Starling Group Pillar 3 report 2024

The bank built for you

Starling Bank

Contents

Introduction

Introduction

1.1. Purpose

This document comprises the Pillar 3 disclosures on capital and risk management for Starling Bank Limited (the Bank, or Starling Bank) as at 31 March 2024.

It has two principal purposes:

1. It provides information on the policies and approach taken by Starling Bank to manage risks and to maintain its capital resources. It also includes details on the governance structure of the Bank and information on the Bank's exposures and capital resources.

2. To meet the regulatory disclosure requirements under the UK Capital Requirements Regulation (CRR) and the rules of the Prudential Regulation Authority (PRA), including the Disclosure (CRR) part of the PRA Rulebook.

1.2. Overview

Starling Bank Limited is a UK registered bank authorised by the PRA and regulated by both the Financial Conduct Authority (FCA) and the PRA. It is also registered under the Financial Services Compensation Scheme (FSCS). The Bank's registered office is 5th Floor, London Fruit And Wool Exchange, 1 Duval Square, London, United Kingdom, E1 6PW.

This Pillar 3 document should be read in conjunction with Starling Bank's Annual Report & Accounts for the year ended 31 March 2024, which is published on the Bank's website and is also available from Companies House.

These disclosures are not subject to external audit. However, some of the information within these Pillar 3 disclosures also appears in the Bank's audited 2024 Annual Report & Accounts. The processes for preparing these disclosures are set out in the Bank's Pillar 3 policy. The Bank has internal processes, systems and controls to verify that the disclosures are appropriate and in compliance with the Pillar 3 minimum requirements, as set out in the Disclosure (CRR) part of the PRA Rulebook. We have not omitted any disclosures on the basis of them being regarded as proprietary or confidential.

This Pillar 3 document has been prepared in line with the Bank's internal controls framework, which govern financial and regulatory reporting processes. The disclosures have been reviewed at senior and executive level, with oversight at the Board Audit Committee, approval by the Board, and signed on the Board's behalf by the Chief Financial Officer, Declan Ferguson.

The accounting standard within this document is as per IFRS, with reporting currency as GBP unless otherwise stated.

Introduction

1.3. Legislative framework

Starling Bank is subject to the rules in the PRA Rulebook, the Capital Requirements Directive (CRD), and the CRR, as amended and as onshored in the UK. These rules provide consistent prudential standards for financial services companies and an associated supervisory framework, and are enforced in the UK by the PRA and FCA.

The three pillars of the prudential framework

Pillar 1

Pillar 1 capital is the Bank's minimum regulatory capital requirement relating to credit, market and operational risk. The Bank follows the standardised approach when calculating the minimum capital requirements for credit risk, which includes counterparty credit risk.

The Bank has de minimis market risk relating to foreign exchange positions. The Bank uses the basic indicator approach for operational risk requirements.

Pillar 2

Pillar 2 requires firms and supervisors to form a view on whether a firm should hold additional capital against risks not taken into account or not fully covered in Pillar 1.

To calculate its Pillar 2 capital requirements the Board has performed a detailed assessment of the risks facing the Bank including the impact of a severe economic downturn.

It has calculated the amount of capital that it considers necessary to cover these risks within its Internal Capital Adequacy Assessment Process (ICAAP). The Bank's ICAAP is reviewed and assessed by the PRA under its Supervisory Review and Evaluation Process (SREP).

Pillar 3

Pillar 3 sets out the disclosures that banks are required to make in order to promote market discipline through the external disclosure of their risk management and risk exposures.

Introduction

1.4. Scope of application

Starling Bank reports its risk exposures on a solo-consolidated basis for regulatory reporting, following permission from the PRA. Starling Bank uses the individual consolidation method in accordance with Article 9 of the CRR, and has incorporated its ancillary undertaking, Starling FS Services Limited (SFSSL), in the calculation of its requirement. SFSSL's principal activity is the design, specification, build, test and implementation of software to support Starling Bank's mobile-banking platform. The majority of SFSSL transactions are with the Bank.

The Bank's Annual Report & Accounts are prepared on a consolidated basis. For the year ended 31 March 2024, in addition to SFSSL, the accounting consolidation also included Murmur Financial Services Limited, MFSI Holdings Limited, Murmur Financial Services International Designated Activity Company, Fleet Mortgages Limited and Engine by Starling Limited (together referred to as Starling).

The latter entities do not fall within the scope of the prudential regulatory consolidation as they are either not the types of entities subject to regulatory consolidation, or fall below the materiality thresholds in Article 19 of the CRR.

1.5. Directors

Starling Bank's Board of Directors (the Board) comprises a mix of Executive and Non-Executive Directors. A summary of their experience is disclosed on the Bank's website and in their biographies contained in the Bank's 2024 Annual Report & Accounts.

The Board Nomination Committee evaluates and reviews the structure, size and composition of the Board and makes recommendations to the Board on any proposed changes, taking into account the combination of skills, knowledge, experience, diversity and time commitment required to fulfil Board roles and responsibilities. In conjunction with the Board, the Board Nomination Committee gives full consideration to orderly succession planning for Directors (Executive and Non-Executive) and other senior management roles below Board level. Board members are screened for conflicts of interest and relationships with companies that do not meet Starling Bank's values and ethics.

The composition of the Board including disclosures on Board Members' diversity, experience, skills and division of responsibilities are contained in the Bank's 2024 Annual Report & Accounts.

Starling Bank is an equal opportunity employer and does not discriminate on the grounds of sex, sexual orientation, marital or civil partner status, pregnancy or maternity, gender reassignment, race, colour, nationality, ethnic or national origin, religion or belief, disability or age.

The Bank's Board members held the following number of directorships (internal and external to Starling) as at 31 March 2024.

Name	Gender	Position	Appointment Date	Number of Directorships[1]
John Mountain	M	Interim Chief Executive Officer	20 June 2023	1
Anne Boden	F	Non-Executive Director	18 June 2014	2
Lazaro Campos	M	Non-Executive Director	21 June 2018	6
Declan Ferguson	M	Chief Financial Officer	13 July 2022	2
Faisal Galaria	M	Independent Non-Executive Director	01 June 2022	5
Ian Jenkins	M	Independent Non-Executive Director	01 October 2021	3
David Sproul[2]	M	Chair	30 June 2021	7
Marcus Traill	M	Non-Executive Director	22 December 2015	17
Tracy Clarke	F	Senior Independent Director	26 May 2021	7
Marian Martin	F	Independent Non-Executive Director	26 June 2019	5
Julie Chakraverty	F	Independent Non-Executive Director	01 March 2024	2

1 Directors within the same group count as one.
2 Includes one position as Governor.

Risk governance and committees

Risk governance and committees

2.1. Board

The Board is the principal decision-making body for all significant matters affecting the Bank and is accountable to shareholders for creating and delivering long-term sustainable value. It has responsibility for setting the Bank's strategy, corporate objectives, risk appetite and Enterprise Risk Management Framework (ERMF). The ERMF is designed to support the identification and assessment of material risks that threaten the achievement of the Bank's objectives, and ensure that these are managed effectively within an agreed risk appetite across the Bank. The Board also monitors emerging risk themes, which might sit outside of its direct control but which could have a material impact on its risk strategy and business model.

The Board is also responsible for:

- Setting the Bank's risk appetite overall policy in relation to the types and level of risk that the Bank is permitted to assume in the implementation of its strategic objectives;
- Promoting a culture of risk awareness across the Bank; and
- Overseeing a control environment which manages the Bank's principal risks, and ensures that capital and liquidity resources are adequate to achieve the Bank's objectives without taking undue risk.

More information about the Bank's risk governance and committees are disclosed in the Bank's 2024 Annual Report & Accounts.

2.2. Board Risk Committee

The Board Risk Committee has delegated authority from the Board to ensure the effective operation of risk management, assurance and internal control systems. The Board Risk Committee (BRC) ensures that the Bank operates within the overall Risk Appetite Statement approved by the Board, in order to achieve its strategic objectives. The BRC oversees the implementation and maintenance of the Bank's ERMF and is the primary Board level committee to receive and review risk-related information. It receives reporting from the Executive Risk Committee (ERC) and the Asset and Liability Committee (ALCO).

The BRC also provides oversight of the Bank's Risk and Compliance function. The BRC met 22 times in the period 1 April 2023 to 31 March 2024. The BRC's report and further information on key duties and responsibilities are disclosed in the Bank's 2024 Annual Report & Accounts.

2.3. Board Audit Committee

The Board Audit Committee (BAC) supports the Board to ensure effective governance of the Bank's financial reporting, including monitoring the integrity, clarity and completeness of financial disclosures, reporting on significant financial reporting issues and judgements. The BAC reviews and approves changes to the Bank's accounting policies and supports the Board in reviewing the adequacy of the Company's whistleblowing arrangements, ensuring that the arrangements allow proportionate and independent investigation and appropriate follow-up action.

The Chair of the BAC is the Whistleblowing Champion for the Bank. The BAC also oversees the implementation and effectiveness of the internal and external audit functions (including their programmes of work). It reviews the adequacy and effectiveness of the Bank's operational controls in mitigating risk, through an independent assurance lens. The BAC met ten times in the period from 1 April 2023 to 31 March 2024. The BAC's report and further information on key duties and responsibilities are disclosed in the Bank's 2024 Annual Report & Accounts.

2.4. Board Remuneration Committee

The Board Remuneration Committee (RemCo) has been established by the Board to ensure the Bank adheres to applicable rules on remuneration, incentives and relevant financial regulatory regimes. It 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 Bank. The Chair of the RemCo is the Senior Independent Director on the Board who also serves as the Board Consumer Duty Champion. More information on the RemCo's key duties and responsibilities are disclosed in the Bank's 2024 Annual Report & Accounts. Further details of the Bank's remuneration governance and disclosures can be found in the Remuneration section of this document.

Risk governance and committees

2.5. Executive Risk Committee

The ERC is a principal executive committee that oversees all current and future risk exposures across the Bank, including monitoring and reviewing risk appetite and other approved policy limits, and reviewing and making recommendations on all risk matters where the Board has reserved authority. The ERC responsibilities include:

- To define and submit to the BRC/Board for approval all risk principles, frameworks and policies under which risk is taken, managed and controlled;
- To review risk related papers to be submitted by management to the BRC and/or the BAC;
- To cultivate a robust risk culture to support decision-making processes; and
- To oversee and receive reporting from the Customer and Conduct Committee (CCC), Operational Risk Committee (ORC), Credit Risk Committee (CRC), Economic Crime Risk Committee (ECRC) and Model Risk Committee (MRC).

More information on the ERC's key duties and responsibilities are disclosed in the Bank's 2024 Annual Report & Accounts.

2.6. Asset and Liability Committee

The ALCO is the executive committee which oversees the overall balance sheet management of the Bank, including monitoring and reviewing funding, liquidity management and balance sheet structure, and overseeing liquidity, funding, market and capital risks. The ALCO monitors these risks against the Board approved suite of risk appetite metrics and additional metrics agreed by the ALCO in accordance with statutory and local regulatory requirements and in accordance with the delegated authority from the Board.

More information on the ALCO's key duties and responsibilities is disclosed in the Bank's 2024 Annual Report & Accounts.

Risk management

Risk management

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

Risk taking is fundamental to Starling Bank'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 Bank's strategic and business objectives, whilst demonstrating management of material risks to levels that preserve financial and operational resilience, and which ensure the ongoing confidence of customers, regulators and investors.

This document sets out the Bank's key financial risk ratios and metrics which, together with the other Pillar 3 disclosures, and in conjunction with the Annual Report & Accounts, offer a comprehensive view of the risk profile of the Bank, which is consistent with the risk tolerances set by the Board.

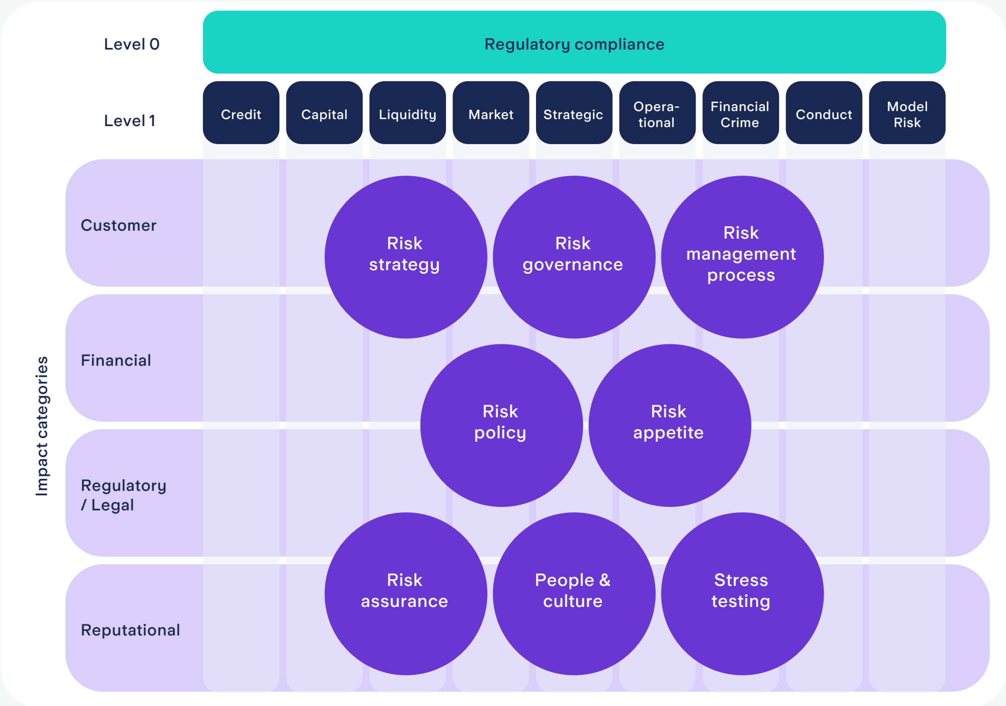
While risk cannot be eliminated entirely, the Board considers that as at 31 March 2024, it has in place adequate systems and controls with regard to Starling Bank's controls over financial and regulatory reporting. As would be expected in an institution that has grown rapidly, Starling Bank's risk management approach continues to evolve, underpinned by a firm-wide risk maturity programme, with oversight and support from the Board. Substantial investment has been made in strengthening risk capabilities in this financial year, with ongoing effort expected to continue in the next financial year.

More information on the Bank's approach to risk management is disclosed in the Bank's 2024 Annual Report & Accounts.

Risk management

3.1. Risk management framework

The Enterprise Risk Management Framework (ERMF) is designed to support the identification and assessment of the material risks that threaten the achievement of the Bank's objectives, ensuring a holistic approach to risk management that is integrated into business decision making. It outlines the Bank's approach to ensuring its key risk exposures are effectively managed, controlled and monitored within an agreed risk appetite.



The key objectives of the ERMF are to:

- Describe and facilitate the delivery of Starling Bank's risk strategy;
- Establish standards for the consistent identification, measurement, management, monitoring and reporting of risk exposures;
- Define the categories of risk to which Starling Bank is exposed;
- Provide an overview of Starling Bank's key risk management frameworks and processes;
- Outline the approach taken in respect of setting and defining risk appetite and associated tolerances;
- Identify the governance committees that provide oversight and challenge of the risk management process; and
- Support the integration of risk management into business management and all decision making.

Risk management

3.2. Risk strategy and culture

The Board has determined that Starling Bank will consciously and methodically take risk in order to achieve the Bank's strategic and business objectives, whilst demonstrating management of material risks to levels that preserve financial and operational resilience, and which ensure the ongoing confidence of customers, regulators and investors.

In order to ensure that this direction is achieved, Starling Bank has set out the following specific risk strategy objectives:

- We will create and maintain a robust risk culture and embed effective risk management practices in order to deliver a reputable, responsible and sustainable business;
- We will provide an open and transparent environment where well-trained and informed individuals take intelligent risk, subject to clear policies, in pursuit of the business strategy;
- We will integrate risk management into how we run our business, including our corporate governance arrangements. Sound risk management processes will help us to achieve our core purpose, priorities and outcomes, including supporting commercial decisions;
- We will ensure that risk appetite is clearly articulated and understood, and that it influences strategic planning as well as daily operations;
- We will support a culture of well-measured risk taking providing it is managed within appetite. This includes setting risk ownership and accountabilities and responding to risk in a balanced way, considering the level of risk, reward, impact and cost of control measures;
- We will continually develop appropriate capacity and skills in identifying, understanding and managing risks; and
- We acknowledge that even with good risk management and our best endeavours, things can go wrong. Where this happens, we will use the lessons learned to prevent recurrences through improved risk management.

3.3. Risk operating model

In order to support risk management activities, the Bank operates within the principles of a three lines model. The respective roles of the three lines are described below.

First line
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
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
Internal audit

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

Risk management

3.4. Risk appetite

Starling Bank's Risk Appetite Framework sets out its overall approach, including policies, processes, systems and controls through which risk appetite is established, communicated, controlled, managed, monitored and reported. Starling Bank'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. The risk appetite 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 Bank's Risk Appetite Statement is the formal articulation of the level and types of risk that the Bank 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 the 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.

3.5. Risk categories

Starling Bank has established a risk management framework underpinned by a risk taxonomy which supports the consistent identification and management of risks. Starling Bank's Level 1 risks are the highest level categorisation used to support the identification, assessment, monitoring and mitigation of key risks inherent to the Bank's business.

Emerging risks
The Bank continually monitors 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 Bank's ability to achieve its long-term strategy. These are risks which are outside of Starling Bank's ability to control, but if they were to crystallise they would cause the Bank to adjust its strategic risk assessment and to react accordingly. Starling Bank takes a proactive approach to horizon scanning and regularly assesses the potential impact of existing and future risks. Additional emerging risk disclosures are contained in the Bank's 2024 Annual Report & Accounts.

The following sections set out how the Bank assesses each of its Level 1 risks.

Risk management

3.5.1. Strategic risk

Strategic risk is the risk that Starling Bank does not deliver the expected financial and non-financial benefits to its customers, shareholders and wider stakeholders. This may be 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 and/or market environment.

The Board has determined that Starling Bank will maintain a clear vision, mission, strategic objectives and corporate values to support the growth of Starling Bank, as agreed by the Board and Executives.

Additional strategic risk disclosures are contained in the Bank's 2024 Annual Report & Accounts.

3.5.2. Credit risk

Starling Bank's credit risk sub-divides into two distinct categories: exposure to the risks arising from customer lending balances; and exposure to the risks arising from an institutional borrower failing to make required payments. Each is considered separately below.

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

This risk therefore arises through the lending facilities which Starling Bank offers to its Small and Medium-Sized Enterprise (SME) and Retail customers.

Starling Bank 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 new lending is provided to customers in line with responsible lending requirements. Starling Bank monitors this through regular oversight activities.
At the highest level, the Bank mitigates credit risk through the operation of a credit risk appetite statement and supporting limits. These 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. Credit risk appetite is approved by the Board on recommendation of the BRC. Authority is delegated to the CRC, as a sub-committee of the ERC, to monitor the lending portfolio against the Board-approved credit risk appetite.

The Bank's credit risk appetite statements are underpinned by a series of quantitative limits which monitor and control the overall quality of the portfolios. The Bank's credit risk appetite statement is set out in Annex 1. Additional credit risk management information is contained in the Bank's 2024 Annual Report & Accounts.

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

Detailed credit risk monitoring is reviewed at the CRC, which also determines the appropriate level of impairment provisions (expected credit losses for the Bank's lending portfolios across individual portfolios and in aggregate). Credit risk monitoring includes a full assessment against risk appetite limits, supported by a series of key risk indicators in order to identify areas of the portfolio with potentially increasing credit risk where corrective action may need to be taken.

Credit risk - wholesale
Wholesale credit risk is the risk of loss that may arise from an institutional counterparty 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.

Starling Bank's wholesale credit risk arises from balance sheet management and investments in highly rated debt securities that are included within the high quality liquid assets (HQLA) portfolio. Counterparty credit risk for Starling Bank 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 foreign exchange (FX) swap and spot transactions.

Starling Bank's counterparties are established market makers in the swap and FX markets and are highly rated by independent credit rating agencies. Starling Bank has International Swaps and Derivatives Association (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 management

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

Limits are set for overall large exposures, single name, sector and geographic exposures. Exposures are managed through credit analysis in line with methodologies agreed by the ERC. Exposures are managed within limits.

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

3.5.3. Model risk

Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions. These adverse consequences could lead to a deterioration in the prudential position, non-compliance with applicable laws and/or regulations, customer detriment, or damage to the Bank's reputation. Model risk can also lead to financial loss, as well as qualitative limitations such as the imposition of restrictions on the Bank's activities.

Starling Bank operates a wide range of models to support its business activities, the use of which give rise to the potential for adverse consequences arising from model risk.

In May 2023, the Bank of England introduced Supervisory Statement 1/23 - Model Risk Management Principles for Banks. While the Supervisory Statement only applies to firms with internal model approval to calculate regulatory capital requirements, and hence does not apply directly to Starling Bank, we consider that the proposed principles are useful in the management of model risk within the Bank. As such, Starling Bank has introduced a new policy for the management of model risk, and has elevated model risk to a Level 1 risk with Board oversight with effect from November 2023.

The Bank has established a Model Risk Committee (MRC), as a sub-committee of ERC, with responsibility for overseeing the effective development, implementation and rollout of the Model Risk Framework, including the review and approval of key policies and supporting standards. The MRC reviews adherence to the framework to ensure that the Bank's models are subject to effective oversight, control and governance.

The model risk appetite is approved by the Board on recommendation of the BRC. Authority is delegated to the MRC for monitoring the Bank's model estate against the Board-approved model risk appetite.

See Annex 1 for the model risk appetite. Additional disclosures on model risk are contained in the Bank's 2024 Annual Report & Accounts.

Risk management

3.5.4. Funding and Liquidity risk

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

Funding risk is the risk that Starling Bank 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 Bank's sources of (non-equity) funding are from Retail current accounts, SME current accounts, fixed term deposits, Starling Bank payment services accounts and from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

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

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

Liquidity risk is measured in accordance with the PRA's Overall Liquidity Adequacy Rule (OLAR). The Bank has a comprehensive suite of metrics that not only cover minimum regulatory requirements (Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)) but also ensure that liquid assets are maintained to cover both a short term stress and a longer term stress. Additionally, the Bank sets limits on asset encumbrance.

To protect itself against a liquidity stress, Starling Bank 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 Bank's Internal Liquidity Adequacy Assessment Process (ILAAP), which is approved by the Board. Liquidity risk exposures are subject to assessment under both regulatory and internal requirements.

Liquidity risk stress testing is undertaken at least annually as part of the ILAAP, the 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.

The Bank continues to maintain high levels of HQLA. The liquidity levels are closely managed by senior management and have remained comfortably above the minimum regulatory and internal requirements throughout the year.

The liquidity metrics and early warning indicators are reported to senior management daily, ALCO and ERC monthly, and regularly to the BRC and the Board.

ALCO is responsible for the monitoring and oversight of liquidity risk. Treasury reports and escalates breaches of limits/triggers to senior management and the ALCO. Risk will escalate breaches to the BRC and to the Board as appropriate.

The Bank's liquidity risk appetite is set out in Annex 1. Additional liquidity risk management information is contained in the Bank's 2024 Annual Report & Accounts.

3.5.5. Market risk

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

Foreign exchange risk

FX risk is managed through the execution of spot and forward FX transactions with counterparty banks to reduce open positions to within risk appetite. Currency exposures are managed on an aggregated basis. FX risk is monitored daily by the Treasury function. Positions are reported daily to senior management and Risk. Monthly reporting is provided to ALCO, ERC and to the Board with quarterly analysis to the BRC.

Interest Rate Risk in the Banking Book (IRRBB)

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

Starling Bank hedges the interest rate risk arising on its banking book as a result of timing differences in the repricing of its assets, liabilities and off-balance sheet positions.

IRRBB can impact the economic value of the Bank's equity and can impact the Bank's earnings under different rate movements. The Board sets a present value of a one basis point sensitivity (PV01) and an Economic Value of Equity (EVE) risk appetite limit along with an earning risk sensitivity expressed as a change in Net Interest Income (NII) and a basis risk metric. Sub limits, agreed by ALCO and ERC, are in place for EUR and USD EVE and for basis risk net interest income impacts.

Risk management

Treasury manages the Bank's interest rate risk within the risk appetite set by the Board. Starling Bank executes interest rate derivatives to manage exposures. All swaps executed are economic hedges. The swaps executed are all centrally cleared, with the counterparty risk now being to the LCH.

During the year Starling Bank initiated a structural hedge programme to mitigate its volatility to earnings from rate changes on its core non-interest and low-interest bearing liabilities. The majority of these core liabilities are in the form of non-maturing deposits. Assumptions covering the expected life of these core liabilities are modelled on a behavioural basis, reviewed and approved by ALCO, agreed with risk management and then hedged.

ALCO and ERC monitors interest rate risk on a monthly basis and it is reported to BRC and Board monthly . 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 and the impact of an interest rate stress on the Bank's NII.

See Annex 1 for the market risk appetite. Additional market risk disclosures are contained in the Bank's 2024 Annual Report & Accounts.

3.5.6. Capital risk

Capital risk is the risk that the Bank does not have sufficient capital to withstand unexpected losses, meet regulatory requirements and support the growth plans 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 or increasing risk weighted exposure amounts (RWAs). Starling Bank holds capital to absorb these losses and to support the strategic growth in its business. In line with regulations, Starling Bank assesses its capital adequacy needs in its ICAAP which is reviewed, challenged and approved by the Board at least annually.

All of Starling Bank's capital is Common Equity Tier 1 (CET1).

Starling Bank will, at all times, maintain sufficient capital to cover its risk profile and associated risk exposures. As a minimum, the Bank's capital resources have been maintained above MREL requirements plus buffers at all times.

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

See Annex 1 for the capital adequacy risk appetite. Additional disclosures on capital are contained in the Bank's 2024 Annual Report & Accounts.

3.5.7. Operational risk

Operational risk is the risk to which Starling Bank is exposed due to inadequate, poorly designed or failed internal processes, systems or people, 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.

Starling Bank'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 Bank will accept operational risks in support of its business objectives, it seeks to manage those risks and minimise potential losses.

Starling Bank 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.

Starling Bank has a risk appetite statement for each of the identified sub-categories of Operational Risk, underpinned by metrics which assess and report against performance against appetite.

The Bank's operational risk appetite is set out in Annex 1.

3.5.8. Financial Crime risk

This category of risk covers two underlying threats to Starling Bank 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 Bank's operations.

Starling Bank 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 Bank's business model. Starling Bank will take actions to reduce fraud losses through the constant review and enhancement of control standards.

Risk management

Starling Bank 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 Bank 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 Bank identifies deficiencies in its controls it seeks to remediate and improve its control environment to deter such fraud or financial crime recurring.

Starling Bank 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 Bank 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 Bank 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.

Additional fraud and financial crime risk disclosures are contained in the Bank's 2024 Annual Report & Accounts. See Annex 1 for the fraud and financial crime risk appetite.

3.5.9. Conduct risk

Conduct risk is the risk of creating harm to a customer, counterparty or market arising from inappropriate behaviour by Starling Bank or its partners in the execution of business activities.

Starling Bank's conduct risk framework and policies set out the approach for the delivery of good outcomes for consumers as well as ensuring appropriate conduct by staff in line with Starling Bank's expectations and the FCA's Conduct Rules. The Bank 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.

Starling Bank is continuously improving its policies and processes to allow for the identification, assessment and control of conduct risks.

All of Starling Bank's business functions and risk management teams are required to complete RCSA analysis in respect of their conduct risks. 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.

The new Consumer Duty (Part 1) came into effect during the year, with Part 2 due to come into effect shortly. An extensive implementation programme was put in place to address the requirements of the new Consumer Duty, with progress being overseen by both the ERC, BRC and the Board.

Additional conduct risk disclosures are contained in the Bank's 2024 Annual Report & Accounts. See Annex 1 for the conduct risk appetite.

3.5.10. Compliance risk

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.

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

Additional compliance risk disclosures are contained in the Bank's 2024 Annual Report & Accounts. See Annex 1 for the compliance risk appetite.

Capital and other disclosures

Capital and other disclosures

The Bank meets its capital obligations under the CRR. The rules are enforced in the UK by the PRA.

The Bank's policy is to maintain a strong capital base to maintain investor and market confidence and to sustain the future development of the business. The Board manages its capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP.

The Bank has complied with all externally imposed capital requirements during the period from 1 April 2023 to 31 March 2024.

The Bank has elected to use the standardised approach for credit risk. Under the CRR the Bank must set aside capital equal to 8% of its total RWAs to cover its Pillar 1 capital requirements. The Bank must also set aside additional Pillar 2 capital to provide for additional risks.

In line with regulations, Starling Bank assesses its capital adequacy needs in its ICAAP document which is reviewed, challenged and approved by the Board annually.

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

For Pillar 2, the Bank's key risks are assessed to determine whether any additional capital is required over and above Pillar 1.

Additional disclosures on capital are contained in the Bank's 2024 Annual Report & Accounts.

Capital and other disclosures

4.1. Key metrics

This table presents the set of key prudential metrics covering the Bank's available capital (including buffer requirements and ratios), RWAs, leverage ratio, LCR and NSFR.

	31 March 2024 £'000	31 March 2023 £'000
Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	**870,769**	710,616
Tier 1 capital	**870,769**	710,616
Total capital	**870,769**	710,616
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	**2,675,477**	1,894,758
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	**32.55%**	37.50%
Tier 1 ratio (%)	**32.55%**	37.50%
Total capital ratio (%)	**32.55%**	37.50%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
Additional CET1 SREP requirements (%)	**2.94%**	2.94%
Additional AT1 SREP requirements (%)	**0.97%**	0.97%
Additional T2 SREP requirements (%)	**1.31%**	1.31%
Total SREP own funds requirements (%)	**13.22%**	13.22%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	**2.50%**	2.50%
Institution specific countercyclical capital buffer (%)	**2.00%**	1.00%
Combined buffer requirement (%)	**4.50%**	3.50%
Overall capital requirements (%)	**17.72%**	16.72%
CET1 available after meeting the total SREP own funds requirements (%)[a]	**25.11%**	30.07%
Leverage ratio		
Total exposure measure excluding claims on central banks	**8,383,435**	7,641,617
Leverage ratio excluding claims on central banks (%)	**10.39%**	9.30%

Capital and other disclosures

	31 March 2024 £'000	31 March 2023 £'000
Liquidity Coverage Ratio[b]		
Total HQLA (average weighted value)	**6,510,731**	6,413,925
Cash outflows (total weighted value)	**1,891,560**	1,711,200
Cash inflows (total weighted value)	**446,533**	311,926
Total net cash outflows (adjusted value)	**1,445,027**	1,399,274
Liquidity Coverage Ratio (%)	**450.56%**	460.15%
Net Stable Funding Ratio[b]		
Total available stable funding	**12,578,157**	11,944,952
Total required stable funding	**5,646,537**	4,870,012
Net stable funding ratio (%)	**222.76%**	245.31%

Notes:
(a) Represents CET1 after meeting Pillar 1 and 2A requirements.
(b) The LCR and NSFR represent averages over the year.

Capital and other disclosures

4.2. Overview of risk weighted exposure amounts

The assets of the Bank are analysed by risk category and given weightings according to the level of risk entailed per the CRR. This table presents the Bank's RWAs and capital requirements, per category of risk, calculated as 8% of RWAs.

	Risk weighted exposure amounts (RWEAs)		Total own funds requirements	
	31 March 2024	31 March 2023	**31 March 2024**	31 March 2023
	£'000	£'000	**£'000**	£'000
Credit risk (excluding CCR)	**1,840,844**	1,689,562	**147,267**	135,165
Of which: the standardised approach	***1,840,844***	*1,689,562*	***147,267***	*135,165*
Counterparty credit risk – CCR	***4,499***	*46,355*	***360***	*3,708*
Of which: the standardised approach	***833***	*10,763*	***67***	*861*
Of which: exposures to a CCP	***3,624***	*8,493*	***290***	*679*
Of which: credit valuation adjustment – CVA	***42***	*27,098*	***3***	*2,168*
Securitisation exposures in the non-trading book	**80,923**	4,805	**6,474**	384
Of which: the SEC-ERBA	***80,923***	*4,805*	***6,474***	*384*
Operational risk	**749,211**	154,036	**59,937**	12,323
Of which: basic indicator approach	***749,211***	*154,036*	***59,937***	*12,323*
Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)	**125,427**	125,427	**10,034**	10,034
Total	**2,675,477**	1,894,758	**214,038**	151,581

Capital and other disclosures

4.3. Composition of regulatory own funds

	31 March 2024 £'000	References to disclosures in Section 4.4
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	608,845	a,b
Cumulative retained earnings	335,186	d
Accumulated other comprehensive income and other reserves	44,200	c
Common Equity Tier 1 (CET1) capital before regulatory adjustments	988,230	e
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments (negative amount)	(291)	
Intangible assets (net of related tax liability) (negative amount)	(50,726)	f
Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	(17,133)	
Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(56,361)	c,e
Other regulatory adjustments to CET1 capital	7,050	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(117,461)	
Common Equity Tier 1 (CET1) capital after regulatory adjustments	870,769	
Additional Tier 1 (AT1) capital	–	
Tier 1 capital (T1 = CET1 + AT1)	870,769	
Tier 2 (T2) capital	–	
Total capital (TC = T1 + T2)	870,769	
Total risk exposure amount	2,675,477	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	32.55%	
Tier 1 (as a percentage of total risk exposure amount)	32.55%	
Total capital (as a percentage of total risk exposure amount)	32.55%	
Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	11.94%	
Of which: capital conservation buffer requirement	2.50%	
Of which: countercyclical buffer requirement	2.00%	
Of which: systemic risk buffer requirement	0.00%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[(a)]	25.11%	
Amounts below the thresholds for deduction (before risk weighting)		
Direct and indirect holdings of the own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	50,171	

Notes:
(a) Represents CET1 after meeting Pillar 1 and 2A requirements.

Capital and other disclosures

4.4. Reconciliation of regulatory own funds to balance sheet in the audited financial statements

	Balance Sheet as in published financial statements 31 March 2024 £'000	Balance Sheet under the regulatory scope of consolidation 31 March 2024 £'000	References to disclosures in section 4.3
Assets – Breakdown by asset class according to the balance sheet in the published financial statements			
Cash and balances at central banks	6,420,115	6,420,115	
Loans and advances to banks	36,879	35,450	
Debt securities	3,284,867	3,284,867	
Loans and advances to customers	4,537,663	4,537,663	
Derivative assets	246,541	246,541	
Current tax asset	15,640	15,600	
Deferred tax asset	—	7,669	
Other assets	100,047	96,670	
Property, plant and equipment and right of use assets	18,727	17,453	
Intangible assets	71,523	67,665	f
Goodwill	35,890	—	
Investment in subsidiaries and intercompany account	—	63,385	
Total assets	14,767,892	14,793,080	
Liabilities – Breakdown by liability class according to the balance sheet in the published financial statements			
Customer deposits	10,970,237	10,978,527	
Deposits from banks	2,420,471	2,420,471	
Derivative liabilities	51,417	51,417	
Provisions	11,507	11,508	
Other liabilities	367,422	363,463	
Deferred income	47,873	10,609	
Deferred tax liability	9,195	25,216	
Total liabilities	13,878,122	13,861,211	
Equity			
Share capital	12	12	a
Share premium	608,833	608,833	b
Other reserves	(12,003)	(12,162)	c
Retained earnings	292,928	335,186	d
Total equity	889,770	931,869	e

Remuneration

Renumeration

These remuneration disclosures have been drafted in accordance with applicable regulatory requirements, in particular the Disclosure ('CRR') part of the PRA Rulebook in application of Article 450 of the CRR, with consideration for the size and nature of the Bank's activities and the proportionality guidelines set out by the PRA.

Remuneration governance

The Board is committed to adhering to the requirements under the remuneration part of the PRA Rulebook and the Dual-regulated firms Remuneration Code of the FCA Handbook (the Remuneration Codes), thus ensuring that the Bank has risk-focused remuneration policies, which are consistent with the Bank's risk appetite, promote effective risk management and do not expose the Bank to excessive risk. The remuneration practices are set in a manner which is appropriate to the Bank's size, internal organisation and the nature, scope and complexity of its activities.

The Bank's Remuneration Committee (RemCo) is responsible for designing, implementing and overseeing the remuneration policy and the reward structure of the Bank. RemCo ensures that effective risk management is a key component of remuneration and incentive structures. Membership of RemCo is restricted to Non-Executive Directors only. RemCo's terms of reference, which describe the Committee's responsibilities, are reviewed on an annual basis. RemCo meets at least three times throughout the year. In the year ended 31 March 2024, RemCo met 12 times.

Following a tender process, RemCo appointed Deloitte LLP as its independent remuneration adviser and provided support on a number of different areas in relation to remuneration. This includes variable pay arrangements, key considerations and benchmarking in relation to the approach to remuneration for senior employees and compliance with applicable regulatory requirements. Deloitte LLP also provided tax and other advisory services to the Bank during the year.

Remuneration policy

RemCo reviews the Bank's remuneration policy annually to assess its continued alignment with the Bank's objectives, risk management and compliance with the requirements under the Remuneration Codes, as well as to take account of any changes to remuneration practices and procedures. The Bank's remuneration policy applies to all employees of the Bank, with certain rules specific to those individuals identified by the Bank as Material Risk Takers (MRTs) under the Remuneration Codes. The aim of the remuneration policy is to strike a balance between short-term and long-term business performance and reward employees for achieving results that are aligned with the Bank's risk appetite, strategy and conduct; and legal and regulatory requirements. To ensure that salaries reflect individuals' skills and experience, the Bank conducts research to benchmark competitive market remuneration practices.

The Bank's remuneration, including any variable remuneration, is linked to business and individual performance. Performance is assessed against financial and non-financial criteria taking into consideration the Bank's results, compliance and risk management approach, the individual's performance related to their core responsibilities and personal development, as well as risk and conduct issues. The remuneration of employees engaged in control functions is determined independently of the businesses they oversee, and is based on priorities in their control areas.

During the year Starting Bank introduced a new employee discretionary incentive scheme to attract, retain and incentivise select MRTs, and align their interests with the creation of shareholder value. Awards made under the plan are subject to the satisfaction of performance conditions and delivered in a combination of cash and share awards and are subject to a minimum 40% deferral, in line with regulatory requirements. The following table shows the reconciliation of total cash awarded to the income statement charge recognised under performance-based compensation staff costs. The Bank has obtained shareholder approval to increase the variable remuneration component pay cap to 200% of the fixed remuneration component for each MRT.

Subject to the terms of its remuneration policy and the specific award instruments, malus and clawback provisions apply to variable remuneration awards for MRTs where risk management and conduct fall below required standards. Additionally, the Bank may decide to make adjustments to variable remuneration awards in the face of specific or expected risks or conduct events. RemCo is ultimately responsible for risk adjustment decisions, supported by the BRC.

Remuneration of MRTs in respect of the financial year

MRTs are the Bank's employees whose professional activities could have a material impact on the Bank's risk profile. These employees are identified based on the qualitative and quantitative criteria set out in the PRA remuneration rules. The following tables set out remuneration disclosures for MRTs.

Renumeration

5.1. Remuneration awarded for the financial year

The remuneration in respect of the current financial year for individuals who served for at least part of the year as MRTs are provided below.

		Supervisory function	Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	10	3	13	11
	Total fixed remuneration (£'000)	**1,197**	**2,582**	**3,105**	**2,374**
	Of which: cash-based	1,197	2,577	3,077	2,354
	Of which: other forms	–	5	28	20
Variable remuneration	Number of identified staff	10	3	13	11
	Total variable remuneration (£'000)	**60**	**2,050**	**1,394**	**760**
	Of which: cash-based	–	490	697	380
	Of which: deferred	–	294	279	152
	Of which: shares or equivalent ownership interests	–	490	697	380
	Of which: deferred	–	294	279	152
	Of which: other forms	60	1,070	–	–
	Of which: deferred	–	–	–	–
Total remuneration (£'000)		**1,257**	**4,632**	**4,499**	**3,134**

5.2. Remuneration, broken down by business area

The table below sets out the remuneration in respect of the current financial year for individuals who served for at least part of the year ended 31 March 2024 as MRTs by business area.

	Management Body (MB)		Business areas			
	Supervisory function	Management function	Retail banking	Corporate functions	Independent internal control functions	Total
Total number of identified staff	10	3	2	11	11	**37**
Of which: members of the MB	10	3				13
Of which Other Senior Management			2	7	4	13
Of which Other Identified Staff			–	4	7	11
Total remuneration of identified staff (£'000)	**1,257**	**4,632**	**484**	**4,948**	**2,201**	**13,522**
Of which: variable remuneration	60	2,050	113	1,534	507	4,264
Of which: fixed remuneration	1,197	2,582	371	3,414	1,694	9,258

Annex 1: Risk statements and risk appetite

Annex 1: Risk statements and risk appetite

The material categories of risk to which the Bank is exposed are as follows:

- Strategic risk
- Credit risk
- Model risk
- Funding and Liquidity risk
- Market risk
- Capital risk
- Operational risk
- Financial crime risk
- Conduct risk
- Compliance risk

The below defines and articulates the Bank's appetite for each of its material risk categories.

Strategic risk
The Board has determined that Starling Bank will maintain a clear vision, mission, strategic objectives and corporate values to support the growth of the Bank, as agreed by the Board and Executives. Furthermore, Starling Bank 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 Bank's strategic risk appetite statements are underpinned by a series of quantitative limits which monitor key potential strategic risk exposures.

Credit risk - lending
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 Bank 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 Bank monitors this through regular oversight activities.

Starling Bank'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 Bank mitigates concentration risk by monitoring exposure to different segments to identify and mitigate any adverse trends.

The Bank ensures all lending is subject to underwriting checks that include eligibility criteria and affordability tests. In addition, Starling Bank 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 Bank's overall risk appetite. Starling Bank ensures there is sufficient expertise in the Bank to oversee the management of its portfolios.

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

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

Model risk
Starling Bank is committed to ensuring that models are robust, reliable and used appropriately and that all models are developed, governed and maintained in accordance with internal policy and standards.

The Bank has developed a series of risk appetite limits and key risk indicators in relation to model risk, which provide an assessment of the level of risks associated with the model estate. Details of all models are required to be stored within the Bank's model inventory, in order to provide a comprehensive view of the models in operation across the Bank.

In order to avoid the use of models which are unsuitable for their proposed use due to risks relating to limitations, technical factors, assumptions or errors, Starling Bank seeks to ensure that:

- Both model design and build reflect the model's intended purposes, employ sound methodology and produce reliable outputs; and
- Models always be used for their intended purposes, and not in a way that could lead to biased, misleading or inappropriate results.

Annex 1: Risk statements and risk appetite

Funding and Liquidity risk

Starling Bank's Board-approved risk appetite limits ensure compliance with the Overall Liquidity Adequacy Rule (OLAR). The Bank 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 Bank sets limits on asset encumbrance.

The Bank 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.

Market risk

Starling Bank will not take any proprietary (own account) trading positions other than as arising from customer related activities. Starling Bank 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 Bank will only accept limited currency exposures in euro and US dollar.

Starling Bank minimises IRRBB and does not seek to profit from speculation. Risk appetite is based firstly on an EV measure of risk through which Starling Bank minimises profit and loss volatility from changes in the EVE of the banking book, and secondly by an earnings risk measure viewed over a rolling 12-month horizon.

Capital risk

Starling Bank will, at all times, maintain sufficient capital resources to cover its risk profile and associated risk exposures. As a minimum, the Bank's capital resources are maintained above MREL plus buffers at all times. The Board approves the capital risk appetite annually, defining the minimum levels of capital buffer above the regulatory minimum that the Bank needs to hold across several metrics.

Operational risk

Starling Bank'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.

Starling Bank has a cautious appetite for risks relating to internal processes, systems or people, or external events. It is accepted that there are operational risks associated with fulfilling the business objectives, but the Bank will continually monitor those risks through the implementation of effective operational controls, and minimise any potential losses that might arise from them.

Starling Bank has a risk appetite statement for each of the identified sub-categories of operational risk, underpinned by metrics which assess and report against performance against appetite.

Annex 1: Risk statements and risk appetite

Financial crime risk

Starling Bank 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 Bank's business model. Starling Bank will take actions to reduce fraud losses through the constant review and enhancement of control standards.

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

In relation to financial crime, Starling Bank 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.

Conduct risk

Starling Bank is averse to the risk of creating harm to a customer, counterparty or market, arising from inappropriate behaviour by Starling Bank or its partners in the execution of its business activities. Starling Bank will seek to minimise conduct risk at all times.

Compliance risk

Starling Bank will not accept any deliberate or systemic breaches of applicable laws and regulations and will seek to avoid inadvertent regulatory errors and omissions by maintaining robust control processes. In the event that regulatory breaches are identified, Starling Bank will promptly remediate the situation and, where necessary, ensure that the Bank's regulators are notified on a timely basis. Starling Bank has no appetite for knowingly failing to comply with any relevant regulatory provision, rule or applicable code of conduct.

Annex 2: Additional risk disclosures

Annex 2: Additional risk disclosures

Disclosure of the use of Credit Risk Mitigation (CRM) techniques

	Unsecured carrying amount £'000	Secured carrying amount £'000	Of which secured by collateral £'000	Of which secured by financial guarantees £'000	Of which secured by credit derivatives £'000
Loans and advances	6,592,133	4,554,836	3,812,460	742,375	–
Debt securities	3,320,702	–	–	–	
Total	9,912,835	4,554,836	3,812,460	742,375	–
Of which non-performing exposures	*2,292*	*207,502*	*130,642*	*76,860*	–
Of which defaulted	*30,566*	*189,647*			

Annex 2: Additional risk disclosures

Credit risk exposure and Credit Risk Mitigation (CRM) and Credit Conversion Factor (CCF) effects

	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
Exposure classes	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
	£'000	£'000	£'000	£'000	£'000	
Central governments or central banks	6,790,849	–	7,532,573	–	–	–%
Multilateral development banks	1,067,010	–	1,067,010	–	–	–%
Institutions	94,064	–	94,064	–	32,204	34%
Corporates	17,190	–	17,190	–	15,993	93%
Retail	773,695	73,947	86,641	–	53,450	62%
Secured by mortgages on immovable property	3,689,226	176,753	3,689,226	35,351	1,306,284	35%
Exposures in default	196,332	–	141,662	–	141,796	100%
Covered bonds	1,109,808	–	1,109,808	–	110,981	10%
Equity and Other items	107,811	–	107,811	–	180,135	167%
Total	13,845,986	250,700	13,845,986	35,351	1,840,844	13%

Annex 2: Additional risk disclosures

Credit risk standardised approach

Exposure classes	Risk weight										
	0%	10%	20%	35%	50%	75%	100%	150%	250%	Total	Of which unrated
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Central governments or central banks	7,532,573	–	–	–	–	–	–	–	–	7,532,573	–
Multilateral development banks	1,067,010	–	–	–	–	–	–	–	–	1,067,010	–
Institutions	–	–	49,425	–	44,639	–	–	–	–	94,064	–
Corporates	–	–	–	–	2,395	–	14,796	–	–	17,190	14,796
Retail exposures	–	–	–	–	–	86,641	–	–	–	86,641	86,641
Exposures secured by mortgages on immovable property	–	–	–	3,720,450	–	–	4,127	–	–	3,724,577	3,724,577
Exposures in default	–	–	–	–	–	–	141,394	268	–	141,662	141,662
Covered bonds	–	1,109,808	–	–	–	–	–	–	–	1,109,808	–
Equity and Other items	–	–	3,539	–	–	–	54,169	–	50,103	107,811	107,811
Total	8,599,583	1,109,808	52,964	3,720,450	47,034	86,641	214,486	268	50,103	13,881,336	4,075,487

Annex 2: Additional risk disclosures

Securitisation exposures in the non-trading book

	Institution acts as investor		
	Traditional		Sub-total
	STS	Non-STS	
Total exposures	541,757	133,737	675,494
Retail (total)	541,757	133,737	675,494
Residential mortgage	541,757	133,737	675,494

Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor

	Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)		RWEA (by regulatory approach)		Capital charge after cap	
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-ERBA (including IAA)	1250%/ deductions	SEC-ERBA (including IAA)	1250%/ deductions	SEC-ERBA (including IAA)	1250%/ deductions
Total exposures	675,494	–	–	–	–	675,494	–	80,923	–	6,474	–
Traditional securitisation	675,494	–	–	–	–	675,494	–	80,923	–	6,474	–
Securitisation	675,494	–	–	–	–	675,494	–	80,923	–	6,474	–
Retail underlying	675,494	–	–	–	–	675,494	–	80,923	–	6,474	–
Of which STS	541,757	–	–	–	–	541,757	–	54,176	–	4,334	–

Annex 2: Additional risk disclosures
Quantitative information on IRRBB

The bank assesses EVE and NII sensitivity using interest rate shocks prescribed by the PRA. The sensitivities reported incorporate customer behaviour and product optionality. A parallel shift of +/- 250bps is used for NII and EVE sensitivities, with the EVE sensitivity also calculated under additional yield curve transformations.

In reporting currency	ΔEVE	ΔNII	Tier 1 capital
	31 March 2024	31 March 2024	31 March 2024
Parallel shock up	(2,458)	45,684	
Parallel shock down	(61)	(47,454)	
Steepener shock	(2,286)		
Flattener shock	1,780		
Short rates shock up	(468)		
Short rates shock down	1,637		
Maximum	(2,458)	(47,454)	
Tier 1 capital			870,769

EVE measures the income or loss a bank faces due to changes in changes in interest rates.
NII measures the impact interest rate movements will have on earnings over the next 12 months.

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