Starling Bank

ANNUAL REPORT

Starling Bank

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Starling Bank Limited Annual Report and Consolidated Financial Statements for the period ended 31 March 2021.

COMPANY INFORMATION

Directors

Oliver Stocken CBE
(Independent Non-Executive Chairman)

Carolyn Clarke
(Independent Non-Executive Director, appointment effective 31 October 2020)

Tracy Clarke
(Independent Non-Executive Director, appointment effective 26 May 2021)

Steve Colsell
(Independent Non-Executive Director)

Marian Martin
(Independent Non-Executive Director)

Victoria Raffé
(Independent Non-Executive Director)

Mark Winlow
(Independent Non-Executive Director)

Lazaro Campos
(Non-Executive Director)

Marcus Traill
(Non-Executive Director)

Anne Boden MBE
(Chief Executive Officer)

Tony Ellingham
(Chief Financial Officer)

Company Secretary

Matthew Newman

Registered Office

3rd Floor
2 Finsbury Avenue
London
EC2M 2PP

Company Registration Number

09092149
(England and Wales)

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

2.14M+

number of open accounts

1.67m+
Number of GBP personal accounts

336,000+
Number of GBP business + sole trader accounts

100,000+
Number of EUR personal accounts

7,500+
Number of EUR business + sole trader accounts

£2.26bn+
Retail GBP deposits

£3.34bn+
Business + sole trader GBP deposits

£1,800+
Average retail deposit

£12,600+
Average business + sole trader deposit

€140m+
Retail EUR deposits

€41m+
Business + sole trader EUR deposits

£5,462m+
Volume of retail card transactions, GBP

£1,824m+
Volume of business + sole trader card transactions, GBP

€47m+
Volume of retail card transactions, EUR

€3.9m+
Volume of business + sole trade card transactions, EUR

32
Number of marketplace services in the app

1,245
Employees

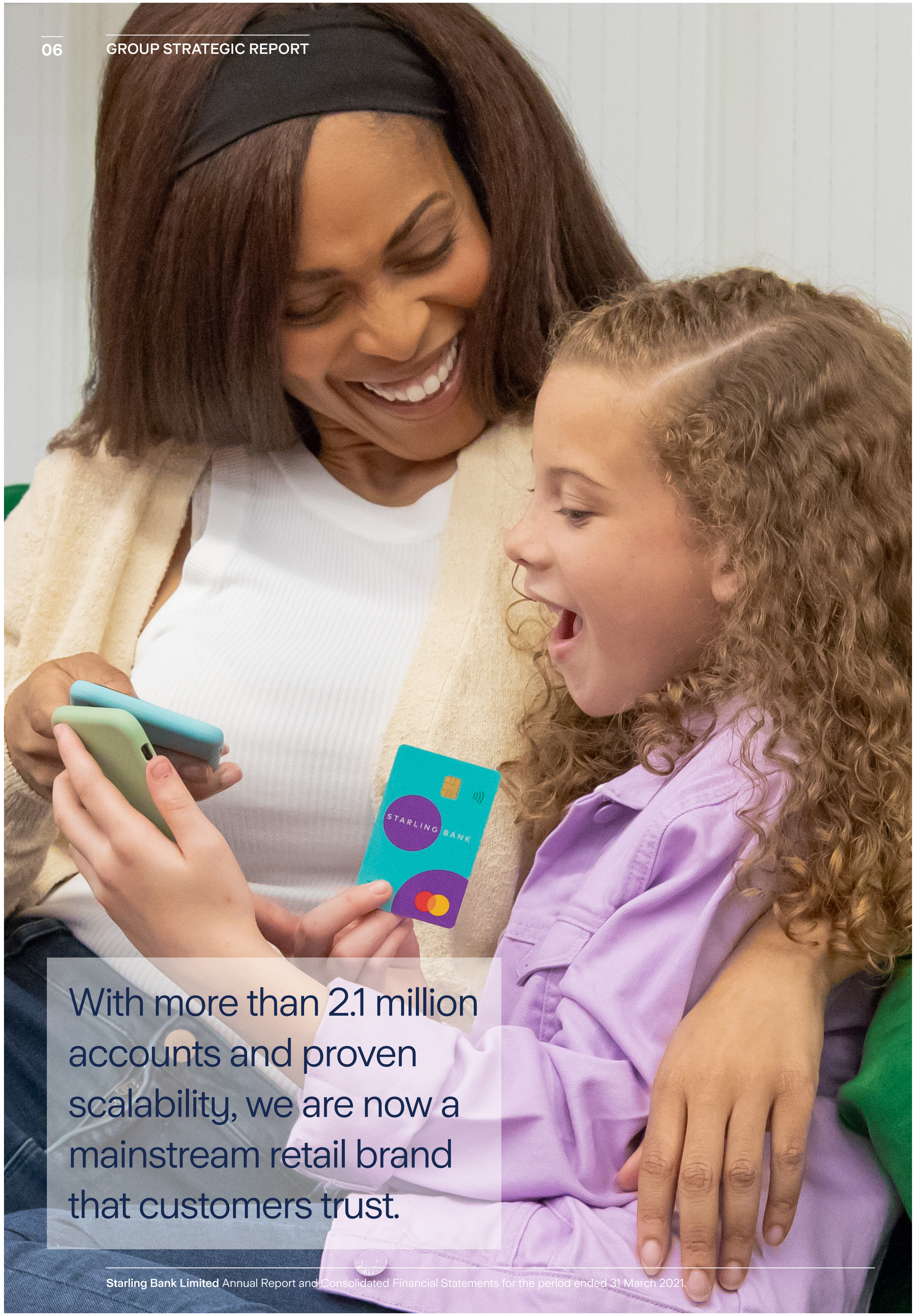
53,276
Number of customers funded via the Bounce Back Loan Scheme

3,415
Number of customers funded via the Coronavirus Business Interruption Loan Scheme

£1.59bn+
Value of lending funded under the Bounce Back Loan Scheme

£595m+
Value of lending funded under the Coronavirus Business Interruption Loan Scheme

Starling Bank Limited Annual Report and Consolidated Financial Statements for the period ended 31 March 2021.



BUSINESS REVIEW

Starling Bank ("Starling") is redefining banking for the digital age. We offer personal, business, joint, teen, euro and dollar banking all from a single app, tablet or desktop. With a technology-first leadership team, we've built a suite of smart features to help our personal and small business customers feel more in control of their finances, from real time balances and instant notifications, to bookkeeping tools, accountancy software integration, receipt capture and multi-currency accounts.

With more than 2.1 million accounts and proven scalability, we are now a mainstream retail brand that customers trust, competing head-on with the Big 5 UK banks in the market for retail and small and medium-sized enterprise ("SME") accounts.

The Starling Marketplace offers customers in-app access to a selection of third party financial services. And we are a major lender to small businesses, lending directly to our own customers and funding third-party lending through forward flow arrangements.

We also provide B2B banking and payments services through our Banking-as-a-Service model based on the proprietary technology platform that we use to power our own bank.

Our proprietary tech stack allows us to rapidly scale products and features entirely in-house. This reduces our dependence on outside suppliers, gives us greater control and better equips us to respond to market changes and new opportunities. It also presents us with the opportunity to sell and/or license the technology underlying our smart banking core to more established brands that want to build their own financial capability.

Branchless and paperless, we are a lean and agile organisation, constantly seeking to innovate and to change banking for good.

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A TRANSFORMATIONAL YEAR

Proving the Fintech case

If our annual report seems longer this year, it's not just because the pandemic has blurred the passage of time. This report covers a period of 16 months, from 1 December 2019 to 31 March 2021. We've changed our financial year-end from 30 November to 31 March, to help our investors better compare our results with our peers who report at calendar quarter ends. From 2022 we'll be back to a regular 12 month year, ending on 31 March.

Starling now stands out among the next-generation digital banks for the strength of our balance sheet and for being profitable. At the end of March 2021, we held £5.8 billion of deposits and are achieving unrivalled deposit growth while maintaining one of the lowest cost of funds in the UK banking market. We continue to outperform our deposit targets.

For our personal account customers, the average deposit per active customer at the close of our financial period on 31 March 2021 was £1,874. For our small business customers, the average deposit balance stood at £15,561 for business accounts and £3,485 for sole trader accounts.

During the period we built and quickly scaled a lending platform to help support our SME customers who had been hit by the pandemic. Since Starling gained accreditation as a lender under the government-backed Coronavirus Business Interruption Loan Scheme ("CBILS") and the Bounce Back Loan Scheme ("BBLS"), more than 52,000 SME businesses have directly benefited from the £2.2 billion of lending we have made available to our own customers and through forward flow arrangements with selected lenders. Our average BBLS loan balance was £29,750 and our average CBILS loan balance was £168,850.

BUSINESS REVIEW

Growing our customer base

As of 31 March 2021, we had more than 2.1 million open accounts, including more than 330,000 business and sole trader accounts. That compares with a total of 926,000 retail and 87,000 business and sole trader accounts at the end of our last financial year on 30 November 2019, with just over £1 billion on deposit.

The speed of response of our technology team during May of last year was breath-taking. We gained accreditation as a lender under the government-backed CBILS and the BBLS. In the space of a month, the Bank was able to create an end-to-end automated process for accepting, booking, monitoring and reporting BBLS transactions. This gave the Board confidence to commence lending to SMEs during a period of national uncertainty and has helped drive our growth in SME customer numbers.

During the 2019-2021 financial period, we have processed in excess of £7 billion in transactions through our card management system and issued more than 1.5 million debit cards. For card transactions, three of the top four merchants for Retail customers are supermarkets (Tesco, Asda and Sainsbury's) suggesting that they are using Starling as a main account to do their weekly grocery shopping, not merely as an add on account to buy the odd coffee. The top merchant is Amazon.

Our achievements and our customer-first approach have not gone unnoticed. In a noisy fintech world we stand out from the crowd, as a fully-regulated bank that has achieved sustained breakeven during the period under review, and that is highly-rated for customer service. We are one of just two banks designated as a Which? 'recommended provider' and we top the Which? tables for bank customer satisfaction and online banking security. Our customer ratings stand at 4.9 in the Apple App Store and 4.73 in the Android Play Store.

A viable business model: turning a profit

We've had a firm eye on our path to profitability from day one and in October 2020 we became profitable on a monthly basis, two months ahead of the target we set in 2019.

As we extend our lending products to both the SME and Retail markets, it's pleasing to see that lending now provides our single biggest revenue stream.

The accelerated shift to digital brought about by the pandemic and our continued growth meant that we needed more employees when the country went into lockdown. We did not furlough any staff during successive lockdowns, so had no need to call on Government support. There have been no job cuts. In fact, we've continued hiring, adding a net 359 jobs, bringing our headcount to 1,245 by the end of the period.

Despite this increase in variable headcount, the increase in revenue from lending has given rise to a strong increase in unit economics whilst our fixed costs have remained relatively stable.

Broadening our investor base

During the period to March 2021 we diversified our investor base to bring on board some of the world's biggest financial heavyweights in an oversubscribed Series D funding round. We welcomed new investors: Fidelity, Qatar Investment Authority, Goldman Sachs, RPMI Railpen and Millennium Partners. Their backing helped us to achieve unicorn status with a valuation in excess of £1.1 billion in March 2021 and gives us plenty of runway for expansion. Following approval by the PRA, the Series D funding round was completed in June 2021. We continue to enjoy the support of our earlier investors JTC, which oversees the investment activity of Harry McPike, a global private investor and Jupiter (formerly Merian), who both contributed to funding rounds in February and May 2020.

Product and innovation

The pandemic did nothing to slow down innovation at Starling. In fact, it spurred us on, as we developed features and products to help our customers navigate a new world and added more subscription-based services.

Product highlights from the past 16 months include:

- A paid-for Business Toolkit, with bookkeeping tools (January 2020).
- The Starling Connected card to help people who are sheltering to buy supplies (April 2020).
- Mobile cheque deposits allowing customers to deposit cheques via the app (April 2020).
- Accreditation to the CBILS (April 2020) and the BBLS (May 2020) to help support small businesses through the pandemic.
- A paid-for US dollar account for small businesses (July 2020).
- 3D secure fraud protection via push notifications (July 2020).
- The Starling Kite debit card for young people aged 6-16 (September 2020), followed by app access for Kite customers (June 2021).
- Online banking for personal and joint account customers (October 2020).
- Debit cards made from recycled plastic for a greener way to pay (March 2021).

Growing our share of the small business banking market

In the SME market we are fast winning a significant share of the UK's most valuable and underserved banking customers. As we reported in our previous annual report, we were awarded a £100 million grant in February 2019 from the Capability and Innovation Fund ("CIF"), administered by an independent body, Banking Competition Remedies ("BCR") as part of a plan by HM Treasury to boost competition and innovation in the SME banking market.

Neither Starling nor the BCR anticipated at the time how valuable this step would later prove to be in supporting SMEs when the country went into lockdown in 2020. Thanks to this grant, Starling was well placed to become a significant lender under the government-based BBLS and CBILS lending programmes. Crucially, while high street banks closed their doors to new small business customers for long parts of the lockdown in 2020, Starling remained open for new SME accounts, keeping the lights on for this important banking sector and providing access to government-backed lending to customers who would otherwise have been locked out of the schemes.

With over 336,000 SME accounts open at the end of March and a 5.6% share of the market for SME banking already, we expect to reach our original CIF commitment of attracting over 450,000 accounts and a 6.7% market share by the end of 2023, well ahead of schedule.

We have agreed with the BCR to revise our original CIF business case and redeploy some of our CIF funds into new services, such as client money accounts and complex legal entity ownership. This will help us to serve the ever evolving needs of our SME customers as we sign up bigger and more complex businesses.
With SMEs shifting to digital ways of working, including banking, as a result of the pandemic, we are well placed to drive competition in more SME segments.

BUSINESS REVIEW

The Banking-as-a-Service model

Starling Banking Services is levelling the playing field in financial services. Having developed a comprehensive, innovative, scalable and resilient banking platform ourselves, we are now helping other banks, fintechs, retailers and brands develop and scale new customised products.

We offer three core products: Banking-as-a-Service, Payment Services and Account Services. With these we are able to offer businesses that are scaling rapidly their own real-time services that allows them to develop new products without incurring the costs associated with long implementation and regulatory timetables.

Marketplace

No two people or businesses are the same. That's why the Starling Marketplace provides our customers with access to a financial ecosystem where they can choose from a curated range of products and services from third-party providers to suit their individual needs.

Between December 2019 and March 2021 we launched 14 new Marketplace integrations for our customers, including Slack and iZettle for our business customers. Our Marketplace now offers 32 services.

Our focus now lies in deepening our integrations with our existing Marketplace services. We're also working to embed our integrations more conveniently in the app so that people can start to use these services more intuitively - starting with our investment and pension providers. It's yet another example of Starling's commitment to open banking.

Sustainability

Climate change has been a known risk for decades, but we are seeing a watershed moment in terms of acceptance of the threat. As we continue to grow, we're conscious of our responsibility to make that growth sustainable. We are a paperless, branchless bank and all of our premises are run on 100% renewable energy. Our main cloud computing supplier, AWS, uses renewable energy in the data centre that serves us. We have set ourselves the goal of becoming a net-zero business and of reporting on our progress towards this.

We are currently undertaking a carbon emissions audit so that we can come up with a plan to further reduce our carbon footprint and offset emissions and to report on this activity.

In October we signed a one-year tree planting partnership with Trillion Trees, a joint tree-planting venture between three of the world's largest conservation organisations, BirdLife International, Wildlife Conservation Society and WWF. In March 2021, we became the first UK bank to start issuing Mastercard debit cards made from recycled plastic, giving our customers a greener way to pay. In June 2021, we announced that we were founder members of TechZero, a new task force of UK technology firms, committed to helping the UK reach its Net-Zero.

Europe

We continue to have a strategic goal of taking the Starling brand into Europe and we are continuing our strategic objective to establish a bank in Ireland, subject to regulatory authorisation.

Covid-19

At the time of signing these accounts the UK is starting to emerge from a prolonged period of uncertainty caused by the Coronavirus pandemic. During the period under review the Board has kept under constant review the risks to the organisation presented by the pandemic and the Group has adapted its plans in the light of the emerging evidence. We await to see whether there will be any impact from the removal of the support measures put in place by the UK authorities.

A full description of the all the key risks faced by the Group are set out on pages 26 to 40.

New ways of working

The pandemic has created a once-in-a-lifetime opportunity to reassess working patterns and to provide employees with a better work/life balance, especially those with caring responsibilities.

We adopted remote working a couple of weeks before the first government-imposed lockdown on 23 March 2020 and have maintained this for all but a handful of colleagues since then. As an agile and digital-first company, we completed the move to remote working relatively swiftly and painlessly. Our employees rose to the challenge and we did not see any drop in productivity after the first couple of weeks.

Wherever our employees are working, we recognise the need to create a safe environment which best ensures their wellbeing, effectively serves customers whilst protecting data, and enables the creativity and collaboration on which Starling is built.

During the period, we took more space in our Cardiff office and reduced our footprint in London as leases expired. Having three UK offices, in London, Southampton and Cardiff, as well as a Dublin office for our international operation, gives us added flexibility.

We believe in the value of diversity and are proud that women make up 40% of the leadership team. We are committed to narrowing the representation gap at Starling to produce more diverse teams, particularly at a management level. We are collecting data with a view to finding new pathways to promotion internally, and externally working with partners to attract new and diverse talent.

Our employees are our most valuable asset and we thank them for their incredible service.

FINANCIAL REVIEW

The key performance indicators used to monitor the success of the business are set out on pages 4 and 5.

Starling (also referred to as the Group and in the case of Starling Bank Limited also referred to as the Bank) has changed its year end from 30 November to 31 March and this is the first financial reporting period adopting the new year-end date.

The following review includes analysis of unaudited amounts for the 12 months ended 30 November 2020 and the 4 months ended 31 March 2021 where required:

	Audited	**Unaudited**	**Unaudited**	Audited
	16 Month Period ended 31 Mar 2021	**4 Month Period ended 31 Mar 2021**	**12 Month Period ended 30 Nov 2020**	12 Month Period ended 30 Nov 2019
Group	**£'000**	**£'000**	**£'000**	£'000
Net Interest Income	59,253	27,479	31,774	5,967
Net Fees and Commissions	33,884	12,180	21,704	7,483
Other Income	4,452	2,770	1,682	751
Total Income	**97,589**	**42,429**	**55,160**	**14,201**
Administrative Expenses	(158,981)	(39,061)	(119,920)	(83,241)
Credit for CIF Eligible Spend	46,044	7,612	38,432	19,738
Impairment and Charge-offs	(16,106)	(3,370)	(12,736)	(4,300)
(Loss)/Profit before Taxation	**(31,454)**	**7,610**	**(39,064)**	**(53,602)**
Taxation	8,135	8,135	-	1,538
(Loss)/Profit after Taxation	**(23,319)**	**15,745**	**(39,064)**	**(52,064)**

FINANCIAL REVIEW

The Group reported a loss before tax for the period to 31 March 2021 of £(31,454)k (year to 30 November 2019: £(53,602)k). The loss after tax for the period was £(23,319)k (2019: £(52,064)k). The movements in the Statement of Comprehensive Income during the period are attributable to the following key Statement of Comprehensive Income items:

Net interest income:

During the period Starling participated in SME Government backed lending schemes, which have allowed Starling to quickly build its revenue. Interest income is now the main source of income for Starling. During the period the Group received Interest Income of £61,224k (2019: £6,895k) on its lending activities, capital resources and Customer Deposits placed with the Bank of England and its investments in high quality liquid assets. The Bank paid Interest Expense on its Retail Customers' Deposits and Central Bank Facilities totalling £(1,971)k (2019: £(928)k).

Starling's Net Interest Income has increased in line with the growth in lending activities and this is reflected in its overall Net Interest Income margin of 1.26%. In the prior year Starling placed the majority of its Customer Deposits with the Bank of England earning a Net Interest Income margin of 1%. In the current period this has increased to 1.26% driven by Interest Income on Loans and Advances to Customers. Gross Interest Income margin on Loans and Advances to Customers was on average 4.14% (2019: 9.34%) while Debt Securities earned 0.46% (2019: 1.19%). The overall cost of Deposits was on average 0.04% (2019: 0.19%).

	16 Month Period ended 31 Mar 2021	**12 month Period ended 30 Nov 2020**	12 month Period ended 30 Nov 2019	**16 month Period ended 31 Mar 2021**	**12 month Period ended 30 Nov 2020**	12 month Period ended 30 Nov 2019
Group	**%**	**%**	**%**	**£'000**	**£'000**	£'000
Interest income:						
Loans and Advances to Banks	0.15%	0.17%	0.73%	3,161	2,409	3,400
Debt Securities	0.46%	0.56%	1.19%	4,492	3,617	1,318
Loans and Advances to Customers	4.14%	4.03%	9.34%	53,571	27,162	2,177
Total Interest Income	**1.29%**	**1.22%**	**1.16%**	**61,224**	**33,188**	**6,895**
Customer Deposits	-0.04%	-0.06%	-0.19%	(1,562)	(1,318)	(928)
Central Bank Facilities	-0.06%	-0.04%	0.00%	(409)	(96)	-
Total Interest Expense	**-0.04%**	**-0.06%**	**-0.19%**	**(1,971)**	**(1,414)**	**(928)**
Net Interest Income	**1.26%**	**1.17%**	**1.00%**	**59,253**	**31,774**	**5,967**

Net fees and commission:

Starling earns the majority of its fee and commission income from its customers' use of their debit cards. Over the past 16 months Starling has seen strong growth in customer engagement with monthly spend per average active customer increasing >25% for its Retail and SME customer bases. In total, Starling earned £43,137k (2019: £11,095k) in fees and commissions from debit cards and client transaction charges arising from our Banking-as-a-services products. The Bank paid card fees and commissions on its customers' card transactions totalling £(9,253)k (2019: £(3,612)k).

Operating costs:

The Group incurred net operating overheads of £(112,937)k (2019: £(63,503)k) after recognition of a CIF credit of £46,044k (2019: 19,738k) (see below). Included within the net operating overheads was £5,623k (2019: £5,440k) which was directly attributable to the cost of designing, specifying, building, testing and implementing the software to support its banking platform.

In the prior year the Group received £100m under the CIF, administered by the BCR. The purpose of the CIF is to facilitate the development of more advanced business current accounts offerings and ancillary products for SMEs in the UK. The Group submits quarterly returns to the BCR for approval detailing the qualifying expenditure for the relevant period. In the period to 31 March 2021, the Group incurred qualifying expenditure of £46,044k (2019:£19,738k), of which £16,255k (2019:£4,482k) was spent in relation to the development of software which will provide future economic benefit and have been classified as an Intangible Asset. The BCR have confirmed that all qualifying expenditure in the period had been used for permitted purposes consistent with the contractual terms.

Starling has seen its cost to income ratio fall below 100% in the latter part of 2020 and early 2021. This was due to increased revenue from lending as well as a constant monitoring of the cost base. The main driver of the cost base was staff costs which reflected the increase in employee numbers to 1,245 (2019: 740).

FINANCIAL REVIEW

Impairment and Charge-offs on Loans and Advances to Customers:

The impairment charge for the period was £(16,106)k an increase of £11,806k compared to 2019. This was in line with the increase in lending balances in the period. The period end assessment of impairments included a revised economic outlook for the UK.

The impairment charge primarily reflects lending to SME customers both organic and forward flow via Government guaranteed CBILS lending. This lending, which began during the period, receives an 80% guarantee from the UK Government, with an initial 12 month interest and capital repayment free period. The benefit of the guarantee is reflected in the impairment provision. At the end of the reporting period, a small number of CBILS customers had exhibited signs of financial difficulty. Given that all customers within this portfolio have been detrimentally impacted by the pandemic, the performance of this portfolio will vary depending on its duration and that of the UK economy.

	Group	Group	**Company**	Company
	31 Mar 2021	30 Nov 2019	**31 Mar 2021**	30 Nov 2019
	£'000	£'000	**£'000**	£'000
Impairment Charges				
Loans and Advances to Customers	13,374	1,854	13,374	1,854
Undrawn Overdraft Facilities	1,104	527	1,104	527
Total Impairment Charge	**14,478**	**2,381**	**14,478**	**2,381**
Amounts Charged-off	1,628	1,919	1,628	1,919
Total Impairment and Charge-offs	**16,106**	**4,300**	**16,106**	**4,300**
Cost of Risk/Asset Quality Ratio				
Loans and Advances to Customers - Total	1.09%	12.30%	1.09%	12.30%
Undrawn Overdraft Facilities	1.50%	1.11%	1.50%	1.11%
Total	**0.99%**	**3.05%**	**0.99%**	**3.05%**
Loans and Advances to Customers - excluding Government Lending	17.15%	12.30%	17.15%	12.30%
Total - excluding Government Lending	**10.01%**	**5.50%**	**10.01%**	**5.50%**

The remainder of the impairment charge is in respect of Retail lending, covering Retail overdrafts and Forward Flow Retail Term Lending. The lending criteria for Retail lending were tightened in June 2020. This has led to an improvement in asset quality.

Taxation:

In the current period, Starling received an R&D tax credit of £2,062k (2019: £1,538k) and has recognised a deferred tax asset of £6,088k representing unutilised corporation tax losses brought forward. A deferred tax asset has been recognised for the first time, in accordance with IFRS 12. Recognition is based on a conservative approach to assumptions on future profitability and a stress that has been applied to the Board-approved business plans. The deferred tax asset is expected to be fully utilised within two years of the balance sheet date.

Statement of Financial Position:

The financial position is analysed by key line items - lending attributable to Loans and Advances to Customers, funding from Customer Deposits and Central Bank Facilities, Debt Securities used for liquidity purposes and Capital resources. This analysis focuses on the Statement of Financial Position as at 31 March 2021 compared with 30 November 2019.

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FINANCIAL REVIEW

Loans and Advances to Customers:

Loans and Advances to Customers grew by £54.3m from £2,178.5m to £2,232.8m in the period, as a direct result of the participation in Government-backed lending schemes. At 31 March 2021, the Bank's loan to deposit ratio was 38.32% (2019: 5.4%). The table below also includes Undrawn Overdraft Facilities of £71,979k (2019: £70,540k) and the impact of guarantees on Government-backed lending schemes:

	Group	Group
	31 Mar 2021	30 Nov 2019
	£'000	£'000
Retail Lending	71,867	56,423
Retail Overdraft Facilities (Undrawn)	71,474	70,236
SME Lending	2,186,423	115
Of which subject to Government Guarantee	(2,067,182)	-
SME Overdraft Facilities (Undrawn)	2,138	832
Exposures net of Government Guarantee	**264,720**	**127,606**
Retail Lending	6,942	2,247
Retail Overdraft Facilities (Undrawn)	1,602	516
SME Lending	8,681	3
SME Overdraft Facilities (Undrawn)	31	12
Impairment Provision	**17,256**	**2,778**
Retail Lending	64,925	54,176
Retail Overdraft Facilities (Undrawn)	69,872	69,720
SME Lending	110,560	112
SME Overdraft Facilities (Undrawn)	2,107	820
Net Carrying Amount	**247,464**	**124,828**
% Coverage	**6.52%**	**2.18%**

Asset Quality

The Expected Credit Losses ("ECL") impairment provision on drawn and undrawn Loans and Advances to Customers of £17.3m represents 0.74% coverage of gross Loans and Advances to Customers before Government Guarantees, down 1.45 percentage points from 2.18% at 30 November 2019. This decrease is due to the significant increase in loan balances covered by a guarantee from HM Government; removing customers' balances that benefit from HM Government guarantees, the coverage ratio improves to 6.52%.

The ECL provision continues to reflect a probability-weighted view of future economic scenarios with a 60% weighting applied to base case, 10% to the upside, 25% to the downside scenarios and a 5% weighting to the severe downside.

Government Lending Schemes

The Bank began issuing loans under the Bounce Back Loan Scheme ("BBLS") in May 2020 and under the Coronavirus Business Interruption Loan Scheme ("CBILS") in June 2020. The following table outlines the Bank's lending, which totalled £2,186m as at the end of March 2021, as follows:

	Organic Lending		**Forward Flow Lending**		**Total**	
	#	**£'000**	**#**	**£'000**	**#**	**£'000**
CBILS	74	12,989	3,341	582,066	3,415	595,055
BBLS	52,243	1,558,254	1,033	32,884	53,276	1,591,138
Total	**52,317**	**1,571,243**	**4,374**	**614,950**	**56,691**	**2,186,193**

FINANCIAL REVIEW

Payment Holidays
In addition to Government backed lending and in line with UK Government guidance, the Bank has also been active in providing payment holidays for lending customers. For Retail customers, the Group has provided payment holidays of up to three months across its lending portfolios with extensions available of up to six months in total, should customers request them. Since March 2021, the Group has also supported its BBLS and CBILS customers through repayment holidays as mandated through the scheme rules.

	31 March 2021	
	#	£'000
Matured Payment Holidays - Repaying	961	5,209
Matured Payment Holidays - Extended	54	400
Matured Payment Holidays - Missed Payment	163	1,166
Matured Payment Holidays - Default	94	717
Total Matured Payment holidays	**1,272**	**7,492**
Payment Holidays still in Force	54	378
Total Payment Holidays Granted	**1,326**	**7,870**
As a Percentage of Total Matured Payment Holidays:		
Matured Payment Holidays - Repaying	76%	70%
Matured Payment Holidays - Extended	4%	5%
Matured Payment Holidays - Missed Payment	13%	15%
Matured Payment Holidays - Default	7%	10%

Lending in key coronavirus-impacted sectors
The extent of actual credit losses beyond March 2021 will depend on the potential severity and duration of the economic shock to the UK. At the balance sheet date, the Bank had the following material exposures to different sectors of the UK economy through its Government-backed lending schemes:

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.

	31 March 2021	
	#	£'000
Retail Non-food	7,991	344,223
Oil and Gas	148	3,909
Construction	6,175	300,483
Passenger Transport	2,743	101,522
Leisure	1,902	45,395
Restaurants, Bars and Hotels	3,812	168,289
Total of Key Coronavirus-impacted Sectors	**22,771**	**963,821**
Non Key Coronavirus-impacted Sectors	33,920	1,222,372
Total Government Lending Schemes	**56,691**	**2,186,193**

FINANCIAL REVIEW

Funding

Starling has a liability driven business model that sources funding from both Retail and SME customers in the UK and in order to support its lending to the SME market utilises Central Bank Facilities provided by the Bank of England ("BOE") under the Term Funding Scheme for Small and Medium Sized Enterprises ("TFSME").

Starling has a strong Retail and SME deposit base that is widely diversified for the size of the organisation. The Bank continues to generate increases in both Retail and SME deposits. The growth rate and volume of SME deposits have both increased above that of Retail deposits in response to the Bank's targeted SME strategy and in line with its growth in Government-backed SME lending. The funding mix is not expected to change in the short term.

Group:	31 Mar 2021		30 Nov 2019	
	£'000	%	£'000	%
SME Deposits	3,401,842	49.8	469,177	46.6
Retail Deposits	2,388,268	35.0	514,493	51.1
Payment Services	37,470	0.6	23,613	2.3
Total Customer Deposits	5,827,580	85.4	1,007,283	100.0
Central Bank Facilities	1,000,000	14.6	-	-
Total Funding	**6,827,580**	**100.0**	**1,007,283**	**100.0**

In addition, in the current period Starling has accessed central bank funding for liquidity risk management purposes under TFSME. The central bank funding is coincident with the Government CBILS and BBLS programmes and will be repaid with maturing loans or existing cash reserves when repayments fall due. These drawings currently have a contractual term of four years; however, the BOE has allowed for the TFSME to be extended in line with the extension in tenor of the customer loans drawn under the CBILS and BBLS programmes.

At the reporting date the Bank had a Net Stable Funding Ratio, which measures the stability of funding sources relative to assets requiring funding, of 299% (2019: 736%). The Bank's long-term funding levels are closely monitored by senior management and have remained comfortably above the minimum regulatory requirement of 100% throughout the period.

Liquidity

The Bank continues to hold strong levels of liquid assets to ensure it can meet its liabilities as they fall due and to help mitigate the current economic uncertainty arising from the Covid-19 pandemic. At the reporting date the Bank's Liquidity Coverage Ratio was 506% (2019: 934%). The Bank's liquidity levels are closely managed by senior management and have remained comfortably above the minimum regulatory requirements of 100% throughout the period.

At 31 March 2021, the Bank held £3,695m of High Quality Liquid Assets ("HQLA") as follows:

Group:	31 Mar 2021	30 Nov 2019
	£'000	£'000
Balances with BOE	3,178,042	761,995
Gilts	2,950	3,031
Sub-sovereign, Supranational and Agency Bonds	115,330	39,930
Covered Bonds	385,867	263,422
Residential Mortgage-Backed Securities	13,223	11,027
Asset Backed Securities	-	13,187
Total HQLA	**3,695,412**	**1,092,592**

Other liquid assets held by the Bank which do not qualify as HQLA include £187.3m (2019: £64m) of Loans and Advances to Banks that represent encumbered balances for payment schemes.

As at 31 March 2021, £1,028m (2019: £nil) of Debt Securities had been pledged as collateral under the BOE's Sterling Monetary Framework. This enabled the Bank to access the TFSME scheme to utilise longer-term funding for liquidity risk management purposes.

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

FINANCIAL REVIEW

Capital Resources:

The Bank monitors capital by applying the Capital Requirements Directive V ("CRD V"), effective at 31 March 2021. An Internal Capital Adequacy Assessment Process ("ICAAP") in accordance with the PRA's regulatory guidance is prepared on a regular basis by the Bank and the Board remains satisfied the Group has sufficient capital resources to meet its ongoing regulatory obligations.

Total regulatory capital has increased by £85.7m during the period to March 2021 to £136.8m (2019: £51.1m). This is mainly due to the issuance of CET1 compliant share capital in May 2020. Risk Weighted Assets ("RWAs") have increased by £163.4m in the period to £285.7m (2019: £122.3m), primarily due to new lending activities. As a result of these movements at the reporting date, Starling's Tier 1 ratio was 47.9% (2019: 41.8%) and its UK Leverage Ratio was 5.4% (2019: 21.5%).

During the period to March 2021, the Bank has received notice from the BOE Resolution Directorate that it is required to comply with the Minimum Requirement for Own Funds and Eligible Liabilities ("MREL"). The Bank's interim MREL, which is due to be met from April 2022, is 18.0% of Risk Weighted Assets. The Bank's current end-state MREL is 21.4% which is required to be met from April 2024. A review of the current MREL framework is currently underway by the BOE with a view to final end-state requirements being set by 1 January 2022.

Subsequent to the balance sheet date, the Group received notice from the PRA that the Series D Funding round, announced on 8 March 2021, had received regulatory approval. Consequently, the Group's equity capital base has been increased by £225m net (£232m before expenses of issue). As a consequence of receiving regulatory approval the Bank's CET 1 and Tier 1 Ratios increased to 127%, and the UK Leverage ratio increased to 14.2%.

More detailed disclosure on regulatory capital is included in the Bank's Pillar III Disclosures available on the Bank's website.

	31 Mar 2021	30 Nov 2019
	£'000	£'000
Total Regulatory Capital	**136,769**	**51,109**
Total Risk Weighted Assets	**285,689**	**122,301**
Shareholders' Equity	140,831	67,925
CET1 Ratio	47.9%	41.8%
Total Tier 1 Ratio	47.9%	41.8%
UK Leverage Ratio	5.4%	21.5%

RISK MANAGEMENT

Starling Bank defines Risk as any unexpected future event that could damage our ability to achieve our strategic, financial or overall business objectives, including damage to earnings capacity, capital positioning, business reputation, cash flows, or poor customer outcomes.

Risk taking is fundamental to Starling Bank's business profile and therefore prudent risk management, limitation and mitigation form an integral part of the Group's governance structure. The Board has ultimate responsibility for setting the Group's strategy, risk appetite and control framework. The Board considers that, as at the date of signing of these financial statements, it has in place adequate systems and controls with regard to the Group's risk profile and strategy. Whilst risk cannot be eliminated, the Board is satisfied that the Group systems of risk management are effective in limiting the negative impacts through identifying, monitoring and managing all relevant risks.

The Bank has continuously reviewed and evolved its risk management approach since authorisation.

Risk Management Framework

The Enterprise Risk Management Framework ("ERMF") outlines Starling's approach to risk management and how the key risk exposures of the Group are identified, assessed, managed, monitored and reported. The ERMF is designed to ensure a holistic and consistent approach to the management and aggregation of all risks, which is integrated into business management and decision making.

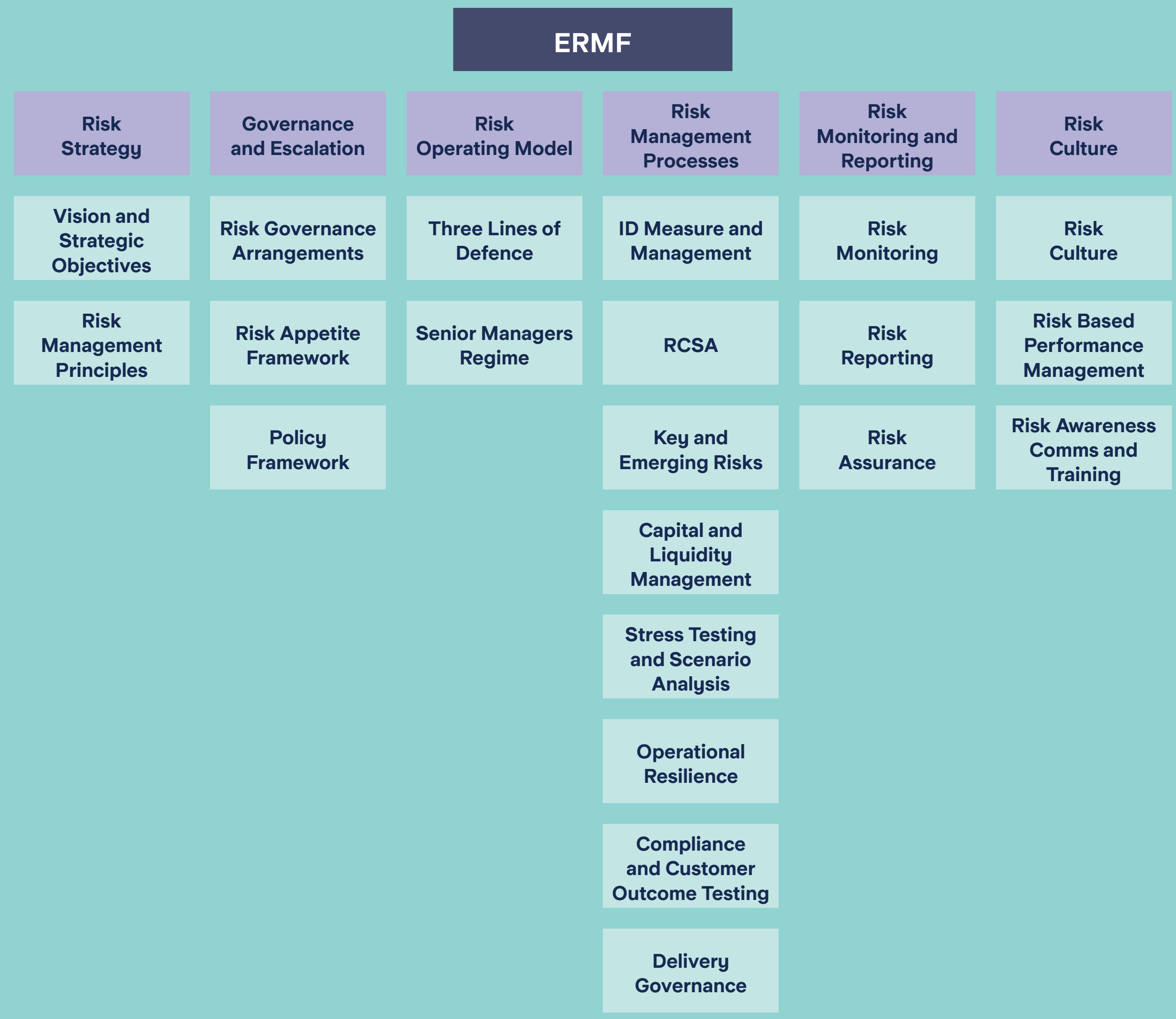
The ERMF is a Board defined document, designed to support the identification and assessment of the material risks that threaten the achievement of Starling's objectives, and to ensure that these are managed and controlled effectively within an agreed risk appetite. It applies to the whole of Starling's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

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

Strategy and Culture

Starling's risk management strategy is regularly reviewed by the Board to ensure that it remains consistent with the Board's requirements and with the Group's overarching business strategy.

The strategy involves creating and maintaining a robust risk culture, with effective risk management embedded into decision-making and process design in order to ensure that Starling remains a responsibly managed and sustainable bank which is trusted by its customers. This is achieved through providing an open and transparent environment where well-trained, well-informed individuals take intelligent risk, subject to clear policies, appetite boundaries and mandates, in pursuit of the Group's business strategy.



RISK MANAGEMENT

Risk Appetite

The Risk Appetite Framework sets out Starling's overall approach, including policies, processes, systems and controls through which risk appetite is established, communicated, controlled, managed and monitored. The methodology includes an assessment of the capacity for risk that Starling can assume given the current level of resources before breaching constraints determined by regulatory capital and liquidity needs; the operational environment; and obligations to customers, employees, regulators and other stakeholders.

The Risk Appetite Statement is expressed through quantitative measures and qualitative statements that provide direction to all areas of business within the group and set clear tolerances for activities that are both within and outside risk appetite. 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.

Policy Framework

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

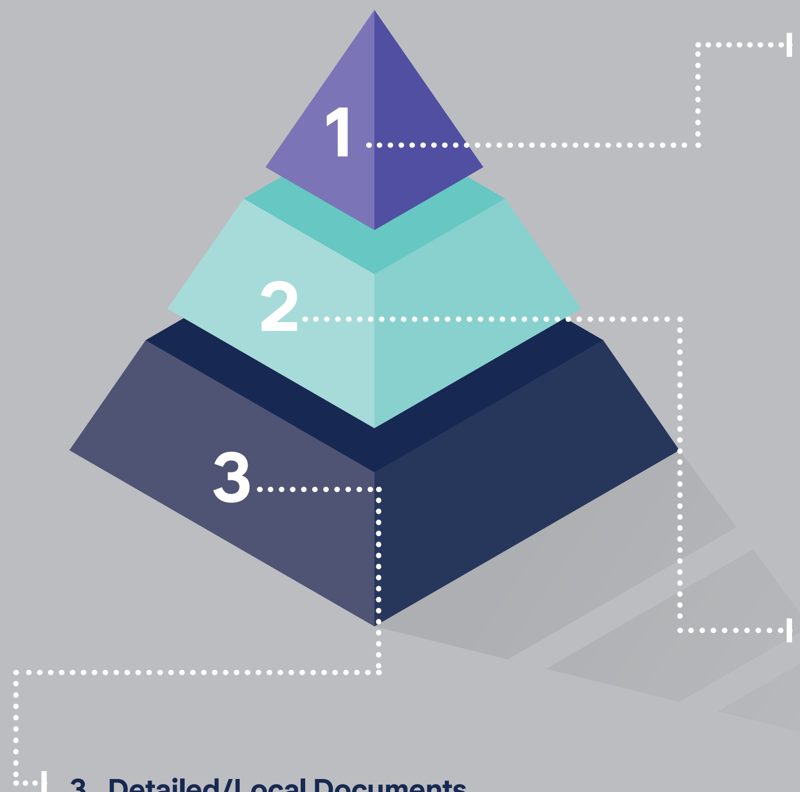
1. **Board Level Documents** (Level 1) are documents that are retained within the authority of the relevant Board to review and approve. They are distinguished by the fact that they provide the highest-level rules, strategy and guiding principles that define Starling's approach to its activities and/or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

Four Level 1 documents exist at Group level:

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

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

The Group's Policy Management Framework is illustrated below:



1. Board Level Documents

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

2. Executive Level Documents

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

3. Detailed/Local Documents

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

RISK MANAGEMENT

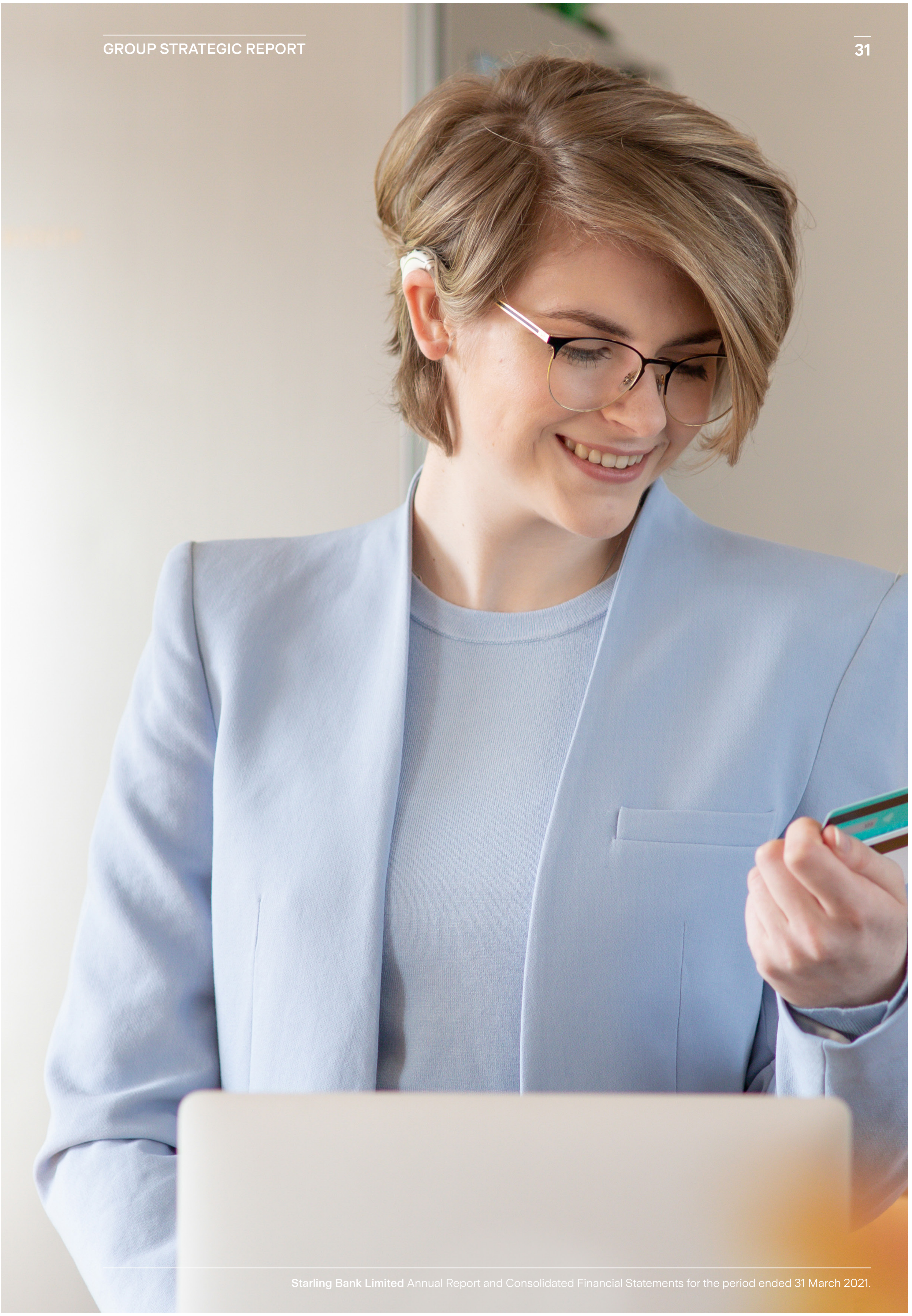
2. **Executive Level Documents** (Level 2) typically provide more granular detail than Level 1 documents or are more targeted / specific / local in application. They cover matters that are the responsibility of Executive management rather than the Board. These documents require approval through Executive-level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

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

Risk Operating Model

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

1 First line of defence The Business	2 Second line of defence The Risk Function	3 Third line of defence Internal Audit
• Manage risks within appetite via proactive identification, measurement, management, monitoring and reporting; • Report on risks and issues; • Design and implement controls to manage risks; • Review the design and effectiveness of controls; • Establish effective risk culture.	• Develop, implement and maintain the ERMF; • Provide independent, expert advice and guidance; • Ensure effective risk-based decision-making subject to governance and oversight; • Support and challenge first line risk management; • Provide assurance on regulatory compliance and effectiveness of key controls.	• Independent assurance; • Assess whether risk management is being implemented and operating effectively across both first and second lines; • Review the overall risk management framework to ensure alignment to regulatory expectations and industry standards.



PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks and Uncertainties

Our principal risks represent the highest level of Starling's risk taxonomy and are groupings that we use to consistently identify, assess, manage, monitor and report risks. The principal risks are detailed below with an assessment of how these risks have changed over the period. This is followed by an assessment of uncertainties which may impact Starling and the way that risk is managed going forwards.

Principal Risks

Strategic Risk	
Definition	Strategic Risk is the risk that Starling fails to execute its business strategy as a result of poor decision taking, substandard execution of decisions, inadequate resource allocation or from a failure to effectively respond to changes in the business/market environment.
Risk Appetite	Starling will maintain a clear vision, mission, strategic objectives and corporate values to support the build-out of the Group, as agreed by the Board and Executive.
Mitigation	Starling has a clearly defined Board-approved strategy and has assumed a Corporate Governance framework with a Board of experienced executive and non-executive Directors, Board sub-committees and executive committees to oversee and address strategic issues as they arise. This is supported by a detailed business plan, capital plan, risk appetite statement, recovery plan and resolution pack as well as a skilled and experienced executive team.

PRINCIPAL RISKS AND UNCERTAINTIES

Capital Adequacy Risk	
Definition	The Group breaches its regulatory capital requirements at any point during the plan period as a result of a plausible but severe stress event. The Group is unable to source sufficient quality and quantity of capital at the appropriate times to meet its growth targets. Risk of incorrect measurement of assets, and/or a significant change in the regulatory approach to RWAs.
Risk Appetite	Starling will, at all times, maintain sufficient capital resources to cover its risk profile and associated risk exposures.
Mitigation	Starling assesses its capital requirements under business-as-usual and stress scenarios through its Internal Capital Adequacy Assessment Process ("ICAAP") that is aligned to its business plan and capital-raising activities. Key metrics are monitored daily and regularly reviewed by the Board, including the adequacy of capital and its consumption from operational requirements and Statement of Financial Position growth. Starling's move to profitability means that the business is capital generating.

Retail and Commercial Credit Risk	
Definition	Retail and Commercial Credit Risk is the current or prospective risk that a customer of the bank (personal or business) defaults on their contractual obligations.
Risk Appetite	Starling aims to be a responsible lender and for non-Government-backed lending, will seek to only provide lending facilities to applicants that are not over-indebted and who can evidence an ability to service their lending. Starling targets prime and near-prime lending, with no appetite for sub-prime lending.
Mitigation	Starling's Board approved Credit Policy and Risk Appetite Statement prescribe the Bank's approach to managing credit risk. Adherence with risk appetite is ensured via processes covering the full credit risk lifecycle that include manual and automated strategies. These are outlined in detailed procedure guides and overseen by second line credit risk. Any process changes are agreed at Credit Risk Committee ("CRC"). Credit exposures are monitored daily with oversight from CRC, as well as reporting to the Board Risk Committee ("BRC") and to the Board.

Wholesale Credit Risk	
Definition	Wholesale Credit Risk is the current or prospective risk that a wholesale counterparty of the Bank defaults on their contractual obligations to Starling or fails to perform their obligations in a timely manner.
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.
Mitigation	The Bank puts in place counterparty limits to manage its risk and to ensure compliance with both the Large Exposures regulations and with the overall Starling Risk Appetite Framework. Wholesale Credit exposures are monitored daily with oversight from ALCO as well as reporting to the BRC and to the Board.

Funding and Liquidity Risk	
Definition	Funding and Liquidity Risk is the risk that the Starling could fail to meet its obligations as they fall due, or is only able to do so at an excessive cost, including having the right type and quantity of funds, in the right place, at the right time and in the correct currency.
Risk Appetite	Starling will, at all times, maintain sufficient liquidity to enable it to successfully meet its financial obligations as and when they fall due.
Mitigation	Starling has a Funding and Liquidity Risk Policy supported by a suite of procedures with the risk managed and reported by a designated Treasury function. Starling has assessed its Overall Liquidity Adequacy Requirements for business-as-usual and stress scenarios through its Internal Liquidity Adequacy Assessment Process ("ILAAP") and has considered ways to recover from stress events in its Contingency Funding Plan. The end to end process is overseen by ALCO. Key metrics are monitored daily and regularly reviewed by the BRC and the Board.

PRINCIPAL RISKS AND UNCERTAINTIES

Market Risk	
Definition	Market Risk is the risk to capital or earnings from the adverse movement of market prices. For Starling, this is principally the exposure to interest rate risk in the banking book and FX risk.
Risk Appetite	Starling will not take any proprietary (own account) trading positions other than as arising from customer-related activities.
Mitigation	Starling seeks to minimise its interest rate risk and FX risk wherever possible and performs a suite of stress tests and scenario analysis on residual positions. Risk limits are reviewed and set by the Board and the measuring, monitoring and control of interest rate risk is mandated through Policy documentation at the ALCO with regular reporting to the BRC and to the Board. Starling's Risk Appetite for interest rate risk is aligned with the capital set aside under its Pillar 2A provision.

Operational Risk	
Definition	Operational Risk is the risk of loss, whether direct or indirect, to which Starling Bank is exposed due to inadequate or failed internal processes or systems, human error or external events.
Risk Appetite	Whilst Starling will accept operational risks in support of its business objectives, the Bank will seek to manage those risks and minimise potential losses.
Mitigation	Starling has a suite of operational risk policies and procedures covering the identification, management and reporting of the risks associated with internal and external fraud, people risk, execution and delivery risk, supplier and outsource management, legal risk, business continuity management and disaster recovery, information management, and data protection. Compliance with these policies is monitored by the second line of defence, which provides assurance with risk management oversight through the Operational Risk Committee, with regular reporting to the BRC and the Board. The pandemic has increased the risk of fraud and consequently the bank has taken steps to improve its security to ensure staff are not placed in vulnerable positions. The retention of key staff is a risk that is monitored and managed through actions approved at the Remuneration Committee. As operational resilience, fraud and cyber security threats continue to evolve and affect the banking industry, we continue to enhance our processes and procedures to monitor and manage these risks.

Fraud and Financial Crime Risk	
Definition	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. 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 has no appetite for knowingly facilitating criminal activities by customers, including tax evasion, money laundering or any other fraudulent activity. 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. Starling has no appetite for facilitating transactions with sanctioned individuals or entities. 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 the Starling business model.
Mitigation	Starling aims to prevent, deter, detect and investigate all forms of financial crime through appropriate financial crime policies and procedures. Starling operates a robust control environment ensuring that financial crime prevention infrastructure, systems, services, processes and procedures are well managed and maintained in line with business requirements, with no changes to these systems, services, processes and procedures taking place outside of approved governance.

PRINCIPAL RISKS AND UNCERTAINTIES

Conduct and Culture Risk	
Definition	Conduct and Culture Risk is the risk of creating harm to a customer, counterparty or market arising from inappropriate behaviour by Starling or its partners in the execution of business activities. This includes, but is not limited to inappropriate product design, selling and delivery.
Risk Appetite	Starling will ensure that we deliver fair customer outcomes across all of our activities, including ensuring the appropriate conduct of our staff.
Mitigation	Starling's conduct risk policy sets the framework for the fair treatment of customers as well as ensuring appropriate conduct by staff in line with the Bank's expectations and the Financial Conduct Authority's ("FCA's") Conduct Rules. The Bank has a range of measures and thresholds covering the Bank's management of conduct risk across the customer journey and this is monitored at Executive Risk Committee with regular reporting to the BRC and to the Board. A Board Ethics and Sustainability Committee ("ESC") has also been formed which held its first meeting in June 2021. The purpose of the ESC is to provide oversight and advice to the Board in relation to ethics, environmental and societal responsibilities.

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

As part of the Bank's management of its Material Risks, it has continued to respond to the risks posed by Covid-19. This has included:

- assessing any credit risk implications through regular review of credit performance, review of forward looking adjustments, and consideration on the impact of new forbearance initiatives of Covid-19. These are currently anticipated to be within the assessed range of stress scenarios undertaken by the Bank as part of the ICAAP which is based on the PRA's Anchor Scenario and the application of credit risk management techniques;
- monitoring the Bank's key suppliers to gain assurance that they continue to have appropriate continuity arrangements in place and are able to execute them. The Bank closely monitor suppliers for early detection of any potential service disruption;
- ensuring the Bank continues to minimise operational disruption with contingency arrangements in place to deliver operational resilience to a level consistent with regulatory expectations;
- ensuring the continued safety of our employees and the smooth running of the Bank to the benefit of our customers.

Throughout the pandemic we have been able to run the bank entirely remotely and ensure the full operation of our key processes.

Principal Uncertainties

In addition to the Material Risks listed above, Starling regularly monitors potentially material uncertainties through its Emerging Risk Register. The Register is reviewed by the ERC and BRC and seeks to capture risks - or opportunities - which may develop, or which already exist, that are difficult to quantify and may have a high loss potential. Emerging risks are marked by a high degree of uncertainty; even basic information, which would help adequately assess the frequency and severity of a given risk, is often lacking.

PRINCIPAL RISKS AND UNCERTAINTIES

Starling categorises Emerging Risks under the headings: Political, Economic, Social, Technological, Environmental and Legal ("PESTEL analysis"). A summary of the Emerging Risk Types are set out below.

Emerging Risk	
Political	A change in Government policy or the impacts of political instability. For instance, the risk associated with the implementation of Brexit, and the implications for financial services.
Economic	A change in public spending, economic growth, and key economic factors such as inflation, interest rates and unemployment. For instance, the risk of economic volatility as a result of, or post, Covid-19 .
Social	A change in consumer lifestyle and purchasing habits, or demographic change. For instance, changes in consumer behaviour arising from new ways of working post-Covid-19 .
Technological	Technology driven change in products and services, or changes to the technology infrastructures upon which the Bank relies. For instance, changes in the provision and use of cryptocurrencies.
Environmental	The risk that the Bank's activities adversely affect the environment as well as the impact of climate change on the Bank's operations given resulting economic structural adjustments. In addition continuing to adequately monitor this ever-evolving risk and ensure policies and regulations are adhered to.
Legal	Changes in regulatory approaches and new legislation. For instance, divergence by the UK from the European regulatory framework, and the resultant implications for the Bank's policy framework and approach.

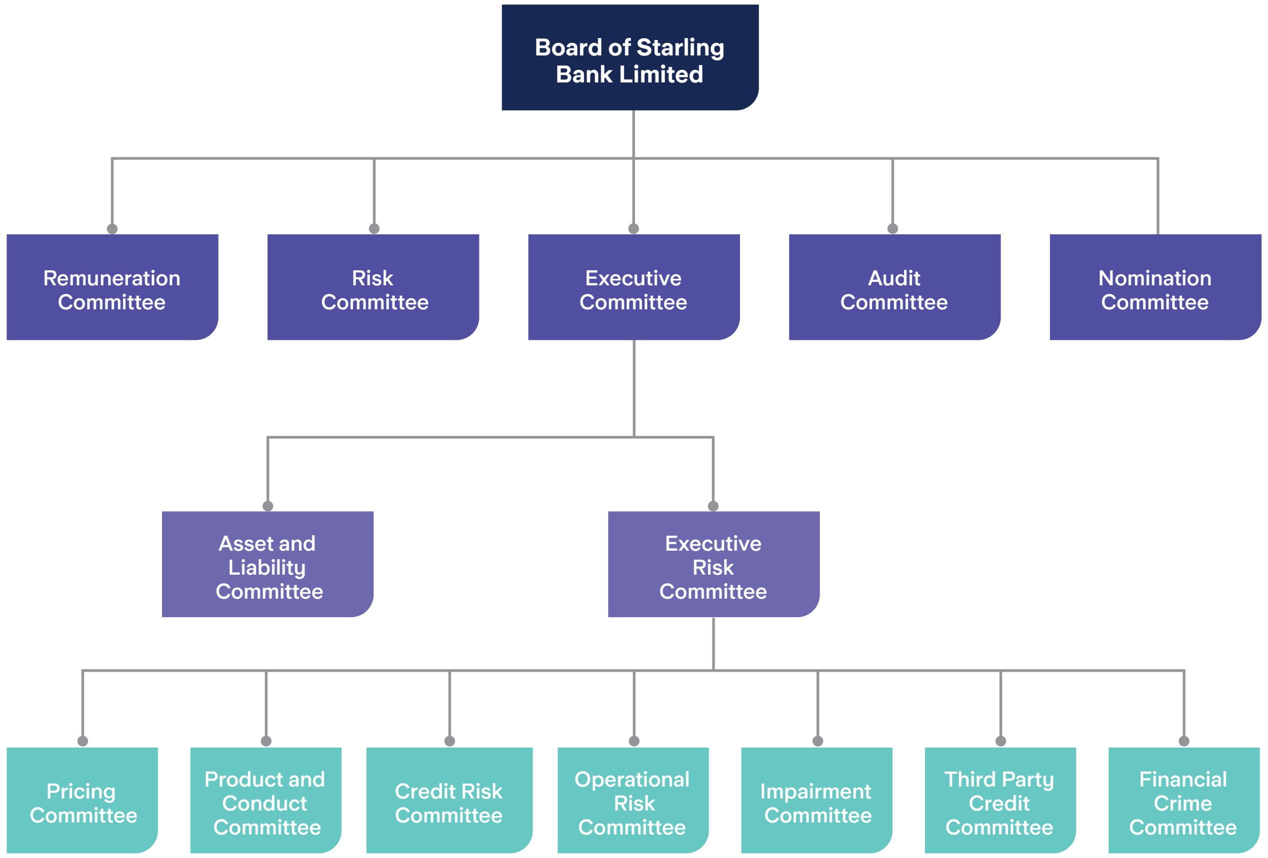
CORPORATE GOVERNANCE

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

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

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

Governance Structure



CORPORATE GOVERNANCE

The Board of Directors (the “Board”)

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

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

The Board comprises an independent non-executive Chairman, six independent non-executive directors (March-21: five), plus two non-executive investor directors, along with the Chief Executive and the Chief Financial Officer.

Responsibilities of the Board

The main responsibilities of the Board include:

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

Additional responsibilities of the Board include:

- Approving the Annual Report and the Consolidated Financial Statements;
- Approving the design and implementation of the ERMF, the risk appetite framework and individual risk appetite statements;
- Reviewing and challenging the Board Risk Committee reports on the effectiveness of the ERMF;
- Approving the Bank’s governance and committee structure;
- Approving the Bank’s Internal Capital Adequacy Assessment Process (“ICAAP”), Internal Liquidity Adequacy Assessment Process (“ILAAP”) and its Recovery and Resolution Plans;
- Ensuring clear and appropriate apportionment of significant responsibilities amongst the Bank’s directors and senior management and ensuring such responsibilities are discharged appropriately;
- Overseeing the Bank’s compliance with the Fitness and Probity requirements;
- Oversight of systems and controls appropriate to the business;
- Ensuring compliance with the relevant regulations set out by HM Government and where appropriate the EU, the European Banking Authority, and local regulatory bodies;

- Overseeing risk disclosures, such as those presented in the Annual Report and Pillar III Disclosures; and
- Ensuring that senior management are managing operational resilience and that the Group has adequate resilience arrangements in place. The Board is also responsible for approving the operational resilience tolerance levels.

The Board is assisted by four sub-committees:

- Board Risk Committee (“BRC”);
- Board Audit Committee (“BAC”);
- Board Remuneration Committee; and
- Board Nomination Committee.

Additionally, the Board oversees the Executive Committee.

This report was approved by the Board on 07/07/2021.

Matthew Newman
Company Secretary

GROUP DIRECTORS' REPORT

The Directors of Starling present their report along with the consolidated financial statements of the Group for the period ended 31 March 2021.

Principal Activities

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

Results and Dividends

The results of the Group for the period ended 31 March 2021, are shown on pages 63 to 69. The Directors do not propose the payment of any dividend in respect of the ordinary shares for the period (2019: nil).

Directors

The Directors of Starling who held office during the period, or who hold office at the date of this report are as follows:

Oliver Stocken CBE
Carolyn Clarke (appointment approved by the Board on 31 October 2020)
Tracy Clarke (appointment approved by the Board on 26 May 2021)
Steve Colsell
Marian Martin
Victoria Raffé
Mark Winlow
Lazaro Campos
Marcus Traill
Anne Boden MBE
Tony Ellingham

Directors' Indemnities

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

Political and Charitable Donations

The Group made no political donations during the period (2019: nil).

The Group made six charitable donations (2019: six charitable donations) during the period totalling £62,684 (2019: £24,017) to Great Ormond Street Hospital Children's Charity (Charity Number: 1160024), LOROS The Leicestershire & Rutland Hospice (Charity Number: 506120), Colorintech (Company Number: 11233251), The 4Front Project (Company Number: 08880556), Sickle Cell Society (Charity Number: 1046631) and Royal Voluntary Service (Charity Number: 1015988). In addition, £42,084 was paid as part of a partnership with WWF-UK, a registered charity (Charity Number: 1081247), and the Trillion Trees campaign.

Employee Benefit Trust

During the period, share awards were made to employees under the Employee Benefit Trust ("EBT"), the details of which are set out in note 29 to the Financial Statements.

GROUP DIRECTORS' REPORT

Environment and Sustainability Information

Streamlined Energy and Carbon Reporting ("SECR"):
The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 implement the government's policy on Streamlined Energy and Carbon Reporting ("SECR"). Starling Bank meets the mandatory reporting criteria for SECR legislation. Orbis Advisory has worked with us to provide a comprehensive SECR compliance service, covering the financial period 1 December 2019 to 31 March 2021.

Methodology:
Reporting has been conducted in accordance with methodology set out in the Greenhouse Gas ("GHG") Protocol Corporate Standard, and using the Department for Environment, Food and Rural Affairs' ("DEFRA") emissions factors to calculate emissions. Calculation of our SECR energy consumption and GHG emissions was completed by an independent third party, Orbis Advisory, who will be assisting us in our journey to becoming a net-zero business. Consumption data and further detail on the methodology used for this report can be found in an Evidence Pack.

The table below presents our global Scope 1 and Scope 2 emissions for the financial period 1 December 2019 to 31 March 2021. As this is the first period of reporting, comparative information is not provided.

Carbon and Energy Efficiency Measures
Starling has used the data collated to support its on-going strategy to become a net-zero business. We are committed to the pursuit of sustainability and to combating climate change. As a branchless, digital and largely paperless bank built in the cloud, we endeavour to protect the natural environment through energy and resource efficiency as well as recycling and waste management. Our offices in London, Southampton, Cardiff and Dublin all use sustainable energy suppliers. Ninety per cent of our cloud related expenditure is with a data centre that is carbon neutral. We work to improve our environmental performance all the time.

Ethics and Sustainability Committee ("ESC")
Since March 2021, a Board ESC has been formed which held its first meeting in June 2021. The ESC comprises an independent non-executive Chairman and two independent non-executive directors. The purpose of the ESC is to provide oversight and advice to the Board in relation to current and potential future risk exposures of the Bank arising from its ethics, environmental and societal responsibilities. The ESC will also assist other governance committees in embedding environmental, societal and governance principles in their areas of responsibility.

	2021
Total Energy Consumption used to Calculate Carbon Emissions [kWh]	**1,218,458.67**
Emissions from Combustion of Natural Gas in Buildings [tCO2e] (Scope 1)	**19.97**
Emissions from Purchased Electricity in Buildings (location-based) [tCO2e] (Scope 2)	**258.74**
F-Gas Emissions	**6.26**
Total Organisational Emissions (location-based) [tCO2e]	**284.98**
Carbon Intensity Ratio - Carbon Emissions per Full-time Employee (location-based) [kgCO2e/Full-time Employee]	**226.36**

Subsequent Events

Share issuance – additional fundraising

Subsequent to the balance sheet date, the Group received notice from the PRA that the Series D Funding round, announced on 8 March 2021, had received regulatory approval. Consequently, the Group's equity capital base has been increased by £225m net (£232m before expenses of issue). As a consequence of receiving regulatory approval the Bank's CET 1 and Tier 1 Ratios increased to 127%, and the UK Leverage ratio increased to 14.2%.

Going Concern

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

After making the necessary enquiries, the Directors have a reasonable expectation that the Group/Company has adequate resources to continue in operational existence for a period of at least 12 months from the signing of these financial statements . In assessing the impact of all of the risks that could impact its business model the Group/Company has considered the on-going impact of Covid-19. Projections for the Group/Company have been prepared concerning its future financial performance, its capital available and requirements and its liquidity for a period of at least 12 months from the signing of these financial statements, in support of its business plan. Included in these projections is the beneficial impact of additional capital raised in June 2021. These projections include stress tests based on the Bank of England's anchor stress test (modified as appropriate to apply to the Bank) carried out in support of the Group/Company business plan and ICAAP and ILAAP. Projections under these stresses show that the Group/Company will be able to operate at adequate levels of both liquidity and capital and have the ability to 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. Consequently, the going concern basis of accounting has been used to prepare these financial statements.

Disclosure of Information to the Auditor

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

Auditor

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

This report was approved by the Board on 07/07/2021.

Matthew Newman
Company Secretary

Registered in England and Wales.
Company No. 09092149

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors are responsible for preparing the Annual Report 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 international accounting standards in conformity with the requirements of the Companies Act 2006

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 profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006
- 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 corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the board by:

Anne Boden MBE,
Chief Executive Officer
Director

07/07/2021

Tony Ellingham,
Chief Financial Officer
Director

07/07/2021

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report

to the members of Starling Bank Limited

1. Our opinion is unmodified

We have audited the financial statements of Starling Bank Limited ("the Parent Company") for the period ended 31 March 2021 which comprise the consolidated and Parent Company statements of comprehensive income, consolidated and Parent Company statement of financial position as at 31 March 2021, the consolidated and Parent Company cash flow statement and the consolidated and Parent Company statements of changes in equity for the period then ended, and the related notes, including the accounting policies in note 1.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of the Group's loss for the period then ended;

— the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006

— the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006

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

Basis for opinion

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

We were first appointed as auditor by the directors on 9 February 2016. The period of total uninterrupted engagement is for the 5 financial years ended 31 March 2021. 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	£2m (2019:£1.8m) 1.33% of net assets (2019: 4% of forecast LBT)	
Coverage	100% (2019: 100%) of group net assets/equity	
Key audit matters		**vs 2019**
Recurring risks	Going concern	◄►
	ECL provision on loans and advances to customers	▲
Event driven	**New:** Recognition of deferred tax assets	▲

INDEPENDENT AUDITOR'S REPORT

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

Key audit matters are those matters that, in our professional judgment, 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
Going Concern *Refer to page 46 (Group Directors' Report) and 73 (Note 1 to the Financial Statements)*	**Disclosure quality:** The financial statements explain how the Board has formed a judgment that it is appropriate to adopt the going concern basis of preparation for the Bank. That judgment is based on an evaluation of the inherent risks to the Group's and Parent Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to adversely affect the Group's and Parent Company's available financial resources over a period of at least 12 months following the date of signing is insufficient regulatory capital to meet minimum regulatory capital levels. The Bank's longer term business model and viability continues to be an area of consideration in the assessment of its going concern profile. There are also less predictable but realistic impacts, such as the impact of Coronavirus COVID-19, which could result in a rapid increase in the level of impairment in loans and advances to customers. The risk of our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of severe plausible downside effects that could arise from these risks individually and collectively. **Assessing forecasts:** We evaluated the technical integrity of the financial forecasts and challenged the key assumptions underpinning the forecasting undertaken by the Directors. **Our sector experience:** We considered the Directors' assessment of COVID-19 related sources of risks for the Bank's business and financial resources compared with our own understanding of the risks. We assessed the reasonableness of the Directors' plan to take actions to mitigate the risks. **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosures by reference to the key matters considered by our procedures set out above. **Our results:** We found the going concern disclosure without any material uncertainty to be acceptable (2019: acceptable) .
Expected Credit Loss (ECL) provision on loans and advances to customers £17 million; 2019: £2.7 million *Refer to page 77 (accounting policy) and 151 (credit risk disclosures).*	**Subjective estimate** The estimation of expected credit losses 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:	Our procedures included: **Our financial risk modelling expertise:** We involved our own financial risk modelling specialists to: • evaluate the appropriateness of the Group's IFRS 9 ECL methodologies; • inspect and reperform the model code and re-perform the model outputs; including the model ECL provision;

	The risk	Our response
	• Model estimations – Inherently judgmental modelling is used to estimate ECL which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD"), Exposures at Default ("EAD") and Economic Response Model ("ERM"). The PD and ERM models used in the Retail overdraft, Forwards Flow Personal Loans and Forwards Flow Coronavirus Business Interruption Loans (CBILs) portfolio are the key drivers of complexity and uncertainty in the ECL and as a result are considered the most significant judgmental aspect of the Group's ECL modelling approach. • Significant Increase in Credit Risk (SICR) - The selection of the SICR criteria is a key area of judgment as it drives SBLs staging decision; determining whether a loan should be classified as stage 1 with a 12 month ECL or stage 2/3 with a lifetime ECL. This area of judgment results in significant uncertainty over the staging of the the Retail overdraft and Forwards Flow Personal Loans portfolio. • Economic scenarios – IFRS 9 requires the Group and Parent company to measure ECLs on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them especially when considering the current uncertain economic environment as a result of COVID-19. • Post Model Adjustments (PMAs) – Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends as well as risks not captured by models. They represent approximately 42% of the Group and Parent Company's ECL provision as at 31 March 2021. These adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts. • Bounce Back Loans – The BBLs scheme was announced by the UK Government in response to the economic impacts of the COVID-19 pandemic on small businesses through the British Business Bank ("BBB"). The BBLs were 100% guaranteed should the borrower default or turn out to be fraudulent, provided the lending bank ensured the BBLs eligibility criteria set by the BBB were met. We identified a risk that the eligibility criteria might not have been met and therefore an ECL needs to be reflected. The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers including undrawn amounts 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, and possibly many times that amount.	• assess whether the Group's SICR criteria and staging methodology are consistent with IFRS 9 requirements and industry practice. • inspect the staging logic and re-perform the staging for all loans within the Retail overdraft and Forwards Flow Personal Loans portfolio • assess the reasonableness of individual PMAs by challenging key assumptions and inspecting the calculation methodology **Our economic scenario expertise:** We involved our own economic specialists to assess; • the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them. • the reasonableness of the Group's forecasts considering the uncertainties arising from the pandemic • key economic variables which included agreeing samples of economic variables to external sources. **Test of data:** We tested the accuracy and completeness of data applied in the estimation process by agreeing a sample of records and relevant data elements to supporting evidence **Our procedures over the Bounce Back Loans ("BBLs) Eligibility Criteria:** • We utilised data and analytics as part of our risk assessment of the BBLs population. The data and analytics identified a population for detailed testing. • For the population identified, we performed additional testing on a sample basis to confirm whether the bank had completed the procedures required under the eligibility criteria and where relevant, we sought additional information or explanations from management. • We evaluated the bank's correspondence with regulatory authorities and found no disconfirming audit evidence that would indicate the guarantee would not be met. **Assessing transparency:** We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the ECL. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we assessed whether the disclosure of the key judgments and assumptions made was sufficiently clear **Our results** The results of our testing were satisfactory and we considered the ECL charge, provision recognised and the related disclosures to be acceptable (2019 result: acceptable).

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

	The risk	Our response
Deferred Tax Asset £6.09 million; 2019: £nil) *Refer to page 84 (accounting policy) and pages 94 and 106 (financial disclosures).*	**Forecast-based assessment** The group and the Parent Company has significant tax losses. There is inherent uncertainty involved in forecasting future taxable profits, which determines the extent to which deferred tax assets ("DTAs") are or are not recognised. **Subjective estimate** We identified there is judgment involved in determining the extent to which the tax legislation permits the losses to be used to absorb those future profits. Per IAS 12, if an entity has a history of losses, then a DTA is recognised only to the extent that there is convincing evidence that sufficient taxable profit will be available against which the tax losses can be utilised, increasing the judgment involved. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of deferred tax assets 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, and possibly many times that amount. The financial statements (note 3) disclose the range/sensitivity estimated by the Group.	**Audit response** Our procedures included: **Our sector experience:** We assessed the bank's business plan and the extent to which it is appropriate to utilise forecast profits in assessing whether to recognise a DTA and the amount recognised. We challenged the assumptions used, in particular those relating to forecast revenue growth and profit margins; **Our tax expertise:** Use of our own tax specialists to assist in evaluating the DTA recognised, taking into account the group's tax position, the timing of forecast taxable profits, and our knowledge and experience of the application of relevant tax legislation; and **Assessing transparency**: Assessing the adequacy of the group's disclosures about the sensitivity of the recognition of deferred tax assets to changes in key assumptions. **Our results** As a result of our work we found the level of deferred tax assets recognised to be acceptable (2019 result: n/a New in 2021).

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union on our audit. However, the UK is now out of the European Union and Brexit is complete. While there continues to be uncertainties in respect of the impact of the trade agreement, these have been assessed as part of our testing on going concern, ECL and deferred tax asset and have not been found to have a significant impact the Bank's forecasting. Therefore, we have not assessed this as one of the key audit matters in our current year audit and, therefore, it is not separately identified in our report this year.

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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 £2m (2019: £1.8m), determined with reference to a benchmark of equity of which it represents 1.33% (2019: 3.4% of loss before tax).

Materiality for the parent Company financial statements as a whole was set at £1.95m (2019: £1.7m), determined with reference to a benchmark of net assets/equity, of which it represents 1.25% (2019: 3.7% of loss before tax).

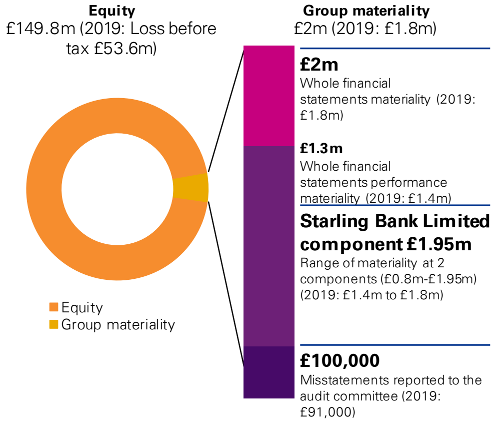
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material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

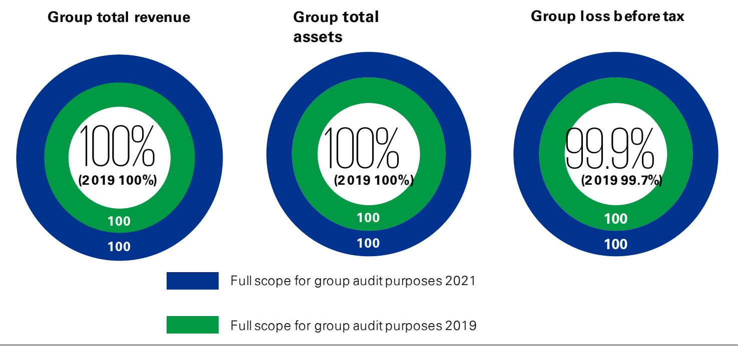
Performance materiality was set at 65% (2019:75%) of materiality for the financial statements as a whole, which equates to £1.27m (2019:1.37m) for the group and £1.27m (2019:1.3m) for the parent company.

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 £100,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's three (2019: three) reporting components, we subjected two (2019: two) to full scope audits for group purposes audited by the Group audit team and one (2019: one) to specified risk-focused audit procedures audited by KPMG Ireland. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed. The audit was performed using the materiality level[s] set out above.





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Starling Bank Limited Annual Report and Consolidated Financial Statements for the period ended 31 March 2021.

INDEPENDENT AUDITOR'S REPORT

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 Company or to cease their operations, and as they have concluded that the Group's and the 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 identified going concern as a key audit matter (see section 2 of this report).

Our conclusions based on this work:

— 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 the Financial Statements) 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 judgments 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.
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Parent Company.

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 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 due 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 due 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 risk criteria and comparing the identified entries to supporting documentation.
- Assessing significant accounting estimates for bias

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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 entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) 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 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 4, 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.

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Starling Bank Limited Annual Report and Consolidated Financial Statements for the period ended 31 March 2021.

6. We have nothing to report on other information in the annual 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.

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 parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 50, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or 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 Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

7 July 2021

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 March 2021

	Notes	Group 31 Mar 2021[1] £'000	Group 30 Nov 2019[2] £'000	Company 31 Mar 2021[1] £'000	Company 30 Nov 2019[2] £'000
Net Interest Income	6	59,253	5,967	59,298	5,967
Net Fees and Commission	7	33,884	7,483	33,884	7,483
Other Income		4,452	751	26,330	10,495
Total Income		**97,589**	**14,201**	**119,512**	**23,945**
Administrative Expenses	8	(158,981)	(83,241)	(164,715)	(88,256)
Credit for CIF Eligible Spend	5	46,044	19,738	46,044	19,738
Impairment and Charge-offs	9	(16,106)	(4,300)	(16,106)	(4,300)
Loss before Taxation		**(31,454)**	**(53,602)**	**(15,265)**	**(48,873)**
Taxation	10	8,135	1,538	6,088	39
Loss after Taxation		**(23,319)**	**(52,064)**	**(9,177)**	**(48,834)**

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

The notes to these financial statements can be found on pages 70 to 173.

[1] For the 16 month period ended 31 March 2021.
[2] For the year ended 30 November 2019.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Notes	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Assets					
Loans and Advances to Banks	11	3,196,349	764,705	3,196,325	764,602
Debt Securities	12	1,513,278	331,597	1,513,278	331,597
Loans and Advances to Customers	13	2,232,846	54,290	2,232,846	54,290
Derivative Assets	15	13,488	-	13,488	-
Deferred Tax Asset	16	6,088	-	6,088	-
Other Assets	17	63,460	31,642	63,140	29,535
Property, Plant and Equipment and Intangible Assets	18	23,325	18,448	6,420	2,403
Investment in Subsidiaries and Inter-company Account	20	-	-	32,328	19,494
Total Assets		**7,048,834**	**1,200,682**	**7,063,913**	**1,201,921**
Liabilities					
Customer Deposits	21	5,827,581	1,007,282	5,827,674	1,007,299
Central Bank Facilities	22	1,000,000	-	1,000,000	-
Derivative Liabilities	15	818	-	818	-
Provisions for Liabilities and Charges	23	2,000	1,575	2,000	1,575
Other Liabilities and Accruals	24	39,141	40,541	38,826	40,514
Deferred Income	25	38,463	83,357	38,463	83,357
Total Liabilities		**6,908,003**	**1,132,756**	**6,907,781**	**1,132,745**

	Notes	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Equity					
Share Capital	26	9	7	9	7
Share Premium	27	253,335	159,332	253,335	159,332
Other Reserves	28	2,980	761	2,889	761
Accumulated Losses	28	(115,493)	(92,174)	(100,101)	(90,924)
Total Equity		**140,831**	**67,926**	**156,132**	**69,176**
Total Liabilities and Equity		**7,048,834**	**1,200,682**	**7,063,913**	**1,201,921**

The notes to these financial statements can be found on pages 70 to 173.

Signed on behalf of the board by:

Anne Boden MBE,
Chief Executive Officer
Director

07/07/2021

Tony Ellingham,
Chief Financial Officer
Director

07/07/2021

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 31 March 2021

	Group 31 Mar 2021[1] £'000	Group 30 Nov 2019[2] £'000	Company 31 Mar 2021[1] £'000	Company 30 Nov 2019[2] £'000
Cash Flows from Operating Activities				
Loss for the Period after Taxation	(23,319)	(52,064)	(9,177)	(48,834)
Adjustments for Non-Cash items				
Depreciation and Amortisation	7,045	3,074	2,639	474
FV of Shares Allocated/options Granted to Employees	1,927	643	1,927	643
Recognition of Right of Use Asset	(5,527)	-	(5,527)	-
Foreign Exchange Losses on Consolidation	91	-	-	-
Disposal of Intangible Assets	358	-	-	-
Net Increase in Fair Value of Derivatives	(12,670)	-	(12,670)	-
Net Increase in Fair Value of Assets Designated as Hedged Items	12,520	-	12,520	-
Impairment and Charge-offs	16,106	4,301	16,106	4,301
Net Increase in Deferred Tax Asset	(6,088)	-	(6,088)	-
Net Changes in Operating Assets and Liabilities				
Net Increase in Loans and Advances to Customers	(2,203,378)	(49,365)	(2,203,378)	(49,366)
Net Increase in Other Assets	(31,818)	(24,555)	(33,605)	(22,720)
Net Increase in the Inter-Company Account	-	-	(12,834)	(7,927)
Net Increase in Customer Deposits	4,820,298	804,959	4,820,375	804,976
Net Increase in Central Bank Facilities	1,000,000	-	1,000,000	-
Net Increase in Other Liabilities	969	32,557	682	32,562
Net (Decrease) in Deferred Income	(44,894)	(17,004)	(44,894)	(17,004)
Net (Decrease)/Increase in Provisions	(680)	845	(680)	845
Net Cash Flows from Operating Activities	**3,530,940**	**703,391**	**3,525,396**	**697,950**

	Group 31 Mar 2021[1] £'000	Group 30 Nov 2019[2] £'000	Company 31 Mar 2021[1] £'000	Company 30 Nov 2019[2] £'000
Cash Flows from Investing Activities				
Purchases of Property, Plant and Equipment	(1,131)	(2,249)	(1,131)	(2,249)
Net Increase in Debt Securities	(1,184,380)	(309,558)	(1,184,380)	(309,559)
Disposal of Property, Plant and Equipment	-	5	-	5
Capitalisation of Intangible Assets	(5,623)	(5,442)	-	-
Receipt of CIF Grant	-	100,000	-	100,000
Net Cash Flows from Investing Activities	**(1,191,134)**	**(217,244)**	**(1,185,511)**	**(211,803)**
Cash Flows from Financing Activities				
Issuance of Ordinary Shares Less Cost of Issuance	94,012	91,550	94,012	91,550
Repayment of Lease Liabilities	(2,174)	-	(2,174)	-
Net Cash Flows from Financing Activities	**91,838**	**91,550**	**91,838**	**91,550**
Net Increase in Cash and Cash Equivalents	**2,431,644**	**577,697**	**2,431,723**	**577,697**
Cash and Cash Equivalents at Beginning of Period	764,705	187,008	764,602	186,905
Cash and Cash Equivalents at end of Period	**3,196,349**	**764,705**	**3,196,325**	**764,602**

The notes to these financial statements can be found on pages 70 to 173.

[1] For the 16 month period ended 31 March 2021.
[2] For the year ended 30 November 2019.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2021

Group	Notes	Share Capital	Share Premium	Other Reserves	Retained Earnings	Total Equity
		£'000	£'000	£'000	£'000	£'000
As at 30 November 2018		**5**	**67,784**	**319**	**(40,109)**	**27,999**
Proceeds from Issue of Shares, Less Expenses	26,27	2	91,548	-	-	91,550
Loss for the Period	28	-	-	-	(52,065)	(52,065)
Fair Value of Shares Allocated to Employees	29	-	-	442	-	442
As at 30 November 2019		**7**	**159,332**	**761**	**(92,174)**	**67,926**
Proceeds from Issue of Shares, Less Expenses	26,27	2	94,003	-	-	94,005
Loss for the Period	28	-	-	-	(23,319)	(23,319)
Fair Value of Shares Allocated to Employees	29	-	-	2,128	-	2,128
Translation of Subsidiary Company	20	-	-	91	-	91
As at 31 March 2021		**9**	**253,335**	**2,980**	**(115,493)**	**140,831**

Company	Notes	Share Capital	Share Premium	Other Reserves	Retained Earnings	Total Equity
		£'000	£'000	£'000	£'000	£'000
As at 30 November 2018		**5**	**67,784**	**319**	**(42,089)**	**26,019**
Proceeds from Issue of Shares, Less Expenses	26,27	2	91,548	-	-	91,550
Loss for the Period	28	-	-	-	(48,835)	(48,835)
Fair Value of Shares Allocated to Employees	29	-	-	442	-	442
As at 30 November 2019		**7**	**159,332**	**761**	**(90,924)**	**69,176**
Proceeds from Issue of Shares, Less expenses	26,27	2	94,003	-	-	94,005
Loss for the Period	28	-	-	-	(9,177)	(9,177)
Fair Value of Shares Allocated to Employees	29	-	-	2,128	-	2,128
As at 31 March 2021		**9**	**253,335**	**2,889**	**(100,101)**	**156,132**

The notes to these financial statements can be found on pages 70 to 173.

NOTES TO THE FINANCIAL STATEMENTS

01. Basis of Preparation

a) Basis of Preparation

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

The financial statements have been presented using the following conventions:

Currency: GBP £
Rounding: £'000

Statement of Financial Position is presented second in the Primary Statements and Assets are listed in order of liquidity.

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

b) Change to accounting reference date

The Group (Starling Bank Limited and its subsidiaries also referred to as "Starling" and in the case of the Starling Bank Limited also referred to as "the Bank") has changed its year end from 30 November to 31 March to help our investors better compare our results with our peers who report at calendar quarter ends, and this is the first financial reporting period adopting the new year-end date. The financial statements are therefore for the 16 month period ended 31 March 2021. Statement of Comprehensive Income comparatives represent the 12 month period to 30 November 2019 and are not directly comparable.

c) Changes to significant account policies/ New standards adopted

(i) IFRS 16 Leases

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The most significant impact on adoption of IFRS 16 is that the Group recognises new assets and liabilities in respect of its operating leases. In addition, the nature of expenses in respect of those leased items has changed as IFRS 16 replaces the previous straight-line operating expense with a depreciation charge for right-of-use assets and an interest expense on lease liabilities. The Bank leases its head office in London under one (2019: two) operating lease, as well its regional offices outside London under five separate (2019: four) leases. The Group adopted IFRS 16 initially on 1 December 2019, using the modified retrospective approach. As permitted by IFRS 16, the Group measured the right-of-use asset at 1 December 2019 at an amount equal to the lease liability. The Group elected to take the recognition exemption for short-term leases. The Group has also used the practical expedient when applying the standard, of applying a single discount rate to a portfolio of leases with reasonably similar characteristics. Based on the transition method to be applied, there was no impact to the Group's opening balance of retained earnings at 1 December 2019 as a result of adopting IFRS 16. In accordance with this transition approach, comparative information for the year ended 30 November 2019 is not restated. For details of the accounting policies applied to information presented for 2019 refer to note 2w) of the accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

01. Basis of Preparation

2021	Group	Company
	£'000	£'000
Recognition of Lease Liabilities (note 18)	4,553	4,553
Recognition of right-to-use Asset (note 18)	4,553	4,553
Net Impact on Opening Retained Earnings	**0**	**0**

The impact of adopting IFRS 16 on the Group's Statement of Comprehensive Incomes for the period ending 31 March 2021 is immaterial.

(ii) Other new interpretations

Both IFRIC 22: Foreign Currency Transactions and Advance Consideration and IFRIC 23: Uncertainty over Income Tax Treatments were adopted for the current reporting period. The adoption of these interpretations does not have a significant impact on the financial statements of the Group.

d) 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 20). Consistent accounting policies are used by the Group, the Parent Company and the Subsidiaries.

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

Investments in Subsidiary undertakings are stated in the accounts of Starling Bank Limited at cost less any provisions for impairment in value. The Directors consider it appropriate for administrative and commercial reasons that Subsidiary undertakings have financial periods ending on 31 March 2021, the Parent Company's period-end.

e) Going Concern

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

After making the necessary enquiries, the Directors have a reasonable expectation that the Group/Company has adequate resources to continue in operational existence for a period of at least 12 months from the signing of these financial statements. In assessing the impact of all of the risks that could impact its business model the Group/Company has considered the on-going impact of Covid-19. Projections for the Group/Company have been prepared concerning its future financial performance, its capital available and requirements and its liquidity for a period of at least 12 months from the signing of these financial statements, in support of its business plan. Included in these projections is the impact of additional capital raised in June 2021 (See note 38). These projections include stress tests carried out in support of the Group/Company business plan and ICAAP and ILAAP.

The business plan has been stressed for a macroeconomic stress test to determine whether Starling has adequate resources to continue in operational existence if such a stress occurred. The macroeconomic stress testing methodology is based on BoE's 2021 Stress testing Guidance. The BoE's guidance for this scenario is designed to test the assumption that banks could lend through what the regulator sees as a severe economic stress, if necessary entering their buffers. Projections under these stresses show that the Group/Company will be able to operate at adequate levels of both liquidity and capital and have the ability to 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. Consequently, the going concern basis of accounting has been used to prepare these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

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 directly in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken directly to other reserves.

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 c), d) and m) 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 Central Bank Facilities and Customer Deposits, are recognised as Interest Income and Interest Expense respectively in the Statement of Comprehensive Income, using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest on derivatives designated in hedging relationships is recognised in interest receivable when the derivative hedges an asset and interest payable when the derivative hedges a liability.

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

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

d) Fees and Commissions

The Group recognises fees and commissions in accordance with IFRS 15 Revenue from Contracts with Customers.

Fees and commissions receivable and payable are recognised when the service is provided, or when transactions are processed on an accruals basis.

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

e) Cash and Cash Equivalents

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

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”)
- Assets measured at fair value through profit or loss (“FVTPL”)

In classifying each financial asset, the Group assesses:

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

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

Business model assessment

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

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

NOTES TO THE FINANCIAL STATEMENTS

02 Accounting Policies

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

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

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

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

(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
- Loans and Advances to Customers

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

(ii) Assets measured at fair value through other comprehensive income ("FVOCI")
The Group has not classified any financial assets as measures at FVOCI.

(iii) Assets at fair value through profit or loss ("FVTPL")
The Group holds derivative financial assets which are measured at FVTPL.

Derivative financial instruments:
Derivatives are recognised initially and subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. The Bank uses derivative financial instruments primarily to hedge its exposure to interest rate risk arising from its banking and investment activities. The Bank does not hold or issue derivative financial instruments for trading purposes.

Hedge accounting:
The only hedge accounting strategy undertaken by the Bank is portfolio hedges of interest rate risk. As permitted under IFRS 9, the Bank continues to apply the requirements of IAS 39 for derivatives designated in a portfolio fair value hedge of interest rate risk. In line with accounting standards, the changes in fair value of derivatives used to hedge particular risks can either be offset in the Statement of Comprehensive Income or deferred to equity.

The Bank only undertakes fair value hedges and consequently the changes used to hedge particular risks are offset in the Statement of Comprehensive Income. 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 or liabilities attributable to the hedged risk that would not otherwise be recognised in the Statement of Comprehensive Income. As a result, fair value movements in the hedging instrument and in the hedged items offset each other and reduce volatility in the Statement of Comprehensive Income. Any residual fair value hedge ineffectiveness is recognised in the Statement of Comprehensive Income. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the Statement of Comprehensive Income on a straight line basis, unless the hedged item has been derecognised, in which case it is recognised in the Statement of Comprehensive Income immediately.

Interest on derivatives is included within net interest income in the Statement of Comprehensive Income where the derivative hedges an asset to align the recognition with its purpose.

Fair value gains and losses on derivatives and hedged items that are posted to the Statement of Comprehensive Income are recognised in the Other Income line in the Statement of Comprehensive Income.

g) Financial Liabilities
In accordance with IFRS 9, the financial liabilities of the Group are classified as measured at either amortised cost or FVTPL. A financial liability is classified as 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income. Any gain or loss on derecognition is also recognised in the Statement of Comprehensive Income.

h) Impairment of Financial Assets
The Group recognises impairment loss allowances for Expected Credit Losses ("ECL"), where appropriate, on the following financial assets that are not measured at FVTPL:

Loans and Advances to Banks

- Debt Securities.
- Loans and Advances to Customers.

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

NOTES TO THE FINANCIAL STATEMENTS

02 Accounting Policies

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

Measurement Inputs

Key inputs into the measurement of ECL are:

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

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

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

For SME lending the Bank has used an LGD that reflects historical cure rates on similar loan products, as adjusted by an estimated degradation factor, due to the immaturity of the SME lending portfolio. For Retail lending, the Bank has used an LGD based on observed customer behaviour and resulting losses.

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

For lending products, other than revolving products, the EAD is calculated as the amount outstanding at each reporting date. For revolving products such as overdrafts, utilisation can vary over time. Where unutilised balances exist, e.g. in the example of overdrafts, then the EAD is calculated as the sum of the drawn balance and the undrawn balance adjusted by a Credit Conversion Factor ("CCF").

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

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

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

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 except 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).

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

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 significant increase in credit risk from initial recognition the financial asset remains in Stage 1. Stage 1 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1, a 12-month ECL is recognised.
- **Stage 2:** when a financial asset shows a significant increase in credit risk from initial recognition it is moved to Stage 2. Stage 2 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 3. For financial assets in Stage 2, a lifetime ECL is recognised.
- **Stage 3:** when there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit-impaired, it is moved to Stage 3. For financial assets in Stage 3, a lifetime ECL is recognised.

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

Forward-looking information

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

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

NOTES TO THE FINANCIAL STATEMENTS

02 Accounting Policies

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

Significant increase in credit risk

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

The Group monitors all financial assets and loan commitments that are subject to IFRS 9's impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition of the asset. In determining whether there has been a significant increase in credit risk, the Group uses quantitative tests based on information received from the credit bureaux together with qualitative indicators such as watchlists and other behaviours observed on individual customer's accounts. For SME lending the Group includes a presumption that credit risk has significantly increased when contractual payments are past due. This is due to the early life cycle stage of this portfolio and limited historical performance data with initial analysis showing minimal increases in credit risk as the majority of Starling's SME lending has been originated under UK Government loan schemes and therefore, the vast majority of the portfolio had not yet entered contractual repayments with repayments instead being made by the UK Government on behalf of the borrowers. For Retail lending products (principally overdrafts and unsecured term lending), the Group includes a rebuttable presumption that credit risk has significantly increased when contractual payments are more than 30 days past due.

Additionally, an increase in other observable data points that might point to a significant increase in credit risk, such as a material deterioration in credit bureaux scores of more than 100%, are amongst other factors taken into consideration.

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

Definition of arrears

Loans and Advances are classified as in arrears if either a scheduled payment for a term loan has failed or been missed by a customer or a customer has exceeded their authorised overdraft limit due to either a payment (scheduled or customer instigated) or due to Bank 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; any security / personal guarantee has been taken into the Bank's possession; or if the customer is bankrupt or has proposed an Individual Voluntary Arrangement; or the customer is subject to a Debt Relief Order.

Credit-impaired financial assets

At each reporting date, the Group assesses whether its financial assets are credit-impaired. For those assets that have become credit-impaired, interest revenue is subsequently calculated by applying the effective interest rate to the amortised cost of the asset.

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

- Notification of a breach of contract such as a default; or
- Non-payment of amounts past due.

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

Forbearance

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

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

Where appropriate, the following types of forbearance are then made available to customers: Payment arrangement (payment plan with a reasonable timeframe); Concessionary arrangement (payment plan for demonstrably temporary financial difficulties); Extension (increased product term); Reduced interest; Deferment/Capitalisation of arrears; and Full and Final Offers (Bank will accept less than full settlement of balance). Both retail and commercial loans are subject to the forbearance policy. In the current period, 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 (in full) when the Group judges there to be no reasonable expectation that the asset can be recovered (in full). This is typically the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to charge-off. This assessment is performed at the individual asset level.

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

i) Financial Assets and Liabilities - Modification, Derecognition and Offsetting

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;

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- 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 Consolidated Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

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

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 had 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 Other Operating Costs in the Statement of Comprehensive Income according to the type:

NOTES TO THE FINANCIAL STATEMENTS

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

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

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 brand, 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 Bank considers both internal and external factors when determining whether there are indicators that the intangible asset is impaired.

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

Software Development

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

Intangible Asset arising from recognition of CIF Grant

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

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

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

Brand, Domains and Website

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

l) Other Assets, Accrued Interest Receivable and Prepayments

Other Assets, Accrued Interest Receivable and Prepayments are initially recognised at fair value and subsequently measured at amortised cost; or in the case of interest accruals the amount receivable is measured using the effective interest method.

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

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02 Accounting Policies

m) Leases

The Group has entered operating leases for all its premises. The Group's leases are brought onto the Statement of Financial Position; 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. Lease rentals are no longer expensed directly to the Statement of Comprehensive Income; instead, amounts expensed to the Statement of Comprehensive Income represent the interest costs on lease liabilities (presented within Administrative Expenses) and the depreciation charge on right-of-use assets (presented within Administrative Expenses). Where exemptions have been taken for short-term leases, the Group continues to expense lease rentals to the Statement of Comprehensive Income on a straight line basis over the lease term (presented within Administrative Expenses). For details of the accounting policies applied to information presented for 2019 refer to note 2(w).

n) Taxation including Deferred Tax

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

Current tax

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

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

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Statement of Financial Position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax 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.

o) Customer Deposits

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

p) Other Liabilities, Interest Payable and Accrued Expenses

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

q) Deferred Income

Represents the following:

- The residual amount received from the Capability and Innovation Fund ("CIF"), that has not been recognised in the Statement of Comprehensive Income at the reporting date. As set out in note 5, the Group has adopted IAS 20, consequently, the CIF Grant cannot be recognised until certain qualifying expenditure has been incurred. CIF income is recognised in the Statement of Comprehensive income on a systematic basis over the periods in which the Bank recognises the related costs for which the Grant is intended to compensate. In accordance with IAS 20, as set out in note 2, the Group presents its financial information in relation to the CIF Grant on a gross basis.
- Amounts received from the Group's Payment Scheme Provider that cannot be recognised in the Statement of Comprehensive Income until certain conditions on customer transaction volume thresholds have been reached. An objective assessment of whether the Bank will achieve those thresholds is carried out at each reporting date.

r) Provisions

Provisions other than impairment provisions (see 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 period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

s) Contingent Liabilities

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

t) 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.

u) Employee Benefits

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

Short-term employee benefit

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

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02 Accounting Policies

Defined contribution plans
Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in the Statement of Comprehensive Income. 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 five JSOP certain individuals that help to build Starling, are 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 are granted a bonus (grossed up for income tax and national insurance) that is used by the employees to subscribe for the right to the beneficial interest at each award date. The grossed-up bonus amounts are expensed in the Statement of Comprehensive Income in the financial year that the awards are granted.

- Senior Employee Incentive Scheme ("SEIS")

  Under the SEIS 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 all permanent employees of the Bank are awarded a beneficial interest in shares of the Bank therefore aligning the interests of all employees 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 seven schemes is considered as equity settled. The fair values of equity settled share-based payments are calculated at each grant date and recognised over a vesting period that matches to the predicted life of the payments. The amount is recognised in Staff Costs in the Statement of Comprehensive Income with a corresponding entry through reserves.

- Phantom Option Scheme

  In the prior year a Phantom Option Scheme was created to reward certain individuals that helped to build Starling, therefore aligning the interests of key employees with the interests of shareholders. The award of options was considered cash-settled. This scheme was closed in the current period and the awards have been extinguished.

v) Employee Benefit Trust

An Employee Benefit Trust ("EBT") has been created to facilitate the efficient transfer of the beneficial interests in shares of the Bank to its employees, as a reward to those individuals that help to build Starling, therefore aligning the interests of key employees with the interests of shareholders.

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

w) Policies Applicable for the Year Ended 30 November 2019

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

x) Standards Issued but not yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021; however, the Bank has not yet applied the following new or amended standards in preparing these financial statements.

Interest rate benchmark reform ("IBOR reform")
In August 2020, the IASB issued *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* in response to issues arising from the replacement of interest rate benchmarks in a number of jurisdictions. These amendments are effective for annual periods beginning on or after 1 January 2021.

Under these amendments, an immediate gain or loss is not recognised in the Statement of Comprehensive Income where the contractual cash flows of a financial asset or financial liability are amended as a direct result of the rate reform and the revised contractual terms are economically equivalent to the previous terms.

In addition, hedge accounting must not be discontinued solely due to the IBOR reform.

These amendments are not expected to have a significant impact on the Group.

Further details of how the Group is managing its transition to replacement benchmark interest rates and the amount of Libor exposure that remains at as 31 March 2021 are set out in note 31.

Other minor amendments
The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and in subsequent years (including IFRS 9 *Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets*). These amendments are not expected to have a material impact on the Group's results.

NOTES TO THE FINANCIAL STATEMENTS

03. Critical 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 period. 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 period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Going Concern

Critical judgement: The reasonableness of the going concern basis in preparing the consolidated financial statements.

See note 1 (e) above.

b) Impairment of Loans and Advances to Customers

Critical judgement: Determining an appropriate definition of default (see note 2 (h) above) against which probability of default ("PD"), loss given default ("LGD") and exposure at default ("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 post model adjustments based on management judgment to adjust inputs, parameters and outputs to reflect risks not captured by the models. These include adjustments to address model deficiencies as well as the impact of government support measures.

Critical estimate: Use of forward looking adjustments ("FLA") 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 used in the models.

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 and EAD.

During the period, the Bank began SME lending under the British Business Bank ("BBB") Coronavirus Support Schemes (see note 4) designed to support businesses deal with the impact of Covid-19 . The Bank lends under two schemes; the Coronavirus Business Interruption Loan Scheme ("CBILS") and the Bounce Back Loan Scheme ("BBLS"). CBILS and BBLS lending is undertaken organically by the Bank and also non-organically via forward flow transactions. For CBILS and BBLS lending, loan applications are subject to fraud checks only. These loans are covered by Government guarantees that are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have been applied. The Government guarantee is 80% for CBILS and 100% for BBLS. Lower LGDs are recognised for these lending products as a result, with 0% applied to the Government guaranteed part of the exposure.

Significant increase in credit risk

See note 2 (h) above.

Use of Covid-19 relief mechanisms, including payment holidays and accessing CBILS and BBLS, does not automatically merit identification of SICR and trigger a Stage 2 classification, following FCA guidance.

Forward-looking information and Multiple Economic Scenarios including Probability of Impact

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECLs. The 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, MPC and selected private sector and academic forecasters.

The Bank's 'base case' scenario represents a view of the most likely outcome and 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 Bank's financial assets.

Scenarios and weightings are reviewed and approved for recommendation to the Executive Risk Committee and Board Risk Committee. The Board, on recommendation of the ERC adopts the final scenarios and weightings used in the Bank's ECL models.

The Bank currently use four economic scenarios:

- **Base Case** - Lockdown restrictions are expected to be lifted in Q2 2021, with much of normal life quickly resuming. The economy regains the December 2019 level of GDP in mid 2022. Given the cash reserves of many businesses, unemployment is expected to peak at around 6.5% in Q4. There is limited long term scarring, reflecting assumptions that sectors like travel do not fully recover.
- **Upside** - The quick rollout of Covid vaccination program fuels a mini-consumer boom from Easter onwards and people take the opportunity to spend freely as restrictions are removed on hospitality and recreation. Unemployment would peak at 5.4% in Q3 before falling sharply as the economy returns to normal by year end.
- **Downside** - The current lockdown restrictions send causes insolvency in many companies in Q2 as the inability to trade exhausts thin cash buffers. The vaccine rollout does not progress as well as baseline scenario and local lockdowns are needed to keep the virus in check during 2021. The Government fails to fully tide businesses over during this period. The UK experiences more significant short-term disruption to trade than expected, despite the fact a no deal Brexit was avoided. Unemployment rate peaks at 8% at the start of 2022, as workers leaving furlough struggle to find employment.

NOTES TO THE FINANCIAL STATEMENTS

03. Critical Estimates and Judgements

- **Extreme downside** - The coronavirus mutates and the vaccine proves less effective than hoped. Most of the country remains in Tier 3/4 through to next winter. Despite the free trade agreement with the EU, the car and other industries dependent on just-in-time deliveries of parts and tariff free trade become unviable. The scenario assumes non-tariff barriers have a greater impact than initially thought on service sectors and financial service business moves off-shore. The unemployment rate rises to 10% in early 2022. Changing patterns of working mean closures of many firms serving the office based economy.

The economic environment remains uncertain and future impairment charges may be subject to further volatility.

The following tables show the key macroeconomic variables used in the four scenarios, the weights applied to each scenario and the ranges of the most sensitive inputs:

The table below shows the base case average macroeconomic variables used in the calculation of ECL. GDP represents annual change in the year. Unemployment rate is the average annual rates.

	2021	2022	2023	2024
31 March 2021	%	%	%	%
GDP	4.6	6.8	1.7	1.6
Unemployment Rate	5.7	5.7	5.0	4.6

The table below shows the weights applied to each scenario, the extreme position of each macroeconomic variable and the 4 year average macroeconomic variable. Worst point is the most negative quarter in the 4 year period, which is calculated relative to the start point for GDP. Peak rate is the highest quarterly figures for unemployment over the 4 years.

	Upside	Base Case	Downside	Severe Downside
31 March 2021	%	%	%	%
Scenario Weighting	10	60	25	5
GDP – Worst Point	3.3	0.8	-3.1	-5.7
GDP – 4 year Average	0.9	0.8	0.7	0.6
Unemployment Rate – Peak Rate	5.4	6.5	8.0	10.0
Unemployment Rate – 4 year Average	4.3	5.3	6.0	7.5

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).

		Upside	Base Case	Downside	Severe Downside
31 March 2021		%	%	%	%
GDP	2021	7.4	4.6	0.1	-1.7
	2022	6.1	6.8	5.3	1.6
	2023	1.9	1.7	5.4	7.6
	2024	1.8	1.6	2.0	3.4
Unemployment Rate	2021	5.1	5.7	6.4	7.0
	2022	4.2	5.7	7.1	9.3
	2023	4.1	5.0	5.6	7.4
	2024	4.1	4.6	4.9	6.3

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.

The probability-weighted credit impairment provision was 2.3% higher than if it had been measured using only the base case scenario assumptions.

ECL applied through post-model adjustments is reported flat against each economic scenario, reflecting the basis on which they are evaluated. Judgements applied through changes to inputs are reflected in the scenario activities.

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03. Critical Estimates and Judgements

ECL Sensitivities:	31 March 2021		
	Retail	SME	Total
	£'000	£'000	£'000
Credit Impairment Provisions	6,942	8,681	15,623
Impairment Provision on off Balance Sheet Undrawn Overdraft Facilities	1,602	31	1,633
Combined on and off Balance Sheet - using Weighted Scenarios	8,544	8,712	17,256
Credit Impairment Provisions if 100% Weighting was Applied to each Scenario:			
Upside	7,003	8,301	15,304
Base Case	8,246	8,621	16,867
Downside	9,332	8,824	18,156
Severe Downside	10,970	9,182	20,152

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 models are applied in order to account for certain late breaking events, known model limitations or where management judge they are necessary to ensure an adequate level of overall ECL provision to cover material risks. At 31 March 2021, the impairment provisions included £7,728k (2019: £400k) of management's adjustments to modelled outcomes.

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 core impairment models. All PMAs were subject to formal approval through the IFRS 9 provisioning governance.

Management adjustments are reviewed and incorporated into future model development where applicable. However, given the full impact of Covid-19 will take time to observe, it is likely post model adjustments 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 are now operating 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 have been 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**
ECL adjustment primarily arising from uncertainties associated with economic assumptions in the base case and derived multiple economic scenarios.

While macroeconomic forecasts have improved in the quarter to March 21, management believe that there is still downside risk on the base case assumptions due to the on going impact of the coronavirus pandemic. In addition, due to the lack of seasoning in the lending portfolio it is considered there is uncertainty in credit outcomes as a result of the effect of Covid-19 and the consequences of Government intervention. The mitigating effect of these intervention measures is expected to result in both a delay and a reduction in the peak level of default and loss rates. Management judged that additional ECL was required until further economic data and credit performance data becomes available on the behavioural and loss consequences of Covid-19 .

At 31 March 2021, the total impairment provisions on Loans and Advances to Customers and undrawn overdraft facilities of £17,256k included PMAs of £7,728k - see table below:

Total impairment provisions	31 March 2021
	Total
	£'000
ECL Modelled Impairment Provisions	9,528
Post Model Performance Adjustments	5,199
Economic Uncertainty Adjustments	2,529
Total Impairment Provisions	**17,256**

NOTES TO THE FINANCIAL STATEMENTS

03. Critical Estimates and Judgements

c) Recognition of Deferred Tax Assets

Critical judgement: Assessing the likely level of the Group's future taxable profits based on financial and strategic plans.

At 31 March 2021 the Group recognised a deferred tax asset of £6.09m (2019: £nil) principally relating to tax losses carried forward. Further information on the Group's deferred tax asset is provided in note 16. The Group's expectations of future UK taxable profits require management judgement and in making this assessment, account is taken of Board-approved business plans. Under current law there is no expiry date for UK trading losses not yet utilised, and given the forecast of future profitability, it is more likely than not, that the value of the losses will be recovered at some point in the future. It is possible that future tax law changes could materially affect the timing of recovery and the value of losses ultimately utilised by the Group.

Recognition is based on a conservative approach to assumptions on future profitability and a stress that has been applied to the Board-approved business plans.

The Group's assessment of deferred tax recoverability is based on its assessment of profitability under this stress scenario in the forecasts covering its five year planning period, however the Group has based its deferred tax asset recognition on profitability in the immediate two year planning period. The Group expects to recover 100% of the deferred tax asset recognised within two years of the balance sheet date. A shortening of the planning period used by 1 year (to 1 years) would have the effect of decreasing the deferred tax asset recognised by £2.20m. A lengthening of the planning period used by 1 year (to 3 years) would have the effect of increasing the deferred tax asset recognised at 31 March 2021 by £1.37m. The unrecognised deferred tax asset is disclosed in note 16.

d) Valuation of Intangible Assets

Critical judgement: Impairment of Intangible Assets

Critical estimate: Estimated Used economic life of the Intangible Asset

As at 31 March 2021 the carrying value of the Group's intangible asset was £16.91m (2019: £16.06m) including capitalised software of £16.90m (2019: £16.05m). As per note 2 (k) above, the Group has reviewed the carrying value of the intangible asset, considering both internal and external factors and where necessary has adjusted for any discontinued products.

As at 31 March 2021 the expected useful life of the intangible asset is 7 years. A change in the estimate will have an impact on the period over which the capitalised expenditure is amortised. A shortening of the estimated useful life by 1 year (to 6 years) would have the effect of increasing the Group's loss before tax for the period ended 31 March 2021 by £998k (2019: £263k). A lengthening of the estimated useful life by 1 year (to 8 years) would have the effect of decreasing the Group's loss before tax for the period ended 31 March 2021 by £684k (2019: £198k).

e) Valuation of Share Based Payments

Critical estimate: Estimated Vesting Period of Share Based Payments

As at 31 March 2021, the estimated vesting date of Share Based payments is 31 December 2023, being the most likely date of a realisation event in line with the conditions of the awards. As of 30 November 2019 this vesting date was 31 December 2024.

The remaining period over which the beneficial interests in the shares granted in the current year is therefore 2.75 years. A shortening of the estimated useful life by 1 year (to 1.75 years) would have the effect of increasing the Group's loss before tax by £407k. A lengthening of the estimated useful by 1 year (to 3.75 years) would have the effect of decreasing the Group's loss before tax by £359k for the period ended 31 March 2021.

NOTES TO THE FINANCIAL STATEMENTS

04. Government-backed Lending and Related Funding

During the period, the Bank began participating in two Government backed lending schemes: the Bounce Back Loan Scheme ("BBLS") and the Coronavirus Business Interruption Loan Scheme ("CBILS"). Participation in these schemes has led to a significant increase in Loans and Advances to Customers as over £2,186m has been lent through the schemes in the period to SME customers. This lending has been funded through an increase in customer deposits.

- BBLS provides SME customers with loans of up to £50,000 for a maximum period 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 is 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 British Business Bank. Before their first payment is due customers can 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 period of six months (customers can use this option once).
- CBILS provides SME customers with loans of up to £500k for a maximum period of six years, provided certain criteria are met. Interest is charged between 3.49% 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% is provided under the scheme to the Bank by the British Business Bank. 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 within its usual forbearance policies.

An ECL of £8,676k has been recognised in the impairment loss allowance in relation to loans drawn under the CBILS which reflects the expected credit loss associated with the CBILS portfolio (see Note 31).

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 British Business Bank. Based on these actions the Bank has concluded that it would be inappropriate to raise a provision over its ability to call on the government guarantee.

The Bank has been granted access to the Bank of England's Term Funding Scheme with additional incentives for SMEs ("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 Bank up to a specific allowance. The initial term of drawdowns is four years. This may be extended by an additional two years and then a further four years. TFSME funding can be repaid early with two days' notice. This financing is coincident with the Government CBILS and BBLS programmes and will be repaid from the proceeds of maturing loans or available cash reserves when repayments fall due.

During the period, additional funding was raised through customer deposits and was used to invest in additional high quality liquid assets; these investments have been used as eligible collateral under the BOE's Sterling Monetary Framework. The Bank has also entered into derivative transactions in the current period to hedge the interest rate risk arising from the above fixed-rate lending and certain fixed rate Debt Securities, refer to Note 31. There is no difference between the amount received and recognised in the Group Accounts and that of the Bank.

Government Backed Lending and Related Funding	Organic Lending	Forward Flow Lending	Group 2021
	£'000	£'000	£'000
Loans and Advances to Customers (note 13)	1,571,243	614,950	2,186,193
CBILS - 80% Guaranteed by HM Government	12,989	582,066	595,055
BBLS - 100% Guaranteed by HM Government	1,558,254	32,884	1,591,138
Less Impairment Provisions	(204)	(8,473)	(8,677)
Total	-	-	**2,177,516**
Central Bank Facilities (note 22)	-	-	(1,000,000)

NOTES TO THE FINANCIAL STATEMENTS

05. Capability and Innovation Fund ("CIF")

In the prior period the Group received a grant of £100m under the Capability and Innovation Fund ("CIF"); the granting of the award and the continuing performance of the Bank against its stated objectives is administered by Banking Competitions Remedies Limited ("BCR"). The purpose of the CIF award is to facilitate the development of a more advanced business current account offering and ancillary products for SMEs in the UK. The CIF programme is a four year project and commenced in April 2019.

In its successful submission for an award, the Bank made several commitments to the BCR; these are known as the public commitments. During the period to March 2021, the Bank re-negotiated its public commitments with the BCR. Full details are available at bcr-ltd.com.

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

Included in the £46,044k (2019: £19,738k) of eligible spend is £16,255k (2019: £4,482k) that has been subsequently classified as capital expenditure in relation to software development. (See Note 18).

The Group has pledged to use the CIF Grant to create 398 new jobs in the UK and to co-invest £95 million of its own money to help build a better bank for SMEs. The Group also pledged to make £913 million of balance sheet lending available to SME customers by the end of 2023 to help to boost their growth and productivity. This lending commitment has been met in the current period; the public commitments for job creation and investment are progressing in line with expected dates.

The Group submits quarterly returns to the BCR for approval detailing the qualifying expenditure for that relevant period. At the time of signing these Financial Statements, the BCR have confirmed their satisfaction with the evidence and information submitted by the Group for all Assessment Periods up to and including 31 March 2021. Furthermore, the BCR have confirmed that the amount spent by the Group in the Assessment Period from 31 December 2019 to 31 March 2021 has been used for Permitted Purposes (and not for Prohibited Purposes) and in accordance with the Business Case.

Recognition of grant received from BCR under CIF	
Group/Company	**Carrying Value in Deferred Income**
	£'000
As at 1 December 2018	-
Grant Received	100,000
Credit for Eligible Spend	(19,738)
As at 30 November 2019	80,262
Credit for Eligible Spend	(46,044)
As at 31 March 2021	34,218

06. Net Interest Income

	Group	Group	**Company**	Company
	31 Mar 2021	30 Nov 2019	**31 Mar 2021**	30 Nov 2019
	£'000	£'000	**£'000**	£'000
Interest Income				
Loans and Advances to Banks[1]	**3,161**	3,400	**3,161**	3,400
Debt Securities[2]	**4,492**	1,318	**4,492**	1,318
Loans and Advances to Customers[1]	**53,571**	2,177	**53,571**	2,177
Intercompany loans[1]	**-**	-	**45**	-
Total Interest Income	**61,224**	6,895	**61,269**	6,895
Interest Expense				
Customer Deposits[1]	**(1,562)**	(928)	**(1,562)**	(928)
Central Bank facilities[1]	**(409)**	-	**(409)**	-
Total Interest Expense	**(1,971)**	(928)	**(1,971)**	(928)
Net Interest Income	**59,253**	5,967	**59,298**	5,967

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

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

NOTES TO THE FINANCIAL STATEMENTS

07. Net Fees and Commissions

	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Fees and Commissions Income				
Customer Card Transaction Revenue[1]	**39,423**	9,457	**39,423**	9,457
Payment and Platform Services	**3,219**	1,566	**3,219**	1,566
Marketplace	**172**	71	**172**	71
Other Fee and Commission Income	**323**	1	**323**	1
Total	**43,137**	11,095	**43,137**	11,095
Fees and Commissions Expense				
Customer Card Transaction Costs	**(7,684)**	(3,085)	**(7,684)**	(3,085)
Payment Systems and Other Related Costs	**(1,569)**	(527)	**(1,569)**	(527)
Total	**(9,253)**	(3,612)	**(9,253)**	(3,612)
Net Fees and Commissions Income	**33,884**	7,483	**33,884**	7,483

Note 1 - Included within customer card transaction revenue is £3,549k (2019: £1,700k) recognised under performance contracts, signed with the Bank's card scheme provider. The unrecognised balance of the performance contracts is disclosed in Note 25 – Deferred Income.

08. Administrative Expenses

	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Staff Costs	**76,601**	35,246	**75,160**	35,132
Other Administrative and General Expenses	**88,003**	53,435	**89,555**	53,124
Sub-total	**164,604**	88,681	**164,715**	88,256
Capitalisation of Intangible Assets (note 18)	**(5,623)**	(5,440)	**-**	-
Total Administrative Expenses	**158,981**	83,241	**164,715**	88,256
CIF Eligible Spend on Staff Costs	**(18,214)**	**(4,655)**	**(18,214)**	**(4,655)**
CIF Eligible Spend on Other Administrative Expenses	**(27,830)**	**(15,083)**	**(27,830)**	**(15,083)**
Credit for CIF Eligible Spend	**(46,044)**	(19,738)	**(46,044)**	(19,738)
Administrative Expenses Net of CIF Credit	**112,937**	**63,503**	**118,671**	**68,518**

The deduction of £5,623k (2019: £5,440k) relates to administrative expenses that have been capitalised during the period as they relate to the development of the Intangible Asset for ongoing use in the business.

NOTES TO THE FINANCIAL STATEMENTS

08. Administrative Expenses

	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Salaries, Wages and Other Costs	**67,344**	31,530	**66,043**	31,428
Social Security Costs	**6,390**	2,727	**6,257**	2,716
FV of Shares Issued to Employees under EBT (note 29)	**2,075**	442	**2,075**	442
FV of Shares Issued to Employees - Other Awards (note 29)	**53**	-	**53**	-
FV of Options Granted to Employees (note 29)	**(201)**	201	**(201)**	201
Pension Contributions	**940**	346	**933**	345
Total	**76,601**	**35,246**	**75,160**	**35,132**

Average number of persons employed by the Group (including Directors) during the period was 981 (2019: 497).

	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Directors Costs:				
Wages and Salaries	**2,076**	994	**1,608**	994
Social Security Costs	**259**	129	**211**	129
Total	**2,335**	1,123	**1,819**	1,123
Highest Paid Director:				
Wages and Salaries	**600**	398	**600**	398
Social Security Costs	**81**	54	**81**	54
Total	**681**	452	**681**	452

The Directors do not participate in the Bank's pension arrangement. There were no pension contributions paid by the Bank on behalf of Directors.

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NOTES TO THE FINANCIAL STATEMENTS

08. Administrative Expenses

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

	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Amortisation of Intangible Assets	**4,410**	2,606	**4**	6
Depreciation of Tangible Assets	**1,379**	468	**1,379**	468
Depreciation of Right to Use Assets	**1,256**	-	**1,256**	-
Total	**7,045**	3,074	**2,639**	474

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

	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Audit of Consolidated Financial Statements	**691**	400	**691**	400
Audit of the Financial Statements of the Subsidiaries	**9**	9	**-**	-
Total	**700**	409	**691**	400

09. Impairment and Charge-offs

	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Provisions on Loans and Advances to Customers (note 13)	**13,374**	1,854	**13,374**	1,854
Provisions on Undrawn Overdraft Facilities (note 23)	**1,104**	527	**1,104**	527
Total Impairment Charge	**14,478**	2,381	**14,478**	2,381
Amounts Charged-off	**1,628**	1,919	**1,628**	1,919
Total Impairment and Charge-offs	**16,106**	4,300	**16,106**	4,300

NOTES TO THE FINANCIAL STATEMENTS

10. Taxation

	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Current Tax				
Corporation Tax	-	-	-	-
Adjustments in Respect of prior Period (R&D Tax Credit)	(2,062)	(1,538)	(15)	(39)
Tax Credit in Respect of Current Year	**(2,062)**	**(1,538)**	**(15)**	**(39)**
Deferred Tax				
Deferred Taxes in Current Year	(6,088)	-	(6,088)	-
Adjustments in Respect of prior Period	15	-	15	-
Tax Credit on Results on Ordinary Activities	**(8,135)**	(1,538)	**(6,088)**	(39)

R&D eligible deductions in the prior period resulted in a tax credit from HMRC of £2,062k (2019: £1,538k) being receivable in the period to 31 March 2021.

No corporation tax liabilities are payable nor receivable from HMRC for the period (2019: Nil).

The total taxation credit for the year is higher than the standard rate of corporation tax in the UK at 19% (2018: 19%). The differences are explained as follows:

	Group 31 Mar 2021 £'000	Group 30 Nov 2019 £'000	Company 31 Mar 2021 £'000	Company 30 Nov 2019 £'000
Loss on Ordinary Activities before Taxation	**(31,454)**	**(53,602)**	**(15,265)**	**(48,873)**
Tax Credit at the Standard Rate of 19% (2019: 19%)	**(5,976)**	**(10,184)**	**(2,900)**	**(9,286)**
Effects of:				
- Expenses not Deductible for Tax Purposes	569	165	569	165
- Difference in Tax Rates	138	102	-	-
- Adjustments to Tax Charge in respect of previous Periods	(2,062)	(1,538)	(15)	(39)
- Deferred Tax (recognised)/not recognised[1]	(804)	7,933	(3,742)	9,121
- Other Differences	-	1,984	-	-
Total Tax Credit	**(8,135)**	**(1,538)**	**(6,088)**	**(39)**
Effective Tax Rate	**(26%)**	**(3%)**	**(40%)**	**(0%)**

Note 1 - In the prior year, the Directors concluded that it was not appropriate to recognise a deferred tax asset at the reporting date as the utilisation of those losses would not occur during the foreseeable future (12 months from the reporting date). A deferred tax asset has been recognised in the current year. See Note 16.

NOTES TO THE FINANCIAL STATEMENTS

11. Loans and Advances to Banks

	Group	Group	Company	Company
	31 Mar 2021	30 Nov 2019	**31 Mar 2021**	30 Nov 2019
	£'000	£'000	**£'000**	£'000
Cash at Bank of England	**3,178,041**	732,119	**3,178,041**	732,119
Cash at Central Bank of Ireland	**-**	29,875	**-**	29,875
Cash at Other Banks	**18,308**	2,711	**18,284**	2,608
Cash and Cash Equivalent	**3,196,349**	764,705	**3,196,325**	764,602

Loans and Advances to Banks are held at amortised cost and comprise balances placed at central banks and commercial banks. There is no impairment recognised on the carrying value of the Loans and Advances to Banks as amounts placed are with institutions rated A or above; the Directors have calculated the probability of default to be materially zero. The unencumbered balance held at the Bank of England is included within the Bank's HQLA. Included within Cash at Other Banks is £113k (2019: £103k) held by the EBT.

12. Debt Securities

Debt Securities	Group	Group	Company	Company
	31 Mar 2021	30 Nov 2019	**31 Mar 2021**	30 Nov 2019
	£'000	£'000	**£'000**	£'000
Issued by Governments and Supranational Bodies	**1,119,687**	42,961	**1,119,687**	42,961
Covered Bonds issued by Banks and Building Societies	**382,638**	264,420	**382,638**	264,420
Residential Mortgage Backed Securities ("RMBS") issued by Banks and Building Societies	**13,652**	11,027	**13,652**	11,027
Other Asset Backed Securities	**-**	13,189	**-**	13,189
Fair Value Adjustment for Hedged Risk	**(2,699)**	-	**(2,699)**	-
Total	**1,513,278**	331,597	**1,513,278**	331,597

All Debt Securities are held at amortised cost and rated as AAA and qualify as HQLA items held for liquidity management purposes if they are not utilised as collateral under the BOE's Sterling Monetary Framework. See note 14.

	Opening Balance	Additions	Disposals	**Closing Balance**
	2021	2021	2021	**2021**
	£'000	£'000	£'000	**£'000**
Debt Securities	**331,597**	1,205,158	(23,477)	**1,513,278**

NOTES TO THE FINANCIAL STATEMENTS

13. Loans and Advances to Customers

Gross Loans and Advances to Customers	Group	Group	Company	Company
	31 Mar 2021	30 Nov 2019	31 Mar 2021	30 Nov 2019
	£'000	£'000	£'000	£'000
Retail Lending[1]	76,678	58,528	76,678	58,528
SME Lending[2]	2,186,565	137	2,186,565	137
Amounts Charged-off	(4,953)	(2,126)	(4,953)	(2,126)
Gross Carrying Value	2,258,290	56,539	2,258,290	56,539
Fair Value Adjustment for Hedged Risk	(9,821)	-	(9,821)	-
	2,248,469	56,539	2,248,469	56,539
Less Impairment Provisions for Retail Lending[3]	(6,942)	(2,247)	(6,942)	(2,247)
Less Impairment Provisions for SME Lending[4]	(8,681)	(2)	(8,681)	(2)
Less Total Impairment	(15,623)	(2,249)	(15,623)	(2,249)
Net Carrying Value	2,232,846	54,290	2,232,846	54,290

Note 1 – Retail includes loans acquired from third parties under forward flow arrangements of £55,533k (2019: £37,274k).

Note 2 – SME lending includes loans acquired from third parties under forward flow arrangements of £614,950k (2019: £Nil).

Note 3 – Impairment provision for Retail Lending includes impairment for loans acquired from third parties of £4,550k (2019: £780k).

Note 4 – Impairment provision for SME lending includes impairment for loans acquired from third parties of £8,473k (2019: £Nil).

SME Lending includes £2,067,182 guaranteed by HM Government. See Note 4 for further detail on nature of this guarantee.

Loans and Advances to Customers are held at amortised cost.

Group/Company	Total Provisions for Impairment on Loans and Advances to Customers
	£'000
As at 1 December 2018	397
Total Charge for the Year (note 9)	3,773
Amounts Charged-off[1]	(1,921)
As at 30 November 2019	2,249
Total Charge for the Period (note 9)	15,002
Amounts Charged-off[1]	(1,628)
As at 31 March 2021	15,623

Note 1 - Lending Charged-off still under enforcement activity
Loans that are charged-off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The cumulative contractual amount outstanding on Loans and Advances that has been charged-off but are still subject to enforcement activity, is £3,480k (2019: £2,126k).

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

Overdraft facilities with customers				
	2021	2019	2021	2019
	£'000	£'000	£'000	£'000
Undrawn credit facilities	73,612	71,068	73,612	71,068

Under IFRS 9 an ECL is calculated on total overdraft facilities; the amount provided against the undrawn element is included in note 23.

NOTES TO THE FINANCIAL STATEMENTS

14. Assets Pledged as Collateral/Encumbered Assets

Group	Encumbered		Unencumbered		Total	
	2021	2019	**2021**	2019	**2021**	2019
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Debt Securities	1,028,091	-	485,187	331,597	1,513,278	331,597
Loans and Advances to Banks	187,257	64,020	3,009,092	700,685	3,196,349	764,705
Other Assets	21,986	17,019	41,474	14,623	63,460	31,642
Total Assets Pledged	**1,237,334**	81,039	**3,535,753**	1,046,905	**4,773,087**	1,127,944

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 are amounts of assets pledged as eligible collateral under the BOE's Sterling Monetary Framework to secure funding under the TFSME.

Included in Loans and Advances to Banks is cash collateral of £1,610k (2019: £nil) for margining purposes in relation to derivative transactions. These transactions are conducted under terms that are usual and customary to collateralised transactions for derivatives.

Also included within Loans and Advances to Banks are balances with the Bank of England of £185,647 (2019: £64,020k) 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.

15. Derivatives

31 March 2021:	Group	Group	Group	Company	Company	Company
	Fair Value of Assets	Fair Value of Liabilities	Notional Amount	Fair Value of Assets	Fair Value of Liabilities	Notional Amount
	£'000	£'000	£'000	£'000	£'000	£'000
Hedging Derivatives:						
Interest Rate Swaps	13,463	(25)	2,843,000	13,463	(25)	2,843,000
Derivatives not in Hedge Accounting Relationships:						
FX Forwards	25	(793)	101,754	25	(793)	101,754
Total	13,488	(818)	2,944,754	13,488	(818)	2,944,754

Hedging derivatives:
See note 31 for further detail of the hedging derivatives held by the Group.

Derivatives not in hedge accounting relationships:
These derivatives are held as economic hedges to manage risk. Foreign exchange ("FX") forwards are used to assist with management of the Bank's liquidity.

There were no derivatives held by the Group at 31 November 2019.

NOTES TO THE FINANCIAL STATEMENTS

16. Deferred Tax

	Group 2021 £'000	Group 2019 £'000	Company 2021 £'000	Company 2019 £'000
The Movement in the Provision is as follows:				
Deferred Tax at the start of the Period	-	-	-	-
Credit to the Income Statement	6,088	-	6,088	-
Deferred Tax at the end of the Period	**6,088**	-	**6,088**	-
Accelerated Capital Allowances	(1,805)	(1,653)	446	154
Carry Forward Losses	21,519	15,467	18,591	14,849
Deferred Tax not Recognised	(13,626)	(13,814)	(12,949)	(15,003)
Deferred Tax Asset Provided	**6,088**	-	**6,088**	-

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

The tax effects of such tax losses are available for carry forward against future profits. The Directors have now concluded that it is appropriate to recognise a deferred tax asset at the reporting date as the utilisation of those losses will occur during the foreseeable future (2 years from the reporting date). The deferred tax asset of £6,088k (2019: Nil) is in relation to trading losses carried forward and other temporary differences, taxed at the expected rate of 19% (2019: 17%) corporation tax, being the rate for 2021 which is the expected year of utilisation. These amounts may be recognised in the future as taxable profits arise.

The current UK corporation tax rate is 19%. In March 2021, the UK Government announced their intention to increase the main rate of corporation tax from 19% to 25% from 1 April 2023. This change to the corporation tax rate was not enacted as at the balance sheet date and is not reflected in the calculation of deferred tax balances as at 31 March 2021. Had the corporation tax rate of 25% been enacted at the balance sheet date the deferred tax credit to the profit and loss statement would have increased by £522k and the unrecognised deferred tax asset would have increased by up to £4,175k (excluding bank corporation tax surcharge).

In the prior year, the Directors concluded that it was not appropriate to recognise a deferred tax asset at the reporting date as the utilisation of those losses would not occur during the foreseeable future (12 months from the reporting date). Were it to have been recognised, the deferred tax asset would have had an estimated value of £15,234k.

17. Other Assets

	Group 2021 £'000	Group 2019 £'000	Company 2021 £'000	Company 2019 £'000
Payment Scheme Collateral[1]	**21,986**	17,019	**21,986**	17,019
Prepayments	**3,246**	4,839	**3,241**	4,835
Accrued Interest	**14,683**	533	**14,683**	533
Other Assets	**23,545**	9,251	**23,230**	7,148
Total	**63,460**	31,642	**63,140**	29,535

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

All other assets have been assessed for impairment with no provision considered necessary (2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS

18. Property, Plant and Equipment, Intangible Assets and Right of Use Assets

Group 2021	Property, Plant and Equipment	Intangible Assets	Right of use Assets	Total Property, Plant and Equipment, Intangible Assets and Right of use Assets
Cost	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 December 2019	**3,197**	**20,727**	**-**	**23,924**
Recognition of Right-of Use Assets	-	-	4,553	**4,553**
As restated at 1 December 2019	**3,197**	**20,727**	**4,553**	**28,477**
Additions[1]	1,131	21,878	974	**23,983**
Disposals and Impairment	-	(571)	-	**(571)**
Deferred Income – CIF Intangible	-	(16,255)	-	**(16,255)**
As at 31 March 2021	**4,328**	**25,779**	**5,527**	**35,634**
Depreciation and Amortisation				
As at 1 December 2019	**805**	**4,672**	**-**	**5,477**
Charge for the Period	1,379	4,410	1,256	**7,045**
Disposals and Impairment	-	(213)	-	**(213)**
As at 31 March 2021	**2,184**	**8,869**	**1,256**	**12,309**
Net Book Value	**2,144**	**16,910**	**4,271**	**23,325**

Note 1 - Included within additions is £16,255k (2019: £4,482k) in relation to software development to support some of the 47 products that are being developed to meet the Public Commitments under the CIF Grant.

Property, Plant and Equipment: During the period, the Group capitalised as Intangible Assets expenditure incurred on the design, specification, build, test and implementation of its banking software. The average remaining amortisation period of capitalised software as at 31 March 2021 was 6 years (2019: 6 years). The Directors have reviewed both internal and external indicators of impairment, including evidence of obsolescence, and have concluded the value in use needs to be revised to reflect a discontinued product with £358k recognised.

Intangible assets: Capitalised Intangible – amount that arises from the capitalisation of Grant related expenditure arising from the creation of software. The balance is amortised through the Statement of Comprehensive Income over 7 years (2019: 7 years).

Right of Use Asset: The Group adopted the new standard for leases (IFRS 16) from 1 December 2019 and therefore right of use assets are now recognised in the Statement of Financial Position in respect of the Group's right to use the underlying leased assets. Further details are shown in Accounting Policies Note 1c. The Bank leases its head office in London under one operating lease, as well as its regional offices outside London under five separate (2019: four) leases. The leases exist independently of each other and have different lease terms. Lease break provisions and rent-free periods are included in all the lease arrangements. There are no options to purchase any of the premises at the completion of the lease terms or to extend the lease periods.

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

NOTES TO THE FINANCIAL STATEMENTS

18. Property, Plant and Equipment, Intangible Assets and Right of Use Assets

Company 2021	Property Plant and Equipment	Intangible Assets	Right of use Assets	Total Property, Plant and Equipment, Intangible Assets and Right of use Assets
Cost	£'000	£'000	£'000	£'000
As at 1 December 2019	**3,193**	**30**	**-**	**3,223**
Recognition of Right-of use Assets	-	-	4,553	**4,553**
As restated at 1 December 2019	**3,193**	**30**	**4,553**	**7,776**
Additions[1]	1,131	-	974	**2,105**
Disposals	-	-	-	**-**
Deferred Income – CIF Intangible	-	-	-	**-**
As at 31 March 2021	**4,324**	**30**	**5,527**	**9,881**
Depreciation and Amortisation				
As at 1 December 2019	**801**	**21**	**-**	**822**
Charge for the Period	1,379	4	1,256	**2,639**
As at 31 March 2021	**2,180**	**25**	**1,256**	**3,461**
Net Book Value	**2,144**	**5**	**4,271**	**6,420**

Included within the Company's Statement of Comprehensive Income is Other Income of £26,330k (2019: £10,495k), of which £21,878k (2019: £9,922k) relates to costs borne in the development of the intangible asset that were re-charged from the Parent Company to its Subsidiary.

Company 2019	Property, Plant and Equipment	Intangible Assets	Total Property, Plant and Equipment and Intangible Assets
Cost	£'000	£'000	£'000
As at 1 December 2018	**949**	**30**	**979**
Additions	2,249	-	**2,249**
Disposals	(5)	-	**(5)**
As at 30 November 2019	3,193	30	3,223
Depreciation and Amortisation			
As at 1 December 2018	**332**	**14**	**346**
Charge for the Year	468	6	474
As at 30 November 2019	**800**	**20**	**820**
Net Book Value	**2,393**	**10**	**2,403**

NOTES TO THE FINANCIAL STATEMENTS

19. Operating Leases

At period end, the future minimum lease payments under operating leases were payable as follows:

	Group 2021 £'000	Group 2019 £'000	Company 2021 £'000	Company 2019 £'000
Less than One Year	-	2,032	-	2,032
Between One and Five Years	-	2,769	-	2,769
More than Five Years	-	957	-	957
Total	**-**	**5,758**	**-**	**5,758**

The Group adopted the new standard for leases (IFRS 16) from 1 December 2019 and therefore lease liabilities are now recognised on Statement of Financial Position in respect of the Group's obligations to make future lease payments. Further details are shown in Accounting Policies Note 1c.

During the period £1,215k (2019: £2,893k) was recognised as an expense in the Consolidated Statement of Comprehensive Income in respect of operating leases. For 2021, this relates to short-term leases for the Bank's head office in London for which the Group claimed a recognition exemption under IFRS 16. The leases have now expired. For the prior year, the expense related to six operating leases held by the Bank. The Bank leased its head office in London under two operating leases, as well as its regional offices outside London under four leases.

20. Inter-company Account and Investment in Subsidiaries

Company **Inter-company Account**	**As at 30 Nov 2019**	Net Increase during Period	**As at 31 Mar 2021**
	£'000	£'000	**£'000**
Starling FS Services Limited	**19,339**	10,999	**30,338**
Murmur Financial Services DAC	**155**	1,835	**1,990**
Balance on Inter-Company Account	**19,494**	12,834	**32,328**
Investment in Subsidiaries			
Balance on Investment in Subsidiaries A/c	**92**	-	**92**

See Note 34 for further information on related party transactions.

The Parent Company has two wholly owned subsidiary companies:

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

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

During the period, the Parent Company charged Starling FS Services Limited £21,878k (2019: £9,922k) for the attributable proportion of staff salaries, employer's NIC and other identified costs incurred by the Parent Company in the design, specification, build, test and implementation of the mobile phone App and associated infrastructure.

The Parent Company has granted an interest-bearing loan of £1,990k (2019: £155k) to Murmur Financial Services International DAC, to fund the costs of the Group's Irish office and employees. The balance on the Inter-company account is repayable within a year and interest is charged at 3% per annum. No guarantees have been given or received. No provisions have been made for impairment in respect of the amounts owed.

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

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

NOTES TO THE FINANCIAL STATEMENTS

21. Customer Deposits

	Group 2021 £'000	Group 2019 £'000	Company 2021 £'000	Company 2019 £'000
Personal Current Accounts	**2,388,268**	514,492	**2,388,268**	514,492
SME Current Accounts	**3,401,842**	469,177	**3,401,936**	469,194
Payment Services Accounts	**37,471**	23,613	**37,470**	23,613
Total	**5,827,581**	1,007,282	**5,827,674**	1,007,299

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

Included in the above are Euro deposits from Personal customers of £119,311k (2019: £33,126k) and SME customers of £35,599k (2019: £2,005k). The above also includes US dollar deposits from Personal customers of £16,517k (2019: £nil)

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22. Central Bank Facilities

	Group 2021 £'000	Group 2019 £'000	Company 2021 £'000	Company 2019 £'000
Bank of England	**1,000,000**	-	**1,000,000**	-
Total	**1,000,000**	-	**1,000,000**	-

The balance represents amounts drawn down under the BOE's "Term Funding Scheme with additional incentives for SMEs". The funding has an initial maturity of four years which is extendible under the terms of the Bank of England's TFSME scheme. See note 4 for further details.

23. Provisions for Liabilities and Charges

Group/Company	**Impairment Provision on Undrawn Overdraft Facilities[1]**	Other Provisions[2]	**Total Provisions for Liabilities and Charges**
	£'000	**£'000**	**£'000**
As at 1 December 2019	**528**	**1,047**	**1,575**
Charge for the Period (note 9)	1,104	-	**1,104**
Provisions Utilised and other Movements	-	(679)	**(679)**
As at 31 March 2021	**1,632**	**368**	**2,000**

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

Note 2 - Other Provisions relate to items awaiting indemnities from third party banks where the amount is suspected or confirmed as being proceeds of crime. Other Provisions also include amounts claimed for push payment fraud, due to be repaid under the APP Scam Voluntary Code.

NOTES TO THE FINANCIAL STATEMENTS

24. Other Liabilities and Accruals

	Group 2021 £'000	Group 2019 £'000	Company 2021 £'000	Company 2019 £'000
Customer Transactions in Course of Settlement	12,939	22,342	4,559	22,343
Debt Securities in Course of Settlement	-	4,000	-	4,000
Fair Value of Phantom Options Awards to Employees (Note 29)	-	201	-	201
Lease Liability[1]	4,248	-	4,248	-
Other Liabilities and Accruals	21,954	13,998	30,019	13,970
Total	**39,141**	40,541	**38,826**	40,514

Note 1 - Lease Liability: The Group adopted the new standard for leases (IFRS 16) from 1 December 2019 and therefore the Group's leases are brought onto the Statement of Financial Position with lease liabilities recognised in respect of the Group's obligations to make future lease payments Further details are shown in Basis of Preparation Note 1c. See Note 18 for corresponding right-of-use asset detail.

25. Deferred Income

	Group 2021 £'000	Group 2019 £'000	Company 2021 £'000	Company 2019 £'000
Deferred Income – CIF Grant (See Note 5)	34,218	80,263	34,218	80,263
Deferred Income – Cash Settled Contribution	4,245	3,094	4,245	3,094
Total	**38,463**	83,357	**38,463**	83,357

Deferred Income comprises:

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

NOTES TO THE FINANCIAL STATEMENTS

26. Share Capital

	Shares Number	Nominal Value
		£'000
As at 1 December 2019	**651,101,002**	**6.511**
Shares Issued of £0.00001 each	234,179,262	2.342
As at 31 March 2021	**885,280,264**	**8.853**

At the reporting date the shares in issue comprised:

	Shares Number	Nominal Value
		£'000
Ordinary Shares	79,494,440	0.795
A Shares	130,567,569	1.306
B Shares	385,084,000	3.851
C Shares	290,134,255	2.901
As at 31 March 2021	**885,280,264**	**8.853**

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

27. Share Premium

	Group	Group	Company	Company
	2021	2019	**2021**	2019
	£'000	£'000	**£'000**	£'000
Total Share Premium	**253,335**	159,332	**253,335**	159,332

The company incurred transaction costs of £245k (2019: £3,451k) in respect of the issue of ordinary C shares and this has been deducted from the share premium account.

NOTES TO THE FINANCIAL STATEMENTS

28. Other Reserves and Retained Earnings

Group	Other Reserves			
	Share Awards Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Reserves
	£'000	£'000	£'000	£'000
As at 30 November 2018	**319**	**-**	**(40,109)**	**(39,790)**
Fair Value of Shares Allocated to Employees	442	-	-	442
Loss for the Period	-	-	(52,065)	(52,065)
As at 30 November 2019	**761**	**-**	**(92,174)**	**(91,413)**
Fair Value of Shares Allocated to Employees	2,128	-	-	2,128
Translation of Subsidiary Company	-	91	-	91
Loss for the Period	-		(23,319)	(23,319)
As at 31 March 2021	**2,889**	**91**	**(115,493)**	**(112,513)**

Company	Share Awards Reserve	Retained Earnings	Total Reserves
	£'000	£'000	£'000
As at 30 November 2018	**319**	**(42,089)**	**(41,769)**
Fair Value of Shares Allocated to Employees	442	-	442
Loss for the Period	-	(48,835)	(48,835)
As at 30 November 2019	**761**	**(90,924)**	**(90,162)**
Fair Value of Shares Allocated to Employees	2,128	-	2,128
Loss for the Period	-	(9,177)	(9,177)
As at 31 March 2021	**2,889**	**(100,101)**	**(97,211)**

Share Awards Reserve	Group	Group	Company	Company
	31 Mar 2021	30 Nov 2019	31 Mar 2021	30 Nov 2019
	£'000	£'000	£'000	£'000
Reserves – Shares held by Employee Benefit Trust ("EBT")	(103)	(103)	(103)	(103)
Reserves – Fair Value Share Awards under the EBT	2,939	864	2,939	864
Reserves – Other Fair Value Share Awards	53	-	53	-
Total	**2,889**	**761**	**2,889**	**761**

NOTES TO THE FINANCIAL STATEMENTS

29. Share Award Schemes

a. Share Award Schemes under the Employee Benefit Trust

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

Starling has created six schemes for the benefit of employees under the Employee Benefit Trust:

- In May 2016, an equity settled share scheme – Scheme 1 (share awards granted in May and June 2016);
- In December 2016, a Joint Ownership Scheme – Scheme 2 (share awards granted in December 2016 and April 2017);
- In December 2017, a Joint Ownership Scheme – Scheme 3 (share awards granted in December 2017 and March 2018); and
- In October 2018, a Joint Ownership Scheme – Scheme 4 (share awards granted in October and November 2018; March and July 2019).
- In January 2020, a Joint Ownership Scheme – Scheme 5 (share awards granted in January 2020).
- In July 2020, a Senior Employee Incentive Scheme – (share awards granted in July 2020).

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

Under Schemes 2, 3, 4 and 5 certain employees purchased from the EBT the beneficial interest in any capital return above a hurdle on a Realisation, as well as the right to receive dividends (depending on the time held).

Under the Senior Employee Incentive Scheme ("SEIS") the Bank purchased from the EBT on behalf of certain employees, the beneficial interest in any capital return above a hurdle on a 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, 4, 5) remains with the EBT throughout the lifetime of the schemes. Each scheme vests over a 4-year holding period that commences on the date of the relevant grant.

The scheme trustee is Ocorian Limited (formerly Estera Trust (Jersey) Limited), a company registered in Jersey (number: JE52417 and whose registered office is at 26 New Street, St Helier, Jersey, JE2 3RA.

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

	Shares Number	Nominal Value
		£'000
Outstanding as at 1 December 2019	**22,889,000**	**228.89**
Shares Allocated to EBT	61,110,100	611.10
Shares Sold to other Shareholders	(906,767)	(9.07)
As at 31 March 2021	**83,092,333**	**830.92**

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

	Opening Balance	Shares held by EBT	Charge for the Period	Closing Balance
	£'000	£'000	£'000	£'000
Fair Value of Shares Allocated to Employees	864	-	2,075	**2,939**

Scheme 1

	Number of Shares Purchased	Number of Elapsed Months	Percentage Applied	Value per Share to be Applied	Amount Recognised £'000
Purchases made during May 2016	1,675,886	58.5	64.29%	£0.001	1
Purchases made during June 2016	277,000	57.5	63.89%	£0.001	-

Scheme 2

	Number of Shares Purchased	Number of Elapsed Months	Percentage Applied	Value per Share to be Applied	Amount Recognised £'000
Purchases made during December 2016	5,054,439	51.0	63.27%	£0.06	202
Purchases made during April 2017	5,430,366	47.0	64.58%	£0.06	219

Scheme 3

	Number of shares Purchased	Number of Elapsed Months	Percentage Applied	Value per Share to be Applied	Amount Recognised £'000
Purchases made during December 2017	3,409,000	39.0	54.93%	£0.26	493
Purchases made during February 2018	250,000	37.0	53.57%	£0.26	35
Purchases made during March 2018	2,127,083	36.0	52.90%	£0.26	297

NOTES TO THE FINANCIAL STATEMENTS

29. Share Award Schemes

Scheme 4

	Number of Shares Purchased	Number of Elapsed Months	Percentage Applied	Value per Share to be Applied	Amount Recognised £'000
Purchases made during October 2018	600,000	29.0	47.74%	£0.51	145
Purchases made during November 2018	435,417	28.0	47.13%	£0.50	104
Purchases made during March 2019	200,000	24.0	43.86%	£0.66	58
Purchases made during July 2019	512,500	20.0	38.21%	£0.62	121

Scheme 5

	Number of Shares Purchased	Number of Elapsed Months	Percentage Applied	Value per Share to be Applied	Amount Recognised £'000
Purchases made during January 2020	837,500	14.0	29.79%	£0.38	95

SEIS

	Number of Shares Purchased	Number of Elapsed Months	Percentage Applied	Value per Share to be Applied	Amount Recognised £'000
Purchases made during July 2020	48,367,000	9.0	21.95%	£0.11	1,168

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

The fair value of the shares at the Grant date were valued using a Binomial Option Pricing Model. In the prior year, the Company changed its valuation model from a Black-Scholes-Merton model as the Binomial Option Pricing Model allows for the valuation of the early exercise of options that can be exercised at any point in their life after vesting and for changes in assumptions about volatility and interest rates throughout an option's life. The change in model had no significant impact upon the valuation of the options granted in prior years because the awards granted under the JSOP schemes were valued at their grant date.

The assumptions used are as follows:

Grant date:	**Dec 16**	**Apr 17**	**Dec 17**	**Feb 18**	**Mar 18**	**Oct 18**	**Nov 18**
Expected Volatility:	62%	51%	39%	38%	38%	36%	36%
Risk Free Interest Rate:	1.50%	1.07%	1.25%	1.52%	1.43%	1.57%	1.32%
Dividend Yield:	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected Life[1]:	7.00 years	6.67 years	6.00 years	6.83 years	5.75 years	5.17 years	5.08 years

Grant date:	**Mar 19**	**Jul 19**	**Jan 20**	**Jul 20**
Expected Volatility:	35%	38.33%	33%	49%
Risk free Interest Rate:	0.85%	0.45%	0.00%	0.00%
Dividend Yield:	0.00%	0.00%	0.00%	0.00%
Expected Life[1]:	4.8 years	4.4 years	3.9 years	3.41 years

Note 1 - The expected life has been reduced by a year on the assumption of the vesting date. This is now expected to be 31 December 2023. This resulted in an acceleration of the charge to the consolidated income statements for the grants awarded from December 2016 to July 2019.

NOTES TO THE FINANCIAL STATEMENTS

29. Share Award Schemes

Analysis of Shares held by Employee Benefit Trust	Shares Number[1]	Nominal Value	Fair Value
		£	£
May 2016 – Shares Allocated to Employees	1,675,886	17	1,077
June 2016 – Shares Allocated to Employees	277,000	3	177
December 2016 – Shares Allocated to Employees	5,054,439	51	201,987
April 2017 – Shares Allocated to Employees	5,430,366	54	219,440
December 2017 – Shares Allocated to Employees	3,409,000	34	493,421
February 2018 – Shares Allocated to Employees	250,000	3	35,344
March 2018 – Shares Allocated to Employees	2,127,083	21	296,602
October 2018 – Shares Allocated to Employees	600,000	6	144,896
November 2019 – Shares Allocated to Employees	435,417	4	103,546
March 2019 – Shares Allocated to Employees	200,000	2	57,895
July 2019 – Shares Allocated to Employees	512,500	5	121,404
January 2020– Shares Allocated to Employees	837,500	8	94,798
July 2020– Shares Allocated to Employees	48,367,000	484	1,167,886
March 2021 – Shares Unallocated	13,916,142	139	-
As at 31 March 2021	**83,092,333**	**831**	**2,938,473**

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

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

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

The fair values are based on an independent valuation carried out for the Company by each Scheme's Independent Valuer at each Grant date. In accordance with IFRS 2, the shares are classified as equity-settled and the fair value of shares at the Grant date, as modified by a graded recognition, is charged to the Statement of Comprehensive Income with a corresponding credit to Reserves (see note 28). The Charge to the Statement of Comprehensive Income for the period was £2,075k (2019: £442k).

NOTES TO THE FINANCIAL STATEMENTS

29. Share Award Schemes

b. Other Share Award Schemes - Long Term Incentive Plan ("LTIP")

The Bank launched the LTIP scheme in March 2020. Under the LTIP scheme all permanent employees of the Bank are awarded a beneficial interest in shares of the Bank, therefore aligning the interests of all employees with the interests of shareholders. The interest awarded is funded by the Bank at nil cost to the employees. Share awards were granted under the LTIP in March and September 2020.

Under the Long Term Incentive Plan ("LTIP"), permanent employees were awarded 100% of the beneficial interest in the shares in any capital return on a Realisation.

Under the LTIP scheme, the Bank grants a conditional share award. The scheme vests over a 4-year holding period that commences on the date of the relevant grant.

	Opening Balance	Charge for the Period	Closing Balance
	£'000	£'000	£'000
Fair Value of Shares Allocated to Employees	-	53	**53**

LTIP

	Number of Shares Purchased	Number of Elapsed Months	Percentage Applied	Value per Share to be Applied	Amount Recognised £'000
Purchases made during March 2020	2,468,000	13.0	28.89%	£0.06	43
Purchases made during September 2020	504,000	7.1	18.09%	£0.11	10

The fair value of the shares at the Grant date were valued using a Binomial Option Pricing Model.

The assumptions used are as follows:

Grant date:	**Mar 20**	**Sep 20**
Expected Volatility:	33.50%	50.5%
Risk Free Interest rate:	0.00%	0.00%
Dividend Yield:	0.00%	0.00%
Expected Life:	3.75 years	3.25 years

The fair values are based on an independent valuation carried out for the Company by each Scheme's Independent Valuer at each Grant date. In accordance with IFRS 2, the shares are classified as equity-settled and the fair value of shares at the Grant date, as modified by a graded recognition, is charged to the Statement of Comprehensive Income with a corresponding credit to Reserves (see note 28). The Charge to the Statement of Comprehensive Income for the period was £53k (2019: £Nil).

c. Share Option Award Schemes - Phantom Option Scheme

The 2018 Phantom Option Scheme was established in December 2018 to provide for future obligations of the Company and to reward certain employees that help build Starling. The scheme was closed in June 2020 and options awarded under the scheme were extinguished.

At 30 November 2019 the fair values of award were based on an independent valuation carried out for the Company by an Independent Valuer at the reporting date and were valued using a Binomial Option Pricing Model.

In accordance with IFRS 2, the options granted were classified as cash-settled and the fair value of shares at the reporting date, as modified by a graded recognition, was charged to the Statement of Comprehensive Income with a corresponding credit to Other Liabilities (see note 24). In the current period, this liability has been extinguished. The Charge to the Statement of Comprehensive Income for the period was £nil (2019: £202k).

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

	Opening Balance	Charge for the Period	Closing Balance
	£'000	£'000	£'000
Fair Value of Options Granted to Employees	201	(201)	-

NOTES TO THE FINANCIAL STATEMENTS

30. Financial Instruments

The accounting policies in Note 2 describe how different classes of financial instruments are measured. The following table summarises the classification of the Bank's financial assets and liabilities by category and Statement of Financial Position heading:

Group 31 March 2021	Derivatives Designated as Hedging Instruments	Derivatives Mandatorily held at Fair Value through Profit or Loss	Held at Amortised Cost	Total
	£'000	£'000	£'000	£'000
Loans and Advances to Banks	-	-	3,196,349	**3,196,349**
Debt Securities	-	-	1,513,278	**1,513,278**
Loans and Advances to Customers	-	-	2,232,846	**2,232,846**
Undrawn Overdraft Facilities to Customers	-	-	71,979	**71,979**
Derivative Assets	13,463	25	-	**13,488**
Financial Assets	**13,463**	**25**	**7,014,452**	**7,027,940**
Customer Deposits	-	-	5,827,581	**5,827,581**
Central Bank Facilities	-	-	1,000,000	**1,000,000**
Derivative Liabilities	25	793	-	**818**
Financial Liabilities	**25**	**793**	**6,827,581**	**6,828,399**

Derivatives designated as hedging instruments are used to mitigate the interest rate risk on the Bank's fixed rate lending and investment portfolios. Derivatives mandatorily held at fair value through profit or loss primarily comprise forward foreign exchange transactions that are executed as part of an FX Swap to manage the Bank's short term liquidity in Euro, USD and Sterling. Starling does not take proprietary or trading positions.

Group 30 November 2019	Held at Amortised Cost	Total
	£'000	£'000
Loans and Advances to Banks	764,705	**764,705**
Debt Securities	331,597	**331,597**
Loans and Advances to Customers	54,290	**54,290**
Undrawn Overdraft Facilities to Customers	71,068	**71,068**
Financial Assets	1,221,660	**1,221,660**
Customer Deposits	1,007,282	**1,007,282**
Financial Liabilities	1,007,282	**1,007,282**

IFRS13 Fair Value Measurement requires the Bank 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 markets prices are not available, or valuation techniques are used to determine fair value and the inputs are based significantly on observable market data.
- Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS

30. Financial Instruments

Group 31 March 2021	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000
Interest Rate Swaps	13,463	13,463	-	13,463	-
FX Forwards	25	25	-	25	-
Financial Assets carried at Fair Value	**13,488**	**13,488**	**-**	**13,488**	**-**
Interest Rate Swaps	25	25	-	25	-
FX Forwards	793	793	-	793	-
Financial Liabilities carried at Fair Value	**818**	**818**	**-**	**818**	**-**

a. Valuation of Financial Instruments carried at fair value through profit or loss ("FVTPL"):

Key considerations in the calculation of the fair values for financial instruments measured at fair value through profit or loss ("FVTPL") include the following:

Derivative financial instruments:
Derivative assets and liabilities in the current period 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. Foreign exchange forwards are priced using rates available from publicly quoted sources

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. There were no financial instruments measured at FVTPL for the year ended 30 November 2019.

b. Valuation of Financial Instruments carried at amortised cost:

Key considerations in the calculation of the fair values for financial instruments measured at amortised cost include the following:

Loans and Advances to Banks:
These represent amounts placed with Banks that are callable on demand and where adjustments to fair value in respect of the credit risk of counterparty are not considered necessary. The fair value of Loans and Advances to Banks is considered to be the Book Value and the Group has not recognised an ECL provision.

Debt Securities
All Debt Securities qualify as HQLA items held for liquidity management and are valued using quoted market price. There are classified as either Level 1 or Level 2 assets on the basis of their underlying market activity. The Bank is holding these assets to maturity at historical cost and they are measured at amortised cost. The Group has not recognised an ECL provision on its Debt Securities portfolio as it 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 Bank has reviewed each asset within its Debt Securities portfolio to ensure that the underlying assets remain of good quality and that there have been no breaches of covenants within the individual instruments. 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 fair value of the swap is reflected in the carrying value where appropriate.

Loans and Advances to Customers
The Bank provides loans to customers at both fixed and variable rates. For fixed rate lending, expected credit losses, 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 cashflows are adjusted for expected repayment profiles in line with those used internally for liquidity management and hedge accounting purposes. Fixed rate lending to SME customers under BBLS and CBILS are hedged with interest rate swaps, to mitigate the risk of adverse movements in interest rates. Through the application of hedge accounting, the carrying value and the fair value of the fixed rate lending is adjusted to reflect the current mark to market adjusted for interest rate risk. The fair value of LAC are also net of the ECL impairment provision. For variable rate lending, including drawn overdrafts and undrawn overdrafts, the fair value is considered to be gross carrying value less impairment provision.

Central Bank Facilities
The Central Bank facilities are floating rate, with an initial maturity of 4 years, which is extendible. The fair value of Central Bank facilities has been determined as the gross carrying value.

Deposits from Customers
The 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.

NOTES TO THE FINANCIAL STATEMENTS

30. Financial Instruments

Group
31 March 2021

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000
Loans and Advances to Banks	3,196,349	3,196,349	-	3,196,349	-
Debt Securities	1,513,278	1,517,498	1,199,310	318,188	-
Loans and Advances to Customers	2,232,846	2,232,846	-	-	2,232,846
Undrawn Overdraft Facilities to Customers	71,979	71,979	-	-	71,979
Financial Assets carried at Amortised Cost	**7,014,452**	**7,018,672**	**1,199,310**	**3,514,537**	**2,304,825**
Customer Deposits	5,827,581	5,827,581	-	5,827,581	-
Central Bank Facilities	1,000,000	1,000,000	-	1,000,000	-
Financial Liabilities carried at Amortised cost	**6,827,581**	**6,827,581**	**-**	**6,827,581**	**-**

Group
30 November 2019

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000
Loans and Advances to Banks	764,705	764,705	-	764,705	-
Debt Securities	331,597	327,819	327,819	-	-
Loans and Advances to Customers	54,290	54,290	-	-	54,290
Undrawn Overdraft Facilities to Customers	70,540	70,540	-	-	70,540
Financial Assets carried at Amortised Cost	**1,221,132**	**1,217,354**	**327,819**	**764,705**	**124,830**
Customer Deposits	1,007,282	1,007,282	-	1,007,282	-
Financial Liabilities carried at Amortised Cost	**1,007,282**	**1,007,282**	**-**	**1,007,282**	**-**

NOTES TO THE FINANCIAL STATEMENTS

30. Financial Instruments

Company
31 March 2021

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000
Loans and Advances to Banks	3,196,325	3,196,325	-	3,196,325	-
Debt Securities	1,513,278	1,517,498	1,199,310	318,188	-
Loans and Advances to Customers	2,232,846	2,232,846	-	-	2,232,846
Undrawn Overdraft Facilities to Customers	71,979	71,979	-	-	71,979
Financial Assets carried at Amortised Cost	**7,014,428**	**7,018,648**	**1,199,310**	**3,514,513**	**2,304,825**
Customer Deposits	5,827,674	5,827,674	-	5,827,674	-
Central Bank Facilities	1,000,000	1,000,000	-	1,000,000	-
Financial Liabilities carried at Amortised cost	**6,827,674**	**6,827,674**	**-**	**6,827,674**	**-**

Company
30 November 2019

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000
Loans and Advances to Banks	764,602	764,602	-	764,602	-
Debt Securities	331,597	327,819	327,819	-	-
Loans and Advances to Customers	56,539	54,290	-	-	54,290
Undrawn Overdraft Facilities to Customers	71,068	70,540	-	-	70,540
Financial Assets carried at Amortised Cost	**1,223,806**	**1,217,251**	**327,819**	**764,602**	**124,830**
Customer Deposits	1,007,299	1,007,299	-	1,007,299	-
Financial Liabilities carried at Amortised Cost	**1,007,299**	**1,007,299**	**-**	**1,007,299**	**-**

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

a. Credit Risk Exposure

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

b. Credit Quality

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

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

Credit Risk	Group	Group	Company	Company
	2021	2019	2021	2019
	£'000	£'000	£'000	£'000
Loans and Advances to Customers	2,258,290	56,539	2,258,290	56,539
Of which subject to Government Guarantee	(2,067,182)	-	(2,067,182)	-
Loans and Advances to Customers after Guarantee	191,108	56,539	191,108	56,539
Undrawn Overdraft Facilities to Customers	73,612	71,068	73,612	71,068
Credit Risk on Loans and Advances to Customers	264,720	127,607	264,720	127,607
Loans and Advances to Banks	3,196,349	764,705	3,196,325	764,602
Debt Securities	1,515,977	331,597	1,515,977	331,597
Derivative Assets	13,488	-	13,488	-
Maximum Credit Risk net of Government Guarantee	4,990,534	1,223,909	4,990,510	1,223,806
Government Guarantee	2,067,182	-	2,067,182	-
Maximum Credit Risk	7,057,716	1,223,909	7,057,692	1,223,806

Maximum credit risk includes £3,170,393k which is held with the BOE. Included in Loans and Advances to Customers is BBLS and CBILS lending which benefits from additional credit enhancement provided by the Government guarantees which are a part of the schemes' features. See note 4.

The following comprised the Group Carrying Value at 31 March 2021:

Credit Quality (Unaudited)[1]	Maximum Credit Risk net of Government Guarantee	Government Guarantee	Hedge Accounting FV Adjustment	Impairment Allowance	Carrying Amount	
	£'000	£'000	£'000	£'000	£'000	%
Loans and Advances to Banks - AA	3,178,154	-	-	-	3,178,154	45.2
Loans and Advances to Banks – A	18,195	-	-	-	18,195	0.3
Debt Securities - AAA	1,470,994	-	(2,538)	-	1,468,456	20.9
Debt Securities – AA	44,983	-	(161)	-	44,822	0.6
Derivative Assets - AA	-	-	-	-	-	0.0
Derivative Assets - A	13,488	-	-	-	13,488	0.2
Retail Lending to Customers: Low Risk (Stage 1)	63,383	-	-	(2,801)	60,582	0.9
Medium Risk (Stage 2)	5,457	-	-	(1,865)	3,592	0.1
Higher Risk (Stage 3)	3,027	-	-	(2,276)	751	0.0
SME Lending to Customers: Low Risk (Stage 1)	110,272	1,995,161	(9,648)	(6,861)	2,088,924	29.7
Medium Risk (Stage 2)	8,500	33,998	(173)	(1,361)	40,964	0.6
Higher Risk (Stage 3)	469	38,023	-	(459)	38,033	0.5
Undrawn Overdraft Facilities to Customers	73,612	-	-	(1,633)	71,979	1.0
Total	**4,990,534**	**2,067,182**	**(12,520)**	**(17,256)**	**7,027,940**	**100.0**

Note 1 – Ratings of AAA to A are derived from Standard and Poors.

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

30 November 2019 Credit Quality (Unaudited)[1]	Maximum Credit Risk	Government Guarantee	Hedge Accounting FV Adjustment	Impairment Allowance	Carrying Amount	
	£'000	£'000	£'000	£'000	£'000	%
Loans and Advances to Banks - AA	761,974	-	-	-	761,974	62.4
Loans and Advances to Banks – A	2,731	-	-	-	2,731	0.2
Debt Securities - AAA	288,934	-	-	-	288,934	23.7
Debt Securities – AA	42,663	-	-	-	42,663	3.5
Retail Lending to Customers: Low risk (Stage 1)	946	-	-	(14)	932	0.1
Medium Risk (Stage 2)	-	-	-	-	-	-
Higher Risk (Stage 3)	1	-	-	(1)	-	-
SME Lending to Customers: Low Risk (Stage 1)	124,664	-	-	(1,311)	123,353	10.2
Medium Risk (Stage 2)	1,168	-	-	(739)	429	0.0
Higher Risk (Stage 3)	828	-	-	(713)	115	0.0
Total	**1,223,909**	**-**	**-**	**(2,778)**	**1,221,131**	**100.0**

Note 1 – Ratings of AAA to A are derived from Standard and Poors.

Derivatives collateral placed with swap counterparties:
The Bank addresses the credit risks associated with derivative activities by 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 International Swaps and Derivatives Association ("ISDA") Master Agreements.

Netting arrangements do not necessarily result in an offset of Statement of Financial Position derivative assets and liabilities, as transactions are usually settled on a gross basis. The Bank's legal documentation for certain derivative transactions does grant legal rights of set-off for those transactions with the same counterparty. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark to market valuations on derivatives will offset positive mark to market values on derivatives with the same counterparty.

2021 Group and Company	As reported in SOFP	Netting Agreements	Cash Collateral	Net Amounts after Offsetting
	£,000	£'000	£'000	£'000
Derivative Assets	13,488	(25)	(1,610)	11,853
Derivative Liabilities	(818)	25	-	(793)
Closing Balance at 31 March 21	**12,670**	**-**	**(1,610)**	**11,060**

There were no derivative financial instruments held as at 30 November 2019.

Credit Concentration

The Group maintains operating cash balances at the Bank of England. Up until 30 December 2020, it also held balances at the Central Bank of Ireland in Euros. On or before that date the Bank moved all surplus balances to other major European banks and the account at the Central Bank of Ireland was closed. This was in response to the UK's exit from the European Union and the end of the transitionary period.

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

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

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

The Group offers Overdraft Facilities and Term Loans and Government-backed lending to the SME and Retail markets in the UK. The table below is shown before the impact of Government guarantees:

In November 2019, there was no concentration of credit risk by any particular feature within the lending balances to Customers. A geographical breakdown of its customer credit concentration was not provided.

Sectoral concentration	Drawn	Undrawn	Total	Drawn
	£'000	£'000	£'000	as %
SME:				
Agriculture and Energy	22,962	4	22,966	99.98%
Manufacturing	169,923	95	170,018	99.94%
Construction	300,605	220	300,825	99.93%
Wholesale and Retail Trade	344,236	199	344,435	99.94%
Transportation and Storage	101,523	6	101,529	99.99%
Accommodation and Food Service Activities	168,288	49	168,337	99.97%
Information and Communication	211,398	487	211,885	99.77%
Real Estate Activities	104,751	20	104,771	99.98%
Professional, Scientific and Technical Activities	284,848	395	285,243	99.86%
Administrative and Support Service Activities	178,692	264	178,956	99.85%
Education, Human Health and Social Work	120,811	26	120,837	99.98%
Other Service Activities	178,386	373	178,759	99.79%
Retail:				
Households	71,867	71,474	143,341	50.14%
Total Loans and Advances to Customers before Impairment Provision and benefit of Government Guarantee	**2,258,290**	**73,612**	**2,331,902**	**96.84%**

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

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

The following table summarises the Group's lending to customers including undrawn balances at 31 March 2021 by impairment stage and associated provision.

As at 31 March 2021	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Retail Lending	63,383	5,457	3,027	**71,867**
Retail Overdraft Facilities (Undrawn)	70,547	927	-	**71,474**
SME Lending	2,105,432	42,498	38,493	**2,186,423**
Of which subject to Government Guarantee	(1,995,161)	(33,998)	(38,023)	**(2,067,182)**
SME Overdraft Facilities (Undrawn)	2,138	-	-	**2,138**
Credit Risk on Loans and Advances to Customers	**246,339**	**14,884**	**3,497**	**264,720**
Retail Lending	2,801	1,865	2,276	**6,942**
Retail Overdraft Facilities (Undrawn)	1,321	281	-	**1,602**
SME Lending	6,860	1,361	460	**8,681**
SME Overdraft Facilities (Undrawn)	31	-	-	**31**
Impairment Provision	**11,013**	**3,507**	**2,736**	**17,256**
Retail Lending	60,582	3,592	751	**64,925**
Retail Overdraft Facilities (Undrawn)	69,226	646	-	**69,872**
SME Lending	103,411	7,139	10	**110,560**
SME Overdraft Facilities (Undrawn)	2,107	-	-	**2,107**
Net Carrying Amount	**235,326**	**11,377**	**761**	**247,464**
% Coverage	**4.47%**	**23.56%**	**78.24%**	**6.52%**

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

The following table summarises the Group's lending to customers including undrawn balances at 30 November 2019 by impairment stage and associated provision.

As at 30th November 2019	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Retail Lending	52,974	1,907	1,542	**56,423**
Retail Overdraft Facilities (Undrawn)	69,547	689	-	**70,236**
SME Lending	114	-	1	**115**
SME Overdraft Facilities (Undrawn)	832	-	-	**832**
Credit Risk on Loans and Advances to Customers	**123,467**	**2,596**	**1,543**	**127,606**
Retail Lending	795	739	713	**2,247**
Retail Overdraft Facilities (Undrawn)	295	221	-	**516**
SME Lending	2	-	1	**3**
SME Overdraft Facilities (Undrawn)	12	-	-	**12**
Impairment Provision	**1,104**	**960**	**714**	**2,778**
Retail Lending	52,178	1,168	829	54,175
Retail Overdraft Facilities (Undrawn)	69,252	468	-	69,720
SME Lending	113	-	-	113
SME Overdraft Facilities (Undrawn)	820	-	-	820
Net Carrying Amount	**122,363**	**1,636**	**829**	**124,828**
% Coverage	**0.89%**	**36.98%**	**46.27%**	**2.18%**

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

Retail	Gross Loans				Impairment Provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 December 2019	52,879	1,907	1,542	56,328	795	739	713	2,247
Changes Reflected in Impairment Losses:								
Increase due to Originations[1]	36,506	2,366	1,200	40,072	556	757	754	2,067
Decrease due to Repayments	(22,001)	(401)	(883)	(23,285)	(130)	(45)	(93)	(268)
Changes in Credit Risk[2]	-	-	-	-	3,306	(92)	110	3,324
Amounts Written-off	(502)	(416)	(330)	(1,248)	(24)	(124)	(280)	(428)
Impairment Losses recognised in SOCI	-	-	-	-	3,708	496	491	4,695
Transfers between Stages:								
To Stage 1	623	(553)	(70)	-	33	(20)	(13)	-
To Stage 2	(2,650)	2,678	(28)	-	(740)	751	(11)	-
To Stage 3	(1,472)	(124)	1,596	-	(995)	(101)	1,096	-
As at 31 March 2021	**63,383**	**5,457**	**3,027**	**71,867**	**2,801**	**1,865**	**2,276**	**6,942**
Coverage Ratio	**-**	**-**	**-**	**-**	**4.4%**	**34.2%**	**75.2%**	**9.7%**

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

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

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

Impairment losses recognised in the Statement of Comprehensive Income of £14,478k comprise amounts in the lines under the heading "Changes reflected in impairment losses" together with net amounts written off. In addition impairment losses include other amounts charged directly to the Statement of Comprehensive Income.

SME[1]	Gross Loans				Impairment Provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 December 2019	209	-	1	210	2	-	1	3
Changes reflected in Impairment Losses:								
Increase due to Originations[2]	110,215	8,500	470	119,185	6,859	1,361	460	8,680
Decrease due to Repayments	(153)	-	(1)	(154)	-	-	(1)	(1)
Changes in Credit Risk[3]	-	-	-	-	(1)	-	-	(1)
Amounts Written-off	-	-	-	-	-	-	-	-
Impairment losses recognised in SOCI	-	-	-	-	6,858	1,361	459	8,678
Transfers between stages:								
To Stage 1	-	-	-	-	-	-	-	-
To Stage 2	-	-	-	-	-	-	-	-
To Stage 3	-	-	-	-	-	-	-	-
As at 31 March 2021	**110,271**	**8,500**	**470**	**119,241**	**6,860**	**1,361**	**460**	**8,681**
Coverage Ratio	**-**	**-**	**-**	**-**	**6.2%**	**16.0%**	**97.9%**	**7.3%**

Note 1 - Amounts due under CBILS and BBLS lending schemes are shown net of government guarantee. See note 31b Credit Risk.

Note 2 - Includes loans at reporting date stage, rather than stage at origination.

Note 3 - Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Undrawn Overdraft facilities (Retail and SME)	Gross loans				Impairment provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 December 2019	70,379	689	-	71,068	307	221	-	528
Changes reflected in impairment losses:								
Increase due to Originations[1]	22,609	628	4	23,241	91	66	-	157
Decrease due to Repayments	(20,066)	(477)	10	(20,533)	(142)	(70)	-	(212)
Changes in Credit Risk[2]	-	-	-	-	1,238	(64)	3	1,177
Amounts Written-off	(122)	(42)	-	(164)	(9)	(8)	-	(17)
Impairment losses Recognised in SOCI					1,178	(76)	3	1,105
Transfers between Stages:								
To Stage 1	359	(345)	(14)	-	10	(9)	(1)	-
To Stage 2	(470)	475	(5)	-	(143)	145	(2)	-
To Stage 3	(4)	(1)	5	-	-	-	-	-
As at 31 March 2021	**72,685**	**927**	**-**	**73,612**	**1,352**	**281**	**-**	**1,633**
Coverage Ratio	**-**	**-**	**-**	**-**	**1.9%**	**30.3%**	**0.0%**	**2.2%**

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

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

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

Given the lesser balance on SME lending in the prior year comparatives are not presented on a segmental basis:

Impairment	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
As at 1 December 2018[1]	234	122	274	630
New Loans and Overdrafts	2,992	660	270	3,921
Transfer to Stage 2	(2,126)	2,304	-	178
Transfer to Stage 3	-	(2,126)	2,296	170
Impact on ECL of Transfers between Stages	4	-	-	4
De-recognition	-	-	(2,126)	(2,126)
As at 30 November 2019	**1,103**	**960**	**714**	**2,777**

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

Credit Ageing

The ageing of the Group's Loans and Advances to Customer (net of Government guarantees) at 31 March 2021 is as follows:

Credit Ageing	Gross Carrying Amount				Impairment Provision				Group
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Drawn Facilities:									
Under 31 Days[1]	173,654	12,898	730	187,282	9,661	2,745	744	13,150	502
31 to 60 Days past due	-	572	14	586	-	231	12	243	1,712
61 to 90 Days past due	-	487	5	492	-	250	4	254	34
Over 90 Days past due	-	-	2,748	2,748	-	-	1,976	1,976	1
Total Drawn Facilities	**173,654**	**13,957**	**3,497**	**191,108**	**9,661**	**3,226**	**2,736**	**15,623**	**2,249**
Undrawn Facilities									
Under 31 Days	72,685	927	-	73,612	1,352	281	-	1,633	118
31 to 60 Days past due	-	-	-	-	-	-	-	-	402
61 to 90 Days past due	-	-	-	-	-	-	-	-	8
Over 90 Days past due	-	-	-	-	-	-	-	-	-
Total Undrawn Facilities	**72,685**	**927**	**-**	**73,612**	**1,352**	**281**	**-**	**1,633**	**528**
Total Credit Risk on Loans and Advances to Customers	**246,339**	**14,884**	**3,497**	**264,720**	**11,013**	**3,507**	**2,736**	**17,256**	**2,777**

Note 1 - Amounts due under the CBIL net of government guarantees are not yet past due as they have yet entered contractual repayments with repayments instead being made by the UK Government on behalf of the borrowers.

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

The tables below provide information on loans and advances to customers and undrawn overdraft facilities (off balance sheet) grouped by credit risk rating (probability of default). For further details on how the probability of default ("PD") affects the Group's assessment of ECLs, see note 2 (Accounting policies) and note 3 (Use of Judgements and Estimates). Given additional data has been generated to support this new disclosure the prior year comparatives are not available.

Probability of Default:	Gross Carrying Amount				Impairment Provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<0.25%	54,734	2	-	54,736	152	-	-	152
0.25% - <0.5%	27,374	7	-	27,381	592	-	-	592
0.5% - <0.75%	6,862	31	-	6,893	123	6	-	129
0.75% - <1.0%	12,723	41	-	12,764	243	10	-	253
1.0% - <2.5%	57,860	1,590	-	59,450	2,001	281	-	2,282
2.5% - <10.0%	79,902	8,969	-	88,871	6,248	1,933	-	8,181
10.0% - <100%	6,884	4,244	-	11,128	1,654	1,277	-	2,931
Default	-	-	3,497	3,497	-	-	2,736	2,736
Total Credit Risk on Loans and Advances to Customers	**246,339**	**14,884**	**3,497**	**264,720**	**11,013**	**3,507**	**2,736**	**17,256**

The table below provides an analysis of loans and facilities held in Stage 2 as at the Statement of Financial Position date, reflecting the reasons for inclusion in Stage 2. For the purpose of this analysis where a loan satisfies more than one of the Stage 2 criteria, the loan is included in one category only and in order of the categories presented. The amounts presented below as "Over 30 days past due" therefore include all Stage 2 loans which are now over 30 days past due as at the Statement of Financial Position date, including where this was not the initial reason for being classified as Stage 2. Given additional data has been generated to support this new disclosure the prior year comparatives are not available.

Stage 2 analysis:	Gross Carrying Amount	Impairment Provision	Impairment Provision
	£'000	£'000	%
Drawn Facilities:			
Over 30 Days past due[1]	1,245	703	56.47%
In Forbearance	962	485	50.42%
In Arrears	-	-	0.00%
Terms Expired	-	-	0.00%
Increase in PD since Origination	11,750	2,038	17.34%
Total Drawn facilities	**13,957**	**3,226**	**23.11%**
Undrawn Facilities:			
Over 30 Days past due	-	-	0.00%
In Forbearance	-	-	0.00%
In Arrears	-	-	0.00%
Terms Expired	-	-	0.00%
Increase in PD since Origination	927	281	30.31%
Total Undrawn facilities	**927**	**281**	**30.31%**
Total	**14,884**	**3,507**	**23.56%**

Note 1 - This includes loans with a gross carrying amount of £211k which are also in forbearance. See table on following page.

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

Forbearance

Where appropriate for customers the Group applies a policy of forbearance. Both Retail and SME loans are subject to the forbearance policy. The main customer treatments included 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. In the current period due to the Covid-19 pandemic, the Group has 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. Customers are not required to make principal or interest payments on these loans in the first 12 months and therefore forbearance measures were not required for those loans in the current period.

Modifications

There were no modifications to Loans and Advances to Customers that resulted in a change in credit risk in the asset.

31 March 2021				
Forbearance:	**Total**	**Of which Stage 2**	**Of which Stage 3**	**ECL as % of Forborne Loans**
	£'000	**£'000**	**£'000**	**%**
Retail	2,563	1,173	829	56.61%
SME	-	-	-	0.00%
Total	**2,563**	**1,173**	**829**	**56.61%**

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. At 31 March 2021 the Group's contractual maturities of the financial assets and liabilities were as follows:

Contractual Maturity

	Total	**Undated**	**On Demand**	**Up to 3 Months**	**3 - 12 Months**	**1 - 3 Years**	**3 - 5 Years**	**Over 5 Years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans and Advances to Banks	3,196,349	-	3,196,349	-	-	-	-	-
Debt Securities	1,513,278	-	-	-	205,944	687,510	510,657	109,167
Loans and Advances to Customers	2,232,846	-	12,932	394	2,618	68,711	545,642	1,602,549
Derivative Assets	13,488	-	-	104	331	4,278	-	8,775
Total Financial Assets	**6,955,961**	**-**	**3,209,281**	**498**	**208,893**	**760,499**	**1,056,299**	**1,720,491**
Other Assets	92,873	72,103	-	15,653	2,911	2,206	-	-
Total Assets	**7,048,834**	**72,103**	**3,209,281**	**16,151**	**211,804**	**762,705**	**1,056,299**	**1,720,491**
Customer Deposits	5,827,581	-	5,827,581	-	-	-	-	-
Central Bank Facilities	1,000,000	-	-	-	-	-	1,000,000	-
Derivative Liabilities	818	-	-	793	7	13	-	5
Total Financial Liabilities	**6,828,399**	**-**	**5,827,581**	**793**	**7**	**13**	**1,000,000**	**5**
Other Liabilities	75,356	71,132	-	4,209	-	15	-	-
Lease Liability	4,248	-	-	198	810	1,912	695	633
Total Liabilities	**6,908,003**	**71,132**	**5,827,581**	**5,200**	**817**	**1,940**	**1,000,695**	**638**

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

The Group's exposure to Loan and Advances to Banks are either to Central Banks or Commercial Banks with a rating better than A (See Note 11).

The Group has a single deposit product which is aimed at the personal and SME current account markets in the UK, consequently its Customer Deposits are from a highly diverse population and do not give rise to a concentration for liquidity purposes. Similarly, its overdrafts and lending products do not give rise to a single obligor risk that is material. The Group's exposure to Debt Securities is monitored by the Group's ALCO and follows a prescribed investment strategy that ensures that the HQLA Assets are diversified as to tenor and issuer.

Expected cash flows on Customer Deposits, Central Bank Facilities and Loans and Advances to Customers may vary significantly from the contractual cash flows shown in the table above. Customer deposits are largely repayable on demand but have proven to be a stable source of funding. Loans and Advances to Customers includes certain Government-backed lending which, subsequent to the Statement of Financial Position date, offer customers the ability to take repayment holidays and to extend repayments to a maximum ten years. In addition the Central Bank Facilities drawn under the TFSME currently offer the option to extend repayment by another two years.

2019
Contractual Maturity

	Total	On Demand	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans and Advances to Banks	764,705	764,705	-	-	-	-	-
Debt Securities	331,597	-	1,000	5,796	50,811	272,042	1,948
Loan and Advances to Customers	54,290	16,128	2,460	7,790	9,394	18,518	-
Total Financial Assets	**1,150,592**	**780,833**	**3,460**	**13,586**	**60,205**	**290,560**	**1,948**
Other Assets	54,571	54,571	-	-	-	-	-
Total Assets	**1,205,163**	**835,404**	**3,460**	**13,586**	**60,205**	**290,560**	**1,948**
Customer Deposits	1,007,282	1,007,282	-	-	-	-	-
Total Financial Liabilities	**1,007,282**	**1,007,282**	**-**	**-**	**-**	**-**	**-**
Other Liabilities	125,474	125,474	-	-	-	-	-
Total Liabilities	**1,132,756**	**1,132,756**	**-**	**-**	**-**	**-**	**-**

The following table is an analysis of undiscounted gross contractual cashflows on financial liabilities. 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 at the Statement of Financial Position date.

2021
Undiscounted Contractual Cashflows

	Total	Undated	On Demand	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Central Bank Facilities	1,003,594	-	-	250	750	2,000	1,000,594	-
Customer Deposits	5,827,581	-	5,827,581	-	-	-	-	-
Derivative Liabilities	821	-	-	793	7	14	1	6
Other Liabilities	79,604	71,132	-	4,407	810	1,927	695	633
Total Liabilities	**6,911,600**	**71,132**	**5,827,581**	**5,450**	**1,567**	**3,941**	**1,001,290**	**639**

2019
Undiscounted Contractual Cashflows

	Total	On Demand	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Customer Deposits	1,007,282	1,007,282	-	-	-	-	-
Other Liabilities	125,474	125,474	-	-	-	-	-
Total Liabilities	**1,132,756**	**1,132,756**	**-**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

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 Starling being interest rate risk in the banking book ("IRBB"). FX swaps and interest rate swaps are used to manage the structural risk in the Statement of Financial Position of the Bank. 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. See note 15 for further detail.

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.

Measuring exposure to interest rate risk

IRBB is measured by calculating both positive and negative instantaneous shocks to interest rates on:

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

Derivatives and hedge accounting:

The Group uses fair value hedges of interest rate risk on a portfolio basis to hedge its IRBB.

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. As a result the Group adopts a dynamic hedging strategy to hedge the interest rate risk component within the exposure profile by entering into new swap agreements each month. The Group uses a portfolio approach to assess the fair value of Loans 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 fixed rate loans and Debt Securities, to reduce the volatility in the Statement of Comprehensive Income 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 using the dollar-offset method. The hedge relationship is reassessed prospectively each month and the Bank de-designates and re-designates the portfolio fair value hedge on a monthly basis and the hedge relationship is reassessed prospectively each month .

The Group assesses hedge ineffectiveness on an ongoing basis. Occasionally minimal hedge ineffectiveness can arise. The main sources of ineffectiveness in fair value hedges of interest rate risk are:

- Customer behaviour differing to original hedged repayment profile.

Hedging instrument: The following table sets out the maturity profile and average price and 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 2021

	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years
Fair Value Hedges:					
Interest Rate Swaps Notional (£'000)	150,000	559,000	1,158,000	639,000	337,000
Average Fixed Interest Rate %	0.02%	0.01%	-0.02%	0.08%	0.46%

The table below provide further detail on the Group's fair value hedges used in hedge relationships:

31 March 2021

	Notional Amount	Fair Value of Assets[1]	Fair Value of Liabilities[1]	Change in Fair Value Charge/ (credit)[2]	Hedge Ineffectiveness Charge/(credit)[3]
	£'000	£'000	£'000	£'000	£'000
Interest Rate Swaps	2,843,000	13,463	(25)	12,877	(357)

Note 1 – Included in the Statement of Financial Position line "Derivative financial assets" / "Derivative financial liabilities". Amount shown in table excludes interest accrued on derivatives.

Note 2 – The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Statement of Comprehensive Income during the period

Note 3 – The amount of hedge ineffectiveness recognised in the Statement of Comprehensive Income in the period. The Statement of Comprehensive Income line that includes the hedge ineffectiveness recognised during the period is "Other Income".

NOTES TO THE FINANCIAL STATEMENTS

31. Risk Management

The table below provide further detail on the Group's hedged items:

31 March 2021	Carrying Amount Assets	Fair Value Adjustment on Hedged Item	Change in Fair Value charge/ (credit)[3]	Amount remaining on Items De-designated from Hedge Relationships[4]
	£'000	£'000	£'000	£'000
Fixed Rate Loans and Advances to Customers[1]	2,268,000	9,821	(9,821)	9,870
Debt Securities[2]	575,000	2,699	(2,699)	2,774

Note 1 – The SOFP line that includes these items is "Loans and Advances to Customers"

Note 2 – The SOFP line that includes these items is "Debt Securities"

Note 3 – The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Statement of Comprehensive Income during the period in the line "Other income"

Note 4 – The accumulated amount of fair value hedge adjustments remaining in the SOFP for fair value hedges

Interest rate benchmark reform ("IBOR reform"):
In the prior year, driven by the uncertainty arising from interest rate benchmark reforms, initiated by the BOE the Bank commenced a project to transition away from LIBOR as the benchmark for valuing financial instruments to using a compounded SONIA rate on the assumption that this will replace LIBOR as the market standard. The impact of this transition will be achieved through the migration of LIBOR to SONIA as required through the market basis for LIBOR linked financial instruments.

The Group now has minimal outstanding exposure to the benchmark interest rate LIBOR. The Bank uses SONIA as its benchmark for hedging purposes. The Bank has also carried out an exercise to close out any LIBOR-based interest rate Debt Securities held. This resulted in the sale of one debt security while the basis on two Debt Securities held was switched by the issuer from LIBOR to SONIA. There remains one residual position which matures in June 2021.

Market Risk Metrics – Interest Rate Sensitivity
Sensitivity analysis of Net Interest Income ("NII") is performed on the Banks's consolidated Statement of Financial Position. As at 31 March 2021, the projected change in Net Interest Income in response to an immediate parallel upwards and downwards shift in all relevant interest rates would be an increase of £78m (2019: £16m) and a decrease of £84m (2019: £18m) from 200bps 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:
Foreign exchange risk in the current period arises mainly from customers deposits that are in a currency other than the functional currency of the Bank. This is managed through short dated high quality liquid assets held in those currencies, by assets held with nostro banks and also through fx swaps with market counterparties. Starling has minimal residual FX risk. In the prior year, the majority of the Bank's FX position comprised the unrecognised deferred income arising from the cash settled contribution from the Bank's card services provider. The Bank had economically hedged the exposure and consequently had little exposure to the movement in FX rates.

Market Risk Metrics - FX Sensitivity
Sensitivity analysis to Foreign Exchange ("FX") movements is performed at the Bank's net foreign exchange position.

31 March 2021 Net Foreign Exchange Exposure	Sterling	Euro	US Dollar	Total
	£'000	£'000	£'000	£'000
Loans and Advances to Banks	3,187,011	6,111	3,227	3,196,349
Debt Securities	1,457,423	55,855	-	1,513,278
Loans and Advances to Customers	2,232,846	-	-	2,232,846
Derivative Assets[1]	9,861	-	3,627	13,488
Other Assets	84,375	8,498	-	92,873
Customer Deposits	(5,656,154)	(154,910)	(16,517)	(5,827,581)
Central Bank Facilities	(1,000,000)	-	-	(1,000,000)
Derivative Liabilities[1]	(98,178)	87,744	9,616	(818)
Other Liabilities	(78,502)	(807)	(295)	(79,604)
Net Position	**138,682**	**2,491**	**(342)**	**140,831**

Note 1 - FX swaps pay and receive legs are shown on a gross basis to reflect economic hedge.

NOTES TO THE FINANCIAL STATEMENTS

32. Regulatory Capital

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

	Group	Group	Company	Company
	Mar 2021	Nov 2019	Mar 2021	Nov 2019
	£'000	£'000	£'000	£'000
Shareholder Equity as per the Statement of Financial Position	140,831	67,925	156,132	69,176
Regulatory Deductions:				
Intangible Assets/Other Adjustments	(9,280)	(16,055)	(32,350)	(19,504)
Deferred Tax Asset	(6,088)	-	(6,088)	-
Other Reserves	-	(761)	-	(761)
IFRS 9 Transitional Provision	11,306	-	11,306	-
Common Equity Tier1 ("CET1") Capital	136,769	51,109	129,000	48,911
Total Regulatory Capital	136,769	51,109	129,000	48,911

Starling Bank Limited reports its risk exposures on a solo-consolidated basis for regulatory reporting, following permission from the PRA, it uses the Individual Consolidation method in accordance with Article 9 of the CRR, and has incorporated in the calculation of its requirement its subsidiary undertaking, Starling FS Services Ltd. Murmur Financial Services International DAC, currently a non-trading entity, does not fall within the scope of the prudential regulatory consolidation. The following is based on the solo-consolidated basis:

33. Risk Weighted Assets and Regulatory Ratios (Unaudited)

	RWA Group	RWA Group	RWA Company	RWA Company
	31 Mar 2021	30 Nov 2019	31 Mar 2021	30 Nov 2019
	£'000	£'000	£'000	£'000
Credit Risk Exposure	240,665	92,339	240,548	92,303
Operational Risk Exposure (Notional)	25,075	28,250	25,075	28,250
Market Risk Exposure	-	1,712	-	1,712
CVA	19,949	-	19,949	-
Total Risk Weighted Assets	285,689	122,301	285,572	122,265
Common Equity Tier ("CET1") Ratio	47.89%	41.80%	45.17%	40.00%
Total Tier 1 Ratio	47.89%	41.80%	45.17%	40.50%
(UK) Leverage Ratio	5.37%	21.50%	5.08%	21.10%

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

The Bank's policy is to maintain a strong capital base to maintain investor and market confidence and to sustain the future development of the business. The Board manages its capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the Bank's ICAAP. The ICAAP represents the Board's view of the Bank's risk appetite and is used in conjunction with the Group's capital plan by the Board, management and shareholders to understand the levels of capital required to be held over the medium term and to assess the resilience of the Bank against shocks.

NOTES TO THE FINANCIAL STATEMENTS

34. Related Party Transactions

a. Parent and Controlling Entities

The immediate holding company at the reporting date was JTC Starling Holdings Limited and is deemed the ultimate controlling party. At the reporting date, JTC Starling Holding Limited holds 56.54% (2019: 62%) of the total shares in issue and is entitled to 56.54% (2019: 62%) of the voting rights.

Deposit Balances held by Individuals Associated with JTC Starling Holdings Limited Comprised:	As at 31 Mar 2021	Net Increase/ (Decrease) during Period	As at 30 Nov 2019
	£'000	£'000	£'000
Balances on Deposit Accounts	**44**	(388)	**382**

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

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.

Anne Boden, MBE, who is also the CEO, holds 8.5% (2019: 12%) of the total shares in issue and is entitled to 22% of the voting rights (2019: 23%) and consequently is deemed a related party.

Deposits balances held by Key Management Personnel comprised:	As at 31 Mar 2021	Net Increase/ (decrease) during period	As at 30 Nov 2019
	£'000	£'000	£'000
Balances on Deposit Accounts	**987**	863	**124**

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

Key Management Personnel Compensation	For Period ended 31 Mar 2021	Net Increase/ (Decrease)	For period Ended 30 Nov 2019
	£'000	£'000	£'000
Wages and Salaries	**1,608**	614	**994**
Social Security Costs	**211**	82	**129**
Total	**1,819**	696	**1,123**

The Directors do not participate in the Bank's pension arrangement. There were no pension contributions paid by the Bank on behalf of Directors.

c. Subsidiaries and Affiliates

Interest in the Subsidiaries is set out in note 20.

	31 Mar 2021	Net Increase/ (Decrease)	30 Nov 2019
	£'000	£'000	£'000
Inter-company Balances with the Subsidiary Entities	**32,328**	12,834	**19,494**

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

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

During the period, Starling Bank Limited charged Starling FS Services Limited £10,999k (2019: £9,922k) for the attributable proportion of staff salaries, employers NIC and other identified costs incurred by the Parent Company in the design, specification, build, test and implementation of the mobile phone App and associated infrastructure.

During the period, Starling Bank Limited provided funding to Murmur Financial Services International DAC for the staff salaries, employers NIC, rent and rates and other costs associated with establishing an Irish office and provided funding of £1,835k (2019: £155k).

NOTES TO THE FINANCIAL STATEMENTS

35. Capital Commitments

At 31 March 2021, the Company had no committed capital expenditure that had not been provided for in the accounts (2019: £Nil).

36. Financial Commitments

At 31 March 2021, the Company had committed to future lending of CBILS of £71,687k (2019: £nil) and BBLS of £1,454k (2019: £nil). These commitments represent agreements to lend in the future, subject to certain conditions.

37. Contingent Liabilities

At 31 March 2021, the Company had no contingent liabilities (2019: £Nil).

38. Events After Reporting Period

The following events have taken place between 31 March 2021 and the date of approval of these accounts by the Board:

Share issuance – additional fundraising
Subsequent to the balance sheet date, the Group received notice from the PRA that the Series D Funding round, announced on 8 March 2021, had received regulatory approval. Consequently, the Group's equity capital base has been increased by £225m net (£232m before expenses of issue). As a consequence of receiving regulatory approval the Bank's CET 1 and Tier 1 Ratios increased to 127%, and the UK Leverage ratio increased to 14.2%.

As a result of the additional fundraising on 22nd June and certain share transfers, JTC Starling Holdings Limited holds 37.39% of the total shares in issue and is entitled to 37.39% of the voting rights.

39. Country by Country Reporting

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

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

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

Country by Country[1]	**Group**	Group	**Company**	Company
	31 Mar 2021	30 Nov 2019	**31 Mar 2021**	30 Nov 2019
Turnover (£'000)[2]	**97,589**	14,201	**119,512**	23,945
Loss before Tax (£'000)	**(31,454)**	(53,602)	**(15,265)**	(48,873)
Corporation Tax Paid (£'000)	**Nil**	Nil	**Nil**	Nil
Number of Employees on Full time Equivalent Basis	**1,245**	740	**1,237**	740
Subsidy Amounts Received (£'000)	**Nil**	Nil	**Nil**	Nil
Jurisdictions in which Operated	**UK**	UK	**UK**	UK

Note 1 – The table includes a non-operating Irish subsidiary which has not yet received its banking licence.

Note 2 - Turnover is defined as total income/(expense).

40. Non-IFRS measures

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

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

ABBREVIATIONS AND ACRONYMS

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

Starling Bank