



Pillar 3 Disclosures

28 February 2019

Updated as of November 2019

Monzo Bank Ltd (formerly Focus FS Limited)
Registered number: 09446231

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*Certain capital ratios, buffers and operational risk weighted asset figures as at 28 February 2019 have been updated to reflect Monzo's revised three-year average revenue calculation and replace those included in the previous version of this report. The updated unaudited CET1 ratio supersedes the unaudited figure included within the Annual Report as at 28 February 2019.

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Introduction

Pillar 3 Disclosures

Monzo is an app-only digital bank and 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. As at February 2019 our total customer user base was 1.6m.

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.

Disclosures are presented as at 28th February 2019.

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 2019, 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 non-material. Monzo has not omitted any disclosures on this 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 March 2017 the EBA issued guidelines (EBA/GL/2017/01) on the disclosure requirements for the liquidity coverage ratio (LCR). In line with this guidance, Monzo has adopted the disclosures to the extent that they are applicable to all institutions and has chosen to omit those disclosures that are only applicable to globally and other systemically important institutions.

In April 2017 the PRA issued supervisory statement SS2/17 which effectively modifies the disclosure requirements for remuneration. The statement introduces a proportional approach, with the extent of the disclosure being based on a measure of total balance sheet assets. Monzo continues to meet its obligations to disclose remuneration information, complying with the requirements of the CRR as modified by SS2/17.

In January 2018 the EBA published final guidelines (EBA/GL/2018/01) on disclosure requirements for IFRS 9 transitional provisions. In line with this guidance, Monzo has adopted the disclosures to the extent they are applicable to the institution.

Corporate Structure

Monzo Bank Ltd is based in the UK. During the year wholly-owned subsidiaries Monzo Inc and Monzo Support US Inc, were incorporated in the USA. These subsidiaries are deducted from own funds.

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 2019, it had in place adequate systems and controls with regard to the Bank's risk profile and strategy.

Our Board is in charge of our long term, sustainable success

Our board is here to lead Monzo effectively and with an entrepreneurial spirit. The Board has overall responsibility for good risk management and internal control systems.

Our Board sets our standards and strategy and keeps an eye on our culture, values, brand and reputation. It makes sure that we understand and meet our obligations to customers, Monzonauts, shareholders, and all of our other stakeholders.

The Board delegates day-to-day management of the business to Tom Blomfield, who has an Executive Committee and Asset and Liability Committee to help him.

Our Board is composed of 8 directors

Four of our directors (Gary Hoffman, Tim Brooke, Amy Kirk and Keith Woollard) qualify as independent non-executives under the Corporate Governance Code 2018 ("the Code"). We also have two investor non-executive directors, Eileen Burbidge and Miles Grimshaw, plus Tom Blomfield, our CEO and Alwyn Jones, our CFO.

We're adding experienced people to our Board

In the course of this year we appointed a new Chair, Gary Hoffman, who brings a wealth of board-level experience in banking and financial services. We also appointed Alwyn Jones as our new CFO, who again offers the Board deep experience in banking, and Susan Adams as our first company secretary.

As we mentioned earlier, we're committed to having at least 40% female representation in both our Executive Committee and our Board by 2020, as part of our pledge to the Women in Finance Charter and will be looking to improve diversity at Board level in 2019.

What we've done in the last year

Our board meets every six weeks or so to review performance, strategy, risk and governance and to oversee the work of the board committees. For example, this year our board appointed a new Chair, took important decisions such as launching the 2018 crowdfunding to allow our customers the opportunity to become investors and the 2018 Series E funding round. From a product perspective, the Board approved the scaling of overdrafts to our customers and the launch of Savings Pots. The Board also considered potential international expansion, including to the US and decided to open a customer service base in the US to give our customers great service around the clock. The board also looks at important risks, such as reviewing the impact of Brexit on our business.

This year, the board also did an internal evaluation of the board and committees, which they'll build on to improve effectiveness in areas such as board diversity and the interaction between board and committees.

Outside of board and committee meetings, the board keeps in touch with our workforce by attending and speaking at all-hands meetings as well as ad hoc meetings across teams. In the course of this year we aim to develop a formal workforce engagement mechanism in compliance with the Code, to make sure that people have a formal route for getting their voices heard at Board level.

We're continuing to develop our vision for governance

We measure ourselves against the Code. It's designed for listed companies and this means that not all of the provisions always work for private companies at our stage and pace of growth. Our aim is very much to comply where we can – and where we can't, to be able to explain why.

Our board delegates authority to four committees

1. Our Nomination & Governance committee is run by our Chair, Gary Hoffman

This committee supports the Board by:

- leading the process for board appointments
- dealing with succession planning and making sure we have a diverse pipeline for board and senior management positions
- monitoring Monzo's governance arrangements and making best practice recommendations to the board
- approving appointments to the Board of Directors of Subsidiaries and other companies within the Monzo group
- making sure we comply with the Senior Managers' Regime

Last year this committee focused on finding a new chair. We'll continue focusing on board composition and skills, making sure we have a diverse Board and senior management pipeline.

2. Our Audit Committee is chaired by Tim Brooke

This committee makes sure our internal and external audit functions, financial reporting and controls all stay effective and independent from the business.

During the last year this committee reviewed the results of various internal audits, reviewed the 2018 Financial Statements and agreed the internal audit agenda for the calendar year 2019.

3. Our Board Risk Committee is chaired by Keith Woollard

The committee is responsible for:

- giving oversight and advice to maintain a supportive risk culture
- reviewing management's recommendations on managing and mitigating current and future risks
- overseeing management's implementation of our risk strategy

In the last year the committee oversaw a range of key risk matters, such as the review and enhancement of our risk management framework. As part of this, the committee reviewed and recommended for Board approval a revised risk appetite and policies supporting Monzo's risk management, taking into account the rapid growth and complexity of its business. An important part of its remit was the review the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) and the Recovery and Resolution Plan. The committee also looks at "deep dives" into specific operational risk issues.

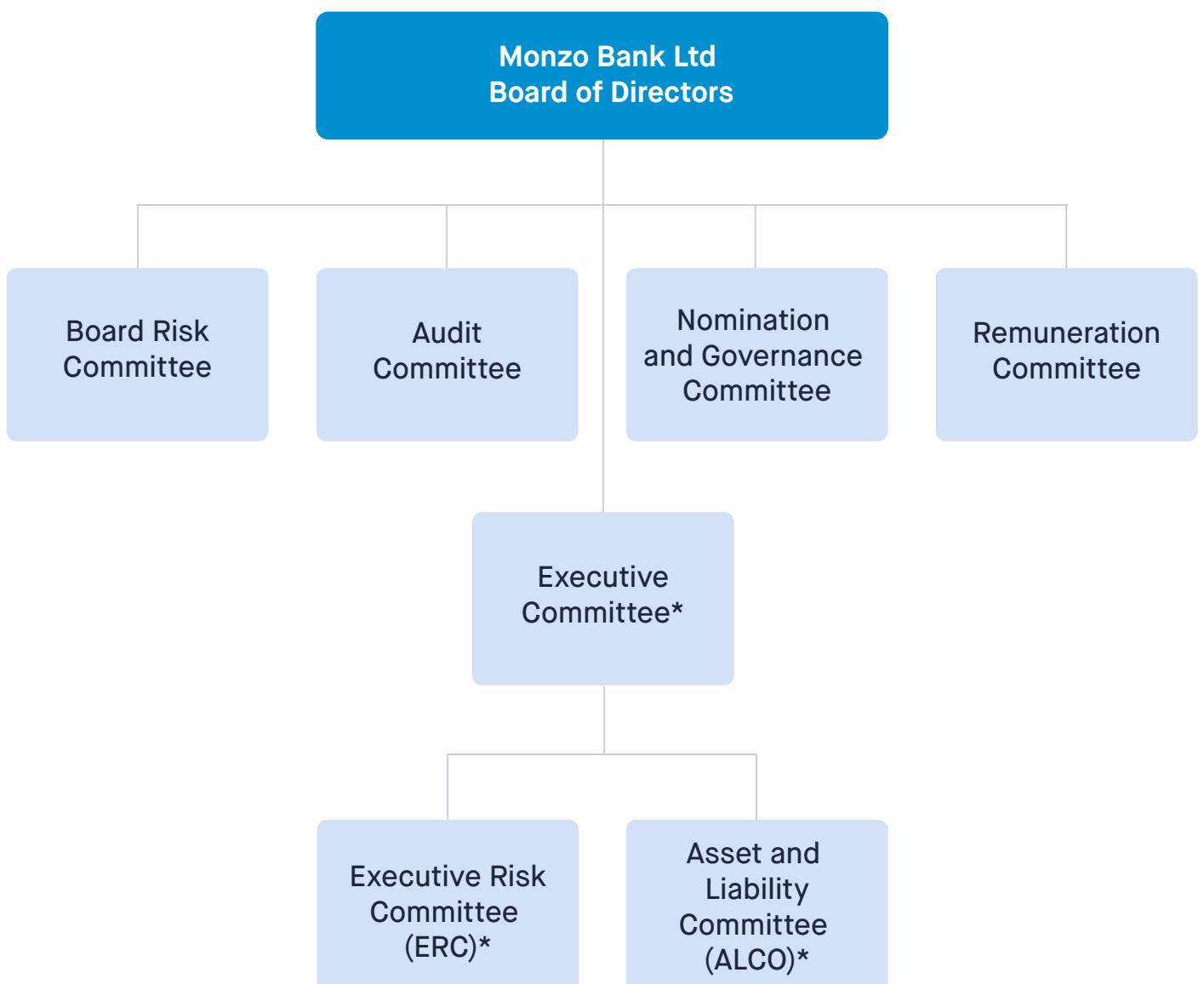
4. Our Remuneration Committee is chaired by Amy Kirk

This committee decides the overall compensation for the Chair of the Board, executive directors and senior management. It also sets the remuneration scheme and policies for everyone who works at Monzo.

The committee make sure that rewards, incentives and working environment for everyone who works at Monzo are taken into account when deciding executive directors' and senior management pay. They also make sure that Monzo:

- complies with applicable laws, regulations and guidance
- eliminates incentives for excessive risk-taking and encourages effective risk management
- aligns employee incentives with Monzo's long-term interests
- takes into account the risk management framework, including types of risks, liquidity and capital levels
- support the Board's monitoring of how company policies and practices support culture and strategy

This year the committee, for example, has reviewed the gender pay gap and set and benchmarked Chair and officer remuneration. It's incredibly important for Monzo to make sure that all aspects of its business - including its remuneration framework - support Monzo's culture and values.



*Day to day running of the business is delegated to the CEO supported by an Executive Committee (ExCo). Reporting into the ExCo we have an Assets and Liability Committee (ALCO) for balance sheet matters and a Executive Risk Committee (ERC) for risk issues.

Strong risk management is at the heart of everything we do

Our mission is to make money work for everyone, and as a regulated bank we recognise the importance of risk management as a key part of our governance. In order to sustainably grow into the future, we are investing in a strong risk management team to help us develop and embed our risk framework and controls across the business.

We're exposed to a number of risks through our business model and strategy. Identifying, assessing, managing and reporting on those risks is central to the way we run our bank and makes sure we put our customers first. Good risk management supports:

- **The strategic direction of the company** – we've developed a business model and strategy which gives a clear understanding of the risks we're exposed to
- **Good customer outcomes** – we're clear, fair and transparent in all aspects of our product development, we lend responsibly and keep customers' money safe, and carry out due diligence on our suppliers and partners
- **The management of capital and liquidity positions**
 - we maintain enough quality and quantity of capital to meet regulatory and operational requirements. And we hold enough liquid assets to cover customers moving or withdrawing their money under normal and stressed conditions
- **High quality operations** – we build and maintain a resilient operational environment to deliver good customer outcomes, great service levels and mitigate against unexpected losses
- **Lending responsibly** – we carefully decide who we lend to, to make sure customers can afford it, whilst making money to make our business sustainable
- **A strong culture** – we're creating a culture where people are encouraged to be open and transparent about risk management

Our risk management framework

Our risk management framework is made up of six risk appetite statements, our policies and tools, a three lines of defence models and reporting and management information. We use this framework to carry out our risk management cycle.

The Board sets six risk appetites against our principal risks to show how much risk we're willing to seek, accept or tolerate. These are:

- **Business model** – the risk that our business fails or our model isn't sustainable. This could happen if:
 - we don't carry out our strategic plan
 - senior management makes the wrong decisions
 - we don't adapt to changing conditions (for example, when expanding into the US market)
- **Customer outcomes** – the risk that our culture, behaviours or actions result in harm to our customers, for example developing a product that doesn't meet their needs
- **Credit** – the risk that customers borrowing money won't repay or don't pay on time, causing financial losses
- **Operational** – the risk that failures in people, processes or systems could lead to a service disruption or financial losses
- **Financial** – any risks that can impact our financial profile. For example, the risk that we can't meet our financial commitments or maintain an adequate capital position
- **Compliance** – the risk of not meeting relevant legislation, rules and regulations which could cause customer harm, financial losses or reputational damage. There's also a risk that regulatory changes could negatively affect our business model

Our policies make sure we operate safely by staying within our risk appetite

Our policies tell us which guardrails we can safely operate within without breaking Monzo by translating our risk appetites in a transparent way that everyone can understand. They set expectations for all Monzonauts and sign-post where they can get more information if they need it.

All our policies get approved by the Board to give them oversight of how we manage risk. Each policy is owned by a member of the Executive team, who makes sure they're implemented properly and remain effective.

We're organised into three lines of defence

1st line of defence The business	2nd line of defence Risk, Compliance and Regulatory Affairs	3rd line of defence Internal Audit
They own and manage risk	They oversee and challenge the business	They validate and give assurance
Deliver strategy within risk appetite	Make sure everyone at Monzo understands and follows the risk management framework	Test that the risk management framework is being used properly
Promote a strong risk culture and sustainable risk/return decision making	Maintain risk appetite statements with input from senior management and Board approval	Reassure management and the Board on the effectiveness of the risk management framework
Regularly test that we're following policies and procedures	Monitor risk appetites and communicate breaches to ExCo and the Board	
Perform regular risk self-assessments	Monitor compliance with regulation and communicate breaches to ExCo and the Board	
Report and escalate breaches of risk appetite using the relevant governance	Give oversight across all risk types and teams	

We use a variety of tools to manage our risk effectively

- We do risk assessments to identify and manage risks for all new initiatives, as well as quarterly reviews of existing risks
- Our risk and controls register monitors the risks for each team and whether the controls to mitigate these risks are sufficient
- The regulatory developments tracker shows the key areas of regulations and legislation which will impact Monzo over the next 12–24 months
- We stress test the resilience of our balance sheet as part of the ILAAP and ICAAP processes, including a wind-down plan
- It is our policy that all Monzonauts get risk training when they join Monzo and at least annually
- We have corporate insurance to protect different parts of the business, like our offices

We use real-time data to monitor risks and make decisions

We believe we make better decisions when we use metrics. So we have metrics against each of our risks which everyone can use to make informed decisions.

We use three types of metrics to grow fast in a controlled way:

1. The Board reviews our Key Risk Indicators regularly to make sure we stay within risk appetite
2. ExCo reviews our Risk Indicators regularly to mitigate risks as early as possible
3. Every team has Key Performance Indicators to make sure they're on track with targets

The Treasury team also monitors early warning indicators daily to protect our balance sheet.

Operational Risk Management Cycle



Our current risks

What we're doing	The risk	How we mitigate the risk
Growing a bank in a competitive landscape	Business model risk: the business fails or our model isn't sustainable	<ul style="list-style-type: none"> Quarterly strategic planning A culture of fast learning and iterating Hiring experienced people to ExCo and the Board
Growing our lending book (overdrafts and unsecured loans)	Credit Risk: customers borrowing money won't repay or don't pay on time, causing financial losses	<ul style="list-style-type: none"> Credit decisioning rules to calculate the probability of default and affordability risk Provisions for credit losses in line with IFRS9 (International Financial Reporting Standard) A Credit Risk committee for members of ExCo to discuss lending risks The Board approves our credit risk appetite which we monitor actively Credit related policies and procedures, including collections, financial difficulties and vulnerable customers
Offering current accounts, business banking accounts and developing a financial marketplace	Financial Crime Risk: the risk that Monzo is used to launder the proceeds of crime, finance terrorist activities, commit fraud or evade financial sanctions Customer Outcomes Risk: the risk that our culture, behaviours or actions result in harm to our customers, for example developing a product that doesn't meet their needs	<ul style="list-style-type: none"> Financial crime policies and procedures and regular quality assurance An in-house transaction monitoring system which we continually improve Conduct-related policies and procedures, covering: <ul style="list-style-type: none"> customer outcomes product approval financial difficulties and vulnerable customers change management complaints management A product approval process with sign-off from the 2nd line A technology-led, interdisciplinary Customer Operations team Training to all staff on Treating Customers Fairly Internal and external transparency, with customer-facing documents written in plain English
Running a resilient digital bank and financial marketplace	Operational Risk: the risk that failures in people, processes or systems could lead to a service disruption or financial losses	<ul style="list-style-type: none"> Policies and procedures covering our people, systems, data, security and how we work with third parties Business continuity and disaster recovery plans and regular exercises to test these A robust incident escalation framework Penetration testing and simulated phishing campaigns
	Capital Adequacy Risk: the risk that Monzo doesn't have enough capital for the level and types of risk that we take, or to absorb potential losses	<ul style="list-style-type: none"> A buffer of capital above the minimum regulatory requirements The Board and the ALCO regularly review the capital risk appetite limit We go through the ICAAP to assess capital requirements on a yearly basis Increased Monzo's capital runway by closing a funding round in October 2018 and a further funding round in June 2019

What we're doing	The risk	How we mitigate the risk
Operating in a highly regulated industry	<p>Compliance Risk: the risk of not meeting relevant legislation, rules and regulations which could cause customer harm, financial losses or reputational damage.</p> <p>There's also a risk that regulatory changes could negatively affect our business model</p>	<ul style="list-style-type: none"> All our policies make sure we're compliant with rules and regulations and we have specific policies for financial crime, conflicts of interest, anti-bribery and corruption, market abuse and whistleblowing A compliance programme covering assurance testing, thematic and policy reviews which is regularly reviewed by the Board
Movements of cash because of lending, deposits and working with third parties, including payment schemes	<p>Liquidity Risk: the risk that Monzo doesn't hold sufficient liquid assets to meet its financial obligations</p>	<ul style="list-style-type: none"> We go through the ILAAP every year to review how we think about our liquidity requirements We actively monitor our intra-day, daily and overnight liquidity positions We have liquidity policies and procedures, with much of the risk managed by the Treasury as 1st line We discuss liquidity issues regularly at our ALCO
Because we're a bank, we store a lot of personal data	<p>Data Privacy Risk: the risk that our customers' data is misappropriated and / or fraudulently used</p>	<ul style="list-style-type: none"> We use secure development practices for our systems and follow a 'defence in depth' approach, with multiple layers of security controls We run regular penetration tests and simulated phishing attempts to check how effective our controls are and identify any weaknesses We've built detection capabilities to monitor and alert us about system attacks. We use incident management procedures and playbooks to respond to attacks We train all our staff on data protection

Capital resources

Monzo currently holds CET1 capital resources. This is the strongest form of capital. It consists of ordinary share capital, associated share premium and allowable reserves. Available CET1 resources are stated after the deduction of intangible assets and investments in subsidiaries.

Capital requirements

Pillar 1 capital requirements

The Pillar 1 requirements set out the rules used to determine the minimum capital requirements for credit, 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 risk. The Basic Indicator Approach is used to determine operational RWAs. As Monzo's exposure to market risk is less than the de minimis level prescribed by the CRR, the Bank does not have a Pillar 1 requirement.

Pillar 2 capital requirements

The Pillar 2 requirements help ensure 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 assess Monzo's capital requirements including Monzo's own assessment of capital adequacy determined by the Internal Capital Adequacy Assessment Process (ICAAP). The Pillar 2 requirement is divided into capital held against risks not captured or not fully captured by Pillar 1 or Pillar 2A and risks to which a firm may become exposed under a stressed environment (Pillar 2B).

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 was updated to 8.42% of RWAs plus a static add on of £606k in May 2019. These disclosures have been prepared applying this TCR to Monzo's position as at 28th February 2019. Currently Monzo comfortably meets this TCR requirement exclusively from CET 1 capital.

Pillar 2B

This is a firm specific buffer in addition to TCR and is designed to allow us to continue to meet our TCR under stressed conditions. To calibrate this buffer in a way that provides sufficient protection, Monzo has considered different events and stress scenarios, and has considered the cost of winding down the entire company. The PRA buffer takes into consideration the extent to which the CRD IV Combined Buffer (The Capital Conservation Buffer and any applicable systemic buffers) already captures the risks that are considered as part of the PRA buffer assessment.

Regulatory capital buffers (Combined 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 1%.

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%. It applies to all banks and can be used to absorb losses whilst avoiding breaching minimum capital requirements.

Leverage ratio framework

The CRR, requires banks to calculate and publish information on their leverage ratio. There is currently no binding minimum leverage ratio in force from EU level legislation.

In June 2019 the European Commission published changes to CRR and CRD (collectively referred to as CRD V) that introduce a minimum binding leverage ratio of 3%, applicable from June 2021.

In the UK the PRA have implemented a UK Leverage Framework, however Monzo is not in scope of this framework as its retail deposit levels are less than £50bn.

MREL

Currently Monzo has no additional Minimum Requirements for Own funds and Eligible Liabilities (MREL) above its minimum capital requirements.

Capital Disclosures

Pillar 3 Disclosures

Monzo raised £104.1m in the year to February 2019 to fund growth in the business. The closing CET1 capital position at year end was £97.6m. As at 28th February 2019 a further £20m of share capital was pending regulatory approval for inclusion in CET1 capital.

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 2019

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained losses £'000	Total equity £'000
Balance as at 1 March 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
Shares issued	—	105,294	—	—	105,294
Cost of issuance	—	(1,207)	—	—	(1,207)
Share based payments reserve	—	—	2,511	—	2,511
Exercise of options	—	70	(218)	205	57
Losses for the year	—	—	—	(47,164)	(47,164)
Balance as at 28 February 2019	—	198,146	3,164	(85,640)	115,670

Capital ratios

Monzo was compliant with internally and externally imposed capital ratios throughout the year to February 2019.

Table b: Capital and leverage ratios

	28 Feb 2019	28 Feb 2018
Shareholders equity per statement of financial position	115,670	56,179
Common Equity Tier 1 (CET1) capital	97,632	56,165
Total capital	97,632	56,165
Risk weighted assets	93,972*	28,672
CET1 ratio	104%*	196%
Total capital ratio	104%*	196%
Leverage ratio	15.5%	40%

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 2019

Leverage Ratio (£'000s)	2019
Balance Sheet Assets	614,426
Off balance sheet	14,074
Less Intangibles	0
Other adjustments	2,870
Total	631,369
Tier 1 capital resources	97,632
Less Intangibles	0
Total	97,632
Leverage Ratio	15.5%

Significant growth in total balance sheet assets, and therefore the leverage ratio exposure measure, is primarily responsible for the movement in the leverage ratio during the period. Total balance sheet assets stood at £614m at 28 February 2019, compared with £140m at 28 February 2018. A The impact of the increase in the leverage ratio exposure measure was partially offset by an increase in Tier 1 capital during the period. Tier 1 capital at 28 February 2019 was £98m, compared with £56m at 28 February 2018. Off balance sheet assets are comprised of unutilised overdraft limits.

Leverage is actively managed, with the leverage ratio being a key factor in Monzo's planning processes. The main committee at which the bank's leverage ratio is reviewed and managed is the ALCO, which is a sub-committee of ExCo.

Risk Weighted Assets

Monzo's risk weighted assets are mainly comprised of credit risk exposures to financial institutions and lending exposure as well as operational risk, calculated using the standard and basic indicator approaches respectively. As at 28 February 2019, Monzo's exposure to market risk is less than the de minimis level prescribed by the CRR, therefore the Bank does not currently have a Pillar 1 requirement.

Table d: RWAs for Year End 2019

(£'000s)	RWAs	Pillar 1 Capital
Credit Risk	37,842	3,027
Operational Risk	56,130*	4,490*
Total	93,972*	7,518*

Credit Risk

Table e: Pillar 1 Credit Risk Capital Requirement as at Year End 2019

(£'000s)	Exposure	RWAs	Pillar 1 Capital	Average Exposure
Government and central banks	537,614	0	0	291,071
Institutions	46,186	9,237	739	17,595
Loans and Receivables	19,512	14,634	1,171	9,003
Corporates	3,519	3,507	281	6,747
Fixed Assets	2,257	2,257	181	1,585
Other	8,207	8,207	657	2,364
Total	617,295	37,842	3,027	328,364

Credit risk is the risk that an asset changes in value due to changing valuation 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's credit risk mainly arises from its overdraft and instalment loan products as well as short term credit risk exposures to financial institutions such as our correspondent bank. Monzo's largest exposure to governments and central banks attracts a 0% risk weighting under CRR. As at 28th February 2019 Monzo's material exposures were all to counterparties within the UK.

External credit ratings, where they are available, are used to derive risk weights for wholesale exposures. Monzo uses ratings published by Moody's to determine risk weighted exposure amounts. Monzo maps the ratings to the appropriate credit quality step using the method prescribed by Commission Implementing Regulation (EU) 2016/1799 and then applies the resultant risk weight to the exposure value to calculate the RWA value.

Table f: Exposure values by external credit ratings at 28th February 2019

(£'000s)	A	Baa	Ba
Institutions	130	15,259	30,797
Total	130	15,259	30,797

Table g: Summary of contractual residual maturity of exposures at 28 February 2019

	On demand	< 3 months	Between 3 months and 6 months	Over one year	No defined maturity	Total
Government and central banks	527,614	0	0	0	10,000	537,614
Institutions	30,797	15,389	0	0	0	46,186
Loans and Receivables	18,899	308	305	0	0	19,512
Corporates	182	24	0	3,313	0	3,519
Fixed assets	0	0	0	2,257	0	2,257
Other	4,421	3,456	0	330	0	8,207
Total	581,913	19,177	305	5,900	10,000	617,295

Past due

A financial asset is past due when a counterparty has failed to make a payment when that payment was contractually due.

Impairments

As at Feb 2019 Monzo had a total credit loss provision of £3.12m relating to overdrafts and overdrawn balances under IFRS 9.

Table h: An analysis of changes in the IFRS 9 provision is as follows:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 March 2018	12	-	-	12
New facilities originated	1,339	-	-	1,339
Transfer to Stage 2	(79)	79	-	-
Transfer to Stage 3	(53)	-	53	-
Impact on year end ECL of exposures transferred between stages during the year	(98)	662	1,112	1,676
Changes to models used for ECL calculation	(32)	208	173	349
Changes in data inputs to ECL calculation	109	12	-	121
Amounts written	-	-	(378)	(378)
As at 28 February 2019	1,198	961	960	3,119

Impairment under IFRS 9

IFRS 9 requires recognition of expected credit losses based on forward-looking information and for the Bank is applicable to loans and overdrafts measured at amortised cost. Under IFRS 9 guidance, assets are required to be classified into the following three stages:

Stage 1: Assets that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and interest revenue is calculated on the gross carrying amount of the asset. 12-month ECL are the expected credit losses that result from default events that are expected within 12 months after the reporting date.

Stage 2: For assets that have experienced a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment, lifetime ECL are recognised and interest income is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: For assets that have objective evidence of impairment at the reporting date, lifetime ECL are recognised and interest income is calculated on the net carrying amount.

The Bank does not use the low credit risk exemption for overdrafts and does not measure expected credit losses on a collective basis.

The above model requires a number of key supporting policies and methodologies:

- **ECL model:** Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial asset. The impairment model calculates ECL at a customer level by multiplying probability of default (PD), exposure at default (EAD) and the loss given default (LGD) and discounting using the original EIR.
- PD represents the likelihood of a customer defaulting on their loan. Given the lack of historical data, it is not possible for the Bank to utilise an internal scorecard to build the PD models. The Bank currently relies on data provided by an external Credit Bureau which is suitably calibrated to PDs representative of the Bank's portfolio. Monzo aims to eventually develop an internal credit scorecard in the medium term.
- EAD is based on the amount expected to be owed at default over the next 12 months or over the remaining lifetime.
- LGD is the expectation of loss on a defaulted exposure and represents Monzo's expectation of the extent of loss on a defaulted exposure and is expressed as a percentage loss per unit of EAD.

Determining a significant increase in credit risk since initial recognition.

The impairment model utilises both relative and absolute criteria to identify increases in credit risk:

- **Quantitative criteria:** the quantitative trigger has been based around the comparison of the remaining lifetime PD at observation (i.e. reporting date) against the lifetime PD at origination, when the exposure was first recognised. If the ratio of these two PDs breaches a predefined threshold of 1.8 at any point, the account is moved into Stage 2 and its ECL is calculated on a Lifetime PD basis.
- **Qualitative criteria:** short-term forbearance has been reflected in the model as a trigger for a significant increase in credit risk. For example, when a customer has agreed to a Promise to Pay (i.e. when a customer agrees to bring their balance back within their arranged overdraft limit by a certain date).
- **Backstop:** A rebuttable presumption within IFRS 9 is that, where the customer is more than 30 days past due, credit risk has significantly increased. However, if reasonable and supportable information can suggest that an alternative number of days past due is more appropriate, then the backstop trigger may be amended. Analysis of the Bank's arrears data suggests that a backstop of 15 days is more appropriate.

- **Forecast economic data:** IFRS 9 requires ECL to reflect a range of possible outcomes and consider possible future economic conditions. To achieve this, the model uses three economic forecasts: base, upside and downside scenarios. All of the scenarios have been sourced from an independent credit risk consultancy. The upside and downside scenarios are calculated from a range of economic variables that are stressed around the base case.

Statistical analysis has been performed to identify the economic variables that are significant to ECL. The forward looking economic variables which are considered as inputs in the model are (i) Changes in Unemployment and (ii) Mortgage Interest Gearing.

These variables are then applied to PD, LGD and EAD, with the weighted average of the three scenarios used to calculate the ECL. Based on the economic scenario analysis conducted by the Bank, the weightings for each scenario were 60% Baseline, 25% Downside, and 15% Upside.

- **Definition of default and credit-impaired assets.** The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when the borrower becomes 90 consecutive days past due. In the case of overdrafts, a customer is deemed to be past due when (i) the customer is above the authorised limit, or (ii) the customer is within their limit but has not had any credit applied to their account for 90 consecutive days. For loans an account is deemed 90 days past due when they become three instalments behind their agreed monthly repayment schedule.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

1. The customer filing for bankruptcy or Individual Voluntary Agreement; or
2. The customer is deceased;
3. The overdraft or loan has been renegotiated because the customer's condition has deteriorated. This includes cases where a specific repayment plan has been agreed.
4. The customer has requested 'breathing space' i.e. when the Bank agrees to we give the customer some time in which they won't be contacted about their arrears at all and fees or interest is frozen.

It is the Bank's policy to consider an overdraft account as 'cured' and therefore re-classified out of Stage 3 when the outstanding balance is reduced to below the authorised limit set and a three month probation period has passed. An overdraft account which is in Stage 3 due to no credit activity in 90 days, is considered cured at the point when a credit transaction takes place and a three month probation period has passed. Loans are considered 'cured' and therefore re-classified out of stage 3 when all past due repayments are repaid along with any additional interest that may have accrued due to their late payment.

In the case of longer term forbearance which result in modifications of contractual cash flows (ie a freeze of fees or a repayment plan), this does not impact the gross carrying amount of the financial asset however the ECL booked changes as these financial assets would now be classified as Stage 3 and under lifetime ECL. As at February 2019, the gross carrying amount of accounts in forbearance was £0.2m. The lifetime ECL booked against these accounts as at 28 February 2019 was £0.1m; the initial ECL booked for these accounts at the point of origination was £0.01m. From a risk management point of view, once an asset is forborne or modified, we continue to monitor the exposure until it is completely and ultimately derecognised.

- **Write-off policy.** A loan or overdraft is written-off, either partially or in full, against the related provision when sufficient time has passed and the Bank has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

1. Customer indicates inability (cannot afford) to pay the outstanding balance over a reasonable period through a renegotiated repayment plan; and
2. It is deemed that the customer does not show enough "willingness to pay":
 - a. Not keeping a promise to pay over a period of time;
 - b. Defaulting in renegotiated repayment plan; and
 - c. Not contactable

Table i: IFRS transitional provision impact as at Year End 2019

£'000s	2019
Available Capital	
Common Equity Tier 1 (CET1) capital	97,632
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	95,591
Tier 1 capital	97,632
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	95,591
Total capital	97,632
Total capital as if IFRS 9 transitional arrangements had not been applied	95,591
Risk Weighted Assets	
Total risk-weighted assets	93,972*
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	96,183*
Capital Ratios	
Common Equity Tier 1 (as a percentage of risk exposure amount)	104%*
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	99%*
Tier 1 (as a percentage of risk exposure amount)	104%*
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	99%*
Total capital (as a percentage of risk exposure amount)	104%*
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	99%*
Leverage Ratio	
Leverage ratio total exposure measure	631,369
Leverage ratio	15.5%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	15.2%

As permitted in CRR article 473a Monzo has opted to apply the IFRS 9 transitional provisions. This allows Monzo to phase in the impact IFRS 9 provisions to CET1 capital via the credit risk provisions impact on retained earnings. This adjustment also has a corresponding effect on the risk weighted exposure amount. As can be seen from the above table, due to Monzo's relatively small loan book and corresponding small provision number, the impact on Monzo's capital position and ratios is small.

Counterparty credit risk and credit valuation adjustments (CVA)

Counterparty credit risk is the risk that a counterparty to a trading transaction defaults during the life of that transaction. CVA is the risk of valuation changes in transactions due to the change in a counterparty's credit risk. We have a very simple balance sheet and invest our significant surplus liquidity with Central Banks, we therefore do not currently have any counterparty or CVA risk.

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. 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.

Market Risk

Market risk is the risk that Monzo could lose money as a consequence of movements in the market prices of assets 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.

Interest Rate Risk in the Banking Book (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 installment loans lending product which have an up to 12 month duration, the total amount of these loans at February 2019 was £603k. The remainder of Monzo's IRRBB risk comes from excess cash at central banks.

Liquidity Risk

Liquidity risk is the risk that the Company fails to meet its obligations as they fall due or can only do so at exceptional cost. This includes having the right type and quantity of funds, in the right place, at the right time and in the correct currency. Monzo's liquidity risk appetite is to meet all liabilities as they fall due.

Liquidity risk is managed by the Treasury department and is also monitored by the second line Risk team. Reporting and management of the liquidity risk is monitored by ALCO, which meets on a monthly basis.

The company currently holds its surplus assets in overnight deposits with central banks which are accessible on demand to provide liquidity for Monzo.

The key metric used to monitor liquidity risk is the Liquidity Coverage Ratio (LCR). At year end and at all times throughout the year, Monzo was significantly in excess of all liquidity targets.

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.

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 2019 was 663%.

Asset Encumbrance

At the 28 February 2019 there was £27m of encumbered assets. The majority of which was collateral provided to payment schemes.

Table j: LCR as at Year End 2019

(£'000s)	2019	2018
Liquidity Buffer	510,314	83,543
Net outflow	76,994	3,469
LCR	663%	2,402%

Monzo’s LCR has decreased from 28th February 2018 due to increases in the amount of customer deposits as a proportion of high quality liquid assets. Throughout the year Monzo’s LCR remained in excess of regulatory requirements.

Remuneration policies and practices

Pillar 3 Disclosures

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 NonExecutive Directors:

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

Meeting Frequency

As required by the committee but at least once per annum. In year to Feb 2019 RemCo met five 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 and Responsibilities

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.
Chief People Officer	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 Chief People Officer 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 and location.

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 happen outside of promotion and compensation decisions. 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 are also made outside of formal appraisals. 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, we grant further share options at set intervals after an employee's start date. These share options also vest over 4 years, but with a slightly different vesting schedule as our other options (see below). This includes 4 year monthly vesting with no cliff, and 2 year monthly vesting starting 2 years after the date of grant. The vesting schedule used is dependent on the nature of the reward. A small number of employees were also granted cash performance bonuses in January and February 2019.

Share option scheme

Initial 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 k: Directors' remunerations

	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Total Directors' emoluments		
Salaries	464	473
Share based payments	-	279
Contributions to defined contribution plans	4	2
	468	754
Highest paid Director		
Salaries	117	139
Share based payments	-	166
Contributions to defined contribution plans	-	-
	117	305

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. 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 cash remuneration is subject to clawback for 1 year from the award date. Variable stock option remuneration is subject to cancellation if the employee is terminated due to gross misconduct
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 I: Directors and material risk takers renumeration

	Year ended 28 February 2019	Number of Beneficiaries £'000
Directors of the Board		
Fixed	468	8
Variable	0	0
Total	468	8
Other Material Risk Takers		
Fixed	963	14
Variable	145	3
Total	1,108	17
Grand Total	1,576	25

Recruitment policies

Monzo always aims to recruit the person who is most suited to the particular job. Recruitment will be solely on the basis of the applicant's abilities and individual merit as measured against the criteria for the job. This applies to all roles.

Our goal is to build a bank that works for everyone but to fulfil that ambition, it's crucial that we make Monzo an amazing place to work for everyone. Different perspectives make for a stronger team, and we believe it's impossible to have a broad range of voices and viewpoints without a demographically representative team. We want to be transparent about diversity and inclusion at Monzo, and accountable for what we're doing to improve it. So we've committed to sharing an annual diversity and inclusion report that is published on our website.

Appendix 1:

Own funds disclosure template

Pillar 3 Disclosures

The following table shows the make-up of own funds of Monzo at 28 February 2019 in the format prescribed in Regulation (EU) 1423/2013. Any blank cells in the template have been removed from this disclosure.

		2019	2018
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	178,146	93,989
2	Retained earnings	(36,435)	(8,135)
3	Accumulated other comprehensive income (and other reserves)	3,164	871
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	144,874	86,725
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8	Intangible assets (net of related tax liability) (negative amount)	0	(14)
23	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	(78)	0
25a	Losses for the current financial year (negative amount)	(47,164)	(30,545)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(47,242)	(30,558)
29	Common Equity Tier 1 (CET1) capital	97,632	56,167
59	Total capital (TC = T1 + T2)	97,632	56,167
60	Total risk weighted assets	93,972*	28,672
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	104%*	196%
63	Total capital (as a percentage of total risk exposure amount)	104%*	196%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	15.5%*	19.80%
65	of which: capital conservation buffer requirement	2.5%	1.88%
66	of which: countercyclical buffer requirement	1.0%	0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	94.8%*	182.97%

Appendix 2:

Asset encumbrance

The following tables provide information on Monzo's encumbered assets at 28 February 2019 in accordance with EBA guidelines EBA/GL/2014/03.

Template A – Encumbered and unencumbered assets (£'000s)

	Carrying amount of encumbered assets	Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA	of which notionally eligible EHQLA and HQLA	of which EHQLA and HQLA	of which EHQLA and HQLA	of which EHQLA and HQLA	of which EHQLA and HQLA
	10	30	40	50	60	80	90
10	Assets of the reporting institution	26,960	10,000		587,466	500,314	
30	Equity instruments	0	0		0	0	
120	Other assets	26,960	10,000		587,466	500,314	

Template B – Collateral received

The EBA Guidelines allow competent authorities to waive the requirement to disclose Template B – Collateral received and in Supervisory Statement SS 6/17 the PRA waived the Template B requirement subject to a firm meeting certain criteria. Monzo meets the criteria and therefore Template B is not disclosed.

Template C – Sources of encumbrance

	Matching liabilities, contingent liabilities or securities lent	"Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered"
	10	30
10 Carrying amount of selected financial liabilities	0	26,960

Template D – Information on importance of encumbrance

Information on importance of encumbrance exposure values for encumbrance are presented as at 28th February 2019. Monzo has chosen not to disclose median values for the previous 12 months, as prescribed by the EBA guidelines, as it believes that in doing so, it would present a distorted and less reliable view of encumbrance. This is due to the transformation of the balance sheet over the period, with the significant increase in encumbered assets only occurring in the fourth quarter, following Monzo's increased collateral requirements for FPS payments. Monzo is obliged to place collateral with central banks as a direct member of the Faster Payments Scheme. Monzo also has collateral requirements as a result of being a member of the Mastercard payments scheme. The value of unencumbered assets in table A includes fixed assets amounting to £2.3m. These assets would not be deemed to be available for encumbrance in the normal course of business.

Appendix 3:

Countercyclical capital buffer disclosures

The following tables disclose information on the calculation of the countercyclical buffer for Monzo at 28th February 2019 in accordance with Regulation (EU) 2015/1555.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Breakdown by country	General Credit risk exposure		Trading book exposure		Securitisation exposure	
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB
UK	33,495	0	0	0	0	0
Total	33,495	0	0	0	0	0

Breakdown by country	Securitisation exposure			Total	Own funds requirement weights	Countercyclical capital buffer rate
	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures			
UK		0	0		1.0	1%
Total		0	0		1.0	1%

Amount of institution – specific countercyclical capital buffer

Total risk exposure amount	77,761
Institution specific countercyclical buffer rate	1%
Institution specific countercyclical buffer requirement	778

Appendix 4:

Analysis of leverage ratio

Pillar 3 Disclosures

The following tables disclose information on Monzo's leverage ratio at 28 February 2019 in the format prescribed by Regulation (EU) 2016/200. Any blank cells have been removed from the disclosure.

LR Sum: Summary reconciliation of accounting assets and leverage ratio exposures (£'000s)

		Applicable Amounts
1	Total assets as per published financial statements	614,426
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	14,074
7	Other adjustments	2,870
8	Total leverage ratio exposure	631,369

LR Com: Leverage ratio common disclosure (£'000s)

CRR leverage ratio exposures

On-balance sheet exposures (excluding derivatives and SFTs)

1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	617,295
2	(Asset amounts deducted in determining Tier 1 capital)	0
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	617,295

Other off-balance sheet exposures

17	Off-balance sheet exposures at gross notional amount	140,738
18	(Adjustments for conversion to credit equivalent amounts)	-126,665
19	Other off-balance sheet exposures (sum of lines 17 to 18)	14,074

Capital and total exposures

20	Tier 1 capital	97,632
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	631,369

Leverage ratio

22	Leverage ratio	15.5%
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Choice on transitional arrangements and amount of derecognised fiduciary items

**LR Spl: Split-up of on-balance sheet exposures
(excluding derivatives and SFTs) (£'000s)**

CRR leverage ratio exposures

EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	617,295
EU-3	Banking book exposures, of which:	617,295
EU-5	Exposures treated as sovereigns	537,614
EU-7	Institutions	46,186
EU-9	Retail exposures	19,512
EU-10	Corporate	3,519
EU-11	Exposures in default	0
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	10,464

LR Qua

1. Free format text boxes for disclosure on qualitative items

Description of the processes used to manage the risk of excessive leverage

Refer to Leverage Ratio section of pillar 3 document for details.

2. Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

Refer to Leverage Ratio section of pillar 3 document for details.