Starling Group Annual Report and Accounts 2024

The bank built for you

Starling Bank engine

Contents

Throughout this document Starling and Group are used interchangeably. Group includes Starling Bank Limited and all of its direct and indirect subsidiaries. Company and Bank are used interchangeably. Bank refers to Starling Bank Limited. The regulatory solo-consolidated Group only includes the company Starling Bank Limited and the subsidiary Starling FS Services Limited. References to 2024 relates to the financial year ended 31 March 2024. Similarly, 2023 relates to the financial year ended 31 March 2023.

Abbreviations and acronyms are used throughout this document. Full definitions of any abbreviated terms can be found on page 233.

Non-IFRS measures referenced in the strategic report are defined on page 230.

Strategic report

Strategic report / Group Chair's Statement

Building strength and resilience for a new chapter

"We have more customers using our services more often, continuing to deepen their relationship with us."

David Sproul
Chair of the Board, June 2024

Starling has made excellent progress this year against our strategic priorities, with growth in active customers, deposits and return on tangible equity, as well as our first Software-as-a-Service (SaaS) sales through the Group's Engine by Starling subsidiary.

We have continued to innovate for our customers and to focus on what is right for them. This year we abolished the monthly charge on our Kite product for kids, we increased the interest rate paid on retail current account balances up to £5,000 to 3.25%, and we continued to invest in our Fleet Mortgages unit to support its mission to be the lender of choice in the specialist buy-to-let market.

Our treasury activity has become more sophisticated as we initiated a £3bn structural hedge programme, later increasing this to £5bn. This covers nearly half our deposit base, and reduces our sensitivity to interest rate changes. Continued high levels of capital generation demonstrate our financial strength, allowing the Group to maintain a CET1 ratio of 32.55%.

These achievements stand testament to the hard work and dedication of Starling's talented team, from our engineers to our customer service agents, and to the faith that our customers put in us to help them manage their hard-earned money. They have been made despite an operating environment that has proved increasingly challenging for our customers, with elevated inflation and interest rates putting pressure on individuals, families and businesses across the country.

Strategic report / Group Chair's Statement

Support and diversification

As I look back at the past year, I am proud that Starling has been able to deliver financial services to customers that make their budgeting a little bit easier, from our in-app Bills Manager and Connected cards to our Business Toolkit for SMEs.

Because our values underpin everything we do, we continued to roll-out our decarbonisation strategy to achieve net zero emissions by 2050, we continued to support employee-led diversity and inclusion networks, and we continued to back community programmes. We originated £178m of green mortgages through Fleet, for example, and offset all our non-finance carbon emissions. Our employee engagement score is one of the highest in our industry, and we entered a new three-year partnership with the National Trust to help young people enjoy the benefits of nature; particularly those who struggle to access outdoor spaces.

I am also proud that the technology underpinning Starling has now become a successful British export. Our first overseas partner, Salt Bank in Romania, is already serving their customers using the platform we built, with implementation for our second client, AMP, well underway in Australia. Engine's proposition not only allows the Group to diversify its fee income, it means our award-winning banking experience can be enjoyed by millions of people living far beyond the UK's shores.

Customer growth

We will never take our customers or our partners for granted. We know from market research that some Starling customers join us because they want to see what all the fuss is about. They want to see if the user experience of our app is as intuitive as their friends say it is. They want to see why we keep winning awards for the best personal and business current accounts in the UK. Perhaps they're going on holiday, and they want to see what difference it makes to their budget when their bank doesn't charge foreign transaction or withdrawal fees.

As we enter the new financial year, we still have more to do as we continue to deliver all elements of our strategy. Adding customers is essential to that strategy, and we want as many people as possible to enjoy the benefits of 'The Bank Built for You,' but to achieve sustainable growth we need those customers to love what they see and to use Starling regularly. This is why it is so important that we continue to increase the number of active customers; those who haven't just opened an account, but who have deposited funds with us and who are using our cards and tools.

This year the percentage of active customers has risen again, to 78.7% from 77.1%, while total transactions jumped to £174.1bn from £143.4bn. In short, the data show we have more customers, using our services more often, continuing to deepen their relationship with us.

Focus on risk

The Board remains acutely focused on operational resilience, and is investing to ensure our risk management and control environment is ready to support further customer growth and product diversification. This increased investment will help safeguard the Bank and our customers, and is being made in full consideration of the short-term financial implications.

In its latest Systemic Risk Survey, published at the end of this financial year, the Bank of England reported that UK financial companies are increasingly concerned by geopolitical threats to stability, which they now view as the top systemic risk ahead of cyber-attacks. Starling's Board regularly reviews risk-specific and whole balance sheet stress testing undertaken by the Group's management team, challenging assumptions to ensure that a wide range of capital and liquidity risk scenarios are considered.

From an oversight perspective, we are maintaining a strong working relationship with our regulators and are in regular dialogue with them. My fellow Board members and I are closely monitoring Starling's progress in continuing to enhance our risk management systems and controls and in embedding the FCA's new Consumer Duty requirements, ensuring our products and services provide fair value and good outcomes to customers with no hidden fees.

Leadership changes

To close, I would like to thank some individuals who have had a significant impact on Starling. Firstly, Anne Boden, who will step down from the Board on 30 June 2024 to focus on her other interests. As our founder and former Group CEO, Anne's role in Starling's successes to date cannot be overstated. She will remain a key shareholder who is closely engaged with Starling's future plans.

Secondly, I would like to thank John Mountain, who has provided strong stewardship as Interim CEO through the majority of this financial year. And thirdly, Carolyn Clarke, for her three years of service on the Board, which concluded on 31 January 2024.

Looking ahead, Starling's non-executive and executive teams are already benefiting from the counsel of Julie Chakraverty, who joined the Board on 1 March 2024, and Cyrille Salle De Chou, our recently appointed Chief Risk Officer. We are now looking forward to welcoming Raman Bhatia as Group CEO in the coming weeks, and feel confident that he will write an exciting new chapter in Starling's story.

David Sproul
Chair of the Board, June 2024

Strategic report / Group Chief Executive Officer's statement

Great customer outcomes deliver results

"We grew by attracting more customers in a competitive market because we deliver great experiences, both through our app and our UK-based customer service agents."

John Mountain
Interim Chief Executive Officer, June 2024

This financial year Starling continued to deliver on its core mission to disrupt UK financial services to the benefit of customers. We also started to expand beyond the UK by marketing our best-in-class proprietary technology overseas, building a new business within the Group. We've come a long way, but there are still millions more customers we can attract to our expanding product set.

Back in 2015, I joined Anne Boden's start-up because I couldn't miss a hugely exciting opportunity to build a digital bank from scratch. Her passion and vision were persuasive, and the oligopoly of high street lenders was clearly ripe for disruption by a challenger that would put its customers first.

Today, new leaders are continuing our mission. Since Anne stepped aside as CEO last June, I have had the privilege of leading this company on an interim basis through the rest of the financial year. When Raman Bhatia starts as Group CEO in the coming weeks, the leadership transition will be complete and Starling will move into a new, post-founder era. Starling is an ever-changing business, which is an important part of its success, and I look forward to supporting Raman in this transition and beyond.

Raman will join a talented team of some 3,500 people connected through our offices in London, Southampton, Cardiff, and now Manchester. He will join a company that's become consistently profitable because it is laser-focused on the products, features and support that its customers want. He will join an enterprise that is both a thriving UK bank and a global exporter of cutting-edge British technology.

Consistently profitable
In the twelve months to 31 March 2024, Starling achieved a third full year of profitability. Pre-tax profit rose by 54.7% year-on-year to £301.1m as revenue increased to £682.2m from £452.8m. Although higher base rates undoubtedly provided a strong tailwind, boosting our net interest margin to 4.34% from 2.72%, we grew by attracting more customers in a competitive market because we deliver great experiences, both through our app and our UK-based customer service agents.

Total customer accounts rose to 4.2m from 3.6m and card spending went from £16.5bn to £19.9bn. Fixed term deposits flew from a standing start to £430.6m, helping total deposits increase by 4.0% to £11.0bn.

Strategic report / Group Chief Executive Officer's statement

I'm sometimes asked whether there is still scope to be disruptive since the legacy banks have been forced to up their game, particularly their digital propositions, by the arrival of challenger banks. My answer is always 'yes,' because the fundamentals that created the opportunity for Starling remain true. Legacy banks – the term 'high street banks' becomes less relevant as they close branches – are still grappling with poor customer service, costly organisational complexity and ossified technology. They haven't been able to fix these issues since the fintech revolution started over a decade ago, in spite of numerous attempts to do so.

We, on the other hand, continue to ride high in the Competition and Markets Authority's independent surveys of bank customers because of our interest-bearing current accounts, our intuitive in-app tools, our offering of fee-free international card use, and our 24/7, fully UK-based customer service teams. We continue to be chosen as 'Banking Brand of the Year' and a 'Recommended Provider' in non-partisan assessments by 'Which?'.

Connected to customers
Being 'The Bank Built for You' means we listen to our customers and their concerns. This year, we were the first UK bank to launch 'hide references' for Faster Payments, enabling our customers to block payment references from those using them to send abusive or upsetting messages. Amidst the cost-of-living crisis, we removed the fee from our Kite product for children, and families across the UK responded positively to that decision.

We have committed to supporting grassroots sport that promotes gender equality and healthy living. Since we launched our 'Kick On with Starling' programme in February 2023, for example, we have helped over 350 women and girls' football teams in small clubs and schools across the country, including providing female-fitting kit to 5,600 players. In the professional game, we signed a new three-year agreement to be the principal partner of Southampton FC Women.

Recognising the terrible impact that fraud has on our customers and communities, we have invested significantly in our proprietary technology this year, using machine learning to enhance efficiencies in areas such as authorised push payment (APP) fraud detection and ID verification at onboarding. Our investment in technology, people and risk management capabilities increased total costs, but greater internal efficiencies have freed our people to spend more time on customer service. In fact, our non-staff unit running cost has dropped to £7 from £11 in a year.

Starling's acquisition of Fleet in mid-2021 has continued to pay dividends for the Group, building our balance sheet and originating new business in a challenging environment. Fleet's buy-to-let mortgage portfolio has now grown to £2.3bn, largely offsetting reductions in our total assets due to other mortgage portfolios in run-off and repayments in Government-backed lending.

As a share of our gross lending, the proportion attributable to the UK Government's Covid-era BBLS, CBILS and RLS programmes has now shrunk to 17.7% from 28.8% a year earlier.

Increasing maturity
This is not to say that we're getting everything right. The transition from start-up to a mature bank comes with responsibilities to ensure that our governance frameworks and risk controls are robust and fit to support safe, sustainable growth. We will continue to develop these mechanisms while staying true to our values of customer-focused inclusivity.

We will also continue to collaborate with the British Business Bank in relation to our Bounce Bank Loan scheme lending, helping customers manage their repayments while working with law enforcement and other agencies to protect taxpayers' money.

New opportunities
If there's one thing that I am particularly pleased with this year, it's our breakthrough as a global provider of Software-as-a-Service. Leveraging the technology stack we built for our UK bank, Engine by Starling burst onto the scene in November 2023 with the announcement of its first two international clients – Salt Bank in Romania and AMP in Australia.

By partnering with Engine, the team behind Salt was able to build their bank in less than a year. Within just two weeks of launching Romania's first digitally-native bank, they had onboarded 100,000 customers and had become the top financial app download in the country. Everyone at Starling is thrilled by Salt's success, and we're looking forward to seeing the fruit of Engine's work in Australia when AMP launches its new bank for sole traders and small businesses there.

Looking to the future, I see in Starling a well-capitalised bank that has grown rapidly but that has captured 2.8% of the UK current account market so far, leaving significant headroom for further domestic expansion. In Engine, I see a world-class technology provider that has just begun to crack open a £91bn global addressable market for SaaS.

For now, I am enormously grateful to Starling's staff for sustaining the unique culture that makes this company what it is and for the hard work that delivered our third profitable year. I'm grateful to the Board for their support and counsel, and I'm thankful to all our customers – individuals, families, businesses and overseas partners – for the trust they place in us each and every day.

John Mountain
Interim Chief Executive Officer, June 2024

Starling has proven its business model in the UK and is now **establishing a global presence through Engine**

Starling Bank

A third year of profitable growth for Starling Bank, with a digital current account offering loved by customers

engine

Welcoming its first two clients this year, Engine is now generating revenue and starting its journey in powering core banking services around the world

Strategic report / Strategic review and business model

This year at **Starling Bank**

£301.1m
PBT
(2023: £194.6m)

54.7%
increase in PBT

31.5%
ROTE
(2023: 27.7%)

£682.2m
revenue
(2023: £452.8m)

17.8%
increase in our active customers

2.9m
active core accounts
(2023: 2.4m)

£242.0
ARPAC
(2023: £202.9)

4.34%
NIM
(2023: 2.72%)

51.3%
cost-to-income ratio
(2023: 50.7%)

42.8%
LDR
(2023: 46.2%)

Which? Awards 2023
Banking Brand of the Year 2024

Launched our new brand platform **"The Bank Built For You"**

Moneyfacts Awards 2024
Best Personal Current Account

British bank awards — Best business banking provider Winner 2023 — Smart money people
Best Business Current Account Provider

Non-IFRS measures referenced in the strategic report are defined on page 230.

Strategic report / Strategic review and business model

Our mission is to change banking for good by...

1

Doing right by our customers

We constantly strive to design products and features that solve real customer needs, and to create an outstanding user experience.

2

Disrupting the UK banking market

Our goal is to reinvent banking as we know it. To never stop innovating, delivering a captivating proposition.

3

Creating a sustainable business model

We aim to drive consistent profitable growth and capital generation while improving resilience to the wider economic environment.

4

Generating value for the business

We focus on pursuing strategic initiatives that improve key drivers of business value, allowing us to maximise potential shareholder returns.

Our values underpin everything we do:

- **Listen**
- **Keep it simple**
- **Do the right thing**
- **Own it**
- **Aim for greatness**

Strategic report / Strategic review and business model

1. Doing right by our customers

Keeping our customers at the core of what we do

We have continued to support real customer needs through thoughtful features and excellent customer service, and have been rewarded for it, coming a close second in the latest customer survey results and winning a number of fantastic awards throughout the year.

Our award-winning Kite account allows kids aged 6 to 15 to learn money management skills in a dedicated version of the Starling app, while parents have the peace of mind of visibility and control of their child's spending. This year, we made Kite free so even more families can benefit.

In 2024, Starling became the first bank to introduce 'Hide references', enabling our customers to block payment references from those using them to send abusive or upsetting messages. This is just another step we have taken to help people gain control over their finances.

Overall Service Quality[1]

SME (February 2024)

2	Starling Bank	83%
6=	Lloyds Bank	60%
6=	Santander	60%
8	NatWest	56%
14	Barclays	47%
15	HSBC UK	43%

Retail (February 2024)

2	Starling Bank	78%
7	Lloyds Bank	63%
8	Santander	61%
9	Barclays	59%
11	HSBC UK	56%
12	NatWest	55%

Awards

- Moneyfacts Awards 2024 — **Best Personal Current Account**
- **Kite Customer Satisfaction Winner**
- **Best Personal Current Account**
- **Banking Customer Satisfaction Winner**
- British Bank Awards — **Best Business Current Account Provider**

1 Latest CMA survey results.

Strategic report / Strategic review and business model

2. Disrupting the UK banking market

Proudly serving even more of the UK banking market, with **over 4 million accounts** now open

Strategic report / Strategic review and business model

2. Disrupting the UK banking market

Deploying AI to **benefit our customers and staff** while reducing our costs to serve[1] each account

Customer Experience

We use AI in the onboarding journey to **create a seamless experience for customers when opening their account**.

By using computer vision and Machine Learning methods, we are able to minimise time and friction involved in onboarding and authentication processes.

Support for staff

We operate a number of GenAI models and classic Machine Learning approaches to support customer facing teams across the business.

Agent assist
Call wrappers supporting front line colleagues by summarising customer calls live, allowing agents to **spend more time focusing on the customer and improving the support our teams can provide to customers**.

1 Non-IFRS measures referenced in the strategic report are defined on page 230.

Strategic report / Strategic review and business model

2. Disrupting the UK banking market

Realising greater efficiencies through **our technological advantage**

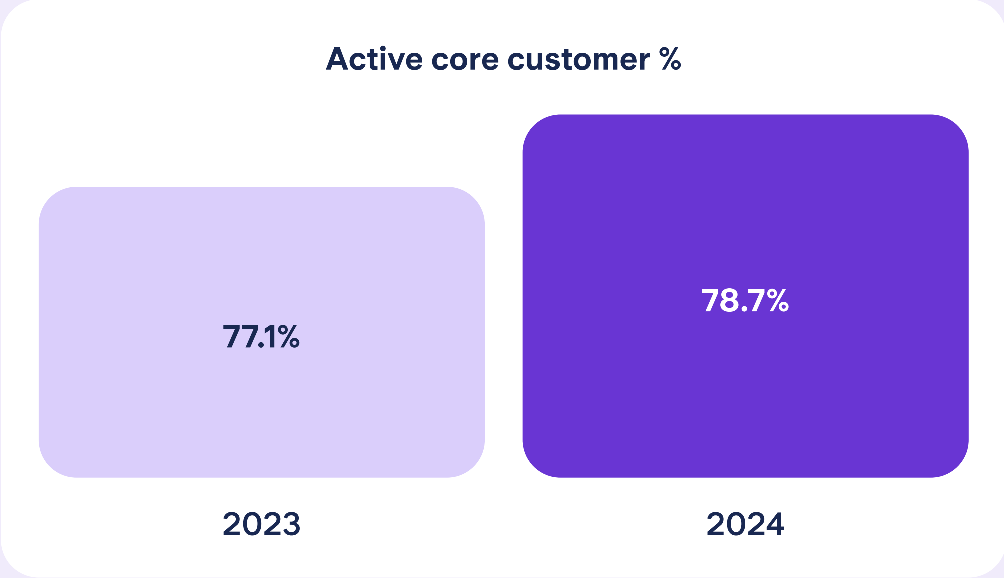
Starling's proprietary technology offers us a marked cost advantage. We decreased our non-staff unit running costs[1] by 29.8% in 2024. While continuing to reduce spend on technology vendors by building more capabilities in-house, we are deepening our investment in the people behind our award-winning 24/7 customer service.

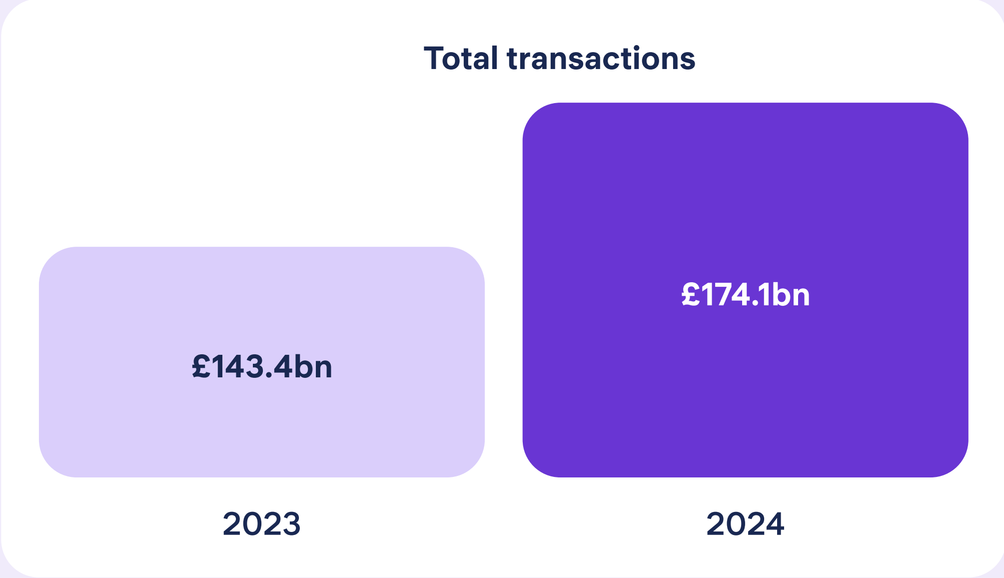
1 Non-IFRS measures referenced in the strategic report are defined on page 230.

3. Creating a sustainable business model

Increasing engagement from a loyal customer base

A growing proportion of our customers are active, which we define as revenue generating customers. Encouraged by Starling's sleek user experience, with innovative features to manage saving and spending, our customers are demonstrating higher engagement and sending and receiving more transactions with us.





Strategic report / Strategic review and business model

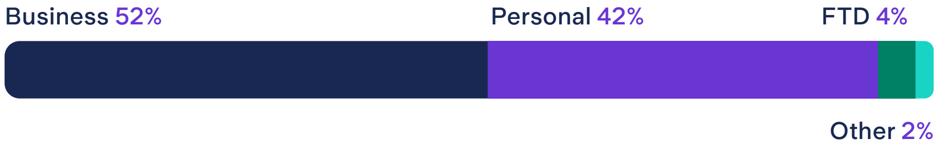
3. Creating a sustainable business model

Increasing deposit market share in a competitive environment

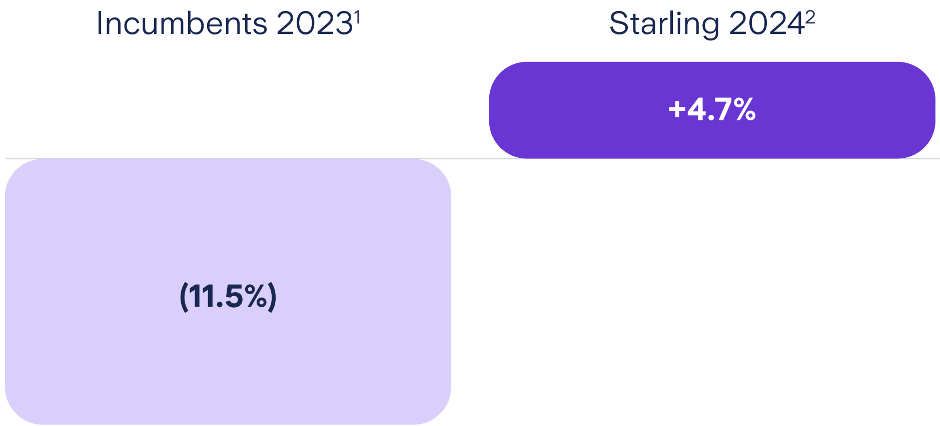
In the year to March 2024, the UK has observed a contracting sight deposits market as consumers look to maximise their returns in an increasingly competitive environment. During this time, Starling has continued to grow its deposit balances, underscoring the quality of its current account proposition.

We now hold £11.0bn (2023: £10.6bn) of deposits, but at 0.6% of the market we have barely scratched the surface. A significant runway for further growth lies ahead, and as we move into the next financial year, we look forward to improving the financial lives of many more customers across the UK.

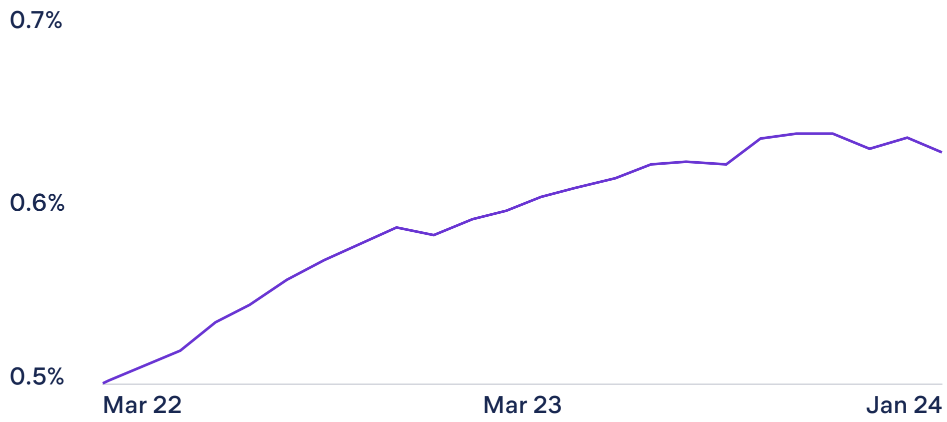
Deposit split



Retail current account deposit yearly growth



Starling's market share of UK sight deposits[3]



1 Barclays, Santander UK, Lloyds, NatWest. Financial year ending 31 December 2023.
2 Financial year ending 31 March 2024.
3 Data from BoE on Households and Non-financial Corporations interest bearing and non-interest bearing sight deposits.

Strategic report / Strategic review and business model

3. Creating a sustainable business model

A low-risk balance sheet underpinning strong profitability

Maintaining a cost base that is lean relative to competitors enables us to pursue a balance sheet strategy which generates earnings on low-risk assets. This strategy helped us to deliver revenue of £682.2m (2023: £452.8m) and NII of £592.9m (2023: £348.8m).

As at March 2024, our LDR stood at 42.8% (2023: 46.2%), with total gross lending of £4.7bn (2023: £4.9bn), providing material upside to earnings through further utilisation of the balance sheet.

1. Prioritising assets with a robust through-the-cycle credit performance
2. Maximising surplus capital as efficiently as possible
3. Pursuing lending opportunities with strong risk-adjusted return on capital.

Cost of risk
0.29%
(2023: 0.22%)

Credit risk density
13.0%
(2023: 12.5%)

NIM
4.34%
(2023: 2.72%)

ROCE
51.5%
(2023: 59.8%)

Interest earning assets

Strategic report / Strategic review and business model

3. Creating a sustainable business model

Reducing our sensitivity to interest rates

This year we initiated a structural hedging programme to provide protection from earnings risk linked to interest rates. The hedge is composed of £5.0bn of receive-fixed pay-floating interest rate swaps which are hedging rate-insensitive non-maturing core deposits. They act to smooth income throughout the interest rate cycle, reducing our sensitivity to rapid falls in interest rates.

The structural hedge has an average swap duration of 2.5 years and has a locked in average fixed yield of 4.7%.

This has allowed us to lock in income for future years, in other words reducing our interest margin volatility and resulting in a meaningful reduction in NII sensitivity.

Expected structural hedge income

Locked in from existing hedges
Potential income from future hedges

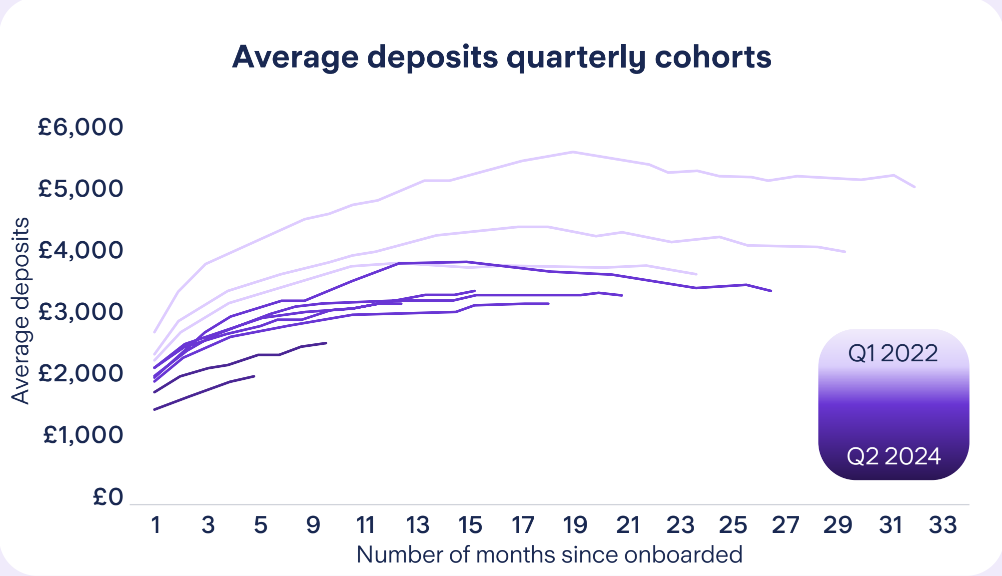
Strategic report / Strategic review and business model

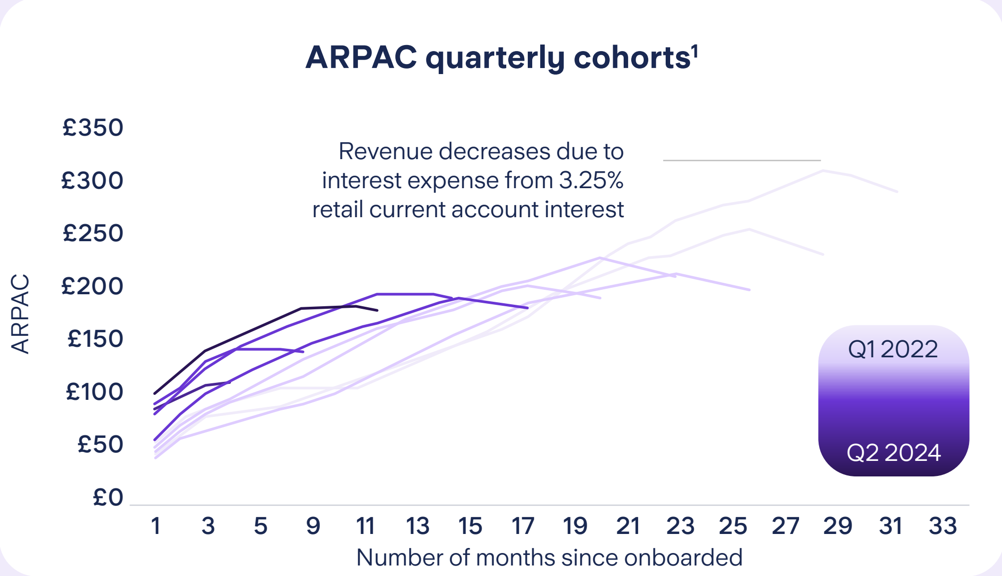
4. Generating enterprise value

High quality normalised deposit behaviours underpin ARPAC

During the COVID-19 pandemic we experienced supernormal growth as our customers saved more throughout imposed lockdowns. We are now observing more normalised behaviours from our new customers who start with lower balances than the COVID-19 cohorts. Despite these macroeconomic effects, we continue to see strong engagement with the proposition across cohorts, with customers growing their Starling balances over time.

Overall, this remains a high-quality deposit base supporting underlying ARPAC generation, propelled by the current rate environment. In 2024 Starling achieved a NIM of 4.34% (2023: 2.72%), and increased revenue by 50.6%.





1 The ARPAC quarterly cohorts shown exclude the impact of the EIR adjustment in 2024.

Strategic report / Strategic review and business model

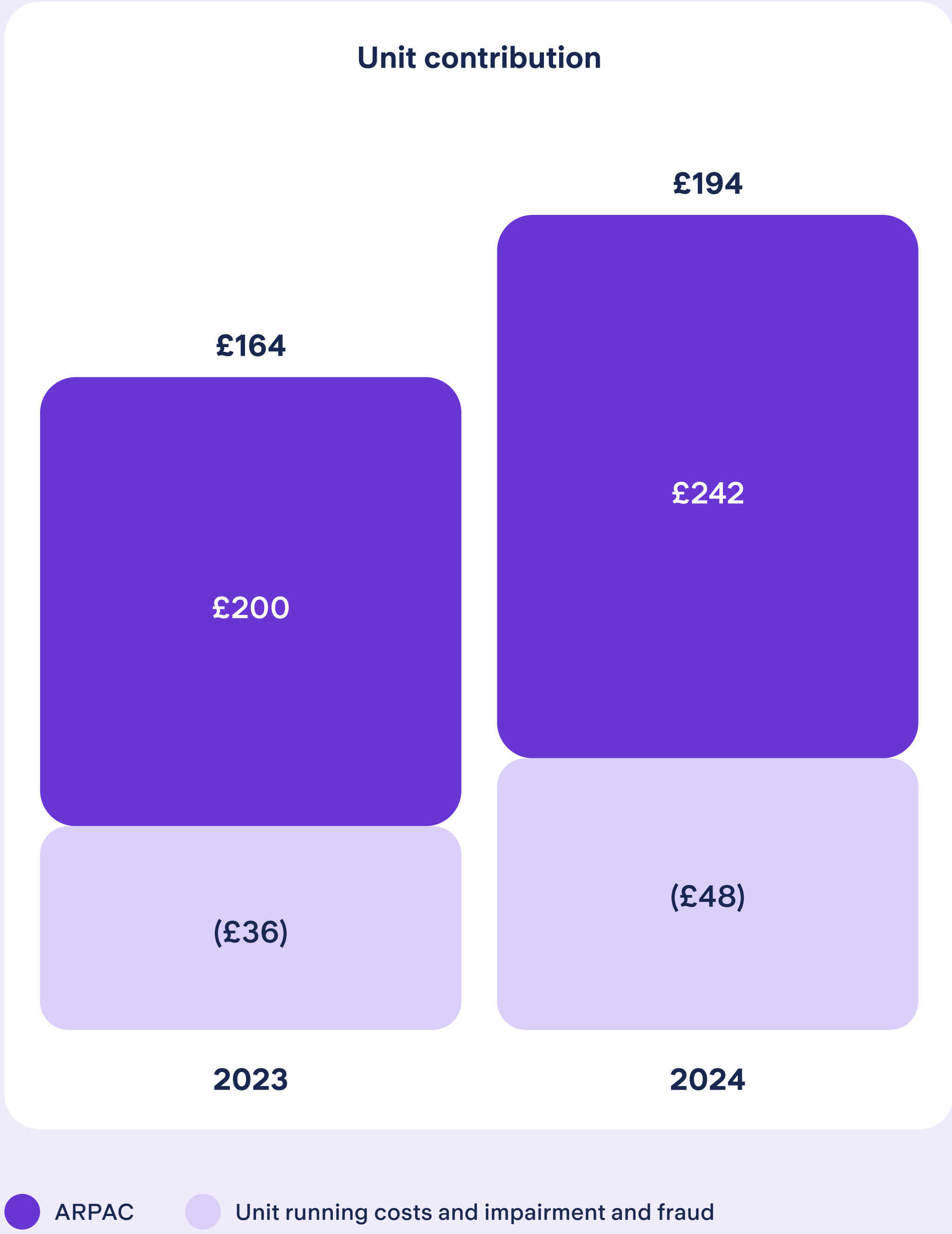
4. Generating enterprise value

Engaged customers support significant value generation against a lean cost base

Our unit contribution[1] has increased materially this year. ARPAC is comprised of a unit NII of £204, unit card income of £31 and other fees and commission unit income of £6. Unit running costs have slightly increased to £38 as we have invested heavily in customer service, as well as increased unit impairment and fraud costs of £10.

The combination of a strong ARPAC and a low cost base, enabled through our proprietary technology, delivered a PBT of £301.1m in 2024 (2023: £194.6m).

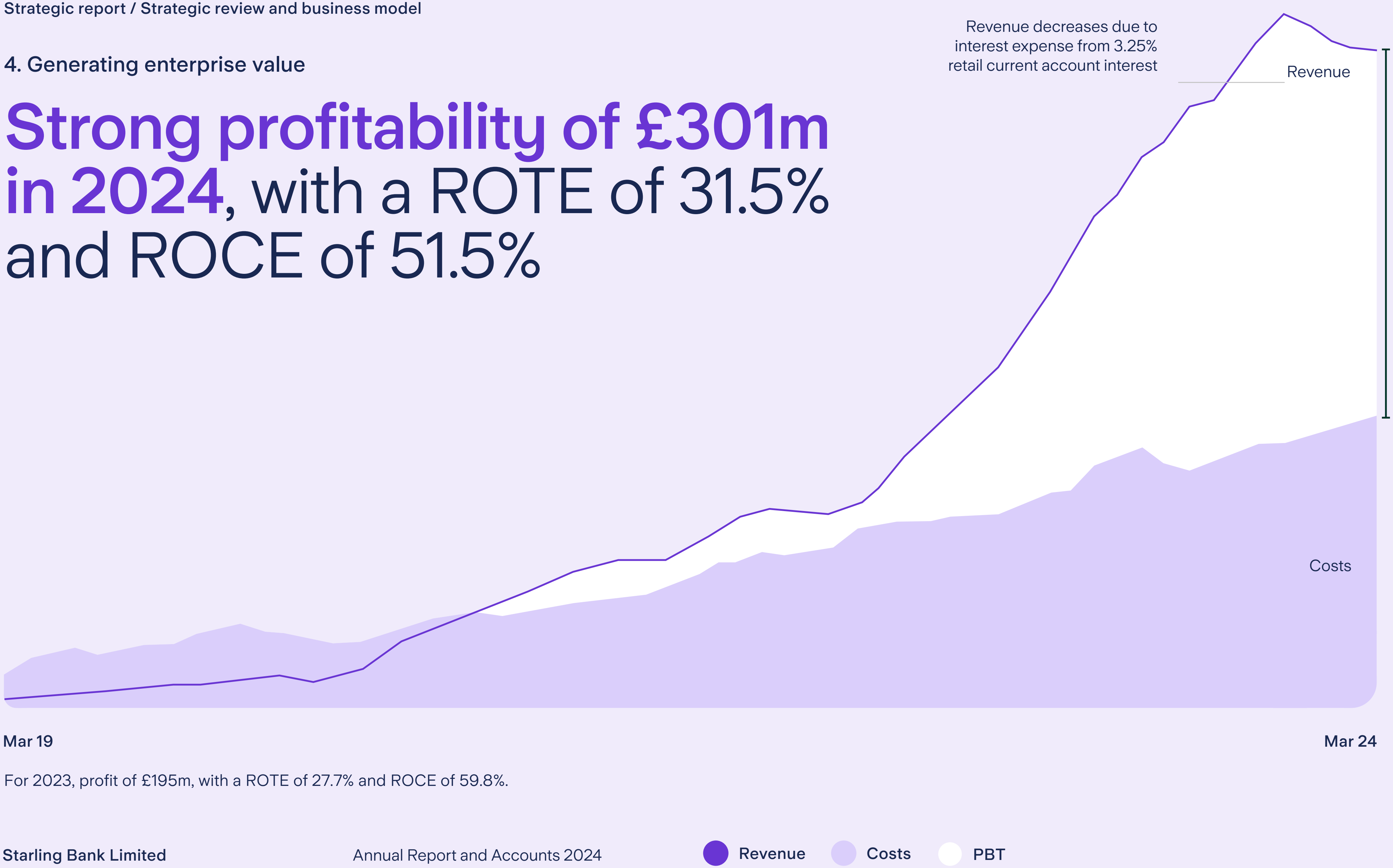
1 Non-IFRS measures referenced in the strategic report are defined on page 230.



Strategic report / Strategic review and business model

4. Generating enterprise value

Strong profitability of £301m in 2024, with a ROTE of 31.5% and ROCE of 51.5%



For 2023, profit of £195m, with a ROTE of 27.7% and ROCE of 59.8%.

Strategic report / Strategic review and business model

Engine is disrupting the core banking software market with a unique proposition that is solving real problems for banks

The problem

Banks are facing increasing cost pressures from funding and maintenance of legacy technology. With pressure to change from both customers and regulators, banks face significant risk through costly projects to modernise a complex systems landscape.

A key reference - Starling Bank

Using Engine, Starling Bank is delivering on the market position all banks are aiming for - high customer satisfaction coupled with a low cost to serve[1] per account.

The proposition - Engine takes time, cost and most importantly risk out of technology transformation

- **User Experience** - Customers get rich, personalisable, real-time and highly self-service banking products through a delightful user experience.
- **Single customer view** - Single consistent interface with a comprehensive single view of the customer across every team from first line chat and call handling to back office onboarding, payment operations and AML / financial crime.
- **Employee tooling and workflows** - Leverage employee workflows that have been developed and matured at Starling Bank, with an engaging employee experience and compliance throughout.
- **Reduced operational risk** - Address the age and fragility of bank's systems by moving to a modern cloud native, scalable and highly resilient platform.
- **Rapid deployment** - For Salt Bank, Engine delivered current accounts, debit cards and mobile wallets in 17 currencies, rich features like spaces and cross border payments, and savings products in under 12 months - far quicker than the alternatives.

1 Non-IFRS measures referenced in the strategic report are defined on page 230.

Strategic report / Strategic review and business model

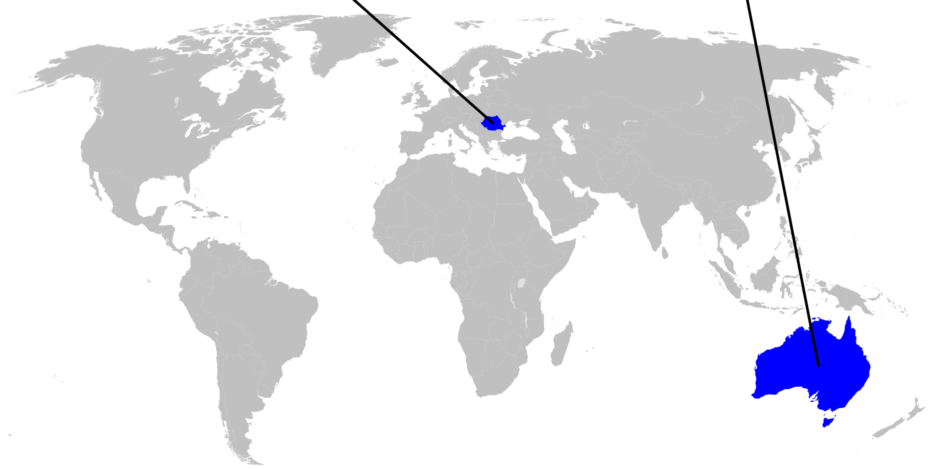
This year saw Engine sign its **first two clients**

Salt

Romania
19 Million People
0.5 Million SMEs[1]
>200k customers
onboarded in 2 months

AMP

Australia
27 Million People
2.6 Million SMEs[2]
Launch in Q1 2025



1 Source: European Commission, 2021.
2 Source: Australian Bureau of Statistics, 2023.

Strategic report / Strategic review and business model

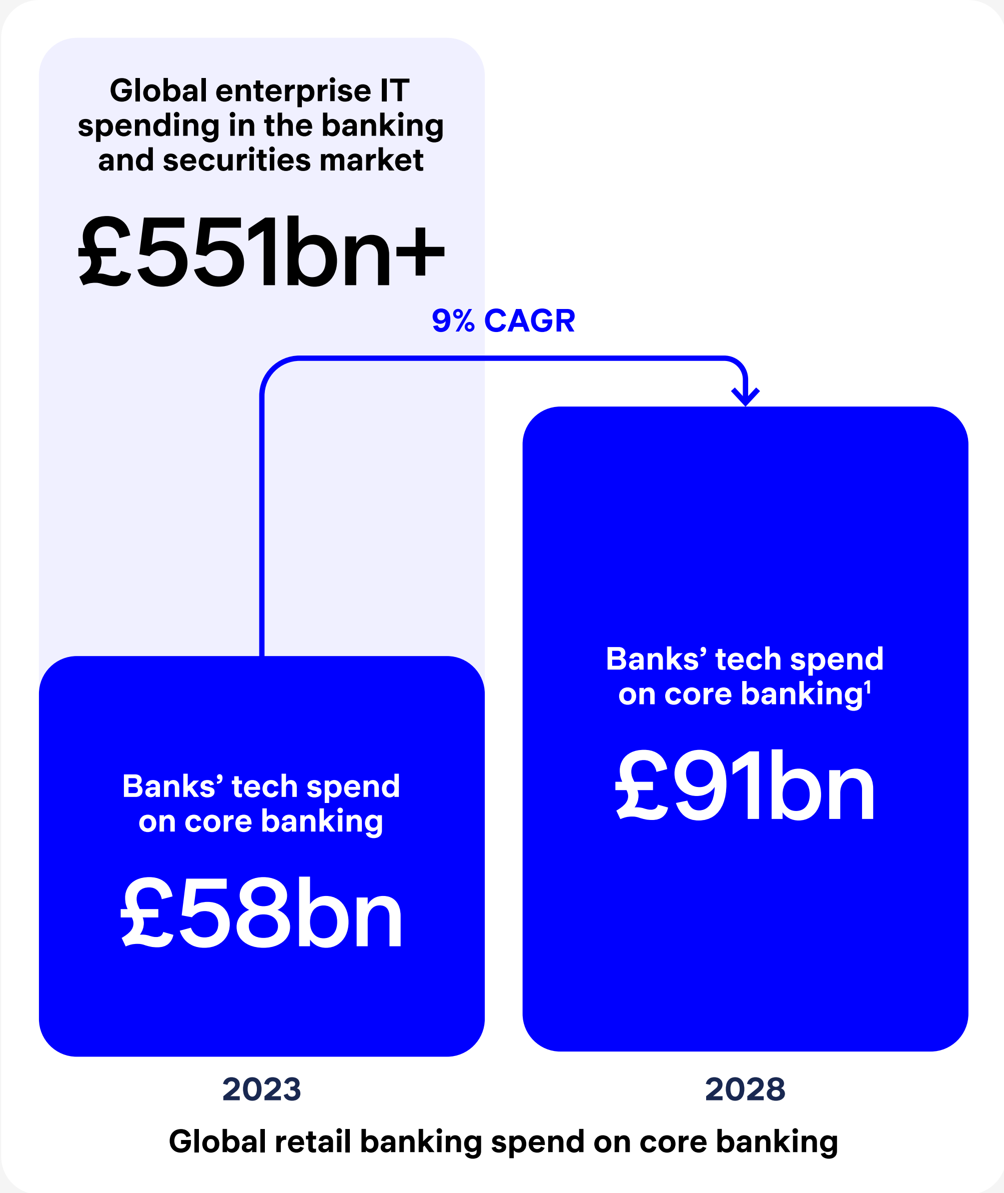
Distinct proposition that is difficult for competitors to emulate

Experience building a digital bank from scratch
Engine is not your typical software provider. The success and experience of Starling, including working with regulators, launching a new proposition/brand and the engineering-led mindset, make Engine a unique partner for potential prospects.

Cloud-native engineering excellence
Engine has solved the major challenges and refined approaches required for running a highly available, scalable, secure cloud-native bank, which enables continual change for both product innovation and regulatory requirements.

Operational experience using the banking platform
Engine provides its clients invaluable insights into how and why journeys have been built the way they have, to solve not just customer but also employee problems.

Engine is tapping into a large and growing core banking SaaS market



1 Assumptions (Sources): $551bn Global enterprise IT spend by FS industry in 2023 (McKinsey), 8.10% Average tech spend as a % of revenue (South State Correspondent), 40% Average % of tech spend on core banking (Business Observer), 0.8043 Average USD/GBP exchange rate over 2023.

Strategic report / Strategic review and business model

Sustainability remains at the heart of our strategic decisions

See page 39 for further detail.

Net zero

by 2050

100%

of emissions from Bank operations and supply chain offset[1]

£178m

of green mortgages originated[2]

7

peatland restoration programmes funded through the National Trust

1 Excluding financed emissions.
2 Green mortgages defined as mortgages to properties with an EPC C or above, originated specifically through Fleet's green mortgage product.

Strategic report / Financial review

Starling is beginning to build further scale as a global financial services group through Engine

Declan Ferguson
Chief Financial Officer, June 2024

Profit before tax
£301.1m
2023: £194.6m

Total accounts
4.2m
2023: 3.6m

Cost-to-income
51.3%
2023: 50.7%

CET1 ratio
32.55%
2023: 37.50%

Total revenue
£682.2m
2023: £452.8m

ROTE (post-tax)
31.5%
2023: 27.7%

Loan-to-deposit ratio
42.8%
2023: 46.2%

Net interest margin
4.34%
2023: 2.72%

"The Group continues to attract customers and generate a robust financial performance. In 2024 the Group reached 4.2m accounts and a £301.1m PBT."

The Group's results are prepared in accordance with IFRS as detailed in the financial statements starting on page 149.

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

Other key performance indicators can be found in the strategic review and business model on page 8. Further information on how these metrics are calculated can be found on page 230.

Strategic report / Financial review

Review of the year

In 2024, the Group continued to attract new customers to both its UK banking business and also in its recently formed SaaS subsidiary, Engine. Starling now has more than 4.2m accounts and, despite increased competition in the saving products market resulting from higher interest rates and challenges attracting and retaining sight depositors, Starling was able to grow its deposit base to nearly £11.0bn (2023: £10.6bn) by the year end.

Throughout the year, we continued to respond to our customers' needs and in October 2023 Starling increased the interest rate on its retail current accounts[1] to 3.25%, a proposition open to all customers which did not require moving money or a subscription fee. In November 2023, Engine signed its first two contracts with Salt Bank in Romania and AMP in Australia. Although the financial impact is reasonably modest in this financial year, the Board and I remain excited by the global market ahead of us for core banking services and the opportunity to reduce our reliance on NII by further diversifying the Group's revenue.

During the year Starling continued to build its balance sheet through its specialist BTL mortgage originator Fleet, reaching £2.3bn (2023: £1.5bn) in loan balances as at 31 March 2024. As a result, mortgages account for 81.7% (2023: 70.5%) of Starling's lending as at 31 March 2024, while the UK government-backed lending balances from the BBLS, CBILS and the RLS programmes continue to reduce. The Group recognises the ongoing relevance and potential impact climate-related risk will pose to its businesses, in particular its mortgage portfolios, and has continued to develop tools and data to better understand and manage those risks.

Supported by a high interest rate environment, Starling delivered a strong financial performance in the year to 31 March 2024 and continued to generate its own capital. The Bank's CET1 ratio remained well above minimum requirements throughout the year with a robust CET1 ratio of 32.5% (2023: 37.5%) and capital headroom of £284.0m (2023: £365.8m) at 31 March 2024.

The Group PBT for the year to 31 March 2024 was £301.1m, a 54.7% increase over the prior year (2023: £194.6m), assisted by the rising rate environment, which resulted in total income increasing by £232.3m. At the same time, operating expenses increased by 58.0%, as a result of the continued investment in enhancing the group's capabilities, including financial crime, and in supporting the strategy and future growth. This led to a marginal increase in the overall cost-income ratio to 51.3% (2023: 50.7%). The Group PAT for the year was £220.0m (2023: £142.9m). The Group delivered an average ROTE on a post-tax basis of 31.5% (2023: 27.7%).

Income statement

	Group 31 March 2024 £'000	Group 31 March 2023 £'000
Net interest income	**592,871**	348,845
Net fees and commissions	**84,423**	74,390
Other (expense)/income	**(30,176)**	(8,421)
Total income	**647,118**	414,814
Operating expenses net of grants	**(332,130)**	(210,227)
Impairment and charge-offs	**(13,889)**	(9,991)
Profit before taxation	**301,099**	194,596
Taxation	**(81,098)**	(51,740)
Profit after taxation	**220,001**	142,856

Total income grew by 56.0% to £647.1m, primarily driven by a 70.0% NII increase to £592.9m, despite an adverse interest income adjustment of £26.7m, following the revision of expected future customer behaviour in the Group's EIR calculation. Starling's increased cost of funds compressed NIM in the second half of the year; but overall NIM expanded from 2.72% to 4.34% as a result of base rate increases.

Net fees and commissions grew by 13.5% to £84.4m, as a result of the increase in average active customers and greater spend per customer. In the year, total transactions jumped to £174.1bn from £143.4bn.

Other (expense)/income increased by 258.3% to £30.2m, mostly due to the unwind of fair value adjustments for terminated hedge relationships, fair value moves on undesignated economic hedges and ineffectiveness recognised on fair value hedge relationships. During the year, Starling entered into a £5.0bn structural hedging programme across two tranches to reduce the Group's earnings sensitivity to interest rate moves and future income volatility. This was achieved through hedging a proportion of the non-maturing deposit book, which historically has exhibited more stable and less rate sensitive behaviours. Fair value gains/(losses) in relation to the programme are recognised in other (expense)/income. In 2024 the average structural hedge yield was 5.1% with an average duration of 2.5 years.

Operating expenses net of grants increased by 58.0% to £332.1m, driven by increased staff and other investments in strengthening the Group's risk management capabilities and in supporting the growth in the business, in particular the SaaS proposition. An area of focus was building further the Group's financial crime capability to better protect our customers, with an investment of more than £33.6m in 2024.

1 On balances up to £5,000.

Strategic report / Financial review

Income Statement continued

Total impairment and charge-offs increased during the year by 39.0% to £13.9m, reflecting the impact of a high interest rates and inflationary environment on customers.

The impairment charge for ECL increased by 43.3% to £12.2m (2023: £8.6m) as a result of the growth and continued seasoning of the mortgage lending, as well as increased default rates in the unsecured proportion of SME lending. The ECL provision charge for the year represents a COR[1] of 0.29% (2023: 0.22%).

Net interest income

	Group 31 March 2024 £'000	Group 31 March 2023 £'000
Interest income	754,808	403,103
Interest expense	(161,937)	(54,258)
Net interest income	592,871	348,845
Net interest margin	4.34%	2.72%
Average interest-earning assets	13,647,067	12,805,532
Average interest-earning liabilities	13,120,415	12,206,258

In the year ended 31 March 2024, interest income grew by 87.2% to £754.8m (2023: £403.1m) as a result of an increase in asset yield of 239bps to 5.52% (2023: 3.13%) and a 6.6% (2023: 33.5%) growth in average interest-earning assets. Interest-earning assets are either contractually or economically floating and therefore benefited from rising interest rates. Average interest-earning assets increased by £841.5m which contributed 18.9% to the growth in NII.

Interest income continues to be the main source of revenue for the Group. Starling continued to build on the success of Fleet Mortgages with its BTL mortgage portfolio reaching £2.3bn at 31 March 2024, despite periods of interest rate instability. However, this growth was offset by closed mortgage books continuing to run off and government-backed lending repayments, which resulted in an overall decrease in lending of 4.1% from prior year.

Mortgage yields increased by 157bps to 5.65% compared to 4.08% in the prior year, driven primarily by the Group's interest rate risk hedging strategy, by which all floating rate assets benefited significantly from interest rate tailwinds. Lending interest income overall increased by 21.7% mostly driven by an uplift of yields from 4.93% to 6.39%.

Starling's structural hedge notional as at 31 March 2024 was £5.0bn, which during the year provided gross structural hedge income of £136.3m and gross structural hedge expense of £139.8m, leaving a net expense of £3.5m in respect of the structural hedge. Both of these are included in the Group NII. Gross structural hedge income is the absolute interest income earned from the fixed receipts on the swaps, while the net structural hedge income is the net income earned on the difference between structural hedge rate and prevailing floating rate.

As required by IFRS 9, the Group applies the EIR methodology to interest recognition, whereby interest income is recognised at a consistent rate over the expected life of the instrument, based on expected future cash flows. We continue to make best estimates of future cash flows to take into account the impact of the changing economic environment, the historical experience of behaviours observed in each portfolio as well as idiosyncratic features of each product and new product features, such as the introduction of product switches on certain portfolios.

In the estimation of expected future cash flows on its fixed rate mortgage portfolios, the Group takes into account customer behaviour, including the reversionary period being the numbers of months a customer spends on a reversionary rate of interest as well as the expected reversionary rates applicable at that point in future. The Group uses observed trends in customer behaviour to periodically update modelled assumptions for the expected time spent on the higher reversion rate, which requires significant judgement. Once a significant change in customer behaviour becomes apparent and is expected to continue in the future, the Group is required to recognise an adjustment to the carrying value of the financial instrument with a corresponding gain or loss in the income statement.

During the year, Starling shortened its expectations of the length of time that the majority of its mortgage customers will spend in the reversionary period. A higher variable rate, or reversionary rate, is generally applicable in the reversionary period after the fixed period ends. This change was driven by observed higher refinancing activity following reversionary interest rates increases and the introduction of a product switch program. Consequently, in line with IFRS 9 requirements, a £26.7m loss adjustment was recognised in the interest income line, reducing NIM by 0.2%. Current average assumptions are that 88.6% of customers enter reversion with 5.2% remaining after 3 months. Previously the average assumption was that 88.1% of customers on average enter reversion with 49.5% remaining after 3 months.

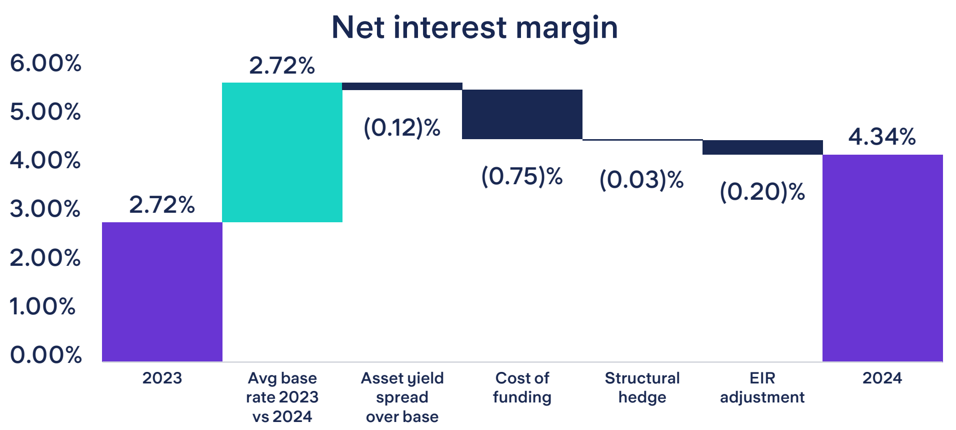
1 Non-IFRS measures referenced in the strategic report are defined on page 230.

Strategic report / Financial review

Net interest income continued
Interest expense increased to £161.9m (2023: £54.3m) mostly as a result of the impact of rate increases on the Group's long-term funding from the BoE and due to an increase in the rates paid for current account and fixed saving products. Starling started paying 3.25% on retail current accounts balances of up to £5,000 from 1 October 2023. On demand customer deposit balances grew by £70.9m to £10.5bn mostly driven by an increase in retail accounts. This performance was reasonably positive when seen against a backdrop of quite significant reductions in non-maturing and sight deposits reported by other UK banking institutions.

In a competitive saving products market, the Group's fixed term proposition continued to grow, reaching £430.6m at 31 March 2024, a 421.3% increase from prior year. Average interest-earning liabilities grew by £0.9bn to £13.1bn from the prior year, driven by increases in retail deposits.

Cost of funds increased by 79bps to 1.2% (2023: 0.4%).



High interest rates and asset growth, partially offset by the increase in costs of funding and an EIR adjustment of £26.7m, drove the increase of NIM to 4.34% (2023: 2.72%). Asset yields increased by 239bps to 5.52% (2023: 3.13%). The Group uses interest rate derivatives as part of the interest rate risk management strategy to swap fixed rates for floating and to lock in the spread over funding costs. The structural hedge did not contribute to NIM during the year, but it is expected to do so in the longer term based on the current expected interest rate trajectory.

Net fees and commissions

	Group 31 March 2024 £'000	Group 31 March 2023 £'000
Fees and commissions income	119,467	112,413
Fees and commissions expense	(35,044)	(38,023)
Net fees and commissions	**84,423**	74,390

During the year Engine, the SaaS subsidiary of the Group, entered into its first two SaaS contracts with Salt Bank Romania and AMP in Australia to bring Starling's award-winning banking platform to those markets, and allowing the Group to diversify its fees further.

Net fees and commissions, which include fees the Group earned on its BaaS and SaaS products, grew by 13% to £84.4m (2023: £74.4m). Despite going live in the latter part of the financial year, recurring SaaS revenues and implementations fees earned by Engine contributed £2.3m to the Group income, 1.9% of total fees and commissions income.

Starling continued to earn the majority of its fees and commissions income from customers' use of debit cards as spending levels improved from the prior year. Despite cost of living and inflationary pressures, total transactions jumped to £174.1bn from £143.4bn during the year. The Group's fees and commissions income grew by 6.3% to £119.5m (2023: £112.4m) due to a 20.8% increase in the average number of active core accounts to 2.7m and a higher spend per customer.

Fees and commissions expense decreased by 7.8% to £35.0m (2023: £38.0m), mostly as a result of lower loan servicing costs for mortgage portfolios serviced by third parties as higher fee portfolios continue to run-off, partially offset by higher card transaction related expenses driven by customer growth.

Other (expense)/income

	Group 31 March 2024 £'000	Group 31 March 2023 £'000
Net fair value (loss)/gain from hedge relationships	(27,746)	(7,271)
Net (loss)/gain from foreign exchange	(4,045)	(2,007)
Other operating income	1,615	857
Other (expense)/income	(30,176)	(8,421)

In 2024, the Group incurred £27.7m losses (2023: £7.3m losses) from its hedging activities. The net fair value (loss)/gain from hedge relationships includes £3.1m hedge accounting ineffectiveness gains and £4.1m other gains from economic hedges that did not qualify for hedge accounting.

In the current year the Group started its structural hedge programme, with the execution of £5.0bn of receive fixed swaps. Where possible these swaps were netted with existing pay fixed swaps and allocated to a netting book, where fair value movements offset, without the need for hedge accounting. The residual receive fixed swaps were designated in a cash flow hedge of floating rate assets, and the residual pay fixed swaps remained in macro fair value hedges of fixed rate assets.

The impact of de-designating pay fixed swaps into the netting book to offset the new receive fixed swaps - specifically, the straight-line amortisation of the hedge adjustments relating to the de-designated hedges, and the unwind of the associated de-designated swaps - resulted in a net loss of £21.9m in the year. Different unwind bases mean that while these unwinds offset over the remaining life, there may be year on year timing differences. Also included in net fair value (loss)/gains from hedge relationships is a £13.0m loss in relation to the unwind of fair value adjustments for redesignated macro fair value hedge relationships.

Net losses from FX increased year on year as the functional currency of the Group, sterling, depreciated versus other currencies. The Group FX losses related mostly to revaluation losses on bank balances, held for operational purposes, in currencies other than sterling.

Operating expenses

	Group 31 March 2024 £'000	Group 31 March 2023 £'000
Staff costs	230,381	136,369
Other administrative expenses	101,749	84,305
Total operating expenses	332,130	220,674
Credit for eligible spend on staff costs	–	(8,133)
Credit for eligible spend on other administrative expenses	–	(2,314)
Total operating expenses net of grants	332,130	210,227

Total operating expenses net of grants increased by 58.0% compared to prior year with several factors contributing to the increase. Staff costs, which make up the majority of the operating expenses, grew by 68.9% to £230.4m (2023: £136.4m). One third of this increase was attributable to the investment in building robust and effective systems and controls to counter financial crime, with the remaining due to headcount increases to support the business growth and build the Group's SaaS proposition and salary inflation. In the year headcount increased by 898 to 3,660.

On a like-for-like basis, excluding grants recognised in prior year, operating expenses increased by 50.5% to £332.1m.

Staff costs, which make up the majority of total operating expenses, increased by 68.9% to £230.4m (2023: £136.4m) driven by staff increases and salary inflation.

Other administrative expenses increased by 20.7% to £101.7m (2023: £84.3m); mostly indirect costs associated with headcount growth, including technology and premises; and with customer acquisition, including marketing. A £8.4m provision for customer remediation related to unsecured lending is also included in other administrative expenses.

Strategic report / Financial review

Statement of financial position

The movements in the statement of financial position for the year are analysed in the section below.

Loans and advances to customers

	Group 31 March 2024 £'000	Group 31 March 2023 £'000
Mortgage lending	**3,829,403**	3,436,789
SME lending	**831,894**	1,404,301
Retail lending	**28,416**	32,543
Gross carrying value	**4,689,713**	4,873,633
UK government guarantee on SME lending	**(742,376)**	(1,280,371)
Gross carrying value after UK government guarantee	**3,947,337**	3,593,262
Mortgage lending	**12,884**	7,853
SME lending	**26,468**	20,181
Retail lending	**7,611**	6,496
Impairment provision	**46,963**	34,530
Mortgage lending	**3,816,519**	3,428,936
SME lending	**63,050**	103,749
Retail lending	**20,805**	26,047
Net exposure	**3,900,374**	3,558,732
Coverage before UK government guarantee	**1.0%**	0.7%
Coverage after UK government guarantee	**1.2%**	1.0%

Despite the contractions observed in the BTL market and, at times, a turbulent interest rate environment, Fleet's lending grew by 50.7% or £0.8bn. This increase partially offset the 28.2% reduction, or £0.9bn, from the closed mortgage portfolios and government-backed lending, now in run-off. Overall loans and advances to customers decreased by 3.8% to £4.7bn (2023: £4.9bn) at year end.

By the end of March 2024 mortgages grew to represent 81.7% (2023: 70.5%) of total lending, while UK government-backed lending reduced to 17.7% (2023: 28.8%), reflecting the Group's continued focus on its secured lending growth strategy.

The Group's impairment assessment at March 2024 continues to be a pessimistic economic outlook for the UK. The outlook remains challenging in the UK due to ongoing uncertainty regarding the residual impact of cost of living on affordability, which is anticipated to lead to increasing loan balance arrears and low growth. The current year weighted economic scenario used in ECL modelling is more pessimistic than the prior year with expected muted GDP growth, higher interest rates for longer, and stickier core inflation.

The Group's impairment provision continued to be calculated using a probability-weighted view of future economic scenarios, which at 31 March 2024 incorporated a 12.5% (2023: 10.0%) weighting to the upside, 50.0% (2023: 37.5%) to the base, 23.0% (2023: 37.5%) to the downside and 14.5% (2023: 15.0%) to the severe scenario, reflecting a weaker UK economic outlook. The base case economic scenario includes growth in GDP of 0.9%, a 0.9% fall in HPI and an average unemployment rate of 4.4% across the next financial year.

Additionally, to estimate the final level of the Group's impairment provision for the year, the Group applied expert judgement through further adjustments to supplement the modelled provision and to account for factors that the models cannot consider. The size of the judgemental adjustments on ECL on loans and advances to customers in the current year was £6.4m, an increase of 12.4% compared to the prior year. This increase is driven by an increase in deferred model calibrations and other performance adjustments. In particular these relate to observed rates of default differing to current model assumptions, as well as modelling limitations in relation to the growing BTL mortgage portfolio. This has been offset by a decrease in economic uncertainty adjustments as some prior year adjustments recognised in respect of the cost of living challenges are now captured in rebuilt models. Overall in 2024, judgemental adjustments to modelled ECL on loans and advances to customers represented 13.6% of the total impairment provision, a decrease from 16.5%.

The on balance sheet impairment provisions held for ECL of £47.0m (2023: £34.5m) represent a coverage of 1.0% on the total gross carrying value of loans before the UK government guarantee (2023: 0.7%). The increase in the coverage ratio before the UK government guarantee is attributable to the increase in default rates on unsecured lending and mortgage portfolio seasoning. Removing those exposures that benefit from UK government guarantees increases the coverage ratio to 1.2% (2023: 1.0%).

Credit quality deteriorated marginally during the year with the coverage ratio showing a reduction in both stage 1 and stage 2 lending, to 0.2% (2023: 0.3%) and 3.7% (2023: 4.0%) respectively, while stage 3 lending saw an increase to 17.9% (2023: 17.7%). Improvement in the stage 2 coverage ratio reflects the greater weight in the current year of mortgage lending in stage 2 exposures, compared to the greater weight of SME lending in the prior year. The deterioration in stage 3 reflects the higher observed default rates in the unsecured proportion of SME lending.

Strategic report / Financial review

Funding

The Group[1] continues to benefit from a liability driven business model that sources primarily non-maturing deposits from both retail and SME current account customers in the UK. In order to continue to support its lending to the SME market, Starling continues to utilise central bank facilities provided by the BoE under the TFSME.

	Group 31 March 2024		Group 31 March 2023	
	£'000	**% Funding**	£'000	% Funding
Total customer deposits	**10,970,237**	**81.9%**	10,551,820	82.3%
Deposits from banks and central bank funding	**2,420,471**	**18.1%**	2,274,306	17.7%
Funding	**13,390,708**	**100.0%**	12,826,126	100.0%

Starling has built a strong retail and SME deposit franchise. During the year Starling grew its number of retail and SME accounts by 17.2% to 4.2m, as a result of its continued user experience innovations, highly rated 24/7 customer service and relentless focus on customer-orientated products and features.

In October 2023 Starling started paying 3.25% interest to retail current accounts balances up to £5,000, while continuing to offer one-year fixed-term deposits to retail and SME customers. Against a backdrop of an increasingly competitive market for savers and current accounts, Starling grew its on demand customer deposits by 0.7% to £10.5bn and its fixed term deposits by 421.3% to £430.6m in the year. Although supported by front book customer growth, the modest growth in current account deposits is positive against the net outflows reported amongst other UK institutions. The funding strategy is not currently expected to change.

Starling maintained its access to central bank funding during the year for liquidity risk management purposes under the TFSME. The central bank funding coincides with the UK government BBLS and CBILS programmes. The TFSME drawings have residual maturities of between less than a year and three years. Starling continued to pledge its portfolio of BBLS loans as collateral for funding under the TFSME. £472.4m of BBLS loans have been utilised as collateral at 31 March 2024 (2023: £706.8m).

On 31 March 2024, the Group's LDR was 42.8% (2023: 46.2%) and the regulatory measure of NSFR[1], which measures the stability of funding sources, was 216% (2023: 245%). The Group's key funding ratios are closely monitored by senior management and its NSFR has remained comfortably above the minimum regulatory requirement of 100% throughout the year.

Liquidity

The Group's[1] prudent approach to liquidity management has resulted in it continuing to maintain high levels of liquid assets, as shown in the table below. On 31 March 2024 the regulatory measure of LCR[1] was 408% (2023: 438%). The Group's liquidity levels are closely managed by senior management and have remained comfortably above the minimum regulatory requirements of 100% throughout the year. The eligible liquidity buffer in the below table consists of total HQLA held after LCR haircuts.

	Group 31 March 2024	Group 31 March 2023
	£'000	£'000
Cash balances with BoE	**5,718,800**	5,526,888
Debt securities	**1,031,493**	731,468
Eligible liquidity buffer	**6,750,293**	6,258,356

As at 31 March 2024, the Group's total debt securities were £3.3bn (2023: £2.5bn). Of this, £1.9bn (2023: £1.6bn) has been pledged as collateral under the BoE's Sterling Monetary Framework or for derivative counterparty margining purposes, with the balance being retained for liquidity management purposes.

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

1 Funding and liquidity regulatory requirements apply to the Company only, Starling Bank Limited.

Strategic report / Financial review

Capital resources

The Group[1] maintained a strong capital position, which was significantly in excess of its minimum capital requirements throughout the year. The Group's CET1 ratio decreased to 32.55% (2023: 37.50%) as a result of Starling's partial transfer MREL requirements, a series of share repurchases made by the EBT 2 that occurred during the year and increased RWAs. RWAs increased by £780.7m in the year to £2.7bn (2023: £1.9bn) primarily due to an increase in average risk weight density of credit risk assets as more mortgage assets offset the run-off in government-backed lending. The increased profits during the year were partially offset by a reduction in CET1 capital as a result of repurchases of own shares made by the EBT 2, totalling £56.4m. The Group generated £232.3m of retained earnings that qualify as CET1 capital.

As at 31 March 2024, the Group's TCR was £353.7m giving a headroom over TCR of £517.1m, excluding the impact of any Pillar 2b buffers. The increase in capital resources and cash deposits placed with the BoE led to an improvement in the Group's UK leverage ratio to 10.4% (2023: 9.3%).

	Group 31 March 2024 £'000	Group 31 March 2023 £'000
Total regulatory capital	870,769	710,614
Total risk-weighted assets	2,675,477	1,894,758
Shareholders' equity	889,770	695,277
CET1 ratio	32.55%	37.50%
Total Tier 1 ratio	32.55%	37.50%
UK leverage ratio	10.39%	9.30%

The Group monitors capital by applying CRD V. An ICAAP is prepared on a regular basis by the Group in accordance with the PRA's regulatory guidance. The Board remains satisfied that the Group has sufficient capital resources to meet its ongoing obligations over the current planning horizon.

The Group began compliance with the interim MREL from April 2024, being the lower of 18.0% of RWAs or 1.15x its TCR. The end-state MREL will be 1.3x the binding minimum capital requirement and must be met from April 2025.

The regulatory regime for banks continues to evolve. Starling monitors, and will continue to monitor, regulatory announcements and changes. Future changes to a number of our capital ratios will occur with the implementation of Basel 3.1. The PRA has extended the implementation date to 1 July 2025 and has also published a set of near-final rules in relation to some Basel 3.1 elements. The Group continues to assess the impact of the implementation.

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

Declan Ferguson
Chief Financial Officer, June 2024

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

Strategic report / Non-financial and sustainability information and non-financial key performance indicators

This section constitutes the non-financial and sustainability information statement, prepared in order to comply with Sections 414CA and 414CB of the Companies Act. The information is provided by cross-reference to other sections in the Strategic report.

Companies Act Reference	Reporting requirements	Reference	Policies and standards which govern Starling's approach
414CB (A1)(1)(A)	**Environmental matters**	ESG review, page 36, Directors' report, page 79	– Responsible investment policy. – Climate risk policy.
414CB (A1)(1)(B)	**Employees**	ESG review, page 36	– Code of conduct. – Whistleblowing policy. – Compliance training and competence policy. – Performance management policy. – Remuneration policy. – Health and safety policy. – Equal opportunities policy. – Anti-harassment and bullying policy.
414CB (A1)(1)(C)	**Social matters**	ESG review, page 36	– Ethics statement. – Charity and community policy.
414CB (A1)(1)(D)	**Respect for human rights**	ESG review, page 36	– Data management policy. – Records management and data retention policy. – Policy on modern slavery and human trafficking.
414CB (A1)(1)(E)	**Anti-corruption and anti-bribery matters**	ESG review, page 36	– Anti-bribery and corruption policy. – Fraud risk policy. – Sanctions policy. – Anti-money laundering policy. – Market abuse policy. – Conflict of interest policy.
414CB (2A)	**Climate-related financial disclosures**	Climate-related financial disclosures, page 39	– Climate risk policy.
414CB (A1)(2)(A)	**Description of business model**	Strategic review and business model, page 8	
414CB (A1)(2)(D)	**Description of principal risks and impact of business activity**	Risk report, page 85	
414CB (A1)(2)(E)	**Non-financial key performance indicators**	Strategic review and business model, page 8 Environmental, social and governance review page 36 Climate-related financial disclosures, page 39	

Strategic report / Environmental, social and governance review

Changing banking for good

Since day one, Starling has embarked on a mission to change banking for good – for our customers, for our employees and for the environment. ESG is a key area of focus at Starling and, as we reflect on the year gone by, we are delighted to share the important strides we've made.

The environment

We serve millions of people and businesses across the UK and strive to create meaningful and lasting impact. We recognise the importance that our products and services play in supporting the UK's transition to a low carbon economy. During the year, we originated £365m of new mortgages to properties with an EPC rating of C or above, contributing towards our total gross lending to properties with an EPC of C or above of £1.3bn.

Fleet also delivered a new innovative product during the year, launching a limited-edition feature to reward landlord borrowers with £1,000 cash back if they improved the energy efficiency of their property to a C or above during their initial fixed rate period.

Disrupting banking business models is core to Starling's mission and that extends to how banks impact the environment. Our branchless business model results in the business having a limited impact on the environment. But caring for the environment does not stop at emissions, we continue to do our bit and support sustainability initiatives such as our partnership with Trillion Trees and a new partnership with the National Trust.

April 2023 marked the end of our partnership with Trillion Trees which culminated in over 100,000 trees planted in Tanzania. The programme's ethos was carried into the year with the launch of "The Starling Seed Bank" which provided our employees with all the necessary resources to begin their own planting journey.

During the year, we also continued to reaffirm our commitment to tackling the climate crisis. We are an active member of multiple industry bodies such as TechZero and PCAF as well as being an active participant in UK Finance's Working Group on ESG for SMEs which meets bi-monthly.

Social

People
The Group's commitment to being an employer of choice and creating an environment in which our talented people contribute and feel fulfilled remains a key priority for us. In May 2023 we opened a brand new office in Manchester, and have set about hiring and inducting new employees from the surrounding areas to the Starling team.

We treat our people fairly and with respect, and continue to listen to and respond to employee feedback through regular engagement surveys and feedback sessions. Our overall staff engagement survey score of 8 out of 10 is testament to the efforts we make to ensure our people feel supported, motivated and engaged.

We invest in the development of our people, providing opportunities to learn and grow with us. Employee learning opportunities include on the job training, classroom-based training, professional qualifications as well as virtual training through our online system. We have continued to roll out our award winning (British Training Awards 2023) manager capability training programme, the Starling Flight Path, equipping our managers with the skills needed to create engaged, high performing teams. This year we have also extended our apprenticeship programmes for our current employees to include employees in Wales for the first time. We ran our first graduate and intern programme in 2023, and based on the success of that programme have increased the number of roles available for graduates and interns in 2024.

Starling's founder, Anne Boden, set up the UK's first digital-only bank to disrupt an outdated industry and build a business with equality at its heart. We believe that diverse teams are better teams; we've increased our percentage of female leaders in the business to 46% this year, against a Women in Finance Charter target of 40%. We know that the technology industry as a whole does not attract enough women, so we work hard to improve that by hiring talented women into our technology teams. We continue to collaborate with partners like Code First Girls, Women in Tech and Career Returners, to help us identify and overcome the barriers that stop more women working in technology. Through removing the barriers that exist to attract, retain and develop women into technology, we'll create a pipeline of technology leaders for the future and better female representation in the technology and financial services industries.

Strategic report / Environmental, social and governance review

Social continued

People continued
Our commitment to doing the right thing extends to the way that we reward our people. Starling is a Living Wage Employer, we pay our employees a wage that meets the cost of living, not just the UK government minimum. Our employee benefits are designed to support all elements of employee well-being – supporting financial well-being, mental well-being and physical well-being. This year, we introduced a new all employee benefit of Group Income Protection, providing greater financial security for our people in the event that they are unable to work due to illness or accident. All managers and employees are invited to take part in mental health and resilience training, and we have a team of mental health first aiders as well as active employee networks.

Serving customers
Starling has built a bank to make money management simpler and more rewarding for its customers. It wants to remove the anxiety associated with money by giving customers more control. It believes in delivering good customer outcomes, being transparent, helping its customers with additional needs, communicating in straightforward language that's easy to understand (and difficult to misinterpret) and making sure that our products and services provide fair value to our customers with no hidden fees Starling continues to embed the Consumer Duty regulations and look for ways to further improve the customer journey and experience – see page 85 of the risk report.

Starling's dedicated Welfare Support team exists to help customers with additional or complex needs, such as customers experiencing financial difficulties, bereavement, or mental health issues. Starling signposts to mental health charities MIND and Samaritans who can provide a range of help and support for those suffering from mental health challenges.

Starling will shortly be offering British sign language, Text Relay and a language line as an option for customers.

Starling's Connected card enables those who rely on carers to do their shopping to pay for the goods securely, while Starling's gambling block allows customers to block all card payments made to gambling or betting merchants with one switch. Starling is also proud to have partnered with the charity Surviving Economic Abuse to deliver the 'Hide references' feature, a market first which enables victim-survivors to mute payment references that may be linked to abuse.

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

Starling is committed to ensuring that its algorithms are fair and free from bias and prejudice. Starling has explored techniques and tools to understand how ML model predictions can be explainable, fair and free from bias and prejudice, and will continue to evaluate and monitor these on an ongoing basis to ensure these techniques are fully integrated and embedded into its model development processes.

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

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

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

Starling has a zero-tolerance stance towards slavery and trafficking. It is committed to protecting human rights and preventing modern slavery and human trafficking through targeted detection activities, utilising both internal and external intelligence and initiatives.

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

Strategic report / Environmental, social and governance review

Social continued

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

During the year, Starling entered into a three-year corporate partnership agreement with the National Trust, with a commitment of £1m per annum. The contribution will establish a Next Generation Nature programme with the aim of providing children and young people, who otherwise struggle to access outdoor spaces, access to nature. The sponsorship also allows for the provision of free lunches for children at National Trust Cafes and funding for the Summer of Play scheme. A portfolio of the sponsorship is specifically for the purpose of peat restoration.

For the 2024 financial year, Starling made donations of £276,450: £100,000 to National Trust (charity number 205846); £90,300 to Action for Children (charity number 1097940); £50,000 to Swansea University (charity number 1138342) and £30,000 to WWF (charity number 1081247). Starling also made the following smaller donations; £2,000 to Diabetes UK (charity number 215199); £2,000 to Prince's Trust (charity number 1079675); £1,000 to CoppaFeel (charity number 1132366); £1,000 to National Aids Trust (charity number 297977); £60 to MyBnk (Charity Number 1123791); £60 to Citizen Advice (Charity Number 279057); and £30 to Step Change (charity number 1016630).

Governance

Good corporate governance is fundamental to any effective organisation, and the corporate governance arrangements of Starling are critical in helping the Group achieve its strategic objectives, and meet its principal regulatory and legislative duties.

The Bank's Corporate Governance Framework sets out the key responsibilities and procedures in place to ensure the Bank is governed to a high standard and supports oversight of a range of matters including ESG. The framework facilitates responsiveness and effective decision-making, ensuring that the Board, board committees, ExCo and senior management are able to collaborate proactively, consider issues as they arise and respond appropriately.

Examples of the Bank's approach to governance in the context of ESG matters are set out on pages 41 to 44. Further information on Starling's overall governance framework can be found in the Governance report from page 56.

Section 172(1) statement
Pursuant to its obligations under Section 414CZA Companies Act, 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 79 of the directors' report.

Strategic report

Climate-related financial disclosures

The section constitutes the climate-related financial disclosures, prepared in order to comply with Section 414CB of the Companies Act. These disclosures also consider the requirements of PRA's Supervisory Statement 3/19 "Enhancing banks' and insurers' approaches to managing the financial risk from climate change".

Companies Act 414 (CB)	Page reference	Our progress
(a) A description of the governance arrangements of the company or LLP in relation to assessing and managing climate-related risks and opportunities;	See governance section from page 41	The ESC supports the Board by providing oversight and advice on ethics, environmental and societal matters, and monitors the Group's performance towards achieving its climate-related targets, and its commitment to reach net zero by 2050. The BRC supports the Board by providing oversight of current and potential future risk exposures of the Bank, which includes climate-related risks. Examples of key discussions and/or approvals that took place during the year are set out on pages 41 to 43.
	See governance section from page 41	Key responsibilities of the CEO, CRO, CFO and the CCAO in respect of Starling's environmental strategy, overall risk control and oversight, corporate development activity including environmental matters, and Board and board committee updates on sustainability matters are set out on page 43. Examples of key discussions and/or approvals that took place during the year are set out on pages 41 to 43.
(b) A description of how the company or LLP identifies, assesses, and manages climate related risks and opportunities;	See risk management section on page 46	Starling undertakes an annual risk assessment looking at both physical risks and transition risks relevant for Starling's business and considers how these risks could impact credit, operational and market risk under different scenarios. Additional risk assessments are undertaken as part of any changes to the Bank's strategy.
	See opportunities and strategy section from page 45	Starling undertakes an annual strategic review which involves identifying a range of potential climate-related opportunities across a number of categories that are applicable to Starling's business model.
(c) A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management process in the company or LLP;	See risk management section on page 46	Climate risk has been incorporated into the Bank's risk taxonomy and a climate risk policy has been implemented. Starling has incorporated climate-related financial risks into the terms of reference of key governing committees.

Strategic report / Climate-related financial disclosures

<table>
<tr><th>Companies Act 414 (CB)</th><th>Page reference</th><th>Our progress</th></tr>
<tr><td rowspan="2">(d)
A description of—
(i) the principal climate-related risks and opportunities arising in connection with the operations of the company or LLP, and
(ii) the time periods by reference to which those risks and opportunities are assessed;</td><td>See risk management section on page 46</td><td>Climate-related financial risks are considered low for Starling, transitional and physical risk impacting credit risk in Starling's mortgage portfolios is the area where this risk is most material. However, Starling does not expect this risk to have a significant impact on its profitability or capital position in the short to medium term.</td></tr>
<tr><td>See opportunities and strategy section from page 45</td><td>Starling has identified a number of climate-related opportunities across a spectrum of categories including products, technology, education, etc., along with the time horizon over which these can be expected to occur.</td></tr>
<tr><td>(e)
A description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the company or LLP;</td><td>See opportunities and strategy section from page 45</td><td>Climate-related financial risks such as flood risk are considered during the risk assessment undertaken as part of any changes to the Bank's strategy. Meanwhile the potential impact of climate-related opportunities identified, such as the increased use of renewable resources, are assessed during the annual sustainability strategic review - these are not anticipated to result in a material impact to Starling's business model.</td></tr>
<tr><td>(f)
An analysis of the resilience of the business model and strategy of the company or LLP, taking into consideration of different climate-related scenarios;</td><td>See risk management section on page 46</td><td>Starling assesses its climate risks and carries out scenario analysis on the highest potential risk areas. Starling has carried out scenario analysis to look at the increase in capital requirements if all properties transitioned to their higher possible EPC rating and considered the costs for enhancing the energy efficiency of the homes. The impact on capital was not significant now and over the next 5 years.

Starling will continue to incorporate climate risk scenarios in its stress testing for potential high-risk areas.</td></tr>
<tr><td>(g)
A description of the targets used by the company or LLPs to manage climate-related risks and to realise climate-related opportunities and of performance against those targets;</td><td>See metrics and targets on page 49</td><td rowspan="2">Starling has committed to a number of ambitious targets including net zero by 2050 at the latest, as well as an interim target of a 1/3 reduction in emissions from our own operations and supply chain by 2030. We report separately on carbon and energy efficiency measures as part of our SECR requirements on page 50.</td></tr>
<tr><td>(h)
The key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.</td><td>See metrics and targets on page 49</td></tr>
</table>

Strategic report / Climate-related financial disclosures

Governance

Board governance level	
Board	The Board is the principal decision-making body for all significant matters affecting the Group and is accountable to shareholders for delivering long-term sustainable value. It is responsible for setting the Bank's strategy, objectives and risk appetite, taking into consideration the interests of our customers and shareholders.
Key discussions and/or approvals that took place during the year by the Board on climate-related matters:	
Strategy	Following recommendation from the BRC, the Board reviewed and approved the Bank's Strategic Risk Appetite Statement, Strategic Risk Framework and Strategic Risk Policy in July 2023. The approved Strategic Risk Appetite included updates to the statement, metrics and Management Information to better reflect the growth ambitions of Starling, including the addition of ESG Risk to the Risk Appetite Statement. The Strategic Risk Framework outlines the Bank's strategic risk oversight framework and associated policy and governance structure. The Strategic Risk Policy ensures that the Bank has documented requirements for the identification, assessment and management of strategic risk, with clear ownership and responsibilities assigned. In November 2023, the Board approved the UK Bank Strategy 2024, which included consideration of the Bank's environmental strategy. This focused on ensuring that the Bank provides sustainable banking as well as the achievement of the net zero targets Starling committed to in 2021.
ESG training	In March 2024 the Board received training from Morgan Stanley on ESG strategy considerations which covered three sections. The first included a definition of ESG, the outlook for ESG and its implications for financial institutions. The second covered Starling's planned key areas of focus for ESG over the next few years. The third provided a deep-dive on environmental considerations. The deep-dive discussed Starling's Scope 1, 2 and 3 emissions as well as key areas of focus for investors. An overview of Starling's key sustainability differentiators was provided and the Board was made aware of the risk of greenwashing. An update was also provided on how risk management processes had been evolving to integrate material ESG factors. Potential ESG considerations for Starling's governance and risk management processes were provided.
Principal Risks Assessment	During the year, the Board discussed and reviewed the Principal Risks Assessment comprising major current and emerging risks perceived to be significant to achieving the Bank's strategic objectives and plan. As part of this review, the Board considered the risk that the Bank does not appropriately manage the increasing impacts of climate change from a number of perspectives, including commercial risks, financial risks and regulatory and stakeholder expectations. In December 2023 the Board reviewed and approved the ICAAP. The ICAAP's section on climate-related financial risks concluded that these risks were currently low for Starling and should not have a significant impact on the Bank's profitability or capital position now and over the planning horizon.

Strategic report / Climate-related financial disclosures

Governance continued

	Board committee governance level
BRC	The BRC supports the Board by providing oversight of current and potential future risk exposures of the Bank. The BRC monitors the risk and compliance oversight, and effectiveness of the Bank's risk management practices, processes and systems. It provides oversight to the Board on future risk strategy, and reviews proposals to amend risk appetite, key risk policies and frameworks prior to recommendation to the Board.
	Key discussions and/or approvals that took place during the year by the BRC on climate-related matters:
Climate-related financial risk assessment	In September 2023, the BRC received an update on climate-related financial risks facing the Bank which included recommendations the ERC had previously discussed which arose from an assessment and gap analysis against regulatory requirements. The BRC was provided with details on how mortgage lending can manifest climate risks including physical and transition risks. It also received a climate-related financial risk assessment of the Bank's treasury portfolio. The BRC challenged how the Bank incorporated climate-related risk considerations into the Bank's strategic decision-making. It was concluded that climate-related financial risk remains low for Bank and the risk should not have a significant impact on the Bank's profitability or capital position now and over the planning horizon.
April 2023	– Discussed the Summary of Major Current & Emerging Risks before it was submitted to the Board for approval.
July 2023	– Approved and recommended the Strategic Risk Appetite, the Strategic Risk Framework, and the Strategic Risk Policy to the Board for approval.
September 2023	– Discussed Starling's 2023 ICAAP and the climate-related financial risk assessments.
December 2023	– Approved and recommended Starling's 2023 ICAAP to the Board for approval.
March 2024	– Discussed and reviewed the Bank's proposed principal and emerging risks, which included climate risks as an emerging risk.
ESC	The ESC supports the Board by providing oversight and advice in relation to current and potential future risk exposures of the Group arising from its ethics, environmental and societal duties, responsibilities and objectives. The Committee monitors progress made by Starling including achievements on environmental strategic objectives. The ESC reviews and recommends proposals to the BRC and Board in relation to the Bank's risk appetite on environmental matters.
	Key discussions and/or approvals that took place during the year by the ESC on climate-related matters:
TCFD	During the year, the ESC was kept up to date on Starling's TCFD reporting requirements for the Bank's 2024 Annual Report and Accounts. Committee members discussed how different approaches had been adopted by other companies and requested that management allow sufficient time to consider the requirements to ensure appropriate planning and understanding of the Bank's obligations.
June 2023	– Monitored Starling's Carbon Emissions Progress report; – Discussed Starling's preparation on TCFD; – Reviewed the Mortgage EPC ratings per Mortgage portfolio; and – Provided with an update on the progress made on Starling's 2023 Carbon Reduction Plan.
October 2023	– Discussed and reviewed Starling's carbon emissions activity; ESG disclosures on Starling's website; Consideration of B-Corp accreditation; Starling's approach to TCFD report; and Starling's new reporting requirement on Energy Savings Opportunity Scheme Regulations.
March 2024	– Discussed and reviewed emerging sustainability issues including EPC ratings; – Reviewed Starling's 2022/2023 Carbon Emissions Activity; – Reviewed the Mortgage EPC ratings per Mortgage portfolio; and – Discussed and agreed to review proposed updates to the committee's Terms of Reference in June 2024 once key areas of responsibility for the committee have been defined and approved.

Strategic report / Climate-related financial disclosures

Governance continued

Executive governance level	
Executives	All Executives are responsible for ensuring adherence to the Bank's Strategic Risk Policy including environmental risks. There are several C-Suite level positions that are responsible for climate-related matters.

Executives			
CEO	**CRO**	**CFO**	**CCAO**
The CEO is responsible for ensuring the Bank effectively executes the Board approved strategy which includes Starling's environmental strategy.	The CRO is responsible for establishing the strategic risk framework, strategic risk policy and ensuring effective overall risk control and oversight, including climate-related risks.	The CFO is responsible for the financial management of the Bank, including capital and liquidity management and has responsibility for strategic and corporate development activity including environmental matters.	The CCAO is responsible for Starling's public affairs and leading on internal and external communications. The CCAO provides regular updates to the ESC on sustainability matters.

Executive committees	
ERC	Ensures that the Bank maintains an appropriate risk and control environment which includes environmental risks. The ERC provides a forum for risk owners to provide regular updates on risk profiles which are reviewed and challenged by the Risk function. The ERC also ensures the implementation of relevant Board approved frameworks and development of relevant risk management strategies. The ERC provides updates to the BRC on risk strategy and priorities of the Bank. The ERC meets at least ten times a year and reviews key risk management artefacts including the CRO report prior to submission to the BRC. The ERC reviews and recommends the Bank's Risk Framework to the BRC. The ERC reviews the risk elements of the ICAAP prior to submission to the BRC. The ERC recommends the Bank's Risk Appetite Statement to the BRC, for final approval by the Board.
Key discussions and/or approvals that took place during the year by the ERC on climate-related matters:	
Strategic risk and climate risk policies	In July 2023, the ERC approved and recommended to BRC Starling's Strategic Risk Appetite, Strategic Risk Framework, and the Strategic Risk Policy following challenges on the visibility of the ESG risk at an Executive level. In September 2023, the ERC received a Climate Risk Deep-Dive and Starling's Climate Risk Policy. The ERC was provided with an overview of the financial loss Starling may suffer as a result of physical and transitional climate risk crystallising under different scenarios. The ERC was also provided with Starling's climate-related financial risk assessment for Starling's treasury portfolio. Challenge was received on the Climate Risk Deep-Dive and Climate Risk Policy. An updated Climate Risk Policy was brought to the ERC in November 2023 where it was approved.
July 2023	– Approved and recommended the Bank's Strategic Risk Appetite, Strategic Risk Framework, and the Strategic Risk Policy to the BRC for review and, if thought, fit, recommendation to the Board.
September 2023	– Reviewed and challenged the Climate Risk Policy; and – Reviewed the 2023 climate-related financial risk assessment.
November 2023	– Approved the Climate Risk Policy.
March 2024	– Reviewed and recommended the Bank's proposed principal and emerging risks, which included climate risks as an emerging risk to the BRC, for review.

Strategic report / Climate-related financial disclosures

Governance continued

Business units		
Risk	**Corporate affairs**	**Strategy**
Provides advice, guidance and challenge relating to Starling's strategic risk. Reports to BRC on strategic risk management, provides challenge and performs assurance reviews to ensure that the principles of the Strategic Risk Framework and Policy are being fulfilled.	Produces regular reports to the ESC on ESG matters and ensures that the values of the Bank are reflected in Starling's marketing and communications.	Responsible for developing Starling's strategy including the Bank's environmental strategy.

ESG in action

As part of its role the Board ensures that Starling operates with a clear sense of purpose and values. Our purpose is underpinned by five core values: listen, keep it simple, do the right thing, own it and aim for greatness. These values are a key driver of Group strategy, and integrated across all practices of the Group. From an environmental governance perspective, we care about transparency and making thoughtful, sustainable choices for the planet. The Starling Sustainability Jargon Buster is published on our website because we want to make sure our customers and employees understand our green banking journey. Other examples of how Starling embodies its values in an environmental and sustainability context are shown below.

Listen

Starling employees are encouraged to engage with the Bank's sustainability agenda and have the opportunity to discuss and challenge the Bank's chosen offsetting projects. Our employee-led 'Green Shoots Ambassadors' group helps further drive green initiaitves throughout the Bank.

Keep it simple

Starling is a predominantly paperless, branchless bank, run on renewable energy, embracing hybrid working where possible and providing debit cards made from recycled plastic as well as virtual cards that use no materials at all.

Do the right thing

As part of Starling's Board approved strategy, the Bank avoids investing in fossil fuels and other environmentally destructive initiatives.

Own it

The Bank has clear roles and responsibilities for the Board and its committees in relation to the management of climate risks.

Aim for greatness

The Bank has committed to achieve a reduction in its emissions from its operations and supply chain by one third by 2030 and reach net zero by 2050.

Strategic report / Climate-related financial disclosures

Opportunities and strategy

The following time horizons have been used when considering climate-related opportunities: Short: 0-1 years, Medium: 1-5 years, Long: 5+ years.

	Description of potential opportunities	Potential impact on Starling	Time horizon
New green products & initiatives	Implement a range of green products to support our customers on their decarbonisation journey. Starling could offer products through the Bank which incentivise both BTL and owner-occupied customers to improve the energy efficiency of their property. There is also potential to extend our suite of green products to non-mortgage customers.	Offering a greater suite of products to both mortgage and non-mortgage customers could increase the number of customers signing up to Starling, thereby helping to grow our deposit base.	Medium
Technology	New technologies developed in response to the need and desire to reduce emissions. As technological advancements are made, energy efficiency across our supply chain will increase. Starling has committed to offset emissions from its own operations and supply chain annually and the effectiveness of these offsetting programmes is likely to improve as new technologies emerge within the Voluntary Carbon Market.	The adoption of new green technologies will help enhance the energy efficiency of Starling's own operations as well as potentially reducing operating costs over the long run. As energy efficiency increases, Starling will likely see a reduction in the cost of its offsetting programme, alongside an improvement in the technologies in which we choose to invest.	Medium
Operational	Sustained increase in the supply of renewable energy reduces reliance on fossil fuel-powered energy which will help reduce price volatility.	Improvement to the stability of renewable energy supply and prices will aid business planning, thereby supporting Starling's management to make better decisions through more accurate forecasting.	Medium
Reputational	As scrutiny on banks and financial institutions increases, customers are increasingly looking for financial services providers with lower impact investment strategies.	Given Starling does not invest in fossil fuels, we stand out from legacy banks as being a more sustainable choice which is increasingly becoming a key differential for attracting new customers and growing our deposit base.	Short
Customer education	For everyday consumers, sustainability can be a minefield - creating a centralised location of knowledge regarding sustainability will help improve awareness of environmental issues whilst helping our customers gain confidence to play a part in the transition to net zero.	Improved awareness and confidence in sustainability issues encourages customers to proactively take action and increase uptake of Starling's growing suite of sustainability-linked products.	Medium
Supply chain management	Assess the sustainability progress of suppliers using an independent sustainability ratings provider as well as developing closer working relationships to accelerate decarbonisation plans.	Encouraging enhanced transparency from suppliers to disclose sustainability performance provides Starling with greater clarity regarding emissions associated with its supply chain.	Medium

Risk Management

Risk assessment
On at least an annual basis, Starling undertakes a qualitative assessment of the impact of physical and transition risk on credit, operational and market risk. The results of this analysis indicated that the largest potential climate-related financial risk is the physical and transition risk impacts on the credit risk in Starling's mortgage portfolio. However the conclusion of the analysis was that these risks would not have a significant impact on Starling's profitability or capital position over at least the next 5 years and the risk has reduced during the year.

See tables on page 47 and 48 for detailed analysis of physical and transition risks with the following risks and time horizons.

- Low risk – there is a low probability that this risk crystallising will impact the Bank's financial position.
- Medium risk – the risk crystallising could impact the Bank's financial position but will not have a significant impact on capital.
- High risk – the risk crystallising could have a significant impact on the Bank's capital position.

The following time horizons have been used when considering climate-related risks: Short: 0-1 years, Medium: 1-5 years, Long: 5+ years.

Scenario analysis
Starling has undertaken scenario analysis on transition risk which considers the potential impact under the scenario where the transition risk crystallises whereby BTL properties below an EPC rating of C are not able to be let. Starling considered the increase in capital requirements if all properties transitioned to their higher possible EPC rating and considered the costs for enhancing the energy efficiency of the homes. The Bank used the BoE's Climate Biennial Exploratory Scenario methodology for this analysis. It considered the additional capital required for loans where the LTV increased and the reduction in capital resources from any required write-offs for properties that were unable to reach the C EPC rating. The conclusion was that the impact on capital was not significant now and over the next 5 years.

Risk management and monitoring
Starling monitors, on a regular basis, its exposure to high flood risk areas, its split of EPC ratings for its mortgages and annually its Scope 1, 2 and 3 emissions. At least annually it reperforms analysis to consider the totality of climate-related risks and considers whether mitigation is required. It has undertaken a gap analysis against the PRA's Supervisory Statement on climate-related financial risks and has embedded climate related financial risks into its governance and risk management frameworks.

Change in the year
Inherent climate risk is increasing for Starling as its asset mix is changing which is primarily driven by the growth in its BTL mortgage portfolio. However, transition risk has reduced, as outlined in the following table.

Strategic report / Climate-related financial disclosures

Physical risks

The following time horizons have been used when considering climate-related risks: Short: 0-1 years, Medium: 1-5 years, Long: 5+ years.

Physical risks	Description of potential risks	Potential impact on Starling	Time horizon
Credit risks arising from mortgage portfolios	The physical risk that was considered was extreme weather events that can potentially cause significant losses for homeowners, reducing their ability to repay their loan and damaging the value of the property. This might increase credit risks from loans as both the PD and LGD could increase. Flood risk is usually insured. However, during the lifetime of a mortgage, homeowners might fail to renew their policy, leaving themselves, and eventually the bank, exposed to the financial risk of flooding. Insurance may decrease in availability or the price may rise to become unaffordable.	Medium risk All properties need to have flood insurance at the time of underwriting Starling engaged with an external data provider to assess key physical risks such as heat waves, floods, wildfires and storms impacting properties. Flooding is the primary physical risk to Starling's mortgage portfolio. Starling's mortgage flood risk exposure to high and very high flood risk categories is in line with industry averages. Starling also reviews its flood risk exposure by LTV band and geographical area. The inherent risk increases as Starling's mortgage portfolio grows.	Medium/Long
Credit risk from SMEs	Structural changes in climate could cause business disruption and losses for companies. This could impact their ability to pay back loans, increasing PDs.	Low risk Starling has a diverse range of SME customers. It is possible that some could be impacted by damage caused from extreme weather events but the impact of this having a big impact on our financial position is low as our exposures to different sectors is diversified and most of the current SME lending is government guaranteed.	Medium
Operational risks	Severe weather events could impact business continuity.	Low risk Starling has demonstrated the ability to effectively work from home if damage is caused to any of its offices. With four Starling offices located across the UK, this further diversifies Starling's ability to be more resilient to severe local weather events to maintain customer services in the event of any disruptions. Starling's platform is hosted by Amazon Web Services which is built so that its services are distributed across three or more geographically distinct data centres.	Medium/Long
Risks from the treasury asset portfolio	Increased credit risk where physical changes from climate change materialise to impact different countries causing a negative credit environment for global sovereign and supranational organisations. Other physical changes could directly impact the value of underlying assets in securitised products such as Covered Bonds and Residential Mortgage-Backed Securities. Both these scenarios could cause ratings downgrades.	Low risk The Treasury portfolio has strong credit protection, is considered stable and consists of highly liquid assets. Starling does not invest in corporate bonds or equities and does not invest in sectors which are considered carbon intensive which are expected to be more vulnerable to losses from climate change.	Medium

Strategic report / Climate-related financial disclosures

Transition risks

The following time horizons have been used when considering climate-related risks: Short: 0-1 years, Medium: 1-5 years, Long: 5+ years.

Transition risks	Description of potential risks	Potential impact on Starling	Time horizon
Credit risks arising from mortgage portfolios	Starling's main climate transition risk is from potential legal requirements for BTL properties to have a minimum EPC rating of C. This could manifest itself in credit risk from: – The increased cost to landlords increasing the energy efficiency of their homes may inhibit their ability to repay, increasing PDs; – A possible increase in losses from homes that do not meet minimum energy efficiency standards reducing in value; – Owner demand for D and below rated properties reducing thus reducing collateral value of these homes, increasing loss given defaults; – Landlords not being able to let their properties if they can't afford to upgrade them, thereby increasing default rates; and – Landlords exiting the buy to let market where the rental yield doesn't justify the cost of retrofitting. The value of these homes may fall and the market size for BTL loans may decrease, inhibiting the Bank's desired origination volume forecasts.	Low risk The Government had consulted on requiring the energy efficiency of BTL properties to have a minimum EPC of C by 2028 for residential lets and a minimum EPC of B by 2023 for commercial lets. However, the government announced in September 2023 that this legislation would no longer be forthcoming. As a result, this transition risk has reduced. However, Starling continues to monitor the EPC ratings of its mortgages and this is reported to the CRC. Starling's BTL mortgages EPC ratings are in line with national averages.	Medium
Credit risk to SMEs	Potential credit exposures to companies with business models that are not aligned with a 2°C scenario. These companies face a higher risk of reduced corporate earnings and business disruption from a low-carbon transition.	Low risk There is diversity in Starling's SME loans in terms of customer sectors. Financial risk from this exposure is currently low as a significant amount of these loans are government guaranteed.	Medium
Risks from the treasury asset portfolio	Firms could be left with stranded assets if the market reallocates capital away from carbon intensive assets or businesses.	Low risk Starling's Treasury portfolio largely consists of Supranational Bonds, a large amount of which are issued by Multilateral Development Banks and UK Covered Bond issuers. Starling does not expect these assets to become stranded in the short or medium term. Starling does not currently invest in corporate bonds or equities and has no direct exposure to carbon intensive sectors which are expected to experience more losses due to climate factors.	Medium

Strategic report / Climate-related financial disclosures

Metrics and Targets

We have set ambitious targets to support the decarbonisation of our business. These include:

- Net zero by 2050 at the latest.
- 1/3 reduction in emissions from our operations and supply chain by 2030.
- Offset 100% of remaining emissions from our operations and supply chain annually.

Net zero
Our overarching climate target. Starling conducts an emissions assessment every year with help from an independent third party, Orbis Advisory. This assessment measures our progress against our 2021 baseline, and determines our Scope 1 and 2 emissions (those emissions generated from our own operation and supply chain), which we will offset annually in the run up to net zero through a mix of carbon avoidance and removal projects. We have set this target for ourselves because it is the right thing to do. Additionally, offering more sustainable products will help our customers on their own net zero journey. Communicating our progress through appropriate channels will also help our customers understand the importance we are placing on this target, mitigating our reputational risk.

Reduce emissions from our own supply chain by one third by 2030.
We have committed to reducing our absolute Scope 1 and Scope 2 emissions by 1/3 from our 2021 baseline by 2030.

Our use of carbon credits
At Starling, we are constantly reassessing the way we operate as a business. Our priority remains focused on reducing carbon emissions as far as possible in any given year before using carbon credits. Where carbon offsets are deemed necessary. we use them as a tool in combating climate change, whilst we continue our decarbonisation efforts.

We recognise the importance of ensuring the integrity of carbon credits and as such, we conduct due diligence on our offsetting projects against a robust methodology which focuses on a high degree of measurability, strong financial additionality and significant co-benefits for the environment and for the community.

During the year, we purchased certified carbon credits to offset our prior year emissions from our own operations and supply chain, with an increased proportion of removal-type projects relative to the previous year. Once our emissions audit for the year ended 31 March 2024 is complete in the coming months we will purchase offsets for these amounts, and hope to increase the proportion of removal-type credits even further. Starling does not currently plan to use carbon credits to offset our financed emissions, but will closely monitor and adhere to industry standards.

Strategic report / Climate-related financial disclosures

Streamlined energy and carbon reporting

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 implement the government's policy on SECR. Starling Bank meets the mandatory reporting criteria for SECR legislation. Orbis Advisory Ltd has worked with us to provide a comprehensive SECR compliance service, covering the year to 31 March 2024.

Reporting has been conducted in accordance with the methodology set out in the GHG Protocol Corporate Standard, and using the DESNZ emissions factors to calculate emissions. Calculation of our SECR energy consumption and GHG emissions was completed by an independent third party, Orbis Advisory, who is assisting us to do our part to fight climate change.

The following table presents our Scope 1, Scope 2 and Scope 3 emissions related to energy consumption for the year to 31 March 2024. As the fourth year of reporting, last year's emissions are provided in the year-on-year comparison table. Our Scope 1 and 2 emissions came from gas consumption in our London office and fugitive gas top-up in the Manchester office. In 2024, Starling Bank also had indirect emissions from fuel consumption from employee-owned cars used for business purposes. This was calculated using the mileage expenses submitted by employees to the company.

	31 March 2024	31 March 2023[1]
Scope 1 emissions [tCO2e]	32	23
Scope 2 emissions (location-based) [tCO2e]	173	138
Emissions from business travel in rental cars or employee-owned vehicles where the company is responsible for purchasing the fuel [tCO2e]	32	19
Total gross organisational emissions [tCO2e]	237	180
Total energy consumption used to calculate carbon emissions (location-based) [kWh]	1,004,196	839,486
Carbon intensity ratio - carbon emissions per full-time employee (location-based) [kgCO2e/full-time employee]	70	70
Scope 2 emissions (market-based) [tCO2e]	–	–
Total organisational emissions (market-based) [tCO2e]	64	42
Carbon intensity ratio - carbon emissions per full-time employee (market-based) [kgCO2e/full-time employee]	19	16

1 To make emissions comparable to 2024, emissions for the previous year were re-baselined to include car mileage emissions.

Carbon and Energy Efficiency Measures

Starling has used the data collected as well as independent on-site audits to inform our plans to decarbonise the business and support ongoing efforts to achieve our overarching net zero target. As a branchless, digital and largely paperless bank, built and hosted in the cloud, Starling's baseline operational carbon footprint is low, however, we are still determined to play our part in fighting climate change and protecting the environment through energy and resource efficiency, along with appropriate recycling and waste management, to reduce our impact even further.

The Bank's offices in London, Southampton, Cardiff, Dublin and the newly opened Manchester offices all run on mainly renewable energy. Notably, our Southampton office includes an EV charging point installed in the car park. Sustainability was a key consideration during the selection process for our Manchester office which is built with sustainable materials and is home to two bee hives, each containing c. 80,000 worker bees during the summer. These hives also support our ambitions to help protect nature, which we are also targeting through our 3-year partnership with the National Trust.

Starling offers employees a number of schemes to help them make greener choices outside of work. This includes an EV leasing scheme as well as a Cycle to Work scheme, both of which operate through "salary sacrifice". Additionally, Starling has become the inaugural sponsor of the Greater Manchester bike hire scheme - the biggest commercial sponsorship in the Transport for Greater Manchester's history - enabling people to opt for a more active and environmentally friendly mode of transport.

Starling continues to roll out its decarbonisation strategy, which addresses its emissions in its operations and value chain while fulfilling its commitments as a founding member of TechZero. While we are focused on reducing our emissions as far as possible, we have committed to offsetting our remaining emissions from our operations and supply chain, and have recently completed the purchase of carbon credits for our prior year emissions. When our emissions audit for this year is complete in the coming months we will complete the offsetting programme for this year as well.

Current year update

The year-on-year increase in energy consumption is driven primarily by the addition of the new Manchester office in July 2023, and which represents Starling's third largest office by total floor area.

Strategic report

Risk management overview

Risk approach

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

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

As would be expected in an institution that has grown rapidly, Starling's risk management approach continues to evolve, underpinned by a firm-wide risk maturity programme, with oversight and support from the Board. Substantial investment has been made in strengthening risk capabilities in this financial year, with ongoing effort expected to continue in the next financial year.

In relation to the 2024 Annual Report and Accounts, while risk cannot be eliminated entirely, the Board considers that as at 31 March 2024, Starling has in place adequate systems and controls over financial reporting.

Key developments

The Group is engaged in a programme to mature its ERMF and the underlying policies and practices to ensure that risk management capability builds commensurately with the Group's strategic growth. A key focus this year has been to further embed Starling's approach to internal controls monitoring and oversight, with corresponding increases in capability and capacity across 1L controls testing and quality assurance, second line risk and controls assurance and third line internal audit; resulting in higher levels of risk assurance and detection across all 3Ls. The Group's Governance, Risk & Compliance tool has also continued to be strategically developed and its use embedded across all three lines.

Principal risks

Starling defines its principal risks as those which could result in events or circumstances that might threaten the company's business model, future performance, solvency or liquidity and reputation.

The principal risks are divided into current and emerging risks. Current risks are those which the Group is actively managing now, whereas 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. Emerging risks are typically outside of Starling's ability to control, but if they were to crystallise they would cause the Group to adjust its strategic risk assessment and to react accordingly. Starling takes a proactive approach to horizon scanning and regularly assesses the potential impact of current and emerging risks.

Starling's principal risk assessment is prepared by combining the key risks identified through bottom-up registers and reporting with top-down analysis from the Executives and Board as well as drawing on external sources (e.g. risk analysis prepared at an industry level by consultants, regulators and government agencies).

For emerging risks, Starling considers the timeframe within which the risk might occur and the potential impact on the strategic direction of the Group. This enables the Group to decide which risks to take action on and which may shape business planning decisions.

The tables on the following page show Starling's principal risks divided into current and emerging risks. The principal risks have been mapped to Starling's risk taxonomy, but are more dynamic and specific in nature than the Level 1 taxonomy risks; often spanning multiple taxonomy categories.

Strategic report / Risk management overview

Summary of current risks

Risk description	Rationale for inherent risk assessment	Inherent impact	Inherent likelihood	Mitigants and controls	Level 1 risk category
Cyber and data loss risk The risk of the Bank's data being subject to unauthorised access, disclosure, modification or loss from a cyber attack.	There is a constantly evolving threat from cyberattacks that are increasing in terms of frequency, sophistication, impact and severity. Any failure in Starling's cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, loss of data, and may cause associated reputational damage.	Severe	Possible	In response to the rising profile of the Group and the increasing cyber threats it faces, senior management have committed to the continued enhancement of Starling's security stance to ensure that the associated risks remain within appetite. Starling Bank has created a strong security framework across the organisation which is underpinned by security-conscious staff, consistent and agile configuration management, and continuous security testing. This security framework continues to be verified through regular independent auditing and testing.	Operational risk
Evolving regulatory regime The risk that the Bank is unable to comply with fast-evolving regulations.	The ongoing evolution of the regulatory environment means that Starling will need to run multiple programmes concurrently, including Basel; application of the Consumer Duty to closed products; climate risk management and disclosures; and ongoing operational resilience implementation.	High	Possible	The Bank's policies set out the requirements to enable the Bank to comply with regulatory requirements, and adherence is monitored by the business with assurance by the Risk Department. Regulatory programmes are appropriately prioritised in strategic planning and resourcing. Risk and compliance oversight is exercised through the Bank's internal governance committees, with regular reporting to the ERC, BRC and the Board.	Credit risk Capital risk Strategic risk Operational risk Conduct risk
Macroeconomic and geopolitical risk The financial risk to the Bank relating to political or macroeconomic factors, in particular credit and interest rate risk.	Presently, Starling's revenue has a high correlation to interest rates. A material reduction in interest rates poses a risk to the Bank's revenue projections and broader strategy. While the housing market has stabilised, the market is still one of low volumes, stretched affordability and concentrated supply, meaning that a price correction is still possible. This could adversely impact the BTL market in particular. An escalation or broadening of military conflicts could further aggravate supply chain disruptions and drive inflation higher, posing a challenge to markets and our customers. Many countries are scheduled to hold elections in 2024. This may result in significant political and policy changes in some markets further impacting the Bank's customers and overall strategy.	High	Likely	In 2024 Starling initiated a structural hedge programme to manage the risk to earnings in a low interest rate environment from the behavioural duration of its core deposits. The Bank maintains a low risk appetite on its lending book, with ample liquidity and a conservative approach to managing counterparty risks. Macroeconomic and customer behaviour scenarios are designed by considering the key vulnerabilities of the Bank and severity is benchmarked against BoE and other scenarios. Starling Bank undertakes risk specific stress testing and whole balance sheet macroeconomic and idiosyncratic stress testing. A number of committees are involved in challenging scenario assumptions and stress test results. The BRC reviews and challenges stress testing outputs as part of any consideration of strategic change and as part of assessing capital and liquidity adequacy.	Credit risk Capital risk Liquidity risk Market risk Strategic risk

Strategic report / Risk management overview

Summary of current risks continued

Risk description	Rationale for inherent risk assessment	Inherent impact	Inherent likelihood	Mitigants and controls	Level 1 risk category
Financial crime risk The risk of individuals or businesses attempting to use the Bank, its products or its services to advance financial crime.	Appropriately managing financial crime risk is critical to both the integrity of UK Financial Services and the prevention of consumer harm. Non-compliance with regulations may result in consumer harm and lead to enforcement action including fines, public censure, suspensions, restrictions, conditions, limitations and disciplinary prohibitions, which could result in a material financial and reputational impact to the Bank. The ever changing criminal landscape and its sophistication may challenge the Bank's ability to rapidly detect and respond to financial crime, While there is potential for technology to support financial crime detection, there is also a risk that criminals use technology such as generative AI to perpetrate financial crime, particularly fraud scams.	High	Likely	Starling Bank has significantly strengthened its policies and processes to allow for the identification, assessment and control of fraud and financial crime risks and is in the process of completing an extensive remediation programme. The Bank continues to invest in prevention and detection systems and controls on a risk-sensitive basis, throughout the lifecycle of a product or customer relationship. Where Starling identifies deficiencies in its controls it seeks to remediate and improve its control environment to deter such fraud or financial crime recurring.	Financial crime
Strategy execution The risk that the Group fails to effectively execute on its plans through lack of financial or human resources.	The Starling Group has plans to grow and diversify its banking franchise in the UK while developing Engine as a global SaaS banking platform proposition. This requires strategic choices to be made in terms of prioritising activities and financial investments. It also requires the Group to continue to grow its capacity to deliver, manage and oversee very different businesses, from the Board downwards.	High	Possible	Senior Management and the Board continually monitor, manage and oversee the execution risks inherent in Starling's growth strategy, ensuring that our strategic initiatives deliver the right outcomes for our customers, people and other stakeholders. This includes adapting the Group structure and governance, the effective allocation of resources to deliver growth initiatives whilst maintaining the expected high standards of 'business as usual' services to our customers.	Capital risk Strategic risk Operational risk
Third party risk The risk of poor performance, or non-performance, by a third party service provider of a process, service or activity transferred to it by the Bank, whether directly or via sub-outsourcing.	The Group engages third parties to provide a range of goods and services. It is critical that there are appropriate risk management policies, processes and practices over the selection, governance and oversight of third parties and their supply chain, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect the Bank's ability to support our customers and meet regulatory requirements.	High	Possible	The Bank undertakes initial and periodic due diligence and risk assessments for third parties. Material outsource providers and material third parties are subject to regular monitoring and reviews. All third party provision is contractually supported through clear and competitive commercial terms and SLAs. Where a critical dependency exists through the provision of goods and/or services through a third party, a secondary vendor is engaged to provide a robust level of resilience where it is commercially practical to do so.	Operational risk Conduct risk

Strategic report / Risk management overview

Summary of emerging risks

Risk	Risk detail	Horizon	Level 1 risk category
Artificial intelligence	Innovations in AI, including generative AI, may rapidly transform and disrupt customers, the industry and the economy. The full impact of advances in AI remains unknown but could have multiple adverse effects. For example, developments in AI may result in increased model risk and rising levels of fraud as well as reducing employment opportunities through the reduction in jobs.	3-5 years	Strategic risk Operational risk Financial crime Model risk
Climate risks	Climate-related risks represent a source of systemic risk in the global financial system. The financial impact of climate-related risks, both physical and transition risk, is expected to be widespread and may disrupt the proper functioning of financial markets and institutions, including Starling Bank. However, Starling's assessment of climate-related financial risks from transition and physical risks, over the next 5 years has been assessed as low in terms of potential impacts on capital. This analysis was reviewed by ERC in Sept 2023. In addition, transition risk has reduced since, in September 2023, the government decided not to progress with its consultation on minimum EPC ratings of C for BTL properties. The Bank may face increased reputational and legal risks: – if we fail to make sufficient progress towards our net zero ambition, – if we fail to meet regulatory requirements on the management of climate risk, or – if we knowingly or unknowingly make inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to our stakeholders.	3-5 years	Market risk Strategic risk Operational risk
Basel 3.1 and Regulatory Capital Change	The PRA has published the first of two near-final policy statements covering the implementation of the Basel 3.1 standards for market, credit, counterparty credit, and operational risk. The PRA intends to publish its second near-final policy statement in Q2 2024 on the remaining elements of the Basel 3.1 package, which includes credit risk, the output floor, reporting and disclosure requirements. The deadline for Basel 3.1 standards implementation is on 1 July 2025. However Starling may not need to implement it until 2026 if it opts into the Small Domestic Deposit Taker regime. The capital regime for SDDTs has not been published, so this is an area of uncertainty. Based on the impact analysis undertaken on the draft rules, capital requirements for elements of Starling's book are likely to increase. Once the final rules are published, an updated impact analysis will be undertaken and an implementation project team will be put in place.	1-3 years	Strategic risk Credit risk Capital risk Operational risk

See risk report on page 85 for further detail on risk taxonomy categories and risk mitigation.

The strategic report was approved by the Board of Directors on 10 June 2024 and signed on its behalf by:

Declan Ferguson,
Chief Financial Officer
Director

Governance

Corporate governance statement

This section was prepared pursuant to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. For the year ended 31 March 2024, Starling has applied the Wates Corporate Governance Principles for Large Private Companies as an appropriate framework for its corporate governance practices. Further details on how Starling applies the principles are set out below and within the Corporate Governance Statement on Starling's website. The Wates Corporate Governance Principles for Large Private Companies are available at www.frc.org.uk.

Principle One: Purpose and Leadership

An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

Starling was founded to give people a fairer, smarter and more human alternative to the banks of the past. Starling's vision is a banking industry driven by fast technology, fair service and honest values. Starling stands out among the traditional banks and next-generation players for the excellence of its service and the strength of its business model. It does this by developing best-in-class proprietary technology, offering an exceptional customer experience and building a strong balance sheet.

Starling's vision and mission are underpinned by five cultural values embodied by the Board, management and employees: listen, keep It simple, do the right thing, own it and aim for greatness. These values are a key driver of Group strategy, and integrated across all practices of the Group.

With input from the Executive, Group strategic objectives are debated annually by the Board, including alignment of planned goals with the Bank's mission and values. Board decisions are taken with due regard to the firm's purpose, values and stakeholder interests.

The Section 172(1) Statement on pages 79 to 81 provides examples of how Board decision-making in the year aligned with the Bank's values and interests of each key stakeholder group.

Principle Two: Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

The Board is led by an experienced Chair who is responsible for the Board's overall effectiveness, promoting a culture of openness and debate and facilitating constructive Board relations. During the year, Board members attended an externally-led development session aimed at addressing feedback from the Board's prior year effectiveness evaluation and improving the quality of Board challenge.

Starling is committed to ensuring that its Board has the appropriate skills, knowledge and experience and this is kept under regular review by the Chair and NomCo. The size and composition of the Board and the skills and experience of each Director, are described on pages 59 to 65. Starling's Directors' Induction Programme is described on pages 67 to 68 and is key to ensuring new Board members receive the information they need to become as effective as possible in their role in the shortest practicable time.

Any changes to external roles held by a director are required to be notified to the Chair in advance. This is to ensure the director will continue to have sufficient time and capacity to adequately discharge their duties as a director.

Principle Three: Director Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

The Board is Starling's governing body. It is responsible for ensuring the long-term sustainable success of the Group, setting Group strategy, agreeing corporate objectives, monitoring risk appetite, and playing a lead role in establishing the Group's culture and values. The respective responsibilities of the executive and non-executive directors are well understood. Clear divisions of responsibilities exist between the Chair, the CEO and the Senior Independent Director and these are defined in Starling's Corporate Governance Framework, which ensures a transparent allocation of roles and responsibilities. More details on the division of responsibilities can be found on page 66.

The Board discharges its responsibilities directly and through the BAC, BRC, RemCo, NomCo and ESC as described in more detail on page 70. Board committee terms of reference provide a clear remit of responsibility for each committee and are annually reviewed for best practice enhancements. The membership of board committees principally comprises non-executive directors to ensure independent challenge of senior management thinking. Board committee chairs are responsible for reporting to the Board on the outcomes of each board committee meeting.

Governance / Corporate governance statement

Principle Four: Opportunity and Risk

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

The Board actively promotes the long-term sustainable success of the Group. Its overarching direction is to take risk consciously and methodically in order to deliver Starling's strategic objectives, while demonstrating management of material risks to levels that both prevent consumer harm and preserve financial and operational resilience. This ensures the ongoing confidence of customers, regulators and investors.

In order to support and strengthen its risk management activities, Starling operates within the principles of the three lines model. Risks are managed within 1L via proactive identification, assessment, control, monitoring and reporting. 2L supports and constructively challenges 1L, and the Group has expanded its capacity and capability in 2L to enhance its risk oversight processes. In the 3L, the Group Internal Audit function is responsible for providing assurance to the Board on the effectiveness of the controls, risk management and governance processes for the Group and ensuring compliance with regulatory obligations and alignment with industry standards. Starling's Risk Management Maturity Programme will further transform and elevate the Bank's enterprise-wide risk management and compliance capabilities.

The BRC and ERC ensure that inherent and emerging risks are identified and managed appropriately. Further information on Starling's risk control framework, risk strategy and three lines model can be found in the risk report from page 85.

Principle Five: Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

Starling's remuneration is designed to attract, retain and motivate employees of the highest quality, encouraging them to deliver exceptional business performance aligned to Group strategy. RemCo is responsible for reviewing workforce remuneration and related principles and policies (including the alignment of incentives, rewards and any major changes in employee benefits structures).

Starling is committed to adhering to rules on remuneration, incentives and relevant financial regulatory regimes applicable to a bank. As a result, the Group has in place a risk-focused Remuneration Policy which is consistent with and promotes effective risk management and does not expose the Group to excessive risk. The Remuneration Policy also aligns to the Group's culture, corporate governance principles, performance, control environment and legal and regulatory requirements.

The Remuneration Policy applies to all employees and Directors. It is reviewed annually to take account of any changes to policies, practices and procedures, and aims to strike a balance between short and long-term business performance. Further information on the role of RemCo can be found on page 70.

Principle Six: Stakeholder Relationships and Engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

The Board fosters effective stakeholder relationships aligned to Starling's purpose and values. The Board is responsible for overseeing meaningful engagement with its stakeholders, and having regard to their views when making decisions. Starling's key stakeholders are its people, customers and suppliers, communities and environment, shareholders and regulatory bodies. The Board recognises the importance of engaging with each of these groups to help inform its strategy and decision-making. Starling's Corporate Governance Framework ensures that there is accountability, fairness and transparency in how the Bank is run and communicates with each stakeholder group. Regular updates to the Board on people, ESG initiatives, brand sentiment and media activity assist the Board in understanding stakeholder impacts of the Group's policies and practices.

Listening to, and empowering employees is critical to achieving Starling's vision, and employees are actively encouraged to share their views and participate in regular employee engagement surveys and 'Ask Starling' discussions. The output from these surveys and discussions is closely monitored to ensure responses from the senior management team are communicated effectively. Employees can also raise whistleblowing concerns through an externally facilitated advice line. The Board monitors these reports and follows up actions regularly through the BAC, as needed. Further details on how the Board has had regard to stakeholder relationships and engaged with each group during the year can be found in the Section 172(1) Statement on pages 79 to 81.

Governance

Starling Board

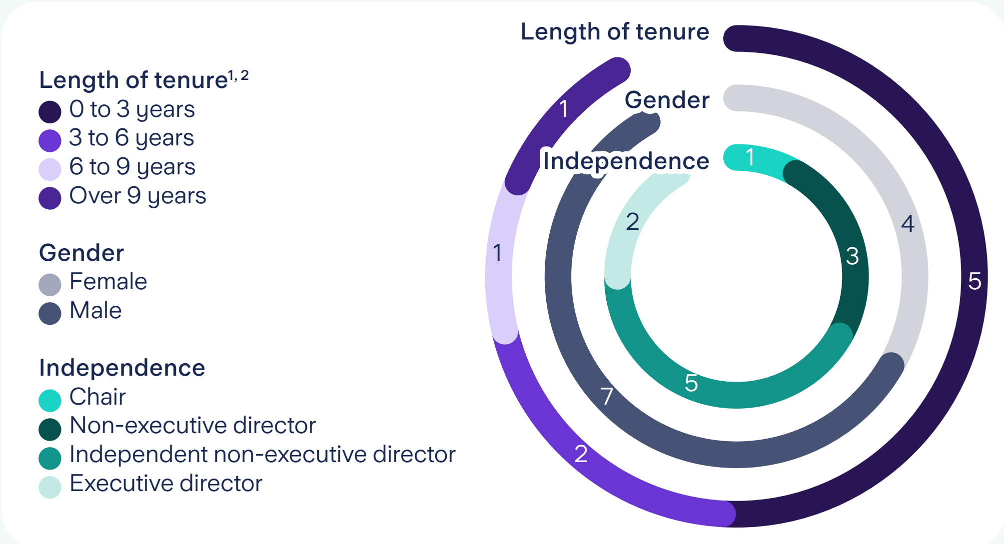
The composition of the Board brings an effective balance of skills, knowledge, experience and diversity to deliver on Starling's strategic objectives. All Directors have a detailed understanding of the market and regulatory frameworks in which Starling operates and, with varied professional backgrounds, Starling's non-executive directors bring fresh and diverse perspectives to Board review and decision-making.

Biographical information of the Directors as at 31 March 2024, and their board committee memberships, are summarised on pages 60 to 62.

Board changes during the year, and up to the date of this report, are detailed on page 82.

Board composition

The chart below shows the composition of the Board by length of tenure, gender and independence as at 31 March 2024.

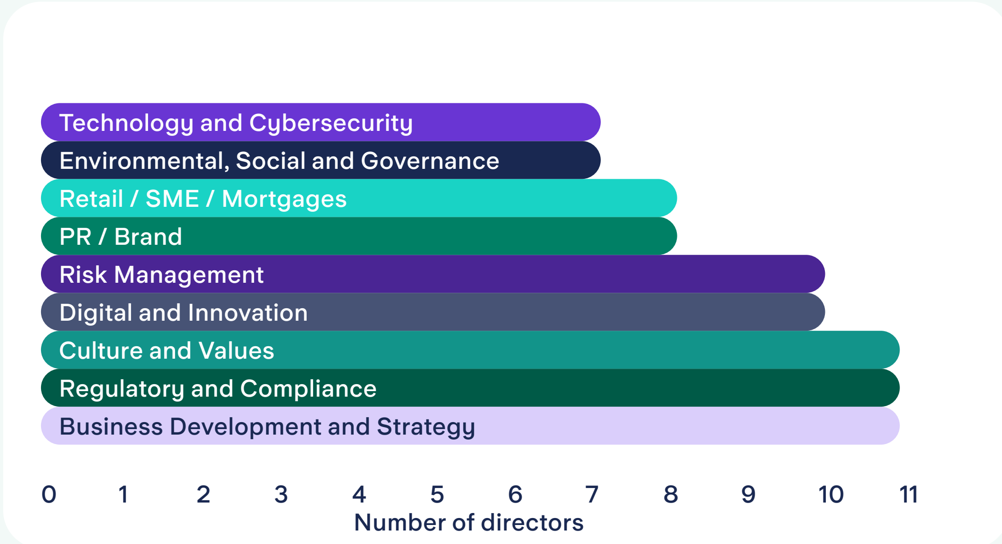


Skills and experience

The composition of the Board is designed to ensure that Directors bring the requisite balance of skills, experience and knowledge to enable effective decision-making and valuable contributions to Board discussion.

During the year, the Directors completed a self-assessment survey which contained a list of skills and experience linked to Starling's long-term strategy. As part of this process, Directors suggested training and development topics where they felt there were opportunities to further enhance the knowledge of the Board.

The chart below shows the skills and experience of the Board as at 31 March 2024.



1 Anne Boden's first appointment date to the Board (in an executive capacity) was 18 June 2014. Anne stepped aside in her role as Starling's CEO in June 2023 and remains on the Board as a non-executive director.
2 Length of tenure for executive directors has not been included.

Governance / Starling Board

Our Board

The following pages include the biographies of each Board member.

Board committee memberships are included for each director using the following key:

Key	Board committee
A	Board Audit Committee
E	Board Ethics and Sustainability Committee
N	Board Nomination Committee
R	Board Remuneration Committee
Ri	Board Risk Committee
Ex	Executive Committee

A square symbol denotes the board committee chair. The colour green denotes an interim board committee chair position.

Key	Membership position
	Board committee chair
	Interim board committee chair
	Board committee member

David Sproul

Chair of the Board

Board committee memberships:

N R

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 and senior partner of Deloitte UK and North West Europe. During this time, he led the firm's globalisation, transformation of its market positioning to be a leading professional services firm and drove changes to create a more inclusive culture, focused on opportunity for all. David is a director of Safanad and BusinessLDN, a governor of the University of Hertfordshire and a senior adviser to Bridgepoint Group.

Appointed: June 2021

Tracy Clarke

Senior Independent Director

Board committee memberships:

R N Ri

Skills and Experience

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

Appointed: May 2021

Julie Chakraverty

Independent Non-Executive Director

Board committee memberships:

E Ri

Skills and experience:

Julie brings more than 30 years of financial services and technology leadership experience to the Board. She built her executive career at UBS where she held multiple leadership roles, and created an award-winning portfolio risk management platform. She is an experienced non-executive director, currently serving global cyber security firm NCC Group as senior independent director. Previously, Julie was senior independent director and board risk committee chair at Aberdeen Asset Management (now abrdn), and served on the boards of Santander UK, the insurer Amlin, and the hospitality company Spirit Pubs (now Greene King). She is also the founder of the employee engagement platform Rungway.

Appointed: March 2024

Governance / Starling Board

Faisal Galaria
Independent Non-Executive Director

Board committee memberships:

E A

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

Appointed: June 2022

Ian Jenkins
Independent Non-Executive Director

Board committee memberships:

A Ri

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. Ian served as the interim chief financial officer of abrdn from May to November 2023, and is currently the chief financial officer and the transformation director for the asset management business at abrdn.

Appointed: October 2021

Marian Martin
Independent Non-Executive Director

Board committee memberships:

Ri A E N

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

Appointed: June 2019

Anne Boden MBE
Non-Executive Director

Board committee memberships:
N/A

Skills and experience:
Anne founded Starling in 2014 after a distinguished global career in financial services and stepped aside as CEO of the Bank in June 2023. 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 holds honorary doctorates from Swansea University and Middlesex University. Previously, Anne was a member of the Prime Minister's business council and the Mayor of London's business advisory board. Anne chaired the Women-Led high-growth enterprise taskforce and is a bestselling author of business books. She was awarded an MBE for services to financial technology in 2018.

Appointed: June 2014

Governance / Starling Board

Lazaro Campos
Non-Executive Director

Board committee memberships:

N R

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. He is co-founder of FinTechStage, which specialises in innovative ecosystem builds for global financial services organisations. Lazaro is also chairman of the board of DirectID, chairman of the advisory board of PPRO, and an independent member of the Payoneer Europe Limited board.

Appointed: June 2018

Marcus Traill
Non-Executive Director

Board committee memberships:

A R Ri

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

Appointed: December 2015

Declan Ferguson
Chief Financial Officer
Executive Director

Board committee memberships:

Ex

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

Appointed: July 2022

John Mountain
Interim Chief Executive Officer
Executive Director

Board committee memberships:

Ex

Skills and experience:
John joined Starling in 2015 occupying key leadership roles, first as Chief Information Officer, then Chief Operating Officer, and currently Interim CEO following Anne stepping aside. He is a director of Engine, Starling's SaaS subsidiary, and a former director of Pay.UK. Prior to Starling, John spent 15 years as a technical architect, working for clients such as Lloyds Bank and Waitrose. At Starling he has been a pivotal member of the Executive team from the early days, helping to shape the Bank's strategy.

Appointed: June 2023

Governance

Executive Committee

Led by the CEO, ExCo is responsible for executing the Board approved strategy and managing the day-to-day activities of the Bank.

The composition of ExCo is designed to bring a wide range of backgrounds and skills to deliver on its responsibilities. ExCo members bring extensive experience across a range of sectors, including regulated financial services and technology.

Biographical information on John Mountain, Interim CEO, and Declan Ferguson, CFO who are also executive directors can be found on page 62.

Matt Newman stepped down from the positions of Chief Administrative Officer and General Counsel on 15 May 2024 and stepped down from the position of Company Secretary on 24 May 2024.

Alexandra Frean
Chief Corporate Affairs Officer

Skills and experience:
Alexandra brings over 30 years of experience in journalism and spent 25 years at The Times newspaper as a reporter, foreign correspondent and business columnist. Alexandra leads Starling's external and internal communications, including public relations, editorial content, social media, public affairs, branding and marketing. She is also responsible for delivering Starling's customer acquisition.

Joined: April 2018

Jean-Michel Garcia-Alvarez
Group Head of Internal Audit

Skills and experience:
Jean-Michel brings over 25 years experience in regulated financial services. He is a chartered member of the UK & Ireland Chartered Institute of Internal Auditors, with over 20 years' experience as an internal auditor and has worked at Barclays, RBS and Nationwide Building Society. Jean-Michel leads a diverse team of in-house internal auditors who, with external expert input, provide the Board with independent and objective assurance over the system of internal controls and the overall control environment. He also operates the whistleblowing process on behalf of the Whistleblowing Champion.

Joined: February 2022

Matt Newman
Chief Administrative Officer, General Counsel and Company Secretary

Skills and experience:
Matt joined Starling in 2015, He was previously a partner at several law firms working in corporate law and acting for a number of financial services institutions. Matt is responsible for the secretariat function and legal affairs, including overseeing, identifying and dealing with all legal issues that affect Starling. Other responsibilities include property management, facilities and vendor management.

Joined: December 2015

Governance / Executive Committee

Steve Newson
Chief Operations Officer

Skills and experience:
Prior to Starling, Steve spent 12 years working as a software developer at a leading technology consultancy. He also held roles as a senior developer and chief technology officer at various financial organisations. At Starling, Steve is responsible for managing customer service, customer onboarding, complaints, collections, payments and financial crime.

Joined: May 2016

Harriet Rees
Chief Information Officer

Skills and experience:
Harriet trained as an actuary and went on to develop and implement analytical software in regulated markets globally. At Starling, Harriet is responsible for managing the systems, information and technology assets for Starling while defining and delivering the overarching technology strategy. She also holds responsibility for business continuity and operational resilience while leading a team of technologists spanning across Data, Engineering, Information Security and Product Development.

Joined: July 2018

Cyrille Salle de Chou
Chief Risk Officer

Skills and experience:
As CRO Cyrille leads Starling's risk management strategy for the entire Starling customer journey, as well as the Bank's financial risks, non-financial risks and compliance. Cyrille joined Starling in 2024 and brings more than 30 years of financial services and consulting experience to the Bank, holding roles including chief risk officer and credit risk director for retail and business banks, as well as emerging fintechs.

Joined: February 2024

Governance / Executive Committee

Damian Thompson
Chief Asset Management Officer

Skills and experience:
Damian previously led NatWest Market's UK Financial Institution client business, helping both bank and non-bank lenders with funding risk management and capital markets issuance. He specialised in helping clients buy, sell and finance portfolios of loans. At Starling, Damian is responsible for all lending activities. He is also interim chief executive officer at Fleet Mortgages, Starling's specialist buy-to-let mortgage lender.

Joined: August 2021

Maria Vidler
Chief Customer Officer

Skills and experience:
Maria brings over 25 years' experience in financial services having worked in a number of senior operational and change management positions across retail banking and asset finance. Her extensive knowledge of customer support in a regulated environment is applied in her role at the Bank. At Starling, Maria oversees all aspects of the customer journey and aims to ensure that there are good outcomes for account holders and that the Bank can make improvements for its customers.

Joined: March 2022

Susanna Yallop
Chief People Officer

Skills and experience:
Susanna brings extensive experience in all areas of human resource management, gained from working for multinational companies in the financial services and energy sectors and from running her own human resources consultancy. Susanna is responsible for developing Starling's People strategy, ensuring that the organisation has the right blend of skills and capabilities to meet the Bank's objectives whilst creating an inclusive working environment in which all employees thrive and reach their potential.

Joined: September 2019

Governance

Corporate governance review

Role of the Board

The Board is the principal decision-making body for all significant matters affecting the Group and is accountable to shareholders for creating and delivering long-term sustainable value. Having regard to the interests of all stakeholders, the Directors drive informed, collaborative and accountable decision-making and provide constructive challenge, advice and support to the Executive.

The Board is responsible for promoting the highest standards of corporate governance and ensuring Starling has the necessary resources, processes, controls and culture in place to deliver on its values and strategic objectives, in order to promote long-term sustainable growth.

Division of responsibilities

A clear division of responsibilities exists between the roles of the Chair and the CEO. The Chair is responsible for leading the work of the Board, promoting a culture of openness and debate and establishing effective stakeholder engagement.

Responsibility for the Group's executive leadership and day-to-day management of the Group's business is delegated to the CEO. The Group's strategy and overall objectives are proposed and developed by the CEO and CFO for review, challenge and approval by the Board. The CEO is responsible for implementing the decisions of the Board and board committees. The CEO is supported in his role by ExCo. Biographies of ExCo members can be found on page 63.

The Senior Independent Director acts as an experienced sounding board for the Chair and a trusted intermediary for shareholders and other Board members.

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 Secretariat, the Company Secretary works closely with the Chair, the CEO, the chairs of the board committees and members of ExCo to set meeting agendas and to ensure the timely presentation of high-quality information to the Board and its committees. All Directors have the authority to propose items for discussion at Board meetings.

Board activities

In order to discharge its duties effectively, the Board meets at least 11 times a year and more often, as required. At each scheduled meeting, the executive directors provide high-level operational and financial updates, presenting the key challenges and actions taken during the reportable month, as well as a look forward at priorities for the next month. This facilitates non-executive directors' engagement with the Executive and drives constructive challenge to senior management thinking. The Board benefited from holding more in person meetings during the year which also meant more informal sessions could be arranged, including deep-dives and briefings.

In October 2023, members of the Board, Executive and Board observers attended a dedicated strategy day to discuss and agree the Group's long-term strategic goals, and to determine the choices the business needs to make in the short and medium-term to achieve them. The outputs of the day were brought back to the Board in November 2023 for further refinement and then approved by the Board in December 2023.

During the year ended 31 March 2024, the Board's key activities included:

- Overseeing an effective CEO transition and agreeing the appointment of Raman Bhatia as Group CEO and Julie Chakraverty as a new independent non-executive director and chair of the ESC.
- Determining the Group's strategic objectives for 2024/2025, advising on strategic direction and agreeing the nature and extent of risks the Group is willing to take to achieve its objectives, including strategic alignment with the Group's values, culture and purpose.
- Monitoring the effectiveness of the Group's system of internal controls, embedding an enhanced approach to risk management practices and maturity and assessing outputs from 2L and 3L assurance work streams to drive change within the organisation.
- Monitoring the Group's overall risk profile and emerging risk themes, in view of macroeconomic and geopolitical developments, including rising interest rates, inflation and increased cost of living.
- Monitoring progress made in embedding the FCA's new Consumer Duty requirements with support from the Board Consumer Duty Champion who is responsible for ensuring the requirements receive focus in Board discussions.

Governance / Corporate governance review

Board activities continued

- Discussing financial and regulatory key performance indicators including financial and treasury performance, cost base and profitability, deposit growth and capital forecasting.
- Monitoring the Bank's regulatory agenda, discussing key themes and priorities, progress on remediation activities and responding to regulatory feedback.
- Approving changes to the Bank's retail deposit pricing and a structural hedging strategy to mitigate earnings risk, including reviewing and discussing operational readiness assessments prepared by 1L and 2L.
- Approving the Group's annual budget, business plan, ICAAP, ILAAP, Recovery Plan and RAF framework, annual financial statements and Pillar 3 disclosures.
- Reviewing the skills and experience of Board members in the context of Board and board committee development and in response to Director changes during the year.
- Reviewing Executive succession planning and discussing leadership development.
- Agreeing principles for an enhanced Group governance model and operating structure aligned to long-term strategy.
- Receiving business updates from key subsidiaries within the Group (Engine by Starling Limited and Fleet Mortgages Limited) and discussing updates from board committee chairs on their recent committee meetings, highlighting decisions and key issues for the Board's attention.
- Following a competitive tender process, approving the reappointment of KPMG as the firm's external auditor from 1 April 2024.

Independence

The Board annually reviews the independence of its non-executive directors, taking into 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) and Anne Boden (founder and previous CEO of Starling Bank Limited), the Board has determined that all non-executive directors (including the Chair) are independent in character and judgement, particularly in their thinking and challenge of management.

To minimise potential conflicts, Directors are required to inform the Chair of any updates or changes to their external roles, including an indication of the expected time commitment for any new external role to assess whether the Director will continue to have sufficient time to adequately discharge their duties as a Director.

Conflicts of interest

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

In line with Starling's Conflict of Interest Policy, Starling will only tolerate conflicts of interest where the risk can be monitored, measured and managed within the Group's risk appetite, with particular focus on its conduct risk appetite and the need to ensure Starling's customers are treated fairly. Board members are screened for conflicts of interest and relationships with companies that do not meet Starling's values and ethics.

The Company Secretary is responsible for keeping appropriate records, including the scope of any authorisations granted by the Board. The Board undertakes an annual review of conflict authorisations.

Directors' induction

Following appointment to the Board, each Director receives a tailored induction to Starling which is designed to be comprehensive yet adapted to the new Director's background, experience, existing knowledge and skill set.

The Starling Directors' Induction Programme is owned by the Company Secretary who is responsible for overseeing the induction of all new Directors. The programme is reviewed annually by the Secretariat. It typically lasts between one and six months and aims to provide new Directors with the information they need to become as effective as possible in their role in the shortest practicable time. After a Director has completed the programme, they are invited to provide feedback to ensure it is useful and well targeted.

Through a combination of technical briefings and introductory meetings, the Directors' Induction Programme is designed to broaden a new Director's understanding of the Group's business operations, strategic priorities, people, culture and customers.

New appointments to Group subsidiary boards receive a briefing from the Secretariat on subsidiary directors' roles and responsibilities. Specialist training is arranged as required.

Governance / Corporate governance review

Directors' induction continued

The key stages and information contained in the Directors' Induction Programme are summarised below:

Key stages	Information provided
Key programme materials	– Information about Starling's background, purpose, values and key stakeholder groups. – Details of the FCA Code of Conduct rules and directors' duties under the Companies Act. – Key Board-level operating policies including the Directors' Independence Policy, Conflicts of Interest Policy and Whistleblowing Policy. – The Bank's constitutional documents including the latest articles of association and Shareholders' Agreement. – Group structure and information on the Bank's investors and subsidiary entities.
Resource library	– Board and board committee minutes and papers from the last 12 months. – The Board's annual work plan. – Biographies of the Board and ExCo members. – Key Board and board committee documents including terms of reference, matters reserved for the Board, the Delegated Authority Framework, Corporate Governance Framework, future meeting dates and forward planners. – The Board's annual learning and development plan.
Briefings and meetings	– Meeting the Chair and CEO to discuss Board dynamics, effectiveness, strategy, business model, culture and values. – One-to-one meetings with each board committee chair to discuss committee remits, focus areas, current issues and challenges. – Deep-dive meetings with Starling's Leadership including on topics such as ESG strategy, financial performance, Consumer Duty, Risk Appetite Framework, customer operations, employee engagement and compliance procedures. – Where relevant to the new director's board committee participation, induction meetings with Starling's external auditor and/or regulators.

Learning and development

All Directors receive ongoing learning and development updates 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, and invited to request any areas that they would like specific training on.

Directors 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. Ahead of its implementation in July 2023, the Board received external training on the FCA's new Consumer Duty rules in April 2023. In August 2023, all Group subsidiary directors were provided with external training on their statutory duties and responsibilities under s.172 of the Companies Act.

Examples of other Board training topics covered during the year include model risk governance, the mortgage market, anti-money laundering and financial crime risk, resolvability, technology governance, hedge accounting and ESG strategy. Planned sessions for 2024/25 include diversity and inclusion, Consumer Duty, AI regulation and a deep-dive on the Bank's RCSA processes.

Whistleblowing

Starling is committed to conducting its business with honesty and integrity in an open and transparent manner where all employees feel they are able to report their concerns. Starling's Whistleblowing Policy details a robust process to enable concerns of wrongdoing to be escalated in a confidential manner so that necessary investigations, remediation actions and reporting can take place.

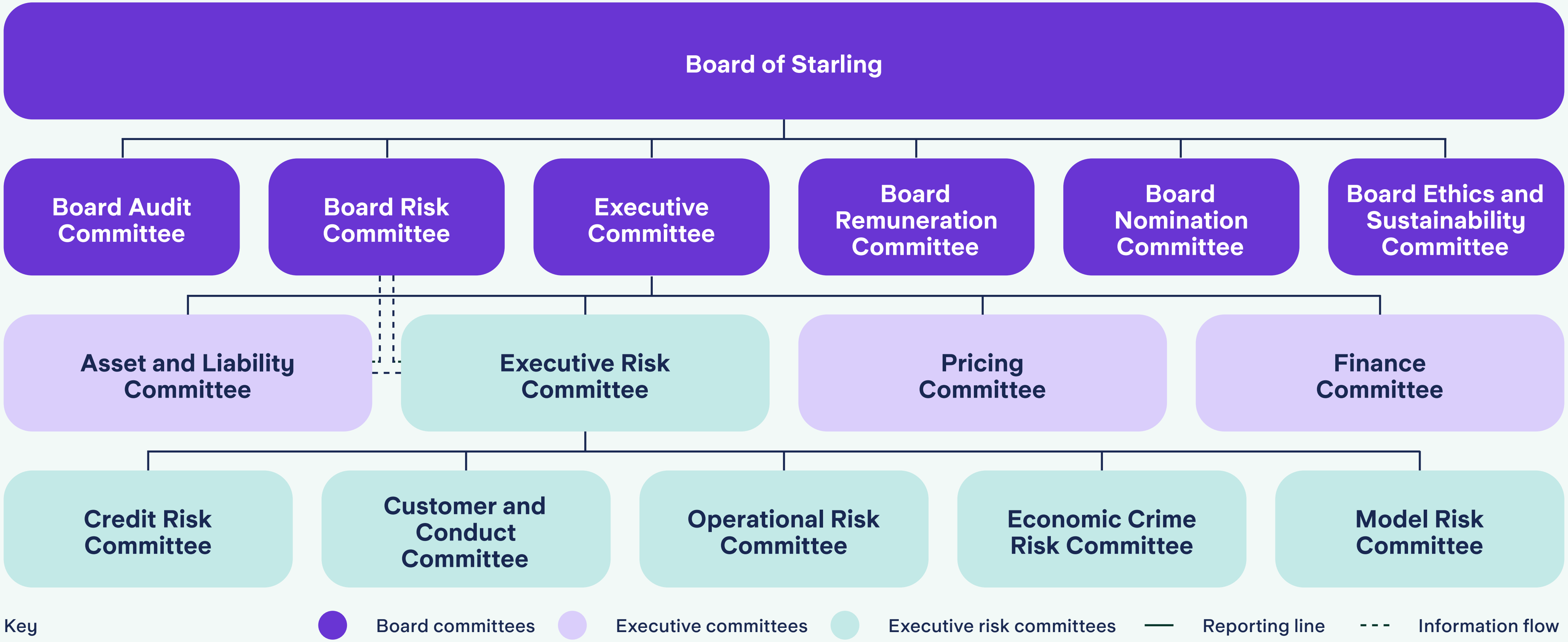
Starling has partnered with a charity helpline and developed an anonymised solution for employees to electronically raise any whistleblowing concerns. The BAC chair is the Bank's nominated Whistleblowing Champion and responsible for ensuring and overseeing the integrity, independence and effectiveness of the Bank's policies and procedures on whistleblowing. The Group Head of Internal Audit operates the Bank's whistleblowing processes on behalf of the Whistleblowing Champion.

Governance / Corporate governance review

Governance structure chart

Starling's governance structure is shown in the chart below and comprises the Board, the board committees and principal executive committees. The structure supports the Board in effective decision-making, provides clear lines of accountability and responsibility, and enables independent challenge and problem-solving to promote the long term success of the Group. There are instances where ExCo sub-committees have the right to raise matters of note to a board committee, as shown by the information flow lines below. For example, ALCO has the right to raise matters of note to the BRC including recommendation of the Bank's ICAAP, ILAAP and Recovery Plan.

More information on the remit and responsibilities of the board committees can be found on page 70. Further details of ExCo and its principal sub-committees' responsibilities can be found on pages 71 to 73.



Governance / Corporate governance review

Board committees

To ensure it maintains an appropriate level of oversight, the Board has delegated certain roles and responsibilities to its five principal committees: BAC, BRC, RemCo, NomCo and ESC.

Board committee chairs are responsible for updating the Board on the outcomes and actions arising from each board committee meeting. The key areas of responsibility of each board committee are summarised below:

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

Executive committees

The CEO is supported in his role of implementing the decisions of the Board and board committees by ExCo and its members. Further details of the members of ExCo, their responsibilities and skills can be found on pages 63 to 65.

The structure of ExCo and its sub-committees aligns to best practice and regulatory requirements for the Group's size and complexity. Responsibilities and processes are designed to ensure proper and effective management and oversight of Group affairs. Governance policies and terms of references are reviewed annually in accordance with the demands of the business, changing regulation and emerging best practice.

All sub-committee members have appropriate knowledge, industry experience and expertise to make decisions and report back to ExCo or the ERC, as applicable. Starling's governance structure is set out on page 69.

The table below summarises the key responsibilities discharged by and risk focus of ExCo and its principal sub-committees:

Committee name	Key responsibilities and risk focus
Executive Committee	– Implementing strategic direction and devising the associated business plans in line with the strategic objectives and risk appetite set by the Board. – Managing the day-to-day activities of the Bank and monitoring its operational and financial performance. – Managing the risk profile of the Bank and playing a role in establishing Starling's corporate culture, conduct and values. – Prioritising, allocating and optimising the Bank's investment and resources. – Managing and developing talent and ensuring Executive succession plans are in place. – Overseeing the implementation of the Bank's governance and risk management frameworks and ensuring that such remain appropriate. – Evaluating new products or services on recommendation from the CCC, taking into account all associated risks as well as commercial implications.
Executive Risk Committee	– Supporting the development of the risk strategy, ERMF, Risk Appetite Framework and policies and Risk Appetite Statement, recommending them to the BRC for review, challenge and onward escalation to the Board for approval. – Leading the detailed implementation of the ERMF and reviewing its ongoing effectiveness. – Monitoring the Bank's risk profile against agreed risk appetite limits and tolerances and reporting on these to the BRC. – Monitoring the Bank's risk and control environment and overseeing the management of risk across the Bank. – Reviewing operational resilience information and making recommendations to the BRC. – Reviewing conduct and compliance matters and making recommendations to the BRC. – Overseeing the resolution of critical risks and issues arising at sub-committees.
Asset and Liability Committee	– Overseeing the overall balance sheet management of the Bank including the oversight of planned strategic changes and management of current and emerging balance sheet risks and issues, referring matters of note to the ERC when appropriate. – Monitoring compliance and provide a first line review of the Bank's liquidity and funding, market and capital adequacy appetites and limits. – Reviewing and recommending to the BRC the Bank's ILAAP, ICAAP and Recovery Plan along with associated stress testing. – Advising ExCo if any changes are required to the Bank's business plan, hedging strategy and product mix. – Reviewing relevant policies and monitoring compliance with the policies.

Governance / Corporate governance review

Executive committees continued

Committee name	Key responsibilities and risk focus
Pricing Committee	– 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. – Reviewing all competitor pricing, including price-related marketing activity.
Finance Committee	– Providing oversight and review of the Bank's statutory and management accounting, regulatory reporting and taxation. – Reviewing the regulatory and financial reporting judgments and interpretations being applied and the impact of new regulations and accounting standards. – Reviewing monthly management accounts prior to submission to the Board and reviewing IFRS and accounting papers prior to submission to the BAC. – Reviewing new and existing accounting policies, new disclosures and critical estimates and judgements made in the Annual Report. – Reviewing and approving significant finance projects subject to delegated authority from the Board and monitoring the internal control framework over financial reporting. – Reviewing and approving interim profit verification papers prior to submission to the PRA.
Credit Risk Committee	– Reviewing and recommending to the ERC the Bank's key credit risk policies and credit risk appetite. – Overseeing the implementation, embedding and performance of the IFRS 9 Policy and credit risk management framework. – Approving the Bank's provisions for expected credit losses, the appropriate management overlays for the Bank's credit portfolio and material impairment model changes. – Monitoring performance against the Bank's approved credit risk appetite. – Monitor the Operational Risk profile of all lending undertaken through the Asset Management origination channel. – Reviewing key credit risk models, procedures and associated controls. – Reviewing and challenging 1L management of key current and emerging credit risks and issues including, but not limited to, providing oversight of actions to address known weaknesses in the control environment. – Reviewing the credit risks associated with the Bank's strategy and growth plans, and overseeing the Bank's compliance with relevant credit regulations.
Economic Crime Risk Committee	– Reviewing and recommending to the ERC the Bank's key financial crime risk policies and financial crime risk appetite. – Overseeing the implementation, embedding and performance of the financial crime risk management framework. – Monitoring performance against the Bank's approved financial crime risk appetite. – Reviewing and challenging 1L management of key current and emerging financial crime risks and issues including, but not limited to, providing oversight of actions to address known weaknesses in the control environment. Reviewing the financial crime risks associated with the Bank's strategy and growth plans. – Reviewing the key learnings from key fraud and financial crime related incidents and discussing potential mitigation. – Overseeing the Bank's compliance with relevant financial crime regulations.

Governance / Corporate governance review

Executive committees continued

Committee name	Key responsibilities and risk focus
Model Risk Committee	– Overseeing the implementation, embedding and performance of model risk management, including review of key policies, procedures and controls. – Reviewing and challenging 1L management of key current and emerging model risk and issues. – Providing oversight of key model developments within the business. – Providing oversight models are developed, validated, implemented, used and monitored in compliance with the Model Risk Framework and regulatory requirements. – Regularly reviewing and assessing the adequacy of the model inventory. – Reviewing the model risks associated with growth plans, proposals for new markets, products or services and significant changes to existing markets, products or services.
Operational Risk Committee The ORC is supported by two sub-committees focusing on Cyber Information Security and Health and Safety.	– Reviewing and recommending to the ERC the Bank's key operational risk policies and operational risk appetite. – Overseeing the implementation, embedding and performance of the operational risk management framework. – Monitoring performance against the Bank's approved operational risk appetite. – Reviewing the volume and profile of incidents, operational events and operational risk losses. – Reviewing and challenging 1L management of key current and emerging operational risks and issues including, but not limited to, providing oversight of actions to address known weaknesses in the control environment. – Reviewing and challenging the Bank's Operational Resilience Self-Assessment. – Proposing updates to the Bank's Business Continuity Plan to the ERC for approval. – Reviewing the operational risks associated with the Bank's strategy and growth plans.
Customer and Conduct Committee	– Reviewing and recommending to the ERC the Bank's key conduct risk policies and conduct risk appetite. – Overseeing the implementation, embedding and performance of the conduct risk management framework. – Monitoring performance against the Bank's approved conduct risk appetite. – Reviewing and challenging 1L management of the key current and emerging conduct risks and issues including, but not limited to, providing oversight of actions to address known weaknesses in the control environment. – Overseeing the completion of post implementation and fair value assessments of the Bank's products and, where necessary to manage conduct risk, suggesting restrictions of products to the ERC. – Reviewing the conduct risks associated with proposals for new products and services and the Bank's strategy and growth plans. – Overseeing the Bank's compliance with relevant regulations, including the Consumer Duty.

Governance

Board Audit Committee report

"Year on year, the Group is making enhancements to its financial reporting processes and the BAC plays an important role in monitoring the effectiveness of the firm's internal control environment to support that."

Dear Stakeholder

I am pleased to introduce the Bank's first BAC report. The committee plays a key role in assessing the integrity of the Bank's financial reporting, monitoring the effectiveness of the firm's systems and processes of internal controls, reviewing and monitoring the activities of the Internal Audit function and monitoring the Group's relationship with its external auditor.

Carolyn Clarke stepped down as Chair of the BAC in January 2024 following her retirement from the Board. I would like to thank Carolyn for her valued contributions to the committee during her tenure. I took on the BAC Chair responsibilities in January, having served as a BAC member since October 2021, and the committee welcomed Faisal Galaria as a new member.

Year on year, the Group is making enhancements to its financial reporting and the BAC plays an important role in monitoring the effectiveness of the firm's internal control environment to support that.

The internal audit function has been through a period of growth, including transitioning from an outsourced to a co-sourced model with ongoing support from BDO LLP. The committee has been focused on the quality and effectiveness of the internal audit function throughout this period, including its objectivity and independence, and this will remain a key focus area in 2025.

During the year, the committee welcomed Karyn Nicoll as a new external audit partner in the KPMG team. The committee also oversaw a competitive external audit tender process, which resulted in a recommendation to the Board that KPMG continue as the firm's external auditor.

I report to the Board after each committee meeting on the main issues discussed and matters for recommendation to the Board. To ensure I have a full understanding of the challenges facing the Group, I meet regularly with the Risk and Finance functions as well as KPMG and the Group Head of Internal Audit.

I hope you find this report a useful insight into the work of the committee and I look forward to continuing our work in the coming year.

Ian Jenkins
Interim Board Audit Committee Chair

Planned focus areas for 2025

- Ensuring that the Group's internal control processes and internal audit capabilities continue to evolve alongside the growing maturity of the Bank and emerging best practice.
- Developing a Quality Assurance and Improvement Programme across internal audit.
- Agreeing the approach for, and reviewing outcomes arising from, an External Quality Assessment of the internal audit function in Q4 2024.
- Ensuring that the Group's financial and regulatory reporting continues to comply with all applicable requirements and accounting standards.

Governance / Board Audit Committee report

Membership

The BAC comprises three independent non-executive directors (including the BRC Chair) and one Investor Director. Members possess relevant financial and commercial experience across a range of industries, including the banking sector. More information on the skills and experience of all BAC members can be found on page 59.

Operation of the committee

The BAC held seven scheduled meetings during the year ended 31 March 2024, and two ad-hoc meetings. The committee sets an annual work plan, developed from its terms of reference, with standing items to consider at each meeting, in addition to areas identified for detailed review and matters arising during the year.

Regular attendees at BAC meetings include the Chair of the Board, CEO, CFO, Group Head of Internal Audit, CRO and members of the Secretariat. The committee invites other senior finance and internal audit representatives to attend and present specialist technical knowledge, as required.

Representatives from BDO LLP and KPMG attend BAC meetings. Members of the committee also meet regularly without management present to monitor the effectiveness of the committee on an ongoing basis, including the proportion of time spent on key responsibilities.

Key activities in 2024

Key stakeholders	Engagement throughout the year
Financial reporting	– Monitoring the integrity of financial information, systems and processes to support the Bank's 2024 Annual Report and Accounts and Pillar 3 disclosures ahead of recommendation to the Board. – Challenging key accounting policies, significant judgments and other accounting matters, with a specific focus on hedge accounting.
External audit	– Reviewing the effectiveness of the 2022/23 external audit and monitoring the closure of actions identified for 2023/24. – Approving the 2023/24 external audit plan and strategy, receiving regular updates against the progress of such and approving 2023/24 external auditor fees.
Internal audit	– Reviewing and challenging the Bank's internal audit governance framework, strategy, charter, methodology and priorities for 2023/24. – Monitoring progress against (and the resourcing levels required to deliver) the 2023/24 internal audit plan and approving the 2024/25 internal audit plan.
Internal controls	– Monitoring the overall effectiveness of the Bank's internal control environment, including overseeing work undertaken by management to strengthen and enhance regulatory reporting and the Bank's internal control framework over financial reporting.
Whistleblowing	– Receiving regular updates on whistleblowing matters from the Group Head of Internal Audit and annually reviewing the Bank's Whistleblowing Policy.

Governance

Board Risk Committee report

"A key focus in the year has been to oversee the delivery of a firm-wide risk maturity programme, commensurate with the growing scope, size and scale of the Bank. In addition, the BRC has overseen significant developments in the control environment with particular emphasis on financial crime."

Dear Stakeholder

I am pleased to introduce the Bank's first BRC report outlining how the committee discharged its responsibilities during the year and the key topics it considered in doing so.

I meet regularly with the CRO and other management as appropriate, to agree the committee's agenda. I am pleased to welcome our new CRO, Cyrille Salle De Chou, to the firm and I wish to thank the team for their support throughout the transitional period.

A key focus in the year has been to oversee the delivery of a firm-wide risk maturity programme, commensurate with the growing scope, size and scale of the Bank. In addition, the BRC has overseen significant developments in the control environment with particular emphasis on financial crime.

The maturity programme is aimed at ensuring that everyone within the Bank is able to consistently demonstrate sound risk management in every aspect of their role. The committee recognises that creating and embedding a sound risk culture, which is aligned to the Bank's values, is central to the success of this programme, and the design and implementation of the firm's approach to risk culture enhancements has been a key discussion item for the committee.

The committee has also been focused on overseeing enhancements to the Bank's financial crime risk profile and control environment, including inviting external specialist input to committee discussions. Additional financial crime focused sessions were held ahead of regular committee meetings, to allow for sufficient discussion of financial crime risk developments and reporting.

A significant proportion of the committee's time has been dedicated to strengthening the Bank's regulatory dialogue and relationships. This includes the oversight of key prudential regulatory matters, as well as monitoring the firm's progress with Consumer Duty implementation. This will continue to be a focus in 2024/25.

The committee maintains oversight of the Group's current and emerging risk profile, including risk associated with lending directly to customers, through portfolio acquisition and government-backed schemes. Further details of the ERMF, along with additional information on the Group's principal risks, approach to risk appetite and risk culture, can be found in the Risk report beginning on page 85.

I report to the Board after each committee meeting on the key issues discussed, agreed actions and any matters for recommendation to the Board.

I hope you find this report a useful summary of the committee's activities this year and our planned focus areas for next year.

Marian Martin
Board Risk Committee Chair

Planned focus areas for 2025

- Overseeing the ongoing delivery of the Bank's risk management maturity programme to enhance risk management capabilities and the Bank's risk management frameworks.
- Continuing to assess the Group's operational resilience, and monitoring outcomes from the Bank's risk and controls self-assessment exercises.
- Continued oversight of recovery and resolution planning activities to assess the Bank's resolvability capabilities if such a situation arises.
- Continuing to oversee delivery of the Bank's financial crime risk enhancement plan.
- Continuing to oversee strengthening of the firm's risk culture, management and awareness across the organisation.
- Monitoring the Bank's Collections activities and ensuring embedding of an appropriate control framework to deliver enhancements.
- Considering key programmes of work focused on maturing the control environment including in relation to Consumer Duty.

Membership

The BRC comprises four independent non-executive directors (including the BAC Chair) and one Investor Director. More information on the skills and experience of committee members can be found on pages 59 and 62.

Operation of the committee

The BRC held eight scheduled meetings during the year ended 31 March 2024 and two ad-hoc meetings. The committee sets an annual work plan, developed from its terms of reference, with standing items to consider at each meeting, in addition to areas identified for detailed review and matters arising during the year.

Regular attendees at BRC meetings include the CRO, CEO, CFO, Group Head of Internal Audit and members of the Secretariat. Other members of senior management and 2L are invited to attend and present specialist technical knowledge, as required.

Governance / Board Risk Committee report

Key activities in 2024

Focus areas	Key activities during the year
Risk strategy	– Overseeing the Bank's operational readiness and risk management capabilities, systems and practices in support of strategic projects and initiatives (including the Bank's structural hedging programme). – Supporting the Board to embed a strong risk culture and awareness within the Bank and an enhanced approach to risk management practices and maturity across the Group.
Risk appetite/ERMF	– Recommending to the Board for approval updates to the Bank's Enterprise Risk Management Framework, corresponding Level 1 Risk Management Frameworks, risk appetite statements and risk limits. – Reviewing and challenging the development of risk management arrangements within the Bank in line with business growth and development, including implementation of the GRC tool and review of risk capability.
Risk oversight/monitoring	– Monitoring the Group's overall risk profile, and emerging risk themes, in view of macroeconomic and geopolitical developments, including rising interest rates, inflation and increased cost of living. – Reviewing and challenging progress and planning to mitigate the Bank's principal current and emerging risk exposures. – Reviewing the Bank's operational resilience strategy and delivery on an annual basis and recommending any changes to the Board for approval. – Considering reporting from the risk assurance function, including compliance monitoring in the context of Consumer Duty and Collections.
Non-financial risk management	– Overseeing the Bank's conduct, operational, model and strategic risks, including impacts of the economic environment on expected credit losses.

Focus areas	Key activities during the year
Prudential risk management and stress testing	– Overseeing the Bank's capital, liquidity and market risks, including analysis of depositor behaviour. – Reviewing and recommending the Bank's ICAAP, ILAAP, Recovery Plan and Resolvability Assessment Framework to the Board for approval. – Reviewing the adequacy of the Bank's Stress Testing Framework and challenging Management's interpretation of stress testing scenarios, including areas of judgement.
Compliance	– Monitoring progress under the Bank's Consumer Duty implementation plan and annual compliance monitoring plan. – Receiving regular reporting from the Money Laundering Reporting Officer and monitoring the adequacy and effectiveness of the Bank's AML systems and controls. – Reviewing the regulatory landscape in which the Group operates and engages with regulators.
Risk policies and frameworks	– Reviewing the Bank's Risk Policy Management Framework and recommending to the Board for approval corresponding Level 1 risk policies.

Governance

Directors' report

Section 172(1) statement

In accordance with the Companies Act, this statement describes how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) and discharged their duty to promote the long-term success of Starling in the year ended 31 March 2024.

Changing banking for good means being a force for good in our industry. At the core of our 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 and environment, shareholders and regulatory bodies. The Board understands that to promote the Group's long-term success, the right culture needs to be fostered throughout Starling and it fully recognises the importance of engaging with its key stakeholder groups to inform its strategy and decision-making.

Each Board agenda sets out Section 172(1) obligations as a helpful reminder to the Directors of their statutory duties. Board and board committee papers include a cover sheet that highlights key stakeholder impacts or considerations and ensures the Directors can make informed decisions in accordance with their duties. In addition, the Board's annual learning and development plan is linked to the matters set out in Section 172 (1) to ensure there is sufficient consideration and coverage of the Directors' statutory duties. Further details of planned learning and focus sessions in 2024 are set out on page 68.

The Board is committed to ongoing review and challenge on how it can improve on its engagement with customers, employees and other key stakeholders. From making thoughtful, sustainable choices for the planet to championing equality, ethics are a driving force for Starling and it actively engages with industry, consumer bodies and voluntary organisations across a range of issues.

Section 172 Matter	Report Section	Page
Consequences of any decision in the long term	Strategic review and business model	8
	ESG review	36
Interests of employees	ESG review	36
	Corporate governance statement	57
Fostering business relationships with suppliers, customers and others	Corporate governance statement	57
	Section 172 statement	79
Impact of operations on the community and the environment	Strategic review and business model	8
	ESG review	36
	Climate-related disclosures	39
Maintaining a reputation for high standards of business conduct	Corporate governance statement	57
Acting fairly between members of the Company	Section 172 statement	79

Governance / Directors' report / Section 172(1) statement

Key stakeholders	Board engagement
People We listen to each other actively and attentively, because everyone can teach us something different.	– Through creating a welcoming and inclusive environment, Starling benefits from the different perspectives and experiences of its talented workforce. The Bank's Always Open forum is an employee-led diversity network, which embodies the following values established by the Board, aim for greatness and do the right thing, and focuses on ensuring all Starling employees feel valued and respected. – Starling runs regular (at least bi-annually) employee engagement surveys, asking employees to score and give feedback on topics such as leadership, diversity and inclusion, culture, recognition and well-being. These are the issues which Starling knows matter most to its people. Participation rates exceed financial services industry benchmarks and demonstrate consistently high levels of employee engagement across the organisation. Survey results are shared with management on a confidential basis and discussed by the Board. – Acknowledging the powerful message of employee share ownership, the Board 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 27 of the financial statements. – During the year, members of the Board took part in regular virtual Q&A sessions aimed at responding to a range of questions submitted by employees. These sessions drive awareness of the issues which matter most to Starling employees and support employee views being taken into account in decision-making which is likely to affect employees' interests. In December 2023, the CEO, CFO and Head of Strategy held an employee session dedicated to Starling's 2024 strategy. This session aimed to raise employee awareness of Starling's 2024 strategic priorities and how the successful delivery of these priorities would affect the performance of the Bank and its balance sheet. – The Interim Chair of the BAC is Starling's nominated Whistleblowing Champion. He is responsible for complying with the FCA prescribed responsibility of ensuring and overseeing the integrity, independence and effectiveness of Starling's policies and procedures on whistleblowing. – During the year, Board meetings were held at Starling's offices and Directors regularly visited the offices between meetings to collaborate with management and other employees on specific projects. The Board also hosted two evening receptions with the Executive.
Customers We listen to our customers, so we can deliver what they need.	– Throughout the year, the Board received monthly reporting on customer complaint volumes as well as regular updates on the implementation and embedding of Consumer Duty which is focused on delivering good outcomes for customers. – The Senior Independent Director is Starling's nominated Consumer Duty Board Champion. She is responsible for supporting the Chair of the Board and CEO in raising Consumer Duty in all relevant Board discussions and challenging management on how it is embedding the duty and focusing on consumer outcomes. – In 2023, Starling partnered with the charity Surviving Economic Abuse to launch a new feature for its customers called 'Hide references' to help victims of economic abuse. Starling was the first UK bank to introduce this capability which enables customers to block payment references from those using them to send abusive or upsetting messages. – Starling regularly communicates and engages with its customers across a range of social media platforms on matters such as managing your finances, budget planning and how to watch out for bank impersonation scams. – Well-executed PR and brand activity increases engagement of existing and new customers. The Board is kept updated on PR and Brand strategy and, in early 2024, Starling launched a new brand platform aimed at demonstrating that Starling is a bank built around real human needs.

Governance / Directors' report / Section 172(1) statement

Key stakeholders	Board engagement
Suppliers We build relationships with high quality suppliers and partners who are committed to operating under ethical standards and values equivalent to ours.	– The Board has an understanding of Starling's reliance on critical service providers and ensures that it has appropriate and effective management systems and strategies in place to deal with outsourced service providers. – The Board has oversight of material outsourcing relationships, and is responsible for approving changes to Starling's Material Outsource Service Provider population such as new engagements. – The Board reviewed and approved Starling's 2023 Statement on Modern Slavery and Human Trafficking on recommendation from the ESC. – The Bank publicly reports on its payment practices and performance twice a year. Any material changes to performance are reported to the Board. During the year, 98% of invoices were paid within 30 days, a 10.1% improvement on prior year.
Communities and environment We recognise the importance of understanding how our business impacts the communities and environment we serve.	– In 2023, Starling renewed its partnership with Southampton FC Women. This was following an initial partnering for the 2022/23 season, when Starling became the first organisation to sponsor the women's team independently of the men's. – In 2024, Starling became the first sponsor of the Greater Manchester bike hire scheme. The sponsorship follows the opening of Starling's Manchester office in 2023. – Starling's partnership with the National Trust is aimed at improving access to nature and conserving natural habitats for all to enjoy now and in the future. Starling has an employee-led forum called Green Shoots to share ideas and support colleagues to help Starling achieve its net zero targets and beyond. Further information on how we engage with the environment is set out on page 36. – Starling encourages employees to volunteer within the community and offers two days' paid leave per year to do so.
Shareholders We maintain strong, open and ongoing dialogue with our shareholders.	– Significant shareholders are represented on the Board and/or are entitled to nominate an observer to attend and raise questions at Board meetings. In addition, the Bank's Investor Directors are members of the RemCo, NomCo, BAC and BRC. – Outside of Board meetings, the Chair of the Board, CEO and CFO regularly engaged with Starling's key shareholders on a range of issues throughout the year.
Regulatory bodies We strive for constructive dialogue and transparent relations with our regulators.	– Regulatory relationships are built on trust and confidence, supported by a strong understanding of the Bank's business model, culture and core values. During the year, the BRC and Board were focused on monitoring and strengthening the Bank's risk culture, to ensure everyone within the Bank is able to consistently demonstrate sound risk management in every aspect of their role. This is discussed in more detail on page 51. – Members of the Board frequently met with the Bank's regulators over the course of the year to discuss a range of matters including the Bank's risk management maturity programme, Consumer Duty, financial crime, risk management and Executive recruitment and succession planning. – The Board hosted representatives from the PRA who presented first-hand their annual PSM feedback and observations to the Board in May 2023. This was a valuable opportunity for the Board to collectively engage with the PRA and to understand their priorities for the coming year.

Governance / Directors' report

Other statutory information

Set out below is additional statutory information that Starling is required to disclose in its directors' report. Some of the matters normally included in the directors' report have instead been included in the strategic report on pages 3 to 55 as the Board considers these to be of strategic importance. An indication of likely future developments may be found in the strategic report.

Directors

Details of the Directors as at 31 March 2024, together with their biographies, can be found on page 60 to 62. The following Directors held office throughout the financial year ended 31 March 2024 and up to the date of signing the financial statements: David Sproul, Tracy Clarke, Marian Martin, Ian Jenkins, Faisal Galaria, Anne Boden, Lazaro Campos, Marcus Traill and Declan Ferguson.

The following Director changes occurred during the year:

John Mountain	Appointed 20 June 2023
Carolyn Clarke	Resigned 31 January 2024
Julie Chakraverty	Appointed 1 March 2024

Anne Boden's first appointment date to the Board (in an executive capacity) was 18 June 2014. Anne stepped aside in her role as Starling's CEO in June 2023 but remains on the Board as a non-executive director.

Results and dividends

The results of the Group for the year ended 31 March 2024, are shown on pages 149 to 227. The Directors do not propose the payment of any dividend for the year (2023: nil).

Directors' indemnities

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

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

Employment policies

Starling believes that diverse teams make better teams. Starling builds high performing teams by attracting and recruiting talented people, irrespective of race, ethnicity, sex, sexual orientation, religious belief, disability, age or background and providing those talented people with an inclusive workplace with the right environment, tools, and training to ensure they thrive.

Starling achieved Level 1 Disability Confident status in 2022, certifying that its hiring practices are accessible and equitable for disabled applicants and that Starling is committed to playing a role in positively changing attitudes, behaviours and cultures. Starling supports colleagues with a disability or long-term health condition through providing adjustments at both the recruitment stages and when colleagues are employed, investing in workplace technology solutions in particular. Starling has an active network to support colleagues with disabilities, or those who develop disabilities whilst working at Starling.

Starling recognises the role Line Managers play in creating an inclusive environment in which all employees feel they belong. Starling's award-winning manager capability training programme, the Starling Flight Path, covers leadership, unconscious bias and coaching and listening skills to ensure team members are supported by their managers to be their best. Group employment policies are updated regularly to ensure they align with Starling's aspirations.

Streamlined energy and carbon reporting

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 implement the UK government's policy on SECR. Starling meets the mandatory reporting criteria for SECR legislation. Starling has chosen to disclose SECR information as part of the strategic report, for further information see page 50.

Related party transactions

Details of related party transactions are set out in note 29 of the financial statements.

Donations

During the year the Group made charitable donations amounting to £276,450 (2023: £163,200). Details of these donations are set out on page 38 of the strategic report. During the year the Group made no political donations nor incurred any political expenditure in the UK or outside of the UK (2023: nil).

Governance / Directors' report / Other statutory information

Research and development

Starling is dedicated to the research and development of innovative digital banking and the enhancement of its leading technology platform. Research and development costs recognised for the year ended 31 March 2024 can be found in note 7 with capitalised expenditure in note 17 of the financial statements.

Financial instruments

Starling enters into numerous material financial instruments as part of its business operations, further details of which are set out in note 28 of the financial statements. Details of Starling's ERMF and practices for managing the principal risks of the business are set out from page 87 of the risk report.

Subsidiaries and branches

The Group's subsidiaries are listed in note 15 of the financial statements. Murmur Financial Services Limited has a branch in Ireland (branch number: 910039) which was established on 1 August 2023.

Subsequent events

There are no material events that have taken place between 31 March 2024 and the date of approval of these accounts that require disclosure or adjustment to the financial statements.

Going concern

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

In assessing the Group and Bank's going concern position as at 31 March 2024, the Directors considered a wide range of information relating to the present and future conditions, including the Group and Bank's current financial position and future projections of profitability, cash flows and capital resources and requirements, which all form part of the business plan. Base case forecast projections are based on detailed financial planning by management that take account of the current and expected economic environment. The Directors also considered the impact of key existing risks and emerging risks on the Group and Bank business model and plan (see page 55). The Directors have assessed the outlook for the Group and Bank for at least 12 months from the signing of these financial statements as required under IFRS.

The Directors have reviewed a range of severe but plausible stresses that have been applied to the base case business plan with the impact assessed against the Group and the Bank's profits, capital and liquidity resources. The Group/Company has modelled a severe low interest rate stress downside scenario (detail on this scenario can be found on page 184), as well as considering the impact of a number of single-variable stress tests in order to test the limits and vulnerabilities of the business plan and strategy. The impact of management actions that might be taken to mitigate the impact of these stresses is also assessed. The projections under these stress scenarios show that the Group/Company will be able to operate at adequate levels of both capital and liquidity resources whilst remaining in excess of PRA minimum capital requirements and using its buffers to execute recovery actions to replenish its capital resources. On this basis, the Group and Company will meet its future obligations for at least 12 months from the signing of these financial statements.

Stress testing is performed regularly throughout the year to support the business planning cycle and re-forecasting as well as to monitor business performance and also to inform and support management's decision making. It also forms a fundamental part of the annual production of the ICAAP, ILAAP and recovery and resolution planning.

As a result of this assessment, the Directors have a reasonable expectation that the Group and Bank have adequate capital, liquidity and other resources to continue in operational existence for at least 12 months from the signing of these financial statements and that the Group and Bank has adequate capital and liquidity resources to meet its minimum regulatory requirements as prescribed by the PRA. Accordingly, the going concern basis of accounting has been adopted to prepare these financial statements.

Disclosure of information to the auditor

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

By order of the Board

John Mountain
Interim Chief Executive Officer
Starling Bank Limited
Company number 09092149
10 June 2024

Governance / Directors' report

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with UK-adopted IAS and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group's and parent company's profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with UK-adopted IAS;
- Assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

By order of the Board

John Mountain
Interim Chief Executive Officer
Starling Bank Limited
Company number 09092149
10 June 2024

Declan Ferguson
Chief Financial Officer
Starling Bank Limited
Company number 09092149
10 June 2024

Risk report

Risk management

See page 51 of the strategic report for risk management overview including approach to risk and details of principal and emerging risks.

Risk culture

Starling recognises the importance of a strong risk culture which sets the tone for the Group, ensuring strong risk awareness by all of the bank's employees as they conduct their daily activities and pursue business objectives. We continue to focus on the risk culture of the business, which is a key underpinning of the effectiveness of the risk management framework. This includes an ongoing programme of work to review, report on and continually improve risk culture.

Starling's risk culture is founded on and reinforced by the Group's purpose and core values which have at their heart a belief in transparency, fairness and inclusion.

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

Risk strategy

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

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

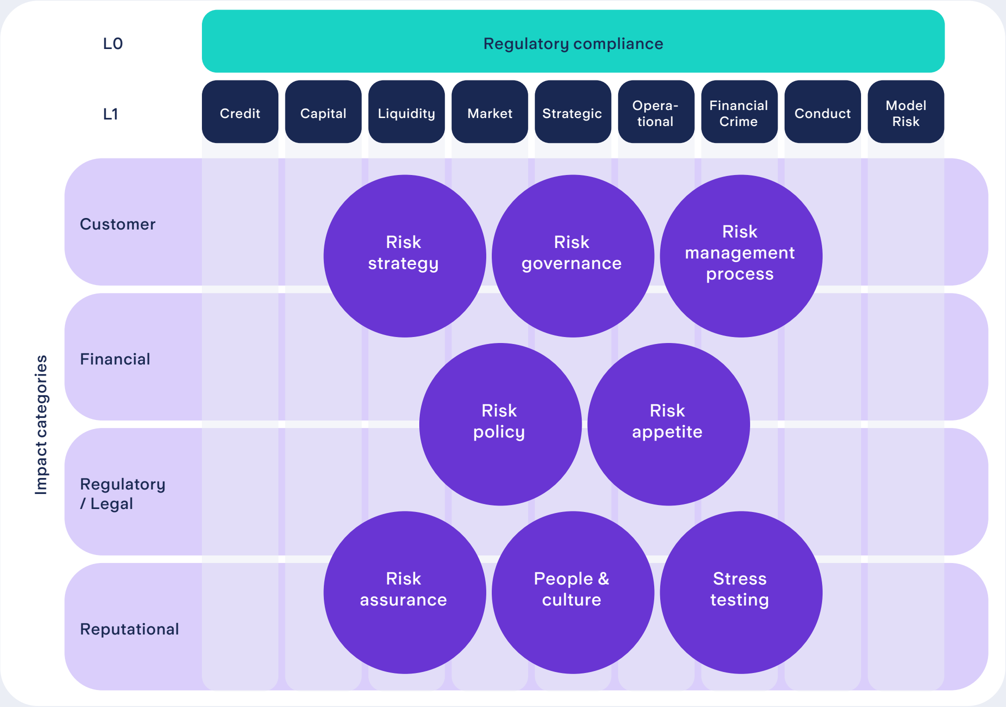
- We will create and maintain a robust risk culture and embed effective risk management practices in order to deliver a reputable, responsible and sustainable business.
- We will provide an open and transparent environment where well-trained and informed individuals take intelligent risk, subject to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

Risk report

Risk framework

Enterprise Risk Management Framework

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



The key objectives of the ERMF are to:

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

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

Risk report / Risk framework

Risk appetite

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

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

Risk taking is fundamental to the Bank's business model; a bank cannot succeed without taking some degree of risk; however prudent risk management forms an integral part of the Bank's governance structure. Starling's overarching direction for risk management is as follows:

"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 ensure the ongoing confidence of customers, regulators and investors."

Strategic and business objectives	Financial resilience	Operational resilience	Reputation and confidence	Workplace culture
We will maintain a clear vision, mission, strategic objectives and 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 seek to minimise earnings volatility to enable stable capital growth generation.	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.	We will provide a workplace culture that reflects the value of fairness, equity, inclusion, compassion and non-discrimination. Our employees should be - and feel - safe from physical and emotional harm.

Risk report / Risk framework

Risk operating model

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

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

First Line
The business

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

Second Line
The risk function

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

Third Line
Internal audit

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

Risk report / Risk framework

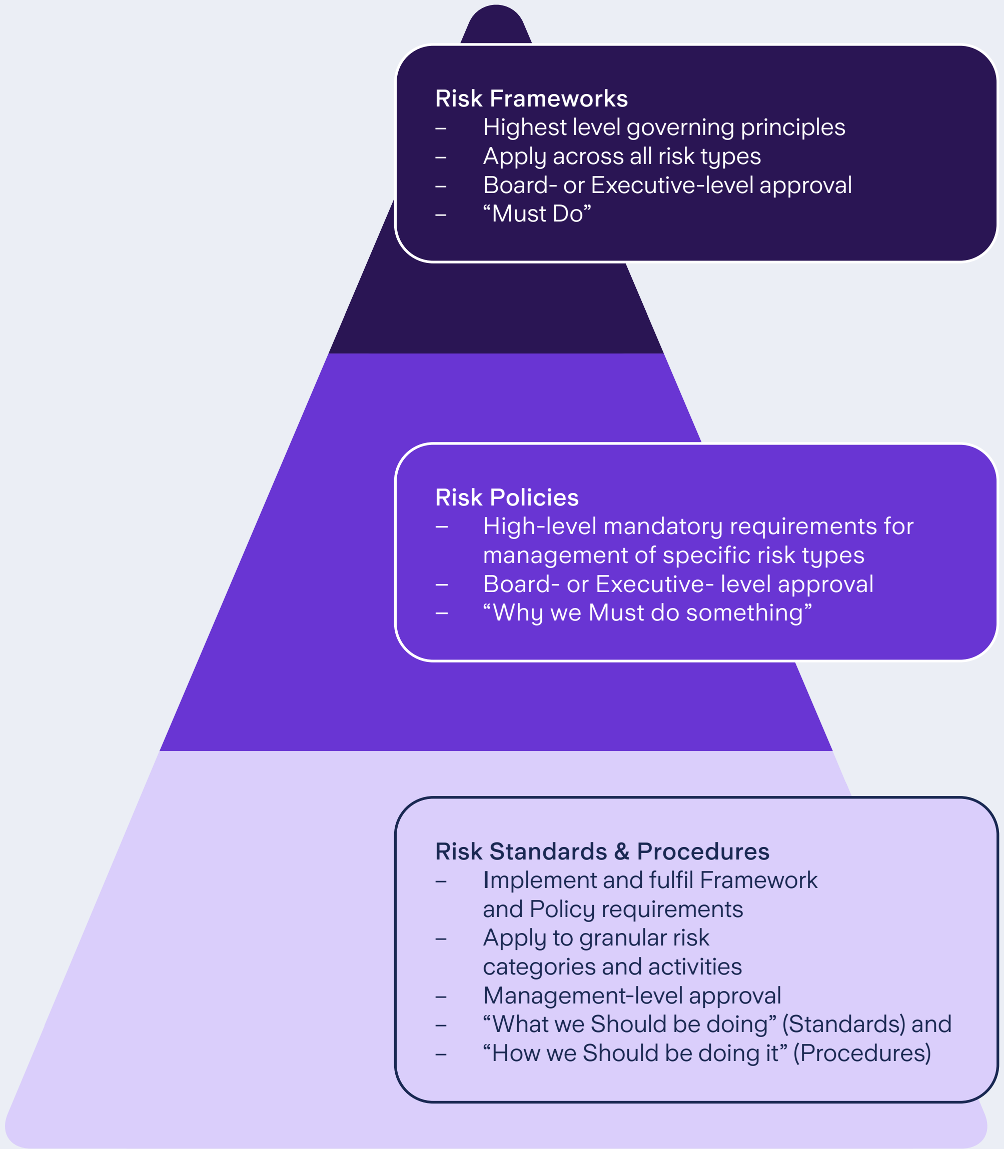
Policy framework

The Risk Policy Management Framework outlines Starling's approach to the development, approval, application and management of its risk governance documentation suite, which comprises frameworks, policies, standards, and procedures.

Risk frameworks are documents that set out the highest level governing principles, and can include organisational structure requirements as well as other high-level mandatory requirements. Risk frameworks apply across all risk categories as defined in the Bank's risk taxonomy. Approval of risk frameworks is primarily retained within the authority of the Board. Risk framework documents will typically have an annual review cycle but will be reviewed more frequently where there is a material change in Starling's strategy or business plan which necessitates a restatement of the Bank's principles and appetites.

Risk policy documents establish the high-level mandatory requirements that govern the actions needed for the management of a specific risk type. Policy approval can either be Board-level or Executive-level. Review and re-approval is also conducted on an annual basis, and more often where there has been a material change in the Group's approach which necessitates a re-statement. Policies are the foundation on which standards and procedures are built.

Standards and Procedures typically apply to granular risk categories and activities. A Standard is a document that describes what should be done, at a minimum, to fulfil the requirements of the associated Frameworks or Policies. A Procedure on the other hand is a document that sets out the actions that should be taken to promote consistency of practice, in support of requirements of an overarching Framework, Policy or Standard. These documents require approval by individual executives and their nominated delegates or subject matter experts. Review and re-approval is conducted where there has been a change in Starling's approach.



Risk report / Risk framework

Risk governance and oversight

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

The BRC is the primary committee to receive and review risk-related information. 1L 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 1L risk governance and control activities. They will ensure that risk limits are set at appropriate levels to keep aggregate risks within risk appetite and that the aggregate forward-looking risk profile relative to risk appetite is effectively monitored and reported to board committees.

The overall governance structure and risk management governance structure can be seen on page 56.

The specific roles of the Board and its sub-committees including ExCo are detailed in the corporate governance review from page 66.

Stress testing

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

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

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

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

Risk report

Risk categories and risk mitigation

Starling has established a risk management framework underpinned by a risk taxonomy which supports the consistent identification and management of risks.

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

Risk categories

Strategic risk

Risk assessment
Strategic risk is the risk that Starling does not deliver the expected financial and non-financial benefits to its customers, shareholders and wider stakeholders. This may be as a result of poor decision making, substandard execution of decisions, inadequate resource allocation or from a failure to effectively respond to changes in the business/market environment.

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

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

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

Management of strategic risk
Starling has a clearly defined Board-approved strategy and has adopted a corporate governance framework with a Board of experienced Executive and Non-Executive Directors, supported by Board committees and ExCo to oversee and address strategic issues as they arise. This is supported by a detailed business plan, capital plan, risk appetite statements, recovery plan, resolution framework and as well as a skilled and experienced Executive team.

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

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

Risk report / Risk categories and risk information / Strategic risk

Change in the year:

Balance sheet growth

Starling has continued to grow its customer deposits and its lending. The Group has continued to grow its mortgage lending capacity through originations made by Fleet. Starling has continued to innovate its products, features and services, to increase its market share of deposits.

Economic outlook

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

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

Impact on Starling's business model

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

- Credit risk: The Group's economic scenarios and weightings have been updated to reflect current and expected market conditions. The Group continues to apply some judgemental adjustments to the modelled output from its ECL models to capture the following areas of uncertainty and to compensate for under estimation in ECL models (see note 3a on page 189):
  - Economic uncertainty – when the modelled outputs do not fully reflect the impact of economic factors over the coming months;
  - Deferred calibrations – where limited performance data exists with which to fully model the impacts of economic conditions on a portfolio; and
  - Other post model performance adjustments – where weaknesses exist within models, or where certain factors are not fully catered for within modelled outputs.
- The Group has modelled the impact of severe but plausible downside stress scenarios as described in note 1c on page 170. This has resulted in the Group reviewing both the quantum and availability of capital and liquid assets that it should hold to remain above its risk appetite (which are themselves comfortably above the regulatory minimum) in the event that such a stress materialises. These are covered in more detail in the Liquidity and Funding Risk section on pages 133 to 138 and the Capital Adequacy Risk section on pages 141 to 142.
- The Bank updates its Recovery Plan on an annual basis, evidencing that it can recover from a severe but plausible stress.

Principal risks

The Board and BRC regularly review principal risks that could pose a threat to Starling's strategy. The nature of these risks changes over time and an assessment of those prevalent at 31 March 2024 has been set out on page 52.

Risk report / Risk categories and risk mitigation

Credit risk

Starling's credit risk sub-divides into two distinct categories: exposure to the risks arising from customer lending balances, covered from page 95; and exposure to the risks arising from an institutional borrower failing to make required payments, covered from page 130.

Credit risk – lending

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

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Cash and balances at central banks	6,420,115	6,076,284	6,420,115	6,076,284
Loans and advances to banks	36,879	33,420	35,441	29,151
Debt securities	3,320,702	2,518,240	3,320,702	2,518,240
Derivative assets	246,541	221,774	246,541	221,774
Loans and advances to customers	4,689,713	4,873,633	4,689,713	4,873,633
Undrawn facilities and commitments	204,965	225,888	204,965	225,888
Exposure to credit risk	14,918,915	13,949,239	14,917,477	13,944,970
UK government guarantee	(742,374)	(1,280,371)	(742,374)	(1,280,371)
Exposure after guarantee	14,176,541	12,668,868	14,175,103	12,664,599

Included in loans and advances to customers are BBLS, CBILS and RLS lending which benefits from additional credit enhancement from guarantees received from BBB (backed by HM government) as part of the schemes' features. Guarantees are set against the outstanding balance of a defaulted facility after any recoveries have been made. In 2024, a provision for £2.1m was recognised in relation to certain loans provided by the Company under the BBLS, where the guarantee provided under the BBLS guarantee agreement may no longer be available to the Company.

No impairment has been recognised against the carrying value of cash and balances at central banks or loans and advances to banks as both are amounts placed with institutions rated A or above and considered low risk.

No impairment has been recognised against debt securities as they are considered to have low credit risk with credit ratings equivalent to the globally understood definition of investment grade.

Risk report / Risk categories and risk mitigation / Credit risk

Credit quality of drawn and undrawn financial assets

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

31 March 2024 Credit quality (audited)	Exposure to credit risk £'000	UK government guarantee £'000	Exposure after guarantee £'000	Impairment provision £'000	Net exposure £'000	% of total net exposure after guarantee
Cash and balances at central banks						
Cash and balances with central banks - AA	6,420,115	–	6,420,115	–	6,420,115	45.4%
Loans and advances to banks[1]						
Loans and advances to banks - AA	10	–	10	–	10	<0.1%
Loans and advances to banks - A	36,869	–	36,869	–	36,869	0.3%
Debt securities[1]						
Debt securities - AAA	3,171,861	–	3,171,861	–	3,171,861	22.4%
Debt securities - AA[2]	148,841	–	148,841	–	148,841	1.1%
Derivative assets[1]						
Derivative assets - AA-	246,541	–	246,541	–	246,541	1.7%
Mortgages[3]						
Low risk (Stage 1)	3,455,639	–	3,455,639	(4,631)	3,451,008	24.4%
Medium risk (Stage 2)	238,814	–	238,814	(3,677)	235,137	1.7%
Higher risk (Stage 3)	134,950	–	134,950	(4,576)	130,374	0.9%
SME lending[3]						
Low risk (Stage 1)	588,431	(536,796)	51,635	(3,652)	47,983	0.3%
Medium risk (Stage 2)	162,424	(142,790)	19,634	(4,821)	14,813	0.1%
Higher risk (Stage 3)	81,039	(62,790)	18,249	(17,995)	254	<0.1%
Retail lending[3]						
Low risk (Stage 1)	14,664	–	14,664	(174)	14,490	0.1%
Medium risk (Stage 2)	6,958	–	6,958	(1,294)	5,664	<0.1%
Higher risk (Stage 3)	6,794	–	6,794	(6,143)	651	<0.1%
Undrawn facilities and commitments	204,965	–	204,965	(907)	204,058	1.4%
Total	14,918,915	(742,376)	14,176,539	(47,870)	14,128,669	100%

1 Ratings of AAA to A are derived from external credit rating agencies.
2 Debt securities include £99.5m of T-bills (2023: £200.8m) which are unrated and have been assigned the same rating as the UK sovereign issuer at AA in this table.
3 Low to High Risk, Stages 1 to 3 relate to IFRS 9 ECL staging allocation.

Risk report / Risk categories and risk mitigation / Credit risk

Credit quality of drawn and undrawn financial assets

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

31 March 2023 Credit quality (audited)	Exposure to credit risk £'000	UK government guarantee £'000	Exposure after guarantee £'000	Impairment provision £'000	Net exposure £'000	% of total net exposure after guarantee
Cash and balances at central banks						
Cash and balances with central banks - AA	6,076,284	–	6,076,284	–	6,076,284	48.1%
Loans and advances to banks[1]						
Loans and advances to banks - AA	177	–	177	–	177	<0.1%
Loans and advances to banks - A	33,243	–	33,243	–	33,243	0.3%
Debt securities[1]						
Debt securities - AAA	2,299,441	–	2,299,441	–	2,299,441	18.2%
Debt securities - AA	218,799	–	218,799	–	218,799	1.7%
Derivative assets[1]						
Derivative assets - AA-	221,774	–	221,774	–	221,774	1.8%
Mortgages[2]						
Low risk (Stage 1)	3,228,301	–	3,228,301	(4,275)	3,224,026	25.5%
Medium risk (Stage 2)	121,395	–	121,395	(879)	120,516	1.0%
Higher risk (Stage 3)	87,093	–	87,093	(2,699)	84,394	0.7%
SME lending[2]						
Low risk (Stage 1)	972,862	(881,076)	91,786	(5,046)	86,740	0.7%
Medium risk (Stage 2)	197,000	(176,203)	20,797	(4,380)	16,417	0.1%
Higher risk (Stage 3)	234,439	(223,092)	11,347	(10,755)	592	<0.1%
Retail lending[2]						
Low risk (Stage 1)	25,530	–	25,530	(1,091)	24,439	0.2%
Medium risk (Stage 2)	1,746	–	1,746	(478)	1,268	<0.1%
Higher risk (Stage 3)	5,267	–	5,267	(4,927)	340	<0.1%
Undrawn facilities and commitments	225,888	–	225,888	(1,092)	224,796	1.8%
Total	13,949,239	(1,280,371)	12,668,868	(35,622)	12,633,246	100%

1 Ratings of AAA to A are derived from external credit rating agencies.
2 Low to High Risk, stages 1 to 3 relate to IFRS 9 ECL staging allocation.

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

Credit risk arises through the lending facilities which Starling offers to its mortgage, SME and retail customers, both through its own origination channels and through third parties. Starling's credit risk is categorised into three components:

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

Management of credit risk
All material credit risk decisions are managed through Starling's Board and risk committee structures, as set out from page 66.

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

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

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

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

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

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

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

Risk report / Risk categories and risk mitigation / Credit risk

Measurement of credit risk

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

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

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

- For RLS, BBLS and CBILS organic lending, the Bank utilises an internal assessment of credit risk based on a close monitoring system, which is evaluated monthly. The adequacy of provisions is calculated using corresponding third-party originated asset coverage ratios.

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

- EAD - 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, depending on the stage; and
- 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 material portfolios except organic CBILS and RLS lending. For these portfolios, coverage rates from existing models for comparable assets are applied.

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

- Stage 1 - where the asset is not credit-impaired at origination, and has not experienced a SICR since it was originated;
- Stage 2 - where the asset has experienced a SICR since the point it was originated, but is not yet credit-impaired; and
- Stage 3 - where the asset is credit-impaired.

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

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 100%.

Risk report / Risk categories and risk mitigation / Credit risk

Measurement of credit risk continued

Significant increase in credit risk

In determining whether there has been a SICR the Group uses quantitative tests, together with qualitative indicators such as watchlists and other behaviours observed on individual customers' accounts.

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

Additionally, an increase in other observable data points that might point to a SICR, such as a material deterioration in credit bureau scores, is amongst other factors taken into consideration. The criteria vary across portfolios, as set out in the table.

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

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

The SICR criteria are shown in the table below:

Portfolio	SICR criteria
Mortgages	– 1+ MIA – Term expired by less than 3 months – Forbearance (portfolio dependent) – 100% increase in PD since origination based on bureau score (portfolio dependent). – Suspected fraud (portfolio dependent). – Unpaid service charges paid by lender (portfolio dependent).
SME – Third party CBILS	– 10+ days in arrears. – Forbearance. – 100% increase in PD since origination based on bureau score.
SME - Third party RLS	– 10+ days in arrears. – Forbearance. – 100% increase in PD since origination based on bureau score.
SME - Organic CBILS and RLS	– 15+ days in arrears. – Indication of financial distress assessed by a close monitoring watchlist.
Retail – Overdrafts and term loans	– 100% increase in PD since origination based on bureau score. – Potential financial difficulty trigger (retail overdrafts only). – Forbearance. – 1+ MIA or 30 DPD.

Risk report / Risk categories and risk mitigation / Credit risk

Measurement of credit risk continued

Definition of arrears

Loans and advances to customers are classified as in arrears if:

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

Definition of default

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

- The outstanding balance is overdue for more than 90 days or the account is three or more MIA;
- Any security or personal guarantee has been taken into the Bank's possession;
- 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 any of the following criteria has been met:

- They are term expired for three or more months;
- The property is subject to litigation;
- Evidence of fraud is received;
- The customer is deceased; or
- A LPA receiver has been appointed for a BTL mortgage.

For arrears-based defaults where a customer cures from an arrears default position and makes six consecutive contractual monthly payments, the customer will cure to stage 1 or stage 2. For distressed restructures, 12 consecutive repayments must be observed before the customer can cure to stage 1 or stage 2. For default criteria other than arrears and distressed restructures, the default criteria are deemed to be absorbing, and the customer cannot cure from stage 3.

Credit-impaired financial assets

The Group assesses on an on-going basis whether its financial assets are credit-impaired. IFRS 9.5.4.1(b) requires that where assets have become credit-impaired, interest revenue is subsequently calculated by applying the EIR to the amortised cost less impairment provisions of the asset.

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

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

Forbearance

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

Charge-offs

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

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

Risk report / Risk categories and risk mitigation / Credit risk

Stress testing

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

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

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

Risk mitigation

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

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

Credit policy

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

Specialist Quality Assurance and Outcome Testing teams in the 1L review individual cases to check in our organic lending book for adherence to policy and procedures to ensure successful customer outcomes. In addition, 2L undertakes regular assurance reviews of 1L activity and reports any issues identified to senior management.

Credit assessment

Applications for new or increased credit lines are assessed in accordance with the Bank's credit and lending policies and procedures, which includes affordability assessments for all applications.

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

The Bank's credit policies allow for decisions on cases to be automated through the use of decisioning models and policy rules. 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. Similarly, lending decision appeals are assessed by specialist underwriters.

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

For lending undertaken and serviced through third parties, the Bank undertakes regular assurance activity.

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 BTL mortgages within the Fleet subsidiary. Each underwriter is required to reach the appropriate level of competence before being allocated a lending mandate. Similarly, cases can be referred to specialists where required.

Credit Risk Monitoring

Regular detailed credit risk and impairment monitoring is reviewed by senior management, with key highlights shared at the CRC. This includes a full assessment against risk appetite limits, supported by a series of key risk and early warning indicators, and consideration of any PMAs, across individual portfolios and in aggregate for the Bank's lending portfolios.

Portfolio oversight

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

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

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

Forbearance

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

Mortgages

The Bank's subsidiary, Fleet, originates and services BTL lending on behalf of Starling. Fleet operates policies which set out the situations under which forbearance will be offered to borrowers in financial difficulty. Outside of Fleet, Starling's other mortgage portfolios are serviced by third parties who are also responsible for offering appropriate forbearance solutions to customers. Each third party servicer operates their own forbearance and collections policies, which are reviewed by Starling at the outset and adherence is confirmed throughout the relationship through various audits and regular monitoring.

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

SME

BBLS - Pay as you grow

UK government-backed BBLS, PAYG options have been designed by HM Treasury and the BBB to support and provide customers with the majority of the forbearance they need.

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

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

Credit Risk Monitoring continued

SME continued

BBLS - Pay as you grow continued

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

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

SME lending through third parties

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

Retail

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

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

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

Collections

Mortgages

Mortgage collections are either undertaken by the Group's wholly owned subsidiary, Fleet, or by Starling's third party servicers. The activities largely depend on whether the mortgage is unregulated or regulated. In all scenarios, either Fleet or the servicer will work with the borrower to determine the cause of non-payment and, where appropriate, will agree to implement a forbearance option. Where forbearance measures are inappropriate or ineffective, and all other possible avenues have been explored with the borrower to assist them to fulfil their contractual obligations, further collections activity will be undertaken.

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

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

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

SME and retail

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

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

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

Risk report / Risk categories and risk mitigation / Credit risk

Credit Risk Monitoring continued

Collections continued

SME and retail continued

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 having additional or complex needs. If a customer enters default on their lending facility, the collections function will issue the required legal and regulatory documentation to demand repayment from the borrower.

Starling's responsible lending and collections policies and procedures set out its treatment of customers who show signs of financial difficulty, including the Bank's approach to forbearance. Ongoing quality assurance and outcome testing is undertaken on the collections function to monitor the function's performance, with 2L also undertaking regular assurance reviews.

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

Customers in vulnerable circumstances

Starling operates a vulnerable customer policy, which sets out how Starling will support customers in vulnerable circumstances or who have additional or complex needs and ensures they are treated appropriately in accordance with Starling's values as well as applicable regulatory requirements, including the Consumer Duty.

Starling ensures that all staff that are directly in contact with customers are trained to identify customers in vulnerable circumstances, provide additional support and have the ability to escalate to a specialist team (welfare support) if needed.

Starling undertakes monitoring and assurance work to ensure that its vulnerability policies, procedures and processes, along with supporting controls are designed and operating effectively. For portfolios of customers who have been outsourced to a third party, Starling assesses the servicer's vulnerable customer policies to satisfy itself that they are aligned to market expectations and regulatory requirements. Adherence to these policies is monitored through regular oversight.

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. The tables in this section do not distinguish between the Group and Company as the credit risk exposure for customer lending is the same.

Credit risk exposure tables

The below tables can be found across the following pages:

Risk report / Risk categories and risk mitigation / Credit risk

Lending exposure and impairment provision, by stage and coverage (audited)

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

31 March 2024	Stage 1 £'000	Stage 2 £'000	Stage 3[1] £'000	Total £'000
Mortgage lending[1]	3,455,639	238,814	134,950	3,829,403
Mortgage pipeline (undrawn)	125,316	–	–	125,316
SME lending after UK government guarantee	51,635	19,634	18,249	89,518
SME lending	588,431	162,424	81,039	831,894
Of which subject to UK government guarantee	(536,796)	(142,790)	(62,790)	(742,376)
SME overdraft facilities (undrawn)	3,938	–	79	4,017
Retail lending	14,664	6,958	6,794	28,416
Retail overdraft facilities (undrawn)	74,569	968	95	75,632
Exposure after guarantee	3,725,761	266,374	160,167	4,152,302
Of which on balance sheet	3,521,938	265,406	159,993	3,947,337
Of which off balance sheet	203,823	968	174	204,965
Mortgage lending	4,631	3,677	4,576	12,884
Mortgage pipeline (undrawn)	191	–	–	191
SME lending	3,652	4,821	17,995	26,468
SME overdraft facilities (undrawn)	53	–	–	53
Retail lending	174	1,294	6,143	7,611
Retail overdraft facilities (undrawn)	473	182	8	663
Impairment provision	9,174	9,974	28,722	47,870
Of which on balance sheet	8,457	9,792	28,714	46,963
Of which off balance sheet	717	182	8	907
Mortgage lending	3,451,008	235,137	130,374	3,816,519
Mortgage pipeline (undrawn)	125,125	–	–	125,125
SME lending	47,983	14,813	254	63,050
SME overdraft facilities (undrawn)	3,885	–	79	3,964
Retail lending	14,490	5,664	651	20,805
Retail overdraft facilities (undrawn)	74,096	786	87	74,969
Net exposure	3,716,587	256,400	131,445	4,104,432
Of which on balance sheet	3,513,481	255,614	131,279	3,900,374
Of which off balance sheet	203,106	786	166	204,058
% Coverage	0.2%	3.7%	17.9%	1.2%

1 Included in mortgages stage 3 exposures are POCI loans of £16.5m with an impairment provision of £0.9m.

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

1 Included in mortgages stage 3 exposures are POCI loans of £18.9m with an impairment provision of £0.7m.

Risk report / Risk categories and risk mitigation / Credit risk

Change in the year

Mortgages

During the year, the Group continued to originate BTL mortgages through Fleet. Portfolio acquisitions and mortgages originated through forward flow agreements continued to run-off. Total mortgage lending has increased to £3,829.4m (2023: £3,436.8m). In addition to this are undrawn mortgage balances of £125.3m (2023: £146.9m), relating to committed future mortgage lending through Fleet.

At the year end, the impairment provision for the drawn mortgage portfolio was £12.9m (2023: £7.9m). The impairment provision on the committed future lending was £0.2m (2023: £0.2m). This results in an overall coverage ratio of 0.3% (2023: 0.2%). The impairment provision has increased overall due to balance sheet growth through organic lending via Fleet and maturing of mortgage portfolios in run-off.

Increased levels of arrears have been noted, particularly in the acquired portfolios, primarily driven by increased interest rates on legacy variable rate mortgages and cost of living increases. This has led to a larger proportion of loans in stages 2 and 3. However, this has been offset to some extent by ongoing lower level of arrears in the newly-originated Fleet assets.

SME

During the year the drawn SME portfolio reduced to £831.9m (2023: £1,404.3m). In addition, SME undrawn balances, relating to SME overdraft facilities, reduced to £4.0m (2023: £5.3m).

At the year end, the impairment provision for the drawn SME portfolio was £26.5m (2023: £20.2m). The impairment provision on undrawn SME overdraft facilities was £53k (2023: £41k). This results in an overall coverage ratio of 28.4% (2023: 15.7%).

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

Government lending schemes (audited)	31 March 2024 £'000	31 March 2023 £'000
BBLS	544,388	943,529
CBILS	187,997	322,779
RLS	96,882	136,529
Government lending schemes	**829,267**	1,402,837

Government lending schemes include BBLS, CBILS and RLS lending which benefits from additional credit enhancement from guarantees received from BBB (backed by HM government) as part of the schemes' features. Guarantees are set against the outstanding balance of a defaulted facility after any recoveries have been made.

Risk report / Risk categories and risk mitigation / Credit risk

Change in the year continued

SME continued

BBLS exposure movement table is shown below:

	Exposure			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Loans and advances as at 31 March 2023	618,321	114,065	211,143	943,529
Other changes in credit risk	(120,215)	(17,203)	137,418	–
Claims paid by HM government	–	–	(285,484)	(285,484)
Repayments	(100,072)	(6,908)	(6,677)	(113,657)
Loans and advances as at 31 March 2024	**398,034**	**89,954**	**56,400**	**544,388**

	Exposure			
	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Loans and advances as at 31 March 2022	917,407	214,542	283,108	1,415,057
Other changes in credit risk	(186,300)	(87,279)	273,579	–
Claims paid by HM government	–	–	(343,927)	(343,927)
Repayments	(112,786)	(13,198)	(1,617)	(127,601)
Loans and advances as at 31 March 2023	618,321	114,065	211,143	943,529

The Company participated in certain government backed/sponsored COVID-19 pandemic lending schemes, including the BBLS. This required the Company to operationalise the BBLS and release funds to customers quickly and efficiently in accordance with the overarching aims of the BBLS and the specific terms of the BBLS guarantee agreement and supporting documentation. In this context, the Company may be exposed to certain risks arising from the requirements of the BBLS guarantee agreement, which in turn could affect the Company's ability to claim under the guarantee agreement in respect of certain loans made to customers. In 2024, a provision for £2.1m was recognised in relation to certain loans provided by the Company under the BBLS, where the relevant facility guarantees provided under the BBLS guarantee agreement may no longer be available to the Company.

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

Retail

The drawn retail portfolio decreased in the year to £28.4m (2023: £32.5m). The retail undrawn balances, relating to retail overdraft facilities, increased to £75.6m (2023: £73.7m). Whilst some increases in arrears have been observed driven by cost of living, the portfolio, including new facilities agreed, continues to perform robustly and benefit from proactive risk management activity. Unsecured loans originated via a forward flow arrangement continue to run-off in line with expectations.

At the year end, the impairment provision for the drawn retail portfolio increased slightly to £7.6m (2023: £6.5m). In addition, a further provision of £0.7m (2023: £0.9m) was held on undrawn retail overdraft facilities. This results in an overall coverage ratio of 8.0% (2023: 6.9%).

Risk report / Risk categories and risk mitigation / Credit risk

Staging profile of customer lending (audited)

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

31 March 2024	Mortgage £'000	SME £'000	Retail £'000	Undrawn £'000	Total £'000
Loans and advances to customers					
Stage 1	3,455,639	51,635	14,664	203,823	3,725,761
Stage 2	238,814	19,634	6,958	968	266,374
Stage 2 – =<30 DPD[1]	179,772	18,207	6,730	968	205,677
Stage 2 – >30 DPD	59,042	1,427	228	–	60,697
Stage 3[2]	134,950	18,249	6,794	174	160,167
Exposure after guarantee	3,829,403	89,518	28,416	204,965	4,152,302
Impairment provision					
Stage 1	4,631	3,652	174	717	9,174
Stage 2	3,677	4,821	1,294	182	9,974
Stage 2 – =<30 DPD[1]	2,296	3,680	1,220	182	7,378
Stage 2 – >30 DPD	1,381	1,141	74	–	2,596
Stage 3[2]	4,576	17,995	6,143	8	28,722
Total impairment provision	12,884	26,468	7,611	907	47,870
Coverage					
Stage 1	0.1%	7.1%	1.2%	0.4%	0.2%
Stage 2	1.5%	24.6%	18.6%	18.8%	3.7%
Stage 2 – =<30 DPD	1.3%	20.2%	18.1%	18.8%	3.6%
Stage 2 – >30 DPD	2.3%	80.0%	32.5%	–%	4.3%
Stage 3	3.4%	98.6%	90.4%	4.6%	17.9%
Coverage ratio	0.3%	29.6%	26.8%	0.4%	1.2%

1 For SME exposures and impairment provisions, =<30 DPD includes loans >10 DPD, in line with SME SICR criteria.
2 Included in mortgages stage 3 exposures are POCI loans of £16.5m with an impairment provision of £0.9m.

31 March 2023	Mortgage £'000	SME £'000	Retail £'000	Undrawn £'000	Total £'000
Loans and advances to customers					
Stage 1	3,228,301	91,786	25,530	225,721	3,571,338
Stage 2	121,395	20,797	1,746	167	144,105
Stage 2 – =<30 DPD[1]	56,319	19,570	1,312	167	77,368
Stage 2 – >30 DPD	65,076	1,227	434	–	66,737
Stage 3[2]	87,093	11,347	5,267	–	103,707
Exposure after guarantee	3,436,789	123,930	32,543	225,888	3,819,150
Impairment provision					
Stage 1	4,275	5,046	1,091	1,050	11,462
Stage 2	879	4,380	478	42	5,779
Stage 2 – =<30 DPD[1]	182	3,523	389	42	4,136
Stage 2 – >30 DPD	697	857	89	–	1,643
Stage 3[2]	2,699	10,755	4,927	–	18,381
Total impairment provision	7,853	20,181	6,496	1,092	35,622
Coverage					
Stage 1	0.1%	5.5%	4.3%	0.5%	0.3%
Stage 2	0.7%	21.1%	27.4%	25.1%	4.0%
Stage 2 – =<30 DPD	0.3%	18.0%	29.6%	25.1%	5.3%
Stage 2 – >30 DPD	1.1%	69.8%	20.5%	–%	2.5%
Stage 3	3.1%	94.8%	93.5%	–%	17.7%
Coverage ratio	0.2%	16.3%	20.0%	0.5%	0.9%

1 For SME exposures and impairment provisions, =<30 DPD includes loans >10 DPD, in line with SME SICR criteria.
2 Included in mortgages stage 3 exposures are POCI loans of £18.9m with an impairment provision of £0.7m.

Risk report / Risk categories and risk mitigation / Credit risk

Stage 2 balances (audited)

There are a number of reasons why a loan could be subject to a stage 2 lifetime impairment provision. For the purpose of this table where a loan satisfies more than one stage 2 criteria, the loan is included in one category only and in order of the categories presented. Over 30 DPD, therefore, includes all stage 2 loans which are now over 30 DPD as at year end, including where this was not the initial reason for being classified as stage 2.

	31 March 2024			31 March 2023		
	Exposure after guarantee £'000	Impairment provision £'000	Coverage %	Exposure after guarantee £'000	Impairment provision £'000	Coverage %
>30 DPD	59,042	1,381	2.3%	64,636	682	1.1%
Forbearance	22,494	97	0.4%	21,775	168	0.8%
PD deterioration and other[1]	157,278	2,199	1.4%	34,984	29	0.1%
Mortgage	238,814	3,677	1.5%	121,395	879	0.7%
>30 DPD	1,427	1,141	80.0%	1,387	1,127	81.3%
Forbearance	2,599	474	18.2%	1,037	226	21.8%
PD deterioration and other[1, 2]	15,608	3,206	20.5%	18,373	3,027	16.5%
SME	19,634	4,821	24.6%	20,797	4,380	21.1%
>30 DPD	228	74	32.5%	754	243	32.2%
Forbearance	206	138	67.0%	216	47	21.8%
PD deterioration and other[1]	6,524	1,082	16.6%	776	188	24.2%
Retail	6,958	1,294	18.6%	1,746	478	27.4%
Total drawn	265,406	9,792	3.7%	143,938	5,737	4.0%
Forbearance	31	22	71.0%	15	4	26.7%
PD deterioration and other	937	160	17.1%	152	38	25.0%
Total undrawn	968	182	18.8%	167	42	25.1%
Total Stage 2	266,374	9,974	3.7%	144,105	5,779	4.0%

1 PD deterioration and other includes loans in stage 2 that are in their cure period.
2 For SME exposures and impairment provisions, PD deterioration and other includes loans > 10 DPD, in line with SME SICR criteria.

Risk report / Risk categories and risk mitigation / Credit risk

Sectoral concentration (audited)

The table below provides information on the sectoral concentration of total drawn exposures before UK government guarantees. Concentration is important for understanding the asset quality of the Group's portfolio.

31 March 2024	Total £'000	Total %
Mortgage		
Buy-to-let	2,808,977	59.9%
Owner occupied	1,020,426	21.8%
SME		
Agriculture, forestry, mining and water supply	6,066	0.1%
Manufacturing	71,863	1.5%
Construction	110,449	2.4%
Wholesale and retail trade	129,731	2.8%
Transportation and storage	35,440	0.8%
Accommodation and food service activities	50,013	1.1%
Information and communication	81,998	1.7%
Financial, insurance and real estate activities	62,534	1.3%
Professional, scientific and technical activities	86,356	1.8%
Administrative and support service activities	84,898	1.8%
Education, human health and social work	49,810	1.1%
Arts, entertainment and other service activities	62,738	1.3%
Retail		
Households	28,416	0.6%
Exposure before impairment provision and UK government guarantee	4,689,715	100%

31 March 2023	Total £'000	Total %
Mortgage		
Buy-to-let	2,069,168	42.5%
Owner occupied	1,367,621	28.1%
SME		
Agriculture, forestry, mining and water supply	13,683	0.3%
Manufacturing	122,987	2.5%
Construction	198,761	4.1%
Wholesale and retail trade	200,417	4.1%
Transportation and storage	62,759	1.3%
Accommodation and food service activities	101,643	2.1%
Information and communication	134,482	2.8%
Financial, insurance and real estate activities	69,584	1.4%
Professional, scientific and technical activities	159,397	3.3%
Administrative and support service activities	150,368	3.1%
Education, human health and social work	82,505	1.7%
Arts, entertainment and other service activities	107,714	2.2%
Retail		
Households	32,543	0.7%
Exposure before impairment provision and UK government guarantee[1]	4,873,632	100%

1 The sectoral concentration of prior year exposures has been restated to exclude undrawn exposures and loan commitments of £225.9m. See note 13 and page 106 of the risk report for more information on these undrawn exposures.

Risk report / Risk categories and risk mitigation / Credit risk

Geographic concentration

The table below provides information on the geographic concentration of the mortgage lending. As there is no difference in mortgages for Group or Company the tables below do not distinguish between the two.

Mortgage region 31 March 2024	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Scotland	29,001	5,770	4,748	39,519
East Midlands	202,738	18,609	9,094	230,441
South West	220,352	17,070	10,194	247,616
West Midlands	258,981	19,966	15,387	294,334
Greater London	1,263,415	81,456	38,031	1,382,902
East England	329,724	20,948	17,766	368,438
North West	295,487	22,806	16,672	334,965
South East	537,742	29,997	11,794	579,533
North East	205,631	14,131	5,833	225,595
Wales	110,420	7,921	5,062	123,403
Northern Ireland	2,148	140	369	2,657
Total mortgage lending before impairment provision	3,455,639	238,814	134,950	3,829,403

Mortgage region 31 March 2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Scotland	41,109	4,121	2,892	48,122
East Midlands	196,083	9,782	5,608	211,473
South West	218,622	8,172	6,777	233,571
West Midlands	251,752	11,743	10,905	274,400
Greater London	1,118,376	31,948	25,638	1,175,962
East England	326,882	11,269	9,722	347,873
North West	286,980	16,731	10,548	314,259
South East	489,910	13,787	7,089	510,786
North East	181,728	7,719	4,297	193,744
Wales	114,932	5,376	3,415	123,723
Northern Ireland	1,927	747	202	2,876
Total mortgage lending before impairment provision	3,228,301	121,395	87,093	3,436,789

Risk report / Risk categories and risk mitigation / Credit risk

Credit risk exposure and impairment provision by internal IFRS 9 PD rating and IFRS 9 stage allocation (audited)

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

31 March 2024	Exposure after guarantee				Impairment provision			
Probability of default	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<0.25%	227,410	315	–	227,725	165	–	–	165
0.25% - <0.5%	739,785	–	–	739,785	440	–	–	440
0.5% - <0.75%	809,315	6	–	809,321	893	–	–	893
0.75% - <1.0%	739,760	97	–	739,857	1,261	–	–	1,261
1.0% - <2.5%	589,979	997	–	590,976	1,415	–	–	1,415
2.5% - <10.0%	325,227	18,903	–	344,130	330	60	–	390
10.0% - <100%	24,163	218,496	–	242,659	127	3,617	–	3,744
Default	–	–	134,950	134,950	–	–	4,576	4,576
Mortgage	3,455,639	238,814	134,950	3,829,403	4,631	3,677	4,576	12,884
Mortgage coverage					0.1%	1.5%	3.4%	0.3%
<0.25%	43	21	–	64	400	–	–	400
0.25% - <0.5%	36	7	–	43	–	–	–	–
0.5% - <0.75%	27	24	–	51	–	–	–	–
0.75% - <1.0%	60	14	–	74	1	–	–	1
1.0% - <2.5%	9,117	430	–	9,547	164	8	–	172
2.5% - <10.0%	33,668	5,059	–	38,727	1,760	299	–	2,059
10.0% - <100%	8,684	14,079	–	22,763	1,327	4,514	–	5,841
Default	–	–	18,249	18,249	–	–	17,995	17,995
SME	51,635	19,634	18,249	89,518	3,652	4,821	17,995	26,468
SME coverage					7.1%	24.6%	98.6%	29.6%
<0.25%	69	13	–	82	–	6	–	6
0.25% - <0.5%	2,497	197	–	2,694	3	40	–	43
0.5% - <0.75%	1,748	325	–	2,073	4	48	–	52
0.75% - <1.0%	1,523	324	–	1,847	5	49	–	54
1.0% - <2.5%	2,352	491	–	2,843	16	94	–	110
2.5% - <10.0%	6,370	3,395	–	9,765	129	555	–	684
10.0% - <100%	105	2,213	–	2,318	17	502	–	519
Default	–	–	6,794	6,794	–	–	6,143	6,143
Retail	14,664	6,958	6,794	28,416	174	1,294	6,143	7,611
Retail coverage					1.2%	18.6%	90.4%	26.8%
Total drawn	3,521,938	265,406	159,993	3,947,337	8,457	9,792	28,714	46,963

Risk report / Risk categories and risk mitigation / Credit risk

Credit risk exposure and impairment provision by internal IFRS 9 PD rating and IFRS 9 stage allocation (audited)

31 March 2024	Exposure after guarantee				Impairment Provision			
Probability of default	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£	£	£	£	£	£	£	£
<0.25%	125,534	–	–	125,534	191	–	–	191
0.25% - <0.5%	13,974	14	–	13,988	14	2	–	16
0.5% - <0.75%	18,486	27	–	18,513	37	4	–	41
0.75% - <1.0%	12,812	19	–	12,831	45	3	–	48
1.0% - <2.5%	14,116	27	–	14,143	113	5	–	118
2.5% - <10.0%	18,832	135	–	18,967	313	25	–	338
10.0% - <100%	69	746	–	815	4	143	–	147
Default	–	–	174	174	–	–	8	8
Total undrawn	203,823	968	174	204,965	717	182	8	907
Total undrawn coverage					0.4%	18.8%	4.6%	0.4%
Total drawn	3,521,938	265,406	159,993	3,947,337	8,457	9,792	28,714	46,963
Total drawn coverage					0.2%	3.7%	17.9%	1.2%
Total	3,725,761	266,374	160,167	4,152,302	9,174	9,974	28,722	47,870
Total coverage					0.2%	3.7%	17.9%	1.2%

Risk report / Risk categories and risk mitigation / Credit risk

Credit risk exposure and impairment provision by internal IFRS 9 PD rating and IFRS 9 stage allocation (audited)

31 March 2023	Exposure after guarantee				Impairment Provision			
Probability of default	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<0.25%	339,235	258	–	339,493	257	–	–	257
0.25% - <0.5%	273,514	15	–	273,529	179	–	–	179
0.5% - <0.75%	650,194	11	–	650,205	681	–	–	681
0.75% - <1.0%	545,610	84	–	545,694	691	–	–	691
1.0% - <2.5%	1,196,068	2,452	–	1,198,520	2,163	3	–	2,166
2.5% - <10.0%	184,215	10,430	–	194,645	191	27	–	218
10.0% - <100%	39,465	108,145	–	147,610	113	849	–	962
Default	–	–	87,093	87,093	–	–	2,699	2,699
Mortgage	3,228,301	121,395	87,093	3,436,789	4,275	879	2,699	7,853
Mortgage coverage					0.1%	0.7%	3.1%	0.2%
<0.25%	644	–	–	644	7	–	–	7
0.25% - <0.5%	118	–	–	118	–	–	–	–
0.5% - <0.75%	276	–	–	276	–	–	–	–
0.75% - <1.0%	263	23	–	286	–	–	–	–
1.0% - <2.5%	2,341	106	–	2,447	34	3	–	37
2.5% - <10.0%	85,303	17,919	–	103,222	4,573	2,551	–	7,124
10.0% - <100%	2,841	2,749	–	5,590	432	1,826	–	2,258
Default	–	–	11,347	11,347	–	–	10,755	10,755
SME	91,786	20,797	11,347	123,930	5,046	4,380	10,755	20,181
SME coverage					5.5%	21.1%	94.8%	16.3%
<0.25%	253	29	–	282	2	5	–	7
0.25% - <0.5%	1,882	26	–	1,908	5	5	–	10
0.5% - <0.75%	1,699	–	–	1,699	12	–	–	12
0.75% - <1.0%	872	36	–	908	7	8	–	15
1.0% - <2.5%	7,910	116	–	8,026	73	25	–	98
2.5% - <10.0%	8,469	181	–	8,650	281	51	–	332
10.0% - <100%	4,445	1,358	–	5,803	711	384	–	1,095
Default	–	–	5,267	5,267	–	–	4,927	4,927
Retail	25,530	1,746	5,267	32,543	1,091	478	4,927	6,496
Retail coverage					4.3%	27.4%	93.5%	20.0%
Total Drawn	3,345,617	143,938	103,707	3,593,262	10,412	5,737	18,381	34,530

Risk report / Risk categories and risk mitigation / Credit risk

Credit risk exposure and impairment provision by internal IFRS 9 PD rating and IFRS 9 stage allocation (audited)

31 March 2023	Exposure after guarantee				Impairment Provision			
Probability of default:	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£	£	£	£	£	£	£	£
<0.25%	20,721	–	–	20,721	51	–	–	51
0.25% - <0.5%	24,792	–	–	24,792	37	–	–	37
0.5% - <0.75%	47,445	–	–	47,445	114	–	–	114
0.75% - <1.0%	24,828	–	–	24,828	28	–	–	28
1.0% - <2.5%	77,540	–	–	77,540	336	–	–	336
2.5% - <10.0%	25,331	–	–	25,331	323	–	–	323
10.0% - <100%	5,064	167	–	5,231	161	42	–	203
Default	–	–	–	–	–	–	–	–
Total undrawn	225,721	167	–	225,888	1,050	42	–	1,092
Total undrawn coverage					0.5%	25.1%	—%	0.5%
Total drawn	3,345,617	143,938	103,707	3,593,262	10,412	5,737	18,381	34,530
Total drawn coverage					0.3%	4.0%	17.7%	1.0%
Total	3,571,338	144,105	103,707	3,819,150	11,462	5,779	18,381	35,622
Total coverage					0.3%	4.0%	17.7%	0.9%

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision (audited)

The following table shows the movement in the total impairment provision and lending exposure, after UK government guarantees, during the period. The first two tables outline drawn balance sheet positions. The tables thereafter provide information at asset class level. The final two tables detail movement in undrawn and off balance sheet positions.

Total drawn	Exposure after guarantee				Impairment provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[5] £'000	Total £'000
As at 1 April 2023	3,345,617	143,938	103,707	3,593,262	10,412	5,737	18,381	34,530
Movements								
Originations[1]	797,465	10,874	1,249	809,588	1,767	309	311	2,387
Repayments and other movements	(422,770)	(23,155)	(9,588)	(455,513)	(3,303)	(1,227)	(1,275)	(5,805)
Changes in credit risk[2]	–	–	–	–	769	5,864	9,218	15,851
Amounts written off[3]	–	–	–	–	–	–	–	–
Impairment charge/(release) recognised					(767)	4,946	8,254	12,433
Stage transfers[4]								
To stage 1	34,955	(32,930)	(2,025)	–	710	(586)	(124)	–
To stage 2	(202,297)	208,051	(5,754)	–	(1,421)	1,602	(181)	–
To stage 3	(31,032)	(41,372)	72,404	–	(477)	(1,907)	2,384	–
As at 31 March 2024[6]	3,521,938	265,406	159,993	3,947,337	8,457	9,792	28,714	46,963
Coverage ratio					0.2%	3.7%	17.9%	1.2%

1 Includes loans at reporting date stage, rather than stage at origination or acquisition.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.
3 The Group continues to refine its definition of when a loan bears no reasonable chance of recovery and should be written off. As a result the above table contains loans that are fully provided for and could be subject to write off.
4 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.
5 Included in stage 3 are POCI loans of £16.5m with an impairment provision of £0.9m. No POCI loans were acquired in the year. Repayments in the year totalled £2.4m.
6 Included within stage 2 and stage 3 in the above table are £51.8m and £8.9m of exposures in their cure period. The related ECL is £1.1m and £0.3m respectively.

Staging movements are driven by factors at individual asset class level, with further detail provided in the following pages.

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision (audited)

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

1 Includes loans at reporting date stage, rather than stage at origination or acquisition. Includes loans acquired in the year. See note 13, on page 203.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.
3 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.
4 Included in stage 3 are POCI loans of £18.9m with an impairment provision of £0.7m. Of this £5.8m represents POCI loans acquired during the year. Repayments in the year totalled £5.2m.

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision - mortgages (audited)

Mortgages - drawn	Exposure				Impairment provision			
	Stage 1 £'000	Stage 2 £'000	Stage 3[3] £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3[1, 4] £'000	Total £'000
As at 1 April 2023	3,228,301	121,395	87,093	3,436,789	4,275	879	2,699	7,853
Movements								
Originations[1]	790,130	8,010	657	798,797	1,311	127	57	1,495
Repayments and other movements	(384,773)	(13,593)	(7,817)	(406,183)	(1,467)	(255)	(624)	(2,346)
Changes in credit risk[2]	–	–	–	–	641	2,881	2,360	5,882
Amounts written off	–	–	–	–	–	–	–	–
Impairment charge/(release) recognised					485	2,753	1,793	5,031
Stage transfers:[3]								
To stage 1	32,074	(30,124)	(1,950)	–	226	(168)	(58)	–
To stage 2	(184,471)	190,191	(5,720)	–	(316)	469	(153)	–
To stage 3	(25,622)	(37,065)	62,687	–	(39)	(256)	295	–
As at 31 March 2024[5]	3,455,639	238,814	134,950	3,829,403	4,631	3,677	4,576	12,884
Coverage ratio					0.1%	1.5%	3.4%	0.3%

1 Includes loans at reporting date stage, rather than stage at origination or acquisition.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.
3 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.
4 Included in stage 3 are POCI loans of £16.5m with an impairment provision of £0.9m. There were no POCI loans acquired in the year. Repayments in the year totalled £2.4m.
5 Included within stage 2 and stage 3 in the above table are £32.6m and £8.8m of exposures in their cure period. The related ECL is £0.2m and £0.2m respectively.

Analysis of movements during the year

Impairment provision on mortgages increased by £5.0m (64.1%) during the year. Increases in the proportion of loans in stage 2 and 3 have led to an impairment provision increase. Pressures from variable interest rate increases on legacy customers have contributed to an increase in the proportion of stage 3 loans from 2.5%. to 3.5% . The majority of the portfolio remains fixed rate. Stage 3 ECL coverage rate has increased due to lower comparative house prices to prior year. The growth in the proportion of stage 2 mortgages to 6.2% from 3.5% can be attributed to the refining of judgemental adjustments to modelled ECL on economically-sensitive BTL mortgages. Part of the impairment provision increase is due to the growth in total drawn exposures by £392.6m (11.4%) as Starling continues to expand its mortgage lending with £798.8m of originations across the financial year (2023: £2,382.6m).

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision - mortgages (audited)

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

1 Includes loans at reporting date stage, rather than stage at origination or acquisition. Includes loans acquired in the year, see note 13.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.
3 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.
4 Included in mortgage stage 3 exposures are POCI loans of £18.9m with an impairment provision of £0.7m. Of this £5.8m represents POCI loans acquired during the year. Repayments in the year totalled £5.2m.

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision - SME (audited)

SME - drawn	Exposure after guarantee				Impairment provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2023	91,786	20,797	11,347	123,930	5,046	4,380	10,755	20,181
Movements								
Originations[1]	1,311	343	–	1,654	398	1	–	399
Repayments and other movements	(26,365)	(8,707)	(994)	(36,066)	(1,251)	(822)	(89)	(2,162)
Changes in credit risk[2]	–	–	–	–	170	2,340	5,540	8,050
Amounts written off	–	–	–	–	–	–	–	–
Impairment charge/(release) recognised					(683)	1,519	5,451	6,287
Stage transfers[3]								
To stage 1	2,626	(2,569)	(57)	–	427	(377)	(50)	–
To stage 2	(13,706)	13,706	–	–	(818)	818	–	–
To stage 3	(4,017)	(3,936)	7,953	–	(320)	(1,519)	1,839	–
As at 31 March 2024	51,635	19,634	18,249	89,518	3,652	4,821	17,995	26,468
Coverage ratio					7.1%	24.6%	98.6%	29.6%

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.
3 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.
4 Included within stage 2 in the above table are £18.8m of exposures in their cure period. The related ECL is £0.8m.

Analysis of movements during the year

Exposure on SME portfolios reduced by 27.8% across the year, primarily due to the run-off of government backed lending portfolios. Impairment provision increased by 31.2% to £26.5m. At the end of the financial year, a greater proportion of the book relates to stage 2 and stage 3 lending as performing stage 1 assets continue to repay. The increase in stage 2 assets was a result of changes within the ECL model to hold accounts improving in risk for a probation period. The increase in stage 3 was due to defaults on non-guaranteed portions of government lending across the year. Overall ECL increased as the run-off of certain portfolios of the SME loan book are outweighed by impact of higher risk loans. Stage 2 comprised 21.9% of total SME exposures at the end of the year (2023: 16.8%) whilst stage 3 exposures increased to 20.4% of total SME exposures (2023: 9.2%).

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision - SME (audited)

SME - drawn	Exposure after guarantee				Impairment provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2022	131,699	14,426	3,984	150,109	10,420	2,537	3,778	16,735
Movements								
Originations[1]	13,273	1,869	580	15,722	828	427	399	1,654
Repayments and other movements	(35,390)	(5,892)	(694)	(41,976)	(5,649)	(436)	(125)	(6,210)
Changes in credit risk[2]	–	–	–	–	627	2,170	5,205	8,002
Amounts written off	–	–	75	75	–	–	–	–
Impairment charge/(release) recognised					(4,194)	2,161	5,479	3,446
Stage transfers[3]								
To stage 1	5,185	(5,185)	–	–	512	(512)	–	–
To stage 2	(17,923)	17,923	–	–	(1,064)	1,064	–	–
To stage 3	(5,058)	(2,344)	7,402	–	(628)	(870)	1,498	–
As at 31 March 2023	91,786	20,797	11,347	123,930	5,046	4,380	10,755	20,181
Coverage ratio					5.5%	21.1%	94.8%	16.3%

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.
3 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision - retail (audited)

Retail - drawn	Exposure				Impairment provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2023	25,530	1,746	5,267	32,543	1,091	478	4,927	6,496
Movements								
Originations[1]	6,022	2,521	592	9,135	61	180	253	494
Repayments and other movements	(11,630)	(855)	(777)	(13,262)	(585)	(150)	(562)	(1,297)
Changes in credit risk[2]	–	–	–	–	(43)	643	1,318	1,918
Amounts written off	–	–	–	–	–	–	–	–
Impairment charge/(release) recognised					(567)	673	1,009	1,115
Stage transfers[3]								
To stage 1	256	(238)	(18)	–	57	(42)	(15)	–
To stage 2	(4,121)	4,155	(34)	–	(289)	316	(27)	–
To stage 3	(1,393)	(371)	1,764	–	(118)	(131)	249	–
As at 31 March 2024[4]	14,664	6,958	6,794	28,416	174	1,294	6,143	7,611
Coverage ratio					1.2%	18.6%	90.4%	26.8%

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.
3 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.
4 Included within stage 2 and stage 3 in the above table are £0.4m and £0.1m of exposures in their cure period. The related ECL is £0.1m and £0.1m respectively.

Analysis of movements during the year

During the year total retail exposure decreased by 12.7% whilst impairment provision increased by 17.2%. The increase in impairment provision was driven by a build-up of assets in stage 2, which grew by £5.2m to make up 24.5% of the total exposure (2023: 5.4%). This increase followed the implementation of probation periods within the underlying ECL model. Judgemental adjustments to modelled ECL to adequately capture the impact of cost of living crisis and higher utilisation within certain accounts also resulted in more assets moving into stage 2. Stage 3 lending increased by £1.5m, representing 23.9% of total retail exposures (2023: 16.2%). The increase is attributable to natural maturity of certain loan portfolios which have ceased further originations as well as new judgemental adjustments added to capture assets that have undergone distressed restructures appropriately within stage 3. Originations have decreased year on year following enhancements to risk underwriting criteria.

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision - retail (audited)

Retail - drawn	Exposure				Impairment provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2022	37,707	2,912	4,412	45,031	1,489	1,030	3,373	5,892
Movements								
Originations[1]	7,161	399	2,227	9,787	83	24	98	205
Repayments and other movements	(19,651)	(960)	(927)	(21,538)	(548)	(335)	(189)	(1,072)
Changes in credit risk[2]	–	–	–	–	(1)	160	1,526	1,685
Amounts written off	(327)	(217)	(193)	(737)	(21)	(38)	(155)	(214)
Impairment charge/(release) recognised					(487)	(189)	1,280	604
Stage transfers[3]								
To stage 1	2,119	(699)	(1,420)	–	177	(127)	(50)	–
To stage 2	(780)	857	(77)	–	(42)	60	(18)	–
To stage 3	(699)	(546)	1,245	–	(46)	(296)	342	–
As at 31 March 2023	25,530	1,746	5,267	32,543	1,091	478	4,927	6,496
Coverage ratio					4.3%	27.4%	93.5%	20.0%

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.
3 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision - undrawn (audited)

Total undrawn	Exposure				Impairment provision			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2023	225,721	167	–	225,888	1,050	42	–	1,092
Movements								
Drawdowns or expirations[1]	(19,618)	(1,199)	(106)	(20,923)	(305)	20	1	(284)
Changes in credit risk[2]	–	–	–	–	24	77	(2)	99
Impairment charge/(release) recognised					(281)	97	(1)	(185)
Stage transfers[3]								
To stage 1	53	(53)	–	–	13	(13)	–	–
To stage 2	(2,059)	2,059	–	–	(58)	58	–	–
To stage 3	(274)	(6)	280	–	(7)	(2)	9	–
As at 31 March 2024	203,823	968	174	204,965	717	182	8	907
Coverage ratio					0.4%	18.8%	4.6%	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.
3 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.

Analysis of movements during the year

The decrease in undrawn exposures in the year was primarily driven by a £21.6m decrease in pipeline mortgages offset by a £0.6m net increase in undrawn overdraft balances.

Risk report / Risk categories and risk mitigation / Credit risk

Movement in loans and advances to customers and impairment provision - undrawn (audited)

Total undrawn	Exposure Stage 1 £'000	Exposure Stage 2 £'000	Exposure Stage 3 £'000	Exposure Total £'000	Impairment provision Stage 1 £'000	Impairment provision Stage 2 £'000	Impairment provision Stage 3 £'000	Impairment provision Total £'000
As at 1 April 2022	321,813	119	–	321,932	1,204	20	–	1,224
Movements								
Approvals, drawdowns or expirations[1]	(95,769)	(164)	(111)	(96,044)	174	5	–	179
Changes in credit risk[2]	–	–	–	–	(329)	22	(4)	(311)
Impairment charge/(release) recognised					(155)	27	(4)	(132)
Stage transfers[3]								
To stage 1	81	(81)	–	–	17	(17)	–	–
To stage 2	(294)	294	–	–	(12)	12	–	–
To stage 3	(110)	(1)	111	–	(4)	–	4	–
As at 31 March 2023	225,721	167	–	225,888	1,050	42	–	1,092
Coverage ratio					0.5%	25.1%	–%	0.5%

1 Includes loans at reporting date stage, rather than stage at origination.
2 Includes changes to the impairment provision arising from stage transfers and other changes to risk parameters.
3 ECL on stage transfers represents the ECL within the stage that the assets are transferred from.

Risk report / Risk categories and risk mitigation / Credit risk

Forbearance (audited)

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

The main arrangements offered to customers are: payment arrangement (payment plan with a reasonable timeframe); concessionary arrangement (payment plan for demonstrably temporary financial difficulties); extension (increased product term) and reduced interest. During the year, the Group continued to support its retail and SME customers through a comprehensive range of flexible measures. SME lending predominantly represents lending under RLS, CBILS and BBLS programmes. The Group continued to offer PAYG forbearance measures, as outlined under the BBLS, during the year.

31 March 2024	Loans subject to forbearance			
	Total £'000	Of which Stage 2 £'000	Of which Stage 3 £'000	Coverage rate
Retail	2,165	227	1,938	78.0%
SME	5,706	2,940	2,766	62.6%
Mortgages	58,371	34,961	21,743	1.8%
Total loans in forbearance	**66,242**	**38,128**	**26,447**	**9.5%**

31 March 2023	Loans subject to forbearance			
	Total £'000	Of which Stage 2 £'000	Of which Stage 3 £'000	Coverage rate
Retail	1,353	216	1,133	70.5%
SME	1,252	1,036	44	22.7%
Mortgages	53,565	21,775	21,184	1.3%
Total loans in forbearance	56,170	23,027	22,361	3.4%

	Loans subject to forbearance				
31 March 2024	No. of loans	Exposure after guarantee £'000	% of portfolio	Impairment allowance £'000	Coverage as %
Formal arrangements	659	518	<0.1%	404	78.0%
Temporary arrangements	–	–	—%	–	–%
Payment arrangement	822	64,163	1.6%	4,625	7.2%
Payment holiday	966	734	<0.1%	619	84.3%
Legal	1,350	827	<0.1%	644	77.9%
Term extension	–	–	—%	–	–%
Other	–	–	—%	–	–%
Total loans in forbearance	**3,797**	**66,242**	**1.7%**	**6,292**	**9.5%**

	Loans subject to forbearance				
31 March 2023	No. of loans	Exposure after guarantee £'000	% of portfolio	Impairment allowance £'000	Coverage as %
Formal arrangements	457	387	<0.1%	295	76.2%
Temporary arrangements	2	173	<0.1%	–	–%
Payment arrangement	752	53,082	1.5%	712	1.3%
Payment holiday	117	102	<0.1%	27	26.5%
Legal	1,005	668	<0.1%	515	77.1%
Term extension	98	1,477	<0.1%	227	15.4%
Other	57	281	<0.1%	139	49.5%
Total loans in forbearance	2,488	56,170	1.6%	1,915	3.4%

Modifications of forborne loans

There were no modifications to loans and advances to customers subject to forbearance that resulted in substantial modification to the asset.

Risk report / Risk categories and risk mitigation / Credit risk

Collateral (audited)

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

Mortgage LTV 31 March 2024	Owner Occupied[1] £'000	Buy-to-let £'000	Total £'000	Total as %
Less than 50%	413,524	150,750	564,274	14.7%
50% to 60%	209,028	260,407	469,435	12.3%
60% to 70%	188,404	894,134	1,082,538	28.3%
70% to 80%	132,722	1,177,036	1,309,758	34.2%
80% to 90%	55,276	195,300	250,576	6.5%
90% to 100%	12,205	68,262	80,467	2.1%
Greater than 100%[2]	9,267	63,088	72,355	1.9%
Total mortgage lending before impairment provision	1,020,426	2,808,977	3,829,403	100.0%

Mortgage LTV As at 31 March 2024	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Total as %
Less than 50%	455,664	59,955	48,655	564,274	14.7%
50% to 60%	402,682	34,975	31,778	469,435	12.3%
60% to 70%	983,926	72,120	26,492	1,082,538	28.3%
70% to 80%	1,242,335	52,088	15,335	1,309,758	34.2%
80% to 90%	228,224	14,343	8,009	250,576	6.5%
90% to 100%	77,543	1,679	1,245	80,467	2.1%
Greater than 100%[2]	65,265	3,654	3,436	72,355	1.9%
Total mortgage lending before impairment provision	3,455,639	238,814	134,950	3,829,403	100.0%

1 Includes £33.1m of mortgage lending secured by a second charge over residential property.
2 The Bank continues to refine its approach to property valuations for portfolios with aged valuations. Third party indexation is currently used which has resulted in LTV greater than 100% for certain sections of acquired portfolios in the current year.

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

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

1 Includes £40.2m of mortgage lending secured by a second charge over residential property.

Risk report / Risk categories and risk mitigation / Credit risk

Mortgage credit performance (audited)

During the year, the Group continued to originate BTL mortgages through its wholly-owned subsidiary Fleet. The mortgage portfolios contain a mix of customers on fixed-rate repayment terms where the customers' rates of interest are fixed for periods of up to seven years, and those on variable rates.

For the portfolio of interest only mortgages, customers are only required to make payments of interest. The customer is responsible for repaying the principal outstanding at the end of the loan term.

31 March 2024	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Mortgage lending				
Buy-to-let	2,668,619	130,996	9,362	2,808,977
Of which interest only	2,559,555	121,550	8,518	2,689,623
Owner occupied	787,020	107,818	125,588	1,020,426
Of which interest only	255,951	58,228	89,695	403,874
Total mortgage lending	3,455,639	238,814	134,950	3,829,403
Of which interest only	2,815,506	179,778	98,213	3,093,497

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

Interest only contractual maturity profile	Group 31 March 2024 £'000	Group 31 March 2023 £'000
Term expired	14,110	16,404
< 1 year	8,218	7,570
1 to 5 years	84,034	82,000
5 to 15 years	585,902	545,591
>15 years	2,401,233	1,792,190
Interest only	3,093,497	2,443,755

Risk report / Risk categories and risk mitigation / Credit risk

Credit risk - wholesale

Risk assessment

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

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

Risk measurement

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

Risk management

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

Risk appetite

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

Risk mitigation

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

Risk monitoring

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

ERC monitors wholesale credit risk exposures, reviews changes to models and methodologies for measuring the risk, and recommends any changes in risk appetite to the Board.

Stress testing

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

Risk report / Risk categories and risk mitigation / Credit risk

Credit quality of debt securities held (unaudited)

The following tables set out information about the Group's credit quality of debt securities. Ratings are derived from external credit agencies.

31 March 2024	AAA £'000	AA £'000	Total £'000
UK gilts and T-bills[1]	–	101,356	101,356
Sub-sovereign, supranational and agency bonds	1,386,172	47,485	1,433,657
Covered bonds	1,109,808	–	1,109,808
Residential mortgage-backed securities	675,881	–	675,881
Total debt securities	**3,171,861**	**148,841**	**3,320,702**

31 March 2023	AAA £'000	AA £'000	Total £'000
UK gilts and T-bills[1]	–	202,653	202,653
Sub-sovereign, supranational and agency bonds	1,325,927	16,146	1,342,073
Covered bonds	925,473	–	925,473
Residential mortgage-backed securities	48,041	–	48,041
Total debt securities	2,299,441	218,799	2,518,240

1 T-bills of £99.5m (2023: £200.8m) are unrated and have been assigned the same rating as the UK sovereign issuer at AA in this table.

Each asset is measured at amortised cost and the Group considers that full repayment will occur.

The Group has reviewed each asset within its debt securities portfolio to ensure that the underlying asset remains of at least investment grade. At year end the impact of ECL impairment requirements on the Group's debt securities is immaterial.

Credit quality of cash and balances at central banks and loans and advances to banks (unaudited)

See page 96 for credit quality of cash and balances at central banks and loans and advances to banks. All are amounts placed are with institutions rated A or above and the PD has been assessed to be remote. At year end the impact of ECL impairment requirements on the Group's cash and balances at central banks and loans and advances to banks is immaterial.

Offsetting of financial assets and liabilities (audited)

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

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

Derivatives collateral placed with swap counterparties

The Group addresses the credit risk associated with derivative activities by placing/receiving initial margin and variation margin. The counterparty credit exposure is monitored daily requiring additional collateral to be posted or returned as necessary. The only forms of collateral accepted by the Group in respect of derivatives is cash. Both cash and debt securities are placed by the Group as derivative collateral.

Group 31 March 2024	As reported £'000	Netting agreements £'000	Cash collateral[1] £'000	Net amounts after netting £'000
Derivative assets	246,541	(49,426)	(195,424)	1,691
Derivative liabilities	(51,417)	49,426	–	(1,991)
Amounts subject to netting	**195,124**	**–**	**(195,424)**	**(300)**

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

Group 31 March 2023	As reported £'000	Netting agreements £'000	Cash collateral £'000	Net amounts after netting £'000
Derivative assets	221,774	(54,107)	(169,561)	(1,894)
Derivative liabilities	(55,452)	54,107	–	(1,345)
Amounts subject to netting	166,322	–	(169,561)	(3,239)

Risk report / Risk categories and risk mitigation

Model risk

Risk assessment

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

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

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

Risk appetite

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

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

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

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

Risk measurement

The risk is measured by tracking the status of models against the requirements set out in the Bank's Model Risk Policy.

Risk management

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

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

Day-to-day management of Model Risk is overseen by a dedicated team in 2L. This team is responsible for validating the Bank's most material models, in order to provide an independent view of their suitability prior to use, and on an ongoing basis.

Risk monitoring

Risk management oversight of adherence to the Model Risk Policy is exercised through the MRC, with reporting to the ERC, BRC and the Board as appropriate.

Change in the year

Starling introduced a new Model Risk Policy during the year and has begun the process of assessing its models in line with the requirements of the policy. An inventory of models used within the Bank has been established and each model has been assigned a tier based on its materiality and complexity.

It is acknowledged that there will be an implementation period associated with the policy, where historic models will need to be assessed in line with its requirements, and that gaps may be identified which will need to be addressed. The Bank aims to continue this work into the next year, prioritising those models which pose the highest level of potential risk, based on their assigned tier.

Risk report / Risk categories and risk mitigation

Funding and Liquidity risk

Risk assessment

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

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

Starling's sources of (non-equity) funding are from retail current accounts, SME current accounts, fixed term deposits, Starling payment services accounts and from the BoE's TFSME. TFSME and some short-term repurchase agreements (repos) are the only forms of wholesale funding that the Group currently utilises. There are no repos outstanding as at 31 March 2024.

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

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

Risk appetite

Starling's Board-approved risk appetite limits ensure compliance with the OLAR. The Group has a comprehensive suite of metrics that not only cover minimum regulatory requirements (LCR and NSFR)[1], but also ensure that liquid assets are maintained to cover both a short-term stress and a longer term stress. Additionally, the Group sets limits on asset encumbrance.

The Group ensures that it will, at all times:

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

Risk measurement

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

Management of liquidity risk

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

Stress testing

Liquidity risk stress testing is undertaken at least annually as part of the 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. 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 HQLA. The size of the liquidity buffer is calibrated in accordance with the risk appetite metrics. This requires Starling to hold sufficient liquid assets to survive a severe but plausible simultaneous market wide and idiosyncratic stress event. The Group is able to sell or repo securities that form part of its liquidity buffer with market participants, and has pre-positioned assets with the BoE which it can use as part of the BoE's Sterling Monetary Framework operations.

Starling maintains a liquidity contingency plan as part of its Recovery Plan, which includes details of the actions Starling could take to recover from a liquidity stress event. Resolution planning is undertaken to understand the liquidity requirements if a resolution were to occur.

1 Funding and liquidity requirements apply to the Company only, Starling Bank Limited.

Risk report / Risk categories and risk mitigation / Funding and liquidity risk

Risk monitoring

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

ALCO is responsible for monitoring and overseeing liquidity risk. The Treasury function reports and escalates breaches of limits/triggers to senior management and to ALCO. 2L reports on the Bank's liquidity position to ERC and escalates breaches to BRC and to the Board as appropriate.

Change in the year

Starling's liquidity position remained comfortably in excess of its risk appetite limits throughout the year. As at 31 March 2024, the Group's LCR was 408.0% (2023: 438.0%). The deposit base continued to grow from £10.6bn to £11.0bn. As at 31 March 2024, the Bank has an NSFR of 216.3% (2023: 245.0%). The NSFR measures the stability of funding sources and has remained comfortably above the minimum regulatory requirement of 100% throughout the year.

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

Liquidity coverage ratio (unaudited)

The table below shows the LCR for the Bank as at 31 March 2024.

	31 March 2024 £'000	31 March 2023 £'000
Eligible liquidity buffer	6,750,293	6,258,356
Net stress outflows	(1,655,287)	(1,429,049)
Surplus	5,095,006	4,829,307
Liquidity coverage ratio	408.0%	438.0%

The table below shows the composition of the Bank's liquidity buffer by asset type. The eligible liquidity buffer consists of total HQLA held after LCR haircuts.

	31 March 2024 £'000	31 March 2023 £'000
Balances with BoE	5,718,800	5,526,888
UK gilts and T-bills	6,023	51,771
Sub-sovereign, supranational and agency bonds	216,072	163,810
Covered bonds	405,336	479,665
RMBS	404,062	36,222
Eligible liquidity buffer	6,750,293	6,258,356

Sources of funding (audited)

The table below shows the composition of the Bank's total funding as at 31 March 2024.

	31 March 2024		31 March 2023	
	£'000	%	£'000	%
SME deposits	5,755,480	43.8%	5,987,977	46.9%
Retail deposits	4,597,753	34.9%	4,395,135	34.5%
Payment services	181,687	1.4%	85,955	0.7%
Fixed term deposits	422,491	3.2%	82,207	0.6%
Total customer deposits[1]	10,957,411	83.3%	10,551,274	82.7%
Bank of England - central bank facilities[1]	2,200,000	16.7%	2,200,000	17.3%
Total funding	13,157,411	100.0%	12,751,274	100.0%

1 Total funding balances do not include accrued interest.

Risk report / Risk categories and risk mitigation / Funding and liquidity risk

Encumbered assets by asset class (audited)

Starling manages the level of asset encumbrance to ensure appropriate volumes of assets are maintained to support future planned and potential stressed funding requirements.

	Encumbered		Unencumbered		Total	
	31 March 2024 £'000	31 March 2023 £'000	31 March 2024 £'000	31 March 2023 £'000	31 March 2024 £'000	31 March 2023 £'000
Cash and balances at central banks	**525,020**	389,005	**5,895,095**	5,687,279	**6,420,115**	6,076,284
Debt securities[1]	**1,936,941**	1,635,292	**1,347,926**	844,258	**3,284,867**	2,479,550
Loans and advances to customers[1]	**472,383**	706,769	**4,065,280**	4,025,228	**4,537,663**	4,731,997
Other assets	**38,142**	37,127	**61,905**	34,724	**100,047**	71,851
Total encumbered assets	**2,972,486**	2,768,193	**11,370,206**	10,591,489	**14,342,692**	13,359,682

1 Encumbered debt securities and loans and advances to customers 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 to secure funding under the BoE's TFSME programme. See note 20 for further detail. Also included in debt securities encumbered are amounts pledged as collateral for initial margin with derivative counterparties.

Included within encumbered cash and balances at central banks are balances with the BoE of £525.0m (2023: £389.0m) held as collateral for payment schemes.

Included in encumbered 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.

Risk report / Risk categories and risk mitigation / Funding and liquidity risk

Financial assets and liabilities by maturity (audited)

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

31 March 2024	Total £'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	Undated £'000
Cash and balances at central banks	6,420,115	6,420,115	–	–	–	–	–	–
Loans and advances to banks	36,879	36,879	–	–	–	–	–	–
Debt securities	3,284,867	–	200,588	343,344	1,141,201	1,398,047	201,687	–
Derivative assets	246,541	–	18,202	23,543	114,138	81,773	8,885	–
Interest rate swaps	246,537	–	18,198	23,543	114,138	81,773	8,885	–
FX swaps	4	–	4	–	–	–	–	–
Loans and advances to customers	4,537,663	17,968	32,233	20,498	426,844	203,105	3,837,015	–
Other assets - financial assets[1]	86,402	–	22,772	9,312	11,373	3,142	1,485	38,318
Total financial assets	**14,612,467**	**6,474,962**	**273,795**	**396,697**	**1,693,556**	**1,686,067**	**4,049,072**	**38,318**
Customer deposits	10,970,237	10,540,169	45,614	384,454	–	–	–	–
Deposits from banks	2,420,471	191,675	78,796	–	2,150,000	–	–	–
Derivative liabilities	51,417	–	1,324	3,374	8,671	34,206	3,842	–
Interest rate swaps	50,888	–	795	3,374	8,671	34,206	3,842	–
FX swaps	529	–	529	–	–	–	–	–
Other liabilities - excluding lease liability	352,789	–	345,132	1,160	1,779	299	30	4,389
Lease liability	14,633	–	1,041	2,149	6,165	4,670	608	–
Total financial liabilities	**13,809,547**	**10,731,844**	**471,907**	**391,137**	**2,166,615**	**39,175**	**4,480**	**4,389**

1 Includes other assets (note 14) except prepayments.

Risk report / Risk categories and risk mitigation / Funding and liquidity risk

Financial assets and liabilities by maturity (audited)

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

31 March 2023	Total £'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	Undated £'000
Cash and balances at central banks	6,076,284	6,076,284	–	–	–	–	–	–
Loans and advances to banks	33,420	33,420	–	–	–	–	–	–
Debt securities	2,479,550	–	333,116	388,863	877,762	731,238	148,571	–
Derivative assets	221,774	–	7,496	25,615	92,331	79,889	16,443	–
Interest rate swaps	221,669	–	7,391	25,615	92,331	79,889	16,443	–
FX swaps	105	–	105	–	–	–	–	–
Loans and advances to customers	4,731,997	16,160	38,778	10,644	263,005	653,426	3,749,984	–
Other assets - financial assets[1]	61,027	–	3,629	5,359	9,106	2,657	–	40,276
Total financial assets	13,604,052	6,125,864	383,019	430,481	1,242,204	1,467,210	3,914,998	40,276
Customer deposits	10,551,820	10,469,067	–	82,753	–	–	–	–
Deposits from banks	2,274,306	53,436	20,870	–	650,000	1,550,000	–	–
Derivative liabilities	55,452	–	1,450	507	8,484	38,508	6,504	(1)
Interest rate swaps	54,002	–	–	507	8,484	38,508	6,504	(1)
FX swaps	1,450	–	1,450	–	–	–	–	–
Other liabilities - excluding lease liability	83,603	1	42,794	1,762	7,689	4,155	5,810	21,392
Lease liability	13,355	–	833	1,673	4,777	4,217	1,855	–
Total financial liabilities	12,978,536	10,522,504	65,947	86,695	670,950	1,596,880	14,169	21,391

1 Includes other assets (note 14) except prepayments.

Risk report / Risk categories and risk mitigation / Funding and liquidity risk

Cash flows payable under liabilities by contractual maturity (audited)

The following table is an analysis of undiscounted gross contractual cash flows of financial liabilities and lease liability. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of projected interest flows until maturity payable on the amounts outstanding as at 31 March 2024.

31 March 2024

Undiscounted contractual cashflows	Total £'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
Customer deposits	10,982,462	10,540,169	45,753	396,540	–	–	–
Deposits from banks	2,689,643	191,675	107,671	84,875	2,305,422	–	–
Derivative liabilities	69,920	–	6,422	13,932	30,782	17,832	952
Lease liability	15,633	–	1,051	2,198	6,480	5,153	751
Total cashflows	13,757,658	10,731,844	160,897	497,545	2,342,684	22,985	1,703

31 March 2023

Undiscounted contractual cashflows	Total £'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
Customer deposits	10,554,212	10,469,067	–	85,145	–	–	–
Deposits from banks	2,564,837	53,436	23,375	70,125	819,557	1,598,344	–
Derivative liabilities	64,502	–	5,374	11,786	27,942	17,245	2,155
Lease liability	14,132	–	895	1,850	5,129	4,352	1,906
Total cashflows	13,197,683	10,522,503	29,644	168,906	852,628	1,619,941	4,061

Risk report / Risk categories and risk mitigation

Market risk

Market risk is the risk of loss due to changes in market prices. This covers risks such as 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

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

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

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

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

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

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

Change in year
Starling does not seek to take material FX risks. The net open position remains within risk appetite.

Net foreign exchange exposure
The table below provides further detail of the Group's net FX position:

31 March 2024	Euro £'000	US Dollar £'000	Total £'000
Loans and advances to banks	8,988	681	9,669
Debt securities	2,152	32,002	34,154
Derivative asset	12,566	2,777	15,343
FX swaps[1]	12,566	2,777	15,343
Loans and advances to customers	73	2	75
Other assets - financial assets	3,354	1,069	4,423
Customer deposits	(301,718)	(59,304)	(361,022)
Derivative liabilities	278,513	22,974	301,487
FX swaps[1]	278,513	22,974	301,487
Other liabilities	(1,547)	(791)	(2,338)
Net position	2,381	(590)	1,791

31 March 2023	Euro £'000	US Dollar £'000	Total £'000
Loans and advances to banks	7,000	3,058	10,058
Debt securities	50,181	32,827	83,008
Derivative asset	79,708	7,261	86,969
FX swaps[1]	79,708	7,261	86,969
Loans and advances to customers	50	–	50
Other assets - financial assets	502	685	1,187
Customer deposits	(286,600)	(55,113)	(341,713)
Derivative liabilities	156,905	12,159	169,064
FX swaps[1]	156,905	12,159	169,064
Other liabilities	(3,396)	(1,186)	(4,582)
Net position	4,300	(309)	3,991

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

Risk report / Risk categories and risk mitigation / Market risk

Interest rate risk in the banking book

Risk assessment

IRRBB is the risk of a realised or unrealised loss as a consequence of adverse changes in interest rates. The key sub-elements of interest rate risk most relevant to Starling are:

- Repricing risk – the risk arising from the timing mismatch on the repricing of assets, liabilities and off balance sheet items. Losses may arise from both parallel and non-parallel shifts in the yield curve.
- Basis risk – the risk arising from relative changes in interest rates on items that are priced using different interest rate indices. Starling is exposed to basis risk as some of its assets and liabilities are linked to different indices.
- Optionality risk – the risk arising from customer behaviour differing to contractual arrangements. Starling is exposed to this risk from the ability of customers to prepay fixed term loans, choose when to repay overdrafts, the ability to extend or pause payments for UK government loan schemes, and the withdrawal of deposits at a timing of their choice.

Risk appetite

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

Risk measurement

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

Risk management

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

Structural Hedge

In the current year, Starling initiated a structural hedge programme to mitigate its exposure to earnings volatility from rate changes on its core non-interest and low-interest bearing liabilities. The majority of these core liabilities are in the form of non-maturing deposits. Assumptions covering the expected life of these core liabilities are modelled on a behavioural basis, reviewed and approved by ALCO, challenged and validated by 2L and then hedged. At year end the structural hedge notional was £5.0bn with a weighted average duration of 2.5 years.

Monitoring

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

Stress testing

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

The projected change in NII in response to an immediate parallel upwards and downwards 100bps shift in all relevant interest rates would be as a change to NII over a 1-year horizon. The measure assumes all interest rates, for all currencies and maturities move at the same time and that the balance sheet composition remains constant.

NII sensitivity (audited)	31 March 2024 £'000	31 March 2023 £'000
+100 bps parallel shift	+45,700	+92,900
-100 bps parallel shift	-47,500	-108,000

EVE sensitivity (unaudited)	31 March 2024 £'000	31 March 2023 £'000
+200 bps parallel shift	-2,000	-1,000
-200 bps parallel shift	-100	-4,500

Change in the year

The decrease in the Group's NII sensitivity is driven primarily from the execution of hedging trades as part of the structural hedge programme. The movement in the Group's EVE sensitivity relates to small mismatches between risk and hedge executed.

Risk report / Risk categories and risk mitigation

Capital risk

Risk assessment
Capital risk is the risk that Starling does not have sufficient capital to withstand unexpected losses, meet regulatory requirements, and support the growth plans of the business. The risk arises from unexpected losses impacting profitability, an increase in the riskiness of lending, and/or higher lending volumes than planned increasing RWAs. Starling holds capital to absorb these losses and to support the strategic growth in its business. In line with regulations, Starling assesses its capital adequacy needs in its ICAAP which is reviewed, challenged and approved by the Board at least annually.

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

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

All of Starling Bank's capital is CET1.

Risk appetite
Starling will, at all times, maintain sufficient capital resources to cover its risk profile and associated risk exposures. As a minimum, the Group's[1] capital resources have been maintained above MREL requirements plus buffers at all times.

The Board approves the capital risk appetite annually, defining the minimum level of capital above the regulatory minimum that the Group needs to hold across several metrics.

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

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

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

The Group undertakes a recovery plan to understand how it would recover from a stress event.

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

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

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

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

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

Risk report / Risk categories and risk mitigation / Capital risk

Change in year

The Group's capital position has remained comfortably in excess of its risk appetite limits and regulatory capital requirements over the course of the year. As at 31 March 2024, the Group's CET1 ratio was 32.55% (2023: 37.50%).

Total regulatory capital increased year to date from £710.6m in 2023 to £870.8m in 2024. Total RWAs have increased from £1.9bn in 2023 to £2.7bn in 2024, driven mainly by increasing our exposure to RWA-intensive mortgage lending and investing in highly rated debt securities.

Applicable regulatory capital developments in the year

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

Basel 3.1: In November 2022 the PRA published a CP on the implementation of Basel 3.1 in the UK, in December 2023 it published PS17/23, the first part of its near-final policy statement. Starling is awaiting the publication of the second part of the final rules in H2 2024, with the final reforms expected to become effective on 1 July 2025. The amendments include material changes to the standardised approaches to credit and operational risks. Starling will undertake an impact analysis once the final rules have been published and will consider this impact in its capital plan.

Strong and simple regime: In April 2022 the PRA published a CP on the definition of a Simpler-regime Firm and in December 2023 it published a PS15/23 on the scope, criteria, liquidity and disclosure requirements for Small Domestic Deposit Takers. Starling is considering the impact and implications of this policy statement on its business.

MREL: From April 2023 Starling has complied with its interim MREL requirements. End-state requirements are effective from April 2025.

Regulatory capital and ratios

	Group[1] 31 March 2024 £'000	Group[1] 31 March 2023 £'000
Shareholder equity as per the Group statement of financial position (audited)	889,770	695,277
Equity adjustments for solo-consolidated group[1]	42,099	29,839
CET1 capital before regulatory adjustments	931,869	725,116
Regulatory deductions:		
Intangible assets	(50,726)	(19,764)
Deferred tax asset	–	(14,284)
Add backs/(other deductions)	(17,424)	9,830
IFRS 9 transitional provision	7,050	9,716
CET1 capital	870,769	710,614
Total regulatory capital	870,769	710,614

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

	Group[1] 31 March 2024 £'000	Group[1] 31 March 2023 £'000
Credit risk exposure	1,926,224	1,713,624
Operational risk exposure	749,211	154,036
Credit valuation adjustment	42	27,098
Total risk-weighted assets	2,675,477	1,894,758
CET1 ratio	32.55%	37.50%
Total Tier 1 ratio	32.55%	37.50%
UK leverage ratio	10.39%	9.30%

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

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

Risk report / Risk categories and risk mitigation

Operational risk

Risk assessment
Operational risk is the risk to which Starling is exposed due to flawed or failed processes, systems or events that disrupt business operations, including the risks arising from people and external events. Operational risk is assessed using the RCSA process by identifying potential risks and evaluating the effectiveness of existing controls to mitigate those risks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and Manage;
- Protect;
- Detect;
- Respond; and
- Recover.

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

Risk report / Risk categories and risk mitigation

Financial crime risk

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

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

Risk appetite
Starling Bank is committed to detecting and disrupting financial crime and ensuring that its products and services are not misused for any type of financial crime. This will be achieved through the sound operation of the appropriate control standards and as such Starling Bank will seek to avoid conducting business with entities or individuals engaged or suspected to be engaged in unlawful activities.

Starling Bank has no appetite to transact with, on behalf of or to the benefit of a sanctioned individual or entity.

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 takes action to reduce fraud losses through the constant review and enhancement of control standards.

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

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

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

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

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

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

Risk report / Risk categories and risk mitigation / Financial crime risk

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

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

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

Change in the year
Starling continuously reviews its control environment to make it unattractive to those committing any fraud or financial crime. Throughout the course of the year Starling has invested heavily in capability, capacity and technology in its efforts to detect and prevent financial crime. Starling continues to actively engage with all relevant oversight bodies parties, including industry groups, in seeking to ensure that relevant information for the detection and prevention of financial crime is shared in a timely manner.

Starling has made numerous enhancements in the year to its risk policies, assessment models and monitoring systems.

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.

Risk appetite
Starling has a limited appetite for any action, inaction, or decision that could result in poor outcomes for our customers or market integrity being undermined.

Risk management
Starling's conduct risk framework and policies set out the approach for the delivery of good outcomes for consumers, as well as ensuring appropriate conduct by staff in line with the Bank's expectations and the FCA's Conduct Rules. The Group has sub-policies and procedures covering all parts of the customer journey (new products, marketing, complaints and vulnerable customers), with specified key risks and controls, and key metrics for the Board.

Risk monitoring
Adherence to the conduct risk policies is monitored by 1L with oversight and assurance by 2L. Risk management oversight is exercised through the Group's internal governance (CCC and the ORC, with regular reporting to the ERC, BRC and the Board).

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

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

All of Starling's business functions and risk management teams are required to complete RCSA analysis in respect of their conduct risks. This acts as a specific control through which management validates that all significant risks are identified, assessed, allocated to owners and appropriately managed through the application of controls.

All communications are reviewed and approved by appropriate 1L subject matter experts to ensure that they are clear, fair and not misleading and that they explain any product limitations. Oversight and assurance are conducted by the 2L Risk Assurance team with regular reporting also provided to the CCC, Exec ERC, BRC and to the Board. The CCC also reviews all product initiatives and significant changes to existing products and all relevant risks are discussed and challenged by Executives. Compliance also conducts second line risk assessments on all new products and any significant changes to existing products.

Change in the year
The new Consumer Duty (Part 1) came into effect during the year, with Part 2 due to come into effect in July 2024. An extensive implementation programme (overseen by ERC, BRC and the Board) was put in place to address the requirements of the new Consumer Duty, with work continuing to embed part 1 of the Duty, whilst also preparing for part 2.

Risk report / Risk categories and risk mitigation

Compliance risk

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

Risk appetite
Starling will not accept any breaches of applicable laws and regulations and will seek to avoid inadvertent regulatory breaches by maintaining robust control processes. In the event that regulatory breaches are identified, Starling will promptly remediate the situation and ensure that the Bank's regulators are notified on a timely basis, operating in a transparent manner.

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

Risk management
Starling manages regulatory compliance under a framework and series of policies and procedures, alongside a mandatory staff training programme.

Risk monitoring
Adherence to compliance policies is monitored by 1L with oversight and assurance by the Risk Assurance and Compliance Teams. Committee oversight is exercised through the ERC with regular reporting also provided to the CCC, ERC, BRC and to the Board. The Compliance Monitoring Plan is reviewed and approved by the BRC, and includes risk-based monthly, quarterly, event driven and thematic monitoring.

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

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

Financial statements

Financial statements

Independent auditor's report to the members of Starling Bank Limited

1. Our opinion is unmodified

We have audited the financial statements of Starling Bank Limited ('the Parent Company') and its subsidiaries ('the Group') for the year ended 31 March 2024 which comprise consolidated and Parent Company statements of comprehensive income, consolidated and Parent Company statements of financial position as at 31 March 2024, the consolidated and Parent Company cash flow statement and the consolidated and Parent Company statement 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 2024 and of the Group's and its Parent company's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- 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 8 financial years ended 31 March 2024. 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	£9.5m (2023:£6m) 3.15% of actual profit before tax (2023: 3.08% of actual profit before tax)	
Coverage	99.9% (2023: 99.9%) of actual profit before tax)	
Key audit matters		**vs 2023**
Recurring risks	ECL provision on loans and advances to customers	◄►
	EIR adjustment on loans and advances to customers	▲
Event driven	New: Government guarantee – Bounce Back Loan Scheme (BBLS) to customers	▲
	New: Completeness of conduct and compliance matters identified for IAS 37 assessment	▲

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

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

	The risk	Our response
Expected credit loss (ECL) provision on loans and advances to customers (£47.9 million; 2023: £35.6 million) Refer to pages 95 to 129 (credit risk disclosures) and pages 174 to 177 (accounting policy).	**Subjective estimate:** The estimation of ECL on loans and advances to customers involves significant judgement and estimates. The key areas where we identified significant judgement and therefore increased levels of audit focus in the Group and Parent Company's estimation of ECLs are: **Model estimation and subjectivity of assumptions** – Inherently judgemental and complex modelling is used to estimate ECL, which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"). The PD model is the key driver of complexity and estimation uncertainty in the modelled SME portfolio, whilst the LGD model is the key driver for the mortgages portfolio. As such these models are considered the most significant judgemental aspect of the Group and Parent Company's ECL modelling approach. – The criteria selected to identify a significant increase in credit risk ("SICR") for the mortgages portfolio is a key area of judgement within the Group and Parent Company's ECL calculation, as these criteria determine whether a 12 month or lifetime ECL provision is recorded. **Macroeconomic forecasts and scenarios:** Significant judgement is applied in determining the economic scenarios used and the probability weightings assigned to each scenario particularly in the context of the current uncertain economic environment. **Qualitative adjustments (PMAs):** Adjustments to the model-driven ECL results are raised by the entity to address known ECL model limitations or emerging trends not captured by the models. These adjustments and their identification are inherently uncertain, and significant judgement is involved in determining whether all applicable risks have been captured within the population of adjustments.	We performed granular and detailed risk assessment procedures over the entirety of the ECL on loans and advances to customers within the Group and Parent Company's financial statements. As part of these risk assessment procedures, we identified the portfolios associated with a risk of material misstatement, including those arising from significant judgements over the estimation of ECL either due to methods or assumptions. We performed end to end process walkthroughs to identify the key systems and controls used in the ECL calculation. We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described: **Our credit risk modelling expertise:** We involved our own credit risk modelling specialists in evaluating the Group's ECL models and assumptions who assisted in the following: – Evaluating the Group's impairment methodologies for compliance with the applicable accounting standard; – Evaluating the models which were changed or updated during the year as to whether the changes were appropriate by assessing the updated methodology for compliance with the standard; – Independently reperforming the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences; – Reperforming the calculation of certain adjustments to assess consistency with the qualitative adjustment methodologies; – Evaluating the model output for a selection of models by inspecting the corresponding model code functionality and independently implementing the model by rebuilding the model code and comparing our output with the Group's output;

Financial statements / Independent auditor's report to the members of Starling Bank Limited

	The risk	Our response
Expected credit loss (ECL) provision on loans and advances to customers (continued)	The effect of these matters is that, as part of our risk assessment, we determined that the impairment of 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, 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 judgements and material inputs into the IFRS 9 ECL results.	– Independently recalculating model assumptions for a selection of models using recent data for certain portfolios and comparing our independent output to that of the Group; and – Independently applying SICR criteria for a selection of portfolios and comparing the resulting stage allocation and associated ECL to the Group's output. **Our economics expertise:** We involved our own economic specialists who assisted us in assessing the reasonableness of the Group's economic scenarios used in the ECL models and the probability weightings applied to them by comparing the Group's forecasts to those from external sources or our own modelled forecasts. **Test of details:** Key aspects of our testing in addition to those set out above involved: – sample testing over key inputs into the ECL calculations; – selecting a sample of qualitative adjustments to assess the reasonableness of those adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to source data; and – assessing the completeness of qualitative adjustments identified based on our knowledge gained from other risk-assessment and substantive audit procedures. **Assessing transparency:** We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the ECL provision. In addition, we assessed whether the disclosure of the key judgements and assumptions was sufficiently clear. **Our results** Based on the risk identified and our procedures performed we considered the ECL on loans and advances to customers and related disclosures to be acceptable. (2023 result: acceptable).

Financial statements / Independent auditor's report to the members of Starling Bank Limited

	The risk	Our response
Government guarantee - Bounce Back Loan Scheme (BBLS) to customers **Related provision** (£2.1 million; 2023: £Nil) Refer to pages 174 to 177 and page 181 (accounting policy) and page 204 and 214 (financial disclosures).	**Accounting Treatment** The Group and Parent Company has a portfolio of loans outstanding to customers that were provided under the British Business Bank ('BBB') coronavirus support Bounce Back Loan Scheme. This UK government-backed lending scheme includes a 100% guarantee contract from the BBB that covers losses borne by the Group and Parent Company from these loans. The Group and Parent Company may be exposed to certain risks resulting in non-compliance with the eligibility requirements of the BBLS guarantee contract. The effect of these risks is that they could affect the Group and Parent Company's ability to claim under the guarantee contract or the Group and Parent Company's entitlement to retain payments already claimed under the guarantee contract. The Directors have exercised judgement when interpreting the BBLS guarantee contract in assessing whether any of the eligibility requirements were compromised at the origination of all loans and prior to making a claim on defaulted loans. If the Group and Parent Company is unable to claim under the guarantee contract for any outstanding loan then the Group and Parent Company will need to recognise an Expected Credit Loss relating to that loan. If the Group and Parent Company subsequently identifies that they should not have claimed under the guarantee contract for a defaulted loan which has been claimed for then the Group and Parent Company will need to recognise a provision under IAS 37 to reflect the obligation arising to the BBB.	We performed the following audit procedures rather than seeking to rely on the Group's controls because the nature of the accounting treatment is such that we would expect to obtain audit evidence primarily through the detailed procedures described: **Accounting Analysis:** We critically assessed the Directors' assessment of whether any of the eligibility requirements at the origination of the loans and/or prior to making a claim were compromised and the resulting accounting treatment; **Evaluating the Group's legal assessments:** We made enquires of the external legal counsel engaged by the Group to advise on the eligibility requirements of the BBLS guarantee contract to understand the nature and scope of their work and to confirm the advice provided. We obtained independent confirmation from the external legal counsel of the advice provided; and – Alongside our enquiry of the external legal counsel we inspected legal advice obtained by the Group in respect of the eligibility requirements of the BBLS guarantee contract to identify the contractual requirements at origination of the loans and / or prior to making a claim. **Our legal expertise:** We used our own internal legal specialists to review the legal advice obtained by the Group and to: – Consider the experience and expertise of the external legal counsel engaged by the Group to advise on this matter; – Assess the relevance and reliability of the external legal counsel's advice on the entitlement of the BBB to seek reimbursement of payment claims made by the Group under the guarantee contract; – Consider whether the conclusion of the Directors in respect of the understanding of the eligibility requirements of the BBLS guarantee contract is reasonable given the legal advice obtained. **Independent re-performance:** We recalculated the provision based on the Group assessment of the eligibility requirements.

Financial statements / Independent auditor's report to the members of Starling Bank Limited

	The risk	Our response
Government guarantee - Bounce Back Loan Scheme (BBLS) to customers **Related provision** (£2.1 million; 2023: £Nil) Refer to pages 174 to 177 and page 181 (accounting policy) and page 204 and 214 (financial disclosures).	**Disclosure quality:** The financial statements (note 13 and note 23) disclose a provision of £2.1m in relation to certain loans provided by the Group and Parent Company under the BBLS, where the guarantee provided under the BBLS guarantee contract may no longer be available to the Group and Parent Company. The Directors' assessment of the extent of the disclosure is based on an evaluation of the inherent risks in interpreting the guarantee contract and whether the eligibility criteria under the guarantee contract have been met. The risk for our audit is whether or not those disclosures adequately address the judgements made in arriving at that provision.	**Inspection of regulatory matters:** We inspected any correspondence with the BBB, the Financial Conduct Authority, and the Prudential Regulation Authority, in respect of this matter. **Our compliance expertise:** We used our own forensic specialists to assist the audit team in our review of documentation, in our identification of the contractual requirements of the BBLS guarantee contract and in performing the tests of details set out below: **Tests of details** – We performed a walkthrough and inquiries to understand the extent and findings of any testing performed by the Group of the compliance with the eligibility requirements of the guarantee contract to identify if any failures to comply with the requirements were identified; – For a selection of the Business Customer population of loans, we independently tested compliance with the eligibility requirements of the guarantee contract as identified in our procedures above; – We tested a selection of Business Customer loans to assess if there had subsequently been contradictory evidence over the quality of underwriting; – For a selection of the Sole Trader population of loans, we independently re-performed the Group's testing of compliance with the eligibility requirements of the guarantee contract as identified in our procedures above; and – We inspected regulatory correspondence and other relevant reports and information to assess if there was contradictory evidence which would indicate a need for further test work. **Assessing transparency:** We considered the adequacy of the Group and Parent Company's disclosures in respect of the BBLS and the associated provision recognised, on page 204 and 214, and whether these appropriately reflect the basis upon which the Directors have made this judgement in the assessment of the provision. **Our results** We found the provision in relation to the Group and Parent Company's treatment of the government guarantee claim in respect of loans provided under the BBLS and related disclosures to be acceptable. (2023 result: acceptable).

	The risk	Our response
Effective Interest Rate (EIR) adjustment on loans and advances to customers Refer to page 171 (accounting policy) and page 191 (financial disclosures).	**Subjective estimate** The recognition of EIR adjustments on loans and advances to customers requires the Group and Parent Company to apply judgement, with the most critical estimate being the loans' redemption and early repayment profile underlying the expected behavioural life of the loans. The Group and Parent Company makes their behavioural life assumptions based on the portfolio's historical customer repayment profile which may not reflect the actual repayment pattern of the Group and Parent Company's loans and therefore the Group and Parent Company make significant judgements about the probability and timing of expected cashflows. The behavioural life underlying the Group and Parent Company's EIR adjustment also extends into the future for both fixed and post fixed rate period. The post fixed rate period has been significantly revised by the Group and Parent Company for certain mortgage lending portfolios in the current year based on observed behaviours in response to idiosyncratic factors, such as the introduction of product switches, and changing UK economic environment which creates a higher degree of estimation uncertainty and subjectivity in the current year. The cohorts of loans and advances for which the redemption and early repayment profile assumptions are most significant are the mortgage lending portfolio which includes owner occupied and buy-to-let mortgages. The effect of these matters is that, as part of our risk assessment, we determined that the 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. The financial statements (note 3) disclose the sensitivity estimated by the Group and Parent Company.	We performed the following audit procedures rather than seeking to rely on the Group's controls because the nature of the accounting treatment is such that we would expect to obtain audit evidence primarily through the detailed procedures described: **Historical comparison:** We critically assessed the Group's analysis and key assumptions over the repayment profiles by comparing them to the Group's historical trends and actual portfolio behaviour. **Our sector experience:** We critically assessed key assumptions under the Group's expected behavioural lives against our knowledge of industry experience and current 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 expectations. **Test of details:** We recalculated the EIR output to test the accuracy of the EIR balances. We performed sample testing over key inputs, data and assumptions to assess the reasonableness of key aspects of the EIR calculation. **Assessing transparency:** We evaluated whether the disclosures appropriately disclose and address the uncertainty that exists 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 (2023 result: acceptable).

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	The risk	Our response
Completeness of matters related to potential breaches of laws and regulations **Related provision** (£8.4 million; 2023: £Nil) Refer to page 181 (accounting policy) and page 214 (financial disclosures).	**Omitted exposures** In the normal course of business, potential exposures may arise from non-compliance with laws or regulations and broader conduct matters. As a result, the Group and Parent Company may become subject to other enquiries and examinations, requests for information, audits, enquiries, investigations, and other proceedings by regulators, governmental and other public bodies. Whether there is a liability that needs to be recognised or a contingent liability that needs to be disclosed is inherently uncertain and judgemental. During the course of the audit, the Group and Parent Company continued to identify a number of conduct and compliance matters and as such there is a risk that the matters assessed by the Group and Parent Company are not complete.	We performed the detailed tests below rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls. **Our procedures included:** Enquiry of lawyers: We obtained a list of all conduct and compliance related matters that the Group had obtained legal advice on and we independently confirmed such advice with the Group's external legal advisers. **Our compliance expertise:** We used our own forensic specialists to support in the identification of actual and potential non-compliance with law and regulations relevant to the Group's business. **Inspection of regulatory and legal matters:** We inspected correspondence with the Financial Conduct Authority (FCA) and the Prudential Regulation Authority to identify any regulatory observations or legal matters which had not been identified by the Group. **Comparisons:** We benchmarked the potential complaints to other market participants who are subject to similar regulatory requirements. **Compliance data scrutiny:** We analysed customer complaints, complaints raised by the Group's customers with the Financial Ombudsman Service (FOS) and the Group's digital media sentiment using our data and analytics routine. We also made enquiries of the Group about specific complaints to assist in identification of conduct matters and completed a detailed walkthrough of the complaints process. **Test of details:** – We corroborated the completeness of the list of legal matters provided by the Group to legal expenses recorded within the general ledger and to legal advice obtained; – We reviewed the FCA published thematic findings of reviews they have performed across similar financial institutions to assess if the Group could also be affected by these; and – We used our forensic specialists to perform benchmarking against publicly available information to assess the possibility of material provisions from matters, as disclosed in the financial statements of similar banking institutions. **Our results** The results of our testing were satisfactory and we considered the liability recognised, and the contingent liability disclosures made, to be acceptable (2023 result: acceptable).

Financial statements / Independent auditor's report to the members of Starling Bank Limited

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £9.5m (2023: £6m), determined with reference to a benchmark of Group profit before tax (PBT), of which it represents 3.15% (2023: 3.08% of Group PBT).

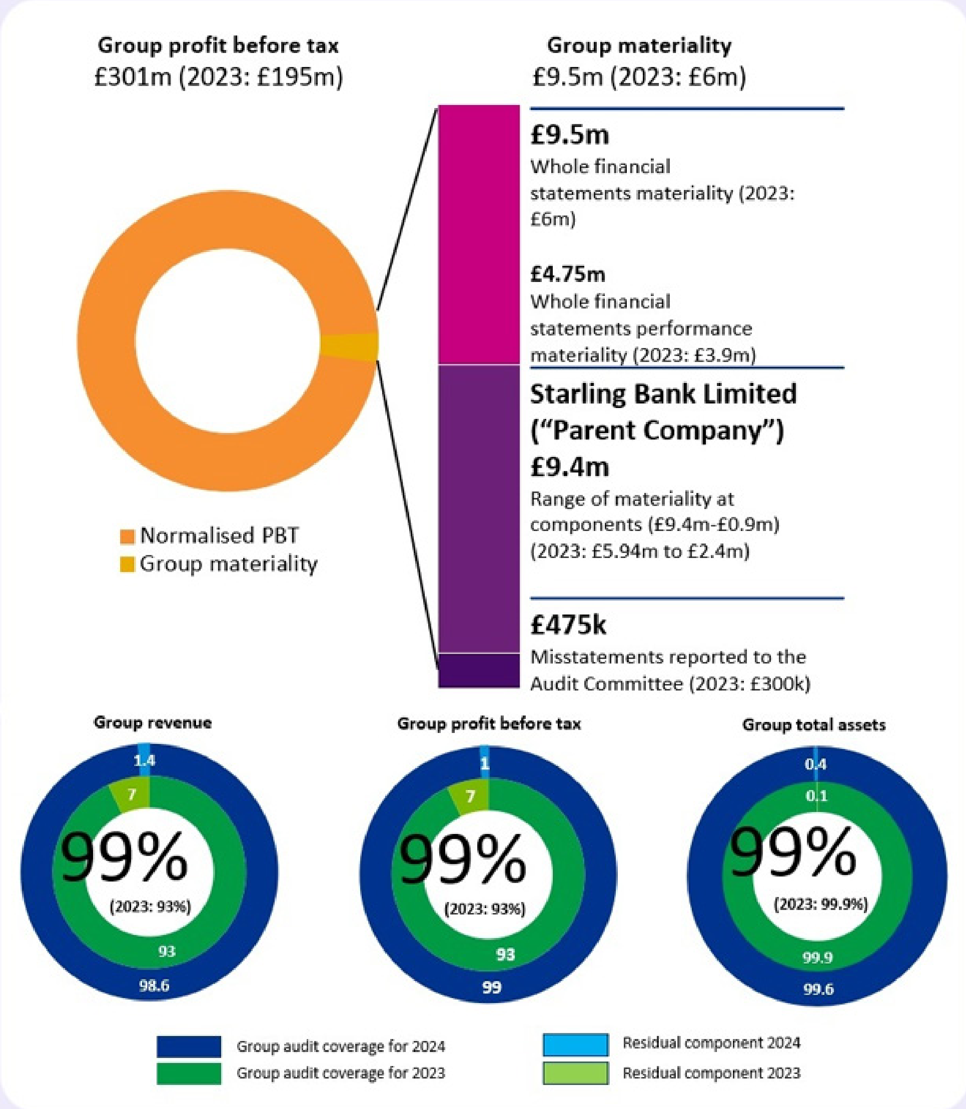
Materiality for the Parent Company financial statements as a whole was set at £9.4m (2023: £5.9m), determined with reference to a benchmark of Parent Company profit before tax, of which it represents 3.2% (2023: 2.68% of Parent Company profit before tax).

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

Performance materiality was set at 50% (2023: 65%) of materiality for the financial statements as a whole, which equates to £4.75m (2023: £3.9m) for the Group and £4.7m (2023: £3.86m) for the Parent Company. We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies during the current period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £475,000 (2023: £300,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's seven (2023: six) reporting components, we subjected one (2023: one) to full scope audit for group purposes audited by the Group team. One non-significant component (2023: two) was subject to audit of certain account balances as these contained material accounts and five components (2023: three) were subject to other audit procedures performed by the Group team. The latter six components (2023: five) were not individually financially significant enough to require a full scope audit for group purposes and represent less than 0.5% of the total Group assets. The audit was performed using the materiality levels set out above.



4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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

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

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

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

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 Parent Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Parent 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, the Board Audit Committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", 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.
- Our forensic specialists assisted us in identifying key fraud risks. This included attending the Risk Assessment and Planning Discussion, holding a discussion with the engagement partner, engagement manager and engagement quality control reviewer, and assisting with designing and executing relevant audit procedures to respond to the identified fraud risks.
- We inspected correspondence with the Financial Conduct Authority and the Prudential Regulation Authority.

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 the impairment provision on loans and advances. On this audit, other than the Effective Interest Rate (EIR) adjustment on loans and advances to customers, 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 the ECL provision on loans and advances to customers and management's assessment of compliance with the eligibility criteria in relation to the guarantee on BBLS as a result of significant management judgement involved in determining the estimates that are difficult to corroborate. Further detail in respect of the expected credit loss provision on loans and advances to customers and BBLS 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. These included those posted by senior finance management, those posted and approved by the same user, journals posted to seldom used accounts and those including specific descriptors.
- Assessing whether the judgements made in making significant accounting estimates are indicative of a potential 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. We also 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), distributable profits 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: specific areas of regulatory capital and liquidity requirements, conduct (including consumer duty) regulations, money laundering, financial crime, sanctions and certain aspects of company legislation, recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry with 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.

In relation to the money laundering and financial crime matters (including the on-going FCA investigation) disclosed in note 33 we performed audit procedures which included making enquiries of the Group's internal counsel and inspection of minutes of meetings and of regulatory correspondence and independent enquiry of the Group's main regulators. We also made enquiries of external counsel and obtained legal confirmations from the Group's external counsel.

In respect of regulatory matters relating to conduct risk (including the on-going FCA investigation) as disclosed in note 23 and note 33 our procedures included inspection of regulatory correspondence, independent enquiry of the Group's main regulators and performing audit procedures to respond to risks of material misstatement identified in recognised conduct provisions. We have identified the completeness of potential breaches of laws and regulation as a key audit matter as disclosed in Section 2 of this report.

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 84, 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 Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

10 June 2024

Financial statements

Consolidated and company statement of comprehensive income

Income statement

For the year ended	Note	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Net interest income	4	592,871	348,845	582,005	345,834
Interest income		754,808	403,103	743,942	400,092
Interest expense		(161,937)	(54,258)	(161,937)	(54,258)
Net fees and commissions	5	84,423	74,390	74,262	68,085
Fees and commissions income		119,467	112,413	112,857	107,586
Fees and commissions expense		(35,044)	(38,023)	(38,595)	(39,501)
Other (expense)/income	6	(30,176)	(8,421)	10,278	36,521
Total income		647,118	414,814	666,545	450,440
Operating expenses	7	(332,130)	(220,674)	(358,569)	(226,266)
Credit for eligible spend	7	–	10,447	–	10,447
Impairment and charge-offs	8	(13,889)	(9,991)	(13,889)	(9,991)
Impairment of subsidiaries and intercompany balances	15	–	–	(1,854)	(2,947)
Profit before taxation		301,099	194,596	292,233	221,683
Tax charge	9	(81,098)	(51,740)	(78,095)	(53,064)
Profit after taxation		220,001	142,856	214,138	168,619

Other comprehensive income

Items that may subsequently be reclassified to profit or loss:	Note	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Translation of subsidiary company	26	25	47	–	–
Cash flow hedges		27,379	(10,246)	27,379	(10,246)
Net gains/(losses) from changes in fair value	12	37,867	(16,674)	37,867	(16,674)
Transfers to the income statement	12	160	2,443	160	2,443
Taxation	18	(10,648)	3,985	(10,648)	3,985
Other comprehensive income/(loss), net of tax		27,404	(10,199)	27,379	(10,246)
Total comprehensive income, net of tax		247,405	132,657	241,517	158,373

All amounts are attributable to the equity holders.

The accompanying notes on pages 169 to 227 and the audited sections in the risk report on pages 85 to 148 form an integral part of these financial statements.

Financial statements

Consolidated and company statement of financial position

As at	Note	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Assets					
Cash and balances at central banks	10	6,420,115	6,076,284	6,420,115	6,076,284
Loans and advances to banks	10	36,879	33,420	35,441	29,151
Debt securities	11	3,284,867	2,479,550	3,284,867	2,479,550
Derivative assets	12	246,541	221,774	246,541	221,774
Loans and advances to customers	13	4,537,663	4,731,997	4,537,663	4,731,997
Other assets	14	100,047	71,851	88,038	67,128
Current tax asset		15,640	–	15,599	–
Investment in subsidiaries and intercompany account	15	–	–	118,699	101,779
Property, plant and equipment and right of use assets	16	18,727	15,480	17,453	13,736
Intangible assets	17	71,523	40,585	–	–
Goodwill	17	35,890	35,890	–	–
Deferred tax asset	18	–	4,664	–	5,059
Total assets		14,767,892	13,711,495	14,764,416	13,726,458
Liabilities					
Customer deposits	19	10,970,237	10,551,820	10,978,527	10,551,887
Deposits from banks	20	2,420,471	2,274,306	2,420,471	2,274,306
Derivative liabilities	12	51,417	55,452	51,417	55,452
Other liabilities	21	367,422	96,958	365,433	94,424
Current tax liability		–	3,960	–	4,065
Deferred income	22	47,873	32,380	495	791
Provisions	23	11,507	1,342	11,507	1,342
Deferred tax liability	18	9,195	–	3,770	–
Total liabilities		13,878,122	13,016,218	13,831,620	12,982,267
Equity					
Share capital	24	12	12	12	12
Share premium	25	608,833	608,833	608,833	608,833
Other reserves	26	(12,003)	14,021	(12,162)	13,887
Retained earnings		292,928	72,411	336,113	121,459
Total equity		889,770	695,277	932,796	744,191
Total liabilities and equity		14,767,892	13,711,495	14,764,416	13,726,458

The accompanying notes on pages 169 to 227 and the audited sections in the risk report on pages 85 to 148 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 10 June 2024 and signed on its behalf by:

John Mountain,
Interim Chief Executive Officer
Director

Declan Ferguson,
Chief Financial Officer
Director

Financial statements

Consolidated and company cash flow statement

For the year ended	Note	Group 31 March 2024 £'000	Group 31 March 2023[1] £'000	Company 31 March 2024 £'000	Company 31 March 2023[1] £'000
Cash flows from operating activities					
Profit for the period after taxation		220,001	142,856	214,138	168,619
Adjustments for non-cash or non-operating items included in profit before tax					
Depreciation and amortisation		16,807	10,953	4,405	2,764
Performance-based compensation		5,336	1,323	3,854	1,323
Change in fair value on derivatives		27,746	7,271	27,746	7,271
Impairment and charge-offs		13,889	9,991	13,889	9,991
Impairment of intercompany and subsidiary accounts		–	–	1,854	2,947
Taxation charged to the income statement		81,098	51,740	78,095	53,064
Other non-cash items		556	827	84	250
Net (increase)/decrease in operating assets					
Cash and balances at central banks[2]	10	33,985	(9,835)	33,985	(9,835)
Loans and advances to customers		190,910	(1,567,215)	190,910	(1,567,215)
Other assets		(30,100)	(5,399)	(20,910)	(9,598)
Intercompany account		–	–	(25,521)	(17,289)
Net increase/(decrease) in operating liabilities					
Customer deposits		418,933	1,524,407	427,156	1,524,160
Deposits from banks		146,165	(9,515)	146,165	(9,515)
Provisions		10,165	232	10,165	232
Other liabilities		265,896	(51,253)	267,683	(50,463)
Deferred income		15,493	16,202	(296)	(13,608)
Derivative financial instruments		(32,355)	(15,264)	(32,355)	(15,264)
Taxation paid		(94,266)	(26,720)	(91,513)	(25,779)
Net cash flows from operating activities		1,290,259	80,601	1,249,534	52,055

1 In the prior year, the cash inflows and outflows in respect of debt securities were presented as a net outflow of £161.6m. These have now been represented on a gross basis in line with current year presentation. Net cash flows from investing activities were not impacted. In addition, the comparatives have been represented for some minor reclassifications with movements on derivatives now presented separately within operating activities. Net cash flows from operating activities were not impacted.

2 Cash and balances at central banks comprises of movement in the restricted cash ratio deposit held with the BoE. For more information, see note 10.

Financial statements

Consolidated and company cash flow statement continued

For the year ended	Note	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Cash flows from investing activities					
Purchase of property, plant and equipment		**(4,728)**	(2,824)	**(4,690)**	(2,079)
Purchases of debt securities		**(1,577,646)**	(1,084,704)	**(1,577,646)**	(1,084,704)
Net proceeds from maturity and sale of debt securities		**748,813**	923,096	**748,813**	923,096
Purchase and development of intangible assets		**(43,278)**	(27,643)	**–**	–
Net cash flows from investing activities		**(876,839)**	(192,075)	**(833,523)**	(163,687)
Cash flows from financing activities					
Issuance of ordinary shares less cost of issuance		**–**	130,501	**–**	130,501
Purchase of own shares		**(56,362)**	–	**(56,362)**	–
Repayment of lease liabilities	30	**(2,154)**	(68)	**(1,914)**	(68)
Net cash flows from financing activities		**(58,516)**	130,433	**(58,276)**	130,433
Net Increase in cash and cash equivalents		**354,904**	18,959	**357,735**	18,801
Cash and cash equivalents at beginning of year	10	**6,102,090**	6,083,131	**6,097,821**	6,079,020
Cash and cash equivalents at end of year	10	**6,456,994**	6,102,090	**6,455,556**	6,097,821

Total interest received by the Group was £722.8m (2023: £367.7m) and total interest paid by the Group was £141.6m (2023: £33.9m). Total interest received by the Company was £708.0m (2023: £362.3m) and total interest paid by the Company was £141.6m (2023: £33.9m).

The accompanying notes on pages 169 to 227 and the audited sections in the risk report on pages 85 to 148 form an integral part of these financial statements.

Financial statements

Consolidated statement of changes in equity

	Note	Share capital £'000	Share premium £'000	Other reserves[1] £'000	Retained earnings £'000	Total equity £'000
As at 31 March 2022		11	478,333	22,525	(70,445)	430,424
Total comprehensive income						
Profit for the year	26	–	–	–	142,856	142,856
Other comprehensive income						–
Cash flow hedge	26	–	–	(10,246)	–	(10,246)
Translation of subsidiary company	26	–	–	47	–	47
Transactions with equity holders						–
Proceeds from issue of shares, less expenses	24, 25	1	130,500	–	–	130,501
Cost of share award schemes, net of tax	27	–	–	1,695	–	1,695
As at 31 March 2023		12	608,833	14,021	72,411	695,277
Total comprehensive income						
Profit for the year	26	–	–	–	220,001	220,001
Other comprehensive income						
Cash flow hedge	26	–	–	27,379	–	27,379
Translation of subsidiary company	26	–	–	25	–	25
Transactions with equity holders						
Purchase of own shares	26	–	–	(56,362)	–	(56,362)
Cost of share award schemes, net of tax	27	–	–	3,450	–	3,450
Transfer from share award reserve	27	–	–	(516)	516	–
As at 31 March 2024		12	608,833	(12,003)	292,928	889,770

1 Other reserves include the merger relief reserve, cash flow hedging reserve, own shares held reserve, share awards reserve and foreign currency translation reserve. For further details see note 26.

The accompanying notes on pages 169 to 227 and the audited sections in the risk report on pages 85 to 148 form an integral part of these financial statements.

Financial statements

Company statement of changes in equity

	Note	Share capital £'000	Share premium £'000	Other reserves[1] £'000	Retained earnings £'000	Total equity £'000
As at 31 March 2022		11	478,333	22,438	(47,160)	453,622
Total comprehensive income						
Profit for the year	26	–	–	–	168,619	168,619
Other comprehensive income						
Cash flow hedge	26	–	–	(10,246)	–	(10,246)
Transactions with equity holders						
Proceeds from issue of shares, less expenses	24, 25	1	130,500	–	–	130,501
Cost of share award schemes, net of tax	27	–	–	1,695	–	1,695
As at 31 March 2023		12	608,833	13,887	121,459	744,191
Total comprehensive income						
Profit for the year	26	–	–	–	214,138	214,138
Other comprehensive income						
Cash flow hedge	26	–	–	27,379	–	27,379
Transactions with equity holders						
Purchase of own shares	26	–	–	(56,362)	–	(56,362)
Cost of share award schemes, net of tax	27	–	–	3,450	–	3,450
Transfer from share award reserve	27	–	–	(516)	516	–
As at 31 March 2024		12	608,833	(12,162)	336,113	932,796

1 Other reserves includes the merger relief reserve, cash flow hedging reserve, own shares held reserve and share awards reserve. For further detail see note 26.

The accompanying notes on pages 169 to 227 and the audited sections in the risk report on pages 85 to 148 form an integral part of these financial statements.

Financial statements

Notes to the financial statements

1. Basis of preparation

a) General information
The Company is a private company limited by shares, incorporated in England and Wales under the Companies Act 2006.

b) Basis of preparation
The consolidated financial statements and the Company financial statements of Starling Bank Limited have been prepared in accordance with the Companies Act 2006 and with IFRS and interpretations issued by the IASB as adopted by the UK. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and liabilities at FVTPL and other comprehensive income.

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

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

Changes in presentation
For the year ended 31 March 2024, cash and balances at central banks has been shown separately from loans and advances to banks in both the Group and Company financial statements.

There has been no change in the basis of accounting for any of the underlying transactions. Comparatives have been presented on a consistent basis.

c) 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 15). Consistent accounting policies are used by the Group, the parent company and the subsidiaries.

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

Murmur Financial Services Limited (registration number 14999160) will take the exemption from audit under s479A of the Companies Act 2006 for the year ended 31 March 2024. In order to allow MFSL to take the exemption, SBL will issue a statutory guarantee of MFSL's outstanding liabilities as at 31 March 2024 pursuant to s479C of the Companies Act 2006.

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

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

1. Basis of preparation continued

d) Going concern

In assessing the Group and Bank's going concern position as at 31 March 2024, the Directors considered a wide range of information relating to the present and future conditions, including the Group and Bank's current financial position and future projections of profitability, cash flows and capital resources and requirements, which all form part of the business plan. Base case forecast projections are based on detailed financial planning by management that take account of the current and expected economic environment. The Directors also considered the impact of key existing risks and emerging risks on the Group and Bank business model and plan (see pages 53 to 55). The Directors have assessed the outlook for the Group and Bank for at least 12 months from the signing of these financial statements as required under IFRS.

The Directors have reviewed a range of severe but plausible stresses that have been applied to the base case business plan with the impact assessed against the Group and the Bank's profits, capital and liquidity resources. The Group/Company has modelled a severe low interest rate stress downside scenario (detail on this scenario can be found on page 184), as well as considering the impact of a number of single-variable stress tests in order to test the limits and vulnerabilities of the business plan and strategy. The impact of management actions that might be taken to mitigate the impact of these stresses is also assessed. The projections under these stress scenarios show that the Group/Company will be able to operate at adequate levels of both capital and liquidity resources whilst remaining in excess of PRA minimum capital requirements and using its buffers to execute recovery actions to replenish its capital resources. On this basis, the Group and Company will meet its future obligations for at least 12 months from the signing of these financial statements.

Stress testing is performed regularly throughout the year to support the business planning cycle and re-forecasting as well as to monitor business performance and also to inform and support management's decision making. It also forms a fundamental part of the annual production of the ICAAP, ILAAP and recovery and resolution planning.

As a result of this assessment, the Directors have a reasonable expectation that the Group and Bank have adequate capital, liquidity and other resources to continue in operational existence for at least 12 months from the signing of these financial statements and that the Group and Bank has adequate capital and liquidity resources to meet its minimum regulatory requirements as prescribed by the PRA. Accordingly, the going concern basis of accounting has been adopted to prepare these financial statements.

2. Accounting policies

a) Foreign currency translation

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

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

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

- Assets and liabilities are translated at the closing rates of exchange prevailing on the date of the statement of financial position;
- Income and expense items are translated at average exchange rate for the year, to the extent that such average rates approximate to actual rates; and
- Any resulting gain or loss on translation is recognised in other comprehensive income (OCI).

2. Accounting policies continued

b) Interest income and interest expense
Interest receivable and similar income on financial assets that are classified as cash and balances at central banks, loans and advances to banks and loans and advances to customers, and interest payable on financial liabilities that are classified as deposits from banks and customer deposits, are recognised as interest income and interest expense respectively in the income statement, using the EIR of the financial assets or financial liabilities to which they relate. Interest on derivatives designated in hedging relationships is recognised in interest income when the derivative hedges an asset and interest expense when the derivative hedges a liability. Interest on derivatives not designated in a hedge relationship is recognised in interest income or interest expense as appropriate.

Interest income on financial assets that are classified as debt securities is recognised in the income statement using the effective yield to maturity method. This method provides a result that approximates to the EIR method.

The EIR is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the gross carrying amount of the financial asset or liability. The EIR method calculates the amortised cost of a financial asset or liability and allocates the interest income or expense over the relevant period. The Group estimates cash flows considering all contractual terms and behavioural expectations of the financial instruments but does not consider future credit losses. The Group monitors the actual cash flows of financial instruments and resets estimated cashflows when a significant change is observed. These revised cashflows are discounted at the EIR to derive a new asset carrying value with changes taken to profit or loss as interest income. For variable rate assets or assets with a variable rate period in their contractual period, the EIR is revised where there is a significant movement in a variable interest rate which will impact future expected cashflows. The revised EIR is the rate which exactly discounts the revised cash flows to the net carrying value of the assets.

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

On an on-going basis, the Group assesses whether its financial assets are credit-impaired. IFRS 9.5.4.1(b) requires that where assets have become credit-impaired, interest revenue is subsequently calculated by applying the EIR to the amortised cost less impairment provisions of the asset.

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

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

For SaaS contracts with customers, the Group:
- Identifies the contract with a customer;
- Identifies the performance obligations in the contract;
- Determines the transaction price which takes into account estimates of variable consideration and the time value of money;
- Allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
- Recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

When goods or services have been exchanged but the right to consideration is conditional on something other than the passage of time, a balance is classified as a contract asset. This arises where there are further performance obligations to be satisfied as part of the contract with the customer and typically includes balances relating to software licensing contracts. The contract asset balance for work completed but not invoiced on satisfaction of a performance obligation unwinds over the contract term. The Group presents any unconditional rights to consideration separately as a receivable.

Contract liabilities arise when we have an obligation to transfer future goods or services to a customer for which we have received consideration, or the amount is due from the customer, and include both deferred income balances and specific reserves.

Financial statements / Notes to the financial statements

2. Accounting policies continued

c) Fees and commissions continued
Determination and allocation of transaction price
The Group determines the transaction price it is entitled to in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. Where the contract contains multiple performance obligations, the transaction price is allocated between the identified obligations according to the relative standalone selling prices of the obligations.

Variable consideration
Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. SaaS contracts include usage-based pricing calculated using the number and size of customer accounts. Additionally, bonus payments may be due at the end of the contract. Such estimates are determined using either the 'expected value' or 'most likely amount' method.

The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved.

d) Cash and cash equivalents
Cash and cash equivalents comprise current bank balances, unrestricted deposits held with central banks, and highly liquid financial assets with an original maturity of less than three months. These are classified respectively as loans and advances to banks, cash and balances at central banks and debt securities on the statement of financial position.

e) 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 FVOCI; or
- Assets measured at FVTPL.

In classifying each financial asset, the Group assesses:

- The objective of the business model in which the financial asset is held; and
- Whether the contractual cash flows of the financial asset are SPPI.

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

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice; These include whether management's strategy focuses on earning contractual interest income, matching the duration of the financial assets to the duration of any related liabilities or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are 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 period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument and whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, such as;

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

Financial statements / Notes to the financial statements

2. Accounting policies continued

e) Financial assets continued

Classification:

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

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

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:

- Cash and balances at central banks;
- Loans and advances to banks;
- Debt securities;
- Loans and advances to customers; and
- Other assets.

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. Where financial guarantees are in place and are considered an integral part of the asset, any amounts due against the guarantee would be accounted for as a component of the underlying asset. For POCI financial assets the interest income is calculated using the credit-adjusted EIR applied to the amortised cost of the financial asset from initial recognition.

Assets measured at FVOCI

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

Assets at FVTPL

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

Derivative financial instruments

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

Interest on economic hedging derivatives is included within interest income/expense in the income statement as appropriate.

The Group continues to apply the hedge accounting requirements as permitted by International Accounting Standard IAS 39. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item and the hedging instrument, the prospective and retrospective testing approaches, and any sources of ineffectiveness. The effectiveness of hedging relationships is tested both at inception and throughout the life and if effectiveness falls outside the 80% - 125% threshold, hedge accounting is discontinued from this point. There are two types of hedging strategy undertaken:

Fair value hedges

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

2. Accounting policies continued

e) Financial assets continued

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

Cash flow hedges

Where a derivative is designated as a hedge of the variability in cash flows of a recognised asset or liability (or portion of a recognised asset or liability) or a highly probable forecast transaction, the effective portion of changes in the fair value of those derivatives is recognised in OCI in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. The strategy is currently applied to receive fixed interest rate, pay floating interest rate swaps hedging floating rate cash at central banks and debt securities.

The effective portion recognised in OCI is limited to the cumulative change in fair value of the hedged item from inception of the hedge. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is only recognised in the income statement when the previously hedged cash flow is recognised in the income statement.

f) Financial liabilities

In accordance with IFRS 9, the financial liabilities of the Group are classified as liabilities measured at either amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the income statement. The Group carries derivative financial liabilities classified as FVTPL. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with any interest expense being recognised in the income statement. Any gain or loss on derecognition is also recognised in the income statement.

g) Impairment of financial assets

The Group recognises impairment loss allowances for ECL, where appropriate, on financial assets that are not measured at FVTPL.

Measurement of ECL

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

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

Measurement inputs

Key inputs into the measurement of ECL are:

- PD which calculates the likelihood of default within the next 12 months or over the remainder of its life, depending on the stage.

The Group has calibrated portfolio default rates based on observed default rates where outcome date is available and PD curves are segmented by relevant risk profiles for that portfolio, e.g. credit grade or sector. Some portfolios currently use expert judgemental approaches due to a lack of empirical evidence, given the immaturity of the portfolio.

- LGD is the proportion of the exposure that is expected to be lost in the event of default.

2. Accounting policies continued

g) Impairment of financial assets continued
Measurement inputs continued
LGD is typically expressed as a % of EAD. Observed losses in the event of default are based on a combination of historical experience of customer behaviour, industry benchmark data and product criteria.

For mortgage lending the Group has used historical experience where available, however this data is largely limited due to low volumes. Therefore, the LGD that is largely driven by the underlying value of the collateral, as well as expert judgement assumptions of other components like probability of possession given default, forced sale discount, recovery costs which are based on a combination of industry benchmark data and historical information, in the absence of sufficient observable performance. For SME lending the Group has used an LGD that reflects the UK government guarantee where applicable, as well as observed historical cure and recovery rates. For retail lending, the Group has used an LGD based on observed customer behaviour and resulting losses.

- EAD is an estimate of the gross value of the loan at point of 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.

- ECL is calculated such that ECL = PD x LGD x EAD

IFRS 9 requires an impairment loss allowance to be recognised at an amount equal to either the 12-month ECL or the lifetime ECL. 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 ECL depends on the ‘stage’ of the financial asset, based on changes in credit risk occurring since initial recognition, as described below:

- Stage 1: when a financial asset is first recognised it is assigned to stage 1. If there is no SICR from initial recognition the financial asset remains in stage 1. Stage 1 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from stage 2 or 3. For financial assets in stage 1, a 12-month ECL is recognised.
- Stage 2: when a financial asset shows a SICR from initial recognition it is moved to stage 2. Stage 2 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from stage 3. For financial assets in stage 2, a lifetime ECL is recognised.
- Stage 3: when there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit-impaired, it is moved to stage 3. For financial assets in stage 3, a lifetime ECL is recognised.

POCI financial assets are those that are assessed as being credit-impaired upon initial recognition. At initial recognition, POCI assets do not carry an impairment allowance; instead, lifetime ECLs are incorporated into the calculation of the EIR. All changes in lifetime ECL subsequent to the assets’ initial recognition are recognised as an impairment charge.

Financial statements / Notes to the financial statements

2. Accounting policies continued

g) Impairment of financial assets continued

Significant increase in credit risk

The Group monitors all financial assets and loan commitments that are subject to IFRS 9's impairment requirements to assess whether there has been a SICR since initial recognition of the asset. In determining whether there has been a SICR, the Group uses quantitative tests together with qualitative indicators such as watchlists and other behaviours observed on individual customer accounts such as forbearance or payment arrears. For mortgages and retail lending products, the Group includes a rebuttable presumption that credit risk has significantly increased from the point of origination/acquisition when arrears have increased by one month in arrears or more than thirty DPD. For SME lending the Group includes a presumption that credit risk has significantly increased when contractual payments are past due. Additionally, an increase in other observable data points that might point to a SICR, such as a material deterioration in credit bureau scores, are amongst other factors taken into consideration where considered relevant and where sufficient data is available for the portfolio.

Forward-looking information

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

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

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

The Group uses credit risk metrics that reflect its assessment of the PD of individual exposure level. The credit risk of each exposure is assessed at initial recognition, based on the available information about the borrower.

Definition of arrears

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

Definition of default

Loans and advances are classified as in default if any of the following criteria has been met: the outstanding balance is overdue for more than 90 days or the account is 3 or more MIA; any security/personal guarantee has been taken into the Group's possession; the customer is bankrupt or has proposed an individual voluntary arrangement; or the customer is subject to a debt relief order. Mortgage loans are also classified as in default if they are 3 months post contractual maturity, if the underlying property is subject to litigation or there is evidence of fraud.

Credit-impaired financial assets

At each reporting date, the Group assesses whether its financial assets are credit-impaired.

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.

Financial statements / Notes to the financial statements

2. Accounting policies continued

g) Impairment of financial assets continued

Forbearance

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

Forbearance is granted on a selective basis to support customers who are in financial difficulty. Collections activity commences immediately after a customer moves into a position of arrears.

Where appropriate, the following types of forbearance are then made available to customers: Payment arrangement (payment plan with a reasonable timeframe); concessionary arrangement (payment plan for demonstrably temporary financial difficulties); extension (increased product term); reduced interest; deferment/capitalisation of arrears; and full and final offers (where the Bank may accept less than full settlement of balance). Where relevant, the Group has applied the FCA requirements on overriding the classification of customers who entered into a payment plan as in default.

Charge-offs

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

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

h) Financial assets and liabilities – recognition, modification, derecognition and offsetting

Recognition

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

Modifications

The Group sometimes renegotiates or otherwise modifies the contractual cash flows 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, such as from floating to fixed; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

Financial statements / Notes to the financial statements

2. Accounting policies continued

h) Financial assets and liabilities – recognition, modification, derecognition and offsetting continued

If the terms and cash flows of the modified asset are not deemed to be substantially different, the loan carrying value will be adjusted to reflect the present value of modified cash flows discounted at the original EIR, with any resulting gain or loss recognised immediately within the income statement as a modification gain or loss.

If the terms and cash flows of the modified asset are deemed to be substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. This meets the derecognition criteria outlined below and as such the original financial asset is derecognised and a new financial asset is recognised at fair value. The difference between the carrying amount of the derecognised financial asset and the new financial asset with modified terms is recognised in the income statement.

If the borrower's change in cash flows is the result of forbearance measures, these are typically not considered substantially different except in exceptional circumstances.

Derecognition

Derecognition is the point at which the Group ceases to recognise a financial asset or financial liability on its statement of financial position.

The Group derecognises a financial asset (or a part of a financial asset) when:

- The contractual rights to the cash flows from the financial asset have expired;
- The Group transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred to a third party; or
- The Group transfers the financial asset in a transaction in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the asset. If the Group retains control of the asset it continues to recognise the transferred asset only to the extent of its continuing involvement and derecognises the remainder.

On derecognition of a financial asset the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement.

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

Offsetting

Financial assets and financial liabilities are offset and the net amount presented with the statement of financial position when, and only when, the Group has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. There are no financial assets or liabilities which are offset within the statement of financial position and all financial assets and liabilities are presented on a gross basis. Income and expense are presented on a net basis only when permitted under IFRS.

i) Property, plant and equipment

Fixtures, fittings and equipment are included as property, plant and equipment in the statement of financial position at historical cost less accumulated depreciation and any accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments. Depreciation on property, plant and equipment is included in operating expenses in the income statement according to the type:

- Fixtures and fittings: Straight line over 3 year expected life
- IT equipment: Straight line over 3 year expected life
- Leasehold improvements: Straight line over 5 year expected life

Gains and losses on disposals are included in operating expenses in the income statement.

Financial statements / Notes to the financial statements

2. Accounting policies continued

j) Intangible assets
The Group applies IAS 38 intangible assets to the categorisation of certain expenditure relating to software development costs and the cost of creating its website and associated domain names. Intangible assets are carried at cost less accumulated amortisation and impairment.

The carrying values of intangible assets are reviewed whenever there are indicators of impairment, or at least annually for intangible assets with indefinite life, and thus the carrying amount may not be recoverable. The Group considers both internal and external factors when determining whether there are indicators that the intangible asset is impaired.

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

Software development
Software development costs are capitalised as intangible assets if it is probable that the asset created will generate future economic benefits. Software costs, including the design, specification, build, testing and implementation of the Group's banking software and mobile application, are recognised in the statement of financial position as intangible assets and amortised using the straight-line method over their estimated useful lives from the date the software becomes operational and available for use. The estimated useful life is currently considered to be seven years. Costs associated with maintaining the software are recognised as an expense as incurred. Impairment losses are recognised immediately as an expense.

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. The estimated useful life is currently considered to be seven years. These assets are subject to impairment testing on an annual basis or, earlier, if there exists an indication of impairment.

k) 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 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 its VIU. VIU is the present value of the CGU's expected future cash flows. If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2. Accounting policies continued

l) Other assets
Payment scheme collateral, deferred lending fee expense, funds in the course of collection and other assets are financial assets which are initially recognised at fair value and subsequently measured at amortised cost. In the case of deferred fee expense, the amount receivable is measured using the EIR method.

Payment scheme collateral is recognised at the value of the amount placed with nominated banks.

m) Leases
The Group has entered into leases for all its premises. Lease liabilities are recognised in respect of the Group's obligations to make future lease payments and 'right of use' assets are recognised that represent the Group's right to use the underlying assets.

Amounts expensed to the income statement represent the interest costs on lease liabilities (presented within operating expenses) and the depreciation charge on right of use assets (presented within operating expenses). Right of use assets are depreciated over the lease term on a straight-line basis.

n) Taxation including deferred tax
Taxation in the income statement comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in equity.

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

RDEC is recognised as income in the year in which the R&D qualifying expenditure is recognised.

Corporation tax recoverable from losses accumulated in prior years is determined using the tax rate and legislation in force in the UK at the reporting date and is carried forward for future recovery when not fully utilised in the current period.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and losses can be utilised. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax is determined using tax rates and legislation in force at the reporting date and those expected to apply when the deferred tax asset is realised, or the deferred tax liability is settled.

o) Deposits from banks and customer deposits
Deposits from banks and customer deposits are measured at amortised cost using EIR, in accordance with IFRS 9. Deposits are initially recognised at fair value and are subsequently measured at amortised cost.

2. Accounting policies continued

p) Other liabilities

Other liabilities include funds in the course of collection for customers' accounts, settlement balances arising from the acquisition of debt securities, deferred consideration payable on loan book acquisitions, lease liabilities, employee taxes payable and accrued expenses. Accrued expenses include amounts incurred but unpaid for goods and services provided to the Group prior to the end of financial year. Deferred consideration is measured using the EIR method.

q) Deferred income

Deferred income represents fee income received on the Group's loans and advances to customers, RDEC claims received and other payments received which have not yet been recognised in the income statement. Fee income on loans and advances to customers is recognised across the expected life of the financial assets to which it relates using the EIR method. RDEC claims are recognised in accordance with IAS 20. Further information on deferred income is presented in note 22.

r) Provisions

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

Provision is made for ECL in respect of irrevocable undrawn loan commitments in accordance with IFRS 9 (see 2(g) above).

s) Contingent liabilities

Contingent liabilities occur during the ordinary course of business if the Group is subject to threatened or actual legal proceedings and a present obligation exists but payment is not probable or the amount cannot be measured reliably; or if there exists a possible obligation dependant on the occurrence of an uncertain future event. All such material cases are periodically assessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. The Group does not disclose amounts in relation to contingent liabilities associated with such claims or present obligations where the likelihood of any payment is remote or where such disclosure could be seriously prejudicial to the conduct of the claims.

t) Related party transactions

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

Key management personnel is defined as the Board, their spouses or partners and children and other dependents over whom the Board member can exert influence

2. Accounting policies continued

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

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

Defined contribution plans
Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as staff costs in operating expenses in the income statement. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Discretionary incentive plan
Under the discretionary incentive plan, eligible employees of the Bank are awarded cash, shares or share options. The awards made under the plan are, subject to the satisfaction of performance conditions, delivered in a combination of cash and share awards and are subject to deferral in line with regulatory requirements. When the share awards are delivered in the form of share options, the options are granted by the Bank at nil cost to the employees and accounted for under IFRS 2 as share-based payments.

Share-based payments
The Group applies IFRS 2 in accounting for share-based payments.

- Joint share ownership schemes
  Under the four JSOPs certain employees were awarded a beneficial interest in shares of the Bank therefore aligning the interests of key employees with the interests of shareholders. To fund the purchase, employees were granted a bonus (grossed up for income tax and national insurance) that was used by the employees to subscribe for the right to the beneficial interest at each award date.

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

The award of beneficial interests in the above three scheme types is considered as equity-settled. The fair values of equity-settled share-based payments are calculated at each grant date and recognised over a vesting period that matches the most likely date of a realisation event in line with the conditions of the awards. For awards with a grading vesting feature each instalment is recognised separately over the vesting period. The charge is recognised in staff costs in operating expenses in the income statement and adjusted for tax, where relevant, with a corresponding entry through the share awards reserves in the statement of financial position.

v) Employee benefit trust
Two separate EBTs have 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 EBTs have been included within these financial statements in accordance with IFRS 2 and are accounted for as an extension of the Company's own business.

w) 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 2024; the Group has not yet applied those new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements:
- Classification of liabilities as current or non-current (amendments to IAS 1);
- Non-current liabilities with covenants (amendments to IAS 1); and
- Lease liability in a sale and leaseback (amendment to IFRS 16).

Financial statements / Notes to the financial statements

3. Critical and other estimates and judgements

The preparation of these financial statements, in conformity with IFRS, requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of: (i) assets and liabilities at the date of the financial statements and (ii) revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant, although the amount, event or action, and ultimate result may differ from the estimates used. Sources of estimation uncertainty relate to assumptions and estimates at the end of the current reporting year that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Impairment of loans and advances to customers

Critical judgement:	Determining an appropriate definition of default (see note 2(g) above) against which PD, LGD and EAD can be evaluated. Determining whether credit risk has significantly increased since the loan was initially recognised (see note 2(g) above). The use of judgemental 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, and (ii) uncertainty over the impact of future economic forecasts.
Critical estimate:	Use of forward-looking adjustments and multiple economic scenarios including probability of impact.

The appropriateness of the models is kept under constant review and certain empirical data is used to refine the key estimates and judgments. The Group is exposed to credit risk across all of its financial asset classes, however its principal exposure to credit risk arises on the Bank's customer lending balances.

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(g) above for definition of default, and evaluation of PD, LGD and EAD.

The Bank has portfolios of loans outstanding to SME customers under the BBB coronavirus support schemes that were designed to support businesses dealing with the impact of COVID-19. The Bank has provided lending under the three UK government-backed lending schemes organically by the Bank and also non-organically via forward flow transactions. These UK government-backed lending schemes are covered by guarantees from the BBB (a wholly owned subsidiary of HM Treasury) that are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have been applied. The guarantee is 100% for BBLS, 80% for both CBILS and RLS (where RLS facility was committed before January 2022) and 70% for RLS facilities committed after January 2022. Lower LGDs are recognised for these UK government-backed lending schemes.

Forward-looking information and multiple economic scenarios including probability of impact
The Group incorporates forward-looking information into its assessment of measurement of ECL. The measurement of ECL is required to reflect an unbiased probability-weighted range of possible future outcomes. 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's judgement, is assigned to each scenario.

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

Financial statements / Notes to the financial statements

3. Critical and other estimates and judgements continued

a) Impairment of loans and advances to customers continued
The Group's 'base case' scenario 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 ECL for the Group's financial assets.

Scenarios and weightings are reviewed and approved for recommendation by the BRC. The Board, on recommendation of the BRC, adopts the final scenarios and weightings used in the Bank's ECL models.

The Bank currently uses four economic scenarios:

- Base case - In the base case, high BoE base rates, negative sentiment, weak manufacturing orders and a disappointing Chinese economy provide headwinds to growth over the coming quarters. Despite this, real GDP starts to improve slowly (but remains below potential), reaching 1.0% annual growth at the end of 2024, before a short slowdown to 0.9% by mid-2025. Despite the weak growth rate, the labour market remains tight as firms are still hesitant to lay off workers, leading to slow rises in unemployment, reaching 4.6% at the end of 2024 and 4.7% at the end of 2025. Core inflation is expected to remain stickier for some time, but is eventually outweighed by stagnating energy, food and goods prices. Headline inflation drops below the BoE's 2.0% target by midyear 2024, but will subsequently pick up its pace given the strength in wage growth, peaking at 2.63% in the fourth quarter. BoE base rate cuts are expected to start in the third quarter of 2024, reaching 4.5% by the end of the year, while the return to the long-run equilibrium rate of 2.3% is expected to be gradual, not being reached till mid-2026.
- Upside - The upside scenario assumes that the Russia-Ukraine war ends faster than anticipated as pandemic fears subside. This results in a boost in aggregate demand and expansion of aggregate supply. On the demand side, these positive developments relieve recession concerns, causing an uptick in consumer and business sentiment. On the supply side, improved energy security and a total removal of supply bottlenecks usher in a period of rapid productivity growth. These positive developments relieve recession concerns, with growth of 4.2% in 2024 and 1.6% in 2025. The BoE base rate begins to fall in the second half of 2024, before returning to 2.3% equilibrium in the third quarter of 2026. Unemployment falls, reaching a nadir of 3.8% in mid-2026.
- Downside - Global growth is weak and sentiment in Europe continues to worsen. The war in Ukraine continues and hampers the flow of commodities from the region. The BoE does not react fast enough to accommodate the slumping economy. Firms scale back investment plans and cut workforces, further weighing down the economy and leading to a mild recession. Real GDP growth reaches a low point of -2.8% in early 2025, before returning to growth in the fourth quarter. Unemployment rises to 5.0% by the end of 2024, remaining there throughout 2025 before returning to the equilibrium rate of 4.8% in late 2026. The BoE's slow reaction means its base interest rate only falls slightly faster than in the base case, reaching a low point of 1.7% in early 2026, before returning to a 2.3% equilibrium rate from mid-2027. Real HPI drops 7.8% between the first quarter of 2024 and 2025, before returning to growth at the end of the year.
- Severe downside - The global economy fails to pick up and sentiment plummets. Risk of NATO being drawn into the Russo-Ukrainian war becomes acute and US-China tensions lead to significant barriers to shipping. The global economy fails to pick up and sentiment plummets. Domestic political risks rise rapidly as populist parties seek to take advantage of disenchanted voters. This severe increase in geopolitical risk, along with a complete lack of confidence in the economy, leads to a sharp sell-off in financial markets. This results in a severe recession, with real GDP falling by 6.7% over the next 12 months, only returning to growth in mid-2026. Unemployment peaks at 8.7% and does not return to equilibrium rate for a decade. The BoE takes the base rate close to zero, with a nadir of 0.3% in mid-2026. Real house prices fall by 17.8% in the next year, only returning to growth from the end of 2026.

Further detail on the key economic variables for each scenario can be found overleaf.

Financial statements / Notes to the financial statements

3. Critical and other estimates and judgements continued

a) Impairment of loans and advances to customers continued

The table below shows the base case average for key macroeconomic variables used in the calculation of ECL. GDP and HPI represent the annual change in the year ending on 31 March. Unemployment rate is the average rate in the year ending on 31 March.

As at 31 March 2024	2024 %	2025 %	2026 %	2027 %
GDP	(0.17)	0.91	1.08	1.29
Unemployment rate	4.03	4.42	4.63	4.68
HPI	(1.01)	(0.94)	4.00	4.63

As at 31 March 2023	2023 %	2024 %	2025 %	2026 %
GDP	(0.40)	1.29	2.34	2.42
Unemployment rate	4.07	4.36	4.18	4.10
HPI	(4.79)	(3.30)	2.77	4.56

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

As at 31 March 2024	Upside %	Base case %	Downside %	Severe downside %
Scenario weighting	12.5	50.0	23.0	14.5
GDP – worst point	1.34	0.25	(2.79)	(7.67)
GDP – 4 year average	1.71	0.78	0.29	(0.69)
Unemployment rate – peak rate	4.23	4.71	5.05	8.67
Unemployment rate – 4 year average	4.00	4.44	4.66	6.54
HPI – worst point	1.25	(1.15)	(8.46)	(25.64)
HPI – 4 year average	5.29	1.67	(0.15)	(6.01)

As at 31 March 2023	Upside %	Base case %	Downside %	Severe downside %
Scenario weighting	10.0	37.5	37.5	15.0
GDP – worst point	0.17	(0.52)	(2.24)	(4.25)
GDP – 4 year average	0.56	0.40	0.34	0.27
Unemployment rate – peak rate	3.91	4.40	5.99	7.91
Unemployment rate – 4 year average	3.72	4.18	5.10	6.20
HPI – worst point	(1.50)	(8.08)	(13.22)	(23.24)
HPI – 4 year average	0.90	0.06	(0.58)	(1.09)

Financial statements / Notes to the financial statements

3. Critical and other estimates and judgements continued

a) Impairment of loans and advances to customers continued

The table below shows the macroeconomic variables used in the calculation of ECL. Annual paths show quarterly averages for the year ending on 31 March[1] (unemployment) or change in the year ending on 31 March[1] (GDP and HPI).

As at 31 March 2024		Upside %	Base case %	Downside %	Severe downside %
GDP	2024	(0.17)	(0.17)	(0.17)	(0.17)
	2025	4.44	0.91	(2.79)	(6.66)
	2026	1.33	1.08	2.64	(0.11)
	2027	1.24	1.29	1.46	4.15
Unemployment rate	2024	4.03	4.03	4.03	4.03
	2025	4.15	4.42	4.70	5.42
	2026	4.01	4.63	5.03	8.31
	2027	3.81	4.68	4.86	8.39
HPI	2024	(1.01)	(1.01)	(1.01)	(1.01)
	2025	12.99	(0.94)	(8.07)	(17.84)
	2026	7.15	4.00	3.20	(9.50)
	2027	2.02	4.63	5.27	4.30

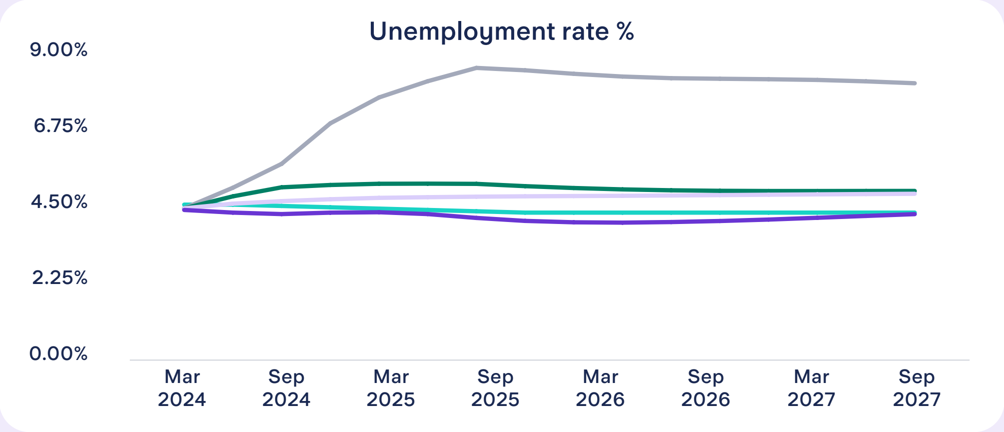
As at 31 March 2023		Upside %	Base case %	Downside %	Severe downside %
GDP	2023	0.52	(0.40)	(1.15)	(1.94)
	2024	2.76	1.29	(0.66)	(2.09)
	2025	2.55	2.34	2.79	2.71
	2026	2.33	2.42	3.62	4.55
Unemployment rate	2023	3.57	4.07	4.18	4.53
	2024	3.58	4.36	5.59	7.16
	2025	3.81	4.18	5.71	7.36
	2026	3.91	4.10	4.92	5.77
HPI	2023	(1.06)	(4.79)	(5.61)	(6.66)
	2024	4.63	(3.30)	(6.12)	(12.78)
	2025	4.88	2.77	(1.83)	(4.81)
	2026	4.38	4.56	2.91	5.25

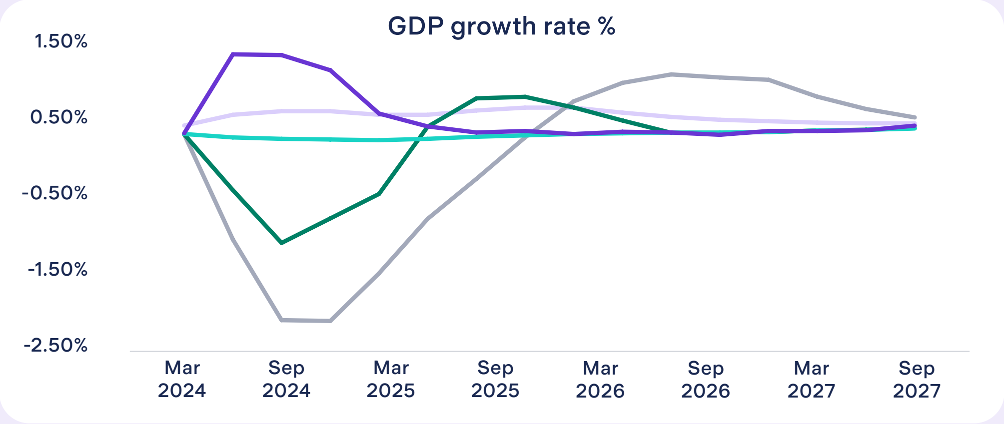
1 Comparative figures represent economic data for the year ending on 31 December.

Financial statements / Notes to the financial statements

3. Critical and other estimates and judgements continued

a) Impairment of loans and advances to customers continued
The following graphs show the forecast unemployment rate and quarterly percentage change in GDP for the Group's four economic scenarios along with prior year end base scenario for context.





Upside Base Downside Severe Prior year base

ECL sensitivity to economic assumptions
The calculation of credit impairment provisions is sensitive to changes in chosen weightings. The table following summarises the impact on the credit impairment provisions from the use of alternative scenario weightings. This table considers the impact on modelled impairment provisions only; judgemental adjustments of £6.0m (2023: £5.4m) are excluded. See page 189 for further detail of judgemental adjustments.

The probability-weighted modelled credit impairment provision of £41.9m is 8.5% higher than if it had been measured using only the base case scenario assumptions which result in an impairment provision of £38.6m.

The effect on the modelled provision of each portfolio as a result of applying 100.0% weighting to each is disclosed overleaf. Stage 3 modelled ECL is not materially sensitive to each scenario weighting.

Current year disclosures have been enhanced to provide sensitivity by stage 1 and stage 2. Prior year disclosures have not been enhanced.

Financial statements / Notes to the financial statements

3. Critical and other estimates and judgements continued

a) Impairment of loans and advances to customers continued

ECL sensitivities	31 March 2024			
	Mortgage £'000	Retail £'000	SME £'000	Total £'000
Exposure after guarantee:	3,829,403	28,416	89,518	3,947,337
Total ECL modelled impairment provision:				
Weighted	9,639	8,107	24,135	41,881
Upside	4,351	6,849	22,806	34,006
Base case	7,256	7,987	23,382	38,625
Downside	9,918	8,113	24,032	42,063
Severe downside	21,984	8,753	27,525	58,262
Total coverage ratio in each scenario:				
Weighted	0.25%	28.53%	26.96%	1.06%
Upside	0.11%	24.10%	25.48%	0.86%
Base case	0.19%	28.11%	26.12%	0.98%
Downside	0.26%	28.55%	26.85%	1.07%
Severe downside	0.57%	30.80%	30.75%	1.48%
Stage 1 ECL modelled impairment provision:				
Weighted	3,715	1,422	2,654	7,791
Upside	1,129	1,189	2,115	4,433
Base case	2,316	1,323	2,373	6,012
Downside	3,637	1,440	2,717	7,794
Severe downside	10,894	1,938	3,748	16,580
Stage 1 coverage ratio:				
Weighted	0.10%	5.00%	2.96%	0.20%
Upside	0.03%	4.18%	2.36%	0.11%
Base case	0.06%	4.66%	2.65%	0.15%
Downside	0.09%	5.07%	3.04%	0.20%
Severe downside	0.28%	6.82%	4.19%	0.42%

ECL sensitivities (continued)	31 March 2024			
	Mortgage £'000	Retail £'000	SME £'000	Total £'000
Stage 2 ECL modelled impairment provision:				
Weighted	1,560	663	3,503	5,726
Upside	551	612	2,712	3,875
Base case	1,062	643	3,030	4,735
Downside	1,539	652	3,336	5,527
Severe downside	4,181	793	5,797	10,771
Stage 2 coverage ratio:				
Weighted	0.04%	2.33%	3.91%	0.15%
Upside	0.01%	2.15%	3.03%	0.10%
Base case	0.03%	2.26%	3.38%	0.12%
Downside	0.04%	2.29%	3.73%	0.14%
Severe downside	0.11%	2.79%	6.48%	0.27%

ECL sensitivities	31 March 2023			
	Mortgage £'000	Retail £'000	SME £'000	Total £'000
Total ECL modelled impairment provision:				
Weighted	6,540	6,294	17,433	30,267
Upside	2,939	5,891	17,408	26,238
Base case	5,271	6,176	17,433	28,880
Downside	6,928	6,356	17,439	30,723
Severe downside	11,145	6,703	17,450	35,298

Financial statements / Notes to the financial statements

3. Critical and other estimates and judgements continued

a) Impairment of loans and advances to customers continued

ECL sensitivity to individual economic assumptions

The impact of changes in UK unemployment and the HPI on credit impairment provisions has also been assessed. The assessment has been made against the modelled base case provisions and therefore excludes PMAs with the reported staging unchanged.

The table below shows the potential impact on the Group's credit impairment provision resulting from a single factor change:

	31 March 2024 Mortgage	31 March 2023 Mortgage
Single factor sensitivity - 10% decrease in HPI	%	%
% increase in modelled ECL under the base scenario	46.8	59.7

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

	31 March 2024		31 March 2023	
	Retail	SME	Retail	SME
Single factor sensitivity - 1% increase in unemployment rate	%	%	%	%
% increase in modelled ECL under the base scenario	4.0	17.1	3.9	15.3

Changes to modelled ECL for judgemental adjustments

The IFRS 9 ECL models are subject to the Group's model governance framework with model monitoring and periodic validation.

The Group has adopted the terminology for impairment adjustments proposed by the Taskforce on Disclosures about Expected Credit Loss which restricts the use of the term 'PMA' to those adjustments calculated on an account by account basis and, therefore, it no longer uses that term for other judgemental adjustments.

The IFRS 9 ECL models are subject to the Group's model governance framework with model monitoring and periodic validation. Judgemental adjustments consist of PMAs and overlays to impairment model outputs which are applied in order to account for certain late breaking events, known model limitations or where management judges they are necessary, to ensure an adequate level of overall ECL provision to cover material or known and perceived risks.

As at 31 March 2024, impairment of loans and advances to customers included £6.0m (2023: £5.4m) of judgemental adjustments presented by sector in the table below.

Total impairment provisions	31 March 2024			
	Mortgage[1]	Retail[2]	SME[3]	Total
	£'000	£'000	£'000	£'000
ECL modelled impairment provisions	9,639	8,107	24,135	41,881
Other performance adjustments	2,227	(104)	1,971	4,094
Economic uncertainty adjustments	1,209	271	415	1,895
Total impairment provisions[4]	13,075	8,274	26,521	47,870

1 Mortgage other performance adjustments and economic uncertainty adjustments only relate to ECL on drawn balances.
2 Retail includes £(418)k of other performance adjustments, being a decrease to modelled ECL, and £5k of economic uncertainty adjustments, being an increase to modelled ECL, on undrawn ECL balances. All other adjustments relate to ECL on drawn balances.
3 SME other performance adjustments and economic uncertainty adjustments only relate to ECL on drawn balances.
4 Includes provisions for loans and advances to customers (note 13) and for undrawn facilities and loan commitments (note 23).

Total impairment provisions	31 March 2023			
	Mortgage[1]	Retail[2]	SME[3]	Total
	£'000	£'000	£'000	£'000
ECL modelled impairment provisions	6,540	6,294	17,433	30,267
Other performance adjustments	972	502	1,277	2,751
Economic uncertainty adjustments	518	574	1,512	2,604
Total impairment provisions[4]	8,030	7,370	20,222	35,622

1 Mortgage other performance adjustments and economic uncertainty adjustments only relate to ECL on drawn balances.
2 Retail includes £(340)k of other performance adjustments, being a decrease to modelled ECL, on undrawn balances. All other adjustments relate to ECL on drawn balances.
3 SME other performance adjustments and economic uncertainty adjustments only relate to ECL on drawn balances.
4 Includes provisions for loans and advances to customers (note 13) and for undrawn facilities and loan commitments (note 23).

Financial statements / Notes to the financial statements

3. Critical and other estimates and judgements continued

a) Impairment of loans and advances to customers continued

Changes to modelled ECL for judgemental adjustments continued

Judgemental adjustments to modelled outcomes as a percentage of overall impairment provisions have decreased in the current year, as management continues to develop and refine their ECL models and retire PMAs or overlays which have been built into the ECL model or have become insignificant.

Judgemental adjustment methodologies are subject to regular oversight and their outputs are reviewed, challenged and, where applicable, incorporated into future model development. All judgemental adjustments were subject to formal approval through the IFRS 9 provisioning governance at CRC, ERC, with scrutiny at BRC and final approval by the Board.

Judgemental adjustments to ECL includes:

Economic uncertainty adjustments

Pressures on the cost of living for certain customers due to increased inflation and interest rates are not fully captured within some model parameters. A retail overlay is maintained to identify accounts at risk of struggling to service their debt due to increased expenditure. Mortgage models are based on owner occupied data, which is less sensitive than BTL to downside economic inputs, so an uplift is applied to BTL modelled ECL. Certain economic response models within the SME portfolio omit interest rate data and an adjustment is applied to include the impact of interest rate data, which is now considered significant in the current economic climate. The total impact of these adjustments has decreased as some prior year adjustments recognised in respect of the cost of living challenges are now captured in rebuilt models.

Other Model Enhancements

Deferred calibrations

Deferred calibrations are judgemental adjustments where modelled PDs differ to the observed underlying portfolio performance over time. Periodically, historical data is reviewed against the model and a true up is calculated to better reflect the ECL until the model is next calibrated.

Other post model performance adjustments

These are PMAs which are individually insignificant but have a collective impact on ECL. The PMAs increase the ECL of loans which have certain flags at an individual level that are not fully reflected in the model. Most significantly they impact BTL mortgages. As Starling's provisioning methodology is primarily based on owner occupied data, the modelled ECL of certain BTL portfolios are benchmarked against available BTL bureau and other data to apply an uplift to ECL and, where applicable, staging. Other adjustments also include uplifts to ECL for loans with forbearance, high utilisation and balances which have been overdrawn for a significant time.

Financial statements / Notes to the financial statements

3. Critical and other estimates and judgements continued

b) Effective interest rate

Critical estimate: Estimation of future cash flows over the expected life of the instrument
The EIR is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the gross carrying amount of the financial asset or liability. The EIR method calculates the amortised cost of a financial asset or liability and allocates the interest income or expense over the relevant year.

The Group estimates cash flows considering all contractual terms and behavioural expectations of the financial instruments but does not consider future credit losses. In accordance with the EIR method, directly attributable upfront costs incurred and fees received are deferred and recognised through interest income on an effective interest basis over the life of the underlying asset or liability.

The EIR is determined at initial recognition based upon the Group's best estimate of the future cash flows of the financial instrument over its expected life. Where these estimates are subsequently revised, a present value adjustment to the carrying value of the asset is recognised in the income statement. Such adjustments can introduce income statement volatility and consequently the EIR method is a source of estimation uncertainty.

The Group acquired portfolios of mortgages from third parties in prior years. The mortgages were initially recognised in statement of financial position at fair value plus transactions costs. The difference between the initial carrying value of the assets and the principal balances is a fair value adjustment, which is amortised to the income statement as part of the EIR over the remaining expected life of the asset.

For mortgage lending, future expected cash flows are modelled for each portfolio of lending. Estimates are required for expected future payments of interest and capital, based on expected interest rates and the early redemption behaviour of customers.

For mortgage products the main accounting estimates and judgements when assessing the cash flows are the product life (including assumptions based on observed historic customer behaviour when in a SVR period) and the applicable SVR. This primarily involves assumptions of customer behaviour when a fixed rate product comes to an end and reverts to the applicable SVR. Changes to the BoE base rate have an impact on the SVR charged to customers and consequently on the Group's interest income.

The significant accounting estimates above are monitored on an ongoing basis to ensure they remain appropriate based on recent, observable customer behaviour, market data (such as market derived base rate forecasts) and take account of the competitive environment in which the Group operates.

On a regular basis, the Group reviews and, where necessary, updates its view of future behaviours across its various lending portfolios. As a result, management continues to make best estimates of future cash flows to take into account the impact of the changing economic environment, its historical experience of behaviours observed in each portfolio as well as idiosyncratic features of each product and new product features, such as the introduction of product switches on certain portfolios. During the year, management has revised its expectations of customers' future behaviour based on observed behaviours in response to idiosyncratic factors, such as the introduction of product switches, and changing UK economic environment. As a result of this revision, for 81.2% of the Bank's mortgage portfolios the estimated time customers spend on the reversionary rate, being a higher standard variable rate applicable after the fixed period ends, was reduced from an average of 48.8% loan balances remaining 3 months after reversion, to 0.0% remaining after 3 months. This change resulted in an adverse adjustment of £26.7m in the current year NII. Across the Bank's total mortgage portfolios, current average assumptions are that customers enter reversion with an average of 88.6% of their balance outstanding, which then decreases to an average balance of 5.2% remaining after 3 months. Previously the average assumption was that 88.1% of balances were outstanding at the point of reversion with 49.5% of balances remaining after 3 months. EIR related balances included in the amortised cost of loans and advances to customers include EIR interest adjustments, deferred fees and fair value acquisition adjustments. Due to the above £26.7m adjustment and on-going fee income deferral, the overall EIR related asset balances of £25.9m as at 31 March 2023 are now overall EIR related liability balances of £18.4m.

Sensitivity analysis undertaken shows that a reduction to a one month reversionary period in the expected life of the mortgage portfolios would result in a reduction of £8.5m in the carrying value of the mortgage portfolios. An increase in the reversionary period to six months would result in an increase of £6.8m in the carrying value of the mortgage portfolios.

Financial statements / Notes to the financial statements

4. Net interest income

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Cash and balances at central banks[1]	302,538	135,808	302,490	135,790
Loans and advances to banks[1]	1,933	388	1,933	388
Debt securities[2]	140,908	52,091	140,908	52,091
Loans and advances to customers[1]	261,465	214,816	249,064	211,793
Intercompany loans[1]	–	–	1,583	30
Economic hedging derivatives[3]	47,964	–	47,964	–
Interest income	**754,808**	403,103	**743,942**	400,092
Customer deposits[1]	(40,464)	(2,006)	(40,464)	(2,006)
Deposits from banks[1]	(121,473)	(52,252)	(121,473)	(52,252)
Interest expense	**(161,937)**	(54,258)	**(161,937)**	(54,258)
Net interest income	**592,871**	348,845	**582,005**	345,834

1 The calculation of interest income on all items apart from debt securities uses the EIR method. This line includes interest on swaps entered to hedge the interest rate risk of the underlying item, except for intercompany loans.

2 The calculation of interest income from debt securities uses the effective yield to maturity method, which includes all amounts received or paid by the Group that are an integral part of the overall return including direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts. This line also includes interest on swaps entered to hedge the interest rate risk of the underlying item.

3 This line item refers to interest on derivatives which are economically hedging interest-bearing assets or liabilities but which are not in designated hedge relationships.

5. Net fees and commissions

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Customer card transaction revenue	99,697	93,248	99,697	93,248
Payment and platform services	2,385	3,621	2,385	3,621
Other fees and commission income	10,775	10,717	10,775	10,717
Loan origination and servicing fee income	4,338	4,827	–	–
Software as a Service revenue[1]	2,272	–	–	–
Fees and commissions income	**119,467**	112,413	**112,857**	107,586
Loan service and other loan related fees	(13,966)	(17,422)	(17,517)	(18,900)
Customer card transaction costs	(15,316)	(15,550)	(15,316)	(15,550)
Clearing house fees	(376)	(198)	(376)	(198)
Payment systems and other related costs	(5,386)	(4,853)	(5,386)	(4,853)
Fees and commissions expense	**(35,044)**	(38,023)	**(38,595)**	(39,501)
Net fees and commissions	**84,423**	74,390	**74,262**	68,085

1 Software as a Service revenue relates to income earned from external customers by Engine.

Financial statements / Notes to the financial statements

6. Other (expense)/income

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Intercompany recharges	–	–	32,014	28,999
Net fair value (loss)/gain from hedging	(27,746)	(7,271)	(27,746)	(7,271)
Ineffectiveness arising from fair value hedges	3,843	(1,972)	3,843	(1,972)
Ineffectiveness arising from cash flow hedges	252	213	252	213
Other hedging movements	(31,841)	(5,512)	(31,841)	(5,512)
Net (loss)/gain from foreign exchange	(4,045)	(2,007)	(4,044)	(2,007)
Dividend income	–	–	8,650	16,800
Other operating income	1,615	857	1,404	–
Other (expense)/income	(30,176)	(8,421)	10,278	36,521

The net fair value (loss)/gain from hedging arises from hedge ineffectiveness on designated hedges, amortisation of hedge adjustments on de-designated hedge relationships well as gains/(losses) on derivatives in economic hedge relationships that do not qualify for hedge accounting.

Ineffectiveness arising from fair value hedges relates to differences in the fair values of designated interest rate risk exposures and the derivatives executed to hedge these.

Ineffectiveness arising from cash flow hedges relates to the excess of derivative movement over the movement of the hedged item. The effective portion of the hedging swap is recognised in other comprehensive income, and the ineffective portion is recognised in other (expense)/income.

Hedge ineffectiveness is driven by differences between hedged items and hedging derivatives, primarily timing differences of cash flows, differences in payment frequencies and basis differences.

Other hedging movements include gains/(losses) from derivatives which are economically hedging fixed interest rate risk, but have not been designated in a hedge relationship. These derivatives have been excluded from a hedge relationship because an offsetting derivative has been identified, such that the net volatility from these derivatives is minimal. It has been possible to net offsetting derivatives due to the execution of receive fixed swaps executed as part of the structural hedge, which provided an offset to the pay fixed swaps hedging fixed rate assets (refer to note 12 for further detail). The unwind of fair value on swaps which have been de-designated from hedge relationships, and the offsetting unwind of the de-designated hedge adjustment, are also reported in other hedging movements. These are largely offsetting over the life of the hedged item but there will be year on year timing differences. The current year loss will be offset by future gains as the position unwinds back to zero.

Other hedging movements additionally include the unwind of fair value adjustments for redesignated hedge relationships over the remaining term of the underlying hedged item.

Financial statements / Notes to the financial statements

7. Operating expenses

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Staff costs	230,381	136,369	214,517	122,837
Marketing	35,994	29,766	35,109	29,301
Professional services	21,666	15,567	21,360	15,243
Card related costs	9,109	10,469	8,861	10,176
Technology	27,762	16,167	24,983	13,827
Premises	3,760	2,398	3,107	1,814
Depreciation and amortisation	16,807	10,953	4,405	2,764
Impairment of intangible assets	445	626	–	–
Other expenses	29,373	19,142	46,227	30,304
Expenses qualifying for capitalisation	(43,167)	(20,783)	–	–
Operating expenses	**332,130**	220,674	**358,569**	226,266
Credit for eligible spend on staff costs	–	(8,133)	–	(8,133)
Credit for eligible spend on other administrative expenses	–	(2,314)	–	(2,314)
Credit for eligible spend	–	(10,447)	–	(10,447)
Operating expenses net of grants	332,130	210,227	358,569	215,819

1 Includes interest expense on lease liabilities of £0.3m (2023: £0.2m).

Expenses qualifying for capitalisation of £43.2m (2023: £20.8m) relate primarily to costs incurred during the year in the development of Starling's banking app and core banking system, and were capitalised in accordance with IAS 38 as intangible assets (see note 17).

Credits for eligible spend in prior year relates to qualifying expenditure under the CIF grant. The Group received a grant of £100m in 2019 to facilitate the development of a more advanced banking offering for SMEs. In 2024 no CIF credit has been recognised in the income statement as the grant was fully utilised as at 31 March 2023.

Depreciation and amortisation

Included within operating expenses are depreciation and amortisation expenses, which contain the following amounts:

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Amortisation of intangible assets	11,895	7,762	1	2
Depreciation of tangible fixed assets	2,360	1,382	2,100	1,187
Depreciation of right to use assets	2,552	1,809	2,304	1,575
Depreciation and amortisation	16,807	10,953	4,405	2,764

Audit fees

Included within operating expenses are the following amounts for audit and non-audit fees:

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Audit of consolidated financial statements	2,230	2,033	2,230	2,033
Audit of the financial statements of the subsidiaries	110	67	–	–
Total audit fees	2,340	2,100	2,230	2,033
Interim profit verification fees	171	161	171	161
Non-audit - other assurance services	44	–	44	–
Total non-audit fees	215	161	215	161

Financial statements / Notes to the financial statements

7. Operating expenses continued

Staff costs

Included within operating expenses are the following amounts for staff costs:

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Salaries, wages and other costs	201,913	118,997	190,239	107,960
Social security costs	17,731	12,549	16,292	11,240
Performance-based compensation	5,336	1,344	3,854	1,275
Pension contributions	5,401	3,479	4,132	2,362
Staff costs	230,381	136,369	214,517	122,837

The total average number of persons employed by the Group by function is shown below.

	Group 31 March 2024	Group 31 March 2023	Company 31 March 2024	Company 31 March 2023
Operations and front office	2,375	1,730	2,245	1,613
Back office functions	828	547	761	517
Management	28	31	19	21
Total average number of employees	3,231	2,308	3,025	2,151

Discretionary incentive scheme

During the year Starling introduced a new employee discretionary incentive scheme to attract, retain and incentivise select senior staff and key talent, and align their interests with the creation of shareholder value. Awards made under the plan are subject to the satisfaction of performance conditions and delivered in a combination of cash and share awards and are subject to deferral, in line with regulatory requirements. The following table shows the reconciliation of total cash awarded to the income statement charge recognised under performance-based compensation staff costs.

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Cash incentive approved in the current year	2,706	–	2,312	–
Less: deferred cash incentive awarded, expected to be recognised in future periods	(588)	–	(588)	–
Total cash incentive awarded and recognised in the current year	2,118	–	1,724	–

Financial statements / Notes to the financial statements

7. Operating expenses continued

The tables below are prepared in accordance with the requirements of The Large and Medium-sized Companies (Accounts and Reports) Regulations 2008.

Director emoluments

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Wages and salaries[1]	5,080	2,639	5,080	2,639
Performance-based compensation[2]	1,620	299	1,620	299
Pension contributions	4	1	4	1
Director emoluments	6,704	2,939	6,704	2,939
Wages and salaries[3]	2,326	1,035	2,326	1,035
Highest paid director emoluments	2,326	1,035	2,326	1,035

1 Included in wages and salaries is £1.5m in relation to other compensation paid during the year ended 31 March 2024.
2 Included in performance-based compensation is £0.6m relating to share awards granted in 2024 in relation to the 2023 performance year.
3 Included in wages and salaries is £1.4m in relation to other compensation paid during the year ended 31 March 2024.

No employees who served as Executive Directors during the year have a right to amounts under any final salary pension scheme for their services. Two Directors participate in the Bank's defined contribution pension arrangements. The Directors did not exercise share options during the year. During the year one Director received a share award under a long-term incentive plan that relates to the prior performance year.

8. Impairment and charge-offs

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Loans and advances to customers	12,433	8,682	12,433	8,682
Undrawn overdraft facilities and loan commitments	(185)	(132)	(185)	(132)
Total impairment charge	12,248	8,550	12,248	8,550
Amounts charged-off	1,641	1,441	1,641	1,441
Total impairment and charge-offs	13,889	9,991	13,889	9,991

9. Taxation

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Current tax				
Corporation tax	68,523	31,242	78,170	33,463
Adjustments in respect of prior period	8,046	(1,181)	425	(1,142)
Tax expense	76,569	30,061	78,595	32,321
Deferred tax				
Deferred taxes recognised in income statement	13,579	20,980	(503)	20,489
Adjustments in respect of prior period	(9,046)	(243)	3	24
Effect of tax rate changes	(4)	942	–	230
Tax charge recognised in income statement	81,098	51,740	78,095	53,064
Reconciliation of tax charge				
Profit before taxation	301,099	194,596	292,233	221,684
Tax expense at the standard rate of 25% (2023: 19%)	75,275	36,973	73,058	42,120
Effects of:				
Surcharge	5,697	12,225	5,697	12,225
Non-taxable income	(232)	(339)	(2,163)	(3,192)
Expenses not deductible for tax purposes	1,155	710	1,129	917
Deferred tax not recognised	247	269	–	–
Deferred tax recognised	–	571	–	452
Tax rate changes	(44)	2,755	(54)	1,660
Prior period adjustment	(1,000)	(1,424)	428	(1,118)
Tax charge recognised in income statement	81,098	51,740	78,095	53,064
Effective tax rate	26.9%	26.6%	26.7%	23.9%

The standard rate of corporation tax increased to 25% effective from 1 April 2023 (2023: 19%). The Company's current tax expense of £78.6m (2023: £32.3m) includes the tax value of Group relief claims made of £9.9m (2023: £3.2m) to Starling FS Services Ltd.

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates. However, this legislation does not apply to the Group for the period ended 31 March 2024, due to falling below the required reporting thresholds.

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10. Analysis of cash and cash equivalents

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Cash and balances at central banks	6,420,115	6,076,284	6,420,115	6,076,284
Less cash ratio deposit	–	(33,985)	–	(33,985)
Loans and advances to banks	36,879	33,420	35,441	29,151
Debt securities (less than three months)	–	26,371	–	26,371
Cash and cash equivalents	**6,456,994**	6,102,090	**6,455,556**	6,097,821

The cash ratio deposit, previously held with the BoE in accordance with statutory requirements, was repaid during the year. This deposit was not available to finance the Group's day-to-day operations and was excluded from cash and cash equivalents in the prior year.

As at 31 March 2024, the Group has no highly liquid financial assets with an original maturity of less than 3 months. (2023: £26.4m).

11. Debt securities

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Issued by governments and supranational bodies	1,535,013	1,544,706	1,535,013	1,544,706
Covered bonds issued by banks and building societies	1,109,808	925,494	1,109,808	925,494
RMBS issued by banks and building societies	675,881	48,040	675,881	48,040
Gross debt securities	**3,320,702**	2,518,240	**3,320,702**	2,518,240
Fair value adjustment for hedged risk	(35,835)	(38,690)	(35,835)	(38,690)
Debt securities	**3,284,867**	2,479,550	**3,284,867**	2,479,550

The impact of ECL impairment requirements on the Group's debt securities is immaterial. The Group has reviewed each asset within its debt securities portfolio to ensure that the underlying assets remains of at least investment grade quality (see credit quality disclosures on page 96 of the risk report) and that there have been no breaches of covenants within the individual instruments.

The Group has interests in unconsolidated structured entities not controlled by the Group and established by a third party. The Group is exposed to variable returns arising from the performance of the entities. Such interests relate to holdings of RMBS debt securities. The Group's maximum exposure to loss related to interests in unconsolidated structured entities is £675.9m (2023: £48.0m) of which £115.2m (2023: £–m) relates to RMBS where the underlying mortgages are serviced by Fleet. No impairment charge has been recognised in relation to these RMBS securities. The Group does not sponsor any of the unconsolidated structured entities.

Financial statements / Notes to the financial statements

12. Derivatives

Group/Company 31 March 2024	Fair value of assets £'000	Fair value of liabilities £'000	Notional amount £'000
Hedge accounting derivatives			
Fair value hedges - interest rate swaps	91,607	(29,641)	2,984,000
Cash flow hedges - interest rate swaps	22,355	(956)	2,046,000
Derivatives not in hedge accounting relationships			
Interest rate swaps	132,575	(20,291)	6,092,000
FX forwards	4	(529)	316,986
Derivative assets/(liabilities) and notional	246,541	(51,417)	11,438,986

Group/Company 31 March 2023	Fair value of assets £'000	Fair value of liabilities £'000	Notional amount £'000
Hedge accounting derivatives			
Fair value hedges - interest rate swaps	221,120	(52,115)	4,486,000
Cash flow hedges - interest rate swaps	549	(1,887)	210,000
Derivatives not in hedge accounting relationships			
FX forwards	105	(1,450)	262,832
Derivative assets/(liabilities) and notional	221,774	(55,452)	4,958,832

Derivatives are used primarily to mitigate the interest rate risk on the Group's fixed rate lending, investment portfolio, fixed term deposits and core deposits. These derivatives are either designated in a hedge accounting relationship, or allocated to a netting book. The netting book contains non-hedge accounted economic hedging derivatives which have a net minimal risk exposure, and so do not require the application of hedge accounting. Starling does not take proprietary or trading positions. In addition to netting book swaps, other non-hedge accounted derivatives are forward FX transactions that are executed as part of an FX swap to manage the Group's short-term liquidity in Euro, US dollar and other non-functional currencies. Within the Group, derivatives are currently only held by the Bank.

Derivatives and hedge accounting

In addition to hedging fixed rate lending, investment portfolio and fixed rate deposits, in the current year the Group has also entered into £5.0bn of receive-fixed pay-floating interest rate swaps as part of a structural hedge of core deposits. Where possible, these swaps have been allocated to the netting book. The residual swaps have been designated in a cash flow hedge of the floating rate cash flows on cash and balances at central bank and debt securities, as permitted under IAS 39.

Economic hedges

In the current year some of the structural hedge swaps were designated in a hedge relationship, however in certain cases these swaps offset with existing pay-fixed swaps hedging fixed rate assets. In these circumstances, these swaps were not designated in a hedge relationship and instead were allocated to a netting book, where minimal net risk ensures minimal income statement volatility,

Macro fair value hedge accounting – fixed rate lending/deposits and debt securities

The Group manages the interest rate risk arising from fixed rate loan books, fixed rate term deposits 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 products being originated, repayments/withdrawals by customers and customer defaults. As the resulting interest rate risk profile is dynamic, the Group enters into new swap agreements each month to hedge the interest rate risk component within the exposure profile. The Group uses a portfolio approach to assess the fair value of hedged items 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 items, to reduce the volatility in the income statement that would otherwise occur from changes in the fair value of the interest rate swaps alone. The Group assess the effectiveness of the hedge relationship retrospectively at the end of each month using the dollar-offset method. The Group de-designates and re-designates the portfolio fair value hedge on a monthly basis and the hedge relationship is reassessed prospectively at the start of each month using the dollar-offset method.

The Group assesses hedge ineffectiveness on an ongoing basis. Hedge ineffectiveness can arise and is recognised as other income/(expense) in the income statement. The main sources of ineffectiveness in portfolio fair value hedges of interest rate risk are maturity mismatch and cash flow timing mismatch between the hedged item and the hedging instrument.

Financial statements / Notes to the financial statements

12. Derivatives continued

Cash flow hedge accounting – cash and balances at central bank and debt securities
During the year the Group entered into interest rate swaps for a structural hedge of rate insensitive non-maturing customer deposits. These swaps are designated as a hedge of variable rate cash at central banks and floating rate debt securities, as permitted under IAS 39. The underlying interest rate on the designated cash at central banks is base rate, and on the debt securities it is the Sterling overnight rate. As at 31 March 2024, the maximum maturity of hedged forecast cash flows is five years.

The Group assesses effectiveness prospectively at the start of each month on a dollar offset basis, and retrospectively at the end of each month using a statistical regression analysis. The main sources of ineffectiveness in these hedges of interest rate risk arise from basis mismatch and cash flow timing mismatch between the hedged item and the hedging instrument.

Hedging instruments

The following table sets out the maturity profile and average fixed interest rate of the hedging instruments used in the Group's hedge accounting strategies. As there is no difference in derivatives for Group or Company the tables below do not distinguish between the two.

31 March 2024	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years
Fair value hedges:					
Interest rate swaps					
Notional (£'000)	145,000	675,000	762,000	1,278,000	124,000
Average fixed interest rate %	1.3	3.9	2.4	3.6	1.9
Cash flow hedges:					
Interest rate swaps					
Notional (£'000)	116,000	397,000	1,028,000	505,000	–
Average fixed interest rate %	5.5	5.3	5.0	4.7	–

31 March 2023	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years
Fair value hedges:					
Interest rate swaps					
Notional (£'000)	334,000	721,000	1,165,000	2,156,000	110,000
Average fixed interest rate %	1.1	1.1	1.7	3.3	2.9
Cash flow hedges:					
Interest rate swaps					
Notional (£'000)	–	–	10,000	200,000	–
Average fixed interest rate %	–	–	4.6	3.9	–

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

31 March 2024	Notional amount £'000	Fair value of assets[1] £'000	Fair value of liabilities[1] £'000	Change in fair value credit[2] £'000	Hedge ineffectiveness credit[3] £'000
Interest rate swaps	**2,984,000**	**91,607**	**(29,641)**	**(5,017)**	**(3,843)**

1 Included in the derivative assets/derivative liabilities lines in the statement of financial position.
2 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and which was recognised in the income statement during the year in other (expense)/income.
3 The amount of hedge ineffectiveness recognised in the income statement in the year. The income statement line that includes the hedge ineffectiveness recognised during the year is other (expense)/income.

31 March 2023	Notional amount £'000	Fair value of assets[1] £'000	Fair value of liabilities[1] £'000	Change in fair value credit[2] £'000	Hedge ineffectiveness charge[3] £'000
Interest rate swaps	4,486,000	221,120	(52,115)	(64,107)	1,972

1 Included in the derivative assets/derivative liabilities lines in the statement of financial position.
2 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and which was recognised in the income statement during the year.
3 The amount of hedge ineffectiveness recognised in income statement in the year. The income statement line that includes the hedge ineffectiveness recognised during the year is other (expense)/income.

Financial statements / Notes to the financial statements

12. Derivatives continued

The tables below provides further detail on the Group's cash flow hedges used in hedge relationships.

31 March 2024	Notional amount £'000	Fair value of assets[1] £'000	Fair value of liabilities[1] £'000	Change in fair value recognised in OCI[2] £'000	Loss reclassified from OCI to income statement £'000	Hedge ineffectiveness credit[3] £'000
Interest rate swaps	2,046,000	22,355	(956)	(37,867)	(160)	(252)

1 Included in the derivative assets/derivative liabilities lines in the statement of financial position.
2 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and is recognised in net gains/(losses) from changes in fair value line of other comprehensive income.
3 The amount of hedge ineffectiveness recognised in the income statement in the year. The income statement line that includes the hedge ineffectiveness recognised during the year is other Income/(expense).

31 March 2023	Notional amount £'000	Fair value of assets[1] £'000	Fair value of liabilities[1] £'000	Change in fair value recognised in OCI[2] £'000	Loss reclassified from OCI to income statement £'000	Hedge ineffectiveness credit[3] £'000
Interest rate swaps	210,000	549	(1,887)	16,674	(2,443)	(213)

1 Included in the derivative assets/derivative liabilities lines in the statement of financial position.
2 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness and is recognised in net gains/(losses) from changes in fair value line of other comprehensive income.
3 The amount of hedge ineffectiveness recognised in the income statement in the year. The income statement line that includes the hedge ineffectiveness recognised during the year is other income.

Financial statements / Notes to the financial statements

12. Derivatives continued

The tables below provide further detail on the Group's hedged items.

31 March 2024	Carrying amount of hedged item asset/ (liability) £'000	Fair value adjustment on hedged item asset/ (liability) £'000	Amount remaining on items de-designated from hedge relationships[5] £'000	Change in value of hedged item used to determine hedge ineffectiveness[6] £'000
Fair value hedges				
Fixed rate loans and advances to customers[1]	1,188,493	115,598	123,514	3,348
Debt securities[2]	510,000	35,835	40,030	(1,787)
Fixed term deposits[3]	(331,998)	(516)	(516)	(387)
Total fair value hedges	1,366,495	150,917	163,028	1,174
Cash flow hedges				
Cash and balances at central banks[4]	1,320,000	–	(662)	(35,820)
Floating rate debt securities[2]	726,000	–	–	(1,257)
Total cash flow hedges	2,046,000	–	(662)	(37,077)

1 Included within loans and advances to customers line in statement of financial position.
2 Included within debt securities line in statement of financial position.
3 Included within customer deposits line in statement of financial position.
4 Included within cash and balances with central banks line in statement of financial position.
5 The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for fair value hedges or in the cash flow hedging reserve for cash flow hedges, for any hedged items to have ceased to be adjusted for hedging gains and losses.
6 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness which was recognised in the income statement during the year.

31 March 2023	Carrying amount of hedged item asset/ (liability) £'000	Fair value adjustment on hedged item asset/ (liability) £'000	Amount remaining on Items de-designated from hedge relationships[3] £'000	Change in value of hedged Item used to determine hedge Ineffectiveness[4] £'000
Fair value hedges				
Fixed rate loans and advances to customers[1]	3,943,000	126,063	155,683	53,531
Fixed rate debt securities[2]	543,000	38,689	43,470	12,747
Total fair value hedges	4,486,000	164,752	199,153	66,278
Cash flow hedges				
Deposits from banks	(210,000)	–	11,109	16,461
Total cash flow hedges	(210,000)	–	11,109	16,461

1 Included within loans and advances to customers line in statement of financial position.
2 Included within debt securities line in statement of financial position.
3 The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for fair value hedges.
4 The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness which was recognised in the income statement during the year.

Financial statements / Notes to the financial statements

12. Derivatives continued

The table below provides an analysis of the movements in the cash flow hedging reserve during the period.

Cash flow hedging reserve	31 March 2024 £'000	31 March 2023 £'000
Opening balance as at 1 April	10,246	–
Effective portion of changes in fair value of interest rate swaps	(37,867)	16,674
Amounts reclassified from reserves to income statement	(160)	(2,443)
Taxation	10,648	(3,985)
Closing balance as at 31 March	(17,133)	10,246

The Group has no outstanding exposures to the benchmark interest rate LIBOR.

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13. Loans and advances to customers

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Mortgage lending	**3,829,403**	3,436,789	**3,829,403**	3,436,789
Owner occupied	**1,020,426**	1,367,621	**1,020,426**	1,367,621
Buy-to-let	**2,808,977**	2,069,168	**2,808,977**	2,069,168
SME lending	**831,894**	1,404,301	**831,894**	1,404,301
BBLS	**544,388**	943,529	**544,388**	943,529
CBILS	**187,997**	322,779	**187,997**	322,779
RLS	**96,882**	136,529	**96,882**	136,529
SME term loans	**2,007**	1,015	**2,007**	1,015
Overdrafts	**620**	449	**620**	449
Retail lending	**28,416**	32,543	**28,416**	32,543
Term loans	**7,535**	14,615	**7,535**	14,615
Overdrafts	**20,881**	17,928	**20,881**	17,928
Gross loans and advances to customers	**4,689,713**	4,873,633	**4,689,713**	4,873,633
Less total impairment provisions	**(46,963)**	(34,530)	**(46,963)**	(34,530)
Impairment provisions for mortgage lending	**(12,884)**	(7,853)	**(12,884)**	(7,853)
Impairment provisions for SME lending	**(26,468)**	(20,181)	**(26,468)**	(20,181)
Impairment provisions for retail lending	**(7,611)**	(6,496)	**(7,611)**	(6,496)
Net loans and advances to customers	**4,642,750**	4,839,103	**4,642,750**	4,839,103
Accrued interest	**10,511**	18,957	**10,511**	18,957
Fair value adjustment for hedged risk	**(115,598)**	(126,063)	**(115,598)**	(126,063)
Loans and advances to customers[1]	**4,537,663**	4,731,997	**4,537,663**	4,731,997

1 Included within loans and advances to customers, are loans acquired from third parties under forward flow arrangements of £615.9m (2023: £991.3m), loan portfolios acquired not under forward flow arrangements of £1,176.3m (2023: £1,347.6m) and organic loans of £2,745.4m (2023: £2,393.0m).

SME lending includes gross balances of £742.4m (2023: £1,280.4m) guaranteed by the BBB (backed by HM government). In 2020, the Bank began participating in two UK government-backed lending schemes: BBLS and CBILS, followed by RLS In April 2021. All of these schemes closed in previous years.

The 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 UK government pays 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 UK government guarantee of 100% is provided under the scheme to the Bank by the BBB. The Bank began making claims to the BBB under the guarantee received from HM government in 2021. The Bank has considered the risk that there is a possibility that there may be some exposures where the Bank might not be able to call on the UK government guarantee. The Bank has mitigated this risk through a number of internal actions which include scheme eligibility assessments for individual loans and proactive discussions with the BBB.

The CBILS provided SME customers with loans of up to £500k for a maximum term of six years, provided certain criteria were met. Interest is charged between 3.5% and 9.9% above the BoE base rate and no capital repayment is required by the customer for the first 12 months of the scheme. A UK government guarantee of 80% is provided under the scheme to the Bank by the BBB.

The RLS provides SME customers with loans from £25k up to £350k for a maximum term of 6 years, provided certain criteria were met. Interest is charged between 5.3% and 12.1%. A UK 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 BBB.

13. Loans and advances to customers continued

Provisions for impairment on loans and advances to customers

The following table shows the movement on provisions for impairments on loans and advances to customers.

Group/Company	Impairment provisions £'000
As at 31 March 2022	25,848
Charge for the period	10,123
Amounts charged-off[1]	(1,441)
As at 31 March 2023	34,530
Charge for the year	**14,074**
Amounts charged-off[1]	**(1,641)**
As at 31 March 2024	**46,963**

1 Lending charged-off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The cumulative contractual amount outstanding on loans and advances that have been charged-off but are still subject to enforcement activity is £4.5m (2023: £3.6m).

See note 3(a) and pages 95 to 129 of the risk report for further information on the Group's provision for impairment on loans and advances to customers.

The Bank participated in certain government backed/sponsored COVID-19 pandemic lending schemes, including the BBLS. This required the Company to operationalise the BBLS and release funds to customers quickly and efficiently in accordance with the overarching aims of the BBLS and the specific terms of the BBLS guarantee agreement and supporting documentation. In this context, the Company may be exposed to certain risks arising from the requirements of the BBLS guarantee agreement, which in turn could affect the Company's ability to claim under the guarantee agreement in respect of certain loans made to customers. In 2024, a provision for £2.1m was recognised in relation to certain loans provided by the Company under the BBLS, where the relevant facility guarantees provided under the BBLS guarantee agreement may no longer be available to the Company.

Off balance sheet loan commitments

At the reporting date, the Group has the following off balance sheet loan commitments.

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	**Company 31 March 2024 £'000**	Company 31 March 2023 £'000
Mortgage commitments	**125,316**	146,872	**125,316**	146,872
Undrawn credit facilities	**79,649**	79,016	**79,649**	79,016
Loan commitments	**204,965**	225,888	**204,965**	225,888

Under IFRS 9, an impairment provision is calculated on undrawn credit facilities and irrevocable loan commitments, see note 23.

14. Other assets

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	**Company 31 March 2024 £'000**	Company 31 March 2023 £'000
Payment scheme collateral[1]	**38,142**	37,127	**38,142**	37,127
Prepayments	**13,645**	10,824	**11,479**	9,262
Deferred lending fee expense	**13,704**	11,026	**13,563**	15,318
Settlement balances in the course of collection	**12,445**	4,760	**12,445**	4,760
Other assets	**22,111**	8,114	**12,409**	661
Other assets	**100,047**	71,851	**88,038**	67,128

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.

Other assets have been assessed for impairment with no provision considered necessary (2023: £–m).

Financial statements / Notes to the financial statements

15. Investment in subsidiaries and intercompany account

Investment in subsidiaries

	31 March 2023 £'000	Movement during year £'000	**31 March 2024 £'000**
Starling FS Services Limited	–	–	**–**
Murmur Financial Services International DAC	–	–	**–**
MFSI Holdings Limited	–	–	**–**
Fleet Mortgages Limited	50,171	–	**50,171**
Engine by Starling Limited	–	–	**–**
Murmur Financial Services Limited	–	–	**–**
Investment in subsidiaries	50,171	–	**50,171**

As at 31 March 2024, the parent company has three direct (2023: three) and three indirect (2023: two) wholly owned subsidiary companies.

Starling FS Services Limited
The Company has a 100% interest in Starling FS Services Limited registered in England and Wales (5th Floor, London Fruit and Wool Exchange, 1 Duval Square, London E1 6PW, registration number 10091094). The issued ordinary share capital is £1 nominal value. This subsidiary was established in 2016 to design, specify, build, test and implement banking software and it operates from the same premises as its parent. It owns and licenses the use of the software that powers the Group's technology platform to Starling Bank Limited and to Engine by Starling Limited.

Fleet Mortgages Limited
In July 2021, the Company acquired a 100% interest in Fleet Mortgages Limited registered in England and Wales (2nd Floor Flagship House, Reading Road North, Fleet, Hampshire, GU51 4WP, registration number 08663979). The issued ordinary share capital is £41,053 nominal value. The fair value of consideration transferred of £50,171k was recognised as an investment at acquisition. This subsidiary was acquired to help establish the Group's entrance into the mortgage market. The subsidiary originates, sells and services BTL mortgage loans granted primarily to professional and semi-professional landlords.

Engine by Starling Limited
The Company has a 100% indirect interest in Engine by Starling Limited registered in England and Wales (5th Floor, London Fruit and Wool Exchange, 1 Duval Square, London E1 6PW, registration number 13925405). Incorporated in February 2022, this company is a direct subsidiary of Starling FS Services Limited. The issued ordinary share capital is £1 nominal value. This subsidiary is the vehicle through which the Group sells its SaaS product, based on the proprietary technology platform used to power the Bank.

Murmur Financial Services Limited
The Company has a 100% indirect interest in Murmur Financial Services Limited registered in England and Wales (5th Floor, London Fruit and Wool Exchange, 1 Duval Square, London E1 6PW, registration number 14999160). MFSL was incorporated in July 2023 as a subsidiary of Starling FS Services Limited with issued ordinary share capital of £1 nominal value. In August 2023, an Irish Branch of MFSL, Murmur Financial Services Limited Irish Branch was registered in Ireland (CRO Number 910039). The purpose of the branch is to provide support to Engine by Starling Limited outside the UK.

MFSI Holdings Limited
The Company has a 100% interest in MFSI Holdings Limited incorporated in December 2021 and registered in Ireland (Riverside One Sir John Rogerson's Quay, Dublin 2, Dublin, D02 X576, registration number 709388). The issued ordinary share capital is €100 nominal value. This subsidiary was established 2021 as an Irish domiciled Holding Company for Murmur Financial Services International DAC.

Murmur Financial Services International Designated Activity Company
The Company has a 100% indirect interest in Murmur Financial Services International Designated Activity Company registered in Ireland (Riverside One Sir John Rogerson's Quay, Dublin 2, Dublin, D02 X576, registration number 648846). This subsidiary was established in April 2019 and it is the vehicle through which the Group provides support to Engine by Starling Limited outside the UK. This company is currently dormant.

Financial statements / Notes to the financial statements

15. Investment in subsidiaries and intercompany account continued

Intercompany account

	31 March 2023 £'000	Movement during year £'000	31 March 2024 £'000
Starling FS Services Limited	51,791	9,191	**60,982**
Fleet Mortgages Limited	(283)	(12)	**(295)**
Engine by Starling Limited	100	6,884	**6,984**
Murmur Financial Services Limited	–	857	**857**
Balance on intercompany account[1]	51,608	16,920	**68,528**

1 MFSI Holdings limited and Murmur Financial Services International DAC accounts are now dormant with no balances at period end. In January 2024, SBL wrote off the intercompany balance of £1.9m (2023; £2.9m) to MFSI DAC.

Starling FS Services Limited
The parent company is charged a monthly licence fee for the use of the software owned by Starling FS Services Limited. In addition, any direct costs attributed to the design, specification, build, test and implementation of the app and associated banking software are recharged from the parent company to SFSSL. During the year, the parent company granted an interest-bearing loan to SFSSL to repay amounts due on the intercompany account. Costs recharged from SFSSL to SBL are settled against the intercompany loan on the date of receipt of the invoice. The balance on the loan as at 31 March 2024 was £70.9m. The loan is repayable on demand and interest is charged at 1.18% above the BoE's base rate per annum. No guarantees have been given or received. No provisions have been made for impairment in respect of the amounts owned.

The intercompany balance also includes amounts owed by the parent company to SFSSL in respect of losses relieved against the parent company profits for taxation purposes.

Fleet Mortgages Limited
Amounts owed to Fleet Mortgages Limited at year-end represent outstanding monthly fees charged for servicing of the company loans. These are payable on demand and interest free, see note 29.

Engine by Starling Limited
The parent company has granted an amount of £7.0m (2023: £0.1m) to Engine by Starling Limited to fund the costs of the Group's expansion of its SaaS product. The balance on the intercompany account is repayable on demand and is interest free.

Murmur Financial Services Limited
On 2 November 2023, the parent company granted an interest bearing loan to Murmur Financial Services Limited to fund its general working capital requirements and for general corporate purposes. As at 31 March 2024, the balance on this loan was £0.9m. Any amounts due are repayable within a year and interest is charged at 1.18% above the BoE's base rate per annum.

The intercompany balance also includes amounts owed by the parent company to MFSL in respect of losses relieved against the parent company profits for taxation purposes.

See note 29 for further information on related party transactions.

Financial statements / Notes to the financial statements

16. Property, plant, equipment and right of use assets

Group Cost	Property, plant and equipment £'000	Right of use assets £'000	Total tangible assets £'000
As at 1 April 2023	8,850	15,106	23,956
Additions	4,728	3,516	8,244
Disposals	(2,474)	(34)	(2,508)
As at 31 March 2024	11,104	18,588	29,692
Depreciation			
As at 1 April 2023	5,258	3,218	8,476
Charge for the year	2,360	2,552	4,912
Disposals	(2,423)	–	(2,423)
As at 31 March 2024	5,195	5,770	10,965
Net book value	5,909	12,818	18,727

Group Cost	Property, plant and equipment £'000	Right of use assets £'000	Total tangible assets £'000
As at 1 April 2022	6,023	6,288	12,311
Additions	2,830	10,427	13,257
Disposals	(3)	(1,609)	(1,612)
As at 31 March 2023	8,850	15,106	23,956
Depreciation			
As at 1 April 2022	3,878	2,529	6,407
Charge for the year	1,382	1,809	3,191
Disposals	(2)	(1,120)	(1,122)
As at 31 March 2023	5,258	3,218	8,476
Net book value	3,592	11,888	15,480

Right of use assets

In December 2023, the Group entered into one new lease for an additional floor in the London office. This new lease, in addition to the existing leases of both its subsidiary offices and regional offices, added to a total of twelve (2023: eleven) separate leases across London, Cardiff, Southampton, Manchester and Fleet.

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.

Financial statements / Notes to the financial statements

16. Property, plant, equipment and right of use assets continued

Company	Property, plant and equipment £'000	Right of use assets £'000	Total tangible assets £'000
Cost			
As at 1 April 2023	7,210	13,616	20,826
Additions	4,690	3,516	8,206
Disposals	(2,474)	(34)	(2,508)
As at 31 March 2024	9,426	17,098	26,524
Depreciation			
As at 1 April 2023	4,342	2,748	7,090
Charge for the year	2,100	2,304	4,404
Disposals	(2,423)	–	(2,423)
As at 31 March 2024	4,019	5,052	9,071
Net book value	5,407	12,046	17,453

Company	Property, plant and equipment £'000	Right of use assets £'000	Total tangible assets £'000
Cost			
As at 1 April 2022	5,128	5,643	10,771
Additions	2,085	9,582	11,667
Disposals	(3)	(1,609)	(1,612)
As at 31 March 2023	7,210	13,616	20,826
Depreciation			
As at 1 April 2022	3,157	2,293	5,450
Charge for the year	1,187	1,575	2,762
Disposals	(2)	(1,120)	(1,122)
As at 31 March 2023	4,342	2,748	7,090
Net book value	2,868	10,868	13,736

Right of use assets

During the year, the Company entered into a new lease for further space in its head office in London. These new leases, in addition to the existing head office lease and leases of its regional offices in Southampton, Manchester and Cardiff, added to a total of nine separate leases (2023: eight). 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.

Financial statements / Notes to the financial statements

17. Intangible assets and goodwill

Group Cost	Intangible assets £'000	Goodwill £'000	Intangible assets and goodwill £'000
As at 1 April 2023	61,598	35,890	97,488
Additions	43,278	–	43,278
Disposals	(30)	–	(30)
Impairment of intangible asset	(445)	–	(445)
As at 31 March 2024	104,401	35,890	140,291
Amortisation			
As at 1 April 2023	21,013	–	21,013
Charge for the year	11,895	–	11,895
Disposals	(30)	–	(30)
As at 31 March 2024	32,878	–	32,878
Net book value	71,523	35,890	107,413

Group Cost	Intangible assets £'000	Goodwill £'000	Intangible assets and goodwill £'000
As at 1 April 2022	41,562	35,890	77,452
Additions[1]	27,657	–	27,657
Disposals	(114)	–	(114)
Impairment of intangible asset	(626)	–	(626)
CIF eligible intangible	(6,881)	–	(6,881)
As at 31 March 2023	61,598	35,890	97,488
Amortisation			
As at 1 April 2022	13,351	–	13,351
Charge for the year	7,762	–	7,762
Disposals	(100)	–	(100)
As at 31 March 2023	21,013	–	21,013
Net book value	40,585	35,890	76,475

1 Included within the 2023 additions is £6.9m in relation to software development to support the 47 products developed to meet the public commitments under the CIF grant.

Included in intangible assets are capitalised expenditure on banking software and an intangible asset recognised on acquisition of Fleet.

The Group continued to capitalise expenditure incurred on the design, specification, build, test and implementation of its banking software. As at 31 March 2024 the net book value of the capitalised expenditure was £64.9m (2023: £33.6m). The average remaining amortisation period of capitalised software as at 31 March 2024 was 5 years (2023: 5 years). The Directors have reviewed both internal and external indicators of impairment, including evidence of obsolescence and there are no other indicators of impairment that require further impairment assessment.

The CIF eligible intangible arose from the capitalisation of grant related expenditure associated with the creation of software. The balance is amortised through the income statement over the expected life of the associated intangible asset, which is 4 years (2023: 5 years).

Included under intangible assets is an intangible asset recognised on the acquisition of Fleet in July 2021. In accordance with IFRS 3, the Group recognised, separately from goodwill, an identifiable intangible asset acquired as part of Fleet acquisition. The intangible asset arose from existing lending servicing contractual arrangements at the date of acquisition. An impairment of £0.4m (2023: £0.6m) has been recognised during the year to reflect the changes in revenue expectations derived from those contractual lending servicing arrangements. As at 31 March 2024 the carrying value of the intangible asset was £6.5m (2023: £7.0m). The intangible asset is not amortised but reviewed annually for impairment.

Company intangible assets

Intangible assets held by the Company at 31 March 2024 have a cost of £828 (2023: £30k) and a net book value of £–k (2023: £–k).

Financial statements / Notes to the financial statements

17. Intangible assets and goodwill continued

Goodwill
As at 31 March 2024 the carrying value of the Group's Goodwill, which arose on the acquisition of Fleet, was £35.9m (2023: £35.9m).

Goodwill arose on the acquisition of Fleet in July 2021. It represents the excess in the fair value of the total consideration paid over the fair value of net identifiable assets at the date of acquisition. Goodwill is an asset representing the future economic benefits arising from other assets acquired as part of Fleet acquisition and are not individually identified or separately recognised. Goodwill is assessed annually for impairment by measuring the recoverable amount of the CGU. The CGU is the smallest identifiable group of assets that generates cash inflows independent of the cash inflows of other assets. A group of CGUs were identified as benefiting from the acquisition and allocated to goodwill.

As the recoverable amount is higher than the carrying value of the goodwill, goodwill is not impaired and no impairment charge was recognised for the year (2023: no impairment).

Testing goodwill for impairment involves a significant amount of judgement. The test involves comparing the carrying value of the CGU, including goodwill, with the present value of the post-tax cashflows (VIU). The calculation of a VIU contains a high degree of uncertainty in estimating the future cash flows, the rates used to discount them and the long-term growth rate, as set out below.

Key judgements
The CGUs are sensitive to changes in the key assumptions that support the recoverable amount. These key assumptions include, the forecasted cash flows, discount rate and long-term growth rate.

Forecasted cash flows
The forecasted cash flows used by management involve judgement and are based upon a view of the BTL market and the market conditions at the point in time when the assessment is prepared.

The estimation of cash flows is sensitive to the periods for which detailed forecasts are available and assumptions regarding the long-term pattern of steady cash flows thereafter. Management has used 5 years of forecasted cash flows in the VIU calculation.

Discount rate
The discount rate applied to the future cash flows also involve judgement as they can have a significant impact on valuation. A discount rate of 12.5% was used (2023: 14.2%) based on the cost of equity assigned to a single CGU.

The cost of equity is derived from a capital asset pricing model prepared by a third party valuer and incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external markets and economic conditions beyond management's control.

The discount rates used are compared to peers to ensure that they are appropriate.

Long-term growth rate
The long-term growth rate applied was 1.5% (2023: 1.5%). The long-term growth rate was compared to the long-term inflation rate of the UK for reasonableness.

Sensitivity of key judgements
Given the extent by which the VIU exceeds the carrying value, the VIU was not sensitive to a decrease of the long-term growth rate to zero. It would require a reduction in cash flows of more than 50% or more than 3x higher discount rate to reduce the headroom to zero.

Financial statements / Notes to the financial statements

18. Deferred tax

The movement in the deferred tax asset as shown in the table below.

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Deferred tax asset at 1 April	4,664	21,985	5,059	21,446
Recognised in income statement				
Prior period adjustment	9,044	243	(4)	(24)
Rate change	4	(941)	–	(231)
Deferred tax (credit)/charge	(13,579)	(20,980)	503	(20,489)
Recognised in equity reserves				
Cash flow hedging reserve[1]	(10,648)	3,985	(10,648)	3,985
Share awards reserve	1,320	372	1,320	372
Deferred tax (liability)/asset at 31 March	(9,195)	4,664	(3,770)	5,059
Analysis of the deferred tax position				
Taxable temporary differences				
Fixed/intangible asset timing differences	(14,948)	(7,830)	(68)	–
Deductible temporary differences				
Fixed/intangible asset timing differences	–	79	–	79
Short term timing differences	9,687	7,432	403	171
Carried forward losses	171	174	–	–
Cash flow hedging reserve	(6,663)	3,985	(6,663)	3,985
Share awards reserve	2,558	824	2,558	824
Total deferred tax (liability)/asset	(9,195)	4,664	(3,770)	5,059

1 Deferred tax relating to the cash flow hedging reserve is recognised in other comprehensive income, see page 163.

During the year the deferred tax asset decreased by £13.9m to become a £9.2m deferred tax liability (2023: £4.7m deferred tax asset) primarily as a result of the utilisation of carried forward tax losses and the timing differences in the tax base and carrying value of intangible assets. This decrease was also partly due to the movement in deferred tax relating to the cash flow hedging reserve and share awards reserve.

The Group's carried forward losses for previous periods were reassessed and where possible utilised in the current period. This follows the enactment of a change in the corporation tax rate from 19.0% to 25.0% and a reduction in the bank surcharge from 8% to 3%, with both changes effective from 1 April 2023.

Starling recognises a deferred tax asset on the Bank's LTIP scheme to reflect the Company's entitlement to a tax deduction based on the value of the shares delivered to employees upon a future vesting event. The tax credit recognised in the income statement was £0.4m (2023: £0.5m) and the tax credit recognised in other reserves was £1.3m (2023: £0.4m).

Starling recognises a deferred tax liability on its cash flow hedging reserve to reflect the timing difference on recognition of fair value movements on cash flow derivatives into the income statement. The tax charge recognised in the cash flow hedging reserve was £10.6m (2023: £4.0m).

The Group recognises the full value of RDEC claims in the year they occur, with the current year RDEC tax credit of £4.3m (2023: £2.9m) included in fixed/intangible asset timing differences of £14.9m (2023: £7.8m). The RDEC claim is recognised in other (expense)/income in the income statement, see note 22 for further detail.

19. Customer deposits

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
SME current accounts	**5,755,480**	5,987,977	**5,763,770**	5,988,044
Personal current accounts	**4,603,003**	4,395,297	**4,603,003**	4,395,297
Payment services accounts	**181,687**	85,955	**181,687**	85,955
Fixed term deposits	**430,583**	82,591	**430,583**	82,591
Gross customer deposits	**10,970,753**	10,551,820	**10,979,043**	10,551,887
Fair value adjustment for hedged risk	**(516)**	–	**(516)**	–
Customer deposits	**10,970,237**	10,551,820	**10,978,527**	10,551,887

The Bank is a member of the Financial Services Compensation Scheme, the UK deposit guarantee scheme. Its eligible customer deposits are guaranteed up to £85k per individual customer.

20. Deposits from banks

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Bank of England – central bank facilities	**2,228,796**	2,220,870	**2,228,796**	2,220,870
Deposits from other banks	**191,675**	53,436	**191,675**	53,436
Deposits from banks	**2,420,471**	2,274,306	**2,420,471**	2,274,306

In 2021, the Bank was granted access to the BoE's TFSME. This has been used to mitigate the liquidity risk of funding term lending through overnight deposits.

The TFSME allows funding to be drawn from the BoE up to a specific allowance. These drawings currently have a contractual term of four years; however, the BoE has confirmed that for exposures that extend beyond four years, the contractual repayment deadline will be extended in line with the extension in tenor of the customers' loan drawings under the government-backed BBLS and CBILS programmes. TFSME funding can be repaid early with two days' notice. This financing is coincident with the BBLS and CBILS programmes and will be repaid from the proceeds of maturing loans or available cash reserves when repayments fall due.

For the TFSME, the Bank has pledged its BBLS loans balance as collateral and additionally utilises debt securities as eligible collateral under the BoE's Sterling Monetary Framework.

Deposits from other banks represent cash collateral received from counterparty banks, for margining purposes in relation to derivative transactions. Collateral margining is conducted under both ISDA counterparty credit support annexes or SwapClear member bank client clearing agreements in accordance with the LCH rulebook.

21. Other liabilities

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Customer transactions in course of settlement[1]	262,748	20,042	262,748	20,045
Unsettled debt securities	41,977	–	41,977	–
Lease liability[2]	14,633	13,355	13,739	12,222
Accruals	18,006	11,975	16,635	10,882
PAYE and NIC payable	7,392	3,782	6,773	3,563
Deferred consideration	3,263	19,450	3,263	19,450
Other liabilities	19,403	28,354	20,298	28,262
Other liabilities	**367,422**	**96,958**	**365,433**	**94,424**

1 Customer transactions settle each business day. The volume of customer transactions in the course of settlement may fluctuate depending on the number of days between the year end date and the next business day.

2 See note 16 for corresponding right of use asset detail. The Group does not hold short-term leases or leases of low value assets.

22. Deferred income

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	Company 31 March 2024 £'000	Company 31 March 2023 £'000
Deferred lending fee income	37,593	25,323	453	749
Deferred RDEC income	10,113	7,015	–	–
Other deferred income	167	42	42	42
Deferred income	**47,873**	**32,380**	**495**	**791**

Deferred lending fee income

Fee income received on Group's loans and advances to customers that will be recognised in the income statement using the EIR over the expected life of the financial assets to which they relate.

Deferred RDEC income

Residual amounts received from the RDEC scheme, that have not been recognised in the income statement at the reporting date. The Group has adopted IAS 20, and consequently, the RDEC claim cannot be recognised until the related qualifying expenditure has been expensed. The qualifying expenditure relates to software development and is capitalised as an intangible asset. The RDEC claim is recognised in other (expense)/income in the income statement on a systematic basis over the periods in which the Group recognises the amortisation cost of the related intangible asset. In accordance with IAS 20, the Group presents its financial information in relation to the RDEC claim on a gross basis.

Financial statements / Notes to the financial statements

23. Provisions

Group/Company	Impairment provision on undrawn facilities and loan commitments £'000	Legal and other provisions £'000	Customer remediation £'000	Total provisions £'000
As at 1 April 2022	1,224	18	–	1,242
Release for the year	(132)	–	–	(132)
Provisions recognised	–	232	–	232
As at 31 March 2023	1,092	250	–	1,342
Release for the year	**(185)**	**–**	**–**	**(185)**
Provisions recognised	**–**	**1,950**	**8,400**	**10,350**
As at 31 March 2024	**907**	**2,200**	**8,400**	**11,507**

Impairment provision on undrawn facilities and loan commitments

Under IFRS 9 an impairment provision is recognised on undrawn overdraft facilities and irrevocable loan commitments, see note 8 above. The release for the year is recognised under impairments and charge-offs in the income statement.

Legal and other provisions

In the course of its business, the Group/Company receives complaints brought by or on behalf of current and former employees, customers and other third parties and is subject to legal proceedings and other actions. Apart from matters disclosed in these accounts, the Group/Company considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in note 2(r). While the outcomes of legal proceedings are inherently uncertain, the Group/Company believes that, based on the information available to it, appropriate provisions have been made. The charge for the year is recognised under operating expenses in the income statement.

Customer remediation

Customer remediation refers to activities to compensate customers for losses or damages associated with a failure to comply with applicable laws and regulations or to deliver good outcomes. Customer remediation activities are often initiated by the Bank as a result of its own internal reviews, customer feedback or complaints, or industry-wide initiatives and developments, and is not necessarily only as a result of regulatory action.

In the year, a provision of £8.4m for customer remediation related to unsecured lending was recognised under operating expenses in the income statement.

Financial statements / Notes to the financial statements

24. Share capital

Nominal value	Ordinary shares £'000	A shares £'000	B shares £'000	C shares £'000	D shares £'000	Total £'000
As at 1 April 2022	0.653	1.651	3.542	2.901	2.314	11.061
Shares issued	–	–	–	–	0.553	0.553
Shares issued under share award schemes	–	0.070	–	–	–	0.070
Share transfers	(0.045)	(0.016)	–	–	0.061	–
As at 31 March 2023	0.608	1.705	3.542	2.901	2.928	11.684
Shares issued	–	–	–	–	–	–
As at 31 March 2024	**0.608**	**1.705**	**3.542**	**2.901**	**2.928**	**11.684**

Number of shares	Ordinary shares	A shares	B shares	C shares	D shares	Total
As at 1 April 2022	65,227,723	165,126,929	354,180,458	290,134,255	231,390,270	1,106,059,635
Shares issued	–	–	–	–	55,339,525	55,339,525
Shares issued under share award schemes	–	7,000,000	–	–	–	7,000,000
Share transfers	(4,529,435)	(1,619,401)	–	–	6,148,836	–
As at 31 March 2023	60,698,288	170,507,528	354,180,458	290,134,255	292,878,631	1,168,399,160
Shares issued	–	–	–	–	–	–
As at 31 March 2024	**60,698,288**	**170,507,528**	**354,180,458**	**290,134,255**	**292,878,631**	**1,168,399,160**

All shares of £0.00001 each are fully paid. The ordinary shares, B shares, C shares and D shares have voting rights. The ordinary A shares have no voting rights.

During the prior year the Bank completed a successful issuance of 55.3m Series D shares to existing shareholders. Consequently, the Group's share capital increased by £553.

During the prior year, the Bank issued an additional 7.0m shares to the EBT, resulting in an increase of the Bank's share capital by £70.

25. Share premium

	Ordinary shares £'000	A shares £'000	B shares £'000	C shares £'000	D shares £'000	Total £'000
As at 31 March 2023	–	–	72,505	180,830	355,498	608,833
As at 31 March 2024	**–**	**–**	**72,505**	**180,830**	**355,498**	**608,833**

Financial statements / Notes to the financial statements

26. Other reserves

Group

	Merger relief reserve £'000	Cash flow hedging reserve £'000	Own shares held reserve £'000	Share awards reserve £'000	Foreign currency translation reserve £'000	Total other reserves £'000
As at 31 March 2022	15,000	–	(103)	7,541	87	22,525
Cash flow hedge	–	(10,246)	–	–	–	(10,246)
Translation of subsidiary company	–	–	–	–	47	47
Cost of share award schemes, net of tax	–	–	–	1,695	–	1,695
As at 31 March 2023	15,000	(10,246)	(103)	9,236	134	14,021
Cash flow hedge	–	27,379	–	–	–	27,379
Translation of subsidiary company	–		–	–	25	25
Purchase of own shares	–	–	(56,362)	–	–	(56,362)
Cost of share award schemes, net of tax	–	–	–	3,450	–	3,450
Transfer from share award reserve	–	–	–	(516)	–	(516)
As at 31 March 2024	**15,000**	**17,133**	**(56,465)**	**12,170**	**159**	**(12,003)**

Company

	Merger relief reserve £'000	Cash flow hedging reserve £'000	Own shares held reserve £'000	Share awards reserve £'000	Total other reserves £'000
As at 31 March 2022	15,000	–	(103)	7,541	22,438
Cash flow hedge	–	(10,246)	–	–	(10,246)
Cost of share award schemes, net of tax	–	–	–	1,695	1,695
As at 31 March 2023	15,000	(10,246)	(103)	9,236	13,887
Cash flow hedge	–	27,379	–	–	27,379
Purchase of own shares	–	–	(56,362)	–	(56,362)
Cost of share award schemes, net of tax	–	–	–	3,450	3,450
Transfer from share award reserve	–	–	–	(516)	(516)
As at 31 March 2024	**15,000**	**17,133**	**(56,465)**	**12,170**	**(12,162)**

Financial statements / Notes to the financial statements

26. Other reserves continued

Merger relief reserve
In 2021 the Company acquired 100% of the issued share capital of Fleet Mortgages Limited for a consideration which included the issue of 11.6m 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 £15.0m on the issue of these shares.

Own shares held reserve
Starling operates two EBTs for the benefit of Group employees, EBT 1 and EBT 2.

On 13 June 2023, the EBT 2 acquired 14.0m shares from existing and past employees for a total consideration of £32.8m. On 7 February 2024, the same EBT acquired an additional 10.3m shares from existing and past employees for a total consideration of £24.3m. £56.4m of consideration paid and associated transaction costs were recognised in the own shares held reserve. The shares acquired are intended to be used by the EBT 2 in future share awards under the Bank's employee incentive scheme.

As at 31 March 2024 the balance in the own shares held reserve was £56.5m (2023: £0.1m), which represents the costs of the Company's shares (nominal value and any premium paid) purchased by the EBT 1 and EBT 2.

Share awards reserve
The share award reserve represents the cumulative cost of employee share awards schemes, net of tax. More information of the Company's share awards incentive schemes can be found on page 218.

	Group 31 March 2024 £'000	Group 31 March 2023 £'000	**Company 31 March 2024 £'000**	Company 31 March 2023 £'000
Cost of share award schemes under EBT	**7,385**	7,250	**7,385**	7,250
Cost of other share award schemes, net of tax	**4,785**	1,986	**4,785**	1,986
Share awards reserve	**12,170**	9,236	**12,170**	9,236

Cash flow hedging reserve
The cash flow hedging reserve represents the effective portion of cumulative post-tax losses on cash flow hedging derivatives that will be recycled to the income statement when the hedged transactions affect profit or loss. See note 12 for further detail.

Foreign currency translation reserve
This reserve arises on the translation of foreign operations that have a functional currency different from the Group's functional currency into the Group's functional currency on consolidation

Financial statements / Notes to the financial statements

27. Share award schemes

JSOP and SEIS schemes

Starling operates two EBTs for the benefit of Group employees, EBT 1 and EBT 2. Starling has created six schemes under these EBTs for the benefit of employees:

- In May 2016, an equity settled share scheme – scheme 1;
- In December 2016, a JSOP – scheme 2;
- In December 2017, a JSOP – scheme 3;
- In October 2018, a JSOP – scheme 4;
- In May 2020, a SEIS – scheme 5; and
- In September 2021, a second SEIS – scheme 6.

Under scheme 1 certain employees purchased from EBT 1, a beneficial interest in shares, including capital interest on vested shares, and the right to receive dividends.

Under schemes 2, 3, and 4 certain employees purchased from EBT 1 a beneficial interest in shares, including capital interest on vested shares above a hurdle, as well as the right to receive dividends on vested shares.

Under schemes 5 and 6 certain employees were awarded a beneficial interest in shares, including capital interest on vested shares above a hurdle, as well as the right to receive dividends on vested shares.

Under each scheme the legal title of the shares (and the capital interest to sums below the hurdle in the case of shares awarded under schemes 2, 3 and 4), remains with the EBT 1 throughout the lifetime of the schemes. Each scheme vests over a four year holding period commencing on the date of grant.

The movement in shares held by EBT 1 and EBT 2 during the year are shown in the table below:

	Shares number	Nominal value £
As at 1 April 2022	110,163,088	1,102
Shares allocated to EBT	7,000,000	70
Shares sold to other shareholders	(672,390)	(7)
As at 31 March 2023	116,490,698	1,165
Shares purchased back from employees	**18,278,952**	**183**
As at 31 March 2024	**134,769,650**	**1,348**

The Bank uses a Black-Scholes option pricing model and a contingency claims analysis to allocate and calculate the Company's equity value between the different share classes, reflecting each class preferential return and subscription prices at which each converts and participates in the equity proceeds.

The cost of awards made under the EBT 1 recognised during the year are shown in other reserves in accordance with IFRS 2, see note 26.

	Opening balance £'000	Transfer to retained earnings £'000	Charge for the year £'000	**Closing balance £'000**
Cost of share awards schemes, net of tax	7,250	(516)	651	7,385

Financial statements / Notes to the financial statements

27. Share award schemes continued

The table below provides details of beneficial interest in shares under EBT 1 awarded to employees, their fair value and cumulative IFRS 2 charges per award scheme:

Scheme	Number of shares	Weighted average number of elapsed months	Percentage applied	Weighted average fair value per scheme	Amount recognised gross of tax £'000
Scheme 1	1,391,330	48	100.0%	0.001	1
Scheme 2	4,841,088	48	100.0%	0.040	194
Scheme 3	4,154,083	48	100.0%	0.134	558
Scheme 4	1,598,220	48	100.0%	0.226	361
Scheme 5/SEIS 1	58,898,351	41	86.0%	0.049	2,500
Scheme 6/SEIS 2	34,316,063	25	52.0%	0.212	3,771
Total	105,199,135	37	76.5%	0.092	7,385

The Group/Company uses a Black-Scholes option pricing valuation model to value the share awards. The fair values are based on a valuation carried out for the Group/Company by an independent valuer at each grant date. In accordance with IFRS 2 the shares are classified as equity-settled and the fair value of shares at the grant date is charged to the statement of comprehensive income with a corresponding credit to reserves (see note 26). The cost of share awards is recognised in the income statement using a graded method as the awards vest in instalments over four years.

Highly subjective assumptions are used in an option pricing model to determine the fair value. Changes in the assumptions can significantly affect the fair value estimates. The main assumptions are shown in the table below:

Grant date:	2016	2017	2018	2019	2020	2021	2022	2023	2024
Expected volatility:	62.0%	46.0%	37.0%	37.0%	49.0%	34.0%	30.0%	25.0%	30.0%
Risk free interest rate:	1.5%	1.5%	1.4%	0.6%	0.0%	0.6%	1.8%	3.5%	4.9%
Dividend yield:	–%	–%	–%	–%	–%	–%	–%	–%	–%

Analysis of shares held by the employee benefit trusts

31 March 2024	Shares number[1]	Nominal value £	Fair value £'000
2016 – total shares allocated	3,664,262	37	120
2017 – total shares allocated	4,521,214	45	500
2018 – total shares allocated	2,753,011	28	585
2019 – total shares allocated	579,681	6	181
2020 – total shares allocated	47,049,304	470	2,570
2021 – total shares allocated	35,629,663	356	3,012
2022 – total shares allocated	3,325,000	33	937
2023 – total shares allocated	6,227,000	62	2,209
2024 – total shares allocated	1,450,000	15	1,607
2024 – total shares unallocated[2]	29,570,515	296	–
As at 31 March 2024	134,769,650	1,348	11,721

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.

2 The increase in unallocated shares was due to share purchases undertaken during the year by the EBT 2 from existing and past employees.

31 March 2023	Shares number[1]	Nominal value £	Fair value £'000
2016 – total shares allocated	4,634,756	46	171
2017 – total shares allocated	7,769,524	78	820
2018 – total shares allocated	3,319,088	33	747
2019 – total shares allocated	712,500	7	222
2020 – total shares allocated	48,263,642	483	2,700
2021 – total shares allocated	35,630,000	356	3,028
2022 – total shares allocated	3,325,000	33	937
2023 – total shares allocated	4,748,000	48	636
2023 – total shares unallocated	8,088,188	81	–
As at 31 March 2023	116,490,698	1,165	9,261

Financial statements / Notes to the financial statements

27. Share award schemes continued

Long term incentive plan

Under the LTIP scheme, eligible employees are granted conditional share awards, which represent a right to receive a beneficial interest in shares in the future, subject to vesting conditions being met. LTIP conditional share awards are subject to continued employment and a four-year time vesting condition. The delivery of the beneficial interest under an LTIP conditional share award would happen on the occurrence of a realisation event.

	Opening balance £'000	Charge for the period £'000	Deferred tax £'000	**Closing balance £'000**
Cost of share awards schemes, net of tax	1,986	1,479	1,320	**4,785**

Year of Grant	Number of shares	Weighted average number of elapsed months	Percentage applied	Weighted average fair value per scheme	Amount recognised gross of tax £'000
2020	1,900,000	48	100.0%	0.800	1,521
2021	1,066,000	45	93.0%	0.410	410
2022	902,000	33	68.0%	0.780	480
2023	1,428,000	21	44.0%	1.080	682
Total	5,296,000	32	66.0%	0.880	3,093

The fair value of the shares at the grant date was calculated using a Black-Scholes option pricing valuation model.

The assumptions used are as follows:

Grant date	2020	2021	2022	2023
Expected volatility	36.0%	34.0%	30.0%	25.0%
Risk free interest rate	–%	0.6%	1.8%	3.5%
Dividend yield	–%	–%	–%	–%

The fair values are based on an independent valuation carried out for the Company by each scheme's independent valuer at each grant date. In accordance with IFRS 2, the shares are classified as equity-settled and the fair value of shares at the grant date is charged to the statement of comprehensive income on a straight-line basis over four years, with a corresponding credit to reserves, see note 26.

Starling recognises a deferred tax asset on the Bank's LTIP scheme to reflect the Company's entitlement to a tax deduction based on the value of the shares delivered to employees upon a future vesting event. The tax credit recognised in the statement of comprehensive income was £0.4m (2023: £0.5m) and the tax credit recognised in other reserves was £1.3m (2023: £0.4m).

Financial statements / Notes to the financial statements

28. Financial instruments

The accounting policies in notes 2(e) and 2(f) describe how different classes of financial instruments are measured. The following table summarises the classification of the Group's financial assets and liabilities by category:

Group 31 March 2024	At fair value through profit or loss £'000	Held at amortised cost £'000	Total £'000
Cash and balances at central banks	–	6,420,115	6,420,115
Loans and advances to banks	–	36,879	36,879
Debt securities	–	3,284,867	3,284,867
Derivative assets	246,541	–	246,541
Loans and advances to customers	–	4,537,663	4,537,663
Financial assets[1]	246,541	14,279,524	14,526,065
Customer deposits	–	10,970,237	10,970,237
Deposits from banks	–	2,420,471	2,420,471
Derivative liabilities	51,417	–	51,417
Financial liabilities[2]	51,417	13,390,708	13,442,125

1 Financial assets exclude other assets.
2 Financial liabilities exclude other liabilities.

Group 31 March 2023	At fair value through profit or loss £'000	Held at amortised cost £'000	Total £'000
Cash and balances at central banks	–	6,076,284	6,076,284
Loans and advances to banks	–	33,420	33,420
Debt securities	–	2,479,550	2,479,550
Derivative assets	221,774	–	221,774
Loans and advances to customers	–	4,731,997	4,731,997
Financial assets[1]	221,774	13,321,251	13,543,025
Customer deposits	–	10,551,820	10,551,820
Deposits from banks	–	2,274,306	2,274,306
Derivative liabilities	55,452	–	55,452
Financial liabilities[2]	55,452	12,826,126	12,881,578

1 Financial assets exclude other assets.
2 Financial liabilities exclude other liabilities.

Financial statements / Notes to the financial statements

28. Financial instruments continued

Valuation of financial instruments

IFRS 13 fair value measurement requires the Group to classify its financial assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 valuations are those where quoted market prices are not available, or valuation techniques are used to determine fair value and the inputs are based significantly on observable market data. Level 2 assets also include those where unadjusted quoted prices are used for valuation but the underlying market is not considered active; and
- Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

Valuation of financial instruments carried at fair value through profit or loss

Derivative assets and liabilities in the current year are classified as level 2. Interest rate swaps are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from quoted readily available rates. FX forwards are priced using rates available from publicly quoted sources. Derivative financial instruments are the only instruments carried at FVTPL.

Group/Company 31 March 2024	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps	246,537	246,537	–	246,537	–
FX forwards	4	4	–	4	–
Financial assets carried at fair value	**246,541**	**246,541**	**–**	**246,541**	**–**
Interest rate swaps	50,888	50,888	–	50,888	–
FX forwards	529	529	–	529	–
Financial liabilities carried at fair value	**51,417**	**51,417**	**–**	**51,417**	**–**

Group/Company 31 March 2023	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps	221,669	221,669	–	221,669	–
FX forwards	105	105	–	105	–
Financial assets carried at fair value	221,774	221,774	–	221,774	–
Interest rate swaps	54,002	54,002	–	54,002	–
FX forwards	1,450	1,450	–	1,450	–
Financial liabilities carried at fair value	55,452	55,452	–	55,452	–

All financial assets and liabilities in the table above that are held as FVTPL are mandatorily held as such.

28. Financial instruments continued

Valuation of financial instruments carried at amortised cost

Cash and balances at central banks and loans and advances to banks

These represent amounts placed with the BoE or other banks where adjustments to fair value in respect of the credit risk of counterparty are not considered necessary. The interest received on all amounts is floating market rate. The fair value of cash and balances at central banks and loans and advances to banks is considered to be the carrying value and the Group has not recognised an impairment provision. These are classified as level 2 assets.

Debt securities

The majority of debt securities are held for liquidity management purposes and are valued using quoted market prices. The Group considers it is able to liquidate such investments at short notice with little or no loss of value. These securities are classified as level 1 where the underlying market is considered active and level 2 where sufficient market activity has not been observed to deem the market active.

Securities that are not held for liquidity purposes and where quoted market prices are not available are valued using a discounted cash flow model. This is designed to appropriately reflect the credit and liquidity risk of the instrument. These securities are classified as level 2 where unobservable inputs are not considered significant and level 3 where the valuation approach includes at least one significant unobservable input.

The Group's debt securities are measured at amortised cost. The fair value is impacted by changes in the market-implied rate of interest and future credit risk of the individual issuers. For both floating and fixed rate bonds the fair value is impacted by changes in interest rates. Most fixed rate bonds are hedged with interest rate swaps to mitigate the risk of adverse movements in interest rates; the hedge adjustment is reflected in the carrying value where appropriate.

Loans and advances to customers

The Group holds loans to customers at both fixed and variable interest rates. Through the application of hedge accounting, the carrying value of the hedged fixed rate loans is adjusted to reflect the current value of the hedge adjustment. This is the value of the hedged items adjusted for the interest rate risk hedged. For fixed rate lending, the fair value is calculated based on the present value of the anticipated future principal and interest cash flows, discounted at the market rate of interest at the statement of financial position date. Expected cash flows are adjusted for expected repayment profiles in line with those used internally for liquidity management and hedge accounting purposes. The carrying and fair value of loans and advances to customers is also stated net of any impairment provision. For variable rate lending, including drawn overdrafts and undrawn overdrafts, the fair value is considered to be gross carrying value less any impairment provision. These are classified as level 3 assets.

Customer deposits

The majority of deposits from customers are at market rate and are callable on demand. Accordingly, the fair value of variable rate deposits from customers is considered to be the carrying value. For fixed rate deposits, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturity. Fixed rate deposits are hedged with interest rate swaps to mitigate the risk of adverse movements in interest rates eroding the Group’s NIM. Through the application of hedge accounting in the current year, the carrying value of the hedged fixed rate deposits is adjusted to reflect the current value of hedged items adjusted for interest rate risk. These are classified as level 2 liabilities.

Deposits from banks

The central bank facilities are floating rate, with an initial maturity of four years, a portion of which has been extended to six years. The fair value of central bank facilities has been determined as the gross carrying value. These are classified as level 2 liabilities.

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28. Financial instruments continued

Summary of financial instruments carried at amortised cost:

Group 31 March 2024	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Cash and balances at central banks	6,420,115	6,420,115	–	6,420,115	–
Loans and advances to banks	36,879	36,879	–	36,879	–
Debt securities	3,284,867	3,297,009	2,233,300	1,063,709	–
Loans and advances to customers	4,537,663	4,551,796	–	–	4,551,796
Financial assets carried at amortised cost	14,279,524	14,305,799	2,233,300	7,520,703	4,551,796
Customer deposits	10,970,237	10,970,237	–	10,970,237	–
Deposits from banks	2,420,471	2,420,471	–	2,420,471	–
Financial liabilities carried at amortised cost	13,390,708	13,390,708	–	13,390,708	–

Company 31 March 2024	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Cash and balances at central banks	6,420,115	6,420,115	–	6,420,115	–
Loans and advances to banks	35,441	35,441	–	35,441	–
Debt securities	3,284,867	3,297,009	2,233,300	1,063,709	–
Loans and advances to customers	4,537,663	4,551,796	–	–	4,551,796
Financial assets carried at amortised cost	14,278,086	14,304,361	2,233,300	7,519,265	4,551,796
Customer deposits	10,978,527	10,978,527	–	10,978,527	–
Deposits from banks	2,420,471	2,420,471	–	2,420,471	–
Financial liabilities carried at amortised cost	13,398,998	13,398,998	–	13,398,998	–

Group 31 March 2023	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Cash and balances at central banks	6,076,284	6,076,284	–	6,076,284	–
Loans and advances to banks	33,420	33,420	–	33,420	–
Debt securities	2,479,550	2,482,311	1,012,830	1,469,481	–
Loans and advances to customers	4,731,997	4,731,440	–	–	4,731,440
Financial assets carried at amortised cost	13,321,251	13,323,455	1,012,830	7,579,185	4,731,440
Customer deposits	10,551,820	10,551,113	–	10,551,113	–
Deposits from banks	2,274,306	2,274,306	–	2,274,306	–
Financial liabilities carried at amortised cost	12,826,126	12,825,419	–	12,825,419	–

Company 31 March 2023	Carrying value £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Cash and balances at central banks	6,076,284	6,076,284	–	6,076,284	–
Loans and advances to banks	29,151	29,151	–	29,151	–
Debt securities	2,479,550	2,482,311	1,012,830	1,469,481	–
Loans and advances to customers	4,731,997	4,731,440	–	–	4,731,440
Financial assets carried at amortised cost	13,316,982	13,319,186	1,012,830	7,574,916	4,731,440
Customer deposits	10,551,887	10,551,113	–	10,551,113	–
Deposits from banks	2,274,306	2,274,306	–	2,274,306	–
Financial liabilities carried at amortised cost	12,826,193	12,825,419	–	12,825,419	–

Financial statements / Notes to the financial statements

29. Related party transactions

Parent and controlling entities
No person or entity is considered to have control or joint control over the Company.

Entities with significant influence
As at 31 March 2024, JTC Starling Holdings Limited held 36.3% (2023: 36.3%) of the total Company shares in issue and 36.3% (2023: 36.3%) of the Company's voting rights. Accordingly, JTC Starling Holdings Limited has significant influence over the Group. Balances on deposit accounts held by individuals associated with JTC Starling Holdings Limited as at 31 March 2024 were £4k (2023: £103k).

No other person or entity is considered to have significant influence over the Company.

Key management personnel transactions
Key management personnel is defined as the Board, their spouses or partners and children and other dependents over whom the Board member can exert influence.

Deposits balances held by key management personnel comprised:

	31 March 2024 £'000	31 March 2023 £'000
Balances on deposit accounts	**2,368**	501

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

Key management personnel compensation	31 March 2024 £'000	31 March 2023 £'000
Wages and salaries	**5,080**	2,639
Performance-based compensation	**711**	299
Pension contributions	**4**	1
Total key management personnel compensation	**5,795**	2,939

The compensation table above shows performance-based compensation as recognised in the year in accordance with IFRS 2 and IAS 19.

Two Directors participate in the Bank's defined contribution pension arrangement.

The Company pays each Investor Director £12,500 per annum for the purpose of covering reasonable out of pocket expenses incurred in carrying out their roles as Investor Directors.

On 13 June 2023, the EBT 2 acquired 8.5m shares from key management personnel for a total consideration of £19.9m. On 7 February 2024, the same EBT acquired an additional 6.1m shares from key management personnel for a total consideration of £14.3m. The consideration paid was recognised in the own shares held reserve. At 31 March 2024 the balance in the own shares held reserve was £56.5m (2023: £0.1m). The shares acquired are intended to be used by the EBT 2 in future share awards under the Bank's employee incentive scheme.

Financial statements / Notes to the financial statements

29. Related party transactions continued

Subsidiaries and affiliates

Interest in the subsidiaries and changes to investments and intercompany accounts during the year are set out in note 15.

Intercompany transactions:

In accordance with IFRS 10 consolidated financial statements, transactions and balances with subsidiaries have been eliminated on consolidation.

Intercompany income/(expense) in parent company income statement	31 March 2024 £'000	31 March 2023 £'000
Starling FS Services Limited	11,323	17,103
Murmur Financial Services International DAC	16	29
Fleet Mortgages Limited	(10,024)	(3,747)
Murmur Financial Services Limited	(210)	–
Engine by Starling Limited	4,465	–
Intercompany transactions with the subsidiary entities	5,570	13,385

Dividends received by parent company	31 March 2024 £'000	31 March 2023 £'000
Fleet Mortgages Limited	8,650	16,800
Dividends received from subsidiary entities	8,650	16,800

The above balances arose in the ordinary course of business and the pricing of any intercompany transactions was determined as if the group companies were independent parties dealing at arm's length.

The parent company employs and incurs the cost of product and software development teams; a proportion of this and other costs are recharged to Starling FS Services Limited as part of the cost of the design, specification, build, testing and implementation of the Group's banking software and mobile application and associated infrastructure. A licensing agreement exists between Starling FS Services Limited and its parent for use of the intellectual property rights, the banking software and mobile application.

During the year, the Bank charged SFFSL £52.2m (2023: £28.8m) for the attributable proportion of staff salaries, employers NIC and other identified costs incurred by the parent company. SFFSL charged a licence fee of £17.3m (2023: £11.7m) to the Bank. Under the existing agreement, SFFSL charged a new revenue share of £25.1m (2023: £–m) to the Bank during the year. SFFSL also paid interest expense of £1.5m (2023: £–m) in relation to interest on an intercompany loan from the Bank.

As at 31 March 2024, the Bank has £2.3bn (2023: £1.5bn) of BTL mortgages outstanding, which were originated through Fleet Mortgages Limited. Fleet charges the Bank an origination fee for these originations. Fleet continues to service these loans on an on-going basis for the Bank. The arrangements under which these services are carried out are at arm's length. During the year the Bank expensed loan servicing fees and other loan origination fees paid to Fleet of £10.5m (2023: £3.7m) in relation to loans acquired under an asset purchase agreement. Origination fees are recognised by the Bank as part of the EIR on these loans.

Under a new agreement in the current year, the Bank recharged costs of £4.5m to Engine by Starling Limited.

Under a new agreement, Murmur Financial Services Limited recharged staff costs of £0.2m to SBL during the year, for the cost of MFSL employees engaged in Bank activities.

Financial statements / Notes to the financial statements

30. Reconciliation of liabilities from financing activities

	Group		Company	
	Central Bank facilities	Lease liabilities	Central Bank facilities	Lease liabilities
	£'000	£'000	£'000	£'000
As at 1 April 2022	2,202,441	3,758	2,202,441	3,277
Cash flows				
Reverse premium payment	–	1,519	–	1,519
Repayments of principal and interest	(32,246)	(1,796)	(32,246)	(1,587)
Non-cash flows				
Timing differences on invoices payable	–	(161)	–	(142)
Additions to lease liabilities	–	10,377	–	9,532
Disposals of lease liabilities	–	(497)	–	(497)
Interest recognised in the year	50,675	155	50,675	120
As at 31 March 2023	**2,220,870**	**13,355**	**2,220,870**	**12,222**
Cash flows				
Additional borrowings from central banks	**5,000**	**–**	**5,000**	**–**
Repayments of principal and interest	**(108,067)**	**(2,410)**	**(108,067)**	**(2,141)**
Non-cash flows				
Timing differences on invoices payable	**–**	**(29)**	**–**	**(30)**
Additions to lease liabilities	**–**	**3,461**	**–**	**3,461**
Disposals of lease liabilities	**–**	**–**	**–**	**–**
Interest recognised in the year	**110,993**	**256**	**110,993**	**227**
As at 31 March 2024	**2,228,796**	**14,633**	**2,228,796**	**13,739**

31. Capital commitments

As at 31 March 2024, the Company has no committed capital expenditure that has not been provided for in the accounts (2023: £–m).

32. Financial commitments

As at 31 March 2024, the Company has committed to future mortgage lending of £125.3m (2023: £146.9m). These commitments represent agreements to lend in the future, subject to certain conditions.

33. Contingent liabilities

FCA investigation into the Company's anti-money laundering and financial crime system and control framework

On 24 November 2023 the FCA opened an investigation into the Bank's compliance with UK money laundering regulations and the FCA's rules and principles for businesses, with a focus on aspects of its anti-money laundering and financial crime systems and control framework. The Company continues to engage and co-operate fully with the FCA. There are a number of different outcomes which may result from this FCA investigation and, therefore, the potential impact of the investigation is currently unquantifiable but could be material.

Other legal and regulatory matters

From time to time, the Group may become subject to other enquiries and examinations, requests for information, audits, enquiries, investigations, and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures, compliance with legislation and regulation and other areas of banking and business activities. Based on the facts currently known, it is not practicable at this time for Starling to determine the outcome of any collections and other of these matters, including the timing or any possible impact, which, in aggregate, could be material.

34. Events after reporting year

There are no material events that have taken place between 31 March 2024 and the date of approval of these accounts that require disclosure or adjustment to the financial statements.

Other information

Other information

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 Requirements 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 has begun to develop a SaaS proposition. It operated in the United Kingdom during the financial year. Further details of all Starling subsidiaries are detailed on page 205.

Country by country[1]	**Group 31 March 2024**	Group 31 March 2023	**Company 31 March 2024**	Company 31 March 2023
Turnover (£'000)[2]	**647,118**	414,814	**666,545**	450,440
Profit before tax (£'000)	**301,099**	194,596	**292,233**	221,683
Corporation tax paid (£'000)	**94,266**	26,720	**91,513**	25,779
Number of employees on full time equivalent basis	**3,231**	2,308	**3,025**	2,151
Subsidy amounts received (£'000)	**–**	–	**–**	–
Jurisdictions in which operated	**UK**	UK	**UK**	UK

1 The table includes immaterial amounts in relation to a non-operating Irish subsidiary.
2 Turnover is defined as total income/(expense).

Other information

Non-IFRS measures

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

Active core accounts	refers to the number of core accounts that have generated revenue during the last calendar month.
Annualised revenue run-rate	calculated as total revenue for the last month of the period multiplied by twelve
ARPAC	is calculated by dividing the sum of NII, net card income and fees and commissions income by the average number of active core accounts in the year
CET1	comprises common shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
Core accounts	refer to Limited Company, Sole Trader and Personal GBP-denominated accounts.
Cost of risk	calculated as impairment charges and charge-offs net of debt recoveries divided by average of gross loans and advances to customers for the year.
Cost of funds	calculated as interest expense divided by the average total for customer deposits for the year.
Cost to serve	measures the cost of servicing each customer account. The metric is calculated as the annual direct costs associated with running customer account and servicing loans, including impairment and fraud, divided by the average number of active core accounts in that year
Cost-income-ratio	is operating expenses, net of credit for eligible spend, as a percentage of total income. This is used by the Group to monitor and manage its overall cost position and understand how efficient the Group is at generating income.
Credit risk density	is a measure of the amount of risk taken by the Group compared to its assets. It is calculated by dividing total credit RWAs by the Group's total assets.
Gross margin	is calculated as total revenue less running costs less impairment and Fraud divided by total Revenue.
HQLA	are assets which can be easily and immediately converted into cash at little or no loss of value. HQLAs should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.
Investment grade	refers to an equivalent credit rating in the range of AAA to BBB- by external credit rating agencies
LCR	is a liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a stress scenario. It is calculated as a ratio of liquid assets over net cash outflows.
LDR	represents gross loans and advances to customers expressed as a percentage of total customer deposits.
MREL	is the minimum requirements a financial institution must hold to meet the loss absorption and recapitalisation components if an institution were to fail.
NIM	represents NII as a percentage of average Interest-Earning Assets.
Non-staff unit running costs	measures the cost, excluding staff, of running each customer account. The metric is calculated as the annual non-staff direct costs associated with running customer account and servicing loans, divided by the average number of active core accounts in that year
NSFR	measures the stability of funding sources relative to assets requiring funding. The ratio is defined as the available stable funding (capital and certain liabilities which are treated as stable sources of funding) relative to the required stable funding (assets on balance sheet and certain off balance sheet exposures).
Other fees & commissions unit income	is the sum of Marketplace fees, FX fees, Fleet fees, and subscription fees divided by the average number of core accounts in the year.
Open accounts	refers to total open core accounts and Secondary accounts which are made of the balance (e.g. multi-currency, joint etc.)
ROCE	is defined as profit after tax divided by the total average minimum regulatory capital requirements for the period.
ROTE	is calculated as profit after tax divided by average tangible equity.
Required capital	is calculated as the minimum amount of eligible regulatory capital the Bank must hold, excluding firm specific components of Pillar 2B capital. This figure includes Pillar 1 and Pillar 2A requirements as well as capital conservation and countercyclical buffers.
Revenue	is calculated as the sum of NII, fees and commissions income and other income/(expense)
RWA	is a regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.

Other information / Non-IFRS measures

Staff unit running costs	is the sum of staff loan servicing costs and variable staff costs divided by the average number of core accounts in the year.
Tangible equity	is shareholders equity less goodwill, intangible assets and deferred tax.
Tier 1 capital	is the sum total of CET1 and Additional Tier 1 capital
Tier 1 ratio	is the ratio of Tier 1 capital to RWAs
Tier 2 capital	includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.
UK leverage ratio	is calculated by dividing Tier 1 capital resources by the leverage exposure which is a defined measure of on balance sheet assets and off balance sheet items. On balance sheet assets are adjusted to exclude Central Bank reserves.
Unit	is one active core account.
Unit card income	is the sum of interchange income and Mastercard costs divided by the average number of active core accounts in the year.
Unit contribution	includes ARPAC and cost to serve and is divided by the average number of active core accounts in the year.
Unit NII	is calculated as net interest income over the average number of active core accounts in the year.

Other information

Defined terms

Companies Act	Companies Act 2006
Board	the Board of Directors of Starling Bank Limited
Chair	the Chair of the Board
Directors	the Directors of Starling Bank Limited
Engine	Engine by Starling Limited
Executive	the Starling senior leadership team
Fleet	Fleet Mortgages Limited
Group	Starling Bank Limited and its subsidiaries
Investor Director	Lázaro Campos and Marcus Traill
PV01	specifies how much the price of an instrument changes if the interest rate changes by 1 basis point
Net zero	A target to reduce emissions by at least 90% and counterbalance the remaining residual emissions with durable or permanent carbon removals. The term "residual" refers to emissions that cannot technically be eliminated. Such residual emissions shall not exceed 10% of baseline emissions - as measured in 2021.

Other information

Abbreviations and acronyms

AI	Artificial intelligence
ALCO	Asset and Liability Committee
AML	Anti–money laundering
ARPAC	Average revenue per active customer
ATP	Arrangement to pay
BaaS	Banking-as-a-Service
BAC	Board Audit Committee
BBB	British Business Bank
BBLS	Bounce Back Loan Scheme
BRC	Board Risk Committee
BTL	Buy-to-let
BoE	Bank of England
CBILS	Coronavirus Business Interruption Loan Scheme
CCAO	Chief Corporate Affairs Officer
CCC	Customer and Conduct Committee
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CGU	Cash generating unit
CIF	Capability and Innovation Fund
CMA	Competition and Markets Authority
COR	Cost of risk
CRC	Credit Risk Committee
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CP	Consultation paper
CSA	Credit support annex
DESNZ	Department for energy security and net zero
DPD	Days past due
EAD	Exposure at default
EBT	Employee benefit trust
ECL	Expected credit loss
ECRC	Economic Crime Risk Committee
EIR	Effective interest rate

EPC	Energy performance certificate
ERC	Executive Risk Committee
ERMF	Enterprise Risk Management Framework
ESC	Board Ethics and Sustainability Committee
ESG	Environmental, social and governance
EU	European Union
EV	Economic value
EVE	Economic value of equity
ExCo	Executive Committee
FC	Finance Committee
FCA	Financial Conduct Authority
FRC	Financial reporting council
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FX	Foreign exchange
GDP	Gross domestic product
GenAI	Generative artificial intelligence
GHG	Greenhouse gas
GRC	Governance, risk and compliance
HPI	House price index
HQLA	High-quality liquid assets
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IPO	Initial public offering
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
JSOP	Joint Share Ownership Plan
LCR	Liquidity coverage ratio
LCH	London Clearing House
LDR	Loan-to-deposit ratio
LGD	Loss given default

Other information / Abbreviations and acronyms

LIBOR	London Interbank Offered Rate
LPA	Law of Property Act
LTIP	Long term incentive plan
LTV	Loan-to-Value
M&A	Mergers & acquisitions
MBE	Member of the Order of the British Empire
MFSL	Murmur Financial Services Limited
MIA	Months in arrears
ML	Machine learning
MRC	Model Risk Committee
MREL	Minimum Requirement for own funds and Eligible Liabilities
NIC	National Insurance Contributions
NII	Net interest income
NIM	Net interest margin
NomCo	Board Nomination Committee
NSFR	Net stable funding ratio
OCI	Other comprehensive income
OLAR	Overall liquidity adequacy requirement
ORC	Operational Risk Committee
PAYG	Pay as you grow
PBT	Profit before tax
PC	Pricing Committee
PCAF	Partnership for Carbon Accounting Financials
PD	Probability of default
PMA	Post model adjustments
POCI	Purchased or originated credit-impaired
PRA	Prudential Regulation Authority
PS	Policy statement
PTP	Promise to pay
R&D	Research and development
R&D	Research and development
RCSA	Risk and Control Self Assessment
RDEC	Research and Development Expenditure Credit
RemCo	Board Remuneration Committee

RLS	Recovery Loan Scheme
RMBS	Residential Mortgage Backed Securities
ROTE	Return on tangible equity
RWA	Risk-weighted assets
SaaS	Software-as-a-Service
SECR	Streamlined Energy and Carbon Reporting
SEIS	Senior Employee Incentive Scheme
SFSSL	Starling FS Services Limited
SICR	Significant increase in credit risk
SME	Small and medium-sized enterprise
SPPI	Solely Payments of Principal and Interest
SVR	Standard variable rate
TCFD	Task Force on Climate-Related Financial Disclosures
TCR	Total capital requirement
TFSME	Term Funding Scheme with additional incentives for SMEs
UEL	Useful economic life
VIU	Value-in-use
1L	First line (of the three lines model)
2L	Second line (of the three lines model)
3L	Third line (of the three lines model)

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