monzo

Monzo Bank Limited

Pillar 3 Disclosures

28 February 2021

Registration number
09446231

Registered Office
Broadwalk House
5 Appold Street
London EC2A 2AG

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Introduction

Who we are and why we're here

We're Monzo, a bank that lives on your phone.

For too long, managing your money has been harder than it needs to be. Traditional banking wasn't built for the way people use money in their everyday lives, and it hasn't evolved fast enough. By being relentlessly focused on customers, always being open about what we're doing and why, and focusing on solving real problems rather than just selling financial products, we believe we can make banking better.

It's our mission to make money work for everyone.

We want to be the centre of your financial life, taking away all the admin and worry over your finances. Spending, saving and managing cash – even borrowing when you need to – shouldn't be stressful or complicated, it should just work. And with the help of our amazing community of customers who suggest features, give feedback and help us test our ideas, we're building a genuinely different kind of bank.

More than 5m people have opened a Monzo account to spend, save and manage their money. But that's just the start: it's not about how many people have an account, it's about how we're changing their relationship with their finances. We don't believe it's possible to build a globally impactful company without carefully considering the impact we have on all the communities we serve. Too many people don't have access to vital banking services in the UK. So we're also working to improve financial inclusion, support customers in vulnerable circumstances, and play our small part in creating a more just society.

We believe that these values of openness, empathy and inclusion will help us achieve our mission of making money work for everyone.

Disclosure Framework

This is the Pillar 3 disclosures of Monzo Bank Limited ("the Bank", "Monzo", "Us", "Our" or 'We') as at 28 February 2021. Monzo is regulated for prudential capital purposes by the Prudential Regulation Authority (PRA). The PRA sets the requirements for our capital and liquidity adequacy.

From 1 January 2021, we are regulated under the CRR, its associated binding technical standards and a number of amending statutory instruments. These were adopted by the UK under the EU (Withdrawal Act) 2018.

This document has been prepared to meet the rules of the PRA and the regulatory disclosure requirements as outlined in Part Eight (Articles 431 to 455) of the onshored Capital Requirements (Amendment) (EU Exit) Regulations 2018 (CRR EU Exit SI) referred to as the "UK CRR".

Current and future regulatory developments

Amendments to the Capital Requirements Regulation (CRR II) and Capital Requirements Directive (CRD V) were published in the Official Journal of the European Union (EU) in June 2019.

Most of the CRR II changes don't enter into force until June 2021. They were not transposed into UK law on 31 December 2020 and therefore will be implemented separately in the UK. Final rules were published by the PRA in July 2021, with a target implementation date of 1 January 2022. Based on the current PRA consultation papers we do not anticipate a material impact on our capital ratios.

In June 2020, the EU announced that some CRR II measures would be implemented earlier than previously planned. Of these measures, only the changes to the IFRS 9 transitional relief impacts us. The transitional period for the relief has been extended by two years and a new modified calculation has been introduced. We have updated our calculation of the IFRS 9 transitional relief to include these changes.

The PRA has also confirmed that its proposed changes to the leverage ratio will be published once a review by the FPC and Prudential Regulation Committee (PRC) has been completed, this is expected post March 2021. We will monitor the outcome of this review and include any proposed changes in our planning (see page 13).

Monzo will also be subject to a minimum requirements for own funds and eligible liabilities (MREL) from April 2021. We have been set an indicative interim requirement from April 2022, with end-state requirements from April 2024. The requirements are factored into our funding and capital plans.

Disclosure Policy

Monzo has a policy for complying with Pillar 3 disclosures in line with the PRA's guidelines. The policy covers materiality, proprietary and confidential information, and disclosure frequency. The Policy is reviewed and approved by our Board of Directors (the Board) on an annual basis.

Basis of Disclosure

Monzo Bank Limited is based in the UK. We have two wholly-owned subsidiaries, Monzo Inc. and Monzo Support US Inc.[1], both incorporated in Delaware; US. Both entities are consolidated for accounting purposes, under IFRS accounting rules. But, the entities are excluded from consolidated prudential reporting because they are below the thresholds of UK CRR Article 19. These disclosures are presented on a solo basis.

No disclosures have been omitted on the basis of being regarded as proprietary or confidential.

We have omitted empty rows and columns for disclosures where the mandatory templates specified by the European Banking Authority (EBA) are not applicable to Monzo. We have stated in the text accompanying the relevant tables where these omissions have happened.

Means of Disclosure

The Pillar 3 disclosures are published yearly and at approximately the same time as our Annual Report. This is in accordance with regulatory guidelines. Both documents are published on Monzo's website, www.monzo.com.

The Pillar 3 requirements may be met by disclosures in our Annual Report. Appendix 8 summaries the disclosure requirements and how we meet them in either this document or in our Annual Report. As a result, this report should be read together with our Annual Report. Both documents provide information on Monzo's capital resources and on how we manage and mitigate our key risks.

Verification

These Pillar 3 disclosures have been prepared in line with our policy for financial submissions. The Policy includes the roles and responsibilities of the preparers and the standards that must be followed when preparing submissions to our Board.

These disclosures were prepared with input from the Finance, Risk, Treasury and People teams. The disclosures have been reviewed at senior and executive management level, including at the Audit Committee.

The Board considered that, as at 28 February 2021, it had in place adequate systems and controls with regard to Monzo's risk profile and strategy.

1 This entity is in the process of being wound up.

Risk Management and Governance

Risk management at Monzo

Our objective when managing risks is to help ourselves make better decisions so we can achieve our mission of making money work for everyone.

We designed our risk frameworks, policies and processes to spot and assess risks, to give decision makers a clear view of the key risks relevant to them, and to make conscious decisions about the risks we expose ourselves to, and what we do about them.

We manage our risks using an Enterprise Risk Management Framework (ERMF)

Our ERMF creates standards and practices for our risk management activities and processes. We designed the framework around a simple model for categorising risk, so that all the components of risk management – like risk appetite, governance, policies, reporting and assurance – are aligned to the same hierarchy of risks.

We reviewed our risk management framework in 2020, and updated the risks at the top of the hierarchy to include Financial Crime risk. Below are our six principal risk types.

Risk type	Definition
Strategic Risk	The risk that we don’t execute our business plan, or our business model not being sustainable over the long-term.
Financial Risk	The risks to the adequacy of our financial position, including solvency risks and our ability to meet our payment obligations. A variety of factors can result in financial risks, like our failure to achieve or manage financial objectives; the loss of liquidity and funding from a reduction in customer deposits; exposures to our operations or to external market factors; or the unwillingness of investors to inject more capital.
Credit Risk	The risk of losses that come from our customers and counterparties not paying back money they’ve borrowed in full and on time.
Operational Risk	The risk of loss due to inadequate or failed internal processes and systems, people risks, third-party failures and risks from external events.
Conduct Risk	The risk that our actions, or failures to act, harm customers, market stability or effective competition.
Financial Crime Risk	The risk that our systems and services are used to facilitate crime, either directly or as a way of laundering the proceeds of crime.

Considered in our ERMF is the financial risk from the climate crisis. As a digital bank, with a small number of offices and no branches, we don't see material exposures to physical climate crisis risks, either now or in the foreseeable future. We'll continue to review our activities, their impact and the associated risks.

The three lines of defence and what each one does

We spread risk management accountabilities across three independent lines of defence. This means everyone's clear on who's responsible for what and that oversight and assurance activities are kept separate from risk management ones.

First line of defence – Management teams that own and manage the risk we face

- Owning the overall business strategy in line with our risk strategy, vision and principles.
- Developing a risk aware culture across the bank.
- Monitoring, reporting and escalating breaches of risk appetite limits.
- Keeping to the principles and standards set out in the ERMF and processes and methods of individual risk class frameworks.
- Timely escalation and reporting of control failures and breaches of policy or risk appetite.

Second line of defence – Risk, Compliance and Financial Crime teams that give oversight and challenge

- Developing the strategy and vision of Risk and Compliance.
- Embedding the risk strategy and vision across Monzo to support a risk aware culture.
- Designing and maintaining the ERMF, including the governance and roles and responsibilities to support the execution of the risk strategy and vision.
- Regularly reporting our risk profile against the stated risk appetite.
- Reviewing and challenging all risk matters from the first line.
- Identifying new laws, regulations and standards, and advising the first line on how to comply with those rules.

Third line of defence – Internal Audit provide independent audit and assurance

- Understanding our key risks and examining and evaluating the adequacy and effectiveness of risk management and internal control.
- Giving reasonable assurance to our Board, Audit Committee, senior management and other interested parties on the effective management of our risks.

For more details on our risk management please see the risk management section of our Annual Report.

Governance at Monzo

Our Board sets our strategy and standards.

It also pays close attention to our culture, values, brand and reputation. It makes sure that we understand and meet our obligations to customers, colleagues and shareholders in a way that promotes our long-term interests. It also has overall responsibility for our governance, risk management and internal control systems.

We have structured our Board and principal committees for effective governance and to support our Board in discharging its responsibilities.

The Board has delegated some of its authority and decision making powers to four board committees: Audit Committee, Risk Committee, Remuneration Committee and the Nomination and Governance Committee. The board committees' responsibilities for reviewing and monitoring key areas are documented in their terms of reference, which the Board approves annually.

We review the Board Committees membership to make sure there's an appropriate balance of skills and expertise, when necessary and including when a new Non-executive Director (NED) joins the Board.

The management and day-to-day running of the business is delegated to the CEO, who's supported by an Executive Committee (ExCo) made up of senior executives. The ExCo's responsibilities are outlined in the committee's terms of reference. They're responsible for implementing the strategy agreed by the Board, directing the organisation, reviewing business and financial reports and reporting to the Board. Two executive committees report to ExCo and/or Risk Committee: the Assets and Liability Committee (ALCo) on financial risk matters and the Enterprise Risk and Compliance Committee (ERCC) on other risk matters.

For more details on our governance arrangements please see the governance at Monzo section of our Annual Report.

Regulatory Capital

Capital Resources

We raised £198m in the year to February 2021 to support us in building a bank to serve customers for years and years to come.

As at February 2021 Monzo's capital resources included only Common Equity Tier 1 (CET1) capital. This is the highest quality of capital. It consists of ordinary share capital, associated share premium and allowable reserves. More information on our share capital is set out in Appendix 2.

Table A: Changes in equity during the year

	Share capital	Share premium	Other reserves	Retained losses	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 28 February 2019	**0**	**198,146**	**3,164**	**(85,640)**	**115,670**
Shares issued	0	113,629	–	–	113,629
Cost of issuance	–	(658)	–	–	(658)
Share based payments reserve	–	–	14,371	–	14,371
Share buyback	–	–	(209)	–	(209)
Exercise of options	0	22	(20)	20	22
Losses for the year	–	–	–	(114,689)	(114,689)
Balance as at 1 March 2020	**0**	**311,139**	**17,306**	**(200,309)**	**128,136**
25,057					
Shares issued	0	198,019	–	–	198,019
Cost of issuance	–	(476)	–	–	(476)
Share based payments reserve	–	–	25,165	–	25,165
Share cancellation	–	(209)	209	–	0
Exercise of options	–	5	(5)	5	5
Losses for the year	–	–	–	(129,155)	(129,155)
Balance as at 28 February 2021	**0**	**508,478**	**42,675**	**(329,459)**	**221,694**

Our regulatory capital differs from our accounting equity because certain adjustments are required by the regulator. These adjustments are shown in Table B. Our CET1 capital position at 28 February 2021 was £233.6m (2020: £142.6m).

Monzo uses the IFRS 9 transitional arrangements set out in Article 473a of the UK CRR. The transitional arrangements allow the capital impact of provisions for expected credit losses (ECL) to be phased in over a 5 year period. Banks are allowed to add a portion of their provisions for ECLs to their CET1 capital. This is to lessen the impact of the introduction of IFRS 9 on capital. This transitional relief is applied on a reducing scale: 95% for FY2019; 85% for FY2020; 70% for FY2021; 50% for FY2022; 25% for FY2023 and with no transitional relief from FY2024.

As part of the regulatory response to COVID-19, Article 473a was revised from June 2020. For us, the change introduced new transitional arrangements for increases in ECL provisions between 1 March 2020 and the reporting date. Increases are added to CET1 capital and applied on a reducing scale over a 5 year period: 100% for FY2021 and FY2022; 75% for FY2023; 50% for FY2024; 25% for FY2025 and with no transitional relief from FY2026.

Where these transitional arrangements are taken, banks are required to disclose their capital positions calculated as if the transitional adjustments were not available, the 'fully loaded' basis. Our capital positions without transitional adjustments are disclosed in Appendix 4.

The table[1] below reconciles our accounting equity to our regulatory capital.

Table B: Reconciliation of statutory equity to regulatory capital

	2021	2020
	£'000	£'000
Total accounting equity	**221,694**	**128,136**
Regulatory adjustments		
less ineligible share capital	(13)	(13)
IFRS 9 transitional adjustment	11,923	14,519
CET1 capital	**233,604**	**142,642**
Tier 1 capital	**233,604**	**142,642**
Total capital	**233,604**	**142,642**

Capital Requirements

As an authorised bank we are subject to supervision by the PRA. As part of this supervision they set the amount of regulatory capital that we must hold, relative to our total risk exposure, in order to safeguard customers' money. Monzo's requirement includes Pillar 1 and Pillar 2 requirements, including capital buffers.

Pillar 1 capital requirements

Pillar 1 capital requirement is the minimum regulatory capital requirement relating to credit, operational and market risks. The minimum requirement is equal to 8% of Risk Weighted Assets (RWAs), of which at least 4.5% of RWAs must be met with CET1 capital.

1 Unless otherwise stated all tables are as at 28 February 2021

Monzo uses the Standardised Approach to determine risk weights for calculating credit risk RWAs. This is based on the classification of assets and counterparty types. Our primary sources of credit risk come from the possibility that our customers fail to make payments according to their contractual terms or if a counterparty that we have an investment or deposit with defaults.

Our total credit risk RWAs decreased by £6.4m in the year. We reduced the amount we lent to customers and so our lending RWAs decreased by £31m from £106m in FY2020. This was offset by RWAs with other banks increasing £14m. Corporate RWAs to service providers and our fixed assets increased by £8m and RWAs from our investments in subsidiaries also increased by £3m.

We use the Basic Indicator Approach (BIA) to determine operational risk RWAs. The BIA is calculated using the average of our last three years of gross operating income. Our operational risk requirement will increase as our income grows.

Monzo does not have a Pillar 1 capital requirement for market risk. This is because we do not have a trading booking and as most of our assets and liabilities are in Sterling, our exposure to foreign exchange risk is less than the *de minimis* level (2% of total regulatory capital) prescribed by the UK CRR.

Table C: Total risk exposure and Pillar 1 capital requirements

	2021	2021	2020	2020
	RWAs	Pillar 1 capital requirements	RWAs	Pillar 1 capital requirements
	£'000	£'000	£'000	£'000
Credit risk	151,226	12,098	157,594	12,608
Operational risk	85,427	6,834	45,114	3,609
Total	**236,653**	**18,932**	**202,708**	**16,217**

Pillar 2 capital requirements

The Pillar 2 requirements – Pillar 2A and Pillar 2B – are set in addition to Pillar 1 requirements to help ensure that institutions hold appropriate levels of capital for the idiosyncratic risks they are exposed to.

Pillar 2 requirements are determined as part of the Supervisory Review and Evaluation Process (SREP). The PRA reviews and evaluates Monzo's capital requirements, including our own assessment of capital adequacy, as determined by the Internal Capital Adequacy Assessment Process (ICAAP). There is an overview of our ICAAP in Note 22 – Capital risk management, in our Annual Report.

We also use stress testing to assess the resilience of our capital and liquidity positions. We undertake stress testing on our balance sheet and our financial plan to support our capital and liquidity planning and to inform our risk appetite.

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 informs banks of their Pillar 2A requirements by setting a firm specific Individual Capital Requirement (ICR). Together the Pillar 1 minimum requirement and the Pillar 2A ICR form our Total Capital Requirement (TCR).

Pillar 2B and Capital Buffers
We must also hold capital buffers which are designed to allow us to continue to meet our TCR under stressed conditions. This includes both a firm specific PRA buffer requirement alongside other regulatory capital buffers which apply to all firms.

The PRA sets this buffer and regularly assesses it to make sure that it is calibrated with our risk profile. The firm specific buffer takes into consideration the extent to which the CRD IV Combined Buffer — the Capital Conservation Buffer and any applicable systemic buffers — already captures risks that are not covered by Pillar 1 so as to avoid duplication.

Regulatory capital buffers (Combined buffers)

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.

Countercyclical Capital Buffer (CCyB)
In addition to the CCB we are required to apply a CCyB. This firm specific buffer is a weighted average of the buffers in the countries that we have relevant credit exposures in. These are the exposures in the UK, US and Belgium. All three countries had a 0% CCyb rate as at 28 February 2021. Please see appendix 5 for a breakdown of these exposures.

The UK CCyB rate depends on the Bank of England's (BoE) view of credit conditions in the economy. On 11 March 2020, as part of a package of measures to support the economy from the impact of COVID-19, the Financial Policy Committee (FPC) announced a reduction in the UK CCyB rate to 0% with immediate effect. The FPC expects to maintain the 0% rate for at least another 12 months, so that any subsequent increase would not take effect until December 2022 at the earliest.

Our prescribed TCR was updated in February 2021. These disclosures have been prepared by applying this TCR to our positions as at 28 February 2021. The table below shows our TCR as a percentage of our RWAs as at 28 February 2021.

Table D: Capital requirements

	CET1	Total Capital
Pillar 1	4.5%	8.0%
Pillar 2A	7.9%	14.0%
Total Capital Requirement	**12.4%**	**22.0%**
Capital conservation buffer	2.5%	2.5%
Countercyclical capital buffer	0.0%	0.0%
Total (excluding Pillar 2B)	**14.9%**	**24.5%**

Capital Ratios

As at 28 February 2021, our CET 1 and total capital ratio was 99%. We were well above all capital ratio requirements throughout the year to February 2021.

Our regulatory capital adequacy is managed through our monthly ALCO. The ALCO monitors our actual and projected capital positions against our Board approved risk appetites and our minimum regulatory levels.

Table E: Capital ratios

	2021	2020
	£'000	£'000
CET1 capital	233,604	142,642
Total capital	233,604	142,642
Risk weighted assets	236,653	202,708
CET1 capital ratio	**99%**	**70%**
Total capital ratio	**99%**	**70%**

Our capital ratios increase when new capital is raised from our investors and then gradually falls as capital is used and we grow our lending business.

Our CET1 capital increased by £91.0m, because we raised more from investors in the year. While our total RWAs increased by £33.9m because our operational risk requirement was higher.

This led to our CET1 capital ratio increasing to 99% from 70% in FY 2020 as CET1 capital grew more than total RWAs in the year.

Leverage ratio

The leverage ratio calculates capital adequacy by measuring the relationship between our Tier 1 capital and our total assets. We have disclosed in this document the leverage ratio calculated in accordance with the CRR (CRR leverage ratio) and the UK Framework (UK leverage ratio).

The CRR leverage ratio differs from the UK leverage ratio in the treatment of central bank balances in the exposure measure. Under the UK leverage ratio framework central bank balances are excluded from the total exposure measure. Also, there is a higher regulatory minimum for the UK leverage ratio — 3.25% compared to the 3% minimum for the CRR leverage ratio.

The UK leverage ratio better reflects the risk that leverage has on our business. Central bank reserves are a unique asset class. If matched by liabilities in the same currency and of identical or longer maturity, they typically do not represent an exposure to risk. Therefore, there is no need to build resilience against these reserves.

At year end and at all times throughout the year, we were above the regulatory minimum for the CRR and the UK leverage ratio. In June 2021 the FPC and PRA have outlined within CP14/21 that the leverage ratio will not be a binding requirement for us until we become a significantly larger bank.

Our UK and CRR leverage ratios as at 28 February 2021 are shown in the table below.

Table F: Leverage ratio

UK leverage Ratio	2021	2020
	£'000	£'000
Tier 1 capital	233,604	142,642
UK leverage ratio exposure measure	796,590	447,784
UK leverage ratio	**29.3%**	**31.9%**
CRR leverage ratio		
Tier 1 capital	233,604	142,642
Total balance sheet assets	3,629,660	1,720,536
Off balance sheet assets	22,294	27,815
Other adjustments	15,739	15,892
Total CRR leverage ratio exposure measure	3,667,694	1,764,243
CRR leverage ratio	**6.4%**	**8.1%**

The decrease in the leverage ratio was driven by significant growth in our total assets. Our total assets grew more than our tier 1 capital resources. Managing leverage is part of our planning processes. Our leverage ratio is reviewed and managed by the ALCO.

The off balance sheet assets in the table above represent unutilised overdraft limits.

The majority of the other adjustments in the table above are specific credit risk adjustments relating to IFRS 9, with the rest being the grossing up of the carrying value of assets.

Credit Risk

Credit risk is the risk that a borrower or counterparty fails to pay the interest or the principal on a loan or other financial instrument when it is due.

Our credit risk is monitored and managed by the Borrowing Collective and overseen by our Chief Risk Officer. Our overall risk appetite, lending criteria and policies are approved by the Board. For more details on how we monitor and manage credit risk please see Note 24 – Credit risk, of our Annual Report.

Under the Standardised Approach for calculating credit risk, the exposure value is stated net of specific credit risk adjustments. Specific credit risk adjustments are loan-by-loan impairments calculated on an expected credit loss basis in accordance with the IFRS 9 accounting standard.

The table below shows our maximum exposure to credit risk after provisions for impairment, the RWAs and minimum capital requirements under Pillar 1, for each of the exposure classes. To determine the minimum Pillar 1 requirement for credit risk, a risk weighting of 8% is applied to the RWA values calculated in accordance with Article 92 of the UK CRR. The table also includes the associated average credit risk exposure; this is calculated using the previous four quarters' exposures as per the EBA's Common Reporting returns.

Table G: Exposures subject to credit risk

	Net value of exposures at the end of the period	RWAs	Pillar 1 capital requirements	Average net exposures over the period
	£'000	£'000	£'000	£'000
Central banks or central governments	2,993,276	–	–	2,233,342
Regional governments or local authorities	75,867	–	–	5,181
Public sector entities	128,352	–	–	13,083
Multilateral development banks	172,422	–	–	10,950
Institutions	117,476	23,495	1,880	73,861
Corporates	9,524	9,524	762	7,448
Retail	99,089	74,906	5,993	118,479
Equity (investment in subsidiaries)	1,820	4,550	364	2,866
Other items	47,574	38,751	3,099	49,721
Total on-balance Sheet exposures	**3,645,400**	**151,226**	**12,098**	**2,514,931**
Off-balance sheet exposures	**222,945**	**–**	**–**	**256,443**
Total exposures standardised approach	**3,868,345**	**151,226**	**12,098**	**2,771,374**

Our largest exposure is to central banks and central governments. They are risk weighted at 0%, as set out in the UK CRR.

Our treasury investments are split across three counterparty types: regional governments or local authorities, public sector entities and multilateral development banks. Our diversified portfolio of bonds all have high credit ratings and are risk weighted at 0% as set out in the UK CRR.

Our main credit risk comes from our overdrafts and personal loans. These are classed as retail and are risk weighted at 75%, as set out in the UK CRR. During FY2021 we reduced new lending to our customers, which helped us stay within our risk appetite during the uncertainty of the pandemic. This resulted in £31m lower RWAs and £2.5m lower Pillar 1 capital requirements for retail exposures.

Our corporate exposures are with our service providers. We do not classify any of our exposures as being to small and medium-sized enterprises (SMEs). Other items are mainly prepayments and the items outlined in the UK CRR Article 134.

Our equity exposure is the investment in our US subsidiaries, Monzo Inc. and Monzo Support US Inc. These investments are risk weighted at 250%, rather than deducting the exposure from CET1 capital as allowed in the UK CRR Article 48. For more details on our investment in subsidiaries please see Note 30 – Group structure, in our Annual Report.

For operational purposes, we have credit risk exposures to financial institutions. For these exposures the Standardised Approach requires the use of external credit ratings to determine the appropriate risk weightings. We use the ratings of Moody's to determine the relevant Credit Quality Step (CQS) of the counterparty. The CQS value is then mapped to a risk weight percentage using the EBA's standard mappings.

Our only form of Credit Risk Mitigation (CRM) is the use of credit guarantees where payment scheme receivables are guaranteed by cash collateral kept at a central bank.

Table H shows our credit risk to financial institutions. The exposures are split by credit ratings, net exposure values and RWAs.

Table H: External credit ratings of exposures to institutions

Institutions' credit ratings (Moody's ratings)	Net exposure value	RWAs
	£'000	£'000
Aa3	61,122	12,225
A1	55,937	11,187
NR	417	83
Total	**117,476**	**23,495**

The table below shows the contractual residual maturity of our exposures. Customer payments are assumed to occur on the latest contractual date and no behavioural adjustments are made for early settlements. Most of our exposures have a maturity of less than 3 months. The exposures without a defined maturity date are the collateral that we have pledged or the investments in our subsidiaries.

Table I: Summary of contractual residual maturity of exposures

	< 3 months	Between 3 months and 1 year	Over 1 year	No defined maturity	Total
	£'000	£'000	£'000	£'000	£'000
Central banks or central governments	2,949,322	847	–	43,107	2,993,276
Regional governments or local authorities	–	–	75,867	–	75,867
Public sector entities	–	–	128,352	–	128,352
Multilateral development banks	–	–	172,422	–	172,422
Institutions	61,607	–	–	55,869	117,476
Corporates	6,333	–	3,191	–	9,524
Retail	56,634	13,597	28,858	–	99,089
Equity (investment in subsidiaries)	–	–	–	1,820	1,820
Other items	11,361	–	36,213	–	47,574
Total on-balance Sheet exposures	**3,085,257**	**14,444**	**444,903**	**100,796**	**3,645,400**

The table below shows the concentration of our exposures by geographical areas, after credit risk mitigation. The geographical location of our exposures is based on the physical location of the counterparty that we deal with. Most of our credit risk exposures are inside the UK.

In line with guidance issued by the EBA, our exposures to multilateral development banks have been classified to the geographical area 'Other' irrespective of the location of the issuer.

Table J: Geographical breakdown of exposures

	UK	**Europe**	**North America**	**Other geograph-ical area**	**Total**
	£'000	£'000	£'000	£'000	£'000
Central banks or central governments	2,993,276	–	–	–	2,993,276
Regional governments or local authorities	–	–	75,867	–	75,867
Public sector entities	–	128,352	–	–	128,352
Multilateral development banks	–	–	–	172,422	172,422
Institutions	117,474	2	–	–	117,476
Corporates	4,080	5,444	–	–	9,524
Retail	99,089	–	–	–	99,089
Equity (investment in subsidiaries)	–	–	1,820	–	1,820
Other items	47,529	–	45	–	47,574
Total on-balance Sheet exposures	**3,261,448**	**133,798**	**77,732**	**172,422**	**3,645,400**

Impairment and Provisions

We estimate the allowance for credit losses on our financial assets using a combination of statistical models and management judgment. The models consider both internal and external factors to calculate the level of Expected Credit Losses (ECL).

Under IFRS 9, loans are categorised into a three-stage ECL impairment model using the criteria below.

Classification	ECL Calculation Period	Description
Stage 1	12 months	A loan that is not credit-impaired on initial recognition and has not experienced a significant increase in credit risk.
Stage 2	Lifetime	If a significant increase in credit risk has occurred since initial recognition, the loan is moved to stage 2 but is not yet deemed to be credit impaired.
Stage 3	Lifetime	If the loan is credit-impaired it is moved to stage 3.

'Impaired' for accounting purposes is a loan or overdraft where, based on current information and events, it is probable that we will be unable to collect all amounts due (i.e. principal, interest and other related income) according to the contractual terms of the product.

A financial asset is considered as past due when a counterparty has failed to make a payment when that payment was contractually due. The exposure value is the whole carrying amount of the asset.

We have an IFRS 9 Impairment Council that is responsible for reviewing the monthly ECL numbers for impairment and ensuring that ECL have been calculated in line with our IFRS 9 Impairment Policy.

In December 2018, the EBA published guidelines on the disclosure of non-performing and forborne exposures, which introduced ten additional reporting templates. We do not meet the criteria for significance in the guidelines, therefore six of the ten templates are not applicable. Template 9 – 'Collateral obtained by taking possession and execution processes', is also not applicable as we do not hold any collateral obtained by taking possession. The three templates that are applicable to Monzo are in appendix 7.

For more details on our impairment and provisions see Note 24 – Credit risk, in our Annual Report.

Counterparty Credit Risk and Credit Valuation Adjustments (CVA)

Counterparty credit risk (CCR) is the risk that a counterparty we hold a derivative with defaults during the life of that transaction. CVA is the variable, fair value of CCR, included in the value of a derivative. We have a simple balance sheet and invest our significant surplus liquidity with highly rated central banks, governments and supranational organisations. Therefore we do not currently have CCR or CVAs.

Market Risk

Market risk is the risk of losses arising from changes in the market price of an asset. We do not have a trading book or derivative instruments. Therefore only our foreign exchange exposures are subject to Pillar 1 capital requirements for market risk.

We accept a degree of risk associated with the need to make payments to suppliers based in the EU and US who invoice in EUR and USD. These payments are within our foreign currency risk appetite.

We do not have a Pillar 1 requirement for market risk because our foreign exchange exposures are less than the *de minimis* level prescribed by the UK CRR Article 351. As at 28 February 2021 this was £4.7m, which is 2% of our total regulatory capital.

Operational Risk

Operational risk is the risk of loss that we are exposed to due to inadequate or failed internal processes or systems, human error or external events. It arises in day-to-day operations and is relevant to every aspect of our business.

We follow the principles of the "Three Lines of Defence" model to manage and mitigate operational risk, this is outlined in the risk management section of our Annual Report. We have policies, procedures and processes to control or mitigate material exposure to losses.

We use the Basic Indicator Approach (BIA) to determine our Pillar 1 requirements for operational risk. The BIA uses an average of the last three years' operating income to calculate the Pillar 1 requirement. Under the BIA, we hold capital of 15% of the average annual gross operating income over a three year period.

Liquidity Risk and Funding Risk

Liquidity risk is the risk that we fail to meet our cash flow obligations as they fall due, or can only do so at exceptional cost. This risk is mitigated by having easily accessible highly liquid funds at all times and / or assets that can be liquidated in order to meet our cash flow obligations under both normal and stressed conditions.

Funding risk is the risk that we do not have sufficiently stable and diverse sources of funding. This includes having the right type, currency and quantity of funds, in the right place and at the right time.

Liquidity and funding risk management is led by the Treasury Squad on a daily basis. In the second line, the Risk Collective oversees, and when required challenges, this process, to make sure that we are within our risk appetite. This includes liquidity risk related to deposit outflows, undrawn exposures and cash flow mismatches.

The ALCO, which meets at least on a monthly basis, is the main committee for discussing and monitoring liquidity and funding risk.

We assess our liquidity and funding risk profile annually as part of the Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP is scrutinised and approved by the Board.

We also maintain a Liquidity Contingency Plan (LCP) as part of our Recovery Plan. This enables us to detect signs of liquidity or funding stresses early. There are planned actions available to avoid or minimise the impact of plausible stressed scenarios on our business operations and customers.

At all times we maintain highly liquid resources within our risk appetite limits and significantly above the regulatory minimum. We currently hold our surplus cash in overnight deposits with central banks and highly liquid securities. These are our High Quality Liquid Assets (HQLA). The cash balances are accessible on demand and our securities can be monetised rapidly to provide liquidity to us if necessary.

The key metric used to monitor liquidity risk is the Liquidity Coverage Ratio (LCR). The ratio is the level of our HQLA relative to our net cash outflows.

Our HQLA has more than doubled to £3.2bn, from £1.4bn in FY2020. Our HQLA has increased as we have chosen to put the money that customers have deposited with us in overnight deposits at central banks. We keep this cash ready so that it is available if we, or our customers, need it.

Our net cash outflows have increased to £355m, from £184m in FY2020 as our business has grown. At year end and at all times throughout the year, our LCR was significantly in excess of our risk appetite and the regulatory minimum.

We also monitor our Net Stable Funding Ratio (NSFR). This is to maintain a stable funding relationship between assets and liabilities and to reduce sole reliance on short dated funding.

Liquidity Coverage Ratio

The LCR, prepared in compliance with the Commission Delegated Regulation (EU) 2015/61 (DA) and Regulation (EU) 575/2013, is used by us as a stressed measure of 30 day liquidity. The ratio as at 28 February 2021 was 904%.

Table K: LCR

	2021	2020
	£'000	£'000
Liquidity buffer	**3,212,266**	**1,415,419**
Total net cash outflows	355,375	183,675
Liquidity Coverage Ratio	904%	771%

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (IRRBB) is the risk of adverse changes in value to both earnings and capital arising from changes in interest rates. This can be caused by:

- Duration risk: when the re-pricing of banking book assets and liabilities are mismatched across time buckets. We manage the resultant risks through our internal processes and hedging activities.
- Basis risk: generated by banking book items that re-price in relation to different reference interest rates.
- Optionality risk: arises from the discretion that a bank's customers and counterparties have in respect of their contractual relations with the bank in the form of financial instruments. Embedded options are diverse and firm-specific. They include prepayment risk on our personal fixed rate loans and deposits, and switching risk on non-interest bearing current accounts. Optionality risk is considered separately when material.

Our net interest rate risk comes through unsecured lending, deposit-taking, treasury investments and funding activities.

We manage the risk of banking book positions in accordance with our risk appetite framework and regulatory constraints. This is monitored by governance committees, including the ALCO who evaluate new initiatives and risks.

Interest rate risk is frequently monitored by the Treasury squad frequently, with oversight from the Risk function. The Treasury squad is also responsible for balance sheet management and hedging strategies to manage interest rate risk. This is reported to the ALCO on a monthly basis.

We monitor the sensitivity of both our earnings (net interest income) and the economic value of interest rate sensitive balance sheet items to a variety of interest rate shocks. Our sensitivity analysis includes the six prescribed scenarios in the EBA guidelines. These describe the management of interest rate risk arising from non-trading book activities. A floor is applied to the yield curve used in our IRRBB analysis. Non-interest bearing and non-maturing deposits are assumed to have an average life of 2.5 years, with all exposures are in GBP.

For more details on our management of IRRBB please see Note 23 – Market risk management in our Annual Report.

Remuneration Policy & Practices

In general, our remuneration policy is designed to apply to everyone who works at Monzo, but under the Remuneration part of the PRA Rulebook and the FCA's Dual-regulated firms Remuneration Code (SYSC 19D), there are some further rules we must apply to our remuneration policies and practices for people whose activities have a material impact on our risk profile. These people are known as Material Risk Takers (MRTs).

Remuneration Policy

This policy covers our approach to remuneration for everyone who works at Monzo, including MRTs. We designed the policy to make sure we're attracting, motivating and retaining the people we need, while meeting our legal and regulatory requirements. It also sets requirements that keep remuneration and risk taking aligned.

The Remuneration Committee (RemCo) is responsible for and oversees this policy. The Board appoints RemCo and it's made up of three of our non-executive directors, which lets it use independent judgement in remuneration matters. RemCo's Terms of Reference set out the committee's duties, which we review annually.

RemCo hasn't appointed a remuneration advisor, but Deloitte LLP offers advice to management who then advise RemCo. The Risk function also has a say in remuneration decisions where appropriate.

RemCo meets as needed, but at least twice a year. In the prior performance period (the year to 28 February 2021), the Committee met 6 times.

The committee reviews the Remuneration Policy annually to check it's aligned with our business strategy, objectives and values, and compliance with regulatory requirements. We created the policy using these principles.

- Remuneration helps us attract, motivate and retain the people we need for each phase of our growth.
- Remuneration is aligned with our values. And our values align with our long-term interests.
- We emphasise fixed pay and share options to discourage people from taking excessive risks. Share options aim to align our team's interests with our long-term strategy and our mission: to make money work for everyone.
- Remuneration aligns with all legal and regulatory requirements that apply to us.
- Remuneration supports equal pay for equal work, and doesn't discriminate on the basis of non-role related characteristics, like gender, race, sexuality, disability, age or religion.

Material Risk Takers

We see MRTs as individuals whose professional activities have a material impact on the company's risk profile. We identify MRTs in line with the European Banking Authority's regulatory technical standards. In the year to February 2021, we classified 50 team members as MRTs.

Link Between Pay and Performance

We designed our performance framework to discourage risk taking outside of our risk appetite. Our feedback cycle includes formal appraisals, identifying areas for personal improvement and development, and performance management. Feedback should cover measurable performance and behaviours including operating within our risk appetite.

Remuneration at Monzo is made up of fixed compensation (salary and benefits) and variable pay in the form of share options, giving our team the opportunity to share in our long-term success. We manage the remuneration of MRTs in line with our overall reward approach. As a proportionality level 3 firm, we apply the Remuneration Code requirements in a way that's proportionate to our size, nature and complexity.

Fixed remuneration

We determine fixed remuneration based on our salary frameworks. Our frameworks reflect the experience and skills that relate to someone's role, the impact on us, and that person's level of responsibility and contribution.

We review the salary levels in the framework every year, benchmarking them against salaries in the broader market and our position. We do review each person's salary at least annually, but we don't necessarily change their salary.

Everyone at Monzo is entitled to private medical insurance, life insurance and we auto-enrol them onto our pension scheme.

Variable remuneration

Each person's remuneration at Monzo includes share options, which we award them when they join and then at set intervals after their start date. We designed our remuneration framework to have an appropriate balance between fixed and variable pay. RemCo oversees any changes to MRT remuneration.

Share options we grant to new hires follow a standard vesting schedule over a four year period with a one year cliff. A quarter of the award vests after the individual's first anniversary and then the remaining options vest uniformly each month. We grant additional share options at set intervals after someone's start date. These share options vest over four years, typically with monthly uniform vesting starting two years after the date we grant them. We granted options under a Company Share Option Plan (CSOP) (until April 2020) and in addition, under an unapproved share option plan.

Award proposals for MRTs are subject to RemCo approval to make sure we've properly assessed performance and risk management before granting the award. We're updating the performance assessment for MRTs for the next performance period to align with Capital Directive Requirements V (CRD V).

Awards are subject to malus provisions in circumstances of misconduct, misstatement or risk failure. For more senior people, both malus and clawback provisions apply. We're updating our approach to malus and clawback for the next performance period to align with the new CRD V requirements.

We don't use an annual cash-based variable remuneration arrangement. We treat guaranteed variable remuneration as exceptional and it requires RemCo's approval, which approves it in certain exceptional circumstances at its discretion. For example, where it's needed to secure a candidate for a role and is limited to the first year of service.

Quantitative Disclosures

The following table displays the aggregate remuneration of our MRT population for the year 1st March 2020 to 28th February 2021. This is broken down between Senior Managers and other MRTs. Due to the structure of the organisation, we do not operate distinct business areas and therefore aggregate information on remuneration is disclosed for Monzo as a whole.

Table L: Senior managers' and other MRTs' remuneration

	Aggregate remuneration
	£'000
Senior Managers (14)	11,087
Other MRTs (36)	10,563
Total	**21,650**

Appendix 1: Main features of capital instruments

The table below shows the key features of Monzo's capital instruments in the format prescribed by Regulation (EU) 1423/2013.

1	Issuer	Monzo Bank Ltd.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	English
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo / (sub-)consolidated / solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Share Capital
	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date).	
8	Specify in particular if some parts of the instruments are in different tiers of the regulatory capital and if the amount recognised in regulatory capital is different from the amount issued.	£508m
9	Nominal amount of instrument	£0.0000001
9a	Issue price	Various
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A

15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Non cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, fully or partially	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Appendix 2: Own funds disclosure template

The table below shows the make-up of our own funds as at 28 February 2021 (in the format prescribed in Regulation (EU) 1423/2013). Any blank cells in the template have been removed from this disclosure.

Capital instruments and their related share premium accounts are stated after deduction of ineligible share capital of £13k. Retained earnings are presented inclusive of IFRS9 transitional adjustments of £11.9m.

		2021	2020
Common Equity Tier 1 (CET1) capital: instruments and reserves		£'000	£'000
1	Capital instruments and the related share premium accounts	508,465	311,126
2	Retained earnings	(188,381)	(71,101)
3	Accumulated other comprehensive income (and other reserves)	42,675	17,306
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	362,759	257,331
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
25a	Losses for the current financial year (negative amount)	(129,154)	(114,689)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(129,154)	(114,689)
29	Common Equity Tier 1 (CET1) capital	233,604	142,642
45	Tier 1 capital (T1 = CET1 + AT1)	233,604	142,642
59	Total capital (TC = T1 + T2)	233,604	142,642
60	Total risk weighted assets	236,653	202,708
Capital ratios and buffers		%	%
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	99%	70%
62	Tier 1 (as a percentage of total risk exposure amount)	99%	70%

		2021	2020
63	Total capital (as a percentage of total risk exposure amount)	99%	70%
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)	7.0%	8.0%
65	of which: capital conservation buffer requirement	2.5%	2.5%
66	of which: countercyclical buffer requirement	0.0%	1.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	76.7%	46.4%
Amounts below the thresholds for deduction (before risk weighting)		£'000	£'000
73	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 (amount below 10% threshold and net of eligible short positions)	1,820	1,691

Appendix 3: CRR Leverage Ratio

Presented in accordance with Annex 1 of the Commission Implementing Regulation (EU) 2016/200. Any blank cells have been removed from the disclosure.

Reference Date: 28 February 2021
Entity Name: Monzo Bank Ltd.
Level of application: Individual

Summary reconciliation of assets and leverage ratio exposures

		2021	2020
		£'000	£'000
1	Total assets as per published financial statements	3,629,660	1,720,536
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	22,294	27,815
7	Other adjustments	15,739	15,892
8	**Total leverage ratio exposure measure**	**3,667,694**	**1,764,243**

Leverage ratio common disclosure

		2021	2020
		£'000	£'000
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,645,399	1,736,428
2	(Asset amounts deducted in determining Tier 1 capital)	–	–
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**3,645,399**	**1,736,428**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	222,947	278,145
18	(Adjustments for conversion to credit equivalent amounts)	(200,652)	(250,330)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**22,295**	**27,815**
Capital and total exposures			
20	Tier 1 capital	233,604	142,642
21	**Total leverage ratio exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**3,667,694**	**1,764,243**
Leverage ratio			
22	Leverage ratio	6.4%	8.1%

Split-up of on balance sheet exposures (excluding derivatives, SFT and exempted exposures)

		2021	2020
		£'000	£'000
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	3,645,399	1,736,428
EU-2	Trading book exposures	–	–
EU-3	Banking book exposures, of which:	3,645,399	1,736,428
EU-4	Covered bonds	–	–
EU-5	Exposures treated as sovereigns	3,369,917	1,501,395
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	–	–
EU-7	Institutions	117,476	49,918
EU-8	Secured by mortgages of immovable properties	–	–
EU-9	Retail exposures	96,729	141,244
EU-10	Corporate	9,524	6,932
EU-11	Exposures in default*	2,360	267
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	49,393	36,672

*All exposures in default are retail credit risk exposures

Qualitative disclosure on the management of leverage ratio

1. Description of the process used to manage the risk of excessive leverage
The capital position and leverage ratio are managed within our risk appetite framework and monitored by the ALCO which is a sub committee of ExCo. This committee monitors the leverage ratio on a monthly basis. Management actions are recommended to the ALCO to prevent us from being over leveraged and to make sure that capital ratios remain above the minimum capital requirements in both normal circumstances and in stress.

2. Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers
Significant growth in total balance sheet assets, and therefore the leverage ratio exposure measure, is responsible for the movement in the leverage ratio during the period. Our total assets have more than doubled to £3.6bn, from £1.7bn in FY2020. The impact of the increase in the leverage ratio exposure measure was partially offset by an increase in Tier 1 capital during the period.

Appendix 4: IFRS 9 Transitional Impact

The table below shows the capital, RWA and leverage positions with and without the application of transitional arrangements for IFRS 9. The table is presented in the format prescribed in Annex I of the EBA Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013. Any blank cells have been removed from the disclosure.

		2021	2020
		£'000	£'000
Available Capital			
1	Common Equity Tier 1 (CET1) capital	233,604	142,642
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	221,681	128,123
3	Tier 1 capital	233,604	142,642
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	221,681	128,123
5	Total capital	233,604	142,642
6	Total capital as if IFRS 9 transitional arrangements had not been applied	221,681	128,123
Risk-Weighted Assets			
7	Total risk-weighted assets	236,653	202,708
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	227,711	191,819

		2021	2020
Capital Ratios			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	99%	70%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	97%	67%
11	Tier 1 (as a percentage of risk exposure amount)	99%	70%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	97%	67%
13	Total capital (as a percentage of risk exposure amount)	99%	70%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	97%	67%
Leverage Ratio			
15	Leverage ratio total exposure measure	3,667,694	1,764,243
16	Leverage ratio	6.4%	8.1%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	6.0%	7.3%

Appendix 5: Countercyclical capital buffer disclosures

The tables below show the distribution of relevant credit exposures for the calculation of our countercyclical capital buffer (CCyB) as at 28 February 2021. These are in accordance with Annex I of the Commission Delegated Regulation (EU) 2015/1555. Any blank cells have been removed from the disclosure.

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

		General credit exposures		Own Funds Requirements
	Exposure Value for SA 010	Own funds requirements 070 & 100	Own funds weights 110	Countercyclical capital buffer rates 120
010 Breakdown by country	£'000	£'000	weighting	£'000
Belgium	5,444	436	0.04	0.00%
United Kingdom	228,746	9,415	0.92	0.00%
United States	1,865	368	0.04	0.00%
020 Total	**236,055**	**10,219**	**1.00**	**0.00%**

Amount of institution-specific countercyclical capital buffer

		£'000
010	Total Risk Exposure amount	236,653
020	Institution specific countercyclical capital buffer rate	0.00%
030	Institution specific countercyclical capital buffer requirement	–

Appendix 6: Asset Encumbrance

The following tables provide information on our encumbered assets as at 28 February 2021 in accordance with Commission Delegated Regulation (EU) 2017/2295. Any blank cells in the template have been removed from this disclosure.

Template A – Encumbered and unencumbered assets

		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
		010	030	040	050	060	‘080	090	100
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
010	Assets of the reporting institution	134,339	75,329			3,495,321	3,215,523		
030	Equity instruments	–	–	–	–	1,820	–	–	–
040	Debt securities	32,222	32,222	32,176	–	344,418	344,418	341,120	341,120
070	of which: issued by general governments	32,222	32,222	32,176	–	171,997	171,997	170,502	170,502
080	of which: issued by financial corporations	–	–	–	–	172,421	172,421	170,618	170,618
120	Other assets	102,117	43,107			3,149,083	2,871,104		

Template B – Collateral received

Monzo did not receive any collateral in the financial year ending 28 February 2021 and so template B is not applicable.

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
		010	030
		£'000	£'000
010	Carrying amount of selected financial liabilities	205,404	134,339

Template D – Information on the importance of encumbrance

Encumbered assets are assets that we've pledged as collateral or that are legally ring-fenced in some other way. This stops us from being able to transfer, pledge, sell or otherwise use/dispose of these assets.

Exposure values for encumbrance are presented as at 28 February 2021. We have chosen not to disclose median values for the previous 12 months, as prescribed by the EBA guidelines, as we believe that doing so would present a distorted and less reliable view of our encumbrance. This is because of how our balance sheet has changed over the period. As we've welcomed more customers we have seen a corresponding growth in the use of payment schemes which has led to an increase in our collateral requirements.

We are obliged to place collateral with central banks as a direct member of the Faster Payments Scheme (FPS). Collateral posted up to the minimum required by FPS is treated as encumbered. The balance in our collateralisation account, in excess of the minimum required is treated as unencumbered. We also have collateral requirements as a result of being a member of the Mastercard payments scheme. This collateral is also treated as encumbered.

We are required to calculate and segregate enough money to meet the costs of critical services should we enter resolution. As such, we hold bonds in a segregated custody account. These bonds are treated as encumbered because they are needed to meet operational continuity in resolution requirements.

The value of unencumbered assets in table A includes fixed assets of £27m. These assets would not be deemed to be available for encumbrance in the normal course of business.

Appendix 7: Non-performing and forborne exposures

These three templates have been prepared in line with the guidelines by the EBA on the disclosure of non-performing and forborne exposures.

Template 1: Credit quality of forborne exposures

	In £'000	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
1	Loans and advances	10,512	8,748	6,349	4,525	(2,176)	(1,630)	0	0
2	Central banks								
3	General governments								
4	Credit institutions								
5	Other financial corporations								
6	Non-financial corporations								
7	Households	10,512	8,748	6,349	4,525	(2,176)	(1,630)	0	0
8	Debt Securities								
9	Loan commitments given	3,476	1,810	707	136	(39)	(20)	0	0
10	**Total**	**13,988**	**10,558**	**7,056**	**4,661**	**(2,215)**	**(1,650)**	**0**	**0**

Template 3: Credit quality of performing and non-performing exposures by past due days

													Gross carrying amount/nominal amount
	In £'000	Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	Loans and advances	94,253	93,133	1,120	10,337	4,790	1,124	2,008	1,995	420	0	0	7,631
2	Central banks												
3	General governments												
4	Credit institutions												
5	Other financial corporations												
6	Non-financial corporations												
7	Of which SMEs												
8	Households	94,253	93,133	1,120	10,337	4,790	1,124	2,008	1,995	420	0	0	7,631
9	Debt securities	376,641	376,641										
10	Central banks												
11	General governments	204,219	204,219										
12	Credit institutions	172,422	172,422										
13	Other financial corporations												
14	Non-financial corporations												
15	Off-balance sheet exposures	221,882			955								413
16	Central banks												
17	General governments												
18	Credit institutions												
19	Other financial corporations												
20	Non-financial corporations												
21	Households	221,882			955								413
22	**Total**	**692,776**	**469,774**	**1,120**	**11,292**	**4,790**	**1,124**	**2,008**	**1,995**	**420**	**0**	**0**	**8,044**

Template 4: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1	Loans and advances	94,253	60,012	34,241	10,337	2,706	7,631	(11,480)	(2,832)	(8,648)	(5,963)	(694)	(5,269)	(6,737)	0	0
2	Central banks															
3	General governments															
4	Credit institutions															
5	Other financial corporations															
6	Non-financial corporations															
7	Of which SMEs															
8	Households	94,253	60,012	34,241	10,337	2,706	7,631	(11,480)	(2,832)	(8,648)	(5,963)	(694)	(5,269)	(6,737)	0	0
9	Debt securities	376,641	376,641													
10	Central banks															
11	General governments	204,219	204,219													
12	Credit institutions	172,422	172,422													
13	Other financial corporations															
14	Non-financial corporations															
15	Off-balance-sheet exposures	221,882	200,463	21,418	955	542	413	(2,262)	(1,017)	(1,246)	(237)	(32)	(205)		0	0
16	Central banks															
17	General governments															
18	Credit institutions															
19	Other financial corporations															
20	Non-financial corporations															
21	Households	221,882	200,463	21,418	955	542	413	(2,262)	(1,017)	(1,246)	(237)	(32)	(205)		0	0
22	**Total**	**692,776**	**637,117**	**55,659**	**11,292**	**3,248**	**8,044**	**(13,742)**	**(3,848)**	**(9,893)**	**(6,200)**	**(725)**	**(5,475)**	**(6,737)**	**0**	**0**

Appendix 8: UK CRR disclosure requirements

The table below is an overview of all our disclosure requirements, and their location in the Pillar 3 and the Annual Report, under Part Eight of the UK CRR.

UK CRR reference	High-level summary	Reference
Scope of disclosure requirements: **Article 431**	• Requirement to publish Pillar 3 disclosures	• Pillar 3: Disclosure framework section
	• Firms with permission to use specific operational risk methodologies must disclose operational risk information	• Not applicable
	• Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness	• Not applicable
	• Explanation of ratings decisions on request	
Non-material, proprietary and confidential information: **Article 432**	• Institutions may omit information that is not material if certain conditions are met	• Pillar 3: Basis of disclosure section
	• Institutions may omit information that is proprietary or confidential if certain conditions are met	• Not applicable
Frequency of disclosure **Article 433**	• Disclosures must be published once a year at a minimum and more frequently if necessary	• Pillar 3: Disclosure policy section
Means of disclosure **Article 434**	• To include all disclosures in one appropriate medium, or provide clear cross-references	• All required disclosures are published on Monzo's website www.monzo.com
	• Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate	• All cross references to our Annual Report are signposted in this table and throughout this Pillar 3 document
Risk management objectives and policies: **Article 435 (1)**	• Risk management and objectives for each risk category	• Annual Report: Risk management in Monzo section
	• An approved declaration on risk management adequacy	
	• An approved risk statement on the risk profile of the business strategy	

UK CRR reference	High-level summary	Reference
Risk management objectives and policies: **Article 435 (2)**	• Governance arrangements	• Annual Report: Governance at Monzo section
Scope of application: **Article 436**	• Name of institution	• Pillar 3: Disclosure framework section
	• Any differences in the basis of consolidation for accounting and prudential purposes	• Pillar 3: Basis of disclosure section
	• Impediments to transfer of own funds between parent and subsidiaries	• Not applicable
	• Capital shortfalls in any subsidiaries outside the scope of consolidation	• Not applicable
	• Disclose if made use of provision allowing individual consolidation	• Not applicable
Own funds: **Article 437**	• A full reconciliation of CET1 items, AT1 items, Tier 2 items and filters and deductions applied to own funds of the institution and the balance sheet in the audited financial statements of the institution	• Pillar 3: Table B – Reconciliation of statutory equity to regulatory capital
	• A description of the main features of the CET1, AT1 and Tier 2 instruments issued by the institution	• Pillar 3: Appendix 1 – Main features of capital instruments
	• The full terms and conditions of all CET1, AT1 and Tier 2 instruments	• Pillar 3: Appendix 1 – Main features of capital instruments
	• Disclosure of the nature and amounts of the prudential filters, deductions made against own funds and items not deducted	• Pillar 3: Appendix 2 – Own funds disclosure template
	• A description of all restrictions applied to own funds in accordance with this regulation and the instruments, prudential filters and deductions to which those restrictions apply	• Not applicable
	• An explanation where institutions disclose capital ratios calculated using elements of own funds determined on a different basis	• Not applicable
Capital requirements: **Article 438**	• Approach to assessing internal capital adequacy	• Annual Report: Note 22, Capital risk management
	• Result of ICAAP on demand from authorities	• Not applicable
	• 8% of the risk weighted exposure amounts for each exposure class of credit risk	• Pillar 3: Table G – Exposures subject to credit risk
	• Capital requirements for each IRB approach to credit risk exposure classes	• Pillar 3: Market Risk section, Operational risk section and Table C
	• Own funds requirement for foreign exchange risk and operational risk	• Total risk exposure and Pillar 1 capital requirements
Exposure to counterparty credit risk: **Article 439**	• Disclosures of exposures to counterparty credit risk	• Not applicable (Pillar 3: Counterparty credit risk and credit valuation adjustments (CVA) section)

UK CRR reference	High-level summary	Reference
Capital buffers: **Article 440**	• Information in relation to compliance with the countercyclical buffer requirement	• Pillar 3: Appendix 5 – Countercyclical capital buffer disclosures and regulatory capital buffers (Combined buffers) section
Indicators of global systemic importance **Article 441**	• Disclosures of the indicators of global systemic importance	• Not applicable
Credit risk adjustments **Article 442**	• Disclosure of institution's definitions of past due and impaired	• Pillar 3: Impairment and provisions section
	• Approaches for calculating specific and general credit risk adjustments	• Annual Report: Note 24, Credit Risk
	• Disclosure of pre-CRM EAD by exposure class	• Pillar 3: Table G – Exposures subject to credit risk
	• Disclosure of pre-CRM EAD by geography and exposure cla	• Pillar 3: Table J – Geographical breakdown of exposures
	• Disclosure of pre-CRM EAD by residual maturity and exposure class	• Pillar 3: Table I – Summary of contractual residual maturity of exposures
	• Breakdown of impaired, past due, specific and general credit risk adjustments and impairment charges for the period	• Pillar 3: Appendix 7
	• Impaired, past due exposures, by geographical area and amounts of specific and general impairment for each geographical area	• Not applicable: all of Monzo's impaired and past due exposures are in the UK
	• Reconciliation of changes in specific and general credit risk adjustments for impaired exposures	• Annual Report: Note 24, Credit risk
	• Specific credit risk adjustments recorded to income statement are disclosed separately	• Annual Report: Note 24, Credit risk
Unencumbered assets **Article 443**	• Total amount of the balance sheet that is encumbered	• Pillar 3: Appendix 6 – Asset encumbrance
Use of External Credit Assessment Institutions (ECAIs): **Article 444**	• Names of nominated ECAIs	• Pillar 3: Table H
	• The exposure classes for which each ECAI is used	• External credit ratings of exposures to institutions
	• The exposure values, including those after credit risk mitigation, associated with each credit quality step	• Not applicable
	• Description of the process used to transfer credit assessments to non-trading book items	• Not applicable. Monzo only uses the standard associations regarding external ratings as published by the EBA.
	• Mapping of external rating to Credit Quality Steps (CQS)	
Exposure to market risk: **Article 445**	• Own funds requirement for each risk within market risk	• Pillar 3: Market risk section

UK CRR reference	High-level summary	Reference
Exposure to operational risk: **Article 446**	• Scope of approaches used to calculate operational risk	• Pillar 3: Operational risk section
Exposure in equities not included in the trading book **Article 447**	• Accounting techniques and valuation methodologies	• Annual Report: Note 1c – Summary of significant accounting policies
	• The balance sheet value, the fair value and, for those exchange – traded, a comparison to the market price where it is materially different from the market value	• Annual Report: Note 30 – Group structure
	• The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios and other exposures	• Not applicable
	• Cumulative realised gains or losses arising from sales and liquidations in the period	• Annual Report: Note 30 – Group structure
	• Total unrealised gains or losses, the total latent revaluation gains or losses and any of those amounts included in the original or	• Annual Report: Note 30 – Group structure
Exposure to interest rate risk on positions not included in the trading book: **Article 448**	• Nature of interest rate risk and frequency of its measurement	• Annual Report: Note 23 – Market risk management
	• Relevant measure used by management for upward/downward shocks, broken down by currency	
Exposure to securitisation positions **Article 449**	• Disclosures on exposures to securitisation positions	• Not applicable
Remuneration disclosures **Article 450**	• Remuneration	• Pillar 3: Remuneration policy and practices section
Leverage **Article 451**	• The leverage ratio (LR) and how any transitional provisions have been applied	• Pillar 3: Appendix 3 – Leverage ratio
	• A breakdown of the total exposure measure and its reconciliation to the published financial statements	
	• Description of the processes used to manage the risk of excessive leverage	
	• The factors that had an impact on the LR during the period to which the ratio refers	
Use of the IRB approach to credit risk **Article 452**	• Disclosures on the use of the IRB approach to credit risk	• Not applicable
Use of credit risk mitigation techniques **Article 453**	• Disclosures on the use of credit risk mitigation techniques	• Not applicable

UK CRR reference	High-level summary	Reference
Use of the advanced measurement approaches to operational risk **Article 454**	• Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk	• Not applicable
Use of internal market risk models **Article 455**	• Disclosures relating to the use of Internal Market Risk Models	• Not applicable