



Pillar 3 Disclosures

28 February 2018

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Monzo is an app-only digital bank, everything we do is intended to make for a delightful customer experience, whoever you are. We have an amazing community of users that are helping us to build something we all love by regularly testing new features and giving us feedback.

We were granted a full unrestricted banking license in April 2017 and proceeded to launch the current account in October 2017, managing to upgrade over 95% of active prepaid users. As at February 2018 our total customer user base was 591,000. In January 2018 we began the roll out of the overdraft product, by February 2018 customers had deposited £71m with us and we'd offered £0.84m of overdrafts.

This document constitutes the Pillar 3 disclosures of Monzo Bank Ltd ('the Bank') as required under the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV). The purpose of this document is to provide information and disclosure to the Bank's depositors, investors and other stakeholders, in relation to the internal procedures and policies adopted by the Bank to manage and mitigate its key risks.

Pillar 3's objective is to improve market discipline through effective public disclosure to complement requirements for Pillar 1 and Pillar 2. As such, it includes details of:

- The approach to risk management, its policies and objectives;
- The governance structure of the Bank, including Board and committees;
- Asset information and capital resources; and
- Compliance with EU Capital Requirements legislation.

Throughout the year March 2017 to February 2018 Monzo raised £68m in Core Equity Tier 1 (CET1) Capital. This was used to invest in the business and increase capital resources to support customer lending. Our net capital position at year-end was £56m.

Disclosures are presented as at 28th February 2018. On 7 November 2018 an additional £85m of CET1 capital was raised.

Basis of preparation

The Capital Requirements Regulation (CRR) (EU Regulation No 575/2013) and the fourth Capital Requirements Directive (CRD) (EU Directive 2013/36), known as the CRD IV package (CRD IV), were implemented in the UK on 1 January 2014. In December 2016, the EBA published its final guidance on regulatory disclosure following an update of Pillar 3 requirements by the Basel Committee in January 2015 and these guidelines apply from December 2017. Monzo has considered these guidelines where relevant although most of the disclosure tables are not relevant to the Bank as they only apply to global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs). Monzo's Pillar 3 disclosures comply with the requirements of CRD IV including any delegated and implementing legislation and any European Banking Authority (EBA) guidelines in force at 28 February 2018, specifically part eight of the CRR which sets out the minimum disclosure requirements.

In accordance with Article 432 of the CRR, the Bank is permitted to exclude certain disclosures if they contain proprietary information or are nonmaterial. Monzo has not omitted any disclosures on that or any other basis.

As per Prudential Regulation Authority (PRA) policy statement PS7/13, the implementation of CRD IV is subject to transitional provisions. Full implementation is required by 1 January 2022 however, as the Bank is not affected by any of the remaining transitional provisions, these disclosures are made on a fully loaded basis.

In December 2017 EU Regulation 2017/2395 was published in the official journal of the EU with an effective date of 1 January 2018. The regulation allows banks to phase in the impact of IFRS 9 credit provisions on regulatory capital by opting for transitional arrangements. As at February 2018 Monzo published its annual audited financial statements under IAS 39, with a disclosure included of the best estimate impact of transition onto IFRS 9. Monzo applied for the transitional arrangements and will fully adopt IFRS 9 from 1 March 2018, the start of our next financial year. Monzo will adopt the full disclosure requirements in the next accounting period to coincide with the application of those provisions.

Corporate Structure

Monzo has one legal entity, Monzo Bank Ltd, based in the UK.

Frequency and location of disclosures

Monzo's policy is to publish the disclosures on the company website www.monzo.com on an annual basis.

Verification

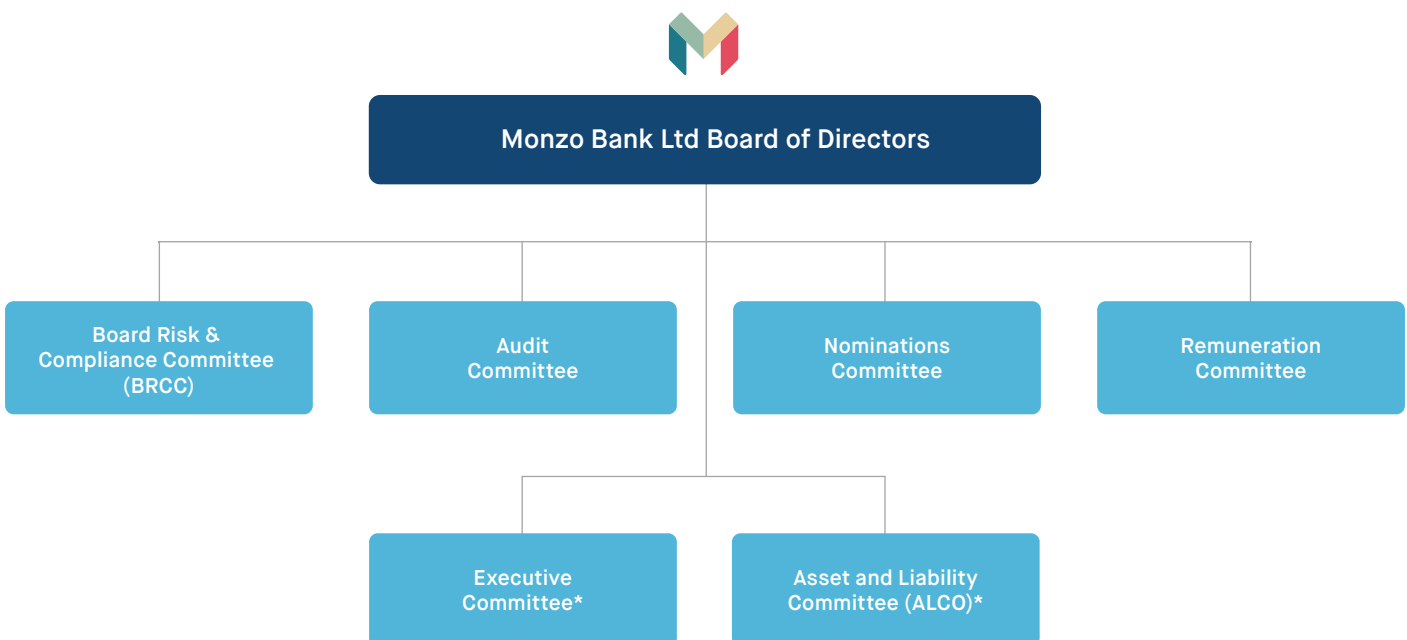
The Bank's Pillar 3 disclosures have been reviewed and approved by the Audit Committee. The Board considers that, as at 28 February 2018, it had in place adequate systems and controls with regard to the Bank's risk profile and strategy.

Our governance structure has been developed to support our launch as a bank. It comprises a Board of Directors supported by four Board Committees, each of which has membership drawn from the independent non-executives on the Board. The four committees are:

- **Risk and Compliance Committee** - To undertake oversight and provide advice to the Board on the management and mitigation of current and future risks faced by the business and its customers. (Met seven times in the year to Feb-18).
- **Audit Committee** - Responsible for oversight of the integrity of financial reporting, the systems of financial and internal controls and internal/external audit functions (Met six times in the year to Feb-18).
- **Remuneration Committee** - Responsible for remuneration and expense policy for senior management and overseeing wider remuneration scheme (Met four times in the year to Feb-18).
- **Nomination Committee** - Responsible for suitability of current committee and appointment of new committee members (Met once in the year to February 2018).

These 4 boards are further supported by two management committees that support the CEO with the day to day running of the business:

- **Executive Committee** - Responsible for supporting the CEO in the day-to-day management of the business and delivering the key objectives and financial plan and to aid communication within the senior management team.
- **Assets & Liabilities Committee** - focuses on the entire balance sheet to ensure that all Asset and Liability risks remain within the risk appetite set by the Board. It also evaluates and assesses the impact of other potential drivers of earnings volatility, such as competitive pressures or non-interest rate related changes to market conditions.



* Day to day running of the business is delegated to the CEO who has established two management committees to support him: an Executive Committee for general business matters, and an Assets and Liability Committee on balance sheet matters.

Risk Culture

Monzo aims to delight customers with a superior banking experience. Our mission statement is Monzo makes money work for everyone. In order to make money work for everyone we need to put customers at the centre of everything we do. This is part of our culture regardless of which part of the business you work in, and our staff live by this fundamental principle of making banking easier and more delightful.

We strongly believe in transparency and operate a “burden of secrecy” whereby an argument needs to be made to not disclose something that may be useful for our customers. This helps customers to understand better how we are guarding their money and their personal data and making it work for them.

This focus on delighting customers and being transparent with customers is closely linked with how we approach managing risks. We want to reduce the impact of any risk that could have a negative impact on customers and we have set risk appetite statements to help us manage and control our risks.

Risk Management Framework

Monzo follows a three lines of defence (3LoD) approach to risk management. Our Risk Management Framework describes how risk appetites and policies are approved by the Board, procedures and processes are owned and implemented by accountable executives (and SMR holders where appropriate) and a reporting framework completes the loop such that the Board has oversight of how the business is operating.

Ownership of policies and accountability are also set out in our Monzo Management & Responsibilities Map (MRM) and the list of Delegated authorities.

Our mission statement is
**Monzo makes money
work for everyone**

1. **Appetite:** Our Risk Appetite statements sets the appetite for how much risk we are willing to take, and any appropriate quantitative and qualitative limits for each of the principal risks and sub-risks. Appetite for each risk is set by the Board taking into account the business strategy.
2. **Policies:** Policies are aligned to principal risks which set out qualitative and quantitative statements and standards and set risk limits where appropriate. All Policies are approved by the Board.
3. **Organisation:** Establishes the key roles and responsibilities of key business areas as 1st line of defence [1LOD] together with the roles for Risk and Compliance function as 2nd line of defence [2LOD] and Internal Audit as 3rd line of defence [3LOD] provided by Grant Thornton.
4. **Procedures (incorporating Processes, Procedures, Tools, Techniques and Templates):** Various procedures, tools, techniques and templates have been established to support the deployment and embedding of the risk strategy and risk management framework.
5. **Reporting and MI:** Management information is produced with the most important performance and risk indicators being available to the Board, a further level of detail to Exco and then a further and fuller suite of operational reporting and management information for each area of the business.
6. **Governance:** The governance structure has been developed to recognise on one hand the responsibilities and structure required of a financial services firm and on the other hand the size and scale of the business and the closeness of the executive team to day-to-day operations. This approach provides a solid foundation that can be scaled over time in line with business growth.



Principal Risks

The risk statements, approved by the Board, include an overarching statement supported by more specific statements for each of the six key risks. Further sub-risk appetites have been set for different components of operational risk. The recent enhancements have included making the statements more measurable with quantifiable metrics which we track in real time.

Risk	Risk Appetite Statement
Overarching firm level	Monzo will operate the business in a way that is aligned to achieving a sustainable business model while continuing to delight customers and remaining compliant with all regulations. The Bank will be adequately capitalised on a regulatory basis with strong Tier 1 and Total Capital Ratios.
1. Strategic	Monzo has a “test and learn” approach such that we fine tune our strategy as we go. We therefore accept strategic risk but limit its impact by close monitoring, being agile and adjusting our strategy.
2. Customer Outcomes	Monzo will delight customers with a simple, delightful current account, phenomenal levels of customer service and using transparency to seek input from our customers and community on issues like pricing.
3. Operational	Monzo’s operating model and culture allows early identification and swift responses to such situations and we consider that this equates to a moderate appetite for operational risk losses and impacts.
4. Financial	Monzo will hold capital of at least 60 days before breaching TCR + all relevant buffers. Monzo does not accept any balance sheet FX risk, though some invoices will be paid in € or US\$.
5. Credit	Monzo has a credit risk appetite for credit losses in normal times which increases in times of stress. From a conduct perspective, Monzo will not lend to customers that do not meet our assessment of affordability. Monzo does not accept wholesale credit risk with the exception of exposures to counterparties for operational purposes such as Mastercard and RBS.
6. Compliance	Monzo’s aim to delight customers is fully aligned to the objectives of regulations and hence we take all reasonable measures to comply with all regulations and prevent poor customer outcomes. We will adopt a risk-based approach and our policies, processes and procedures enable all employees to understand and evidence compliance with the laws, regulations, rules and principles as they apply to their role in the Bank.

Our risk appetite statements are supported by a suite of policies. These are reviewed and approved by the Board. They set the boundaries in which the business can operate in line with the risk appetite statements, they provide further high-level principles and they set policy limits where applicable. Each policy is owned by a member of the C-level executive team who is also responsible for ensuring that staff within their area comply with the policies. Underneath the policies are procedures which are more detailed operational documents that allow members of staff to understand how to perform their role.

Three Lines of Defence

Given the scale and start-up nature of the business Monzo have a simple model given the simplicity of the business model. Monzo has adopted a 3 Lines of Defence approach to risk management in line with financial services best practice:

- **1st Line of Defence (1LOD):** A key principle within Monzo is strong business ownership of risks in the 1LOD, with each business area taking full responsibility for the identification, assessment, mitigation and management of risk, including developing appropriate MI and reporting.
- **2nd Line of Defence (2LOD):** Provides independent review/monitoring, challenge and oversight from the Risk and Compliance team.
- **3rd Line of Defence (3LOD):** Independent assurance outsourced to Grant Thornton as the Internal Audit function.

1st Line of Defence: Business Units	2nd Line of Defence: Risk and Compliance	3rd Line of Defence: Internal Audit
Ownership and management of risk	Oversight, set risk policy and monitor risk profile	Validate and provide assurance
Conduct business in accordance with agreed strategy and within related risk appetite and limits	Establish risk management framework to include appetite, policies, procedures, methodologies and tools and make available to all	Perform independent testing and assess whether risk appetite framework, risk policies, risk procedures and related controls are functioning as intended
Promote strong risk culture and sustainable risk/return decision making	Facilitate establishment of risk appetite statements with input from senior management and board, set limits and gain board approval	Perform independent testing and validation of business unit risk and control elements
Establish and operate a business unit risk and control structure to ensure area of responsibility operates within agreed policies and risk limits	Monitor risk limits and communicate with the Exco and Board regarding exceptions	Provide assurance to management and board related to the quality and effectiveness of the risk management framework
Conduct rigorous self-testing against established policies, procedures and limits	Monitor compliance with legislation and regulation and communicate with the Exco and Board regarding exceptions	
Perform thoughtful, periodic risk self assessments	Provide independent risk oversight across all risk types, business units and locations	
Report and escalate risk limit breaches		

Stress testing and scenario analysis

Monzo conducts stress testing and scenario analysis and models the impact on capital and liquidity. We model scenarios such as an economic downturn and we also tailor scenarios to suit our business model given that operational risks are equally as significant to Monzo as credit risks at this point in our development.

Contingency planning and resilience

Monzo has a Business Continuity Plan (BCP) which it tests at least annually. We also have an incidents management process to deal with all types of operational risk events which is largely automated. We are transparent with our customers when things do go wrong and we tend to be more transparent than we are required to be under PSD2. We have a status page on our website to inform our customers of the status of our IT platform at any point in time.

Recovery and resolution planning

Monzo has a recovery plan to ensure that if things do go wrong we can act fast to either recover, initiate contingency funding and/or ultimately wind-down the business in a way that mitigates any adverse impact on our customers. As a regulated bank, our customer deposits are protected up to £85,000 by the Financial Services Compensation Scheme (FSCS) and we have systems to ensure that our records are up to date at all times to provide accurate information to the FSCS in the event that we fail.

Compliance and customer outcome testing

Compliance is part of the 2nd line of defence within the three lines of defence risk management model and organisation structure and is responsible for delivering and embedding Monzo's Compliance Framework and Handbook. Monzo's aim; to delight customers, is fully aligned with the objectives of regulations and hence we take all reasonable measures to comply with all regulations and prevent poor customer outcomes. We have adopted and implemented a customer outcomes policy, which applies to all employees in all business units and functions at Monzo. The policy sets out Treating Customers Fairly (TCF) related roles and responsibilities at Monzo and how we deliver good customer outcomes by: embedding a company-wide culture of delivering great customer outcomes that are fair and consistent; training our staff on TCF and good customer outcomes; and quality testing our customer interactions, products and services.

Regulatory Capital Requirements

Capital Resources

Common Equity Tier 1 (CET1): This is the strongest form of capital and consists of ordinary share capital, associated share premium and allowable reserves. Available CET1 resources are stated after the deduction of intangible assets. All of Monzo's capital qualifies as CET1.

Capital requirements

Pillar 1 capital requirements

The Pillar 1 requirements set out the rules used to determine the minimum capital requirement for credit, counterparty credit, credit valuation adjustments (CVA), market and operational risks. The minimum capital requirement is 8% of Risk Weighted Assets (RWAs).

CRD IV allows a range of approaches that vary in sophistication to be used to determine RWA amounts. Monzo currently uses the Standardised approach to determine risk weights for credit and counterparty credit. The Basic Indicator Approach is used to determine operational RWAs.

Pillar 2 capital requirements

The Pillar 2 requirements play an important role in ensuring that institutions hold appropriate levels of capital for the risks to which they are exposed. As part of the Supervisory Review and Evaluation Process (SREP), the PRA have assessed Monzo's capital requirements including Monzo's own assessment of capital adequacy determined by the Internal Capital Adequacy Assessment Process (ICAAP). This is due to be revised later this year.

Pillar 2A

Pillar 2A requirements are designed to capture the firm specific risks that are not addressed or not fully captured by the minimum capital requirements under Pillar 1. The PRA will inform banks of their Pillar 2A requirements by setting firm specific Total Capital Requirement (TCR). Monzo's prescribed TCR is currently 12.96% of RWAs. This means that in order to meet its TCR, Monzo must hold capital equal to 4.96% of RWAs in addition of the 8% pillar 1 requirement. This value is predominantly driven by operational risk given that Monzo does not yet have a significant lending portfolio.

At least 56.25% of the Pillar 1 and Pillar 2A requirement must be met by holding CET1 capital. As all of Monzo's capital is CET1, we meet this requirement.

Pillar 2B

Monzo's Pillar 2B (the 'PRA buffer') requirement was calculated based on the expected wind-down costs over a 12 month period.

Regulatory capital buffers

Countercyclical Capital Buffer (CCyB)

Monzo is required to apply a CCyB of up to 2.5% of RWAs. The firm specific buffer is calculated by multiplying the country specific CCyB rate with the RWAs for any relevant credit exposures in that country. The CCyB rate for the UK is set by the Financial Policy Committee (FPC) of the Bank of England. The rate as at year end was 0.0%, this increased to 0.5% from June 2018 and will rise to 1.0% in November 2018.

Institutions have 12 months from the date of a rate increase announcement to meet the increased buffer requirement. By contrast any rate reductions are applied with immediate effect.

Sectoral capital requirements

The FPC is also responsible for setting additional sectoral capital requirements. Institutions may be required to hold additional capital for exposures to particular sectors if the FPC believes that excessive lending to those sectors poses a risk to financial stability. Monzo does not currently have a sectoral capital requirement.

Capital Conservation Buffer (CCB)

The CCB is a general buffer of 2.5% phased in over 4 yrs from 2016-2019 (1.875% in 2018 and 2.5% from 2019 onwards). Monzo's PRA buffer is currently higher than this requirement and therefore the PRA buffer prevails.

Pillar 3

The aim of Pillar 3 is to promote market discipline and transparency of financial institutions through a set of disclosure requirements that provide market participants with access to key pieces of information on capital, risk exposures and risk assessment processes that are consistently presented and comparable across institutions. The minimum disclosure requirements are set out in part eight of the CRR. While retaining a non-prescriptive approach for most of its disclosure requirements, the CRR empowered the EBA to foster more consistency in the disclosure format.

As a result, the European Commission's implementing and delegated regulations, as well as further EBA Guidelines have been issued since 2013 regarding the content and format of disclosures. These Pillar 3 disclosures comply with the requirements of CRD IV, including implementing and delegated legislation and any European Banking Authority (EBA) guidelines in force at 28 February 2018.

Leverage ratio framework

Monzo is not in scope of the UK Leverage Framework as its retail deposit levels are less than £50bn.

Minimum Requirements for Own Funds and Eligible liabilities

Minimum Requirements for Own funds and Eligible Liabilities (MREL) became applicable from 1 January 2016 and will be phased in fully by 1 January 2022. Monzo's MREL requirement is equal to its CRD IV requirement under Pillar 1 and Pillar 2A, therefore the Bank is currently unaffected by the implementation of the MREL rules. The Bank does, however, consider the implications of the MREL rules, given that Monzo has a significant number of transactional account customers.

Monzo raised £67.8m in the year to February 2018 to fund growth in the business. The closing CET1 capital position at year end was £56.2m. Throughout the year Monzo was fully compliant with regulatory capital requirements including all relevant capital buffers.

Table a: Statement of changes in equity for the year ended 28 February 2018

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained losses £'000	Total equity £'000
Balance as at 1 March 2016	—	2,000	14	(1,446)	568
Shares issued	—	24,289	—	—	24,288
Cost of issuance	—	(63)	—	—	(63)
Share based payments reserve	—	—	294	—	294
Exercise of options	—	73	(73)	—	—
Losses for the year	—	—	—	(6,689)	(6,689)
Balance as at 28 February 2017	—	26,298	235	(8,135)	18,398
Shares issued	—	67,849	—	—	67,849
Cost of issuance	—	(437)	—	—	(437)
Share based payments reserve	—	—	915	—	915
Exercise of options	—	279	(279)	—	—
Losses for the year	—	—	—	(30,546)	(30,546)
Balance as at 28 February 2018	—	93,989	871	(38,681)	56,179

Capital ratios

Monzo was compliant with internally and externally imposed capital ratios throughout the year to February 2018. See appendix 1 for more details.

Table b: Capital and leverage ratios

	28 Feb 2018	28 Feb 2017
Shareholders equity per statement of financial position	56,179	18,398
Common Equity Tier 1 (CET1) capital	56,165	18,398
Total capital	56,165	18,398
Risk weighted assets	28,672	16,590
CET1 ratio	196%	111%
Leverage ratio	40%	95%

Leverage Ratio

The leverage ratio measures the relationship between Monzo's core tier 1 capital and the firm's assets, to calculate capital adequacy. The leverage ratio is compliant with internal and regulatory requirements.

Table c: Leverage Ratio as at Year End 2018

Leverage Ratio (£'000s)	2018
Balance Sheet Assets	139,820
Less Intangibles	(14)
Undrawn overdrafts	72
Total Assets	139,879
Shareholder equity	56,179
Less Intangibles	(14)
Total Regulatory Capital	56,165
Leverage Ratio	40%

Risk Weighted Assets

Monzo's risk weighted assets are mainly comprised of credit risk exposures to financial institutions, lending exposure and operational risk, calculated using the standard and basic indicator approaches respectively. Monzo adopts the standardised approach to credit risk and the basic indicator approach to operational risk. Monzo is not exposed to market risk.

Table d: RWAs for Year End 2018

(£'000s)	RWAs	Pillar 1 Capital
Credit Risk	16,172	1,294
Operational Risk	12,500	1,000
Total	28,672	2,294

Credit Risk

Table e: Pillar 1 Credit Risk Exposure & Capital Requirement as at Year End 2018

(£'000s)	Exposure	RWAs	Pillar 1 Capital
Government and central banks	87,333	0	0
Institutions	49,297	12,991	1,039
Loans and Receivables	205	201	16
Other	2,157	2,157	173
Fixed Assets	837	823	66
Total	139,829	16,172	1,294

Credit risk amongst others covers the risk that a customer or counterparty of the Bank defaults or that a customer or counterparty of the Bank defaults on their contractual obligations to Monzo, or fails to perform their obligations in a timely manner.

Monzo holds short term credit risks against financial institutions such as our correspondent bank and the operator of the prepaid card scheme. As at 28th February 2018 we held a small amount of credit risk in the form of overdrafts and spread the cost loans to our customers and staff loans. See Appendix 2 for maturity profile.

Monzo has a very simple business model and balance sheet. We have a small number of wholesale credit risk exposures for operational purposes and we hold all our surplus liquidity with Central Banks. Our retail loan portfolio consists primarily of overdrafts and a small number of other short-term lending products. These all carry a pillar 1 risk weight of 75%.

Impairments

As at Feb 2018 Monzo had a total credit loss provision of £11,610 relating to overdrafts and overdrawn balances under IAS 39. IFRS 9 provisioning has been introduced for the financial year starting 1 March 2018.

Asset Encumbrance

At the 28 February there was £13.5m of encumbered assets being collateral provided to payment schemes.

IRRBB

Monzo does not currently have any significant exposure to IRRBB. This is because Monzo is largely matched between assets and liabilities. We do not have any assets or liabilities linked to LIBOR.

Interest bearing assets

Monzo receives the base rate on central bank account deposits and we charge a fixed 50p per day fee on overdrafts which are repayable on demand.

A small amount of IRRBB is incurred by our “spread the cost” lending product which have a 3 month duration, the total amount of these loans at February 2018 was £25,000. This is likely to increase once it is fully launched with a fixed interest rate for up to one year.

Interest bearing liabilities

Monzo currently pays 0% interest on customer deposits, however if interest rates were to shift, then we may choose to start paying interest to remain competitive with other basic current accounts.

Counterparty Risk

Monzo does not have a portfolio of interbank or corporate credit risk exposures. We have a very simple balance sheet and invest our significant surplus liquidity with Central Banks.

We do have some “operational” counterparty exposures in order to be able to function as a bank. These are as follows:

- **Mastercard UK Management Services Limited (A rating):** Mastercard ask us to place collateral with them to protect against the risk of default by Monzo.
- **The Royal Bank of Scotland plc (BBB rating):** RBS is our correspondent bank used for working capital and BACS agency access.
- **Barclays Bank UK (A rating) through Stripe Payments UK Limited:** We allow some customers to top-up their accounts using Stripe. Stripe payments UK Limited hold transitory amounts for up to 12 hours in a segregated Barclays account and is considered to be an intraday risk only. We are reducing the use of Stripe top-ups over time by switching this facility off for new users and encouraging existing customers to switch to paying in their salaries or using FPS.
- **Wirecard:** As at year end we had a receivable from Wirecard relating to our prepaid card program. Wirecard acted as our program issuer and held all customer cash on our behalf. In April 2018 we closed the program and are in process of closing out our exposure to Wirecard.

The exposures to RBS, Barclays (Stripe) and central banks are both overnight repayable on demand. The exposure to Mastercard is longer term in nature to cover our ongoing payments scheme membership.

We do not buy any derivatives, perform margin lending, securities lending, repurchase and reverse repurchase or long settlement transactions.

Retail Credit Risk

Monzo's primary lending product is a retail overdraft which is an integral part of its current account. Overdrafts were trialled with a small number of customers at the end of 2017 - largely restricted to Monzo staff, friends & family. In February 2018, we lent to approximately 500 people.

Concentration Risk

Credit concentration risk is the risk of increased losses due to concentrations of exposures. This can arise from the small size of a portfolio or a large number of exposures to specific obligors (single name concentration) or from imperfect diversification with respect to economic sectors or geographical regions.

The biggest concentration in the Monzo lending portfolio is to users of smartphones, given we do not have any branches or more traditional internet banking. We do not see this as a significant concentration given the widespread ownership of smartphones and the unlikelihood of any correlation between the credit default risk across users of smartphones.

Monzo also has a product concentration with retail overdrafts. This is due to the stage of our development and is likely to reduce over time as we launch other lending products. These other products are currently at the experiment phase and will remain lower in volume than overdrafts and short-term (predominantly <1year).

In terms of geographic concentration, Monzo's lending is entirely concentrated in the UK.

Operational Risk

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

Monzo uses the basic indicator approach to determine Pillar 1 requirements for operational risk, which uses an average of the last three years operating income to determine the Pillar 1 requirement. This requirement is equal to 15% of the average annual operating income over a three year period. As Monzo has not been trading for three years it uses the average of past and future years revenue.

We have identified a number of sub-operational risks that could have the most significant impact on Monzo. These have been identified through our quarterly risk assessment process, debated at the Executive and Board level, and are the most significant risks recorded in our risk register, and include financial crime, people risk, IT resilience and data breach. We have developed metrics and controls to manage and report on each of these risks, as well as considering the potential for operational risk losses in each area in line with the risk appetites set by the Board as part of our calculation of pillar 2a operational risk capital.

Market Risk

Market risk is the risk that Monzo could lose money as a consequence of movements in the market prices of elements for which the Bank has positions at risk, such as interest rates and foreign exchange rates.

Monzo does not hold trading book instruments or hold foreign exchange positions on the balance sheet. The Bank accepts a degree of risk that arises from the need to make payments to suppliers in certain currencies. As this exposure is less than the de minimis level prescribed by the CRR, the Bank does not have a Pillar 1 requirement.

Liquidity Risk

The bank is risk averse when it comes to liquidity because of the harm this may cause to customers and the bank. In addition to being able to meet our everyday liabilities as they fall due, the bank maintains an overall level of liquidity to ensure that Monzo can survive the most draconian of an idiosyncratic, market wide and combined stress test over a 90 day period. However, in practice the Bank's decision to place surplus funds with Central Banks means it can survive much longer periods of cash outflow.

In line with Monzo's risk appetite, the high quality liquid assets ("HQLA") comprises of 100% cash kept with Central Banks. This meets the general requirements of Article 7 of the Commission Delegated Regulation (EU) 2015/61. Monzo also posts collateral to support its membership of the Faster Payments Scheme, however since this is not readily accessible it is not included in the HQLA.

At financial year end February 2018, Monzo had a balance of £83m held with Central Banks. While this does represent a concentration diversification risk, Monzo has considered that at its current level of capital and balance sheet growth, the absolute size of its deposits and the ease of monetisation of funds, it is not yet at the stage to diversify. In addition diversification of HQLAs will increase credit and liquidity risk.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio ("LCR"), prepared in compliance with the Commission Delegated Regulation (EU) 2015/61 ("DA") and Regulation (EU) 575/2013, is used by Monzo as a stressed measure of 30 day liquidity. The ratio as at February 2018 sat at 2,402%.

Remuneration policy and practices

This section provides details of Monzo's Remuneration governance, policies and practices.

Remuneration Governance

The Remuneration Committee (RemCo) is responsible for oversight of remuneration in Monzo Bank.

Chair

Amy Kirk

Members

In addition to the Chair of the Remuneration Committee (RemCo.) Quorum is two independent Non-Executive Directors:

- Tim Brooke (Chair of Audit Committee)
- Keith Woollard (Chair of Risk and Compliance Committee)

Meeting Frequency

As required by the committee but at least once per annum. In year to Feb 2018 RemCo met four times throughout the year.

Purpose of this Committee

Responsible for remuneration and expense policy for senior management and overseeing the wider remuneration scheme for Monzo Bank.

Roles / Committees	Description of Responsibilities (specific to this Policy)
Policy Owner: Deputy CEO	Communicate and monitor adherence to Remuneration policy
The Board	Board approves recommendations from RemCo on the Remuneration Framework. Chairman and executive members of the Board approve remuneration of non-executive directors.
Remuneration Committee	Set remuneration for all executive directors and any other individual employees identified as Code Staff and of its Chairman. Oversee the system in place for wider remuneration for the wider business
Executive Committee	Reviews and agrees any changes to the Remuneration Policy and Procedure and submits these to the Board for approval where this is required
Head of People	Day to day implementation of the Remuneration policy. ExCo has responsibility delegated to it for managing Remuneration decisions. Day to day decisions around Remuneration has been delegated to the Head of People as described in the Delegated Authority Document.
Compliance	Independent second line challenge to the management of remuneration risk
Internal Audit	Independent third line challenge to the management of remuneration risk

Remuneration Policy

This Policy sets out our approach to remuneration (pay and rewards) with regards to all members of staff, to help ensure that Monzo is able to attract and retain the right people, while meeting our moral, regulatory and legal requirements. It also sets requirements to ensure rewards are aligned with appropriate risk taking.

Policy Statements:

1. Monzo aims to attract, develop and retain the best talent available in the marketplace as the foundation for becoming a truly customer and colleague centric organisation.
2. Our remuneration framework is structured to favour fixed pay over variable remuneration and to align the latter to discourage risk taking that is not in line with our risk appetite.
3. Our Remuneration for Material Risk Takers (Code Staff) promotes sound and effective risk management, and we follow the Dual-Regulated Firms Remuneration Code where it applies to us.
4. Monzo firmly believes in equal pay for equal work. Monzo does not tolerate any discrimination in remuneration based on criteria other than past experience, qualifications, skills and level of contribution.

Performance Framework

Our performance framework is designed to ensure that Monzo discourages risk taking which is outside of our risk appetite. Feedback and appraisal processes help us to nurture a committed, engaged and high performing team focused on delivering excellent customer outcomes. Our feedback cycle includes formal appraisals, identifying areas for personal improvement and development, and performance management. Feedback is expected to cover measurable performance and behaviours including operating within Monzo's risk appetite and protecting its reputation. We do not give variable rewards directly related to sales or financial performance. As a crucial part of the employee lifecycle, this links in with the criteria we use for hiring exceptional people, building strong functional teams, and developing our employees. Formal appraisals contribute to promotion and compensation decisions, as well as decisions to terminate employment for those who are not contributing to the company as expected or are found to be operating outside our risk appetite.

We expect everyone to give and request feedback very frequently. The aim of formal appraisals is to ensure that every single person in the team receives some useful, long-term feedback, and is able to reflect on their personal and professional development, to direct this in line with the company.

Ongoing informal feedback

All staff are encouraged to give in the moment feedback based on behaviour or actions they have seen in their colleagues, whether direct reports or not, or, more or less senior to them. Staff are encouraged to take 1 to 1 meetings with members of their team, or other people they work with and engage with to solicit further feedback.

Written, semi-annual reviews

More formal written appraisals are delivered twice each year by an individual's manager. There are three stages to the written appraisal process:

1. **Feedback collection:** Qualitative feedback collected from all employees - peers, mentors and any direct reports and used to gather the individual's own thoughts on their performance
2. **Written review document:** The person's manager writes an overall appraisal of the employee's performance, incorporating both feedback from peers and their own view of the employee's work in the preceding months. The final document is shared with the employee.
3. **Feedback discussion:** The manager and employee meet to discuss the written review document, and to begin a development plan. Areas of outstanding performance are celebrated, and areas for improvement are raised and discussed.

Remuneration Package

We believe Remuneration is an important way of encouraging, directing and rewarding staff and management behaviours in line with Monzo's strategy, values and risk appetite.

Fixed Remuneration

Fixed remuneration is determined based on our salary framework. Criteria in the framework:

- Experience and skills that relate to the role
- Impact on business, and the individual's level of responsibility and ownership
- Conduct, communication within and outside the team, and contributions to Monzo's culture
- Exhibiting an understanding of the company risk appetite and remaining within this at all times

The salary levels in the framework are reviewed every year, benchmarked against salaries paid in the broader market and the business's position. Each individual's salary is reviewed, but not necessarily changed, at least twice a year.

Variable Remuneration

Monzo's remuneration package for all members of staff includes an equity component in the form of share options which is agreed when a staff member joins the team. We believe that all employees should participate in the long-term success of the firm.

In addition, and only for highest performing employees, we may grant further share options as a one off bonus. These share options also follow the same vesting schedule (see below), and are granted in line with the semi-annual review process. No staff member received bonus options worth more than 100% of salary (calculated as current share price minus option strike price).

Variable remuneration was only in the form of share option grants in the year 2017/18, Monzo did not grant any cash bonuses.

Share option scheme

All share options granted follow a standard vesting schedule over four years with a one year cliff and monthly pro-rata vesting thereafter. In addition, we are entitled to claw back all options granted (even those that have vested) in case of a staff member being dismissed for misconduct

Company Share Option Plan ('CSOP') scheme

Most options are granted under the HMRC approved CSOP scheme which has the following characteristics:

- Option strike price is agreed with HMRC
- Options need to be held for a minimum of three years
- Options awarded to an employee cannot exceed £30,000 (based on the value on the date they were awarded), however the effective value at issue is zero because the options are priced at the current agreed valuation of the company and will only yield a benefit for the employee if the value of the company's shares increases

Table f: Directors' remunerations

	Year ended 28 February 2018 (£'000)	Year ended 28 February 2017 (£'000)
Total Directors' emoluments		
Wages and salaries	473	65
Share based payments	279	73
Contributions to defined contribution plans	2	0
Total	754	138

Highest paid Director

Wages and salaries	139	60
Share based payments	166	—
Total	305	60

Code Staff

Certain individuals at Monzo have additional regulatory requirements as a result of their role or responsibilities. These can be categorised into the below:

- SMFs - FCA only and Material Risk Takers
- SMFs - PRA and FCA Joint
- Certified Staff - Material Risk Takers
- Certified Staff - Non-Material Risk Takers
- Other staff
- Ancillary Staff

The Dual-regulated firms Remuneration Code applies to Material Risk Takers as defined by Commission Delegated Regulation (EU) No 604/2014. As a Level three firm Monzo is required to maintain an appropriate balance between fixed and variable remuneration and is not subject to proportionality ratios between fixed and variable pay.

Control Functions

1. Employees engaged in control functions should be remunerated independent of the performance of the business areas they control
2. Remuneration of senior officers in Risk Management and Compliance is directly overseen by the Remuneration Committee

Variable remuneration

1. We aim to determine variable remuneration based on the financial performance of the firm for the relevant period, principally on profits. As we currently do not make profits, any variable remuneration will be calculated based on increases in company valuation as per investors' valuations.
2. Variable remuneration should be capped at 100% of the base salary - for extraordinary cases of variable remuneration up to 200% of the base salary seek approval of the Remuneration Committee
3. Guaranteed variable remuneration should be treated as exceptional and requires approval by the Remuneration Committee which will approve it as long as it is required to secure a candidate and it is limited to the first year of service

Clawback provision

1. Any variable remuneration is subject to clawback for a minimum of 7 years from the award date
2. Clawback can be triggered in the following situations:
 - a. Employee participated in or was responsible for conduct which resulted in significant losses to the firm
 - b. Employee failed to meet appropriate standards of fitness and propriety
 - c. Employee did not comply with any risk management procedure
3. Unvested deferred variable remuneration can be reduced in the following situations:
 - a. Employee misbehaviour or material error
 - b. Material downturn in financial performance for the firm or relevant business unit
 - c. Material failure of risk management

Table g: Remuneration for Material Risk Takers

	Year ended 28 February 2018 (£'000)	Number of Beneficiaries
Directors of the Board		
Fixed	473	—
Variable	281	—
Total	754	6
Other Material Risk Takers		
Fixed	1,109	—
Variable	271	—
Total	1,380	16
Grand Total	2,134	22

Appendix 1: EBA own funds disclosure

This template outlines our risk weighted assets and our overall capital profile. This template is based on Regulation (EU) 1423/2013 Annex IV. Any blank cells in the template have been removed from this disclosure, specifically Monzo has no additional Tier 1 Capital and no Tier 2 Capital.

No.	Indicator	2018 £'000s	2017 £'000s
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	93,989	26,297
2	Retained earnings	(8,135)	(1,446)
3	Accumulated other comprehensive income (and other reserves)	871	235
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	86,725	25,086
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8	Intangible assets	(14)	(24)
25a	Losses for the current financial year	(30,545)	(6,689)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	30,558	6,713
29	Common Equity Tier 1 (CET1) capital	56,167	18,374
59	Total Capital	56,179	18,374
60	Risk-weighted assets	28,672	16,590
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	196%	111%
62	Tier 1 (as a percentage of total risk exposure amount)	196%	111%
63	Total capital (as a percentage of total risk exposure amount)	196%	111%

Appendix 2: Contractual maturity of financial assets and liabilities

	On demand £'000	< 3 months £'000	Between 3 months and 6 months £'000	Over one year £'000	Total £'000
As at 28 February 2018					
Financial assets					
Cash and balances at bank	96,943	—	—	—	96,943
Loans and advances to customers	160	—	—	—	160
Other assets	1,568	23,922	709	9,755	35,953
Total financial assets	98,671	23,922	709	9,755	133,056
Financial liabilities					
Customer deposits	71,276	—	—	—	71,276
Other liabilities	—	6,044	—	—	6,044
Total financial liabilities	71,276	6,044	—	—	77,320
Net asset position	27,395	17,878	709	9,755	55,736

As at 28 February 2017					
Financial assets					
Cash and balances at bank	14,874	—	—	—	14,874
Loans and advances to customers	—	—	—	—	—
Other assets	—	—	—	2,461	2,461
Total financial assets	14,874	—	—	2,461	17,335
Financial liabilities					
Customer deposits	—	—	—	—	—
Other liabilities	—	—	—	—	—
Total financial liabilities	—	—	—	—	—
Net asset position	14,874	—	—	2,461	17,335