We're here to change things

Starling Bank Limited
Annual Report & Consolidated Financial Statements 2022

Company Information

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

Group Strategic Report 02

Directors' Report 82

Financial statements 103

Other Information 172

Starling Bank is redefining banking for the digital age

Strong targeted growth

Profit Before Taxation ("PBT")
£32.1m
2021: -£31.5m (Loss Before Taxation)

CET1 Ratio
39.96%
2021: 47.89%

Number of Employees
1,941
2021: 1,245

Return on Tangible Equity ("ROTE") – Pre-Tax
9.31%
2021: n/a

Market Share - SME
8.0%
2021: 5.6%

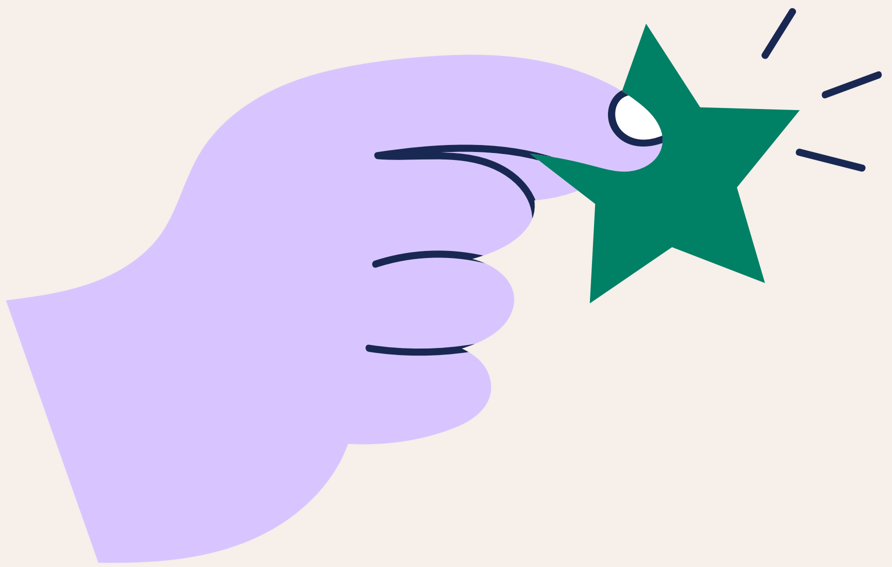
Number of Accounts
2.7m
2021: 2.1m

Deposits
£9.03bn
2021: £5.83bn

Average Deposit Size SME
£13.7k
2021: £12.6k

Average Deposit Size Retail
£2.1k
2021: £1.8k

Volume of Spend on Card Transactions
£11.8bn
2021: £7.3bn



It's been a great year for Starling Bank

I am delighted to have joined Starling as Chair at such a key point in its development as it reports its first full year in profit.

Throughout my almost 40 year business career I have seen that the most successful organisations are those that put building and retaining trust at the core of their strategy. Invariably this involves challenging the established order, innovating and finding new ways of serving customers and recognising their responsibilities to improve the markets in which they operate.

What I found in Starling was a genuine tech disruptor, changing the way individuals and small businesses feel about their bank, having established itself in a unique position in the UK technology and financial services landscape.

Having successfully developed and embedded a sustainable business model, established itself as a recognisable and trusted brand and scaled its operations, Starling now stands on the cusp of a new era of sustainable growth. This will include continued growth of its customer offering in the UK as well as selective international expansion into new territories and into new sectors as a tech company providing Software as a Service ("SaaS") on a global scale.

I joined the Starling Board in June 2021 and became Chair in October 2021. One of my main priorities since then has been to ensure the Board has an effective balance of skills, knowledge, experience and diversity to continue constructively challenging the Executive as they deliver on Starling's ambitious strategic plans. I look forward to working with my Board colleagues in the coming year.

I'd like to thank my predecessor as Chair Oliver Stocken, who retired in October 2021. Oliver oversaw Starling from its very early days, helping guide the Company as it gained its banking licence and later became profitable.

Starling has an outstanding management team in Anne and the Executive Committee colleagues, who each draw from a deep well of experience, expertise and compassion. This team has always embraced change and moved fast, but has never lost sight of the need to create long-term value.

David Sproul
Chairman

"Having successfully developed and embedded a sustainable business model, established itself as a recognisable and trusted brand and scaled its operations, Starling now stands on the cusp of a new era of sustainable growth.

A new landmark: Starling's first full year of profitability

Business Review

Starling Bank stands in a category of one. A digital Bank serving millions of individuals and small to medium-sized enterprises ("SME") in the UK, we stand out among the next-generation banks for the power of our proprietary technology, the quality of our customer experience, the strength of our balance sheet and for being profitable.

We have achieved our first full year of profitability within five years of launching in app stores in 2017. With this milestone we have established a sustainable business model that allows us to generate our own capital organically and to expand into new markets.

When I started Starling in 2014 it was with the aim of using technology for good by building from scratch a core banking platform that would help customers to live a healthier financial life. Technology remains at our core and we have now embarked on a new phase of growth with the launch of Engine by Starling, our SaaS subsidiary. A cloud-native, full-featured, and flexible banking platform, Engine will take Starling's software to banks around the globe. Our aspiration is that when people look at Starling in the future, they will see an international tech company that also owns a successful banking business.

As we continue to navigate the longer term of the pandemic, new sources of uncertainty and instability have emerged, including the Russian invasion of Ukraine and its devastating impact on the people and country of Ukraine. In addition, the cost of living crisis, which, with inflation reaching its highest level in the UK for forty years of 9.1% in May, is hitting hard some of the most vulnerable people in society.

The full effects of these headwinds on consumers and business have yet to be seen and we are watching closely to see how the most vulnerable are being affected. To date there has been no impact on our customers' behaviour, and we remain extremely well capitalised with strong growth. We are alive to the potential economic risks that may bring further human suffering and a prolonged economic downturn in the months ahead.

> Our aspiration is that when people look at Starling in the future, they will see an international tech company that also owns a successful banking business.

A full year of profitability

It is really pleasing to be reporting our first full year of profitability giving a positive return on equity to our investors. For the 12 months to 31 March 2022, the Group swung from a pre-tax loss of £13.7 million (12 months to March-21) to a pre-tax profit of £32.1 million. We'll go into the numbers in further detail later in the Financial Review section of this report.

Key to our profitability is our proprietary technology, developed entirely in-house. It underpins a lean fixed cost base that allows us to add customer volume that is accretive to the bottom line. In the year to 31 March 2022, we were able to increase our employee headcount by 696 to 1,941, while keeping the increase in our fixed costs and unit costs well below the increases we saw in total income and customer volumes. With our relentless focus on customer service and seamless app experience we are able to attract and retain a larger share of customer transactions and we saw a 55% rise in our deposit base to £9,027 million in the 12 months to 31 March 2022. At the same time, our new mortgage lending strategy has allowed us to increase our gross Loans and Advances to Customers by 45% to £3,266 million. Together with our continuous product innovation these are setting Starling apart from its competitors.

The £450 million of capital we have received from new and existing investors in 2021 and 2022 to date, represents a vote of confidence in our leadership, strategy and in our ability to execute. Last year, we broadened our investor base, bringing on board some of the world's most sophisticated and well-informed investors. They joined our early investors, JTC, which oversees the investment activity of Harry McPike, a global private investor, and UK's Jupiter (formerly Merian) Asset Managers.

In yet another endorsement, all of our investors participated in the recent £130.5 million internal round that completed in April 2022 at a valuation of £2.525 billion, more than double last year's Series D valuation of £1.1 billion.

Together with our profitability, the support of our investors reinforces our position as a well-capitalised business that continues to not only meet regulatory capital requirements but also to comfortably exceed all of the regulatory minimum requirements. And, of course, this provides us with significant headroom for continued investment and growth as we scale, to expand internationally and to continue to build our lending.

Delivering on our lending strategy and our first acquisition, Fleet Mortgages

One of the key advantages of being a Fintech with a full banking licence is that we are a deposit-taking institution and we can lend. We made it a priority to support our small business customers through the unique challenges presented by COVID-19, helping them keep the lights on by providing access to lending through the Government-backed Bounce Back Loan Scheme ("BBLS") and the Coronavirus Business Interruption Loan Scheme ("CBILS"). Additionally, during the current year we have participated in the Government-backed Recovery Loan Scheme ("RLS").

Starling is pursuing a diversified asset strategy, comprising mortgages, retail and SME lending and treasury products. Our aim is to maximise returns while also maintaining a low risk and stable balance sheet.

In July 2021, we announced our first acquisition, Fleet Mortgages Ltd, a specialist buy-to-let mortgage lender that works exclusively through the intermediary sector. The business is underpinned by exceptional underwriting capabilities and a prudent approach to risk. We bought Fleet because it is very good at what it does, not because we wanted to change it. It continues to operate from its Hampshire base with its existing and highly-respected management team and brand.

We have made no secret of our M&A ambitions and expect targeted acquisitions to play a key role in the year ahead.

Growing our customer base

We continue to grow our customer base and to address the deep market opportunity offered by the UK banking market. As of 31 March 2022, we had more than 2.7 million customer accounts, including 450,000 small business accounts, up from 2.1 million and 330,000 a year earlier.

Since the launch of our business accounts for SMEs in 2018, we have gained an 8% share of the UK's SME banking market.

For the last two years, we have been named Which? Banking Provider of the Year. We have also been voted Best Current Account in the British Bank Awards for five consecutive years. In the Competition and Markets Authority's most recent independent survey, we rank No.1 for Overall Service Quality and for Online and Mobile Banking Services for both our personal and small business accounts. Our customer ratings stand at 4.9 in the Apple App Store and 4.8 in the Android Play Store.

Crucially, in an increasingly busy bank account switching market, we were the most switched-to bank in 2021, quite an achievement when you think that we don't offer switchers financial inducements. When people switch to Starling, it is because they have heard good things about us.

What makes our growth special is our high level of customer engagement and the fact that customers hold higher balances and spend more the longer they have an account with us.

More customers are making Starling their main bank account with another important milestone reached during the year: our monthly inbound direct credits for customers' accounts topped £1 billion.

At the same time we've seen the volume of customers' card transactions increase by over 62% to 380 million and the value of their spending increase by over 60% to £11.8 billion in the year to 31 March 2022.

An innovative culture

One of the things I am most proud of, as we grow and scale, is that we have retained the culture and spirit of a fast-moving, disruptive technology company. This is due in large part to the dedication, energy and empathy of our colleagues and also to their ideas. We're proud to bring together people of all backgrounds and experiences who love working together to solve problems.

Many of our most popular product innovations are suggested by our customer service agents, who are available 24/7 to talk and chat with customers about how they use their Starling app. Our customers are always letting us know what they want, through our customer agents, our social media channels and sometimes even in emails to me personally. We listen. As we told customers when we launched our Bills Manager feature to help customers pay their bills on time, in November 2021, "you asked, we delivered". It was indeed one of our most requested features.

We didn't wait to be asked for our contactless slider. Introduced to popular acclaim in October 2021 as soon as the new £100 contactless cap went live, this feature allows Starling customers to set their own limit from £0 to £100.

In the coming months, we will be releasing new products and features for our small business customers. This will allow us to fulfil the final commitments we made in 2019 on receiving a £100 million grant from the Capability and Innovation Fund ("CIF"), as part of a plan to boost competition and innovation in the banking market for SMEs.

Tech first

We have been working hard to develop our data platform and pipelines so that we can ensure that we use the data we have to the best advantage of our customers.

Traditionally in banking, fraud and credit are the exploratory areas for Machine Learning and Artificial Intelligence. Our uses of data science already stretch well beyond this.

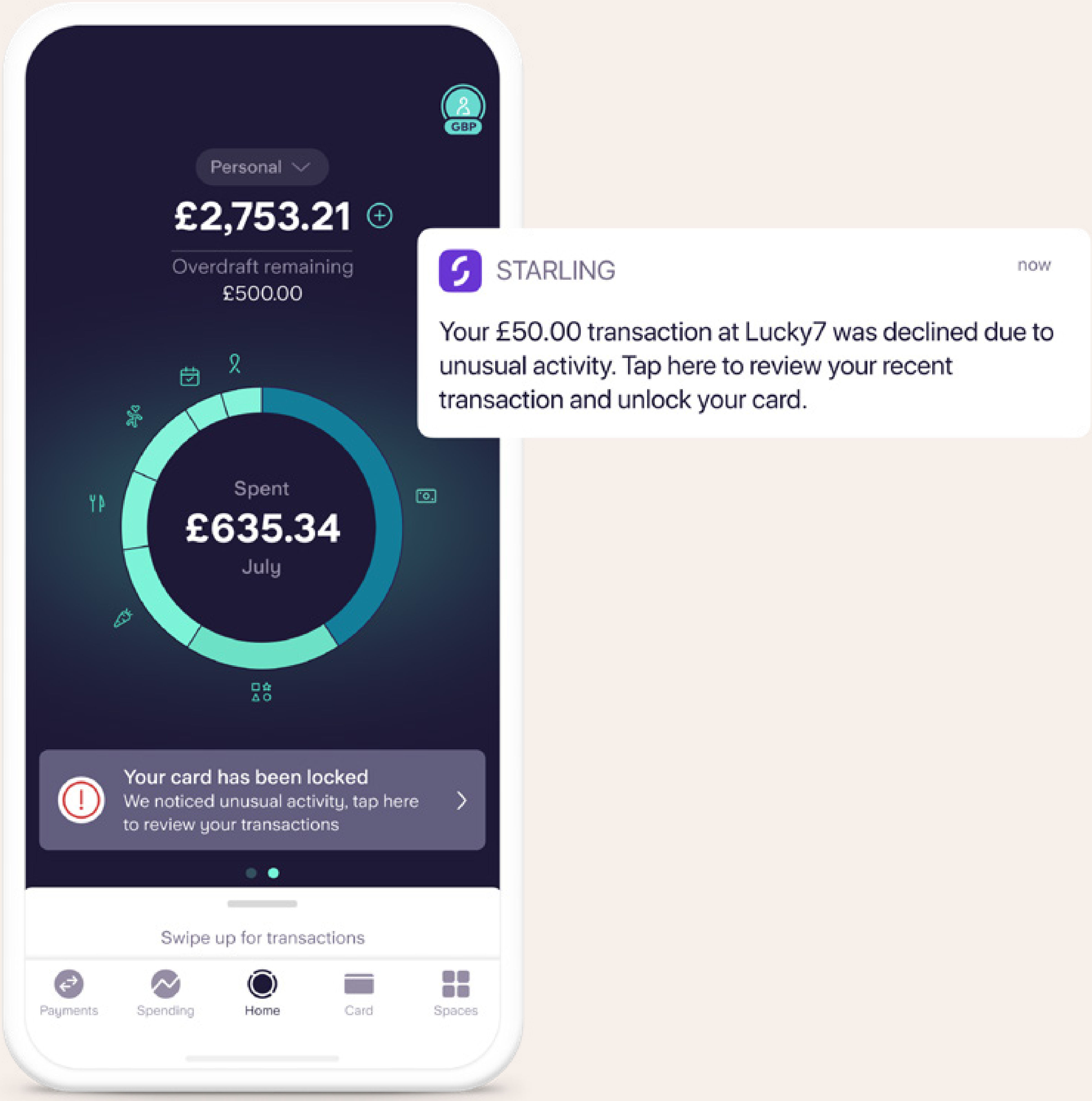
Consumers expect us to use the best technology to help them manage their banking and this is why we have implemented these methods deep into our product/feature set. This will be a key focus area for us as we continue to scale and build upon the core product offering we have today.

Making the workplace more inclusive

Our innovative approach is not limited to our products. It applies to everything we do, including our employment practices. In March 2021, for example, we launched a series of 'returnships', or paid internships for people returning to work after a career break.

I remain in awe of our employees. Just as they rose to the challenge of the first lockdowns in 2020, they have demonstrated remarkable resilience in the last 12 months, in what can perhaps best be described as a period of great lows and highs.

The continuation of the lockdown presented us all with an unexpected and unique opportunity to change the way we work and to make the workplace more inclusive, especially for people with disabilities and those with caring responsibilities. At Starling we've adopted a hybrid working model for many of our employees and remain open to embrace new ways of working as the situation evolves.



Fraud; combating an industry-wide problem

In January we broke ranks with the advertising establishment and took the decision to pull all of our paid advertising from Meta until the company stops accepting money from fraudsters paying to advertise on its Facebook and Instagram platforms. Google has already done this.

Our withdrawal of paid ads from Facebook is part of a highly proactive stance we have taken on fraud of all kinds.

Financial fraud is not just an industry-wide problem for all banks; it's a societal problem that requires a solution from everyone involved, including, but not limited to, governments, law enforcement, regulators, social media platforms, telephone companies and more.

We know that to best protect our customers from scams, we need to be constantly adapting to the latest trends. Optimising our technology is essential in this fight and we've invested heavily in using it to provide real time payment screening and account monitoring across all of our activities.

International expansion

We continue to have a strategic goal of expanding internationally, taking our Software as a Service ("SaaS") proposition to non-bank and bank clients abroad.

The Bank already has 23 clients using our Payments Services functionality. During the year we signed another big international banking client, which is using our proprietary technology to build a 'green' savings and investment platform for its customers.

Engine by Starling, our new SaaS proposition, was launched after the close of the 2021 to 2022 financial year. It is already actively looking at how we can bring Starling's award-winning technology to other countries.

I'm excited by the opportunities that our continued growth at home and abroad will bring. With our first full year of profitability, we have carved out a unique position for ourselves. When I look at Starling I see a more agile, energetic and innovative organisation with a banking business that is more nimble than the legacy institutions, with greater resilience for the future, financial sustainability and runway for growth than most of our fintech peers. Turning the corner of profitability has allowed us to change gears, but we're not slowing down.

Anne Boden
Chief Executive Officer
10 July 2022

The Group has made excellent progress during the last financial year reporting its first annual profit

"

The Group made good progress in diversifying its asset strategy which has driven top-line revenue growth

Comparative Basis

In the previous period Starling (also referred to as the Group and in the case of Starling Bank Limited also referred to as the Bank) extended its reporting date to 31 March from 30 November. This resulted in a 16 month reporting period to 31 March 2021. In order to aid comparison to the current year to March 2022, results for the 12 month period to 31 March 2021 will be used for income statement analysis below. The tables below include the audited results for the 16 month period and the unaudited results for a 12 month period to 31 March 2021.

Review of the Year

The Group has made excellent progress during the last financial year reporting its first annual profit. The Group profit before tax for the year to 31 March 2022 was £32,052k (year to March 2021 - loss: £(13,669)k). The Group profit after tax for the year was £44,938k (year to March 2021 - loss: £(5,534)k).

The Group made good progress in diversifying its asset strategy which has driven top-line revenue growth, keeping cost increases below the rate of customer growth while also benefitting from a reduction in impairments due to improved economic conditions. These helped the Group to show a positive return on its average tangible equity on a pre-tax basis of 9.31% (2021: NA) and on a post-tax basis of 13.05% (2021: NA).

Group	Audited 12 month period ended 31 Mar 2022 £'000	Unaudited 12 month period ended 31 Mar 2021 £'000	Audited 16 month period ended 31 Mar 2021 £'000
Net Interest Income	121,712	54,499	59,253
Net Fees and Commissions	57,730	29,366	33,884
Other Income	8,624	3,983	4,452
Total Income	**188,066**	87,848	97,589
Administrative Expenses net of Grants	(145,378)	(87,076)	(112,937)
Impairment and Charge-offs	(10,636)	(14,441)	(16,106)
Profit / (Loss) Before Taxation	**32,052**	(13,669)	(31,454)
Taxation	12,886	8,135	8,135
Profit / (Loss) After Taxation	**44,938**	(5,534)	(23,319)

Included within profit before tax of the Group is £4,897k profit relating to the wholly owned subsidiary Fleet Mortgages Limited, which was acquired during the year.

Total income increased by 114% to £188,066k, driven by: increases in net interest income of 123% to £121,712k mostly from increased lending activities and investment of free capital and customers' deposits; increases in net fees and commissions of 97% to £57,730k mostly from increased customer card transactions; and increases in other income of 117% to £8,624k mostly arising from fair value gains on hedging transactions.

Operating efficiencies meant that our growth in customer number and transaction volumes did not lead to a commensurate increase in costs. Total Administrative Expenses (net of Grants) increased by 67% to £145,378k, driven by increased staff numbers and administrative expenses. This has led to a significant improvement in the Group's cost to income ratio which was 77% for the year (2021: 116%), mostly due to increased revenue but also constant monitoring of the cost base.

Total impairment and charge-offs decreased year on year by 26% to £10,636k driven by a reduction in unsecured SME exposure partially offset by a growth in secured mortgage lending despite our balanced provisioning approach for future credit losses.

The key performance indicators used to monitor the success of the business are set out on page 3 while significant strategic developments are outlined on pages 5 to 8.

Statement of Comprehensive Income

The movements in the Statement of Comprehensive Income for the year ended 31 March 2022 and the 12 months ended 31 March 2021 are analysed in the section below.

Net Interest Income

Group	Audited 12 month period ended 31 Mar 2022 £'000	Unaudited 12 month period ended 31 Mar 2021 £'000	Audited 16 month period ended 31 Mar 2021 £'000
Interest Income	126,614	55,828	61,224
Interest Expense	(4,902)	(1,329)	(1,971)
Net Interest Income	121,712	54,499	59,253
Net Interest Margin	1.27%	1.21%	1.26%

During the year the Group diversified its lending with the addition of new mortgage portfolios, which has allowed Starling to continue to build its core revenue. Interest Income continues to be the main source of income for the Group. During the year, the Group increased its Interest Income by 127% to £126,614k (2021: £55,828k) as a result of its increased lending activities and from its placements with the Bank of England and its investments in high quality liquid assets ("HQLA").

Interest Expense increased by 269% to £(4,902)k (2021: £(1,329)k) as a result of the Bank's deposit taking activities and long term funding from the Bank of England.

The Group's Net Interest Income has increased in line with the growth in deposit balances and lending activities. Where lending is at a fixed rate for future periods it is hedged with interest rate swaps to lock in the spread over funding costs. The modest improvement in Net Interest Margin to 1.27% (2021: 1.21%) has been driven partially by the change in mix of the lending portfolio as new mortgage lending activity has compensated for the decrease in SME lending but also by the positive impact of increases in the Bank of England Base rate during the later months of the year.

Net Fees and Commissions

Starling earns the majority of its Fees and Commissions Income from its customers' use of their debit cards. The Group increased its Fees and Commissions Income by 140% to £86,041k (2021: £35,809k) mostly from a substantial increase in the volume and value of customer transactions which increased by 62% to 380m (2021: 234m) and by 62% in value to £11.8bn (2021: £7.36bn) respectively. During the current year, following the acquisition of Fleet Mortgages and Starling's entrance into the mortgage market, the Group commenced charging loan origination and servicing fee income. Additionally, the Group charges transaction charges on its Banking as a Service products.

Fees and Commissions Expense increased by 339% to £(28,311)k (2021: £(6,443)k), partly due to the increase in lending activity but also due to a change in presentation in the current year, whereby fees on third-party serviced loan portfolios are now included in Fees and Commissions Expense rather than Net Interest Income (comparatives have not been restated and the change in presentation has not had an impact in Total Income).

Group	Audited 12 month period ended 31 Mar 2022 £'000	Unaudited 12 month period ended 31 Mar 2021 £'000	Audited 16 month period ended 31 Mar 2021 £'000
Fees and Commissions Income	**86,041**	35,809	43,137
Fees and Commissions Expense	**(28,311)**	(6,443)	(9,253)
Net Fees and Commissions	**57,730**	29,366	33,884

Other Income

The Group benefited from fair value gains arising on its hedging activities as market interest rate expectations increased during the first quarter of 2022. Such gains are volatile and arise from short term movements in interest rates that will be economically neutral over the lifetime of the hedging activity.

Group	Audited 12 month period ended 31 Mar 2022 £'000	Unaudited 12 month period ended 31 Mar 2021 £'000	Audited 16 month period ended 31 Mar 2021 £'000
Other Income			
Fair Value Gains on Derivative Transactions	**7,697**	368	357
Foreign Exchange Gains / (Losses)	**25**	(79)	(58)
Other Operating Income	**902**	3,694	4,153
Other Income	**8,624**	3,983	4,452

Administrative Expenses

Starling's Administrative Expenses include the costs of its award winning customer servicing activities and the infrastructure cost of the group and central functions as well as the costs incurred in meeting the commitments agreed with Banking Competition Remedies under the CIF and the Incentivised Switching Scheme ("ISS"). In total, Staff Costs increased by 68% to £99,137k (2021: £58,848k), the increase reflecting growth in employee numbers of 56% to 1,941 (2021: 1,245). Other Administrative and General Expenses increased by 40% to £79,199k (2021: £56,457k) and were partially offset by recognition of grant funds totalling £32,959k (2021: £28,229), comprising eligible expenditure under both CIF and ISS schemes for staff costs of £(15,517)k (2021: £(14,258)k) and Other Administrative costs of £(17,441)k (2021: £(13,971)k).

Group	Audited 12 month period ended 31 Mar 2022 £'000	Unaudited 12 month period ended 31 Mar 2021 £'000	Audited 16 month period ended 31 Mar 2021 £'000
Operating Costs			
Staff Costs	**99,137**	58,848	76,601
Other Administrative and General Expenses	**79,199**	56,457	82,380
Total Administrative Expenses[1]	**178,336**	115,305	158,981
Credit for Eligible spend on Staff Costs	**(15,517)**	(14,258)	(18,214)
Credit for Eligible spend on Other Administrative Expenses	**(17,441)**	(13,971)	(27,830)
Total Administrative Expenses net of Grants	**145,378**	87,076	112,937

1 Included within the total Administrative Expenses were costs for £7,758k (2021: £4,012k) which has been capitalised as it was directly attributable to the cost of designing, specifying, building, testing and implementing the software to support the banking platform.

Impairment and Charge-offs on Loans and Advances to Customers

The impairment provisions for expected credit losses decreased by 27% to £9,817k (2021: £13,374k). Of the total charge, SME lending comprises £8,052k (2021: £8,678k) and reflects the benefits of lending via the CBILS and RLS Government guaranteed schemes. During the year, the Group has started to develop impairment modelling techniques for its new mortgage lending portfolio. The output from this work has been benchmarked by an independent third party and has resulted in an impairment charge of £3,375k (2021: £nil). Impairment Provisions decreased in respect of Retail Overdrafts and Term Lending by £(1,609)k (2021: £4,695k) as a result of reduced risk appetite. The decrease year on year in Impairment Charge was mainly driven from the improved economic inputs to SME and Retail Expected Credit Loss ("ECL") models and uncertainty that surrounded the impact of the pandemic in the prior period. The Group has seen good credit performance across all its portfolios during the current year with amounts charged-off reducing by 23% to £819k (2021: £1,067k).

Group	Audited 12 month period ended 31 Mar 2022 £'000	Unaudited 12 month period ended 31 Mar 2021 £'000	Audited 16 month period ended 31 Mar 2021 £'000
Impairment Charge	9,817	13,374	14,478
Amounts Charged-off	819	1,067	1,628
Impairment and Charge-offs	**10,636**	14,441	16,106
Cost of Risk / Asset Quality Ratio	0.35%	0.93%	0.99%
Cost of Risk / Asset Quality Ratio (excluding Government Lending)	1.55%	8.81%	10.01%

Tax Credit

In the current year, Starling has recognised the full benefit of its prior year losses in its assessment of the amount of deferred tax recorded in the Statement of Financial Position. This has had an impact on both corporation tax on the profits for the financial year and the amount of deferred tax credit recognised in the Consolidated Statement of Comprehensive Income.

Group	Audited 12 month period ended 31 Mar 2022 £'000	Unaudited 12 month period ended 31 Mar 2021 £'000	Audited 16 month period ended 31 Mar 2021 £'000
Corporation Tax	3,117	–	–
Adjustments in Respect of Prior Period	(88)	(2,062)	(2,062)
Tax Expense / (Credit) in Respect Of Current Year	**3,029**	**(2,062)**	**(2,062)**
Deferred Taxes in Current Year	(9,038)	(6,088)	(6,088)
Adjustments in Respect of Prior Period	88	15	15
Effect of Tax Rate Changes	(6,965)	–	–
Tax Credit	**(12,886)**	**(8,135)**	**(8,135)**

The Group has recognised an asset of £21,985k (2021: £6,088k) representing all unutilised corporation tax losses, Fixed/Intangible Asset timing differences and other short term timing differences. The value ascribed to these losses and differences has been reassessed following the enactment of a change in the corporation tax rate from 19% to 25% and a reduction in the Bank surcharge from 8% to 3%, with both changes effective from 1 April 2023. The deferred tax asset in respect of unutilised corporation tax losses is expected to be fully utilised within two years of the Statement of Financial Position date.

The Group also changed its accounting for Research and Development grants from a cash basis to accruing the full value of claims in the year that they occur, as the Group exceeded the SME scheme threshold and moved to the Research and Development Expenditure Credit ("RDEC") scheme. Consequently, £178k of the current year RDEC tax credit of £2,285k (2021: £2,559k) has been recognised in Other Income and accelerated capital allowances of £(9,570)k (2021: £(1,805)k) reflect the RDEC claims which result in accelerated amortisation of the intangible asset for tax purposes.

Statement of Financial Position

The Consolidated Statement of Financial Position is analysed by key line items; Loans and Advances to Customers, Customer Deposits, Deposits from Banks, Debt Securities and Capital resources. This analysis focuses on the full consolidated Group including Fleet, compared with 31 March 2021.

Loans and Advances to Customers

Loans and Advances to Customers grew by 45% to £3,266m (2021: £2,258m), mostly as a direct result of new mortgage lending offset by reductions in SME lending under the Government-backed BBLS and CBILS schemes as their repayment free periods have expired and customers have started making repayments. The Group's new mortgage lending has been achieved through a combination of acquisition of existing mortgage portfolios, acquiring a new Subsidiary, Fleet Mortgages Limited and forward flow agreements with third party mortgage originators.

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000
Mortgage Lending	1,215,887	–
SME Lending	2,005,208	2,186,423
Retail Lending	45,031	71,867
Gross Carrying Value	3,266,126	2,258,290
Government Guarantee on SME Lending	(1,855,099)	(2,067,182)
Gross Carrying Value net of Government Guarantee	**1,411,027**	191,108
Mortgage Lending	3,221	–
SME Lending	16,735	8,681
Retail Lending	5,892	6,942
Impairment Provision	**25,848**	15,623
Mortgage Lending	1,212,666	–
SME Lending	133,374	110,560
Retail Lending	39,139	64,925
Net Carrying Amount	**1,385,179**	175,485
% Coverage before Government Guarantee	**0.79%**	0.69%
% Coverage after Government Guarantee	**1.83%**	8.17%

Mortgage Lending Breakdown	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000
Owner Occupied Lending[1]	972,860	–
Buy-to-let Lending	243,027	–
Mortgage Lending	**1,215,887**	–
Aggregate LTV	**60.3%**	0.0%

1 Included within Owner occupied is a portfolio of £565,590k of mortgages acquired during the year.

Total exposure to credit risk is set out on pages 30 to 55 in the Risk Management section.

The assessment of impairment at March 2022 has included a revised economic outlook for the UK. The economic scenarios used in the Bank's ECL models are provided by a third party economist. The Bank has looked through immediate improvements in economic data that were seen during the final quarter of 2021 and in the first quarter of 2022, as the UK comes to terms with the continuing impact of the lockdown caused by the global pandemic (COVID-19), and the rapidly deteriorating situation caused by the war in Ukraine and the impact that this is having on the cost of living. As a result, the Bank has changed the probability weighted view of future economic scenarios that it applies in its ECL models for its downside and severe downside scenarios such that both upside and downside are weighted at 50% (2021: 70% in total for base and upside with 30% in total for down and severe down). The ECL provision now reflects a 40% (2021: 60%) weighting applied to base case, 10% (2021: 10%) to the upside, 40% (2021: 25%) to the downside scenarios and a 10% (2021: 5%) weighting to the severe downside. Additionally, the Bank has applied expert judgement in making a number of post model adjustments ("PMA") to the modelled output from its ECL models in arriving at the level of impairment provisions being carried in the Statement of Financial Position.

Strategic Report
Directors' Report
Financials

Summary table of Modelled ECL and PMAs

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000
ECL Modelled Impairment Provisions	19,315	9,528
Post Model Performance Adjustments	2,434	5,199
Economic Uncertainty Adjustments	5,323	2,529
Total Impairment Provisions[1]	**27,072**	17,256

1 Total Impairment Provisions includes £1,224k (2021: £1,632k) for undrawn balances and committed lending.

Asset Quality

ECL impairment provisions on loans and advances to customers of £25,848k (2021: £15,623k) represents 0.79% (2021: 0.69%) coverage of the carrying value of gross loans and advances to customers before Government guarantees. This small increase in the coverage ratio is due to the change in mix of aggregate exposure to credit risk as new secured mortgage lending more than offsets the decrease in SME and Retail lending balances as a result of contractual repayments. Removing customers' balances that benefit from HM Government guarantees, the coverage ratio improves to 1.86% (2021: 8.17%), this is lower than the prior year due to the increase in mortgage lending which is still in its early maturity and low levels of non-Government guaranteed lending in the prior year.

Credit quality improved during the year with the coverage ratio of non-performing lending showing a reduction in both stage 2 of 14.7% to 8.4% (2021: 23.1%) and in stage 3 of 61% to 17.5% (2021: 78.2%).

The mortgage coverage ratio is 0.28% and reflects the relative immaturity of the portfolio, much of which is new lending. The SME coverage ratio (net of benefit of Government guarantees) increased by 6.2% to 13.4% (2021: 7.2%) as a result of the CBILS portfolios having moved out of their repayment free periods. Performance is in line with expectations.

Acquisition of Subsidiary and incorporation of new Subsidiaries

The Group acquired a new subsidiary, Fleet Mortgages Limited ("Fleet"), in July 2021. Fleet is a UK-based mortgage business which operates as a mortgage originator/broker. The acquisition was made to establish the Group's position in the buy-to-let mortgage market and was funded through cash and equity settled consideration. The acquisition resulted in Goodwill being recognised on the Group Statement of Financial Position of £35,890k and an Intangible asset of £7,586k. This Goodwill has been assessed for impairment at the reporting date with none required.

There were a further two new subsidiaries incorporated in the Group during the year; MFSI Holdings Limited and Engine by Starling Limited. These are non-trading subsidiaries at year end with minimal net assets.

Funding

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

	Group 31-Mar-22 £'000	%	Group 31-Mar-21 £'000	%
Total Customer Deposits	9,027,296	79.8	5,827,581	85.4
Deposits from Banks and Central Bank Funding	2,281,380	20.2	1,000,000	14.6
Funding	11,308,676	100.0	6,827,581	100.0

Starling has built a strong Retail and SME deposit franchise that is widely diversified for the size of the organisation. During the year, the Group has continued to grow the number of Retail and SME customers from a wide cross section of the UK market who are not rate sensitive but are attracted by the seamless functionality in the app. This has resulted in average deposits per SME customer improving by 9% to £13,723 (2021: £12,637) and per Retail customer by 11% to £2,139 (2021: £1,874) as both segments continued to grow year on year. This funding mix is not expected to change in the short term. The Bank's average Cost of Funds is 0.05%.

In addition, Starling has continued to access central bank funding for liquidity risk management purposes under TFSME. The central bank funding coincides with the Government BBLS and CBILS programmes. These drawings currently have a contractual term of four years; however, the BOE has confirmed that for exposures that extend beyond four years, the contractual repayment deadline will be extended in line with the extension in tenor of the customer loans drawn under the BBLS and CBILS programmes. During the year Starling achieved an important milestone by pledging its portfolio of BBLS loans as collateral for funding under the TFSME; at the Statement of Financial Position date £1,086m (2021: £nil) had been utilised.

At 31 March 2022, the Bank's Loan to Deposit Ratio was 35.16% (2021: 38.32%) and the regulatory measure of Net Stable Funding Ratio ("NSFR"), which measures the stability of funding sources relative to assets requiring funding, was 261% (2021: 299%). The Bank's key funding ratios are closely monitored by senior management and its NSFR has remained comfortably above the minimum regulatory requirement of 100% throughout the year.

Liquidity

The Bank's conservative approach to liquidity management has resulted in it continuing to maintain high levels of liquid assets. At the reporting date the regulatory measure of Liquidity Coverage Ratio ("LCR") was 513% (2021: 506%). The Bank's liquidity levels are closely managed by senior management and have remained comfortably above the minimum regulatory requirements of 100% throughout the year.

	Group 31-Mar-22 £'000	Group 31-Mar-21 £'000
Cash Balances with BOE Available for Meeting Liabilities	5,656,778	3,178,042
Debt Securities Held for Liquidity Management Purposes[1]	880,586	517,370
HQLA	**6,537,364**	3,695,412

1 after LCR weighting.

As at 31 March 2022, the Group's total Debt Securities were £2,307m (2021: £1,513m): of this £1,398m (2021: £1,028m) had been pledged as collateral under the BOE's Sterling Monetary Framework.

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 the Group cannot meet its liabilities as they fall due.

Capital Resources

During the year, the Group has strengthened its total regulatory capital position by £260.7m to £397.5m (2021: £136.8m). This was mainly due to the issuance of CET1 compliant share capital of £225m in June 2021 following completion of the Series D Funding round. In July 2021, as part of the consideration paid for the acquisition of Fleet, there was an issuance of Series D equity of £15m. Additionally, the Group generated £44.9m of retained profits that following completion of the audit, have been counted as CET1. During the year, the Bank has submitted quarterly returns to the PRA in order for its profits to be include within CET1 on an ongoing basis.

As at 31 March 2022, the Bank's Total Capital Requirement ("TCR") was £129m giving a headroom over TCR (including all PRA Buffers) of £252m.

Risk Weighted Assets ("RWAs") have increased by £709.1m in the year to £994.8m (2021: £285.7m), primarily due to new lending activities. As a result of these movements at the reporting date, Starling's Tier 1 ratio decreased to 39.96% (2021: 47.89%). As a result of the increase in capital resources and cash deposits placed with the BOE, the Bank's UK Leverage Ratio improved to 7.9% (2021: 5.4%).

	Mar-22 £'000	Mar-21 £'000
Total Regulatory Capital	**397,502**	**136,769**
Total Risk Weighted Assets	**994,828**	**285,689**
Shareholders' Equity	430,424	140,831
CET1 Ratio	39.96%	47.89%
Total Tier 1 Ratio	39.96%	47.89%
(UK) Leverage Ratio	7.9%	5.4%

The Bank monitors capital by applying the Capital Requirements Directive V ("CRD V"), effective at 31 March 2022. 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.

The Bank has received an updated 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 compliance date is now set at April 2023, and will be the lower of 18.0% of RWAs or twice its TCR. The BOE also updated its requirement for end-state MREL to be twice the binding minimum capital requirement which is now required to be met from April 2025.

Subsequent to the Balance Sheet date, the Group completed a successful issuance of Series D shares. Consequently, the Group's equity capital base has been increased by a further £130.4m net (£130.5m before expenses of issue). As a consequence the Bank's CET 1 and Tier 1 Ratios increased to 42.9%, and the UK Leverage ratio increased to 9.7%.

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

Tony Ellingham

Chief Financial Officer

10 July 2022

Risk Management

01

Starling's Risk Approach

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

Risk taking is fundamental to Starling's business profile and therefore prudent risk management, limitation and mitigation form an integral part of the governance structure. The Board has ultimate responsibility for setting the strategy, risk appetite and control framework.

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

The Board considers that as at 31 March 2022 it had in place adequate systems and controls with regard to Starling's risk profile and strategy. Whilst risk cannot be eliminated, the Board is satisfied that the systems of internal control embedded within the risk management framework have worked effectively during the last financial year to identify, monitor, manage and control all relevant risks.

02

Risk Culture

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

The risk culture of the Bank aims to ensure that all business functions and employees consider risk management and consult appropriately with the Risk Function during the development of new products, procedures, policies and systems. Starling has introduced a Risk Culture Survey tool in order to gain a better understanding of risk awareness, attitudes and culture across the Bank as it continues to grow.

03

Risk Strategy

Starling's Risk Strategy is to create and maintain a robust risk culture and embed effective risk management practices in order to ensure that the Group delivers a reputable, responsible and sustainable business. We recognise that this needs to be achieved through providing an open and transparent environment where well-trained and informed individuals take intelligent risk, subject to clear policies, in pursuit of the Group's business strategy. Starling's growth plans will be underpinned by pricing appropriately for risk, ensuring operational resilience, protecting and enhancing our reputation and focussing on controlling both credit and non-credit losses.

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

04

Key Developments

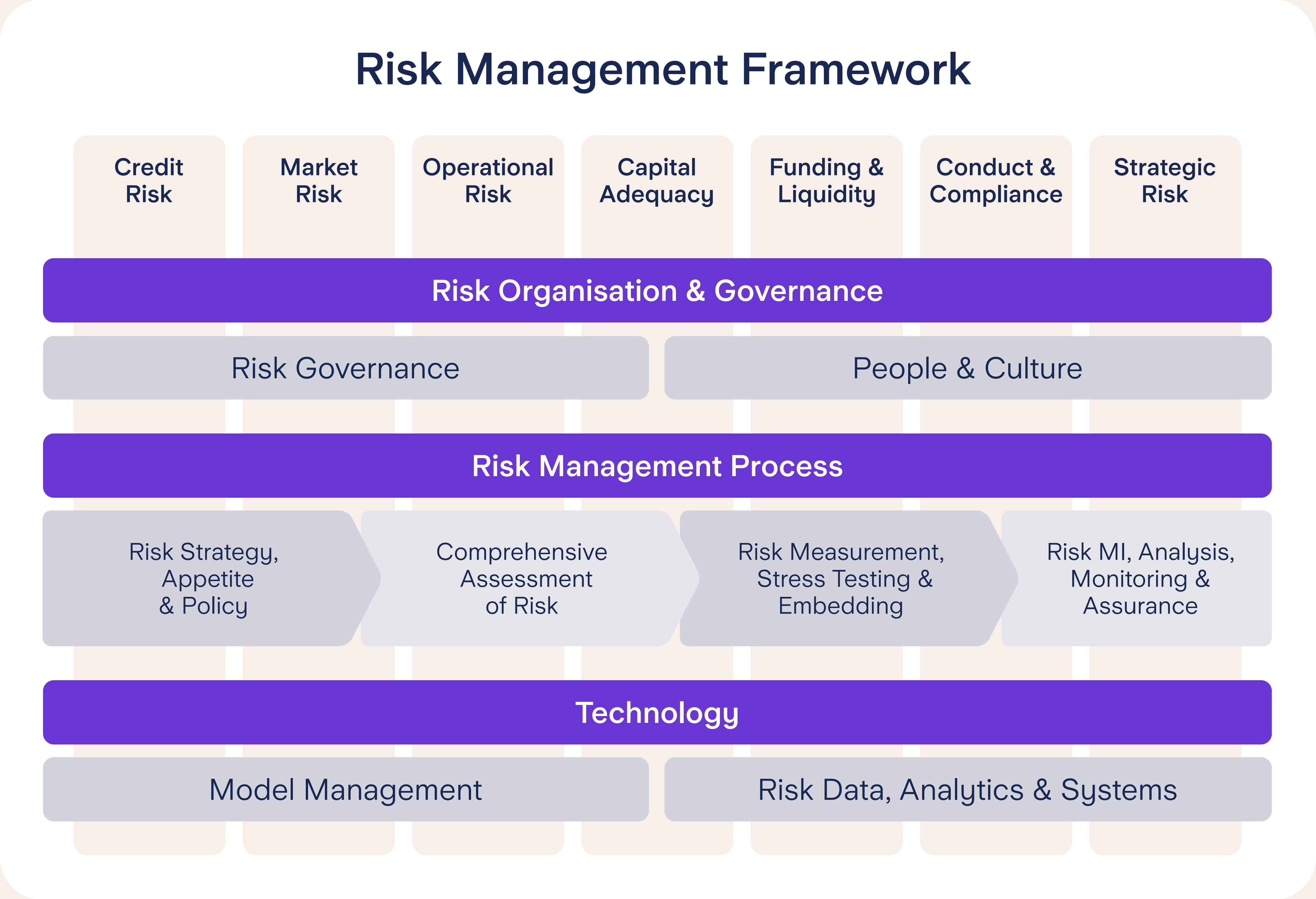
Starling has continuously reviewed and evolved its risk management approach since authorisation. We recognise that our risk practices continue to grow and mature as the Group evolves, and we continue to refine our risk framework and policies in the light of experience and of changes to the scope and scale of the business.

During the year, a key priority has been to grow Starling's risk resource and capability in line with strategic developments and operational growth. This has meant that Risk Function capability and capacity has been significantly enhanced, with a focus on delivering credit capabilities, treasury oversight, in-depth technology and cyber knowledge along with Group level activities. The Bank has also completed a significant number of key enhancements in its approach to risk management as part of its ongoing programme to ensure that risk management builds commensurately with the Group's strategic growth.

Risk Framework

Enterprise 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 and controlled, 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, ensuring that these are managed and controlled effectively within an agreed risk appetite.

The key objectives of the Enterprise Risk Management Framework are to:

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

The Board is ultimately responsible for ensuring that the risk management framework and risk governance structure is applied in practice and operated robustly by the Executives.

Risk Framework continued

Risk Appetite

Starling's Risk Appetite Framework sets out its overall approach, including policies, processes, systems and controls through which risk appetite is established, communicated, 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.

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

Starling's risk appetite starts with a high level qualitative statement which provide the Board's overarching appetite direction.

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

Strategic and Business Objectives	Financial Resilience	Operational Resilience	Reputation and Confidence
We will maintain a clear vision, mission, strategic objectives and corporate values to build a strong and sustainable business that can withstand shock from the economic cycle.	We will maintain sufficient capital and liquidity to cover our financial obligations, risk profile and risk exposures, over and above minimum requirements.	We will implement and maintain core systems that offer security and resilience and that are fit-for-purpose to deliver the required services.	We will offer simple, fair, transparent and easy-to-use products and services. We will not knowingly breach any applicable law or regulation in any jurisdiction in which we operate.

Risk Framework continued

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

As the Group expands we are investing in developing the risk management capabilities across each of the three lines of defence. In the first line of defence ("1LoD"), individuals have been appointed to control roles to strengthen the processes for assessment and operational effectiveness of controls; in the second line of defence ("2LoD"), the Group has enhanced its risk and control assessment processes to identify critical controls; and in the third line of defence, the Group has appointed a Group Head of Internal Audit to strengthen the coverage of all risk areas.

First line of defence		
The Business	– 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.
Second line of defence		
The Risk Function	– Develop, implement and maintain the ERMF; – Develop for Board approval an appropriate risk appetite; – 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.
Third line of defence		
Internal Audit	– 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.

Risk Framework continued

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.

01

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

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 Bank's principles and appetites.

Board Level Documents

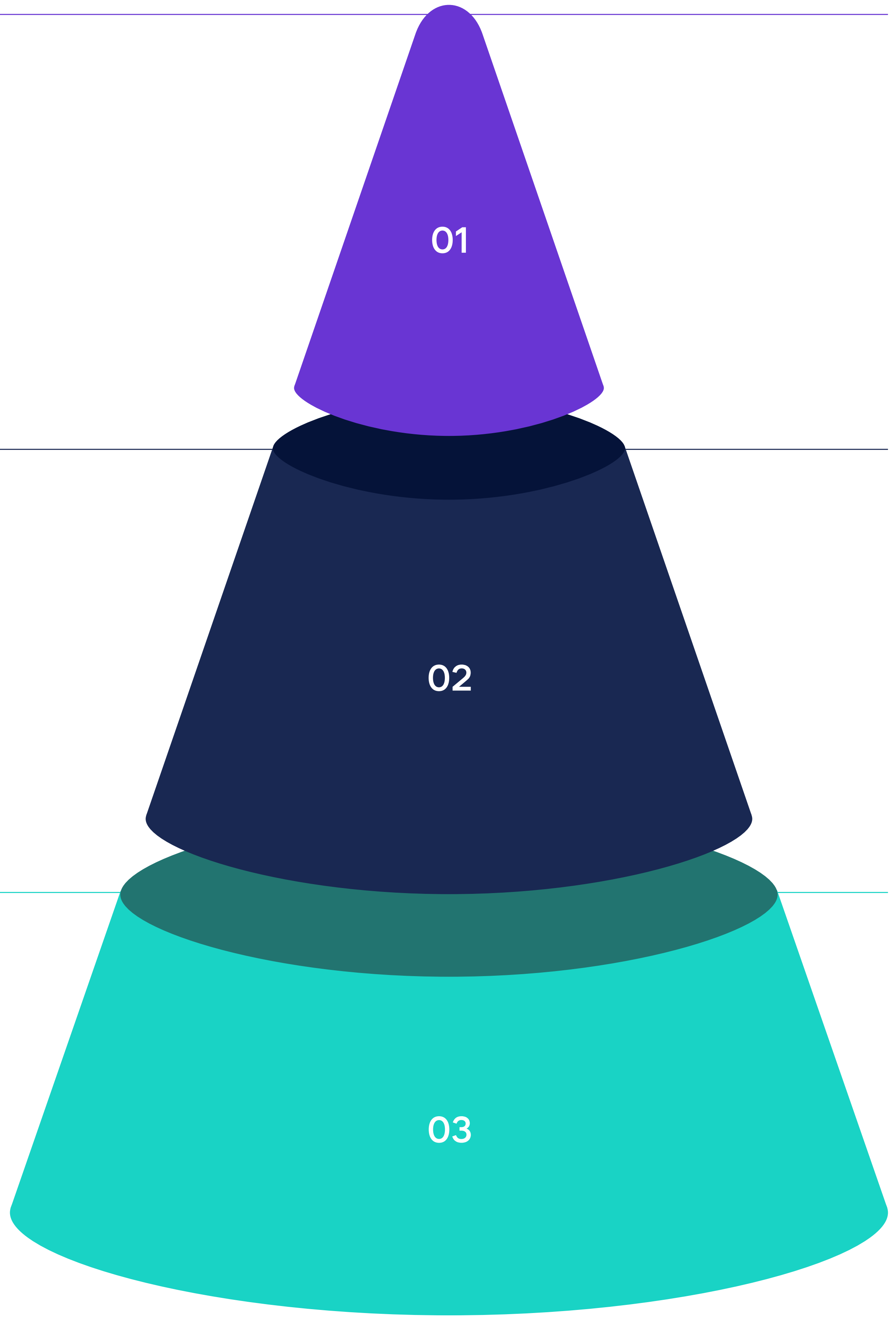
- Provide high-level direction & guidance
- Establish key principles & responsibilities
- Define fundamental requirements & limits
- Bank-wide in application
- Cover material risk exposure categories
- Require Board or Board sub-committee approval

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.

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



02

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

03

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 Framework continued

Risk Governance and Oversight
Starling's risk governance is the architecture within which risks are monitored and reported. The Board is ultimately responsible for ensuring that the risk management framework and risk governance structure is applied in practice and operated as designed by the Executives.

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

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

The diagram opposite illustrates the risk management governance structure.

Risk Framework continued

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

Committee	Risk Focus
Executive Committee ("EC")	– Implementing strategic direction and devising the associated business plans in line with the agreed risk appetite set by the Board; – Making key business decisions in line with agreed risk appetite; – Ensuring that all regulatory obligations are met; and – Overseeing the establishment and maintenance of appropriate risk management processes in line with the Board approved Enterprise Risk Management Framework.
Executive Risk Committee ("ERC")	– Leading the detailed implementation of the Enterprise Risk Management Framework; – Supporting the development of the Risk Strategy, ERMF and Risk Appetite Framework and recommending them to the Board Risk Committee for review, challenge and onward escalation to the Board for approval; – Monitoring the Bank's risk profile against agreed risk appetite limits and tolerances and reporting on these to the Board Risk Committee; – Making recommendations for the resolution of critical risks and issues; and – Reviewing operational resilience information and monitoring adherence to risk appetite, tolerance levels and limits. The ERC is the key committee for the resolution of critical resilience risks and issues.
Asset and Liability Committee ("ALCo")	– Overseeing the overall balance sheet management of the Bank; – Oversight of liquidity and funding risk, interest rate risk and foreign exchange risk; and capital adequacy risk within the parameters set by the Board; – Reviewing and recommending to the Board the Bank's ILAAP and Liquidity Contingency Plan; and – Reviewing relevant policies and monitor compliance with the policies.

Risk Framework continued

Committee	Risk Focus
Pricing Committee ("PC")	– Setting all customer related pricing for the Bank, including credit and debit interest levels, as well as any other fees, charges or benefits that have a customer impact; – Considering the impact of pricing on commercial performance, including customer numbers, balances, facility utilisation, customer behaviours and margins; – Reviewing risk-based pricing proposals; and – Reviewing all competitor pricing, including price-related marketing activity.
Credit Risk Committee ("CRC")	– Monitoring the Bank's lending portfolio against risk appetite; – Ensuring that the Bank has sufficient capacity and capability, supported by quality management information, to deliver against the Bank's lending strategy; – Implementation of the Credit Risk Framework, including review of key procedures and associated controls; – Considering findings from both second and third line assurance activity, and monitoring management responses; and – Providing oversight of key credit risk projects within the business.
Financial Crime Steering Committee ("FCSC")	– Raise and debate key financial crime risks that exist or are emerging within the business; – Consider any potential weaknesses or shortcomings in process or procedure that could accentuate risk; – Review strategy and growth plans that could have a downstream impact on financial crime and how it is managed; – Review the key learnings from any major financial crime incidents or operational events and discuss potential mitigation; and – Update on any new regulatory developments/intelligence and any proposed consequential changes.

Risk Framework continued

Committee	Risk Focus
Impairment Committee ("IC")	– Monitoring the impairment profile of the Bank; – Overseeing the implementation of the IFRS 9 Provisioning Policy delivered by the business and ensuring expected credit loss methodologies and assessments are compliant with IFRS 9; – Considering findings from both second and third line assurance activity, and monitoring management responses as appropriate; – Formally approving impairment model developments and material changes, including review of independent validation and any model limitations; and – Reviewing impairment model performance at least annually.
Operational Risk Committee ("ORC")	– Evaluating and reporting to the ERC and BRC on the Bank's operational risk profile and operational risk monitoring; – Reviewing the volume and profile of incidents, operational events and operational risk losses; – Reviewing current and future operational risk exposures relative to risk appetite; – Receiving and reviewing relevant reports that are provided to the Board, including, where relevant, FCA/PRA letters on their assessment of operational risks; – Implementation of the Bank's Operational Resilience Strategy; and – The ORC is supported by two sub committees focusing on Cyber & Information Security and Health & Safety.
Product and Conduct Committee ("PCC")	– Managing the risks and issues associated with products, services and customers; – Ensuring that Starling creates and maintains a sustainable customer offering; – Ensuring that customer engagement is in line with the Bank's customer-centric focus and associated risk appetite; – Overseeing the completion of product, post implementation and revenue reviews and the review of conduct risk outcomes; – Protecting and developing customer experience; reviewing and learning from complaints; and the approval of new products; and – Overseeing external market and competitor activity to ensure that products remain suitable.

Risk Framework continued

Committee	Risk Focus
Third Party Credit and Forward Flow Committee (“TPCFFC”)	– Overseeing the ongoing credit performance of originations; – Reviewing credit origination metrics against contracted criteria and portfolio performance against specific covenants, concentration limits or other terms of origination agreements; – Monitoring servicing performance, including counterparty solvency assessments (where deemed necessary) and the impact of servicing performance against credit performance; – Reviewing reports of statutory audits or other third party assurance, quarterly business reviews with originators and other one-off issues; and – Considering any future pipeline transactions and the impact this may have on day-to-day management of transactions.
Wholesale Credit Risk Committee (“WCRC”)	– Monitoring the Bank’s exposures against the Wholesale Credit Risk Policy and risk appetite; – Setting counterparty and concentration limits in line with approved methodology; – Reviewing and approving the models and underlying methodology used by Treasury to determine internal credit ratings and counterparty limits; and – Reviewing the current and considering the possible future exposures to market counterparties with reference to the Regulations and limits for each counterparty.

Risk Framework continued

Stress Testing

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

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

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

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

Principal Risks and Risk Mitigation

Starling has well developed Risk Management Processes for the identification of key risks. The following are the more important risks that the Group has identified:

Strategic Risk

→ See page 28 to read more

Operational Risk

→ See page 71 to read more

Credit Risk

→ See page 30 to read more

Customer and Conduct Risk

→ See page 74 to read more

Financial Risk

(including liquidity, funding, interest rate and foreign exchange related risks and capital)

→ See page 59 to read more

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

Principal Risks and Risk Mitigation continued

Strategic Risk

Risk Assessment

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

Risk Appetite

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

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

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

Management of Strategic Risk

Starling has a clearly defined Board-approved strategy and has 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 statements, recovery plan and resolution pack as well as a skilled and experienced Executive team.

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

Monitoring and Mitigation

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

Principal Risks and Risk Mitigation continued

Strategic Risk continued

Change in the year

Balance Sheet Growth
Starling has continued to grow its deposit taking capabilities while expanding its lending. In the last year Starling has met the changing and complex needs of its growing customer base during the ongoing pandemic. At the same time the Bank not only has entered into the mortgage market through portfolio acquisition and forward flow but also continued to innovate its products, features and services, executing on its organic lending strategy and growing responsibly. Starling met and indeed exceeded its key strategic targets for the year, and there is high confidence in its ability to continue to show resilience and adaptability moving forwards.

Economic Outlook
Since the turn of the year the outlook for the UK and the global economies have deteriorated.

There are significant levels of uncertainty in key macroeconomic variables, such as unemployment, Gross Domestic Product ("GDP"), interest rates and the level of House Price Inflation ("HPI"). In particular, there is a rapid cost of living squeeze on household income that is being compounded by the impact of the war in Ukraine. This, coupled with supply chain disruption and inflationary pressures, already being exerted following a rebound in economic activity after the impact of the pandemic, presents significant headwinds creating a potential economic risk that might cause a period of prolonged economic downturn in the UK.

The impact of Government support measures throughout the pandemic has led to higher levels of corporate indebtedness and uncertainty remains over how this will unwind over time and whether it will impact customer behaviour.

Impact on Starling's Business Model
The Bank has assessed the rapidly changing economic conditions and as a direct result of these has made adjustments to its assessment of risk in the following areas:

– Credit Risk: The Bank has looked through immediate improvements in economic data that were seen during the final quarter of 2021 and in the first quarter of 2022 as the UK continues to come to terms with the shock of exiting the European Union in December 2020, and recovers from the impact of the lockdown caused by the global pandemic (COVID-19). As a result the Bank has made a number of post model adjustments ("PMA"s) to the modelled output from its ECL models. These PMAs are designed to capture the following areas of uncertainty and to compensate for underestimation in ECL models:
  - Model Fit - when the economic input parameters do not reflect the level of inflation that will squeeze real incomes over the coming months.
  - Appropriateness of historic data sets - risk of error when assessing impact of Government support for portfolios that have received guarantees from the British Business Bank.
  - Uncertainty and therefore error in assessment of weightings and selection of economic inputs - due to rapidly changing geo-political and economic events.

  These are covered in more detail on pages 30 to 55 of the Credit Risk section.

– Financial Risk: The Bank has modelled the impact of a severe but plausible downside stress in line with the severe downside scenario described in Note 3 on pages 126 to 131. This has resulted in the Bank reviewing both the quantum and availability of capital and liquid assets that it should hold to remain above its risk appetite (which are themselves comfortably above the regulatory minimum) in the event that such a stress materialises. These are covered in more detail on page 59 of the Financial Risk section.

– The Bank has updated its Recovery and Solvent Wind Down Plans that have been reviewed by the PRA and confirmed as acceptable, evidencing that the Bank's customers would not be unduly impacted by an event which might cause Starling to curtail its business activities. These documents are now accompanied by an Operational Continuity in Resolution Plan showing how critical services will be maintained in order to meet both regulatory obligations and customer requirements.

Principal Risks and Risk Mitigation continued

Credit Risk

The Group is exposed to credit risk across all of its financial asset classes, however its principal exposure to credit risk arises on customer lending balances.

Maximum exposure to credit risk on financial assets, undrawn facilities and commitments (audited) is shown below:

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Loans and Advances to Banks	**6,105,459**	3,196,349	**6,101,348**	3,196,325
Debt Securities	**2,330,261**	1,515,977	**2,330,261**	1,515,977
Loans and Advances to Customers net of Guarantee	**1,411,027**	191,108	**1,411,027**	191,108
Loans and Advances to Customers	**3,266,126**	2,258,290	**3,266,126**	2,258,290
Of which subject to Government Guarantee	**(1,855,099)**	(2,067,182)	**(1,855,099)**	(2,067,182)
Derivative Assets	**98,056**	13,488	**98,056**	13,488
Undrawn Facilities & Commitments	**321,932**	73,612	**321,932**	73,612
Maximum Exposure to Credit Risk	**10,266,735**	4,990,534	**10,262,624**	4,990,510

Risk Assessment

The Bank distinguishes between credit risk arising from customer lending defaults (covered in this section) and credit risk arising from wholesale counterparty defaults which are covered on pages 56 to 58.

Credit risk from lending 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.

Starling's credit risk is categorised into three components:

- Mortgage lending - During the year, the Group began originating buy-to-let mortgages, purchased a portfolio of owner-occupied interest-only mortgages, and entered into an agreement with a third party to acquire owner-occupied mortgages under a forward flow agreement.
- SME lending - The SME portfolio predominantly comprises of Government-backed Bounce Back Loans (BBLS), Coronavirus Business Interruption Loan Scheme (CBILS), Overdrafts and Recovery Loan Scheme (RLS).
- Retail lending - The Retail portfolio predominantly comprises of overdrafts linked to current accounts and a term lending portfolio in run-off.

Credit risk arises through the lending facilities which Starling offers to its Mortgage, SME and Retail customers, both through its own origination channels and through third parties via forward flow partners.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Management of Credit Risk

All material credit risk decisions are managed through the Bank's Board and Risk committee structures, as set out on pages 21 to 25.

Risk Appetite

Credit risk appetite is approved by the Board on recommendation from the BRC, with authority delegated to ERC for setting risk appetite at a more granular level and for risk appetite monitoring.

Starling aims to be a responsible lender and seeks to only provide/fund lending facilities to applicants who are not over-indebted and who can evidence an ability to service their lending. All lending whether originated organically, or by third party providers is provided to customers in line with responsible lending requirements. The Bank monitors this through regular oversight activities:

- Starling lends to individuals under secured mortgages and unsecured credit products (term loans and overdrafts) and to SMEs under Government-backed lending schemes. Starling's lending is limited to the UK and aims to be diversified across product types, sectors, risk profile and regional locations to avoid excessive risk concentrations. Starling mitigates concentration risk by including eligibility criteria in forward flow arrangements and monitoring exposure by segments to proactively manage any adverse trends through limiting new flows.
- Starling only enters into an agreement to purchase or have another organisation originate loans on Starling's behalf, where the third party engaged has expertise to originate and manage the portfolio through the credit lifecycle. Each engagement is assessed under various stressed scenarios, and the expected risk exposure of each individual portfolio is assessed against Starling's overall risk appetite. The risk exposure for each transaction is considered and approved on an individual basis, in conjunction with the ALCo, ERC, EC and Board, informed by the assessment against the Bank's overall risk appetite.
- Starling ensures there is sufficient expertise in the Bank to oversee the management of its portfolios.

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

Measurement of Credit Risk

In order to measure credit risk under IFRS 9, the Bank uses statistical models and assumptions about the future direction of economic input variables, driven by a combination of internal and external factors, to derive the ECL arising from a financial asset.

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

Principal Risks and Risk Mitigation continued

Credit Risk continued

Measurement of Credit Risk continued

Given that the Bank's portfolios are growing, with lending in additional areas, full statistical models incorporating forward looking economic assumptions have not yet been developed for all portfolios. Where this is the case, an alternative approach has been taken to calculating the ECL which will be used until a full model is in place:

- For mortgages, a full IFRS 9 compliant model is currently in development. A simplified model has been utilised for year-end, which combines detailed analysis and a series of assumptions to produce an account level ECL. The simplified version of this model has been reviewed by the Bank's internal validation function, and results have been benchmarked by an independent third party supplier.
- For third-party RLS lending, the ECL is calculated using Probability of Default ("PD") assumptions informed by the Bank's third party lender, and Loss Given Default ("LGD") assumptions relating to the level of Government guarantee.
- Similarly, for non-guaranteed third-party SME lending, the PD and LGD assumptions are informed by the Bank's third party lender.
- For RLS and CBILS organic lending, the Bank utilises an internal assessment of credit risk based on a close monitoring system, which is evaluated monthly. The recognition of the increase in credit risk can be estimated based on a strict internal policy, and the adequate level of provisions is calculated using the corresponding third-party originated assets coverage ratios segmented by risk stages.

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

- Exposure at Default, which estimates the exposure of the asset at the point it is expected to default.
- PD, which estimates the likelihood of an asset moving to default in the next 12 months, or over the remainder of its life, dependent on Stage.
- LGD, which estimates the financial amount that the Bank expects to lose in the event of default of the asset.

This approach applies to all portfolios except organic CBILS and RLS lending, to which provision rates from the third party CBILS and RLS models are applied.

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

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

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

Significant Increase in Credit Risk

In determining whether there has been a significant increase in credit risk, the Group uses quantitative tests, e.g. based on information received from the credit bureau 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. For Retail lending products (principally overdrafts and unsecured term lending) and Mortgages, the Group includes a rebuttable presumption that credit risk has significantly increased from the point of origination/acquisition when arrears have increased by more than thirty days past due or one month in arrears. 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 bureau scores, are amongst other factors taken into consideration where considered relevant and where sufficient data is available for the portfolio.

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

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

Principal Risks and Risk Mitigation continued

Credit Risk continued

Measurement of Credit Risk continued

The SICR criteria are shown in the table below:

Portfolio	SICR Criteria
Mortgages	– As outlined, the mortgage ECL calculation is currently based on a simplified model which utilises the following SICR criteria: • 1+ months in arrears. – A PMA was applied to cater for the fact that additional criteria (e.g. deterioration in bureau score) were not included in the Staging criteria due to data constraints.
SME – third party CBILS	– 10+ days in arrears. – Forbearance. – 100% increase in PD since origination based on bureau score.
SME - third party RLS	– As outlined, the RLS calculation is currently based on a simiplified model which uses the following SICR criteria: • 10+ days in arrears.
SME - organic CBILS and RLS	– 15+ days in arrears. – Indication of financial distress assessed by a close monitoring watchlist.
Retail – Overdrafts and Term Loans	– 100% increase in PD since origination (based on bureau score). – Potential financial difficulty trigger (Retail Overdrafts only). – Forbearance. – 1+ months in arrears or 30 DPD.

Definition of arrears

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

Definition of default

Loans and Advances are classified as in default if any of the following criteria has been met: the outstanding balance is overdue for more than 90 days or the account is 3 or more months in arrears; 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. For mortgages, accounts are also deemed to be defaulted if they are term expired for 3 or more months, or if a Law of Property Act ("LPA") receiver has been appointed for a Buy-to-Let ("BTL") mortgage.

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 less impairment provisions of the asset.

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

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

Forbearance

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

Principal Risks and Risk Mitigation continued

Credit Risk continued

Measurement of Credit Risk continued

Charge-offs

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

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

Stress Testing

The Bank uses a range of statistical models to measure the credit risk within its portfolios. These models are developed on internal data, supplemented by external data where it is available and where internal historical data is limited. The models are used to assess the Bank's ECL in line with IFRS 9 requirements, as outlined in Note 2h to the Financial Statements. While not required to take part in the Bank of England's annual stress testing exercise, the Bank does undertake stress testing at least annually as part of its ICAAP. In addition to using scenarios provided by the Bank of England, the Bank uses a third party economist to assist with the development of economic scenarios for forecasting and stress testing purposes. As part of the stress test, the Bank's IFRS 9 models are utilised to provide an estimation of PD under each scenario. Where appropriate (e.g. for mortgages, where house prices may fluctuate), LGD parameters are also adjusted.

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

Risk Mitigation

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

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

(i) Credit Policy

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

Principal Risks and Risk Mitigation continued

Credit Risk continued

Risk Mitigation continued

Specialist Quality Assurance ("QA") teams in the 1LoD review individual cases to check for adherence to policy, and results of this QA activity are reported through the appropriate credit committees. In addition, 2LoD undertakes regular assurance reviews of 1LoD activity and reports any issues identified to senior management.

(ii) Credit Assessment

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

For organic lending, the Bank utilises statistical models, where appropriate, to make or inform credit decisions. These take into account the past payment performance of the customer, as evidenced by information declared as part of the application, and supplemented by the credit bureau, internal and customer supplied information. All applications are assessed for affordability, with the exception of loans originated under the Bounce Back Loan Scheme (BBLS), where affordability assessments were neither required or allowed under the scheme rules. The Bank's credit policies allow for decisions on cases to be automated through the use of decisioning models. However, where the automated decisioning triggers certain policy rules that drive the requirement for a manual referral of the underwriting to occur, the Bank utilises specialist underwriters in order to make the final decision.

For third party originated assets, contractual arrangements specify the level of risk appetite that the Bank is willing to accept. An assessment is made at the point the arrangement is made of the third party credit policies, and any material differences to Starling Bank policies are highlighted and approved at the point of contractual commitment by the Board.

(iii) Specialist Expertise

The Bank's exposure to credit risk is managed by specialist teams operating within their area of expertise. This includes skilled credit underwriters who support Mortgage, SME and Retail customers. Each underwriting team is required to reach the appropriate level of competence before being allocated a Delegated Lending Authority. Similarly, cases can be referred to specialists in the area of vulnerable customers where required (see section on Vulnerable Customers, on page 37).

Credit Risk Monitoring

Detailed credit risk monitoring is reviewed at the TPCFFC and the CRC. The IC is used to determine the appropriate level of impairment provisions (both ECLs and PMAs) across individual portfolios and in aggregate for the Bank's lending portfolios, using information flowing up to the ERC and BRC. Monitoring includes a full assessment against risk appetite limits, supported by a series of key risk and early warning indicators in order to identify areas of the portfolio with potentially increasing credit risk where corrective action may need to be taken.

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

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

The Bank utilises a number of monitoring techniques to assess whether individual credit portfolios are remaining within appetite.

(i) Portfolio Oversight

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

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

The CRC and the TPCFFC act as the main forums for discussion around portfolio performance, credit risk management and credit strategy changes, underpinned by the detailed portfolio management information provided. Matters are escalated for decision to the ERC and BRC as appropriate.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Monitoring continued

(ii) Forbearance
Forbearance is considered to have been applied when the Bank offers to a customer who is experiencing financial difficulties a temporary or permanent restructuring of their facility. The approach taken to forbearance is defined within the Bank's policies and procedures.

In response to COVID-19, the Bank introduced a range of temporary support measures, such as payment holidays, for Retail customers who were adversely affected by the COVID-19 pandemic. In line with regulatory guidance, these short-term measures are not considered to be, or reported as, forbearance.

(a) Mortgages
Starling's forward flow mortgage portfolio is serviced by third parties who are also responsible for offering appropriate forbearance solutions to customers. Each third party servicer operates within their own Forbearance and Collections policies, which are reviewed by Starling at the outset and adherence is confirmed through regular audits. These policies outline what forbearance measures can be offered at the discretion of the servicer, and what measures require escalation.

Promise to Pay and Arrangement to Pay options are typically the primary forbearance measure used, with each borrower's needs being assessed and managed on a case by case basis. In certain circumstances, Starling may agree to one-off forbearance measures such as term extensions or interest rate adjustments where these are deemed appropriate. Such measures would be reviewed by both the third party servicer as well as the Bank to agree that the measure offered the best outcome for the customer.

(b) SME
(i) BBLS - Pay As You Grow ("PAYG")
For Government-backed BBLS, Pay As you Grow options have been designed by HM Government to support and provide customers with the majority of the forbearance they need.

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

- Payment Holiday for six months: Borrowers can choose to pause both principal and interest repayments on the loan entirely, for a period of up to six months. This option can be used back-to-back with interest-only periods. Interest will continue to accrue during this payment holiday.
- Interest-only payments for six months: Borrowers can choose to move to interest-only payments for a period of up to six months. This option can be used up to three times throughout the lifetime of the loan, and can be used back-to-back i.e. for up to eighteen months in one go (offered in three transactions of six months each).
- Term Extension (up to ten years): Borrowers can choose to extend the term of their loan to ten years. Borrowers also retain the option to repay the ten year loan early, without any early repayment fees. The interest rate would remain at 2.5% throughout the entire length of the loan.

Whilst PAYG options designed by HM Government provide customers with forbearance alternatives, Starling also offers forbearance options above and beyond PAYG both pre and post default, depending on customer circumstances.

Other forbearance options offered/discussed include:

- Breathing space, either within or outside the Debt Respite Scheme.
- Promise to Pay ("PTP") based on a discussion with the customer and a commitment to make the next payment without a full income and expenditure exercise being completed.
- Arrangements to Pay ("ATP") based on a discussion of what is sustainable for the customer given their incomings and outgoings.
- Arrangements with third parties, such as Debt Management Plans ("DMP").

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

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Monitoring continued

(c) Retail

The following forbearance options are offered/discussed with customers who are experiencing financial difficulties:

- Breathing space, either within or outside the Debt Respite Scheme.
- ATP based on a discussion of what is sustainable for the customer given their incomings and outgoings.
- Arrangements with third parties, such as DMP.

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

(iii) Collections

(a) Mortgages

Mortgage collections are undertaken by Starling's third party servicers, and the activities largely depend on whether the mortgage is regulated (e.g. owner occupied) or unregulated (e.g. BTL). In either scenario, the servicer will work with the borrower to determine the cause of non-payment and, where appropriate, will agree to implement a forbearance option as per the above. Where forbearance measures are inappropriate and/or ineffective, and all possible avenues to support the borrower fulfil their contractual obligations (e.g. an assisted sale) have proved ineffective, further collections activity will be undertaken.

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

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

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

(b) SME and Retail

When a customer requires forbearance (both short and long term) or is in arrears on their organic lending facility, the Bank's dedicated collections function will attempt to contact the customer and support them to clear all arrears and to bring their lending facility back into order.

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

All collections team members receive initial and ongoing training on how to support customers in financial difficulty, with additional specialist support available where a customer is identified as being vulnerable. If a customer enters default on their lending facility, the collections function will issue the required legal and regulatory documentation/correspondence to demand full repayment from the borrower and the lending facility will enter the Bank's recovery process. The Bank's recovery activity is supported by 3rd party debt collection agencies, who are regulated to undertake this activity and ensure that all regulatory and legal requirements are met, as well as ensuring that customers are treated fairly at all times.

Ongoing Quality Assurance is also undertaken on the collections function to monitor the functions performance, with 2LoD also undertaking regular assurance reviews.

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

(iv) Vulnerable Customers

The Bank operates a Vulnerable Customer Policy, the objective of which is to set out how the Bank ensures customers are identified as vulnerable and treated appropriately in accordance with the Bank's values, applicable regulatory requirements and guidance. Separately, the Bank's Responsible Lending and Collections policies set out its treatment of customers in financial vulnerability, including the approach to forbearance.

The Bank has processes governing the identification and treatment of customers in vulnerable circumstances. These take into account the channel, the product, where the customer is within the customer journey and the varying nature and degrees of permanence of different vulnerabilities.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Monitoring

(iv) Vulnerable Customers continued

The Bank ensures that all staff that are directly in contact with customers are adequately trained to identify any vulnerable circumstances, and that there are sufficient numbers of staff available with the appropriate training to support those customers.

The Bank undertakes monitoring and assurance work to ensure that the vulnerability policies, processes and controls are designed and operating effectively and delivering fair customer outcomes.

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

Credit Risk Exposures

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

Loans and advances to customers and ECL by stage and coverage (audited)

As at 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Mortgage Lending	1,142,199	26,124	47,564	**1,215,887**
Mortgage Pipeline (Undrawn)	252,666	–	–	**252,666**
SME Lending after application of Government guarantee	131,699	14,426	3,984	**150,109**
SME Lending	1,576,131	176,550	252,527	**2,005,208**
Of which subject to Government guarantee	(1,444,432)	(162,124)	(248,543)	**(1,855,099)**
SME Overdraft Facilities (Undrawn)	1,868	–	–	**1,868**
Retail Lending	37,707	2,912	4,412	**45,031**
Retail Overdraft Facilities (Undrawn)	67,279	119	–	**67,398**
Credit Risk on Loans and Advances to Customers	**1,633,418**	**43,581**	**55,960**	**1,732,959**
Of which On Balance Sheet	*1,311,605*	*43,462*	*55,960*	*1,411,027*
Of which Off Balance Sheet	*321,813*	*119*	–	*321,932*
Mortgage Lending	524	76	2,621	**3,221**
Mortgage Pipeline (Undrawn)	154	–	–	**154**
SME Lending	10,420	2,537	3,778	**16,735**
SME Overdraft Facilities (Undrawn)	27	–	–	**27**
Retail Lending	1,489	1,030	3,373	**5,892**
Retail Overdraft Facilities (Undrawn)	1,023	20	–	**1,043**
Impairment Provision	***13,637***	***3,663***	***9,772***	***27,072***
Of which On Balance Sheet	*12,433*	*3,643*	*9,772*	*25,848*
Of which Off Balance Sheet	1,204	20	–	**1,224**
Mortgage Lending	1,141,675	26,048	44,943	**1,212,666**
Mortgage Pipeline (Undrawn)	252,512	–	–	**252,512**
SME Lending	121,279	11,889	206	**133,374**
SME Overdraft Facilities (Undrawn)	1,841	–	–	**1,841**
Retail Lending	36,218	1,882	1,039	**39,139**
Retail Overdraft Facilities (Undrawn)	66,256	99	–	**66,355**
Net Carrying Amount	**1,619,781**	**39,918**	**46,188**	**1,705,887**
Of which On Balance Sheet	***1,299,172***	***39,819***	***46,188***	***1,385,179***
Of which Off Balance Sheet	***320,609***	***99***	**–**	*320,708*
% Coverage	**0.83%**	**8.41%**	**17.46%**	**1.56%**

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

As at 31 March 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
SME Lending after Application of Government Guarantee	110,271	8,500	470	**119,241**
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**
Retail Lending	63,383	5,457	3,027	**71,867**
Retail Overdraft Facilities (Undrawn)	70,547	927	–	**71,474**
Credit Risk on Loans and Advances to Customers	**246,339**	**14,884**	**3,497**	**264,720**
Of which On Balance Sheet	173,654	13,957	3,497	**191,108**
Of which Off Balance Sheet	72,685	927	–	**73,612**
SME Lending	6,860	1,361	460	**8,681**
SME Overdraft Facilities (Undrawn)	31	–	–	**31**
Retail Lending	2,801	1,865	2,276	**6,942**
Retail Overdraft Facilities (Undrawn)	1,321	281	–	**1,602**
Impairment Provision	**11,013**	**3,507**	**2,736**	**17,256**
Of which On Balance Sheet	9,661	3,226	2,736	**15,623**
Of which Off Balance Sheet	1,352	281	–	**1,633**
SME Lending	103,411	7,139	10	**110,560**
SME Overdraft Facilities (Undrawn)	2,107	–	–	**2,107**
Retail Lending	60,582	3,592	751	**64,925**
Retail Overdraft Facilities (Undrawn)	69,226	646	–	**69,872**
Net Carrying Amount	**235,326**	**11,377**	**761**	**247,464**
Of which On Balance Sheet	163,993	10,731	761	**175,485**
Of which Off Balance Sheet	71,333	646	–	**71,979**
% Coverage	**4.47%**	**23.56%**	**78.24%**	**6.52%**

Change in the year

A. Mortgages

During the year, the Group began originating BTL mortgages, purchased a portfolio of owner-occupied interest-only mortgages, and entered into an agreement with a third party to acquire owner-occupied mortgages. The £1,215.9m of mortgage assets as at 31 March 2022 is made up of BTL loans originated through Fleet Mortgages and Owner Occupied ("OO") loans acquired through both an ongoing forward flow arrangement with an established lender and the acquisition of a seasoned portfolio in run off.

The total ECL for the mortgage portfolio is £3.2m, with 17% of balances in Stage 1, 2% in Stage 2 and 81% in Stage 3. The majority of this ECL relates to the acquired portfolio and is driven by the seasoned nature of the assets, thus meaning a larger proportion of loans are in Stage 2 and 3 compared with the newly originated assets. That said, performance is largely in line with expectations at the point of due diligence.

Whilst impacts from the cost of living crisis are yet to present themselves in arrears numbers, there is an anticipated uplift in borrowers entering financial difficulty and potentially requiring support. This could also lead to higher arrears levels and/or default.

B. SME

During the year the SME portfolio has reduced from £2,186m at 31 March 2021 to £2,005m at 31 March 2022 as Business Interruption Payment ("BIP") periods on individual customers' loans came to an end on both CBILS and BBLS Government-backed lending products. The origination of £137m of RLS throughout the financial year has partially offset this run off. Shown in the table below (audited).

	31-Mar-22		31-Mar-21	
Government Lending Schemes (audited)	**#**	**£'000**	**#**	**£'000**
Bounce Back Loans	55,028	1,369,755	53,276	1,591,138
Coronavirus Business Interruption Loans	3,857	497,801	3,415	595,055
Recovery Loan Scheme	1,495	137,381	–	–
Government Lending Schemes	60,380	2,004,937	56,691	2,186,193

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Change in the year continued

B. SME continued

The total ECL for the SME portfolio is £16.7m as at 31 March 2022 (2021: £8.7m), results in a coverage ratio of 11.1% (2021: 7.3%). The change in coverage ratio is largely driven by the seasoning of the loan portfolio, resulting in changes in the staging mix and broader use of SICR and default criteria (i.e. arrears as an indication of SICR and default) as borrowers begin to make repayments.

Performance of the CBILS portfolio continues to exceed expectations, with prepayment rates on earlier cohorts coming in higher than anticipated, and arrears and default rates performing slightly better than originally expected. Additionally, the BBLS portfolio, whilst fully guaranteed (and therefore not exposed to credit risk), continues to demonstrate strong performance, with over 75% of the portfolio being up to date. This is partly due to the seamless process available to customers to select a PAYG option via the Starling app. The more recent RLS and unguaranteed SME lending remains relatively unseasoned, albeit there are no signs of stress emerging to date. All claims made against Government guarantees have been successful to date.

C. Retail

The Retail portfolio has remained relatively stable in the year at £16.1m (2021: £16.4m). The portfolio performed robustly and continues to benefit from proactive risk management activity. The quality of new business remains good with low early arrears rates observed throughout the year. The Bank has continued to benefit from a period of sustained low unemployment and low interest rates, consequently, default rates have also remained low.

The quality of the portfolio has improved year on year with 86.8% in Stage 1 (2021: 80.3%) and as a result, the portfolio coverage rate has reduced to 3.3% (2021: 3.9%).

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

As at 31 March 2022	Mortgage £'000	SME £'000	Retail £'000	Total £'000
Loans and Advances to Customers				
Stage 1	1,394,865	133,567	104,986	**1,633,418**
Stage 2	26,124	14,426	3,031	**43,581**
Stage 2 – not past due	1,504	13,770	1,932	**17,206**
Stage 2 – > 30 dpd	24,620	656	1,099	**26,375**
Stage 3	47,564	3,984	4,412	**55,960**
Total Exposure	**1,468,553**	**151,977**	**112,429**	**1,732,959**
ECL				
Stage 1	678	10,447	2,512	**13,637**
Stage 2	76	2,537	1,050	**3,663**
Stage 2 – not past due	2	2,005	458	**2,465**
Stage 2 – > 30 dpd	74	532	592	**1,198**
Stage 3	2,621	3,778	3,373	**9,772**
Total Impairment Provision	**3,375**	**16,762**	**6,935**	**27,072**
Coverage	%	%	%	%
Stage 1	0.0%	7.8%	2.4%	**0.8%**
Stage 2	0.3%	17.6%	34.6%	**8.4%**
Stage 2 – not past due	0.1%	14.6%	23.7%	**14.3%**
Stage 2 – > 30 dpd	0.3%	81.1%	53.9%	**4.5%**
Stage 3	5.5%	94.8%	76.5%	**17.5%**
Coverage Ratio	**0.2%**	**11.0%**	**6.2%**	**1.6%**

Strategic Report
Directors' Report
Financials

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

As at 31 March 2021	SME £'000	Retail £'000	Total £'000
Loans and Advances to Customers			
Stage 1	112,409	133,930	**246,339**
Stage 2	8,500	6,384	**14,884**
Stage 2 – not past due	8,500	5,326	**13,825**
Stage 2 – > 30 dpd	–	1,058	**1,058**
Stage 3	470	3,027	**3,497**
Total Exposure	121,379	143,341	**264,720**
ECL			
Stage 1	6,891	4,122	**11,013**
Stage 2	1,361	2,146	**3,507**
Stage 2 – not past due	1,361	1,665	**3,026**
Stage 2 – > 30 dpd	–	482	**481**
Stage 3	460	2,276	**2,736**
Total Impairment Provision	8,710	8,544	**17,254**
Coverage	%	%	**%**
Stage 1	6.1%	3.1%	**4.5%**
Stage 2	16.0%	33.6%	**23.6%**
Stage 2 – not past due	16.0%	31.3%	**21.9%**
Stage 2 – > 30 dpd	0.0%	45.5%	**45.4%**
Stage 3	97.8%	75.2%	**78.2%**
Coverage Ratio	7.2%	6.0%	**6.5%**

Stage 2 balances

There are a number of reasons why a loan could be subject to a Stage 2 lifetime ECL calculation. The following table highlights the relevant trigger point leading to a loan being classed as Stage 2 (audited):

	31-Mar-22			31-Mar-21		
	Gross Carrying Amount £'000	Impairment Provision £'000	Impairment Provision %	Gross Carrying Amount £'000	Impairment Provision £'000	Impairment Provision %
Drawn Facilities:						
Over 30 Days Past Due	24,100	1,169	4.85%	1,245	703	56.47%
In Forbearance	4,796	226	4.71%	962	485	50.42%
In Arrears	1,544	511	33.10%	–	–	0.00%
Terms Expired	–	–	0.00%	–	–	0.00%
Increase in PD Since Origination	13,022	1,737	13.34%	11,750	2,038	17.34%
Total Drawn Facilities	**43,462**	**3,643**	**8.38%**	13,957	3,226	23.11%
Undrawn Facilities:						
Over 30 Days Past Due	–	–	0.00%	–	–	0.00%
In Forbearance	–	–	0.00%	–	–	0.00%
In Arrears	–	–	0.00%	–	–	0.00%
Terms Expired	–	–	0.00%	–	–	0.00%
Increase in PD Since Origination	119	20	16.81%	927	281	30.31%
Total Undrawn Facilities	**119**	**20**	**16.81%**	927	281	30.31%
Total Facilities	**43,581**	**3,663**	**8.41%**	14,884	3,507	23.56%

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Sectoral concentration (audited)

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

As at 31 March 2022	Total £'000
Mortgage:	
Buy-to-let	405,694
Owner Occupied	1,062,860
SME:	
Agriculture and Energy	24,651
Manufacturing	149,429
Construction	246,577
Wholesale and retail trade	325,123
Transportation and storage	89,141
Accommodation and food service activities	103,654
Information and communication	199,777
Real estate activities	85,244
Professional, scientific and technical activities	272,642
Administrative and support service activities	216,342
Education, human health and social work	107,025
Other service activities	187,470
Retail:	
Households	112,429
Maximum Exposure before impairment provision and benefit of Government guarantee	**3,588,058**

As at 31 March 2021	Total £'000
SME:	
Agriculture and Energy	22,966
Manufacturing	170,018
Construction	300,825
Wholesale and retail trade	344,435
Transportation and storage	101,529
Accommodation and food service activities	168,337
Information and communication	211,885
Real estate activities	104,771
Professional, scientific and technical activities	285,243
Administrative and support service activities	178,956
Education, human health and social work	120,837
Other service activities	178,759
Retail:	
Households	143,341
Maximum Exposure before impairment provision and benefit of Government guarantee	**2,331,902**

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Credit risk exposure and ECL by internal PD rating, by IFRS 9 stage allocation (audited)

The distribution of the group credit risk exposures on the Group's Loans and Advances to Customers portfolio by internal PD rating is analysed below:

31 March 2022

	Gross Carrying Amount				Impairment Provision			
Probability of Default:	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<0.25%	640,443	237	–	640,680	90	2	–	92
0.25% - <0.5%	202,108	15	–	202,123	133	–	–	133
0.5% - <0.75%	136,843	393	–	137,236	189	–	–	189
0.75% - <1.0%	143,898	25	–	143,923	171	2	–	173
1.0% - <2.5%	342,906	934	–	343,840	1,269	34	–	1,303
2.5% - <10.0%	153,180	37,309	–	190,489	9,886	1,994	–	11,880
10.0% - <100%	14,040	4,668	–	18,708	1,899	1,631	–	3,530
Default	–	–	55,960	55,960	–	–	9,772	9,772
Total Credit Risk on Loans and Advances to Customers[1]	**1,633,418**	**43,581**	**55,960**	**1,732,959**	**13,637**	**3,663**	**9,772**	**27,072**

1 Total Credit Risk on Loans and Advances to Customers net of Government guarantee.

31 March 2021

	Gross Carrying Amount				Impairment Provision			
Probability of Default:	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<0.25%	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[1]	**246,339**	**14,884**	**3,497**	**264,720**	**11,013**	**3,507**	**2,736**	**17,256**

1 Total Credit Risk on Loans and Advances to Customers net of Government guarantee.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Movement in Loans and Advances to Customers and ECL (audited)

The following table shows the movement in the total ECL and gross carrying value of the lending portfolios during the period. The first two tables drawn balance sheet positions and the tables after the undrawn balance sheet positions:

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

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Impairment losses recognised in the Statement of Comprehensive Income of £9,816k (2021: £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.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

	Gross Loans				Impairment Provision			
Total Drawn	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 December 2019	53,088	1,907	1,543	56,538	797	739	714	2,250
Changes Reflected in Impairment Losses:								
Increase Due to Originations[1]	146,721	10,866	1,670	159,257	7,415	2,118	1,214	10,747
Decrease Due to Repayments	(22,154)	(401)	(884)	(23,439)	(130)	(45)	(94)	(269)
Changes in Credit Risk[2]	–	–	–	–	3,306	(92)	109	3,323
Amounts Written Off	(502)	(416)	(331)	(1,249)	(24)	(124)	(280)	(428)
Impairment Losses Recognised in SOCI	–	–	–	–	10,566	1,857	950	13,373
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	173,654	13,957	3,496	191,107	9,662	3,226	2,735	15,623
Coverage Ratio					5.6%	23.1%	78.2%	8.2%

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

	Gross loans				Impairment Provision			
Total Undrawn	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
As at 1 April 2021	72,685	927	–	73,612	1,352	281	–	1,633
Changes Reflected in Impairment Losses:								
Increase Due to Originations[1]	262,458	45	–	262,503	249	3	–	252
Decrease Due to Repayments	(13,626)	(427)	(95)	(14,148)	(29)	(49)	(2)	(80)
Changes in Credit Risk[2]	–	–	–	–	(552)	(21)	(4)	(577)
Amounts Written Off	(28)	(7)	–	(35)	(1)	(3)	–	(4)
Impairment Losses Recognised in SOCI					(333)	(70)	(6)	(409)
Transfers Between Stages:								
To Stage 1	669	(664)	(5)	–	190	(190)	–	–
To Stage 2	(258)	258	–	–	(4)	4	–	–
To Stage 3	(87)	(13)	100	–	(1)	(5)	6	–
As at 31 March 2022	**321,813**	**119**	**–**	**321,932**	**1,204**	**20**	**–**	**1,224**
Coverage Ratio					**0.4%**	**16.8%**	**0.0%**	**0.4%**

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

	Gross loans				Impairment Provision			
Total Undrawn	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 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%

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Information on impairment movement between stages on Loans and Advances to Customers at a portfolio level is provided in the tables below.

Mortgages - Drawn

	Gross loans				Impairment Provision			
31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 April 2021	–	–	–	–	–	–	–	–
Changes Reflected in Impairment Losses:								
Increase Due to Originations	1,269,423	–	–	1,269,423	1,537	–	–	1,537
Decrease Due to Repayments	(53,536)	–	–	(53,536)	(65)	–	–	(65)
Changes in Credit Risk	–	–	–	–	734	(8)	1,023	1,749
Amounts Written Off	–	–	–	–	–	–	–	–
Impairment Losses Recognised in SOCI	–	–	–	–	2,206	(8)	1,023	3,221
Transfers Between Stages:								
To Stage 1	–	–	–	–	–	–	–	–
To Stage 2	(26,124)	26,124	–	–	(84)	84	–	–
To Stage 3[1]	(47,564)	–	47,564	–	(1,598)	–	1,598	–
As at 31 March 2022	**1,142,199**	**26,124**	**47,564**	**1,215,887**	**524**	**76**	**2,621**	**3,221**
Coverage Ratio					**0.0%**	**0.3%**	**5.5%**	**0.3%**

1 Included within Stage 3 balances are £46,837k of term expired owner occupied mortgages where customers continue to make repayments on due dates.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

SME[1] – Drawn

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

1 Amounts due under CBILS and BBLS lending schemes are shown net of Government guarantee. See note 30b Credit Risk.
2 Includes loans at reporting date stage, rather than stage at origination.
3 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

SME[1] – Drawn

31 March 2021	Gross Loans Stage 1 £'000	Gross Loans Stage 2 £'000	Gross Loans Stage 3 £'000	Gross Loans Total £'000	Impairment Provision Stage 1 £'000	Impairment Provision Stage 2 £'000	Impairment Provision Stage 3 £'000	Impairment Provision Total £'000
As 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%

1 Amounts due under CBILS and BBLS lending schemes are shown net of Government guarantee. See note 30b Credit Risk.
2 Includes loans at reporting date stage, rather than stage at origination.
3 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Retail – Drawn

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

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Retail – Drawn

	Gross Loans				Impairment Provision			
31 March 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'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	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	–	–	–	–	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%

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Forbearance (audited)

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

	Loans subject to Forbearance				
31 March 2022	No. of Loans	Gross Carrying Amount £'000	% of Portfolio	Impairment Allowance £'000	Coverage as %
Formal Arrangements	672	25,889	1.83%	470	1.8%
Temporary Arrangements	–	–	0.00%	–	0.0%
Payment Arrangement	400	854	0.27%	430	50.4%
Payment Holiday	106	93	0.00%	26	27.5%
Legal	779	527	0.00%	408	77.3%
Term Extension	–	–	0.00%	–	0.0%
Other	164	646	0.20%	41	6.3%
Total Loans in Forbearance	**2,121**	**28,009**	**1.62%**	**1,375**	**4.9%**

	Loans subject to Forbearance				
31 March 2021	No. of Loans	Gross Carrying Amount £'000	% of Portfolio	Impairment Allowance £'000	Coverage as %
Formal Arrangements	329	252	0.13%	183	72.8%
Temporary Arrangements	–	–	0.00%	–	0.0%
Payment Arrangement	443	1,546	0.81%	655	42.4%
Payment Holiday	176	147	0.08%	40	27.0%
Legal	480	315	0.16%	254	80.7%
Term Extension	–	–	0.00%	–	0.0%
Other	712	302	0.16%	168	55.6%
Total Loans in Forbearance	2,140	2,563	1.34%	1,300	50.7%

Further analysis of forbearance balances by type is provided in the Financial Statements in note 30, set out on page 166.

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Collateral (audited)

The quality of the Group's mortgage portfolio can be considered with reference to the average Loan-to-Value ("LTV"), as set out in the tables below:

Mortgage LTV As at 31 March 2022	Owner Occupied £'000	Buy-To-Let £'000	Total £'000	As % of Total
Less than 50%	360,978	6,856	367,834	30.25%
50% to 60%	172,830	16,038	188,868	15.53%
60% to 70%	142,729	40,861	183,590	15.10%
70% to 80%	104,114	177,411	281,525	23.15%
80% to 90%	177,252	1,861	179,113	14.73%
90% to 100%	14,957	–	14,957	1.23%
Greater than 100%	–	–	–	0.00%
Total Mortgage Lending before Impairment Provision	**972,860**	**243,027**	**1,215,887**	**100.00%**

Mortgage LTV As at 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	As % of Total
Less than 50%	331,644	11,807	24,383	367,834	30.25%
50% to 60%	170,227	7,908	10,733	188,868	15.53%
60% to 70%	168,037	5,498	10,054	183,589	15.10%
70% to 80%	279,214	645	1,667	281,526	23.15%
80% to 90%	178,386	–	727	179,113	14.73%
90% to 100%	14,691	266	–	14,957	1.23%
Greater than 100%	–	–	–	–	0.00%
Total Mortgage Lending before Impairment Provision	**1,142,199**	**26,124**	**47,564**	**1,215,887**	**100.00%**

Mortgage credit performance (audited)

During the year, the Group began originating buy-to-let mortgages, purchased a portfolio of owner-occupied interest-only mortgages, and entered into an agreement with a third party to acquire owner-occupied mortgages. Both BTL mortgages and mortgages acquired under third party agreement are on fixed-rate repayment terms where the customers' rates of interest are fixed for periods up to 5 years. For the portfolio of interest-only mortgages, customers are only required to make payments of interest for the duration of the mortgage with the customer responsible for repaying the principal outstanding at the end of the loan term.

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

Interest-only maturity profile	Total £'000
Term expired	**16,041**
< 1 year	**7,495**
1 to 5 years	**77,246**
5 to 15 years	**357,462**
>15 years	**168,407**
Total Interest Only	**626,651**

Principal Risks and Risk Mitigation continued

Credit Risk continued

Credit Risk Exposures continued

Mortgage LTV (audited) As at 31 March 2022	Buy-to-let £'000	*Of which interest only £'000*	Owner-occupied £'000	*Of which Interest only £'000*	As % of Total
Less than 50%	6,857	*4,557*	360,977	*196,086*	16.5%
50% to 60%	16,038	*11,347*	172,830	*135,182*	12.1%
60% to 70%	40,861	*30,844*	142,729	*92,048*	10.1%
70% to 80%	177,411	*134,322*	104,114	*21,482*	12.8%
80% to 90%	1,860	*784*	177,253	–	0.1%
90% to 100%	–	–	14,957	–	0.0%
Greater than 100%	–	–	–	–	0.0%
Total Mortgage Lending before impairment provision	**243,027**	***181,854***	**972,860**	***444,798***	51.5%

Further information on Mortgage Lending and impairment provisions is shown in Note 30, as set out on page 158.

Strategic Report
Directors' Report
Financials

Principal Risks and Risk Mitigation continued

Wholesale Credit Risk & Counterparty Credit Risk

Risk Assessment

The Bank distinguishes between credit risk arising from wholesale & counterparty defaults (covered in this section) and customer lending defaults which are covered on pages 30 to 38.

Wholesale Credit Risk is the risk of default on a debt security that may arise from an institutional borrower failing to make required payments. Counterparty Credit Risk is the risk that the counterparty to a market transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

Starling's wholesale credit risk arises from balance sheet management and investments in highly rated debt securities that are included within the HQLA portfolio. Counterparty Credit Risk for Starling arises from exposures to market counterparts due to the use of hedging instruments to manage the structural risks in the balance sheet.

Risk Measurement

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

Risk Management

Wholesale Credit Risk is managed by credit analysis being undertaken for proposed investments in line with methodologies agreed by the WCRC and exposures are managed within limits set by the Board. Regular portfolio reviews are undertaken to ensure that investments maintain the same level of credit enhancement that was accepted to be within risk appetite when the item was first purchased.

Counterparty Credit Risk is managed by credit analysis being regularly performed on the strength of the individual counterparty, with regular reviews of published information to determine if there has been any change in the counterparties' credit standing, using information available to the market and from Rating Agency updates.

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 the Bank. The Bank takes wholesale credit risk for its business activities and the investment of its HQLA portfolio within the limits set by the Board and the WCRC.

Quantitative risk appetite metrics are set for overall Large Exposures, single name, sector, product and geographic exposures.

Principal Risks and Risk Mitigation continued

Wholesale Credit Risk & Counterparty Credit Risk continued

Risk Mitigation

Starling mitigates Wholesale Credit Risk through operating within a limit framework set by the Board. For counterparty credit risk, Starling's bank counterparties are established market makers in the London swap and FX markets and are rated AA or above by independent Rating Agencies. Starling has signed ISDA CSA agreements in place for the posting of 2-way collateral.

Risk Monitoring

Wholesale Credit Risk exposures and Counterparty Credit Risk exposures are monitored daily and any breaches are escalated in line with escalation policies to senior management. The WCRC was set up in 2022, chaired by the CRO to monitor wholesale credit risk exposures, review changes to models and methodologies for measuring the risk and for recommending to the Board wholesale credit risk limits.

Stress Testing

Stress testing of the impact of counterparty defaults is undertaken as part of the ICAAP.

Credit Quality of Debt Securities held (unaudited)

The following tables set out information about the credit quality of Debt Securities, Ratings of AAA to A are derived from Standard and Poors, for Group and Company .

	31-Mar-22		
	AAA	AA	Total
Gilts	328,297	1,895	330,192
Sub-sovereign, Supranational and Agency bonds	1,255,801	119,177	1,374,978
Covered bonds	613,429	–	613,429
Residential Mortgage-Backed Securities	11,662	–	11,662
Total Debt Securities	**2,209,189**	**121,072**	**2,330,261**

	31-Mar-21		
	AAA	AA	Total
Gilts	–	2,848	2,848
Sub-sovereign, Supranational and Agency bonds	1,074,705	42,134	1,116,839
Covered bonds	382,638	–	382,638
Residential Mortgage-Backed Securities	13,652	–	13,652
Total Debt Securities	1,470,995	44,982	1,515,977

Principal Risks and Risk Mitigation continued

Wholesale Credit Risk & Counterparty Credit Risk continued

Stress Testing continued

Offsetting of financial assets and liabilities (audited)

The amounts offset on the Statement of Financial Position, as shown below for Group, represent derivatives and variation margin collateral which meets the criteria for offsetting under IAS32. The Group enters into derivatives with various counterparties which are governed by industry-standard master netting agreements. The Group holds and provides collateral in respect of derivatives transactions covered by these agreements.

31 March 2022	As reported £'000	Netting agreements £'000	Cash Collateral £'000	Net amounts after offsetting £'000
Derivative Assets	98,056	(330)	(81,380)	16,346
Derivative Liabilities	(330)	330	–	–
Amounts Subject of Offsetting	**97,726**	**–**	**(81,380)**	**16,346**

31 March 2021	As reported £'000	Netting agreements £'000	Cash Collateral £'000	Net amounts after offsetting £'000
Derivative Assets	13,488	(25)	(1,610)	11,853
Derivative Liabilities	(818)	25	–	(793)
Amounts Subject of Offsetting	12,670	–	(1,610)	11,060

Principal Risks and Risk Mitigation continued

Financial Risk

The management of Financial Risk seeks to ensure that the Bank is financially resilient, that it maintains sufficient capital and liquidity to cover its financial obligations, risk profile and risk exposures, over and above minimum requirements.

Financial risk appetites are set by the Board with authority delegated to ALCO for setting risk appetite at a more granular level and for risk appetite monitoring.

Financial risk is managed and monitored by the Treasury function and overseen and challenged by the Risk function.

Financial risk covers the following risk areas :

Liquidity and Funding Risk

→ See page 60 to read more

Market Risk

(including interest rate risk and foreign exchange rate risk).

→ See page 66 to read more

Capital Risk

→ See page 68 to read more

Principal Risks and Risk Mitigation continued

Liquidity and Funding Risk

Risk Assessment

Liquidity and Funding Risk is the risk that Starling could fail to meet its obligations as they fall due, including failure to have the right type and quantity of funds, in the right place, at the right time and in the correct currency.

Starling's sources of funding are from personal current accounts, business current accounts, BaaS accounts and from the BoE's TFSME with additional incentives for SMEs. TFSME is the only form of wholesale funding that the Bank currently utilises.

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

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

Risk Appetite

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

The Bank ensures that it will, at all times,

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

Risk Measurement

Liquidity risk is measured in accordance with the PRA's OLAR. Measurement is undertaken daily against metrics which are approved by the Board which include internal metrics and key regulatory metrics.

Management of Liquidity Risk

To protect itself against a liquidity stress, Starling maintains a liquidity buffer of central bank cash and high quality liquid bonds. Details of the key liquidity risks and how they are managed are set out in the Bank's ILAAP, which is approved by the Board. Liquidity risk exposures are subject to assessment under both regulatory and internal requirements. Starling manages its funding and liquidity risk from a central Treasury function, with monitoring and reporting being provided to senior management daily, ALCo monthly and with quarterly analysis to BRC and regularly to the Board on a timely basis.

Principal Risks and Risk Mitigation continued

Liquidity and Funding Risk continued

Stress testing

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

Risk Mitigation

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

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

Risk monitoring

The liquidity metrics and early warning indicators are accompanied with limits and/or trigger levels and these are reported daily to the Bank's senior management and the risk function. Monthly summaries are provided to ALCo, quarterly to the BRC and regularly to the Board.

ALCo is responsible for monitoring and oversight of liquidity risk. Treasury reports and escalates breaches of limits/triggers, or unexpected stresses on the availability of liquidity to senior management and to ALCo. 2LoD escalates breaches to the BRC and to the Board as appropriate.

Change in the year

Starling's liquidity position has remained comfortably in excess of its risk appetite limits throughout the year. As at 31 March 2022, the Bank's LCR was 513% (2021: 506%). The deposit base continued to grow throughout the year, from £5.8bn to £9.0bn. Starling made further use of the BoE's TFSME scheme within the year and drew a further £1.2bn funding, taking the bank's total central bank funding from the scheme to £2.2bn.

At the reporting date the Bank had a NSFR, which measures the stability of funding sources relative to assets requiring funding, of 261% (2021: 299%). 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 year.

Further information on liquidity risk is provided in the Financial Statements in note 30, set out on page 166.

Strategic Report
Directors' Report
Financials

Principal Risks and Risk Mitigation continued

Liquidity and Funding Risk continued

Change in the year continued

Sources of funding

The tables below provides an overview of the Group sources of funding (audited), the liquidity coverage ratio (unaudited) and the liquid assets portfolio (unaudited).

	31-Mar-22		31-Mar-21	
	£'000	%	£'000	%
SME Deposits	5,001,483	44.2	3,401,842	49.8
Retail Deposits	3,907,516	34.6	2,388,268	35.0
Payment Services	118,297	1.0	37,470	0.6
Total Customer Deposits	9,027,296	79.8	5,827,580	85.4
Bank of England	2,200,000	19.5	1,000,000	14.6
Deposits from other Banks	81,380	0.7	–	–
Total Funding	11,308,676	100.0	6,827,580	100.0

	31-Mar-22 £'000	31-Mar-21 £'000
Eligible liquidity buffer	6,537,364	3,410,070
Net stress outflows	1,275,283	674,460
Surplus	5,262,081	2,735,610
Liquidity Coverage ratio	**513%**	**506%**

	31-Mar-22 £'000	31-Mar-21 £'000
Balances with BOE	5,656,778	3,178,042
Gilts	228,674	2,950
Sub-sovereign, Supranational and Agency bonds	136,968	115,330
Covered bonds	506,166	385,867
Residential Mortgage-Backed Securities	8,777	13,223
Total HQLA	**6,537,364**	3,695,412

Encumbered assets by asset class (audited)

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

	Encumbered		Unencumbered		Total	
	31-Mar 2022 £'000	31-Mar 2021 £'000	31-Mar 2022 £'000	31-Mar 2021 £'000	31-Mar 2022 £'000	31-Mar 2021 £'000
Debt Securities	**1,359,777**	1,028,091	**947,109**	485,187	**2,306,886**	1,513,278
Loans and Advances to Banks	**324,170**	187,257	**5,781,289**	3,009,092	**6,105,459**	3,196,349
Loans and Advances to Customers[1]	**1,085,700**	–	**2,088,283**	2,232,846	**3,173,983**	2,232,846
Other Assets	**36,979**	21,986	**92,051**	41,474	**129,030**	63,460
Assets Pledged / Unpledged	**2,806,627**	1,237,334	**8,908,731**	5,768,599	**11,715,358**	7,005,933

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

Principal Risks and Risk Mitigation continued

Liquidity and Funding Risk continued

Change in the year continued

Assets and liabilities by maturity (audited)

The following table represents a breakdown of the Group's balance sheet according to the contractual maturity of the assets and liabilities.

As at 31 March 2022	Total £'000	Undated £'000	On Demand £'000	Up to 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000	Over 5 years £'000
Loans and Advances to Banks	6,105,459	–	6,105,459	–	–	–	–	–
Debt Securities	2,306,886	–	–	150,191	601,203	873,744	679,925	1,823
Loans and Advances to Customers	3,173,983	–	14,001	19,438	12,125	108,118	1,331,194	1,689,107
Derivative Assets	98,056	–	–	1,437	5,235	38,861	–	52,523
Interest rate swaps	97,250	–	–	631	5,235	38,861	–	52,523
FX swaps	807	–	–	807	–	–	–	–
Total Financial Assets	**11,684,384**	**–**	**6,119,460**	**171,066**	**618,563**	**1,020,723**	**2,011,119**	**1,743,453**
Other Assets	221,020	128,028	–	20,269	46,786	21,985	1	3,951
Total Assets	**11,905,404**	**128,028**	**6,119,460**	**191,335**	**665,349**	**1,042,708**	**2,011,120**	**1,747,404**
Customer Deposits	9,027,296	–	9,027,296	–	–	–	–	–
Deposits from Banks	2,281,380	–	81,380	–	–	–	2,200,000	–
Derivative Liabilities	330	–	–	276	5	25	–	24
Interest rate swaps	54	–	–	–	5	25	–	24
FX swaps	276	–	–	276	–	–	–	–
Total Financial Liabilities	**11,309,006**	**–**	**9,108,676**	**276**	**5**	**25**	**2,200,000**	**24**
Other Liabilities	162,216	51,878	–	95,038	1,942	6,249	3,159	3,950
Lease Liability	3,758	–	–	312	871	1,671	443	461
Total Liabilities	**11,474,980**	**51,878**	**9,108,676**	**95,626**	**2,818**	**7,945**	**2,203,602**	**4,435**

Principal Risks and Risk Mitigation continued

Liquidity and Funding Risk continued

Change in the year continued

As at 31 March 2021	Total £'000	Undated £'000	On Demand £'000	Up to 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000	Over 5 years £'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

Principal Risks and Risk Mitigation continued

Liquidity and Funding Risk continued

Change in the year continued

Cashflows payable under financial liabilities by contractual maturity (audited)

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.

As at 31 March 2022

Undiscounted contractual cashflows	Total £'000	Undated £'000	On Demand £'000	Up to 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000	Over 5 years £'000
Deposits from Banks	2,208,334	–	–	550	1,650	4,400	2,201,734	–
Customer Deposits	9,027,296	–	9,027,296	–	–	–	–	–
Derivative Liabilities	336	–	–	276	7	28	1	24
Other liabilities	165,974	51,878	–	95,352	2,813	7,919	3,602	4,410
Total Liabilities	**11,401,940**	**51,878**	**9,027,296**	**96,178**	**4,470**	**12,347**	**2,205,337**	**4,434**

As at 31 March 2021

Undiscounted contractual cashflows	Total £'000	Undated £'000	On Demand £'000	Up to 3 months £'000	3 – 12 months £'000	1 – 3 years £'000	3 – 5 years £'000	Over 5 years £'000
Deposits from Banks	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

Principal Risks and Risk Mitigation continued

Market Risk: Foreign Exchange (FX) risk

Market Risk

Market risk is the risk of loss due to changes in market prices. This covers risk factors such foreign exchange and as interest rates risk. Starling does not operate a trading book.

Risk Assessment

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

Risk Appetite

Starling will not take any proprietary trading positions. Starling will, wherever possible, operate a matched book basis for individual currency exposures and where an unhedged net exposure position arises will seek to hedge the resulting amount. Starling will only accept limited currency exposures in Euro and USD.

Risk Measurement

This risk is measured daily by looking at the net open positions in aggregate across the currencies we are exposed to and individually for material currencies.

Risk Management

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

Risk Monitoring

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

Stress Testing

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

Change in Year

Further analysis of FX risk is provided in the Financial Statements in note 30, set out on page 169

Principal Risks and Risk Mitigation continued

Market Risk: Interest rate risk in the banking book (IRRBB)

Risk Assessment

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

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

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

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

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

Risk Appetite

Starling will not take any trading positions. Where customer-related activities cause a position to arise, Starling will hedge the interest rate risk arising in its Banking Book related to timing differences in the repricing of its assets, liabilities and off-balance sheet position.

Risk Measurement

IRRBB can impact the economic value of the bank's equity and can impact the bank's earnings under different rate movements. The Board sets an Economic Value ("EV") Risk Appetite limit for IRRBB. Sub limits, agreed by ALCo, are in place for Euro and Dollar EV interest rate risk and for basis risk.

Risk Management

Treasury manages the Bank's interest rate risk and seeks to minimise it within the risk appetite set by the Board. The Bank executes interest rate derivatives under ISDA contracts with market counterparties to manage the exposure. Interest rate derivatives are used to swap fixed rate assets to floating (SONIA). These swaps benefit from hedge accounting. The execution of swaps generate counterparty credit risk set out on pages 56 to 58.

Risk Monitoring

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

Stress Testing

Stress testing is carried out on a monthly basis when the bank's exposure to a 200bp shift in rates is carried out for Economic Value of Equity ("EVE") and NII purposes. Other stress tests based on different rate moves, and curves steepening and flattening are also carried out.

NII Sensitivity	31-March 2022	31-March 2021
+200 bps parallel shift	**+£162.6m**	+£78m
-200 bps parallel shift	**–£168.4m**	–£84m

Change in Year

Further information on market risk is provided in the Financial Statements in note 30, set out on pages 167 to 169.

Principal Risks and Risk Mitigation continued

Capital Risk

Risk Assessment

Capital risk is the risk that the Bank has insufficient available capital resources to withstand an extreme, but plausible loss and thereby impact its long term viability and consequently expose its depositors and other creditors to losses. The risk arises from unexpected losses impacting profitability and an increase in the riskiness of lending or more lending than planned increasing RWAs. Starling holds capital to absorb these losses and to support the strategic growth in its business. In line with regulations, Starling assesses its capital adequacy needs in its ICAAP document which is reviewed, challenged and approved by the Board annually.

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

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

For FX risk, the Bank's current overall net foreign-exchange position is approximately 0.6% of capital at year-end. This is below the 2% threshold, consequently no capital is held against this risk. For IRRBB, Pillar 2A capital requirement is based on the Board approved limit for the EVE based on a +/- 200bp shock. For Operational risk, the Pillar 2a capital requirement is based on a scenario-based quantification methodology which takes as its capital requirement the 99.9th percentile of a distribution of potential financial impacts.

In terms of quality of capital, all of Starling Bank's capital is Core Equity Tier 1 ("CET 1").

Risk Appetite

Starling will, at all times, maintain sufficient capital resources to cover its risk profile and associated risk exposures. As a minimum, the Bank's capital resources will be maintained above the minimum total capital requirements i.e. TCR (Pillar 1 plus Pillar 2A) plus Combined Buffers (including and PRA Buffers).

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

Risk Measurement

The capital position of the Bank is measured on a daily basis against Board approved capital risk appetite triggers and limits. Should the capital position of the Bank reach the trigger level, the Board would consider a range of management actions which are set out as recovery options in the Bank's Recovery Plan.

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

Principal Risks and Risk Mitigation continued

Capital Risk continued

Risk management

Capital risk is mitigated through successful execution of capital raises and quarterly verification of profits. Quarterly profits are verified by the Bank's auditors and, once approved by the PRA, are added to the Bank's CET1. The Bank also undertakes recovery and solvent wind-down planning to understand how the Bank would recover from a stress event and the capital needs if a solvent wind-down was to occur and this is submitted annually to the PRA.

Risk monitoring

The capital position of the Bank is monitored daily by the group's Treasury and notified to senior management and Risk. A monthly report is provided to ALCo and to the Board with quarterly analysis to the BRC.

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

Stress testing

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

The Bank also undertakes a range of severe but plausible stress scenarios including macroeconomic stress tests, idiosyncratic stresses and combined stress to understand the impact of different situations on the Bank's capital position pre and post management actions. These are documented in the ICAAP. The results of the ICAAP, stress testing and recovery actions are used to inform the Bank's capital risk appetite. Reverse stress testing is also undertaken as part of the ICAAP, recovery plan and solvent wind-down plan.

Stress testing is also carried out on an ad-hoc basis, for example when material changes to the business plan are proposed.

Applicable regulatory capital developments in the year

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

UK implementation of Basel Standards: In July 2021 the PRA published Policy Statement 17/21 on the implementation of Basel Standards. This covered a range of areas including counterparty credit risk, operational risk, large exposures, LCR, NSFR and reporting. Requirements were binding on 1 January 2022. Key areas impacting Starling Bank were the introduction of the NSFR as a regulatory requirement, the PRA's treatment to fully deduct software assets from CET1 capital and the implementation of the standardised approach to counterparty credit risk.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL): During 2021 the Bank of England finalised its review of MREL. Following this, interim and end-state MREL requirements for Starling Bank were confirmed and published. Starling is required to meet interim MREL requirements in April 2023 and end-state requirements in April 2025.

Principal Risks and Risk Mitigation continued

Capital Risk continued

Applicable regulatory capital developments in the year continued

UK Leverage Ratio Framework: In June 2021 the Financial Policy Committee (FPC) of the Bank of England (BoE) and the PRA published its Policy Statement 21/21 on the UK Leverage Ratio framework. It extended the scope of the regime from firms with Retail deposits equal to, or greater, than £50bn to also firms with non-UK assets equal to, or greater, than £10bn. Starling Bank is therefore not subject to the leverage ratio but is subject to a supervisory expectation that it should manage its leverage ratio so it does not fall below 3.25%. The Policy Statement also confirmed the exclusion of qualifying central bank claims from the exposure measure.

	31-Mar 2022 £'000	31-Mar 2021 £'000
Shareholder Equity as per the Group Statement of Financial Position (Audited)	430,424	140,831
Reserves of Subsidiaries excluded from solo-consolidated view	6,964	2,261
Common Equity Tier 1 (CET1) Capital before Regulatory Adjustments	**437,388**	143,092
Regulatory Deductions:		
Intangible Assets	(20,597)	(9,530)
Deferred Tax Asset	(21,668)	(6,088)
Other Deductions	(10,876)	(2,011)
IFRS 9 Transitional Provision	13,255	11,306
Common Equity Tier1 (CET1) capital	**397,502**	136,769
Total Regulatory Capital	**397,502**	136,769

The above figures are the regulatory solo-consolidated view of the Group, which only include the company Starling Bank Limited and the subsidiary Starling FS Services Limited.

.

Risk Weighted Assets and Regulatory Ratios (Unaudited)	RWA 31-Mar 2022 £'000	RWA 31-Mar 2021 £'000
Credit Risk Exposure	874,927	240,665
Operational Risk Exposure	66,372	25,075
CVA	53,528	19,949
Total Risk Weighted Assets	994,828	285,689
Common Equity Tier (CET1) ratio	**39.96%**	47.89%
Total Tier 1 ratio	**39.96%**	47.89%
(UK) Leverage Ratio	**7.85%**	5.37%

The above figures are the regulatory solo-consolidated view of the Group, which only include the company Starling Bank Limited and the subsidiary Starling FS Services Limited.

The Bank has complied with all externally imposed capital requirements during the year. 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 and UK Leverage Ratio are provided in the Bank's Pillar 3 report published on our website.

Principal Risks and Risk Mitigation continued

Operational Risk

Risk Assessment

Operational risk is the risk of loss, whether direct or indirect, to which Starling Bank is exposed due to inadequate or failed internal processes or systems, human error or external events.

Operational risk encompasses the following sub-categories:

- Internal Fraud;
- People;
- Customers, Products & Business Practices;
- Execution, Delivery & Process Management;
- Outsourcing and Third Parties;
- Legal;
- Business Disruption;
- Information Security; and
- Data Management.

The management of operational risk is an integral part of achieving the vision and strategy for Starling, as we are reliant on our people, processes, systems and supplier relationships to deliver our business objectives.

Risk Appetite

Whilst Starling will accept operational risks in support of its business objectives, we will seek to manage those risks and minimise potential losses.

- Starling has little or no appetite for customer detriment from unplanned downtime, operational errors or information security breaches.
- Starling will ensure that data is managed in accordance with legal requirements and that data integrity is maintained.
- Starling will mitigate its process risk by ensuring key processes and controls are automated, but will accept the risk of manual processing in pursuit of its growth objectives, providing that processes are adequately documented and that customer detriment is avoided.
- Starling will not tolerate breaches of contract or Service Level Agreements with critical outsourced service providers or vendors, and wherever possible and practical will have more than one service provider and/or robust business continuity plans in the event of failure.
- Starling will not tolerate internal fraud or corruption. Starling recognises that fraud is a criminal offence and therefore takes a zero tolerance approach towards fraud conducted by employees, contractors, consultants, suppliers, outsource partners or anyone else engaged in delivering the Starling business strategy.
- Starling will mitigate its data protection risk by ensuring appropriate technical and organisational measures are in place.
- Starling will not tolerate non-compliance with the data protection principles or UK GDPR.

Starling's Risk Appetite Statement specifically includes a requirement to preserve operational resilience, and says that: "We will implement and maintain core systems and processes that offer security and resilience and that are fit-for-purpose to deliver the required services."

Risk Management

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

Principal Risks and Risk Mitigation continued

Operational Risk continued

Risk Monitoring

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

Stress Testing / Scenario Analysis

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

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

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

Risk Mitigation

All 1LoD and 2LoD business functions and risk management teams are required to complete Risk and Control Self-Assessment ("RCSA") analysis on a periodic basis. This acts as a specific control through which management validates that all significant risks are identified, assessed, allocated owners and appropriately managed through the application of controls. Management must demonstrably accept, mitigate or avoid each risk, and determine how each risk exposure should be managed.

RCSA activity is supported by the Operational Risk function through the provision of tools, training and guidance, however, each RCSA belongs to the business owner in 1LoD. Therefore, the first line leads the exercise with support, oversight and challenge from the second line.

Change in the year

The Bank continues to experience strong growth in terms of customer volumes and product lines, with resulting increases in operational activities, albeit offset by ready scalability and greater maturity of operational functions. The ongoing nature of home and hybrid working has required reviews of issues such as data security and employee engagement, but continues to be successful. Cyber risk remains a key industry threat as perpetrators continue to become more sophisticated and as geo-political tensions have risen.

Principal Risks and Risk Mitigation continued

Operational Risk continued

Operational Resilience

In March 2021 the FCA, PRA and Bank of England issued final supervisory statements on Operational Resilience. In accordance with those requirements, Starling has produced its first Operational Resilience Self-Assessment. This evidences the ability for our most important business services to withstand, absorb and recover from severe, but plausible incidents.

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

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

Cyber Security

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

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

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

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

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

Principal Risks and Risk Mitigation continued

Fraud and Financial Crime Risk

Risk Assessment

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

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

Risk Appetite

Starling accepts that external fraud represents a cost of doing business and will seek to find the appropriate balance between fraud losses, fraud mitigation costs and the reputational / long-term impact that fraud can have on the Starling business model.

Starling has no appetite for knowingly facilitating:

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

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

Risk Management

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

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

Starling Bank is committed to operating a robust control environment ensuring that fraud 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.

All applications are assessed for fraud risk prior to approval, this includes carrying out checks against fraud databases and where the Bank is in receipt of a fraudulent application, it will follow its processes and procedures in the reporting of fraud to external third parties.

For forward flow lending, the third party is responsible for all fraud checks in line with their policy, processes and procedures.

Risk Monitoring

Starling ensures that appropriate controls are in place to identify activity of customers, suppliers or staff that may indicate fraud, and implements fraud prevention and detection systems and controls on a risk-sensitive basis, throughout the lifecycle of a product or customer relationship (i.e. at application, servicing and exit).

Adherence to Anti Money Laundering ("AML") and Fraud risk policies is monitored by 1LoD with oversight, and assurance reviews by 2LoD. Risk management oversight is exercised through the FCSC, with regular reporting to the ERC, BRC and the Board.

Principal Risks and Risk Mitigation continued

Fraud and Financial Crime Risk continued

Risk Mitigation

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

Starling engages with relevant cross-industry efforts to combat fraud such as data sharing initiatives like SIRA/CIFAS, being a member of Stop Scams UK, and being a signatory of the Contingent Reimbursement Model.

Change in the year

Starling continuously reviews its stance to ensure that it is as unattractive as possible to those committing any financial crime. There has been a regulatory focus on the period regarding financial crime systems, controls and governance as well as cash based money laundering which have been particularly positive. Starling continues to engage with all relevant parties, including industry groups in seeking to ensure that relevant information for the detection and prevention of financial crime is shared in a timely manner.

Authorised Push Payment fraud remains the key focus in the fraud space throughout the industry, however the Bank has made considerable progress in the prevention of scams in the past 12 months, notably with the introduction of the Payment Review Model. This works through directly screening instructed payments based on a series of victim based transaction monitoring rules. This allows for any unusual, risky or high value payments to be delayed, then challenged, evidence captured and hold conversations prior to the payment being sent to the relevant payee.

Principal Risks and Risk Mitigation continued

Conduct Risk

Risk Assessment

Conduct Risk is the risk of creating harm to a customer, counterparty or market arising from inappropriate behaviour by Starling or its partners in the execution of business activities. This includes, but is not limited to inappropriate product design, selling and delivery.

Risk Appetite

Starling will ensure that we deliver fair customer outcomes across all of our activities, including ensuring the appropriate conduct of our staff.

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

Risk Management

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 sub-policies and procedures covering all parts of the customer journey (New Products, Marketing, Complaints and Vulnerable Customers), with specified key risks and controls, and key metrics for the Board.

Principal Risks and Risk Mitigation continued

Conduct Risk continued

Risk Monitoring

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

A monthly Risk Dashboard captures a range of key conduct metrics and thresholds covering the Bank's management of conduct risk across the customer journey and this is discussed at the Product and Conduct Committee and monitored at the Executive Risk Committee with regular reporting to the Board Risk Committee and to the Board.

Risk Mitigation

All communications are reviewed and approved by appropriate first line SME(s) to ensure that they are clear, fair and not misleading and that they explain any product limitations. The Compliance function undertake monitoring review activity in line with the approved Monitoring Plan. Product and Conduct Committee also review all product initiatives and all relevant risks are discussed and challenged by Executives. Compliance also conducts second line risk assessments on all new products.

Change in the year

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

Principal Risks and Risk Mitigation continued

Compliance Risk

Risk Assessment

Compliance Risk is the risk of financial loss, reputational damage and/or regulatory censure arising from 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.

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

Risk Management

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

Risk Monitoring

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

Risk Mitigation

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

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

Change in the year

Increases in the volume, scale and complexity of business banking customers has required increased consideration of potential AML and regulatory risk.

Principal Risks and Risk Mitigation continued

Emerging Risks

Emerging risks are those with potentially significant, but uncertain, outcomes, which may form and crystallise over a longer time horizon, and which could have a material impact on Starling's ability to achieve its long-term strategy. These are risks which are not in Starling's gift to control but if they crystalise they will cause the Group to adjust its Strategic Risk Assessment and to react accordingly. Starling takes a proactive approach to horizon scanning and regularly assesses the potential impact of existing and future risks.

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

Starling uses a PESTEL analysis to understand the external factors that could impact our business. Through considering each factor, we are looking to gain insight into the external influences which could impact our strategy and business decisions. For each potential risk, we consider the timeframe within which the risk might occur, and the potential impact on the strategic direction of the Bank.

This enables us to decide which risks we want to take action on and which may shape our business planning decisions.

The table below shows some of the Emerging Risks which Starling has considered in the last year.

Risk Type	Risk
Economic	– Central Bank digital-currency ("CBDC") – Major non-FS new entrant into Banking – Legislation and regulation reduce asset quality which impacts profitability – Fintech market consolidation – Failure or material censure of major fintech – High inflation/levels of unemployment – Sudden unexpected fall in house prices
Sociological	– Consumers do not want to deal directly with Banks – Increased competition for staff – Backlash against the social platforms that the Bank markets through
Technological	– Inability to keep-up with ongoing technical advancements – Risk of dependence on 'Utility' providers – Increased acceptance of cryptocurrency or stablecoins
Environmental	– Recurring pandemic – Climate change
Legal	– More intrusive regulatory approach

Additionally, since the beginning of the current calendar year, the Group has assessed that Geopolitical risks have increased substantially. The ongoing situation in Ukraine has the scope for wide-ranging impacts, some crystallised and some emerging.

- Sanctions changes are being applied but there could be a widening of these with implications for financial services infrastructure (e.g. SWIFT).
- Increased cyber risk through state-aided threat vehicles.
- Supply chain disruption including gas/electricity supplies, and disruption to manufacturing such as micro-chip production (exacerbating issues arising due to COVID and Brexit).

Principal Risks and Risk Mitigation continued

Climate-related financial risk

Risk assessment

Climate-related financial risks arise from two areas:

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

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

For Starling Bank, climate-related financial risks are currently low as we do not expect risks to have a significant impact on our profitability or capital position now and over the planning horizon. The tenure of our loans are out to ten years for SME lending, thirty-five years is the maximum term for our mortgage lending, and five years is the maximum current investment in our treasury asset portfolio. Currently, lending to SMEs makes up the majority of our lending portfolio. We are diversified across sectors and do not have high concentrations to specific companies. Even if climate-related financial risks were high in this portfolio, the financial impact is mitigated as most of this book is Government guaranteed (note 12).

However, this is an emerging risk as the climate-related financial risk will increase as the Government-backed lending rolls-off and the mortgage book grows. The key emerging risk that Starling is monitoring in this area is:

- **Physical and transition risks manifesting themselves in increased credit risk in the mortgage portfolio:** PDs and LGDs could increase as a result of the crystallisation of physical risks such as flood events. Additionally, credit risk could be impacted by transition risks, such as landlords needing to spend money to increase the energy efficiency of their rental properties. The government has consulted on requiring the energy efficiency of BTL properties to have a minimum EPC energy rating of C by 2028 for residential lets and a minimum EPC of B by 2030 for commercial lets. Homes that do not reach these ratings may become unlettable (the majority of properties in the UK are rated at D or below). Crystallisation of these physical and transition risks, and changes to mortgage lending regulation could impact the ability of consumers to repay or refinance their mortgages and so increase PDs and/or decrease the asset value of the property, increasing LGDs. These risks could also create mortgage prisoners.

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

Risk appetite and monitoring

Starling Bank is monitoring its exposure to transition and physical climate-related financial risks.

Risk mitigation

Starling has undertaken a gap analysis against the PRA's Supervisory Statement on climate-related financial risks and has embedded climate-related financial risks into its governance and risk management frameworks. On disclosure, this report sets out Starling Bank's Scope 1 and 2 emissions and Starling's plans to meet net zero (page 95).

Our Stakeholder and Board Engagement

Section 172(1) Statement

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

→ This statement begins on page 87 of the Directors' Report

Corporate governance statement

For the year ended 31 March 2022, Starling has followed the Wates Corporate Governance Principles for Large Private Companies. Further detail on how Starling has applied these principles as an appropriate framework for the Group's corporate governance practices is set out on pages 83 to 92 below and in the Group Strategic Report.

Starling Board

During the year, the composition of the Board was refreshed to ensure it continues to have an effective balance of skills, knowledge, experience and diversity to deliver on Starling's strategic objectives. All Directors have a detailed understanding of the market and regulatory framework in which Starling operates, and with varied professional backgrounds, Starling's non-executive directors bring fresh and diverse perspectives to Board review and decision-making. The skills, experience and committee membership of the Directors in office as at 31 March 2022 are summarised below. Board changes during the year, and up to the date of this report, are detailed on page 100.

David Sproul
Chairman

Skills and experience

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

Committee Memberships

David is Chair of the Nomination Committee and a Member of the Remuneration Committee.

Appointed

June 2021

Tracy Clarke
Senior Independent Director

Skills and experience

Tracy brings considerable international banking and financial services experience to the Board, following a 35-year career with Standard Chartered Bank, where she held a portfolio of leadership, compliance, HR, corporate affairs, brand and marketing positions, culminating in the role of CEO, Europe and Americas and Global CEO, Private Banking. She is a director of TP ICAP plc, sits on the Board of England Netball and Acin Ltd, and is chair of SchoolOnline, an online learning platform. Tracy is also a director designate of Haleon plc, a consumer healthcare company.

Committee Memberships

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

Appointed

May 2021

Carolyn Clarke
Independent Non-Executive Director

Skills and experience

Carolyn is an expert in the fields of risk, assurance, control, compliance and conduct. She has held a number of senior executive and Board positions, including most recently as Head of Audit, Risk and Control at Centrica plc, and prior to that, a 20 year career at PwC. Carolyn specialises in the impact of people, behaviours and culture on organisational risks and outcomes. Carolyn is a member of the Council of the Chartered Institute of Internal Auditors.

Committee Memberships

Carolyn is Chair of both the Audit Committee and the Ethics and Sustainable Business Committee and a Member of the Risk Committee.

Appointed

October 2020

Ian Jenkins
Independent Non-Executive Director

Skills and experience

With over 35 years' experience, Ian has held a range of Chief Financial Officer, Chief Risk Officer and Chief Operating Officer roles within banking and financial services, including at Diem Networks, HSBC, Santander and Credit Suisse. He is a Chartered Accountant and brings varied finance, risk, operations and strategy expertise to the Board.

Committee Memberships

Ian is a Member of the Audit Committee and the Risk Committee.

Appointed

October 2021

Marian Martin
Independent Non-Executive Director

Skills and experience

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

Committee Memberships

Marian is Chair of the Risk Committee and a Member of the Audit Committee, the Nomination Committee and the Ethics and Sustainable Business Committee.

Appointed

June 2019

Lazaro Campos
Non-Executive Director

Skills and experience

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

Committee Memberships

Lazaro is a Member of the Remuneration Committee and the Nomination Committee.

Appointed

June 2018

Marcus Traill
Non-Executive Director

Skills and experience

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

Committee Memberships

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

Appointed

December 2015

Anne Boden MBE

Chief Executive Officer
Executive Director

Skills and experience

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

Committee Memberships

Anne is Chair of the Executive Committee.

Appointed

June 2014

Tony Ellingham

Chief Financial Officer
Executive Director

Skills and experience

Tony joined Starling in 2015 and manages the Group’s financial operations and strategy. He is responsible for the overall financial management of the Bank, its treasury and reporting. Prior to Starling, Tony was at Lloyds Banking Group where he was Finance, Risk & Operations Director of Group Corporate Treasury and Divisional Risk Officer for Finance; previously he held Chief Financial Officer roles at EIIB, Gulf International Bank and Schroder Private Banking.

Committee Memberships

Tony is a Member of the Executive Committee.

Appointed

August 2016

The charts below show the balance of the Board and composition of the Board by gender diversity (as at 31 March 2022).

Board composition

- Chairman
- Independent Non-Executive Directors
- Non-Executive Directors
- Executive Directors

Board gender

- Male
- Female

Role of the Board

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

Board Responsibilities

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

Company Secretary

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

Board Activities

In order to discharge its duties effectively, the Board meets monthly. Additional meetings are held as required. At the Board's request, members of the Executive attend Board meetings to provide updates and insights on specific discussion items. This facilitates non-executive directors' engagement with the Executive and drives constructive challenge to senior management thinking.

During the year ended 31 March 2022, the Board's key activities included:

- Completing a successful Series D funding round in June 2021 from new and existing shareholders;
- Acquiring Fleet Mortgages Limited, a specialist buy-to-let lender, in July 2021;
- Debating, agreeing and implementing the Group's strategic priorities for 2022, including evaluating targeted M&A opportunities and monitoring progress against key milestones;
- Inviting members of the Executive to deliver deep-dive presentations on matters considered key to the long-term sustainable success of the Group;
- Approving the Bank's annual budget, Group business plan, ICAAP, ILAAP, recovery plan and solvent wind down plan as well as the consolidated financial statements for the period ended 31 March 2021;
- Appointing a new Senior Independent Director and four new non-executive directors, including the appointment of David Sproul as the Bank's non-executive Chairman in June 2021;
- reviewing key performance indicators including financial performance, organic lending, strategic forward flow portfolio performance and capital forecasting;
- monitoring the ongoing delivery of CIF product commitments and assurance reporting; and
- implementing regular updates on the Bank's risk management framework and capabilities, 2LoD assurance workstreams, regulatory developments, technology and product, people and resourcing, customer experience and consumer protections.

Our stakeholder and Board engagement

Section 172(1) Statement

The following information sets out the Group's Section 172(1) Statement and how the Directors have had regard to those matters. At the core of the Starling's value system is a belief in transparency, fairness and inclusion and this means actively listening. Starling's key stakeholders are its people, customers, suppliers, communities, shareholders and regulatory bodies. In order to promote the long-term success of the Bank, the Board recognises the importance of engaging with these groups to help inform its strategy and decision-making. As part of every Board agenda, Section 172(1) Statement obligations are set out as a helpful reminder of the Directors' duties. During the year, a new approach to Board and Board Committee papers was introduced, with greater focus on ensuring relevant stakeholder interests are clearly articulated. Meaningful engagement is dynamic and the Board will continue to review and challenge how it can continue to improve on its engagement with customers, employees and other key stakeholders.

Our people

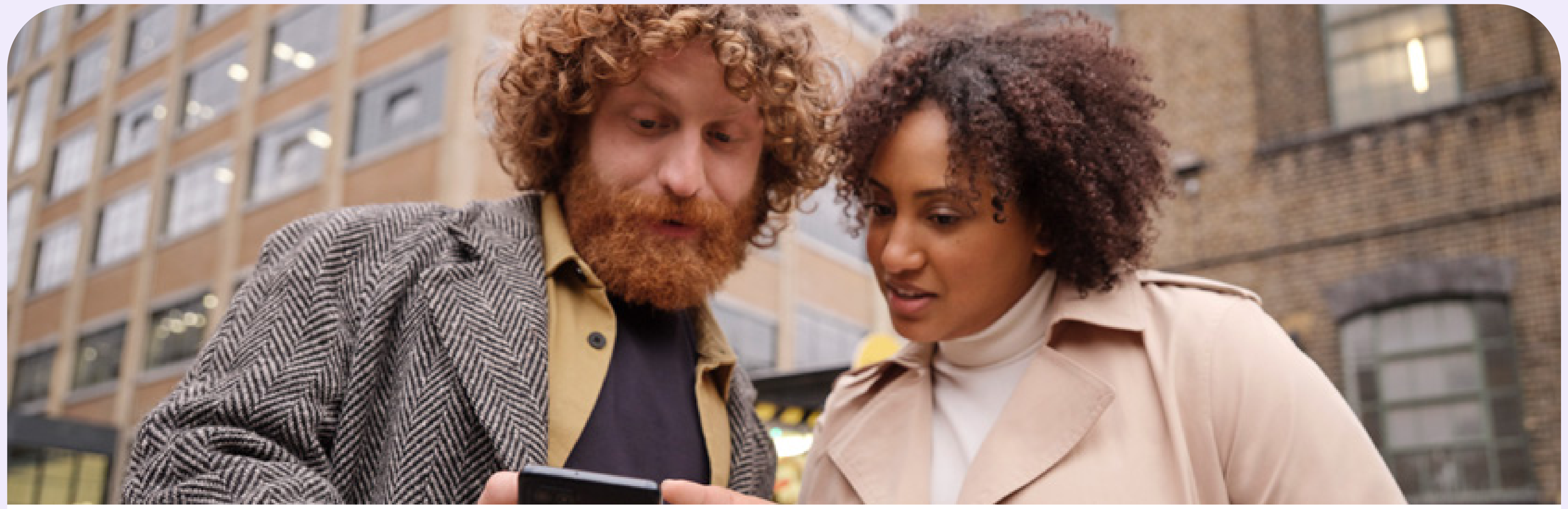
Starling is committed to providing a workplace culture that reflects our values of fairness, equity, inclusion, compassion and non-discrimination and adopts a best practice approach with regard to employee engagement.

Board decisions are taken with due regard to employee interests. During the year, processes were implemented to better measure employee engagement and enhance understanding of the Bank's workplace culture from an employee's perspective. Acknowledging the powerful message of employee share ownership, the Board also amended the rules of the Bank's LTIP scheme during the year, to enable LTIP awards to be granted to a wider population of eligible employees. Further details of these awards and the Bank's employee share schemes are set out in note 28 to the Financial Statements.

By holding its 2021 Strategy Day in Southampton, Directors were able to visit a regional office and engage with local employees. Further, virtual employee Q&A sessions are held weekly with regular speakers including the CEO, the Chairman and other Board members. Employees are encouraged to submit questions for these sessions (including anonymously), responses to which are shared across the organisation. The Chief People Officer ("CPO") regularly presents to the Board and Board Ethics & Sustainable Business Committee on headcount, attrition, employee tenure and the Bank's gender and ethnicity profile.

Starling is an equal opportunities employer and ensures fair and full consideration of applications for employment from people with disabilities. Starling provides appropriate and relevant support, including any adaptations required so that employees with disabilities can fully participate in the workplace and in their careers.

Our stakeholder and Board engagement continued



Customers and Suppliers

Starling grew out of a desire to create a new kind of Bank and to make banking more inclusive by putting customer needs first. Starling has won numerous banking awards, including being voted the Best Current Account Provider five years in a row. Being recognised by our customers makes us very proud. At the core of the Bank's value system is a belief in transparency, fairness and inclusion and this means actively listening to customers. The Board receives regular updates on consumer protection and customer safeguarding initiatives and is ultimately responsible for ensuring the Bank has appropriate resources, processes and controls in place to protect customers from financial crime. The Board also receives monthly reporting on customer complaint volumes and processing.

Starling is committed to developing business relationships with high quality suppliers and partners who themselves are committed to operating under ethical and environmental standards equivalent to the Bank's own, including in the fair treatment of customers, employees and other stakeholders. On the recommendation of the Board Risk Committee, key outsourcing decisions are made by the Board and the materiality of the Bank's outsourcing relationships is regularly monitored. Maintaining high standards of business conduct is key to Starling and we publicly report on our payment practices and performance.

Communities and Environment

The Board recognises the importance of understanding how the Bank's business impacts the communities we serve and of contributing to the community through volunteering and charitable giving. The Bank also encourages employees to volunteer within the community and offers two days' paid leave per year to do so.

The Board has established an Ethics & Sustainable Business Committee which oversees the impact of the Bank's operations on the community and environment and reports to the Board on the Bank's ethics, environmental and societal responsibilities. Starling has also established a Community Advisory Group to support social mobility, financial education and environmental matters. This reports to the Ethics & Sustainable Business Committee and, ultimately, the Board of Directors.

Further information on how we engage with the environment is set out in the section called Environmental, Social and Governance Review on page 94.

Our stakeholder and Board engagement continued

Shareholders

Starling values the trust, confidence and views of all of its investors. Significant shareholders are represented on the Board and/or are entitled to nominate an observer to attend and speak at Board meetings. Our investors are important partners and they offer guidance to the Board and Executive on a range of matters.

Regulatory Bodies

Starling Bank Limited is authorised by the PRA and regulated by the FCA and the PRA. The Board and the Executive maintain strong, open and transparent relationships with regulators, allowing the Board to ensure the Bank's strategic aims align with the requirements of these important stakeholders and those of our customers.

Governance Structure Chart

Board Committees

To ensure it maintains an appropriate level of oversight, the Board has delegated certain roles and responsibilities to its five principal committees: Audit, Risk, Remuneration, Nomination and Ethics and Sustainable Business. The Board conducts an annual review of the terms of reference and membership of each of these committees, which consist primarily of independent non-executive directors. Each committee Chair is responsible for updating the Board on outcomes and actions arising from Board Committee meetings.

The key areas of responsibility of each Board Committee are summarised below:

Board Committee	Key Responsiblities
Audit Committee	Ensuring effective governance of the Group's financial reporting, including monitoring the integrity, clarity and completeness of financial disclosures, reporting on significant financial reporting issues and judgements and reviewing and approving changes to Group accounting policies. Overseeing the implementation and effectiveness of the Group's internal and external audit functions (including their programmes of work) and reviewing the adequacy and effectiveness of the Bank's operational controls in mitigating risk, through an independent assurance lens.
Risk Committee	Recommending appropriate risk appetite and tolerances to the Board and overseeing effective risk management across the organisation. Ensuring the Bank's risk policies, frameworks, capabilities and controls are recognised and embedded, and reflected in a robust and supportive risk culture. Ensuring the Group's principal risks (including key and emerging risks) are properly identified, assessed and mitigated on an ongoing basis.
Remuneration Committee	Overseeing the Group's remuneration system design and ensuring remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, corporate governance principles for banks, performances and control environment as well as with applicable legal and regulatory requirements.
Nomination Committee	Reviewing the structure, size, composition, skills, knowledge, experience and diversity of the Board and ensuring formal, rigorous and transparent procedures exist for the appointment of new directors. In conjunction with the Board, giving full consideration to orderly succession planning for directors (executive and non-executive) and other senior management roles below Board level.
Ethics & Sustainable Business Committee	Providing 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.

Board Committees continued

Executive Committees
Starling's Executive Committee structure aligns to best practice and regulatory requirements for an organisation of its size. Executive responsibilities and processes are designed to ensure proper and effective management and oversight of Starling's affairs. Governance policies and Executive Committees' terms of reference are reviewed annually in accordance with the demands of the business, changing regulation and emerging best practice. For further details of the role of the Executive Committee and its sub-committees please refer to the Risk Management section on page 21.

Board Effectiveness
To allow all new Directors to fully embed in the Board's annual work cycle, the Board will undertake an external review of its effectiveness and the effectiveness of its principal committees in Summer 2022, the results of which will be reported on next year.

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

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

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

Conflicts of interest
The Board has procedures in place for the disclosure of conflicts of interest. The Directors are aware of their responsibility to avoid a situation whereby they have an actual or potential conflict of interest and the requirement to inform the Chairman, the CEO and the Company Secretary of any change in their situation. A procedure is in place for the Board to authorise conflict situations, should they arise, in accordance with the Companies Act and the Bank's articles of association. Board members are screened for conflicts of interest and relationships with companies that do not meet Starling's values and ethics. The Company Secretary is responsible for keeping appropriate records, including the scope of any authorisations granted by the Board. The Board undertakes an annual review of conflict authorisations.

Changing banking for good: Environment, Social and Governance

The Board fully embraces Environmental, Social and Governance ("ESG") and has created a committee to make responsible banking the norm, not the exception.

Environment

→ See page 94 to read more

Social

→ See page 96 to read more

Governance

→ See pages 82 to 92

Our environment

Starling is disrupting banking, not the planet

The Bank is a paperless, branchless bank, run on renewable energy, embracing hybrid working where possible and providing debit cards made from recycled plastic. We are determined to do our part to fight climate change and protect the environment. Details of the steps we have taken to do this are laid out below in our Streamlined Energy and Carbon Reporting report. There is a long road ahead, but we are determined to be on the side of change.

Our environment continued

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 April 2021 to 31 March 2022.

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.

The table below presents our global Scope 1 and Scope 2 emissions for the financial period 1 April 2021 to 31 March 2022. Information in Financial Statements for the period ended 31 March 21 was presented for a 16 month period. This was the first period of reporting emissions and is used as our benchmark period. In addition, to enable clear year-on-year comparison, annualised results for the year to 31 March 2021 are also presented.

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.

	Year ended 31 March 2022	Year ended 31 March 2021	16 month period ended 31 March 2021
Total energy consumption used to calculate carbon emissions [kWh]	**591,268.79**	913,844.00	1,218,458.67
Emissions from combustion of natural gas in buildings [tCO_2e] (Scope 1)	**11.91**	14.98	19.97
Emissions from purchased electricity in buildings (location-based) [tCO_2e] (Scope 2)	**111.74**	194.06	258.74
Emissions from purchased electricity in buildings (market-based) [tCO_2e] (Scope 2)	**–**	N/a[1]	N/a[1]
F-Gas emissions	**–**	4.7	6.26
Total organisational emissions (location-based) [tCO_2e]	**123.65**	213.74	284.98
Carbon intensity ratio - carbon emissions per full-time employee (location-based) [$kgCO_2e$/full-time employee]	**67.64**	169.77	226.36

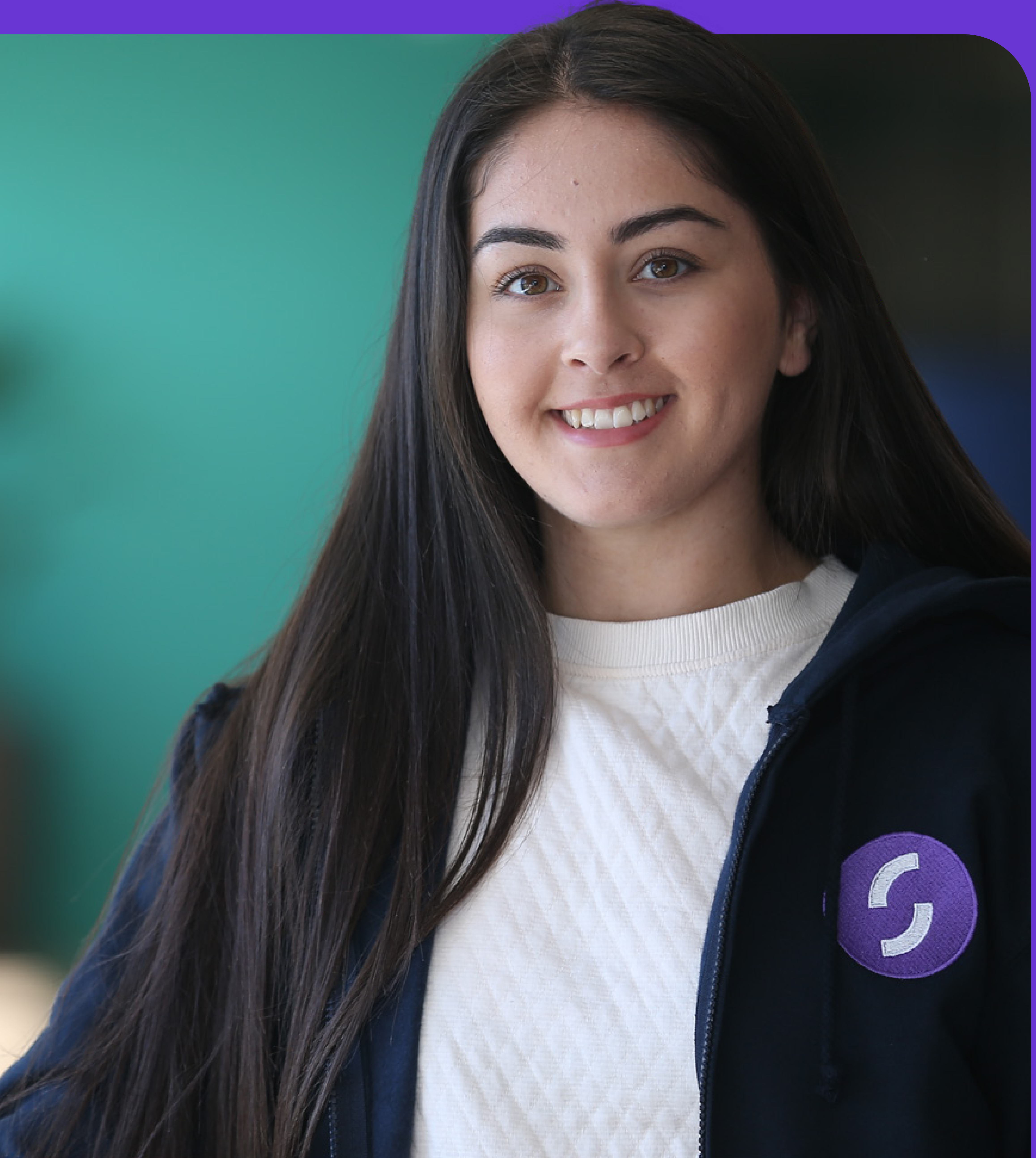
1 Market-based reporting was not calculated for the previous reporting period.

Progress since prior reporting period:
Whilst Starling has an inherently low carbon footprint given the nature of our business model (digital first, no branches), the Group continues to work on its net zero strategy and has implemented a number of measures since our first carbon emissions audit in 2021. After announcing our ambitions and net zero target in November 2021, we committed to reducing emissions by one third by 2030, whilst annually offsetting emissions from our own operations and supply chain. We followed through with this commitment and announced in January 2022, the investment in several project producing carbon credit through both avoidance and sequestration activities. These projects are voted for by Starling employees.

Further to these measures, Starling submitted its commitment to the Science Based Targets initiative (SBTi) in October 2021, and we are aiming to submit near-term targets in our application later in 2022.

Starling is an active member of several organisations working in collaboration to tackle climate change, as well as partnering with like-minded businesses to drive forward the necessary changes to reduce climate risk. These include being a founding member of TechZero, being the first UK digital Bank to sign up to the Partnership for Carbon Account Financials ("PCAF"), and proudly sponsoring the Seat at the Table YouTube documentary series which followed presenter Jack Harries on a journey across the UK, sharing stories from across the world of people on the frontline of climate change. In addition, we have continued our partnership with Trillion Trees, planning a tree for each referral to Starling and we have had an ongoing partnership with Instavolt, a rapid electric vehicle charger network that uses 100% renewable energy since July 2021.

The Group also assess the environmental impact of all new partners and suppliers before we embark on new projects and relationships. In turn, this encourages our Starling customers and staff to make more mindful choices – for people and for planet.



Social

Our people
A place where people want to work

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

Our people continued

Our culture reflects our five brand values:

Listen

Keep it simple

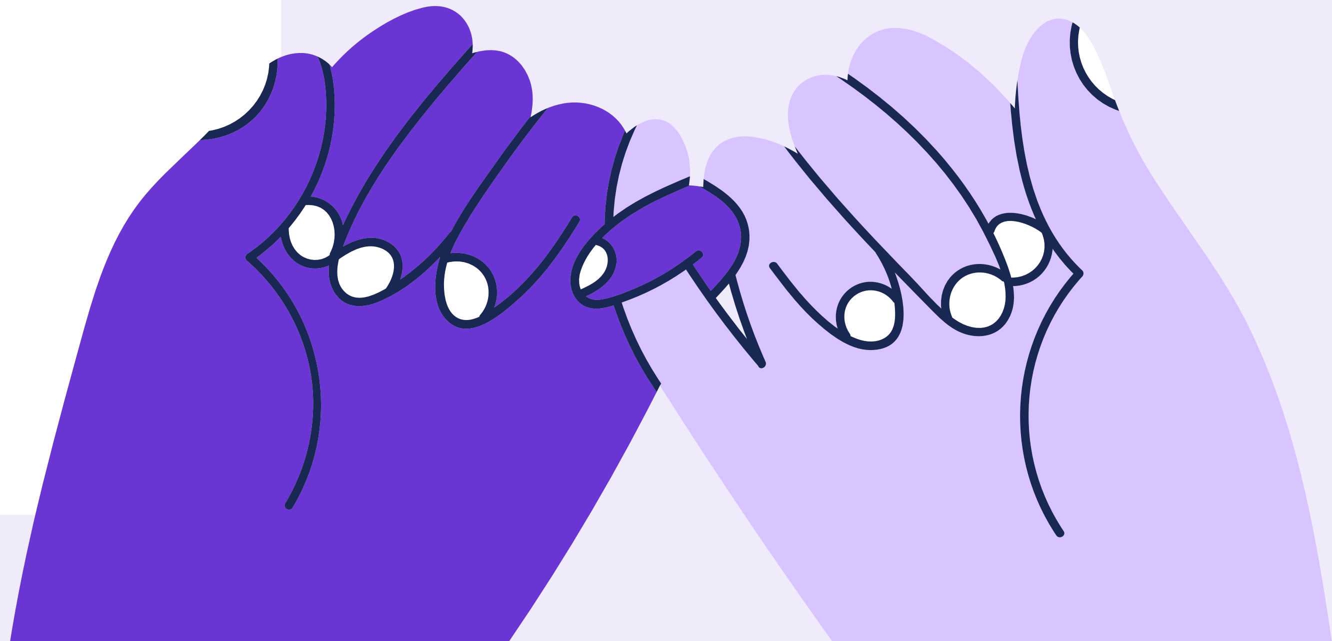
Do the right thing

Own it

Aim for greatness

We are the first and only UK bank founded by a woman and are a signatory to the Women in Finance Charter, a government backed initiative. We hit our target of having 40% of our senior roles occupied by women well ahead of our December 2021 target.

All managers and employees are invited to take part in mental health and resilience training and we are also training Mental Health First Aiders. Our new manager capability training programme, the Starling Flight Path, covers leadership, unconscious bias and coaching and listening skills.



Social

Our customers. Making money more rewarding

We have built a Bank to make money management simpler and more rewarding for our customers. We want to remove the anxiety associated with money by giving customers more control. We believe in treating our customers fairly, being transparent, helping our vulnerable customers, communicating in straightforward language that's easy to understand (and difficult to misinterpret) and not charging hidden fees.

Our customers continued

Our dedicated Vulnerable Customer team exists to help customers who are in financial difficulty or struggling with other problems, such as bereavement or mental health issues. We signpost to mental health charities MIND and Samaritans who can provide a range of help and support for those suffering from mental health challenges.

Our Connected Card enables those who rely on carers to do their shopping to pay for the goods securely while our Gambling Block allows customers to block all card payments made to gambling or betting merchants with one switch.

Data privacy

We collect and use customers' information in order to carry out our operation as a Bank and provide banking and financial products and services, to make sure we do not breach any contracts, to keep Starling and our customers secure, to give people information about products and services and to comply with the law.

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

Fraud prevention

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

We are a very active member of the industry group Stop Scams UK and were among the founder participants of Stop Scams' 159 emergency fraud hotline, launched in September 2021.

Supplier management, anti-slavery and trafficking measures

Starling was founded to give people a fairer, smarter and more human alternative to the banks of the past. We want to change banking for good and that means we are committed to acting professionally, fairly and with integrity in all of our business dealings and relationships.

We have a zero-tolerance stance towards slavery and trafficking. We are committed to protecting human rights and preventing modern slavery and human trafficking by creating and improving our systems and controls.

We work with the government, regulators and law enforcement to help identify and tackle modern slavery and human trafficking.

Community & Charity

We recognise the vital role that charities and non-profit organisations play in the communities where our employees and customers live and work and we are committed to supporting them in multiple ways.

For the 2021/22 financial year, Starling made the following donations: £10,000 to Disasters Emergency Committee [Charity Number: 1062638], £10,000 to Code your Future [Charity Number: 1174929], £10,000 to Refugees at Home [Charity Number: 1177765], £10,000 to the RSPB [Charity Number: 207076], £10,000 to Mind [Charity Number: 219830], £10,000 to Young Enterprise [Charity Number: 313697], £10,000 to Switchboard [Charity Number: 296193], £5,000 to Spinal Muscular Atrophy UK [Charity Number: 1106815] and £1,000 to Journalists' Charity [Charity Number: 208215].

In addition, £120,000 was paid as part of a partnership with Trillion Trees [Charity Number: 1081247], a joint venture for forest protection made up of three of the world's largest conservation organisations: BirdLife International, Wildlife Conservation Society (WCS) and World Wildlife Fund (WWF). From time to time, the company makes small donations to causes related to employees or other stakeholders and in 2021/22, Starling donated £50 to Cancer Research UK [Charity Number: 1089464].

Other Statutory Information

Set out below is additional statutory information that the Bank is required to disclose in its Directors' Report. Some of the matters normally included in the Directors' Report have instead been included in the Group Strategic Report on pages 2 to 81 as the Board considers these to be of strategic importance. An indication of likely future developments may be found in the Group Strategic Report.

Directors

Details of the Directors as at 31 March 2022, together with their biographies, can be found on pages 83 to 85. The following Director changes occurred during the year:

Tracy Clarke	Appointed 26 May 2021
David Sproul	Appointed 30 June 2021
Mark Winlow	Stepped down 1 October 2021
Ian Jenkins	Appointed 1 October 2021
Victoria Raffé	Stepped down 6 December 2021
Oliver Stocken	Stepped down 31 December 2021
Steve Colsell	Stepped down 31 December 2021

Faisal Galaria was appointed to the Board as an independent non-executive director on 1 June 2022.

Results and Dividends

The results of the Group for the year ended 31 March 2022, are shown on pages 111 to 171. The Directors do not propose the payment of any dividend for the year (2021: nil).

Directors' Indemnities

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

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

Donations

During the year the Group made charitable donations amounting to £76,000. Details of these donations are laid out above in the Environmental, Social and Governance Review of this report. In addition we paid £120,000 to the environmental Trillion Trees as part of a marketing partnership (2021: £104,768), including donations and Trillion Trees partnership). No political donations were made during the year (2021: nil).

Research and Development

Starling is dedicated to the research and development of innovative digital banking and the enhancement of its leading technology platform. The research and development costs recognised for the year ended 31 March 2022 can be found in note 15 and 24.

Financial Instruments

Starling enters into numerous material financial instruments as part of its business operations, further details of which are set out in note 29 of the financial statements. Details of Starling's financial risk management framework and practices are set out on pages 17 to 26 of the Group Strategic Report, along with Group's exposure to credit risk, market risk, operational risk, liquidity risk, conduct and compliance and strategic risk.

Related Party Transactions

Details of related party transactions are set out in note 31 to the Financial Statements.

Subsidiaries

The Bank's subsidiaries are listed in note 19 to the Financial Statements.

Subsequent Events

Transfer of subsidiary

On 7 June 2022 Starling Bank Limited transferred its holding in Murmur Financial Services International DAC to MFSI Holdings Limited a company incorporated in the Republic of Ireland. Prior to transfer, the Bank made a capital contribution of £1,179k which was recognised as a Capital Contribution Reserve. Murmur Financial Services International DAC is now a 100% subsidiary of MFSI Holdings Limited.

Share issuance – additional fundraising

Subsequent to the balance sheet date, the Bank completed a successful issuance of Series D shares to existing shareholders. Consequently, the Group's equity capital base has been increased by £130.4m net (£130.5m before expenses of issue).

Other Statutory Information continued

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 a number of future uncertainties that could impact upon the business plan as the UK has continued to come to terms with the shock of exiting the European Union in December 2020, recovers from the impact of the lockdown caused by the global pandemic (COVID-19) and the rapidly deteriorating situation caused by the war in Ukraine and the impact that it is having on cost of living. 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 April 2022. 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 input from the Bank's economic advisers, it has modelled the impact of a severe but plausible downside stress in line with the severe downside scenario described in Note 3 on pages 126 to 131. This has resulted in the Bank reviewing both the quantum and availability of capital and liquid assets that it should hold to remain above its risk appetite (which are themselves comfortably above the regulatory minimum) in the event that such a stress materialises. Projections under these stress events show that the Group/Company will be able to operate at adequate levels of both capital and liquidity 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.

Financial Reporting Council's Audit Quality Review

The Financial Reporting Council's Audit Quality Review team (AQR) reviewed KPMG's audit of the Group's 2021 financial statements as part of its annual inspection of audit firms. The Committee received and reviewed the final report from the FRC in March 2022. The Audit Committee was satisfied that the matters raised by the AQR were appropriately incorporated into the 2022 audit plan.

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act.

By order of the Board

Anne Boden
Chief Executive Officer Starling Bank Limited

Company number 09092149

10 July 2022

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 Group Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the Group's and the Bank's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act. 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 the Bank and of the Group's profit or loss for that period.

In preparing these 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;
- assess the Group and the Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for ensuring that the Group and the Bank keeps adequate accounting records that are sufficient to show and explain the Group and Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Bank and enable them to ensure that the financial statements comply with the Companies Act. 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 Group Strategic Report and a Directors' Report that complies with that law and those regulations.

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

By order of the Board

Anne Boden

Chief Executive Officer

Starling Bank Limited

Company number 09092149

10 July 2022

Tony Ellingham

Chief Financial Officer

Starling Bank Limited

Company number 09092149

10 July 2022

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 year ended 31 March 2022 which comprise the consolidated and Parent Company statements of comprehensive income, consolidated and Parent Company statement of financial position as at 31 March 2022, the consolidated and Parent Company cash flow statement and the consolidated and Parent Company statements of changes in equity for the year then ended and the related notes, including the accounting policies in notes 1 and 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and 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 6 financial years ended 31 March 2022. 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		£3m (2021:£2m) 0.8% of net assets / equity (2021: 1.33% of net assets / equity)
Coverage		100% (2021:100%) of group assets
Key audit matters		**Vs 2021**
Recurring risks	Going concern	◀▶
	ECL provision on loans and advances to customers	▲
	New: EIR adjustments on loans and advances to customers	▲
	Recognition of deferred tax assets	◀▶

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 101 (Group Directors' Report) and page 116 (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 Group and Parent Company. 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 second order impacts, such as the impact of COVID-19 and inflation 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.	We considered whether these risks could plausibly affect the regulatory capital in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Group's and Parent Company's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. **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. In addition, we assessed and challenged the severity of the severe but plausible downside scenario. **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 and inflation related sources of risks for the Bank's business and financial resources compared with our own understanding of 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 (2021: acceptable).

	The Risk	Our response
Expected Credit Loss (ECL) provision on loans and advances to customers £27 million; 2021: £17million Refer to pages 30 to 58 (credit risk disclosures), pages 118 to 126 (accounting policy), and pages 137 (financial 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: • Model estimations –Inherently judgmental modelling and assumptions are used to estimate ECL which involves determining Probabilities of Default (PD), Economic Response Model (ERM), Loss Given Default (LGD) and Exposures at Default (EAD). The PD and ERM models used in the unsecured portfolio and the LGD models used in the secured portfolios are the key drivers of complexity and uncertainty of the Group and Parent Company's ECL results and are therefore the most significant judgmental aspects of the Group and Parent Company's ECL modelling approach. • Significant Increase in Credit Risk (SICR) –The criteria selected to identify a significant increase in credit risk is a key area of judgment within the Groups ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. • 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 that may lead to future losses on existing portfolios. Significant management judgment is applied in determining the forward-looking economic scenarios used, the probability weightings associated with the scenarios and the complexity of the models used to derive the probability weightings. • Qualitative adjustments –Adjustments to the model-driven ECL results are raised by management to address known ECL model limitations or emerging trends as well as risks not captured by models. They currently represent approximately 29% of the ECL. These adjustments are inherently uncertain and significant management judgment is involved in estimating certain post model adjustments (PMA's) and management overlays. 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. **Disclosure quality** The disclosures regarding the Group's and Parent company's application of IFRS 9 are key to explaining the key judgments and material inputs to the IFRS 9 ECL results.	**Our procedures included:** **Our credit risk modelling expertise:** We involved our own credit risk modelling specialists to: • evaluate the Group's ECL methodologies for compliance with IFRS 9; • inspect the model code for the calculation of certain components of the ECL model to assess its consistency with the Group's approved methodologies and the output of the model; • evaluate whether changes to models and model codes during the year were appropriate by assessing the updated model methodology against the applicable accounting standards; • evaluating the model output for a selection of models by inspecting the corresponding model functionality and independently implementing the model by rebuilding the model code and comparing our independent output with management's output; • assess and reperform, for a selection of models, the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences; • evaluate 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 exposures within the portfolios in scope. • assess the reasonableness of a sample of qualitative adjustments by challenging key assumptions and inspecting the calculation methodology **Our economic expertise:** We involved our own economic specialist to Assess; • the reasonableness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them. • the reasonableness of the economic forecasts by comparing the Group and Parent Company's forecast to our own modelled forecasts • key economic variables which included agreeing samples of economic variables to external sources. **Test of details:** Other key aspects of our testing in addition to those set out above included; sample testing key inputs into the ECL calculations critically evaluating management's assumptions applied to determine the basis of certain qualitative adjustments **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 (2021 result: acceptable).

	The Risk	Our response
Effective Interest Rate (EIR) adjustment on loans and advances to customers £64.58million; 2021: nil Refer to page 117 (accounting policy) and page 133 (financial disclosures).	**Subjective estimate** The recognition of EIR adjustments on loans and advances to customers requires management to apply judgment, with the most critical estimate being the loans' redemption and early repayment profile underlying the behavioural life of the loans. The Group makes its expected life assumptions based on forward flow lenders' historical customer repayment profile which may not reflect actual repayment pattern on the Group's loans and therefore the Group makes significant judgments about the probability and timing of expected cashflows. The behavioural life underlying the Group's EIR adjustment also extend into the future post the fixed rate period which creates a high degree of estimation uncertainty. The effect of these matters is that, as part of our risk assessment, we determined that EIR adjustment on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** Our sector experience: We critically assessed key assumptions under the Group's expected behavioural lives against our knowledge of industry experience and trends and challenged the appropriateness of the redemption and early repayment profiles applied in calculating the EIR adjustments on loans and advances to customers. Sensitivity analysis: We performed sensitivity analysis over the repayment profiles by applying alternative profiles based on our knowledge of industry expectation. Assessing transparency: We evaluated whether the disclosures appropriately disclose and address the uncertainty that exist when determining the EIR adjustment. **Our results** The results of our testing were satisfactory and we considered the EIR adjustment on loans and advances to customers and the related disclosures to be acceptable. (2021 result: not applicable).
Deferred Tax Asset £21.98 million; 2021: £6.09 million Refer to page 124 (accounting policy) and page 139 (financial disclosures).	**Forecast-based assessment** 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.	**Our procedures included:** Our sector experience: We assessed the Group's and the Parent Company'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. (2021 result: acceptable).

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 £3m (2021: £2m), determined with reference to a benchmark of Group net assets / equity of which it represents 0.8% (2021: 1.33%).

Materiality for the Parent Company financial statements as a whole was set at £2.9m (2021: £1.95m), determined with reference to a benchmark of Parent Company net assets / equity, of which it represents 0.9% (2021: 1.25%)

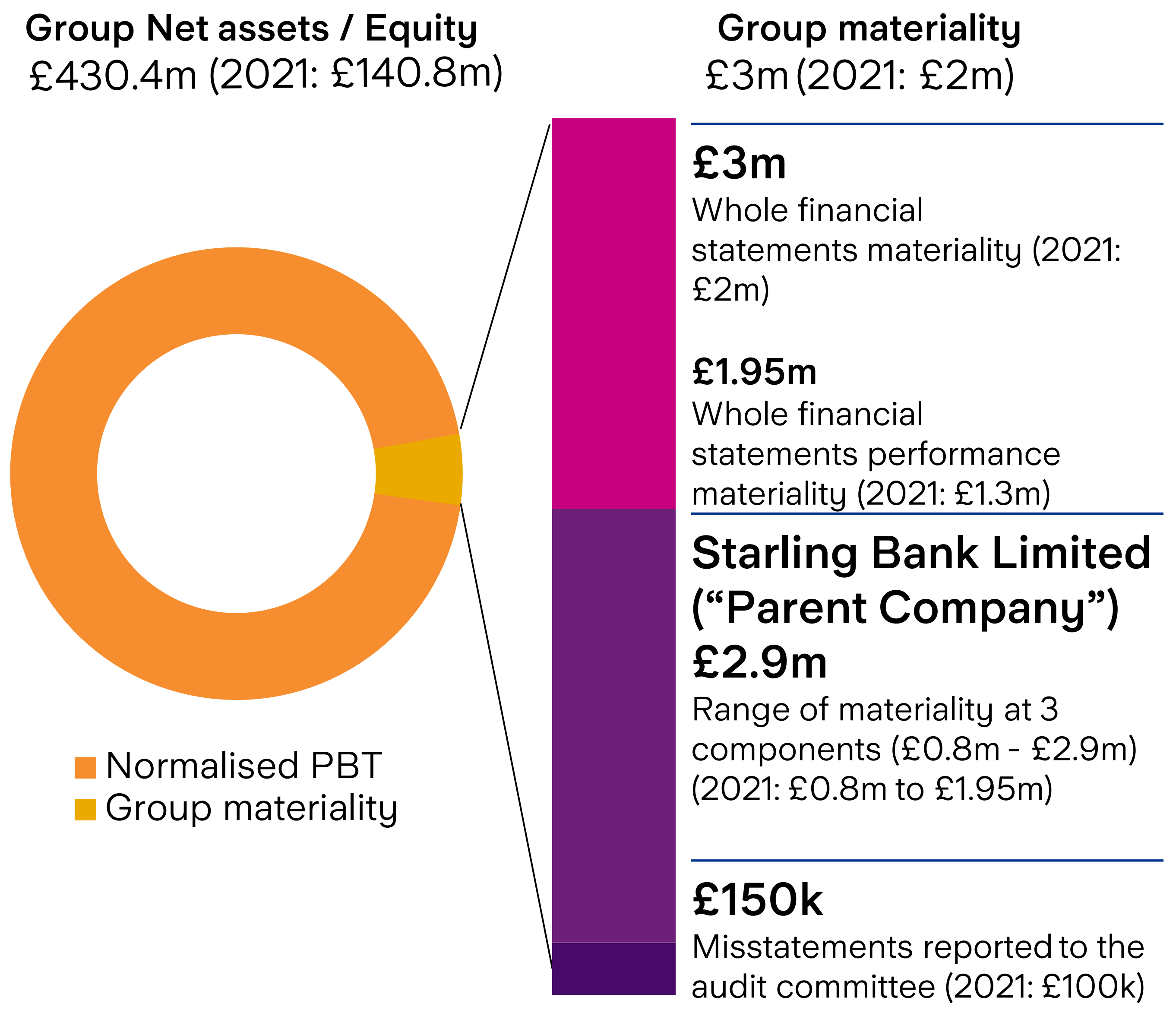
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material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

Performance materiality was set at 65% (2021: 65%) of materiality for the financial statements as a whole, which equates to £1.95m (2021: £1.27m) for the Group and £1.88m (2021: £1.27m) 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 £150,000 (2021: £100,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group’s four (2021: three) reporting components, we subjected one (2021: two) to full scope audit for group purposes audited by the Group team. Two non-significant components (2021: nil) were subject to audit of certain account balance as these contained material accounts and one component (2021: one) was subject to other audit procedures performed by the Group team. The latter three components (2021: one) were not individually financially significant enough to require a full scope audit for group purposes and represents less than 0.5% of the total Group assets. The audit was performed using the materiality levels set out above.

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



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 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.

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

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

We also identified a fraud risk related to the estimation of expected credit loss provision and effective interest rate adjustment 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 and effective interest rate adjustment 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 high risk criteria and comparing the identified entries to supporting documentation.
- Assessing significant accounting estimates for bias.

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

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

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

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

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

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

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

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

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 102, 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

10 July, 2022

Consolidated Statement of Comprehensive Income

For the year / period ended 31 March

	Notes	Group 31 Mar 2022[1] £'000	Group 31 Mar 2021[2] £'000	Company 31 Mar 2022[1] £'000	Company 31 Mar 2021[2] £'000
Net Interest Income	4	121,712	59,253	121,666	59,298
Net Fees and Commissions	5	57,730	33,884	49,723	33,884
Other Income	6	8,624	4,452	29,507	26,330
Total Income		**188,066**	**97,589**	**200,896**	**119,512**
Administrative Expenses	7	(178,336)	(158,981)	(181,053)	(164,715)
Credit for Eligible Spend	7	32,958	46,044	32,958	46,044
Impairment and Charge-offs	8	(10,636)	(16,106)	(10,636)	(16,106)
Profit / (Loss) Before Taxation		**32,052**	**(31,454)**	**42,165**	**(15,265)**
Tax Credit	9	12,886	8,135	10,666	6,088
Profit / (Loss) After Taxation		**44,938**	**(23,319)**	**52,831**	**(9,177)**

1 For the year ended 31 March 2022.
2 For the 16 month period ended 31 March 2021.

There is no difference between the profit / (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 116 to 171.

Consolidated Statement of Financial Position

As at 31 March

	Notes	Group 31 Mar 2022 £'000	Group 31 Mar 2021 £'000	Company 31 Mar 2022 £'000	Company 31 Mar 2021 £'000
Assets					
Loans and Advances to Banks	10	6,105,459	3,196,349	6,101,348	3,196,325
Debt Securities	11	2,306,886	1,513,278	2,306,886	1,513,278
Loans and Advances to Customers	12	3,173,983	2,232,846	3,173,983	2,232,846
Derivative Assets	14	98,056	13,488	98,056	13,488
Deferred Tax Asset	15	21,985	6,088	21,446	6,088
Other Assets	16	129,030	63,460	120,012	63,140
Property, Plant and Equipment & Right of Use Assets	17	5,904	6,415	5,320	6,415
Intangible Assets	18	28,211	16,910	2	5
Goodwill	18	35,890	–	–	–
Investment in Subsidiaries & Inter-company Account	19	–	–	90,598	32,328
Total Assets		**11,905,404**	**7,048,834**	**11,917,651**	**7,063,913**
Liabilities					
Customer Deposits	20	9,027,296	5,827,581	9,027,610	5,827,674
Deposits from Banks	21	2,281,380	1,000,000	2,281,380	1,000,000
Derivative Liabilities	14	330	818	330	818
Provisions for Liabilities and Charges	22	1,242	2,000	1,242	2,000
Other Liabilities & Accruals	23	141,055	39,141	138,383	38,826
Deferred Income	24	23,059	38,463	14,399	38,463
Current Tax liability		618	–	685	–
Total Liabilities		**11,474,980**	**6,908,003**	**11,464,029**	**6,907,781**
Equity					
Share Capital	25	11	9	11	9
Share Premium	26	478,333	253,335	478,333	253,335
Other Reserves	27	22,525	2,980	22,438	2,889
Accumulated Losses	27	(70,445)	(115,493)	(47,160)	(100,101)
Total Equity		**430,424**	**140,831**	**453,622**	**156,132**
Total Liabilities & Equity		**11,905,404**	**7,048,834**	**11,917,651**	**7,063,913**

The notes to these financial statements can be found on pages 116 to 171.

Signed on behalf of the Board by:

Anne Boden MBE, Chief Executive Officer
10 July 2022

Tony Ellingham, Chief Financial Officer
10 July 2022

Consolidated Cash Flow Statement

For the year / period ended 31 March	Group 31 Mar 2022[1] £'000	Group 31 Mar 2021[2] £'000	Company 31 Mar 2022[1] £'000	Company 31 Mar 2021[2] £'000
Cash Flows from Operating Activities				
Profit (Loss) for the Period after Taxation	44,938	(23,319)	52,831	(9,177)
Adjustments for Non-Cash items				
Depreciation and Amortisation	6,384	7,045	2,161	2,639
FV of Shares Allocated to Employees	4,659	1,927	4,590	1,927
Recognition of Right of Use Asset	–	(5,527)	–	(5,527)
Change in Fair Value on Hedging Relationships	(7,905)	(150)	(7,905)	(150)
Impairment and Charge-offs	10,226	16,106	10,226	16,106
Other Non-Cash Items	1,479	449	118	–
Net changes in Operating Assets and Liabilities				
Net Increase in Loans and Advances to Customers	(1,007,837)	(2,203,378)	(1,007,837)	(2,203,378)
Net Increase in Deferred Tax Asset	(15,897)	(6,088)	(15,358)	(6,088)
Net Increase in Other Assets	(63,219)	(31,818)	(54,967)	(33,605)
Net Increase in the Inter-Company Account	–	–	(8,099)	(12,834)
Net Increase in Customer Deposits	3,199,715	4,820,298	3,199,935	4,820,375
Net Increase in Deposits from Banks	1,281,380	1,000,000	1,281,380	1,000,000
Net (Decrease) in Provisions for Liabilities & Charges	(758)	(680)	(758)	(680)
Net Increase in Other Liabilities & Accruals	104,310	970	101,910	682
Net (Decrease) in Deferred Income	(3,994)	(44,894)	(24,064)	(44,894)
Taxation Paid	(3,322)	–	(1,906)	–
Net Cash Flows from Operating Activities	**3,550,160**	**3,530,941**	**3,532,257**	**3,525,396**
Cash Flows from Investing Activities				
Purchases of Property Plant and Equipment	(1,279)	(1,131)	(1,181)	(1,131)
Net Increase in Debt Securities	(814,284)	(1,184,380)	(814,284)	(1,184,380)
Acquisition of Subsidiary, Net of Cash Acquired	(36,160)	–	(50,171)	
PPE & Intangibles on Acquisition of Subsidiary	(8,377)	–	–	
Capitalisation of Intangible Assets	(19,170)	(5,623)	–	–
Net Cash Flows from Investing Activities	**(879,270)**	**(1,191,134)**	**(865,636)**	**(1,185,511)**

1 For the year ended 31 March 2022.
2 For the 16 month year ended 31 March 2021.

The notes to these financial statements can be found on pages 116 to 171.

Consolidated Cash Flow Statement continued

For the year / period ended 31 March	Group 31 Mar 2022[1] £'000	Group 31 Mar 2021[2] £'000	Company 31 Mar 2022[1] £'000	Company 31 Mar 2021[2] £'000
Cash Flows from Financing Activities				
Issuance of Ordinary Shares Less Cost of Issuance	240,000	94,012	240,000	94,012
Repayment of Lease Liabilities	(1,780)	(2,174)	(1,667)	(2,174)
Acquisition of shares by Employee Benefit Trust	–	–	69	–
Net Cash Flows from Financing Activities	**238,220**	**91,838**	**238,402**	**91,838**
Net Increase in Cash and Cash Equivalents	**2,909,110**	**2,431,644**	**2,905,023**	**2,431,723**
Cash and Cash Equivalents at Beginning of Period	3,196,349	764,705	3,196,325	764,602
Cash and Cash Equivalents at End of Period	**6,105,459**	**3,196,349**	**6,101,348**	**3,196,325**

1 For the year ended 31 March 2022.
2 For the 16 month year ended 31 March 2021.

The notes to these financial statements can be found on pages 116 to 171.

Consolidated Statement of Changes in Equity

For the year / period ended 31 March

Group	Notes	Share Capital £'000	Share Premium £'000	Other Reserves[1] £'000	Retained Earnings £'000	Total Equity £'000
As at 30 November 2019		7	159,332	761	(92,174)	67,926
Proceeds From Issue of Shares, Less Expenses	25,26	2	94,003	–	–	94,005
Loss for the Period	27	–	–	–	(23,319)	(23,319)
Fair Value of Shares Allocated to Employees	28	–	–	2,128	–	2,128
Translation of Subsidiary Company	27	–	–	91	–	91
As at 31 March 2021		9	253,335	2,980	(115,493)	140,831
Proceeds From Issue of Shares, Less Expenses	25,26	2	224,998	15,000	–	240,000
Profit for the Year	27	–	–	–	44,938	44,938
Fair Value of Shares Allocated to Employees	28	–	–	4,549	110	4,659
Translation of Subsidiary Company	27	–	–	(4)	–	(4)
As at 31 March 2022		**11**	**478,333**	**22,525**	**(70,445)**	**430,424**

Company	Notes	Share Capital £'000	Share Premium £'000	Other Reserves[1] £'000	Retained Earnings £'000	Total Equity £'000
As at 30 November 2019		7	159,332	761	(90,924)	69,176
Proceeds From Issue of Shares, Less Expenses	25,26	2	94,003	–	–	94,005
Loss for the Period	27	–	–	–	(9,177)	(9,177)
Fair Value of Shares Allocated to Employees	28	–	–	2,128	–	2,128
As at 31 March 2021		9	253,335	2,889	(100,101)	156,132
Proceeds From Issue of Shares, Less Expenses	25,26	2	224,998	15,000	–	240,000
Profit for the Year	27	–	–	–	52,831	52,831
Fair Value of Shares Allocated to Employees	28	–	–	4,549	110	4,659
As at 31 March 2022		**11**	**478,333**	**22,438**	**(47,160)**	**453,622**

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

The notes to these financial statements can be found on pages 116 to 171.

1. Basis of Preparation

a) Basis of Preparation

The Consolidated Financial Statements and the separate Financial Statements of Starling Bank Limited have been prepared in accordance with the Companies Act 2006 and with International Financial Reporting Standards ("IFRS") and Interpretations ("IFRICs") issued by the International Accounting Standards Board ("IASB") as adopted by the United Kingdom ("UK"). The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and liabilities at fair value through profit or loss and other comprehensive income.

The Consolidated Financial Statements are presented in British pounds Sterling ("Sterling" or "£") and all values rounded to the nearest thousand (£'000) except otherwise indicated.

The Consolidated 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 year unless specifically stated. The accounting policies that were relevant in the year have been consistently applied.

b) Change to accounting reference date

In the prior year, the Group (Starling Bank Limited and its subsidiaries also referred to as "Starling") and the Company (Starling Bank Limited also referred to as "the Bank") 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. The comparative Financial Statements for the prior year are therefore for the 16 month period ended 31 March 2021. Statement of Comprehensive Income comparatives represent the 16 month period to 31 March 2021 and are not directly comparable. Further information on a 12 month comparative basis has been provided in the Financial Review section on pages 9 to 15.

c) Changes to significant account policies / New standards adopted

(i) Interest rate benchmark reform – Phase 2 (Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39)

The Phase 2 Amendments 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 19). Consistent accounting policies are used by the Group, the Parent Company and the Subsidiaries.

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

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

Investments in Subsidiary undertakings are stated in the accounts of Starling Bank Limited at cost less any provisions for impairment in value. The Directors consider it appropriate for administrative and commercial reasons that Subsidiary undertakings have financial years ending on 31 March, the Parent Company's year-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 a number of future uncertainties that could impact upon the business plan as the UK has continued to come to terms with the shock of exiting the European Union in December 2020, recovers from the impact of the lockdown caused by the global pandemic (COVID-19) and the rapidly deteriorating situation caused by the war in Ukraine and the impact that it is having on cost of living. 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 April 2022 (see note 35). 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.

1. **Basis of Preparation** continued

e) **Going Concern** continued

The macroeconomic stress testing methodology is based on input from the Bank's economic advisers, it has modelled the impact of a severe but plausible downside stress in line with the severe downside scenario described in Note 3 on pages 126 to 131. This has resulted in the Bank reviewing both the quantum and availability of capital and liquid assets that it should hold to remain above its risk appetite (which are themselves comfortably above the regulatory minimum) in the event that such a stress materialises. Projections under these stress events show that the Group/Company will be able to operate at adequate levels of both capital and liquidity and have the ability to meet its future obligations for at least 12 months from the signing of these financial statements.

2. Accounting Policies

a) Foreign Currency Translation

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

Monetary items denominated in foreign currencies are retranslated at the 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.

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

- Assets and liabilities are translated at the closing rates of exchange prevailing on the date of the Statement of Financial Position; and
- 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 other reserves within equity.

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

c) Interest Income and Interest Expense

Interest receivable and similar income on financial assets that are classified as Loans and Advances to Banks and Customers, and interest payable on financial liabilities that are classified as Deposits from Banks and Customer Deposits, are recognised as Interest Income and Interest Expense respectively in the 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 year. The Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. In accordance with the 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 years, 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.

2. Accounting Policies continued

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.

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 year 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 and whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, such as;

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

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 measured 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 remeasured 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 Group uses derivative financial instruments primarily to hedge its exposure to interest rate risk arising from its banking and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

2. Accounting Policies continued

f) Financial Assets continued

Hedge accounting

The only hedge accounting strategy undertaken by the Group is portfolio hedges of interest rate risk. As permitted under IFRS 9, the Group continues to apply the requirements of IAS 39 for derivatives designated in a portfolio fair value hedge of interest rate risk. 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 Group only undertakes fair value hedges and consequently the changes in fair value of derivatives 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 of the hedging instrument and of the hedged items offset each other and reduce volatility in the Statement of Comprehensive Income. Any residual fair value hedge ineffectiveness is recognised in Other Income of the Statement of Comprehensive Income. If a hedge relationship no longer meets the criteria for hedge accounting, then hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the Statement of Comprehensive Income. The adjustment is amortised on a straight line basis over the period to maturity of the hedged item or, in the case of a portfolio hedge of interest rate risk, to expiry of the next repricing period. If 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 liabilities measured at either amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the 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 the 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 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

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

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

Measurement Inputs

Key inputs into the measurement of ECL are:

- Probability of Default or PD is the likelihood of default within the next 12 months.

  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). Some portfolios currently use expert judgemental approaches.
- Loss Given Default or LGD is the net value of loss in the event of a default.

  Observed losses in the event of default are based on a combination of historical experience of customer behaviour, industry benchmark data and product criteria.

For mortgage lending the Bank has used an LGD that is largely driven by the underlying value of the collateral, as well as assumed probabilities of possession given default which are based on industry benchmark data, in the absence of observable performance. For SME lending the Bank has used an LGD that reflects the government guarantee where applicable, as well as observed historical cure and recovery rates. For Retail lending, the Bank has used an LGD based on observed customer behaviour and resulting losses.

2. Accounting Policies continued

h) Impairment of Financial Assets continued

- Exposure at Default or EAD is the gross value of loss in the event of a default.

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

- Expected Credit Losses is calculated such that ECL = PD x LGD x 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. Post model adjustments have been applied in the following areas, which include adjustments to address (i) model deficiencies, (ii) the impact of government support measures on datasets, and (iii) uncertainty over the accuracy of future economic forecasts. As empirical data becomes available this will be further validated and / or adjusted as appropriate.

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

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

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

Impairment losses for Loans and Advances to Customers are assessed for both a 12-month ECL and a Lifetime ECL where the credit risk on a financial asset has increased significantly since initial recognition or the account has defaulted.

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

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

- **Stage 1**: when a financial asset is first recognised it is assigned to Stage 1. If there is no 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 or 3. 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 expert judgement. The process involves developing additional economic scenarios and considering the relative probabilities of each outcome. These scenarios include economic data and forecast published by Governmental bodies, such as the BoE and selected private sector and academic forecasters.

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

2. Accounting Policies continued

h) Impairment of Financial Assets continued

Significant increase in credit risk

The Group monitors all financial assets and loan commitments that are subject to IFRS9'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, e.g. based on information received from the credit bureaus, together with qualitative indicators such as watchlists and other behaviours observed on individual customer accounts such as forbearance or arrears. For SME lending the Group also includes a presumption that credit risk has significantly increased when contractual payments are past due. For Retail lending products (principally overdrafts and unsecured term lending) and Mortgages, the Group includes a rebuttable presumption that credit risk has significantly increased when contractual payments are more than 30 days past due. Additionally, increases in other observable data points that might point to a significant increase in credit risk, such as a material deterioration in credit bureau scores of more than 100%, are amongst other factors taken into consideration where considered relevant and where sufficient data is available for the portfolio. Use of COVID-19 relief mechanisms, including payment holidays and accessing CBILS and BBLS, does not automatically merit identification of a SICR and trigger a Stage 2 classification, following FCA guidance.

The Group uses credit risk metrics that reflect its assessment of the 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 or the account is 3 or more months in arrears; any security / personal guarantee has been taken into the Bank's possession; the customer is bankrupt or has proposed an Individual Voluntary Arrangement; or the customer is subject to a Debt Relief Order. Term loans are also classified as defaulted if there is an outstanding balance on the account of more than 90 days, or 3 months, post contractual maturity or the original term of the loan has expired and there is a balance outstanding.

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 less impairment.

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

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

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

Forbearance

Forbearance is a qualitative indicator of a 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 to support customers who are in financial difficulty. Collections activity commences immediately after a customer moves into a position of arrears.

Where appropriate, the following types of forbearance are then made available to customers: Payment arrangement (payment plan with a reasonable timeframe); Concessionary arrangement (payment plan for demonstrably temporary financial difficulties); Extension (increased product term); Reduced interest; Deferment / Capitalisation of arrears; and Full and Final Offers (where the Bank may accept less than full settlement of balance). Both Retail and commercial loans are subject to the forbearance policy. In the current year, 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.

2. Accounting Policies continued

i) Financial Assets and Liabilities – Recognition, Modification, Derecognition and Offsetting

Recognition

Recognition is the point at which the Group begins to recognise a financial asset or financial liability on its Statement of Financial Position. Transactions in which the Group acquires assets and liabilities, portions of them, or financial risks associated with them can be complex and it may not be obvious whether substantially all of the risks and rewards have been transferred. It is often necessary to perform a quantitative analysis. Such an analysis summarises the Group's exposure to variability in asset cash flows as a result of the acquisition. A cash flow analysis of this nature may require judgement. In particular, it is necessary to estimate the asset's expected future cash flows as well as potential variability around these cashflows.

Modifications

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

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

If the terms and cash flows of the modified asset are deemed to be substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. This meets the derecognition criteria outlined below and as such the original financial asset is derecognised and a 'new' financial asset is recognised at fair value. The difference between the carrying amount of the derecognised financial asset and the new financial asset with modified terms is recognised in the 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 has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. There are no financial assets or liabilities which are offset within the Statement of Financial Position and all financial assets and liabilities are presented on a gross basis. Income and expense are presented on a net basis only when permitted under IFRS.

j) Property, Plant & Equipment

Fixtures, Fittings and Equipment are included as Property, Plant & 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 & Equipment is included in Other Operating Costs in the Statement of Comprehensive Income according to the type:

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

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

2. Accounting Policies continued

k) Intangible Assets

The Group applies IAS38 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 Group considers both internal and external factors when determining whether there are indicators that the intangible asset is impaired.

If there are no indicators of impairment, then there are no requirements to perform value in use 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 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

The Group uses the capital approach to account for the CIF Grant. Expenditure incurred in the development of software to support the Bank's obligations under the CIF award is capitalised as an intangible asset at Group level, where it is considered that the asset created will generate future economic benefit for the Bank.

Amortisation of Software Development is included in the Operating Costs in the Statement of Comprehensive Income over the estimated useful economic life ("UEL") of 7 years. The UEL is reviewed annually. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense in the Statement of Comprehensive Income.

The Company uses the income approach to account for the CIF Grant, whereby the grant is recognised in the Statement of Comprehensive Income on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grant is intended.

Intangible assets arising from a business combination

Intangible assets are recognised, separately from goodwill, when as part of a business combination an asset is identifiable. An asset is identifiable if it either is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged; or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights or obligations. Intangible assets acquired as part of business combinations are recognised at fair value at acquisition date and are amortised on a straight line basis over the estimated life of the underlying contractual arrangement. These assets are subject to impairment testing.

Acquired Software licences

All of the Group's acquired software licences related to cloud-based arrangements where the Group does not control the asset and so the expense is not capitalised. If the implementation costs of such an arrangement are considered distinct from the service of receiving access to the software, an assessment will be made on whether the implementation costs are part of a software intangible asset and capitalised in accordance with Group policy.

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 UEL of five years. The UEL is reviewed annually.

l) Goodwill

Goodwill arises on the acquisition of a subsidiary and represents the excess of the consideration transferred over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. Goodwill is stated at cost less accumulated impairment losses.

For the purpose of impairment assessment, goodwill acquired in a business combination is allocated to each of the cash generating unit ("CGU") that is expected to benefit from the combination. Each unit to which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes. Goodwill is not amortised, however, it is tested for impairment at the end of each reporting period. The recoverable amount of a CGU is the higher of its fair value less costs to sell and the present value of its expected future cash flows ("Value in Use"). If the recoverable amount is less than the carrying value, an impairment loss is charged to the Statement of Comprehensive Income. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2. Accounting Policies continued

m) Other Assets

Other Assets, Guarantee amounts due, Accrued Interest, Fees Receivable and Prepayments are initially recognised at fair value and subsequently measured at amortised cost. In the case of interest accruals and deferred fee expenses 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.

n) Leases

The Group has entered into 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. 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 (leases with a lease term of 12 months or less), 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).

o) Taxation

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 years.

Research and Development Expenditure tax credits ("RDEC") are recognised as income in the year in which the Research and Development qualifying expenditure is recognised.

Corporation tax recoverable from losses accumulated in prior years is determined using tax rate and legislation in force in the UK at the reporting date and is carried forward for future recovery when note fully utilised in the current period.

Deferred tax

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

p) Deposits from Banks and Customer Deposits

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

q) Other Liabilities

Other liabilities include funds in the course of collection for customers' accounts, settlement balances arising from the acquisition of debt securities and customer balances under investigation, deferred consideration payable on loan book acquisitions, lease liabilities, interest accruals and accrued expenses. Accrued expenses include amounts incurred but unpaid for goods and services provided to the Group prior to the end of financial year. Interest accruals and deferred consideration are measured using the effective interest rate method.

r) 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 24, the Group has adopted IAS 20 and chosen the income approach whereby the CIF Grant is recognised in the Statement of Comprehensive Income on a systematic basis over the period or periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. The CIF Grant cannot be recognised until certain qualifying expenditure has been incurred. In accordance with IAS 20, as set out in note 2, the Group presents its financial information in relation to the CIF Grant on a gross basis.
- Fee income received on the Group's Loans and advances to Customers is recognised in the Statement of Comprehensive Income using the effective interest rates over the expected life of the financial assets to which it relates.

2. Accounting Policies continued

- 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.
- Amounts received from the Research and Development Expenditure Credit (RDEC) scheme that have not been recognised in the Statement of Comprehensive Income at the reporting date. The Group has adopted IAS 20, consequently, the RDEC claim cannot be recognised until the related qualifying expenditure has been expensed in the statement of comprehensive income. The qualifying expenditure relates to software development and is capitalised as an intangible asset. Consequently, the RDEC claim is recognised in the Statement of Comprehensive income on a systematic basis over the periods in which the Company recognises the amortisation cost of the related intangible asset. In accordance with IAS 20, the Group presents its financial information in relation to the RDEC claim on a gross basis.

s) Provisions

Provisions other than impairment provisions (see 2h above) are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision is made for expected credit losses in respect of irrevocable undrawn loan commitments (see 2h above).

t) 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).

u) Related Party Transactions

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

Key management personnel is defined as the Board.

v) Employee Benefits

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

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the 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.

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 four JSOP schemes certain employees were awarded a beneficial interest in shares of the Bank therefore aligning the interests of key employees with the interests of shareholders. To fund the purchase, employees were granted a bonus (grossed up for income tax and national insurance) that was used by the employees to subscribe for the right to the beneficial interest at each award date. 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 two SEIS schemes certain senior employees are awarded a beneficial interest in shares of the Bank therefore aligning the interests of key employees with the interests of shareholders. The interest awarded is funded by the Bank at nil cost to the employees.

- Long term Incentive Plan ("LTIP")

  Under the LTIP scheme, eligible employees of the Bank are awarded a beneficial interest in shares of the Bank therefore aligning their interests with the interests of shareholders. The interest awarded is funded by the Bank at nil cost to the employees.

  The award of beneficial interests in the above 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.

2. Accounting Policies continued

w) 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 EBT have been included within these financial statements in accordance with IFRS 2 and are accounted for as an extension of the Company's own business.

x) Standards Issued but not yet Adopted

A number of new standards and amendments to standards are effective for accounting periods beginning on or after 1 January 2022 and 1 January 2023; however, the Bank has not yet applied those new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements:

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)
- Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendments to IAS 12)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Disclosure Initiative – Accounting Policies (Amendments to IAS 1)

Other minor amendments

The IASB has issued a number of minor amendments to IFRS effective 1 January 2022 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.

3. 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 year. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant, although, the amount, event or action, and ultimate result may differ from the estimates used. Sources of estimation uncertainty relate to assumptions and estimates at the end of the current reporting year that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) 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 expert judgment to adjust inputs, parameters and outputs used in ECL models to reflect risks not captured. These include adjustments to address (i) model deficiencies, (ii) the impact of government support measures on datasets and (iii) uncertainty over the accuracy of future economic forecasts.

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 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 current year, the Bank has continued to lend to SME customers under guarantees provided by the British Business Bank ("BBB") Coronavirus Support Schemes designed to support businesses deal with the impact of COVID-19. The Bank lends under three Government-backed schemes: the Bounce Back Loan Scheme ("BBLS"), the Coronavirus Business Interruption Loan Scheme ("CBILS") and the Recovery Loan Scheme ("RLS") (together the "Government-backed lending schemes"). BBLS, CBILS and RLS lending is undertaken organically by the Bank and also non-organically via forward flow transactions. These Government-backed lending schemes are covered by guarantees from the British Business Bank (a wholly owned subsidiary of HM Treasury) that are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have been applied. The guarantee is 100% for BBLS, 80% for both CBILS and RLS (where RLS facility was committed before January 2022) and 70% for RLS facilities committed after January 2022. Lower LGDs are recognised for these Government-backed lending schemes with 0% LGD applied to the guaranteed part of the exposure.

3. Critical Estimates and Judgements continued

b) Impairment of Loans and advances to customers continued

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

The Bank incorporates forward-looking information into 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's Monetary Policy Committee 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 BRC adopts the final scenarios and weightings used in the Bank's ECL models.

The Bank currently use four economic scenarios:

- Base Case – Cases of the Omicron variant have peaked and the macroeconomic impact was muted. There has been evidence that some of the supply-chain difficulties, notably in construction, are easing. However, the cost of living crisis is intensifying and real incomes are expected to be c.3% lower in 2022 than in 2021. This reflects both a peak in inflation at 8.4% in April and the rise in NICs currently scheduled for the same month. Both point to a relatively lacklustre period for consumer spending. It is assumed that the situation in Ukraine leads to high inflation persisting for the rest of the year, but otherwise the macroeconomic consequences are muted. With more vacancies than job candidates to fill them, unemployment should stay low and is projected to remain at 4.1% over the forecast horizon. The Bank of England raised rates in December, February and March and is expected to do so again in May and then once more this year as inflation eases. Rates end-2022 at 1.0%. House prices edge down over the year as the return on other assets improves relative to that of property.
- Upside – Although real incomes are under pressure, households spend freely on hospitality, holidays, arts and entertainment utilising the savings accumulated over the last two years. With the strong monthly price rises of the past dropping out of the calculation, and used car prices and energy prices falling back, inflation drops to around 2.0% at the end of 2022. Unemployment falls to 3.6%, the lowest rate since 1974, and wage growth remains strong as the economy moves to a higher productivity path.
- Downside – The economy underperforms as households lock in some of the savings made over the last year. The fallout from leaving the EU – currently largely hidden by COVID – constrains output although a full trade war is averted and the UK does not trigger Article 16 given the need to cooperate with the EU. Higher costs in manufacturing and other sectors most exposed to the conflict in Ukraine see a wave of insolvencies and the economy stall in Quarter 2/Quarter 3 of 2022. Many firms affected find that they are unviable without government support and protection from creditors, particularly those in customer-facing areas. Unemployment rises to just above 6%.
- Extreme downside – The conflict in Ukraine escalates and economic sanctions damage Western economies. The UK is less likely to trigger Article 16 given the deteriorating situation in Ukraine, but problems in supply-chains nevertheless remain acute. With continued labour shortages and problems in supply-chains, this perfect storm of shocks sees inflation climb sharply, reaching almost 10% in the Autumn. As well as the impact on real incomes the rise in inflation unsettles markets and leads to a crash in asset prices. House prices fall around 20% as a result, reinforcing the fall in spending through the impact of reduced household wealth and its indirect impact on confidence. While not explicitly modelled another emerging virus variant more resistant to vaccines than expected is also a risk that might lead to a severe outcome.

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

3. Critical Estimates and Judgements continued

b) Impairment of Loans and advances to customers continued

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.

As at 31 March 2022	2022 %	2023 %	2024 %	2025 %
GDP	3.7	2.2	2.4	2.1
Unemployment rate	4.1	4.1	4.1	4.1
HPI	5.2	-2.3	0.7	2.7

As at 31 March 2021	2021 %	2022 %	2023 %	2024 %
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.

As at 31 March 2022	Upside %	Base Case %	Downside %	Severe Downside %
Scenario weighting	10%	40%	40%	10%
GDP – worst point	1.7	0.9	(0.1)	(4.0)
GDP – 4 year average	0.7	0.5	0.5	0.3
Unemployment rate – peak rate	4.1	4.1	6.2	8.1
Unemployment rate – 4 year average	3.8	4.1	5.4	6.6
HPI – peak rate	2.3	(1.9)	(10.5)	(18.5)
HPI – 4 year average	0.7	0.2	(0.3)	(0.7)

As at 31 March 2021	Upside %	Base Case %	Downside %	Severe Downside %
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).

As at 31 March 2022		Upside %	Base Case %	Downside %	Severe Downside %
GDP	2022	5.0	3.7	2.7	0.3
	2023	3.2	2.2	1.4	0.7
	2024	2.4	2.4	2.4	3.5
	2025	1.9	2.1	2.4	2.9
Unemployment rate	2022	3.8	4.1	4.6	5.1
	2023	3.7	4.1	6.0	7.8
	2024	3.9	4.1	5.8	7.4
	2025	3.9	4.1	5.2	6.2
HPI	2022	7.0	5.2	2.8	1.3
	2023	3.0	(2.3)	(8.3)	(13.6)
	2024	2.4	0.7	0.9	(1.5)
	2025	2.5	2.7	3.5	5.1

For the year ended 31 March 2022

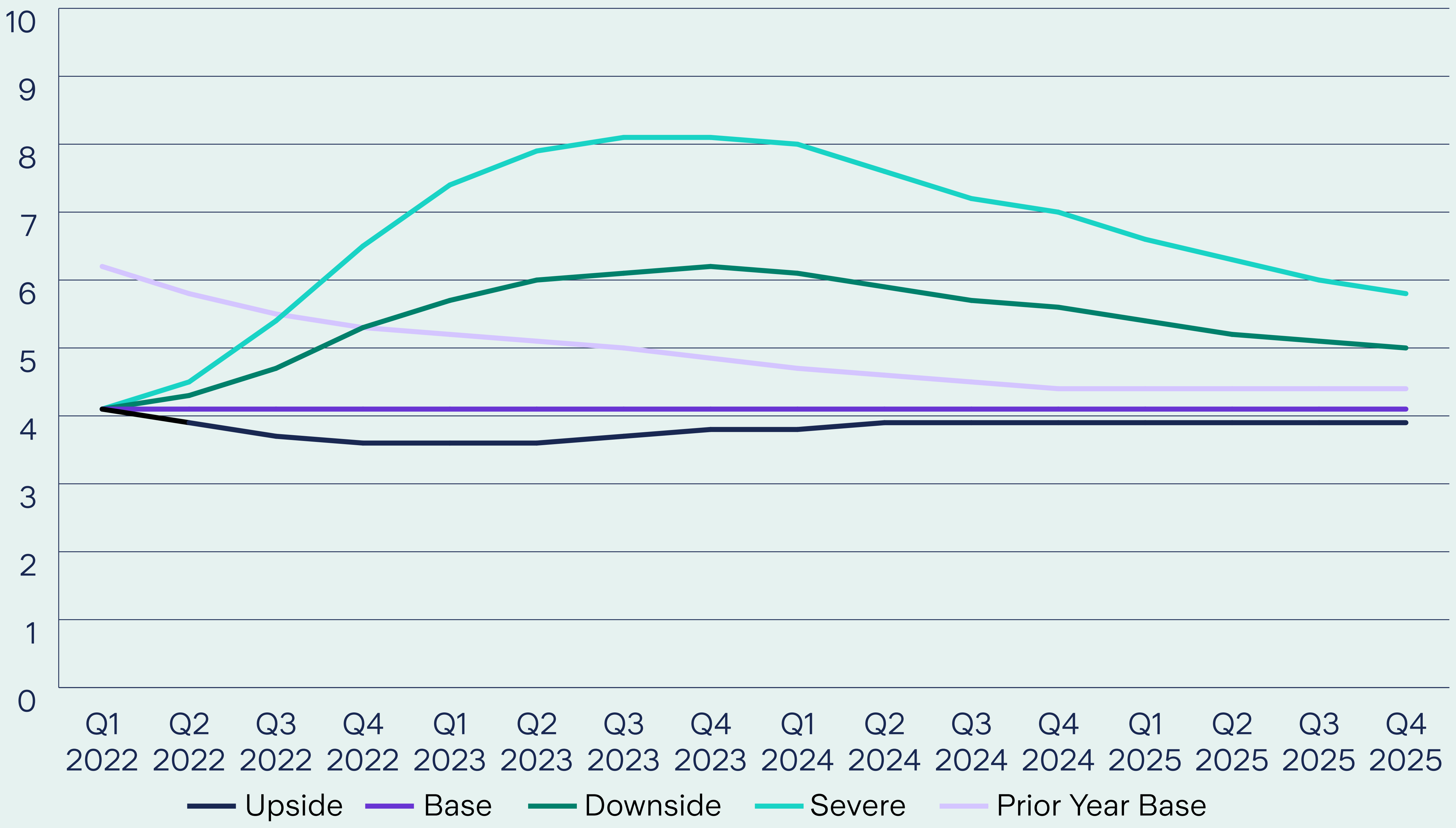
3. Critical Estimates and Judgements continued

b) Impairment of Loans and advances to customers continued

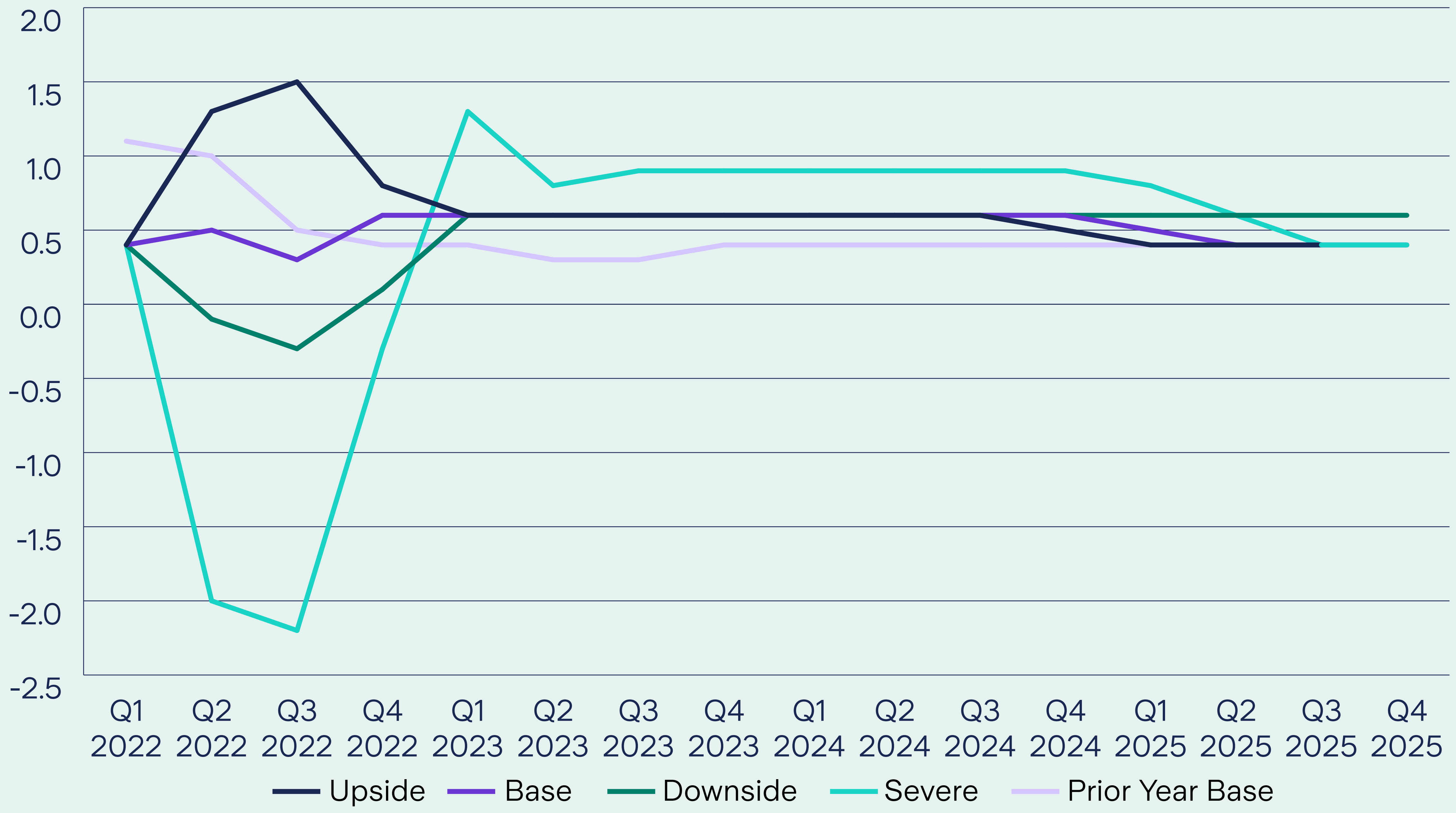
As at 31 March 2021		Upside %	Base Case %	Downside %	Severe Downside %
GDP	2021	7.4	4.6	0.1	–1.7
	2022	6.1	6.8	5.3	1.6
	2023	1.9	1.7	5.4	7.6
	2024	1.8	1.6	2.0	3.4
Unemployment rate	2021	5.1	5.7	6.4	7.0
	2022	4.2	5.7	7.1	9.3
	2023	4.1	5.0	5.6	7.4
	2024	4.1	4.6	4.9	6.3

The graph below shows the forecast unemployment rate and GDP for the Group's four economic scenarios along with prior year end base scenario for context.

Unemployment Rate %



GDP %



ECL sensitivity to economic assumptions:

The calculation of credit impairment provisions is sensitive to changes in chosen weightings. The table below summarises the impact on the credit impairment provisions from the use of alternative scenario weightings.

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.

3. Critical Estimates and Judgements continued
b) Impairment of Loans and advances to customers continued

ECL Sensitivities:	31-Mar-22			
Impairment provisions: Weightings sensitivity	**Mortgage £'000**	**Retail £'000**	**SME £'000**	**Total £'000**
Credit impairment provisions	3,221	5,892	16,735	25,848
Impairment provision on off balance sheet undrawn overdraft facilities	154	1,043	27	1,224
Combined on and off balance sheet – using weighted scenarios	3,375	6,935	16,762	27,072
Credit impairment provisions if 100% weighting was applied to each scenario:				
Upside	3,350	6,456	16,741	26,547
Base case	3,445	6,741	16,748	26,934
Downside	3,981	7,164	16,771	27,916
Severe downside	4,644	7,908	16,787	29,339

The table below summarises the % of assets that would be a Stage 2 exposure from the use of alternative scenario weightings. Model exposures allocated to Stage 3 do not change in any of the scenarios as their classification does not rely on macroeconomic scenarios, therefore they are not presented.

ECL Sensitivities:	31-Mar-21		
	Retail £'000	**SME £'000**	**Total £'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

ECL sensitivity to individual economic assumptions:

The impact of changes in UK unemployment and the House Price index (HPI) on credit impairment provisions have also been assessed. The assessment has been made against the modelled Base case provisions and therefore excludes post model adjustments with the reported staging unchanged.

The table below shows the potential impact on the Group's credit impairment provision in respect of mortgages resulting from a increase in LGD for a 10 percent decrease in the UK House Price Index:

ECL Sensitivities:	31-Mar-22
Impairment provisions: Single factor sensitivity HPI	**Mortgage %**
% increase in modelled ECL under the Base scenario for the following:	
10% decrease in HPI	43.60

The table below shows the impact on the Group's credit impairment provision resulting from a 1% increase in the UK unemployment rate:

ECL Sensitivities:	31-Mar-22	
Impairment provisions: Single factor sensitivity Unemployment	**Retail %**	**SME %**
% increase in modelled ECL under the Base scenario for the following:		
1% increase in unemployment	4.77	13.25

3. Critical Estimates and Judgements continued

b) Impairment of Loans and advances to customers continued

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 2022, the impairment provisions included £7,757k (2021: £7,728k) 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, at IC, ERC, with scrutiny at BRC and final approval by the board.

Management adjustments are reviewed and challenged and, where applicable, incorporated into future model development. However, given that the full impact of COVID-19 and cost-of-living crisis 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

   The Bank has looked through immediate improvements in economic data that were seen during the final quarter of 2021 and in quarter 1 of 2022 as the UK has continued to come to terms with the shock of exiting the European Union in December 2020 and recovers from the impact of the lockdown caused by the global pandemic (COVID-19). As a result the Bank has made a number of PMAs to the modelled output from ECL models. These PMAs are designed to capture the following areas of uncertainty and to compensate for underestimation in ECL models:

   - Model deficiencies.
   - The impact of Government support measures on datasets.
   - Uncertainty over the accuracy of future economic forecasts.

   Cost-of-living:
   This is an 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 22, management believe that there is considerable downside risk on the base case assumptions due to the on-going impact of the coronavirus pandemic coupled with cost-of-living crisis which is having a detrimental impact on household finances.

   Unknown impact of Government support for SME lending on behavioural assumptions in datasets:
   Due to the lack of seasoning in the SME 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 2022, the total impairment provisions on loans and advances to customers were £27,072k (2021: £17,256k). Included within this are impairment provisions of £1,224k (2021: £1,632k) for future mortgages and other lending commitments and PMAs of £7,757 (2021: £7,728k) – see table below:

Total impairment provisions	**31-Mar-22 £'000**	**31-Mar-21 £'000**
ECL Modelled impairment provisions	19,315	9,528
Post Model Performance Adjustments	2,434	5,199
Economic Uncertainty Adjustments	5,323	2,529
Total impairment provisions	27,072	17,256

	31-Mar-22			
Total impairment provisions	**Retail £'000**	**SME £'000**	**Mortgages £'000**	**Total £'000**
ECL Modelled impairment provisions	5,944	11,142	2,229	19,315
Post Model Performance Adjustments	170	1,118	1,146	2,434
Economic Uncertainty Adjustments	821	4,502	–	5,323
Total impairment provisions	6,935	16,762	3,375	27,072

3. Critical Estimates and Judgements continued

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 2022 the Group recognised a deferred tax asset of £22.00m (2021: £6.09m) principally relating to tax losses carried forward. Further information on the Group's deferred tax asset is provided in note 15. 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 for corporation tax purposes, 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 horizon; however, the Group has based its deferred tax asset recognition on profitability in the immediate two year planning period. All carried forward losses are forecast to be utilised in that two year planning period. The Group has therefore recognised a deferred tax asset which represents 100% of tax losses carried forward. A shortening of the planning period used by 1 year (to 1 year) would have the effect of decreasing the deferred tax asset recognised by £6.54m (2021: £2.20m). A lengthening of the planning period used by 1 year (to 3 years) has no effect on the deferred tax asset recognised at 31 March 2022 (2021: increase of £1.37m).

d) Valuation of Share Based Payments

Critical estimate: Estimated vesting year of share based payments

As at 31 March 2022, 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.

The remaining period over which the beneficial interests in the shares granted in the current year is therefore 1.75 years (2021: 2.75 years). A lengthening of the estimated useful life by 1 year (to 2.75 years) would have the effect of increasing the Group's profit before tax by £464k (2021: £407k).

e) Valuation of Goodwill

Critical estimate: Future cashflows of the cash generating units ('CGUs') and the discount rate

As at 31 March 2022 the carrying value of the Group's Goodwill, which arose on the acquisition of Fleet Mortgages, was £35.9m.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU, being Fleet Mortgage with its carrying amount. The recoverable amount has been determined by calculating the value-in-use ("ViU"), which uses discounted management's cashflow projections for the CGU.

The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Management has used a Board approved budget as the basis for the 5 year cashflow projections used in the goodwill impairment assessment. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment.

The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to individual CGUs. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control.

The key assumptions used in the ViU of Fleet are shown below:

Assumption	Reasonable change	Increase in ViU
Discount rate (11.05%)	+1%	-8%
	-1%	+10%
Long-term growth rate (0.5%)	+0.5%	+3%
	-0.5%	-3%

None of the changes to the assumptions noted above in isolation would result in an impairment. In combination the reasonable changes noted in the table above may result in an impairment.

4. Net Interest Income

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Loans and Advances to Banks[1]	**9,102**	3,161	**9,101**	3,161
Debt Securities[2]	**6,023**	4,492	**6,023**	4,492
Loans and Advances to Customers[1]	**111,489**	53,571	**111,383**	53,571
Intercompany Loans[1]	**–**	–	**60**	45
Interest Income	**126,614**	61,224	**126,567**	61,269
Customer Deposits[1]	**(1,092)**	(1,562)	**(1,091)**	(1,562)
Deposits from Banks[1]	**(3,810)**	(409)	**(3,810)**	(409)
Interest Expense	**(4,902)**	(1,971)	**(4,901)**	(1,971)
Net Interest Income	**121,712**	59,253	**121,666**	59,298

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 Deposits from Banks and Customer Deposits, all use the effective interest rate method.

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.

5. Net Fees and Commissions

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Customer Card Transaction Revenue[1]	**65,378**	39,423	**65,378**	39,423
Payment and Platform Services	**4,138**	3,219	**4,138**	3,219
Other Fees and Commission Income	**8,116**	495	**8,116**	495
Loan Origination and Servicing Fee Income	**8,409**	–	**–**	–
Fees and Commissions Income	**86,041**	43,137	**77,632**	43,137
Direct fees on Loans and Advances to Customers	**(16,110)**	–	**(15,708)**	–
Customer Card Transaction Costs	**(9,727)**	(7,684)	**(9,727)**	(7,684)
Payment Systems and Other Related Costs	**(2,474)**	(1,569)	**(2,474)**	(1,569)
Fees and Commissions Expense	**(28,311)**	(9,253)	**(27,909)**	(9,253)
Net Fees and Commissions	**57,730**	33,884	**49,723**	33,884

1 Included within customer card transaction revenue is £783k (2021: £3,549k) recognised under performance contracts, signed with the Bank's card scheme provider. The unrecognised balance of the performance contracts is disclosed in Note 24 – Deferred Income.

6. Other Income

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Other Income				
Intercompany Recharges	**–**	–	**19,170**	21,878
Hedge Ineffectiveness	**2,945**	357	**2,945**	357
Other Hedging Movements	**4,752**	–	**4,752**	–
Gains / (Loss) from Group Activities	**–**	–	**2,650**	–
Dividend Income	**–**	–	**6,000**	–
Impairment of Subsidiary Holding	**–**	–	**(3,350)**	–
Foreign Currency Transactions	**25**	(58)	**25**	(58)
Other Operating Income	**902**	4,153	**(35)**	4,153
Total Other Income	**8,624**	4,452	**29,507**	26,330

7. Administrative Expenses

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Staff Costs	**99,137**	76,601	**92,134**	75,160
Other Administrative and General Expenses	**86,958**	88,003	**88,919**	89,555
Total Administrative Expenses	**186,095**	164,604	**181,053**	164,715
Capitalisation of Intangible Assets	**(7,759)**	(5,623)	**–**	–
Total Administrative Expenses after Capitalisation	**178,336**	158,981	**181,053**	164,715
Credit for eligible spend on Staff Costs (Note 24)	**(15,517)**	(18,214)	**(15,517)**	(18,214)
Credit for eligible spend on Other Administrative Expenses (Note 24)	**(17,441)**	(27,830)	**(17,441)**	(27,830)
Total credit for eligible spend	**(32,958)**	(46,044)	**(32,958)**	(46,044)
Administrative expenses net of grants	**145,378**	112,937	**148,095**	118,671

The deduction of £7,759k (2021: £5,623k) relates to administrative expenses that have been capitalised during the year as they relate to the development of the Intangible Asset for ongoing use in the business.

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Salaries, Wages and Other Costs	**83,947**	67,344	**78,288**	66,043
Social Security Costs	**8,703**	6,390	**8,089**	6,257
FV of Shares Issued to Employees under EBT	**3,580**	2,075	**3,511**	2,075
FV of Shares Issued to Employees – Other Awards	**1,079**	53	**1,079**	53
FV of Options Granted to Employees	**–**	(201)	**–**	(201)
Pension Contributions	**1,828**	940	**1,167**	933
Staff Costs	**99,137**	76,601	**92,134**	75,160

Average number of persons employed by the Group (including Directors) during the year was 1,751 (2021: 981).

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Wages and Salaries	**2,175**	2,076	**2,175**	1,608
Social Security Costs	**298**	259	**298**	211
FV of Shares Issued to Employees under EBT	**66**	–	**66**	–
Directors Emoluments	**2,539**	2,335	**2,539**	1,819
Wages and Salaries	**900**	600	**900**	600
Social Security Costs	**124**	81	**124**	81
Highest Paid Director Emoluments	**1,024**	681	**1,024**	681

Included within Other Administrative and General Expenses are the following amounts for depreciation and amortisation expenses:

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Amortisation of Intangible Assets	**4,078**	4,410	**3**	4
Depreciation of Tangible Fixed Assets	**1,180**	1,379	**1,121**	1,379
Depreciation of Right to Use Assets	**1,126**	1,256	**1,037**	1,256
Depreciation and Amortisation	**6,384**	7,045	**2,161**	2,639

7. Administrative Expenses continued

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

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Audit of Consolidated Financial Statements	**1,877**	691	**1,877**	691
Audit of the Financial Statements of the Subsidiaries	**86**	9	**–**	–
Total audit Fees	**1,963**	700	**1,877**	691
Interim Profit Verification Fees	**150**	–	**150**	–
Total non-audit fees	**150**	–	**150**	–

8. Impairment and Charge-offs

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Loans and Advances to Customers	10,225	13,374	10,225	13,374
Undrawn Overdraft Facilities and Loan Commitments	(408)	1,104	(408)	1,104
Total Impairment Charge	9,817	14,478	9,817	14,478
Amounts Charged-off	819	1,628	819	1,628
Total Impairment and Charge-offs	10,636	16,106	10,636	16,106

9. Taxation

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Current tax				
Corporation tax	**3,117**	–	**4,692**	–
Adjustments in respect of prior period	**(88)**	(2,062)	**–**	(15)
Tax expense/(credit)	**3,029**	(2,062)	**4,692**	(15)
Deferred tax				
Deferred taxes in current year (Note 15)	**(9,038)**	(6,088)	**(8,869)**	(6,088)
Adjustments in respect of prior period	**88**	15	**–**	15
Effect of tax rate change (Note 15)	**(6,965)**	–	**(6,489)**	–
Tax credit on results on ordinary activities	**(12,886)**	(8,135)	**(10,666)**	(6,088)

9. Taxation continued

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Profit/(Loss) on ordinary activities before taxation	**32,052**	**(31,454)**	**42,165**	**(15,265)**
Tax credit at the standard rate of 19% (2021: 19%)	**6,090**	**(5,976)**	**8,011**	**(2,900)**
Effects of:				
- Expenses not deductible for tax purposes	1,357	569	1,990	569
- Non-taxable income	-	-	(1,140)	-
- Fixed asset differences	(60)	-	(60)	-
- Adjustments to tax charge in respect of previous periods	-	(2,062)	-	(15)
- Effect of tax rate changes	(6,861)	138	(6,489)	-
- Deferred tax recognised	(12,978)	(804)	(12,978)	(3,742)
- RDEC expenditure credits	(434)	-	-	-
Total tax credit	**(12,886)**	**(8,135)**	**(10,666)**	**(6,088)**
Effective tax rate	**-40%**	**26%**	**-25%**	**40%**

The Bank's current tax expense of £4,692k (2021: £nil) includes a payment of £2,102k (2021: £nil) to Starling FS Services Ltd, which represents the tax value of Group relief claims made.

10. Loans and Advances to Banks

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Cash at Bank of England	**6,051,188**	3,178,041	**6,051,188**	3,178,041
Cash at Other Banks	**54,271**	18,308	**50,160**	18,284
Loans and Advances to Banks	**6,105,459**	3,196,349	**6,101,348**	3,196,325

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. Included within Cash at Other Banks is £113k (2021: £113k) held by the EBT.

11. Debt Securities

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Issued by Governments and Supranational bodies	**1,705,167**	1,119,687	**1,705,167**	1,119,687
Covered Bonds issued by Banks and Building Societies	**613,430**	382,638	**613,430**	382,638
Residential Mortgage Backed Securities ("RMBS") issued by Banks and Building Societies	**11,664**	13,652	**11,664**	13,652
Gross carrying value	**2,330,261**	1,515,977	**2,330,261**	1,515,977
Fair value adjustment for hedged risk	**(23,375)**	(2,699)	**(23,375)**	(2,699)
Debt Securities	**2,306,886**	1,513,278	**2,306,886**	1,513,278

	Opening Balance 31-Mar 2021 £'000	Additions 31-Mar 2022 £'000	Maturities 31-Mar 2022 £'000	Closing Balance 31-Mar 2022 £'000
Debt Securities	**1,515,977**	1,027,171	(212,887)	**2,330,261**

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 or increase in probability of default. The Bank has reviewed each asset within its Debt Securities portfolio to ensure that the underlying assets remains of at least investment grade quality (see note 30, Credit Quality) and that there have been no breaches of covenants within the individual instruments.

12. Loans and Advances to Customers

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Mortgage lending	**1,215,887**	–	**1,215,887**	–
Owner Occupied	**972,859**	–	**972,859**	–
Buy-to-let	**243,028**	–	**243,028**	–
SME lending	**2,005,588**	2,186,565	**2,005,588**	2,186,565
Bounce Back Loans	**1,369,755**	1,591,138	**1,369,755**	1,591,138
Coronavirus Business Interruption Loans	**497,801**	595,055	**497,801**	595,055
Recovery Loan Scheme	**137,381**	–	**137,381**	–
Overdrafts	**651**	372	**651**	372
Retail lending	**50,612**	76,678	**50,612**	76,678
Term Loans	**29,483**	56,769	**29,483**	56,769
Overdrafts	**21,129**	19,909	**21,129**	19,909
Total Lending Balances	**3,272,087**	2,263,243	**3,272,087**	2,263,243
Amounts Charged-off	**(5,961)**	(4,953)	**(5,961)**	(4,953)
Gross carrying value	**3,266,126**	2,258,290	**3,266,126**	2,258,290
Fair value adjustment for hedged risk	**(66,295)**	(9,821)	**(66,295)**	(9,821)
Gross carrying value after hedged risk	**3,199,831**	2,248,469	**3,199,831**	2,248,469
Less impairment provisions for Retail lending	**(5,892)**	(6,942)	**(5,892)**	(6,942)
Less impairment provisions for SME lending	**(16,735)**	(8,681)	**(16,735)**	(8,681)
Less impairment provisions for Mortgage lending	**(3,221)**	–	**(3,221)**	–
Less total impairment provisions	**(25,848)**	(15,623)	**(25,848)**	(15,623)
Net carrying value of Loans and Advances to Customers[1]	**3,173,983**	2,232,846	**3,173,983**	2,232,846

1 Included within the net carrying value of Loans and Advances to Customers are loans acquired from third parties under forward flow arrangements of £1,030,446k (Mar-21: £655,049k), loan portfolios acquired not under forward flow arrangements of £562,925k (Mar-21: £nil) and Organic loans of £1,580,612k (Mar-21: £1,577,797k). Loans and advances to customers are held at amortised cost.

SME Lending includes balances of £1,874,141k (2021: £2,067,182k) guaranteed by British Business Bank (backed by HM Government). In the prior year, the Bank began participating in two Government backed lending schemes: BBLS and CBILS. Both these schemes closed during the year. In April 21, the current year, the Bank began participating in the RLS which replaced BBLS, to ensure on-going support to SME customers that continue to recover from the impacts of the pandemic. This lending has been funded through an increase in customer deposits.

BBLS provided SME customers with loans of up to £50k for a maximum term of six years. Interest is charged at 2.5% and the Government pay the fees and interest for the first 12 months. No capital repayment was required by the customer for the first 12 months of the scheme. A Government guarantee of 100% is provided under the scheme to the Bank by the British Business Bank. Before their first repayment was due, customers had the following options; to extend the term of the loan to 10 years, move to interest-only repayments for a period of six months (customers can use this option up to three times) and/or pause repayments for a year or six months (customers can use this option once).

CBILS provided SME customers with loans of up to £500k for a maximum term 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.

RLS provides SME customers with loans from £25k of up to £250k for a maximum term of six years, provided certain criteria are met. Interest is charged between 5.30% and 12.10%. A Government guarantee of either 70% or 80% is provided under the scheme, depending on the date the facility was granted, to the Bank by the British Business Bank.

12. Loans and Advances to Customers continued

Group / Company	Provisions for Impairment on Loans and Advances to Customers £'000
As at 1 December 2019	2,249
Charge for the Period	15,002
Amounts Charged-off[1]	(1,628)
As at 31 March 2021	**15,623**
Charge for the year	11,044
Amounts Charged-off[1]	(819)
As at 31 March 2022	**25,848**

1 Lending Charged-off still under enforcement activity 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 £3,686k (2021: £3,480k).

See Note 30 and Note 3(b) for further information on the Group's provision for impairment on Loans and Advances to Customers.

The Bank began making claims on the British Business Bank under the guarantee received from HM Government in the current year. The Bank has considered the risk that there is a possibility that there may be some exposures where the Bank or its forward flow partner might not be able to call on the Government guarantee. The Bank has mitigated this risk through a number of internal actions which include scheme eligibility assessments for individual loans and proactive discussions with the British Business Bank. In addition, all claims submitted by the Bank to date have been successful. Based on this, the Bank has concluded that it would be inappropriate to raise a provision over its ability to call on the Government guarantee.

At the reporting date, the Group had the following off-balance sheet loan commitments:

	31-Mar 2022 £'000	31-Mar 2021 £'000	31-Mar 2022 £'000	31-Mar 2021 £'000
Loan Commitments[1]	**252,666**	–	**252,666**	–
Undrawn credit facilities	**69,266**	73,612	**69,266**	73,612
Loan Commitments	**321,932**	73,612	**321,932**	73,612

1 Included within Loan Commitments are loans acquired from third parties under forward flow arrangements of £90m.

Under IFRS 9 an ECL is calculated on total overdraft facilities; the amount provided against the undrawn element above is included in note 22. An ECL is also calculated on other irrevocable loan commitments.

13. Assets Pledged as Collateral / Encumbered Assets

	Encumbered		Unencumbered		Total	
Group	31-Mar 2022 £'000	31-Mar 2021 £'000	31-Mar 2022 £'000	31-Mar 2021 £'000	31-Mar 2022 £'000	31-Mar 2021 £'000
Debt Securities	**1,359,777**	1,028,091	**947,109**	485,187	**2,306,886**	1,513,278
Loans and Advances to Banks	**324,170**	187,257	**5,781,289**	3,009,092	**6,105,459**	3,196,349
Loans and Advances to Customers[1]	**1,085,700**	–	**2,088,283**	2,232,846	**3,173,983**	2,232,846
Other Assets	**36,979**	21,986	**92,051**	41,474	**129,030**	63,460
Assets Pledged / Unpledged	**2,806,627**	1,237,334	**8,908,731**	5,768,599	**11,715,358**	7,005,933

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

These transactions are conducted under terms that are usual and customary to collateralised transactions. The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral.

Included in Debt Securities and Loans and Advances to Customers are amounts pledged as eligible collateral under the BOE's Sterling Monetary Framework to secure funding under the TFSME (see note 21).

Also included within Loans and Advances to Banks are balances with the BOE of £324,170k (2021: £185,647k) 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.

14. Derivatives

As at 31 March 2022	Group Fair value of assets £'000	Group Fair value of liabilities £'000	Group Notional amount £'000	Company Fair value of assets £'000	Company Fair value of liabilities £'000	Company Notional amount £'000
Hedging derivatives:						
Interest rate swaps	97,250	(54)	3,320,000	97,250	(54)	3,320,000
Derivatives not in hedge accounting relationships:						
FX forwards	807	(276)	183,843	807	(276)	183,843
Derivatives	**98,056**	**(330)**	**3,503,843**	**98,056**	**(330)**	**3,503,843**

As at 31 March 2021	Group Fair value of assets £'000	Group Fair value of liabilities £'000	Group Notional amount £'000	Company Fair value of assets £'000	Company Fair value of liabilities £'000	Company Notional amount £'000
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
Derivatives	13,488	(818)	2,944,754	13,488	(818)	2,944,754

See note 30 for further detail of the hedging derivatives held by the Group.

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

15. Deferred Tax Asset

The movement in the provision is as follows:	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Deferred Tax at the start of the period	6,088	–	6,088	–
Transferred-in on acquisition of Fleet Mortgages Ltd	(17)	–	–	–
Adjustments in respect of prior period	(89)	–	–	–
Rate change	6,965	–	6,489	–
Credit to the income statement	9,038	6,088	8,869	6,088
Deferred Tax at the end of the period	**21,985**	**6,088**	**21,446**	**6,088**
Fixed/Intangible Asset timing differences	(4,311)	(1,805)	434	446
Carry forward taxable losses	24,350	21,519	20,984	18,591
Other short-term timing differences	1,946	–	28	–
Deferred tax not recognised	–	(13,626)	–	(12,949)
Deferred Tax Asset provided	**21,985**	**6,088**	**21,446**	**6,088**

The Group has recognised an asset of £21,985k (2021: £6,088k) representing all unutilised corporation tax losses, Fixed/Intangible Asset timing differences and other short term timing differences. The value ascribed to these losses and differences has been reassessed following the enactment of a change in the corporation tax rate from 19% to 25% and a reduction in the bank surcharge from 8% to 3%, with both changes effective from 1 April 2023. The deferred tax asset in respect of unutilised corporation tax losses is expected to be fully utilised within two years of the balance sheet date.

The Group also changed its accounting for Research and Development grants from a cash basis to accruing the full value of claims in the year they occur as the Group exceeded the SME scheme threshold and moved to the RDEC scheme. Consequently, £178k of the current year RDEC tax credit of £2,285k (2021: £2,559k) has been recognised in Other Income and Fixed/Intangible Asset timing differences of (£4,311k) (2021: (£1,805k)) reflect the RDEC claims which result in accelerated amortisation of the intangible asset for tax purposes.

16. Other Assets

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Payment scheme collateral[1]	**36,979**	21,986	**36,979**	21,986
Prepayments	**6,417**	3,246	**5,391**	3,241
Accrued interest	**15,306**	14,683	**15,306**	14,683
Guarantee amounts due from HM Government[2]	**45,553**	–	**45,553**	–
Other assets	**24,775**	23,545	**16,783**	23,230
Other Assets	**129,030**	63,460	**120,012**	63,140

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

2 The Bank began making claims on the Business British Bank under the guarantee from HM Government in relation to Government-backed lending schemes in the current year. The above amount represents claims already submitted where settlement is outstanding at year-end. All claims submitted to date have been successfully received subsequent to the balance sheet date.

All other assets have been assessed for impairment with no provision considered necessary (2021: £nil).

17. Property, Plant & Equipment and Right of Use Assets

Group	Property, Plant and Equipment £'000	Right of Use Assets £'000	Total Tangible Assets £'000
Cost			
As at 1 April 2021	**4,328**	**5,527**	**9,855**
Acquired on purchase of Subsidiary[1]	846	645	1,491
Additions	1,163	116	1,279
Disposals	(314)	–	(314)
As at 31 March 2022	**6,023**	**6,288**	**12,311**
Depreciation			
As at 1 April 2021	**2,184**	**1,256**	**3,440**
Acquired on purchase of Subsidiary[1]	710	147	857
Charge for the period	1,180	1,126	2,306
Disposals	(196)	–	(196)
As at 31 March 2022	**3,878**	**2,529**	**6,407**
Net Book Value	**2,145**	**3,759**	**5,904**

1 During the year the Group acquired the subsidiary Fleet Mortgages Limited, the cost and accumulated depreciation of Property, Plant & Equipment and Right of Use Assets at acquisition have been shown separately to additions during the year. See note 19.1 for more details on the acquisition.

Right of Use Asset – The Bank leases its head office in London under one operating lease, as well as its regional offices outside London under six separate (2021: five) leases. The leases exist independently of each other and have different lease terms. Lease break provisions and rent-free years are included in all the lease arrangements. There are no options to purchase any of the premises at the completion of the lease terms or to extend the lease years.

Strategic Report
Directors' Report
Financials

17. Property, Plant & Equipment and Right of Use Assets continued

Group	Property, Plant and Equipment £'000	Right of Use Assets £'000	Total Tangible Assets £'000
Cost			
As at 1 December 2019	3,197	–	3,197
Recognition of Right-of Use assets	–	4,553	4,553
As restated at 1 December 2019	3,197	4,553	7,750
Additions	1,131	974	2,105
Disposals	–	–	–
As at 31 March 2021	4,328	5,527	9,855
Depreciation			
As at 1 December 2019	805	–	805
Charge for the period	1,379	1,256	2,635
Disposals	–	–	–
As at 31 March 2021	2,184	1,256	3,440
Net Book Value	2,144	4,271	6,415

Company	Property, Plant and Equipment £'000	Right of Use Assets £'000	Total Tangible Assets £'000
Cost			
As at 1 April 2021	**4,324**	**5,527**	**9,851**
Additions	1,065	116	1,181
Disposals	(262)	–	(262)
As at 31 March 2022	**5,127**	**5,643**	**10,770**
Depreciation			
As at 1 April 2021	**2,180**	**1,256**	**3,436**
Charge for the period	1,121	1,037	2,158
Disposals	(144)	–	(144)
As at 31 March 2022	**3,157**	**2,293**	**5,450**
Net Book Value	**1,970**	**3,350**	**5,320**

Company	Property, Plant and Equipment £'000	Right of Use Assets £'000	Total Tangible Assets £'000
Cost			
As at 1 December 2019	3,193	–	3,193
Recognition of Right-of Use assets	–	4,553	4,553
As restated at 1 December 2019	3,193	4,553	7,746
Additions	1,131	974	2,105
Disposals	–	–	–
Deferred Income – CIF Intangible	–	–	–
As at 31 March 2021	4,324	5,527	9,851
Depreciation			
As at 1 December 2019	801	–	801
Charge for the period	1,379	1,256	2,635
As at 31 March 2021	2,180	1,256	3,436
Net Book Value	2,144	4,271	6,415

18. Intangible Assets and Goodwill

Group	Intangible Assets £'000	Goodwill £'000	Intangible Assets and Goodwill £'000
Cost			
As at 1 April 2021	**25,779**	**–**	**25,779**
Acquired on purchase of Subsidiary[1]	562	–	562
Intangible recognised on acquisition	7,586	–	7,586
Additions[2]	19,170	35,890	55,060
Disposals	(124)	–	(124)
Deferred Income – CIF Intangible	(11,411)	–	(11,411)
As at 31 March 2022	**41,562**	**35,890**	**77,452**
Amortisation			
As at 1 April 2021	**8,869**	**–**	**8,869**
Acquired on purchase of Subsidiary[1]	405	–	405
Charge for the period	4,078	–	4,078
Disposals	(1)	–	(1)
As at 31 March 2022	**13,351**	**–**	**13,351**
Net Book Value	**28,211**	**35,890**	**64,101**

1 During the year the Group acquired the subsidiary Fleet Mortgages Limited, the cost and accumulated amortisation of Intangibles at acquisition have been shown separately to additions during the year. See note 19.1 for more details on the acquisition.

2 Included within additions is £11,412k (2021: £16,255k) 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.

Intangible Asset: During the year, the Group capitalised expenditure incurred on the design, specification, build, test and implementation of its banking software. The average remaining amortisation period of capitalised software as at 31 March 2022 was 5 years (2021: 6 years). The Directors have reviewed both internal and external indicators of impairment, including evidence of obsolescence, and have concluded the value in use does not need to be revised. In the prior year the recoverable amount was revised to reflect a discontinued product with impairment of £358k.

Intangible recognised on acquisition: In accordance with IFRS 3, the Group has recognised, separately from Goodwill, an identifiable intangible asset acquired in the acquisition of Fleet Mortgages Limited. The intangible asset arises from existing lending and servicing contractual arrangements at the date of acquisition.

Deferred Income: The CIF Intangible deferred income arises from the capitalisation of Grant related expenditure associated to the creation of software. The balance is amortised through the Statement of Comprehensive Income over 7 years (2021: 7 years).

Included within the Company's Statement of Comprehensive Income is Other Income of £29,507k (2021: £26,330k), of which £19,170k (2021: £21,878k) relates to costs borne in the development of the intangible asset that were re-charged from the Parent Company to its Subsidiary, Starling FS Services Limited.

Goodwill: Goodwill arose on the acquisition of Fleet Mortgages Limited during the year. Further details are provided in note 19.1. It represents the excess in the fair value of the total consideration paid over the fair value of net identifiable assets at the date of acquisition.

Goodwill is an asset representing the future economic benefits arising from other assets acquired as part of the Fleet Mortgages Limited acquisition and are not individually identified or separately recognised. Goodwill is assessed annually for impairment by measuring the recoverable amount of the cash generating unit ('CGU'). The CGU is the smallest identifiable group of assets that generates cash inflows independent of the cash inflows of other assets. See note 3 (e).

18. Intangible Assets and Goodwill continued

The Group has determined the recoverable amount of goodwill using the Value in Use calculation or net present value of the cashflows generated by the CGU. As the recoverable amount is higher than the carrying value of the goodwill, goodwill is not impaired and no impairment loss has been recognised for the year ended 31 March 2022.

Group

Cost	**Intangible Assets £'000**	**Intangible Assets and Goodwill £'000**
As at 1 December 2019	20,727	20,727
Additions	21,878	21,878
Disposals and impairment	(571)	(571)
Deferred Income – CIF Intangible	(16,255)	(16,255)
As at 31 March 2021	25,779	25,779
Amortisation		
As at 1 December 2019	4,672	4,672
Charge for the period	4,410	4,410
Disposals and impairment	(213)	(213)
As at 31 March 2021	8,869	8,869
Net Book Value	16,910	16,910

Company

Cost	**Intangible Assets £'000**	**Intangible Assets and Goodwill £'000**
As at 1 April 2021	**30**	**30**
Additions	–	–
Disposals	–	–
As at 31 March 2022	30	30
Amortisation		
As at 1 April 2021	**25**	**25**
Charge for the period	3	3
As at 31 March 2022	**28**	**28**
Net Book Value	**2**	**2**

Company – 2021

Cost	**Intangible Assets £'000**	**Intangible Assets and Goodwill £'000**
As at 1 December 2019	30	30
Recognition of Right-of Use assets	–	0
As restated at 1 December 2019	30	30
Additions	–	–
Disposals	–	–
As at 31 March 2021	30	30
Amortisation		
As at 1 December 2019	21	21
Charge for the period	4	4
As at 31 March 2021	25	25
Net Book Value	5	5

19. Inter-company Account and Investment in Subsidiaries

Investment in Subsidiaries	As at 31-Mar-21 £'000	Movement during year £'000	As at 31-Mar-22 £'000
Starling FS Services Limited	–	–	–
Murmur Financial Services International DAC	–	–	–
MFSI Holdings Limited	–	–	–
Fleet Mortgages Limited	–	50,171	**50,171**
Engine By Starling Limited	–	–	–
Investment in Subsidiaries	–	50,171	**50,171**

As at 31 March 2022, the Parent Company has four direct and one indirect fully owned subsidiary companies.

Starling FS Services Limited

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. This Subsidiary was established in 2016 to design, specify, build, test and implement banking software and operates from the same premises as its parent; it licences the use of the software that powers the Group's technology platform to Starling Bank Limited and the right to sell the technology platform under licence to Engine by Starling Limited.

Murmur Financial Services International DAC

As at 31 March 2022, the Company had 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). This Subsidiary was established in 2018 as the vehicle through which the Group is applying for an Irish banking licence in order to provide Starling products to the European market. During the year the Company capitalised the then outstanding intercompany facility of £3,329k which was recognised as a Capital Contribution Reserve within the Subsidiary. Subsequent to year-end, in June 2022, the Company's holding in Murmur Financial Services International DAC was transferred to a newly incorporated direct subsidiary, MFSI Holdings Limited (a company registered in the Republic of Ireland) at book value. The transfer was considered a post Balance Sheet adjusting event, which resulted in the Company's recognition of an impairment charge of £3,350k in the Statement of Comprehensive Income for the year ended 31 March 2022.

MFSI Holdings Limited

The Company has a 100% interest in the Subsidiary, MFSI Holdings Limited incorporated in December 2021 and registered in Ireland (Riverside One Sir John Rogerson's Quay, Dublin, DO2 X576, registration number 709388). The issued ordinary share capital is €100 nominal value. This Subsidiary has been established in the current year as an Irish domiciled Holding Company for Murmur Financial Services International DAC.

Fleet Mortgages Limited

The Company acquired 100% interest in the Subsidiary, Fleet Mortgages Limited registered in England and Wales (2nd Floor Flagship House, Reading Road North, Fleet, Hampshire, GU51 4WP, registration number 08663979). The issued ordinary share capital is £41,053 nominal value. The fair value of consideration transferred of £50,171k was recognised as an investment at acquisition. See note 19.1 for further details. This Subsidiary was acquired during the year, to help establish the Bank's entrance into the mortgage market. The Subsidiary originates, sells and services buy-to-let mortgage loans granted primarily to professional and semi-professional landlords. It has a wide range of products on the market available to landlords in the private rental sector, limited companies and landlords that invest in Houses in Multiple Occupation (HMOs).

Engine By Starling Limited

The Company has a 100% indirect interest in Engine By Starling Limited registered in England and Wales (3rd Floor, 2 Finsbury Avenue, London, EC2M 2PP, registration number 13925405) incorporated in February 2022, this company has been established as a direct subsidiary of Starling FS Services Limited during the current year. The issued ordinary share capital is £1 nominal value. This Subsidiary is the vehicle through which the Group will sell its Software-as-a-Service product, based on the proprietary technology platform used to power the Bank.

Company

	As at 31-Mar-21 £'000	Movement during year £'000	As at 31-Mar-22 £'000
Starling FS Services Limited	30,338	9,310	**39,648**
Murmur Financial Services International DAC	1,990	(1,211)	**779**
MFSI Holdings Limited	–	–	–
Fleet Mortgages Limited	–	–	–
Engine By Starling Limited	–	–	–
Balance on Inter-Company account	32,328	8,099	**40,427**

19. Inter-company Account and Investment in Subsidiaries continued

Inter-company account

The Parent Company is charged a monthly licence fee for the use of the software owned by Starling FS Services Limited. In addition, any direct costs attributed to the design, specification, build, test and implementation of the App and associated banking software are 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. In addition in the current year, the intercompany balance includes amounts owed by the Parent Company to Starling FS Services Limited in respect of losses relieved against the Parent Company profits for taxation purposes. The balance on the 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.

The Parent Company has granted an interest-bearing loan of £779k (2021: £1,990k) 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. During the year an amount of £3,329k outstanding on the inter-company account was capitalised as an investment in Murmur Financial Services International DAC.

See Note 31 for further information on related party transactions.

19.1 Acquisition of Subsidiary

Acquisition of Fleet Mortgages Limited

On 23 July 2021, the Group acquired 100% stake in Fleet Mortgages Limited, a mortgage origination business registered in England, thereby obtaining control. The acquisition was made to establish the Group's position in the buy-to-let mortgage market.

	£'000
Amount Settled in Cash	35,171
Equity Settled Consideration	15,000
Fair Value of Consideration Transferred	**50,171**

Fair Value of Net Identifiable Assets in Fleet Mortgages Limited	As at 23-July-2021 £'000
Property, Plant and Equipment	635
Intangible Assets	157
Cash and Cash Equivalents	6,425
Other Assets	2,890
Total Assets	**10,107**
Deferred Tax	(17)
Other Liabilities	(3,395)
Total Liabilities	**(3,413)**
Identifiable Net Assets	**6,695**

Goodwill	£'000
Fair Value of Consideration Transferred	50,171
Identifiable Net Assets Recognised on Acquisition	(6,695)
Intangible Recognised on Acquisition	(7,586)
Goodwill on Acquisition	**35,890**

Net Cash Outflow on Acquisition	£'000
Fair Value of Consideration Transferred	(50,171)
Intangible Recognised on Acquisition	7,586
Cash and Cash Equivalents Acquired	6,425
Net Cash Outflow on Acquisition	**(36,160)**

Acquisition Costs Charged to the Income Statement	**773**

In accordance with IFRS 3, the Group has recognised, separately from Goodwill, an identifiable intangible asset acquired in the acquisition of Fleet Mortgages Limited. The intangible asset arises from existing lending and servicing contractual arrangements at the date of acquisition (see note 18).

Since the acquisition date, total income of £8,114k and profit after tax of £664k in relation to Fleet Mortgages Limited has been included in the Consolidated Statement of Comprehensive Income for the reporting period.

20. Customer Deposits

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
SME Current Accounts	**5,001,484**	3,401,842	**5,001,797**	3,401,936
Personal Current Accounts	**3,907,516**	2,388,268	**3,907,516**	2,388,268
Payment Services Accounts	**118,296**	37,471	**118,297**	37,470
Customer Deposits	**9,027,296**	5,827,581	**9,027,610**	5,827,674

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 £177,274k (2021: £119,311k) and SME customers of £63,315k (2021: £35,599k). Additionally, included in the above are US dollar deposits from Personal customers of £36,785k (2021: £16,517k).

21. Deposits from Banks

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Bank of England – Central Bank Facilities	**2,200,000**	1,000,000	**2,200,000**	1,000,000
Deposits from Other Banks	**81,380**	–	**81,380**	–
Deposits from Banks	**2,281,380**	1,000,000	**2,281,380**	1,000,000

In the prior year, the Bank was granted access to the Bank of England's ("BOE") 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 BOE up to a specific allowance. These drawings currently have a contractual term of four years; however, the BOE has confirmed that for exposures that extend beyond four years, the contractual repayment deadline will be extended in line with the extension in tenor of the customers' loan drawings under the Government-backed BBLS and CBILS programmes. TFSME funding can be repaid early with two days' notice. This financing is coincident with the BBLS and CBILS programmes and will be repaid from the proceeds of maturing loans or available cash reserves when repayments fall due.

For the TFSME, the Bank has pledged its BBLS loans balance as collateral and additionally utilises high quality liquid assets as eligible collateral under the BOE's Sterling Monetary Framework.

Deposits from Other Banks represent cash collateral received from counterparty banks of £81,380k (2021: £(1,610)k) for margining purposes in relation to derivative transactions. These transactions are conducted under ISDA terms that are usual and customary to collateralised transactions for derivatives.

22. Provisions for Liabilities and Charges

	Impairment Provision on Undrawn Facilities and Loan Commitments[1] £'000	Impairment Provision on Pipeline Lending[1] £'000	Other Provisions[2] £'000	Total Provisions for Liabilities and Charges £'000
As at 1 April 2021	**1,632**	**–**	**368**	**2,000**
Charge for the Period	(408)	154	–	(254)
Provisions Utilised and Other Movements	(154)	–	(350)	(504)
As at 31 March 2022	1,070	154	18	1,242

1 Under IFRS 9 an ECL is recognised on Undrawn Overdraft Facilities and irrevocable Loan Commitments (see note 8 above).
2 Other Provisions relate to items awaiting indemnities from third party banks where the amount is suspected or confirmed as being proceeds of crime.

23. Other Liabilities & Accruals

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Customer Transactions in Course of Settlement	**35,695**	12,939	**35,695**	4,559
Unsettled Debt Securities	**35,000**	–	**35,000**	–
Lease liability[1]	**3,758**	4,248	**3,277**	4,248
Accruals	**11,760**	6,439	**10,788**	6,277
PAYE & NIC Payable	**5,476**	1,752	**5,289**	1,752
Deferred Consideration	**15,336**	–	**15,336**	–
Other Liabilities	**34,030**	13,763	**32,998**	21,990
Other Liabilities & Accruals	**141,055**	39,141	**138,383**	38,826

1 Lease Liability. See Note 17 for corresponding right-of-use asset detail.

24. Deferred Income

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Deferred Income – CIF Grant	**10,447**	34,218	**10,447**	34,218
Deferred Income – Cash settled contribution	**3,110**	3,877	**3,110**	3,877
Deferred Income – Lending	**5,242**	368	**842**	368
Deferred Income – RDEC	**4,260**	–	**–**	–
Deferred Income	**23,059**	38,463	**14,399**	38,463

Deferred Income comprises:

CIF Grant – In April 2019 the Group received a grant of £100m under the CIF; the granting of the award and the continuing performance of the Bank against its stated objectives is administered by 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. The Group's public commitments did not change during the current period. Full details are available at bcr-ltd.com.

The above amount represents the residual amount received from the CIF, that has not been recognised in the Statement of Comprehensive Income at the reporting date. 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 years 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.

Following closure on 30th June 2021, of the ISS, of which the Bank was a participant, there was a surplus of funds on the initial scheme-wide dowry of £225m. As a result of the scheme underspend of £29.6m and in line with the design of the Alternative Remedies Package, based on the number of switching customers received (where Starling Bank received the most switches), a further award was made to the Bank for £9.2m.

Cash Settled Contribution – 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.

Lending – Fee income received on Group's Loans and Advances to Customers that will be recognised in the Statement of Comprehensive Income using the effective interest rates and over the expected life of the financial assets to which they relate.

RDEC – Residual amounts received from the RDEC scheme, that have not been recognised in the Statement of Comprehensive Income at the reporting date. The Group has adopted IAS 20, consequently, the RDEC claim cannot be recognised until the related qualifying expenditure has been expensed. The qualifying expenditure relates to software development and is capitalised as an intangible asset. The RDEC claim is recognised in the Statement of Comprehensive Income on a systematic basis over the periods in which the Company recognises the amortisation cost of the related intangible asset. In accordance with IAS 20, the Group presents its financial information in relation to the RDEC claim on a gross basis.

Recognition of grant received from BCR under CIF	Carrying Value in Deferred Income £'000
As at 30 November 2019	**80,262**
CIF Eligible Spend Released	(46,044)
As at 31 March 2021	**34,218**
Total Eligible Spend Released	(32,958)
CIF Eligible Spend Released	(23,771)
ISS Eligible Spend Released	(9,187)
ISS Grant Received	9,187
As at 31 March 2022	**10,447**

In the Group accounts, included in the £32,958k (2021: £46,044k) of eligible spend is £11,412k (2021: £16,255k) that has been subsequently classified as capital expenditure in relation to software development in the Group accounts (See Note 18). Included in the Company accounts amounts that are not classified as capital expenditure and are included in administrative expenses (See Note 7).

24. Deferred Income continued

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 boost their growth and productivity. These commitments were met ahead of schedule in the current period; further commitments, mostly related to product delivery, are expected to be met by the end of 2022 as scheduled.

The Bank made a separate set of public commitments to the BCR in respect of the ISS award which related to attracting SME switches from NatWest, equipping SMEs with digital banking insights, skills and tools and empowering SMEs by providing access to a broad financial ecosystem. As per the conditions of the award, the monies distributed were fully utilised by the end of December 2021 to encourage further switching in line with the business case submitted.

The Group submits quarterly returns to the BCR for approval detailing the qualifying expenditure for that relevant year. 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 Years up to and including 31 March 2022. Furthermore, the BCR have confirmed that the amount spent by the Group in the Assessment Year from 01 April 2021 to 31 March 2022 has been used for Permitted Purposes (and not for Prohibited Purposes) and in accordance with the Business Case.

25. Share Capital

	Shares Number	Nominal Value £’000
As at 30 November 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**
Shares Issued of £0.00001 each	220,779,371	2.208
As at 31 March 2022	**1,106,059,635**	**11.061**

The Ordinary shares, B shares, C shares and D shares have voting rights. The Ordinary A shares have no voting rights. All shares are fully paid.

2022	Shares Number	Total Nominal Value £’000
Ordinary Shares	65,227,723	0.652
A Shares	165,126,929	1.651
B Shares	354,180,458	3.542
C Shares	290,134,255	2.901
D Shares	231,390,270	2.314
As at 31 March 2022	**1,106,059,635**	**11.061**

2021	Shares Number	Total 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

26. Share Premium

	Group 31-Mar 2022 £’000	Group 31-Mar 2021 £’000	Company 31-Mar 2022 £’000	Company 31-Mar 2021 £’000
B Shares	**72,505**	72,505	**72,505**	72,505
C Shares	**180,830**	180,830	**180,830**	180,830
D Shares	**224,998**	–	**224,998**	–
Total Share Premium	**478,333**	253,335	**478,333**	253,335

The company incurred transaction costs of £1,048k (2021: £nil) in respect of the issue of ordinary D shares and this has been deducted from the share premium account.

During the year the Group received notice from the PRA that the Series D Funding round, had received regulatory approval. Consequently, the Group’s equity capital base has been increased by £225m.

27. Other Reserves and Retained Earnings

Group	Other Reserves: Share Awards Reserve £'000	Other Reserves: Merger Relief Reserve £'000	Other Reserves: Foreign Currency Translation Reserve £'000	Retained Earnings £'000	Total Reserves £'000
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 after tax	–	–	–	(23,319)	(23,319)
As at 31 March 2021	**2,889**	**–**	**91**	**(115,493)**	**(112,513)**
Fair Value of Shares Allocated to Employees	4,549	–	–	110	4,659
Proceeds from issue of shares, less expenses	–	15,000	–	–	15,000
Translation of subsidiary company	–	–	(4)	–	(4)
Profit for the year after tax	–	–	–	44,938	44,938
As at 31 March 2022	**7,438**	**15,000**	**87**	**(70,445)**	**(47,920)**

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

Company	Other Reserves: Merger Relief Reserve	Other Reserves: Share Awards Reserve £'000	Retained Earnings £'000	Total Reserves £'000
As at 30 November 2019	**–**	**761**	**(90,924)**	**(90,163)**
Fair Value of Shares Allocated to Employees	–	2,128	–	2,128
Loss for the period after tax	–	–	(9,177)	(9,177)
As at 31 March 2021	**–**	**2,889**	**(100,101)**	**(97,212)**
Fair Value of Shares Allocated to Employees	–	4,549	110	4,659
Proceeds from issue of shares, less expenses	15,000	–	–	15,000
Profit for the year after tax	–	–	52,831	52,831
As at 31 March 2022	**15,000**	**7,438**	**(47,160)**	**(39,722)**

	Group 31-Mar 2022 £'000	Group 31-Mar 2021 £'000	Company 31-Mar 2022 £'000	Company 31-Mar 2021 £'000
Reserves – Shares held by Employee Benefit Trust ("EBT")	(103)	(103)	(103)	(103)
Reserves – Fair Value Share awards under the EBT	6,409	2,939	6,409	2,939
Reserves – Other Fair Value Share awards	1,132	53	1,132	53
Share Awards Reserve	**7,438**	**2,889**	**7,438**	**2,889**

28. Share Award Schemes

a. Share Award Schemes under the Employee Benefit Trust

The Starling FS Employee Benefit Trust ("EBT") was established on 18 December 2015 for the benefit of Group employees.

Excluding the LTIP (see Note b below), Starling has created six schemes for the benefit of employees:

- In May 2016, an equity settled Share Scheme – Scheme 1 (share awards granted in May and June 2016);
- In December 2016, a Joint Share Ownership Scheme – Scheme 2 (share awards granted in December 2016 and April 2017);
- In December 2017, a Joint Share Ownership Scheme – Scheme 3 (share awards granted in December 2017, February and March 2018);
- In October 2018, a Joint Share Ownership Scheme – Scheme 4 (share awards granted in October and November 2018, March and July 2019 and January 2020);
- In May 2020, a Senior Employee Incentive Scheme ("SEIS") – Scheme 5 – (share awards granted in July 2020, August and September 2021);
- In September 2021, a second Senior Employee Incentive Scheme ("SEIS") – Scheme 6 – (share awards granted in September, November and December 2021 and January, February and March 2022).

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

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

Under Schemes 5 and 6 (SEIS 1 and 2), the Company gifted the beneficial interest in shares to certain employees in any capital return above a hurdle on a Realisation. 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) remains with the EBT throughout the lifetime of the schemes. Each scheme vests over a 4 year holding period commencing on the date of grant.

The EBT 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 £
As at 1 April 2021	**83,092,333**	**831**
Shares allocated to EBT	29,950,000	300
Shares sold to other shareholders	(2,879,245)	(29)
As at 31 March 2022	**110,163,088**	**1,102**

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

	Opening Balance £'000	Shares held by EBT £'000	Charge for the period £'000	Closing Balance £'000
Fair Value of Shares allocated to employees	2,938	–	3,470	6,409

Number of beneficial shares awarded

Scheme	Number of shares purchased	Number of elapsed months	Percentage applied	Value per share to be applied	Amount recognised £'000
Scheme 1	1,391,330	70.3	77.42%	£0.00	1,077
Scheme 2	8,484,749	60.7	83.11%	£0.0522	443,009
Scheme 3	5,516,450	49.8	71.06%	£0.1873	1,033,151
Scheme 4	2,531,645	33.8	61.81%	£0.3121	790,027
Scheme 5/ SEIS 1	61,572,000	17.9	42.78%	£0.0520	3,201,144
Scheme 6/ SEIS 2	24,525,000	6.7	13.70%	£0.0384	940,551

The above tables show the allocation of beneficial interest in shares awarded from the EBT to employees of the Company since inception in accordance with the relevant share schemes.

28. Share Award Schemes continued

a. Share Award Schemes under the Employee Benefit Trust continued

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

The assumptions used are as follows:

Grant date:	2016	2017	2018	2019	2020	2021	2022
Expected volatility:	62%	46%	37%	37%	49%	41%	41%
Risk free interest rate:	1.50%	1.14%	1.44%	0.56%	0.00%	0.17%	1.37%
Dividend yield:	0%	0%	0%	0%	0%	0%	0%
Expected life:	7 years	6.4 years	5.6 years	4.5 years	3.4 years	2.3 years	1.9 years

Analysis of shares held by Employee Benefit Trust

31 March 2022	Shares Number[1]	Nominal Value £	Fair Value £
2016 – total shares allocated	5,011,095	50	194,646
2017 – total shares allocated	8,062,219	81	852,622
2018 – total shares allocated	2,887,027	29	622,682
2019 – total shares allocated	1,147,917	11	425,798
2020 – total shares allocated	48,932,916	489	2,882,498
2021 – total shares allocated	36,855,000	369	1,423,226
2022 – total shares allocated	1,125,000	11	7,488
2022 – total shares unallocated	6,141,914	61	0
As at 31 March 2022	110,163,088	1,102	6,408,959

1 As a result of the Company's subdivision of capital by a quotient of 1,000 on 26 June 2021, all awards issued prior to that date were adjusted accordingly.

31 March 2021	Shares Number[1]	Nominal Value £	Fair Value £
2016 – total shares allocated	7,007,325	70	203,242
2017 – total shares allocated	8,839,366	88	712,860
2018 – total shares allocated	2,977,083	30	476,841
2019 – total shares allocated	1,147,917	11	282,846
2020 – total shares allocated	49,204,500	492	1,262,684
2021 – total shares unallocated	13,916,142	139	0
As at 31 March 2021	83,092,333	831	2,938,473

1 As a result of the Company's subdivision of capital by a quotient of 1,000 on 26 June 2021, all awards issued prior to that date were adjusted accordingly.

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 27).

28. Share Award Schemes continued

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

The Bank launched the LTIP scheme in March 2020. Under the LTIP scheme, eligible employees are awarded a beneficial interest in shares of the Bank at nil cost, aligning the interests of employees with the interests of shareholders. LTIP awards vest over a four year holding period commencing on the date of grant. Share awards were granted under the LTIP in March and September 2020 and again in March and September 2021.

Under the rules of the scheme, permanent employees are entitled to participate in a capital return on Realisation (as defined therein).

	Opening Balance £'000	Charge for the period £'000	Closing Balance £'000
Fair Value of Shares allocated to employees	53	1,079	1,132

	Number of shares purchased	Number of elapsed months	Percentage applied	Value per share to be applied	Amount recognised £'000
2020 – total shares allocated	2,332,000	23.0	35.75%	£0.73	609
2021 – total shares allocated	1,302,000	10.0	27.66%	£1.29	523

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:	2020	2021
Expected volatility:	36%	41%
Risk free interest rate:	0.00%	0.14%
Dividend yield:	0%	0%
Expected life[1]:	3.7 years	2.5 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 27).

29. 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 / Company 31 March 2022	Derivatives designated as hedging instruments £'000	Derivatives mandatorily held at fair value through profit or loss £'000	Held at amortised cost £'000	Total £'000
Loans and Advances to Banks	–	–	6,105,459	6,105,459
Debt Securities	–	–	2,306,886	2,306,886
Loans and Advances to Customers	–	–	3,173,983	3,173,983
Undrawn Facilities & Commitments	–	–	320,708	320,708
Derivative Assets	97,249	807	–	98,056
Financial assets	97,249	807	11,907,036	12,005,092
Customer Deposits	–	–	9,027,296	9,027,296
Deposits from Banks	–	–	2,281,380	2,281,380
Derivative Liabilities	54	276	–	330
Financial liabilities	54	276	11,308,676	11,309,006

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, US Dollar and Sterling. Starling does not take proprietary or trading positions.

29. Financial Instruments continued

Group / Company 31 March 2021	Derivatives designated as hedging instruments £'000	Derivatives mandatorily held at fair value through profit or loss £'000	Held at amortised cost £'000	Total £'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 Facilities & Commitments	–	–	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
Deposits from Banks	–	–	1,000,000	1,000,000
Derivative Liabilities	25	793	–	818
Financial Liabilities	25	793	6,827,581	6,828,399

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

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

Derivative assets and liabilities in the current year are classified as level 2. Interest rate swaps are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from quoted readily available rates. Foreign exchange forwards are priced using rates available from publicly quoted sources. Derivative financial instruments are the only instruments carried at FVTPL.

Group / Company 31 March 2022	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps	97,249	97,249	–	97,249	–
FX forwards	807	807	–	807	–
Financial assets carried at fair value	**98,056**	**98,056**	**–**	**98,056**	**–**
Interest rate swaps	54	54	–	54	–
FX forwards	276	276	–	276	–
Financial liabilities carried at fair value	**330**	**330**	**–**	**330**	**–**

Group / Company 31 March 2021	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'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	–

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.

29. Financial instruments continued

b. Valuation of Financial Instruments carried at amortised cost:

Loans and Advances to Banks

These represent amounts placed with other 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. These are classified as Level 2 assets.

Debt Securities

All debt securities qualify as HQLA items held for liquidity management and are valued using quoted market price. These are classified as Level 1 assets on the basis of the depth of the underlying market that is available to liquidate such investments at short notice. 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 cash flows are adjusted for expected repayment profiles in line with those used internally for liquidity management and hedge accounting purposes. Both fixed rate lending to customers under mortgage advances and fixed rate lending to SME customers under BBLS, CBILS and RLS are hedged with interest rate swaps, to mitigate the risk of adverse movements in interest rates eroding the Bank's lending margin. 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 value of hedged items adjusted for interest rate risk. The fair value of Loans and Advances to Customers are also stated net of any 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. These are classified as Level 3 assets.

Deposits from Banks

The Central Bank facilities are floating rate, with an initial maturity of four years, which is extendible. The fair value of Central Bank facilities has been determined as the gross carrying value. These are classified as Level 2 liabilities.

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. These are classified as Level 2 liabilities.

Group **31 March 2022**	**Carrying value £'000**	**Fair value £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Loans and Advances to Banks	6,105,459	6,105,459	–	6,105,459	–
Debt Securities	2,306,886	2,309,889	2,309,889	–	–
Loans and Advances to Customers	3,173,983	3,173,983	–	–	3,173,983
Undrawn Facilities & Commitments	320,708	320,708	–	–	320,708
Financial Assets carried at amortised cost	**11,907,036**	**11,910,039**	**2,309,889**	**6,105,459**	**3,494,691**
Customer Deposits	9,027,296	9,027,296	–	9,027,296	–
Deposits from Banks	2,281,380	2,281,380	–	2,281,380	–
Financial Liabilities carried at Amortised Cost	**11,308,676**	**11,308,676**	**–**	**11,308,676**	**–**

29. Financial instruments continued

b. **Valuation of Financial Instruments carried at amortised cost** continued

Group 31 March 2021	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'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 Facilities & Commitments	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	–
Deposits from Banks	1,000,000	1,000,000	–	1,000,000	–
Financial Liabilities carried at Amortised Cost	6,827,581	6,827,581	–	6,827,581	–

Company 31 March 2022	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Loans and Advances to Banks	6,101,348	6,101,348	–	6,101,348	–
Debt Securities	2,306,886	2,309,889	2,309,889	–	–
Loans and Advances to Customers	3,173,983	3,173,983	–	–	3,173,983
Undrawn Facilities & Commitments	320,708	320,708	–	–	320,708
Financial Assets carried at Amortised Cost	**11,902,925**	**11,905,928**	**2,309,889**	**6,101,348**	**3,494,691**
Customer Deposits	9,027,610	9,027,610	–	9,027,610	–
Deposits from Banks	2,281,380	2,281,380	–	2,281,380	–
Financial Liabilities carried at Amortised Cost	**11,308,990**	**11,308,990**	**–**	**11,308,990**	**–**

Company 31 March 2021	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'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 Facilities & Commitments	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	–
Deposits from Banks	1,000,000	1,000,000	–	1,000,000	–
Financial Liabilities carried at Amortised Cost	6,827,674	6,827,674	–	6,827,674	–

30. Risk Management

The primary risks affecting the Group from its use of financial instruments are credit risk, liquidity risk and market risk including interest rate risk and foreign exchange risk. Further information on the management of these risks in included in the Risk Report on pages 16 to 80.

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 tables represent gross carrying amounts. For loan commitments, the amounts in the tables represent the amounts committed.

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

Credit Risk	Group 2022 £'000	Group 2021 £'000	Company 2022 £'000	Company 2021 £'000
Loans and Advances to Banks	**6,105,459**	3,196,349	**6,101,348**	3,196,325
Debt Securities	**2,330,261**	1,515,977	**2,330,261**	1,515,977
Loans and Advances to Customers net of Guarantee	**1,411,027**	191,108	**1,411,027**	191,108
Loans and Advances to Customers	**3,266,126**	2,258,290	**3,266,126**	2,258,290
Of which subject to Government guarantee	***(1,855,099)***	*(2,067,182)*	***(1,855,099)***	*(2,067,182)*
Derivative Assets	**98,056**	13,488	**98,056**	13,488
Undrawn Facilities & Commitments	**321,932**	73,612	**321,932**	73,612
Maximum Credit Risk	**10,266,735**	4,990,534	**10,262,624**	4,990,510

Maximum credit risk includes £6,027,017k (2021: £3,170,393k) which is held with the BOE. Included in Loans and Advances to Customers is BBLS, CBILS and RLS lending which benefits from additional credit enhancement from guarantees received from British Business Bank (backed by HM Government) which are a part of the schemes' features.

The following table shows the credit quality of Loans and Advances to Customers:

31 March 2022 Credit Quality (Unaudited)[1]	Maximum Credit Risk net of Government Guarantee £'000	Government Guarantee £'000	Hedge Accounting FV Adjustment £'000	Impairment Allowance £'000	Carrying Value £'000	%
Loans and Advances to Banks – AA	6,051,301	–	–	–	6,051,301	50.4
Loans and Advances Banks – A	54,158	–	–	–	54,158	0.5
Debt Securities – AAA	2,209,188	–	(22,705)	–	2,186,483	18.2
Debt Securities – AA	121,073	–	(670)	–	120,403	1.0
Derivative Assets – A	98,056	–	–	–	98,056	0.8
Mortgages						
Low risk (Stage 1)	1,142,198	–	(9,284)	(524)	1,132,390	9.4
Medium risk (Stage 2)	26,124	–	(10)	(76)	26,038	0.2
Higher risk (Stage 3)	47,565	–	(13)	(2,621)	44,931	0.4
SME Lending to Customers:						
Low risk (Stage 1)	131,699	1,444,432	(43,879)	(10,420)	1,521,832	12.7
Medium risk (Stage 2)	14,426	162,124	(5,100)	(2,537)	168,913	1.4
Higher risk (Stage 3)	3,984	248,543	(8,009)	(3,778)	240,740	2.0
Retail Lending to Customers:						
Low risk (Stage 1)	37,707	–	–	(1,489)	36,218	0.3
Medium risk (Stage 2)	2,912	–	–	(1,029)	1,883	0.0
Higher risk (Stage 3)	4,412	–	–	(3,374)	1,038	0.0
Undrawn Facilities & Commitments	321,932	–	–	–	321,932	2.7
Total	**10,266,735**	**1,855,099**	**(89,670)**	**(25,848)**	**12,006,316**	**100.0**

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

30. Risk Management continued

31 March 2021 Credit Quality (Unaudited)[1]	Maximum Credit Risk net of Government Guarantee £'000	Government Guarantee £'000	Hedge Accounting FV Adjustment £'000	Impairment Allowance £'000	Carrying Value £'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
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
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
Undrawn Facilities & Commitments	73,612	–	–	(1,633)	71,979	1.0
Total	4,990,534	2,067,182	(12,520)	(17,256)	7,027,940	100.0

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 placing/receiving initial margin and variation margin. The counterparty credit exposure is monitored daily requiring additional collateral to be posted or returned as necessary. The only form of collateral accepted by the Group in respect of derivatives is cash. Derivatives are transacted under 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 where they are transacted with the same counterparty. Further information on the management of these risks is included in the Risk Report on pages 16 to 80.

2022 Group / Company	As reported in SOFP £'000	Netting agreements £'000	Cash Collateral £'000	Net amounts after offsetting £'000
Derivative Assets	98,056	(330)	(81,380)	16,346
Derivative Liabilities	(330)	330	–	–
Closing Balance at 31 March 22	**97,726**	**–**	**(81,380)**	**16,346**

2021 Group / Company	As reported in SOFP £'000	Netting agreements £'000	Cash Collateral £'000	Net amounts after offsetting £'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

30. Risk Management continued

Credit Concentration

The Bank maintains operating cash balances at the Bank of England. 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 as 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.

Further detail on sectoral concentration in the SME lending portfolio is given in the Risk report (page 42).

The Mortgage tables below provide further information on type of mortgage lending and geographical split:

Mortgage Type As at 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Buy-to-let	243,028	–	–	243,028
Residential	899,171	26,124	47,564	972,859
Total Mortgage Lending before impairment provision	**1,142,199**	**26,124**	**47,564**	**1,215,887**

Mortgage Region As at 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Scotland	17,552	1,797	2,506	21,855
East Midlands	79,849	2,733	4,088	86,670
South West	76,026	1,934	3,670	81,630
West Midlands	101,944	3,046	6,512	111,502
Greater London	168,037	5,487	8,058	181,582
East England	102,875	3,319	4,681	110,875
North West	133,043	2,996	7,922	143,961
South East	109,851	1,803	3,687	115,341
North East	302,978	1,916	3,424	308,318
Wales	46,947	1,088	2,745	50,780
Northern Ireland	3,097	5	271	3,373
Total Mortgage Lending before impairment provision	1,142,199	26,124	47,564	1,215,887

In March 21, there was no mortgage lending in Loans and Advances to Customers. A geographical breakdown of its customer credit concentration was not provided.

30. Risk Management continued

Credit Risk – Maximum Exposure on Lending Portfolios

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 2022 by impairment stage and associated provision. Further information on the management of these risks is included in the Risk Report on pages 16 to 80.

As at 31 March 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Mortgage Lending	1,142,199	26,124	47,564	1,215,887
Mortgage Pipeline (Undrawn)	252,666	–	–	252,666
SME Lending after application of Government guarantee	131,699	14,426	3,984	150,109
SME Lending	1,576,131	176,550	252,527	2,005,208
Of which subject to Government guarantee	(1,444,432)	(162,124)	(248,543)	(1,855,099)
SME Overdraft Facilities (Undrawn)	1,868	–	–	1,868
Retail Lending	37,707	2,912	4,412	45,031
Retail Overdraft Facilities (Undrawn)	67,279	119	–	67,398
Credit Risk on Loans and Advances to Customers	**1,633,418**	**43,581**	**55,960**	**1,732,959**
Of which On Balance Sheet	*1,311,605*	*43,462*	*55,960*	*1,411,027*
Of which Off Balance Sheet	*321,813*	*119*	*–*	*321,932*
Mortgage Lending	524	76	2,621	3,221
Mortgage Pipeline (Undrawn)	154	–	–	154
SME Lending	10,420	2,537	3,778	16,735
SME Overdraft Facilities (Undrawn)	27	–	–	27
Retail Lending	1,489	1,030	3,373	5,892
Retail Overdraft Facilities (Undrawn)	1,023	20	–	1,043
Impairment Provision	**13,637**	**3,663**	**9,772**	**27,072**
Of which On Balance Sheet	***12,433***	***3,643***	***9,772***	***25,848***
Of which Off Balance Sheet	***1,204***	***20***	***–***	***1,224***
Mortgage Lending	1,141,675	26,048	44,943	1,212,666
Mortgage Pipeline (Undrawn)	252,512	–	–	252,512
SME Lending	121,279	11,889	206	133,374
SME Overdraft Facilities (Undrawn)	1,841	–	–	1,841
Retail Lending	36,218	1,882	1,039	39,139
Retail Overdraft Facilities (Undrawn)	66,256	99	–	66,355
Net Carrying Amount	**1,619,781**	**39,918**	**46,188**	**1,705,887**
Of which On Balance Sheet	*1,299,172*	*39,819*	*46,188*	*1,385,179*
Of which Off Balance Sheet	*320,609*	*99*	*–*	*320,708*
% Coverage	**0.83%**	**8.41%**	**17.46%**	**1.56%**

30. Risk Management continued

Credit Risk – Maximum Exposure on Lending Portfolios continued

As at 31 March 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
SME Lending after application of Government guarantee	110,271	8,500	470	119,241
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
Retail Lending	63,383	5,457	3,027	71,867
Retail Overdraft Facilities (Undrawn)	70,547	927	–	71,474
Credit Risk on Loans and Advances to Customers	246,339	14,884	3,497	264,720
Of which On Balance Sheet	*173,654*	*13,957*	*3,497*	*191,108*
Of which Off Balance Sheet	*72,685*	*927*	–	*73,612*
SME Lending	6,860	1,361	460	8,681
SME Overdraft Facilities (Undrawn)	31	–	–	31
Retail Lending	2,801	1,865	2,276	6,942
Retail Overdraft Facilities (Undrawn)	1,321	281	–	1,602
Impairment Provision	11,013	3,507	2,736	17,256
Of which On Balance Sheet	*9,661*	*3,226*	*2,736*	*15,623*
Of which Off Balance Sheet	*1,352*	*281*	–	*1,633*
SME Lending	103,411	7,139	10	110,560
SME Overdraft Facilities (Undrawn)	2,107	–	–	2,107
Retail Lending	60,582	3,592	751	64,925
Retail Overdraft Facilities (Undrawn)	69,226	646	–	69,872
Net Carrying Amount	235,326	11,377	761	247,464
Of which On Balance Sheet	*163,993*	*10,731*	*761*	*175,485*
Of which Off Balance Sheet	*71,333*	*646*	–	*71,979*
% Coverage	4.47%	23.56%	78.24%	6.52%

30. Risk Management continued

The tables below provide information on impairment movement between stages on Loans and Advances to Customers. Further information on the management of these risks is included in the Risk Report on pages 16 to 80.

	Gross loans				Impairment provision			
Total Drawn	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
As at 1 April 2021	173,654	13,957	3,496	191,107	9,662	3,226	2,735	15,623
Changes reflected in impairment losses:								
Increase due to originations[1]	1,339,600	1,742	539	1,341,881	2,810	140	122	3,072
Decrease due to repayments	(117,043)	(3,742)	(447)	(121,232)	(1,795)	(287)	(188)	(2,270)
Changes in credit risk[2]	–	–	–	–	7,488	661	1,546	9,695
Amounts written off	(261)	(247)	(221)	(729)	(12)	(72)	(188)	(272)
Impairment losses recognised in SOCI	–	–	–		8,491	442	1,292	10,225
Transfers between stages:								
To stage 1	5,294	(5,238)	(56)	–	553	(506)	(47)	–
To stage 2	(38,276)	38,342	(66)	–	(1,502)	1,538	(36)	–
To stage 3	(51,363)	(1,352)	52,715	–	(4,771)	(1,057)	5,828	–
As at 31 March 2022	**1,311,605**	**43,462**	**55,960**	**1,411,027**	**12,433**	**3,643**	**9,772**	**25,848**
Coverage Ratio					**0.9%**	**8.4%**	**17.5%**	**1.8%**

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

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

Impairment losses recognised in the Statement of Comprehensive Income of £9,817k (2021: £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.

30. Risk Management continued

	Gross loans				Impairment provision			
Total Drawn	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 December 2019	53,088	1,907	1,543	56,538	797	739	714	2,250
Changes reflected in impairment losses:								
Increase due to originations[1]	146,721	10,866	1,670	159,257	7,415	2,118	1,214	10,747
Decrease due to repayments	(22,154)	(401)	(884)	(23,439)	(130)	(45)	(94)	(269)
Changes in credit risk[2]	–	–	–	–	3,305	(92)	110	3,323
Amounts written off	(502)	(416)	(330)	(1,248)	(24)	(124)	(280)	(428)
Impairment losses recognised in SOCI	–	–	–	–	10,566	1,857	950	13,373
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	**173,654**	**13,957**	**3,497**	**191,108**	**9,661**	**3,226**	**2,736**	**15,623**
Coverage Ratio					**5.6%**	**23.1%**	**78.2%**	**8.2%**

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters

30. Risk Management continued

	Gross loans				Impairment provision			
Total Undrawn	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
As at 1 April 2021	72,685	927	–	73,612	1,352	281	–	1,633
Changes reflected in impairment losses:								
Increase due to originations[1]	262,458	45	–	262,503	249	3	–	252
Decrease due to repayments	(13,626)	(427)	(95)	(14,148)	(29)	(49)	(2)	(80)
Changes in credit risk[2]	–	–	–	–	(552)	(21)	(4)	(577)
Amounts written off	(28)	(7)	–	(35)	(1)	(3)	–	(4)
Impairment losses recognised in SOCI					(333)	(70)	(6)	(409)
Transfers between stages:								
To stage 1	669	(664)	(5)	–	190	(190)	–	–
To stage 2	(258)	258	–	–	(4)	4	–	–
To stage 3	(87)	(13)	100	–	(1)	(5)	6	–
As at 31 March 2022	**321,813**	**119**	**–**	**321,932**	**1,204**	**20**	**–**	**1,224**
Coverage Ratio					**0.4%**	**16.8%**	**0.0%**	**0.4%**

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

	Gross loans				Impairment provision			
Total Undrawn	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
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%**

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.

30. Risk Management continued

Credit Ageing

The ageing of the Group's Loans and Advances to Customers (net of Government guarantees) at 31 March 2022 is as follows:

31 March 2022	Gross carrying amount				Impairment provision			
Credit Ageing	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Drawn facilities:								
Under 31 days	1,311,605	17,087	18,059	1,346,751	12,433	2,469	4,827	19,729
31 to 60 days past due	–	25,349	2,148	27,497	–	585	353	938
61 to 90 days past due	–	767	13,088	13,855	–	356	764	1,120
Over 90 days past due	–	259	22,665	22,924	–	233	3,828	4,061
Total Drawn facilities	**1,311,605**	**43,462**	**55,960**	**1,411,027**	**12,433**	**3,643**	**9,772**	**25,848**
Undrawn facilities								
Under 31 days	321,813	119	–	321,932	1,204	20	–	1,224
31 to 60 days past due	–	–	–	–	–	–	–	–
61 to 90 days past due	–	–	–	–	–	–	–	–
Over 90 days past due	–	–	–	–	–	–	–	–
Total Undrawn facilities	**321,813**	**119**	**–**	**321,932**	**1,204**	**20**	**–**	**1,224**
Total Credit Risk on Loans and Advances to Customers	**1,633,418**	**43,581**	**55,960**	**1,732,959**	**13,637**	**3,663**	**9,772**	**27,072**

For the year ended 31 March 2022

30. Risk Management continued

Credit Ageing continued

31 March 2021	Gross carrying amount				Impairment provision			
Credit Ageing	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Drawn facilities:								
Under 31 days	173,654	12,898	730	187,282	9,661	2,745	744	13,150
31 to 60 days past due	–	572	14	586	–	231	12	243
61 to 90 days past due	–	487	5	492	–	250	4	254
Over 90 days past due	–	–	2,748	2,748	–	–	1,976	1,976
Total Drawn facilities	173,654	13,957	3,497	191,108	9,661	3,226	2,736	15,623
Undrawn facilities								
Under 31 days	72,685	927	–	73,612	1,352	281	–	1,633
31 to 60 days past due	–	–	–	–	–	–	–	–
61 to 90 days past due	–	–	–	–	–	–	–	–
Over 90 days past due	–	–	–	–	–	–	–	–
Total Undrawn facilities	72,685	927	–	73,612	1,352	281	–	1,633
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

30. Risk Management continued

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. During the year, the Group continued to support its Retail and small business customers through a comprehensive range of flexible measures. SME lending predominantly represents lending under CBILS and BBLS schemes. 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 prior year. Further information on the management of these risks is included in the Risk Report on pages 16 to 80.

	As at 31 March 2022			
	Total £'000	Of which Stage 2 £'000	Of which Stage 3 £'000	ECL as % of forborne loans %
Retail	1,816	573	1,188	60.5%
SME	594	444	–	4.7%
Mortgages	25,599	3,779	7,078	1.0%
Forbearance	**28,009**	**4,796**	**8,266**	**4.9%**

	As at 31 March 2021			
	Total £'000	Of which Stage 2 £'000	Of which Stage 3 £'000	ECL as % of forborne loans %
Retail	2,563	1,173	829	50.74%
SME	–	–	–	0.00%
Forbearance	2,563	1,173	829	50.74%

Modifications

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

c. Liquidity Risk

Liquidity Risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due or is only able to do so at excessive cost. The Group's contractual maturities of the financial assets and liabilities as at 31 March 22 are set out in the Risk Report.

The Group has a single deposit product which is aimed at the Retail and SME current account markets in the UK, consequently its Customer Deposits are from a highly diverse population and do not give rise to a concentration for liquidity purposes. 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. 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 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.

30. Risk Management continued

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 ("IRRBB"). FX swaps and interest rate swaps are used to manage the structural risk in the Statement of Financial Position of the Group. These are normally executed as standard market transactions entered into either to reduce the credit concentration on exposure to other banks or as part of formally designated hedge relationships. See note 14 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

IRRBB 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, 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 interest rate swaps to hedge the interest rate risk of its fixed rate lending and the fixed rate debt securities in its investment portfolios on a portfolio basis.

The Group manages the interest rate risk arising from fixed rate loan books and debt securities by entering into interest rate swaps on a frequent basis. The level of exposure from the loan books frequently changes due to new loans being originated, repayments by customers and customer defaults. As 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 its fixed rate loans and its 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.

The Group assesses hedge ineffectiveness on an ongoing basis. Hedge ineffectiveness can arise and is recognised as Other Income in the Statement of Comprehensive Income. The main sources of ineffectiveness in fair value hedges of interest rate risk arise from customer behaviour differing to the 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 2022	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years
Fair value hedges:					
Interest rate swaps					
Notional (£'000)	166,000	608,000	1,474,000	748,000	324,000
Average fixed interest rate %	0.01%	0.09%	0.51%	0.55%	1.04%

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

31 March 2022	Notional amount £'000	Fair value of assets[1] £'000	Fair value of liabilities[1] £'000	Change in fair value charge / (credit)[2] £'000	Hedge ineffectiveness charge / (credit)[3] £'000
Interest rate swaps	3,320,000	97,439	(46)	(84,722)	(2,945)

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

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

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

30. Risk Management continued

Interest Rate risk continued

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

	Carrying Amount of assets £'000	Fair value adjustment on hedged item £'000	Change in fair value charge/(credit)[3] £'000	Amount remaining on items de-designated from hedge relationships[4] £'000
Fixed rate Loans and Advances to Customers[1]	2,450,000	66,295	59,579	53,549
Debt Securities[2]	626,000	23,375	22,198	19,088

1 Included within Loans and Advances to Customers.
2 Included within Debt Securities.
3 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Statement of Comprehensive Income during the year in the line "Other income".
4 The accumulated amount of fair value hedge adjustments remaining in the Statement of Financial Position for fair value hedges.

The Group has no outstanding exposures to the benchmark interest rate LIBOR.

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.

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 £'000	Fair value of assets[1] £'000	Fair value of liabilities[1] £'000	Change in fair value charge / (credit)[2] £'000	Hedge ineffectiveness charge / (credit)[3] £'000
Interest rate swaps	2,843,000	13,463	(25)	12,877	(357)

1 Included in the Statement of Financial Position line "Derivative financial assets" / "Derivative financial liabilities". Amount shown in table excludes interest accrued on derivatives.
2 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Statement of Comprehensive Income during the year
3 The amount of hedge ineffectiveness recognised in the Statement of Comprehensive Income in the year. The Statement of Comprehensive Income line that includes the hedge ineffectiveness recognised during the year is "Other Income".

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

31 March 2021	Carrying Amount of assets £'000	Fair value adjustment on hedged item £'000	Change in fair value charge/ (credit)[3] £'000	Amount remaining on items de-designated from hedge relationships[4] £'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

1 The SOFP line that includes these items is "Loans and Advances to Customers"
2 The SOFP line that includes these items is "Debt Securities"
3 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and which was recognised in the Statement of Comprehensive Income during the year in the line "Other income"
4 The accumulated amount of fair value hedge adjustments remaining in the SOFP for fair value hedges

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 2022, 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 £163m (2021: £78m) and a decrease of £168m (2021: £84m) 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.

30. Risk Management continued

Foreign Exchange risk

Foreign exchange risk in the current year arises mainly from customer 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.

Market Risk Metrics – FX Sensitivity

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

31 March 2022

Net Foreign Exchange Exposure	**Sterling £'000**	**Euro £'000**	**US Dollar £'000**	**Total £'000**
Loans and Advances to Banks	6,093,882	7,023	4,554	6,105,459
Debt Securities	2,213,850	93,036	–	2,306,886
Loans and Advances to Customers	3,173,962	21	–	3,173,983
Derivative Asset[1]	(13,310)	103,763	7,603	98,056
IRS	97,250	–	–	97,250
FX swaps	(110,559)	103,763	7,603	807
Other Assets	221,668	345	(993)	221,020
Customer Deposits	(8,749,922)	(240,589)	(36,785)	(9,027,296)
Due to other Banks	(2,281,380)	–	–	(2,281,380)
Derivative Liabilities[1]	(73,339)	46,398	26,611	(330)
IRS	(54)	–	–	(54)
FX swaps	(73,285)	46,398	26,611	(276)
Other Liabilities	(156,525)	(8,008)	(1,441)	(165,974)
Net position	**428,886**	**1,989**	**(451)**	**430,424**

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

31 March 2021

Net Foreign Exchange Exposure	**Sterling £'000**	**Euro £'000**	**US Dollar £'000**	**Total £'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)
Deposits from Banks	(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

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

31. Related Party Transactions

a. Parent and Controlling Entities

JTC Starling Holdings Limited holds 35.98% (2021: 56.54%) of the total shares in issue and is entitled to 35.98% (2021: 56.54%) of the voting rights. JTC Starling Holdings Limited is no longer the intermediate or ultimate controlling party of the Group. Balances on deposit accounts held by individuals associated with JTC Starling Holdings Limited as at 31 March 2021, when the entity was the Group's ultimate controlling party, were £44k.

b. Key Management Personnel Transactions

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

As at the reporting date, Anne Boden, MBE, who is also the CEO, holds 5.55% (2021: 8.5%) of the total shares in issue and is entitled to 19.6% of the voting rights (2021: 22%) and consequently is deemed a related party.

Deposit balances held by Key Management Personnel comprised:

	As at 31-Mar-22 £'000	Net increase/ (decrease) during year £'000	As at 31-Mar-21 £'000
Balances on Deposit Accounts	**647**	(340)	987

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

Key Management Personnel Compensation	For year ended 31-Mar-22 £'000	Net Increase/ (decrease) £'000	For year ended 31-Mar-21 £'000
Wages and Salaries	**2,439**	831	1,608
Social Security Costs	**333**	122	211
FV of Shares Issued to Employees under EBT	**66**	66	–
Total	**2,839**	1,020	1,819

None of the Directors participate in the Bank's pension arrangement.

c. Subsidiaries and Affiliates

Interest in the Subsidiaries and changes to investments and inter-company accounts during the year are set out in note 19.

Intercompany transactions:

In accordance with IFRS 10 Consolidated Financial Statements transactions and balances with subsidiaries have been eliminated on consolidation.

Intercompany income / (expense) in Parent Company Income Statement	As at 31-Mar-22 £'000	As at 31-Mar-21 £'000
Starling FS Services Limited	**10,942**	14,731
Murmur Financial Services International DAC	**59**	45
Fleet Mortgages Limited	**(164)**	–
Inter-company transactions with the Subsidiary entities	**10,837**	14,775

Dividends received by Parent Company	As at 31-Mar-22 £'000	As at 31-Mar-21 £'000
Fleet Mortgages Limited	**6,000**	–
Dividends received from Subsidiary entities	**6,000**	–

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 as part of the cost of the design, specification, build, testing and implementation of the Group's banking software and mobile application and associated infrastructure. A licencing agreement exists between Starling FS Services Limited and its parent, for use of the intellectual property rights, of the banking software and mobile application, the licence fee agreement is on a cost-plus basis after capital expenditure, allowing a margin of 5% + VAT (OECD Transfer Pricing method at arm's length level).

During the year, Starling Bank Limited charged Starling FS Services Limited £19,170k (2021: £21,878k) for the attributable proportion of staff salaries, employers NIC and other identified costs incurred by the Parent Company.

31. Related Party Transactions continued

During the year, Starling Bank Limited charged £59k (2021: £45k) to Murmur Financial Services International DAC in relation to interest on the intercompany loan.

During the year Fleet Mortgages Limited originated £243m (2021: nil) of Buy-to-let mortgages for the Bank and continues to service these loans on an on-going basis for the Bank. The arrangements under which these services are carried out are at arm's length as they are comparable to previous arrangements Fleet Mortgages Limited had with external funding partners. During the year Starling Bank Limited paid loan servicing fees and other loan origination fees to Fleet Mortgages Limited of £164k (2021: £nil) in relation to loans acquired under an asset purchase agreement.

32. Capital Commitments

At 31 March 2022, the Company had no committed capital expenditure that had not been provided for in the accounts (2021: £nil).

33. Financial Commitments

At 31 March 2022, the Company had committed to future lending of mortgages of £252.7m (2021: £nil) and RLS of £22.7m (2021: £nil) under forward flow arrangements. These commitments represent agreements to lend in the future, subject to certain conditions.

At 31 March 2022, the Company had committed to future lending of CBILS of £nil (2021: £71.7m) and BBLS of £nil (2021: £1.45m). These commitments represented agreements to lend in the future, subject to certain conditions.

34. Contingent Liabilities

At 31 March 2022, the Company had no contingent liabilities (2021: £nil).

35. Events After Reporting Year

The following events have taken place between 31 March 2022 and the date of approval of these accounts by the Board:

Share issuance – additional fundraising

Subsequent to the balance sheet date, on 21 April 2022 the Group completed a successful issuance of Series D shares to existing shareholders. Consequently, the Group's equity capital base has been increased by £130.4m net (£130.5m before expenses of issue). As a consequence the Bank's CET 1 and Tier 1 Ratios increased to 42.9%, and the UK Leverage ratio increased to 9.7%.

As a result of the additional fundraising in April 2022 and certain share transfers (29 April 2022) that occurred on or around the same date, JTC Starling Holdings Limited holds 36.05% of the total shares in issue and is entitled to 36.05% of the voting rights.

Acquisition of Loan Books

On 30 April 2022 the Bank completed the purchase of a closed portfolio of mortgage loans for consideration of £514.2m.

Transfer of subsidiary

On 7 June 2022 Starling Bank Limited transferred its holding in Murmur Financial Services International DAC to MFSI Holdings Limited. Prior to transfer, the Bank made a capital contribution of £1,179k which was recognised as a Capital Contribution Reserve. Murmur Financial Services International DAC is now a 100% subsidiary of MFSI Holdings Limited.

Strategic Report
Directors' Report
Financials

1. Country by country reporting

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

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

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

Country by Country[1]	Group 31-Mar-22	Group 31-Mar-21	Company 31-Mar-22	Company 31-Mar-21
Turnover (£'000)[2]	188,066	97,589	200,896	119,512
Profit / (Loss) before Tax (£'000)	32,052	(31,454)	42,165	(15,265)
Corporation Tax paid (£'000)	(3,322)	–	(1,906)	–
Number of Employees on full time equivalent basis	1,941	1,245	1,891	1,237
Subsidy amounts received (£'000)	Nil	Nil	Nil	Nil
Jurisdictions in which operated	UK	UK	UK	UK

1 The table includes a non-operating Irish subsidiary which has not yet received its banking licence.
2 Turnover is defined as total income/(expense).

2. Non-IFRS measures

The following non-IFRS performance measures were included in this document to provide additional 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 year.
- Cost of deposits is calculated as interest expense divided by the average total for customer deposits for the year.
- Loan-to-deposit ratio represents loans and advances to customers expressed as a percentage of total customer deposits.
- Net interest margin ("NIM") represents net interest income as a percentage of average interest-earning assets.
- SME market share is calculated as the number of SME customer accounts held by the Bank as a percentage of total SME accounts in the UK, as published on the Banking Competition and Remedies website.

3. Defined Terms

Companies Act	Companies Act 2006
Board	the board of directors of Starling Bank Limited
Board Committees	the principal committees of the Board of Starling Bank Limited, comprising Audit, Risk, Remuneration, Nomination and Ethics and Sustainable Business
Directors	the directors of Starling Bank Limited
Executive	a member of EXCO

4. 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
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CGU	Cash Generating Unit
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
LTIP	Long Term Incentive Plan
LTV	Loan to Value
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
RDEC	Research and Development Expenditure Credit
RLS	Recovery Loan Scheme
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

Annual Reports and Accounts for the year ended 31 March 2022.