Starling Bank

Banking.
But better.

Starling Bank Limited

Pillar 3 Report 2023

Contents

Introduction

Introduction continued

1.1 Purpose

This document comprises the Pillar 3 disclosures on capital and risk management for Starling Bank Limited (the Bank or Starling Bank) as at 31 March 2023.

It has two principal purposes:

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

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

1.2 Overview

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

This Pillar 3 document should be read in conjunction with Starling Bank's Annual Report & Accounts for the year ended 31 March 2023, which is published on the Bank's website and is also available from Companies House.

These disclosures are not subject to external audit. However, some of the information within these Pillar 3 disclosures also appears in the Bank's audited 2023 Annual Report & Accounts. The processes for preparing these disclosures are set out in the Bank's Pillar 3 policy. The Bank has internal processes, systems and controls to verify that the disclosures are appropriate and in compliance with the Pillar 3 minimum requirements, as set out in the Disclosure (CRR) part of the PRA Rulebook. We have not omitted any disclosures on the basis of them being regarded as proprietary or confidential.

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

1.3 Legislative Framework

Starling is subject to the Capital Requirements Directive (CRD)[1], and the CRR, as amended and as onshored in the UK. The CRR and CRD provide consistent prudential standards for financial services companies and an associated supervisory framework, and are enforced in the UK by the PRA and FCA.

1 Any references to EU regulations and directives should be read as references to the UK's version of such legislation and/or directive, as onshored into UK law and subsequently amended under UK law.

Introduction continued

The three pillars of the prudential framework

Pillar 1

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

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

Pillar 2

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

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

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

Pillar 3

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

Introduction continued

1.4 Scope of Application

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

The Bank's Annual Report & Accounts are prepared on a consolidated basis. For the year ended 31 March 2023, in addition to Starling FS Services Limited, the accounting consolidation also included Murmur Financial Services International DAC, MFSI Holdings Limited, Fleet Mortgages Limited and Engine by Starling Limited (together referred to as Starling).

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

1.5 Directors

Starling Bank Limited's Board of Directors (the Board) comprises a mix of Executive and Non-Executive Directors. A summary of their experience is disclosed on the Bank's website.

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

Diversity disclosures for the Board are contained in the Bank's 2023 Annual Report & Accounts.

Starling is committed to promoting equal opportunities in employment. As such, recruitment at all levels is without discrimination on any protected characteristic.

Starling Bank Limited Board members held the following number of directorships (internal and external to the Starling Group) as at 31 March 2023.

Name	Gender	Independent	Appointment Date	Total Number of Directorships
Anne Boden	F		18 June 2014	3
Lazaro Campos	M		21 June 2018	6
Carolyn Clarke	F	Independent	31 October 2020	5
Declan Ferguson	M		13 July 2022	2
Faisal Galaria	M	Independent	01 June 2022	5
Ian Jenkins	M	Independent	01 October 2021	2
David Sproul	M	Independent	30 June 2021	4
Marcus Traill	M		22 December 2015	17
Tracy Clarke	F	Independent	26 May 2021	7
Marian Martin	F	Independent	26 June 2019	5

Risk Governance and Committees

Risk Governance and Committees continued

The Board is the principal decision-making body for all significant matters affecting the Bank and its subsidiaries and is accountable to shareholders for creating and delivering long-term sustainable value.

It has responsibility for approving the design and implementation of the Bank's strategy, corporate objectives, risk appetite and Enterprise Risk Management Framework (ERMF), designed to support the identification and assessment of material risks that threaten the achievement of Starling's objectives, having regard to the interests of all stakeholders. Starling also regularly reviews emerging risks which might sit outside of its direct control but which could have a material impact on its risk strategy and business model.

The Board is also responsible for:

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

2.1 Board Risk Committee

The Starling Board Risk Committee (BRC) has been established by the Board to ensure the effective operation of risk management and to ensure that the Bank operates within the overall Risk Appetite Statement approved by the Board, in order to achieve its business objectives. The BRC is the primary Board level committee to receive and review risk related information. It receives reporting from the Executive Risk Committee (ERC) and the Asset and Liability Committee (ALCO).

The BRC also provides oversight of the Bank's Risk and Compliance function. The BRC met fifteen times in the period 1 April 2022 to 31 March 2023. More information on the BRC's key duties and responsibilities is disclosed in the Bank's 2023 Annual Report & Accounts.

2.2 Board Audit Committee

The Starling Board Audit Committee (BAC) has been established by the Board to ensure effective governance of the Bank's financial reporting, including monitoring the integrity, clarity and completeness of financial disclosures, reporting on significant financial reporting issues and judgements and reviewing and approving changes to Bank accounting policies and the Bank's Whistleblowing Policy. The Chair of the BAC is the Whistleblowing Champion for the Bank. The BAC also oversees the implementation and effectiveness of the internal and external audit functions (including their programmes of work) and reviews the adequacy and effectiveness of the Bank's operational controls in mitigating risk, through an independent assurance lens. The BAC met eight times in the period from 1 April 2022 to 31 March 2023. More information on the BAC's key duties and responsibilities is disclosed in the Bank's 2023 Annual Report & Accounts.

Risk Governance and Committees continued

2.3 Board Remuneration Committee

The Starling Board Remuneration Committee has been established by the Board to ensure the Bank adheres to rules on remuneration, incentives and relevant financial regulatory regimes applicable to a bank. It is responsible for reviewing workforce remuneration and related principles and policies (including the alignment of incentives and rewards and any major changes in employee benefits structures) in line with the culture and broader values of the Group. The Chair of the Board Remuneration Committee is the Senior Independent Director on the Board who also serves as the Board Consumer Duty Champion. More information on the Board Remuneration Committee's key duties and responsibilities is disclosed in the Bank's 2023 Annual Report & Accounts. Further details of the Bank's remuneration governance and disclosures can be found in the Remuneration section of this document.

2.4 Executive Risk Committee

The ERC oversees all risk types across the Bank, including monitoring and reviewing risk appetite and other approved policy limits, and reviewing and making recommendations on all risk matters where the Board has reserved authority. The ERC responsibilities include:

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

More information on the ERC's key duties and responsibilities is disclosed in the Bank's 2023 Annual Report & Accounts.

2.5 Asset and Liability Committee

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

More information on the ALCO's key duties and responsibilities is disclosed in the Bank's 2023 Annual Report & Accounts.

Risk Management

Risk Management continued

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

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

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

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

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

More information on the Bank's approach to risk management is disclosed in the Bank's 2023 Annual Report & Accounts.

Risk Management continued

3.1 Risk Management Framework

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

The key objectives of the ERMF are to:

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

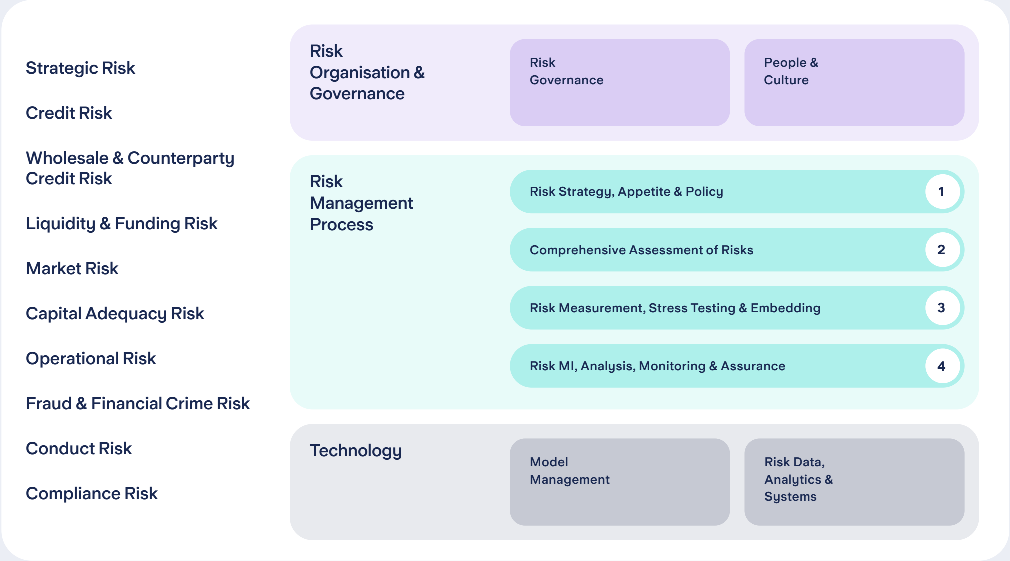
3.2 Risk Strategy and Culture

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 Bank delivers a reputable, responsible and sustainable business.

Starling recognises that this needs to be achieved through providing an open and transparent environment where well-trained and informed individuals take intelligent risk, subject to clear policies, in pursuit of the Bank's business strategy.

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

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



Risk Management continued

3.3 Risk Operating Model

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

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

Risk Management continued

3.4 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, monitored and reported. Starling's risk appetite considers the material risks to the business, with consideration given to the potential impact on the Bank's results and financial position, customers, employees, reputation, regulators and other stakeholders. The risk appetite is set within a capacity for risk that has amongst its external boundaries regulatory minima for capital and liquidity, adherence to laws and regulation, as well as conduct break points in terms of customer treatment.

Starling's Risk Appetite Statement is the formal articulation of the level and types of risk that the Bank is willing to accept, as well as those it seeks to avoid or minimise. It is expressed through quantitative measures and qualitative statements that provide direction to all areas of business and set clear tolerances for activities that are both within and outside risk appetite. Risk exposure 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 provides the Board's overarching appetite direction.

The Bank's risk appetite is reviewed at least annually and approved by the Board.

3.5 Principal Risks

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

Climate-related financial risk
For Starling, climate-related financial risks are currently low as Starling does not expect these risks to have a significant impact on its profitability or capital position now and over the planning horizon. The majority of climate-related financial risk for Starling arises from its mortgage portfolio. Crystallisation of 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 probability of default (PDs) and decrease the asset value of the property, increasing loss given default (LGDs). These risks could also create mortgage prisoners. Government policy is continuing to evolve in this area leading to risks that a requirement could be introduced that would change Starling's exposure to climate-related financial risks.

Climate risk also presents an opportunity for Starling to work with its customers to enhance the energy efficiency of their homes. Starling's buy-to-let lending business, Fleet Mortgages Limited, has already changed its products to encourage owners to improve the energy efficiency of their properties. It has a number of new products in development to more actively support these changes. Additional climate-related risk disclosures are contained in the Bank's 2023 Annual Report & Accounts.

Emerging Risks
The Bank continually monitors emerging risks. Emerging risks are those with potentially significant, but uncertain, outcomes, which may form and crystallise over a longer time horizon, and which could have a material impact on Starling's ability to achieve its long-term strategy. These are risks which are outside of Starling's ability to control, but if they were to crystallise they would cause Starling 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. Additional emerging risk disclosures are contained in the Bank's 2023 Annual Report & Accounts.

The following sections set out how the Bank assesses each of the principal risks.

3.5.1 Strategic Risk

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 and/or market environment.

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

Additional strategic risk disclosures are contained in the Bank's 2023 Annual Report & Accounts.

3.5.2 Credit Risk

Starling distinguishes between credit risk arising from customer lending defaults, which is covered in this section, and credit risk arising from wholesale counterparty defaults, which is covered in Section 3.5.3 below.

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

Risk Management continued

3.5.2 Credit Risk continued

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

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

At the highest level, the Bank mitigates credit risk through the operation of a credit risk appetite statement and supporting limits. These are operationalised through credit risk policies and procedures designed to target a lending profile in line with the Bank's appetite for credit related losses. Credit risk appetite is approved by the Board on recommendation of the BRC. Authority is delegated to the CRC, as a sub-committee of ERC, to monitor the lending portfolio against the Board-approved credit risk appetite.

The Bank's credit risk appetite statements are underpinned by a series of quantitative limits which monitor and control the overall quality of the portfolios. The Bank's credit risk appetite statement is set out in Annex 1. Additional credit risk management information is contained in the Bank's 2023 Annual Report & Accounts.

At the operational level for organic lending, the Bank uses a range of models which are calibrated to risk appetite to support 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 activities to monitor the activity and performance of each partner.

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

3.5.3 Wholesale and Counterparty Credit Risk

Starling distinguishes between credit risk arising from wholesale and counterparty exposures (covered in this section) and customer lending exposures which are covered in Section 3.5.2.

Wholesale credit risk is the risk of loss that may arise from an institutional counterparty failing to make required payments. Counterparty credit risk is the risk that the counterparty to a market transaction could default before the final settlement of the transaction's cash flows.

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

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

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

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

Wholesale credit risk exposures and counterparty credit risk are reported daily and breaches to limits or trigger levels are escalated in line with policies to senior management. The WCRC meets periodically to monitor wholesale credit risk exposures, review changes to models and methodologies for measuring the risk, and to recommend any changes in risk appetite to the Board.

Risk Management continued

3.5.4 Liquidity and Funding Risk

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

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

Starling's sources of (non-equity) funding are from Retail current accounts, SME current accounts, fixed term deposits, Banking-as-a-Service settlement accounts and from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

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

- Customer funding risk: the risk that customer deposits balances fall; and
- 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 plan.

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

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

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

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

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

ALCO is responsible for the monitoring and oversight of liquidity risk. ALCO will report and escalate breaches of limits/triggers, or unexpected stresses on the availability of liquidity to senior management. Risk will escalate breaches to the BRC and to the Board as appropriate.

The Bank's liquidity risk appetite is set out in Annex 1. Additional liquidity risk management information is contained in the Bank's 2023 Annual Report & Accounts.

3.5.5 Market Risk

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

Foreign Exchange Risk
FX risk is managed through the execution of spot and forward FX transactions with counterparty banks to reduce open positions to within risk appetite. FX risk is continuously monitored 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.

Interest Rate Risk in the Banking Book (IRRBB)
IRRBB is the risk of a realised or unrealised loss as a consequence of adverse changes in interest rates.

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

Risk Management continued

3.5.5. Market Risk continued

IRRBB can impact the economic value of the Bank's equity and can impact the Bank's earnings under different rate movements. The Board sets a PV01 and an Economic Value of Equity (EVE) risk appetite limit along with an earning risk sensitivity expressed as a change in Net Interest Income (NII). Sub limits, agreed by ALCO, are in place for euro and US dollar EVE and for basis risk (the risk of a mismatch in hedged positions).

Treasury manages the Bank's interest rate risk within the risk appetite set by the Board. Starling executes interest rate derivatives traded under ISDA Credit Support Annex contracts with market counterparties to manage the exposure. The swaps executed are all now centrally cleared after Starling became an indirect member of the LCH, with the counterparty risk now being to the LCH.

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 and the impact of an interest rate stress on the Bank's NII.

See Annex 1 for the market risk appetite. Additional market risk disclosures are contained in the Bank's 2023 Annual Report & Accounts.

3.5.6. Capital Adequacy Risk

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

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

Starling Bank will, at all times, maintain sufficient capital to cover its risk profile and associated risk exposures. As a minimum, the Bank's capital resources will be maintained above the regulatory minimum Total Capital Requirement (TCR) (Pillar 1 plus Pillar 2a) plus buffers, or above the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) plus buffers from April 2023, when MREL became applicable.

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

See Annex 1 for the capital adequacy risk appetite. Additional disclosures on capital are contained in the Bank's 2023 Annual Report & Accounts.

3.5.7. Operational Risk

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

Starling's overarching risk direction specifically includes a requirement to preserve operational resilience, and to implement and maintain core systems and processes that offer security and resilience and that are fit-for-purpose to deliver the required services. Whilst Starling will accept operational risks in support of its business objectives, it seeks to manage those risks and minimise potential losses.

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, including:

- Starling's appetite is to maintain sufficient, well-motivated and skilled people to enable it to fulfil customer requirements, make appropriate decisions and behave in line with its core values and risk culture.
- Starling 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.

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

Risk Management continued

3.5.8. Fraud and Financial Crime Risk

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

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

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

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

Starling continuously reviews its control environment to make it unattractive to those committing any fraud or financial crime. There has been a regulatory focus in the year regarding financial crime systems, controls and governance as well as cash based money laundering. 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.

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

Additional fraud and financial crime risk disclosures are contained in the Bank's 2023 Annual Report & Accounts. See Annex 1 for the fraud and financial crime risk appetite.

3.5.9. Conduct Risk

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

Starling's conduct risk policies and framework set the approach for the fair treatment of consumers as well as ensuring appropriate conduct by staff in line with Starling's expectations and the FCA's Conduct Rules.

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

Additional conduct risk disclosures are contained in the Bank's 2023 Annual Report & Accounts. See Annex 1 for the conduct risk appetite.

3.5.10. Compliance Risk

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

Starling 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.

Additional compliance risk disclosures are contained in the Bank's 2023 Annual Report & Accounts. See Annex 1 for the compliance risk appetite.

Capital and Other Disclosures

Capital and Other Disclosures continued

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

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

The Bank has complied with all externally imposed capital requirements during the period from 1 April 2022 to 31 March 2023.

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

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

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

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.

Additional disclosures on capital are contained in the Bank's 2023 Annual Report & Accounts.

Capital and Other Disclosures continued

4.1 Key Metrics

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

	31 Mar 2023 £'000	31 Mar 2022 £'000
Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	**710,614**	397,502
Tier 1 capital	**710,614**	397,502
Total capital	**710,614**	397,502
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	**1,894,758**	994,828
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	**37.50%**	39.96%
Tier 1 ratio (%)	**37.50%**	39.96%
Total capital ratio (%)	**37.50%**	39.96%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
Additional CET1 SREP requirements (%)	**2.94%**	–
Additional AT1 SREP requirements (%)	**0.97%**	–
Additional T2 SREP requirements (%)	**1.31%**	–
Total SREP own funds requirements (%)	**13.22%**	8.00%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	**2.5%**	2.5%
Institution specific countercyclical capital buffer (%)	**1%**	–
Combined buffer requirement (%)	**3.50%**	2.50%
Overall capital requirements (%)	**16.72%**	10.50%
CET1 available after meeting the total SREP own funds requirements (%)[a]	**30.07%**	29.46%
Leverage ratio		
Total exposure measure excluding claims on central banks	**7,641,617**	5,063,481
Leverage ratio excluding claims on central banks (%)	**9.30%**	7.85%
Liquidity Coverage Ratio[b]		
Total HQLA (average weighted value)	**6,413,925**	5,128,346
Cash outflows (total weighted value)	**1,711,200**	1,211,430
Cash inflows (total weighted value)	**311,926**	209,396
Total net cash outflows (adjusted value)	**1,399,274**	1,002,034
Liquidity Coverage Ratio (%)	**460%**	515%
Net Stable Funding Ratio[b]		
Total available stable funding	**11,944,952**	10,660,584
Total required stable funding	**4,870,012**	4,088,546
Net stable funding ratio (%)	**245%**	261%

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

Capital and Other Disclosures continued

4.2 Overview of Risk Weighted Exposure Amounts

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

	Risk weighted exposure amounts (RWEAs)		Total own funds requirements	
	31 Mar 2023 £'000	31 Mar 2022 £'000	31 Mar 2023 £'000	31 Mar 2022 £'000
Credit risk (excluding CCR)	**1,689,562**	835,048	**135,165**	66,804
Of which: the standardised approach	**1,689,562**	835,048	**135,165**	66,804
Counterparty credit risk – CCR	**46,355**	92,241	**3,708**	7,379
Of which: the standardised approach	**19,256**	38,713	**1,540**	3,097
Of which: credit valuation adjustment – CVA	**27,098**	53,528	**2,168**	4,282
Securitisation exposures in the non-trading book	**4,805**	1,166	**384**	93
Of which: the SEC-ERBA/SEC-SA approach[(a)]	**4,805**	1,166	**384**	93
Operational risk	**154,036**	66,372	**12,323**	5,310
Of which: basic indicator approach	**154,036**	66,372	**12,323**	5,310
Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)	**125,427**	98,731	**10,034**	7,899
Total	**1,894,758**	**994,828**	**151,581**	**79,586**

(a) During the year, the Bank changed its methodology for the calculation of securitisation RWAs from the Sec-SA approach to the Sec-ERBA approach.

Capital and Other Disclosures continued

4.3 Composition of Regulatory Own Funds

	31 March 2023 £'000	References to disclosures in Section 4.4
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	608,845	a,b
Cumulative retained earnings	102,384	d
Accumulated other comprehensive income and other reserves	13,887	c
Common Equity Tier 1 (CET1) capital before regulatory adjustments	725,116	e
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments (negative amount)	(406)	
Intangible assets (net of related tax liability) (negative amount)	(19,764)	f
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(14,284)	g
Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	10,246	
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	
Other regulatory adjustments to CET1 capital	9,706	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(14,502)	
Common Equity Tier 1 (CET1) capital after regulatory adjustments	710,614	
Additional Tier 1 (AT1) capital	–	
Tier 1 capital (T1 = CET1 + AT1)	710,614	
Tier 2 (T2) capital	–	
Total capital (TC = T1 + T2)	710,614	
Total Risk exposure amount	1,894,758	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	37.50%	
Tier 1 (as a percentage of total risk exposure amount)	37.50%	
Total capital (as a percentage of total risk exposure amount)	37.50%	
Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	10.94%	
Of which: capital conservation buffer requirement	2.50%	
Of which: countercyclical buffer requirement	1.00%	
Of which: systemic risk buffer requirement	–	
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[(a)]	30.07%	
Amounts below the thresholds for deduction (before risk weighting)		
Direct and indirect holdings of the own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	50,171	

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

Capital and Other Disclosures continued

4.4 Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

	Balance Sheet as in published financial statements 31 Mar 2023 £'000	Balance Sheet under the regulatory scope of consolidation 31 Mar 2023 £'000	References to disclosures in section 4.3
Assets – Breakdown by asset class according to the Balance Sheet in the published financial statements			
Loans and advances to banks	6,109,704	6,105,446	
Debt securities	2,479,550	2,479,550	
Loan and advances to customers	4,731,997	4,731,997	
Derivative assets	221,774	221,774	
Deferred tax asset	4,664	(1,294)	g
Other assets	71,851	74,180	
Property, plant and equipment, right of use assets	15,480	13,736	
Intangible assets	40,585	35,421	f
Goodwill	35,890	–	
Investment in subsidiaries and intercompany account	–	52,351	
Total Assets	13,711,495	13,713,161	
Liabilities – Breakdown by liability class according to the Balance Sheet in the published financial statements			
Customer deposits	10,551,820	10,551,887	
Deposits from banks	2,274,306	2,274,306	
Derivative liabilities	55,452	55,452	
Provisions for liabilities and charges	1,342	1,342	
Other liabilities and accruals	96,958	93,187	
Deferred income	32,380	7,806	
Current tax liability	3,960	4,065	
Total Liabilities	13,016,218	12,988,045	
Shareholders' equity			
Share capital	12	12	a
Share premium	608,833	608,833	b
Other reserves	24,267	24,133	c
Cash flow hedge reserve	(10,246)	(10,246)	c
Cumulative retained earnings	72,411	102,384	d
Total Shareholders' Equity	695,277	725,116	e

Remuneration

Remuneration continued

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

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

The Bank's Board Remuneration Committee is responsible for designing, implementing and overseeing the remuneration policy and the reward structure of the Bank. The Board Remuneration Committee ensures that effective risk management is a key component of remuneration and incentive structures. Membership of the Board Remuneration Committee is restricted to Non-Executive Directors only. The Board Remuneration Committee's terms of reference, which describe the Committee's responsibilities, are reviewed on an annual basis. The Board Remuneration Committee meets at least three times throughout the year. In the year ended 31 March 2023, the Committee met four times.

When necessary, the Bank seeks external advice to support decision-making and inform the Board on remuneration policy and practices. Over the course of the current financial year, the Bank took external advice from Deloitte LLP and FIT Remuneration Consultants LLP on a number of different areas in relation to remuneration, including variable pay arrangements, key considerations and benchmarking in relation to the approach to remuneration for senior employees and compliance with applicable regulatory requirements.

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

Remuneration continued

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

For MRTs, in the current financial year, more than 50% of variable remuneration was satisfied in share interests, which are deferred, and the remainder was satisfied in cash. Awards of variable remuneration to MRTs are subject to deferral, vesting and retention periods that meet applicable regulatory requirements. The Bank has obtained shareholder approval to increase the variable remuneration component pay cap to 200% of the fixed remuneration component for each MRT.

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

Remuneration of MRTs in respect of the financial year
MRTs are the Bank's employees whose professional activities could have a material impact on the Bank's risk profile. A total of 25 individuals were identified by the Bank as MRTs for the year ended 31 March 2023. The following tables set out remuneration disclosures for MRTs, who are identified as follows:

- 'MB' or 'Management body' means the Bank's Board of Directors;
- 'MB Supervisory Function' means those individuals who were Non-Executive Directors of the Bank during the current financial year;
- 'MB Management Function' means those individuals who were Executive Directors of the Bank during the current financial year;
- 'Other Senior Management' means those individuals (excluding the Executive Directors of the Bank) who were members of the Bank's Executive Committee during the current financial year; and
- 'Other Identified Staff' means any other individuals (excluding those included in the Management body or Other Senior Management above) identified as MRTs for the current financial year.

Remuneration continued

5.1 Remuneration Awarded for the Financial Year

The information below sets out the remuneration of individuals who served for at least part of the year as MRTs.

The ratio between fixed and variable pay for the year ended 31 March 2023 is shown in the table on the right.

Certain variable remuneration in respect of the previous financial year was awarded in this year and aggregated with awards in this year. The limits prescribed were duly observed in all cases.

		MB Supervisory Function	MB Management Function	Other Senior Management	Other Identified Staff
Fixed remuneration	Number of identified staff	6	3	11	5
	Total fixed remuneration – in £'000	**975**	**1,408**	**3,558**	**1,081**
	Of which: cash-based	975	1,369	3,525	1,062
	Of which: other forms	–	39	33	19
Variable remuneration	Number of identified staff	6	3	11	5
	Total variable remuneration – in £'000	**–**	**422**	**596**	**25**
	Of which: shares or equivalent ownership interests	–	422	596	25
Total Remuneration		**975**	**1,830**	**4,154**	**1,106**

Remuneration continued

5.2 Remuneration, broken down by Business Area

The table below sets out the remuneration of individuals who served for at least part of the year ended 31 March 2023 as MRTs by business area.

Certain variable remuneration in respect of the previous financial year was awarded in this period and aggregated with awards in this period. The limits prescribed were duly observed in all cases.

	Management Body (MB)		Business areas			
	MB Supervisory Function	MB Management Function	Retail banking	Corporate functions	Independent internal control functions	Total
Total number of identified staff						**25**
Of which: members of the MB	6	3				
Of which Other Senior Management			1	8	2	
Of which Other Identified Staff			–	3	2	
Total remuneration of identified staff – in £'000	**975**	**1,830**	**352**	**3,902**	**1,006**	
Of which: variable remuneration	–	422	–	616	5	
Of which: fixed remuneration	975	1,408	352	3,286	1,001	

Annex 1: Risk Statements and Risk Appetite

Annex 1: Risk Statements and Risk Appetite continued

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

- Strategic Risk
- Credit Risk
- Wholesale and Counterparty Credit Risk
- Liquidity and Funding Risk
- Market Risk
- Capital Adequacy Risk
- Operational Risk
- Fraud and Financial Crime Risk
- Conduct Risk
- Compliance Risk

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

Strategic Risk
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 any unfair, anti-competitive behaviour or accept any unfair, anti-competitive behaviour being exhibited against it, and will alert the relevant authorities if it reasonably suspects this is occurring.

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

Credit Risk
The credit risk appetite is approved by the Board on recommendation of the BRC. Authority is delegated to the CRC, as a sub-committee of ERC, which is responsible for monitoring the lending portfolio against the board-approved credit risk appetite. Starling aims to be a responsible lender and seeks to only originate and fund lending facilities to applicants who are not over-indebted and who can evidence an ability to service their lending. All lending is provided to customers in accordance with responsible lending requirements. Starling monitors this through regular oversight activities.

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

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

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

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

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

The Bank ensures that it will, at all times:

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

Annex 1: Risk Statements and Risk Appetite continued

Market Risk
Starling will not take any proprietary (own account) trading positions other than as arising from customer related activities. Starling will hedge interest rate risk arising in its banking book related to timing differences in the repricing of its assets and liabilities and off-balance sheet position. Starling will, wherever possible, operate a matched book basis for individual currency exposures and, where an unhedged net exposure position arises, will seek to hedge the resulting amount. Starling will only accept limited currency exposures in euro and US dollar.

Capital Adequacy Risk
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 regulatory minimum TCR (Pillar 1 plus Pillar 2a) plus buffers, or above MREL plus buffers from April 2023, when MREL became applicable. 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.

Operational Risk
Starling's overarching risk direction specifically includes a requirement to preserve operational resilience, and to implement and maintain core systems and processes that offer security and resilience and that are fit-for-purpose to deliver the required services. Whilst Starling will accept operational risks in support of its business objectives, it seeks to manage those risks and minimise potential losses. The following statements encapsulate Starling's operational risk appetite:

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

Annex 1: Risk Statements and Risk Appetite continued

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

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

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

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

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

Conduct Risk
Starling will ensure that it delivers good customer outcomes across all of its activities, including ensuring the appropriate conduct of its staff. The following statements encapsulate Starling's conduct risk appetite:

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

Compliance Risk
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.

Annex 2: Additional Credit Risk Disclosures

Annex 2: Additional Credit Risk Disclosures continued

Disclosure of the Use of Credit Risk Mitigation (CRM) Techniques

	Unsecured carrying amount £'000	Secured carrying amount £'000	Of which secured by collateral £'000	Of which secured by financial guarantees £'000	Of which secured by credit derivatives £'000
Loans and advances	6,316,723	4,718,439	3,425,016	1,293,422	–
Debt securities	2,518,239	–	–	–	–
Total	**8,834,962**	**4,718,439**	**3,425,016**	**1,293,422**	**–**
Of which non-performing exposures	15,075	336,951	103,983	232,968	–
Of which defaulted	11,182	117,580	–	–	–

Annex 2: Additional Credit Risk Disclosures continued

Credit Risk Exposure and Credit Risk Mitigation (CRM) and Credit Conversion Factor (CCF) Effects

	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
Exposure classes	On-balance sheet exposures £'000	Off-balance sheet exposures £'000	On-balance sheet exposures £'000	Off-balance sheet amount £'000	RWAs £'000	RWAs density £'000
Central governments or central banks	6,627,449	–	7,768,893	–	–	–
Multilateral development banks	1,099,205	–	1,099,205	–	–	–
International organisations	48,199	–	48,199	–	–	–
Institutions	185,395	–	185,395	–	38,615	21%
Corporates	5,468	–	5,468	–	5,271	96%
Retail	1,264,657	72,094	155,507	–	97,174	62%
Secured by mortgages on immovable property	3,309,025	207,220	3,309,025	41,444	1,175,499	35%
Exposures in default	143,301	–	108,470	–	108,757	100%
Covered bonds	925,493	–	925,493	–	92,549	10%
Equity	50,703	–	50,703	–	125,959	248%
Other items	47,093	–	47,093	–	45,737	97%
Total	**13,705,988**	**279,313**	**13,703,452**	**41,444**	**1,689,562**	**12%**

Annex 2: Additional Credit Risk Disclosures continued

Credit Risk Standardised Approach

	Risk weight											
Exposure classes	0% £'000	4% £'000	10% £'000	20% £'000	35% £'000	50% £'000	75% £'000	100% £'000	150% £'000	250% £'000	Total £'000	Of which unrated £'000
Central governments or central banks	7,768,893	–	–	–	–	–	–	–	–	–	7,768,893	–
Multilateral development banks	1,099,205	–	–	–	–	–	–	–	–	–	1,099,205	–
International organisations	48,199	–	–	–	–	–	–	–	–	–	48,199	–
Institutions	–	89,124	–	43,616	–	52,655	–	–	–	–	185,395	–
Corporates	–	–	–	–	–	394	–	5,074	–	–	5,468	5,074
Retail exposures	–	–	–	–	–	–	155,507	–	–	–	155,507	155,507
Exposures secured by mortgages on immovable property	–	–	–	–	3,346,107	–	–	4,362	–	–	3,350,469	3,350,469
Exposures in default	–	–	–	–	–	–	–	107,897	573	–	108,470	108,470
Covered bonds	–	–	925,493	–	–	–	–	–	–	–	925,493	–
Equity exposures	–	–	–	–	–	–	–	532	–	50,171	50,703	50,703
Other items	1	–	–	1,841	–	–	–	45,172	–	79	47,093	47,093
Total	**8,916,299**	**89,124**	**925,493**	**45,457**	**3,346,107**	**53,049**	**155,507**	**163,037**	**573**	**50,249**	**13,744,896**	**3,717,316**

Starling Bank