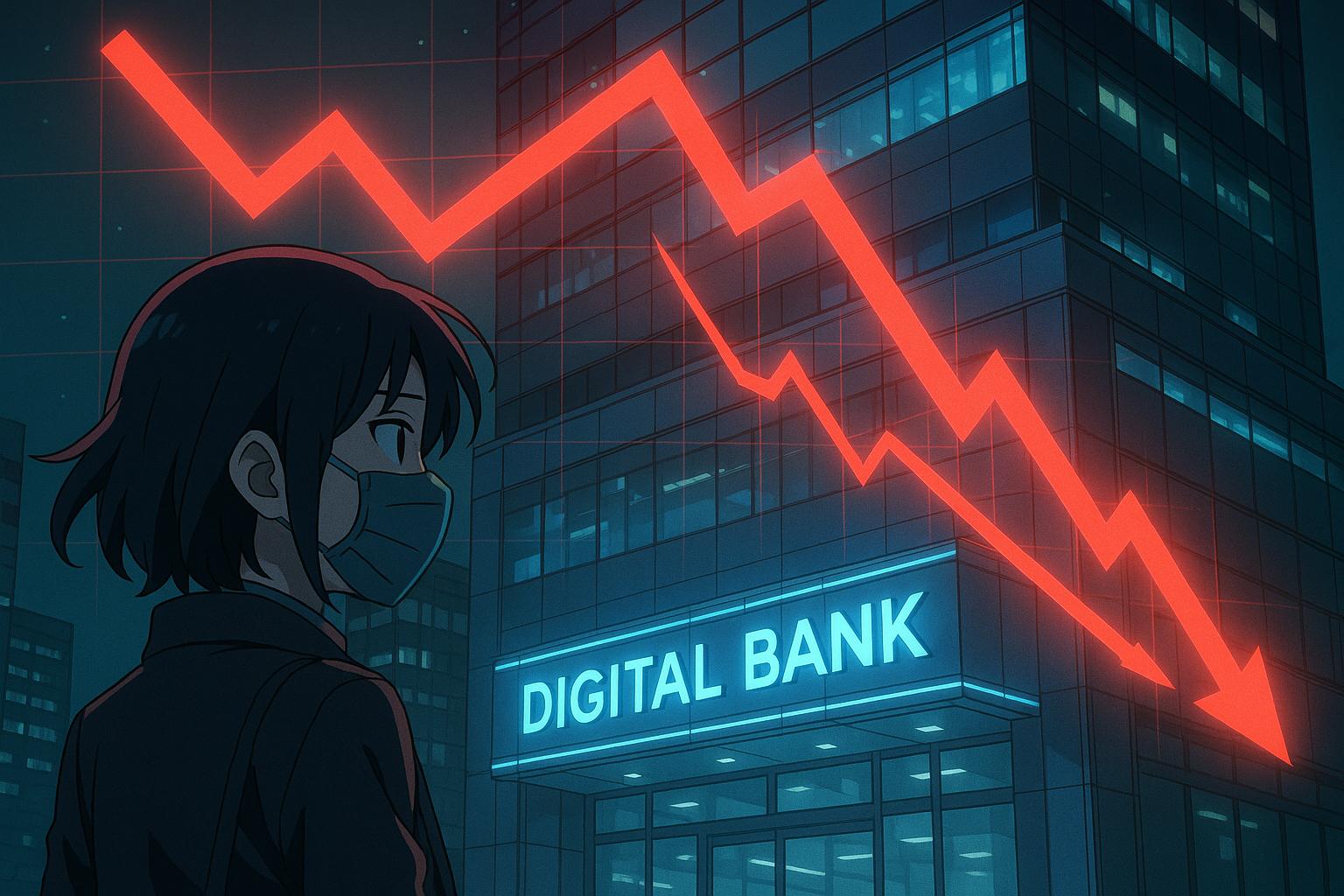
# Starling bank faces profit slump and regulatory fine over lax Covid loan controls



Digital bank Starling has confronted a significant setback, reporting a 25% drop in its annual profits, a decline that has raised serious questions about its handling of government-backed Covid loans. This fall, bringing profits down to £223 million from the previous year's £301 million, has been largely attributed to a combination of a £28 million provision for potential losses on bounce back loans (BBLs) and a £29 million fine from UK financial regulators for inadequate financial crime controls.

The scrutiny surrounding Starling's management of the BBL scheme—which provided loans of up to £50,000 at a minimal interest rate and was largely designed to keep small businesses afloat during lockdown—has intensified. During a recent media call, chief executive Raman Bhatia revealed that some loans had been approved without the necessary checks, indicating that the bank might not be able to access government guarantees for this tranche of BBLs. “In some cases, we think we may not have met all the procedures, all the requirements, of the scheme,” Bhatia admitted, although he did not confirm any instances of fraud within these loans.

The controversy dates back to accusations made by former minister Theodore Agnew, who described Starling’s actions during the BBL rollout as a "cost-free marketing exercise," suggesting that the bank prioritised its own growth over diligent financial scrutiny. While Starling's former CEO, Anne Boden, vehemently denied these claims in 2022, the recent financial setbacks and regulatory fines point to the reality that the lender's rapid growth came with significant risks.

Starling's aggressive expansion during the pandemic saw its business customer base soar from 87,000 to approximately 330,000, essentially averaging 15,000 new clients per month. Pre-pandemic, Starling had issued only £23 million in loans; by the close of the BBL scheme in March 2021, this figure ballooned to £1.6 billion. Such rapid growth, however, has led to mounting concerns regarding defaults and delinquency, with a notable 40% increase in provisions for bad loans to £13.9 million in the last reporting period. Concerns about rising defaults have driven Starling to intensify its legal actions against companies that defaulted on these state-backed loans, filing winding-up petitions against at least 24 businesses that appear to show limited trading activity.

Bhatia stated that the bank is actively working on enhancing its compliance processes and financial crime prevention measures, in a bid to strengthen its operational foundation. Following the regulatory fine, which the Financial Conduct Authority (FCA) deemed due to "shockingly lax" controls, Starling's commitment to improving its governance has become increasingly urgent. The interim chief executive acknowledged potential repercussions for executive compensation in light of these issues, although he refrained from providing specific details.

The road ahead looks challenging for Starling. The reputational damage stemming from these controversies has raised doubts about its plans for a stock market listing, a goal that appeared more achievable during its rapid ascent to prominence in the fintech sector. Analysts have suggested that the company may now face a protracted wait before it can reliably showcase its value to potential investors. As it seeks to address its compliance shortcomings, questions linger about the sustainability of its rapid growth strategy, particularly as more competitors enter the market.

With the pandemic’s financial repercussions still being felt, and heightened scrutiny over state-backed loan management, Starling must navigate a complex landscape. The charge forward into a more regulated operational environment, coupled with proactive compliance efforts and legal strategies against non-performing loans, will be crucial in determining its future trajectory.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.theguardian.com/business/2025/may/28/starling-profits-dip-25-percent-bank-takes-blame-covid-loan-losses), [[2]](https://www.ft.com/content/baffe6d0-94f3-4278-9c42-75481529b21b)
* Paragraph 2 – [[3]](https://www.ft.com/content/eacc8c2b-7b29-4048-8c4e-8d67824fa556), [[4]](https://yourbusinessgazette.com/2024/06/20/starling-bank-intensifies-legal-pursuit-of-covid-loan-defaulters/), [[6]](https://www.theguardian.com/money/2024/dec/29/shockingly-lax-how-soaring-british-bank-starling-had-its-wings-clipped)
* Paragraph 3 – [[5]](https://www.finextra.com/newsarticle/41441/over-a-third-of-covid-support-loans-issued-by-starling-at-risk-of-default), [[6]](https://www.theguardian.com/money/2024/dec/29/shockingly-lax-how-soaring-british-bank-starling-had-its-wings-clipped)

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## Bibliography

1. <https://www.theguardian.com/business/2025/may/28/starling-profits-dip-25-percent-bank-takes-blame-covid-loan-losses> - Please view link - unable to able to access data
2. <https://www.ft.com/content/baffe6d0-94f3-4278-9c42-75481529b21b> - Starling Bank reported a significant drop in profits, with pre-tax earnings falling over 25% to £223 million for the year ending in March 2025, down from £301 million the previous year. The decline was largely due to a £28 million provision for potential non-compliance issues involving government-backed Covid-19 loans and a £29 million fine from UK financial regulators for weak financial crime controls. During the pandemic, Starling aggressively expanded its loan book using the UK’s bounce back loan scheme, offering loans with a 100% government guarantee. However, the bank has now acknowledged that some of these loans may not meet eligibility requirements, raising concerns about fraud and non-compliance. Starling has communicated these concerns to the British Business Bank and voluntarily removed the guarantee on affected loans. CEO Raman Bhatia stated that the bank is addressing its compliance shortcomings by enhancing senior leadership and financial crime prevention measures, aiming to stabilise and strengthen its operations moving forward. ([ft.com](https://www.ft.com/content/baffe6d0-94f3-4278-9c42-75481529b21b?utm_source=openai))
3. <https://www.ft.com/content/eacc8c2b-7b29-4048-8c4e-8d67824fa556> - Starling Bank sharply increased the amount it set aside for bad loans as the digital lender that relied on UK government-backed schemes to build its loan book during the Covid-19 pandemic contends with a rise in defaults. The privately owned fintech set aside £13.9 million for bad loans in the year to the end of March, up 40% on the previous year, as it flagged a rise in mortgage arrears and increased default rates in the unsecured proportion of small and medium-sized enterprise (SME) lending. The results come after the challenger bank attracted scrutiny from politicians after it expanded its loan book largely using government-backed lending schemes. During the pandemic, such programmes allowed SMEs to borrow up to £5 million, with government guarantees of 80% to 100% and minimal checks, to provide a lifeline to struggling companies. ([ft.com](https://www.ft.com/content/eacc8c2b-7b29-4048-8c4e-8d67824fa556?utm_source=openai))
4. <https://yourbusinessgazette.com/2024/06/20/starling-bank-intensifies-legal-pursuit-of-covid-loan-defaulters/> - Starling Bank, the digital-only lender, is stepping up its legal actions against businesses that defaulted on state-backed pandemic loans. The bank has filed winding-up petitions against 24 companies since last month, many of which show limited or no signs of trading activity. These petitions, initially reported by the Financial Times, target companies that received loans through the government’s bounce back scheme. Anne Boden, which has faced criticism for its handling of the scheme, is also under investigation by the Financial Conduct Authority (FCA) for its compliance with UK money-laundering regulations. Founded in 2014 by Anne Boden, Starling Bank has grown rapidly, boasting around 4.2 million customer accounts and reporting a £301.1 million pre-tax profit for the year ending March 2023. Its significant growth has been partly fuelled by the issuance of bounce back loans during the pandemic, aimed at supporting small businesses. ([yourbusinessgazette.com](https://yourbusinessgazette.com/2024/06/20/starling-bank-intensifies-legal-pursuit-of-covid-loan-defaulters/?utm_source=openai))
5. <https://www.finextra.com/newsarticle/41441/over-a-third-of-covid-support-loans-issued-by-starling-at-risk-of-default> - Over a third of bounce back loans approved by Starling Bank during the pandemic are at risk of default, the lender has told the Public Accounts Committee. Starling Bank funded more than £358 million of loans under the coronavirus business interruption loan scheme (CBILS) and over £1 billion in BBLs. Of the £47 billion provided in loans through the Bounce Back Loan (BBL) scheme, £1.1 billion of these loans are suspected to be fraudulent. Across the entire scheme, the BBB found that around 3.2% of outstanding loans were in default and 7.6% were in arrears. So far lenders have clawed back £400 million from the taxpayer to cover loan defaults under the scheme. Starling has so far claimed £153 million from the state guarantee, of which £106 million has been paid out. Starling Bank CEO Anne Boden in June threatened legal action against former anti-fraud minister Lord Agnew over his allegations that the bank used the Government's Covid loan scheme as a "God-sent opportunity" to swell its balance sheets without conducting adequate checks on the ability of loanees to repay the debt. The latest at-risk figures revealed by Starling boss Anne Boden are far higher than those of other banks who appeared before the Committee. Starling maintains that a large proportion of its BBL customers were relatively ‘young’ businesses, which have a higher probability of failing than more established businesses. Many of the big banks lent only, or primarily, to their existing customers with whom they may have had a long-standing relationship. Boden told the Committee that Starling had rejected around £344 million worth of BBL applications, equating to about 16% of applications. ([finextra.com](https://www.finextra.com/newsarticle/41441/over-a-third-of-covid-support-loans-issued-by-starling-at-risk-of-default?utm_source=openai))
6. <https://www.theguardian.com/money/2024/dec/29/shockingly-lax-how-soaring-british-bank-starling-had-its-wings-clipped> - Launched as a challenger to traditional lenders, Starling Bank profited from offering state-backed loans during Covid. But then the regulator came calling. In June, Raman Bhatia walked into the fifth-floor office at Starling Bank’s headquarters in east London with a clean slate. It was set to be an antidote to a turbulent two years steering his former employer, Ovo, through an energy crisis and fines for overcharging customers. Starling once seemed poised for unwavering success. It was part of a trio of online-only neo-banks, alongside Revolut and Monzo, which emerged in the mid-2010s to disrupt traditional banking. Boden, a former Royal Bank of Scotland executive, presented Starling as a grown-up among the upstarts, with 30 years of banking experience and £48 million of seed funding from the reclusive Austrian billionaire Harald McPike. Not everyone agreed with her leadership style – as illustrated by a staff rebellion that led to a former colleague launching a rival, Monzo. But in 2016, two years after its launch, Starling clinched a coveted UK banking licence, allowing it to hold its own customers’ deposits and issue lucrative loans. It would take Monzo another year, and Revolut until 2024, to do the same. And although the pandemic loomed, the government-backed schemes that followed would fuel Starling’s growth: it was among a number of smaller lenders that eagerly queued to distribute bounce-back loans (BBLs). Meant to support businesses during lockdown, banks offered companies loans of up to £50,000 at 2.5% interest, but carried little risk, with taxpayers picking up 100% of losses if borrowers defaulted. Government-backed finance schemes proliferated in the UK during the pandemic. Starling’s distribution of Covid loans gained heightened attention in 2022 when former minister Theodore Agnew accused Starling of using the BBL scheme as a “cost-free marketing exercise to build their loan book and so their company valuation”, and failing to properly review borrowers before handing out taxpayer-backed loans. Boden at the time vehemently denied Agnew’s claims. The new revelations have undoubtedly hurt Starling’s reputation and kicked the prospect of a stock market listing – and payouts to investors such as Goldman Sachs and McPike – down the road. “It makes it harder to ‘sell the story’ to investors,” said John Cronin, an independent banking analyst and founder of SeaPoint Insights. “I would be surprised to see a successful IPO within the next two to three years,” he added. Boden stepped down as chief executive in 2023 citing a “conflict of interest” between being a boss and a large shareholder in the lender. Starling said: “We fully accept and have apologised for the FCA’s findings. Their fine related solely to breaches of the VREQ and to sanctions controls. The loans issued during the Covid crisis were to a small proportion of our new customers. In line with other banks, we were supporting the government’s efforts to keep the economy alive and small business owners active. We’re moving forward with plans for new products and services and are excited about the prospects for 2025. ([theguardian.com](https://www.theguardian.com/money/2024/dec/29/shockingly-lax-how-soaring-british-bank-starling-had-its-wings-clipped?utm_source=openai))