STARLING BANK

# Starling Bank Limited


Starling Bank Limited Annual Report and Consolidated
Financial Statements For The Year Ended 30 November 2018.

# CONTENTS

# COMPANY INFORMATION

Starling Bank

### Directors

**Oliver Stocken CBE**
(Independent Non-Executive Chairman)

**Mark Winlow**
(Independent Non-Executive Director)

**Steve Colsell**
(Independent Non-Executive Director)

**Victoria Raffé**
(Independent Non-Executive Director)

**Marcus Traill**
(Non-Executive Director)

**Craig Mawdsley**
(Non-Executive Director, termination of appointment effective date 21 June 2018)

**Lazaro Campos**
(Non-Executive Director, appointment effective date 21 June 2018)

**Anne Boden MBE**
(Chief Executive Officer)

**Tony Ellingham**
(Chief Financial Officer)

### Company Secretary

**Matthew Newman**

### Registered Office

3rd Floor
2 Finsbury Avenue
London
EC2M 2PP

**Company Registration Number 09092149 (England and Wales)**

### Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

# STARLING IN NUMBERS

About Starling Bank

**337,000+**
Number of personal accounts

**279**
Employees in our London office and remotely

**19,000+**
Business + sole trader accounts

**4 years**
Since our founding

**21.8m**
Transactions processed

**£1,053**
Average deposit

**4.8/5**
Average Apple App Store Rating

**16 to 88**
Youngest and oldest customers

**£202m**
The amount we hold on deposit

**38**
Countries customers can send money to

# GROUP STRATEGIC REPORT

Our Business

Starling Bank Limited ("Starling" or the "Bank" or the "Parent Company" or the "Company"), a private company limited by shares, was established in June 2014. Its aim is to create the best current account in the world. It is a UK-based retail bank that specialises in providing current accounts for individuals, SMEs and sole traders.

Starling is a different proposition in the world of retail banking in that it has no physical branches and its current account is run entirely from a mobile phone app. This differentiator is not only a cost reducer but it also allows the Group to be agile in its evolution of technology.

In March 2018, Starling Bank won Best British Bank and Best Current Account provider at the British Bank Awards 2018.

# GROUP STRATEGIC REPORT

Our Business

## Notable events

During the last 12 months the Bank has made the following software releases:

- In early February, the Starling Marketplace was launched, enabling carefully selected third parties to integrate with Starling's customers.
- In late February, the Bank launched its 'Settle up' feature enabling Debit Card payments to be split with others.
- In March, it launched Business accounts for Single Director Limited companies.
- In May, the Bank launched International Payments, enabling customers to move money to 38 countries around the world via their mobile phone.
- In June, Sole Trader accounts were launched.
- In July, it launched Joint accounts so that two people can share the Starling experience.
- In August, the Bank launched its instalment credit offering, Spread the Cost.
- In early September, Marketplace for SME was launched with an impressive pipeline of potential integrations for both personal and business account holders.
- In late September, the Bank launched personal accounts to 16 and 17 year olds.
- In October, the Bank launched its Banking-as-a-Service product, offering other organisations access to the Starling platform.
- In late October it launched an automated Current Account Switching Service (CASS) for both Business and Joint account holders.
- In early November, the Bank launched cash deposits and withdrawals at the Post Office, enabling customers to use over 11,500 Post Office branches for banking services.
- In late November, it launched Business Overdrafts.

In the first quarter of 2019 Starling will be launching a multi-currency current account that will support both Personal and Business customers in the UK and in Europe.



# GROUP STRATEGIC REPORT

Business Review

## Customer numbers

By the end of November 2018, over 356,000 customers (2017: over 43,000 customers) had opened an account with Starling, ahead of our budget expectations.

Starling customer satisfaction is embedded in its management culture and this has translated into high scoring levels in the Apple App Store (4.8/5.0, 96%) and Android Play Store (4.5/5.0, 90%). Many customers have provided feedback on the product that has helped in making the app functionality better.

Operationally, Starling has issued over 315,000 debit cards in the year to its customers and processed in excess of 21.8 million transactions through its card management system.

## Building a strong balance sheet

The Bank has seen strong growth in customer deposits, which totalled £202m at 30 November 2018. This means it is well-positioned to grow its lending business, with its overdrafts and Spread-the-Cost instalment loans offering. At 30 November 2018, customers lending balances had grown to over £8.6m.

At 30 November 2018, the average deposit per active customer was £1,053 and the average lending balance per active customer was £429.

Since launching its Business accounts in the first quarter of 2018, the Bank has seen customer numbers grow rapidly to nearly 20,000 Business and Sole Trader accounts. The product is unique in that all functions can be performed on the mobile phone by busy business people. There was an approximate 70:30 split between small limited companies and sole traders, with average deposit balances of more than £7,000 and £1,100 respectively at 30 November 2018.

**315,000**

debit cards issued

# GROUP STRATEGIC REPORT

Business Review

## Building Starling into a Marketplace

Starling's consumer product is supported by a dedicated Marketplace that allows customers to view and consume best-in-class complementary offerings from insurance and mortgages through to pensions, loyalty schemes and investment services. The launch of a dedicated Marketplace for the small and medium-sized (SME) customers will allow customers to access over 80 different service suppliers ranging from Investment and Savings to Business Services.

## Banking-as-a-Service

Having built best in class infrastructure services to support its own operations, the Bank is now able to open up its infrastructure to offer banking-as-a-service propositions to fintechs, corporates and governments in the UK and across Europe.

Starling believes that the banking industry as a whole is at a tipping point. The API (Application Programming Interface) economy, new payments legislation (e.g. revised Payment Services Directive and Open Banking) together with a scalable Banking-as-a-Service proposition that Starling offers, are revolutionising the banking industry. Over the last ten years industry after industry have been transformed by the platformification of their services. Starling is one of the first real implementations of this model for the banking industry.

To enable success, there must be a vibrant ecosystem of fintechs to benefit from these new easily-consumable services. The Bank has been fortunate that the regulatory environment and competition authorities in the UK have been supportive of these developments.

80 different service suppliers

## Making the customers' data work for them

The next stage in the Bank's evolution lies in the implementation of machine learning and artificial intelligence (AI) to further guide customers in their financial life, enabling them to select the best services for their individual needs.

With customers' permission, the Bank collects rich transactional data that can be used to give them powerful insights into their finances. Using AI, the Bank will be able to help them see if they have enough money to last them to the end of their day, their week, their month or their life.

## RBS State Aid: Alternative Remedies Package

Starling is ideally positioned to apply for an award under the RBS Remedies Fund (the Royal Bank of Scotland's "Alternative Remedies Package"). The RBS Package was set up by RBS and HM Treasury in order to redress the competitive advantage gained by RBS as a result of the financial support it received from the UK Government during the financial crisis in 2008 and 2009. As one of only a handful of banks that meets the entry criteria and with a management team that has the ambition to create a next generation SME bank for the UK, Starling will be aiming for the biggest grant available. With significant grant funding on this scale, the Bank would be able to deliver a ground-breaking technology-based solution to support the SMEs that make up the backbone of the UK economy.

In late November 2018, the Bank applied for the Incentivised Switching Scheme ("Business Banking Switch") and was notified that it had been accepted into the scheme in early December 2018. Later in December it submitted an application to Banking Competition Remedies Limited (BCR Ltd) for an award under Pool A of the Capability and Innovation Fund to enhance its presence in the SME market. BCR Ltd is the body providing independent scrutiny of the award of funds as part of the Alternative Remedies Package and has indicated that the awards will be made during February 2019.

# GROUP STRATEGIC REPORT

Business Review

## Brexit

At the time of drawing up the accounts it is unclear whether the UK's withdrawal from the European Union will be in an orderly manner or will be a sudden departure; either could cause a shock to the UK economy. The impact of either exit is not considered to have a direct impact on the Bank's business. The Bank operates in the UK and has limited exposure to trade with European partners.

The Bank has previously announced its intention to enter the Irish market and already has permission to provide cross border financial services. As part of its Brexit planning it is in the process of creating a subsidiary and applying to the Central Bank of Ireland for a banking licence. The Bank's European payment processes are either provided directly by itself or by other banks and electronic money institutions who have confirmed their readiness for Brexit. Strategies to mitigate the risk posed by either exit are in place.

## Staff

As with any business, the staff are central to the success or failure of executing the business plan. The team has made an exceptional commitment to bring about the success of Starling through their expertise. Over the last financial year, staff numbers have increased from 125 full-time employees to 279 of which 106 are female and 173 are male. Starling embraces diversity and inclusion and supports the Women in Finance Charter which aims to bring the level of female staff within Senior Management above 30% by 2021. With 37 different nationalities (2017: 29 nationalities), the ethnic spectrum and foreign talent pool is well represented.

The Bank is committed to promoting equal opportunities and acts to avoid any discrimination across all aspects of employment. Recruitment, promotion and other selection exercises are conducted on the basis of merit and against objective criteria that avoids discrimination. If applicants or employees are disabled or become disabled, we encourage them to tell us about their condition so that we can consider what reasonable adjustments or support may be appropriate. The Bank aims to provide equal opportunities for training and career development for disabled employees.

The Bank provides employees with regular updates about its performance, objectives and strategy. This includes weekly demonstrations regarding technology updates and a frequently used direct message channel from the CEO. The Bank has encouraged employees' involvement in its performance by a range of benefits which include offering share incentive arrangements to certain employees.

# GROUP STRATEGIC REPORT

## Financial Review

The Group reported a loss before tax of £(26,856)k for the year to 30 November 2018 (2017: £(11,610)k). The loss after tax for the period was £(25,070)k (2017: £(10,196)k).

During the year the Group received income of £3,075k (2017: £119k) comprising interest income from on its capital and customer deposits, placed with the Bank of England investing in high quality liquid assets, lending activities, and fees and commissions from its customers' use of their debit cards. It paid interest expense on its customers' deposits, card fees and commissions on its customers' card transactions totalling £(2,325)k (2017: £(138)k). The Group incurred operating overheads of £(32,318)k (2017: £(16,688)k) some of which was directly attributable to the cost of designing, specifying, building, testing and implementing the software to support its banking platform. During the period an assessment was made of the future economic benefit of the software developed and an amount of £5,464k (2017: £4,710k) was capitalised in the Statement of Financial Position as an Intangible asset, resulting in total operating costs of £(26,854)k (2017: £(11,978)k) in the Statement of Comprehensive Income.

Starling places the majority of its customer deposits with the Bank of England and this is reflected in its overall net interest income margin of 98 bps (2017: 30 bps). The Bank's gross interest income was on average 14.8% (2017: 12.9%) and the cost of deposits was on average 0.4% (2017: 0.37%). Starling has a strong deposit base that is widely diversified for the size of the organisation. The Bank's relatively small total for lending balances comprises individual customer overdrafts and short-term instalment loans. At 30 November 2018, the Bank's loan to deposit ratio was 5% (2017: 4%). Starling's average cost of risk was 1.84% (2017: 3.37%).

# GROUP STRATEGIC REPORT

## Principal Risks and Uncertainties

The Board considers the principal risks and uncertainties to be: strategic, capital adequacy, credit including concentration & counterparty, funding & liquidity, market, conduct, operational and compliance.





# GROUP STRATEGIC REPORT

## Risks and Mitigating Controls

| Risk | Mitigating Controls |
| --- | --- |
| **Strategic Risk** is the risk that Starling's strategy is sub-optimal, not well understood or is poorly executed due to inadequate planning or resources. | Starling has a clearly defined Board-approved strategy and has assumed a corporate governance framework with a Board of experienced executive and non-executive Directors. Board subcommittees and executive committees to oversee and address strategic issues as they arise. This is supported by a detailed business plan, risk appetite statement, and recovery and resolution plan as well as a skilled and experienced executive team. |
| **Capital Risk** is the risk that capital is insufficient to meet regulatory or internal requirements under the business plan or in a stress environment. | Starling assesses its capital requirements under an Internal Capital Adequacy Assessment Process (ICAAP) that is aligned to its business plan and capital-raising activities. Key metrics are monitored daily and regularly reviewed by the Board, including the adequacy of capital and its consumption for operational requirements. |
| **Credit Risk** is the risk that actual or expected losses are higher than planned due to market deterioration, poor underwriting (including scorecard ineffectiveness) or poor ongoing management of the credit portfolio. | Starling's Board approved credit policy and risk appetite statement prescribe the Bank's approach to managing credit risk, supported by procedures linked to a scorecard-driven customer acquisition and credit management processes. Credit exposures are monitored daily with oversight from a Credit Risk Committee (CRC) as well as reporting to the Board Risk Committee (BRC).<br>The counterparty credit policy limits the Bank's risk to counterparty failure. Credit exposure is overseen by the Executive Risk Committee (ERC) and, on behalf of the Board, by the BRC. |
| **Funding & Liquidity Risk** is the risk that the Bank has insufficient cash resources to meet its obligations as they fall due, achieve its business strategy or can do so only at an excessive cost. | Starling has a funding and liquidity risk policy supported by a suite of procedures with the risk managed and reported by a designated Treasury function.<br>Starling has assessed its day to day liquidity requirements under an Internal Liquidity Adequacy Assessment Process (ILAAP), mitigated by a Contingency Funding Plan. The end to end process is overseen by the Assets and Liabilities Committee (ALCO). Key metrics are monitored daily and regularly reviewed by the Board. |

# GROUP STRATEGIC REPORT

Principal Risks and Uncertainties

| Risk | Mitigating Controls |
|---|---|
| **Market Risk** is the risk that changes in market prices negatively impact the Bank's assets, liabilities, income or costs. | Starling's market risks are mainly interest rate risk in the Banking Book associated with investments in UK government bonds (Gilts), and currency risk associated with contracts or deposits with service suppliers. Risk is managed within the risk appetite under a market risk policy and related procedures and overseen by ALCO, ERC and BRC. |
| **Operational Risk** is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. | Starling has a suite of operational risk policies and procedures covering the identification, management and reporting of risks associated with internal and external fraud, people risk, execution and delivery risk, supplier and outsource management, legal risk, business continuity management and disaster recovery, information management, and data protection. Compliance with these policies is monitored by the second line of defence, which provides assurance with risk management oversight through the Operational Risk Board. |
| **Conduct & Culture Risk** is the risk of creating harm to a customer, counterparty or market arising from inappropriate conduct in the execution of business activities. | Starling's conduct risk policy sets the framework for the fair treatment of customers as well as ensuring appropriate conduct by staff in line with the Bank's expectations and the Financial Conduct Authority's (FCA's) Conduct Rules. The Bank has a range of measures and thresholds covering the Bank's management of conduct risk across the customer journey. |
| **Compliance Risk** is the risk of systemic or serious non-compliance with prevailing regulatory requirements. | Starling manages regulatory compliance and financial crime under a series of policies, procedures and manuals, including anti-money laundering, countering financing of terrorism, sanctions, conflicts of interest and regulatory compliance alongside a mandatory staff training program. There is frequent interaction with the Prudential Regulation Authority (PRA) and the FCA. |
| **Brexit:** there is a risk that the UK's proposed withdrawal from the European Union (EU) either will not be in an orderly manner or will be a sudden departure; either could cause a shock to the UK economy | The impact of either exit is not considered to have a direct impact on the Bank's business model, which depends on an assessment of the future economic environment and the Group's future prospect and performance. In modelling its regulatory capital requirements for its ICAAP, the Bank has already assessed the effect of a severe shock to the UK economy; the result of this stress test is that the Bank has sufficient capital to withstand such an event. |



## A. STRATEGIC RISK

Strategic Risk is the risk that Starling's strategy is sub-optimal, not well understood or is poorly executed due to inadequate planning or resources.

Starling is sensitive to UK macroeconomic conditions as its revenue is linked to the number and volume of customers' transactions. This in turn depends, amongst other things, on levels of employment and disposable income available to customers in the UK. The Bank assesses the impact of these business and environmental impacts in part through its macro-economic stress tests within the ICAAP (for instance a downturn in UK GDP, or an increase in UK unemployment).

## B. CAPITAL RISK

Capital Risk is the risk that capital is insufficient to meet regulatory or internal requirements under the business plan or in a stress environment.

Capital risk is particularly important for a growing bank, since if the Bank is either expanding rapidly or is experiencing setbacks that impact upon its profitability, it will require more operational capital than originally estimated.

Capital is one of the key measures for the Bank and the Board sets a capital risk appetite. Capital is actively managed with regulatory ratios being a key factor in the Bank's planning processes and stress analysis.

The principal committee at which the Bank's capital is scrutinised and managed is ALCO. Both Executive Committee (ExCo) and ERC plus the BRC review high level capital metrics, together with more granular details if there are any matters of concern. The Board and BRC also receive a high level commentary on capital utilisation.

### Key Capital Risk Mitigations

Starling refreshes its Internal Capital Adequacy Assessment Process (ICAAP) in line with regulatory expectations, as a minimum on an annual basis, which includes a 3-year forecast of the Bank's capital position. The ICAAP is used to inform the future capital strategy and is submitted to the PRA following Board scrutiny and approval.

The ICAAP assesses the Bank's Pillar 1 requirements using the Standardised/Basic Indicator approaches, for credit risk, market risk and operational risk respectively, and determines additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. The Bank also holds Pillar 2B capital based upon wind-down costs and the regulatory defined capital conservation buffer and counter-cyclical buffer.

A series of extreme but plausible macro-economic scenarios that might arise during a 3-year horizon of the business plan are also run to assess the resilience of the capital position. The stress testing affects capital (either by depletion of capital or by failure to raise new capital) or by increasing capital requirements as a consequence of changes in risk profile.

In order to ensure timely management action to avoid breaching a regulatory capital measure, a Board approved buffer of additional capital is maintained above the regulatory threshold.

### Key Capital Risk Metrics

The Bank's key capital metric is the current and projected surplus of capital resources over regulatory capital requirements. The Leverage Ratio is also monitored, so as not to overstretch the extent of its total assets in comparison with its capital base. Capital metrics are reviewed daily to assess the current and projected capital.

During 2018, the Bank complied in full with all its regulatory capital requirement. Note 20 provides information on capital and reserves per the IFRS Statement of Financial Position, with a reconciliation to the regulatory definition of capital. Further Capital Risk disclosures can be found in the Bank's supplementary Pillar 3 disclosures.

# GROUP STRATEGIC REPORT

Risks & Mitigating Controls

## C. CREDIT RISK

Credit risk is the risk that actual or expected losses are higher than planned due to market deterioration, poor underwriting (including scorecard ineffectiveness) or poor ongoing management of the credit portfolio.

Lending creates credit risk as borrowers might fail to pay the interest or repay the outstanding amount due. This is usually caused by adverse changes in macroeconomic factors or a change in an individual customer's behaviour and circumstances. As a material risk to the Bank, there is a significant management focus on setting credit risk appetite and embedding appropriate credit monitoring and collections processes.

The Bank accepts credit risk as it provides unsecured overdrafts to individuals, via its app-only banking services, in order to generate a return through interest income.

Exposure to credit risk is monitored and managed by the Credit function and is overseen by the CRC which meets monthly. The CRC's activities are overseen by the ERC and the BRC on behalf of the Board.

### Retail Credit Risk Management

The Board defines its credit risk appetite within the context of its risk appetite statement. This is achieved by setting and monitoring lending policy and ensuring appropriate controls are in place to maintain the quality of lending facilities and reviewing management information that includes both credit portfolio and financial accounting metrics.

### Counterparty Credit Risk Management

Exposure to counterparty credit risk is monitored by the Finance function and the Chief Risk Officer. Counterparty credit risk comprises deposits at UK banks, investments in UK Government Securities (e.g. Gilts), deposits held with service providers and funds in transit with payment service providers. Limits are determined by the ERC and exposure is monitored and reported daily to management.

### Key Credit Risk Mitigations

In order to assess the quality of current accounts and overdrafts, Starling utilises a combination of statistical modelling (credit scores/risk grades) and assessment of applications against credit policy criteria embedded within its decision system, including but is not limited to, a customer probability of default and probability of becoming over-indebted. This approach allows for consistent lending decisions and helps determine when manual intervention is required.

Collections and recovery activity is overseen by the CRC. The Committee is responsible for establishing the collection policy, with a core objective of treating customers fairly, and for subsequently monitoring performance and compliance with policy and regulation.

### Key Credit Risk Metrics

Credit performance trends and key risk indicators are monitored with recommendations discussed at CRC, ERC and BRC where appropriate.

# GROUP STRATEGIC REPORT

Risks & Mitigating Controls

## D. FUNDING & LIQUIDITY RISK

Liquidity risk is the risk that the Bank has insufficient cash resources to meet its obligations as they fall due, achieve its business strategy or can do so only at an excessive cost.

The Bank takes liquidity risk when it uses customer's deposits either for investment or for lending, and customer's demand their deposits are returned either before the investments mature or before the lending is repaid.

Liquidity risk is managed by the Treasury function within Finance and is monitored by the second line Risk team. Reporting and management of liquidity is monitored by ALCO which meets monthly. ALCO's activities are overseen by the BRC, on behalf of the Board.

### Key Liquidity Risk Mitigations

The key liquidity risk mitigants used by the Bank are the deployment of cash at the Bank of England and its holding of a portfolio of High-Quality Liquid Assets (HQLA) which can be sold under repurchase agreements with minimal downside at any time to provide cash to the Bank. Starling uses a forward-looking projection of cash-flows (both inflows and outflows) which are stressed to determine whether there will be sufficient liquidity to cope with unexpected outflows. The Bank adheres to all regulatory liquidity requirements, but also considers additional, more severe stress scenarios. It then ensures that a number of liquidity mitigations are put in place to be certain that the Bank has access to adequate liquidity at all times. Intra-day, daily and overnight liquidity positions are also assessed.

### Key Liquidity Metrics

Given the nature of the Starling business model, being a start-up with a simple product offering to retail and SME customers through a single channel, the focus of the liquidity test has been to look at the impact of the run off of funding. With all customer balances being on an open maturity, i.e. able to be withdrawn at any time, this represents the greatest risk to the Bank's liquidity position under stress scenarios.

The key metrics used to monitor liquidity risk are the Liquidity Coverage Ratio (LCR) and four in-house stress measures comprised in the Bank's Overall Liquidity Adequacy Requirement (OLAR). The Net Stable Funding Ratio (NSFR) is also monitored on a daily basis.

All liquidity stress tests are modelled using the LCR framework and are performed regularly, so as to ensure robust control of the Bank's liquidity.

All the stress tests are performed not only on the Bank's current position, but also on the monthly projected positions for the next 12 months.

At the year end Starling was significantly in excess of all liquidity measures and these can be found in its Pillar 3 disclosures.

# GROUP STRATEGIC REPORT

Risks & Mitigating Controls

## E. MARKET RISK

Market risk is the risk that changes in market prices negatively impact the Bank's assets, liabilities, income or costs. As a result of the asset and liabilities held, the Bank is exposed to market risk. This means losses could be incurred as a consequence of the adverse movements in market prices. These losses could impact the Bank's earnings, and the value of assets, liabilities or reserves. Market risk is managed by the Treasury function.

### Key Interest Rate Risk Mitigations

The main form of market risk exposure faced during the year was Interest Rate Risk in the Banking Book (IRRBB). The Bank holds its Investment Securities to maturity and consequently doesn't recognise short term market movements caused by changes in market prices in its Statement of Comprehensive Income. As a mitigant, wherever possible, Starling uses natural hedges by matching interest rate risk on assets with liabilities of similar tenor.

### Measuring Exposure to Interest Rate Risk

Interest rate risk exposure is measured by calculating both positive and negative instantaneous shocks to interest rates on:

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

### Market Risk Metrics – Rate Sensitivity

Sensitivity analysis of Net Interest Income (NII) is performed on the Bank's consolidated Statement of Financial Position. As at 30 November 2018, the projected change in NII in response to an immediate parallel shift in all relevant interest rates would be a decrease of £(0.321)m and an increase of £0.375m from a 200bps interest rate shift. The measure assumes all interest rates, for all currencies and maturities move at the same time.

### Market Risk Metrics - FX Sensitivity

The Bank has placed collateral with overseas financial institutions to support its card issuance activity; the amount is denominated in US Dollars and is hedged using a non-deliverable forward foreign exchange contract. The economic effect is to offset the FX revaluation impact arising from retranslation of the collateral balance, impacting upon the income statement.

# GROUP STRATEGIC REPORT

Risks & Mitigating Controls

## F. OPERATIONAL RISK

Operational Risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Starling relies on its operational processes, IT and related communication systems and controls, some of which are outsourced to key suppliers. These processes and systems may not operate as expected, may not fulfil their intended purpose or may be damaged by disruptive events such as cyber-crime or human error.

### Key Operational Risk Mitigations

Starling has invested in robust operational systems and controls (including documented processes and procedures where controls cannot be automated) to mitigate these risks and to be able to respond to unexpected events in an organised and timely manner.

Starling handles significant amounts of personal data, such as; names, addresses, phone numbers, email addresses and bank account details of its customers and therefore complies with strict data protection and privacy laws and regulations including the GDPR. The Bank continues to invest in its digital platforms and has built resilient and secure technologies in order to prevent breaches of data security. Additionally, the Bank commissions regular penetration testing to ensure the robustness of its systems.

### Key Operational Risk Metrics

Starling monitors and regularly reports to the Executive and BRC on the number, impact and root-cause of operational incidents, performance of outsource partners under service legal agreements and other matters related to operational effectiveness and cyber threat resilience.

## G. CONDUCT & CULTURE RISK

Conduct & Culture Risk is the risk of creating harm to a customer, counterparty or market arising from inappropriate conduct in the execution of business activities.

### Key Conduct Culture Risk Mitigations

Starling has a suite of conduct-related policies and procedures covering; responsible lending, customer treatment, arrears management and collections, new product approval and complaints management. Starling operates a simple, well designed product set with features and charging which are clearly communicated to customers in plain English. Starling also operates a value system where all employees understand the importance of treating customers fairly and avoiding customer harm. The Bank has designated functions that manage product development, marketing, operations, compliance and credit using the skills, expertise and ethos to manage conduct risk appropriately.

### Key Conduct & Culture Risk Metrics

Starling monitors and regularly reports to the Executive and BRC on the number, resolution and root-cause of complaints, conduct-related costs and losses, and the clarity of financial promotions.

# GROUP STRATEGIC REPORT

Risks & Mitigating Controls

### H. COMPLIANCE RISK

Compliance Risk is the risk of systemic or serious non-compliance with prevailing regulatory requirements.

Starling operates in an industry that is subject to extensive and comprehensive regulation. Consequently, it is exposed to many forms of risk in connection with its compliance with laws and regulations. Starling assess all relevant changes in regulation in an effort to ensure that compliance with regulatory requirements is maintained at all times.

Starling is subject to the risk of criminal activity and potential losses due to financial crime (e.g. use of false identity to open an account or card cloning).

### Key Compliance Risk Mitigations

Starling has robust Know Your Customer (KYC) and Anti-Money Laundering (AML) procedures in place to onboard personal and SME customers and also performs ongoing monitoring of transactions on a risk basis. Starling is committed to maintaining a control environment that enables it to respond effectively to emerging financial crime threats as the Bank continues to grow.

Starling also has a Compliance Monitoring Program under which compliance processes are regularly tested.

### Key Compliance Risk Metrics

Starling provides a wide range of compliance and financial crime metrics to the Executive Risk Committee and the BRC, including those related to onboarding due diligence and alerts handling arising from fraud screening, sanctions screening and other transaction monitoring.



# GROUP STRATEGIC REPORT

Risk Management Framework

The Board recognises the importance of having a robust risk culture and supports the key factors that contribute to an open and transparent environment where well-trained and informed individuals take intelligent risk, under clear policies, in pursuit of achieving the Bank's business strategy.

Starling has developed the Enterprise Risk Management Framework (ERMF) to ensure there is alignment in implementing the strategy and the risk appetite of the Bank.

The ERMF is the Bank's highest-level risk framework where the Board sets out the governance of individual risk policies, processes, skills and systems required by the Bank to effectively manage risk, in compliance at a minimum with applicable laws and regulations in the jurisdictions in which Starling does business, in particular, the regulations set by the PRA and the FCA as the UK's financial regulators.

### The ERMF:

- sets out Starling Bank's approach to the identification, assessment and management of risk. It is the highest-level risk framework and all other risk policies and procedures are developed under its principles and architecture;
- confirms that the Bank adopts a three line of defence model and sets out the roles of each;
- sets out the role of the Board as ultimately responsible for the risk and control environment within the Bank, as well as the Board and Executive management committee structures, roles and responsibilities with respect to risk management;
- sets out a proposed architecture of Board and Executive level committees to effectively manage and control risk as well as a proposed architecture of risk frameworks and policies for use across the Bank; and
- applies to all activities of Starling Bank Limited.

### The ERMF comprises:

1. a Risk Appetite Statement approved by the Board;
2. a risk management framework (including policies and supporting documentation) together with independent governance and oversight of risk under the leadership of the Chief Risk Officer (CRO);
3. an articulation of the major risks faced by the Bank (as above) along with
4. an extensive stress testing of different scenarios.

### The objectives of the ERMF are to:

- reduce unacceptable performance deviations by evaluating the likelihood and impact of major risks occurring, and developing effective responses;
- align and integrate varying views of risk management into critical management activities, including strategy setting, business planning and capital assessment;
- build confidence of shareholders, customers, regulators and other stakeholders by demonstrating the Bank's capabilities for understanding and managing risk;
- enhance corporate governance by ensuring strong Board and Executive management oversight, clear roles and responsibilities and clear authorities and risk boundaries;
- successfully respond to changing business environments by identifying, prioritizing and planning for risk; and
- align strategy and corporate culture by creating risk awareness and an open, positive approach with respect to risk and risk management.

The Bank's business strategy, its Risk Appetite Statement and the ERMF are aligned to ensure that the Bank can achieve its business objectives without exceeding its risk appetite and within a framework of policies and procedures that ensure risk are appropriately identified, measured, managed and controlled.

# GROUP STRATEGIC REPORT

## Corporate Governance

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

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

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

The Board is the Bank's governing body. It sets the strategic aims and ensures that the necessary financial and human resources are in place to meet the strategic and operational objectives of the Bank. The Board has the overall responsibility for:

- Determining the matters that should be reserved for the Board's decision;
- Setting and overseeing the business model, goals, strategy and its values and standards;
- Setting the Group's risk appetite, control framework and budgets;
- Defining and agreeing appropriate Board, organisational and committee structures;
- Maintaining effective systems and controls to ensure effective operation of the Group and compliance with applicable laws and regulation;
- Ascertaining and establishing financial and human resources required to enable the Group to implement the business strategy;
- Setting the framework and policy for effective governance and oversight of the Group; and
- Monitoring business performance against the strategic objectives, risk appetite and expected standards.

In order to discharge its duties effectively the Board normally meets monthly. Additional meetings are held as required. The Board operates based on the principle of collective responsibility therefore all Board members are collectively and individually accountable for all actions and decisions of the Board. The Board comprises four Independent Non-Executive Directors including the Board Chairman, plus two investor directors and two executive directors. Oliver Stocken CBE is the independent Chairman, with Victoria Raffe, Mark Winlow and Steve Colsell as independent directors. Anne Boden MBE CEO and Tony Ellingham CFO are the members of the Executive Committee on the Board.

The Board is supported by the Board Audit Committee, the BRC, the Board Remuneration Committee and Board Nominations Committee; additionally, the Board oversees the Executive Committee.

This report was approved by the Board on 8/2/2019.

**Matthew Newman**
Company Secretary

# GROUP DIRECTORS' REPORT

The Directors of Starling present their report along with the consolidated financial statements of the Group for the period ended 30 November 2018.

### Principal Activities

The principal activity of the Group in the period under review has continued to be the development and enhancement of its mobile only bank to support retail and SME current accounts in the UK along with the associated operational infrastructure. Refer to the Group Strategic Report for further details.

### Results and Dividends

The results of the Group for the year ended 30 November 2018, are shown on pages 46 to 49. The Directors do not propose the payment of any dividend in respect of the ordinary shares for the year (2017: nil).

### Directors

The Directors of Starling shown below held office during the period as follows:

Oliver Stocken CBE
Mark Winlow
Steve Colsell
Victoria Raffé
Marcus Traill
Craig Mawdsley (termination of appointment effective date 21 June 2018)
Lazaro Campos (appointment effective date 21 June 2018)
Anne Boden MBE
Tony Ellingham

### Directors' Indemnities

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

### Political and Charitable Donations

The Group made no political donations during the period (2017: nil). The Group made three charitable donations (2017: two charitable donations) during the period totalling £2,610 (2017: £1,500) to MyBnk (Charity Number: 1123791) and Cancer Research UK (Charity Number: 1089464).

### Employee Benefit Trust

During the year, share awards were made to employees under the Employee Benefits Trust (EBT), the details of which are set out in note 11 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.

After making the necessary enquires, the Directors have a reasonable expectation that the Group/Company has adequate resources to continue in operational existence for the foreseeable future. In assessing the impact of all of the risks that could impact its business model the Group/Company has considered the potential impact of Brexit. Projections for the Group/Company have been prepared concerning its future financial performance, capital available & requirements and its liquidity for a period of at least 12 months from the signing of these financial statements. These in support of its business plan; include stress tests carried out in support of the Company's ICAAP and ILAAP. To meet these projections the Group is dependent on the continued support of its principal investor (the Investor). The Directors have a reasonable expectation that such support will be forthcoming and the Investor has indicated its intention and ability to support the Group in line with the Group's/Company's financial projections.

As with any company placing reliance on other entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the going concern basis of accounting has been used to prepare these financial statements.

### Disclosure of Information to the Auditor

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

### Auditor

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

This report was approved by the Board on 8/2/2019.

**Matthew Newman**
Company Secretary

Registered in England and Wales.
Company No. 09092149

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

In respect of the Annual Report, Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' 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 both the Group and Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) (IFRSs as adopted by the EU) 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 their 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 IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

**Signed on behalf of the board by:**

**Anne Boden MBE**
Chief Executive Officer, Director
8/2/2019

**Tony Ellingham**
Chief Financial Officer, Director
8/2/2019

# INDEPENDENT AUDITOR'S REPORT

To the members of Starling Bank Limited

KPMG

# Independent auditor's report

## to the members of Starling Bank Limited

### 1. Our opinion is unmodified

We have audited the financial statements of Starling Bank Limited ("the Company") for the year ended 30 November 2018 which comprise the Starling Bank Limited and Starling FS Services Limited *primary statements*, and the related notes, including the accounting policies in note 1.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 November 2018 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

— the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

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

Basis for opinion

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

We were first appointed as auditor by the directors on 9 February 2016. The period of total uninterrupted engagement is for the three financial years ended 30 November 2018. 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 in the period.

| Overview | |
|---|---|
| **Materiality:** | £1m (2017: £0.4m) |
| Group financial statements as a whole | 3.8% (2017: 4.2%) of Loss before Tax |
| | 0.4% (2017: 0.8%) of Total assets |
| **Coverage** | 100% (2017: 100%) of group profit before tax |
| **Key audit matters** | **vs 2017** |
| The impact of uncertainties due to Britain exiting the European Union on our audit **(New)** | N/A |
| Going Concern **(New)** | ◀▶ |
| Capitalisation of Intangible asset **(Recurring)** | ◀▶ |
| Recoverability of Intragroup debtor (Parent company only) **(Recurring)** | |

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in 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.

| Key audit matter | The risk | Our response |
|---|---|---|
| **The impact of uncertainties due to Britain exiting the European Union on our audit**<br><br>*Refer to page 7 (financial disclosures).* | **Unprecedented levels of uncertainty**<br><br>All audits assess and challenge the reasonableness of estimates, in particular as described in **Capitalisation of Intangible Asset** and **Recoverability of Intragroup Debtor**, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see **Going Concern** below).<br><br>All of these depend on assessments of the future economic environment and the group's future prospects and performance.<br><br>Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. | We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:included:<br><br>— **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.<br><br>— **Sensitivity analysis**: When addressing capitalisation of intangible asset, recoverability of intragroup debtor and other areas that depend on forecasts, we compared the directors' sensitivity analysis to our assessment of the worst reasonably possible, known adverse scenario resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.<br><br>— **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on capitalisation of intangible asset, recoverability of intragroup debtor, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.<br><br>**Our results**<br><br>As reported under capitalisation of intangible assets and recoverability of intragroup debtor, we found the resulting estimates and related disclosures of capitalisation of intangible assets and recoverability of intragroup debtor and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit. |
| **Going Concern**<br><br>*Refer to page 33 (Note 1: Account Policies – Going Concern).* | **Disclosure quality**<br><br>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company.<br><br>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.<br><br>The risk most likely to adversely affect the Group's and Company's available financial resources over this period was insufficient regulatory capital to meet minimum regulatory capital levels over the course of the next 12 months. | Our procedures included:<br><br>— **Key dependency assessment:** We assessed management's conclusion that the Group and Company is currently dependent on the continued support of its principal investor.<br><br>— We evaluated whether the assumptions made in the capital plan / forecast are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit.<br><br>— We assessed the ability and intent of the principal investor to provide the required support to the Group and Company through making direct inquiry of the Group and Company directors, the principal investor's representative and obtaining a copy of a formal letter of support offered by the principal investor to the Group and Company for a period of at least 12 months from the date of approval of the Group and Company financial statements.<br><br>**Our results**<br><br>We found the going concern disclosure without any material uncertainty to be acceptable. |

KPMG

# INDEPENDENT AUDITOR'S REPORT

To the members of Starling Bank Limited

**2. Key audit matters: our assessment of risks of material misstatement (continued)**

| Key audit matter | The risk | Our response |
|---|---|---|
| **Capitalisation of Intangible asset**<br>(£13.2 million; 2017: £9.3m)<br>*Refer to page 38 (accounting policy) and page 54 (financial disclosures).* | **Accounting treatment**<br>Management judgement is exercised in identifying the proportion of software development costs which are eligible for capitalisation under IAS 38.<br>Management judgement is also exercised in order to identify the correct point from which amortisation of the asset should commence and in order to estimate the useful life of the intangible asset. | Our procedures included:<br>— **Accounting analysis:** We assessed management's judgements made regarding the eligibility of costs incurred to be capitalised under the criteria set out in IAS 38. We assessed both the start date of the amortisation and the estimated useful life of the asset and considered any indicators impairment.<br>— We vouched a sample of costs capitalised to supporting documentation, and have assessed whether these individually meet the criteria for capitalisation under IAS 38.<br>— **Our sector experience:** We assessed the appropriateness of the amortisation policy applied through comparing the policy selected to our experience of those applied by similar entities.<br>**Our results**<br>— We found the capitalisation and amortisation of the intangible asset to be acceptable (2017: acceptable). |
| **Recoverability of Intragroup debtor**<br>(£11.6 million; 2017: £10.3m)<br>*Refer to page 56 (financial disclosures).* | **Low risk, high value**<br>The carrying amount of the intercompany balance between the parent company and the subsidiary represents 5.0% (2017: 19.4%) of the parent company's total assets.<br>The recoverability of this balance can be seen to be reliant upon the continued supportability of the carrying value of the intangible asset held by the subsidiary.<br>The risk therefore exists that if an impairment loss is incurred on the intangible asset, or another significant event, that this intragroup balance may become irrecoverable. | Our procedures included:<br>— **Tests of Detail:** We compared the carrying amount of the parent company's intercompany asset to the net asset position of the subsidiary in order to assess the accuracy of the balance, and whether this position indicates that the balance outstanding is recoverable in full.<br>— **Substantive testing:** We recalculated the amounts due between the entities for a sample of transactions<br>— **Accounting analysis:** We considered the company's assessment for indicators of impairment of the intangible asset, and have assessed the forecast revenue to be generated by those intangible assets.<br>**Our results**<br>— We found the estimate of the recoverability of the intragroup debtor to be acceptable (2017: acceptable). |

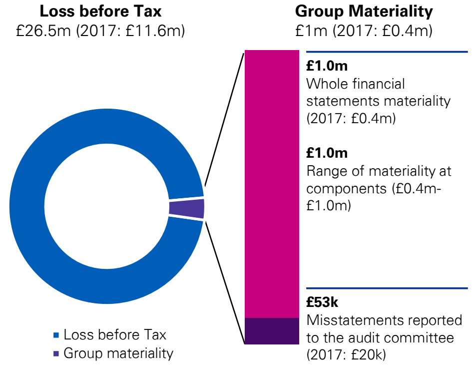
KPMG

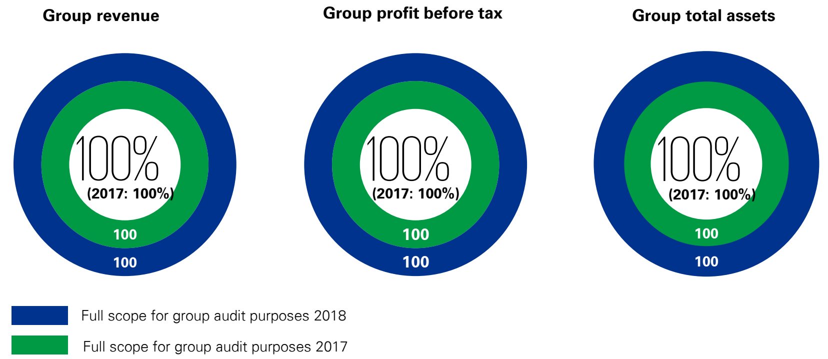
**3. Our application of materiality and an overview of the scope of our audit**

Materiality for the Consolidated financial statements as a whole was set at £1,000,000 (2017: £400,000), determined with reference to a benchmark of loss before tax (of which it represents 4.1% (2016 4.2%).

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £53,000 (2016: £20,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the group was undertaken to the materiality level specified above and was performed at the Group's head office in London and we set out in the diagrams below the scope of our coverage:




***Disclosure of IFRS 9 effect***

The Bank is adopting IFRS 9 Financial Instruments from 1 December 2018 and has included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 Changes in Accounting Estimates and Errors as set out in note 1. This disclosure notes that the Bank continues to refine its expected credit loss model and embed its operational processes which may change the actual impact on adoption. While further testing of the financial impact will be performed as part of our 2019 year-end audit, we have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8.

Specifically we have:

- Considered the appropriateness of key technical decisions, judgements, assumptions and elections made by management;
- Considered key classification and measurement decisions, including business model assessments and solely payment of principal and interest ("SPPI") outcomes; and
- Involved credit risk modelling in the consideration of credit risk modelling decisions, including forward economic guidance and generation of multiple economic scenarios.

KPMG

# INDEPENDENT AUDITOR'S REPORT

To the members of Starling Bank Limited

**4. We have nothing to report on going concern**

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group'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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in this respect.

**5. 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.

**6. 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.

**7. Respective responsibilities**

*Directors' responsibilities*

As explained more fully in their statement set out on page 18, 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 other irregularities (see below), 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, other irregularities 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.

KPMG

**7. Respective responsibilities** (continued)

*Irregularities – ability to detect*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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), taxation legislation and prudential regulation, 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 company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation, recognising the financial and regulated nature of the group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and, where necessary, other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

**8. The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Simon Clark (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
15 Canada Square,
Canary Wharf,
London,
E14 5GL
10 February 2019

KPMG

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 November 2018

| | Notes | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans and Advances to Banks | 2 | 187,008 | 37,544 | 186,905 | 36,563 |
| Investment Securities | 3 | 18,039 | 3,014 | 18,039 | 3,014 |
| Loans and Advances to Customers | 4 | 8,698 | 804 | 8,698 | 804 |
| Other Assets | 8 | 5,464 | 2,236 | 5,316 | 2,111 |
| Property, Plant and Equipment | 6 | 616 | 253 | 616 | 251 |
| Intangible Assets | 6 | 13,221 | 9,330 | 16 | 8 |
| Accrued Interest and Prepayments | 9 | 1,623 | 96 | 1,499 | 97 |
| Investment in Subsidiary & Inter-company Account | 10 | - | - | 11,567 | 10,322 |
| **Total Assets** | | **234,669** | **53,277** | **232,656** | **53,170** |
| **Liabilities** | | | | | |
| Customer Deposits | 12 | 202,323 | 18,083 | 202,323 | 18,083 |
| Provisions for Liabilities and Charges | 14 | 202 | 183 | 202 | 183 |
| Other Liabilities | 15 | 3,614 | 808 | 3,614 | 808 |
| Accruals and Deferred Income | 16 | 531 | 1,485 | 497 | 1,365 |
| **Total Liabilities** | | **206,670** | **20,559** | **206,636** | **20,439** |
| **Equity** | | | | | |
| Share Capital | 17 | 5 | 5 | 5 | 5 |
| Share Premium | 18 | 67,784 | 47,846 | 67,784 | 47,846 |
| Other Reserves | 19 | 319 | (94) | 319 | (94) |
| Cumulative Retained Earnings | 19 | (40,109) | (15,039) | (42,088) | (15,026) |
| **Total Equity** | | **27,999** | **32,718** | **26,020** | **32,731** |
| **Total Liabilities & Equity** | | **234,669** | **53,277** | **232,656** | **53,170** |

The notes to these financial statements can be found on pages 50 to 101.

**Signed on behalf of the board by:**

**Anne Boden MBE**
Chief Executive Officer, Director
8/2/2019

**Tony Ellingham**
Chief Financial Officer, Director
8/2/2019



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 November 2018

| | Notes | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|---|
| Net Interest Income | 21 | 929 | 76 | 929 | 76 |
| Fees and Commissions Expense | 22 | (386) | (38) | (386) | (38) |
| Other Income | 6 | 207 | (57) | 4,545 | 3,559 |
| **Total Income/(Expense)** | | **750** | **(19)** | **5,088** | **3,597** |
| Administrative Expenses | 23 | (26,854) | (11,978) | (31,571) | (14,827) |
| Impairment on Loans and Advances to Customers | 4 | (346) | - | (346) | - |
| Provisions for Liabilities and Charges | 14 | (406) | 387 | (406) | 387 |
| **Loss before Taxation** | | **(26,856)** | **(11,610)** | **(27,235)** | **(10,843)** |
| Taxation | 24 | 1,786 | 1,414 | 173 | 34 |
| **Loss after Taxation** | 19 | **(25,070)** | **(10,196)** | **(27,062)** | **(10,809)** |

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

The notes to these financial statements can be found on pages 50 to 101.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 November 2018

| | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | |
| Loss for the Period after Taxation | (25,070) | (10,196) | (27,062) | (10,809) |
| **Adjustments for Non-Cash items** | | | | |
| Depreciation and Amortisation | 1,786 | 557 | 203 | 85 |
| **Net changes in Operating Assets and Liabilities** | | | | |
| Net increase in Loans and Advances to Customers | (7,895) | (804) | (7,895) | (804) |
| Net increase in Investment Securities | (15,025) | (3,014) | (15,025) | (3,014) |
| Net Increase in Other Assets | (3,229) | (1,858) | (3,205) | (1,870) |
| Net increase in Accrued Interest and Prepayments | (1,526) | (86) | (1,403) | (87) |
| Net Increase in the Inter-Company Account | - | - | (1,245) | (4,324) |
| Net increase in Customer Deposits | 184,240 | 18,081 | 184,240 | 18,081 |
| Net increase/(decrease) in Other Liabilities | 2,807 | (97) | 2,807 | 48 |
| Net (decrease)/increase in Accruals and Deferred Income | (954) | 1,232 | (867) | 994 |
| Net increase/(decrease) in Provisions | 19 | (978) | 19 | (978) |
| **Net Cash Flows from Operating Activities** | **135,153** | **2,837** | **130,567** | **(2,678)** |
| **Cash Flows from Investing Activities** | | | | |
| Purchases of Tangible Assets | (568) | (263) | (568) | (263) |
| Sales of Tangible Assets | 5 | 21 | 5 | 21 |
| Capitalisation of Intangible Assets | (5,477) | (4,710) | (13) | - |
| Purchases of Intangible Assets | - | (3) | - | (3) |
| **Net Cash Flows from Investing Activities** | **(6,040)** | **(4,955)** | **(576)** | **(245)** |
| **Cash Flows from Financing Activities** | | | | |
| Issuance of ordinary shares less expenses | 19,938 | 29,959 | 19,938 | 29,959 |
| Acquisition of shares by Employee Benefit Trust | 413 | (94) | 413 | (94) |
| **Net Cash Flows from Financing Activities** | **20,351** | **29,865** | **20,351** | **29,865** |
| **Net increase in Cash and Cash Equivalents** | **149,464** | **27,747** | **150,342** | **26,942** |
| Cash and Cash Equivalents at beginning of period | 37,544 | 9,797 | 36,563 | 9,621 |
| **Cash and Cash Equivalents at end of period** | **187,008** | **37,544** | **186,905** | **36,563** |

The notes to these financial statements can be found on pages 50 to 101.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 November 2018

| Group | Notes | Share Capital £'000 | Share Premium £'000 | Other Reserves £'000 | Retained Earnings £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| **As at 30 November 2016** | | **3** | **17,889** | **-** | **(4,843)** | **13,049** |
| Proceeds from issue of shares, less expenses | 17, 18 | 2 | 29,957 | - | - | 29,959 |
| Shares held by Employee Benefit Trust | 19 | - | - | (185) | - | (185) |
| Fair value of shares allocated to employees | 19 | - | - | 91 | - | 91 |
| Loss for the period | 19 | - | - | - | (10,196) | (10,196) |
| **As at 30 November 2017** | | **5** | **47,846** | **(94)** | **(15,039)** | **32,718** |
| Proceeds from issue of shares, less expenses | 17, 18 | - | 19,938 | - | - | 19,938 |
| Shares held by Employee Benefit Trust | 19 | - | - | 175 | - | 175 |
| Fair Value of Shares allocated to employees | 19 | - | - | 238 | - | 238 |
| Loss for the period | 19 | - | - | - | (25,070) | (25,070) |
| **As at 30 November 2018** | | **5** | **67,784** | **319** | **(40,109)** | **27,999** |

| Company | Notes | Share Capital £'000 | Share Premium £'000 | Other Reserves £'000 | Retained Earning £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| **As at 30 November 2016** | | **3** | **17,889** | **-** | **(4,217)** | **13,675** |
| Proceeds from issue of shares, less expenses | 18 | 2 | 29,957 | - | - | 29,959 |
| Shares held by Employee Benefit Trust | 19 | - | - | (185) | - | (185) |
| Fair Value of Shares allocated to employees | 19 | - | - | 91 | - | 91 |
| Loss for the period | 19 | - | - | - | (10,809) | (10,809) |
| **As at 30 November 2017** | | **5** | **47,846** | **(94)** | **(15,026)** | **32,731** |
| Proceeds from issue of shares, less expenses | 18 | - | 19,938 | - | - | 19,938 |
| Shares held by Employee Benefit Trust | 19 | - | - | 175 | - | 175 |
| Fair Value of Shares allocated to employees | 19 | - | - | 238 | - | 238 |
| Loss for the period | 19 | - | - | - | (27,062) | (27,062) |
| **As at 30 November 2018** | | **5** | **67,784** | **319** | **(42,088)** | **26,020** |

The notes to these financial statements can be found on pages 50 to 101.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a) Basis of Preparation

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

The accounting policies that were relevant in 2018 have been consistently applied.

The amounts expected to be recovered or settled for assets and liabilities in the financial statements are due no more than twelve months after the reporting period unless specifically stated.

### b) Basis of Consolidation

The Group accounts consolidate the assets, liabilities and results of Starling and its Subsidiary. Consistent accounting policies are used by the Group, the Parent Company and the Subsidiary.

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

Investments in Subsidiary undertakings are stated in the accounts of Starling at cost less any provisions for impairment in value. The Directors consider it appropriate for administrative and commercial reasons that Subsidiary undertakings have financial years ending on 30 November 2018, the Parent Company's year-end.

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

### c) Going Concern

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

After making the necessary enquires, the Directors have a reasonable expectation that the Group/Company has adequate resources to continue in operational existence for the foreseeable future. In assessing the impact of all of the risks that could impact its business model the Group/Company has considered the potential impact of Brexit. Projections for the Group/Company have been prepared concerning its future financial performance, capital available & requirements and its liquidity for a period of at least 12 months from the signing of these financial statements, in support of its business plan, these include stress tests carried out in support of the Company's ICAAP and ILAAP. To meet these projections the Group is dependent on the continued support of its principal investor (the Investor). The Directors have a reasonable expectation that such support will be forthcoming and the Investor has indicated its intention to support the Group, so as to ensure that the Group/Company can continue as a going concern for at least 12 months from the date of signing of the financial statements.

As with any company placing reliance on other entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the going concern basis of accounting has been used to prepare these financial statements.



### d) Use of 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.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements: recognition of deferred tax assets, impairment of intangible assets, capitalisation of software costs and going concern.

Sources of estimation uncertainty relate to assumptions and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. They include the useful economic life of intangible assets.

The following summarises the sensitivity from the assumption made by the Bank with respect to the calculation of the amortisation of intangible assets, which is the capitalised expenditure's expected useful life. Management assessed the expected useful life of the intangible asset at 7 years. A change in the estimate will have an impact on the period over which the capitalised expenditure is amortised.

A shortening of the estimated useful life by 1 year (to 6 years) would have the effect of increasing the Group's loss before tax for the year ended 30 November 2018 by £263k (2017: £78k). A lengthening of the estimated useful life by 1 year (to 8 years) would have the effect of decreasing the Group's loss before tax for the year ended 30 November 2018 by £198k (2017: £59k).

### e) Presentation of the Financial Statements

The financial statements have been presented using the following conventions:

- Currency: GBP £
- Rounding: £'000
- Statement of Financial Position is presented first in the Primary Statements and assets are listed in order of liquidity.

### f) 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 at the dates of the transactions.

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

### g) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below in h) and i).

### h) Interest Income and Interest Expense

Interest Income on financial assets that are classified as Held-to-Maturity Investment Securities is recognised in the Statement of Comprehensive Income using the effective yield to maturity method.

Interest receivable and similar income on financial assets that are classified as Loans and Advances, and interest payable on financial liabilities that are classified as Deposits, are recognised as Interest Income and Interest Expense respectively in the Statement of Comprehensive Income, using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the gross carrying amount of the financial asset or liability.

The effective interest rate method calculates the amortised cost of a financial asset or liability and allocates the interest income or expense over the relevant period. The Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses.

### i) Fees and Commissions

Fees and commissions receivable and payable are recognised when the service is provided, or when transactions are processed on an accruals basis. Those directly attributable to generating a financial instrument are recognised on the accruals basis on the transaction date.

### j) Segmental Reporting

No segmental analysis is presented on operating segments as the Bank currently only offers a current account, nor is a geographical analysis provided because all of the Bank's activities are in the United Kingdom.

### k) Cash and Cash Equivalents

Cash and cash equivalents comprise cash deposits with banks at call. Cash and cash equivalents on fixed term notice are categorised in the Statement of Financial Position as loans and advances to banks.

### l) Investment Securities and Other Financial Assets

The Group classifies its financial assets in its Statement of Financial Position into the following categories:

(i) Investment Securities, and

(ii) Loans and Advances.

The classification depends on the purpose for which the Investments or Other Financial Assets were acquired or originated. Management determines the classification at initial recognition and, in the case of assets classified as Investment Securities that are held-to-maturity, re-evaluates the designation at the end of each reporting period.

Loans and Advances comprise overdrafts and term lending to customers.

The Group does not hold any collateralised positions and therefore has no enforceable rights to net-off or offset assets against liabilities.

#### (i) Investment Securities

**Recognition and de-recognition**

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of the ownership.

**Measurement**

At initial recognition, the Group measures an Investment Security at its fair value plus related transaction costs that are directly attributable to the acquisition of the financial asset.

The Group designates its Investment Securities as Held to Maturity investment assets and subsequently measures them at amortised cost using the effective yield to maturity method.

Details on how the fair value of financial instruments is determined are disclosed note 3.

**Impairment**

The Group assesses at each reporting date whether there is objective evidence that an Investment Security is impaired. An Investment Security would be impaired and impairment losses incurred as a result of one or more events that occur after the initial recognition of the asset (a "loss event") and that could have an impact in the estimated future cash flow of the financial asset and could be reliably estimated.

When an Investment Security is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired Investment Securities is recognised using the original effective interest rate.

#### (ii) Loans and Advances

**Recognition**

The Group applies IAS 39 to its Loans and Advances to Customers. Under IAS 39, Loans and Advances are classified as "Loans and Receivables" and are initially recognised as fair value, being the amount of outstanding overdraft or term loan balance. All overdraft facilities and term loans provided to customers of Starling are unsecured exposures to individuals.

**Measurement**

The Group measures its Loans and Advances at their amortised cost using the effective interest rate method.

**Impairment**

Under IAS 39 an individual impairment provision is recognised upon objective evidence that a loan (e.g. an overdraft) is impaired. If there is such evidence, the amount of impairment loss is calculated. For Loans and Advances, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

If, in a subsequent period, the amount of the impairment loss decreases and it can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the Statement of Comprehensive Income.

**Definition of default and credit impaired assets**

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; the Bank has entered into a forbearance arrangement with the customer; any security/personal guarantee has been taken into the Bank's possession; or if the customer is bankrupt or has proposed an Individual Voluntary Arrangement; or the customer is subject to a Debt Relief Order; or the customer is deceased.

**Write off policy**

Loans and Advances are written off either partially or in full against the related provision when the proceeds from realising any available security/guarantee have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Statement of Comprehensive Income. During the period there were some write-offs recognised in the financial statements in accordance with the accounting policy (refer to note 4).

### m) Property, Plant & Equipment

Fixtures, Fittings and Equipment are included as Property, Plant & Equipment in the Statement of Financial Position at historical cost less accumulated depreciation and any accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments. Depreciation on Property, Plant & Equipment is included in Other Operating Costs in the Statement of Comprehensive Income according to the type:

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

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

### n) Intangible Assets

The Group applies IAS 38: Intangible Assets to the categorisation of certain expenditure relating to software development costs and the cost of creating its brand, website and associated domain names.

The carrying values of Intangible Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

### Software Development

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

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

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

### Brand, Domains and Website

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

### o) Other Assets, Accrued Interest and Prepayment

Other assets, accrued interest receivable and prepayments are initially recognised at fair value and subsequently measured at amortised cost, or in the case of interest accruals the amount receivable, using the effective interest method.

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

### p) Leases

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

### q) Taxation including deferred tax

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

### Current Tax

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

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

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

### Deferred tax

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

### r) Customer Deposits

Customer deposit liabilities are measured at amortised cost in accordance with IAS 39. Deposits are initially recognised at fair value and are subsequently measured at amortised cost.

### s) Other Liabilities, Accruals and Deferred Income

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

Deferred Income represents amounts received from Payment Schemes that cannot be recognised in the Statement of Comprehensive Income until certain conditions on volume thresholds have been reached. An objective assessment of whether the Bank has achieved those thresholds is carried out at each reporting date.

### t) Provisions

Provisions (other than impairment provisions) are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### u) Contingent Liabilities

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



### v) 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 dependants over whom the Board member can exert influence.

### w) Employee Benefits

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

### Short-term employee benefit

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

### Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in the profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Group applies IFRS 2 in accounting for Share Based Payments.

### Share based payments

Certain employees have been offered the opportunity to purchase a beneficial interest in the shares of the Bank in order to reward those individuals that help to build Starling, therefore aligning the interests of key employees with the interests of shareholders. To facilitate the efficient transfer of the beneficial interests in the shares to employees on their purchase dates, an Employee Benefit Trust (EBT) has been set up.

To fund the purchase, employees are granted a bonus (grossed up for income tax and national insurance) that is used by the employees to subscribe for the right to the beneficial interest at each award date. The grossed-up bonus amounts are expensed in the Statement of Comprehensive Income in the financial year that the awards are granted.

The fair values of equity settled share-based payments are calculated at each grant date and recognised over an eight-year vesting period. The amount is recognised in Staff Costs in the Statement of Comprehensive Income with a corresponding entry through Reserves.

### x) Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017; however, the Bank has not yet applied the following new or amended standards in preparing these financial statements.

1. Accounting Policies

| New or amended standards | Summary of the requirements | Possible impact on financial statements |
|---|---|---|
| IFRS 9 | See note (y) below | See note (y) below |
| IFRS 15 Revenue from Contracts with Customers | IFRS 15, issued in May 2014 with clarification in April 2016, replaces the existing revenue standards IAS 11 and IAS 18. IFRS 15 establishes the principle that an entity shall apply to report useful information to the users of financial statements about the nature, amount, timing an uncertainty of revenue and cash flows arising from a contract with a customer.<br>IFRS 15 is effective for annual reporting on or after 1 January 2018, with early adoption permitted. | The Bank has assessed the requirement and has determined that its current revenue recognition principles are compliant with the standard.<br>The first date of application for the Bank is 1 December 2018 |
| IFRS 16 Leases | IFRS 16, issued in January 2016, replaces the existing lease standard IAS 17. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.<br>IFRS 16 is effective for annual reporting on or after 1 January 2019. | Early adoption of IFRS 16 is permitted, however the Bank does not intend to adopt the standard until the date it becomes effective.<br>The first date of application for the Bank is 1 December 2019. |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | IFRIC interpretation 22 considers how to determine the date of the transaction when applying IAS 21.<br>IFRIC 22 is effective for annual reporting periods commencing on or after 1 January 2018, with early adoption permitted. | The Bank does not intend to adopt IFRIC 22 until the reporting period commencing 1 December 2018. The Bank has assessed the adoption of IFRIC 22 will not have a significant impact on the Group. |
| IFRIC 23 Uncertainty over Income Tax Treatments | IFRIC interpretation 23 was issued on 7 June 2017 and clarifies how the recognition and measurement requirements of IAS 12 Income taxes are applied where there is uncertainty over income tax treatments.<br>IFRIC 23 is effective for annual reporting periods commencing on or after 1 January 2019, with early adoption permitted. | The Bank does not intend to adopt IFRIC 23 until the date it becomes effective.<br>The Bank has assessed the adoption of IFRIC 23 will have no significant effect on the Group, particularly until such time as the Group recognises deferred tax assets and liabilities. |

The new or amended standards as a result of the annual improvements to IFRS 2014-2016 cycle are not expected to have a significant impact on the Bank's financial statements.

### y) Standards issued but not yet effective – IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. It replaces IAS 39 Financial instruments: Recognition and Measurement. The first date of application for the Bank is 1 December 2018.

Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 December 2018 is approximately £195k (pre-tax). This represents a reduction of approximately £195k related to impairment requirements (see (ii)).

The actual impact of adopting IFRS 9 on 1 December 2018 may change because:

- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.
- Although parallel runs have been carried out, the new processes and controls have not been operational for an extended period.
- The Bank is refining and finalising its models and processes for Expected Credit Losses (ECL) calculations.
- The Bank has limited trading history and therefore its credit model includes a significant amount of management judgement which may be refined during the implementation period.
- The tax impact of the change in the impairment charge has yet to be confirmed.

#### (i) Classification – financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cashflow characteristics.

IFRS 9 includes 3 principal classification categories for financial assets:

- Measured at amortised cost;
- FVOCI (Fair Value through Other Comprehensive Income); and
- FVTPL (Fair Value through Profit and Loss).

It eliminates the existing categories used in IAS 39 of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cashflows; and
- Its contractual terms give rise on specified dates to cashflows that are solely payments of principle and interest (SPPI) on the principle amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets; and

- Its contractual terms give rise on specified dates to cashflows that are solely payments of principle and interest on the principle amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

A financial asset is classified into one of these categories on initial recognition.

### Business model assessment

The Bank has made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- The stated policies and objectives for the portfolio and operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cashflows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to Bank's management.

### Assessment of whether contractual cashflows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset 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, as well as a profit margin.

In assessing whether the contractual cashflows are solely payments of principle and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cashflows such that it would not meet this condition. In making the assessment, the Bank will consider:

- Contingent events that would change the amount and timing of cashflows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claims to cashflows from specified assets;
- Features that modify consideration for the time value of money.

The Bank has concluded that its Investment Securities meet the criteria and that contractual cashflows are solely payments of principal and interest.

Interest rates on the majority of the Bank's overdrafts are based on a rate set at the discretion of the Bank. In these cases, the Bank will assess whether the discretionary feature is consistent with SPPI criterion by considering a number of factors, including whether:

- The borrowers are able to repay the loans without significant penalties;
- The market competition ensures that interest rates are consistent between banks; and
- Customers are treated fairly.

All the Bank's loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principle and interest on the principle amount outstanding, which may include reasonable compensation for early termination of the contract.

The Bank has concluded that its Loans and Advances to Customers meet the criteria and that contractual cashflows are solely payments of principal and interest.

### Impact assessment

The adoption of IFRS 9 will affect the Bank's classification and measurement of financial assets as at 1 December 2018 as follows:

- The Bank assesses its business model by asset type. The Bank does not have any business units and all financial and business performance is reported at a total bank position. The Bank's core lending products are unsecured overdrafts and term loans.
- Loans and advances to banks and to customers that are currently classified as loans and receivables and measured at amortised cost under IAS 39 will continue to be measured at amortised cost under IFRS 9. This is based on the Bank's assessment of its business model objective which has concluded that it holds assets to collect contractual cashflows and those contractual cashflows are solely payments of principal and interest.
- Investment Securities that are held at amortised cost under IAS 39 will continue to be measured at amortised cost under IFRS 9. This interpretation is based on the Bank's assessment that concluded that its Investment Securities meet both the following conditions:
  - they are held within a business model whose objective is achieved by both collecting contractual cashflows; and
  - their contractual terms give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

Therefore, there is no impact on the Bank's financial assets as a result of the adoption of IFRS 9 and the revised asset classifications.

### (ii) Impairment – financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking Expected Credit Losses (ECL) model. Items within the scope includes: loans and advances, investment securities, and loan commitments (ie. Undrawn overdrafts). The forward-looking approach considers economic factors that are likely to influence the credit profile throughout the lifetime of a financial asset.

IFRS 9 requires ECL to be recognised across a 12-month period or the 'lifetime' of a financial asset; where 'lifetime' ECL includes possible default events for the expected life of a financial asset as opposed to the 12-month ECL which considers the possible default events associated to the 12 months following reporting date.

In respect of financial assets that are not loans and advances, the Group will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Investment securities that are determined to have had no significant deterioration in credit quality at the reporting date. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- Other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

The Bank recognises lifetime ECL where an account is classified as either 'Under-Performing' (significant deterioration in credit quality relative to initial recognition and no objective evidence of impairment) or 'Non-Performing' (objective evidence of impairment).

Multiple tests are applied to identify 'significant deterioration in credit quality' and 'objective evidence of impairment', these include:

- Quantitative, e.g. a deterioration risk profile using internal and CRA sourced empirical analysis;
- Qualitative, e.g. an insolvency state; or
- Backstop, e.g. the number of days past due / days in arrears. Backstop constraints are defined as less than 30 days past due (Stage 1), between 30 and 90 days past due (Stage 2) and greater than 90 days past due (Stage 3).

### ECL Measurement

ECL is a probability weighted estimate of credit losses calculated using the Bank's assessment methodology. These are discussed in more detail below.

The definition of credit impaired for financial assets is relatively consistent across both IFRS 9 and IAS 39.

### Definition of Default

Under IFRS 9 the Bank will consider a financial asset to be in default (objective evidence of impairment) when:

- A borrower is classified as insolvent, e.g. bankrupt, or in a state of forbearance;
- A borrower is 90 days or more days past due / days in arrears.

Inputs into the assessment of whether a financial asset is in default may vary over time to reflect changes in circumstances.

The above definitions are not dissimilar to those employed under IAS 39.

### Deterioration in Credit

The Bank has established a framework that incorporates qualitative and quantitative information to determine a deterioration in credit quality (significant deterioration in credit quality relative to initial recognition).

Primarily the framework uses a combination of days past due / days in arrears and or deterioration in credit risk grade at reporting date relative to initial recognition. This approach is aligned with the Bank's internal credit risk management process utilising a combination of externally sourced (Credit Reference Agencies) and internal account conduct data.

The Bank will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular review.

### Credit Risk Grades

Credit risk grades and associated Probability of Default (PD) pools will be assigned and re-evaluated on a monthly basis using the credit methodology developed for its lending activities from account opening (initial recognition) until account closure.

The methodology calculates a PD pool for each financial asset which is subject to empirical analysis where possible and management judgement given the relative lack of historical trading data. This approach has been reviewed by an external organisation to assist in the calibration of the model.

Credit risk grades and the associated PD pools are dynamically refreshed on a monthly basis acknowledging any variations observed in either the externally sourced data or internal account conduct.

### Staging

IFRS 9 provision for Expected Credit Losses (ECL) is segmented into three stages representing Performing, Under-Performing and Non-Performing. Financial assets are classified into each stage based on their current credit risk profile relative to origination.

| Stage 1 | Stage 2 | Stage 3 |
|---|---|---|
| **Performing** | **Under-Performing** | **Non-Performing** |
| 12-month ECL | Lifetime ECL | Lifetime ECL |
| No significant deterioration in credit quality relative to initial recognition | Significant deterioration in credit quality relative to initial recognition | Default |
| < 30 Days in Arrears / Past Due | > 30 days in Arrears, and < 90 Days in Arrears / Past Due | >= 90 Days in Arrears / Past Due |

Implicit in this approach, a customer cannot 'cure' (migrate from a higher stage to a lower stage) without their credit profile returning to a level that does not evidence significant deterioration in credit quality relative to initial recognition.

Further to the above, the following backstop constraints are additionally used to determine stage allocation.

### Modified Financial Assets

Contractual terms of a financial asset may be modified for a number of reasons, including changing market condition. An existing financial asset whose terms have been modified may be derecognised and the renegotiated financial asset recognised as a new loan at fair value with any adjustments taken through the profit and loss.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- The remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Bank has not and does not expect to renegotiate a significant number of its loans and advances to customers. All financial assets where the Bank has granted forbearance will be treated as being in stage 3 to IFRS 9 provisioning purposes until the account exits forbearance.

### Measurement Inputs

Key inputs into the measurement of ECL are:

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

To date, the Bank has incurred very few actual losses and as such, the Bank utilises a PD provided by Credit Reference Agencies which incorporates an assessment of life expectancy. This approach will be reviewed regularly with models continually evolved to incorporate observed performance data.

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

To date, the Bank has incurred very few actual losses and as such will apply significant management judgement, validated through external benchmark to calibrate weightings, values and discounting factors. This approach will be reviewed regularly with models continually evolved to incorporate observed performance data.

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

For revolving products such as overdrafts, utilisation can vary over time. Where unutilised balances exist, e.g. in the example of overdrafts, then the EAD is calculated as the sum of the drawn balance and the undrawn balance adjusted by Credit Conversion Factor (CCF). To date, the Bank has incurred very few actual losses and as such will apply significant management judgement, validated through external benchmark, has been used in the calibration of CCF weightings and values.

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

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

### Forward looking information

Under IFRS 9, the Bank will incorporate forward looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs.

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

The base case will represent a most likely outcome and will be aligned with the scenario used to prepare the Bank's annual budget and strategic plan. The other scenarios will represent more optimistic and more pessimistic outcomes and their impact will be probability weighted. These scenarios will be aligned with other stress tests that the Bank undertakes for ICAAP and will incorporate scenarios produced by external bodies such as the Bank of England.

The Bank has identified and documented the key drivers of credit risk and credit losses for each portfolio of financial instruments using management experience and market data. In the case of its lending, the key drivers of risk and losses are changes in interest rates and levels of unemployment. Predicted relationships between these indicators and default and loss rates have been developed and incorporated into the Bank's credit risk models. The Bank has limited historical data on which to build its credit loss model forecasts and therefore it currently has to rely on a significant amount of management judgement. As the Bank gains more actual performance data it will continue to develop its credit loss models and aim to reduce its reliance on management judgement.

The economic scenarios used will be approved by the Bank's Executive Risk Committee (ERC) and reviewed at least annually.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

### Impact assessment

The most significant impact on the Banks financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses for customer loans and advances will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Bank has estimated that, on the adoption of IFRS 9 at 1 December 2018, the impact of the increase in loss allowances for its lending before tax will be c. £195k, which is the total impact on the Bank of implementing IFRS 9.

The Bank's regulatory capital is estimated to be reduced by c. £195k, however, the Bank will benefit from a transitional arrangement, in accordance with an amendment to Regulation (EU) No 575/2013 allowing it to spread the impact of this over a five-year period. As such on the 1 December 2018 the estimated reduction in regulatory capital is c. £10k.

### Other items

#### Classification – Financial Liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. Under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- The amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- The remaining amount of the change in the fair value will be presented in profit or loss.

#### Impact Assessment

There is no impact from this revised classification definition. The Bank does not, to date, have any changes in fair value of its liabilities as a result of credit risk and will therefore continue to recognise any changes in fair value in the profit or loss.

#### Transition

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 December 2018.



# NOTES TO THE FINANCIAL STATEMENTS

## 2. Loans & Advances to Banks

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Cash and Cash Equivalent | 187,008 | 37,544 | 186,905 | 36,563 |

The relevant amount of High-Quality Liquid Assets (HQLA) at the balance sheet date, being £176,079k (2017: £35,102k) was held at the Bank of England and £388k (2017: nil) was held at the Central Bank of Ireland.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. Investment Securities held to maturity at amortised cost and Other Financial Assets

IFRS13 Fair Value Measurement requires the Bank to classify its assets and liabilities according to a hierarchy that reflect the observability of significant market inputs. The three levels of the fair value hierarchy are defined below:

**Level 1** fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets and liabilities.

**Level 2** valuations are those where quoted market prices are not available, or valuation techniques are used to determine fair value and the inputs are based significantly on observable market data.

**Level 3** portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

| **Book Value** | **Group 2018 £'000** | Group 2017 £'000 | **Company 2018 £'000** | Company 2017 £'000 |
|---|---|---|---|---|
| Assets | | | | |
| Investment Securities | **18,039** | 3,014 | **18,039** | 3,014 |
| Loans and Advances to Customers | **8,698** | 804 | **8,698** | 804 |
| **Financial Assets – Book Value** | **26,737** | 3,818 | **26,737** | 3,818 |

| **Fair Value** | | **Group 2018 £'000** | Group 2017 £'000 | **Company 2018 £'000** | Company 2017 £'000 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Investment Securities | Level 1 | **18,071** | 2,995 | **18,071** | 2,995 |
| Loans and Advances to Customers | Level 3 | **8,503** | 804 | **8,503** | 804 |
| **Financial Assets – Fair Value** | | **26,574** | 3,799 | **26,574** | 3,799 |

| **Investment Securities** | **Group 2018 £'000** | Group 2017 £'000 | **Company 2018 £'000** | Company 2017 £'000 |
|---|---|---|---|---|
| Government: Fixed interest | **2,980** | 3,014 | **2,980** | 3,014 |
| Banks: Floating rate | **15,059** | - | **15,059** | - |
| **Total** | **18,039** | 3,014 | **18,039** | 3,014 |

Investment securities are HQLA items held for liquidity management and are valued using quoted market price and therefore classified as Level 1 assets. The Bank is holding these assets to maturity at historical cost and they are measured at amortised cost.



NOTES TO THE FINANCIAL STATEMENTS

## 4. Loans and Advances to Customers and Impairment Allowances

| **Loan and Advances to Customers** | **Group 2018 £'000** | Group 2017 £'000 | **Company 2018 £'000** | Company 2017 £'000 |
|---|---|---|---|---|
| Customers overdrafts and term loans | **9,301** | 804 | **9,301** | 804 |
| Overdrafts written-off | **(206)** | - | **(206)** | - |
| | **9,095** | 804 | **9,095** | 804 |
| Less impairment provisions | **(397)** | (51) | **(397)** | (51) |
| Net carrying value | **8,698** | 753 | **8,698** | 753 |

| | **Total provisions for impairment on loans and advances £'000** |
|---|---|
| **Group** | |
| **As at 1 December 2017** | 51 |
| Charges to income statement | 346 |
| Written off against overdrafts | (206) |
| Provisions utilised | 206 |
| **As at 30 November 2018** | **397** |

| | **Total provisions for impairment on loans and advances £'000** |
|---|---|
| **Company** | |
| **As at 1 December 2017** | 51 |
| Charges to income statement | 346 |
| Written off against overdrafts | (206) |
| Provisions utilised | 206 |
| **As at 30 November 2018** | **397** |

There were the following undrawn facilities available to customers:

| **Overdraft facilities with customers** | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
|---|---|---|---|---|
| Undrawn credit facilities | **30,518** | 4,965 | **30,518** | 4,965 |

# NOTES TO THE FINANCIAL STATEMENTS

## 5. Deferred Tax

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **Balance brought forward – 1 December 2017** | - | - | - | - |
| Unrecognised Deferred Tax – B/F | (1,221) | (890) | (2,364) | (745) |
| B/F Prior Year computation adjustment | (3,093) | 737 | (101) | (5) |
| Less R&D Tax credit received | 1,786 | 1,414 | 173 | 34 |
| | (2,528) | 1,261 | (2,292) | (716) |
| Current Year Taxation (see note 24) | (4,398) | (2,482) | (4,564) | (1,648) |
| **Unrecognised Deferred Tax** | (6,926) | (1,221) | (6,856) | (2,364) |
| Deferred Tax not recognised | 6,926 | 1,221 | 6,856 | 2,364 |
| **Balance carried forward – 30 November 2018** | - | - | - | - |

Tax losses are expected during the build phase and the early years of operational growth of the Bank, largely due to the cost of establishing mobilisation and client on-boarding when there is no material income.

The tax effects of such tax losses are available for carry forward against future profits.

The Directors have concluded that it is not appropriate to recognise a deferred tax asset at the reporting date as the utilisation of those losses will not occur during the foreseeable future (12 months from the balance sheet date). Were it to have been recognised, the deferred tax asset would have an estimated value of £6,926k (2017: £1,221k), being £40,359 (2017: £7,182k) of trading losses carried forward and other temporary differences taxed at the expected rate of 17% (2017: 17%) corporation tax, being the rate for 2020 which is the expected year of utilisation. These amounts may be recognised in the future as taxable profits arise



# NOTES TO THE FINANCIAL STATEMENTS

## 6. Property, Plant & Equipment and Intangible Assets

**Group 2018**

| **Cost** | Property, Plant and Equipment £'000 | Intangible Assets £'000 | Total Property, Plant & Equipment and Intangible Assets £'000 |
|---|---|---|---|
| **As at 1 December 2017** | 390 | 9,810 | 10,200 |
| Additions | 568 | 5,477 | 6,045 |
| Disposals | (5) | - | (5) |
| **As at 30 November 2018** | 953 | 15,287 | 16,240 |
| **Depreciation & Amortisation** | | | |
| **As at 1 December 2017** | 137 | 480 | 617 |
| Charge for the year | 200 | 1,586 | 1,786 |
| **As at 30 November 2018** | 337 | 2,066 | 2,403 |
| **Net Book Value** | 616 | 13,221 | 13,837 |

During the year the Group capitalised the expenditure it had incurred on; design, specification, build, test and implementation of its banking software as Intangible Assets. The average remaining amortisation period of capitalised software as at 30 November 2018 was 6 years (2017: 7 years).

**Group 2017**

| **Cost** | Property, Plant and Equipment £'000 | Intangible Assets £'000 | Total Property, Plant & Equipment and Intangible Assets £'000 |
|---|---|---|---|
| As at 1 December 2016 | 148 | 5,097 | 5,245 |
| Additions | 263 | 4,713 | 4,976 |
| Disposals | (21) | - | (21) |
| As at 30 November 2017 | 390 | 9,810 | 10,200 |
| Depreciation & Amortisation | | | |
| As at 1 December 2016 | 54 | 6 | 60 |
| Charge for the year | 83 | 474 | 557 |
| As at 30 November 2017 | 137 | 480 | 617 |
| Net Book Value | 253 | 9,330 | 9,583 |

# NOTES TO THE FINANCIAL STATEMENTS

## 6. Property, Plant & Equipment and Intangible Assets (cont.)

**Company 2018**

| Cost | Property, Plant and Equipment | Intangible Assets | Total Property, Plant & Equipment and Intangible Assets |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **As at 1 December 2017** | **386** | **17** | **403** |
| Additions | 568 | 13 | 581 |
| Disposals | (5) | - | (5) |
| **As at 30 November 2018** | **949** | **30** | **979** |
| **Depreciation & Amortisation** | | | |
| **As at 1 December 2017** | **135** | **9** | **144** |
| Charge for the year | 198 | 5 | 203 |
| **As at 30 November 2018** | **333** | **14** | **347** |
| **Net Book Value** | **616** | **16** | **632** |

During the year the Company has capitalised expenditure incurred on trademark protection in different world-wide jurisdictions.

Included within the Company's Statement of Comprehensive Income is Other Income of £4,545k (2017: £3,559k), of which £4,992k (2017: £4,110k) relates to costs borne in the development of the intangible asset that were re-charged from the Parent Company to its Subsidiary.

**Company 2017**

| Cost | Property, Plant and Equipment | Intangible Assets | Total Property, Plant & Equipment and Intangible Assets |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| As at 1 December 2016 | 144 | 14 | 158 |
| Additions | 263 | 3 | 266 |
| Disposals | (21) | - | (21) |
| As at 30 November 2017 | 386 | 17 | 403 |
| Depreciation & Amortisation | | | |
| As at 1 December 2016 | 53 | 6 | 59 |
| Charge for the year | 82 | 3 | 85 |
| As at 30 November 2017 | 135 | 9 | 144 |
| Net Book Value | 251 | 8 | 259 |



# NOTES TO THE FINANCIAL STATEMENTS

## 7. Operating Leases

At 30 November, the future minimum lease payments under operating leases were payable as follows:

| | Group 2018 | Group 2017 | Company 2018 | Company 2017 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Less than one year | **1,142** | 355 | **1,142** | 355 |
| Between one and five years | **667** | 112 | **667** | 112 |
| **Total** | **1,809** | **467** | **1,809** | **467** |

During the year £473k (2017: £204k) was recognised as an expense in the income statement in respect of operating leases. The Bank leases its head office in London under two operating leases. The leases run until September 2023 and June 2020 respectively. Lease break provisions are included in both arrangements and cannot be earlier than June 2020 and October 2019 respectively. There is a rent-free period included in both lease arrangements. The Bank recognises rent expense for both leases on a straight-line-basis. There is no option to purchase premises at the completion of the lease term or extend the lease in either operating lease.

# NOTES TO THE FINANCIAL STATEMENTS

## 8. Other Assets

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Payment scheme collateral | **2,768** | 1,111 | 2,768 | 1,111 |
| Other assets | **2,696** | 1,125 | 2,548 | 1,000 |
| **Total** | **5,464** | 2,236 | **5,316** | 2,111 |

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

## 9. Accrued Interest and Prepayments

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Accrued Interest | **162** | 33 | **162** | 33 |
| Prepayments | **1,461** | 63 | **1,337** | 64 |
| **Total** | **1,623** | 96 | **1,499** | 97 |

Prepayments include amounts prepaid in respect of rent and other miscellaneous items.

# NOTES TO THE FINANCIAL STATEMENTS

## 10. Inter-company Account and Investment in Subsidiary

**Inter-company account**

| | As at 30 November 2018 £'000 | Net Increase/ (Decrease) during period £'000 | As at 30 November 2017 £'000 |
|---|---|---|---|
| Balance on Inter-company account | **11,567** | 1,245 | **10,322** |

The Balance on Inter-company account is solely related to the Subsidiary. See Note 25 for further information on related party and transactions.

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

During the year, the Parent Company charged its Subsidiary £4,992k (2017: £4,324k) for the attributable proportion of staff salaries, employers NIC and other identified costs incurred by the Parent Company in the design, specification, build, test and implementation of the mobile phone App and associated infrastructure.

**Investment in Subsidiary**

| | As at 30 November 2018 £'000 | Net Increase/ (Decrease) during period £'000 | As at 30 November 2017 £'000 |
|---|---|---|---|
| Balance on Investment in Subsidiary A/c | **-** | - | **-** |

The Company has a 100% interest in the Subsidiary, Starling FS Services Limited registered in England and Wales (3rd Floor, 2 Finsbury Avenue, London, EC2M 2PP, registration number 10091094). The Subsidiary has been established to design, specify, build, test and implement banking software and operates from the same premises as its parent and has issued ordinary share capital of £1 nominal value.

## 11. Employee Benefit Trust

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

Starling has created four schemes for the benefit of employees:

- In May 2016, a share scheme – Scheme 1 (share awards granted in May & June 2016);
- In December 2016, a Joint Ownership Scheme – Scheme 2 (share awards granted in December 2016 & April 2017);
- In December 2017, a Joint Ownership Scheme – Scheme 3 (share awards granted in December 2017 & March 2018); and
- In October 2018, a Joint Ownership Scheme – Scheme 4 (share awards granted in October & November 2018).

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

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

Under each scheme, the legal title (and the beneficial interest to a capital return in relation to sums below the hurdle in the case of schemes 2, 3 and 4) remains with the EBT throughout the lifetime of the schemes.

The scheme trustee is Estera Trust (Jersey) Limited (formerly Appleby Trust (Jersey) Limited), a company registered in Jersey (number: 21755) and whose registered office is at 13-14 Esplanade, St Helier, Jersey, JE1 1BD.

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

| | Shares Number | Nominal Value £ | Average Cost £ |
|---|---|---|---|
| **Outstanding as at 1 December 2017** | 22,223 | 222 | 184,474 |
| Shares purchased | 666 | 7 | 7 |
| Shares sold | - | - | - |
| **As at 30 November 2018** | **22,889** | **229** | **184,481** |

**Scheme 1**

| | Number of shares purchased | Number of elapsed months | Percentage applied | Value per share to be applied | Amount recognised |
|---|---|---|---|---|---|
| Purchases made during May 2016 | 2,985 | 30.5 | 12.50% | £1.00 | £373 |
| Purchases made during Jun 2016 | 350 | 29.5 | 12.53% | £1.00 | £44 |

**Scheme 2**

| | Number of shares purchased | Number of elapsed months | Percentage applied | Value per share to be applied | Amount recognised |
|---|---|---|---|---|---|
| Purchases made during Dec 2016 | 7,240 | 23.5 | 15.07% | £63.16 | £59,203 |
| Purchases made during Apr 2017 | 7,350 | 19.5 | 12.99% | £62.57 | £48,857 |

**Scheme 3**

| | Number of shares purchased | Number of elapsed months | Percentage applied | Value per share to be applied | Amount recognised |
|---|---|---|---|---|---|
| Purchases made during Dec 2017 | 3,675 | 12 | 13.98% | £263.50 | £135,355 |
| Purchases made during Feb 2018 | 250 | 10 | 11.88% | £263.92 | £7,838 |
| Purchases made during Mar 2018 | 2,450 | 8.5 | 10.52% | £263.56 | £67,927 |

**Scheme 4**

| | Number of shares purchased | Number of elapsed months | Percentage applied | Value per share to be applied | Amount recognised |
|---|---|---|---|---|---|
| Purchases made during Oct 2018 | 600 | 1.5 | 2.18% | £505.83 | £6,603 |
| Purchases made during Nov 2018 | 650 | 1 | 1.03% | £504.57 | £3,388 |

The above table shows the allocation of shares from the EBT to employees of the company since inception in accordance with the relevant share schemes.

# NOTES TO THE FINANCIAL STATEMENTS

## 11. Employee Benefit Trust (cont.)

The fair value of the shares at the Grant date were valued using the Black-Scholes valuation model. The assumptions used are as follows:

| Grant date | Dec16 | Apr17 | Dec17 | Feb18 | Mar18 | Oct18 | Nov18 |
|---|---|---|---|---|---|---|---|
| Expected volatility | 62% | 51% | 39% | 38% | 38% | 36% | 36% |
| Risk free interest rate | 1.50% | 1.07% | 1.25% | 1.52% | 1.43% | 1.57% | 1.32% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Expected life | 8 years | 7.67 years | 7 years | 6.83 years | 6.75 years | 6.17 years | 6.08 years |

Although the Black-Scholes equation assumes predictable constant volatility this is not observed in real markets. In order to estimate the annualized volatility, we have assessed the past standard deviation of the stock price of comparable quoted banks over various time frames.

| Analysis of shares held by Employee Benefit Trust | Shares Number | Nominal Value £ | Fair Value £ |
|---|---|---|---|
| May 2016 – Shares allocated to employees | 2,985 | 30 | 575 |
| June 2016 – Shares allocated to employees | 350 | 4 | 64 |
| December 2016 – Shares allocated to employees | 7,240 | 72 | 54,782 |
| April 2017 – Shares allocated to employees | 7,350 | 74 | 35,917 |
| November 2017 – Unallocated shares | 4,298 | 42 | 0 |
| **As at 30 November 2017** | **22,223** | **222** | **91,338** |
| May 2016 – Shares allocated to employees | 2,486 | 25 | 373 |
| June 2016 – Shares allocated to employees | 350 | 3 | 44 |
| December 2016 – Shares allocated to employees | 6,221 | 62 | 59,203 |
| April 2017 – Shares allocated to employees | 6,010 | 60 | 48,857 |
| December 2017 – Shares allocated to employees | 3,675 | 37 | 135,355 |
| February 2018 – Shares allocated to employees | 250 | 2 | 7,838 |
| March 2018 – Shares allocated to employees | 2,450 | 25 | 67,927 |
| October 2018 – Shares allocated to employees | 600 | 6 | 6,603 |
| November 2018 – Shares allocated to employees | 650 | 7 | 3,388 |
| November 2018 – Unallocated shares | 197 | 2 | - |
| **As at 30 November 2018** | **22,889** | **229** | **329,588** |

The fair values are based on an independent valuation carried out for the Company by each Scheme's Independent Valuer at each Grant date. In accordance with IFRS 2, the shares are classified as equity-settled and the fair value of shares at the Grant date, as modified by a graded recognition, is charged to the Statement of Comprehensive Income with a corresponding credit to Reserves (see note 19). The Charge to the Statement of Comprehensive Income for the year was £329,588 (2017: £91,277).

# NOTES TO THE FINANCIAL STATEMENTS

## 12. Customer Deposits

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Personal current accounts | **136,929** | 18,083 | **136,929** | 18,083 |
| Micro business accounts | **64,061** | - | **64,061** | - |
| Payment services accounts | **1,333** | - | **1,333** | - |
| **Total** | **202,323** | 18,083 | **202,323** | 18,083 |

Starling is a member of the Financial Services Compensation Scheme (FSCS), the UK Deposit Guarantee Scheme, and its eligible Customer Deposits are guaranteed up to GBP 85,000 per individual customer.



# NOTES TO THE FINANCIAL STATEMENTS

## 13. Risk Management

### a) Credit Risk

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

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

| Credit Risk | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Investment Securities | **18,039** | 3,014 | **18,039** | 3,014 |
| Total overdraft lending to customers | **39,613** | 5,769 | **39,613** | 5,769 |
| **Maximum Credit Risk** | **57,652** | 8,783 | **57,652** | 8,783 |

| Credit Quality (Unaudited) | Gross Carrying amount £'000 | Impairment Allowance £'000 | Gross Loan Commitment £'000 |
|---|---|---|---|
| **Gross carrying amount for:** | | | |
| Low risk (Stage 1) | **8,089** | **-** | **8,089** |
| Medium risk (Stage 2) | **642** | **(120)** | **522** |
| Higher risk (Stage 3) | **364** | **(277)** | **87** |
| | **9,095** | **(397)** | **8,698** |

The ageing of the Group's Customer profile at 30 November 2018 is as follows:

| Credit Ageing | Total £'000 | Under 31 days £'000 | Over 31 days and no more than 60 days £'000 | Over 60 days and no more than 90 days £'000 | Over 90 days £'000 |
|---|---|---|---|---|---|
| **Impairment Allowance** | 397 | 51 | 54 | 35 | 257 |

## Credit Concentration

The Group has a single product which is aimed at the retail current account market in the UK. A geographical breakdown of its customer credit concentration is not provided as credit risk is managed on a portfolio basis.

## b) Liquidity Risk

Liquidity Risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due or is only able to do so at excessive cost. At 30 November 2018 the Group's contractual maturities of the financial assets and liabilities were as follows:

| 2018 Contractual Maturity | Total | On Demand | No more than 3 months | Over 3 months and no more than 1 year | Over 1 year and no more than 3 years | Over 3 years and no more than 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Loans and Advances to Banks | 187,008 | 187,008 | - | - | - | - | - |
| Investment Securities | 18,039 | - | - | - | 33 | 7,013 | 10,993 |
| Loan and Advances to Customers | 8,698 | 8,257 | - | 178 | 192 | 71 | - |
| **Total Financial Assets** | **213,745** | **195,265** | **-** | **178** | **225** | **7,084** | **10,993** |
| Other Assets | 20,924 | | | | | | |
| **Total Assets** | **234,669** | | | | | | |
| Customer Deposits | 202,323 | 202,323 | - | - | - | - | - |
| **Total Financial Liabilities** | **202,323** | **202,323** | **-** | **-** | **-** | **-** | **-** |
| Other Liabilities | 4,347 | | | | | | |
| **Total Liabilities** | **206,670** | | | | | | |

| 2017 Contractual Maturity | Total | On Demand | No more than 3 months | Over 3 months and no more than 1 year | Over 1 year and no more than 3 years | Over 3 years and no more than 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Loans and Advances to Banks | 37,544 | 37,544 | - | - | - | - | - |
| Investment Securities | 3,014 | - | - | - | - | 1,043 | 1,971 |
| Loan and Advances to Customers | 804 | 804 | - | - | - | - | - |
| **Total Financial Assets** | **41,362** | **38,348** | **-** | | | **1,043** | **1,971** |
| Other Assets | 11,915 | | | | | | |
| **Total Assets** | **53,277** | | | | | | |
| Customer Deposits | 18,083 | 18,083 | - | - | - | - | - |
| **Total Financial Liabilities** | **18,083** | **18,083** | **-** | **-** | **-** | **-** | **-** |
| Other Liabilities | 2,476 | | | | | | |
| **Total Liabilities** | **20,559** | | | | | | |

## c) Market Risk

Market Risk is the risk that the value of, or income from, the Group's assets and liabilities change as a result of changes in market prices, the principal element being interest rate risk.

### Measuring exposure to interest rate risk

Interest rate risk exposure is measured by calculating both positive and negative instantaneous shocks to interest rates on:

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

### Market Risk Metrics – Rate Sensitivity

Sensitivity analysis of NII is performed on the Bank's consolidated Statement of Financial Position. As at 30 November 2018, the projected change in NII in response to an immediate parallel shift in all relevant interest rates would be a decrease of £(0.321)m and an increase of £0.375m from 200bps interest rate upward and downward shift accordingly. The measure assumes all interest rates, for all currencies and maturities move at the same time.

### Market Risk Metrics - FX Sensitivity

Payment scheme collateral comprises security deposits placed in US Dollars at a nominated overseas bank at the request of the Bank's card scheme provider to support customers' transaction volumes. The Bank has economically hedged the exposure and consequently has little exposure to the movement in FX rates.

# NOTES TO THE FINANCIAL STATEMENTS

## 14. Provisions for Liabilities and Charges

| | Total provisions for liabilities and charges £'000 |
|---|---|
| **Group** | |
| **As at 1 December 2017** | **132** |
| Charges to income statement | 406 |
| Provisions utilised and other movements | (336) |
| **As at 30 November 2018** | **202** |

| | Total provisions for liabilities and charges £'000 |
|---|---|
| **Company** | |
| **As at 1 December 2017** | **132** |
| Charges to income statement | 406 |
| Provisions utilised and other movements | (336) |
| **As at 30 November 2018** | **202** |

Provisions relate to items awaiting indemnities from third party banks where the amount is suspected or confirmed as being a proceeds of crime.

# NOTES TO THE FINANCIAL STATEMENTS

## 15. Other Liabilities

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Creditors due within 12 months | **3,360** | 554 | **3,360** | 554 |
| Creditors due in over 12 months | **254** | 254 | **254** | 254 |
| **Total** | **3,614** | **808** | **3,614** | **808** |

The creditors due in over 12 months comprises a loan by a Director to the Parent Company that is repayable in greater than one year (see note 25).

## 16. Accruals and Deferred Income

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Accruals | **170** | 1,113 | **136** | 993 |
| Deferred Income | **361** | 372 | **361** | 372 |
| **Total** | **531** | 1,485 | **497** | 1,365 |

Deferred Income represents a cash settled marketing contribution from the Bank's card services provider; recognition is contingent solely upon meeting certain volume thresholds, which had not been achieved at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

## 17. Share Capital

| For the period 1 December 2017 to 30 November 2018 | Shares Number | Nominal Value £'000 |
|---|---|---|
| **As at 1 December 2017** | **472,500** | **4.725** |
| 11 April 2018 - B Shares of £0.01 each | 42,955 | 0.430 |
| 26 September 2018 – B Share of £0.01 | 1 | - |
| **As at 30 November 2018** | **515,456** | **5.155** |

On 11th April 2018, the Company issued a further 42,955 B shares at a price of £232.06 each, giving rise to a further addition to the share premium account (see note 18).
On 26 September 2018, the company issued a further 1 B share at a price of £10,000,000, giving rise to a further addition to the share premium account (see note 18).

At the reporting date the shares in issue comprised:

| | Shares Number | Nominal Value £'000 |
|---|---|---|
| Ordinary Shares | 85,050 | 0.850 |
| A Shares | 72,450 | 0.725 |
| B Shares | 357,956 | 3.580 |
| **As at 30 November 2018** | **515,456** | **5.155** |

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

| For the period 1 December 2016 to 30 November 2017 | Shares Number | Nominal Value £'000 |
|---|---|---|
| **As at 1 December 2016** | **275,625** | **2.756** |
| 12 Apr 2017 - B Shares of £0.01 each | 196,875 | 1.969 |
| **As at 30 November 2017** | **472,500** | **4.725** |

| | Shares Number | Nominal Value £'000 |
|---|---|---|
| Ordinary Shares | 85,050 | 0.850 |
| A Shares | 72,450 | 0.725 |
| B Shares | 315,000 | 3.150 |
| **As at 30 November 2017** | **472,500** | **4.725** |

# NOTES TO THE FINANCIAL STATEMENTS

## 18. Share Premium

| For the period 1 December 2017 to 30 November 2018 | Shares Number | Nominal Value £'000 |
|---|---|---|
| **As at 1 December 2017** | **315,000** | **47,846** |
| April 2018 – Ordinary B Shares | 42,955 | 9,968 |
| September 2018 – B Share | 1 | 10,000 |
| Less transaction costs | - | (30) |
| Total increase in the period | 42,956 | 19,938 |
| **As at 30 November 2018** | **357,956** | **67,784** |

| | Shares Number | Nominal Value £'000 |
|---|---|---|
| Ordinary B Shares | 357,956 | 67,784 |
| **As at 30 November 2018** | **357,956** | **67,784** |

The Company incurred transactions cost of £30k (2017: £41k) in respect of the issue of ordinary B share and this has been deducted from the share premium account.

| For the period 1 December 2016 to 30 November 2017 | Shares Number | Nominal Value £'000 |
|---|---|---|
| **As at 1 December 2016** | **118,125** | **17,889** |
| April 2017 – Ordinary B Shares | 196,875 | 29,998 |
| Less transaction costs | - | (41) |
| Total increase in the period | 196,875 | 29,957 |
| **As at 30 November 2017** | **315,000** | **47,846** |

| | Shares Number | Nominal Value £'000 |
|---|---|---|
| Ordinary B Shares | 315,000 | 47,846 |
| **As at 30 November 2017** | **315,000** | **47,846** |

# NOTES TO THE FINANCIAL STATEMENTS

## 19. Other Reserves and Retained Earnings

| Group | Other Reserves £'000 | Retained Earnings £'000 | Total Reserves £'000 |
|---|---|---|---|
| **As at 30 November 2016** | **-** | **(4,843)** | **(4,843)** |
| Employee Benefit Trust | (94) | - | (94) |
| Loss for the period | - | (10,196) | (10,196) |
| **As at 30 November 2017** | **(94)** | **(15,039)** | **(15,133)** |
| Employee Benefit Trust | 413 | - | 413 |
| Loss for the period | - | (25,070) | (25,070) |
| **As at 30 November 2018** | **319** | **(40,109)** | **(39,790)** |

| Company | Other Reserves £'000 | Retained Earnings £'000 | Total Reserves £'000 |
|---|---|---|---|
| **As at 30 November 2016** | **-** | **(4,217)** | **(4,217)** |
| Employee Benefit Trust | (94) | - | (94) |
| Loss for the period | - | (10,809) | (10,809) |
| **As at 30 November 2017** | **(94)** | **(15,026)** | **(15,120)** |
| Employee Benefit Trust | 413 | | 413 |
| Loss for the period | - | (27,062) | (27,062) |
| **As at 30 November 2018** | **319** | **(42,088)** | **(41,769)** |

| Employee Benefit Trust | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| Reserves – Shares held by EBT | (10) | (185) | (10) | (185) |
| Reserves – Fair Value Share rewards | 329 | 91 | 329 | 91 |
| **As at 30 November 2018** | **319** | **(94)** | **319** | **(94)** |



# NOTES TO THE FINANCIAL STATEMENTS

## 20. Regulatory Capital

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

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

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

| a) Audited | Group Nov 2018 £'000 | Group Nov 2017 £'000 | Company Nov 2018 £'000 | Company Nov 2017 £'000 |
|---|---|---|---|---|
| **Shareholder equity as per the statement of financial position** | **27,999** | **32,718** | **26,020** | **32,731** |
| Regulatory deductions: | | | | |
| Intangible assets (including Intercompany loan) | (13,221) | (9,330) | (11,583) | (10,330) |
| **Common Equity Tier1 (CET1) capital** | **14,778** | **23,388** | **14,437** | **22,401** |
| **Total Regulatory Capital** | **14,778** | **23,388** | **14,437** | **22,401** |
| **b) Unaudited** | | | | |
| Credit - Financial Institutions – RWA[1] | 3,667 | 711 | 3,646 | 514 |
| Credit - Retail – RWA[1] | 6,599 | 571 | 6,599 | 571 |
| Credit - Other Assets – RWA[1] | 3,270 | 715 | 3,147 | 714 |
| Operational Risk Exposure - Notional RWA[1] | 28,300 | 15,528 | 28,300 | 15,528 |
| **Total Risk Weighted Assets** | **41,836** | **17,525** | **41,692** | **17,327** |
| Common Equity Tier (CET1) ratio | 34.5% | 133.5% | 34.6% | 129.3% |
| Total Tier 1 ratio | 34.5% | 133.5% | 34.6% | 129.3% |

Note [1] RWA = Risk Weighted Asset.

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Net Interest Income

| Interest Income | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| Loans and Advances to Banks | **550** | 61 | **550** | 61 |
| Investment Securities | **67** | 4 | **67** | 4 |
| Loans and Advances to Customers | **527** | 24 | **527** | 24 |
| **Total** | **1,144** | 89 | **1,144** | 89 |
| **Interest Expense** | | | | |
| Customer Deposits | **(215)** | (13) | **(215)** | (13) |
| **Total** | **(215)** | (13) | **(215)** | **(13)** |
| **Net Interest Income** | **929** | 76 | **929** | 76 |

The calculation of interest income includes all amounts received or paid by the Bank that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

## 22. Net Fees and Commissions

| Fees and Commissions Income | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| Customer card transaction revenue | **1,476** | 82 | **1,476** | 82 |
| Payment and Platform Services | **213** | 5 | **213** | 5 |
| Marketplace | **35** | - | **35** | - |
| **Total** | **1,724** | 87 | **1,724** | 87 |
| **Fees and Commissions Expense** | | | | |
| Customer card transaction costs | **(1,892)** | (100) | **(1,892)** | 100 |
| Faster Payments and other related costs | **(218)** | (25) | **(218)** | (25) |
| **Total** | **(2,110)** | (125) | **(2,110)** | (125) |
| **Net Fees and Commissions Expense** | **(386)** | (38) | **(386)** | (38) |



# NOTES TO THE FINANCIAL STATEMENTS

## 23. Administrative Expenses

| | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| Staff Costs | **14,355** | 9,061 | **14,352** | 8,700 |
| Other Administrative and General Expenses | **17,963** | 7,627 | **17,219** | 6,127 |
| Capitalisation of Intangible Assets (note 6) | **(5,464)** | (4,710) | **-** | - |
| **Total** | **26,854** | 11,978 | **31,571** | 14,827 |

| Included within Staff costs were as follows: | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| Salaries, Wages and Other Costs | **12,704** | 8,198 | **12,701** | 7,837 |
| Social Security Costs | **1,235** | 759 | **1,235** | 759 |
| FV of shares issued to Employees under EBT | **330** | 91 | **330** | 91 |
| Pension Contributions | **86** | 13 | **86** | 13 |
| **Total** | **14,355** | 9,061 | **14,352** | 8,700 |

Average number of persons employed by the Group (including Directors) during the year was 193 (2017: 92).

193 employed

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Operating Costs

| Directors Costs | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| Wages and Salaries | **844** | 816 | **844** | 816 |
| Social Security Costs | **98** | 78 | **98** | 78 |
| **Total** | **942** | 894 | **942** | 894 |

| Highest Paid Director | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| Wages and Salaries | **319** | 256 | **319** | 256 |
| Social Security Costs | **43** | 34 | **43** | 34 |
| **Total** | **362** | 290 | **362** | 290 |

The Directors do not participate in the Bank's pension arrangement or The Employee Benefit Trust. There were no pension contributions paid by the Bank on behalf of Directors and no awards made to Directors under the Bank's share-based payment arrangement.

| Included within Other Administrative and General Expenses were the following amounts: | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| Amortisation of Intangible Assets | **1,586** | 474 | **5** | 3 |
| Depreciation of Tangible Assets | **200** | 83 | **198** | 82 |
| **Total** | **1,786** | 557 | **203** | 85 |

| Included within Other Administrative and General Expenses were the following amounts for audit and non-audit fees: | Group 30 Nov 2018 | Group 30 Nov 2017 | Company 30 Nov 2018 | Company 30 Nov 2017 |
|---|---|---|---|---|
| Audit of Consolidated Financial Statements | **114** | 66 | **114** | 66 |
| Audit of the Financial Statements of the Subsidiary | **9** | 9 | **-** | - |
| Other assurance services | **-** | 10 | **-** | 10 |
| **Total** | **123** | 85 | **114** | 76 |



# NOTES TO THE FINANCIAL STATEMENTS

## 24. Taxation

| | Group 30 Nov 2018 £'000 | Group 30 Nov 2017 £'000 | Company 30 Nov 2018 £'000 | Company 30 Nov 2017 £'000 |
|---|---|---|---|---|
| Loss on ordinary activities before Tax | **(26,856)** | (11,610) | **(27,235)** | (10,843) |
| Add back:<br>Tax Loss Adjustments and Deductions | **372** | (500) | **370** | (501) |
| **Taxable Loss** | **(26,484)** | (12,110) | **(26,865)** | (11,344) |
| Standard Rate of Corporation Tax | **19%** | 19.3% | **19%** | 19.3% |
| Corporation Tax on Losses | **(5,032)** | (2,341) | **(5,104)** | (2,193) |
| Prior Period Tax rate adjustments | **(1,074)** | (127) | **537** | 559 |
| Short-Term Temporary Differences | **1,708** | (14) | **3** | (14) |
| Potential Tax Credit | **(4,398)** | (2,482) | **(4,564)** | (1,648) |
| R&D Tax Credit | **1,786** | 1,414 | **173** | 34 |
| Deferred Tax (see note 5) | **4,398** | 2,482 | **4,564** | 1,648 |
| **Total Tax Credit** | **1,786** | 1,414 | **173** | 34 |

The tax effect of tax losses has not been recognised in these financial statements as the Group is not yet generating a trading profit and consequently there is no evidence that future taxable profits will be available.

R&D eligible deductions in the prior period resulted in a tax credit from HMRC of £1,786k (2017: £1,414k) being received in the year to 30 November 2018.

No corporation tax liabilities are payable nor receivable from HMRC for the year (2017: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Related Party Transactions

### a). Parent and Controlling Entities

The immediate holding company at the end of the period was JTC Starling Holdings Limited and is deemed the ultimate controlling party. At the reporting date, JTC Starling Holding Limited holds 69% (2017: 67%) of the total shares in issue and is entitled to 67% (2017: 67%) of the voting rights.

| **Deposit balances held by individuals associated with JTC Starling Holdings Limited comprised:** | **As at 30 Nov 2018** £'000 | **Net Increase/ (decrease) during period** £'000 | **As at 30 Nov 2017** £'000 |
|---|---|---|---|
| Balances on Deposit accounts | **79** | 33 | **46** |

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

### Director Loan Account - Amounts due to Anne Boden MBE

Anne Boden MBE, who is also the CEO, holds 16% (2017: 17%) of the total shares in issue and is entitled to 31% of the voting rights (2017: 31%) and consequently is deemed a related party.

| **Director Loan Account - Amounts due to Anne Boden MBE:** | **Due to Director as at 30 Nov 2018** £'000 | **Funding during period** £'000 | **Due to Director as at 30 Nov 2017** £'000 |
|---|---|---|---|
| Balance on Director Loan Account | **254** | - | **254** |

The Director's loan account relates to a loan from the CEO. The loan was provided prior to the financial year commencing 1 December 2015. It is non-interest bearing and the loan is repayable on a liquidity event, or upon the agreement and approval of the Company and the Investor.

### b) Key Management Personnel Transactions

Key Management Personnel is defined as the Board, their spouses or partners and children and other dependants over whom the Board member can exert influence.

| **Deposit balances held by Key Management Personnel comprised:** | **As at 30 Nov 2018** £'000 | **Net Increase/ (decrease) during period** £'000 | **As at 30 Nov 2017** £'000 |
|---|---|---|---|
| Balances on Deposit Accounts | **192** | (76) | **268** |

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

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Related Party Transactions (cont.)

| Overdraft balances held by Key Management Personnel comprised: | As at 30 Nov 2018 £'000 | Net Increase/ (decrease) during period £'000 | As at 30 Nov 2017 £'000 |
|---|---|---|---|
| Balances on Overdraft and Term Loan Accounts | - | - | - |

The terms and conditions applied to the above balances are at rates between 3% and 10%.

### c) Key Management Personnel Compensation

| | For period ended 30 Nov 2018 £'000 | Net Increase/ (decrease) £'000 | For period ended 30 Nov 2017 £'000 |
|---|---|---|---|
| Wages and Salaries | **844** | 28 | **816** |
| Social Security Costs | **98** | 20 | **78** |
| **Total** | **942** | **48** | **894** |



# NOTES TO THE FINANCIAL STATEMENTS

## 26. Capital Commitments

### d) Subsidiaries and Affiliates

Interest in the Subsidiary is set out in note 10.

| | As at 30 Nov 2018 £'000 | Net Increase/ (decrease) during period £'000 | As at 30 Nov 2017 £'000 |
|---|---|---|---|
| Inter-company with the Subsidiary | **11,567** | 1,245 | **10,322** |
| **Total** | **11,567** | **1,245** | **10,322** |

### d) Subsidiaries and Affiliates

The balance on the inter-company account is repayable on demand and is interest free.

The Parent Company employs product and software development teams and incurs the cost of salaries, NIC and other benefits; a proportion of this is recharged to the Subsidiary. Management services are subsequently purchased from the Subsidiary, related to intellectual property rights, of the banking App in the form of a licence fee agreement on a cost-plus basis after capital expenditure, allowing a margin of 5% + VAT (OECD Transfer Pricing method at arm's length level).

During the year, the Parent Company charged its Subsidiary £4,992k (2017: £4,324k) for the attributable proportion of staff salaries, employers NIC and other identified costs incurred by the Parent Company in the design, specification, build, test and implementation of the mobile phone App and associated infrastructure.

At 30 November 2018, the Company had no committed capital expenditure that had not been provided for in the accounts (2017: £nil).

## 27. Contingent Liabilities

At 30 November 2018, the Company had no contingent liabilities (2017: £nil).

## 28. Events After Reporting Period

The following events have taken place between 30 November 2018 and the date of approval of these accounts by the Board.

- On 19 December 2018 the Bank's application for the Business Banking Switch was approved. It will launch on 25 February 2019.
- On 21 December 2018 the Bank submitted an application to Banking Competition Remedies Limited (BCR Ltd), the independent body that has been created to oversee the RBS Package, for funding under Pool A of the Capability and Innovation Fund that was set up by the Royal Bank of Scotland, HM Treasury and the European Commission. BCR Ltd have stated that the announcement of the award of a grant under Pool A will be in February 2019. Should the Bank be successful in its application, it will accelerate the Bank's development of its digital business bank aimed at SMEs in the UK.



NOTES TO THE FINANCIAL STATEMENTS

## 29. Country by Country Reporting

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

The Objective of the country by country reporting requirements is to provide increased transparency regarding the source of the financial institution's income and locations of its operations. Starling is a UK registered entity that operates only in the United Kingdom, taking deposits and providing lending.

| | Group 30 Nov 2018 | Group 30 Nov 2017 | Company 30 Nov 2018 | Company 30 Nov 2017 |
|---|---|---|---|---|
| Turnover (£'000)[1] | **750** | (19) | **5,088** | 3,597 |
| Loss before Tax (£'000) | **(26,856)** | (11,610) | **(27,235)** | (10,844) |
| Corporation Tax paid (£'000) | **Nil** | Nil | **Nil** | Nil |
| Number of Employees on full time equivalent basis | **279** | 125 | **279** | 125 |
| Subsidy amounts received (£'000) | **Nil** | Nil | **Nil** | Nil |
| Jurisdictions in which operated | **UK** | UK | **UK** | UK |

Note [1] Turnover is defined as total income/(expense).

## 30. Non-IFRS measures

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

- Cost of risk is calculated as impairment charges net of debt recoveries divided by simple average gross loans for the year.
- Cost of deposits is calculated as interest expense divided by the average deposits from customers for the year.
- Loan-to-deposit ratio represents loans and advances to customers expressed as a percentage of total deposits.
- Net interest margin (NIM) represents net interest income as a percentage of average interest-earning assets.

# ABBREVIATIONS AND ACRONYMS

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



Diversity is not something we have to aspire to at Starling; it's what we are.


STARLING BANK