK Government Guarantee	**3,593,262**	**1,411,027**
Mortgage Lending	7,853	3,221
SME Lending	20,181	16,735
Retail Lending	6,496	5,892
Impairment Provision	**34,530**	**25,848**
Mortgage Lending	3,428,936	1,212,666
SME Lending	103,749	133,374
Retail Lending	26,047	39,139
Net Exposure	**3,558,732**	**1,385,179**
% Coverage Before UK Government Guarantee	**0.7%**	**0.8%**
% Coverage After UK Government Guarantee	**1.0%**	**1.8%**

Loans and Advances to Customers

During the year, Loans and Advances to Customers grew by 47.2% to £4,874m (2022: £3,312m) as a direct result of growth in mortgage lending, achieved organically through Fleet originations and through the acquisition of two mortgage books.

By the end of March 2023 mortgages grew to represent 70.5% (2022: 36.7%) of total lending, while UK Government-backed lending reduced to 28.8% (2022: 61.9%), reflecting the Group's continued focus on its asset growth strategy.

The Group's impairment assessment at March 2023 included a revised, more pessimistic economic outlook for the UK. The collapse of Silicon Valley Bank that triggered further banking turmoil reflects, to some extent, the early pain of the banking sector and the wider economy beginning to adjust to the rapid rise in interest rates globally. Against the backdrop of concern over contagion spreading through the wider global banking system, the BoE raised interest rates to 4.25% in late March and indicated that it does not expect the UK economy to enter into a recession later this year. However, the outlook remains challenging in the UK due to ongoing uncertainty regarding the residual impact of the cost of living crisis.

The Group's Impairment Provision continued to be calculated using a probability-weighted view of future economic scenarios, which at 31 March 2023 incorporated a 10.0% weighting to the upside, 37.5% to the base, 37.5% to the downside and 15.0% to the severe scenario, reflecting a weaker UK economic outlook. The weighted economic scenario includes a contraction in Gross Domestic Product (GDP) in 2023 of 0.4%, a peak in unemployment of 4.4% in 2024 and a 4.8% annual House Price Inflation (HPI) fall in 2023.

Additionally, to estimate the final level of the Group's Impairment Provision for the year, the Group applied expert judgement through PMAs to supplement the modelled provision and to account for factors that the models cannot incorporate. The size of the PMAs in the current year was £5,355k, a decrease of 31.0% compared to the prior year. This reduction reflects the release of PMAs that were considered necessary in the prior year as the economy continued to remain fragile as a result of the COVID-19 pandemic and which more than offset the newly raised cost of living PMAs recognised during the current year. In 2023 PMAs represented 15.0% of the total Impairment Provision, a decrease of 48% from the prior year.

The on balance sheet Impairment Provisions for ECL of £34,530k (2022: £25,848k) represent a coverage of 0.7% on the total Gross Carrying Value of Loans before the UK Government guarantee (2022: 0.8%). The decrease in the coverage ratio before the UK Government guarantee is attributable to the change in credit risk exposure towards secured lending. Removing those exposures that benefit from UK Government guarantees increases the coverage ratio to 1.0% (2022: 1.8%).

Financial Review continued

Credit quality improved during the year with the coverage ratio of non-performing lending showing a reduction in stage 2 to 4.0% (2022: 8.4%) while stage 3 saw a marginal increase to 17.7% (2022: 17.5%). Improvement in stage 2 coverage ratio reflects the greater weight of mortgage lending assets in stage 2 exposure in the current year, compared to the greater weight of SME lending in the prior year. The overall lower coverage ratio reflects the lower Impairment Provisions on this secured mortgage lending compared to unsecured SME lending.

Funding

The Group[8] continues to benefit from a liability driven business model that sources deposits from both Retail and SME current account customers in the UK. In order to support its lending to the SME market, Starling has continued to utilise central bank facilities provided by the BoE under the Term Funding Scheme with additional incentives for SMEs (TFSME).

	Group 31 March 2023		Group 31 March 2022	
	£'000	% Funding	£'000	% Funding
Total Customer Deposits	10,551,820	82.3%	9,027,413	79.8%
Deposits from Banks and Central Bank Funding	2,274,306	17.7%	2,283,821	20.2%
Funding	**12,826,126**	**100.0%**	**11,311,234**	**100.0%**

Starling has built a strong Retail and SME deposit franchise and during the year continued to grow the number of Retail and SME customers from across the UK market. In December 2022 the Group introduced its first savings product with the launch of Retail fixed term deposits, which was also rolled out to SMEs in early 2023. As at 31 March 2023, Fixed Term Deposits reached £83m. The funding strategy is not currently expected to change.

Starling maintained its access to central bank funding during the year for liquidity risk management purposes under the TFSME. The central bank funding coincides with the UK Government BBLS and CBILS programmes. The TFSME drawings have residual maturities of between two and five years. Starling continued to pledge its portfolio of BBLS loans as collateral for funding under the TFSME. £707m has been utilised at 31 March 2023 (2022: £1,086m).

At 31 March 2023, the Group's LDR was 46.2% (2022: 36.4%) and the regulatory measure of Net Stable Funding Ratio (NSFR), which measures the stability of funding sources, was 245% (2022: 261%). The Group's key funding ratios are closely monitored by senior management and its NSFR has remained comfortably above the minimum regulatory requirement of 100% throughout the year.

Liquidity

The Group's[9] prudent approach to liquidity management has resulted in it continuing to maintain high levels of liquid assets, as shown in the table below. At 31 March 2023 the regulatory measure of Liquidity Coverage Ratio (LCR) was 438% (2022: 513%). The Group's liquidity levels are closely managed by senior management and have remained comfortably above the minimum regulatory requirements of 100% throughout the year.

	Group 31 March 2023 £'000	Group 31 March 2022 £'000
Cash Balances with BoE Available for Meeting Liabilities	5,526,888	5,656,778
Debt Securities Held for Liquidity Management Purposes[1]	731,468	880,586
HQLA	**6,258,356**	**6,537,364**

1 After LCR weighting.

As at 31 March 2023, the Group's total Debt Securities were £2,480m (2022: £2,307m). Of this, £1,635m (2022: £1,360m) has been pledged as collateral under the BoE's Sterling Monetary Framework (SMF) with the balance being retained for liquidity management purposes.

An Internal Liquidity Adequacy Assessment Process (ILAAP) is prepared on a regular basis by the Group in accordance with the Prudential Regulation Authority's (PRA) regulatory guidance. The Board remains satisfied that the Group at all times maintains liquidity resources that are adequate, both as to the amount and the quality, to ensure that there is no significant risk that the Group cannot meet its liabilities as they fall due.

8 For funding purposes Group is defined as a regulatory solo-consolidated group which includes the Company, Starling Bank Limited and its subsidiary Starling FS Services Limited.

9 For liquidity purposes Group is defined as a regulatory solo-consolidated group which includes the Company, Starling Bank Limited, and its subsidiary Starling FS Services Limited.

Financial Review continued

Capital Resources

During the year, the Group[10] maintained a strong capital position, which was significantly in excess of its minimum capital requirements. The Group's Common Equity Tier 1 (CET1) ratio decreased to 37.50% (2022: 39.96%) as a result of an increase in Risk-Weighted Assets (RWAs) offset by higher CET1 capital. RWAs increased by £900m in the year to £1,895m (2022: £995m) primarily due to new lending activities. The issuance of CET1 compliant capital of £131m in April 2022 and the increased profits during the year grew the overall regulatory capital base. This reduced the impact of higher RWAs on the CET1 ratio. The Group generated £167m of retained earnings that qualify as CET1 capital.

As at 31 March 2023, the Group's Total Capital Requirement (TCR) was £250m giving a headroom over TCR of £460m, excluding the impact of any Pillar 2b buffers. The increase in capital resources and cash deposits placed with the BoE led to an improvement in the Group's UK Leverage Ratio to 9.3% (2022: 7.9%).

	Group 31 March 2023 £'000	Group 31 March 2022 £'000
Total Regulatory Capital	**710,614**	**397,502**
Total Risk-Weighted Assets	**1,894,758**	**994,828**
Shareholders' Equity	**695,277**	**430,424**
CET1 Ratio	37.50%	39.96%
Total Tier 1 Ratio	37.50%	39.96%
UK Leverage Ratio	9.3%	7.9%

The Group monitors capital by applying the Capital Requirements Directive V (CRD V). An Internal Capital Adequacy Assessment Process (ICAAP) is prepared on a regular basis by the Group in accordance with the PRA's regulatory guidance. The Board remains satisfied that the Group has sufficient capital resources to meet its ongoing obligations.

The Group received an updated notice from the BoE Resolution Directorate regarding its requirement to comply with the Minimum Requirement for Own Funds and Eligible Liabilities (MREL). The Group began compliance with the interim MREL from April 2023, being the lower of 18.0% of RWAs or 1.15x its TCR. The end-state MREL will be 1.3x the binding minimum capital requirement and must be met from April 2025.

The regulatory regime for banks continues to evolve. Starling monitors, and will continue to monitor, regulatory announcements and changes. The Group has reviewed the impact of the consultation paper published in November 2022 by the PRA on the implementation of Basel 3.1 and has begun considering its impact within its capital planning.

More detailed disclosure on regulatory capital is included in the Group's Pillar 3 Report available on Starling's website.

Declan Ferguson
Chief Financial Officer, May 2023

10 For capital purposes Group is defined as a regulatory solo-consolidated group which includes the Company, Starling Bank Limited, and its subsidiary Starling FS Services Limited.

Non-financial Information and Non-financial Key Performance Indicators

This section constitutes the Non-financial Information Statement, prepared in order to comply with Sections 414CA and 414CB of the Companies Act 2006. The information is provided by cross-reference:

Reporting Requirements	Reference	Policies and Standards which Govern Starling's Approach
Environmental Matters	Environmental, Social and Governance Review, page 24 Directors' Report, page 41	– Responsible Investment Policy[1]
Employees	Environmental, Social and Governance Review, page 24	– Code of Conduct – Whistleblowing Policy – Compliance Training and Competence Policy – Performance Management Policy – Remuneration Policy – Health and Safety Policy – Equal Opportunities Policy – Anti-harrassment and Bullying Policy
Social Matters	Environmental, Social and Governance Review, page 25	– Ethics Statement – Charity and Community Policy
Respect for Human Rights	Environmental, Social and Governance Review, page 25	– Data Management Policy – Records Management and Data Retention Policy – Policy on Modern Slavery and Human Trafficking
Anti-corruption and Anti-bribery Matters	Environmental, Social and Governance Review, page 25	– Anti-bribery and Corruption Policy – Fraud Risk Policy – Sanctions Policy – Anti-money Laundering Policy – Market Abuse Policy – Conflict of Interest Policy
Description of Business Model	Strategic Review and Business Model, page 7	
Description of Principal Risks and Impact of Business Activity	Risk Report, page 57	
Non-financial Key Performance Indicators	Financial Review, page 16 Strategic Review and Business Model, page 7	

1 At the date of signing the financial statements this policy was in draft.

Environmental, Social and Governance Review

Changing Banking for Good

The Board fully embraces Environmental, Social and Governance (ESG) and has created a Board Committee to make sustainable ethical banking the Group's norm, not the exception.

The Environment

Starling is disrupting banking, not the planet. Starling is a predominantly paperless, branchless bank, run on renewable energy, embracing hybrid working where possible and providing debit cards made from recycled plastic as well as virtual cards that use no materials at all. The Group is determined to play its part in fighting climate change and protecting the environment. Details of the steps taken to do this are laid out below in the Streamlined Energy and Carbon Reporting (SECR) disclosure. While the nature of Starling's business model means it has limited direct impact on the environment, it is focused on working with its suppliers, employees and customers to minimise its broader impact on the climate. Starling is committed to reaching net zero by 2050.

Retrofitting UK homes to reduce energy consumption and to move away from fossil fuels will become a national mission in the coming years. Starling's buy-to-let lending business, Fleet, has already changed its products to encourage owners to improve the energy efficiency of their properties. It has a number of new products in development to more actively support these changes.

Environment and Sustainability Information

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 implement the UK Government's policy on SECR. Starling meets the mandatory reporting criteria for SECR legislation. See page 43 of Directors' Report for disclosures.

Energy and Carbon Progress since Prior Reporting Period

While Starling has an inherently low carbon footprint given the nature of its business model (digital first, no branches), the Group continues to work on its net zero strategy and has implemented a number of measures since its first carbon emissions audit in 2021. After announcing Starling's ambitions and net zero target in November 2021, Starling has committed to reducing emissions by one third by 2030, while annually offsetting emissions from its own operations and supply chain. Starling continues to follow through with this commitment and announced in January 2023 the carbon avoidance and sequestration projects invested in as part of its 2022 offsetting programme. These projects continue to be voted for by Starling employees.

Further to these measures, Starling submitted its commitment to the SBTi in October 2021, and are aiming to submit near-term targets in its application later in 2023.

Starling is an active member of several organisations working in collaboration to tackle climate change, as well as partnering with like-minded businesses to drive forward the necessary changes to reduce climate risk. These include being a founding member of TechZero, being the first UK digital bank to sign up to the Partnership for Carbon Accounting Financials, and being a proud sponsor at the Reset Connect Conference (as part of London Climate Action Week). Starling announced in April 2023 that its partnership with Trillion Trees will result in the planting of 100,000 trees and that it had entered into a new partnership with the National Trust (launched after the end of the financial year), highlighting Starling's continued commitment to working with like-minded partners that promote positive environmental behaviours.

The Group assesses the environmental impact of all new partners and suppliers before it embarks on new projects and relationships. In turn, this encourages its customers and staff to make more mindful choices – for people and for planet.

People

The Group is committed to treating its employees fairly and to making sure that it continues to be a place where people want to work. Starling is an equal opportunities employer and ensures fair and full consideration of applications for employment from people with disabilities. Starling is a Living Wage Employer, committed to paying its employees a wage that meets the cost of living, not just the UK Government minimum.

Starling's founder, Anne Boden, set up the UK's first digital-only bank to disrupt an outdated industry and build a business with equality at its heart. Starling is a signatory of the Women in Finance Charter, a voluntary commitment by HM Treasury and signatory firms to make financial services a more gender balanced industry. Some 43% of the Group's senior management roles are occupied by women. Starling has also signed up to the If Not Now, When? campaign, committing to sustainable and long-term actions on Black inclusion in the workplace.

All managers and employees are invited to take part in mental health and resilience training and there is a team of mental health first aiders. A new manager capability training programme, the Starling Flight Path, covers leadership and unconscious bias, as well as coaching and listening skills.

Environmental, Social and Governance Review continued

Serving Customers

Starling has built a bank to make money management simpler and more rewarding for its customers. It wants to remove the anxiety associated with money by giving customers more control. It believes in treating its customers fairly, being transparent, helping its vulnerable customers, communicating in straightforward language that's easy to understand (and difficult to misinterpret) and not charging hidden fees. Customer outcomes have always been a focus for Starling and it is on track to implement the new Consumer Duty regulations - see page 107 of the Risk Report for more detail.

Starling's dedicated Specialist Support team exists to help vulnerable customers who are in financial difficulty or struggling with other problems, such as bereavement or mental health issues. Starling signposts to mental health charities MIND and Samaritans who can provide a range of help and support for those suffering from mental health challenges. Starling has formed a strategic partnership with end-of-life admin service Settld, which will streamline account administration for those handling the affairs of a customer who has died.

During the year, Starling worked with an accessibility consultancy to assess its website and mobile applications. Additionally, Starling offers British Sign Language as an option for customers when they are required to record a video for identity checks.

Starling's Connected card enables those who rely on carers to do their shopping to pay for the goods securely, while Starling's gambling block allows customers to block all card payments made to gambling or betting merchants with one switch.

Data Privacy

Starling collects and uses customers' information in order to carry out its operations to make sure it does not breach any contracts, to keep Starling and its customers secure, to give people information about products and services and to comply with the law.

Starling is committed to ensuring that its algorithms are fair and free from bias and prejudice. Starling has explored techniques and tools to understand how machine learning model predictions can be explainable, fair and free from bias and prejudice, and is taking steps to ensure these techniques are fully integrated and embedded into its model development processes.

Fraud Prevention

The effective prevention, detection and management of financial crime is a primary regulatory responsibility, as well as being critical to the commercial success of Starling. The Group is committed to operating a robust control environment, ensuring that fraud prevention technology, infrastructure, systems, services, processes and procedures are constantly updated in response to evolving threats and are subjected to the proper governance.

Starling is a very active member of the industry group Stop Scams UK and was among the founder participants of Stop Scams UK's 159 emergency fraud hotline, launched in September 2021.

Supplier Management, Anti-slavery and Trafficking Measures

Starling wants to change banking for good and that means it's committed to acting professionally, fairly and with integrity in all of its business dealings and relationships.

Starling has a zero tolerance stance towards slavery and trafficking. It is committed to protecting human rights and preventing modern slavery and human trafficking by continuously improving its systems and controls.

Starling works with the UK Government, regulators and law enforcement to help identify and tackle modern slavery and human trafficking.

Community and Charity

Starling recognises the vital role that charities and non-profit organisations play in the communities where its employees and customers live and work, and has committed to supporting them in multiple ways.

For the 2022/23 financial year, Starling made £100,000 of larger donations: £60,000 to Action for Children (Charity Number 1097940) and £40,000 to Smart Works (Charity Number 1080609). In addition, Starling paid £60,000 to WWF (Charity Number 1081247) as part of a tree planting marketing partnership.

Starling made the following smaller donations to charities: £2,000 to Hampshire and Isle of Wight Air Ambulance (Charity Number 1106234); £1,000 to We Love Manchester (Charity Number 1173260); £90 to MyBnk (Charity Number 1123791); £60 to Citizens Advice (Charity Number 279057); and £50 to Cardiff Dogs Home (Charity Number 1189079).

Stakeholder and Board Engagement

Section 172(1) Statement

Pursuant to its obligations under Section 414CZA Companies Act 2006, Starling is required to provide information on how the Directors have, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act, including how these matters and the interests of Starling's stakeholders have been taken into account in Board discussions and decision-making. This statement begins on page 40 of the Directors' Report.

Risk Management Overview

01 Risk Approach

Starling defines "risk" as any unexpected future event that could damage the Group's ability to achieve its strategic, financial or overall business objectives. This includes poor customer outcomes, damage to earnings capacity, capital positioning, business reputation, and cash flows.

Risk taking is fundamental to Starling's business profile and therefore prudent risk management, limitation and mitigation form an integral part of the governance structure. The Board has ultimate responsibility for setting the strategy, risk appetite and control framework. The overarching direction of the Board is to take risk consciously and methodically in order to deliver the Group's strategic and business objectives, while demonstrating management of material risks to levels that preserve financial and operational resilience, and which ensure the ongoing confidence of customers, regulators and investors.

While risk cannot be eliminated entirely, the Board considers that as at 31 March 2023, it has in place adequate systems and controls with regard to Starling's controls over financial reporting. As would be expected in an institution that has grown rapidly, Starling's risk management approach is kept under constant review to ensure that it is commensurate with the scale of the business and its growing maturity as an organisation. The Board supports the ongoing development of the risk management capability across the organisation.

02 Risk Culture

The Group has a strong risk culture which starts with the Board setting the tone from the top of the organisation, to influence the risk consciousness of all employees as they conduct their daily activities and pursue business objectives.

The risk culture of the Group aims to ensure that all business functions and employees consider risk management and consult appropriately with the Risk function during the development of new products, procedures, policies and systems.

Starling has introduced a risk culture section into its staff survey tool in order to gain a better understanding of risk awareness, attitudes and culture across the Group as it continues to grow. Respondents to the staff survey continue to demonstrate a strong awareness of risk culture and a positive view of the organisation with regard to risk culture and risk management.

03 Risk 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 the Group delivers a reputable, responsible and sustainable business. The Group recognises that this needs to be achieved through providing an open and transparent environment where well-trained and informed individuals take intelligent risk, subject to clear policies, in pursuit of the Group's business strategy. Starling's growth plans are underpinned by pricing appropriately for risk, ensuring operational resilience, protecting and enhancing its reputation, and focusing on controlling both credit and non-credit losses.

In the pursuit of its strategic objectives, the Group actively accepts and manages certain risks and seeks to avoid or minimise other risks. Starling's risk appetite defines the amount and type of risk that Starling is prepared to accept in pursuit of its strategic objectives and business plan.

Starling also regularly reviews emerging risks which might sit outside of its direct control but which could have a material impact on its risk strategy and business model.

This risk strategy is reviewed and approved by the Board Risk Committee (BRC) on an annual basis to ensure that it remains consistent with the Board's requirements and with Starling's overarching business strategy.

04 Key Developments

Starling has continuously reviewed and evolved its risk management approach since authorisation. The Group continues to refine its Enterprise Risk Management Framework (ERMF), policies and practices in light of experience and changes to the scope and scale of the business.

During the year, a key priority has been to grow Starling's risk resource and capability in line with strategic developments and operational growth. This has meant that the capability and capacity of the Risk function has been significantly enhanced, with a focus on delivering credit capabilities, treasury oversight, compliance and conduct capabilities, financial crime oversight, technology and cyber knowledge. Starling has also completed a significant number of key enhancements in its approach to risk management as part of its ongoing programme to ensure that risk management builds commensurately with the Group's strategic growth. As part of this ongoing programme Starling is reviewing the allocation of responsibilities across the Three Lines of Defence with a particular emphasis on risk and control frameworks being appropriate for the scale of the business.

Risk Management Overview Continued

Principal Risks and Risk Mitigation

Starling has well established risk management policies, processes and frameworks. Principal risks are the highest-level categorisation used to support the identification, assessment, monitoring and mitigation of key risks inherent to the Group's business.

The following sections set out how the Group assesses risk, sets risk appetite and mitigates, manages and controls each risk.

Principal Risk	Key Mitigating Actions
Strategic Risk	– A business model is maintained and regularly updated to identify the financial parameters of the strategic options. This is based on Starling's core purpose, strategic priorities, operating environment and Starling's current and prospective resources and capabilities, including capital, forecasted funding and deposit raising capabilities and expected asset generation capabilities. – Prospective market share, profitability, shareholder value, rates of growth and capital requirements are assessed in the context of the Group's risk capacity and risk appetite. – Starling conducts regular strategic risk assessments of the Board-approved business strategy and plan against the Group's Risk Appetite Statement. This enables the Group to adjust its strategy or to introduce additional mitigants in a timely manner.
Credit Risk	– Credit risk is managed in line with detailed policies covering the approach to lending, underwriting and collections. – Board-approved risk appetite limits are used to monitor key aspects of credit risk and manage concentrations. – The Group carries out regular assurance reviews to review the credit risks in relation to lending and account management, and comprehensive management information is discussed at the Credit Risk Committee (CRC). – An independent Model Validation team exists to review impairment models, and PMAs are discussed at Starling's Impairment Committee (IC).
Liquidity and Funding Risk	– Liquidity and funding risk is managed in line with Board-approved standards. The Group undertakes an annual ILAAP and recovery planning process. – Stress testing is undertaken regularly to understand the impact of different liquidity stresses. – Board-approved risk appetite measures ensure funding and liquidity levels are monitored and managed in accordance with internal and regulatory requirements and in support of the Group's strategy. – The Group holds sufficient liquid assets to cover a severe but plausible market and idiosyncratic stress.
Market Risk	– Market risks (interest rate and foreign exchange (FX) risks) are managed in line with established policies and allocation of capital. – The Group mitigates interest rate risk through executing interest rate derivatives under International Swaps and Derivatives Association (ISDA) contracts with market counterparties to manage the exposure. The majority of swaps are centrally cleared. – FX risk is managed through the execution of spot and forward FX transactions with counterparty banks to reduce open positions and maintain FX risk exposure within risk appetite. – Stress testing is carried out to understand the Group's vulnerability to different changes in interest rates.
Capital Adequacy Risk	– The Group completes an annual ICAAP which formally assesses the impact of severe, yet plausible, stress events to ensure that the appropriate level and type of capital is held. – Board-approved risk appetite measures ensure capital levels are monitored and managed in accordance with internal and regulatory requirements and in support of the Group's strategy. – The Group holds sufficient capital to cover regulatory requirements and internal risk appetite metrics.

Risk Management Overview Continued

Principal Risks and Risk Mitigation

Principal Risk	Key Mitigating Actions
Operational Risk	– The Group has an established Operational Risk Framework and Operational Risk Policy to identify, manage and mitigate operational risks. – Starling's operational resilience self-assessment includes regular testing and enhancements to ensure that it remains within important business service impact tolerances.
Fraud and Financial Crime Risk	– The Group is developing its policies and processes on an ongoing basis to allow for the effective management of fraud and financial crime risk. – Starling continues to review and improve the controls in place to identify fraud or financial crime, whether from new or existing customers' activity, suppliers or staff. Where the Group identifies deficiencies in its controls, it seeks to remediate and improve its control environment to deter fraud or financial crime from reoccurring.
Conduct Risk	– The Group has an overarching Conduct Risk Framework, along with clearly defined policies and processes targeted on delivering good outcomes for its customers and the necessary metrics and management information to deliver oversight. – There is ongoing development of the Group's approach to conduct risk, including providing risk appetite measures to the Executive Risk Committee (ERC) and the Board to ensure that Starling is managing conduct risk and complying with Consumer Duty regulations. – The Group continually assesses evolving conduct regulations, including Consumer Duty and the 'best practice guidance', customer expectations, and product and proposition developments to ensure it continues to have appropriate customer and conduct focus.

Principal Risk	Key Mitigating Actions
Compliance Risk	– Starling manages compliance and regulatory compliance risk under a series of policies and procedures alongside a comprehensive mandatory staff training programme. – The Compliance function undertakes horizon scanning, which enables the Group to keep track of all upcoming regulatory changes and, where appropriate, engage with both external bodies and the relevant business areas. The Compliance function also provides guidance, challenge, support and monitoring to support the delivery of regulatory change and to ensure ongoing compliance.

See Risk Report on page 48 for further details on the ERMF and approach.

Emerging Risks and Uncertainties

See Risk Report on page 109 for an explanation of the emerging risks and uncertainties that Starling has considered during the year.

Governance

Governance

Corporate Governance Statement

For the year ended 31 March 2023, Starling has followed the Wates Corporate Governance Principles for Large Private Companies (Principles). Further detail on how Starling applies the Principles (and did so for the year ended 31 March 2023) is set out below and within the Corporate Governance Statement on Starling's website.

Principle One	Purpose and Leadership
An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	Starling was founded to give people a fairer, smarter and more human alternative to the banks of the past. Starling aims to deliver fast technology, fair service and honest values within the banking industry. Starling's purpose is underpinned by five Starling values: listen, keep it simple, do the right thing, own it and aim for greatness. Starling's values are integrated into all functions of the Group, and reiterated through the Code of Conduct applicable to all employees and agency staff. The Board ensures that the Group operates with a clear sense of purpose and collective vision. Board decisions and the Group's overall strategy fully align with Starling's core values. Group strategy is debated and agreed annually and considered at each stage of Board decision-making. Details of the Group's strategy are set out in the Strategic Report. Board decisions are taken with due regard to all stakeholder interests. The Group's Section 172(1) Statement is set out on pages 40 and 41. Further information on decision-making of the Board and management of conflicts of interest can be found on pages 36 and 37. Details of the Group's Whistleblowing Policy and procedures can be found on page 37.

Principle Two	Board Composition
Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.	The Chair leads the Board and is responsible for its overall effectiveness, promoting open debate and facilitating constructive discussion. The Chair should ensure that all Directors have appropriate information and sufficient time is made available for meaningful discussion. The Board comprises Executive and Non-Executive Directors, the majority of whom are independent Non-Executive Directors. The Directors' biographies are set out on pages 33 to 35. Starling is committed to ensuring that its Board continues to comprise the appropriate skills, knowledge, experience and diversity required to fulfil its roles and responsibilities. The Board Nomination Committee is responsible for leading the process for identifying and nominating candidates for appointment to the Board. Further information on the Board Nomination Committee can be found on page 39. Internal and external evaluations of the effectiveness of the Board and Board Committees are undertaken at regular intervals. Further information on the latest external evaluation, ongoing training and development for Board members and Starling's Board induction programme can be found on page 37.

Principle Three	Director Responsibilities
The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.	The Board has ultimate responsibility for setting the strategy, risk appetite and control framework for the Group. The Board delegates certain aspects of its responsibilities to its Audit, Risk, Remuneration, Nomination and Ethics and Sustainability Committees. Each Board Committee operates under clear terms of reference. The key areas of responsibility of each Board Committee can be found on page 39.

Governance Continued

Corporate Governance Statement

Principle Four	Opportunity and Risk
A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.	The overarching direction of the Board is to take risk consciously and methodically in order to deliver Starling's strategic and business objectives, while demonstrating management of material risks to levels that preserve financial and operational resilience, and which ensure the ongoing confidence of customers, regulators and investors. Starling has adopted the Three Lines of Defence model for risk management. In the First Line of Defence (1LoD), individuals have been appointed to control roles to strengthen the processes for assessment and operational effectiveness of controls. In the Second Line of Defence (2LoD), the Group has expanded its capacity and capability to enhance its risk and control assessment processes. In the Third Line of Defence (3LoD), the Group has established an Internal Audit function which is responsible for providing assurance to the Board Audit Committee on the effectiveness of the controls, risk management and governance processes for the Group. The Board Risk Committee and the Executive Risk Committee ensure that inherent and emerging risks are identified and managed appropriately. Further information on Starling's risk and control framework, risk strategy and Three Lines of Defence model can be found in the Risk Report from page 47.

Principle Five	Remuneration
A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.	The Board Remuneration Committee is responsible for reviewing workforce remuneration and related principles and policies (including the alignment of incentives and rewards and any major changes in employee benefits structures) in line with the culture and broader values of the Group. The Board Remuneration Committee comprises Non-Executive Directors only and is chaired by the Senior Independent Director. Starling is committed to adhering to rules on remuneration, incentives and relevant financial regulatory regimes applicable to a bank. As a result, the Group has in place a risk-focused Remuneration Policy which is consistent with and promotes effective risk management and does not expose the Group to excessive risk. The Remuneration Policy also aligns to the Group's culture, corporate governance principles, performance, control environment and legal and regulatory requirements. The Remuneration Policy applies to all employees and Directors of the Group. It is reviewed annually to take account of any changes to policies, practices and procedures, and aims to strike a balance between short and long-term business performance. Where appropriate the Group seeks external advice to support decision-making and inform the Board prior to approval of the Remuneration Policy. Further information on the role of the Board Remuneration Committee can be found on page 39.

Principle Six	Stakeholder Relationships and Engagement
Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	Starling's key stakeholders are its people, customers and suppliers, communities and environment, shareholders and regulatory bodies. The Board recognises the importance of engaging with each of these groups to help inform its strategy and decision-making. Regular updates to the Board on people, ESG initiatives, brand sentiment and media activity assist the Board in understanding the impacts of the Group's policies and practices. Further details on how the Board has had regard to stakeholder relationships and engagement can be found in the Section 172(1) Statement on pages 40 and 41.

Governance Continued

Starling Board

The composition of the Board brings an effective balance of skills, knowledge, experience and diversity to deliver on Starling's strategic objectives. All Directors have a detailed understanding of the market and regulatory frameworks in which Starling operates and, with varied professional backgrounds, Starling's Non-Executive Directors bring fresh and diverse perspectives to Board review and decision-making. The skills, experience and committee membership of the Directors as at 31 March 2023 are summarised below. Board changes during the year, and up to the date of this report, are detailed on page 42.

David Sproul

Chair of the Board

Skills and Experience

David has more than 30 years' experience in key leadership roles across the financial and professional services sector. He brings extensive experience of strategy, risk management, M&A and organisational and operational transformation. David served as Global Deputy Chief Executive of Deloitte following his 8 year term as Chief Executive & Senior Partner of Deloitte UK and North West Europe. During this time, he led the firm's globalisation, transformation of its market positioning to be a leading professional services firm and drove changes to create a more inclusive culture, focused on opportunity for all. David is a director of Safanad and BusinessLDN and a senior adviser to Bridgepoint Group.

Committee Memberships

David is Chair of the Board Nomination Committee and a member of the Board Remuneration Committee.

Appointed

June 2021

Tracy Clarke

Senior Independent Director

Skills and Experience

Tracy brings considerable international banking and financial services experience to the Board, following a 35 year career with Standard Chartered Bank, where she held a portfolio of leadership, compliance, human resources, corporate affairs, brand and marketing positions, culminating in the role of Chief Executive Officer, Europe and Americas and Global Chief Executive Officer, Private Banking. She is a director of TP ICAP, sits on the board of England Netball and Acin, is chair of SchoolOnline, an online learning platform and is a director, chair of the board remuneration committee and member of the board audit committee of Haleon, a consumer healthcare company.

Committee Memberships

Tracy is Chair of the Board Remuneration Committee and a member of the Board Nomination Committee and the Board Risk Committee.

Appointed

May 2021

Carolyn Clarke

Independent Non-Executive Director

Skills and Experience

Carolyn is an expert in the fields of risk, assurance, control, compliance and conduct. She has held a number of senior executive and board positions, including most recently as Head of Audit, Risk and Control at Centrica, and prior to that, a 20 year career at PwC. Carolyn specialises in the impact of people, behaviours and culture on organisational risks and outcomes. Carolyn is the Vice President of the Chartered Institute of Internal Auditors. She chairs the audit committee for two green technology growth companies, Elcogen Group and Agilyx.

Committee Memberships

Carolyn is Chair of both the Board Audit Committee and the Board Ethics and Sustainability Committee, and a member of the Board Risk Committee.

Appointed

October 2020

Governance continued

Starling Board

Faisal Galaria

Independent Non-Executive Director

Skills and Experience

Faisal has over 25 years' experience growing and leading teams in global consumer technology companies including Spotify, Kayak and Skype. He has extensive experience of strategy, international growth and digital transformation and has been involved in a number of tech and Web3 IPOs in the UK and the US. In 2022 Faisal stepped down as Chief Executive Officer of Blippar, one of the UK's first tech unicorns. In addition to his executive roles, he previously served as Senior Partner at Alvarez & Marsal where he led the Digital and Media practices across EMEA. Faisal sits on the advisory board of Imperial College Business School.

Committee Memberships

Faisal is a member of the Board Ethics and Sustainability Committee.

Appointed

June 2022

Ian Jenkins

Independent Non-Executive Director

Skills and Experience

With over 35 years' experience, Ian has held a range of chief financial officer, chief risk officer and chief operating officer roles within banking and financial services, including at Diem Networks, HSBC, Santander and Credit Suisse. He is a chartered accountant and brings varied finance, risk, operations and strategy expertise to the Board.

Committee Memberships

Ian is a member of the Board Audit Committee and the Board Risk Committee.

Appointed

October 2021

Marian Martin

Independent Non-Executive Director

Skills and Experience

Marian is a chartered accountant with a background in risk management. As an executive she was lately Chief Risk Officer of Virgin Money during a period of significant growth and strategic development, including the company's listing on the London Stock Exchange. In addition to her role at Starling, she is a non-executive director and chair of the board risk committee of Castle Trust and a non-executive director and chair of the board audit and risk committee of PPRO Holding.

Committee Memberships

Marian is Chair of the Board Risk Committee and a member of the Board Audit Committee, the Board Nomination Committee and the Board Ethics and Sustainability Committee.

Appointed

June 2019

Lazaro Campos

Non-Executive Director

Skills and Experience

Lazaro is a fintech investor and entrepreneur with more than 30 years' experience in global finance. Until 2012, he served as Chief Executive Officer of SWIFT, the global banking network, where he led its re-positioning as a commercially driven, innovative and customer-centric cooperative. Lazaro is also co-founder of FinTechStage, which specialises in innovative ecosystem builds for global financial services organisations.

Committee Memberships

Lazaro is a member of the Board Remuneration Committee and the Board Nomination Committee.

Appointed

June 2018

Governance continued

Starling Board

Marcus Traill

Non-Executive Director

Skills and Experience

Marcus began his career as an analyst at Bank of New Zealand and Owens Group prior to joining the McPike Global Family Office (MGFO) and QuantRes. He co-led the Private Investments division of the MGFO, played key roles in the trading of various financial markets quantitative trading strategies for QuantRes and was responsible for managing the operations of the group. Marcus is a partner at Altered Capital, a venture capital and private equity fund manager.

Committee Memberships

Marcus is a member of the Board Risk Committee, the Board Audit Committee and the Board Remuneration Committee.

Appointed

December 2015

Anne Boden MBE

Chief Executive Officer
Executive Director

Skills and Experience

Anne founded Starling in 2014 after a distinguished global career in financial services. Her previous roles include Chief Operating Officer of Allied Irish Banks, Head of EMEA, Global Transaction Banking, for RBS and Executive Vice President Europe, Transaction Banking, for ABN AMRO. A computer scientist by training, Anne is a Fellow of the Royal Chartered Institute of IT and joined the Prime Minister's Business Council and the Mayor of London's Business Advisory Board in February 2022. She was awarded an MBE for services to financial technology in 2018.

Committee Memberships

Anne is Chair of the Executive Committee

Appointed

June 2014

Declan Ferguson

Chief Financial Officer
Executive Director

Skills and Experience

Declan joined Starling in 2017 and was appointed Chief Financial Officer in 2022. He is responsible for the Bank's financial operations and management, including in respect of capital and liquidity. Declan also has responsibility for the Bank's strategic and corporate development activity, capital raising and longer term financial and business planning. Prior to Starling, he trained as a chartered accountant at PwC where he led engagements on the turnaround, restructuring and sale of European banks, large loan portfolios and other credit-related transactions involving UK and European banks.

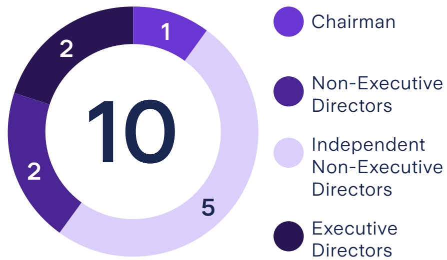
Committee Memberships

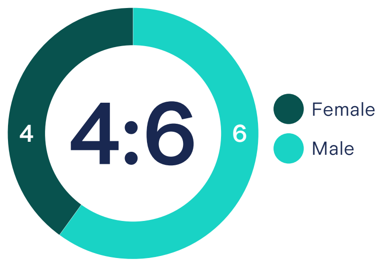
Declan is a member of the Executive Committee.

Appointed

July 2022

The charts below show the composition of the Board and balance of the Board by gender diversity (as at 31 March 2023).





Corporate Governance Review

Role of the Board

The Board is the principal decision-making body for all significant matters affecting the Group and is accountable to shareholders for creating and delivering long-term sustainable value. Having regard to the interests of all stakeholders, the Directors drive informed, collaborative and accountable decision-making and provide constructive challenge, advice and support to the Executive. The Board is responsible for promoting the highest standards of corporate governance and ensuring Starling has the necessary resources, processes, controls and culture in place to deliver on its values and strategic objectives, in order to promote long-term sustainable growth and provide maximum protection for consumers.

Board Responsibilities

A clear division of responsibilities exists between the roles of the Chair of the Board (Chair) and the Chief Executive Officer (CEO). It is the responsibility of the Chair to lead and manage the work of the Board. Responsibility for the Group's Executive leadership and day-to-day management of the Group's business is delegated to the CEO. The CEO is supported in her role by the Executive. The Senior Independent Director acts as an experienced sounding board for the Chair and a trusted intermediary for other Board members.

Company Secretary

The Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures and applicable rules are observed. Supported by the Starling Secretariat, the Company Secretary works closely with the Chair, the CEO, the chairs of the Board Committees and members of the Executive to set meeting agendas and to ensure the timely presentation of high-quality information to the Board and its committees. All Directors have the authority to propose items for discussion at Board meetings.

Board Activities

In order to discharge its duties effectively, the Board meets monthly. Additional meetings are held as required. The Board is kept informed of key business developments throughout the year through regular updates from the Executive Directors. In addition, senior Executives regularly attend Board meetings to provide updates and insights on specific discussion items. This facilitates Non-Executive Directors' engagement with the Executive and drives constructive challenge to senior management thinking.

During the year ended 31 March 2023, the Board's key activities included:

- Debating, agreeing and implementing the Group's strategic priorities for 2023 and determining the nature and extent of the risks the Group is willing to take in achieving these objectives;
- Evaluating targeted M&A opportunities and monitoring progress against key strategic milestones;
- Inviting members of the Executive or external advisers to deliver deep-dive presentations on matters considered key to the long-term sustainable success of the Group;
- Monitoring the Group's overall risk profile and emerging risk themes in view of macroeconomic and geopolitical environment developments, including rising interest rates and inflation and the increased cost of living;
- Monitoring key performance indicators including financial performance, capital forecasting, organic lending and forward flow portfolio performance;
- Discussing regulatory developments (including Consumer Duty regulations readiness), technology and product, operational resilience, people, resourcing, customer experience and consumer protections;
- Approving the Group's annual budget, business plan, ICAAP, ILAAP, Recovery Plan, resolution framework and Solvent Wind Down Plan as well as the consolidated financial statements for the period ended 31 March 2022; and
- Reviewing the effectiveness of the Group's system of internal controls, monitoring the Group's risk management approach and capabilities and assessing outputs from Second and Third Lines of Defence assurance work streams to drive change within the organisation.

Board Committees continued

Board Effectiveness

In 2022, the Board facilitated an external evaluation of the Board and Board Committees. The objectives of the review were to (i) evaluate overall effectiveness; (ii) provide clarity about the strengths and weaknesses of the Board; and (iii) to develop a clear set of priorities for improving the effectiveness of how the Board works in the context of Starling's purpose and strategy.

The evaluation focused on three key elements: governance (roles / processes), business (strategy / culture) and behaviour (beliefs / values) within the context of Board decision-making, oversight and administration. Key recommendations were discussed with the Chair and the CEO, followed by a collective discussion with the Board centred on what was already working and suggested improvements. A set of priorities were agreed for implementation. To support effectiveness going forward, Starling continues to strive for simplicity and clear focus in Board agendas, papers and presentations, building on the progress made in previous years.

Director Induction

Based on their background, knowledge and skill set, new Directors receive a comprehensive and tailored induction following appointment to the Board. Through a combination of technical briefings and introductory meetings, the Board induction programme is designed to broaden Directors' understanding of the Group's business operations, strategic priorities, people, culture and customers. Directors are invited to provide feedback on the programme they receive to ensure it is useful and well targeted.

Training and Development

All Directors receive ongoing training and development to enhance their roles as Board and Board Committee members. Starling's Non-Executive Directors engage fully in this process. Throughout the year, the Directors are kept apprised of their legal and regulatory duties. They participate in strategic deep-dive discussions with the Executive and receive detailed briefings from external advisors on new and emerging regulatory, legislative and market developments.

Independence

The Board annually reviews the independence of its Non-Executive Directors, taking account the nature of their external appointments, the market value of Company shareholdings, any potential conflicts of interest and length of service. Aside from Marcus Traill and Lazaro Campos (who are appointed by a Company investor), the Board has determined that all Non-Executive Directors (including the Chair) are independent in character and judgement, particularly in their thinking and challenge of management. To minimise potential conflicts, Directors are required to inform the Chair of any updates or changes to their external roles, including an indication of the expected time commitment for any new external role to assess whether the Director will continue to have sufficient time to adequately discharge their duties as a Director.

Conflicts of Interest

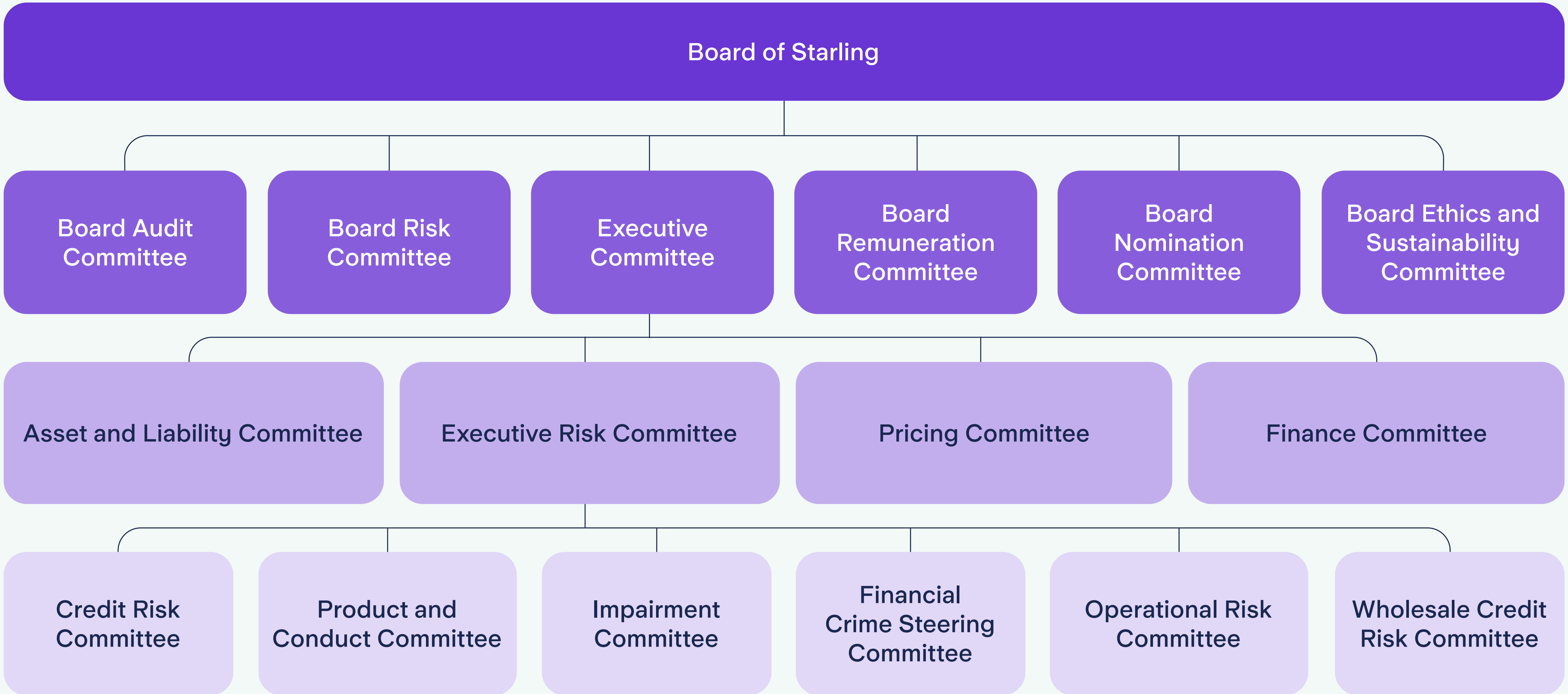
The Board has procedures in place for the disclosure of conflicts of interest. The Directors are aware of their responsibility to avoid a situation whereby they have an actual or potential conflict of interest and the requirement to inform the Chair, the CEO and the Company Secretary of any change in their situation. A procedure is in place for the Board to authorise conflict situations, should they arise, in accordance with the Companies Act and the Group's articles of association.

In line with Starling's Conflict of Interest Policy, Starling will only tolerate conflicts of interest where the risk can be monitored, measured and managed within the Group's risk appetite, with particular focus on its conduct risk appetite and the need to ensure Starling's customers are treated fairly. Board members are screened for conflicts of interest and relationships with companies that do not meet Starling's values and ethics. The Company Secretary is responsible for keeping appropriate records, including the scope of any authorisations granted by the Board. The Board undertakes an annual review of conflict authorisations.

Whistleblowing

Starling is committed to conducting its business with honesty and integrity in an open and transparent manner where all employees feel they are able to report their concerns. Starling's Whistleblowing Policy details a robust process to enable concerns of wrongdoing to be escalated in a confidential manner so that necessary investigations, remediation actions and reporting can take place. Starling has partnered with a charity helpline and developed an anonymised solution for employees to electronically raise any whistleblowing concerns. The Chair of the Board Audit Committee is the Whistleblowing Champion for Starling.

Governance Structure Chart



Board Committees

Board Committees

To ensure it maintains an appropriate level of oversight, the Board has delegated certain roles and responsibilities to its five principal committees: Audit, Risk, Remuneration, Nomination and Ethics and Sustainability. The Board conducts an annual review of the terms of reference and membership of each of these committees, which consist primarily of independent Non-Executive Directors. Board Committee Chairs are responsible for updating the Board on outcomes and actions arising from Board Committee meetings.

Executive Committees

Starling's Executive Committee (EXCO) structure aligns to best practice and regulatory requirements for an organisation of its size. Executive responsibilities and processes are designed to ensure proper and effective management and oversight of Starling's affairs. Governance policies and EXCO's terms of reference are reviewed annually in accordance with the demands of the business, changing regulation and emerging best practice. For further details of the role of the EXCO and its principal sub-committees please refer to the Risk Report from page 47. The sub-committees' members have appropriate knowledge, industry experience and expertise to make decisions and report back to the EXCO.

Board Committee	Key Responsibilities
Board Audit Committee	Ensuring effective governance of the Group's financial reporting, including monitoring the integrity, clarity and completeness of financial disclosures, reporting on significant financial reporting issues and judgements and reviewing and approving changes to Group accounting policies. Overseeing the implementation and effectiveness of the Group's Internal and External Audit functions (including their programmes of work) and reviewing the adequacy and effectiveness of the Group's operational controls in mitigating risk, through an independent assurance lens.
Board Risk Committee	Recommending appropriate risk appetite and tolerances to the Board and overseeing effective risk management across the organisation. Ensuring the Group's risk policies, frameworks, capabilities and controls are recognised and embedded, and reflected in a robust and supportive risk culture. Ensuring the Group's principal risks (including key and emerging risks) are properly identified, assessed and mitigated on an ongoing basis.
Board Remuneration Committee	Overseeing the Group's remuneration system design and ensuring remuneration is appropriate and consistent with Starling's culture, long-term business goals, risk appetite, corporate governance principles for banks, performance and control environment, as well as with applicable legal and regulatory requirements.
Board Nomination Committee	Reviewing the structure, size, composition, skills, knowledge, experience and diversity of the Board and ensuring formal, rigorous and transparent procedures exist for the appointment of new Directors. In conjunction with the Board, giving full consideration to orderly succession planning for Directors (Executive and Non-Executive) and other senior management roles below Board level.
Board Ethics and Sustainability Committee	Providing oversight and advice to the Board in relation to current and potential future risk exposures of the Group arising from its ethics, environmental and societal responsibilities.

Directors' Report

Section 172(1) Statement

The following information sets out the Group's Section 172(1) Statement and how the Directors have had regard to those matters. At the core of Starling's value system is a belief in transparency, fairness and inclusion and this means actively listening.

Starling's key stakeholders are its people, customers, suppliers, communities, shareholders and regulatory bodies. In order to promote the long-term success of Starling, the Board recognises the importance of engaging with these groups to help inform its strategy and decision-making.

As part of every Board agenda, Section 172(1) Statement obligations are set out as a helpful reminder of the Directors' duties. Meaningful engagement is dynamic and the Board continues to review and challenge how it can improve on its engagement with customers, employees and other key stakeholders.

Key Stakeholders	Section 172(1) Statement
People	Starling is committed to providing a workplace culture that reflects its values of fairness, equity, inclusion, compassion and non-discrimination and adopts a best practice approach with regard to employee engagement. The Board holds an annual strategy day which provides an opportunity for Board members to engage with Starling's Executive to shape strategy. Board decisions are taken with due regard to employee interests and the Board receives quarterly updates on the results of employee surveys reviewing workplace culture from an employee's perspective. Virtual employee Q&A sessions are held weekly with a range of internal speakers including the CEO and occasionally the Chair and other Board members. Employees are encouraged to submit questions for these sessions (including anonymously), responses to which are shared across the organisation. The Board also attends Starling's offices regularly and interacts with employees. As part of its employee benefits package, Starling provides confidential helpline services and mindfulness resources to support employees' mental health and wellbeing. Starling is an equal opportunities employer and ensures fair and full consideration of applications for employment from all people regardless of their age, gender, ethnicity, race or disability. Starling provides appropriate and relevant support, including any adaptations required so that employees with disabilities can fully participate in the workplace and in their careers. The Chief People Officer regularly presents to the Board and Board Ethics and Sustainability Committee on a range of matters including headcount, attrition, employee tenure and the Group's gender and ethnicity profile.
Customers and Suppliers	Starling grew out of a desire to create a new kind of bank and to make banking more inclusive by putting customer needs first. Starling has won numerous banking awards. Being recognised by its customers makes Starling very proud. At the core of Starling's value system is a belief in transparency, fairness and inclusion and this means actively listening to customers. The Board receives regular updates on consumer protection and customer safeguarding initiatives and is ultimately responsible for ensuring Starling has appropriate resources, processes and controls in place to protect customers from financial crime. The Board receives monthly reporting on customer complaint volumes as well as regular updates on implementation of the Consumer Duty regulations ahead of the FCA 31 July 2023 deadline. The Board has also appointed a Consumer Duty Regulations Board Champion. Starling is committed to developing business relationships with high quality suppliers and partners who themselves are committed to operating under ethical and environmental standards equivalent to Starling's own, including in the fair treatment of customers, employees and other stakeholders. Maintaining high standards of business conduct is key to Starling, which publicly reports on its payment practices and performance.

Directors' Report

Section 172(1) Statement

Key Stakeholders	Section 172(1) Statement
Communities and Environment	The Board recognises the importance of understanding how Starling's business impacts the communities it serves and of contributing to the community through volunteering and charitable giving. Starling recently announced a new partnership with the National Trust aimed at improving access to nature and conserving natural habitats for all to enjoy now and in the future. Starling also encourages employees to volunteer within the community and offers two days' paid leave per year to do so. The Board Ethics and Sustainability Committee oversees the impact of Starling's operations on the community and environment and reports to the Board on Starling's ethics, environmental and societal responsibilities. Starling has also established the Green Shoots Ambassadors, an employee-led forum established to share ideas and support colleagues on combating climate change. Further information on how we engage with the environment is set out in the section called Environmental, Social and Governance Review on page 24.
Shareholders	Starling values the trust, confidence and views of all of its investors. Significant shareholders are represented on the Board and/or are entitled to nominate an observer to attend and speak at Board meetings.
Regulatory Bodies	Starling Bank Limited is authorised by the PRA and regulated by the FCA and the PRA. The Board and the Executive maintain strong, open and transparent relationships with regulators, allowing the Board to ensure Starling's strategic aims and all decision making aligns with the requirements of these important stakeholders and those of its customers. On an annual basis, the Board invites representatives from the PRA to present first-hand their feedback and observations to the Board.

Directors' Report continued

Other Statutory Information

Set out below is additional statutory information that Starling is required to disclose in its Directors' Report. Some of the matters normally included in the Directors' Report have instead been included in the Strategic Report on pages 3 to 29 as the Board considers these to be of strategic importance. An indication of likely future developments may be found in the Strategic Report.

Directors

Details of the Directors as at 31 March 2023, together with their biographies, can be found on page 33 to 35. The following Director changes occurred during the year:

Faisal Galaria	Appointed 1 June 2022
Declan Ferguson	Appointed 13 July 2022
Tony Ellingham	Resigned 13 July 2022

Results and Dividends

The results of the Group for the year ended 31 March 2023, are shown on pages 113 to 200. The Directors do not propose the payment of any dividend for the year (2022: nil).

Directors' Indemnities

Qualifying third party indemnity provisions (as defined in Section 234 of the Companies Act) were in force during the year and remain in force at the date of this report, for the benefit of the Directors in relation to certain losses and liabilities which they may incur when acting in their capacity as a Director or officer of any Group company.

The Group arranges Directors' and Officers' liability insurance to indemnify the Directors against loss arising from any claim made against them jointly or severally for any failure of duty of care in their capacity as a Director. Neither the indemnity nor the insurance provides any protection in the event of a Director being found to have acted fraudulently or dishonestly in respect of the Bank or its subsidiaries.

Donations

During the year the Group made charitable donations amounting to £103,200 (2022: £76,050). In addition, Starling paid £60,000 to WWF (Charity Number: 1081247) as part of a tree-planting marketing partnership. Details of these donations are set out on page 25 of the Strategic Report. No political donations were made during the year (2022: nil).

Research and Development

Starling is dedicated to the research and development of innovative digital banking and the enhancement of its leading technology platform. The research and development costs recognised for the year ended 31 March 2023 can be found in note 15 and 24 of the financial statements.

Financial Instruments

Starling enters into numerous material financial instruments as part of its business operations, further details of which are set out in note 30 of the financial statements. Details of Starling's ERMF and practices for managing the principal risks of the business are set out from page 57 of the Risk Report.

Other Statutory Information continued

Streamlined Energy and Carbon Reporting

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 implement the UK Government's policy on SECR. Starling Bank meets the mandatory reporting criteria for SECR legislation. An independent third party, Orbis Advisory, has worked with Starling to provide a comprehensive SECR compliance service, covering the financial year 1 April 2022 to 31 March 2023.

Reporting has been conducted in accordance with methodology set out in the Greenhouse Gas (GHG) Protocol Corporate Standard, and using the Department for Business, Energy, and Industrial Strategy's emissions factors to calculate emissions. As part of their SECR compliance service, and assisting Starling in its journey to becoming a net-zero business, Orbis Advisory completed a calculation of its SECR energy consumption and GHG emissions.

The table below presents Starling's Scope 1 and Scope 2 emissions for the financial period 1 April 2022 to 31 March 2023. The only relevant Scope 1 activity was the combustion of natural gas in company-controlled offices. There were no refrigerant (f-gas) top ups at these offices for the reporting year. The only relevant Scope 2 activity was the consumption of electricity in company-controlled offices. Starling has reported Scope 2 emissions using both location and market-based calculation methodologies. As all offices run on renewable electricity, market-based Scope 2 emissions are nil.

Directors' Report continued

Other Statutory Information

Carbon and Energy Efficiency Measures

Starling has used the data collated to support its ongoing strategy to become a net-zero business. Starling is determined to do its part to fight climate change and protect the environment. As a branchless, digital and largely paperless bank, built and hosted in the cloud, it endeavours to protect the natural environment through energy and resource efficiency as well as recycling and waste management. The Group's offices in London, Southampton, Cardiff and Dublin use sustainable energy suppliers and there is a Cycle to Work scheme on offer, which encourages employees to get a new bike through 'salary sacrifice'. When sourcing office space, such as the new London office and the recently-opened Manchester office, sustainability is one of the core criteria and is one of the top priority requirements. Similarly, when appointing new suppliers of goods and services an alignment of values in relation to the environment is a key consideration.

Starling continues to roll out its decarbonisation strategy, which addresses its emissions in both its operations and value chain, while continuing to fulfil its commitments as a founding member of TechZero.

For its 2022 offsetting programme, Starling partnered with Patch, Ecologi and Carbon Footprint to support seven carbon offset projects certified to Gold Standard or the Verified Carbon Standard, two independent offset certification programmes. The projects it supported are: fighting deforestation and planting trees in Zimbabwe, Congo and Uganda; enabling clean cooking in Tanzania; and developing renewable energy in Kenya, India and Bulgaria.

Starling's total emissions associated with energy consumption (Scope 1 and Scope 2) are:

	31 March 2023	31 March 2022
Total Energy Consumption used to Calculate Carbon Emissions (kWh)	**839,486**	591,269
Emissions from Combustion of Natural Gas in Buildings (tCO2e) (Scope 1)	**23**	12
Emissions from Purchased Electricity in Buildings (Location-based) (tCO2e) (Scope 2)	**138**	112
Emissions from Purchased Electricity in Buildings (Market-based) (tCO2e) (Scope 2)	**–**	–
F-Gas Emissions	**–**	–
Total Organisational Emissions (Location-based) (tCO2e)	**161**	124
Carbon Intensity Ratio - Carbon Emissions per Full-time Employee (Location-based) (kgCO2e/Full-time Employee)	**62**	68

Progress Since the Prior Reporting Period

The year-on-year increase in energy consumption is driven by two factors: (i) Starling opened a new London office in August 2022 which is larger than the previous London office; and (ii) occupancy rates across all offices have increased in the year ending 31 March 2023 as a result of the removal of all COVID-19 related restrictions.

Related Party Transactions

Details of related party transactions are set out in note 32 of the financial statements.

Subsidiaries

The Group's subsidiaries are listed in note 19 of the financial statements.

Subsequent Events

There are no material events that have taken place between 31 March 2023 and the date of approval of these accounts that require disclosure or adjustment to the financial statements.

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.

In assessing the Group and Bank's going concern position as at 31 March 2023, the Directors considered a wide range of information relating to the present and future conditions, including the Group and Bank's current financial position and future projections of profitability, cash flows and capital resources and requirements, which all form part of the business plan. Base case forecast projections are based on detailed financial planning by management that take account of the current and expected economic environment. The Directors also considered the impact of key existing risks and emerging risks on the Group and Bank business model and plan (see page 109 of the Risk Report). The Directors have assessed the outlook for the Group and Bank for a longer period than the 12 months from the signing of these financial statements as required under IFRS.

Directors' Report continued

Other Statutory Information

The Directors have also reviewed the financial and capital impact of a range of severe but plausible capital and liquidity stresses on the base case business plan. These stresses are based on the latest BoE Annual Cyclical Scenarios (ACS) published in 2022. The Group and Bank have implemented both a high and low interest rate variant of the ACS, as well as further reverse, idiosyncratic and single-variable stress tests in order to test the limits and vulnerabilities of the business plan and strategy. The impact of management actions that might be taken to mitigate the impact of these stresses is also assessed.

Stress testing is performed regularly throughout the year to monitor business performance and to inform and support management's decision making. It also forms a fundamental part of the annual production of the ICAAP, ILAAP and recovery and resolution planning. Post management actions, the projections under these stress scenarios show that the Group and Bank will be able to operate at adequate levels of both capital and liquidity, which are in excess of the Group's minimum requirements, and will meet its future obligations for at least 12 months from the signing of these financial statements.

After reviewing projections and making extensive enquiries, the Directors are satisfied that the Group and Bank have adequate capital, liquidity and other resources to continue for at least 12 months from the signing of these financial statements and has adequate capital and liquidity resources to meet its minimum regulatory requirements as prescribed by the PRA. Consequently, the going concern basis of accounting has been adopted 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. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act.

By order of the Board

Anne Boden
Chief Executive Officer
Starling Bank Limited

Company number 09092149

25 May 2023

Statement of Directors' Responsibilities

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

The Directors are responsible for preparing the Annual 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 the Group and parent Company financial statements in accordance with UK-adopted International Accounting Standards (IAS) 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 the Group's and parent Company's profits or losses 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 UK-adopted IAS;
- 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the 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.

By order of the Board

Anne Boden
Chief Executive Officer
Starling Bank Limited

Company number 09092149

25 May 2023

Declan Ferguson
Chief Financial Officer
Starling Bank Limited

Company number 09092149

25 May 2023

Risk Report

Risk Management

See page 27 of the Strategic Report for further details.

Enterprise Risk Management Framework

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, ensuring a holistic approach to risk management that is integrated into business decision making. It outlines the Group's approach to ensuring its key risk exposures are effectively managed, controlled and monitored within an agreed risk appetite.

Strategic Risk

Credit Risk

Liquidity & Funding Risk

Market Risk

Capital Adequacy Risk

Operational Risk

Fraud & Financial Crime Risk

Conduct Risk

Strategic Risk

Credit Risk

Compliance Risk

Risk Organisation & Governance
- Risk Governance
- People & Culture

Risk Management Process
- Risk Strategy, Appetite & Policy — 1
- Comprehensive Assessment of Risks — 2
- Risk Measurement, Stress Testing & Embedding — 3
- Risk MI, Analysis, Monitoring & Assurance — 4

Technology
- Model Management
- Risk Data, Analytics & Systems

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, monitoring, control 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;
- 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 processes.

The Board is ultimately responsible for ensuring that the risk management approach and risk governance structure are applied in practice and operate as expected.

Risk Framework continued

Risk Appetite

Starling's Risk Appetite Framework sets out its overall approach, including policies, processes, systems and controls through which risk appetite is established, communicated, managed, monitored and reported. Starling's risk appetite considers the material risks to the business, with consideration given to the potential impact on elements such as the Statement of Financial Position, Statement of Comprehensive Income, customers, employees, reputation, regulators and other stakeholders. It is set within a capacity for risk that has amongst its external boundaries regulatory minima for capital and liquidity, adherence to laws and regulation, as well as conduct break points in terms of customer treatment.

Starling's separate Risk Appetite Statement is the formal articulation of the level and types of risk that the Group is willing to accept, as well as those it seeks to avoid or minimise. It is expressed through quantitative measures and qualitative statements that provide direction to all areas of business and set clear tolerances for activities that are both within and outside risk appetite. Appetite is monitored using a range of key indicators to ensure that the business is being managed within a limit structure for each risk category. This facilitates the identification of potential breaches in appetite and ensures that they are promptly escalated and managed appropriately.

Starling's risk appetite contains the following high level qualitative statements which provide the Board's overarching strategy for risk appetite.

We will consciously and methodically take risk in order to deliver the Bank's strategic and business objectives, whilst demonstrating management of material risks to levels that preserve financial and operational resilience, and which ensures the ongoing confidence of customers, regulators and investors.

Strategic and Business Objectives

We will maintain a clear vision, mission, strategic objectives and corporate values to build a strong and sustainable business that can withstand shock from the economic cycle.

Financial Resilience

We will maintain sufficient capital and liquidity to cover our financial obligations, risk profile and risk exposures, over and above minimum requirements. We will seek to minimise earnings volatility to enable stable capital generation.

Operational Resilience

We will implement and maintain core systems that offer security and resilience and that are fit-for-purpose to deliver the required services.

Reputation and Confidence

We will offer simple, fair, transparent and easy-to-use products and services.

We will not knowingly breach any applicable law or regulation in any jurisdiction in which we operate.

Workplace Culture

We will provide a workplace culture that reflects our values of fairness, equity, inclusion, compassion and non-discrimination.

Our employees should be – and feel – safe from physical and emotional harm.

Risk Framework continued

Risk Operating Model

In order to support risk management activities, the Group operates within the principles of a Three Lines of Defence model. The respective roles of the three lines are described in the figure to the right.

As the Group continues to expand, it is investing in developing the risk management capabilities across each of the Three Lines of Defence. In 1LoD, control teams have improved their assessment of the operational effectiveness of controls; in 2LoD, the Group has expanded its capacity and capability to enhance its risk and control assessment processes; and in 3LoD, the Group has further strengthened its Internal Audit function.

First Line of Defence

The Business

- Manage risks within appetite via proactive identification, assessment, measurement, management, monitoring, control and reporting;
- Report on risks and issues;
- Design and implement controls to manage risks;
- Review the design and effectiveness of controls; and
- Establish effective risk culture.

Second Line of Defence

The Risk Function

- Develop implement and maintain the risk management frameworks and policies;
- Develop an appropriate risk appetite for Board approval;
- Provide independent expert advice and guidance;
- Ensure effective risk-based decision-making subject to governance and oversight;
- Support and challenge first line risk management; and
- Provide assurance on regulatory compliance and effectiveness of key controls.

Third Line of Defence

Internal Audit

- Independent assurance;
- Assess whether risk management is being implemented and operating effectively across both first and second line; and
- Review the overall risk management approach to ensure alignment to regulatory expectations and industry standards.

Risk Framework continued

Policy Framework

The Group's Policy Management Framework defines Starling's approach to the development, approval and management of policies and associated documents. It is designed to ensure a consistent, standardised approach and provides clarity regarding the structure, content, ownership, review and approval of Starling's key document suite.

1

Board Level Frameworks and Policy Statements (Level 1) are documents that are retained within the authority of the Board to review and approve. They provide the highest-level rules, strategy and guiding principles that define Starling's approach to its activities and most material risk exposures.

Level 1 documents are reviewed and re-approved by the Board or Board 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 Starling's principle risk management approach.

1. Board Level Frameworks and Policy Statements

- Principal risks
- Risk organisation & governance
- Risk management process
- Risk technology
- Governing policy principles
- Requiring Board or sub-committee approval

2. Executive Level Policy Documents

- Level 2 risk sub-categories
- Governing policy principles
- Regulatory requirements
- Key risks and controls

3. Detailed Documents

- Granular risks
- Further step-by-step details on the implementation of policies and frameworks
- Standards and procedures for detailed treatments
- Likely to be detailed and procedural in nature

2

Executive Level Policy Documents (Level 2) typically provide more granular policy at the level of Starling's second tier of its risk taxonomy. They are consequently more detailed, targeted and specific in application. They cover matters that have delegated responsibility of executive management rather than the Board. These documents require approval through executive-level Committees, such as EXCO, Asset and Liability Committee (ALCO) and ERC. Review and re-approval is conducted at least every two years, but more often where there has been a change in approach which necessitates a restatement.

3

Detailed Documents (Level 3) typically provide very granular information and instructions. They are likely to be detailed and procedural in nature. While some may have Group wide application, many will be specific to a process, department or 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 or subject matter experts. Review and re-approval is conducted where there has been a change in Starling's approach.

Risk Framework continued

Risk Governance and Oversight

Starling's risk governance is the architecture within which risks are monitored and reported. The Board is ultimately responsible for ensuring that the risk management approach and risk governance structure are applied in practice and operate as expected.

The BRC is the primary committee to receive and review risk-related information. 1LoD management and committees are responsible for ensuring that the risk and control environment is established and maintained in day-to-day decision making, and that individual decisions are made in line with the agreed risk appetite.

The Risk function is responsible for assessing the adequacy and effectiveness of 1LoD risk governance and control activities. They will ensure that risk limits are set at appropriate levels to keep aggregate risks within risk appetite and that the aggregate forward-looking risk profile relative to risk appetite is effectively monitored and reported to Board Committees.

The overall governance structure and risk management governance structure can be seen on page 38.

Risk Framework - Governance and Oversight continued

The specific roles of the Board and its sub-committees are detailed in the Directors' Report. The table below summarises key risk responsibilities discharged by the EXCO and its principal sub-committees:

Committee	Risk Focus
Executive Committee (EXCO)	– Implementing strategic direction and devising the associated business plans in line with the agreed risk appetite set by the Board; – Making key business decisions in line with agreed risk appetite; – Ensuring that all regulatory obligations are met; and – Overseeing the establishment and maintenance of appropriate risk management processes in line with the Board-approved ERMF.
Executive Risk Committee (ERC)	– Leading the detailed implementation of the ERMF; – Supporting the development of the risk strategy, ERMF and Risk Appetite Framework and policies, recommending them to the BRC for review, challenge and onward escalation to the Board for approval; – Reviewing credit risk related information covering both customers and wholesale counterparties and recommending to BRC the Bank's assessments of economic inputs and probabilities for use in impairment modelling and amount of impairment charge to be included in financial statements; – Monitoring the Bank's risk profile against agreed risk appetite limits and tolerances and reporting on these to the BRC; – Making recommendations for risk appetite tolerance levels and limits including resolution of critical risks and issues arising at sub-committees; – Reviewing operational resilience information and making recommendations to the BRC; and – Reviewing conduct and compliance matters and making recommendations to the BRC.
Asset and Liability Committee (ALCO)	– Overseeing the overall balance sheet management of the Bank; – Oversight of liquidity and funding risk, interest rate risk, FX risk and capital adequacy risk within the parameters set by the Board; – Reviewing and recommending to the Board the Bank's ILAAP and Liquidity Contingency Plan, the Bank's ICAAP, Recovery Plan and Resolvability Assessment Framework, along with associated stress testing; and – Reviewing relevant policies and monitoring compliance with the policies.
Pricing Committee (PC)	– Setting all customer related pricing for the Bank, including credit and debit interest levels, as well as any other fees, charges or benefits that have a customer impact; – Considering the impact of pricing on commercial performance, including customer numbers, balances, facility utilisation, customer behaviours and margins; – Reviewing risk-based pricing proposals; and – Reviewing all competitor pricing, including price-related marketing activity.

Risk Framework - Governance and Oversight continued

Committee	Risk Focus
Finance Committee (FC)	– Reviewing regulatory and financial reporting judgments and interpretations being applied and the impact of new regulations and accounting standards; – Reviewing monthly management accounts and accounting papers; – Reviewing new and existing accounting policies, new disclosures and critical estimates and judgements on at least an annual basis; – Overseeing finance projects and monitoring the finance internal control framework over financial reporting; and – Reviewing the accounting and regulatory impact of new transactions and other events.
Credit Risk Committee (CRC)	– Recommending to the ERC the Bank's Credit Risk Framework and Credit Risk Policy; – Monitoring the Bank's lending portfolio against credit risk appetite; – Ensuring that the Bank has sufficient capacity and capability, supported by management information, to deliver against the Bank's lending strategy; – Reviewing key credit risk models, procedures and associated controls; – Considering findings from both second and third line assurance activity, and monitoring management responses; and – Providing oversight of key credit risk projects within the business.
Financial Crime Steering Committee (FCSC)	– Raising and debating key financial crime risks that exist or that are emerging within the business; – Recommending to the ERC the Bank's Financial Crime Framework and policies; – Considering any potential weaknesses or shortcomings in process, procedures and controls that could accentuate risk; – Reviewing strategy and growth plans that could have a downstream impact on financial crime and how it is managed; – Reviewing the key learnings from any major financial crime incidents or operational events and discussing potential mitigation; and – Considering any new regulatory developments or intelligence and any proposed consequential changes.
Impairment Committee (IC)	– Monitoring the impairment profile of the Bank; – Recommending to the ERC the Bank's impairment charge; – Overseeing the implementation of the IFRS 9 Provisioning Policy delivered by the business and ensuring expected credit loss methodologies and assessments are compliant with IFRS 9; – Considering findings from both 2LoD and 3LoD assurance activity, and monitoring management responses as appropriate; – Formally approving impairment model developments and material changes, including review of independent validation and any model limitations; and – Reviewing impairment model performance at least annually.

Risk Framework - Governance and Oversight continued

Committee	Risk Focus
Operational Risk Committee (ORC)	– Evaluating and reporting to the ERC on the Bank's operational risk profile and operational risk monitoring; – Reviewing the volume and profile of incidents, operational events and operational risk losses; – Reviewing current and future operational risk exposures relative to risk appetite; – Receiving and reviewing relevant reports that are provided to the Board, including, where relevant, FCA / PRA letters on their assessment of operational risks; and – Implementation of the Bank's Operational Resilience Strategy. – The ORC is supported by two sub-committees focusing on Cyber & Information Security and Health & Safety.
Product and Conduct Committee (PCC)	– Managing the risks and issues associated with products, services and customers, including compliance with Consumer Duty regulations; – Evaluating and reporting to the ERC the Bank's conduct and compliance risk profile and operational monitoring; – Ensuring that Starling creates and maintains a sustainable customer offering; – Ensuring that customer engagement is in line with the Bank's customer-centric focus and associated risk appetite; – Overseeing the completion of product, post implementation and revenue reviews and the review of conduct risk outcomes; – Protecting and developing customer experience; – Reviewing and learning from complaints; – Approving new products; and – Overseeing external market and competitor activity to ensure that products remain suitable.
Wholesale Credit Risk Committee (WCRC)	– Recommending to the ERC the Bank's Wholesale Credit Risk Framework and Wholesale Credit Risk Policy; – Monitoring the Bank's exposures against the Wholesale Credit Risk Policy and risk appetite; – Setting counterparty and concentration limits in line with approved methodology; – Reviewing and approving the models and underlying methodology used by the Treasury function to determine internal credit ratings and counterparty limits; and – Reviewing the current and considering the possible future exposures to market counterparties with reference to the regulations and limits for each counterparty.

Risk Framework continued

Stress Testing

Stress testing is used to test the resilience of Starling to severe but plausible shocks. This involves modelling the impact of hypothetical adverse macroeconomic and financial market scenarios on Starling's profitability and considers the impact on risk appetite and strategy. The key objectives of stress testing for Starling are to:

- Understand risks inherent in the business strategy;
- Evaluate the strategic, capital, funding and liquidity plans against market concerns and headwinds;
- Evaluate the financial risk implications and liquidity and capital adequacy of any strategic acquisitions;
- Assess the impact of different assumptions and scenarios on balance sheet and profit and loss items through "what if" analysis;
- Measure portfolio level performance against risk appetite in stressed conditions;
- Identify the point of non-viability within the business model using reverse stress testing;
- Inform the design and assess the impact of management actions which could be used to recover from stress; and
- Consider whether risk appetite limits are breached under stress and whether the strategy needs amending so that the Group can survive a stress event and remain within risk appetite.

Starling undertakes risk specific stress testing, some of which is outlined in the individual risk sections below, and whole balance sheet macroeconomic and idiosyncratic stress testing. Macroeconomic and customer behaviour scenarios are designed by considering the key vulnerabilities of the Bank and severity is benchmarked against BoE and other internal scenarios. Reverse stress testing is also undertaken in order to identify the risks that would need to crystallise for the business to become unviable.

A number of committees are involved in challenging scenario assumptions and stress test results. The BRC reviews and challenges stress testing outputs as part of any consideration of strategic change and as part of the ICAAP and ILAAP, and makes recommendations to the Board for adoption or further challenge.

Principal Risks and Risk Mitigation

Starling has established risk management policies, processes and frameworks to support the identification and management of key risks. Principal risks are the highest-level categorisation used to support the identification, assessment, monitoring and mitigation of key risks inherent to the Group's business. These are summarised on pages 28 to 29.

The following sections set out how the Group assesses each of the principal risks, sets risk appetite, manages and controls risk and how it monitors, mitigates and reports each risk.

Principal Risks and Risk Mitigation continued

Strategic Risk

Risk Assessment

Strategic risk is the risk that Starling fails to execute its business strategy as a result of poor decision making, substandard execution of decisions, inadequate resource allocation or from a failure to effectively respond to changes in the business / market environment.

Risk Appetite

The Board has determined that Starling will maintain a clear vision, mission, strategic objectives and corporate values to support the growth of the Group, as agreed by the Board and Executives. Furthermore, Starling will not:

- Initiate projects that cannot be resourced to successful completion;
- Target increasing market share based on pricing or other terms that do not reflect the risks involved; or
- Engage in any unfair, anti-competitive behaviour or accept any unfair, anti-competitive behaviour being exhibited against it, and will alert the relevant authorities if it reasonably suspects this is occurring.

Starling's strategic risk appetite statements are underpinned by a series of quantitative limits which monitor key potential strategic risk exposures.

Management of Strategic Risk

Starling has a clearly defined Board-approved strategy and has adopted a corporate governance framework with a Board of experienced Executive and Non-Executive Directors, supported by Board 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 statements, Recovery Plan, resolution framework and Solvent Wind Down Plan as well as a skilled and experienced Executive team.

A business model is used to identify the financial parameters of the strategic options. This is based on Starling's core purpose, operating environment and opportunities, and Starling's current and prospective resources and capabilities, including capital, forecasted funding and deposit raising capabilities and expected asset generation capabilities. Prospective market share, profitability, shareholder value, rates of growth and capital requirements are assessed in the context of the Group's risk capacity and risk appetite.

Monitoring and Mitigation

The Group conducts regular strategic risk assessments of the Board agreed business strategy and plan against Starling's Risk Appetite Statement. Assessments consider the proposed strategy against each of Starling's material risk categories to identify where action may be required to maintain risk within appetite or to identify where appetite has been or will be breached. The assessment is reviewed at least annually, but more often where there is a material new business opportunity. This enables Starling to adjust its strategy and/or introduce additional mitigants in a timely manner.

Principal Risks and Risk Mitigation – Strategic Risk continued

Change in the Year:

Balance Sheet Growth

Starling has continued to grow its customer deposits and its lending. The Group has continued to grow its mortgage lending capacity through originations made by Fleet and portfolio acquisitions. Starling has continued to innovate its products, features and services, executing on its organic lending strategy and growing responsibly. Starling met its key strategic targets for the year, and there is high confidence in its ability to continue to show resilience and adaptability moving forwards.

Economic Outlook

There are significant levels of uncertainty surrounding the wider geopolitical and banking industry that could provide shocks to Starling's business model and which could lead to variations in key macroeconomic factors in the UK, such as the unemployment level, GDP growth, inflation, the future path of interest rates and the level of HPI.

At the Balance Sheet date, consensus economic forecasts suggest that GDP could either stagnate or fall in 2023. This is compounded by uncertainty as to whether the interest rate cycle will peak in 2023. Economic forecasts suggest that house prices may fall in 2023, but to different extents. Headline inflation is still high, and inflation for core goods is expected to remain elevated throughout 2023, which will likely keep the headline inflation above the BoE's target. Consequently, household consumption may continue to struggle due to the ongoing cost of living crisis and persistent higher levels of interest rates.

The degree of macroeconomic uncertainty can have significant implications for Starling's decision-making processes, including strategic planning, lending and investment decisions, risk management strategies, and capital allocation. Starling carefully monitors the economic environment and adjusts its business model accordingly to mitigate economic risks and optimise value creation.

Impact on Starling's Business Model

The Group has assessed the continuing economic conditions and as a direct result of these has made adjustments to its assessment of risk in the following areas:

– Credit risk: The Group's economic scenarios and weightings have been updated to reflect current and expected market conditions, which has facilitated the removal of some PMAs previously implemented to account for economic uncertainty. However, the Group continues to apply some PMAs to the modelled output from its ECL models to capture the following areas of uncertainty and to compensate for under estimation in ECL models (see note 3a on page 140):

  a. Model fit - when the modelled outputs do not fully reflect the impact of economic factors over the coming months;
  b. Appropriateness of historic data sets - where limited performance data exists with which to fully model the impacts of economic conditions on a portfolio; and
  c. Model limitations - where weaknesses exist within models, or where certain factors are not fully catered for within modelled outputs.

– The Group has modelled the impact of severe but plausible downside stress scenarios as described in note 1c on page 129. This has resulted in the Group reviewing both the quantum and availability of capital and liquid assets that it should hold to remain above its risk appetite (which are themselves comfortably above the regulatory minimum) in the event that such a stress materialises. These are covered in more detail in the Liquidity and Funding Risk section on pages 93 to 97 and the Capital Adequacy Risk section on pages 100 to 102.
– The Group updates its Recovery and Solvent Wind Down Plans on an annual basis, evidencing that it can recover from a severe but plausible stress. Additionally, the Group submitted its Resolvability Assessment to the BoE in February 2023. This included an Operational Continuity in Resolution Plan which showed how critical services would be maintained in order to meet both regulatory obligations and customer requirements.

Emerging Risks

The Board and BRC regularly review emerging risks that could pose a threat to Starling's strategy. The nature of these risks changes over time and an assessment of those prevalent at 31 March 2023 has been set out on pages 109 and 110.

For each of those emerging risks Starling has in place risk mitigation strategies that are monitored at BRC with key risk indicators and tolerances set that determine the point at which the risk becomes current.

Principal Risks and Risk Mitigation continued

Credit Risk

The Group is exposed to credit risk across all of its financial asset classes, however its principal exposure to credit risk arises on customer lending balances. The maximum exposure to credit risk on financial assets, undrawn facilities and commitments (audited) is shown below:

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Loans and Advances to Banks	6,109,704	6,107,281	6,105,435	6,103,170
Debt Securities	2,518,240	2,330,261	2,518,240	2,330,261
Loans and Advances to Customers	4,873,633	3,311,679	4,873,633	3,311,679
Derivative Assets	221,774	98,056	221,774	98,056
Undrawn Facilities and Commitments	225,888	321,932	225,888	321,932
Exposure to Credit Risk	**13,949,239**	**12,169,209**	**13,944,970**	**12,165,098**
UK Government Guarantee[1]	(1,280,371)	(1,900,652)	(1,280,371)	(1,900,652)
Exposure After Guarantee	**12,668,868**	**10,268,557**	**12,664,599**	**10,264,446**

1 UK Government guarantees, which are administered by the British Business Bank (a wholly owned subsidiary of HM Treasury) on Government-backed lending schemes, are set against the outstanding balance of a defaulted facility after any recoveries have been applied.

Principal Risks and Risk Mitigation – Credit Risk continued

The following table shows the credit quality of financial assets, undrawn facilities and commitments:

31 March 2023 Credit Quality (Audited)	Exposure to Credit Risk £'000	UK Government Guarantee £'000	Exposure After Guarantee £'000	Impairment Provision £'000	Net Exposure £'000	% of Total
Loans and Advances to Banks[1]						
Loans and Advances to Banks – AA	6,076,461	–	6,076,461	–	6,076,461	48.1%
Loans and Advances to Banks – A	33,243	–	33,243	–	33,243	0.3%
Debt Securities[1]						
Debt Securities – AAA	2,500,217	–	2,500,217	–	2,500,217	19.8%
Debt Securities – AA[2]	18,023	–	18,023	–	18,023	0.1%
Derivative Assets[1]						
Derivative Assets – AA-	221,774	–	221,774	–	221,774	1.8%
Mortgages[3]						
Low Risk (Stage 1)	3,228,301	–	3,228,301	(4,275)	3,224,026	25.5%
Medium Risk (Stage 2)	121,395	–	121,395	(879)	120,516	1.0%
Higher Risk (Stage 3)	87,093	–	87,093	(2,699)	84,394	0.7%
SME Lending[3]						
Low Risk (Stage 1)	972,866	(881,076)	91,790	(5,046)	86,744	0.7%
Medium Risk (Stage 2)	197,000	(176,203)	20,797	(4,380)	16,417	0.1%
Higher Risk (Stage 3)	234,439	(223,092)	11,347	(10,755)	592	–%
Retail Lending[3]						
Low Risk (Stage 1)	25,530	–	25,530	(1,091)	24,439	0.2%
Medium Risk (Stage 2)	1,746	–	1,746	(478)	1,268	–%
Higher Risk (Stage 3)	5,267	–	5,267	(4,927)	340	–%
Undrawn Facilities and Commitments	225,888	–	225,888	(1,092)	224,796	1.8%
Total	**13,949,243**	**(1,280,371)**	**12,668,872**	**(35,622)**	**12,633,250**	**100%**

1 Ratings of AAA to A are derived from external credit rating agencies.

2 T-bills are unrated and have been assigned the same rating as the UK sovereign issuer at AA in this table.

3 Low to High Risk, Stages 1 to 3 relate to IFRS 9 ECL staging allocation.

Principal Risks and Risk Mitigation – Credit Risk continued

The following table shows the credit quality of financial assets, undrawn facilities and commitments:

31 March 2022 Credit Quality (Audited)	Exposure to Credit Risk £'000	UK Government Guarantee £'000	Exposure After Guarantee £'000	Impairment Provision £'000	Net Exposure £'000	% of Total
Loans and Advances to Banks[1]						
Loans and Advances to Banks – AA	6,053,123	–	6,053,123	–	6,053,123	59.1%
Loans and Advances to Banks – A	54,158	–	54,158	–	54,158	0.5%
Debt Securities[1]						
Debt Securities – AAA	2,209,188	–	2,209,188	–	2,209,188	21.6%
Debt Securities – AA	121,073	–	121,073	–	121,073	1.2%
Derivative Assets[1]						
Derivative Assets – A	98,056	–	98,056	–	98,056	1.0%
Mortgages[2]						
Low Risk (Stage 1)	1,142,199	–	1,142,199	(524)	1,141,675	11.1%
Medium Risk (Stage 2)	26,124	–	26,124	(76)	26,048	0.3%
Higher Risk (Stage 3)	47,564	–	47,564	(2,621)	44,943	0.4%
SME Lending[2]						
Low Risk (Stage 1)	1,468,051	(1,336,352)	131,699	(10,420)	121,279	1.2%
Medium Risk (Stage 2)	286,636	(272,210)	14,426	(2,537)	11,889	0.1%
Higher Risk (Stage 3)	296,074	(292,090)	3,984	(3,778)	206	–%
Retail Lending[2]						
Low Risk (Stage 1)	37,707	–	37,707	(1,489)	36,218	0.4%
Medium Risk (Stage 2)	2,912	–	2,912	(1,030)	1,882	–%
Higher Risk (Stage 3)	4,412	–	4,412	(3,374)	1,038	–%
Undrawn Facilities and Commitments	321,932	–	321,932	(1,224)	320,708	3.1%
Total	**12,169,209**	**(1,900,652)**	**10,268,557**	**(27,073)**	**10,241,484**	**100%**

1 Ratings of AAA to A are derived from external credit rating agencies.

2 Low to High Risk, stages 1 to 3 relate to IFRS 9 ECL staging allocation.

Principal Risks and Risk Mitigation – Credit Risk continued

Risk Assessment

Starling distinguishes between credit risk arising from customer lending defaults, which is covered in this section, and credit risk arising from wholesale counterparty defaults, which is covered on pages 91 to 92.

Credit risk from customer lending is the current or prospective risk that a customer of Starling defaults on their contractual obligations, or fails to perform their obligations in a timely manner.

Credit risk arises through the lending facilities which Starling offers to its mortgage, SME and Retail customers, both through its own origination channels and through third parties, typically via forward flow partners or acquired portfolios. Starling's credit risk is categorised into three components:

- Mortgage lending – the mortgage portfolio comprises owner occupied, buy-to-let and a small number of second charge mortgages. During the year, the Group purchased two portfolios of mortgages containing a mix of owner occupied and buy-to-let assets, and continued to originate buy-to-let mortgages through its Fleet subsidiary.
- SME lending – the SME portfolio predominantly comprises UK Government-backed term loans and a small number of overdrafts under the BBLS, CBILS and RLS programmes. Some non-guaranteed facilities are also held.
- Retail lending – the Retail portfolio predominantly comprises overdrafts linked to current accounts and a term lending portfolio in run-off. The majority of the term lending portfolio in run-off was originated under a forward flow agreement.

Management of Credit Risk

All material credit risk decisions are managed through Starling's Board and risk committee structures, as set out on pages 52 to 55.

Given the relative significance of credit exposures of the Bank to the overall Group's credit risk position, the following credit risk detail is focused on the Bank's assets.

Credit Risk Appetite

The credit risk appetite is approved by the Board on recommendation of the BRC. Authority is delegated to the CRC, as a sub-committee of ERC, which is responsible for monitoring the lending portfolio against the Board-approved credit risk appetite.

Starling aims to be a responsible lender and seeks to only originate and fund lending facilities to applicants who are not over-indebted and who can evidence an ability to service their lending. All lending is provided to customers in accordance with responsible lending requirements. Starling monitors this through regular oversight activities.

Starling's lending is limited to the UK and aims to be diversified across product types, sectors, risk profile and regional locations to avoid excessive risk concentration. Starling mitigates concentration risk by monitoring exposure to different segments to identify and mitigate any adverse trends.

The Group ensures all lending is subject to underwriting checks that include eligibility criteria and affordability tests.

In addition, Starling has entered into arrangements with third parties to originate and service mortgage and loan portfolios, where the third party has extensive experience in managing portfolios through the credit lifecycle. Each engagement is assessed under various stressed scenarios, and the expected risk exposure of each arrangement is assessed and monitored against Starling's overall risk appetite. Starling ensures there is sufficient expertise in the Group to oversee the management of its portfolios.

Starling's credit risk appetite statements are underpinned by a series of quantitative limits which monitor and control the overall quality of the portfolios.

Measurement of Credit Risk

In order to measure credit risk under IFRS 9, the Bank uses statistical models that incorporate economic input variables, alongside loan level data points, to derive the ECL arising from a financial asset.

Where deficiencies or weaknesses in models are known to exist, or historic data trends do not reflect current circumstances or the future direction of economic input parameters is unclear, PMAs are applied to ensure that the resultant ECL remains appropriate.

Full statistical models incorporating forward-looking economic assumptions have been developed for all portfolios, except as follows:

- One of the two mortgage portfolios acquired in the year has not yet been included in modelled outputs. For this portfolio, interim coverage rates are applied based on outputs for owner occupied and buy-to-let within the existing modelled portfolios.
- For RLS and CBILS organic lending, the Bank utilises an internal assessment of credit risk based on a close monitoring system, which is evaluated monthly. The adequacy of provisions is calculated using corresponding third-party originated asset coverage ratios.

The Bank's IFRS 9 methodology considers three estimates in order to calculate the ECL:

- Exposure at Default (EAD) – which estimates the exposure of the asset at the point it is expected to default;
- Probability of Default (PD) – which estimates the likelihood of an asset moving to default in the next 12 months, or over the remainder of its life, depending on the stage; and

Principal Risks and Risk Mitigation – Credit Risk continued

Measurement of Credit Risk continued

- Loss Given Default (LGD) – which estimates the financial amount that the Bank expects to lose in the event of default of the asset.

This approach applies to all portfolios except organic CBILS and RLS lending and one of the acquired mortgage portfolios that has similar characteristics to existing mortgage portfolios. For these portfolios, coverage rates from existing models for comparable assets are applied.

Based on their status, assets are assigned to one of three stages:

- Stage 1 – where the asset is not credit impaired at origination, and has not experienced a Significant Increase in Credit Risk (SICR) since it was originated;
- Stage 2 – where the asset has experienced a SICR since the point it was originated, but is not yet credit impaired; and
- Stage 3 – where the asset is credit impaired.

In addition, purchased or originated credit-Impaired (POCI) financial assets are those that are assessed as being credit impaired upon initial recognition. Once a financial asset is classified as POCI, it remains there until derecognition irrespective of any changes to its credit quality[15].

Assets in stage 1 are assigned a 12-month PD, whereas assets in stage 2 use PDs based on the remaining life of the asset. Stage 3 assets are assigned a PD of one.

Significant Increase in Credit Risk

In determining whether there has been a SICR the Group uses quantitative tests that are typically based on information received from a credit bureau, together with qualitative indicators such as watchlists and other behaviours observed on individual customer's accounts.

For mortgage and retail lending products, the Group includes a rebuttable presumption that credit risk has significantly increased from the point of origination or acquisition, when arrears have increased by one month in arrears or are more than thirty days past due (DPD).

For SME lending, the Group includes a presumption that credit risk has significantly increased when contractual payments are past due. Additionally, an increase in other observable data points that might point to a SICR, such as a material deterioration in credit bureau scores, are amongst other factors taken into consideration.

In order to determine the appropriate stage for each asset, the Bank applies a range of criteria:

- Those assets which are deemed unlikely to pay, with a backstop of 90 DPD or three months in arrears (MIA), are deemed credit impaired and placed into stage 3; and
- For assets which are not in stage 3, a combination of change in credit risk as measured by statistical models, and other criteria such as forbearance are used to determine SICR which drives accounts into stage 2.

The SICR criteria are shown in the table below:

Portfolio	SICR Criteria
Mortgages	– 1+ MIA – Term expired by less than 3 months
SME – Third Party CBILS	– 10+ days in arrears – Forbearance – 100% increase in PD since origination based on bureau score
SME - Third Party RLS	– 10+ days in arrears – Forbearance – 100% increase in PD since origination based on bureau score
SME - Organic CBILS and RLS	– 15+ days in arrears – Indication of financial distress assessed by a close monitoring watchlist
Retail – Overdrafts and Term Loans	– 100% increase in PD since origination based on bureau score – Potential financial difficulty trigger (retail overdrafts only) – Forbearance – 1+ MIA or 30 DPD

11 The amounts of POCI assets have been disclosed by way of footnote to the relevant tables. POCI financial assets are included in stage 3 for disclosure purposes.

Principal Risks and Risk Mitigation – Credit Risk continued

Measurement of Credit Risk continued

Definition of Arrears

Loans and Advances to Customers are classified as in arrears if:

- Either a scheduled payment for a mortgage or term loan has failed or has not been paid when due by a customer; or
- Exceeded their authorised overdraft limit due to either a payment or due to Bank interest being applied.

Definition of Default

Loans and Advances to Customers are classified as in default if any of the following criteria has been met:

- The outstanding balance is overdue for more than 90 days or the account is three or more MIA; or
- Any security or 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.

For mortgages, accounts are also deemed to be defaulted if they are term expired for three or more months, or if a Law of Property Act (LPA) receiver has been appointed for a buy-to-let mortgage. Where a customer cures to less than three MIA and makes six consecutive contractual monthly payments, the customer will cure to stage 1 or stage 2. This depends as to whether the arrears levels are less than one month in arrears or between one and three MIA. For default criteria other than arrears, the default criteria are deemed to be absorbing, and the customer cannot cure from stage 3.

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 (EIR) to the amortised cost less impairment provisions of the asset.

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.

Forbearance

Forbearance is a qualitative indicator of a SICR applied to some portfolios which may provide an early indication of an exposure being credit impaired before reaching the arrears backstop.

Charge-offs

A financial asset is charged-off in full when the Bank judges there to be no reasonable expectation that the asset can be recovered in full. This is typically the case when the Bank 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 would decrease the amount of the total charge for impairment losses.

Stress Testing

The Bank uses a range of statistical models to measure the credit risk within its portfolios. These models are developed on internal data, supplemented by external data where it is available and where internal historical data is limited. The models are used to assess the Bank's ECL in line with IFRS 9 requirements.

Whilst the Bank is not required to take part in the BoE's annual stress testing exercise, the Bank does undertake stress testing at least annually as part of its ICAAP and to support its wider business planning and decision-making. In addition to using scenarios provided by the BoE, the Bank uses an external third party to assist with the development of economic scenarios for forecasting and stress testing purposes. As part of the stress test, the Bank's IFRS 9 models are utilised to provide an estimate of ECL under each scenario.

The Bank also utilises its IFRS 9 models to inform certain PMAs, typically through scenario testing where there is reason to believe that there are model limitations or inaccuracies in the input data. This can be as a result of model monitoring showing potential discrepancies between assumptions and the actual observed performance, or where material uncertainty exists in forward-looking adjustments.

Risk Mitigation

At the highest level, the Bank mitigates credit risk through the operation of a Credit Risk Appetite Statement and supporting limits, which are operationalised through credit risk policies and procedures designed to target a lending profile in line with the Bank's appetite for credit related losses.

In particular, the Bank employs a number of risk mitigation techniques to manage and control its exposure to credit risk:

Principal Risks and Risk Mitigation – Credit Risk continued

Measurement of Credit Risk continued

Credit Policy

The Bank operates detailed credit policies and procedures setting out requirements for credit approvals, responsible lending, collections and recoveries in order to manage the credit life cycle of the lending portfolio. Policies are reviewed and approved at least annually by the ERC and submitted to the BRC for scrutiny, depending on the materiality, before being submitted to the Board for approval.

Specialist Quality Assurance and Outcome testing teams in the 1LoD review individual cases to check in our organic lending book for adherence to policy and procedures to ensure successful customer outcomes. The results of this quality assurance and outcome testing activity are reported through the appropriate committees. In addition, 2LoD undertakes regular assurance reviews of 1LoD activity and reports any issues identified to senior management.

Credit Assessment

Applications for new or increased credit lines are assessed in accordance with the Bank's credit and lending policies and procedures.

For organic lending, the Bank uses manual underwriting and statistical models, where appropriate, to make or inform credit decisions. The statistical models take into account the past payment performance of the customer, as evidenced by information declared as part of the application, and supplemented by credit bureau, internal and customer supplied information.

All applications are assessed for affordability, with the exception of loans which were originated under the BBLS programme, where affordability assessments were not permitted under the scheme rules. The Bank's credit policies allow for decisions on cases to be automated through the use of decisioning models. However, where the automated decisioning triggers certain policy rules that drive the requirement for a manual referral of the underwriting to occur, the Bank utilises specialist underwriters in order to make the final decision.

For third party originated assets, contractual arrangements specify the level of risk appetite that the Bank is willing to accept. Any material differences between the third party and the Bank's policies are highlighted and approved by the Board at the point of entering into an agreement.

At the operational level for organic lending, the Bank utilises a range of models which are calibrated to risk appetite to support automated credit decisioning, with teams of skilled underwriters who review and approve more complex decisions or customer appeals. Where Starling is lending through third parties, it will undertake regular assurance activity to monitor the activity and performance of each forward flow partner.

The Bank's statistical models are developed by its Data Science team in 1LoD, with independent oversight and validation of models being undertaken by the Bank's 2LoD. All model developers and validators are appropriately skilled, and the Bank also uses external third parties to support modelling activity where appropriate.

Specialist Expertise

The Bank's exposure to credit risk is managed by specialist teams operating within their area of expertise. This includes skilled credit underwriters who support buy-to-let mortgages within the Fleet subsidiary. Each underwriter is required to reach the appropriate level of competence before being allocated a lending mandate. Similarly, cases can be referred to specialists where required.

Credit Risk Monitoring

Detailed credit risk monitoring is reviewed at the CRC. The Bank utilises a number of monitoring techniques to assess whether individual credit portfolios remain within appetite. Monitoring includes a full assessment against risk appetite limits, supported by a series of key risk and early warning indicators in order to identify areas of the portfolio with potentially increasing credit risk where corrective action may need to be taken. The IC is used to determine the appropriate level of impairment, including the application of any PMAs, across individual portfolios and in aggregate for the Bank's lending portfolios.

(i) Portfolio Oversight

Management information on credit performance for all portfolios is reviewed by senior management at monthly CRC meetings. This includes:

- Position against risk appetite limits;
- Levels of arrears and forbearance;
- New lending and portfolio quality metrics; and
- Any other information assessed as key in the management of the portfolio.

The CRC acts as the main forum for discussion around portfolio performance, credit risk management and credit strategy changes, underpinned by the detailed portfolio management information provided. It is a decision making forum on changes in relation to credit strategy. Material matters are escalated for decision to the ERC and BRC as appropriate.

(ii) Forbearance

Forbearance is considered to have been applied when Starling, or one of its third party servicers, offers a customer who is experiencing financial difficulties a temporary or permanent restructuring of their facility. The approach taken to forbearance is defined within Starling's policies and procedures.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Monitoring continued

(a) Mortgages

Starling's subsidiary, Fleet, originates and services buy-to-let lending on behalf of Starling. Fleet operates policies which set out the situations under which forbearance will be offered to borrowers in financial difficulty. Outside of Fleet, Starling's other forward flow and acquired mortgage portfolios are serviced by third parties who are also responsible for offering appropriate forbearance solutions to customers. Each third party servicer operates their own forbearance and collections policies, which are reviewed by Starling at the outset and adherence is confirmed throughout the relationship through various audits. These policies outline what forbearance measures can be offered at the discretion of the servicer and what measures require escalation.

Promise to Pay (PTP) and Arrangement to Pay (ATP) options are typically the primary forbearance measure used, with each borrower's needs being assessed and managed on a case by case basis. In certain circumstances, the third party servicer may agree to one-off forbearance measures, such as term extensions or interest rate adjustments, where these are deemed appropriate.

(b) SME

BBLS – Pay As You Grow (PAYG)

For UK Government-backed BBLS, PAYG options have been designed by HM Treasury and the British Business Bank (BBB) to support and provide customers with the majority of the forbearance they need.

PAYG is designed to support customers in, or approaching, financial difficulty. These options recognise that many borrowers may face potential liquidity challenges and, as such, under PAYG all qualifying borrowers are able to utilise the following options, either individually or in combination. These options can be used consecutively or at different stages during the life of the loan, and the term extension can be offered at the same point in time as either of the other two options. Under the scheme, borrowers can instruct Starling that they would like to utilise the options up to three months prior to when they would like to make use of the PAYG option:

- Payment holiday for six months – borrowers can choose to pause both principal and interest repayments on the loan entirely, for a period of up to six months. This option can be used back-to-back with interest only periods. Interest will continue to accrue during this payment holiday;
- Interest only payments for six months – borrowers can choose to move to interest only payments for a period of up to six months. This option can be used up to three times throughout the lifetime of the loan, and can be used back-to-back, totalling eighteen months; or
- Term extension for up to ten years – borrowers can choose to extend the term of their loan to ten years. Borrowers also retain the option to repay the ten year loan early, without any early repayment fees. The interest rate would remain at 2.5% throughout the entire length of the loan.

While PAYG options designed by HM Treasury and the BBB provide customers with forbearance alternatives, Starling also offers forbearance options above and beyond PAYG both pre and post default, depending on customer circumstances. The other forbearance options include, but are not limited to:

- Breathing space, either within or outside the Debt Respite Scheme (DRS) dependent upon business type;
- PTP based on a discussion with the customer and a commitment to make the next payment;
- ATP based on a discussion of what is sustainable for the customer given their incomings and outgoings; and
- Arrangements with third parties, such as debt management plans.

SME Lending Through Third Parties

For SME loans offered under the various COVID-19 schemes, the forbearance measures available to customers are similar to what is offered to Starling customers as outlined above. Term extensions of up to ten years are offered on BBLS loans, with payment holidays and temporary interest only payments available across all SME lending.

(c) Retail

The following forbearance options are possible considerations to support customers who are experiencing financial difficulties:

- Breathing space, either within or outside the DRS;
- PTP or ATP based on a discussion of what is sustainable for the customer given their incomings and outgoings; or
- Arrangements with third parties, such as debt management plans.

Where assets are serviced through a third party, similar forbearance options to the above are offered based on an individual assessment of the customer's needs.

(iii) Collections

(a) Mortgages

Mortgage collections are either undertaken by the Group's wholly owned subsidiary, Fleet, or by Starling's third party servicers. The activities largely depend on whether the mortgage is unregulated or regulated. In all scenarios, either Fleet or the servicer will work with the borrower to determine the cause of non-payment and, where appropriate, will agree to implement a forbearance option. Where forbearance measures are inappropriate

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Monitoring continued

or ineffective, and all other possible avenues have been explored with the borrower to assist them to fulfil their contractual obligations, further collections activity will be undertaken.

For unregulated mortgages, a LPA receiver will be appointed to act in the best interests of the borrower by servicing the mortgage debt, either through continued receipt of rent or through sale of the property, with the proceeds being used to repay the mortgage.

For regulated mortgages, should a borrower be unwilling or unable to pay, litigation proceedings will likely begin. During this process, the borrower will be fully informed and given the opportunity to repay arrears or the full debt, at which point litigation will cease. Should this not be the case, the third party servicer will apply for a possession order to generate proceeds from a sale in order to repay the debt.

In certain circumstances, where a property is sold to repay the mortgage, there may be a shortfall resulting in a portion of the loan remaining outstanding. Starling, either in discussion with Fleet or the third party servicer, may decide to write off this shortfall, or pursue it through other means. This will be considered on a case by case basis.

(b) SME and Retail

When a customer requires forbearance or is in arrears on their organic lending facility, Starling's dedicated Collections function will attempt to contact the customer and support them to clear all arrears and to bring their lending facility back into order.

Starling assesses the individual circumstances of any customer or business in financial difficulties or arrears and treats them fairly and in accordance with regulatory requirements.

For the Bank's BBLS portfolio, post default recovery activity is supported by third party debt collection agencies. BBLS customers in discussion with the third party debt collection agencies will have access to forbearance options in line with the those available through the Bank. PAYG options are only available prior to default.

All Collections team members receive initial and ongoing training on how to support customers in financial difficulty, with additional specialist support available where a customer is identified as being vulnerable. If a customer enters default on their lending facility, the Collections function will issue the required legal and regulatory documentation and, where applicable, correspondence to demand repayment from the borrower. For BBLS facilities, the Bank's post default recovery activity is supported by third party debt collection agencies, who are regulated to undertake this activity and ensure that all regulatory and legal requirements are met, as well as ensuring that customers are treated fairly at all times.

Ongoing quality assurance and outcome testing is also undertaken on the Collections function to monitor the function's performance, with 2LoD also undertaking regular assurance reviews.

For third party originated loans, collections activity is undertaken by the contracted third party. As with lending originated organically, Starling expects all of its third party providers to undertake its collections activities in line with responsible lending requirements.

(iv) Vulnerable Customers

Starling operates a Vulnerable Customer Policy, the objective of which is to set out how Starling ensures customers are identified as vulnerable and treated appropriately in accordance with Starling's values as well as applicable regulatory requirements and guidance, including Consumer Duty. Separately, Starling's responsible lending and collections policies and procedures set out its treatment of customers in financial vulnerability, including the approach to forbearance.

Starling has processes governing the identification and treatment of customers in vulnerable circumstances.

Starling ensures that all staff that are directly in contact with customers are trained to identify vulnerable circumstances and that there are specialist staff available with the appropriate training to support those customers.

Starling undertakes monitoring and assurance work to ensure that the vulnerability policies, processes and controls are designed and operating effectively. Starling is currently enhancing procedures, in line with Consumer Duty regulation, for testing the delivery of fair customer outcomes including ensuring appropriate conduct risk metrics being reported.

For portfolios serviced by third parties, Starling assesses the servicer's vulnerable customer policies to satisfy itself they are aligned to market expectations and regulatory guidance. Adherence to these policies is monitored through regular oversight activities.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Summary Exposures

Given the relative significance of customer lending exposures to the overall Group's credit risk position the following pages are principally focused on customer lending.

Lending Exposure and Impairment Provision, by Stage and Coverage (Audited)

The following table outlines lending exposures and impairment provision by stage and coverage:

As at 31 March 2023	Stage 1 £'000	Stage 2 £'000	Stage 3[1] £'000	Total £'000
Mortgage Lending[1]	3,228,301	121,395	87,093	3,436,789
Mortgage Pipeline (Undrawn)	146,872	–	–	146,872
SME Lending After UK Government Guarantee	91,786	20,797	11,347	123,930
SME Lending	972,862	197,000	234,439	1,404,301
Of which Subject to UK Government Guarantee	(881,076)	(176,203)	(223,092)	(1,280,371)
SME Overdraft Facilities (Undrawn)	5,284	–	–	5,284
Retail Lending	25,530	1,746	5,267	32,543
Retail Overdraft Facilities (Undrawn)	73,565	167	–	73,732
Exposure After Guarantee	**3,571,338**	**144,105**	**103,707**	**3,819,150**
Of which On Balance Sheet	3,345,617	143,938	103,707	3,593,262
Of which Off Balance Sheet	225,721	167	–	225,888
Mortgage Lending	4,275	879	2,699	7,853
Mortgage Pipeline (Undrawn)	177	–	–	177
SME Lending	5,046	4,380	10,755	20,181
SME Overdraft Facilities (Undrawn)	41	–	–	41
Retail Lending	1,091	478	4,927	6,496
Retail Overdraft Facilities (Undrawn)	832	42	–	874
Impairment Provision	**11,462**	**5,779**	**18,381**	**35,622**
Of which On Balance Sheet	10,412	5,737	18,381	34,530
Of which Off Balance Sheet	1,050	42	–	1,092
Mortgage Lending	3,224,026	120,516	84,394	3,428,936
Mortgage Pipeline (Undrawn)	146,695	–	–	146,695
SME Lending	86,740	16,417	592	103,749
SME Overdraft Facilities (Undrawn)	5,243	–	–	5,243
Retail Lending	24,439	1,268	340	26,047
Retail Overdraft Facilities (Undrawn)	72,733	125	–	72,858
Net Exposure	**3,559,876**	**138,326**	**85,326**	**3,783,528**
Of which On Balance Sheet	3,335,205	138,201	85,326	3,558,732
Of which Off Balance Sheet	224,671	125	–	224,796
% Coverage	**0.3%**	**4.0%**	**17.7%**	**0.9%**

1 Included in mortgages stage 3 exposures are POCI loans of £18,907k with an impairment provision of £650k.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Summary Exposures continued

As at 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3[1] £'000	Total £'000
Mortgage Lending[1]	1,142,199	26,124	47,564	1,215,887
Mortgage Pipeline (Undrawn)	252,666	–	–	252,666
SME Lending After UK Government Guarantee	131,699	14,426	3,984	150,109
SME Lending	1,468,051	286,636	296,074	2,050,761
Of which Subject to UK Government Guarantee	(1,336,352)	(272,210)	(292,090)	(1,900,652)
SME Overdraft Facilities (Undrawn)	1,868	–	–	1,868
Retail Lending	37,707	2,912	4,412	45,031
Retail Overdraft Facilities (Undrawn)	67,279	119	–	67,398
Exposure After Guarantee	**1,633,418**	**43,581**	**55,960**	**1,732,959**
Of which On Balance Sheet	1,311,605	43,462	55,960	1,411,027
Of which Off Balance Sheet	321,813	119	–	321,932
Mortgage Lending	524	76	2,621	3,221
Mortgage Pipeline (Undrawn)	154	–	–	154
SME Lending	10,420	2,537	3,778	16,735
SME Overdraft Facilities (Undrawn)	27	–	–	27
Retail Lending	1,489	1,030	3,373	5,892
Retail Overdraft Facilities (Undrawn)	1,023	20	–	1,043
Impairment Provision	**13,637**	**3,663**	**9,772**	**27,072**
Of which On Balance Sheet	12,433	3,643	9,772	25,848
Of which Off Balance Sheet	1,204	20	–	1,224
Mortgage Lending	1,141,675	26,048	44,943	1,212,666
Mortgage Pipeline (Undrawn)	252,512	–	–	252,512
SME Lending	121,279	11,889	206	133,374
SME Overdraft Facilities (Undrawn)	1,841	–	–	1,841
Retail Lending	36,218	1,882	1,039	39,139
Retail Overdraft Facilities (Undrawn)	66,256	99	–	66,355
Net Exposure	**1,619,781**	**39,918**	**46,188**	**1,705,887**
Of which On Balance Sheet	1,299,172	39,819	46,188	1,385,179
Of which Off Balance Sheet	320,609	99	–	320,708
% Coverage	**0.8%**	**8.4%**	**17.5%**	**1.6%**

1 Included in mortgage stage 3 exposures are POCI loans of £18,404k with an impairment provision of £592k.

Principal Risks and Risk Mitigation – Credit Risk continued

Change in the Year

a. Mortgages

During the year, the Group continued to originate buy-to-let mortgages through Fleet, and purchased two portfolios containing a mix of owner occupied and buy-to-let mortgages. The previous forward flow agreement with a third party to acquire owner occupied mortgages ended in August 2022. Total mortgage lending has increased to £3,437m (2022: £1,216m). In addition to this are undrawn mortgage balances of £147m (2022: £253m), relating to committed future mortgage lending through Fleet.

The Impairment Provision for the drawn mortgage portfolio is £8m (2022: £3m). In addition there is an Impairment Provision on the committed future lending of £0.2m (2022: £0.2m). This results in an overall coverage ratio of 0.2% (2022: 0.2%). The Impairment Provision has increased overall due to balance sheet growth, either through organic lending via funding of Fleet or portfolio acquisitions. Increased levels of arrears have been noted, particularly in the acquired portfolios. However, Starling has identified some stress resulting from adverse market conditions and the associated cost of living increases, particularly within the variable rate mortgage portfolios. This has led to a larger proportion of loans in stages 2 and 3. However, this has been offset by ongoing lower level of arrears in the newly originated assets.

Whilst the impact from the cost of living crisis on arrears numbers remains moderate, there is an anticipated uplift in borrowers entering financial difficulty and potentially requiring support. This could also lead to higher arrears levels and, eventually, defaults.

b. SME

During the year the drawn SME portfolio has reduced to £1,404m (2022: £2,051m). In addition to this are undrawn balances of £5m (2022: £2m) relating to SME overdraft facilities.

The Impairment Provision for the drawn SME portfolio is £20m (2022: £17m). In addition there is an Impairment Provision of £41k (2022: £27k) on undrawn SME overdraft facilities. This results in an overall coverage ratio of 15.7% (2022: 11.0%). The change in coverage ratio is largely driven by the seasoning of the loan portfolio, resulting in changes in the staging mix and broader use of SICR and default criteria as borrowers begin to make repayments or take up Government deferred payment options.

The SME portfolio includes UK Government-backed lending schemes, which are shown below:

Government Lending Schemes (Audited)	31 March 2023 #	31 March 2023 £'000	31 March 2022[1] #	31 March 2022[1] £'000
BBLS	50,639	943,530	55,028	1,415,058
CBILS	2,899	322,779	3,857	498,051
RLS	1,795	136,529	1,495	137,381
Government Lending Schemes	**55,333**	**1,402,838**	**60,380**	**2,050,490**

1 Comparative balances have been restated due to the reclassification of Accrued Interest and Guarantee amounts due from HM Treasury from Other Assets to Loans and Advances to Customers. See note 36 for further information.

Performance of the CBILS portfolio continues to track expectations, with prepayment rates on earlier cohorts coming in higher than anticipated, and arrears and default rates performing slightly better than originally expected. Additionally, the BBLS portfolio, while fully guaranteed by the UK Government, continues to perform in line with expectations, with over 65.5% of the portfolio being up to date.

This is partly due to the seamless process available to customers to select a PAYG option via the Bank's online banking solution. The more recent RLS and unguaranteed SME lending remains relatively unseasoned, albeit there are no signs of stress emerging to date. All claims made against the UK Government guarantees have been successful to date.

Principal Risks and Risk Mitigation – Credit Risk continued

	Exposure			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
BBLS as at 31 March 2022 (Represented)	917,407	214,542	283,109	1,415,058
Changes in Credit Risk	(186,300)	(87,279)	273,579	–
Claims Paid by HM Treasury	–	–	(343,927)	(343,927)
Repayments	(112,786)	(13,198)	(1,617)	(127,601)
BBLS as at 31 March 2023	**618,321**	**114,065**	**211,144**	**943,530**

The BBLS scheme was launched to provide financial support to SMEs who may experience financial difficulties as a result of the COVID-19 outbreak. These loans are fully guaranteed by the UK Government. The Bank claims have met the strict assessment criteria and, therefore, no impairment has been recognised in respect of these assets.

The scheme offers a range of forbearance options. As these options are a feature of BBLS rather than a concession granted by the Bank, it is not automatically considered a SICR indicator and therefore, a stage 2 trigger. The Bank relies on existing credit monitoring procedures to identify significant financial difficulties. When credit deterioration is confirmed, the loan is transferred to stage 2.

c. Retail

The drawn Retail portfolio has decreased in the year to £33m (2022: £45m). In addition to this are undrawn balances of £74m (2022: £67m) relating to Retail overdraft facilities. The portfolio continues to perform robustly and benefit from proactive risk management activity. The quality of new business remains good with low early arrears rates observed throughout the year.

The Impairment Provision for the drawn Retail portfolio has increased slightly to £6.5m (2022: £5.9m). In addition to this, a further provision of £874k (2022: £1,043k) is held on undrawn Retail overdraft facilities. This results in an overall coverage ratio of 6.9% (2022: 6.2%).

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposures

Staging Profile of Customer Lending (Audited)

The following table provides additional information on the staging profile of the Group's customer lending, excluding UK Government guarantees, which is key for understanding the asset quality of those portfolios:

31 March 2023	Mortgage £'000	SME £'000	Retail £'000	Total £'000
Loans and Advances to Customers				
Stage 1	3,375,173	97,070	99,095	3,571,338
Stage 2	121,395	20,797	1,913	144,105
Stage 2 – Not Past Due	56,319	19,570	1,479	77,368
Stage 2 – >30 DPD	65,076	1,227	434	66,737
Stage 3[1]	87,093	11,347	5,267	103,707
Exposure After Guarantee	**3,583,661**	**129,214**	**106,275**	**3,819,150**
Impairment Provision				
Stage 1	4,452	5,087	1,923	11,462
Stage 2	879	4,380	520	5,779
Stage 2 – Not Past Due	182	3,523	431	4,136
Stage 2 – >30 DPD	697	857	89	1,643
Stage 3[1]	2,699	10,755	4,927	18,381
Total Impairment Provision	**8,030**	**20,222**	**7,370**	**35,622**
Coverage:				
Stage 1	0.1%	5.2%	1.9%	0.3%
Stage 2	0.7%	21.1%	27.2%	4.0%
Stage 2 – Not Past Due	0.3%	18.0%	29.1%	5.3%
Stage 2 – >30 DPD	1.1%	69.8%	20.5%	2.5%
Stage 3	3.1%	94.8%	93.5%	17.7%
Coverage Ratio	**0.2%**	**15.7%**	**6.9%**	**0.9%**

1 Included in mortgages stage 3 exposures are POCI loans of £18,907k with an impairment provision of £650k.

31 March 2022	Mortgage £'000	SME £'000	Retail £'000	Total £'000
Loans and Advances to Customers				
Stage 1	1,394,865	133,567	104,986	1,633,418
Stage 2	26,124	14,426	3,031	43,581
Stage 2 – Not Past Due	1,504	13,770	1,932	17,206
Stage 2 – >30 DPD	24,620	656	1,099	26,375
Stage 3[1]	47,564	3,984	4,412	55,960
Exposure After Guarantee	**1,468,553**	**151,977**	**112,429**	**1,732,959**
Impairment Provision				
Stage 1	678	10,447	2,512	13,637
Stage 2	76	2,537	1,050	3,663
Stage 2 – Not Past Due	2	2,005	458	2,465
Stage 2 – >30 DPD	74	532	592	1,198
Stage 3[1]	2,621	3,778	3,373	9,772
Total Impairment Provision	**3,375**	**16,762**	**6,935**	**27,072**
Coverage:				
Stage 1	–%	7.8%	2.4%	0.8%
Stage 2	0.3%	17.6%	34.6%	8.4%
Stage 2 – Not Past Due	0.1%	14.6%	23.7%	14.3%
Stage 2 – >30 DPD	0.3%	81.1%	53.9%	4.5%
Stage 3	5.5%	94.8%	76.5%	17.5%
Coverage Ratio	**0.2%**	**11%**	**6.2%**	**1.6%**

1 Included in mortgages stage 3 exposures are POCI loans of £18,404k with an impairment provision of £592k.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Stage 2 Balances (Audited)

There are a number of reasons why a loan could be subject to a stage 2 lifetime impairment provision. The following table highlights the relevant trigger point leading to a loan being classed as stage 2:

	31 March 2023			31 March 2022		
Stage 2 Analysis:	Exposure After Guarantee £'000	Impairment Provision £'000	Impairment Provision %	Exposure After Guarantee £'000	Impairment Provision £'000	Impairment Provision %
Drawn Facilities:						
Over 30 DPD	66,777	2,052	3.1%	25,644	1,680	6.6%
In Forbearance	23,028	441	1.9%	4,796	226	4.7%
Increase in PD Since Origination	54,133	3,244	6.0%	13,022	1,737	13.3%
Total Drawn Facilities	**143,938**	**5,737**	**4.0%**	**43,462**	**3,643**	**8.4%**
Undrawn Facilities:						
In Forbearance	15	4	26.7%	–	–	–%
Increase in PD Since Origination	152	38	25.0%	119	20	16.8%
Total Undrawn Facilities	**167**	**42**	**25.1%**	**119**	**20**	**16.8%**
Total Facilities	**144,105**	**5,779**	**4.0%**	**43,581**	**3,663**	**8.4%**

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Sectoral Concentration (Audited)

The table below provides information on the sectoral concentration of the maximum exposure to credit risk. Concentration is important for understanding the asset quality of the Group's portfolio:

31 March 2023	Total £'000	Total %
Mortgage:		
Buy-to-let	2,216,040	43.5%
Owner Occupied	1,367,621	26.8%
SME:		
Agriculture and Energy	13,687	0.3%
Manufacturing	123,119	2.4%
Construction	199,167	3.9%
Wholesale and Retail Trade	200,645	3.9%
Transportation and Storage	62,773	1.2%
Accommodation and Food Service Activities	101,713	2.0%
Information and Communication	134,983	2.6%
Real Estate Activities	69,600	1.4%
Professional, Scientific and Technical Activities	159,925	3.1%
Administrative and Support Service Activities	150,602	3.0%
Education, Human Health and Social Work	82,608	1.6%
Other Service Activities	110,763	2.2%
Retail:		
Households	106,275	2.1%
Exposure Before Impairment Provision and UK Government Guarantee	**5,099,521**	**100%**

31 March 2022	Total £'000	Total %
Mortgage:		
Buy-to-let	405,694	11.2%
Owner Occupied	1,062,860	29.3%
SME:		
Agriculture and Energy	25,021	0.7%
Manufacturing	151,442	4.2%
Construction	254,995	7.0%
Wholesale and Retail Trade	332,478	9.0%
Transportation and Storage	92,035	2.5%
Accommodation and Food Service Activities	108,598	3.0%
Information and Communication	202,867	5.6%
Real Estate Activities	86,939	2.4%
Professional, Scientific and Technical Activities	277,148	7.6%
Administrative and Support Service Activities	220,756	6.1%
Education, Human Health and Social Work	108,182	3.0%
Other Service Activities	192,167	5.3%
Retail:		
Households	112,429	3.1%
Exposure Before Impairment Provision and UK Government Guarantee	**3,633,611**	**100%**

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Credit Risk Exposure and Impairment Provision by Internal IFRS 9 PD Rating and IFRS 9 Stage Allocation (Audited)

The distribution of the Group's credit risk exposures, net of UK Government guarantees, by internal PD rating is analysed below:

31 March 2023

	Exposure After Guarantee				Impairment Provision			
Probability of Default:	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<0.25%	358,211	286	–	358,497	315	5	–	320
0.25% – <0.5%	300,306	41	–	300,347	221	5	–	226
0.5% – <0.75%	699,614	11	–	699,625	806	–	–	806
0.75% – <1.0%	571,574	145	–	571,719	726	8	–	734
1.0% – <2.5%	1,283,914	2,674	–	1,286,588	2,606	30	–	2,636
2.5% – <10.0%	305,819	28,530	–	334,349	5,599	2,629	–	8,228
10.0% – <100%	51,900	112,418	–	164,318	1,189	3,102	–	4,291
Default	–	–	103,707	103,707	–	–	18,381	18,381
Total Exposure	**3,571,338**	**144,105**	**103,707**	**3,819,150**	**11,462**	**5,779**	**18,381**	**35,622**
Split by Type								
Mortgage	3,375,173	121,395	87,093	3,583,661	4,452	879	2,699	8,030
SME	97,070	20,797	11,347	129,214	5,087	4,380	10,755	20,222
Retail	99,095	1,913	5,267	106,275	1,923	520	4,927	7,370
Total Exposure	**3,571,338**	**144,105**	**103,707**	**3,819,150**	**11,462**	**5,779**	**18,381**	**35,622**

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Credit Risk Exposure and Impairment Provision by Internal IFRS 9 PD Rating and IFRS 9 Stage Allocation (Audited) continued

31 March 2022

	Exposure After Guarantee				Impairment Provision			
Probability of Default:	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<0.25%	640,443	237	–	640,680	90	2	–	92
0.25% – <0.5%	202,108	15	–	202,123	133	–	–	133
0.5% – <0.75%	136,843	393	–	137,236	189	–	–	189
0.75% – <1.0%	143,898	25	–	143,923	171	2	–	173
1.0% – <2.5%	342,906	934	–	343,840	1,269	34	–	1,303
2.5% – <10.0%	153,180	37,309	–	190,489	9,886	1,994	–	11,880
10.0% – <100%	14,040	4,668	–	18,708	1,899	1,631	–	3,530
Default	–	–	55,960	55,960	–	–	9,772	9,772
Total Exposure	**1,633,418**	**43,581**	**55,960**	**1,732,959**	**13,637**	**3,663**	**9,772**	**27,072**
Split by Type								
Mortgage	1,394,865	26,124	47,564	1,468,553	678	76	2,621	3,375
SME	133,567	14,426	3,984	151,977	10,447	2,537	3,778	16,762
Retail	104,986	3,031	4,412	112,429	2,512	1,050	3,373	6,935
Total Exposure	**1,633,418**	**43,581**	**55,960**	**1,732,959**	**13,637**	**3,663**	**9,772**	**27,072**

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Movement in Loans and Advances to Customers and Impairment Provision (Audited)

The following table shows the movement in the total Impairment Provision and lending exposure, net of UK Government guarantees, during the period. The first two tables outline drawn balance sheet positions and the tables after provide undrawn and off balance sheet positions. The tables thereafter provide information at asset class level:

Total Drawn

	Exposure After Guarantee				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[3] £'000	Total £'000
As at 1 April 2022	**1,311,605**	**43,462**	**55,960**	**1,411,027**	**12,433**	**3,643**	**9,772**	**25,848**
Movements:								
Originations[1]	2,359,718	25,904	22,482	2,408,104	4,366	717	1,236	6,319
Repayments	(203,365)	(11,276)	(10,566)	(225,207)	(6,482)	(807)	(2,071)	(9,360)
Changes in Credit Risk[2]	–	–	–	–	1,200	2,533	8,202	11,935
Amounts Written Off	(327)	(217)	(118)	(662)	(21)	(38)	(153)	(212)
Impairment Charge / (Release) Recognised					**(937)**	**2,405**	**7,214**	**8,682**
Stage Transfers:								
To Stage 1	11,730	(9,680)	(2,050)	–	727	(644)	(83)	–
To Stage 2	(101,844)	107,492	(5,648)	–	(1,128)	1,518	(390)	–
To Stage 3	(31,900)	(11,747)	43,647	–	(683)	(1,185)	1,868	–
As at 31 March 2023	**3,345,617**	**143,938**	**103,707**	**3,593,262**	**10,412**	**5,737**	**18,381**	**34,530**
Coverage Ratio					**0.3%**	**4.0%**	**17.7%**	**1.0%**

1 Includes loans at reporting date stage, rather than stage at origination or acquisition. Includes loans acquired. See note 12, on page 154.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

3 Included in stage 3 are POCI loans of £18,907k with an impairment provision of £650k. Of this £5,753k represents POCI loans acquired in the year. Repayments in the year totalled £5,249k.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Total Drawn

	Exposure After Guarantee				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[3] £'000	Total £'000
As at 1 April 2021	**173,654**	**13,957**	**3,496**	**191,107**	**9,662**	**3,226**	**2,735**	**15,623**
Movements:								
Originations[1]	1,339,600	1,742	539	1,341,881	2,810	140	122	3,072
Repayments	(117,043)	(3,742)	(447)	(121,232)	(1,795)	(287)	(188)	(2,270)
Changes in Credit Risk[2]	–	–	–	–	7,488	661	1,546	9,695
Amounts Written Off	(261)	(247)	(221)	(729)	(12)	(72)	(188)	(272)
Impairment Charge / (Release) Recognised					**8,491**	**442**	**1,292**	**10,225**
Stage Transfers:								
To Stage 1	5,294	(5,238)	(56)	–	553	(506)	(47)	–
To Stage 2	(38,276)	38,342	(66)	–	(1,502)	1,538	(36)	–
To Stage 3	(51,363)	(1,352)	52,715	–	(4,771)	(1,057)	5,828	–
As at 31 March 2022	**1,311,605**	**43,462**	**55,960**	**1,411,027**	**12,433**	**3,643**	**9,772**	**25,848**
Coverage Ratio					**0.9%**	**8.4%**	**17.5%**	**1.8%**

1 Includes loans at reporting date stage, rather than stage at origination or acquisition. Includes loans acquired. See note 12, on page 154.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

3 Included in stage 3 are POCI loans of £18,404k with an impairment provision of £592k acquired during the year.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Total Undrawn

	Exposure				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 April 2022	**321,813**	**119**	**–**	**321,932**	**1,204**	**20**	**–**	**1,224**
Movements:								
Drawdowns or Expirations[1]	(95,769)	(164)	(111)	(96,044)	174	5	–	179
Changes in Credit Risk[2]	–	–	–	–	(329)	22	(4)	(311)
Impairment Charge / (Release) Recognised					**(155)**	**27**	**(4)**	**(132)**
Stage Transfers:								
To Stage 1	81	(81)	–	–	17	(17)	–	–
To Stage 2	(294)	294	–	–	(12)	12	–	–
To Stage 3	(110)	(1)	111	–	(4)	–	4	–
As at 31 March 2023	**225,721**	**167**	**–**	**225,888**	**1,050**	**42**	**–**	**1,092**
Coverage Ratio					**0.5%**	**25.1%**	**–%**	**0.5%**

1 Includes loans at reporting date stage, rather than stage at origination.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Total Undrawn

	Exposure				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 April 2021	72,685	927	–	73,612	1,352	281	–	1,633
Movements:								
Approvals, Drawdowns or Expirations[1]	248,804	(389)	(95)	248,320	219	(49)	(2)	168
Changes in Credit Risk[2]	–	–	–	–	(552)	(21)	(4)	(577)
Impairment Charge / (Release) Recognised					**(333)**	**(70)**	**(6)**	**(409)**
Stage Transfers:								
To Stage 1	669	(664)	(5)	–	190	(190)	–	–
To Stage 2	(258)	258	–	–	(4)	4	–	–
To Stage 3	(87)	(13)	100	–	(1)	(5)	6	–
As at 31 March 2022	321,813	119	–	321,932	1,204	20	–	1,224
Coverage Ratio					0.4%	16.8%	–%	0.4%

1 Includes loans at reporting date stage, rather than stage at origination.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Mortgages – Drawn

	Exposure				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3[3] £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[1,3] £'000	Total £'000
As at 1 April 2022	**1,142,199**	**26,124**	**47,564**	**1,215,887**	**524**	**76**	**2,621**	**3,221**
Movements:								
Originations[1]	2,339,282	23,637	19,676	2,382,595	3,454	266	739	4,459
Repayments	(148,324)	(4,424)	(8,945)	(161,693)	(285)	(36)	(1,756)	(2,077)
Changes in Credit Risk[2]	–	–	–	–	574	204	1,472	2,250
Amounts Written Off	–	–	–	–	–	–	–	–
Impairment Charge / (Release) Recognised					**3,743**	**434**	**455**	**4,632**
Stage Transfers:								
To Stage 1	4,427	(3,797)	(630)	–	38	(5)	(33)	–
To Stage 2	(83,141)	88,712	(5,571)	–	(22)	393	(371)	–
To Stage 3	(26,142)	(8,857)	34,999	–	(8)	(19)	27	–
As at 31 March 2023	**3,228,301**	**121,395**	**87,093**	**3,436,789**	**4,275**	**879**	**2,699**	**7,853**
Coverage Ratio					**0.1%**	**0.7%**	**3.1%**	**0.2%**

1 Includes loans at reporting date stage, rather than stage at origination or acquisition. Includes loans acquired in the year, see note 12.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

3 Included in mortgage stage 3 exposures are POCI loans of £18,907k with an impairment provision of £650k. Of this £5,753k represents POCI loans acquired in the year. Repayments in the year totalled £5,249k.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Mortgages – Drawn

	Exposure				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3[3] £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[3] £'000	Total £'000
As at 1 April 2021	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Movements:								
Originations[1]	1,269,423	–	–	1,269,423	1,537	–	–	1,537
Repayments	(53,536)	–	–	(53,536)	(65)	–	–	(65)
Changes in Credit Risk[2]	–	–	–	–	734	(8)	1,023	1,749
Amounts Written Off	–	–	–	–	–	–	–	–
Impairment Charge / (Release) Recognised					**2,206**	**(8)**	**1,023**	**3,221**
Stage Transfers:								
To Stage 1	–	–	–	–	–	–	–	–
To Stage 2	(26,124)	26,124	–	–	(84)	84	–	–
To Stage 3	(47,564)	–	47,564	–	(1,598)	–	1,598	–
As at 31 March 2022	**1,142,199**	**26,124**	**47,564**	**1,215,887**	**524**	**76**	**2,621**	**3,221**
Coverage Ratio					**–%**	**0.3%**	**5.5%**	**0.3%**

1 Includes loans at reporting date stage, rather than stage at origination or acquisition. Includes loans acquired in the year, see note 12.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

3 Included in mortgage stage 3 exposures are POCI loans of £18,404k with an impairment provision of £592k acquired during the year.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

SME – Drawn

	Exposure After Guarantee				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 April 2022	**131,699**	**14,426**	**3,984**	**150,109**	**10,420**	**2,537**	**3,778**	**16,735**
Movements:								
Originations[1]	13,273	1,869	580	15,722	828	427	399	1,654
Repayments	(35,390)	(5,892)	(694)	(41,976)	(5,649)	(436)	(125)	(6,210)
Changes in Credit Risk[2]	–	–	–	–	627	2,170	5,205	8,002
Amounts Written Off	–	–	75	75	–	–	–	–
Impairment Charge / (Release) Recognised					**(4,194)**	**2,161**	**5,479**	**3,446**
Stage Transfers:								
To Stage 1	5,185	(5,185)	–	–	512	(512)	–	–
To Stage 2	(17,923)	17,923	–	–	(1,064)	1,064	–	–
To Stage 3	(5,058)	(2,344)	7,402	–	(628)	(870)	1,498	–
As at 31 March 2023	**91,786**	**20,797**	**11,347**	**123,930**	**5,046**	**4,380**	**10,755**	**20,181**
Coverage Ratio					**5.5%**	**21.1%**	**94.8%**	**16.3%**

1 Includes loans at reporting date stage, rather than stage at origination.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

SME – Drawn

	Exposure After Guarantee				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 April 2021	**110,271**	**8,500**	**470**	**119,241**	**6,860**	**1,361**	**460**	**8,681**
Movements:								
Originations[1]	64,732	1,425	318	66,475	1,244	117	44	1,405
Repayments	(33,210)	(2,387)	(10)	(35,607)	(1,433)	(87)	(10)	(1,530)
Changes in Credit Risk[2]	–	–	–	–	7,327	661	191	8,179
Amounts Written Off	–	–	–	–	–	–	–	–
Impairment Charge / (Release) Recognised					**7,138**	**691**	**225**	**8,054**
Stage Transfers:								
To Stage 1	3,401	(3,401)	–	–	148	(148)	–	–
To Stage 2	(10,826)	10,826	–	–	(1,148)	1,148	–	–
To Stage 3	(2,669)	(537)	3,206	–	(2,578)	(515)	3,093	–
As at 31 March 2022	**131,699**	**14,426**	**3,984**	**150,109**	**10,420**	**2,537**	**3,778**	**16,735**
Coverage Ratio					**7.9%**	**17.6%**	**94.8%**	**11.1%**

1 Includes loans at reporting date stage, rather than stage at origination.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Retail – Drawn

	Exposure				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 April 2022	**37,707**	**2,912**	**4,412**	**45,031**	**1,489**	**1,030**	**3,373**	**5,892**
Movements:								
Originations[1]	7,161	399	2,227	9,787	83	24	98	205
Repayments	(19,651)	(960)	(927)	(21,538)	(548)	(335)	(189)	(1,072)
Changes in Credit Risk[2]	–	–	–	–	(1)	160	1,526	1,685
Amounts Written Off	(327)	(217)	(193)	(737)	(21)	(38)	(155)	(214)
Impairment Charge / (Release) Recognised				–	**(487)**	**(189)**	**1,280**	**604**
Stage Transfers:								
To Stage 1	2,119	(699)	(1,420)	–	177	(127)	(50)	–
To Stage 2	(780)	857	(77)	–	(42)	60	(18)	–
To Stage 3	(699)	(546)	1,245	–	(46)	(296)	342	–
As at 31 March 2023	**25,530**	**1,746**	**5,267**	**32,543**	**1,091**	**478**	**4,927**	**6,496**
Coverage Ratio					**4.3%**	**27.4%**	**93.5%**	**20.0%**

1 Includes loans at reporting date stage, rather than stage at origination.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Retail – Drawn

	Exposure				Impairment Provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 April 2021	**63,383**	**5,457**	**3,027**	**71,867**	**2,801**	**1,865**	**2,276**	**6,942**
Movements:								
Originations[1]	5,445	315	221	5,981	31	23	78	132
Repayments	(30,297)	(1,354)	(437)	(32,088)	(298)	(200)	(179)	(677)
Changes in Credit Risk[2]	–	–	–	–	(572)	7	332	(233)
Amounts Written Off	(261)	(247)	(221)	(729)	(12)	(72)	(188)	(272)
Impairment Charge / (Release) Recognised					**(851)**	**(242)**	**43**	**(1,050)**
Stage Transfers:								
To Stage 1	1,893	(1,837)	(56)	–	405	(358)	(47)	–
To Stage 2	(1,326)	1,393	(67)	–	(270)	307	(37)	–
To Stage 3	(1,130)	(815)	1,945	–	(596)	(542)	1,138	–
As at 31 March 2022	**37,707**	**2,912**	**4,412**	**45,031**	**1,489**	**1,030**	**3,373**	**5,892**
Coverage Ratio					**3.9%**	**35.4%**	**76.5%**	**13.1%**

1 Includes loans at reporting date stage, rather than stage at origination.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Forbearance (Audited)

Forbearance is offered when a customer experiences long term financial difficulty. In such circumstances the Group uses judgement in assessing whether a SICR indicator, impairment or default event has occurred and applies forbearance measures to support the customer:

	Loans Subject to Forbearance				
31 March 2023	No. of Loans	Exposure After Guarantee £'000	% of Portfolio	Impairment Allowance £'000	Coverage as %
Formal Arrangements	457	387	0.01%	295	76.2%
Temporary Arrangements	2	173	0.005%	–	–%
Payment Arrangement	752	53,082	1.48%	712	1.3%
Payment Holiday	117	102	0.003%	27	26.5%
Legal	1,005	668	0.02%	515	77.1%
Term Extension	98	1,477	0.04%	227	15.4%
Other	57	281	0.01%	139	49.5%
Total Loans in Forbearance	**2,488**	**56,170**	**1.6%**	**1,915**	**3.4%**

	Loans Subject to Forbearance				
31 March 2022	No. of Loans	Exposure After Guarantee £'000	% of Portfolio	Impairment Allowance £'000	Coverage as %
Formal Arrangements	399	289	0.02%	223	77.2%
Temporary Arrangements	–	–	–%	–	–%
Payment Arrangement	673	26,454	1.87%	677	2.6%
Payment Holiday	106	93	0.01%	26	28.0
Legal	779	527	0.04%	408	77.4%
Term Extension	–	–	–%	–	–%
Other	164	646	0.05%	41	6.3%
Total Loans in Forbearance	**2,121**	**28,009**	**2.0%**	**1,375**	**4.9%**

Further analysis of forbearance balances by type is provided in the financial statements in note 31, set out on page 192.

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Collateral (Audited)

Within Loans and Advances to Customers, the Group obtains collateral for its exposures in the mortgage portfolio. Amounts may be secured by a first or second charge over residential property. The quality of the Group's mortgage portfolio can be considered with reference to the average Loan-to-Value (LTV), as set out in the tables below:

Mortgage LTV 31 March 2023	Owner Occupied[1] £'000	Buy-to-let £'000	Total £'000	Total as %
Less than 50%	430,045	88,888	518,933	15.1%
50% to 60%	239,797	174,489	414,286	12.1%
60% to 70%	262,019	672,099	934,118	27.2%
70% to 80%	242,040	1,108,902	1,350,942	39.3%
80% to 90%	192,492	24,790	217,282	6.3%
90% to 100%	1,228	–	1,228	–%
Total Mortgage Lending Before Impairment Provision	**1,367,621**	**2,069,168**	**3,436,789**	**100.0%**

Mortgage LTV 31 March 2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Total as %
Less than 50%	430,943	55,401	32,589	518,933	15.1%
50% to 60%	372,206	23,518	18,562	414,286	12.1%
60% to 70%	891,657	23,562	18,899	934,118	27.2%
70% to 80%	1,323,188	15,915	11,839	1,350,942	39.3%
80% to 90%	209,079	2,999	5,204	217,282	6.3%
90% to 100%	1,228	–	–	1,228	–%
Total Mortgage Lending Before Impairment Provision	**3,228,301**	**121,395**	**87,093**	**3,436,789**	**100.0%**

1 Includes £40m of mortgage lending secured by a second charge over residential property.

Mortgage LTV 31 March 2022	Owner Occupied £'000	Buy-to-let £'000	Total £'000	Total as %
Less than 50%	360,978	6,856	367,834	30.3%
50% to 60%	172,830	16,038	188,868	15.5%
60% to 70%	142,729	40,861	183,590	15.1%
70% to 80%	104,114	177,411	281,525	23.2%
80% to 90%	177,252	1,861	179,113	14.7%
90% to 100%	14,957	–	14,957	1.2%
Total Mortgage Lending Before Impairment Provision	**972,860**	**243,027**	**1,215,887**	**100.0%**

Mortgage LTV 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Total as %
Less than 50%	331,644	11,807	24,383	367,834	30.3%
50% to 60%	170,227	7,908	10,733	188,868	15.5%
60% to 70%	168,037	5,498	10,054	183,589	15.1%
70% to 80%	279,214	645	1,667	281,526	23.2%
80% to 90%	178,386	–	727	179,113	14.7%
90% to 100%	14,691	266	–	14,957	1.2%
Total Mortgage Lending Before Impairment Provision	**1,142,199**	**26,124**	**47,564**	**1,215,887**	**100.0%**

Principal Risks and Risk Mitigation – Credit Risk continued

Credit Risk Exposure continued

Mortgage Credit Performance (Audited)

During the year, the Group continued to originate buy-to-let mortgages through its wholly-owned subsidiary Fleet, and purchased two additional portfolios containing a mix of owner occupied and buy-to-let mortgages. The mortgage portfolios contain a mix of customers on fixed-rate repayment terms where the customers' rates of interest are fixed for periods of up to seven years, and those on variable rates. For the portfolio of interest only mortgages, customers are only required to make payments of interest for the duration of the mortgage with the customer responsible for repaying the principal outstanding at the end of the loan term.

31 March 2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Mortgage Lending:				
Buy-to-let	2,059,968	5,464	3,736	2,069,168
Of which Interest Only	1,981,660	5,464	3,065	1,990,189
Owner Occupied	1,168,333	115,931	83,357	1,367,621
Of which Interest Only	324,213	71,853	57,500	453,566
Total Mortgage Lending	**3,228,301**	**121,395**	**87,093**	**3,436,789**
Of which Interest Only	2,305,873	77,317	60,565	2,443,755

31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Mortgage Lending:				
Buy-to-let	243,028	–	–	243,028
Of which Interest Only	181,854	–	–	181,854
Owner Occupied	899,171	26,124	47,564	972,859
Of which Interest Only	389,432	18,636	36,729	444,797
Total Mortgage Lending	**1,142,199**	**26,124**	**47,564**	**1,215,887**
Of which Interest Only	571,286	18,636	36,729	626,651

Interest Only Maturity Profile	31 March 2023 £'000	31 March 2022 £'000
Term Expired	16,404	16,041
< 1 year	7,570	7,495
1 to 5 years	82,000	77,246
5 to 15 years	545,591	357,462
>15 years	1,792,190	168,407
Interest Only	**2,443,755**	**626,651**

Further information on mortgage lending and impairment provisions is shown in note 31, as set out on page 182.

Principal Risks and Risk Mitigation continued

Wholesale Credit Risk and Counterparty Credit Risk

Risk Assessment

Starling distinguishes between credit risk arising from wholesale and counterparty exposures (covered in this section) and customer lending exposures which are covered on pages 60 to 68.

Wholesale credit risk is the risk of loss that may arise from an institutional borrower failing to make required payments. Counterparty credit risk is the risk that the counterparty to a market transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive Economic Value (EV) at the time of default.

Starling's wholesale credit risk arises from balance sheet management and investments in highly rated debt securities that are included within the HQLA portfolio. Counterparty credit risk arises from hedging balance sheet risks with market counterparties. Interest rate swaps are cleared through the London Clearing House (LCH) and counterparty credit risk also results from FX swap and spot transactions.

Risk Measurement

The exposures to wholesale counterparties are measured and monitored daily and maintained within risk appetite set by the Board. Limits are set for overall large exposures, single name, sector and product exposures.

Risk Management

Exposures are managed through credit analysis in line with methodologies agreed by the WCRC. Exposures are managed within limits. Ongoing monitoring uses market and rating agency data.

Risk Appetite

Starling aims never to become over-reliant upon any wholesale counterparty to the extent that a failure by that counterparty would have a severe detrimental impact upon Starling. Starling takes wholesale credit risk for its cash management activities and through its HQLA portfolio.

Risk Mitigation

Starling's counterparties are established market makers in the swap and FX markets and are highly rated by independent rating agencies. Starling has ISDA Master Agreements and Credit Support Annexes and Global Master Repurchase agreements for two-way daily collateral margining. Interest rate swaps are cleared via clearing house members with margin held in a segregated account.

Risk Monitoring

Wholesale credit risk exposures and counterparty credit risk exposures are reported daily and any breaches to limits or trigger levels are escalated in line with policies to senior management.

WCRC meets periodically to monitor wholesale credit risk exposures, review changes to models and methodologies for measuring the risk, and to recommend any changes in risk appetite to the Board.

Stress Testing

Scenario testing of counterparty defaults is undertaken as part of the ICAAP.

Principal Risks and Risk Mitigation – Wholesale Credit Risk and Counterparty Credit Risk continued

Credit Quality of Debt Securities Held (Unaudited)

The following tables set out information about the Group's credit quality of Debt Securities. Ratings of AAA to AA are derived from external credit agencies.

	31 March 2023		
	AAA	AA	Total
Gilts[1]	–	202,653	202,653
Sub-sovereign, Supranational and Agency Bonds	1,325,927	16,146	1,342,073
Covered Bonds	925,473	–	925,473
Residential Mortgage-Backed Securities	48,041	–	48,041
Total Debt Securities	**2,299,441**	**218,799**	**2,518,240**

	31 March 2022		
	AAA	AA	Total
Gilts	328,297	1,895	330,192
Sub-sovereign, Supranational and Agency Bonds	1,255,801	119,177	1,374,978
Covered Bonds	613,429	–	613,429
Residential Mortgage-Backed Securities	11,662	–	11,662
Total Debt Securities	2,209,189	121,072	2,330,261

1 T-bills are unrated and have been assigned the same rating as the UK sovereign issuer at AA for 31 March 2023.

The Group has reviewed each asset within its debt securities portfolio to ensure that the underlying asset remains of at least investment grade. Consequently, the Group has not recognised an Impairment Provision as it observes that any difference between the carrying value and the fair value of these investments is a temporary diminution in value that arises from short-term movements in market prices and does not reflect any permanent deterioration in credit worthiness or increase in PD.

Credit Quality of Loans and Advances to Banks (Unaudited)

See page 61 for credit quality of Loans and Advances to Banks. No impairment has been recognised against the carrying value of the Loans and Advances to Banks as amounts placed are with institutions rated A or above and the PD has been assessed to be remote.

Offsetting of Financial Assets and Liabilities (Audited)

The following relates to derivatives which have not been offset in the Statement of Financial Position, but for which the Group has enforceable netting agreements and holds variation margin collateral.

Netting arrangements do not necessarily result in an offset of derivative assets and liabilities unless the right of set-off is not contingent on any future events and is legally enforceable, and the intention is to settle on a net basis as per IAS 32. As the Group usually settles these transactions on a gross basis, the derivative assets and liabilities, shown under netting arrangements in the table below, have not been offset in the Statement of Financial Position. The Group enters into derivatives with various counterparties which are governed by industry standard master netting agreements. The Group holds and provides collateral in respect of transactions covered by these agreements. During the year, all interest rate swaps were novated to clear through the LCH.

Group 31 March 2023	As Reported £'000	Netting Agreements £'000	Cash Collateral[1] £'000	Net amounts After Netting £'000
Derivative Assets	221,774	(54,107)	(169,561)	(1,894)
Derivative Liabilities	(55,452)	54,107	–	(1,345)
Amounts Subject to Netting	**166,322**	**–**	**(169,561)**	**(3,239)**

1 Cash collateral includes variation margin received but excludes initial margin placed with counterparties.

Group 31 March 2022	As Reported £'000	Netting Agreements £'000	Cash Collateral £'000	Net Amounts After Netting £'000
Derivative Assets	98,056	(330)	(81,380)	16,346
Derivative Liabilities	(330)	330	–	–
Amounts Subject to Netting	**97,726**	**–**	**(81,380)**	**16,346**

Principal Risks and Risk Mitigation continued

Liquidity and Funding Risk

Risk Assessment

Liquidity risk is the risk that Starling does not have available sufficient financial resources to enable it to meet its obligations as they fall due. This includes failure to have the right type and quantity of funds, in the right place, at the right time and in the correct currency.

Funding risk is the risk that Starling does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations as they fall due.

Starling's sources of (non-equity) funding are from Retail current accounts, SME current accounts, Fixed Term Deposits, BaaS settlement accounts and from the BoE's TFSME. TFSME and some short term repurchase agreements (repos) are the only forms of wholesale funding that the Group currently utilises. There are no repos outstanding at 31 March 2023.

The primary drivers of liquidity and funding risk for Starling are:

- Customer funding risk: the risk that customer deposit balances fall; and
- Future balance sheet growth: the risk that Starling's deposit liabilities do not grow as planned while its assets grow according to, or faster than, the business plans.

Risk Appetite

Starling's Board-approved risk appetite limits ensure compliance with the Overall Liquidity Adequacy Rule (OLAR). The Group has a comprehensive suite of metrics that not only cover minimum regulatory requirements (LCR and NSFR), but also ensure that the liquid assets are maintained to cover both a short term stress and a longer term stress. Additionally, the Group sets limits on asset encumbrance.

The Group ensures that it will, at all times:

- Maintain sufficient liquidity to enable it to successfully meet its financial obligations as and when they fall due;
- Maintain sufficient HQLAs to maintain liquidity metrics above its required internal levels and comfortably above regulatory minimum levels; and
- Maintain its compliance with the OLAR through its Risk Appetite Framework.

Risk Measurement

Liquidity risk is measured in accordance with the PRA's OLAR.

Management of Liquidity Risk

To protect itself against a liquidity stress, Starling maintains a liquidity buffer of central bank cash and HQLAs. Details of the key liquidity risks and how they are managed are set out in the Group's ILAAP, which is approved by the Board. Liquidity risk exposures are subject to assessment under both regulatory and internal requirements.

Stress Testing

Liquidity risk stress testing is undertaken at least annually as part of the Group's ILAAP, its Recovery Plan and on an ad-hoc basis to analyse any proposed changes to the business plan. Key risk drivers are identified and severe but plausible stress tests are developed based on these. Idiosyncratic, market, combined and reverse stress tests are undertaken.

Risk Mitigation

Liquidity risk is mitigated through the management of the risks outlined above and through holding HQLAs. The size of the liquidity buffer is calibrated in accordance with the risk appetite metrics. This requires the Group to hold sufficient liquid assets for severe but plausible market wide and idiosyncratic stress events. The Group is able to sell or repo investments that form part of its HQLA buffer with market participants and has pre-positioned assets with the BoE which it can use as part of the BoE's SMF operations.

Starling maintains a liquidity contingency plan as part of the Group's Recovery Plan, which includes details of the actions the Group could take to recover from a liquidity stress event. Solvent wind down planning is undertaken to understand the liquidity requirements of the Group if a solvent wind down was to occur.

Principal Risks and Risk Mitigation – Liquidity and Funding Risk continued

Risk Monitoring

The liquidity metrics and early warning indicators include triggers. Monitoring and reporting is provided to senior management daily, ALCO monthly, BRC quarterly and regularly to the Board.

ALCO is responsible for monitoring and oversight of Liquidity risk. Treasury reports and escalates breaches of limits / triggers to senior management and to ALCO. 2LoD escalates breaches to the BRC and to the Board as appropriate.

Change in the Year

Starling's liquidity position has remained comfortably in excess of its risk appetite limits throughout the year. As at 31 March 2023, the Group's LCR was 438% (2022: 513%). The deposit base continued to grow throughout the year, from £9.0bn to £10.6bn.

As at 31 March 2023 the Group has an NSFR of 245% (2022: 261%). The NSFR measures the stability of funding sources and has remained comfortably above the minimum regulatory requirement of 100% throughout the year.

Although the deposit base has grown, both the LCR and NSFR have declined slightly year-on-year as Starling continues to grow its asset base.

Further information on Liquidity risk is provided in the financial statements in note 31, set out on page 192.

Sources of Funding (Audited)

The tables below provide an overview of the Group's sources of funding, the LCR and the liquid assets portfolio.

	31 March 2023		31 March 2022	
	£'000	%	£'000	%
SME Deposits	5,987,977	46.7%	5,001,484	44.2%
Retail Deposits	4,395,297	34.3%	3,907,633	34.6%
Payment Services	85,955	0.7%	118,296	1.0%
Fixed Term Deposits	82,591	0.6%	–	–%
Total Customer Deposits	10,551,820	82.3%	9,027,413	79.8%
Bank of England	2,220,870	17.3%	2,202,441	19.5%
Deposits from other Banks	53,436	0.4%	81,380	0.7%
Total Funding	**12,826,126**	**100.0%**	**11,311,234**	**100.0%**

Liquidity Coverage Ratio (Unaudited)	31 March 2023 £'000	31 March 2022 £'000
Eligible Liquidity Buffer	6,258,356	6,537,364
Net Stress Outflows	(1,429,049)	(1,275,283)
Surplus	**4,829,307**	**5,262,081**
Liquidity Coverage Ratio	**438%**	**513%**

Group / Company (Unaudited)	31 March 2023 £'000	31 March 2022 £'000
Balances with BoE	5,526,888	5,656,779
Gilts	51,771	228,674
Sub-sovereign, Supranational and Agency Bonds	163,810	136,968
Covered Bonds	479,665	506,166
Residential Mortgage-Backed Securities	36,222	8,777
Total HQLA	**6,258,356**	**6,537,364**

Encumbered Assets by Asset Class (Audited)

Starling manages the level of asset encumbrance to ensure appropriate volumes of assets are maintained to support future planned and potential stressed funding requirements. Encumbered assets include assets supporting drawings under the TFSME and assets used as collateral for payment systems.

	Encumbered		Unencumbered		Total	
	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
Debt Securities	1,635,292	1,359,777	844,258	947,109	2,479,550	2,306,886
Loans and Advances to Banks	389,005	324,170	5,720,699	5,783,111	6,109,704	6,107,281
Loans and Advances to Customers[1]	706,769	1,085,700	4,025,228	2,148,973	4,731,997	3,234,673
Other Assets	37,127	36,979	34,724	29,656	71,851	66,635
Total	**2,768,193**	**2,806,626**	**10,624,909**	**8,908,849**	**13,393,102**	**11,715,475**

1 Encumbered Loans and Advances to Customers include amounts pledged as eligible collateral before the BoE haircut.

Principal Risks and Risk Mitigation – Liquidity and Funding Risk continued

Assets and Liabilities by Maturity (Audited)

The following table represents a breakdown of the Group's assets and liabilities by contractual maturity:

31 March 2023	On Demand £'000	Up to 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000	Over 5 years £'000	Undated £'000	Total £'000
Loans and Advances to Banks	6,109,704	–	–	–	–	–	–	6,109,704
Debt Securities	–	333,116	388,863	877,761	731,239	148,571	–	2,479,550
Loans and Advances to Customers	35,100	19,824	10,645	263,011	653,432	3,749,985	–	4,731,997
Derivative Assets	–	7,496	25,615	92,331	79,889	16,443	–	221,774
Interest Rate Swaps	–	7,391	25,615	92,331	79,889	16,443	–	221,669
FX Swaps	–	105	–	–	–	–	–	105
Total Financial Assets	**6,144,804**	**360,436**	**425,123**	**1,233,103**	**1,464,560**	**3,914,999**	**–**	**13,543,025**
Other Assets	–	3,629	5,359	13,769	2,657	–	143,056	168,470
Total Assets	**6,144,804**	**364,065**	**430,482**	**1,246,872**	**1,467,217**	**3,914,999**	**143,056**	**13,711,495**
Customer Deposits	10,469,067	–	82,753	–	–	–	–	10,551,820
Deposits from Banks	53,436	20,870	–	650,000	1,550,000	–	–	2,274,306
Derivative Liabilities	–	1,450	507	8,484	38,508	6,503	–	55,452
Interest Rate Swaps	–	–	507	8,484	38,508	6,503	–	54,002
FX Swaps	–	1,450	–	–	–	–	–	1,450
Total Financial Liabilities	**10,522,503**	**22,320**	**83,260**	**658,484**	**1,588,508**	**6,503**	**–**	**12,881,578**
Other Liabilities	1,092	48,477	6,897	19,995	13,923	9,259	21,642	121,285
Lease Liability	–	833	1,673	4,777	4,217	1,855	–	13,355
Total Liabilities	**10,523,595**	**71,630**	**91,830**	**683,256**	**1,606,648**	**17,617**	**21,642**	**13,016,218**

Principal Risks and Risk Mitigation – Liquidity and Funding Risk continued

Assets and Liabilities by Maturity (Audited) continued

31 March 2022	On Demand £'000	Up to 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000	Over 5 years £'000	Undated £'000	Total £'000
Loans and Advances to Banks	6,107,281	–	–	–	–	–	–	6,107,281
Debt Securities	–	150,191	601,203	873,744	679,925	1,823	–	2,306,886
Loans and Advances to Customers	14,001	34,576	12,125	108,118	1,376,747	1,689,106	–	3,234,673
Derivative Assets	–	1,437	5,235	38,861	–	52,523	–	98,056
Interest Rate Swaps	–	630	5,235	38,861	–	52,523	–	97,249
FX Swaps	–	807	–	–	–	–	–	807
Total Financial Assets	**6,121,282**	**186,204**	**618,563**	**1,020,723**	**2,056,672**	**1,743,452**	**–**	**11,746,896**
Other Assets	–	3,427	1,233	21,985	1	3,951	128,028	158,625
Total Assets	**6,121,282**	**189,631**	**619,796**	**1,042,708**	**2,056,673**	**1,747,403**	**128,028**	**11,905,521**
Customer Deposits	9,027,413	–	–	–	–	–	–	9,027,413
Deposits from Banks	81,380	2,441	–	–	2,200,000	–	–	2,283,821
Derivative Liabilities	–	276	5	25	–	24	–	330
Interest Rate Swaps	–	–	5	25	–	24	–	54
FX Swaps	–	276	–	–	–	–	–	276
Total Financial Liabilities	**9,108,793**	**2,717**	**5**	**25**	**2,200,000**	**24**	**–**	**11,311,564**
Other Liabilities	–	92,597	1,942	6,249	3,159	3,950	51,878	159,775
Lease Liability	–	312	871	1,671	443	461	–	3,758
Total Liabilities	**9,108,793**	**95,626**	**2,818**	**7,945**	**2,203,602**	**4,435**	**51,878**	**11,475,097**

Principal Risks and Risk Mitigation – Liquidity and Funding Risk continued

Cash Flows Payable under Liabilities by Contractual Maturity (Audited)

The following table is an analysis of undiscounted gross contractual cash flows of financial liabilities and lease liability. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of projected interest flows until maturity payable on the amounts outstanding as at 31 March 2023.

31 March 2023 Undiscounted Contractual Cashflows	On Demand £'000	Up to 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000	Over 5 years £'000	Total £'000
Deposits from Banks	53,436	23,375	70,125	819,557	1,598,344	–	2,564,837
Customer Deposits	10,469,067	–	85,145	–	–	–	10,554,212
Derivative Liabilities	–	5,374	11,786	27,942	17,245	2,155	64,502
Lease Liability	–	895	1,850	5,129	4,352	1,906	14,132
Total Cashflows	**10,522,503**	**29,644**	**168,906**	**852,628**	**1,619,941**	**4,061**	**13,197,683**

31 March 2022 Undiscounted Contractual Cashflows	On Demand £'000	Up to 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000	Over 5 years £'000	Total £'000
Deposits from Banks	81,380	2,991	1,650	4,400	2,201,734	–	2,292,155
Customer Deposits	9,027,413	–	–	–	–	–	9,027,413
Derivative Liabilities	–	276	7	28	1	24	336
Lease Liability	–	312	871	1,671	443	461	3,758
Total Cashflows	**9,108,793**	**3,579**	**2,528**	**6,099**	**2,202,178**	**485**	**11,323,662**

Market Risk

Market risk is the risk of loss due to changes in market prices. This covers risks such as FX and interest rates risk. Starling has a small trading book for the sole purpose of servicing customer related spot FX activities.

Foreign Exchange Risk

Risk Assessment

FX risk is the risk of loss as a consequence of adverse changes in FX rates.

Risk Appetite

Starling will not take any proprietary (own account) trading positions other than as arising from customer related activities. Starling will, wherever possible, operate a matched book basis for individual currency exposures and, where an unhedged net exposure position arises, will seek to hedge the resulting amount. Starling will only accept limited currency exposures in euro and US dollar.

Risk Measurement

This risk is measured daily by calculating the net open position per currency and in aggregate across all currencies.

Risk Management

FX risk is managed through the execution of spot and forward FX transactions with counterparty banks to reduce open positions. Currency exposures are managed on an aggregate basis.

Risk Monitoring

FX risk is monitored daily by the Treasury function. Positions are reported daily to senior management and risk. Monthly reporting is provided to ALCO and to the Board, with quarterly analysis to the BRC.

Stress Testing

Stress testing of FX risk occurs at least annually via the ICAAP. The exchange rates between GBP and other currencies are stressed.

Change in Year

Starling does not seek to take material FX risks. The risk appetite for any open FX risk remains unchanged year-on-year.

Further analysis of FX risk is provided in the financial statements in note 31, set out on page 196.

Interest Rate Risk in the Banking Book (IRRBB)

Risk Assessment

IRRBB is the risk of a realised or unrealised loss as a consequence of adverse changes in interest rates.

The key sub-elements of interest rate risk most relevant to Starling are:

Repricing risk: The risk arising from the timing mismatch on the repricing of assets, liabilities and off balance sheet items. Losses may arise from both parallel and non-parallel shifts in the yield curve.

Basis risk: The risk arising from relative changes in interest rates on items that are priced using different interest rate indices. Starling is exposed to basis risk as some of its assets and liabilities are linked to different indices.

Optionality risk: The risk arising from customer behaviour differing to contractual arrangements. Starling is exposed to this risk from the ability of customers to prepay fixed term loans, choose when to repay overdrafts, the ability to extend or pause payments for UK Government loan schemes, and the withdrawal of deposits at a timing of their choice.

Principal Risks and Risk Mitigation – Market Risk continued

Risk Appetite

Starling seeks to minimise profit and loss volatility and capital impacts from changes in the EV of the banking book to interest rate moves. It does not profit from movements in these rates up or down.

Risk Measurement

IRRBB can impact the EV of the Group's equity and the Group's earnings under different interest rate environments. The Board sets a PV01 and an Economic Value of Equity (EVE) risk appetite limit along with an earnings risk sensitivity expressed as a change in net NII. Sub limits, agreed by ALCO, are in place for euro and US dollar EVE and for basis risk.

Risk Management

Treasury manages the Group's interest rate risk within the risk appetite set by the Board. Starling executes interest rate derivatives under ISDA Credit Support Annex (CSA) contracts with market counterparties to manage the exposure. Starling only has GBP interest rate swaps and they are all against the Sterling Overnight Index Average (SONIA). These swaps are in hedge accounting relationships. The swaps executed are all now centrally cleared after Starling became an indirect member of the LCH, with the counterparty risk now being to the LCH.

Monitoring

ALCO monitors interest rate risk on a monthly basis and reporting is carried out to the Board monthly, with quarterly analysis to the BRC. In addition to the risk appetite metrics, ALCO also monitors the impact of other parallel and non-parallel interest rate shocks in line with the PRA Rulebook, the impact of a basis risk stress on NII and the impact of other rate stresses on NII.

Stress Testing

Stress testing is carried out on a monthly basis. The Group's exposure to 100bps and 200bps parallel change in rates along with non-parallel rate shocks is carried out for EVE. Stress testing is also carried out to monitor the impact on NII. Additional stress tests based on different rate moves, and curves steepening and flattening are also carried out.

NII Sensitivity (Audited)	31 March 2023 £'000	31 March 2022 £'000
+100bps Parallel Shift	+92,900	+68,000
-100bps Parallel Shift	-108,000	-80,700

Change in the Year

The increase in the Group's NII sensitivity is driven primarily from the organic growth in customer balances and subsequent increase in cash with BoE.

Further information on market risk is provided in the financial statements in note 31, set on pages 192 to 197.

Principal Risks and Risk Mitigation continued

Capital Adequacy Risk

Risk Assessment

Capital adequacy risk is the risk that the Group has insufficient available capital resources to withstand an extreme but plausible loss, protect its depositors and other creditors from loss, and support the sustainable organic growth of the business. The risk arises from unexpected losses impacting profitability, an increase in the riskiness of lending, and/or higher lending volumes than planned increasing RWAs. Starling holds capital to absorb these losses and to support the strategic growth in its business. In line with regulations, Starling assesses its capital adequacy needs in its ICAAP which is reviewed, challenged and approved by the Board at least annually.

Pillar 1 risks are calculated for credit risk (including counterparty credit risk), operational risk and market risk. The standardised approach is used for credit risk and counterparty credit risk, and the basic indicator approach for operational risk.

Pillar 2 risks are assessed to determine whether any additional capital is required over and above Pillar 1. The key risks assessed relevant to Starling's business model are credit risk, operational risk, IRRBB and climate related financial risk.

All of Starling Bank's capital is CET1.

Risk Appetite

Starling will, at all times, maintain sufficient capital resources to cover its risk profile and associated risk exposures. As a minimum, the Group's capital resources will be maintained above the regulatory minimum TCR (Pillar 1 plus Pillar 2a) plus buffers, or above MREL requirements plus buffers from April 2023 when MREL requirements became applicable.

The Board approves the capital risk appetite annually, defining the minimum levels of capital buffer above the regulatory minimum that the Group needs to hold across a variety of metrics.

Risk Measurement

The capital position of the Group is measured against Board-approved capital risk appetite triggers and limits. Should the capital position of the Group reach the trigger level, the Board would consider a range of management actions as set out in the Group's Recovery Plan.

Quantitative risk appetite metrics are set on a point in time and forward-looking basis with reference to the Group's CET1 ratio, its TCR plus buffers and the UK leverage ratio.

Principal Risks and Risk Mitigation – Capital Adequacy Risk continued

Risk Management

The Group's capital position is growing through quarterly verification of profits. Quarterly profits are verified by the Group's auditors and, once approved by the PRA, are added to the Group's CET1 resources.

The Group undertakes recovery and solvent wind down planning to understand how the Group would recover from a stress event and the capital needs if a solvent wind down was to occur.

Risk Monitoring

The capital position of the Group is monitored by the Regulatory Reporting team. A monthly report is provided to ALCO and to the Board, with quarterly analysis to the BRC.

A capital plan is approved by the Board at least annually, and in advance of strategic transactions. Stress testing is carried out at least annually and in advance of strategic decisions being taken by the Board.

Stress Testing

Capital stress testing is undertaken at least annually as part of the ICAAP and the Recovery Plan. For the ICAAP, Pillar 2a stress / scenario testing is undertaken for credit risk, operational risk, IRRBB and climate related financial risk in the banking book to consider whether additional capital is required over and above Pillar 1.

The Group also undertakes a range of severe but plausible stress scenarios including macroeconomic stress tests, idiosyncratic stresses and combined stresses to understand the impact of different situations on the capital position pre and post management actions. These are documented in the ICAAP. Stress testing is used to inform the Group's capital risk appetite.

Change in Year

The Group's capital position has remained comfortably in excess of its risk appetite limits and regulatory capital requirements over the course of the year. As at 31 March 2023, the Group's CET1 ratio was 37.50% (2022: 39.96%).

Total regulatory capital increased year to date from £398m in 2022 to £711m in 2023. This increase is driven by a capital raise being completed in April 2022 and growth in retained earnings. Total RWAs have increased from £995m in 2022 to £1,895m in 2023, driven mainly by a move out of cash placed with central banks with a zero risk weight and into more RWA intensive mortgage lending.

Applicable Regulatory Capital Developments in the Year

The regulatory regime for bank capital continues to evolve. Starling actively monitors changes and implements regulatory announcements in a timely manner. Key regulatory developments during the year of relevance to the Group were:

Basel 3.1: In November 2022 the PRA published a consultation paper on the implementation of Basel 3.1 in the UK. Starling will await the confirmation of the final rules, with the final reforms expected to become effective on 1 January 2025. The amendments include material changes to the standardised approaches to credit and operational risks. Starling has undertaken an impact analysis of the proposed rules and has considered this impact in its capital plan.

Strong and Simple regime: In April 2022 the PRA published a consultation paper on the definition of a Simpler-regime Firm and in February 2023 it published a consultation paper on the liquidity and disclosure requirements for Simpler-regime Firms. Starling is considering the implications of these consultations on its business.

MREL: In December 2022 the BoE notified Starling Bank of its updated MREL and resolution strategy. From April 2023 Starling has complied with its interim MREL requirements. End-state requirements are effective from April 2025.

Principal Risks and Risk Mitigation – Capital Adequacy Risk continued

Applicable Regulatory Capital Developments in the Year continued

	Group[1] 31 March 2023 £'000	Group[1] 31 March 2022 £'000
Shareholder Equity as per the Group Statement of Financial Position (Audited)	695,277	430,424
Equity Adjustments for Solo-consolidated Group[1]	29,839	6,964
CET1 Capital Before Regulatory Adjustments	**725,116**	**437,388**
Regulatory Deductions:		
Intangible Assets	(19,764)	(20,597)
Deferred Tax Asset	(14,284)	(21,668)
Add Backs / (Other Deductions)	9,830	(10,876)
IFRS 9 Transitional Provision	9,716	13,255
CET1 Capital	**710,614**	**397,502**
Total Regulatory Capital	**710,614**	**397,502**

1 The regulatory solo-consolidated Group only includes the company Starling Bank Limited and the subsidiary Starling FS Services Limited.

	Group[1] 31 March 2023 £'000	Group[1] 31 March 2022 £'000
Credit Risk Exposure	1,713,624	874,927
Operational Risk Exposure	154,036	66,372
Credit Valuation Adjustment	27,098	53,528
Total Risk-Weighted Assets	**1,894,758**	**994,827**
CET1 Ratio	37.50%	39.96%
Total Tier 1 Ratio	37.50%	39.96%
UK Leverage Ratio	9.30%	7.85%

1 The regulatory solo-consolidated Group only includes the company Starling Bank Limited and the subsidiary Starling FS Services Limited.

Full details of the Group's regulatory capital position is provided in the Group's Pillar 3 report published on Starling's website.

Principal Risks and Risk Mitigation continued

Operational Risk

Risk Assessment

Operational risk is the risk of loss, whether direct or indirect, to which Starling is exposed due to inadequate or failed internal processes or systems, human error or external events. Operational risk is assessed using the Risk and Control Self Assessment (RCSA) process by identifying potential risks and evaluating the effectiveness of existing controls to mitigate those risks.

Risk Appetite

Starling's overarching risk direction specifically includes a requirement to preserve operational resilience, and to implement and maintain core systems and processes that offer security and resilience and that are fit-for-purpose to deliver the required services.

Whilst Starling will accept operational risks in support of its business objectives, it seeks to manage those risks and minimise potential losses. The following statements encapsulate Starling's operational risk appetite:

- Starling Bank is committed to designing and operating robust, secure and resilient processes and services through proportionate application of effective controls designed to enable Starling to grow safely and to minimise disruption and potential losses.
- Starling has a low risk appetite for disruptive events which result in customer detriment or brand damage. Where Starling does experience operational failures, these will be efficiently and effectively managed, with post event review to prevent recurrences wherever possible.
- Starling has appetite for applying new technologies, including machine learning and artificial intelligence, but the technology must be understood, explicable and free from unacceptable bias or other customer detriment.
- Starling will seek to mitigate its process risk by ensuring key processes and controls are automated by default. However, the Group, in pursuit of its growth objectives, has an appetite for manual processing and end-user computing applications where they are appropriately controlled.
- Starling's success is driven by innovation. Accordingly, the Group has appetite for empowering management to deliver innovative operational solutions with the appropriate monitoring and management of potential risks arising.
- Starling views technology and technological development as key enablers of its business and has an appetite for agile and continuous deployment, delegated to engineering teams, with smaller, more frequent deployments reducing the potential customer impact of any errors introduced through change.
- Starling recognises that, alongside other businesses, we face increasing information security and cyber risks. Starling is averse to these risks but recognises that they are an inevitability of conducting business. Starling places an emphasis on deploying effective, layered and constantly evolving security controls to identify and mitigate them.
- Starling is heavily reliant upon information and data to be able to operate effectively. Starling has a minimal appetite for accidental or deliberate wrongful disclosure, modification or loss of sensitive information as this has the potential to erode trust, damage its reputation and ultimately undermine the viability of Starling.
- Starling will not tolerate non-compliance with the data protection principles or UK General Data Protection Regulation (GDPR).
- Starling's appetite is to maintain sufficient, well-motivated and skilled people to enable it to fulfil customer requirements, make appropriate decisions and behave in line with its core values and risk culture.
- Starling has no appetite to place its staff in unsafe or unhealthy environments and will keep the well-being of its staff at the forefront of its approach in all matters.
- Starling's appetite for outsourcing is limited to activities which are commoditised and replaceable and it will work to reduce or remove such dependencies.
- Starling has an appetite to base decisions on modelling outputs, including the results of complex models, provided that the model and any limitations on its accuracy are understood.

Principal Risks and Risk Mitigation – Operational Risk continued

Risk Management

Starling has a suite of operational risk policies and procedures covering the identification, management and reporting of the risks associated with the identified sub-categories of operational risk.

Risk Monitoring

Adherence to operational risk policies is monitored by 1LoD with oversight and assurance reviews by 2LoD. Risk management oversight is exercised through the ORC, with regular reporting to the ERC, BRC and the Board.

Stress Testing / Scenario Analysis

Scenario analysis is the process of obtaining the expert opinion from business line management and risk managers to identify extreme operational risk events and assess their potential outcome. Scenario analysis is an effective tool to consider sources of significant operational risk and the need for additional management controls, monitoring, insurances or mitigating solutions, including the holding of additional capital.

Starling performs operational risk scenario analysis exercises on at least an annual basis for the ICAAP and for operational resilience analysis. This is based on the outputs of strategic and emerging risk analysis, process vulnerabilities identified, external event data and the latest external developments.

The outcomes of scenarios are determined by subject matter experts from relevant areas across the business. Variables arising from the scenarios are subject to management judgement and experience to determine the influence on the drivers of risk and the ultimate impact on the Group, although relevant industry events and analysis are used to support those judgements.

Risk Mitigation

All of Starling's business functions and risk management teams are required to complete an annual RCSA analysis. This acts as a specific control through which management validates that all significant risks are identified, assessed, allocated to owners and appropriately managed through the application of controls. Management must accept, mitigate or avoid each risk, and determine how each risk exposure should be managed.

Change in the Year

Starling continues to experience growth in terms of customer volumes, with resulting increases in operational activities, albeit offset by an increasing maturity of its operational functions.

Operational Resilience

For Starling, operational resilience means the embedding of capabilities, processes, behaviours and systems which allows it to continue to carry out its vision and strategy, in the face of disruption, regardless of source. For the Group to succeed in its ambitions it needs to consistently demonstrate high levels of availability, reliability and responsiveness to customers. Operational resilience has been a key consideration since the start of the Group's operations, and therefore it is resilient by design, whether that be its cloud infrastructure, software architecture, software delivery methodology or vendor management.

Starling's Operational Resilience strategy is to develop and consistently maintain a business that remains able to carry out its mission despite operational stresses and disruption, through its ability to manage and effectively respond to internal and external factors that may hinder it from functioning.

Cyber Security

Cyber risk remains a key industry threat as perpetrators continue to become more sophisticated and as geo-political tensions have risen.

Starling has created a strong security posture across the organisation which is underpinned by security-conscious staff, consistent and agile configuration management, and continuous security testing. This security posture continues to be verified through regular independent auditing and testing.

Starling is committed to ensuring that its customers' information and the financial assets that have been entrusted to it remain secure and available for legitimate use as and when they are required. This commitment stems from the very top of the organisation with senior management fully engaged and committed to cyber security across the business.

In response to the rising profile of the Group and the increasing cyber threats it faces, senior management have committed to the continued enhancement of Starling's security stance to ensure that the associated risks remain within the risk appetite of its stakeholders - this commitment is outlined in Starling's cyber security strategy which comprises the following core work streams:

- Security Monitoring;
- Security Testing;
- Identity and Access Management;
- Supporting Business Growth; and
- Continuous Improvement

Starling's strategy for combating cyber security risk and its associated initiatives are designed to enhance the Group's already robust cyber security posture to keep pace with the fast-moving changes in the threat landscape affecting Starling and its customers, whether the risks manifest themselves as insider threats, hacktivists, organised crime or nation state actors.

Principal Risks and Risk Mitigation continued

Fraud and Financial Crime Risk

Risk Assessment

This category of risk covers two underlying threats to Starling and its customers:

- The risk of customer harm or operational losses arising from external dishonest behaviour, with the intent to make a gain or cause a loss to others; and
- Failure to identify and appropriately mitigate money laundering, terrorist financing, sanctions and anti-bribery and corruption risks arising from Starling's operations.

Risk Appetite

Starling accepts that external fraud represents a cost of doing business and will seek to find the appropriate balance between fraud losses, fraud mitigation costs and the reputational / long-term impact that fraud can have on Starling's business model. Starling will take actions to reduce fraud losses through the constant review and enhancement of control standards.

Starling has a zero tolerance for any fraud relating to lending facilities. Starling has a dedicated Credit Fraud team to support the Organic Lending team and, where fraud is confirmed, Starling will report appropriately.

In relation to financial crime, Starling has no appetite for knowingly facilitating:

- Money laundering by its customers, or for non-compliance by design with the prevailing money laundering regulations, or industry guidance;
- Transactions with sanctioned individuals or entities; or
- Criminal activities by customers, including proliferation financing, terrorist financing, bribery and corruption and tax evasion, or any other fraudulent activity.

Starling Bank is committed to detecting and disrupting financial crime and ensuring that its products and services are not misused for any type of financial crime.

Risk Management

Starling is continuously improving its policies and processes to allow for the identification, assessment and control of fraud and financial crime risks.

Fraud risk management encompasses the establishment, maintenance and operation of systems and controls to detect and prevent fraud.

The effective prevention, detection and management of financial crime is a primary regulatory responsibility, as well as being critical to the commercial success of Starling.

All applications for an account are assessed for financial crime risk prior to approval, this includes carrying out relevant risk assessments and checks against external databases.

Risk Monitoring

Starling seeks to ensure that it has in place controls to identify fraud or financial crime, whether from new or existing customers' activity, suppliers or staff. Starling continues to invest in prevention and detection systems and controls on a risk-sensitive basis, throughout the lifecycle of a product or customer relationship (i.e. at application, servicing and exit). Where Starling identifies deficiencies in its controls it seeks to remediate and improve its control environment to deter such fraud or financial crime recurring.

Adherence to financial crime risk policies is monitored by 1LoD with oversight, and assurance reviews by 2LoD. Risk management oversight is exercised through the FCSC, with regular reporting to the ERC, BRC and the Board.

Principal Risks and Risk Mitigation – Fraud and Financial Crime Risk continued

Risk Mitigation

Starling is committed to the prevention, deterrence, detection and investigation of all forms of fraud and financial crime. Starling seeks to reduce the opportunity for fraud and financial crime, and takes action to investigate fully and address any suspected cases.

Starling engages with relevant cross-industry efforts to combat all forms of fraud and financial crime such as data sharing initiatives, active engagement with UK finance, being a member of Stop Scams UK, and being a signatory of the Contingent Reimbursement Model.

While it is impossible to completely eliminate fraud and financial crime, Starling seeks to mitigate the risk through continuous improvement to its systems used for customer screening and transaction monitoring.

Change in the Year

Starling continuously reviews its control environment to make it unattractive to those committing any fraud or financial crime. There has been a regulatory focus in the period regarding financial crime systems, controls and governance as well as cash based money laundering as part of an industry wide initiative. Starling continues to engage with all relevant parties, including industry groups, in seeking to ensure that relevant information for the detection and prevention of financial crime is shared in a timely manner.

Starling has continued to enhance its fraud and financial crime control environment through the delivery of key activities such as a review of its control environment and the continued recruitment of key staff with specific capabilities in the fraud and financial crime area. Additional improvements have included refinement of the Payment Review Model which has introduced further victim based transaction monitoring and increased oversight and assurance in specific areas of financial crime.

Principal Risks and Risk Mitigation continued

Conduct Risk

Risk Assessment

Conduct 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.

Risk Appetite

Starling will ensure that it delivers good customer outcomes across all of its activities, including ensuring the appropriate conduct of its staff.

- Starling will only design and deliver products if confident that they will not result in customer harm;
- Starling will only offer products which ensure that customers' risk exposures are no greater than those clearly communicated to them;
- Starling will only offer products and services that are aligned with the requirements of the Conduct Risk Policy and its values;
- Starling's communications with customers, including financial promotions, must always be clear, fair and not misleading, so that product and account information is clearly understood by customers;
- Starling will collect and act on feedback from customers to improve products and customer experience;
- Starling will deliver good outcomes for vulnerable customers, while acknowledging that some forms of vulnerability might not be supportable through a mobile-based current account; and
- Starling has no appetite for staff conduct which is in conflict with its business values and/or which results in poor customer outcomes.

Risk Management

Starling's conduct risk policies and framework sets the approach for the fair treatment of consumers as well as ensuring appropriate conduct by staff in line with Starling's expectations and the FCA's Conduct Rules. Starling has sub-policies and procedures covering all parts of the customer journey (new products, marketing, complaints and vulnerable customers), with specified key risks and controls, and key metrics for the Board.

Risk Monitoring

Adherence to the conduct risk policies is monitored by the 1LoD with oversight and assurance by the 2LoD. Risk management oversight is exercised through the PCC and the ORC, with regular reporting to the ERC, BRC and the Board.

A monthly conduct risk dashboard captures a range of key conduct metrics and thresholds covering the Starling's management of conduct risk across the customer journey and this is discussed at the PCC and monitored at the ERC with regular reporting to the BRC and to the Board.

Risk Mitigation

All communications are reviewed and approved by appropriate 1LoD subject matter experts to ensure that they are clear, fair and not misleading and that they explain any product limitations. The Compliance function undertakes monitoring review activity in line with the approved Monitoring Plan. The PCC also reviews all product initiatives and all relevant risks are discussed and challenged by Executives. Compliance also conducts second line risk assessments on all new products.

Change in the Year

The FCA has published its Final Rules and Guidance for the new Consumer Duty regulations, which Starling is on track to implement. As part of this implementation programme all areas of the organisation have been reviewed and appropriate enhancements have been, or are being, delivered. Starling's implementation plan and subsequent progress against that plan has been monitored by both the ERC and the Board, and a Consumer Duty Regulations Board Champion has been appointed.

As Starling continues to diversify its product lines and deepen its relationship with customers, the conduct risk profile of the Group also grows. This is closely tracked and is a key consideration in the PCC discussions.

Principal Risks and Risk Mitigation continued

Compliance Risk

Risk Assessment

Compliance risk is the risk of financial loss, reputational damage and/or regulatory censure arising from failure to comply with existing or future regulatory or legislative requirements.

Risk Appetite

Starling will not accept any deliberate or systemic breaches of applicable laws and regulations and will seek to avoid inadvertent regulatory errors and omissions by maintaining robust control processes. In the event that regulatory breaches are identified, Starling will promptly remediate the situation and, where necessary, ensure that the Bank's regulators are notified on a timely basis.

Starling has no appetite for knowingly failing to comply with any relevant regulatory provision, rule or applicable code of conduct.

Risk Management

Starling manages regulatory compliance under a series of policies, procedures and manuals, including anti-money laundering, countering financing of terrorism, sanctions, conflicts of interest, gifts and hospitality, regulatory reporting, market abuse and regulatory compliance alongside a mandatory staff training programme.

Risk Monitoring

Adherence to compliance risk policies is monitored by the 1LoD with oversight and assurance by the 2LoD. Risk management oversight is exercised through the ERC with regular reporting also provided to the FCSC, PCC, BRC and to the Board. The Compliance Monitoring Plan is reviewed and approved by the BRC, and includes risk based, monthly, quarterly, event driven and thematic monitoring.

Risk Mitigation

The Compliance function undertakes horizon scanning, which enables the Bank to keep track of all upcoming regulatory changes and report them to the relevant business areas. The Compliance function also provides guidance and support to any required revisions being made to ensure compliance.

All Starling employees are provided with relevant compliance training upon joining the Group and on an ongoing annual basis. This is tracked and reported as a key metric in the monthly reporting to Committees.

Change in the Year

Increases in the volume, scale and complexity of business banking customers and geo-political events impacting revisions to sanctions has required increased consideration of potential money laundering and regulatory risk.

Emerging Risks

Emerging risks are those with potentially significant, but uncertain, outcomes, which may form and crystallise over a longer time horizon, and which could have a material impact on Starling's ability to achieve its long-term strategy. These are risks which are outside of Starling's ability to control, but if they were to crystallise they would cause the Group to adjust its strategic risk assessment and to react accordingly. Starling takes a proactive approach to horizon scanning and regularly assesses the potential impact of existing and future risks.

The purpose of the Group's Emerging Risk Register is to identify those risks against which Starling might want to take action, and to make an informed decision on those that it will not take action for the time being. Elements of the Emerging Risk Register inform Starling's strategic decisions together with ICAAP and ILAAP analysis.

Starling uses a form of PESTEL analysis to understand the external factors that could impact the business. Through considering each factor, the Group gains insight into the external influences which could impact its strategy and business decisions. For each potential risk, Starling considers the timeframe within which the risk might occur and the potential impact on the strategic direction of the Group. This enables the Group to decide which risks to take action on and which may shape business planning decisions. The table below shows some of the emerging risks which Starling has considered in the last year. Where the risk has emerged during the year it has been considered under the individual principal risk category; otherwise the emerging risks are predominantly events that could disrupt Starling's strategic objectives.

Emerging Risks and Uncertainties - Emerging Risks continued

Emerging Themes	Risk	Principal Risk Category	Principal Risk Sub Category
Economic Risk	Credit worthiness and affordability risk	Credit Risk	Financial Risk
	Macroeconomic environment	Strategic Risk	Business Risk
Competitor Threat	Major non-FS new entrant into banking	Strategic Risk	Business Risk
	Competition in fintech space	Strategic Risk	Business Risk
	Fintech market consolidation	Strategic Risk	Business Risk
Technological Advancement	Inability to keep up with ongoing technical advancements	Strategic Risk	Business Risk
	Increased acceptance of cryptocurrency or stablecoins	Strategic Risk	Business Risk
	Quantum computing	Operational Risk	Cyber Security
Political & Geo-political Risk	Geo-political instability	Strategic Risk	Business Risk
	Change in government political party	Strategic Risk	Business Risk
Regulation or Supervisory Intervention	Central bank digital currency	Strategic Risk	Business Risk
	New legislations and/or regulation	Strategic Risk	Regulatory Risk
	Basel 3.1 and regulatory capital change	Capital Risk	Financial Risk

Emerging Themes	Risk	Principal Risk Category	Principal Risk Sub Category
Transformation, Remediation & Change	Capacity in key operational areas	Operational Risk	Process Risk / People Risk
	Scale of change across the organisation	Operational Risk	Change Risk
Business Model Sustainability	Earnings risk	Strategic Risk	Business Risk
	Third party concentration - risk of dependence on ‘utility’ providers	Strategic Risk	Business Risk
	Business disruption	Operational Risk	Technology Risk
People Risk	Senior management retention	Operational Risk	People Risk
	Staff attraction, retention and wellbeing	Operational Risk	People Risk
Adverse Publicity	Failure or material censure of major fintech	Strategic Risk	Reputation Risk
Environmental, Social & Governance	Climate change	Strategic Risk	ESG Risk

Emerging Risks and Uncertainties continued

Climate-related Financial Risk

Risk Assessment

Climate-related financial risks arise from two areas:

- **Physical risks:** These risks arise from increasing severity and frequency of climate and weather-related events, such as sea-level rises and floods. These events damage property and other infrastructure, disrupt business supply chains, impact agricultural output and more broadly can lead to loss of life and migration. This reduces asset values, results in lower profitability for companies, damages public finances, increases the cost of settling underwriting losses for insurers and may lead to gaps in insurance coverage. Indirect effects on the macroeconomic environment, such as lower output and productivity, exacerbate these direct impacts.
- **Transition risks:** These arise from the adjustment towards net-zero emissions, which will require significant structural changes to the economy. These changes will prompt a reassessment of a wide range of asset values, a change in energy prices and a fall in income and creditworthiness of some borrowers. In turn, this entails potential credit losses for lenders and market losses for investors. The transition to a net-zero economy also presents some opportunities for the financial sector.

These risks manifest themselves in credit, operational and market risks that could lead to expected and unexpected financial losses for banks.

For Starling, climate-related financial risks are currently low as the Group does not expect these risks to have a significant impact on its profitability or capital position now and over the planning horizon. The tenure of Starling's loans are up to ten years for SME lending, forty years for mortgage lending and five years in the treasury asset portfolio.

In terms of SME lending, Starling is diversified across sectors and does not have high concentrations to specific companies. The financial impact of any potential climate-related financial risks is mitigated as most of this book is UK Government guaranteed (note 12).

The majority of climate-related financial risk for Starling arises from its mortgage portfolio. The key emerging risk that Starling is monitoring in this area is physical and transition risks manifesting in increased credit risk in the mortgage portfolio, such as:

- PDs and LGDs increasing as a result of the crystallisation of physical risks such as flood events; or
- Credit risk being impacted by transition risks, such as landlords needing to spend money to increase the energy efficiency of their rental properties. The Government has consulted on requiring the energy efficiency of buy-to-let properties to have a minimum energy performance certificate (EPC) energy rating of C by 2028 for residential lets and a minimum EPC of B by 2030 for commercial lets. Homes that do not reach these ratings may become unlettable, with the majority of properties in the UK rated at D or below.

Crystallisation of these physical and transition risks and changes to mortgage lending regulation could impact the ability of consumers to repay or refinance their mortgages and so increase PDs and decrease the asset value of the property, increasing LGDs. These risks could also create mortgage prisoners.

Government policy is continuing to evolve in this area leading to risks that a requirement could be introduced that would change Starling's exposure to climate-related financial risks.

Climate risk also presents an opportunity for Starling to work with its customers to enhance the energy efficiency of their homes. Starling's buy-to-let lending business, Fleet, has already changed its products to encourage owners to improve the energy efficiency of their properties. It has a number of new products in development to more actively support these changes.

Emerging Risks and Uncertainties – Climate-related Financial Risk continued

Risk Appetite and Monitoring

Starling is monitoring its exposure to physical and transition climate-related financial risks and carries out scenario analysis on the transition risk in its mortgage book. On disclosure, this report sets out Starling's Scope 1 and 2 emissions and its plans to meet net zero (page 43 to 44).

Risk Mitigation

Starling is monitoring its physical and transition risks and considering whether it needs to mitigate any risks identified. It has undertaken a gap analysis against the PRA's Supervisory Statement on climate-related financial risks and has embedded climate-related financial risks into its governance and risk management frameworks.

Change in the Year

Inherent climate risk is increasing for Starling as its asset mix is changing, which is primarily driven by the growth in its UK owner occupied and buy-to-let mortgage portfolios.

Financial Statements

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 Parent Company') and its subsidiaries ('the Group') for the year ended 31 March 2023 which comprise consolidated and Parent Company statements of comprehensive income, consolidated and Parent Company statements of financial position as at 31 March 2023, the consolidated and Parent Company cash flow statements and the consolidated and Parent Company statements of changes in equity for the year then ended and the related notes, including the accounting policies in notes 1 and 2.

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 31 March 2023 and of the Group's and the Parent Company's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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 the Directors on 9 February 2016. The period of total uninterrupted engagement is for the 7 financial years ended 31 March 2023. 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	£6m (2022:£3m) 3.08% of actual profit before tax (2022: 0.8% of net assets / equity)
Coverage	99.9% (2022:99.9%) of group assets

Key audit matters		vs 2022
Recurring risks	ECL provision on loans and advances to customers	◄►
	EIR adjustments on loans and advances to customers	▲
Risk change:	◄► No change	▲ Increase

Independent Auditor's Report continued to the Members of Starling Bank Limited

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The Risk	Our Response
Expected Credit Loss (ECL) provision on loans and advances to customers £36 million; 2022: £27 million Refer to pages 60–90 (credit risk disclosures) and pages 132–136 (accounting policy).	**Subjective estimate:** The estimation of ECL on financial instruments, involves significant judgment and estimates. The key areas where we identified greater levels of management judgment and therefore increased levels of audit focus in the Group and Parent Company's estimation of ECLs are: – **Complexity of the estimation method and subjectivity of assumptions** – Inherently judgemental modelling is used to estimate ECL, which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"). The PD model is the key driver of complexity in the ECL estimate for the unsecured and SME portfolios, whilst the LGD model is the key driver for the mortgages portfolio. As such these models are considered the most significant judgemental aspect of the Group's ECL modelling approach. – SICR criteria – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation, as these criteria determine whether a 12 month or lifetime provision is recorded. – Macroeconomic forecasts and scenarios – Significant management judgment is applied in determining the economic scenarios used and the probability weightings assigned to each scenario particularly in the context of the current uncertain economic environment. – Qualitative adjustments (PMAs) – Adjustments to the model-driven ECL results are raised by the entity to address known ECL model limitations or emerging trends not captured by the models. They currently represent approximately 15% of the ECL balance across the Group. These adjustments are inherently uncertain, and significant management judgement is involved in determining whether all applicable risks have been captured within the PMA population. The effect of these matters is that, as part of our risk assessment, we have determined that the ECL provision held against loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater, and potentially many times greater, than our materiality for the financial statements as a whole.	We performed the following audit procedures rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described: **Test of details:** We recalculated the ECL measured for each of the Group's loan portfolios where we identified a risk of material misstatement, including those arising from significant judgements over the estimation of ECL either due to inputs, methods or assumptions. We performed sample testing over key inputs, data and assumptions to assess the reasonableness of key aspects of the ECL calculations. **Our credit risk modelling expertise:** We involved our own credit risk modelling specialists in evaluating the Group's IFRS 9 models. We used our knowledge of the Group and our experience of the industry to independently challenge the appropriateness of the Group's IFRS 9 models. **Our economics expertise:** We involved our own economic specialists who assisted us in assessing the reasonableness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them. We assessed the overall reasonableness of the economic forecasts by comparing the Group's forecasts to our own modelled forecasts.

Independent Auditor's Report continued to the Members of Starling Bank Limited

	The Risk	Our Response
	Disclosure quality: The disclosures regarding the Group's and Parent company's application of IFRS 9 are key to explaining the key judgments and material inputs to the IFRS 9 ECL results.	**Qualitative adjustments:** We challenged the completeness of the post-model adjustments identified, including in response to model limitations, data limitations and the uncertain macroeconomic outlook, involving our economics specialists to evaluate underlying economic assumptions used in the PMA calculation. We assessed the reasonableness of the adjustments by involving our credit risk modelling specialists to challenge key assumptions and inspect the calculation methodology. **SICR:** We assessed the ongoing effectiveness of the SICR criteria and independently calculated the loans' stage for the Group's loans and advances. **Assessing transparency:** We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the ECL. In addition, we assessed whether the disclosure of the key judgements and assumptions was sufficiently clear. **Our results** Based on the risk identified and our procedures performed we considered the impairment allowances on loans and advances at amortised cost, including off-balance sheet elements and the related disclosures to be acceptable (2022 result: acceptable).

Independent Auditor's Report continued to the Members of Starling Bank Limited

	The Risk	Our Response
Effective Interest Rate (EIR) adjustment on loans and advances to customers Refer to page 129–130 (accounting policy) and page 147–148 (critical estimates and judgements).	**Subjective estimate** The recognition of EIR adjustments on loans and advances to customers requires management to apply judgment, with the most critical estimate being the loans' redemption and early repayment profile underlying the expected behavioural life of the loans. The Group makes its expected life assumptions based on the portfolio's historical customer repayment profile which may not reflect the actual repayment pattern of the Group's loans and therefore the Group makes significant judgments about the probability and timing of expected cashflows. The behavioural life underlying the Group's EIR adjustment also extends into the future post the fixed rate period which creates a high degree of estimation uncertainty. The cohorts of loans and advances for which the redemption and early repayment profile assumptions are most significant are the mortgages portfolios which includes the acquired mortgage portfolios, forward flow mortgage origination arrangements and the buy-to-let mortgages originated by the Group's subsidiary – Fleet Limited. The effect of these matters is that, as part of our risk assessment, we determined that EIR adjustment on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: – **Test of details:** We recalculated the EIR output to test the accuracy of the EIR balances. We performed sample testing over key inputs, data and assumptions to assess the reasonableness of key aspects of the EIR calculation; – **Our sector experience:** We critically assessed key assumptions under the Group's expected behavioural lives against our knowledge of industry experience and trends and challenged the appropriateness of the redemption and early repayment profiles applied in calculating the EIR adjustments on loans and advances to customers; – **Sensitivity analysis:** We performed sensitivity analysis over the repayment profiles by applying alternative profiles based on our knowledge of industry expectation; – **Assessing transparency:** We evaluated whether the disclosures appropriately disclose and address the uncertainty that exist when determining the EIR adjustment. **Our results** The results of our testing were satisfactory and we considered the EIR adjustment on loans and advances to customers and the related disclosures to be acceptable. (2022 result: acceptable)

We continue to perform procedures over the utilisation of deferred tax assets ("DTA") as part of Corporation tax audit procedures. Please note that as a result of the profitability of the Group and the utilisation of DTA in the year, we have not assessed this as one of the key audit matters in the current year audit and, therefore, it is not separately identified in our report this year.

Similarly, we also continue to perform procedures over the appropriateness of the use of the Going Concern assumption by the Group and the Parent Company (section 4), however, as a result of the increases in profitability and level of Tier 1 capital through the year, we have not assessed Going Concern as one of the key audit matters in the current year audit. We have therefore not separately identified it in our report this year.

Independent Auditor's Report continued to the Members of Starling Bank Limited

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 £6m (2022: £3m), determined with reference to a benchmark of Group profit before tax ('PBT'), of which it represents 3.08% (2022: 0.8% of Group net assets / equity).

Given the Group's recent profitability, we have determined that it is now appropriate to assess materiality using a benchmark of PBT compared to net assets/equity in previous years. We selected PBT as the benchmark because it is the metric in the primary statements which best reflects the focus of the financial statements' users.

Materiality for the Parent Company financial statements as a whole was set at £5.94m (2022: £2.9m), determined with reference to a benchmark of Parent Company profit before tax, of which it represents 2.68% (2022: 0.9% of benchmark of Parent Company net assets / equity)

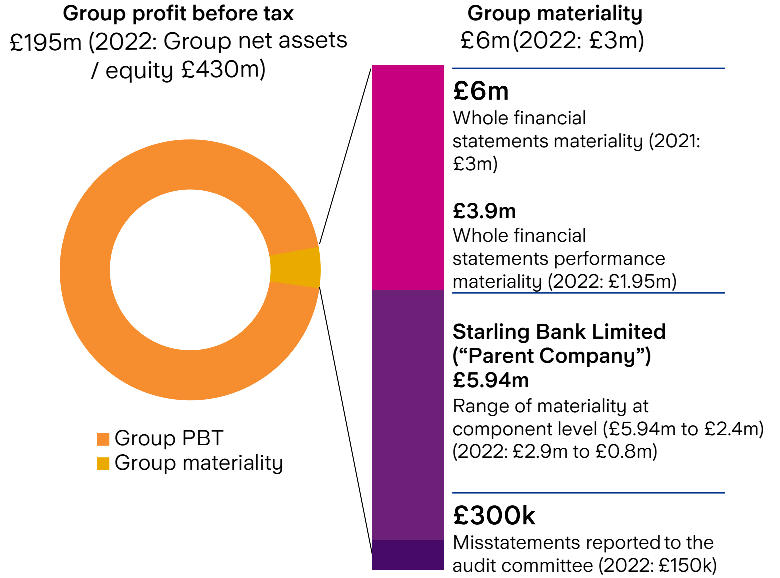
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2022: 65%) of materiality for the financial statements as a whole, which equates to £3.9m (2022: £1.95m) for the Group and £3.86m (2022: £1.88m) for the Parent Company. We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £300,000 (2022: £150,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's six (2022: six) reporting components, we subjected one (2022: one) to full scope audit for group purposes audited by the Group team. Two non-significant components (2022: two) were subject to audit of certain account balance as these contained material accounts and three components (2022: three) were subject to other audit procedures performed by the Group team. The latter five components (2022: five) were not individually financially significant enough to require a full scope audit for group purposes and represent less than 0.5% of the total Group assets. The audit was performed using the materiality levels set out above.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.



Independent Auditor's Report continued to the Members of Starling Bank Limited

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent Company'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").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were

- The availability of funding and liquidity in the event of a market wide stress scenario; and
- The impact on regulatory capital in the event of an economic slowdown or recession.

We considered whether these risks could plausibly affect the regulatory capital and liquidity requirements of the Group and Company in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's and Company's financial forecasts.

We considered whether the going concern disclosure in note 1 to the financial statements gives an appropriate description of the Directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Based on this work, we conclude that:

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the Directors' assessment that there is not a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- We found the going concern disclosure in note 1 to be acceptable.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Board Audit Committee and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and Directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgments such as impairment provision on loans and advances. On this audit, other than the Effective Interest Rate (EIR) rate adjustment on loans and advances to customers (see section 2 of this report) we do not believe there is a fraud risk related to revenue recognition because there is limited complexity in the calculation and recognition of revenue.

We also identified a fraud risk related to the estimation of expected credit loss provision on loans and advances to customers as a result of significant management judgment involved in determining the estimates that are difficult to corroborate. Further detail in respect of expected credit loss provision on loans and advances to customers is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on high risk criteria and comparing the identified entries to supporting documentation.
- Assessing whether the judgments made in making significant accounting estimates are indicative of a potential bias.

Independent Auditor's Report continued to the Members of Starling Bank Limited

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment, including the Group's procedures for complying with regulatory requirements.

We communicated identified laws and regulations to our team throughout the audit 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) and taxation legislation 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 license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, customer conduct rules, money laundering, financial crime, sanctions and certain aspects of company legislation, recognising the financial and regulated nature of the Group's activities and its legal form. 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Within note 12, management has disclosed the potential future risks relating to the applicability of the government guarantee over losses arising on the government bounce back loan scheme. We have compared the disclosure against our own understanding of the nature and rules of the scheme and have concluded it is appropriate.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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.

Independent Auditor's Report continued to the Members of Starling Bank Limited

7. 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 Group or the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Group 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 46, 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's 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 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 or error and are 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.

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

This report is made solely to the Group's and the Parent 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 Group's and the Parent 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 Group and the Parent Company and the the Group's and the Parent Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Nicholas Edmonds (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL
25 May 2023

Consolidated & Company Statement of Comprehensive Income For the year ended 31 March

	Note	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Income Statement					
Net Interest Income	4	348,845	121,712	345,834	121,666
Interest Income		403,103	126,614	400,092	126,567
Interest Expense		(54,258)	(4,902)	(54,258)	(4,901)
Net Fees and Commissions	5	74,390	57,730	68,085	49,723
Fees and Commissions Income		112,413	86,041	107,586	77,632
Fees and Commissions Expense		(38,023)	(28,311)	(39,501)	(27,909)
Other (Expense) / Income	6	(8,421)	8,624	36,521	32,857
Total Income		**414,814**	**188,066**	**450,440**	**204,246**
Operating Expenses	7	(220,674)	(178,336)	(226,266)	(181,053)
Credit for Eligible Spend	7	10,447	32,958	10,447	32,958
Impairment and Charge-offs	8	(9,991)	(10,636)	(9,991)	(10,636)
Impairment of Subsidiaries and Intercompany Balances[1]	19	–	–	(2,947)	(3,350)
Profit Before Taxation		**194,596**	**32,052**	**221,683**	**42,165**
Tax (Charge) / Credit	9	(51,740)	12,886	(53,064)	10,666
Profit After Taxation		**142,856**	**44,938**	**168,619**	**52,831**
Other Comprehensive Income					
Items that may subsequently be reclassified to profit or loss:					
Translation of Subsidiary Company	27	47	(4)	–	–
Cash Flow Hedges		(10,246)	–	(10,246)	–
Net Losses from Changes in Fair Value	31	(16,674)	–	(16,674)	–
Transfers to the Income Statement	31	2,443	–	2,443	–
Taxation	9	3,985	–	3,985	–
Other Comprehensive Loss for the Year Net of Taxation		**(10,199)**	**(4)**	**(10,246)**	**–**
Total Comprehensive Income for the Year		**132,657**	**44,934**	**158,373**	**52,831**

1 Impairment of Subsidiaries and Intercompany Balances has been represented as a separate line on the Income Statement. In the previous year these costs were included within Other (Expense) / Income. See note 36 for further information.

All amounts are attributable to the Equity Holders.

Consolidated & Company Statement of Financial Position As at 31 March

	Note	Group 31 March 2023 £'000	Group 31 March 2022[1] £'000	Company 31 March 2023 £'000	Company 31 March 2022[1] £'000
Assets					
Loans and Advances to Banks[2]	10	6,109,704	6,107,281	6,105,435	6,103,170
Debt Securities	11	2,479,550	2,306,886	2,479,550	2,306,886
Loans and Advances to Customers	12	4,731,997	3,234,673	4,731,997	3,234,673
Derivative Assets	14	221,774	98,056	221,774	98,056
Deferred Tax Asset	15	4,664	21,985	5,059	21,446
Other Assets	16	71,851	66,635	67,128	57,617
Property, Plant and Equipment and Right of Use Assets	17	15,480	5,904	13,736	5,320
Intangible Assets	18	40,585	28,211	–	2
Goodwill	18	35,890	35,890	–	–
Investment in Subsidiaries and Intercompany Account	19	–	–	101,779	90,598
Total Assets		**13,711,495**	**11,905,521**	**13,726,458**	**11,917,768**
Liabilities					
Customer Deposits	20	10,551,820	9,027,413	10,551,887	9,027,727
Deposits from Banks	21	2,274,306	2,283,821	2,274,306	2,283,821
Derivative Liabilities	14	55,452	330	55,452	330
Provisions for Liabilities and Charges	22	1,342	1,242	1,342	1,242
Other Liabilities and Accruals	23	96,958	138,614	94,424	135,942
Deferred Income	24	32,380	23,059	791	14,399
Current Tax Liability		3,960	618	4,065	685
Total Liabilities		**13,016,218**	**11,475,097**	**12,982,267**	**11,464,146**
Equity					
Share Capital	25	12	11	12	11
Share Premium	26	608,833	478,333	608,833	478,333
Other Reserves	27	24,267	22,525	24,133	22,438
Cash Flow Hedging Reserve	31	(10,246)	–	(10,246)	–
Retained Earnings / (Accumulated Losses)	27	72,411	(70,445)	121,459	(47,160)
Total Equity		**695,277**	**430,424**	**744,191**	**453,622**
Total Liabilities and Equity		**13,711,495**	**11,905,521**	**13,726,458**	**11,917,768**

1 Comparative balances have been restated due to the reclassification of Accrued Interest and Guarantee amounts due from HM Government. See note 36 for further information.

2 Included within Loans and Advances to Banks are Cash and Cash Equivalents, see note 29 for more detail.

The accompanying notes on pages 128 to 200 and the audited sections in the Risk Report on pages 47 to 112 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 25 May 2023 and signed on its behalf by:

Anne Boden MBE
Chief Executive Officer, Director

Declan Ferguson
Chief Financial Officer, Director

Starling Bank Limited

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Consolidated & Company Cash Flow Statement For the year ended 31 March

	Notes	Group 31 March 2023 £'000	Group 31 March 2022[1] £'000	Company 31 March 2023 £'000	Company 31 March 2022[1] £'000
Cash Flows from Operating Activities					
Profit for the Period after Taxation		**142,856**	44,938	**168,619**	52,831
Adjustments for Non-Cash Items					
Depreciation and Amortisation		**10,953**	6,384	**2,764**	2,161
Cost of Share Award Schemes, Net of Tax		**1,323**	4,659	**1,323**	4,590
Change in Derivatives and Fair Value on Hedging Relationships		**6,487**	(7,905)	**6,487**	(7,905)
Impairment and Charge-offs		**9,991**	10,226	**9,991**	10,226
Impairment of Intercompany and Subsidiary Accounts		**–**	–	**2,947**	–
Taxation Charged to the Income Statement		**51,740**	–	**53,064**	–
Other Non-Cash Items		**(13,652)**	1,479	**(14,231)**	118
Net Changes in Operating Assets and Liabilities					
Movement in Loans and Advances to Banks		**(9,835)**	(16,523)	**(9,835)**	(16,523)
Net (Increase) in Loans and Advances to Customers		**(1,567,215)**	(1,007,837)	**(1,567,215)**	(1,007,837)
Net (Increase) in Deferred Tax Asset		**–**	(15,897)	**–**	(15,358)
Net (Increase) in Other Assets		**(5,399)**	(61,397)	**(9,598)**	(53,145)
Net (Increase) in the Intercompany Account		**–**	–	**(17,289)**	(8,099)
Net Increase in Customer Deposits		**1,524,407**	3,199,715	**1,524,160**	3,199,935
Net (Decrease) / Increase in Deposits from Banks		**(9,515)**	1,281,380	**(9,515)**	1,281,380
Net Increase / (Decrease) in Provisions for Liabilities and Charges		**232**	(758)	**232**	(758)
Net (Decrease) / Increase in Other Liabilities and Accruals		**(51,253)**	104,310	**(50,463)**	101,910
Net Increase / (Decrease) in Deferred Income		**16,202**	(3,994)	**(13,608)**	(24,064)
Taxation Paid		**(26,720)**	(3,321)	**(25,779)**	(1,906)
Net Cash Flows from Operating Activities		**80,602**	**3,535,459**	**52,054**	**3,517,556**

1 Prior year balance has been restated, see Note 29 for more information

Consolidated & Company Cash Flow Statement continued For the year ended 31 March

	Notes	Group 31 March 2023 £'000	Group 31 March 2022[1] £'000	Company 31 March 2023 £'000	Company 31 March 2022[1] £'000
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment		(2,824)	(1,279)	(2,079)	(1,181)
Net Purchases of Debt Securities		(161,608)	(814,284)	(161,608)	(814,284)
Acquisition of Subsidiary, Net of Cash Acquired		–	(36,160)	–	(50,171)
PPE and Intangibles on Acquisition of Subsidiary		–	(8,377)	–	–
Purchase and Development of Intangible Assets		(27,643)	(19,170)	–	–
Net Cash Flows from Investing Activities		(192,075)	(879,270)	(163,687)	(865,636)
Cash Flows from Financing Activities					
Issuance of Ordinary Shares Less Cost of Issuance		130,500	240,000	130,502	240,000
Repayment of Lease Liabilities		(68)	(1,780)	(68)	(1,667)
Acquisition of Shares by Employee Benefit Trust		–	–	–	69
Net Cash Flows from Financing Activities		130,432	238,220	130,434	238,402
Net Increase in Cash and Cash Equivalents		18,859	2,894,409	18,801	2,890,322
Cash and Cash Equivalents at Beginning of Year	29	6,083,131	3,188,722	6,079,020	3,188,698
Cash and Cash Equivalents at End of Year	29	6,102,090	6,083,131	6,097,821	6,079,020

1 Prior year balance has been restated, see Note 29 for more information

Consolidated & Company Statement of Changes in Equity For the year ended 31 March

Group	Note	Share Capital £'000	Share Premium £'000	Other Reserves[1] £'000	Cash Flow Hedging Reserve £'000	Retained Earnings £'000	Total Equity £'000
As at 31 March 2021		**9**	**253,335**	**2,980**	**–**	**(115,493)**	**140,831**
Total Comprehensive Income							
Profit for the Year	27	–	–	–	–	44,938	44,938
Other Comprehensive Income							
Translation of Subsidiary Company	27	–	–	(4)	–	–	(4)
Transactions with Equity Holders							
Proceeds From Issue of Shares, Less Expenses	25,26	2	224,998	15,000	–	–	240,000
Cost of Share Award Schemes, Net of Tax	28	–	–	4,549	–	110	4,659
As at 31 March 2022		**11**	**478,333**	**22,525**	**–**	**(70,445)**	**430,424**
Total Comprehensive Income							
Profit for the Year	27	–	–	–	–	142,856	142,856
Other Comprehensive Income							
Translation of Subsidiary Company	27	–	–	47	–	–	47
Cash Flow Hedge	27	–	–	–	(10,246)	–	(10,246)
Transactions with Equity Holders							
Proceeds From Issue of Shares, Less Expenses	25,26	1	130,500	–	–	–	130,501
Cost of Share Award Schemes, Net of Tax	28	–	–	1,695	–	–	1,695
As at 31 March 2023		**12**	**608,833**	**24,267**	**(10,246)**	**72,411**	**695,277**

1 In the previous year the Company acquired 100% of the issued share capital of Fleet Mortgages Limited for a consideration which included the issue of 11,588,827 shares. As the Company acquired more than 90% of the shares in Fleet Mortgages Limited, Section 612 of the Companies Act 2006 applies, and accordingly the Company set up a Merger Relief Reserve for £15m on the issue of these shares.

Consolidated & Company Statement of Changes in Equity continued For the year ended 31 March

Company	Note	Share Capital £'000	Share Premium £'000	Other Reserves[1] £'000	Cash Flow Hedging Reserve £'000	Retained Earnings £'000	Total Equity £'000
As at 31 March 2021		**9**	**253,335**	**2,889**	**–**	**(100,101)**	**156,132**
Total Comprehensive Income							
Profit for the Year	27	–	–	–	–	52,831	52,831
Transactions with Equity Holders							
Proceeds From Issue of Shares, Less Expenses	25,26	2	224,998	15,000	–	–	240,000
Cost of Share Award Schemes, Net of Tax	28	–	–	4,549	–	110	4,659
As at 31 March 2022		**11**	**478,333**	**22,438**	**–**	**(47,160)**	**453,622**
Total Comprehensive Income							
Profit for the Year	27	–	–	–	–	168,619	168,619
Other Comprehensive Income							
Cash Flow Hedge	27	–	–	–	(10,246)	–	(10,246)
Transactions with Equity Holders							
Proceeds From Issue of Shares, Less Expenses	25,26	1	130,500	–	–	–	130,501
Cost of Share Award Schemes, Net of Tax	28	–	–	1,695	–	–	1,695
As at 31 March 2023		**12**	**608,833**	**24,133**	**(10,246)**	**121,459**	**744,191**

1 In the previous year the Company acquired 100% of the issued share capital of Fleet Mortgages Limited for a consideration which included the issue of 11,588,827 shares. As the Company acquired more than 90% of the shares in Fleet Mortgages Limited, Section 612 of the Companies Act 2006 applies, and accordingly the Company set up a Merger Relief Reserve for £15m on the issue of these shares.

Notes to the Financial Statements continued
For the year ended 31 March 2023

1. Basis of Preparation

a) Basis of Preparation

The consolidated financial statements and the solo financial statements of Starling Bank Limited 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 UK. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and liabilities at Fair Value through Profit or Loss (FVTPL) and other comprehensive income.

The consolidated financial statements are presented in British pounds sterling (Sterling or £) and all values rounded to the nearest thousand (£'000) except otherwise indicated.

The amounts expected to be recovered or settled for assets and liabilities in the financial statements are due no more than 12 months after the reporting year unless specifically stated. The accounting policies that were relevant in the year have been consistently applied.

Changes in Presentation

During the year, the Group and Company updated its cash and cash equivalents accounting policy to include only unrestricted deposits held with central banks and highly liquid financial assets with an original maturity of less than three months. Restricted deposits with central banks are excluded from cash and cash equivalents. Prior year balances have been restated to align to the new policy. Further information is included within note 29.

In addition, to allow better comparison with peers, Accrued Interest on Loans and Advances to Customers has been reclassified from Other Assets to Loans and Advances to Customers. Accrued Interest on TFSME funding has been reclassified from Other Liabilities to Deposits from Banks. Guarantee amounts due from HM Government in relation to Government-backed lending schemes has been reclassified from Other Assets to Loans and Advances to Customers. Prior year's Net Assets have not been impacted as a result of these reclassifications.

Separately to the above, in the Company Statement of Comprehensive Income, Impairment of Subsidiaries and Intercompany Balances has been represented as a separate line on the Income Statement. In the previous year these costs were included within Other (Expense) / Income.

Further information is included within note 36. There has been no change in the basis of accounting for any of the underlying transactions.

b) Basis of Consolidation

The consolidated financial statements consolidate the assets, liabilities and results of Starling Bank Limited (the Parent Company) and its subsidiaries (see note 19). Consistent accounting policies are used by the Group, the Parent Company and the Subsidiaries.

Subsidiaries are entities over which Starling Bank Limited has control. The Bank has control over another entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. The assessment of control is based on consideration of all facts and circumstances. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, which for most subsidiaries coincides with the date of incorporation. Upon consolidation, inter-company transactions and balances are eliminated. The consolidated financial statements have been prepared using uniform accounting policies.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the date of acquisition. Goodwill is recognised where there is an excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired.

Investments in subsidiaries are stated in the financial statements of Starling Bank Limited at cost less any provisions for impairment in value. All subsidiaries have financial years ending on 31 March, the Parent Company's year-end.

Notes to the Financial Statements continued
For the year ended 31 March 2023

1. Basis of Preparation continued

c) Going Concern

The consolidated financial statements and the separate financial statements of Starling Bank Limited have been prepared on a going concern basis.

In assessing the Group / Company's going concern position as at 31 March 2023, the Directors have considered a wide range of information relating to the present and future conditions, including the Group / Company's current financial position and future projections of profitability, cash flows and capital resources and requirements, which all form part of its business plan. Base case forecast projections are based on detailed financial planning by management that takes account of the current and expected economic environment. The Directors also considered the impact of key existing risks and emerging risks on the Group / Company business model and plan (see pages 109 to 110 of the Risk Report). The Directors have assessed the outlook for the Group / Company for a longer period than the 12 months from the signing of these financial statements as required by the International Accounting Standards.

The Directors have also reviewed the financial and capital impact of a range of severe but plausible capital and liquidity stresses on the base case business plan. These stresses are based on the latest BoE ACS published in 2022. The Group / Company has implemented both a high and low interest rate variant of the ACS, as well as further reverse, idiosyncratic and single-variable stress tests in order to test the limits and vulnerabilities of the business plan and strategy. The impact of Management actions that might be taken to mitigate the impact of these stresses is also assessed.

Stress testing is performed regularly throughout the year to both monitor business performance and also to inform and support management's decision making. It also forms a fundamental part of the annual production of the ICAAP, ILAAP and recovery and resolution planning. Post management actions, the projections under these stress scenarios show that the Group/ Company will be able to operate at adequate levels of both capital and liquidity (in excess of PRA requirements) and will meet its future obligations for at least 12 months from the signing of these financial statements.

After reviewing projections and making extensive enquiries, the Directors are satisfied that the Group / Company has adequate capital, liquidity and other resources to continue for at least 12 months from the signing of these financial statements and has adequate capital to meet its regulatory requirements as prescribed by the PRA. Consequently, the going concern basis of accounting has been adopted to prepare these financial statements.

2. Accounting Policies

a) 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 on the dates of transactions.

Monetary items denominated in foreign currencies are retranslated at the FX rate prevailing at the reporting date. FX gains and losses resulting from the retranslation of these items are recognised in the Income Statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date.

On consolidation, the results and financial position of all foreign operations that have a functional currency different from the Group's functional currency are translated into the Group's functional currency as follows:

- Assets and liabilities are translated at the closing rates of exchange prevailing on the date of the Statement of Financial Position;
- Income and expense items are translated at average exchange rate for the year, to the extent that such average rates approximate to actual rates; and
- Any resulting gain or loss on translation is recognised in Other Comprehensive Income (OCI).

b) 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 note 2(d) and 2(r) the Group applies the required five-step process to determine how and when revenue should be recognised.

c) Interest Income and Interest Expense

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 Deposits from Banks and Customer Deposits, are recognised as Interest Income and Interest Expense respectively in the Income Statement, using the EIR of the financial assets or financial liabilities to which they relate. Interest on derivatives designated in hedging relationships is recognised in Interest Income when the derivative hedges an asset and Interest Expense when the derivative hedges a liability.

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

c) Interest Income and Interest Expense continued

Interest Income on financial assets that are classified as Debt Securities is recognised in the Income Statement using the effective yield to maturity method. This method provides a result that approximates to the EIR method.

The EIR 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 EIR 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. In accordance with the EIR method, directly attributable upfront costs incurred and fees paid or received, that are considered integral to the EIR, are deferred and recognised through Interest Income or on an effective interest basis over the life of the underlying asset or liability.

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 EIR to the amortised cost of the asset less impairment.

d) Fees and Commissions

The Group recognises Fees and Commissions Income in accordance with IFRS 15 Revenue from Contracts with Customers. Fees and commissions which are not an integral part of the EIR are generally recognised at a point in time as the transaction occurs and Starling satisfies its performance obligations. For contracts that cover multiple years, fees and commissions are recognised over time as and when the performance obligations have been met.

As above, in accordance with the EIR method, fees paid or received that are considered integral to the EIR are deferred and recognised through Interest Income on an effective interest basis over the life of the underlying asset or liability.

e) Cash and Cash Equivalents

Cash and Cash Equivalents comprise current bank balances, unrestricted deposits held with central banks, and highly liquid financial assets with an original maturity of less than three months from the date of acquisition. The former are classified in the Statement of Financial Position as Loans and Advances to Banks and the latter as Debt Securities.

f) Financial Assets

In accordance with IFRS 9, the financial assets of the Group are classified into one of three categories:

- Assets measured at amortised cost;
- Assets measured at Fair Value through Other Comprehensive Income (FVOCI); or
- Assets measured at 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; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are manage.

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.

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

f) Financial Assets continued

SPPI assessment continued

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument and 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, such as;

- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Contingent events that would change the amount or timing of cash flows; and
- Prepayment and extension features.

Classification:

- Financial assets in portfolios where the business model is to hold the assets to collect the contractual cash flows and where those cash flows represent SPPI are measured at amortised cost;
- Financial assets in portfolios where the business model is to hold the assets to collect the contractual cash flows and to generate cash flows from subsequent sale, and where those assets' cash flows represent SPPI are measured at FVOCI; and
- Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL.

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

(i) Assets Measured 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; and
- 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 EIR to the gross carrying amount of the asset. For financial assets that are credit-impaired, interest revenue is calculated by applying the EIR to the net carrying amount of the asset, being the gross carrying amount less any impairment provision. Where financial guarantees are in place and are considered an integral part of the asset, any amounts due against the guarantee would be accounted for as a component of the underlying asset. For POCI financial assets the interest income is calculated using the credit-adjusted EIR applied to the amortised cost of the financial asset from initial recognition.

(ii) Assets measured at FVOCI

The Group has not classified any financial assets as measures at FVOCI.

(iii) Assets at FVTPL

The Group holds derivative financial assets which are measured at FVTPL.

Derivative Financial Instruments

Derivatives are recognised initially at fair value, and subsequently remeasured, at FVTPL. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. The Group uses derivative financial instruments primarily to hedge its exposure to interest rate risk arising from its banking and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes. Changes in the fair value of derivatives are recognised immediately in the Income Statement under Other Income, with the exception of derivatives designated in a cash flow hedge. For derivatives designated in a cash flow hedge, the effective portion of the change in fair value is recognised in OCI until the point at which the hedged item affects profit or loss.

Interest on derivatives is included within Interest Income in the Income Statement where the derivative hedges an asset to align the recognition with its purpose. Where the derivatives hedge a liability, interest on derivatives is included in Interest Expense in the Income Statement.

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

f) Financial Assets continued

Hedge Accounting

The Group continues to apply the hedge accounting requirements as permitted by International Accounting Standard (IAS) 39. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item and the hedging instrument, the prospective and retrospective testing approaches, and any sources of ineffectiveness. The effectiveness of hedging relationships is tested both at inception and throughout the life and if effectiveness falls outside the 80.0% – 125.0% threshold, hedge accounting is discontinued from this point. There are two types of hedging strategy undertaken:

– Fair Value Hedges

The primary hedge accounting strategy undertaken by the Group is portfolio hedges of interest rate risk. As permitted under IFRS 9, the Group continues to apply the requirements of IAS 39 for derivatives designated in a portfolio fair value hedge of interest rate risk. This strategy is applied to the swaps hedging loans, mortgages and fixed rate securities which are primarily pay fixed, receive float swaps.

Under the fair value hedge relationship, the changes in fair value of derivatives used to hedge interest rate risk are offset in the Income Statement. Fair value hedge accounting does not change the recording of gains and losses on derivatives, but results in recognising changes in the fair value of the hedged assets attributable to the hedged risk that would not otherwise be recognised in the Income Statement. As a result, fair value movements of the hedging instrument and of the hedged items offset each other and reduce volatility in the Income Statement. Any residual fair value hedge ineffectiveness is recognised in the Income Statement under Other Income. If a hedge relationship no longer meets the criteria for hedge accounting, then hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the Income Statement. The adjustment is amortised on a straight-line basis over the period to maturity of the hedged item or, in the case of a portfolio hedge of interest rate risk, to the next repricing period. If the hedged item has been derecognised, the adjustment is recycled to the Income Statement immediately.

– Cash Flow Hedges

Where a derivative is designated as a hedge of the variability in cash flows of a recognised asset or liability (or portion of a recognised asset or liability) or a highly probable forecast transaction, the effective portion of changes in the fair value of those derivatives is recognised in OCI in the Cash Flow Hedging Reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. The strategy is currently applied to pay fixed receive float swaps hedging floating rate funding.

The effective portion recognised in OCI is limited to the cumulative change in fair value of the hedged item from inception of the hedge. Amounts accumulated in equity are reclassified to the Income Statement in the periods in which the hedged item affects profit or loss. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the Income Statement when the previously hedged cash flow is ultimately recognised in the Income Statement.

g) Financial Liabilities

In accordance with IFRS 9, the financial liabilities of the Group are classified as liabilities measured at either amortised cost or FVTPL. A financial liability is classified as 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 the Income Statement. The Group carries derivative 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 the Income Statement. Any gain or loss on derecognition is also recognised in the Income Statement.

h) 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; and
– Loans and Advances to Customers.

Measurement of Expected Credit Losses

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 EIR.

When measuring ECLs, the Group assesses the PD, 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 continued
For the year ended 31 March 2023

2. Accounting Policies continued

h) Impairment of Financial Assets continued

Measurement Inputs

Key inputs into the measurement of ECL are:

- PD calculates the likelihood of default within the next 12 months or over the remainder of its life, depending on the stage;

The Group 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. Some portfolios currently use expert judgemental approaches.

- LGD is the net value of loss in the event of a default

Observed losses in the event of default are based on a combination of historical experience of customer behaviour, industry benchmark data and product criteria.

For mortgage lending the Group has used an LGD that is largely driven by the underlying value of the collateral, as well as assumed probabilities of possession given default which are based on industry benchmark data, in the absence of observable performance. For SME lending the Group has used an LGD that reflects the Government guarantee where applicable, as well as observed historical cure and recovery rates. For Retail lending, the Group has used an LGD based on observed customer behaviour and resulting losses.

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

For lending products, other than revolving products, the EAD is calculated as the expected amount outstanding at the current and future reporting date. For revolving products such as overdrafts, utilisation can vary over time. Where unutilised balances exist, in the example of overdrafts, then the EAD is calculated as the sum of the drawn balance and the undrawn balance adjusted by a credit conversion factor.

- Expected Credit Losses is calculated such that ECL = PD x LGD x EAD

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 asset. 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 for the following:

- Debt Securities that are determined to have low credit risk at the reporting date. The Group considers 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).

Impairment losses for Loans and Advances to Customers are assessed for both a 12-month ECL and a Lifetime ECL where the credit risk on a financial asset has increased significantly since initial recognition or the account has defaulted.

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.

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 SICR 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 or 3. For financial assets in stage 1, a 12-month ECL is recognised.
- **Stage 2:** when a financial asset shows a SICR 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.

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

h) Impairment of Financial Assets continued

Measurement Inputs continued

– Expected Credit Losses is calculated such that ECL = PD x LGD x EAD (Cont.)

POCI financial assets are those that are assessed as being credit-impaired upon initial recognition. At initial recognition, POCI assets do not carry an impairment allowance; instead, lifetime ECL are incorporated into the calculation of the EIR. All changes in lifetime ECL subsequent to the assets' initial recognition are recognised as an impairment charge.

Significant Increase in Credit Risk

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 SICR since initial recognition of the asset. In determining whether there has been a SICR, the Group uses quantitative tests together with qualitative indicators such as watchlists and other behaviours observed on individual customer accounts such as forbearance or arrears. For mortgages and retail lending products, the Group includes a rebuttable presumption that credit risk has significantly increased from the point of origination / acquisition when arrears have increased by one month in arrears or more than thirty DPD. For SME lending the Group includes a presumption that credit risk has significantly increased when contractual payments are past due. Additionally, an increase in other observable data points that might point to a SICR, such as a material deterioration in credit bureau scores, are amongst other factors taken into consideration where considered relevant and where sufficient data is available for the portfolio.

Forward-looking Information

The Group incorporates forward-looking information into 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 expert judgement. The process involves developing additional economic scenarios and considering the relative probabilities of each outcome. These scenarios include economic data and forecast published by Governmental bodies, such as the BoE and selected private sector and academic forecasters.

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.

The Group uses credit risk metrics that reflect its assessment of the PD of individual exposure level. 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 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 or the account is 3 or more MIA; any security / personal guarantee has been taken into the Group's possession; the customer is bankrupt or has proposed an Individual Voluntary Arrangement; or the customer is subject to a Debt Relief Order. Term loans are also classified as defaulted if there is an outstanding balance on the account of more than 90 days, or 3 months, post contractual maturity or the original term of the loan has expired and there is a balance outstanding.

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

h) Impairment of Financial Assets continued

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 EIR to the amortised cost of the asset less impairment.

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 SICR and an expectation of forbearance may constitute evidence that an exposure is credit-impaired.

Forbearance is granted on a selective basis to support customers who are in financial difficulty. 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; and full and final offers (where the Bank may accept less than full settlement of balance). Where relevant, the Group has applied the FCA requirements on overriding the classification of customers who entered into a payment plan as in default.

Charge-offs

A financial asset is charged-off 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 Income Statement.

i) Financial Assets and Liabilities – Recognition, Modification, Derecognition and Offsetting

Recognition

Recognition is the point at which the Group begins to recognise a financial asset or financial liability on its Statement of Financial Position. Transactions in which the Group acquires assets and liabilities, portions of them, or financial risks associated with them can be complex and it may not be obvious whether substantially all of the risks and rewards have been transferred. It is often necessary to perform a quantitative analysis. Such an analysis summarises the Group's exposure to variability in asset cash flows as a result of the acquisition. A cash flow analysis of this nature may require judgement. In particular, it is necessary to estimate the asset's expected future cash flows as well as potential variability around these cash flows.

Modifications

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 below 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 Income Statement.

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

i) Financial Assets and Liabilities – Recognition, Modification, Derecognition and Offsetting continued

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 to a third party; 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 Income Statement.

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 Income Statement.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented with the Statement of Financial Position when, and only when, the Group has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. There are no financial assets or liabilities which are offset within the Statement of Financial Position and all financial assets and liabilities are presented on a gross basis. Income and expense are presented on a net basis only when permitted under IFRS.

j) 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 Operating Expenses in the Income Statement 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 Operating Expenses in the Income Statement.

k) 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 website and associated domain names. Intangible Assets are carried at cost less accumulated amortisation and impairment.

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 Group 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 (VIU) calculations. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on VIU 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, testing and implementation of the Group's banking software and mobile application, are recognised in the Statement of Financial Position as Intangible Assets and amortised using the straight-line method over their estimated useful lives from the date the software becomes operational and available for use. Costs associated with maintaining the software are recognised as an expense as incurred. Impairment losses are recognised immediately as an expense.

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

k) Intangible Assets

Intangible Asset arising from recognition of CIF Grant

The Group uses the capital approach to account for the 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 at Group level, where it is considered that the asset created will generate future economic benefit for the Group.

Amortisation of software development is included within Operating Expenses in the Income Statement over the estimated Useful economic life (UEL) of 7 years. The UEL is reviewed annually. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense in the Income Statement.

The Company uses the income approach to account for the CIF grant, whereby the grant is recognised in the Income Statement on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grant is intended.

Intangible Assets arising from a Business Combination

Intangible assets are recognised, separately from goodwill, when as part of a business combination an asset is identifiable. An asset is identifiable if it either is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged; or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights or obligations. Intangible assets acquired as part of business combinations are recognised at fair value at acquisition date and are amortised on a straight line basis over the estimated life of the underlying contractual arrangement. These assets are subject to impairment testing.

Acquired Software licences

All of the Group's acquired software licences related to cloud-based arrangements where the Group does not control the asset and so the expense is not capitalised. If the implementation costs of such an arrangement are considered distinct from the service of receiving access to the software, an assessment will be made on whether the implementation costs are part of a software intangible asset and capitalised in accordance with Group policy.

Domains and Website

The cost of domain names acquired for trademark protection and website development costs are capitalised and classified as Intangible Assets in the Statement of Financial Position. Amortisation of domains, and website development costs are included in Operating Expenses in the Income Statement, using the straight-line method over their UEL of seven years. The UEL is reviewed annually.

l) Goodwill

Goodwill arises on the acquisition of a subsidiary and represents the excess of the consideration transferred over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. Goodwill is stated at cost less accumulated impairment losses.

For the purpose of impairment assessment, goodwill acquired in a business combination is allocated to each of the cash generating unit (CGU) that is expected to benefit from the combination. Each unit to which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes. Goodwill is not amortised, however, it is tested for impairment at the end of each reporting period. The recoverable amount of a CGU is the higher of its fair value less costs to sell and the present value of its expected future cash flows (VIU). If the recoverable amount is less than the carrying value, an impairment loss is charged to the Income Statement. Any impairment is recognised immediately as an expense and is not subsequently reversed.

m) Other Assets

Other Assets, Fees Receivable and Prepayments are initially recognised at fair value and subsequently measured at amortised cost. In the case of deferred fee expense, the amount receivable is measured using the EIR method.

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

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

n) Leases

The Group has entered into operating leases for all its premises. Lease liabilities are recognised in respect of the Group's obligations to make future lease payments and 'Right of Use' assets are recognised that represent the Group's right to use the underlying assets.

Amounts expensed to the Income Statement represent the interest costs on lease liabilities (presented within Operating Expenses) and the depreciation charge on right of use assets (presented within Operating Expenses). Right of use assets are depreciated over the lease term on a straight line basis. Where exemptions have been taken for short-term leases (leases with a lease term of 12 months or less), the Group continues to expense lease rentals to the Income Statement on a straight line basis over the lease term (presented within Operating Expenses).

o) Taxation including Deferred Tax

Taxation in the Income Statement comprises current tax and deferred tax. Income tax is recognised in the Income Statement 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 reporting date, and any adjustment to tax payable in respect of previous years.

Research and Development Expenditure Credits (RDEC) are recognised as income in the year in which the R&D qualifying expenditure is recognised.

Corporation tax recoverable from losses accumulated in prior years is determined using the tax rate and legislation in force in the UK at the reporting date and is carried forward for future recovery when not fully utilised in the current period.

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 assets are recognised to the extent that there is reasonable certainty that taxable losses can be offset within the foreseeable future and to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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.

p) Deposits from Banks and Customer Deposits

Deposits from Banks and Customer Deposits are measured at amortised cost using EIR, in accordance with IFRS 9. Deposits are initially recognised at fair value and are subsequently measured at amortised cost.

q) Other Liabilities

Other Liabilities include funds in the course of collection for customers' accounts, settlement balances arising from the acquisition of debt securities, unapplied customer credits under review, deferred consideration payable on loan book acquisitions, lease liabilities and accrued expenses. Accrued expenses include amounts incurred but unpaid for goods and services provided to the Group prior to the end of financial year. Deferred consideration is measured using the EIR method.

r) Deferred Income

Deferred Income represents the following:

- The residual amount received from the CIF, that has not been recognised in the Income Statement at the reporting date. As set out in note 24, the Group has adopted IAS 20 and chosen the income approach whereby the CIF grant is recognised in the Income Statement on a systematic basis over the period or periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. The CIF grant cannot be recognised until certain qualifying expenditure has been incurred. In accordance with IAS 20, the Group presents its financial information in relation to the CIF grant on a gross basis.
- Fee income received on the Group's Loans and Advances to Customers is recognised in the Income Statement using the EIR method over the expected life of the financial assets to which it relates.
- Amounts received from the Group's payment scheme provider that cannot be recognised in the Income Statement until certain conditions on customer transaction volume thresholds have been reached. An objective assessment of whether the Group will achieve those thresholds is carried out at each reporting date.
- Amounts received from the RDEC scheme that have not been recognised in the Income Statement at the reporting date. The Group has adopted IAS 20, consequently, the RDEC claim cannot be recognised until the related qualifying expenditure has been expensed in the Income Statement. The qualifying expenditure relates to software development and is capitalised as an Intangible Asset. Consequently, the RDEC claim is recognised in the Income Statement on a systematic basis over the periods in which the Group recognises the amortisation cost of the related intangible asset. In accordance with IAS 20, the Group presents its financial information in relation to the RDEC claim on a gross basis.

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

s) Provisions

Provisions other than impairment provisions (see 2(h) 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 year. 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.

Provision is made for ECL in respect of irrevocable undrawn loan commitments in accordance with IFRS 9 (see 2(h) above).

t) Contingent Liabilities

Contingent liabilities occur during the ordinary course of business if the Group is subject to threatened or actual legal proceedings, or if there exists a possible obligation dependant on the occurrence of an uncertain future event. 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 or present obligations where the likelihood of any payment is remote or where such disclosure could be seriously prejudicial to the conduct of the claim(s).

u) 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.

v) Employee Benefits

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

Short-term Employee Benefits

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 Group 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.

Defined Contribution Plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as Staff Costs in Operating Expenses in the Income Statement. 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 Schemes (JSOP)**
  Under the four JSOP schemes certain employees were awarded a beneficial interest in shares of the Bank therefore aligning the interests of key employees with the interests of shareholders. To fund the purchase, employees were granted a bonus (grossed up for income tax and national insurance) that was used by the employees to subscribe for the right to the beneficial interest at each award date.
- **Senior Employee Incentive Scheme (SEIS)**
  Under the two SEIS schemes certain senior employees are awarded a beneficial interest in shares of the Bank therefore aligning the interests of key employees with the interests of shareholders. The interest awarded is funded by the Bank at nil cost to the employees.
- **Long Term Incentive Plan (LTIP)**
  Under the LTIP scheme, eligible employees of the Bank are awarded a beneficial interest in shares of the Bank therefore aligning their interests with the interests of shareholders. The interest awarded is funded by the Bank at nil cost to the employees.

The award of beneficial interests in the above three scheme types 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 the most likely date of an realisation event in line with the conditions of the awards. For awards with a grading vesting feature each instalment is recognised separately over the vesting period. The charge is recognised in Staff Costs in Operating Expenses in the Income Statement and adjusted for tax, where relevant, with a corresponding entry through the Share Awards Reserves in the Statement of Financial Position.

Notes to the Financial Statements continued
For the year ended 31 March 2023

2. Accounting Policies continued

w) Employee Benefit Trust

An Employee Benefits 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.

The assets and liabilities of the EBT 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.

x) Standards Issued but not yet Adopted

A number of new standards and amendments to standards are effective for accounting periods beginning on or after 1 January 2023; the Group has not yet applied those new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements:

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);
- Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendments to IAS 12);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Disclosure Initiative - Accounting Policies (Amendments to IAS 1).

3. Critical and Other Estimates and Judgements

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. Sources of estimation uncertainty relate to assumptions and estimates at the end of the current reporting year that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Impairment of Loans and Advances to Customers

Critical Judgement: Determining an appropriate definition of default (see note 2(h) above) against which PD, LGD and EAD can be evaluated.

Determining whether credit risk has significantly increased since the loan was initially recognised (see note 2(h) above).

The use of PMAs based on management expert judgment to adjust inputs, parameters and outputs used in ECL models to reflect risks not captured. These include adjustments to address (i) model deficiencies, and (ii) uncertainty over the accuracy of future economic forecasts.

Critical Estimate: Use of forward-looking adjustments and multiple economic scenarios including probability of impact.

The appropriateness of the models is kept under constant review and certain empirical data is used to refine the key estimates and judgments.

Definition of Default, PD, LGD and EAD

Management has judged that an account is regarded as being in default by reference to certain qualitative and quantitative criteria. See note 2(h) above for definition of default, and evaluation of PD, LGD and EAD.

The Bank has portfolios of loans outstanding to SME customers under the BBB Coronavirus Support Schemes that were designed to support businesses dealing with the impact of COVID-19. The Bank has provided lending under the three UK Government-backed lending schemes with only RLS loans originated in the current year. The BBLS, CBILS and RLS lending has been undertaken organically by the Bank and also non-organically via forward flow transactions. These UK Government-backed lending schemes are covered by guarantees from the BBB (a wholly owned subsidiary of HM Treasury) that are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have been applied. The guarantee is 100% for BBLS, 80% for both CBILS and RLS (where RLS facility was committed before January 2022) and 70% for RLS facilities committed after January 2022. Lower LGDs are recognised for these UK Government-backed lending schemes with 0% LGD applied to the guaranteed part of the exposure.

Notes to the Financial Statements continued
For the year ended 31 March 2023

3. Critical and Other Estimates and Judgements continued

a) *Impairment of Loans and Advances to Customers* continued

Forward-looking Information and Multiple Economic Scenarios including Probability of Impact

The Bank incorporates forward-looking information into its assessment of measurement of ECLs. The measurement of ECL is required to reflect an unbiased probability-weighted range of possible future outcomes. The time period over which the Bank assesses forward-looking information is the maximum period over which the Bank is exposed to credit risk. The Bank 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 Bank 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 Bank uses external market data to develop these scenarios. These scenarios include economic data and forecasts published by Governmental bodies, such as the BoE's Monetary Policy Committee and selected private sector and academic forecasters.

The Bank's base case scenario is aligned with the information used by the Bank 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 Bank's financial assets.

Scenarios and weightings are reviewed and approved for recommendation to the ERC and BRC. The Board, on recommendation of the BRC, adopts the final scenarios and weightings used in the Bank's ECL models.

The Bank currently use four economic scenarios:

- **Base Case –** In the base case, current worries about financial stability calm. More "muddling through" is expected as households and business face the residual impact of the cost of living crisis, higher taxes and more income being spent on debt service costs. GDP is expected to contract slightly in Q1-Q3 and by around 0.4% in 2023 as a whole, before a recovery of sorts to 1.3% in 2024. Labour market resilience confines the rise in the unemployment rate to 4.4% by the end of 2023. By then, inflation is expected to drop to around 3.0%. Energy prices are expected to be below the Government's cap from July. Interest rates are expected to remain at 4.25% until November 23, but then start to come down given inflation is expected to fall well below target by mid-2024. Given the impact of higher interest rates on affordability, house prices are still expected to drop 10% from their peak by Spring 2024
- **Upside –** In the upside case, markets calm from current state. The Budget measures spur an immediate boom in business investment and (further out in the forecast) deliver the designed boost to labour supply assumed. Inflation recedes very quickly and with the rate below target by year-end and heading towards zero by mid-2024 the BoE cuts rates to 4.0% by year-end 2023 and by a further 75bps over the course of 2024. Unemployment falls back to 3.5% and wage growth remains strong and supportive of high growth as the economy moves to a higher productivity path.
- **Downside –** The rapid rises in food and service prices are extended and the BoE raises rates to 4.5% by August. The malaise in housing hits construction activity, which contracts sharply. Insolvencies in the sector, which are already running at high levels, surge. Credit conditions tighten. Many businesses, particularly SMEs with experience in managing debt, are also forced into liquidation. GDP contracts 1.1% in 2023 and 0.7% in 2024. Unemployment peaks at close to 6.0% in Autumn 2024. House prices fall 15.0%.
- **Severe downside –** More problems emerge in the financial sector and these problems spill into the wider economy with a severe credit crunch. COVID-19 is still a risk here but less so given the economic reopening is going well. With continued labour shortages, wages in the UK accelerate. This perfect storm of shocks sees high inflation persisting, averaging 8.2% in 2024. The BoE raises interest rates to 5.0%, and effective mortgage rates on new business top out near 8.0% - the housing market effectively closes for a time. As well as the impact on real incomes, the rise in inflation and rates unsettles markets and leads to a crash in asset prices. House prices fall 25.0% reflecting a return to fundamentals and forced selling. This reinforces the fall in spending through reduced household wealth and its indirect impact on confidence. Unemployment rises to 8.0%.

The table below shows the base case average for key macroeconomic variables used in the calculation of ECL. GDP and HPI represents annual change in the year. Unemployment rate is the average annual rates.

As at 31 March 2023	2023 %	2024 %	2025 %	2026 %
GDP	(0.40)	1.29	2.34	2.42
Unemployment rate	4.07	4.36	4.18	4.10
HPI	(4.79)	(3.30)	2.77	4.56

Notes to the Financial Statements continued
For the year ended 31 March 2023

3. Critical and Other Estimates and Judgements continued

a) Impairment of Loans and Advances to Customers continued

Forward-looking information and Multiple Economic Scenarios including Probability of Impact continued

As at 31 March 2022	2022 %	2023 %	2024 %	2025 %
GDP	3.70	2.20	2.40	2.10
Unemployment rate	4.10	4.10	4.10	4.10
HPI	5.20	(2.30)	0.70	2.70

The table below shows the weights applied to each scenario, the peak position of each macroeconomic variable and the 4 year average macroeconomic variable. Worst point is the most negative quarter in the 4 year, which is calculated relative to the start point for GDP and HPI. Peak rate is the highest quarterly figures for unemployment over the 4 years.

As at 31 March 2023	Upside %	Base Case %	Downside %	Severe Downside %
Scenario weighting	**10%**	**37.5%**	**37.5%**	**15%**
GDP – Worst Point	0.17	(0.52)	(2.24)	(4.25)
GDP – 4 Year Average	0.56	0.40	0.34	0.27
Unemployment Rate – Peak Rate	3.91	4.40	5.99	7.91
Unemployment Rate – 4 Year Average	3.72	4.18	5.10	6.20
HPI – Worst Point	(1.50)	(8.08)	(13.22)	(23.24)
HPI – 4 Year Average	0.90	0.06	(0.58)	(1.09)

As at 31 March 2022	Upside %	Base Case %	Downside %	Severe Downside %
Scenario weighting	**10%**	**40.0%**	**40.0%**	**10%**
GDP – Worst Point	1.70	0.90	(0.10)	(4.00)
GDP – 4 Year Average	0.70	0.50	0.50	0.30
Unemployment Rate – Peak Rate	4.10	4.10	6.20	8.10
Unemployment Rate – 4 Year Average	3.80	4.10	5.40	6.60
HPI – Worst Point	2.30	(1.90)	(10.50)	(18.50)
HPI – 4 Year Average	0.70	0.20	(0.30)	(0.70)

The table below shows the macroeconomic variables used in the calculation of ECL. Annual paths show quarterly averages for the year (unemployment) or change in the year (GDP and HPI).

As at 31 March 2023		Upside %	Base Case %	Downside %	Severe Downside %
GDP	2023	0.52	(0.40)	(1.15)	(1.94)
	2024	2.76	1.29	(0.66)	(2.09)
	2025	2.55	2.34	2.79	2.71
	2026	2.33	2.42	3.62	4.55
Unemployment rate	2023	3.57	4.07	4.18	4.53
	2024	3.58	4.36	5.59	7.16
	2025	3.81	4.18	5.71	7.36
	2026	3.91	4.10	4.92	5.77
HPI	2023	(1.06)	(4.79)	(5.61)	(6.66)
	2024	4.63	(3.30)	(6.12)	(12.78)
	2025	4.88	2.77	(1.83)	(4.81)
	2026	4.38	4.56	2.91	5.25

Notes to the Financial Statements continued
For the year ended 31 March 2023

3. Critical and Other Estimates and Judgements continued

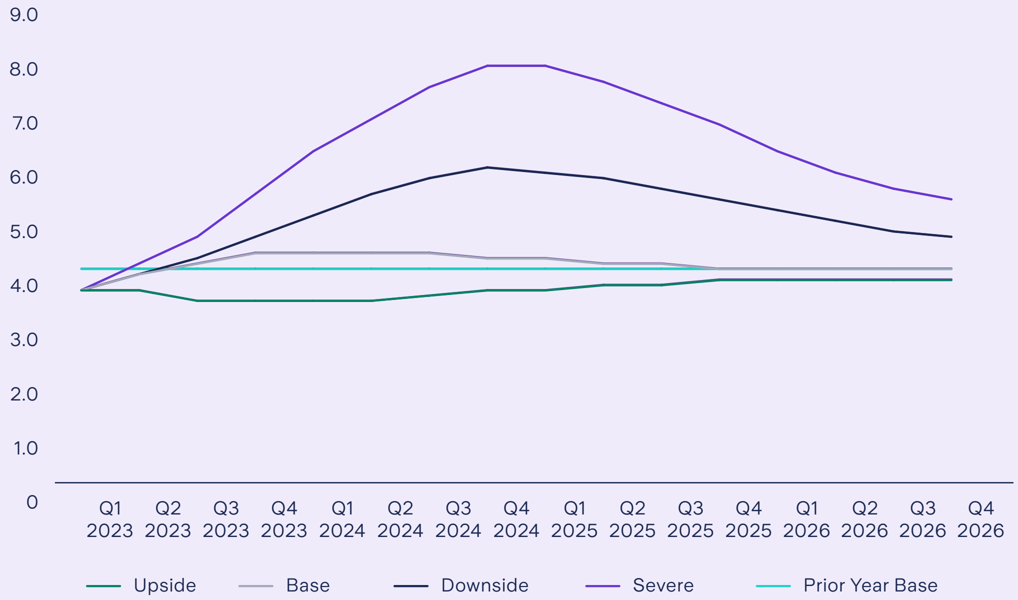
a) Impairment of Loans and Advances to Customers continued

Forward-looking information and Multiple Economic Scenarios including Probability of Impact continued

As at 31 March 2022		Upside %	Base Case %	Downside %	Severe Downside %
GDP	2022	5.00	3.70	2.70	0.30
	2023	3.20	2.20	1.40	0.70
	2024	2.40	2.40	2.40	3.50
	2025	1.90	2.10	2.40	2.90
Unemployment rate	2022	3.80	4.10	4.60	5.10
	2023	3.70	4.10	6.00	7.80
	2024	3.90	4.10	5.80	7.40
	2025	3.90	4.10	5.20	6.20
HPI	2022	7.00	5.20	2.80	1.30
	2023	3.00	(2.30)	(8.30)	(13.60)
	2024	2.40	0.70	0.90	(1.50)
	2025	2.50	2.70	3.50	5.10

The graphs below show the forecast unemployment rate and GDP for the Group's four economic scenarios along with prior year end base scenario for context.

Unemployment Rate %



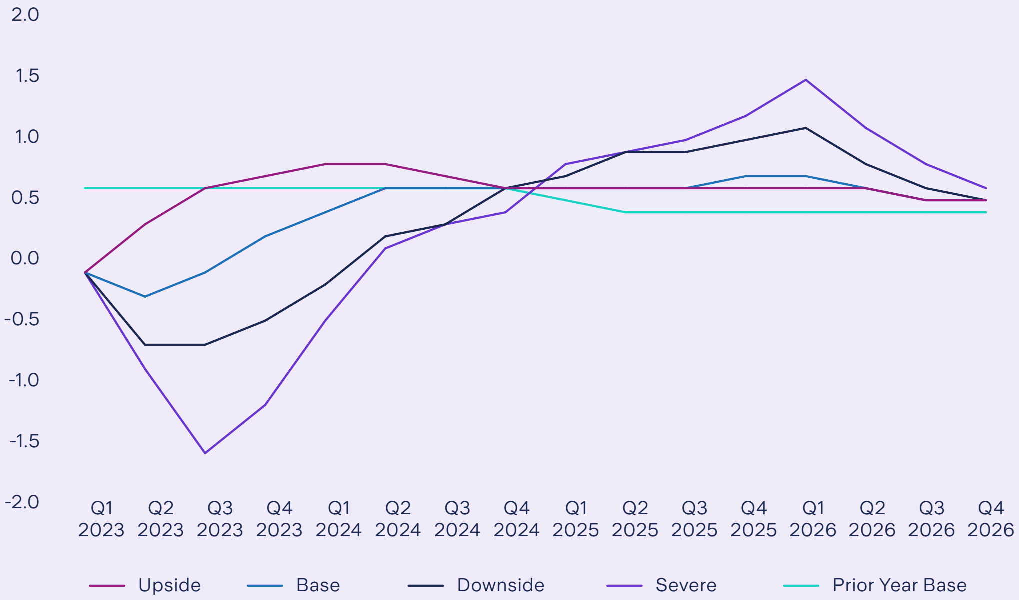
Notes to the Financial Statements continued
For the year ended 31 March 2023

3. Critical and Other Estimates and Judgements continued

a) Impairment of Loans and Advances to Customers continued

Forward-looking information and Multiple Economic Scenarios including Probability of Impact continued

GDP %



ECL Sensitivity to Economic Assumptions:

The calculation of credit impairment provisions is sensitive to changes in chosen weightings. The table below summarises the impact on the credit impairment provisions from the use of alternative scenario weightings. This table considers the impact on modelled impairment provisions only; PMAs of £5,355k (2022: £7,757k) are excluded. See page 145 for further detail of Post Model adjustments.

The probability-weighted modelled credit impairment provision of £30,267k is 4.8% higher than if it had been measured using only the base case scenario assumptions which result in an impairment provision of £28,880k.

The effect on the modelled provision of each portfolio as a result of applying 100.0% weighting to each is disclosed below.

ECL Sensitivities	31 March 2023			
Impairment Provisions: Weightings Sensitivity	Mortgage £'000	Retail £'000	SME £'000	Total £'000
ECL Modelled Impairment Provisions	6,540	6,294	17,433	30,267
Credit Impairment Provisions if 100% Weighting was Applied to each Scenario:				
Upside	2,939	5,891	17,408	26,238
Base Case	5,271	6,176	17,433	28,880
Downside	6,928	6,356	17,439	30,723
Severe Downside	11,145	6,703	17,450	35,298

ECL Sensitivities	31 March 2022			
Impairment Provisions: Weightings Sensitivity	Mortgage £'000	Retail £'000	SME £'000	Total £'000
ECL Modelled Impairment Provisions	2,229	5,944	11,142	19,315
Credit Impairment Provisions if 100% Weighting was Applied to each Scenario:				
Upside	2,204	5,475	11,119	18,798
Base Case	2,299	5,750	11,127	19,176
Downside	2,835	6,160	11,151	20,146
Severe Downside	3,498	6,879	11,168	21,545

ECL Sensitivity to Individual Economic Assumptions:

The impact of changes in UK unemployment and the HPI on credit impairment provisions have also been assessed. The assessment has been made against the modelled base case provisions and therefore excludes PMAs with the reported staging unchanged.

Notes to the Financial Statements continued
For the year ended 31 March 2023

3. **Critical and Other Estimates and Judgements** continued

a) Impairment of Loans and Advances to Customers continued

Forward-looking information and Multiple Economic Scenarios including Probability of Impact continued

The table below shows the potential impact on the Group's credit impairment provision resulting from a single factor change:

Single Factor Sensitivity – 10% Decrease in HPI	31 March 2023 Mortgage %	31 March 2022 Mortgage %
% Increase in Modelled ECL Under the Base Scenario	59.7	43.6

The table below shows the impact on the Group's credit impairment provision resulting from a 1% increase in the UK unemployment rate:

	31 March 2023		31 March 2022	
Single Factor Sensitivity – 1% Increase in UK unemployment rate	Retail %	SME %	Retail %	SME %
% Increase in Modelled ECL under the Base Scenario	3.9	15.3	4.8	13.3

Adjustment for Economic Uncertainties and Post Model Performance

The IFRS 9 ECL models are subject to the Bank's model governance framework with model monitoring and periodic validation. Management adjustments to impairment model outputs are applied in order to account for certain late breaking events, known model limitations or where management judges they are necessary to ensure an adequate level of overall ECL provision to cover material or known and perceived risks. At 31 March 2023, the impairment provisions included £5,355k (2022: £7,757k) of management's adjustments to modelled outcomes. Management adjustments to modelled outcomes as a percentage of overall impairment provisions have decreased in the current year, as management continues to develop and refine their ECL models and due to removal of PMAs that were necessary in the prior year as the economy continued to feel the effects of COVID-19. While adjustments related to model weakness are expected to decrease, due to the inherent forward-looking nature of ECL assessments some degree of management judgement is expected to continue going forward.

The adjustments are determined by considering the particular attribute that has not been captured and the methodologies used to calculate PMAs are based on similar principles to those adopted for the impairment models. The inputs and PMA methodologies are subject to regular oversight and PMA outputs are reviewed in a consistent manner to output from the impairment models. All PMAs were subject to formal approval through the IFRS 9 provisioning governance, at IC, ERC, with scrutiny at BRC and final approval by the Board.

Management adjustments are reviewed and challenged and, where applicable, incorporated into future model development. However, given that the full impact of the cost of living crisis will take time to observe, it is likely PMAs may be significant for the foreseeable future.

Categories of PMA included:

a. Post Model Performance Adjustments

These PMAs capture adjustments for known weaknesses in the impairment models or where models operate outside the boundaries to which they were calibrated. Adjustments are made to more appropriate levels based on historical benchmarks (peak default rates observed in previous crises and other stress scenario analysis). These weaknesses are temporarily remediated through PMAs until a rebuild of the model or model component can be completed within the core ECL models or where empirical evidence can be proven to support the current calibrations.

b. Economic Uncertainties Adjustments

The Bank has considered recent economic indicators and in particular on-going inflationary and interest rate pressure and has considered their impact on ECL modelled provisions. As a result of this assessment, the Bank has made a number of PMAs to the modelled output from ECL models. These PMAs are designed to capture the following areas of uncertainty and to compensate for under estimation in ECL models:

- Uncertainty over the impact of the cost of living crisis; and
- Uncertainty over the accuracy of future economic forecasts.

Notes to the Financial Statements continued
For the year ended 31 March 2023

3. Critical and Other Estimates and Judgements continued

a) Impairment of Loans and Advances to Customers continued

Cost of Living Crisis

This is an ECL adjustment primarily arising from uncertainties associated with economic assumptions in the base case and derived multiple economic scenarios. Management believes that there is considerable downside risk on the base case assumptions due to the on-going impact of the cost of living crisis which is having a detrimental impact on household finances. It is considered that the modelled output does not sufficiently capture the risk to Stage 1 mortgage loans of an increase in credit risk due to these inflationary pressures. In the Retail portfolio a PMA is also held to ensure the full impact of inflationary pressure is captured as an economic variable. It targets Stage 1 accounts and is intended to replicate a SICR event due to the economic outlook function of a forward looking IFRS 9 model. A second PMA is held in the Retail portfolio for accounts that are flagged as having potential for financial difficulty not currently appropriately captured in the modelled PD.

Accuracy of Future Economic Forecasts

This is an ECL adjustment primarily arising from uncertainties associated with economic assumptions in the base case and derived multiple economic scenarios. In the SME portfolio, it is considered that the current economic response model does not sufficiently capture the impact of uncertainty in economic variables.

At 31 March 2023, the total impairment provisions on Loans and Advances to Customers were £35,622k (2022: £27,072k). Included within this balance are impairment provisions of £1,092k (2022: £1,224k) for undrawn overdrafts and future mortgages and PMAs of £5,355k (2022: £7,757k) - see table below:

	31 March 2023			
Total Impairment Provisions	Mortgage £'000	Retail £'000	SME £'000	Total £'000
ECL Modelled Impairment Provisions	6,540	6,294	17,433	30,267
Post Model Performance Adjustments	972	502	1,277	2,751
Economic Uncertainty Adjustments	518	574	1,512	2,604
Total Impairment Provisions	**8,030**	**7,370**	**20,222**	**35,622**

	31 March 2022			
Total Impairment Provisions	Mortgage £'000	Retail £'000	SME £'000	Total £'000
ECL Modelled Impairment Provisions	2,229	5,944	11,142	19,315
Post Model Performance Adjustments	1,146	170	1,118	2,434
Economic Uncertainty Adjustments	–	821	4,502	5,323
Total Impairment Provisions	**3,375**	**6,935**	**16,762**	**27,072**

The reduction in Economic Uncertainty Adjustments in the year reflects the release of SME PMAs that were necessary as the economy continued to feel the effects of COVID-19. This included PMAs due to the unknown impact of Government support for SME lending on behavioural assumptions in datasets, the uncertainty in credit outcomes as a result of the effect of COVID-19 and the consequences of Government intervention.

b) Valuation of Goodwill

Estimate: Future cash flows of the CGUs and the discount rate

As at 31 March 2023 the carrying value of the Group's Goodwill, which arose on the acquisition of Fleet, was £35.9m (31 March 2022: £35.9m).

Testing Goodwill for impairment involves a significant amount of judgement. Goodwill is allocated to CGUs for the purpose of impairment testing, which involves calculating a VIU valuation and comparing it to the carrying amount. The calculation of a VIU contains a high degree of uncertainty in estimating the future cash flows, the rates used to discount them and the long-term growth rate, as set out below.

Forecasted Cash Flows

The forecasted cash flows used by management involve judgement and are based upon a view of Fleet's future prospects and the market conditions at the point in time when the assessment is prepared.

The estimation of cash flows is sensitive to the periods for which detailed forecasts are available and assumptions regarding the long-term pattern of steady cash flows thereafter. Management has used 5 years of forecasted cash flows in the VIU calculation.

Notes to the Financial Statements continued
For the year ended 31 March 2023

3. Critical and Other Estimates and Judgements continued

b) Valuation of Goodwill continued

Discount Rate

The discount rates applied to the future cash flows also involve judgement as they can have a significant impact on valuation. The discount rates are based on the cost of capital assigned to individual CGUs.

The cost of capital is derived from a capital asset pricing model prepared by a third party valuer and incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external markets and economic conditions beyond management's control.

The discount rates used are compared to peers to ensure that they are appropriate.

Long-term Growth Rate

The choice of a long-term growth rate is compared to the long-term inflation rate of the UK to ensure it remains appropriate.

Sensitivity of Key Judgements

The first table below shows the potential impact, in percentage terms, on the headroom (the excess of the VIU over the Goodwill carrying value) as a result of changes in key inputs and the second table shows by how much the key input needs to change to reduce the headroom to zero.

Key Input	% Change in Key Input	Impact on Headroom
Discount Rate (14.15%)	+2.4%	-45%
Long-term Growth Rate (1.5%)	-0.5%	-8%
Forecasted Cash Flows	-10.0%	-25%

None of the changes to the key inputs, noted above, would result in isolation in an impairment. In combination the changes noted in the table above may result in an impairment.

Key Input	Change Required to Reduce Headroom to Zero
Discount Rate (14.15%)	+7%
Long-term Growth Rate (1.5%)	–[1]
Forecasted Cash Flows	-40%

1 Given the extent by which VIU exceeds the carrying value, the VIU was not sensitive to a decrease of the long-term growth rate to zero. It would require a negative growth rate to reduce the headroom to zero.

c) Effective Interest Rate

Critical estimate: Estimation of Future Cash Flows over the Expected Life of the Instrument

The EIR 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 EIR method calculates the amortised cost of a financial asset or liability and allocates the interest income or expense over the relevant year.

The Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. In accordance with the EIR method, directly attributable upfront costs incurred and fees received are deferred and recognised through interest income on an effective interest basis over the life of the underlying asset or liability.

For Mortgage lending, future expected cash flows are modelled for each portfolio of lending. Estimates are required for expected future payments of interest and capital, based on expected interest rates and the early redemption behaviour of customers. Early redemption behaviour is modelled using historical data from similar products. The accuracy of the early redemption curve could be impacted by customer repayment behaviour being different to expectations.

The Group acquired portfolios of mortgages from third parties during the current and prior year. The mortgages were initially recognised in Statement of Financial Position at fair value plus transactions costs. The difference between the initial carrying value of the assets and the principal balances is a fair value adjustment, which is amortised to the Income Statement as part of the EIR over the remaining expected life of the asset.

The EIR is determined at initial recognition based upon the Group's best estimate of the future cash flows of the financial instrument over its expected life. Where these estimates are subsequently revised, a present value adjustment to the carrying value of the asset is recognised in the Income Statement. Such adjustments can introduce income statement volatility and consequently the EIR method is a source of estimation uncertainty.

For mortgage products the main accounting estimates and judgements when assessing the cash flows are the product life (including assumptions based on observed historic customer behaviour when in a Standard Variable Rate (SVR) period) and the applicable SVR. This primarily involves assumptions of customer behaviour when a fixed rate product comes to an end and reverts to the applicable SVR. Changes to the BoE base rate have an impact on the SVR charged to customers and consequently on the Group's interest income.

Notes to the Financial Statements continued
For the year ended 31 March 2023

3. Critical and Other Estimates and Judgements continued

c) *Effective Interest Rate* continued

The significant accounting estimates above are monitored on an ongoing basis to ensure they remain appropriate based on recent, observable customer behaviour, market data (such as market derived base rate forecasts) and take account of the competitive environment in which the Group operates.

Sensitivity analysis undertaken show that a six month reduction in the expected life of the mortgage portfolios would give rise to a reduction of £9,919k in the present value of the mortgage portfolios. An increase in the expected life by six months would give rise to an increase of £9,598k in the present value of the mortgage portfolios.

4. Net Interest Income

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Loans and Advances to Banks[1]	**136,196**	9,102	**136,178**	9,101
Debt Securities[2]	**52,091**	6,023	**52,091**	6,023
Loans and Advances to Customers[1]	**214,816**	111,489	**211,793**	111,383
Intercompany Loans[1]	**–**	–	**29**	60
Interest Income	**403,103**	**126,614**	**400,091**	**126,567**
Customer Deposits[1]	**(2,006)**	(1,092)	**(2,005)**	(1,091)
Deposits from Banks[1]	**(52,252)**	(3,810)	**(52,252)**	(3,810)
Interest Expense	**(54,258)**	**(4,902)**	**(54,257)**	**(4,901)**
Net Interest Income	**348,845**	**121,712**	**345,834**	**121,666**

1 The calculation of interest income from Loans and Advances to Banks, Loans and Advances to Customers and Intercompany loans, and interest expenses on Deposits from Banks and Customer Deposits, all use the EIR method. This line includes interest on swaps entered to hedge the interest rate risk of the underlying item, except for Intercompany Loans.

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 Group 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. This line also includes interest on swaps entered to hedge the interest rate risk of the underlying item.

5. Net Fees and Commissions

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Customer Card Transaction Revenue[1]	**93,248**	65,378	**93,248**	65,378
Payment and Platform Services	**3,621**	4,138	**3,621**	4,138
Other Fees and Commission Income	**10,717**	8,116	**10,717**	8,116
Loan Origination and Servicing Fee Income	**4,827**	8,409	**–**	–
Fees and Commissions Income	**112,413**	**86,041**	**107,586**	**77,632**
Loan Service and Other Loan Related Fees	**(17,422)**	(16,110)	**(18,900)**	(15,708)
Customer Card Transaction Costs	**(15,550)**	(9,727)	**(15,550)**	(9,727)
Clearing House Fees	**(198)**	–	**(198)**	–
Payment Systems and Other Related Costs	**(4,853)**	(2,474)	**(4,853)**	(2,474)
Fees and Commissions Expense	**(38,023)**	**(28,311)**	**(39,501)**	**(27,909)**
Net Fees and Commissions	**74,390**	**57,730**	**68,085**	**49,723**

1 Included within customer card transaction revenue is £3,110k (2022: £783k) recognised under performance contracts, signed with the Bank's card scheme provider. The amount yet to be recognised in the Income Statement in relation to these performance contracts is disclosed in note 24 – Deferred Income.

Notes to the Financial Statements continued
For the year ended 31 March 2023

6. Other Income

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Intercompany Recharges	**–**	–	**28,999**	19,170
Net Fair Value Gains / (Loss) from Hedge Relationships	**(7,271)**	7,697	**(7,271)**	7,697
Ineffectiveness Arising from Fair Value Hedges	(1,972)	2,945	(1,972)	2,945
Ineffectiveness Arising from Cash Flow Hedges	213	–	213	–
Gains / (Loss) from Economic Hedges	4,163	46	4,163	46
Other Hedging Movements	(9,675)	4,706	(9,675)	4,706
Net (Loss) / Gain from Foreign Exchange	**(2,007)**	25	**(2,007)**	25
Dividend Income	**–**	–	**16,800**	6,000
Other Operating Income	**857**	902	**–**	(35)
Other (Expense) / Income	**(8,421)**	8,624	**36,521**	32,857

The Net Fair Value Gains / (Loss) from Hedge Relationships arises from hedge ineffectiveness on designated hedges, from derivatives not yet designated in a hedge relationship as well as derivatives in economic hedge relationships that do not qualify for hedge accounting. For fair value hedges, ineffectiveness arises from differences in the fair values of designated interest rate risk exposures and the derivatives executed to hedge these, as permitted by IAS 39. For cash flow hedges, the effective portion of the hedging swap is recognised in other comprehensive income, and the ineffective portion is recognised in other income. The ineffectiveness is driven by differences between hedged items and hedging derivatives, primarily timing differences of cash flows, differences in payment frequencies and basis differences. Other Hedging Movements include the unwind of fair value adjustments for terminated hedge relationships over the remaining term of the underlying hedged item. Fair value adjustments are volatile and move in line with fair value movements of the underlying hedged item.

7. Operating Expenses

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Staff Costs	**136,369**	99,137	**122,837**	92,134
Marketing	**29,766**	29,260	**29,301**	29,047
Professional Services	**15,567**	11,068	**15,243**	10,843
Card Related Costs	**10,469**	6,464	**10,176**	6,335
Technology	**16,167**	9,408	**13,827**	8,406
Premises	**2,398**	2,129	**1,814**	1,920
Amortisation and Depreciation	**10,951**	6,384	**2,764**	2,161
Other Expenses	**19,770**	22,245	**30,304**	30,207
Expenses Qualifying for Capitalisation	**(20,783)**	(7,759)	**–**	–
Operating Expenses	**220,674**	178,336	**226,266**	181,053
Credit for Eligible Spend on Staff Costs (note 24)	**(8,133)**	(15,517)	**(8,133)**	(15,517)
Credit for Eligible Spend on Other Administrative Expenses (note 24)	**(2,314)**	(17,441)	**(2,314)**	(17,441)
Credit for Eligible Spend	**(10,447)**	(32,958)	**(10,447)**	(32,958)
Operating Expenses Net of Grants	**210,227**	145,378	**215,819**	148,095

Expenses Qualifying for Capitalisation of £20,783k (2022: £7,759k) relate primarily to costs incurred during the year in the development of the banking app and the core banking system and were capitalised as Intangible Assets.

Notes to the Financial Statements continued
For the year ended 31 March 2023

7. Operating Expenses continued

Included within Operating Expenses are Amortisation and Depreciation expenses, which contain the following amounts:

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Amortisation of Intangible Assets	**7,762**	4,078	**2**	3
Depreciation of Tangible Fixed Assets	**1,382**	1,180	**1,187**	1,121
Depreciation of Right to Use Assets	**1,809**	1,126	**1,575**	1,037
Depreciation and Amortisation	**10,953**	6,384	**2,764**	2,161

Included within Operating Expenses are the following amounts for audit and non-audit fees:

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Audit of Consolidated Financial Statements	**2,033**	1,877	**2,033**	1,877
Audit of the Financial Statements of the Subsidiaries	**67**	86	**–**	–
Total Audit Fees	**2,100**	1,963	**2,033**	1,877
Interim Profit Verification Fees	**161**	150	**161**	150
Total Non-Audit Fees	**161**	150	**161**	150

Included within Operating Expenses are the following amounts for Staff Costs:

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Salaries, Wages and Other Costs	**118,997**	83,947	**107,960**	78,288
Social Security Costs	**12,549**	8,703	**11,240**	8,089
Cost of Share Award Schemes, Net of Tax	**1,344**	4,659	**1,275**	4,590
Pension Contributions	**3,479**	1,828	**2,362**	1,167
Staff Costs	**136,369**	99,137	**122,837**	92,134

Average number of persons employed by the Group (including Directors) during the year was 2,308 (2022: 1,751). The total number of persons employed by the Group is shown below.

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Operations and Front Office	**2,063**	1,471	**1,931**	1,434
Back Office Functions	**669**	447	**632**	437
Management	**30**	23	**21**	20
Total Number of Employees	**2,762**	1,941	**2,584**	1,891

Notes to the Financial Statements continued
For the year ended 31 March 2023

7. Operating Expenses continued

Director Emoluments

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Wages and Salaries	**2,273**	2,175	**2,273**	2,175
Social Security Costs	**366**	298	**366**	298
Cost of Share Award Schemes, Net of Tax	**299**	66	**299**	66
Pension Contributions	**1**	–	**1**	–
Directors Emoluments	**2,939**	2,539	**2,939**	2,539
Wages and Salaries	**900**	900	**900**	900
Social Security Costs	**135**	124	**135**	124
Highest Paid Director Emoluments	**1,035**	1,024	**1,035**	1,024

No employees who served as Executive Directors during the year have a right to amounts under any final salary pension scheme for their services. Two Directors participate in the Bank's defined contribution pension arrangements.

The Directors did not exercise share options during the year. One Director received a further share award under a long-term incentive plan.

8. Impairment and Charge-offs

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Loans and Advances to Customers	**8,682**	10,225	**8,682**	10,225
Undrawn Overdraft Facilities and Loan Commitments	**(132)**	(408)	**(132)**	(408)
Total Impairment Charge	**8,550**	9,817	**8,550**	9,817
Amounts Charged-off	**1,441**	819	**1,441**	819
Total Impairment and Charge-offs	**9,991**	10,636	**9,991**	10,636

Notes to the Financial Statements continued
For the year ended 31 March 2023

9. Taxation

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Current Tax				
Corporation Tax	31,242	3,117	33,463	4,692
Adjustments in Respect of Prior Period	(1,181)	(88)	(1,142)	–
Tax Expense / (Credit)	**30,061**	**3,029**	**32,321**	**4,692**
Deferred Tax				
Deferred Taxes Recognised in Income Statement (note 15)	20,980	(9,038)	20,489	(8,869)
Adjustments in Respect of Prior Period	(243)	88	24	–
Effect of Tax Rate Changes (note 15)	942	(6,965)	230	(6,489)
Tax Charge / (Credit) Recognised in Income Statement	**51,740**	**(12,886)**	**53,064**	**(10,666)**
Profit Before Taxation	**194,596**	**32,052**	**221,684**	**42,165**
Tax Expense at the Standard Rate of 19%	**36,973**	**6,090**	**42,120**	**8,011**
Effects of:				
Surcharge	12,225	–	12,225	–
Non-Taxable Income	(339)	–	(3,192)	(1,140)
Expenses not Deductible for Tax Purposes	710	863	917	1,930
Deferred Tax Not Recognised	269	–	–	–
Deferred Tax Recognised	571	(12,978)	452	(12,978)
Tax Rate Changes	2,755	(6,861)	1,660	(6,489)
Prior Period Adjustment	(1,424)	–	(1,118)	–
Tax Charge / (Credit) Recognised in Income Statement	**51,740**	**(12,886)**	**53,064**	**(10,666)**
Effective Tax Rate	*26.6%*	*(40.2)%*	*23.9%*	*(25.3)%*

The Company's current Tax Expense of £32,321k (2022: £4,692k) includes the tax value of Group relief claims made of £3,161k (2022: £2,102k) to Starling FS Services Ltd.

Notes to the Financial Statements continued
For the year ended 31 March 2023

10. Loans and Advances to Banks

	Group 31 March 2023 £'000	Group 31 March 2022[1] £'000	Company 31 March 2023 £'000	Company 31 March 2022[1] £'000
Cash at Bank of England	**6,076,284**	6,053,010	**6,076,284**	6,053,010
Cash at Other Banks	**33,420**	54,271	**29,151**	50,160
Loans and Advances to Banks	**6,109,704**	6,107,281	**6,105,435**	6,103,170

1 Comparative balances have been restated due to the reclassification of Accrued Interest. See note 36 for further information.

No impairment has been recognised against the carrying value of Loans and Advances to Banks as amounts placed are with institutions rated A or above. The Directors have assessed the PD to be remote.

11. Debt Securities

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Issued by Governments and Supranational Bodies	**1,544,706**	1,705,167	**1,544,706**	1,705,167
Covered Bonds Issued by Banks and Building Societies	**925,494**	613,430	**925,494**	613,430
Residential Mortgage Backed Securities (RMBS) Issued by Banks and Building Societies	**48,040**	11,664	**48,040**	11,664
Gross Debt Securities	**2,518,240**	2,330,261	**2,518,240**	2,330,261
Fair Value Adjustment for Hedged Risk	**(38,690)**	(23,375)	**(38,690)**	(23,375)
Debt Securities	**2,479,550**	2,306,886	**2,479,550**	2,306,886

	Opening Balance 31 March 2022 £'000	Additions 31 March 2023 £'000	Maturities 31 March 2023 £'000	Closing Balance 31 March 2023 £'000
Debt Securities	**2,330,261**	1,111,075	(923,096)	**2,518,240**

The Group has not recognised an Impairment Provision on its debt securities portfolio as it observes that any difference between the carrying value and the fair value of these investments is a temporary diminution in value that arises from short-term movements in market prices and does not reflect any permanent deterioration in credit worthiness or increase in PD. The Group has reviewed each asset within its debt securities portfolio to ensure that the underlying assets remains of at least investment grade quality (see note 31, Credit Quality) and that there have been no breaches of covenants within the individual instruments.

Notes to the Financial Statements continued
For the year ended 31 March 2023

12. Loans and Advances to Customers

	Group 31 March 2023 £'000	Group 31 March 2022[2] £'000	Company 31 March 2023 £'000	Company 31 March 2022[2] £'000
Mortgage Lending	**3,436,789**	1,215,887	**3,436,789**	1,215,887
Owner Occupied	1,367,621	972,859	1,367,621	972,859
Buy-to-let	2,069,168	243,028	2,069,168	243,028
SME Lending	**1,404,301**	2,050,761	**1,404,301**	2,050,761
Bounce Back Loans	943,529	1,415,058	943,529	1,415,058
Coronavirus Business Interruption Loans	322,779	498,051	322,779	498,051
Recovery Loan Scheme	136,529	137,381	136,529	137,381
SME Term Loans	1,015	–	1,015	–
Overdrafts	449	271	449	271
Retail Lending	**32,543**	45,031	**32,543**	45,031
Term Loans	14,615	29,353	14,615	29,353
Overdrafts	17,928	15,678	17,928	15,678
Gross Loans and Advances to Customers	**4,873,633**	**3,311,679**	**4,873,633**	**3,311,679**
Less Total Impairment Provisions	**(34,530)**	**(25,848)**	**(34,530)**	**(25,848)**
Impairment Provisions for Mortgage Lending	(7,853)	(3,221)	(7,853)	(3,221)
Impairment Provisions for SME Lending	(20,181)	(16,735)	(20,181)	(16,735)
Impairment Provisions for Retail Lending	(6,496)	(5,892)	(6,496)	(5,892)
Net Loans and Advances to Customers	**4,839,103**	**3,285,831**	**4,839,103**	**3,285,831**
Accrued Interest	18,957	15,137	18,957	15,137
Fair Value Adjustment for Hedged Risk	(126,063)	(66,295)	(126,063)	(66,295)
Loans and Advances to Customers[1]	**4,731,997**	**3,234,673**	**4,731,997**	**3,234,673**

1 Included within Loans and Advances to Customers, are loans acquired from third parties under forward flow arrangements of £991,348k (2022: £1,037,138k), loan portfolios acquired not under forward flow arrangements of £1,347,647k (2022: £563,363k) and organic loans of £2,393,000k (2022: £1,634,172k). Loans and advances to customers are held at amortised cost.

2 Comparative balances have been restated due to the reclassification of Accrued Interest and Guarantee amounts due from HM Government from Other Assets to this line. See note 36 for further information.

Notes to the Financial Statements continued
For the year ended 31 March 2023

12. Loans and Advances to Customers continued

SME Lending includes gross balances of £1,280,371k (2022: £1,900,652k) guaranteed by the BBB (backed by HM Government). In 2020, the Bank began participating in two UK Government-backed lending schemes: BBLS and CBILS. Both these schemes closed during the prior year. In April 2021, the Bank began participating in the RLS, which replaced BBLS, to ensure on-going support to SME customers that continue to recover from the impacts of the pandemic. This lending has been funded through an increase in customer deposits.

BBLS provided SME customers with loans of up to £50,000 for a maximum term of six years. Interest is charged at 2.5% and the Government pay the fees and interest for the first 12 months. No capital repayment was required by the customer for the first 12 months of the scheme. A Government guarantee of 100% is provided under the scheme to the Bank by the BBB. Before their first repayment was due, customers had the following options; to extend the term of the loan to 10 years, move to interest only repayments for a period of six months (customers can use this option up to three times) and/or pause repayments for a year or six months (customers can use this option once).

CBILS provided SME customers with loans of up to £500k for a maximum term year of six years, provided certain criteria are met. Interest is charged between 3.5% and 9.9% above the UK base rate and no capital repayment is required by the customer for the first 12 months of the scheme. A Government guarantee of 80.0% is provided under the scheme to the Bank by the BBB. A term extension beyond 6 years, up to a maximum of 10 years for existing CBILS facilities can be made in connection with the provision of forbearance relating to the facility, at the discretion of the lender if this falls within its usual forbearance policies.

RLS provides SME customers with loans from £25k up to £350k for a maximum year of 6 years, provided certain criteria are met. Interest is charged between 5.3% and 12.1%. A Government guarantee of either 70.0% or 80.0% is provided under the scheme, depending on the date the facility was granted, to the Bank by the BBB.

Group / Company	Provisions for Impairment on Loans and Advances to Customers £'000
As at 31 March 2021	**15,623**
Charge for the Period	11,044
Amounts Charged-off[1]	(819)
As at 31 March 2022	**25,848**
Charge for the Year	10,123
Amounts Charged-off[1]	(1,441)
As at 31 March 2023	**34,530**

1 Lending 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 £3,603k (2022: £3,686k).

Notes to the Financial Statements continued
For the year ended 31 March 2023

12. Loans and Advances to Customers continued

See note 31 and note 3(a) for further information on the Group's provision for impairment on Loans and Advances to Customers.

The Bank began making claims on the BBB under the guarantee received from HM Government in the prior year. The Bank has considered the risk that there is a possibility that there may be some exposures where the Bank or its forward flow partner might not be able to call on the Government guarantee. The Bank has mitigated this risk through a number of internal actions which include scheme eligibility assessments for individual loans and proactive discussions with the BBB. In addition, all claims submitted by the Bank to date have been successful. Based on this, the Bank has assessed that a provision over its ability to call on the Government guarantee is not deemed necessary.

At the reporting date, the Group has the following off-balance sheet loan commitments:

	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
Loan Commitments	**146,872**	252,666	**146,872**	252,666
Undrawn Credit Facilities	**79,016**	69,266	**79,016**	69,266
Loan Commitments	**225,888**	321,932	**225,888**	321,932

Under IFRS 9, an Impairment Provision is calculated on total overdraft facilities and irrevocable loan commitments. See note 22.

Notes to the Financial Statements continued
For the year ended 31 March 2023

13. Assets Pledged as Collateral / Encumbered Assets

	Encumbered		Unencumbered		Total	
Group	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
Debt Securities	**1,635,292**	1,359,777	**844,258**	947,109	**2,479,550**	2,306,886
Loans and Advances to Banks	**389,005**	324,170	**5,720,699**	5,783,111	**6,109,704**	6,107,281
Loans and Advances to Customers	**706,769**	1,085,700	**4,025,228**	2,148,973	**4,731,997**	3,234,673
Other Assets	**37,127**	36,979	**34,724**	29,656	**71,851**	66,635
Total Assets	**2,768,193**	**2,806,626**	**10,624,909**	**8,908,849**	**13,393,102**	**11,715,475**

These transactions are conducted under terms that are usual and customary to collateralised transactions. The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral.

Included in Debt Securities and Loans and Advances to Customers are amounts pledged as eligible collateral to secure funding under the BoE's TFSME program. See note 21 for further detail.

Included within Loans and Advances to Banks are balances with the BoE of £389,005k (2022: £324,170k) held as collateral for payment schemes and as a cash ratio deposit which is encumbered.

Included in Other Assets is payment scheme collateral which comprises security deposits placed at a nominated bank at the request of the Bank's card scheme provider to support customers' transaction volumes.

Notes to the Financial Statements continued
For the year ended 31 March 2023

14. Derivatives

As at 31 March 2023	Group Fair Value of Assets £'000	Group Fair Value of Liabilities £'000	Group Notional Amount £'000	Company Fair Value of Assets £'000	Company Fair Value of Liabilities £'000	Company Notional Amount £'000
Hedge Accounting Derivatives:						
Fair Value Hedges:						
Interest Rate Swaps	221,120	(52,115)	4,486,000	221,120	(52,115)	4,486,000
Cash Flow Hedges:						
Interest Rate Swaps	549	(1,887)	210,000	549	(1,887)	210,000
Derivatives not in Hedge Accounting Relationships:						
FX Forwards	105	(1,450)	262,832	105	(1,450)	262,832
Derivatives	221,774	(55,452)	4,958,832	221,774	(55,452)	4,958,832

As at 31 March 2022	Group Fair Value of Assets £'000	Group Fair Value of Liabilities £'000	Group Notional Amount £'000	Company Fair Value of Assets £'000	Company Fair Value of Liabilities £'000	Company Notional Amount £'000
Hedge Accounting Derivatives:						
Fair Value Hedges:						
Interest Rate Swaps	97,249	(54)	3,320,000	97,249	(54)	3,320,000
Derivatives not in Hedge Accounting Relationships:						
FX Forwards	807	(276)	183,843	807	(276)	183,843
Derivatives	98,056	(330)	3,503,843	98,056	(330)	3,503,843

Within the Group, Derivatives are currently only held by the Bank. See note 31 for further detail of the hedging derivatives held by the Group.

Derivatives designated as hedging instruments are used to mitigate the interest rate risk on the Bank's fixed rate lending and investment portfolios. In the current year the Bank has also entered into interest rate swaps to hedge the floating rate cash flows on its TFSME facilities. See note 21. Derivatives not in hedge accounting relationships primarily comprise forward FX transactions that are executed as part of an FX swap to manage the Bank's short-term liquidity in euro, US dollar and other non-functional currencies. Starling does not take proprietary or trading positions.

Notes to the Financial Statements continued
For the year ended 31 March 2023

15. Deferred Tax Asset

The movement in the deferred tax asset as shown in the table below.

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Deferred Tax at 31 March 2022	**21,985**	6,088	**21,446**	6,088
Recognised in Income Statement				
Transferred-in on Acquisition of Fleet Mortgages Ltd	**–**	(17)	**–**	–
Prior Period Adjustment	**243**	(89)	**(24)**	–
Rate Change	**(941)**	6,965	**(231)**	6,489
Deferred Tax (Credit) / Charge	**(20,980)**	9,038	**(20,489)**	8,869
Recognised in Equity Reserves				
Movement in Cash Flow Hedging Reserve	**3,985**	–	**3,985**	–
Movement in Share Awards Reserve	**372**	–	**372**	–
Deferred Tax at 31 March 2023	**4,664**	21,985	**5,059**	21,446
Analysis of the Deferred Tax Position				
Taxable Temporary Differences				
Fixed / Intangible Asset Timing Differences	**(7,830)**	(4,745)	**–**	–
Deductible Temporary Differences				
Fixed / Intangible Asset Timing Differences	**79**	434	**79**	434
Short Term Timing Differences	**7,432**	1,946	**171**	28
Carried Forward Losses	**174**	24,350	**–**	20,984
Deferred Tax on Cash Flow Hedging Reserve	**3,985**	–	**3,985**	–
Deferred Tax on Share Awards Reserve	**824**	–	**824**	–
Deferred Tax at 31 March 2023	**4,664**	21,985	**5,059**	21,446

During the year Deferred Tax Asset decreased by £17,321k to £4,664k (2022: £21,985k) primarily as result of the utilisation of carried forward tax losses and the timing differences in the tax base and carrying value of Intangible Assets. This decrease was partly offset by the recognition of new Deferred Tax Assets in relation to the Cash Flow Hedging Reserve and Share Awards Reserve.

The Group's remaining carried forward losses have been reassessed following the enactment of a change in the corporation tax rate from 19.0% to 25.0% and a reduction in the bank surcharge from 8.0% to 3.0%, with both changes effective from 1 April 2023.

Notes to the Financial Statements continued
For the year ended 31 March 2023

15. Deferred Tax Asset continued

During the year, Starling recognised a Deferred Tax Asset on the Bank's LTIP scheme to reflect the Company's entitlement to a tax deduction based on the value of the shares delivered to employees upon a future vesting event. The tax credit recognised in the Income Statement was £452k (2022: £0k) and the tax credit recognised in Other Reserves was £372k (2022: £0k).

In the year to March 23, Starling also raised a Deferred Tax Asset on its Cash Flow Hedging Reserve to reflect the timing difference on recognition of fair value movements on cash flow derivatives into the Income Statement. The tax credit recognised in the Cash Flow Hedging Reserve was £3,985k (2022: £0k).

The Group accrues the full value of RDEC claims in the year they occur. Consequently, £857k (2022: £937k) of the current year RDEC tax credit of £2,918k (2022: £2,285k) has been recognised in Other Income and Fixed/Intangible Asset timing differences of £7,830k (2022: £4,745k) reflect the RDEC claims which result in accelerated amortisation of the intangible asset for tax purposes.

16. Other Assets

	Group 31 March 2023 £'000	Group 31 March 2022[2] £'000	Company 31 March 2023 £'000	Company 31 March 2022[2] £'000
Payment Scheme Collateral[1]	**37,127**	36,979	**37,127**	36,979
Prepayments	**10,824**	6,417	**9,262**	5,391
Other Assets	**23,900**	23,239	**20,739**	15,247
Other Assets	**71,851**	66,635	**67,128**	57,617

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.

2 Comparative balances have been restated due to the reclassification of Accrued Interest and Guarantee amounts due from HM Government out of this line. See note 36 for further information.

All other assets have been assessed for impairment with no provision considered necessary (2022: £0k).

Notes to the Financial Statements continued
For the year ended 31 March 2023

17. Property, Plant and Equipment and Right of Use Assets

Group	Property, Plant and Equipment £'000	Right of Use Assets £'000	Total Tangible Assets £'000
Cost			
As at 1 April 2022[1]	6,023	6,288	**12,311**
Additions	2,830	10,427	**13,257**
Disposals	(3)	(1,609)	**(1,612)**
As at 31 March 2023	**8,850**	**15,106**	**23,956**
Depreciation			
As at 1 April 2022[1]	3,878	2,529	**6,407**
Charge for the Year	1,382	1,809	**3,191**
Disposals	(2)	(1,120)	**(1,122)**
As at 31 March 2023	**5,258**	**3,218**	**8,476**
Net Book Value	**3,592**	**11,888**	**15,480**

1 In 2022 the Group acquired the subsidiary Fleet Mortgages Limited. The cost and accumulated depreciation of tangible assets at acquisition are included in both the brought forward cost and depreciation. See note 19.1 for more details on the acquisition.

Right of Use Asset – During the year the Group entered into three new leases: The Company entered into leases for its new head office in London in July 2022 (to replace its previous head office) and its new regional office in Manchester in March 2023. The subsidiary Fleet also entered into one new lease. These new leases, in addition to the existing eight leases of both its subsidiary offices and regional offices in Southampton and Cardiff, added to a total of eleven separate (2022: nine) leases. The leases exist independently of each other and have different lease terms. Lease break provisions and rent-free years are included in all the lease arrangements. There are no options to purchase any of the premises at the completion of the lease terms or to extend the lease years.

Group	Property, Plant and Equipment £'000	Right of Use Assets £'000	Total Tangible Assets £'000
Cost			
As at 1 April 2021	4,328	5,527	9,855
Acquired on Purchase of Subsidiary	846	645	1,491
Additions	1,163	116	1,279
Disposals	(314)	–	(314)
As at 31 March 2022	6,023	6,288	12,311
Depreciation			
As at 1 April 2021	2,184	1,256	3,440
Acquired on Purchase of Subsidiary	710	147	857
Charge for the Year	1,180	1,126	2,306
Disposals	(196)	–	(196)
As at 31 March 2022	3,878	2,529	6,407
Net Book Value	2,145	3,759	5,904

Notes to the Financial Statements continued
For the year ended 31 March 2023

17. Property, Plant and Equipment and Right of Use Assets continued

Company	Property, Plant and Equipment £'000	Right of Use Assets £'000	Total Tangible Assets £'000
Cost			
As at 1 April 2022	**5,128**	**5,643**	**10,771**
Additions	2,085	9,582	11,667
Disposals	(3)	(1,609)	(1,612)
As at 31 March 2023	**7,210**	**13,616**	**20,826**
Depreciation			
As at 1 April 2022	**3,157**	**2,293**	**5,450**
Charge for the Year	1,187	1,575	2,762
Disposals	(2)	(1,120)	(1,122)
As at 31 March 2023	**4,342**	**2,748**	**7,090**
Net Book Value	**2,868**	**10,868**	**13,736**

Right of Use Asset – During the year the Company entered into two new leases: its new head office in London in July 2022 (to replace its previous head office) and its new regional office in Manchester in March 2023. These new leases, in addition to the existing six leases of its regional offices in Southampton and Cardiff, added to a total of eight separate leases (2022: seven). The leases exist independently of each other and have different lease terms. Lease break provisions and rent-free years are included in all the lease arrangements. There are no options to purchase any of the premises at the completion of the lease terms or to extend the lease years.

Company	Property, Plant and Equipment £'000	Right of Use Assets £'000	Total Tangible Assets £'000
Cost			
As at 1 April 2021	**4,324**	**5,527**	**9,851**
Additions	1,065	116	1,181
Disposals	(262)	–	(262)
As at 31 March 2022	**5,127**	**5,643**	**10,770**
Depreciation			
As at 1 April 2021	**2,180**	**1,256**	**3,436**
Charge for the Year	1,121	1,037	2,158
Disposals	(144)	–	(144)
As at 31 March 2022	**3,157**	**2,293**	**5,450**
Net Book Value	**1,970**	**3,350**	**5,320**

Notes to the Financial Statements continued
For the year ended 31 March 2023

18. Intangible Assets and Goodwill

Group	Intangible Assets £'000	Goodwill £'000	Intangible Assets and Goodwill £'000
Cost			
As at 1 April 2022[1]	**41,562**	**35,890**	**77,452**
Additions[2]	27,657	–	**27,657**
Disposals	(114)	–	**(114)**
Impairment of Intangible Asset	(626)	–	**(626)**
CIF Eligible Intagible	(6,881)	–	**(6,881)**
As at 31 March 2023	**61,598**	**35,890**	**97,488**
Amortisation			
As at 1 April 2022[1]	**13,351**	**–**	**13,351**
Charge for the Year	7,762	–	**7,762**
Disposals	(100)	–	**(100)**
As at 31 March 2023	**21,013**	**–**	**21,013**
Net Book Value	**40,585**	**35,890**	**76,475**

1 In 2022 the Group acquired the subsidiary Fleet Mortgages Limited. The cost and accumulated amortisation of Intangible Assets acquired and recognised at acquisition are included in both the brought forward cost and amortisation. See note 19.1 for more details on the acquisition.

2 Included within additions is £6,881k (2022: £11,412k) in relation to software development to support the 47 products developed to meet the Public Commitments under the CIF grant.

During the year, the Group capitalised expenditure incurred on the design, specification, build, test and implementation of its banking software. The average remaining amortisation period of capitalised software as at 31 March 2023 was 5 years (2022: 5 years). The Directors have reviewed both internal and external indicators of impairment, including evidence of obsolescence, and have concluded that there are no indicators of impairment that require further impairment assessment.

Included under Intangible Assets is an intangible asset recognised on acquisition of Fleet in the prior year. In accordance with IFRS 3, the Group recognised, separately from Goodwill, an identifiable intangible asset acquired as part of Fleet acquisition. The intangible asset arose from existing lending servicing contractual arrangements at the date of acquisition. An impairment of £626k has been recognised during the year to reflect the change in revenue expectations deriving from those contractual lending servicing arrangements.

The CIF Eligible Intangible arises from the capitalisation of grant related expenditure associated with the creation of software. The balance is amortised through the Income Statement over the expected life of the asset, which is 7 years (2022: 7 years).

Goodwill arose on the acquisition of Fleet in 2022. Further details are provided in note 19.1. It represents the excess in the fair value of the total consideration paid over the fair value of net identifiable assets at the date of acquisition.

Goodwill is an asset representing the future economic benefits arising from other assets acquired as part of Fleet acquisition and are not individually identified or separately recognised. Goodwill is assessed annually for impairment by measuring the recoverable amount of the CGU. The CGU is the smallest identifiable group of assets that generates cash inflows independent of the cash inflows of other assets.

The Group has determined the recoverable amount of Goodwill using the VIU calculation or net present value of the cash flows generated by the CGU. As the recoverable amount is higher than the carrying value of the Goodwill, Goodwill is not impaired and no impairment loss has been recognised for the year (2022: no impairment), see note 3(b).

Notes to the Financial Statements continued
For the year ended 31 March 2023

18. Intangible Assets and Goodwill continued

Group	Intangible Assets £'000	Goodwill £'000	Intangible Assets and Goodwill £'000
Cost			
As at 1 April 2021	25,779	–	25,779
Acquired on Purchase of Subsidiary[1]	562	–	562
Intangible Asset Recognised on Acquisition	7,586	–	7,586
Additions[2]	19,170	35,890	55,060
Disposals	(124)	–	(124)
CIF Eligible Intangible	(11,411)	–	(11,411)
As at 31 March 2022	41,562	35,890	77,452
Amortisation			
As at 1 April 2021	8,869	–	8,869
Acquired on Purchase of Subsidiary[1]	405	–	405
Charge for the Period	4,078	–	4,078
Disposals	(1)	–	(1)
As at 31 March 2022	13,351	–	13,351
Net Book Value	28,211	35,890	64,101

1 In 2022 the Group acquired the subsidiary Fleet Mortgages Limited, the cost and accumulated amortisation of Intangible Assets at acquisition have been shown separately to additions during the year. See note 19.1 for more details on the acquisition.

2 Included within additions is £6,881k (2022: £11,412k) in relation to software development to support the products that are being developed to meet the Public Commitments under the CIF grant.

Intangible Assets held by the Company at 31 March 2023 have a cost of £30k (2022: £30k and a Net Book Value of £0k (2022: £2k).

19. Investment in Subsidiaries and Intercompany Account

Investment in Subsidiaries	31 March 2022 £'000	Movement during year £'000	31 March 2023 £'000
Starling FS Services Limited	–	–	–
Murmur Financial Services International DAC	–	–	–
MFSI Holdings Limited	–	–	–
Fleet Mortgages Limited	50,171	–	50,171
Engine by Starling Limited	–	–	–
Investment in Subsidiaries	50,171	-	50,171

As at 31 March 2023, the Parent Company has three direct (2022: four) and two indirect (2022: one) fully owned subsidiary companies.

Starling FS Services Limited

The Company has a 100% interest in Starling FS Services Limited registered in England and Wales (5th Floor, Fruit & Wool Exchange, Duval Square, London E1 6PW, registration number 10091094). The issued ordinary share capital is £1 nominal value. This subsidiary was established in 2016 to design, specify, build, test and implement banking software and operates from the same premises as its parent. It licenses the use of the software that powers the Group's technology platform to Starling Bank Limited and has the right to sell the technology platform under licence to Engine by Starling Limited.

Murmur Financial Services International DAC

As at 31 March 2023, the Company has a 100% indirect interest in Murmur Financial Services International DAC registered in Ireland (Riverside One Sir John Rogerson's Quay, Dublin, D02 X576, registration number 648846). This subsidiary was established in 2019 and it is the vehicle through which the Group provide support to Engine by Starling Limited outside the UK. In June 2022 the Company injected £1,188k of capital into Murmur Financial Services International DAC. The additional increase in the carrying value of the cost of subsidiary was subsequently impaired. During the year the Company's holding in Murmur Financial Services International DAC was transferred to a newly incorporated direct subsidiary, MFSI Holdings Limited (a company registered in the Republic of Ireland), at book value.

Notes to the Financial Statements continued
For the year ended 31 March 2023

19. Investment in Subsidiaries and Intercompany Account continued

MFSI Holdings Limited

The Company has a 100% interest in MFSI Holdings Limited incorporated in December 2021 and registered in Ireland (Riverside One Sir John Rogerson's Quay, Dublin, D02 X576, registration number 709388). The issued ordinary share capital is €100 nominal value. This subsidiary has been established in the prior year as an Irish domiciled Holding Company for Murmur Financial Services International DAC.

Fleet Mortgages Limited

In July 2021, the Company acquired a 100% interest in Fleet Mortgages Limited registered in England and Wales (2nd Floor Flagship House, Reading Road North, Fleet, Hampshire, GU51 4WP, registration number 08663979). The issued ordinary share capital is £41,053 nominal value. The fair value of consideration transferred of £50,171k was recognised as an investment at acquisition. See note 19.1 for further details. This subsidiary was acquired to help establish the Group's entrance into the mortgage market. The subsidiary originates, sells and services buy-to-let mortgage loans granted primarily to professional and semi-professional landlords.

Engine by Starling Limited

The Company has a 100% indirect interest in Engine by Starling Limited registered in England and Wales (5th Floor, Fruit & Wool Exchange, Duval Square, London E1 6PW, registration number 13925405). Incorporated in February 2022, this company was established as a direct subsidiary of Starling FS Services Limited during the prior year. The issued ordinary share capital is £1 nominal value. This subsidiary is the vehicle through which the Group will sell its Software-as-a-Service product, based on the proprietary technology platform used to power the Bank.

Company	31 March 2022 £'000	Movement during year £'000	31 March 2023 £'000
Starling FS Services Limited	39,648	12,143	51,791
Murmur Financial Services International DAC	779	(779)	–
MFSI Holdings Limited	–	–	–
Fleet Mortgages Limited	–	(283)	(283)
Engine by Starling Limited	–	100	100
Balance on Intercompany Account	40,427	11,181	51,608

Starling FS Services Limited

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 and associated banking software are recharged from the Parent Company to Starling FS Services Limited. These costs are settled on the date of receipt of the invoice, for the costs incurred, through the Intercompany Account. In the current year, the intercompany balance includes amounts owed by the Parent Company to Starling FS Services Limited in respect of losses relieved against the Parent Company profits for taxation purposes. The balance on the Intercompany 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.

Murmur Financial Services International DAC

The Parent Company has granted an interest-bearing loan to Murmur Financial Services International DAC, to fund the costs of the Group's Irish office and employees. There was no balance on the Intercompany Account at the reporting date (2022: £779k). Any amounts due are repayable within a year and interest is charged at 3.0% (2022: 3.0%) per annum. No guarantees have been given or received. During the year an amount of £1,188k outstanding on the Intercompany Account was capitalised and recognised as a capital contribution in Murmur Financial Services International DAC's equity. In addition, in March 2023, a further £1,758k outstanding on the loan was written off.

Fleet Mortgages Limited

Amounts owed to Fleet at year-end represent outstanding monthly fees charged for servicing of the Company loans. These are payable on demand and interest free, see note 32.

Engine by Starling Limited

The Parent Company has granted an amount of £100k (2022: £0k) to Engine by Starling Limited to fund the costs of the Group's expansion of its Software-as-a-Service product. The balance on the Intercompany Account is repayable on demand and is interest free.

See note 32 for further information on related party transactions.

Notes to the Financial Statements continued
For the year ended 31 March 2023

19. Investment in Subsidiaries and Intercompany Account continued

19.1. Acquisition of Subsidiary

Acquisition of Fleet Mortgages Limited

On 23 July 2021, the Group acquired a 100% stake in Fleet, a mortgage origination business registered in England, thereby obtaining control. The acquisition was made to establish the Group's position in the buy-to-let mortgage market.

	£'000
Amount Settled in Cash	35,171
Equity Settled Consideration	15,000
Fair Value of Consideration Transferred	**50,171**

Fair Value of Net Identifiable Assets in Fleet Mortgages Limited	As at 23 July 2021 £'000
Property, Plant and Equipment	635
Intangible Assets	157
Cash and Cash Equivalents	6,425
Other Assets	2,890
Total Assets	**10,107**
Deferred Tax	(17)
Other Liabilities	(3,395)
Total Liabilities	**(3,412)**
Identifiable Net Assets	**6,695**

	As at 23 July 2021 £'000
Goodwill	
Fair Value of Consideration Transferred	50,171
Identifiable Net Assets Recognised on Acquisition	(6,695)
Intangible Recognised on Acquisition	(7,586)
Goodwill on Acquisition	**35,890**

	£'000
Fair Value of Consideration Transferred	(50,171)
Intangible Recognised on Acquisition	7,586
Cash and Cash Equivalents Acquired	6,425
Net Cash Outflow on Acquisition	(36,160)

Acquisition Costs Charged to the Income Statement	773

In accordance with IFRS 3, the Group has recognised, separately from Goodwill, an Identifiable Intangible Asset acquired in the acquisition of Fleet. The Intangible Asset arises from existing lending and servicing contractual arrangements at the date of acquisition, see note 18.

Notes to the Financial Statements continued
For the year ended 31 March 2023

20. Customer Deposits

	Group 31 March 2023 £'000	Group 31 March 2022[1] £'000	Company 31 March 2023 £'000	Company 31 March 2022[1] £'000
SME Current Accounts	5,987,977	5,001,484	5,988,044	5,001,797
Personal Current Accounts	4,395,297	3,907,633	4,395,297	3,907,633
Payment Services Accounts	85,955	118,296	85,955	118,297
Fixed Term Deposit	82,591	–	82,591	–
Customer Deposits	10,551,820	9,027,413	10,551,887	9,027,727

1 Comparative balances have been restated due to the reclassification of Accrued Interest from Other Liabilities to this line. See note 36 for further information.

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

During the year the Group introduced its first savings product with the launch of a one-year fixed rate term; first to Retail customers in December 2022 and in early 2023 to SMEs.

21. Deposits from Banks

	Group 31 March 2023 £'000	Group 31 March 2022[1] £'000	Company 31 March 2023 £'000	Company 31 March 2022[1] £'000
Bank of England – Central Bank Facilities	2,220,870	2,202,441	2,220,870	2,202,441
Deposits from Other Banks	53,436	81,380	53,436	81,380
Deposits from Banks	2,274,306	2,283,821	2,274,306	2,283,821

1 Comparative balances have been restated due to the reclassification of Accrued Interest from Other Liabilities to this line. See note 36 for further information.

In 2021, the Bank was granted access to the BoE's TFSME. This has been used to mitigate the liquidity risk of funding term lending through overnight deposits.

The TFSME allows funding to be drawn from the BoE up to a specific allowance. These drawings currently have a contractual term of four years; however, the BoE has confirmed that for exposures that extend beyond four years, the contractual repayment deadline will be extended in line with the extension in tenor of the customers' loan drawings under the Government-backed BBLS and CBILS programmes. TFSME funding can be repaid early with two days' notice. This financing is coincident with the BBLS and CBILS programmes and will be repaid from the proceeds of maturing loans or available cash reserves when repayments fall due.

For the TFSME, the Bank has pledged its BBLS loans balance as collateral and additionally utilises High Quality Liquid Assets as eligible collateral under the BoE's SMF.

Deposits from Other Banks represent cash collateral received from counterparty banks of £53,436k (2022: £81,380k) for margining purposes in relation to derivative transactions. These transactions are conducted under ISDA terms that are usual and customary to collateralised transactions for derivatives.

22. Provisions for Liabilities and Charges

	Impairment Provision on Undrawn Facilities and Loan Commitments £'000	Legal and Other Provisions £'000	Total Provisions for Liabilities and Charges £'000
As at 1 April 2021	1,632	368	2,000
Release for the Year	(408)	–	(408)
Provisions Utilised	–	(350)	(350)
As at 31 March 2022	1,224	18	1,242
Release for the Year	(132)	–	(132)
Provisions Recognised	–	232	232
As at 31 March 2023	1,092	250	1,342

Notes to the Financial Statements continued
For the year ended 31 March 2023

22. Provisions for Liabilities & Charges continued

Impairment Provision on Undrawn Facilities and Loan Commitments

Under IFRS 9 an Impairment Provision is recognised on Undrawn Overdraft Facilities and irrevocable Loan Commitments, see note 8. The Charge/ (Release) for the Year is recognised under Impairments and Charge-Offs in the Income Statement.

Legal and Other Provisions

In the course of its business, the Group receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers, investors and other third parties and is subject to legal proceedings and other actions. Starling considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in note 2(s). While the outcomes of legal proceedings are inherently uncertain, Starling believes that, based on the information available to it, appropriate provisions have been made. The Charge/ (Release) for the Year is recognised under Operating Expenses in the Income Statement.

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

23. Other Liabilities and Accruals

	Group 31 March 2023 £'000	Group 31 March 2022[2] £'000	Company 31 March 2023 £'000	Company 31 March 2022[2] £'000
Customer Transactions in Course of Settlement	**20,042**	35,695	**20,045**	35,695
Unsettled Debt Securities	**–**	35,000	**–**	35,000
Lease Liability[1]	**13,355**	3,758	**12,222**	3,277
Accruals	**11,975**	11,760	**10,882**	10,788
PAYE and NIC Payable	**3,782**	5,476	**3,563**	5,289
Deferred Consideration	**19,450**	15,336	**19,450**	15,336
Other Liabilities	**28,354**	31,589	**28,262**	30,557
Other Liabilities and Accruals	**96,958**	138,614	**94,424**	135,942

1 Lease Liability. See note 17 for corresponding Right of Use asset detail. The Group does not hold short-term leases or leases of low value assets.

2 Comparative balances have been restated due to the reclassification of Accrued Interest out of this line. See note 36 for further information.

24. Deferred Income

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Lending Deferred Fees	**25,323**	5,242	**749**	842
RDEC	**7,015**	4,260	**–**	–
Payment Schemes	**42**	3,110	**42**	3,110
CIF Grant	**–**	10,447	**–**	10,447
Deferred Income	**32,380**	23,059	**791**	14,399

Deferred Income comprises:

Lending Deferred Fees – Fee income received on Group's Loans and Advances to Customers that will be recognised in the Income Statement using the EIR over the expected life of the financial assets to which they relate.

RDEC – Residual amounts received from the RDEC scheme, that have not been recognised in the Income Statement at the reporting date. The Group has adopted IAS 20, and consequently, the RDEC claim cannot be recognised until the related qualifying expenditure has been expensed. The qualifying expenditure relates to software development and is capitalised as an intangible asset. The RDEC claim is recognised in the Income Statement on a systematic basis over the periods in which the Company recognises the amortisation cost of the related intangible asset. In accordance with IAS 20, the Group presents its financial information in relation to the RDEC claim on a gross basis.

Payment Schemes – Amounts received from the Group's Payment Scheme Provider that cannot be recognised in the Income Statement until certain performance conditions have been met. An objective assessment of whether the Group will achieve those thresholds is carried out at each reporting date.

CIF Grant – In April 2019 the Group received a grant of £100m under the CIF; the granting of the award and the continuing performance of the Bank against its stated objectives is administered by the BCR. The purpose of the CIF award was to facilitate the development of a more advanced business current account offering and ancillary products for SMEs in the UK.

Notes to the Financial Statements continued
For the year ended 31 March 2023

24. Deferred Income continued

The Group has adopted IAS 20 and, consequently, the CIF Grant is recognised when certain qualifying expenditure has been incurred. CIF income is recognised in the Income Statement on a systematic basis over the period in which the Bank recognises the related costs for which the Grant is intended to compensate. As set out in note 2(r), the Group presents its financial information in relation to the CIF Grant on a gross basis.

During the year, the residual amount received from the CIF was recognised in the Income Statement. Therefore, the full CIF Grant had been utilised and no Deferred Income in relation to the CIF Grant liability remains as at 31 March 2023.

The table below provides a breakdown of the amounts recognised in the Income Statement to align to the recognition of the qualifying expenditure.

Recognition of Grant Received from BCR under CIF	Carrying Value in Deferred Income £'000
As at 31 March 2021	34,218
Total Eligible Spend Released	(32,958)
CIF Eligible Spend Released	(23,771)
ISS Eligible Spend Released	(9,187)
ISS Grant Received	9,187
As at 31 March 2022	10,447
CIF Eligible Spend Released	(10,447)
As at 31 March 2023	–

Included in the CIF Eligible Spend Released of £10,447k (2022: £32,958k) is £6,881k (2022: £11,411k) that has been subsequently recognised as capital expenditure in relation to software development as part of Intangible Assets in the Group Accounts, see note 18.

The Group 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 also pledged to make £913 million of Balance Sheet lending available to SME customers by the end of 2023 to help boost their growth and productivity. These commitments were met, ahead of schedule, in the current period and, consequently, the full CIF Grant was utilised.

The Bank made a separate set of public commitments to the BCR in respect of the ISS award which related to attracting SME switches from NatWest, equipping SMEs with digital banking insights, skills and tools and empowering SMEs by providing access to a broad financial ecosystem. As per the conditions of the award, the monies distributed were fully utilised by the end of February 2022 to encourage further switching in line with the business case submitted.

During the year the Group continued to submit quarterly returns to the BCR for approval detailing the qualifying expenditure for that relevant period. The BCR have confirmed their satisfaction with the evidence and information submitted by the Group for all Assessment Years up to the completion of the programme in December 2022. Furthermore, the BCR have confirmed that the amount spent by the Group in the Assessment Year from 1 April 2022 to the end of the programme has been used for Permitted Purposes (and not for Prohibited Purposes) and in accordance with the business case.

Notes to the Financial Statements continued
For the year ended 31 March 2023

25. Share Capital

Number of Shares	Ordinary Shares	A Shares	B Shares	C Shares	D Shares	Total
As at 1 April 2022	**65,227,723**	**165,126,929**	**354,180,458**	**290,134,255**	**231,390,270**	**1,106,059,635**
Shares Issued	–	–	–	–	55,339,525	55,339,525
Shares Issued Under Share Award Schemes	–	7,000,000	–	–	–	7,000,000
Share Transfers	(4,529,435)	(1,619,401)	–	–	6,148,836	–
As at 31 March 2023	**60,698,288**	**170,507,528**	**354,180,458**	**290,134,255**	**292,878,631**	**1,168,399,160**

Nominal Value	£’000	£’000	£’000	£’000	£’000	£’000
As at 1 April 2022	**0.653**	**1.651**	**3.542**	**2.901**	**2.314**	**11.061**
Shares Issued	–	–	–	–	0.553	0.553
Shares Issued Under Share Award Schemes	–	0.070	–	–	–	0.070
Share Transfers	(0.045)	(0.016)	–	–	0.061	–
As at 31 March 2023	**0.608**	**1.705**	**3.542**	**2.901**	**2.928**	**11.684**

All shares of £0.00001 each are fully paid. The Ordinary shares, B shares, C shares and D shares have voting rights. The Ordinary A shares have no voting rights.

On 21 April 2022 the Bank completed a successful issuance of 55m Series D shares to existing shareholders. Consequently, the Group’s Share Capital has been increased by £553.

During the year, the Bank issued an additional 7m shares to the EBT, resulting in an increase of the Bank’s Share Capital by £70.

Notes to the Financial Statements continued
For the year ended 31 March 2023

25. Share Capital continued

Number of Shares	Ordinary Shares	A Shares	B Shares	C Shares	D Shares	Total
As at 1 April 2021	79,494,440	130,567,569	385,084,000	290,134,255	–	885,280,264
Shares Issued	–	11,588,827	–	–	179,240,544	190,829,371
Shares Issued Under Share Award Schemes	–	29,950,000	–	–	–	29,950,000
Share Transfers	(14,266,717)	(6,979,467)	(30,903,542)	–	52,149,726	–
As at 31 March 2022	65,227,723	165,126,929	354,180,458	290,134,255	231,390,270	1,106,059,635

Nominal Value	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2021	0.796	1.305	3.851	2.901	–	8.853
Shares Issued	–	0.116	–	–	1.792	1.908
Shares Issued Under Share Award Schemes	–	0.300	–	–	–	0.300
Share Transfers	(0.143)	(0.070)	(0.309)	–	0.522	–
As at 31 March 2022	0.653	1.651	3.542	2.901	2.314	11.061

During the prior year the Bank completed a successful issuance of 231m Series D shares through a funding round. Consequently, the Group's Share Capital has been increased by £1,908.

In July 2021 the Company acquired 100% of the issued share capital of Fleet Mortgages Limited for a consideration which included the issue of 12m shares.

During the year, the Bank issued an additional 30m shares to the EBT, resulting in an increase of the Bank's Share Capital by £300.

26. Share Premium

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
B Shares	**72,505**	72,505	**72,505**	72,505
C Shares	**180,830**	180,830	**180,830**	180,830
D Shares	**355,498**	224,998	**355,498**	224,998
Total Share Premium	**608,833**	478,333	**608,833**	478,333

On 21 April 2022 the Group completed a successful issuance of Series D shares to existing shareholders. Consequently, the Group's equity capital base has been increased by £131m.

Notes to the Financial Statements continued
For the year ended 31 March 2023

27. Other Reserves and Retained Earnings

Group	Other Reserves: Merger Relief Reserve £'000	Other Reserves: Own Shares Reserve £'000	Other Reserves: Share Awards Reserve £'000	Other Reserves: Foreign Currency Translation Reserve £'000	Cash Flow Hedging Reserve £'000	Retained Earnings £'000	Total Reserves £'000
As at 31 March 2021	**–**	**(103)**	**2,992**	**91**	**–**	**(115,493)**	**(112,513)**
Profit After Taxation	–	–	–	–	–	44,938	44,938
Translation of Subsidiary Company	–	–	–	(4)	–	–	(4)
Proceeds from Issue of Shares, Less Expenses	15,000	–	–	–	–	–	15,000
Cost of Share Award Schemes, Net of Tax	–	–	4,549	–	–	110	4,659
As at 31 March 2022	**15,000**	**(103)**	**7,541**	**87**	**–**	**(70,445)**	**(47,920)**
Profit After Taxation	–	–	–	–	–	142,856	142,856
Translation of Subsidiary Company	–	–	–	47	–	–	47
Other Comprehensive Income	–	–	–	–	(10,246)	–	(10,246)
Cost of Share Award Schemes, Net of Tax	–	–	1,695	–	–	–	1,695
As at 31 March 2023	**15,000**	**(103)**	**9,236**	**134**	**(10,246)**	**72,411**	**86,432**

Company	Other Reserves: Merger Relief Reserve £'000	Other Reserves: Own Shares Reserve £'000	Other Reserves: Share Awards Reserve £'000	Cash Flow Hedging Reserve £'000	Retained Earnings £'000	Total Reserves £'000
As at 31 March 2021	**–**	**(103)**	**2,992**	**–**	**(100,101)**	**(97,212)**
Profit After Taxation	–	–	–	–	52,831	52,831
Proceeds from Issue of Shares, Less Expenses	15,000	–	–	–	–	15,000
Cost of Share Award Schemes, Net of Tax	–	–	4,549	–	110	4,659
As at 31 March 2022	**15,000**	**(103)**	**7,541**	**–**	**(47,160)**	**(24,722)**
Profit After Taxation	–	–	–	–	168,619	168,619
Other Comprehensive Income	–	–	–	(10,246)	–	(10,246)
Cost of Share Award Schemes, Net of Tax	–	–	1,695	–	–	1,695
As at 31 March 2023	**15,000**	**(103)**	**9,236**	**(10,246)**	**121,459**	**135,346**

Notes to the Financial Statements continued
For the year ended 31 March 2023

27. Other Reserves and Retained Earnings continued

Merger Relief Reserve

In 2021 the Company acquired 100% of the issued share capital of Fleet Mortgages Limited for a consideration which included the issue of 11,588,827 shares. As the Company acquired more than 90% of the shares in Fleet Mortgages Limited, Section 612 of the Companies Act 2006 applies, and accordingly the Company set up a Merger Relief Reserve for £15m on the issue of these shares.

Own Shares Reserve:

The Starling FS EBT was established on 18 December 2015 for the benefit of Group employees. The Own Shares Reserve represents the cost of the Company's shares (nominal value and any premium paid) purchased by the EBT.

Share Awards Reserve:

The Share Award Reserve represents the cumulative cost of employee share awards schemes, net of tax. For more information of the Company's share awards incentive schemes, see note 28.

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Cost of Share Award Schemes Under EBT	7,250	6,409	7,250	6,409
Cost of Other Share Award Schemes, Net of Tax	1,986	1,132	1,986	1,132
Share Awards Reserve	**9,236**	**7,541**	**9,236**	**7,541**

Cash Flow Hedging Reserve

The Cash flow Hedging Reserve represents the effective portion of cumulative post-tax losses on cash flow hedging derivatives that will be recycled to the Income Statement when the hedged transactions affect profit or loss. See page 193 for further detail.

Foreign Currency Translation Reserve

This Reserve arises on the translation of foreign operations that have a functional currency different from the Group's functional currency into the Group's functional currency on consolidation.

28. Share Award Schemes

a. Share Award Schemes under the Employee Benefit Trust

The Starling FS EBT was established on 18 December 2015 for the benefit of Group employees.

Excluding the LTIP (see page 176), Starling has created six 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 JSOP – Scheme 2 (share awards granted in December 2016 and April 2017);
- In December 2017, a JSOP – Scheme 3 (share awards granted in December 2017, February and March 2018);
- In October 2018, a JSOP – Scheme 4 (share awards granted in October and November 2018, March and July 2019 and January 2020);
- In May 2020, a SEIS – Scheme 5 – (share awards granted in July 2020, August and September 2021); and
- In September 2021, a second SEIS – Scheme 6 – (share awards granted in September, November and December 2021; January, February, March and April 2022; and January 2023).

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

Under Schemes 5 and 6 (SEIS 1 and 2), the Company gifted the beneficial interest in shares to certain employees in any capital return above a hurdle on realisation. The Bank purchased from the EBT, on behalf of certain employees, the beneficial interest in any capital return above a hurdle on realisation.

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 four year holding period commencing on the date of grant.

The EBT trustee is Ocorian Limited, a company registered in Jersey (number: JE52417) and whose registered office is at 26 New Street, St Helier, Jersey, JE2 3RA.

On 24 February 2023, the Bank established a second EBT, which would provide share award and incentive capacity for the Bank and Group. It did not hold any shares for the benefit of employees as at 31 March 2023.

Notes to the Financial Statements continued
For the year ended 31 March 2023

28. Share Award Schemes continued

a. Share Award Schemes under the Employee Benefit Trust continued

The movement in shares held by the EBT during the year are shown in the table below:

	Shares Number	Nominal Value £
Outstanding as at 1 April 2021	83,092,333	831
Shares Allocated to EBT	29,950,000	300
Shares Sold to Other Shareholders	(2,879,245)	(29)
As at 31 March 2022	110,163,088	1,102
Shares Allocated to EBT	7,000,000	70
Shares Sold to Other Shareholders	(672,390)	(7)
As at 31 March 2023	**116,490,698**	**1,165**

During the year, the Company changed its share awards valuation methodology to better align it to best market practice for unquoted companies with complex capital structures with share classes with different preferential rights. The Bank uses a Black-Scholes option pricing model and a contingency claims analysis to allocate and calculate the Company's equity value between the different share classes, reflecting each class preferential return and subscription prices at which each converts and participates in the equity proceeds.

The cost of awards made under the EBT recognised during the year are shown in Other Reserves in accordance with IFRS 2, see note 27.

	Opening Balance £'000	Shares held by EBT £'000	Charge for the Period £'000	Closing Balance £'000
Cost of Share Awards Schemes, Net of Tax	6,409	–	841	7,250

The table below provides details of beneficial interest in shares under the EBT awarded to employees, their fair value and cumulative IFRS 2 charges per award scheme:

Scheme	Number of Shares Purchased	Weighted Average Number of Elapsed Months	Percentage Applied	Weighted Average Fair Value per Scheme	Amount Recognised Gross of Tax £'000
Scheme 1	1,391,330	48	100.0%	0.001	1
Scheme 2	7,945,638	48	100.0%	0.056	443
Scheme 3	5,383,171	48	100.0%	0.192	1,033
Scheme 4	2,477,371	44	91.9%	0.343	781
Scheme 5 / SEIS 1	59,782,000	29	61.0%	0.079	2,877
Scheme 6 / SEIS 2	31,423,000	15	31.0%	0.217	2,115
Total	**108,402,510**	**28**	**58.3%**	**0.115**	**7,250**

The Group / Company uses a Black-Scholes Option Pricing Model to value the share awards. In prior years the Group / Company has used a Binomial Option Pricing Model. The change of option-pricing model from Binomial to Black-Scholes has no impact on the valuation as both models are expected to calculate, under the same assumptions, the same fair value.

The fair values are based on a valuation carried out for the Group / Company by an 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 is charged to the Income Statement with a corresponding credit to Reserves, see note 27. During the year, the cost of share awards recognition in the Income Statement changed from straight-line to graded method as the awards vest in instalments over four years.

Notes to the Financial Statements continued
For the year ended 31 March 2023

28. Share Award Schemes continued

a. Share Award Schemes under the Employee Benefit Trust continued

Highly subjective assumptions are used in an option pricing model to determine the fair value. Changes in the assumptions can significantly affect the fair value estimates. The main assumptions are shown in the table below:

Grant date:	2016	2017	2018	2019	2020	2021	2022	2023
Expected volatility:	62.0%	46.0%	37.0%	37.0%	49.0%	34.0%	30.0%	25.0%
Risk free interest rate:	1.5%	1.5%	1.4%	0.6%	0.0%	0.6%	1.8%	3.5%
Dividend yield:	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Analysis of Shares held by Employee Benefit Trust

31 March 2023	Shares Number[1]	Nominal Value £	Fair Value £'000
2016 – Total Shares Allocated	4,634,756	46	171
2017 – Total Shares Allocated	7,769,524	78	820
2018 – Total Shares Allocated	3,319,088	33	747
2019 – Total Shares Allocated	712,500	7	222
2020 – Total Shares Allocated	48,263,642	483	2,700
2021 – Total Shares Allocated	35,630,000	356	3,028
2022 – Total Shares Allocated	3,325,000	33	937
2023 – Total Shares Allocated	4,748,000	47	636
2023 – Total Shares Unallocated	8,088,188	81	–
As at 31 March 2023	**116,490,698**	**1,164**	**9,261**

31 March 2022	Shares Number[1]	Nominal Value £	Fair Value £'000
2016 – total shares allocated	5,011,095	50	195
2017 – total shares allocated	8,062,219	81	853
2018 – total shares allocated	2,887,027	29	623
2019 – total shares allocated	1,147,917	12	426
2020 – total shares allocated	48,932,916	489	2,882
2021 – total shares allocated	36,855,000	369	1,423
2022 – total shares allocated	1,125,000	11	7
2022 – total shares unallocated	6,141,914	61	–
As at 31 March 2022	**110,163,088**	**1,102**	**6,409**

1 As a result of the Company's subdivision of capital by a quotient of 1,000 on 26 June 2021, all awards issued prior to that date were adjusted accordingly.

Notes to the Financial Statements continued
For the year ended 31 March 2023

28. Share Award Schemes continued

b. Other Share Award Schemes – Long Term Incentive Plan (LTIP)

The Bank launched the LTIP scheme in March 2020. Under the LTIP scheme, eligible employees are awarded a beneficial interest in shares of the Bank at nil cost, aligning the interests of employees with the interests of shareholders. LTIP awards vest over a four year holding period commencing on the date of grant. Share awards were granted under the LTIP in March and September 2020 and again in March and September 2021.

Under the rules of the scheme, permanent employees are entitled to participate in a capital return on realisation.

	Opening Balance £'000	Charge for the period £'000	Deferred tax £'000	Closing Balance £'000
Cost of Share Awards Schemes, Net of Tax	1,132	482	372	1,986

	Number of Shares Purchased	Weighted Average Number of Elapsed Months	Percentage applied	Weighted Average Fair Value per Scheme	Amount Recognised Gross of Tax £'000
2020 – Total Shares Allocated	1,996,000	35	72.8%	£0.79	1,141
2021 – Total Shares Allocated	1,148,000	21	43.2%	£0.54	266
2022 - Total Shares Allocated	952,000	9	18.1%	£1.20	207
Total	**4,096,000**	**25**	**51.8%**	**£0.76**	**1,614**

The fair value of the shares at the grant date were valued using a Black-Scholes Option Pricing Model.

The assumptions used are as follows:

Grant date:	2020	2021	2022
Expected Volatility:	36.0%	34.0%	0.6%
Risk Free Interest Rate:	0.0%	0.6%	1.8%
Dividend Yield:	0.0%	0.0%	0.0%

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 is charged to the Income Statement on a straight-line basis over four years, with a corresponding credit to Reserves, see note 27.

During the year, Starling recognised a Deferred Tax Asset on the Bank's LTIP scheme to reflect the Company's entitlement to a tax deduction based on the value of the shares delivered to employees upon a future vesting event. The tax credit recognised in the Income Statement was £452k (2022: £0k) and the tax credit recognised in Other Reserves was £372k (2022: £0k).

29. Analysis of Cash and Cash Equivalents

	Group 31 March 2023 £'000	Group 31 March 2022 £'000	Company 31 March 2023 £'000	Company 31 March 2022 £'000
Cash at Bank of England	**6,076,284**	6,053,010	**6,076,284**	6,053,010
Cash at Other Banks	**33,420**	54,271	**29,151**	50,160
Loans and Advances to Banks	**6,109,704**	6,107,281	**6,105,435**	6,103,170
Less Cash Ratio Deposit	**(33,985)**	(24,150)	**(33,985)**	(24,150)
Debt Securities (less than three months)	**26,371**	-	**26,371**	-
Total Cash and Cash Equivalents	**6,102,090**	6,083,131	**6,097,821**	6,079,020

During the year, the Group updated its Cash and Cash equivalents accounting policy (as noted in the basis of preparation on page 128). As a result, the Group has adjusted its Cash and Cash equivalents position in the Cash Flow Statement to exclude restricted mandatory reserve deposits with central banks, other restricted deposits and to include any highly liquid financial assets with an original maturity of less than 3 months from acquisition.

The Cash Ratio Deposit is held with the BoE in accordance with statutory requirements. As this deposit is not held in a demand account and is not available to finance the Group's day-to-day operations, it is excluded from Cash and Cash equivalents.

This change has decreased the Group's Cash and Cash equivalents at 1 April 2021 by £7,627k to £3,188,722k and decreased Net Cash Flows from Operating Assets in 2022 by £16,523k resulting in a decrease in the Group's Cash and Cash equivalents at 31 March 2022 of £24,150k to £6,083,131k.

Notes to the Financial Statements continued
For the year ended 31 March 2023

30. Financial Instruments

The accounting policies in note 2(f) and 2(g) describe how different classes of financial instruments are measured. The following table summarises the classification of the Group's financial assets and liabilities by category and Statement of Financial Position heading:

Group / Company	At Fair Value through Profit or Loss £'000	Held at Amortised Cost £'000	Total £'000
31 March 2023			
Loans and Advances to Banks	–	6,109,704	**6,109,704**
Debt Securities	–	2,479,550	**2,479,550**
Loans and Advances to Customers	–	4,731,997	**4,731,997**
Derivative Assets	221,774	–	**221,774**
Financial assets	**221,774**	**13,321,251**	**13,543,025**
Customer Deposits	–	10,551,820	**10,551,820**
Deposits from Banks	–	2,274,306	**2,274,306**
Derivative Liabilities	55,452	–	**55,452**
Financial liabilities	**55,452**	**12,826,126**	**12,881,578**
31 March 2022			
Loans and Advances to Banks	–	6,107,281	6,107,281
Debt Securities	–	2,306,886	2,306,886
Loans and Advances to Customers	–	3,234,673	3,234,673
Derivative Assets	98,056	–	98,056
Financial assets	**98,056**	**11,648,840**	**11,746,896**
Customer Deposits	–	9,027,413	9,027,413
Deposits from Banks	–	2,283,821	2,283,821
Derivative Liabilities	330	–	330
Financial liabilities	**330**	**11,311,234**	**11,311,564**

a. *Valuation of Financial Instruments carried at Fair Value through Profit or Loss:*

IFRS 13 Fair Value Measurement requires the Group to classify its financial 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 2 assets also include those where unadjusted quoted prices are used for valuation but the underlying market is not considered active; and
- 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.

Derivative assets and liabilities in the current year are classified as level 2. Interest rate swaps are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from quoted readily available rates. FX forwards are priced using rates available from publicly quoted sources. Derivative financial instruments are the only instruments carried at FVTPL.

Notes to the Financial Statements continued
For the year ended 31 March 2023

30. Financial Instruments continued

a. *Valuation of Financial Instruments carried at fair value through profit or loss (FVTPL) continued*

Group / Company	Carrying Value £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 March 2023					
Interest Rate Swaps	221,669	221,669	–	221,669	–
FX Forwards	105	105	–	105	–
Financial Assets Carried at Fair Value	**221,774**	**221,774**	**–**	**221,774**	**–**
Interest Rate Swaps	54,002	54,002	–	54,002	–
FX Forwards	1,450	1,450	–	1,450	–
Financial Liabilities Carried at Fair Value	**55,452**	**55,452**	**–**	**55,452**	**–**

Group / Company	Carrying Value £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 March 2022					
Interest Rate Swaps	97,249	97,249	–	97,249	–
FX Forwards	807	807	–	807	–
Financial Assets Carried at Fair Value	98,056	98,056	–	98,056	–
Interest Rate Swaps	54	54	–	54	–
FX Forwards	276	276	–	276	–
Financial Liabilities Carried at Fair Value	330	330	–	330	–

All financial assets and liabilities in the table above that are held as FVTPL are mandatorily held as such. All interest rate swaps are in hedge relationships.

b. *Valuation of Financial Instruments carried at amortised cost:*

Loans and Advances to Banks

These represent amounts placed with the BoE or Other Banks where adjustments to fair value in respect of the credit risk of counterparty are not considered necessary. The interest paid on all amounts is floating market rate. The fair value of Loans and Advances to Banks is considered to be the carrying value and the Group has not recognised an Impairment Provision. These are classified as Level 2 assets.

Debt Securities

All debt securities qualify as HQLA items held for liquidity management and are valued using quoted market price. These are classified as Level 1 where the underlying market is considered active and Level 2 where sufficient market activity has not been observed to deem the market active. As all debt securities qualify as HQLA, the Group considers it is able to liquidate such investments at short notice with little or no loss of value. The Group is holding these assets to maturity and they are measured at amortised cost. The Group has not recognised an Impairment Provision on its debt securities portfolio as it observes that any difference between the carrying value and the fair value of these investments is a temporary diminution in value that arises from short-term movements in market prices and does not reflect any permanent deterioration in credit worthiness. The Group 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. For all Debt Securities, the fair value is impacted by changes in the market-implied rate of interest and future credit risk of the individual issuers. For both floating and fixed rate bonds the fair value is impacted by changes in interest rates. Most fixed rate bonds are hedged with interest rate swaps to mitigate the risk of adverse movements in interest rates; the hedge adjustment, being the offset to the fair value of the swap, is reflected in the carrying value where appropriate.

Loans and Advances to Customers

The Group provides loans to customers at both fixed and variable rates. For fixed rate lending, ECL, prevailing market interest rates and expected future cash flows are used in the estimation of fair value. The fair value is calculated based on the present value of the anticipated future principal and interest cash flows, discounted at the market rate of interest at the Statement of Financial Position date. Expected cash flows are adjusted for expected repayment profiles in line with those used internally for liquidity management and hedge accounting purposes. The majority of fixed rate lending to customers under mortgage advances and fixed rate lending to SME customers under BBLS, CBILS and RLS are hedged with interest rate swaps, to mitigate the risk of adverse movements in interest rates eroding the Group's lending margin. Through the application of hedge accounting, the carrying value and the fair value of the hedged fixed rate lending is adjusted to reflect the current mark to market value of hedged items adjusted for interest rate risk. The fair value of Loans and Advances to Customers is also stated net of any Impairment Provision. For variable rate lending, including drawn overdrafts and undrawn overdrafts, the fair value is considered to be gross carrying value less any Impairment Provision. These are classified as Level 3 assets.

Notes to the Financial Statements continued
For the year ended 31 March 2023

30. Financial Instruments continued

b. Valuation of Financial Instruments carried at amortised cost continued

Customer Deposits

The majority of deposits from customers are at market rate and are callable on demand. Accordingly, the fair value of deposits from customers is considered to be the carrying value. For fixed rate deposits, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturity. These are classified as Level 2 liabilities.

Deposits from Banks

The Central Bank facilities are floating rate, with an initial maturity of four years, a portion of which has been extended to six years. The fair value of Central Bank facilities has been determined as the gross carrying value. These are classified as Level 2 liabilities.

Group	Carrying Value £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 March 2023					
Loans and Advances to Banks	6,109,704	6,109,704	–	6,109,704	–
Debt Securities	2,479,550	2,482,311	1,012,830	1,469,481	–
Loans and Advances to Customers	4,731,997	4,731,440	–	–	4,731,440
Financial Assets Carried at Amortised Cost	**13,321,251**	**13,323,455**	**1,012,830**	**7,579,185**	**4,731,440**
Customer Deposits	10,551,820	10,551,113	–	10,551,113	–
Deposits from Banks	2,274,306	2,274,306	–	2,274,306	–
Financial Liabilities Carried at Amortised Cost	**12,826,126**	**12,825,419**	**–**	**12,825,419**	**–**

Group	Carrying Value £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 March 2022					
Loans and Advances to Banks	6,107,281	6,107,281	–	6,107,281	–
Debt Securities	2,306,886	2,309,889	2,309,889	–	–
Loans and Advances to Customers	3,234,673	3,234,673	–	–	3,234,673
Financial Assets Carried at Amortised Cost	11,648,840	11,651,843	2,309,889	6,107,281	3,234,673
Customer Deposits	9,027,413	9,027,413	–	9,027,413	–
Deposits from Banks	2,283,821	2,283,821	–	2,283,821	–
Financial Liabilities Carried at Amortised Cost	11,311,234	11,311,234	–	11,311,234	–

Notes to the Financial Statements continued
For the year ended 31 March 2023

30. Financial Instruments continued

b. Valuation of Financial Instruments carried at amortised cost continued

Company	Carrying Value £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 March 2023					
Loans and Advances to Banks	6,105,435	6,105,435	–	6,105,435	–
Debt Securities	2,479,550	2,482,311	1,012,830	1,469,481	–
Loans and Advances to Customers	4,731,997	4,731,440	–	–	4,731,440
Financial Assets Carried at Amortised Cost	**13,316,982**	**13,319,186**	**1,012,830**	**7,574,916**	**4,731,440**
Customer Deposits	10,551,887	10,551,113	–	10,551,113	–
Deposits from Banks	2,274,306	2,274,306	–	2,274,306	–
Financial Liabilities Carried at Amortised Cost	**12,826,193**	**12,825,419**	**–**	**12,825,419**	**–**

Company	Carrying Value £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 March 2022					
Loans and Advances to Banks	6,103,170	6,103,170	–	6,103,170	–
Debt Securities	2,306,886	2,309,889	2,309,889	–	–
Loans and Advances to Customers	3,234,673	3,234,673	–	–	3,234,673
Financial Assets Carried at Amortised Cost	11,644,729	11,647,732	2,309,889	6,103,170	3,234,673
Customer Deposits	9,027,727	9,027,727	–	9,027,727	–
Deposits from Banks	2,283,821	2,283,821	–	2,283,821	–
Financial Liabilities Carried at Amortised Cost	11,311,548	11,311,548	–	11,311,548	–

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management

The primary risks affecting the Group from its use of financial instruments are credit risk, liquidity risk and market risk including interest rate risk and FX risk. Further information on the management of these risks in included in the risk report on pages 47 to 112.

a. Credit Risk Exposure

Credit Risk is the current or prospective risk that a customer of the Group defaults on their contractual obligations or fails to perform their obligations in a timely manner. The maximum exposure to credit risk includes the total committed but undrawn facilities as well as 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 and committed but undrawn facilities. 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 Group is exposed to is as follows:

Credit Risk	Group 2023 £'000	Group 2022 £'000	Company 2023 £'000	Company 2022 £'000
Loans and Advances to Banks	**6,109,704**	6,107,281	**6,105,435**	6,103,170
Debt Securities	**2,518,240**	2,330,261	**2,518,240**	2,330,261
Loans and Advances to Customers	**4,873,633**	3,311,679	**4,873,633**	3,311,679
Derivative Assets	**221,774**	98,056	**221,774**	98,056
Undrawn Facilities and Commitments	**225,888**	321,932	**225,888**	321,932
Exposure to Credit Risk	**13,949,239**	12,169,209	**13,944,970**	12,165,098
UK Government Guarantee	**(1,280,371)**	(1,900,652)	**(1,280,371)**	(1,900,652)
Exposure After Guarantee	**12,668,868**	10,268,557	**12,664,599**	10,264,446

Exposure to credit risk includes £6,042,299k (2022: £6,028,860k) of cash held with the BoE reported under Loans and Advances to Banks. Included in Loans and Advances to Customers are BBLS, CBILS and RLS lending which benefits from additional credit enhancement from guarantees received from BBB (backed by HM Government) as part of the schemes' features.

Derivatives collateral placed with swap counterparties:

The Group addresses the credit risk associated with derivative activities by placing / receiving initial margin and variation margin. The counterparty credit exposure is monitored daily requiring additional collateral to be posted or returned as necessary. The only form of collateral accepted by the Group in respect of derivatives is cash. Derivatives are transacted under ISDA Master Agreements and, when relevant, Cleared Derivatives Execution Agreements. During the year, all interest rate swaps were novated to clear through the LCH.

Netting arrangements do not necessarily result in an offset of derivative assets and liabilities unless the right of set-off is not contingent onto any future events and is legally enforceable; and the intention is to settle on a net basis as per IAS 32. As the Group usually settles these transactions on a gross basis, the derivatives assets and liabilities, shown under netting arrangements in the table below have not been offset in the Statement of Financial Position. Further information on the management of these risks is included in the risk report on pages 47 to 112.

Notes to the Financial Statements continued

For the year ended 31 March 2023

31. Risk Management continued

b. Credit Quality continued

As at 31 March 2023 Group and Company	Gross Amounts as Reported £,000	Netting Agreements £'000	Cash Collateral[1] £'000	Net Amounts after Netting £'000
Derivative Assets	221,774	(54,107)	(169,561)	(1,894)
Derivative Liabilities	(55,452)	54,107	–	(1,345)
Amounts Subject to Netting	**166,322**	**–**	**(169,561)**	**(3,239)**

1 Cash collateral includes variation margin received but excludes initial margin placed with counterparties.

As at 31 March 2022 Group and Company	Gross Amounts as Reported £,000	Netting Agreements £'000	Cash Collateral £'000	Net Amounts after Netting £'000
Derivative Assets	98,056	(330)	(81,380)	16,346
Derivative Liabilities	(330)	330	–	–
Amounts Subject to Netting	97,726	–	(81,380)	16,346

Credit Concentration

The Group's portfolio of Debt Securities is managed within a Board approved investment strategy that restricts concentration of exposures. The portfolio comprises assets that are eligible for inclusion in the Group's liquidity buffer (as defined in the PRA rulebook). No Impairment Provision is recognised on Debt Securities as any differences between the carrying value and the current fair value of individual investments are considered to be temporary; each asset is held to maturity and the Group considers that full repayment will occur.

Further detail on sectoral concentration in the SME lending portfolio is given in the Risk report on page 75.

The Mortgage tables below provide further information on type of mortgage lending and geographical split. As there is no difference in Mortgages for Group or Company the tables below do not distinguish between the two:

Mortgage Lending As at 31 March 2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Buy-to-let	2,059,968	5,464	3,736	2,069,168
Owner Occupied	1,168,333	115,931	83,357	1,367,621
Total Mortgage Lending Before Impairment Provision	3,228,301	121,395	87,093	3,436,789

Mortgage Lending As at 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Buy-to-let	243,028	–	–	243,028
Owner Occupied	899,171	26,124	47,564	972,859
Total Mortgage Lending Before Impairment Provision	1,142,199	26,124	47,564	1,215,887

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

Credit Concentration continued

Mortgage Region As at 31 March 2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Scotland	41,109	4,121	2,892	48,122
East Midlands	196,083	9,782	5,608	211,473
South West	218,622	8,172	6,777	233,571
West Midlands	251,752	11,743	10,905	274,400
Greater London	1,118,376	31,948	25,638	1,175,962
East England	326,882	11,269	9,722	347,873
North West	286,980	16,731	10,548	314,259
South East	489,910	13,787	7,089	510,786
North East	181,728	7,719	4,297	193,744
Wales	114,932	5,376	3,415	123,723
Northern Ireland	1,927	747	202	2,876
Total Mortgage Lending Before Impairment Provision	**3,228,301**	**121,395**	**87,093**	**3,436,789**

Mortgage Region As at 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Scotland	17,552	1,797	2,506	21,855
East Midlands	79,849	2,733	4,088	86,670
South West	76,026	1,934	3,670	81,630
West Midlands	101,944	3,046	6,512	111,502
Greater London	168,037	5,487	8,058	181,582
East England	102,875	3,319	4,681	110,875
North West	133,043	2,996	7,922	143,961
South East	109,851	1,803	3,687	115,341
North East	302,978	1,916	3,424	308,318
Wales	46,947	1,088	2,745	50,780
Northern Ireland	3,097	5	271	3,373
Total Mortgage Lending Before Impairment Provision	1,142,199	26,124	47,564	1,215,887

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

Credit Risk – Maximum Exposure on Lending Portfolios

The following table summarises the Group's and Company's lending to customers including undrawn balances and loan commitments at 31 March 2023 by impairment stage and associated impairment provision. Further information on the management of these risks is included in the risk report on pages 57 to 108.

As at 31 March 2023	Stage 1 £'000	Stage 2 £'000	Stage 3[1] £'000	Total £'000
Mortgage Lending	3,228,301	121,395	87,093	**3,436,789**
Mortgage Pipeline (Undrawn)	146,872	–	–	**146,872**
SME Lending after Application of UK Government Guarantee	91,786	20,797	11,347	**123,930**
SME Lending	972,862	197,000	234,439	**1,404,301**
Of which subject to UK Government Guarantee	(881,076)	(176,203)	(223,092)	**(1,280,371)**
SME Overdraft Facilities (Undrawn)	5,284	–	–	**5,284**
Retail Lending	25,530	1,746	5,267	**32,543**
Retail Overdraft Facilities (Undrawn)	73,565	167	–	**73,732**
Exposure After Guarantee	**3,571,338**	**144,105**	**103,707**	**3,819,150**
Of which On Balance Sheet	*3,345,617*	*143,938*	*103,707*	*3,593,262*
Of which Off Balance Sheet	*225,721*	*167*	–	*225,888*
Mortgage Lending	4,275	879	2,699	**7,853**
Mortgage Pipeline (Undrawn)	177	–	–	**177**
SME Lending	5,046	4,380	10,755	**20,181**
SME Overdraft Facilities (Undrawn)	41	–	–	**41**
Retail Lending	1,091	478	4,927	**6,496**
Retail Overdraft Facilities (Undrawn)	832	42	–	**874**
Impairment Provision	**11,462**	**5,779**	**18,381**	**35,622**
Of which On Balance Sheet	*10,412*	*5,737*	*18,381*	*34,530*
Of which Off Balance Sheet	*1,050*	*42*	–	*1,092*
Mortgage Lending	3,224,026	120,516	84,394	**3,428,936**
Mortgage Pipeline (Undrawn)	146,695	–	–	**146,695**
SME Lending	86,740	16,417	592	**103,749**
SME Overdraft Facilities (Undrawn)	5,243	–	–	**5,243**
Retail Lending	24,439	1,268	340	**26,047**
Retail Overdraft Facilities (Undrawn)	72,733	125	–	**72,858**
Net Exposure	**3,559,876**	**138,326**	**85,326**	**3,783,528**
Of which On Balance Sheet	*3,335,205*	*138,201*	*85,326*	*3,558,732*
Of which Off Balance Sheet	*224,671*	*125*	–	*224,796*
% Coverage	**0.3%**	**4.0%**	**17.7%**	**0.9%**

1 Included in Mortgages stage 3 are POCI loans of £18,907k with an impairment provision of £650k.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

Credit Risk – Maximum Exposure on Lending Portfolios continued

As at 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3[1] £'000	Total £'000
Mortgage Lending	1,142,199	26,124	47,564	1,215,887
Mortgage Pipeline (Undrawn)	252,666	–	–	252,666
SME Lending after Application of UK Government Guarantee	131,699	14,426	3,984	150,109
SME Lending	1,468,051	286,636	296,074	2,050,761
Of which subject to UK Government Guarantee	(1,336,352)	(272,210)	(292,090)	(1,900,652)
SME Overdraft Facilities (Undrawn)	1,868	–	–	1,868
Retail Lending	37,707	2,912	4,412	45,031
Retail Overdraft Facilities (Undrawn)	67,279	119	–	67,398
Exposure After Guarantee	**1,633,418**	**43,581**	**55,960**	**1,732,959**
Of which On Balance Sheet	*1,311,605*	*43,462*	*55,960*	*1,411,027*
Of which Off Balance Sheet	*321,813*	*119*	–	*321,932*
Mortgage Lending	524	76	2,621	3,221
Mortgage Pipeline (Undrawn)	154	–	–	154
SME Lending	10,420	2,537	3,778	16,735
SME Overdraft Facilities (Undrawn)	27	–	–	27
Retail Lending	1,489	1,030	3,373	5,892
Retail Overdraft Facilities (Undrawn)	1,023	20	–	1,043
Impairment Provision	**13,637**	**3,663**	**9,772**	**27,072**
Of which On Balance Sheet	*12,433*	*3,643*	*9,772*	*25,848*
Of which Off Balance Sheet	*1,204*	*20*	–	*1,224*
Mortgage Lending	1,141,675	26,048	44,943	1,212,666
Mortgage Pipeline (Undrawn)	252,512	–	–	252,512
SME Lending	121,279	11,889	206	133,374
SME Overdraft Facilities (Undrawn)	1,841	–	–	1,841
Retail Lending	36,218	1,882	1,039	39,139
Retail Overdraft Facilities (Undrawn)	66,256	99	–	66,355
Net Exposure	**1,619,781**	**39,918**	**46,188**	**1,705,887**
Of which On Balance Sheet	*1,299,172*	*39,819*	*46,188*	*1,385,179*
Of which Off Balance Sheet	*320,609*	*99*	–	*320,708*
% Coverage	0.8%	8.4%	17.5%	1.6%

1 Included in Mortgages stage 3 are POCI loans of £18,404k with an impairment provision of £592k.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

The tables below provide information on impairment movement between stages on Loans and Advances to Customers (net of UK Government guarantees). Further information on the management of these risks is included in the risk report on pages 47 to 112.

	Exposure After Guarantee				Impairment Provision			
Total Drawn	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[3] £'000	Total £'000
As at 1 April 2022	**1,311,605**	**43,462**	**55,960**	**1,411,027**	**12,433**	**3,643**	**9,772**	**25,848**
Movements:								
Originations[1]	2,359,718	25,904	22,482	2,408,104	4,366	717	1,236	6,319
Repayments	(203,365)	(11,276)	(10,566)	(225,207)	(6,482)	(807)	(2,071)	(9,360)
Changes in Credit Risk[2]	–	–	–	–	1,200	2,533	8,202	11,935
Amounts Written Off	(327)	(217)	(118)	(662)	(21)	(38)	(153)	(212)
Impairment Charge / (Release) Recognised					**(937)**	**2,405**	**7,214**	**8,682**
Stage Transfers:								
To Stage 1	11,730	(9,680)	(2,050)	–	727	(644)	(83)	–
To Stage 2	(101,844)	107,492	(5,648)	–	(1,128)	1,518	(390)	–
To Stage 3	(31,900)	(11,747)	43,647	–	(683)	(1,185)	1,868	–
As at 31 March 2023	**3,345,617**	**143,938**	**103,707**	**3,593,262**	**10,412**	**5,737**	**18,381**	**34,530**
Coverage Ratio					**0.3%**	**4.0%**	**17.7%**	**1.0%**

1 Includes loans at reporting date stage, rather than stage at origination or acquisition. Includes loans acquired in the year, see note 12.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

3 Included in stage 3 are POCI loans of £18,907k with an impairment provision of £650k . Of this £5,753k represents POCI loans acquired in the year. Repayments in the year totalled £5,249k.

The above Impairment Charge / (Release) Recognised represents the Impairment Charge on Loans and Advances to Customers, see note 8.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

	Exposure After Guarantee				Impairment Provision			
Total Drawn	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[3] £'000	Total £'000
As at 1 April 2021	**173,654**	**13,957**	**3,496**	**191,107**	**9,662**	**3,226**	**2,735**	**15,623**
Movements:								
Originations[1]	1,339,600	1,742	539	1,341,881	2,810	140	122	3,072
Repayments	(117,043)	(3,742)	(447)	(121,232)	(1,795)	(287)	(188)	(2,270)
Changes in Credit Risk[2]	–	–	–	–	7,488	661	1,546	9,695
Amounts Written Off	(261)	(247)	(221)	(729)	(12)	(72)	(188)	(272)
Impairment Charge / (Release) Recognised					**8,491**	**442**	**1,292**	**10,225**
Stage Transfers:								
To Stage 1	5,294	(5,238)	(56)	–	553	(506)	(47)	–
To Stage 2	(38,276)	38,342	(66)	–	(1,502)	1,538	(36)	–
To Stage 3	(51,363)	(1,352)	52,715	–	(4,771)	(1,057)	5,828	–
As at 31 March 2022	**1,311,605**	**43,462**	**55,960**	**1,411,027**	**12,433**	**3,643**	**9,772**	**25,848**
Coverage Ratio					**0.9%**	**8.4%**	**17.5%**	**1.8%**

1 Includes loans at reporting date stage, rather than stage at origination or acquisition. Includes loans acquired in the year, see note 12.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

3 Included in stage 3 are POCI loans of £18,404k with an impairment provision of £592k acquired during the year.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

Total Undrawn	Exposure Stage 1 £'000	Exposure Stage 2 £'000	Exposure Stage 3[1] £'000	Exposure Total £'000	Impairment Provision Stage 1 £'000	Impairment Provision Stage 2 £'000	Impairment Provision Stage 3 £'000	Impairment Provision Total £'000
As at 1 April 2022	**321,813**	**119**	**–**	**321,932**	**1,204**	**20**	**–**	**1,224**
Movements:								
Approvals, Drawdowns or Expirations[1]	(95,769)	(164)	(111)	(96,044)	174	5	–	179
Changes in Credit Risk[2]	–	–	–	–	(329)	22	(4)	(311)
Impairment Charge / (Release) Recognised					(155)	27	(4)	(132)
Stage Transfers:								
To Stage 1	81	(81)	–	–	17	(17)	–	–
To Stage 2	(294)	294	–	–	(12)	12	–	–
To Stage 3	(110)	(1)	111	–	(4)	–	4	–
As at 31 March 2023	**225,721**	**167**	**–**	**225,888**	**1,050**	**42**	**–**	**1,092**
Coverage Ratio					**0.5%**	**25.1%**	**–%**	**0.5%**

1 Includes loans at reporting date stage, rather than stage at origination.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

The above Impairment Charge / (Release) Recognised represents the Impairment Charge on Undrawn Overdraft Facilities and Loans Commitments, see Note 8.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

	Exposure				Impairment Provision			
Total Undrawn	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
As at 1 April 2021	**72,685**	**927**	**–**	**73,612**	**1,352**	**281**	**–**	**1,633**
Movements:								
Approvals, Drawdowns or Expirations[1]	248,804	(389)	(95)	248,320	219	(49)	(2)	168
Changes in Credit Risk[2]	–	–	–	–	(552)	(21)	(4)	(577)
Impairment Charge / (Release) Recognised					(333)	(70)	(6)	(409)
Stage Transfers:								
To Stage 1	669	(664)	(5)	–	190	(190)	–	–
To Stage 2	(258)	258	–	–	(4)	4	–	–
To Stage 3	(87)	(13)	100	–	(1)	(5)	6	–
As at 31 March 2022	**321,813**	**119**	**–**	**321,932**	**1,204**	**20**	**–**	**1,224**
Coverage Ratio					**0.4%**	**16.8%**	**–%**	**0.4%**

1 Includes loans at reporting date stage, rather than stage at origination.

2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

Credit Ageing

The ageing of the Group's Loans and Advances to Customer (net of Government guarantees) at 31 March 2023 is as follows:

31 March 2023

	Exposure After Guarantee				Impairment Provision			
Credit Ageing	Stage 1 £'000	Stage 2 £'000	Stage 3[1] £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[1] £'000	Total £'000
Drawn facilities:								
Under 31 days	3,345,617	77,083	28,025	3,450,725	10,412	3,630	11,489	25,531
31 to 60 days past due	–	46,893	4,239	51,132	–	1,024	173	1,197
61 to 90 days past due	–	19,441	6,444	25,885	–	867	519	1,386
Over 90 days past due	–	521	64,999	65,520	–	216	6,200	6,416
Total Drawn Facilities	**3,345,617**	**143,938**	**103,707**	**3,593,262**	**10,412**	**5,737**	**18,381**	**34,530**
Undrawn Facilities								
Under 31 days	225,721	167	–	225,888	1,050	42	–	1,092
31 to 60 days past due	–	–	–	–	–	–	–	–
61 to 90 days past due	–	–	–	–	–	–	–	–
Over 90 days past due	–	–	–	–	–	–	–	–
Total Undrawn Facilities	**225,721**	**167**	**–**	**225,888**	**1,050**	**42**	**–**	**1,092**
Total Exposure	**3,571,338**	**144,105**	**103,707**	**3,819,150**	**11,462**	**5,779**	**18,381**	**35,622**

1 Included in stage 3 are POCI Mortgage loans of £18,907k with an impairment provisions of £650k.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

Credit Ageing continued

31 March 2022

	Exposure After Guarantee				Impairment Provision			
Credit Ageing	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[1] £'000	Total £'000
Drawn facilities:								
Under 31 days	1,311,605	17,087	18,059	1,346,751	12,433	2,469	4,827	19,729
31 to 60 days past due	–	25,349	2,148	27,497	–	585	353	938
61 to 90 days past due	–	767	13,088	13,855	–	356	764	1,120
Over 90 days past due	–	259	22,665	22,924	–	233	3,828	4,061
Total Drawn Facilities	1,311,605	43,462	55,960	1,411,027	12,433	3,643	9,772	25,848
Undrawn Facilities								
Under 31 days	321,813	119	–	321,932	1,204	20	–	1,224
31 to 60 days past due	–	–	–	–	–	–	–	–
61 to 90 days past due	–	–	–	–	–	–	–	–
Over 90 days past due	–	–	–	–	–	–	–	–
Total Undrawn Facilities	321,813	119	–	321,932	1,204	20	–	1,224
Total Exposure	1,633,418	43,581	55,960	1,732,959	13,637	3,663	9,772	27,072

1 Included in stage 3 are POCI Mortgage loans of £18,404k with an impairment provision of £592k.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

Forbearance

Where appropriate for customers the Group applies a policy of forbearance. The main arrangements offered to customers are: Payment arrangement (payment plan with a reasonable timeframe); Concessionary arrangement (payment plan for demonstrably temporary financial difficulties); Extension (increased product term) and Reduced interest. During the year, the Group continued to support its Retail and small business customers through a comprehensive range of flexible measures. SME lending predominantly represents lending under CBILS and BBLS schemes. The Group continued to offer PAYG forbearance measures, as outlined under these schemes, during the year. Further information on the management of these risks is included in the Risk Report on pages 47 to 112.

Loans Subject to Forbearance

	As at 31 March 2023			
	Total £'000	Of which Stage 2 £'000	Of which Stage 3 £'000	ECL as % of Forborne Loans
Retail	1,353	216	1,133	70.5%
SME	1,252	1,036	44	22.7%
Mortgages	53,565	21,775	21,184	1.3%
Total Loans in Forbearance	**56,170**	**23,027**	**22,361**	3.4%

	As at 31 March 2022			
	Total £'000	Of which Stage 2 £'000	Of which Stage 3 £'000	ECL as % of Forborne Loans
Retail	1,816	573	1,188	60.5%
SME	594	444	–	4.7%
Mortgages	25,599	3,779	7,078	1.0%
Total Loans in Forbearance	28,009	4,796	8,266	4.9%

Modifications

There were no modifications to Loans and Advances to Customers that resulted in substantial modification to the asset.

c. *Liquidity Risk*

Liquidity Risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due or is only able to do so at excessive cost. The Group's contractual maturities of the financial assets and liabilities as at 31 March 2023 are set out in the Risk Report, see page 95.

The Group maintains a deposit product which is aimed at the Retail 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. Further, in the current year, the Group launched a fixed term deposit product for both Retail and SME customers.

The Group's overdrafts and lending products do not give rise to a single obligor risk that is material. The Group's exposure to Debt Securities is monitored by the Group's ALCO and follows an investment strategy that ensures that the HQLAs are diversified by tenor and issuer.

d. *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 for the Group being IRRBB. FX swaps and interest rate swaps are used to manage the structural risk in the Statement of Financial Position of the Group. These are normally executed as standard market transactions entered into either to reduce the credit concentration on exposure to other banks or as part of formally designated hedge relationships.

Interest Rate Risk:

The main market risk faced by the Group is interest rate risk. Interest rate risk is the risk that the fair values of financial assets or financial liabilities fluctuate as a result of changes in market interest rates. Interest rate risk predominantly arises on fixed rate lending and certain fixed rate debt securities.

The Group has no outstanding exposures to the benchmark London Interbank Offered Rate (LIBOR).

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

d. Market Risk continued

Derivatives and Hedge Accounting

The Group uses interest rate swaps to hedge the interest rate risk of its fixed rate lending and the fixed rate debt securities in its investment portfolios on a portfolio basis. In the current year the Group has also entered into interest rate swaps to hedge the interest rate risk of its variable rate deposit from the BoE.

(i) Macro Fair Value Hedge Accounting – Fixed Rate Lending and Debt Securities

The Group manages the interest rate risk arising from fixed rate loan books and debt securities by entering into interest rate swaps on a frequent basis. The level of exposure from the loan books frequently changes due to new loans being originated, repayments by customers and customer defaults. As the resulting interest rate risk profile is dynamic, the Group enters into new swap agreements each month to hedge the interest rate risk component within the exposure profile. The Group uses a portfolio approach to assess the fair value of Loans and Advances to Customers that are subject to interest rate risk. It recognises the change in fair value arising from the changes in interest rate risk on its fixed rate loans and its debt securities, to reduce the volatility in the Income Statement that would otherwise occur from changes in the fair value of the interest rate swaps alone. The Group documents the method that will be used to assess the effectiveness of the hedge relationship. The Group tests hedge effectiveness retrospectively at the end of each month using the dollar-offset method. The Group de-designates and re-designates the portfolio fair value hedge on a monthly basis and the hedge relationship is reassessed prospectively at the start of each month using the dollar-offset method.

The Group assesses hedge ineffectiveness on an ongoing basis. Hedge ineffectiveness can arise and is recognised as Other Income in the Income Statement. The main sources of ineffectiveness in portfolio fair value hedges of interest rate risk arises from maturity mismatch and cash flow timing mismatch between the hedged item and the hedging instrument.

(ii) Cash Flow Hedge Accounting – Deposits from Central Bank

During the year the Group entered into interest rate swaps that exchange floating rate cash flows for fixed rate cash flows to hedge the variable rate Deposits from Central Bank. The underlying interest rate on the hedged item is BoE base rate. At 31 March 2023, the maximum maturity of hedged forecast cash flows is five years. The main sources of ineffectiveness in these hedges of interest rate risk arise from basis mismatch and cash flow timing mismatch between the hedged item and the hedging instrument.

Hedging instruments

The following table sets out the maturity profile and average fixed interest rate of the hedging instruments used in the Group's hedge accounting strategies. As there is no difference in Derivatives for Group or Company the tables below do not distinguish between the two.

31 March 2023

	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years
Fair Value Hedges:					
Interest Rate Swaps					
Notional (£'000)	334,000	721,000	1,165,000	2,156,000	110,000
Average Fixed Interest Rate %	1.11	1.09	1.70	3.32	2.86
Cash Flow Hedges:					
Interest Rate Swaps					
Notional (£'000)	–	–	10,000	200,000	–
Average Fixed Interest Rate %	0.00	0.00	4.58	3.94	0.00

31 March 2022

	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years
Fair Value Hedges:					
Interest Rate Swaps					
Notional (£'000)	166,000	608,000	1,474,000	748,000	324,000
Average Fixed Interest Rate %	0.01%	0.09%	0.51%	0.55%	1.04%

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

d. Market Risk continued

The tables below provide further detail on the Group's fair value hedges used in hedge relationships.

31 March 2023

	Notional Amount £'000	Fair Value of Assets[1] £'000	Fair Value of Liabilities[1] £'000	Change in Fair Value Credit[2] £'000	Hedge Ineffectiveness Charge[3] £'000
Interest Rate Swaps	4,486,000	221,120	(52,115)	(64,107)	1,972

1 Included in the Statement of Financial Position line Derivative financial assets / Derivative financial liabilities.

2 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Income Statement during the year in Other Income.

3 The amount of hedge ineffectiveness recognised in the Income Statement in the year. The Income Statement line that includes the hedge ineffectiveness recognised during the year is Other Income.

31 March 2022

	Notional Amount £'000	Fair Value of Assets[1] £'000	Fair Value of Liabilities[1] £'000	Change in Fair Value Credit[2] £'000	Hedge Ineffectiveness Credit[3] £'000
Interest Rate Swaps	3,320,000	97,439	(46)	(84,722)	(2,945)

1 Included in the Statement of Financial Position line Derivative financial assets / Derivative financial liabilities.

2 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Income Statement during the year.

3 The amount of hedge ineffectiveness recognised in Income Statement in the year. The Income Statement line that includes the hedge ineffectiveness recognised during the year is Other Income.

The table below provides further detail on the Group's cash flow hedges used in hedge relationships.

31 March 2023

	Notional Amount £'000	Fair Value of Assets[1] £'000	Fair Value of Liabilities[1] £'000	Change in Fair Value Recognised in OCI[2] £'000	Loss Reclassified from OCI to Income Statement £'000	Hedge Ineffectiveness Credit[3] £'000
Interest Rate Swaps	210,000	549	(1,887)	16,674	(2,443)	(213)

1 Included in the Statement of Financial Position line Derivative financial assets / Derivative financial liabilities.

2 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and is recognised in Net gains / (losses) from changes in fair value line of Other Comprehensive Income.

3 The amount of hedge ineffectiveness recognised in the Income Statement in the year. The Income Statement line that includes the hedge ineffectiveness recognised during the year is Other Income.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

d. Market Risk continued

The table below provide further detail on the Group's hedged items:

31 March 2023

	Carrying Amount Assets £'000	Fair Value Adjustment on Hedged Item £'000	Change in Fair Value Charge[4] £'000	Amount Remaining on Items De-Designated from Hedge Relationships[5] £'000	Change in Value of Hedged Item used to determine Hedge Ineffectiveness £'000
Fair value hedges:					
Fixed Rate Loans and Advances to Customers[1]	3,943,000	126,063	53,531	155,683	–
Debt Securities[2]	543,000	38,689	12,747	43,470	–
Cash flow hedges					
Deposits from Central Banks[3]	210,000	–	–	11,109	16,461

1 Included within Loans and Advances to Customers.

2 Included within Debt Securities.

3 Included within Deposits from Central Banks.

4 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Income Statement during the year in the line "Other income".

5 The accumulated amount of fair value hedge adjustments remaining in the Statement of Financial Position for fair value hedges or in the cash flow hedging reserve for cash flow hedges, for any hedged items to have ceased to be adjusted for hedging gains and losses.

31 March 2022

	Carrying Amount Assets £'000	Fair Value Adjustment on Hedged Item £'000	Change in Fair Value Charge[3] £'000	Amount Remaining on Items De-Designated from Hedge Relationships[4] £'000
Fixed rate Loans and Advances to Customers[1]	2,450,000	66,295	59,579	53,549
Debt Securities[2]	626,000	23,375	22,198	19,088

1 Included within Loans and Advances to Customers.

2 Included within Debt Securities.

3 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Income Statement during the year in the line "Other income".

4 The accumulated amount of fair value hedge adjustments remaining in the Statement of Financial Position for fair value hedges.

The table below provides an analysis of the movements in the Cash Flow Hedging reserve during the period.

31 March 2023

	Cash flow hedging reserve £'000
Opening Balance	–
Change in Fair Value of Derivatives in Effective Hedge Relationships: Interest Rate Risk Hedge	16,674
Net Amounts Reclassified to Profit or Loss from Derivatives: Interest Rate Risk Hedge	(2,443)
Tax on Movements	(3,985)
Closing balance	**10,246**

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

d. Market Risk continued

The Group has no outstanding exposures to the benchmark interest rate LIBOR.

iii) Economic Hedges – Loan Commitments

In current year the Group entered into interest rate swaps that represented an economic hedge of the interest rate risk on fixed rate lending pipeline exposures. These arrangements did not qualify as hedges for accounting purposes. A gain of £4,163k was recorded in the year on these swaps (see note 6). There are no live outstanding economic hedge interest rate swaps at 31 March 2023.

Market Risk Metrics – Interest Rate Sensitivity

Sensitivity analysis of NII is performed on the Group's Statement of Financial Position. Stress testing is carried out on a monthly basis when the Group's exposure to a 100bp shift in rates and non-parallel rate shocks is carried out for EVE and stress testing is carried out for the impact on NII. Other stress tests based on different rate moves, and curves steepening and flattening are also carried out.

As at 31 March 2023, the projected change in NII in response to an immediate parallel upwards and downwards shift in all relevant interest rates would be an increase of £93m (2022: £68m) and a decrease of £108m (2022: £81m) from 100bps interest rate move, respectively. The measure assumes all interest rates, for all currencies and maturities move at the same time and that the balance sheet composition remains constant.

Foreign Exchange Risk:

FX risk predominantly arises from customer transactions involving a currency other than the functional currency of the Group (such as transfers between a customer's Sterling account and their euro account). This risk is managed through the execution of FX spot transactions with market counterparties intraday, leaving minimal residual FX risk.

Market Risk Metrics – FX Sensitivity

The table below provides further detail of the Group's net FX position:

31 March 2023:

Net Foreign Exchange Exposure	Euro £'000	US Dollar £'000	Total £'000
Loans and Advances to Banks	7,000	3,058	10,058
Debt Securities	50,181	32,827	83,008
Loans and Advances to Customers	50	–	50
Derivative Asset[1]	79,708	7,261	86,969
Interest Rate Swaps	–	–	–
FX swaps	79,708	7,261	86,969
Other Assets	502	685	1,187
Customer Deposits	(286,600)	(55,113)	(341,713)
Due to Other Banks	–	–	–
Derivative Liabilities[1]	156,905	12,159	169,064
Interest Rate Swaps	–	–	–
FX Swaps	156,905	12,159	169,064
Other Liabilities	(3,396)	(1,186)	(4,582)
Net Position	4,350	(309)	4,041

1 FX swaps pay and receive legs are shown on a gross basis to reflect economic hedge.

Notes to the Financial Statements continued
For the year ended 31 March 2023

31. Risk Management continued

Foreign Exchange risk: continued

31 March 2022

Net Foreign Exchange Exposure	Euro £'000	US Dollar £'000	Total £'000
Loans and Advances to Banks	7,023	4,554	11,577
Debt Securities	93,036	–	93,036
Loans and Advances to Customers	21	–	21
Derivative Asset[1]	103,763	7,603	111,366
Interest Rate Swaps	–	–	–
FX Swaps	103,763	7,603	111,366
Other Assets	323	(993)	(670)
Customer Deposits	(240,567)	(36,785)	(277,352)
Due to Other Banks	–	–	–
Derivative Liabilities	46,398	26,611	73,009
Interest Rate Swaps	–	–	–
FX Swaps	46,398	26,611	73,009
Other Liabilities	(8,008)	(1,441)	(9,449)
Net Position	1,989	(451)	1,538

1 FX swaps pay and receive legs are shown on a gross basis to reflect economic hedge.

32. Related Party Transactions

a. Parent and Controlling Entities

JTC Starling Holdings Limited holds 36.3% (2022: 36.0%) of the total shares in issue and is entitled to 36.3% (2022: 36.0%) of the voting rights. JTC Starling Holdings Limited is no longer the intermediate or ultimate controlling party of the Group but has significant influence over the Group. Balances on deposit accounts held by individuals associated with JTC Starling Holdings Limited as at 31 March 2023 were £103k (2022: £44k).

b. Key Management Personnel Transactions

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

As at the reporting date, Anne Boden, MBE, who is also the CEO, holds 4.9% (2022: 5.6%) of the total shares in issue and is entitled to 18.5% of the voting rights (2022: 19.6%) and consequently is deemed a related party.

Deposits balances held by Key Management Personnel comprised:

	31 March 2022 £'000	Net Increase/ (decrease) £'000	31 March 2023 £'000
Balances on Deposit Accounts	**647**	**(146)**	**501**

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

Key Management Personnel Compensation	31 March 2022 £'000	Net Increase/ (decrease) £'000	31 March 2023 £'000
Wages and Salaries	2,175	98	2,273
Social Security Costs	298	68	366
Cost of Share Awards Schemes, Net of Tax	66	233	299
Pension Contributions	0	1	1
Total	**2,539**	**400**	**2,939**

Two Directors participate in the Bank's defined contribution pension arrangement.

Notes to the Financial Statements continued
For the year ended 31 March 2023

32. Related Party Transactions continued

c. Subsidiaries and Affiliates

Interest in the Subsidiaries and changes to investments and inter-company accounts during the year are set out in note 19.

Intercompany transactions:

In accordance with IFRS 10 consolidated financial statements transactions and balances with subsidiaries have been eliminated on consolidation.

Intercompany Income / (Expense) in Parent Company Income Statement	31 March 2023 £'000	31 March 2022 £'000
Starling FS Services Limited	17,103	10,942
Murmur Financial Services International DAC	29	59
Fleet Mortgages Limited	(3,747)	(164)
Intercompany Transactions with the Subsidiary Entities	13,385	10,837

Dividends Received by Parent Company	31 March 2023 £'000	31 March 2022 £'000
Fleet Mortgages Limited	16,800	6,000
Dividends Received from Subsidiary Entities	16,800	6,000

The Parent Company employs Product and Software Development teams and incurs the cost of salaries, National Insurance Contributions (NIC) and other benefits; a proportion of this is recharged to Starling FS Services Limited as part of the cost of the design, specification, build, testing and implementation of the Group's banking software and mobile application and associated infrastructure. A licensing agreement exists between Starling FS Services Limited and its parent for use of the intellectual property rights, the banking software and mobile application, the licence fee agreement is on a cost-plus basis after capital expenditure, allowing a margin of 5% + VAT (Organisation for Economic Co-operation and Development Transfer Pricing method at arm's length level).

During the year, Starling Bank Limited charged Starling FS Services Limited £28,819k (2022: £19,170k) for the attributable proportion of staff salaries, employers NIC and other identified costs incurred by the Parent Company. Starling FS Services Limited charged a licence fee of £11,717k (2022: £8,228k) to Starling Bank Limited.

During the year, Starling Bank Limited charged £29k (2022: £59k) to Murmur Financial Services International DAC in relation to interest on the intercompany loan. In June 2022 the Bank made a capital injection of £1,188k to Murmur Financial Services International DAC. See note 19 for further details.

As the year end the Bank has £1,490m (2022: £243m) of buy-to-let mortgages outstanding, which were originated through Fleet. Fleet charges the Bank an origination fee for these originations. Fleet continues to service these loans on an on-going basis for the Bank. The arrangements under which these services are carried out are at arm's length. During the year the Bank expensed loan servicing fees and other loan origination fees paid to Fleet of £3,747k (2022: £164k) in relation to loans acquired under an asset purchase agreement. Origination fees are recognised by the Bank as part of the EIR on these loans.

33. Capital Commitments

At 31 March 2023, the Company has no committed capital expenditure that has not been provided for in the accounts (2022: £0).

34. Financial Commitments

At 31 March 2023, the Company has committed to future mortgage lending of £147m (2022: £253m) and has no commitments under the RLS lending scheme (2022: £23m) under forward flow arrangements. These commitments represent agreements to lend in the future, subject to certain conditions.

35. Contingent Liabilities

From time to time, the Group may become subject to enquiries and examinations, requests for information, audits, enquiries, investigations , and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures, compliance with legislation and regulation and other areas of banking and business activities. Certain matters may give rise to a potential future outflow of economic benefit. At the present time, the Group has no expectation that any such matters could give rise to any material outflow of future economic benefit and the Group will continue to evaluate such matters on an ongoing basis.

Notes to the Financial Statements continued
For the year ended 31 March 2023

36. Prior Year Restatements

The Group's Consolidated and Company's financial statements have been restated during the year to present Accrued Interest and Guarantee Amounts due from HM Government in relation to Government-backed lending schemes alongside the relevant balances on Loans and Advances to Customers, Customer Deposits and Deposits from Banks.

Accrued Interest on Loans and Advances to Customers of £15,138k has been reclassified from Other Assets to Loans and Advances to Customers. Accrued Interest on Customer Deposits of £117k has also been reclassified from Other Assets.

Accrued Interest on TFSME funding of £2,441k has been reclassified from Other Liabilities to Deposits from Banks.

Guarantee amounts of £45,553k due from the Government in relation to Government-backed lending schemes has been reclassified from Other Assets to Loans and Advances to Customers.

Separately to the above, in the Company Statement of Comprehensive Income, Impairment of Subsidiaries and Intercompany Balances has been represented as a separate line on the Income Statement. In the previous year these costs were included within Other (Expense) / Income.

Notes to the Financial Statements continued
For the year ended 31 March 2023

36. Prior Year Restatements continued

The following table summarise the impact on the Group's consolidated and Company's Financial Statements:

	Group			Company		
As at 31 March 2022	As Reported £'000	Reclassified £'000	As Restated £'000	As Reported £'000	Reclassified £'000	As Restated £'000
Assets						
Loans and Advances to Banks	6,105,459	1,822	6,107,281	6,101,348	1,822	6,103,170
Debt Securities	2,306,886	–	2,306,886	2,306,886	–	2,306,886
Loans and Advances to Customers	3,173,983	60,690	3,234,673	3,173,983	60,690	3,234,673
Derivative Assets	98,056	–	98,056	98,056	–	98,056
Deferred Tax Asset	21,985	–	21,985	21,446	–	21,446
Other Assets	129,030	(62,395)	66,635	120,012	(62,395)	57,617
Property, Plant and Equipment and Right of Use Assets	5,904	–	5,904	5,320	–	5,320
Intangible Assets	28,211	–	28,211	2	–	2
Goodwill	35,890	–	35,890	–	–	–
Investment in Subsidiaries and Intercompany Account	–	–	–	90,598	–	90,598
Total Assets	**11,905,404**	**117**	**11,905,521**	**11,917,651**	**117**	**11,917,768**
Liabilities						
Customer Deposits	9,027,296	117	9,027,413	9,027,610	117	9,027,727
Deposits from Banks	2,281,380	2,441	2,283,821	2,281,380	2,441	2,283,821
Derivative Liabilities	330	–	330	330	–	330
Provisions for Liabilities and Charges	1,242	–	1,242	1,242	–	1,242
Other Liabilities and Accruals	141,055	(2,441)	138,614	138,383	(2,441)	135,942
Deferred Income	23,059	–	23,059	14,399	–	14,399
Current Tax Liability	618	–	618	685	–	685
Total Liabilities	**11,474,980**	**117**	**11,475,097**	**11,464,029**	**117**	**11,464,146**
Equity						
Share Capital	11	–	11	11	–	11
Share Premium	478,333	–	478,333	478,333	–	478,333
Other Reserves	22,525	–	22,525	22,438	–	22,438
Accumulated Losses	(70,445)	–	(70,445)	(47,160)	–	(47,160)
Total Equity	**430,424**	**–**	**430,424**	**453,622**	**–**	**453,622**
Total Liabilities and Equity	**11,905,404**	**117**	**11,905,521**	**11,917,651**	**117**	**11,917,768**

In addition, Cash and Cash Equivalents has been restated due to a change in accounting policy. Additional detail is included in note 29.

37. Events After Reporting Year

The are no material events that have taken place between 31 March 2023 and the date of approval of these accounts that require disclosure or adjustment to the financial statements.

Other Information

Other Information continued

1. 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 European Union (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.

Country by Country[1]	Group 31 March 2023	Group 31 March 2022	Company 31 March 2023	Company 31 March 2022
Turnover (£'000)[2]	414,814	188,066	450,440	204,246
Profit before Tax (£'000)	194,596	32,052	221,683	42,165
Corporation Tax Paid (£'000)	(26,720)	(3,321)	(25,779)	(1,906)
Number of Employees on Full Time Equivalent Basis	2,762	1,941	2,584	1,891
Subsidy Amounts Received (£'000)	–	–	–	–
Jurisdictions in which Operated	UK	UK	UK	UK

1 The table includes immaterial amounts in relation to a non-operating Irish subsidiary.

2 Turnover is defined as total income / (expense).

2. Non-IFRS Measures

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

- **Active Core Accounts** refers to the average number of revenue generating Core Accounts during the last calendar month.
- **Annualised Revenue Run-rate** is calculated as total Revenue for the last month of the period multiplied by twelve.
- **Average Revenue Per Active Customer (ARPAC)** is calculated by dividing the sum of NII, net card income and fees and commissions income by Average Active Core Accounts.
- **Common Equity Tier 1 (CET1) Capital** comprises common shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
- **Core Accounts** refer to Limited Company, Sole Trader and Personal GBP-denominated accounts.
- **Cost of Risk or Asset Quality Ratio** is calculated as impairment charges and charge-offs net of debt recoveries divided by simple average of gross loans and advances to customers for the year.
- **Cost of Funds** is calculated as interest expense divided by the average total for customer deposits for the year.
- **Cost to Serve** includes servicing costs associated with running an account and Impairment and Fraud Costs.
- **Cost-Income-Ratio (CIR)** is total costs (excluding impairment) as a percentage of total income. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income.
- **Gross Margin** is calculated as Total Revenue less running costs less Impairment and Fraud divided by Total Revenue.
- **High Quality Liquid Assets (HQLA)** are assets which can be easily and immediately converted into cash at little or no loss of value. HQLAs should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.
- **Investment Grade** refers to an equivalent credit rating in the range of AAA to BBB- by external credit rating agencies.
- **Liquidity Coverage Ratio (LCR)** is a liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a stress scenario. It is calculated as a ratio of liquid assets over net cash outflows.
- **Loan-to-Deposit Ratio (LDR)** represents gross loans and advances to customers expressed as a percentage of total customer deposits.

Other Information continued

2. Non-IFRS measures continued

- **Minimum Requirement for Own Funds and Eligible Liabilities (MREL)** is the minimum requirements a financial institution must hold to meet the loss absorption and recapitalisation components if an institution were to fail.
- **Net Interest Margin (NIM)** represents NII as a percentage of average Interest-Earning Assets.
- **Net Stable Funding Ratio (NSFR)** measures the stability of funding sources relative to assets requiring funding. The ratio is defined as the Available Stable Funding (capital and certain liabilities which are treated as stable sources of funding) relative to the Required Stable Funding (assets on balance sheet and certain off balance sheet exposures).
- **Risk-Weighted Assets (RWAs)** is a regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
- **Risk Weight Density** is a measure of the amount of risk taken by the Group compared to its assets. It is calculated by dividing the credit risk exposure by the Group's total assets.
- **Return on Capital Employed (ROCE)** is defined as Profit Before Tax divided by the total average minimum regulatory capital requirements for the period.
- **Return on Tangible Equity (ROTE)** is calculated as Profit Before Tax divided by Tangible Equity.
- **Required Capital** is calculated as the minimum amount of eligible regulatory capital the Bank must hold, excluding firm specific components of Pillar 2b capital. This figure includes Pillar 1 and Pillar 2a requirements as well as capital conservation and countercyclical buffers.
- **Revenue** is calculated as the sum of Net Interest Income, Fees & Commissions Income and Other Income.
- **Tangible Equity** is Shareholders Equity less Goodwill, Intangible assets and Deferred Tax.
- **Tier 1 Capital** is the sum total of CET1 and Additional Tier 1 capital.
- **Tier 1 Ratio** is the ratio of Tier 1 capital to RWAs.
- **Tier 2 Capital** includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.
- **UK Leverage Ratio** is calculated by dividing Tier 1 capital resources by the leverage exposure which is a defined measure of on balance sheet assets and off balance sheet items. On balance sheet assets are adjusted to exclude Central Bank reserves.
- **Unit Contribution** includes ARPAC and unit running costs (which is comprised of non-staff running, staff running, and impairment and fraud costs) and is divided by Average Active Core Accounts.

3. Defined Terms

Companies Act	Companies Act 2006
Board	the board of Directors of Starling Bank Limited
Board Committees	the principal committees of the board of Starling Bank Limited, comprising Audit, Risk, Remuneration, Nomination and Ethics and Sustainability Committee
Directors	the Directors of Starling Bank Limited
Engine	Engine by Starling
Executive	the Starling senior leadership team
Fleet	Fleet Mortgages Limited
Group	Starling Bank and its subsidiaries

Other Information continued

4. Abbreviations and acronyms

ALCO	Asset and Liability Committee
ARPAC	Average revenue per Active Customer
ATP	Arrangements to Pay
BaaS	Banking-as-a-Service
BBB	British Business Bank
BBLS	Bounce Back Loan Scheme
BCR	Banking Competition Remedies
BRC	Board Risk Committee
BoE	Bank of England
CBILS	Coronavirus Business Interruption Loan Scheme
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CGU	Cash generating unit
CIF	Capability and Innovation Fund
CIR	Cost-to-Income Ratio
CMA	Competition and Markets Authority
CRC	Credit Risk Committee
CRD	Capital Requirements Directive
CSA	Credit Support Annex
DPD	Days past due
EAD	Exposure at Default
EBT	Employee Benefits Trust
ECL	Expected Credit Losses
EIR	Effective Interest Rate
EPC	Energy performance certificate
ERC	Executive Risk Committee
ERMF	Enterprise Risk Management Framework
ESG	Environmental, Social and Governance
EU	European Union
EV	Economic Value
EVE	Economic Value of Equity
EXCO	Executive Committee
FC	Finance Committee
FCA	Financial Conduct Authority
FCSC	Financial Crime Steering Committee
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit or Loss
FX	Foreign Exchange
GDP	Gross Domestic Product
GHG	Greenhouse Gas
HPI	House Price Inflation
HQLA	High-Quality Liquid Assets
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IC	Impairment Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
ISS	Incentivised Switching Scheme
JSOP	Joint Shares Ownership Schemes
LCR	Liquidity Coverage Ratio
LCH	London Clearing House
LDR	Loan-to-Deposit Ratio

Other Information continued

LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LPA	Law of Property Act
LTIP	Long Term Incentive Plan
LTV	Loan-to-Value
MIA	Months in Arrears
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NIC	National Insurance Contributions
NII	Net Interest Income
NIM	Net Interest Margin
NSFR	Net Stable Funding Ratio
OLAR	Overall Liquidity Adequacy Requirement
ORC	Operational Risk Committee
PAYG	Pay As You Grow
PBT	Profit Before Tax
PC	Pricing Committee
PCC	Pricing and Conduct Committee
PD	Probability of Default
PMA	Post Model Adjustments
POCI	Purchased or originated credit-impaired
PRA	Prudential Regulation Authority
PTP	Promise to Pay
RCSA	Risk and Control Self Assessment
RDEC	Research and Development Expenditure Credit
RLS	Recovery Loan Scheme
ROTE	Return on Tangible Equity
RWAs	Risk-Weighted Asset
SBTi	Science Based Targets initiative
SECR	Streamlined Energy and Carbon Reporting
SEIS	Senior Employee Incentive Scheme
SICR	Significant Increase in Credit Risk
SME	Small and medium-sized enterprises
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
SPPI	Solely Payments of Principal and Interest
SVR	Standard Variable Rate
TCR	Total Capital Requirement
TFSME	Term Funding Scheme with additional incentives for SMEs
UEL	Useful Economic Life
VIU	Value-in-Use
WCRC	Wholesale Credit Risk Committee