Pillar 3 Report

Starling Bank Ltd
Pillar 3 Report 2022

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1. Introduction

1.1 Purpose

This document comprises the Pillar 3 disclosures on capital and risk management for Starling Bank Limited ('Starling' or 'the Bank') as at 31 March 2022.

It has two principal purposes:

1. It provides information on the policies and approach taken by Starling to manage risks and to maintain its capital resources. It also includes details on:
   - The governance structure of the Bank; and
   - Information on the Bank's exposures and capital resources.
2. To meet the regulatory disclosure requirements under Part 8 of the UK Capital Requirements Regulation (CRR) and the rules of the Prudential Regulation Authority (PRA), including the Disclosure (CRR) part of the PRA Rulebook.

1.2 Overview

Starling Bank Limited is a UK registered bank authorised by the PRA and regulated by both the Financial Conduct Authority and the PRA. It is also registered under the Financial Services Compensation Scheme.

Subsequent to the end of the financial year, the Bank's registered office was changed to 5th Floor, London Fruit And Wool Exchange, 1 Duval Square, London, United Kingdom, E1 6PW.

These disclosures are not subject to external audit; however, some of the information within these Pillar 3 disclosures also appear in the audited 2022 Annual Report and Consolidated Financial Statements. The processes for preparing these disclosures are set out in the Bank's Pillar 3 policy.

This Pillar 3 document should be read in conjunction with the Annual Report and Consolidated Financial Statements for the year ended March 2022, which is published on Starling's website (www.starlingbank.com) and is also available from Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.

1.3 Legislative Framework

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

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

The three pillars prudential framework

Pillar 1

Pillar 1 capital is the Bank's minimum regulatory capital requirement relating to credit, market and operational risk. The Bank follows the Standardised Approach when calculating the minimum capital requirements for credit risk (which includes counterparty credit risk). The Bank has de minimis market risk relating to foreign exchange positions. The Bank uses the Basic Indicator Approach (BIA) for operational risk requirements.

Pillar 2

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

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

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

Pillar 3

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

1.4 Scope of Application

Starling reports its risk exposures on a solo-consolidated basis for regulatory reporting, following permission from the PRA. Starling uses the Individual Consolidation method in accordance with Article 9 of the CRR, and has incorporated in the calculation of its requirement its ancillary undertaking, Starling FS Services Limited.

The Bank's Annual Report and Consolidated Financial Statements are prepared on a consolidated basis, and for the year ended 31 March 2022 it additionally included Murmur Financial Services International DAC, MFSI Holdings Limited, Fleet Mortgages Limited and Engine By Starling Limited in the accounting consolidation. These entities do not fall within the scope of the prudential regulatory consolidation as they are either currently non-trading entities, or not the types of entities subject to regulatory consolidation, or fall below the materiality thresholds in Article 19 of the CRR.

1.5 Directors

Starling's Board of Directors comprises a mix of executive and non-executive directors. A summary of their experience is disclosed on the Bank's website (www.starlingbank.com).

The Bank's Board Nomination Committee regularly evaluates and reviews the structure, size, composition, skills, knowledge, experience and diversity of the Board and makes recommendations to the Board on any proposed changes, taking into account the combination of skills, experience, knowledge and time commitment required to respond to the challenges and opportunities facing the Bank. Additional diversity disclosures are contained in the 2022 Annual Report and Consolidated Financial Statements. Board members are screened for conflicts of interest and relationships with companies that do not meet Starling's values and ethics.

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

The Bank's Board Members held the following number of directorships as at 31 March 2022.

Name	Gender	Independent	Appointment Date	Total Number of Directorships
Anne Boden	F		18 June 2014	8
Lazaro Campos	M		21 June 2018	6
Carolyn Clarke	F	Independent	31 October 2020	4
Ian Jenkins	M	Independent	1 October 2021	2
Tony Ellingham	M		17 August 2016	5
David Sproul	M	Independent	30 June 2021	3
Marcus Traill	M		22 December 2015	23
Tracy Clarke	F	Independent	26 May 2021	5
Marian Martin	F	Independent	26 June 2019	4

2. Risk Governance and Committees

Anne Boden
Chief Executive Officer

The Starling Bank Board is the principal decision-making body for all significant matters affecting the Bank and its subsidiaries and is accountable to shareholders for creating and delivering long-term sustainable value. It has responsibility for approving the design and implementation of the Bank's strategy, corporate objectives and Enterprise Risk Management Framework (ERMF), having regard to the interests of all stakeholders.

The Board is also responsible for:

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

2.1 Board Risk Committee

The Starling Bank Board Risk Committee (BRC) has been established by the Board to ensure the effective operation of risk management and that the Bank operates within the overall risk appetite statement approved by the Board, in order to achieve its business/corporate objectives. The Board Risk Committee is the primary committee to receive and review risk-related information. The Committee also provides oversight of the Bank's Risk and Compliance function. The Board Risk Committee met nine times in the period 1 April 2021 to 31 March 2022. More information on the Board Risk Committee's key duties and responsibilities is disclosed in the 2022 Annual Report and Consolidated Financial Statements.

2.2 Board Audit Committee

The Starling Bank Board Audit Committee (BAC) has been established by the Board to ensure effective governance of 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 accounting policies. The Committee also oversees the implementation and effectiveness of the internal and external audit functions (including their programmes of work) and reviews the adequacy and effectiveness of the Bank's operational controls in mitigating risk, through an independent assurance lens. More information on the Board Audit Committee's key duties and responsibilities is disclosed in the 2022 Annual Report and Consolidated Financial Statements.

2.3 Executive Risk Committee

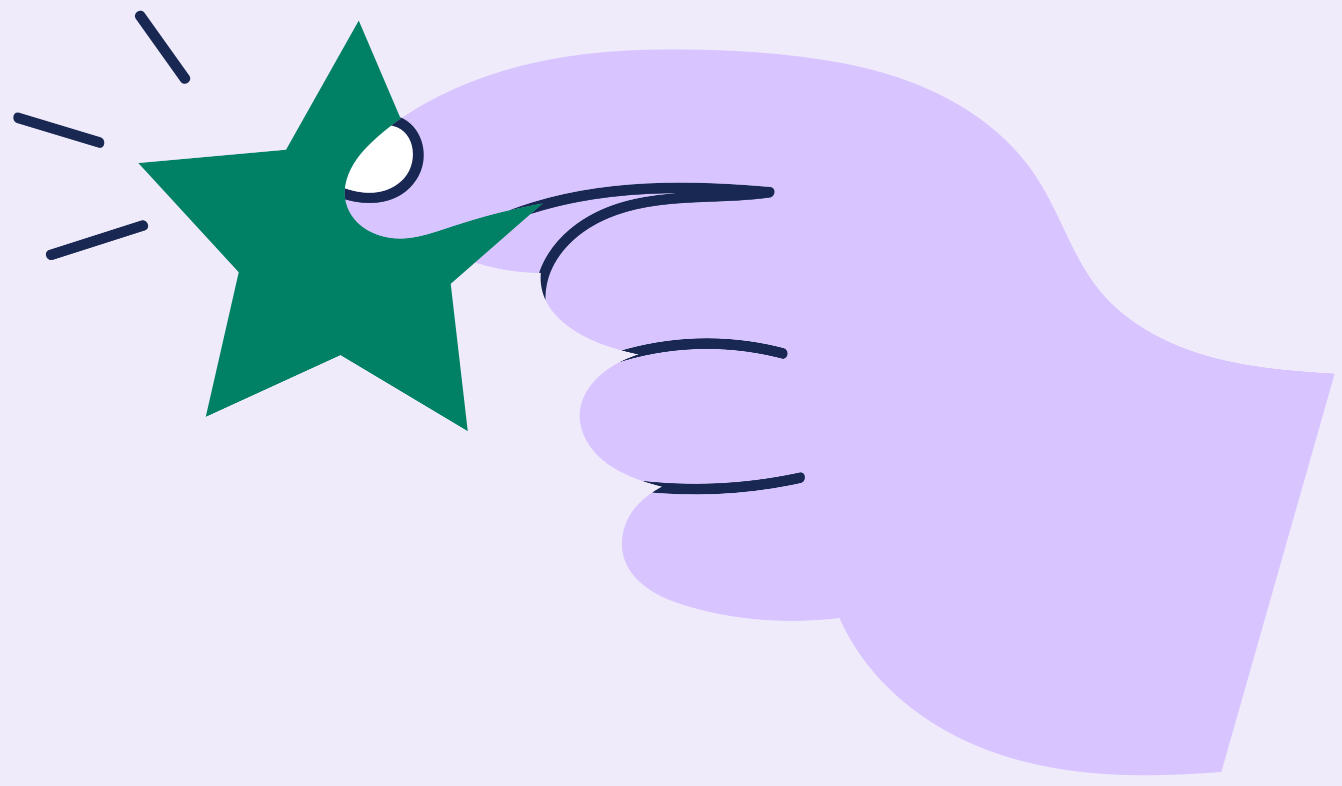
The Executive Risk Committee (ERC) oversees all risk types across Starling Bank, including monitoring and reviewing risk appetite and other approved policy limits and reviewing and making recommendations on all risk matters where the Board has reserved authority. This includes the following responsibilities:

- To define and submit to the Starling Bank Board Risk Committee / Board for approval all risk principles, frameworks and policies under which risk is taken, managed and controlled;
- To review risk related papers to be submitted by management to the Starling Bank Board Risk Committee and/or the Starling Bank Board Audit Committee;
- To cultivate a robust risk culture to support decision-making processes; and
- To oversee and receive reports from the Product and Conduct Committee, Operational Risk Committee, Credit Risk Committee, Impairment Committee, Third Party Credit and Forward Flow Committee, Financial Crime Steering Committee and Wholesale Credit Risk Committee.

More information on the Executive Risk Committee's key duties and responsibilities is disclosed in the 2022 Annual Report and Consolidated Financial Statements.

2.4 Asset and Liability Committee

The Asset and Liability Committee (ALCo) is the executive committee which oversees the overall balance sheet management of Starling Bank, including monitoring and reviewing the Bank's funding, liquidity management and balance sheet structure and overseeing liquidity, funding, market and capital risks. ALCo monitors these risks against the approved suite of risk appetite metrics and additional metrics agreed by ALCo in accordance with statutory and local regulatory requirements and in accordance with the delegated authority from the Board. More information on ALCo's key duties and responsibilities is disclosed in the 2022 Annual Report and Consolidated Financial Statements.



3. Risk Management

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

Risk taking is fundamental to Starling Bank's business profile and therefore prudent risk management, limitation and mitigation form an integral part of the Bank's governance structure.

The overarching direction of the Board is to take risk consciously and methodically in order to deliver the Bank's strategic and business objectives, whilst demonstrating management of material risks to levels that preserve financial and operational resilience, and which ensure the ongoing confidence of customers, regulators and investors. This document sets out the Bank's key ratios and metrics which offer a comprehensive view of the risk profile of the organisation, which is consistent with the risk tolerances set by the Board.

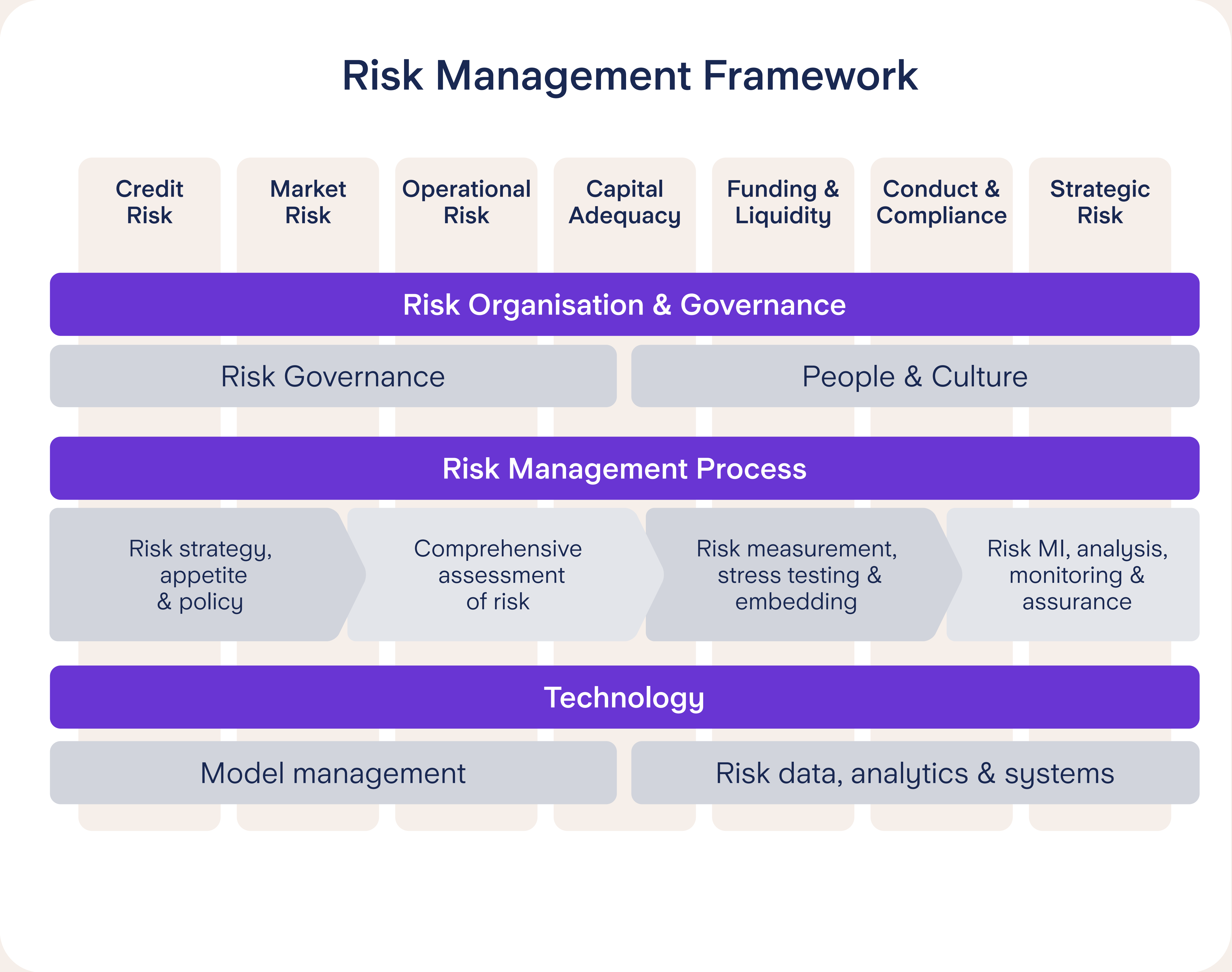
The Board considers that as at 31 March 2022 it had in place adequate systems and controls with regard to Starling's risk profile and strategy. Whilst risk cannot be eliminated, the Board is satisfied that the systems of internal control embedded within the risk management framework have worked effectively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

More information on the Bank's approach to risk management is disclosed in the 2022 Annual Report and Consolidated Financial Statements.

3.1 Risk Management Framework

The Enterprise Risk Management Framework (ERMF) outlines the Bank's approach to risk management and the risk management processes employed by the Bank. The key objectives of the ERMF are to:

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



3.2 Strategy and Culture

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

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

3.3 Risk Operating Model

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

First Line of Defence

The Business

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

Second Line of Defence

The Risk Function

- Develop, implement and maintain the ERMF;
- Develop 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;
- Provide assurance on regulatory compliance and effectiveness of key controls.

Third Line of Defence

Internal Audit

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

3.4 Risk Appetite

Starling's Risk Appetite Framework sets out its overall approach, including policies, processes, systems and controls through which risk appetite is established, communicated, controlled, managed and monitored. The methodology includes an assessment of the capacity for risk that Starling can assume given the current level of resources before breaching constraints

determined by regulatory capital and liquidity needs, the operational environment, and obligations to customers, employees, regulators and other stakeholders.

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

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

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

3.5 Principle risks

Further detail on the Bank's strategies and processes to manage risks for each separate risk category is detailed in Annex 1.

The following are the more important risks that the Group has identified:

- Operational Risk
- Credit Risk
- Financial Risk (including liquidity, funding, interest rate and foreign exchange related risks and capital)
- Strategic Risk
- Customer and Conduct Risk.

3.6 Operational Risk

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

Operational risk encompasses the following sub-categories:

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

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

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

Additional operational risk disclosures are contained in the 2022 Annual Report and Consolidated Financial Statements.

3.7 Credit Risk

Credit risk is the risk of financial loss to the Bank if either a customer, or a counterparty to a financial instrument, fails to meet its contractual obligations. As these are different types of credit risk, the Bank has separate strategies and processes to manage them. The credit risk management process involves risk identification, risk assessment, risk appetite, risk mitigation and risk monitoring. The Bank is exposed to Retail & Commercial Credit Risk, and Wholesale Credit Risk.

Retail and Commercial Credit Risk

Retail and Commercial Credit Risk is the current or prospective risk that a customer of the Bank defaults on their contractual obligations or fails to perform their obligations in a timely manner. This risk therefore arises through the lending facilities which Starling offers to its Mortgage, SME and Retail customers, both through its own origination channels and through third party Forward Flow partners.

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

3.7 Credit Risk continued

At the highest level, the Bank mitigates credit risk through the operation of a credit risk appetite statement and supporting limits. These are operationalised through credit risk policies and procedures designed to target a lending profile in line with the Bank's appetite for credit related losses. Credit risk appetite is approved by the Board on recommendation of the BRC, with authority delegated to ERC for setting risk appetite at a more granular level and for risk appetite monitoring.

The Bank's credit risk appetite statements are underpinned by a series of quantitative limits which monitor and control the overall quality of the portfolios. The Bank's credit risk appetite is set out in Annex I. Additional credit risk management information is contained in the 2022 Annual Report and Consolidated Financial Statements.

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

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

Wholesale Credit Risk

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

Starling aims never to become over-reliant upon any wholesale counterparty to the extent that a failure by that counterparty would have a severe detrimental impact upon the Bank. The Bank takes wholesale credit risk for its business activities and the investment of its HQLA portfolio within the limits set by the Board and the Wholesale Credit Risk Committee.

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

Starling mitigates wholesale credit risk by operating within a limit framework set by the Board. For counterparty credit risk, Starling's bank counterparties are established market makers and Starling has signed ISDA CSA agreements for the 2-way posting of collateral. Stressed collateral requirements are considered as part of liquidity stress testing.

Wholesale credit risk exposures, including counterparty credit risk, are monitored daily and breaches are escalated in line with escalation policies to senior management. A Wholesale Credit Risk Committee was set up in 2022, chaired by the Chief Risk Officer (CRO), to monitor wholesale credit risk exposures, review changes to models and methodologies for measuring the risk and for recommending wholesale credit risk limits to the Board.

3.8 Liquidity Risk Management

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

Starling's main sources of funding are from personal current accounts, business current accounts, banking as a service accounts and the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

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

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

Liquidity risk is measured in accordance with the PRA's Overall Liquidity Adequacy Rule (OLAR). A suite of metrics that cover regulatory requirements are regularly monitored: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), as well as the liquid assets required to cover both a short term stress and a longer term stress over several months. Additionally, the Bank sets limits on asset encumbrance.

The Bank ensures that it will, at all times, maintain:

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

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

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

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

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

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

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

Additional liquidity risk management information is contained in the 2022 Annual Report and Consolidated Financial Statements.

3.9 Market Risk

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

Foreign Exchange (FX) Risk

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 accept limited currency exposures in Euros and US Dollars.

FX risk is mitigated through the execution of spot and forward FX transactions with counterparty banks to reduce open positions. FX risk is continuously monitored by the Treasury function. Positions are reported daily to senior management and Risk. Monthly reporting is provided to ALCo and to the Board with quarterly analysis to the Board Risk Committee.

3.9 Market Risk continued

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

Starling hedges the interest rate risk arising in its Banking Book related to timing differences in the repricing of its assets, liabilities and off-balance sheet position.

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

Treasury manages the Bank's interest rate risk and seeks to minimise it within the risk appetite set by the Board through the use of interest rate derivatives traded under ISDA contracts with market counterparties. The execution of swaps generates counterparty credit risk.

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

See Annex 1 for the Bank's market risk appetite. Additional market risk disclosures are contained in the 2022 Annual Report and Consolidated Financial Statements.

3.10 Strategic risk

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

Additional strategic risk disclosures are contained in the 2022 Annual Report and Consolidated Financial Statements.

3.11 Conduct risk

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

Additional conduct risk disclosures are contained in the 2022 Annual Report and Consolidated Financial Statements.

4. Capital and Other Disclosures

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

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

The Bank has complied with all externally imposed capital requirements during the period from 1 April 2021 to 31 March 2022.

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

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

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

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

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

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

Additional disclosures on capital are contained in the 2022 Annual Report and Consolidated Financial Statements.

Subsequent to the balance sheet date, on 21 April 2022 the Group completed a successful issuance of Series D shares to existing shareholders. Consequently, the Group's equity capital base has been increased by £130.4m net (£130.5m before expenses of issue). On 30 April 2022 the Bank completed the purchase of a closed portfolio of mortgage loans for consideration of £514.2m. As a consequence of both of the above items, the Bank's CET1 and Tier 1 ratios increased to 44.9%, and the UK leverage ratio increased to 9.5%.

2. Minimum Pillar 1 total capital requirement is 8.00 %

4.1 Key Metrics

This table presents the set of key prudential metrics covering the Bank's available capital (including buffer requirements and ratios), risk weighted exposure amounts (RWA), leverage ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

	31 Mar 2022 £'000	31 Mar 2021 £'000
Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	**397,502**	136,769
Tier 1 capital	**397,502**	136,769
Total capital	**397,502**	136,769
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	**994,828**	285,689
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	**39.96%**	47.90%
Tier 1 ratio (%)	**39.96%**	47.90%
Total capital ratio (%)	**39.96%**	47.90%
Additional own funds requirements based on SREP[a] (as a percentage of risk-weighted exposure amount)		
Additional CET1 SREP requirements (%)	**0%**	5.33%
Additional AT1 SREP requirements (%)	**0%**	1.78%
Additional T2 SREP requirements (%)	**0%**	2.37%
Total SREP own funds requirements (%)	**8.00%**	17.47%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	**2.50%**	2.50%
Institution specific countercyclical capital buffer (%)	**0%**	0%
Combined buffer requirement (%)	**2.50%**	2.50%
Overall capital requirements (%)	**10.50%**	19.97%
CET1 available after meeting the total SREP own funds requirements (%)	**293,045**	79,716
Leverage ratio		
Total exposure measure excluding claims on central banks	**5,063,481**	2,546,904
Leverage ratio excluding claims on central banks (%)	**7.85%**	5.37%
Liquidity Coverage Ratio[b]		
Total high-quality liquid assets (HQLA) (Weighted value - average)	**5,128,346**	2,402,238
Cash outflows - Total weighted value	**1,211,430**	531,222
Cash inflows - Total weighted value	**209,396**	41,655
Total net cash outflows (adjusted value)	**1,002,034**	489,567
Liquidity coverage ratio (%)	**515%**	522%
Net Stable Funding Ratio[c]		
Total available stable funding	**10,660,584**	n/a
Total required stable funding	**4,088,546**	n/a
NSFR ratio (%)	**261%**	n/a

(a): Supervisory Review and Evaluation Process.
(b): The Liquidity Coverage Ratio represents the average of the last 12-months reported LCR.
(c): NSFR is a new requirement introduced in 2022 as part of CRR 2, thus the Bank does not provide comparative information for the prior period.

4.2 Overview of Risk Weighted Exposure Amounts (RWAs)

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

	Risk weighted exposure amounts		Total own funds requirements	
	31 Mar 2022 £'000	31 Mar 2021 £'000	31 Mar 2022 £'000	31 Mar 2021 £'000
Credit risk (excluding CCR)	**835,048**	**225,802**	**66,804**	**18,064**
Of which the standardised approach	835,048	225,802	66,804	18,064
Counterparty credit risk - CCR	**92,241**	**33,447**	**7,379**	**2,676**
Of which the standardised approach	38,713	13,498	3,097	1,080
Of which credit valuation adjustment - CVA	53,528	19,949	4,282	1,596
Securitisation exposures in the non-trading book	**1,166**	**1,365**	**93**	**109**
Of which SEC-SA approach	1,166	1,365	93	109
Operational risk	**66,372**	**25,075**	**5,310**	**2,006**
Of which basic indicator approach	66,372	25,075	5,310	2,006
Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	98,731	–	7,899	–
Total	**994,828**	**285,689**	**79,586**	**22,855**

4.3 Composition of regulatory own funds

	31 Mar 2022 £'000	References to disclosures in Section 4.4
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	478,344	a,b
Cumulative retained earnings	(63,394)	d
Accumulated other comprehensive income (and other reserves)	22,438	c
Common Equity Tier 1 (CET1) capital before regulatory adjustments	437,388	e
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments (negative amount)	(198)	
Intangible assets (net of related tax liability) (negative amount)	(20,597)	f
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(21,668)	g
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(10,678)	
Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	13,255	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(39,886)	
Common Equity Tier 1 (CET1) capital	397,502	
Additional Tier 1 (AT1) capital	–	
Tier 1 capital (T1 = CET1 + AT1)	397,502	
Tier 2 (T2) capital	**–**	
Total capital (TC = T1 + T2)	**397,502**	
Total Risk exposure amount	**994,828**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	39.96%	
Tier 1 (as a percentage of total risk exposure amount)	39.96%	
Total capital (as a percentage of total risk exposure amount)	39.96%	
Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	7.00%	
of which: capital conservation buffer requirement	2.50%	
of which: countercyclical buffer requirement	0%	
of which: systemic risk buffer requirement	0%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	29.5%	

4.4 Reconciliation of regulatory own funds to balance sheet in the audited Financial Statements

	Balance sheet as in published financial statements 31 Mar 2022 £'000	Under regulatory scope of consolidation 31 Mar 2022 £'000	References to disclosures in Section 4.3
Assets - *Breakdown by asset class according to the balance sheet in the published financial statements*			
Loans and advances to banks	6,105,459	6,101,357	
Debt securities	2,306,886	2,306,886	
Loan and advance to customers	3,173,983	3,173,983	
Derivative asset	98,056	98,056	
Deferred tax	21,985	21,668	g
Other assets	129,030	126,380	
Property, plant and equipment, right of use (ROU) asset	5,904	5,320	
Intangible assets	28,211	20,597	f
Goodwill	35,890		
Investment in subsidiary and intercompany account		51,433	
Total assets	11,905,404	11,905,680	
Liabilities - *Breakdown by liability class according to the balance sheet in the published financial statements*			
Customer accounts	9,027,296	9,027,610	
Due to other banks	2,281,380	2,281,380	
Derivative liabilities	330	330	
Provision for liabilities	1,242	1,242	
Other liabilites & accruals	141,055	138,386	
Deferred Income	23,059	18,659	
Current tax laibility	618	685	
Total liabilities	11,474,980	11,468,292	
Shareholders' Equity			
Share capital	11	11	a
Share premium	478,333	478,333	b
Other reserves	22,525	22,438	c
Cumulative retained earnings	(70,445)	(63,394)	d
Total shareholders' equity	430,424	437,388	e

5. Remuneration

These remuneration disclosures have been drafted in accordance with the CRR and CRD, with consideration for the size and nature of the Bank's activities, and the proportionality guidelines as set out by the PRA.

Starling ensures that its remuneration policies, practices, and procedures are clear and documented. To record those policies, practices and procedures, and assess its compliance with the Remuneration Code, the Bank's remuneration policy is reviewed annually to take account of any changes to policies, practices and procedures. The Bank's remuneration policies aim to strike a balance between short- and long-term business performance and reward people accordingly. Remuneration, including any variable remuneration, is linked to business performance, and assessed against financial and non-financial criteria including risk management related metrics. To ensure that salaries reflect individuals' skills and experience, the Bank conducts research to determine market rate.

The Board is committed to adhering to the Financial Services Remuneration Code, thus ensuring that the Bank has risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose the Bank to excessive risk. This is done in a manner which is appropriate to the Bank's size, internal organisation and the nature, scope and complexity of its activities. When necessary, the Bank seeks external advice to support decision making and inform the Board prior to approval of the remuneration policy.

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

5.1 Remuneration awarded for the Financial Year

The information below sets out the remuneration of individuals who served for at least part of the year as an a Material Risk taker (MRT). These members of staff have been classified as MRTs as they could have a material impact on the risk profile of the Bank.

The ratio between fixed and variable pay can be seen below.

For the year ended 31 March 2022
£'000

	Supervisory function	Management function	Other senior management
Number of identified staff	5	14	11
Total fixed remuneration	590	4,764	2,122
Total variable remuneration	–	6,208	2,325
Total remuneration	**590**	**10,972**	**4,447**

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

5.2 Remuneration, broken down by Business Area

The following table provides information on remuneration of staff whose professional activities have a material impact on institutions' risk profile.

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

For the year ended 31 March 2022
£'000

	Management body	Retail banking	Corporate functions and independent internal functions
Number of identified staff	**19**	**5**	**6**
Total fixed remuneration	5,354	1,022	1,100
Total variable remuneration	6,208	929	1,396
Total remuneration	**11,562**	**1,951**	**2,496**

Annex 1: Risk Statements and Risk Appetite

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

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

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

Strategic Risk

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

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

Capital Adequacy Risk

The risk that Starling could have insufficient capital to withstand an extreme, but plausible loss and thereby expose its depositors and other creditors to losses.

- Starling will, at all times, maintain sufficient capital resources to cover its risk profile and associated risk exposures. As a minimum, the Bank's capital resources will be maintained above the minimum total capital requirements (i.e. TCR (Pillar 1 plus Pillar 2A) plus Combined Buffers (including PRA Buffers)).
- The Board approves the capital risk appetite annually, defining the minimum levels of capital that the Bank needs to hold across a variety of metrics.

Retail and Commercial Credit Risk (including Concentration Risk)

The Bank lends money to individuals and small and medium sized enterprises. The Bank takes retail and commercial credit risk through its lending activities within the limits set by the Board and the Executive Risk Committee. It aims to be a responsible lender and will seek to only provide lending facilities to applicants who are not over-indebted and who can evidence an ability to service their lending.

Wholesale Credit Risk (including Concentration Risk)

The current or prospective risk that a wholesale counterparty of the Bank defaults on its contractual obligations to Starling, or fails to perform its obligations in a timely manner.

- Starling aims never to become over-reliant upon any wholesale counterparty to the extent that a failure by that counterparty would have a severe detrimental impact upon the Bank.
- Starling will take counterparty credit risk on service providers and suppliers based on individual counterparty analysis and approved limits.
- The Bank takes wholesale credit risk for its business activities and the investment of its HQLA portfolio within the limits set by the Board and the Wholesale Credit Risk Committee.

Funding and Liquidity Risk

The risk that Starling could fail to meet its obligations as they fall due, including having the right type and quantity of funds, in the right place, at the right time and in the correct currency.

- Starling will, at all times, maintain sufficient liquidity to enable it to successfully meet its financial obligations as and when they fall due.
- Starling will at all times maintain a pool of High Quality Liquid Assets to maintain liquidity metrics above their required internal levels and comfortably above regulatory minimum levels.
- Maintain its compliance with the OLAR through its Risk Appetite Framework.

Market Risk
The risk to capital or earnings from the movement of market variables, such as interest rates and foreign exchange rates.

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

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

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

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

Fraud and Financial Crime Risk
This category of risk covers two underlying threats to the Bank and its customers:

- The risk of customer harm or operational losses arising from external dishonest behaviour, with the intent to make a gain or cause a loss to others; failure to identify and appropriately mitigate money laundering, terrorist financing, sanctions and anti-bribery and corruption risks arising from Starling's operations. Starling has no appetite for knowingly facilitating criminal activities by customers, including tax evasion, money laundering or any other fraudulent activity.

Compliance Risk
The risk of financial loss, reputational damage and/or regulatory censure arising from failing to comply with existing/future regulatory or legislative requirements.

The risk of financial loss, reputational damage and/or regulatory censure arising from changes to existing regulatory/legislative requirements made by regulatory/statutory authorities that negatively impact the existing strategy/business model of the Bank.

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

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

Starling ensures that we deliver fair customer outcomes across all of our activities, including ensuring the appropriate conduct of our staff. We have no appetite for staff conduct which is in conflict with our business values or which results in poor customer outcomes.

Starling
Bank