

Monzo Bank Limited Annual Report and Group Financial Statements



28 February 2021

Registration number
09446231

Registered Office
Broadwalk House
5 Appold Street
London EC2A 2AG

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Strategic report



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, 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.

Our history

We released the Mondo public Beta app.

We ran the fastest crowdfund in history, with supporters pledging £1m in just 96 seconds.

We changed our name! Around 10,000 Mondo customers suggested new names, with the only criteria being it needed to start with 'M'... and we became Monzo.

We upgraded from prepaid to full UK current accounts.

94% of active account holders moved their accounts over.

We launched an industry-first gambling block that lets people self-exclude from making gambling payments through Monzo. To date, more than 330,000 people have used it, blocking around 600,000 gambling transactions every month.

Crowdfunding time again – we raised £20m in record time and welcomed more than 36,000 customers as investor shareholders.

We had record revenue despite the pandemic.

By March 2021, 25% of our revenue came from products we launched during the extended pandemic lockdown period.

1m people opened a Monzo account. We launched Monzo Plus and Monzo Premium, attracting over 134,000 signups.

Monzo Business grew from a small test to 77,000 accounts.

Despite the impact of COVID-19, we raised a total of £202m of new investment from new and existing investors.

In our first eligible year, Ipsos MORI ranked us #1 in the UK for Overall Service Quality and Online and Mobile Banking Services in independent surveys carried out as part of a regulatory requirement.

2016

We announced Mondo to the world in a blog post.

“Mondo is a new challenger bank in the UK, focused on making your financial life easier, rather than trying to catch you out with penalty fees and charges. We’re building a current account that lives on your smartphone and gives you control of your money.”

We started out with a prepaid account and around 5,000 Alpha cards. In the very early days, almost every Monzonaut (member of our team) played their part packing cards to post or hand deliver to new customers.

2018

The big one: we got our full UK banking licence.

This opened the door to us offering customers a whole new range of services, and becoming a core part of their financial lives.

Another crowdfund, this time aiming for £2.5m... in the end, 41,267 supporters pledged more than £12m.

We started rolling out our first full current accounts to early testers.

2020

2m people opened Monzo accounts.

We launched our first TV ads and YouGov named us the UK’s most recommended brand.

The Current Account Switch Service (CASS) announced that for the first time, more people switched to Monzo than any other UK bank.

We introduced Salary Sorter, Bills Pots, Get Paid Early, loans, overdrafts, energy switching and a savings marketplace.

We launched a first test of business accounts to 2,500 small businesses.

Our Financial Year (FY) runs from 1st of March to 28th/29th of February.

Monzo at a glance

Despite lockdown, we've continued to grow rapidly.

5m
customers, up 23%
from FY2020 (4m)

92%
of growth was from
word of mouth

Engagement increased faster than customer growth. This means our customers are using Monzo for more and more of their financial lives.

124%
increase in deposits, from
£1.4bn to £3.1bn

50%
increase in card spend,
from £10.9bn to £16.4bn

300k
Pots opened every
month in 2020

Our service quality is best in class.

2nd
Most Recommended Brand
in the UK (YouGov, 2020)

70+
Net Promoter
Score

#1
No.1 current account provider
in Great Britain for Overall
Service Quality and for Online
and Mobile Banking Services.
(CMA 2020, 2021)¹

We've achieved record revenues, despite the COVID-19 pandemic.

£105m+
record Annual Run Rate
(ARR) by Dec 2020²

210k+
Monzo Plus, Monzo Premium
and Monzo Business customers

25%
of revenue is from
new products

We've had huge growth in operating income and kept our underlying losses in check.

74%
net operating income growth
from £35.7m in FY2020
to £62.2m in FY2021

1%
increase in underlying losses³
from £113.8m in FY2020
to £115.2m in FY2021

¹ Independent CMA survey carried out in Great Britain by Ipsos MORI between January 2020 and December 2020 and July 2019 - June 2020 - Overall Service Quality and Online and Mobile Banking Services. Results at www.ipsos-mori.com

² The total revenue in December 2020 multiplied by 12 months. December was the last month before the national lockdown started in January 2021

³ See 'Our financial review' on page 25

Our Board



Gary Hoffman
Chair of the Board of Directors

Gary joined Monzo on 1 February 2019. He started his career at Barclays where he stayed for 25 years and took on several senior roles before becoming the CEO of Northern Rock, steering them successfully through the 2008 financial crisis. He then went on to become the CEO of NBNK Investments and later CEO for Hastings Insurance Group, which he led through an IPO, as well as serving as Non-Executive Chair of Visa Europe and Non-Executive Director of Visa Inc.

He has extensive experience in financial services including retail banking, insurance and consumer lending, and led significant growth stories and turnarounds while innovating along the way.

External appointments: Gary is also the Chair of Coventry Building Society and Chair of the The Football Association Premier League Limited.



Keith Woollard
Independent Non-Executive Director

Keith's also Chair of our Risk Committee and joined our Board on 23 May 2016. He's a risk and compliance specialist with more than 40 years' experience in a number of senior positions across the financial services sector, including M&S Bank (where he was a board member), Post Office Limited and the Financial Services Authority. His key areas of expertise include governance frameworks, supporting growth through risk management and retail banking.

External appointments: None.



Amy Kirk
Independent Non-Executive Director

Amy's also Chair of our Remuneration Committee and joined our Board on 24 January 2017. She brings more than 25 years' of UK and international retail banking and consumer lending experience. She's held executive positions in lending, risk and operations at Wonga Group Ltd, OneSavings Bank plc and Bank of America Europe Card Services. Before she moved to the UK, Amy was the Director of Credit for the largest credit card issuer in the United States, MBNA America. She has deep experience in credit and fraud strategy, and portfolio risk management.

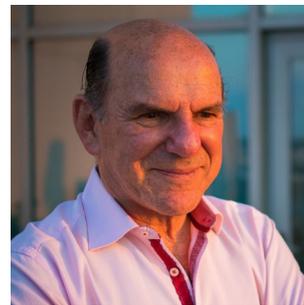
External appointments: Amy is also a Non-Executive Director of FCMB Bank (UK) Ltd and Griffin Financial Technology Ltd.



Fiona McBain
Independent Non-Executive Director

Fiona joined our Board on 1 January 2020. She has more than 35 years' of regulated retail financial services experience, in industry and as an auditor, both in the UK and US. Fiona brings wide-ranging strategic and operational experience at both board and senior executive management level. She was Chief Executive of Scottish Friendly Assurance Society Ltd operating across the UK and the Republic of Ireland for 11 years.

External appointments: Fiona is also the Chair of Scottish Mortgage Investment Trust plc and an Independent Non-Executive Director of Dixons Carphone plc as well as Direct Line Insurance Group plc.



Phillip Riese
Independent Non-Executive Director

Phillip joined our Board on 1 July 2019. He brings more than 20 years' of high performance operating experience in key executive roles in consumer financial services, including 18 years at American Express and chairing the Board of Zopa. He then founded his own investment company Riese & Others where he applies his strategic, operating and data analytics expertise to invest in and advise fintech companies globally.

External appointments: Phillip is also a non-executive director for several Riese & Others portfolio companies.



Valerie Dias
Independent Non-Executive Director

Valerie is our newest independent non-executive director (INED) having joined the Board on 1 June 2021. She's worked in the financial services sector for over 25 years in various leadership roles. She brings a wealth of finance, risk, governance and operational experience having worked as a senior executive at Visa Europe, first as their chief financial officer and then as their chief risk officer. She also serves as an independent non-executive director and either as Chair of Audit, Chair of Risk or Chair of Remuneration committee for several organisations in the financial services sector. She's also served as a trustee for non-profit organisations.

External appointments: Valerie is an independent non-executive director with Elavon Financial Services, Hastings Insurance Services Limited, and Aston Lark Group (Insurance Brokers). She's also a trustee on the board of the Chartered Management Institute.



Eileen Burbidge MBE
Investor Non-Executive Director

Eileen joined our Board on 21 April 2015 as a representative from Passion Capital, our major shareholder. As well as working at Passion, Eileen also serves as HM Treasury Special Envoy for Fintech. She was previously Chair of Tech Nation and a member of the Prime Minister’s Business Advisory Group. She brings extensive technical knowledge from a broad range of industries including wireless and mobile, internet consumer application, and communications. Her particular expertise includes product, business, and market development.

External appointments: Eileen is also an Independent Non-Executive Director of Dixons Carphone plc and serves as investor director for several Passion Capital portfolio companies.



Alwyn Jones
Chief Financial Officer
and Executive Director

Alwyn joined the Board on 9 April 2019. He’s a highly experienced retail banker with more than 20 years’ experience who specialised in the sector both from an advisory perspective with Citigroup and Bain & Company, and directly at Barclays where he led their consumer lending business, the largest digital lender in the UK. He brings deep experience of the financial services sector across multiple countries covering strategy development, capital markets, corporate finance, retail and digital financial services and operational execution.

External appointments: None.



Miles Grimshaw¹
Investor Non-Executive Director

Miles joined our Board on 21 February 2017, originally representing Thrive Capital. An expert in software and internet investments in private companies, Miles graduated with a BA in Economics from Yale University.

External appointments: Miles is also a non-executive/investor director for several portfolio companies.



TS Anil
Chief Executive Officer
and Executive Director

TS is a highly respected financial services and payments leader, with more than 25 years’ of retail banking experience. As CEO, he brings his expertise from Visa, Standard Chartered, Citigroup and Capital One in roles that have spanned the world, including the US, Singapore, Canada, Japan and India. He has a wealth of experience launching new products, developing innovative payment technologies, taking existing businesses towards new growth opportunities, and much more.

External appointments: TS is a Non-Executive Director of UK Finance Ltd.

¹ Miles Grimshaw resigned from his office as an investor director of Monzo Bank Limited nominated by Thrive Capital Partners V, L.P. and Claremount V Associates, L.P. with effect from 20 July 2021

Our Executive team



TS Anil
Chief Executive Officer
and Executive Director



Sujata Bhatia
Chief Operations Officer



Mike Hudack
Chief Product Officer



Alwyn Jones
Chief Financial Officer
and Executive Director



Iain Laing
Chief Risk Officer



Carol Nelson
Chief Executive Officer (US)



Stephanie Pagni
General Counsel and
Company Secretary



Jonas Templestein
Co-founder and
Chief Technology Officer

Chair's review

Gary Hoffman
Chair of the Board of Directors



In my review last year, I wrote that Monzo had truly become a challenger to the high street banks. That became even more apparent during the pandemic.

Monzo has grown and executed successfully during uniquely trying circumstances, demonstrating resilience. Like all companies, we were affected when the pandemic hit and had to make difficult choices, but the remainder of the year has seen us on a positive trajectory and we've emerged as a stronger business.

As an exclusively digital service and a company set up for remote working from the start, Monzo was on the front foot in many ways when the pandemic hit. Our business model is built for the new way of working and for how customers – particularly a new generation – are using banks and technology. We stand for financial inclusion and making money work for everyone and these values have never been more important than they are today. I'm proud of the way our team has remained focused on our mission and dedicated to supporting customers when they needed it most.

This is reflected in our financial performance. We accelerated our strategy and diversified revenue during FY2021. There's encouraging demand for our subscription products and our underlying losses are largely flat, despite the pandemic. Our investors agree, with £202m of new capital this year a testament to their continued confidence. Our business plan focuses on customers using Monzo more, our subscription and lending products, and includes further fundraising to support our growth. And, while the current economic environment continues to challenge our model, we fully believe we can reach our goal of ongoing profitability.

FY2021 saw further progress in the US with the arrival of Carol Nelson as chief executive and the Board is hugely excited by the opportunity for Monzo to become a successful international company through a strong US offering. We've also used FY2021 to deliver greater rigour and discipline across the bank on areas like customer operations, controls and regulatory processes, as well as cost control. These remain key areas, and we'll keep that focus in FY2022.

I'd like to thank Tom Blomfield who, with the founding team, created Monzo's magic both in terms of customer experience and company culture. After six years he passed the baton to TS Anil who will drive that magic forward. Our new executive team has performed brilliantly over the past year – as have all Monzonauts. TS has embraced the challenge of running Monzo virtually throughout the pandemic. He has an outstanding combination of skills and a set of characteristics and values that fit perfectly with everything the company stands for. Thanks also to all Board members who have been as committed as ever throughout the year.

Through FY2022 we'll remain focused on our values and our mission to make money work for everyone. We'll continue our work with vulnerable customers, which is core to our culture, as well as our strong internal commitment to transparency and openness.

Crucially, we're also tracking our carbon footprint so that we can commit to a goal for achieving zero emissions as a business.

I see a huge opportunity for Monzo to build on what we've delivered this year and become a scaled and profitable bank that'll serve customers for years to come, while maintaining its values and strong sense of mission.



Gary Hoffman
Chair, Board of Directors
26 July 2021

Chief Executive's review

TS Anil
Chief Executive Officer



Monzo was founded with a mission to make money work for everyone. When I joined in early 2020, I was deeply struck by the strength of the culture, passion and ambition that the team has for our mission.

In this most challenging of years, we launched exciting new products and continued to welcome hundreds of thousands of new customers. We raised over £200m of new capital, built a stronger foundation for growth and doubled revenues from April to December. Our engaged, loyal customers continue to want to do more with us, as we help make their money work for them.

As the world recovers, we are well positioned to achieve our mission. We know where we're going, and we know how to get there.

FY2021 in review

As the world shut down, we stepped up

We drew on the power of our technology platform, flexible working and customer-first approach to make sure our customers continued to get the best service from their bank.

This all shone through in our **customer satisfaction** measures. Our Net Promoter Score (NPS) averaged +72, we remain one of the most-loved brands in the UK and in the Competition and Markets Authority's two most recent independent surveys, we were named the No.1 Bank for Overall Service Quality and for Online and Mobile Banking Services.

Organic growth continues to be one of our strengths. We attracted roughly 100,000 customers a month and reached a total of 5m customers. All this while doing almost no paid marketing.

Meanwhile, **engagement** grew even faster than our rapid customer growth. Deposits increased 124% from £1.4bn to £3.1bn. Card spend increased 50% from £10.9bn to £16.4bn (despite lockdowns!). Customers opened 300,000 Pots every month to organise their money and to save. People are turning to Monzo for more and more of their financial lives.

I'm also incredibly proud of the work the team has done to further the **positive impact** we have on society. The pandemic has taken its toll on everyone. We made sure we could be there for our vulnerable customers by doubling the size of the team that gives specialist support. We strengthened our controls across the bank, including in financial crime, where we continue to invest to protect our community from the growing threat that the industry faces. We also launched a campaign calling on all banks to offer a gambling block; a self-exclusion tool we pioneered that has helped over 330,000 Monzo customers.

The year was not without its challenges. We made the difficult decision to make redundancies to protect the company from the unknown impact of COVID-19, and over a short period used the UK's furlough scheme for some colleagues. We also closed an office in Las Vegas to consolidate our servicing footprint for UK customers. Away from our colleagues, we saw increases in our capital requirements as the UK's regulatory approach to new and fast-growing banks continued to evolve. Everyone in the company has worked tirelessly to put Monzo onto a stronger footing and I'm proud of how we navigated through the uncertain macroeconomic context that COVID-19 forced on the world.

While the pandemic made the world pause, we continued launching innovative products

Our subscription products – Monzo Plus, Monzo Premium and Monzo Business Pro – all launched officially in 2020 and already have 200k+ subscribers. Customers have told us that we helped them to clear debts and take control of their savings. Balances in our savings marketplace topped £1bn for the first time ever and customers built up £80m in savings using our spare change roundup feature alone.

I'm particularly proud of our Monzo Business team. We've grown entirely organically to 77,000 businesses. Of these, 20%+ started up during lockdown. Small businesses are the lifeblood of the UK economy and we'll fight for anyone who takes that leap to start something of their own.

It's thanks to our team of Monzonauts that we've emerged stronger

Every one of them makes me so proud. Thanks to their hard work, passion and resilience we've emerged from a challenging year even stronger.

We've focused on creating **an inclusive, diverse workplace**. From day one, we've trained people to be mental health first aiders and we've worked hard to take the stigma out of this topic at a time when it's never been more important. We've appointed a new Director of Diversity & Inclusion, and met our Women in Finance charter goal with 40% of the executive team now made up of women. We welcomed many exceptional female leaders into Monzo this year – including Sujata Bhatia (our Chief Operating Officer) Stephanie Pagni (our General Counsel) and Carol Nelson (our US CEO).

I'd like to express deep gratitude for Tom Blomfield's outstanding contribution to Monzo. His vision is what brought me here and what he and his co-founders created remains integral to the Monzo of today and what it will be in the future.

Our financial picture has strengthened

Despite the challenging economic circumstances, we've achieved **strong revenues** in the last few months of the financial year. Revenue is now double that of the initial slump in April 2020, and 30% higher than pre-lockdown levels.* More than 25% of our revenue comes from products we launched in the past year, **diversifying** our income streams. And best of all, we've been building revenues around real long-term financial needs of our customers and have been contribution margin positive since November. Meanwhile, increases in our recurring costs have started to plateau, so our underlying losses have stayed largely flat. This combination means we're heading in the right direction to meet our target of becoming profitable on an ongoing basis in 2022.

The £200m+ of capital we raised from new and existing investors this year is testament to our progress and to the belief our stakeholders have in our strategy. It also gives us confidence that in the coming year we'll be able to raise more capital in line with our business plan.

*When comparing March 2020 and March 2021.

And we're just getting started

We've got to where we are today by listening to our community and building things that solve real problems for them. So that's what we'll continue to do.

We'll start to grow our lending options again this year, in line with our core values of fairness and transparency. We have the right infrastructure in place to scale this carefully and have exciting new products in the pipeline. We'll continue to scale our recently launched products, and deliver some awesome new features already in the pipeline. We'll continue to create a one-stop financial control centre for our customers.

In FY2021 we brought in Carol Nelson to lead our US team as CEO. We also filed for our USA national bank charter. We're excited by the huge opportunity across the pond, and what we can do for customers there.

As the world returns to some degree of normality, we expect transaction volumes will pick up, overseas travel will gradually return and our revenue growth will continue its upward trend. With this, and our increasingly diversified business model, we expect to grow revenues and become profitable.

We're also working with specialists like Watershed to get a deep understanding of our carbon footprint so that we can make a net-zero commitment. I'm passionate about this issue and we're going to make meaningful progress in the year ahead.

The successes we've had remind me why I joined the company. During my first year as CEO, the strength of our culture has stood out and I've never met so many people that care so much about making a difference for customers. I'm excited about what's ahead.



TS Anil
Chief Executive Officer
26 July 2021

Our statement on COVID-19

We're in a stronger position now than before the pandemic

The last year has been tough on everyone, but it's made Monzo a more resilient business. We've raised additional capital, grown our revenue streams and improved our controls. All of which means that we're in a stronger position now than when the pandemic started.

As vaccines are rolled out globally we have more reasons to be optimistic. For the time being though, there's still a lot of uncertainty around how COVID-19 will continue to impact our customers and our business, and for how long. We'll be fundraising again this financial year as planned. And although we're making losses at the moment, our underlying performance is improving, which makes us increasingly confident in the year ahead.

In this statement we'll give an overview of the impact COVID-19 has had, the actions we've taken, and how we plan to manage the risks we still face.

We've been operating as usual for our customers and becoming more resilient

We don't have branches, which means social distancing hasn't really affected how our customers interact with us.

We've reduced service disruptions for our customers using our Operational Resilience Framework. We've also continued to develop plans with our suppliers, on how to respond when something does go wrong to reinstate services as quickly as possible.

Our COVID-19 response team has been meeting weekly to make sure we're responding to the pandemic effectively, and reacting swiftly to new information. They've been monitoring how many of our team are off sick, how quickly we're able to support our customers, and whether they're getting into financial difficulty.

We've raised additional capital

We, like all growth companies, need enough capital to reach profitability and to continue growing from there. Like other banks, we also have to meet certain capital requirements which our Board and the regulator set for us. They set those requirements so we stay solvent and so our customers can access their money at all times. Those capital requirements have naturally grown as our balance sheet's grown and we've become more complex.

Which is why in June 2020 we raised £58m of capital from investors, during exceptionally difficult fundraising conditions. The additional capital has helped us to absorb losses from the pandemic and shown external stakeholders that our investors continue to be supportive of our team and brand.

Throughout the year we showed that we were making progress towards our long-term future. Mainly by growing our revenues in an extremely challenging environment, and controlling our costs. Our progress gave investors confidence that we could achieve our business plan, so they invested an additional £140m between July 2020 and February 2021, and another £4m in March 2021. Bringing the total across the round to £202m.

We're in a strong liquidity position

We've been highly liquid throughout the year, which means we held enough High Quality Liquid Assets (HQLA) to cover the day-to-day needs of our customers and our business. Most of our assets are held on overnight deposit in central banks so they're available at short notice.

We've focused on our long-term future

Lockdowns, travel restrictions and social distancing have impacted our earnings from customers spending on their cards. The decrease in the central bank base rate also means we earned less interest on the cash we hold.

To serve millions more customers for years to come, we need to be able to face shocks like COVID-19. We've diversified our revenues, and relied less on income we earn from customers spending on their cards, especially when they're overseas. We've also built better controls over our costs while continuing to invest in our business. Like cutting back on paid marketing and prioritising key roles when hiring.

We made the hard decision to make some roles redundant

During the year, we looked at how to give our customers the best possible service, while also setting ourselves up for the long-term. Our approach touched lots of areas, including adding new self-service tools and looking at how we could have the right number of people, in the right roles. This meant, for example, that we made the difficult decision to close our Customer Operations office in Las Vegas.

As the pandemic started impacting our income, we had to make even more difficult decisions to reduce costs. Initially, we used the UK Coronavirus Job Retention Scheme and asked for volunteers to take temporary pay cuts. After exhausting these options we had to make 66 people redundant. We supported those who left by helping them to prepare for interviews and offering generous redundancy packages.

We've been fighting an industry-wide increase in financial crime

The uncertainty and economic difficulty of the pandemic has created more opportunities, and incentives, for criminals. The banking industry has experienced a large increase in Authorised Push Payment fraud, where criminals pretend to be someone else and convince customers to send them money. Our customers have suffered because of the increase in financial crime, and it's also increased our costs.

We've added features to our app, like confirmation of payee, to help our customers avoid becoming the victims of financial crime. It warns people when they might be getting scammed into sending money to the wrong account. We've also added content to our blog, which helps our customers to identify financial crime, and how they can prevent it.

We've managed our lending effectively through the pandemic

The pandemic made it potentially riskier for us to lend, as it was harder to predict who could afford to repay us. So we limited new lending at the start of the pandemic. And we focused on supporting existing borrowers while we enhanced our controls.

It's meant our lending has been profitable through the pandemic, even as we've reduced our lending balances. We now have more confidence in our controls and lending decisions, so can start lifting those limits, better serving our customers and growing our lending again.

We've had a promising start to FY2022

After a challenging FY2021 we have plenty to look forward to in FY2022. In the first three months of FY2022, we've hit record revenues and we expect that to keep growing as restrictions ease and our customers can travel again.

Our transaction revenue has grown as our customers return to restaurants, shops, pubs and bars with the easing of restrictions. More customers are signing up to our subscription products as we add new features that give them more control over their money. And we've had strong uptake on lending, as we help more of our customers meet their financial needs.

Our business model and strategy

Here's what we're focusing on for the financial year ending 28 February 2022.

We're clear on how we'll become profitable

It's important to say that profitability is a milestone, not the destination. Reaching that milestone lets us help millions and millions more people with their banking. To reach our aim of getting there in 2022, we'll continue to diversify and grow our revenue streams. We'll focus on increasing how much customers use their Monzo accounts, while benefiting from our subscription and lending products. Our investors' support this year gives us confidence that we'll be able to raise the capital we need to fund that growth.

With our core current account product, we expect to benefit from a rise in card spending as lockdowns ease. And so our earnings from net interchange fees will increase.

On subscription products, we're seeing a huge appetite for our new products Monzo Plus, Monzo Premium and Monzo Business. With 25% of our revenue coming from products that we launched in FY2021.

For our lending opportunities, we've spent the past year investing in the right infrastructure and the best talent to help us grow our lending carefully and in line with our principles. We'll be launching new products that our customers have asked for and giving them more control to manage their borrowing. Our customer base has around £18bn worth of loans from other UK banks, so there's a big market opportunity to meaningfully grow our revenues.

We're ambitious, but the ongoing economic uncertainty means that nothing is guaranteed. We call out our principal risks and uncertainties, including those facing the business plan, in our Risk section on page 35.

We'll continue our growth, while managing risks

Our priority is to make our customers feel more in control of their financial lives by building products that meet their financial needs. By keeping this focus we're expecting to continue to attract new customers over the next year. We'll do so safely and in control.

We'll grow and diversify revenue across three buckets

In recent months, we managed to grow our revenue significantly. In March, around 25% of our revenue came from products that didn't exist at the beginning of 2020. Providing a more durable and diversified revenue profile that will only improve when the pandemic impact lessens and the economy bounces back.

We've diversified our revenue model across three buckets:

1. interchange from customer card payments
2. banking services (including subscription products like Monzo Plus and Monzo Premium), and
3. net interest revenue from lending to customers.

We'll stay in control of our operational costs

Our path to profitability includes both revenue growth and cost control. There are lots of costs associated with growing a bank, and staying in control of our costs is key to achieving our mission. We're also focused on hiring the right people to achieve our goals, so we're less reliant on paying for external contractors.

As we grow we'll continue to benefit from economies of scale in our platform and distribution costs. We're also focused on building tools to make our teams more efficient. Automating and improving processes that help us serve our customers without additional cost.

We'll help customers get more out of Monzo

We'll continue to relentlessly improve existing products and build new ones to encourage more and more customers to make us their main bank account. We'll improve the experience of our current account and make it even easier to navigate the app. We'll continue to add value to Monzo Plus and Monzo Premium by building new features customers will happily pay for.

We'll expand our business banking offering

In FY2022, we'll take one step closer to achieving our vision of building a financial control centre for businesses, making banking easy and seamlessly connected to business owners' complex financial ecosystems.

We'll continue to offer fair, flexible lending

We'll stay faithful to our approach of offering convenient, transparent products in a delightful way that meet the needs of customers. We do this by balancing the needs of our customers with our own internal risk, capital and liquidity control frameworks.

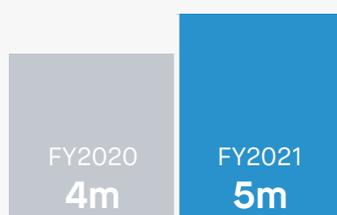
We'll continue our US expansion

In April 2020 we filed an application with the US Regulator for a full national banking charter. While our application is being considered we'll continue to promote our brand through our prepaid debit card programme with our partner, Sutton Bank.

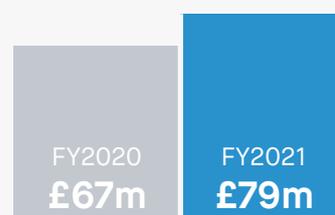
A review of our performance

Key performance indicators

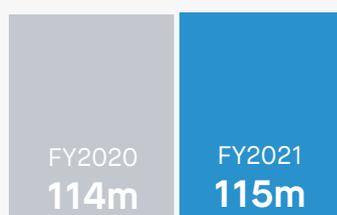
Customers increased **1m**



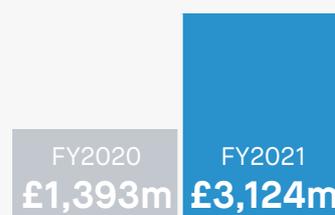
Revenue increased **£12m**



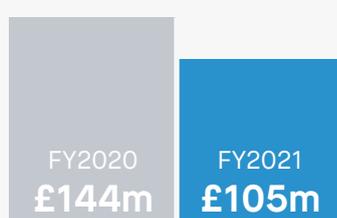
Underlying loss before non-recurring items* increased **£1m**



Customer deposits increased **£1,731m**



Gross lending decreased **£39m**



Common Equity Tier 1 (CET1) Ratio (unaudited) increased **29pp**



*See 'Our financial review' on page 25

Our business review: non-financial performance

We're an award-winning bank (again)

We came top in independent surveys by the Competition & Markets Authority (CMA), in both August 2020 and February 2021. We've also won more awards for customer satisfaction. Which, with customer feedback, helps us know we're on the right track.

Banking Customer Satisfaction Winner
Banking Customer Satisfaction Awards 2021

Overall Service Quality winner
Personal Banking Service Quality – Great Britain
CMA – August 2020 and February 2021

Online and Mobile Banking Services winner
Personal Banking Service Quality – Great Britain
CMA – August 2020 and February 2021

Number 1 in the customer services poll
Money Saving Expert 2020

Best Banking App
British Banking Awards 2020

UK most recommended brand
YouGov – 1st place 2019, 2nd place 2020

We're making money work for 5m people and counting...

1m people joined Monzo, mostly from word-of-mouth recommendations. Including 77,000 businesses since we launched Monzo Business in March 2020. Our average NPS of +72 shows that customers continue to enjoy the service they get from us.

More customers are using us as their main bank¹

The proportion of our customers using Monzo as their main bank account has grown to 18.1%, from 13.8% at the end of FY2020. Today, 55% of our customers use their account on a weekly basis, down from 60% in FY2020 as the pandemic has limited where customers can spend their money. This shows the huge opportunity that we have as we give our customers more reasons to use us as their main bank.

Our customers have been using more of our features that give them better control of their money, like Pots, custom categories and Salary Sorter. And over 300,000 customers are now using our savings marketplace to earn interest on their savings.

We launched two new accounts, Monzo Plus and Monzo Premium

We launched Monzo Plus in July, giving customers better visibility and control over their money. The account lets customers see their other bank accounts and credit cards in the Monzo app, customise their spending categories to help with budgeting, and use virtual cards to stay safe online.

We launched Monzo Premium in October, giving customers peace of mind. With worldwide travel insurance and phone insurance, along with all the features of Monzo Plus.

¹ Main bank – all customers exempt from certain fees by meeting any of our qualifying criteria:
Paying in at least £500 every 35 days to a Monzo account and having at least one active Direct Debit on that same account, or
Getting a Department for Work and Pensions or Department for Communities' payment (like Universal Credit or a state pension) into a Monzo account every 35 days
Getting a student loan paid into a Monzo account every 8 months
Sharing a Monzo Joint Account with someone who does one of the above

Businesses are now getting the best of Monzo

In March 2020 we launched two new business accounts, Monzo Business Pro and Monzo Business Lite. We grew to over 77,000 customers in our first year, serving limited companies and sole traders across the UK.

Building on the clarity and control that customers love about our personal accounts, Monzo Business launched with innovative tools to help businesses better manage their finances. Like automatic, stress-free tax saving with Tax Pots. Business customers also benefit from integrations with cloud accounting tools Xero and FreeAgent, multi-user access, web access and smart invoicing.

We filed our US Banking Charter application and hired our US CEO

In April 2020 we filed our US Banking Charter application, so we can become a regulated bank in the US. The application can take 18 months to 2 years to be approved. During that time we're continuing to work on features that meet the needs of customers in the US.

This year we've launched personalised cards, and fee-free cash withdrawals across the US using MoneyPass ATMs. We now have 4,000 customers using our prepaid account and tens of thousands more on our waiting list, ready to join us. They've been giving us feedback, telling us which features they want to see, and helping us to prioritise what we work on next.

In February 2021 we hired our new US CEO, Carol Nelson. Carol has spent the last year advising us on our US Banking Charter application and brings a wealth of experience from leading national and community banks in the US.

We're helping customers borrow fairly and transparently

We don't charge hidden fees for things like paying back a loan early. And we make our terms clear and easy to understand.

We limited the amount we lent this year so we could strengthen our controls and better manage who we lend to, and how much we lend to them. We've been working on our credit decisioning and controls to help us better understand how much our customers can afford to borrow. This makes sure we can lend to our customers while managing our risks.

In response to Financial Conduct Authority (FCA) guidance, we gave customers payment holidays, and capped their interest, to help them through the pandemic. We also gave £500 interest-free buffers to customers with existing overdrafts who used Monzo as their main bank account.

The FCA also brought in new rules for overdrafts. This meant that we changed our overdraft charges from a flat, 50p per day, to Annual Percentage Rate (APR) based. Meaning customers can easily compare rates with other banks and lenders.

We've added new ways to protect our customers from fraud

We launched Confirmation of Payee, which helps customers to check they're sending money to the right person before it leaves their account. This works by comparing the details a customer enters with, the details of the person who owns the account. We then ask customers if they're still sure they want to send the money.

We also made it safer for customers to shop online, by upgrading to 3D Secure 2. We send customers a notification asking them to confirm that they want to make the online payment before the money leaves their account.

We're continuing to improve our controls

We're continuing to grow, both in size and complexity. As we do, the expectations of our Board and regulators grow too. So, we've been making sure our business is resilient, our risk appetite is appropriate, and our control environment is robust.

We've increased investment in our financial crime controls, by strengthening our team and starting our financial crime controls programme. It's an ongoing project to make sure we can meet, then exceed, our regulators' expectations. It also helps us to continue doing our part to combat the industry-wide increases in financial crime.

We've also improved our controls for credit risk and lending. The improvements we've made mean that we can now start increasing the amount we lend to customers responsibly. Improving our financial controls and reporting is key to us safely growing our business and becoming profitable.

We've built on our ongoing commitment to diversity and inclusion

Our mission is to make money work for everyone. To do that, working at Monzo must work for everyone. We want to create a fair, high-performing workplace which gives people from all backgrounds the support they need to thrive, grow and achieve their goals. Inclusivity training is part of our interviewer coaching, to reduce bias as much as possible. We've made this training public for other organisations to use and share feedback on, so we're always improving. We also gave bias training before performance management reviews. And we check for bias in the outcomes of our performance and promotion calibration sessions.

Our financial review

Profit and loss – our income and expenses for the year

	Group			
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2019	Year ended 28 February 2018
	£'000	£'000	£'000	£'000
Net interest income	22,386	24,429	4,918	150
Net fee and commission income	42,312	29,404	6,567	1,367
Other operating income	1,329	2,079	1,553	309
Expected Credit Losses	(3,821)	(20,254)	(3,880)	(12)
Net Operating Income	62,206	35,658	9,158	1,814
Personnel expenses	(92,896)	(77,486)	(25,654)	(9,214)
Depreciation & impairment expense	(5,134)	(3,210)	(799)	(250)
Other operating expenses	(79,307)	(70,433)	(33,421)	(25,426)
Total Expenses	(177,337)	(151,129)	(59,874)	(34,890)
Tax	303	1,655	3,552	2,530
Underlying loss before non-recurring items	(114,828)	(113,816)	(47,164)	(30,546)
Non-recurring items	(14,870)	-	-	-
Loss for the year	(129,698)	(113,816)	(47,164)	(30,546)

Net operating income increased 74% to £62.2m

And that's despite lockdown restrictions and historically low interest rates. This was driven by income from our new subscription products, customers spending more through Monzo and lower expected credit losses.

Our total expenses (excluding non-recurring items) grew 17% to £177.3m

Costs have grown as we have. The average number of customers we served increased 55%, from 2.8m in FY2020 to 4.4m in FY2021. We had a bigger team during the year, and hired key senior management, so our personnel costs were higher. Our operating costs also increased as we became bigger, more complex, and invested in improvements that will scale as our business grows.

We had £14.9m of non-recurring costs in the year, representing the vast majority of the increase in our loss for FY2021. £11.0m was an expense to make good on our team's share options. The remaining £3.9m was an impairment charge on a floor of our London office, which we no longer plan to use.

Excluding non-recurring items, our losses increased by 1% to £114.8m

Which is a £1.0m increase from FY2020. Including non-recurring items, our losses increased 13% (£15.9m) to £129.7m.

We issued additional share options

We've granted additional share options to members of our team that had CSOP share options. This resulted in a non-recurring expense of £11.0m in FY2021 and an expected £1.5m in FY2022.

This is a significant expense that won't be repeated. No money leaves Monzo because of it. In fact, if our team exercised these additional options, we'd receive an extra £12.8m in capital. And, because of the way share option expenses are recognised, it doesn't impact our capital or regulatory ratios.

Net interest income decreased 8% to £22.4m

A £2.0m decrease from £24.4m in FY2020. Interest income earned on the cash we hold at central banks decreased significantly to £2.4m, from £6.2m in FY2020. Despite those cash balances more than doubling. This is because central banks substantially lowered their interest rates at the beginning of the financial year, in response to COVID-19. The lower interest rates also had an impact on our Treasury assets as we earned £0.2m, compared with £0.4m in FY2020.

Our interest income from lending increased to £21.4m from £18.4m in FY2020. Reflecting the higher average balances in this full year relative to the previous one, when our lending balances grew in the second half of the year. During FY2021 we reduced new lending to our customers, which helped us stay within our risk appetite during the uncertainty of the pandemic.

Our interest expense increased to £1.6m, from £0.6m in FY2020. The increase is mostly from the notional interest we pay to lease our office buildings and IT infrastructure. We also had £0.1m of interest expense as Monzo Plus and Monzo Premium customers earned interest on their money.

Net fee and commission income increased 44% to £42.3m

A £12.9m increase from £29.4m in FY2020.

The increase reflects the higher number of customers spending through Monzo, and the new products we shipped in FY2021.

Despite lockdown and travel restrictions, customers spent a total of £16.4bn on their cards this year, compared with £10.9bn in FY2020. As a result, net interchange income grew to £37.4m, from £29.4m in FY2020. We had more customers in FY2021 who, on average, spent more through Monzo, showing that our customers are using Monzo for a higher share of their spending.

This is especially true in the UK, as customers have spent more in the UK compared to the previous year, but less internationally. The interchange rate we earn internationally is higher than in the UK, so the lower spending internationally has a bigger impact on our interchange income. We expect an increase in revenue as lockdown ends and international travel resumes.

In FY2021 we launched Monzo Business, Monzo Plus and Monzo Premium generating £5.0m of income. And giving our customers access to a valuable set of features in return for a monthly fee. We introduced fees for customers who don't use Monzo as their main account. They pay a fee to withdraw cash in the UK, after a fee-free limit. We did this so we could recover the cost we're charged when customers withdraw cash, without impacting customers who do use Monzo as their main bank. All of this meant net banking services income increased to £2.1m, from a £1.4m net expense in FY2020.

Partnership commission increased to £2.9m, from £1.4m in FY2020. 24% more of our customers used our savings marketplace in FY2021. These customers earned interest on £1.3bn of savings, up from £0.8bn in FY2020. We also earned commission for introducing our customers to our savings partners. This commission increased to £2.1m, from £0.7m in FY2020. Our customers also used Monzo, and our partners, to send money abroad and switch to cheaper and greener energy providers. We earned £0.8m from our partners, up from £0.7m in FY2020.

Our Expected Credit Loss (ECL) charge decreased 81% to £3.8m

A £16.4m decrease from £20.3m in FY2020.

This amount represents what we forecast to lose when customers can't repay us the money they've borrowed. We restricted the amount we lent this year, whilst we improved our controls over how much we lend, and who we lend to. This meant that the amount customers have borrowed in FY2021 decreased by £39.3m, after growing by £124.7m in FY2020. The amount of undrawn overdraft commitments also decreased by £51.1m in FY2021 after growing by £197.1m in FY2020. The ECL charge increases as the amount we lend increases. This is because we need to recognise that there is some likelihood of loss at the time the money is lent. It also increases as the risk of a customer not being able to pay us back increases. So as customers' behaviour changes, the ECL also changes (see Note 24).

The COVID-19 pandemic has slowed economic activity and has put unemployment on an upward trend. This has increased the probability that customers won't be able to pay us back the money that they've borrowed. Our coverage ratio increased in FY2021. This means we're holding more money aside to cover our expected future losses, as a proportion of our exposure (what customers have borrowed, or have available to borrow).

Our underlying personnel expenses increased 19% to £92.9m

A £15.4m increase, excluding share option remediation, from £77.5m in FY2020.

The increase reflects our larger team. This year we had an average of 1,332 people, up from 1,128 in FY2020.

We made the difficult decision in March 2020 to close our Las Vegas office and in July 2020 we made a number of roles redundant in the UK. We did this to make sure that we had the right number of people, in the right roles, so that we can serve millions more customers in years to come.

Our depreciation and impairment costs increased 59% to £5.1m

A £1.9m increase, excluding office impairment, from £3.2m in FY2020.

We moved to a new London office during the year, which we started using in a limited capacity in August 2020. The larger office space and additional fixtures and equipment have increased our depreciation expense in the year. We also recognised an impairment of £3.9m on one of the floors as we haven't been able to find a tenant for space that we no longer plan to use.

Our other operating costs increased 12% to £79.3m

An £8.9m increase from £70.4m in FY2020.

We've managed to control our operating costs even as we serve more customers.

We grew our customer base mostly by word-of-mouth referrals in FY2021, after investing heavily in our TV and 'Give £5 Get £5' campaigns in FY2020. 1m new customers joined Monzo in FY2021, even though we reduced our marketing spend to £0.5m, from £16.8m in FY2020.

* UK Finance. "Fraud – The Facts 2021." ukfinance.org.uk, 2021, ukfinance.org.uk/system/files/Fraud%20The%20Facts%202021-%20FINAL.pdf. Accessed 18 05 2021.

Our technology costs grew to £14.4m in FY2021, from £10.3m in FY2020 as we served an average of 4.4m customers, up from 2.8m in FY2020. We've built our technology platform in-house and it's run in the cloud. We can quickly increase and decrease the scale of our platform according to our needs, and this keeps our costs down.

Our current account operating costs increased to £32.5m, from £25.4m in FY2020. We spent less money setting up accounts for new customers in FY2021.

In November we were processing 1 out of every 20 Faster Payments in the UK, the quickest way for customers to send and receive money between different banks. This is up from 1 out of every 50 in March 2019 and the higher volume has led to higher costs for us.

Sadly, the pandemic has created new opportunities for people to commit financial crime, which has impacted UK customers and banks. For example, UK Finance has reported a near doubling of impersonation scams from 2019 to 2020 (UK Finance*). We compensated customers who fell victim to financial crime despite taking reasonable steps to protect themselves. That cost us £9.5m this year, up from £2.7m in FY2020.

Other operating expenses increased to £31.9m from £17.9m. These mainly relate to admin, office and professional service fees. These costs have increased as we've brought in expertise to work on specific projects to improve our business. And also to give us more flexibility over the number of people we need at a given time.

Balance sheet – our assets and liabilities at the end of the year

	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2019	Group Year ended 28 February 2018
	£'000	£'000	£'000	£'000
Cash and balances at bank	2,977,368	1,373,722	549,847	96,943
Treasury investments	376,641	98,953	–	–
Loans and advances to customers	87,147	123,913	16,054	160
Other assets	188,551	124,820	48,489	42,717
Total assets	3,629,707	1,721,408	614,390	139,820
Customer deposits	3,124,046	1,392,517	461,821	71,276
Other liabilities	283,767	199,887	36,899	12,365
Total liabilities	3,407,813	1,592,404	498,720	83,641
Equity	221,894	129,004	115,670	56,179
Total liabilities and equity	3,629,707	1,721,408	614,390	139,820

We're keeping most of our balance sheet in high quality liquid assets

Our total assets have more than doubled to £3.6bn, from £1.7bn in FY2020. We've increased the amount of cash we hold on overnight deposit at central banks, which has grown to £2.9bn, from £1.3bn in FY2020. We keep this cash ready so that it is available if we, or our customers, need it.

We're using treasury investments to manage our risks

We've grown our treasury portfolio to £376.6m, from £99.0m in FY2020. We've invested in a diversified portfolio of bonds which all have high credit ratings. This helps us to manage the impact that changes in market interest rates have on Monzo. The investments also mean we have other sources of liquidity, and may also earn a higher rate of return than our overnight deposits held at central banks.

We limited the amount we lent to customers

We reduced the amount we lent to customers to £104.6m, from £143.9m in FY2020. These are the gross amounts before impairment loss allowance (the amount we don't expect customers to be able to repay). Because of the COVID-19 pandemic, we expect that our customers are going to find it harder to repay the money they borrow from us. So we've set more money aside as an impairment loss allowance, up to an average of 16.7% of the amount borrowed, compared to 13.9% in FY2020 – this is known as our coverage ratio.

Customers are spending, sending and receiving more money

The more money our customers spend, the more money we need to set aside as collateral for our payment network providers. This increased to £56.3m in FY2021, up from £15.4m in FY2020.

As our customers received more money, the amount due to us from payment schemes increased, to £91.2m from £67.6m in FY2020. And as our customers spend and send more money, there is more money in transit out of Monzo. This increased to £235.7m, from £166.4m in FY2020.

Customers are keeping more of their money with us

Customer deposits more than doubled to £3.1bn, from £1.4bn in FY2020. 1m new customers joined us in the year and more customers are using Monzo as their main bank. On average, they're holding £600 in their accounts, a 68% increase from £357 at the end of FY2020.

Equity – our shareholders' interest in the business

We've increased our capital position

We increased our Common Equity Tier 1 (CET1) ratio, a core measure of a bank's financial strength from a regulator's point of view, to 99%, up from 70% in FY2020 (unaudited). We calculate the ratio by dividing our equity that qualifies as regulatory capital, by our 'Risk Weighted Assets', a regulatory measure of our exposure to market, credit and operational risk.

We've increased the ratio by raising more capital and keeping our Risk Weighted Assets at a similar level to FY2020. The ratio is well in excess of our current minimum capital requirements. We'll be raising more capital in the year ahead as we've mentioned in our Group Directors' report.

We raised an additional £198.0m of capital from investors

We've now raised a total of £508.5m, helping us to fulfil our ambition of serving millions more customers for years to come. And to achieve our mission, to make money work for everyone.

In March 2021 after the end of FY2021 (so not included in the £198.0m above) we raised a further £4.3m of capital from investors. This completed our Series G round, bringing the total raised to £202.3m.

Risk management in 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.

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 risks 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 for independent auditing 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.

We want to drive the right risk culture

A sound risk culture underpins our risk management disciplines. We support Monzonauts in keeping us within risk appetite using policies and focusing on our suite of values. One of our values is about making sure we're operating safely and in control for our customers, colleagues and other stakeholders. Staying true to this value is critical to our future success.

We have an established risk appetite

Our risk appetite sets the type and level of risks we're willing to accept. We set out our risk appetite through a series of qualitative statements and supporting quantitative measures aligned to our risk types and sub risk types. Our Board agrees and reviews these on a regular basis.

The risk appetite statements give an aggregated measure of performance against risk appetite. As well as reporting benefits, they form a framework to make strategic and operational management decisions. We have a clearly defined and proportionate risk appetite that supports our strategic objectives and gives confidence to customers, regulators and shareholders.

How we oversee our risks

We've established clear risk ownership and reporting lines through our risk committees, which align with the six risk types below. Each committee is responsible for monitoring our risk profile and challenging exposures across the relevant risk type in line with the Board's risk appetite.

This committee structure means we can make decisions quickly and efficiently, and escalate risk to senior management and our Board. The Board is ultimately responsible for the effectiveness of our risk management framework.

Risk type	Management	Committee oversight
Strategic Risk	Executive management and the Chief Executive Officer (CEO)	Enterprise Risk and Compliance Committee
Financial Risk	Chief Financial Officer (CFO)	Asset and Liability Committee
Credit Risk	Borrowing General Manager	Credit Risk Committee
Operational Risk	All business functions and the Chief Technology Officer (CTO) and Chief Operating Officer (COO)	Operational Risk and Resilience Committee
Conduct Risk	All business functions and the Chief Operating Officer (COO)	Conduct Risk Committee
Financial Crime Risk	Chief Operating Officer (COO)	Financial Crime Risk Committee

Our principal risks and uncertainties

We've listed our top current and emerging risks below, with key mitigating actions. We have a consistent approach to identifying and measuring risk across all our risk categories. We identified the risks below using a 'bottom-up' risk assessment approach and 'top-down' strategic assessment, which the Executive team completed at the Enterprise Risk and Compliance Committee (ERCC).

Current Risks

Description	Mitigation	Change	Risk category
<p>Business model and strategy The risk that, as we continue to grow, our business model and strategy don't deliver the expected financial and non-financial benefits to our customers, shareholders and wider stakeholders resulting in a loss of consumer confidence and reputational damage. We describe these risks in more detail on page 35.</p>	We've stress tested our business plan extensively and embedded conservative assumptions.	No change – Our revenues have become more reliable and predictable, but customer growth and our ability to successfully launch new products can be impacted by many external factors.	Strategic Financial
<p>Capital and liquidity risk The risk we won't be able to maintain enough capital and liquidity buffers to meet regulatory requirements.</p>	We stress test our capital and liquidity positions and take mitigating actions to reduce the risk, including broadening our investment base and increasing our capital runway by raising further capital. Further detail in financial statement notes 21 and 22.	No change – Fundraising efforts have been very successful, but emerging regulatory policy changes could result in increased capital requirements.	Financial
<p>Financial crime The risk that criminals use our products and services for financial crime, and it has a negative impact on our customers, our community, our financial position and reputation.</p>	We're always evolving our approach to mitigating financial crime risk and have made a number of improvements to our policies and operational practices during the year to combat an increasing financial crime threat.	No change – Our financial crime risk exposure hasn't changed as we continue to strengthen our financial crime framework.	Financial Crime
<p>Operational resilience The risk that we experience platform outages and other IT issues during times of stress, resulting in us failing to deliver critical banking and support services to our customers.</p>	Important business services are the focus of our Enterprise Resilience. We have processes in place to identify and assess risks to these services to allow effective risk management.	Decrease – We've seen a significant reduction in operational incidents since last year.	Operational
<p>People risk The risk of financial, operational or reputational loss due to our team as a whole, or individuals in it, not working optimally – whether through being incapable, unmotivated or ineffective, or through improper conduct.</p>	Our people are the driving force behind our success. We have an embedded approach to both attracting and keeping the talent we need to deliver our business plan.	Increase – The market for talented individuals is increasingly competitive.	Operational

Description	Mitigation	Change	Risk category
<p>Cyber and data loss risk The risk that due to increasing volume and sophistication of cyber attacks there's a data loss from external or internal threats.</p>	<p>We continue to improve our data management approaches and strengthen our control framework. The Chief Information Security Officer (CISO) monitors the cyber threats to spot and prevent suspicious activity.</p>	<p>No change – COVID-19 has increased these risks, but our controls have improved.</p>	Operational
<p>Business process risk The risk that our business processes don't operate to an adequate standard, negatively impacting our customers, our financial position and reputation.</p>	<p>We continue to embed our risk management framework and have implemented a comprehensive Risk and Control Self Assessment process to spot process risks and associated controls needing management attention.</p>	<p>No change.</p>	Operational
<p>Customer Harm The risk that our conduct risk framework doesn't keep pace with market standards, and the increasing societal and regulatory expectations for higher standards of diligent and proactive management of potential customer harm, for all stages of the customer lifecycle.</p>	<p>The ongoing improvement of our conduct risk management framework, organisation design changes and maturing conduct risk management, contribute to the more effective proactive management of customer harm.</p>	<p>Increase – COVID-19 related economic pressures may result in greater potential for customer harm.</p>	Conduct

Emerging Risks

Description	Mitigation
<p>COVID-19 The pandemic has had a huge effect on people's lives and the global economy. The direct impact to us is through reduced revenues from less customer spending, both at home and abroad, and credit losses through a potential increase in credit defaults.</p>	<p>We've continued to take steps to reduce the disruption COVID-19 has caused to both us and our customers. The pandemic has had a minimal impact on our operations and we've kept delivering for our customers. The majority of our colleagues are still working successfully from home.</p> <p>We continue to monitor our revenues and credit losses. If COVID-19 keeps causing widespread disruption, we may see sustained impact on income due to fewer transactions, lending volumes and credit losses.</p>
<p>Competition We're well placed in the UK retail banking market and have continued to grow our customer base organically. We maintain a strong brand and now have 5m customers. But, we're in a competitive marketplace, competing against both traditional banks and new 'challenger' banks for retail and business customers.</p>	<p>We think competition in our marketplace is healthy and brings out the best in us to drive for better products and services for our customers. We expect the market will continue to evolve. We manage this risk by:</p> <ul style="list-style-type: none"> • completing competitor analysis as part of our product development process to spot opportunities where we can differentiate • focusing on speed and quality of execution – two of our key strengths • broadening our product mix to keep existing customers and attract new ones.

Description	Mitigation
<p>Regulatory risk The scale and pace of regulatory change continues to increase, needing significant effort and investment from us.</p>	<p>The ongoing improvement of our conduct risk management framework, organisation design changes and maturing conduct risk management, contribute to the more effective proactive management of customer harm.</p>

Risks to our business model and strategy

We explained on page 19 that in FY2022 we're focusing on our path to profitability by growing and diversifying our revenue streams with new and existing products, increasing customer usage and growing our lending products.

Risks to capital raising

We have losses today and expect to have more in the short term. Which is why we plan to raise the capital we need to support the business and meet our capital requirements in FY2022. There is a risk we can't raise enough capital, on acceptable terms, when we plan to.

The risk our plans don't deliver the expected financial and non-financial benefits to our stakeholders, could also lead to a loss of confidence, reputational damage or difficulty fundraising. So as mentioned in Note 1 of the financial statements, the Directors recognise this risk casts a material uncertainty over our ability to continue as a going concern.

Despite these risks, the support we've had from our investors this year and from recent talks with potential investors in FY2022, gives us confidence that we'll be able to raise the capital we need in the short term to meet regulatory capital requirements and deliver our business plan.

Risks around the key assumptions in the business plan

There are risks to achieving our business plan both in the short-term and medium-term. Despite these risks to key assumptions, we're confident in our business plan and the team we have to deliver it.

We expect revenues to approximately double in FY2022

This mainly relies on organic growth increasing the number of customers spending on our cards, using our subscription products, and borrowing from us. The business plan also includes the relaunch of personal loans and new borrowing products. There's a risk we won't see the planned revenue growth due to continued travel restrictions and social distancing, pressures from a competitive market environment or us not delivering on actions in the business plan, like marketing or new product development.

We plan to complete the financial crime change programme without material increases in timescales or costs

Our plan includes Know Your Customer (KYC) remediation costs linked to findings from the regulatory review into our financial crime control framework. Due to planning uncertainties, there's a risk we can't complete this programme when we intend to, making costs higher than expected.

The business plan uses historical information to forecast expected credit losses

There's a risk that growing lending will expose us to higher credit risk and larger losses from customers than we've experienced before.

We plan to hire more people, which increases our staff costs

There's a risk our operational costs increase more than expected if we need more people to deliver planned activities and develop new products.

We closely monitor any claims against us and are reviewing some at the moment

None of these are big enough to impact our performance. But, there's a risk that new conduct and legal issues may emerge and the related remediation and project costs become material.

The climate crisis

We've considered the financial risks from the climate crisis. Because we have 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. The transition to a lower carbon economy may have a more significant long-term impact, and we'll add this to our risk framework, analysing scenarios and stress testing where appropriate. We'll continue to review our activities, their impact and the associated risks. We cover our impact on the environment and what we're doing about it in 'Our approach to the environment' on page 61.

Governance at Monzo

We benchmark ourselves against the UK Corporate Governance Code 2018

We don't apply the UK Corporate Governance Code 2018 (Code), but we recognise it as the standard for best practice in corporate governance and use it as a benchmark for measuring our corporate governance. In future we aim to comply with the Code in full, but for now we're benchmarking ourselves against it as part of our governance journey. In this Governance section we cover how we approach some of the key points in the Code.

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've improved our Board diversity

We've made a few changes to our Board this year which are detailed in the Directors' Report on page 68. Those changes mean that we have a more diverse Board. That's the aim of our Board Diversity Policy, which sets out our commitment to board and senior management diversity. We mean diversity in its broadest possible sense including (among other things) skills, geographical and industry experience, background, ethnicity, age and gender. A specific aim of our Board Diversity Policy is to have a Board made up of at least 40% women. We've now met this aim – up from 30% in FY2020, but we'll continue to strive for more diversity. When we search for non-executive directors, we only use recruiters who've signed up to the voluntary Code of Conduct on gender diversity and best practice. A short biography for each of our directors is available on pages 7–9.

The Board meets regularly to discuss key issues and business performance

It usually meets every six weeks to review performance, strategy, risk and governance, and to oversee the work of its Board Committees. If needed it meets more frequently to discuss urgent matters or approve something like a new funding round. In April and May 2020, the Board met weekly to monitor the impact of COVID-19 and agree any actions needed to reduce the risks.

Every Board meeting has a tailored agenda which the Chair, CEO and Company Secretary agree in advance. Each director gets the agenda and meeting papers in the week before the meeting.

While only Board members are entitled to attend the meeting, standing invitations are given to the Chief Risk Officer and Chief Operating Officer.

If needed, we may ask non-members to attend from time to time.

Before every scheduled Board meeting the Chair meets privately with the Non-Executive Directors (NEDs) and after each scheduled Board meeting, the Chair, NEDs and CEO have a private session.

Here's a summary of the main topics reviewed and approved by the Board in FY2021:

<p>Strategy</p>	<ul style="list-style-type: none"> • plans to become a profitable and long-term bank • the launch of Monzo Plus and Monzo Premium, and fair use fees • the launch and growth of Business Banking • outsourcing some of our UK Customer Operations • relaunching borrowing activities in a controlled and future-proofed way • information security strategy • operational resilience strategy • financial crime controls framework • building and growing our US operations • the set up of our corporate structure
<p>Finance & Risk</p>	<ul style="list-style-type: none"> • series G fundraise • tier 2 debt • treasury strategy • quarterly reforecasts • risk management frameworks • risk appetite • share transfers
<p>Governance, Regulatory, Compliance</p>	<ul style="list-style-type: none"> • submission of our ICAAP, ILAAP, RRP and SWDP • Annual Report 2020 and Pillar 3 disclosures • any material contracts greater than £5m • any policies in line with the policy framework • appointment of a skilled person to review our financial crime controls framework • overall engagement with our regulators
<p>People and talent</p>	<ul style="list-style-type: none"> • people report • closure of our UK Customer Operations office in Vegas and UK redundancies • appointment of our CEO, CRO and Senior Independent Director • Company Share Option Plan
<p>Standing Board agenda items</p>	<ul style="list-style-type: none"> • CEO report • CFO report and business performance • CRO report • Board governance report • Committee Chair reports • minutes from the previous meeting • matters arising • conflicts of interest

During the year the Board also did deep dives into our strategy and product launches, our approach to unconstraining lending and some of our regulatory submissions. These sessions give our Directors the understanding they need to properly challenge these matters.

Our Board has been as committed as ever this year

In the past 12 months, due to the pandemic and the increased focus on building effective controls, we held nearly double the number of meetings than we would normally. All Directors kept themselves available, with any absences being for meetings we called or rescheduled at short notice.

	Independent/ Executive/ Investors	Meetings attended	Meetings eligible to attend ¹
Chair			
Gary Hoffman	Independent	21	21
Executive Directors			
Alwyn Jones	Executive	20	21
TS Anil ²	Executive	3	3
Non-Executive Directors			
Eileen Burbidge MBE	Investor	21	21
Miles Grimshaw	Investor	21	21
Amy Kirk	Independent	21	21
Fiona McBain	Independent	20	21
Phillip Riese	Independent	20	21
Keith Woollard	Independent	21	21
Former Directors			
Tom Blomfield	Executive	10	13
Tim Brooke Thom	Independent	16	17

¹ There were 8 scheduled Board meetings and 13 additional Board meetings in this financial year.

² TS formally joined the Board as an Executive Director on 6 October 2020 but attended all Board meetings since his appointment as CEO on 20 May 2020.

Our Board delegates its authority to four Board Committees with the day-to-day running of the business left to the CEO

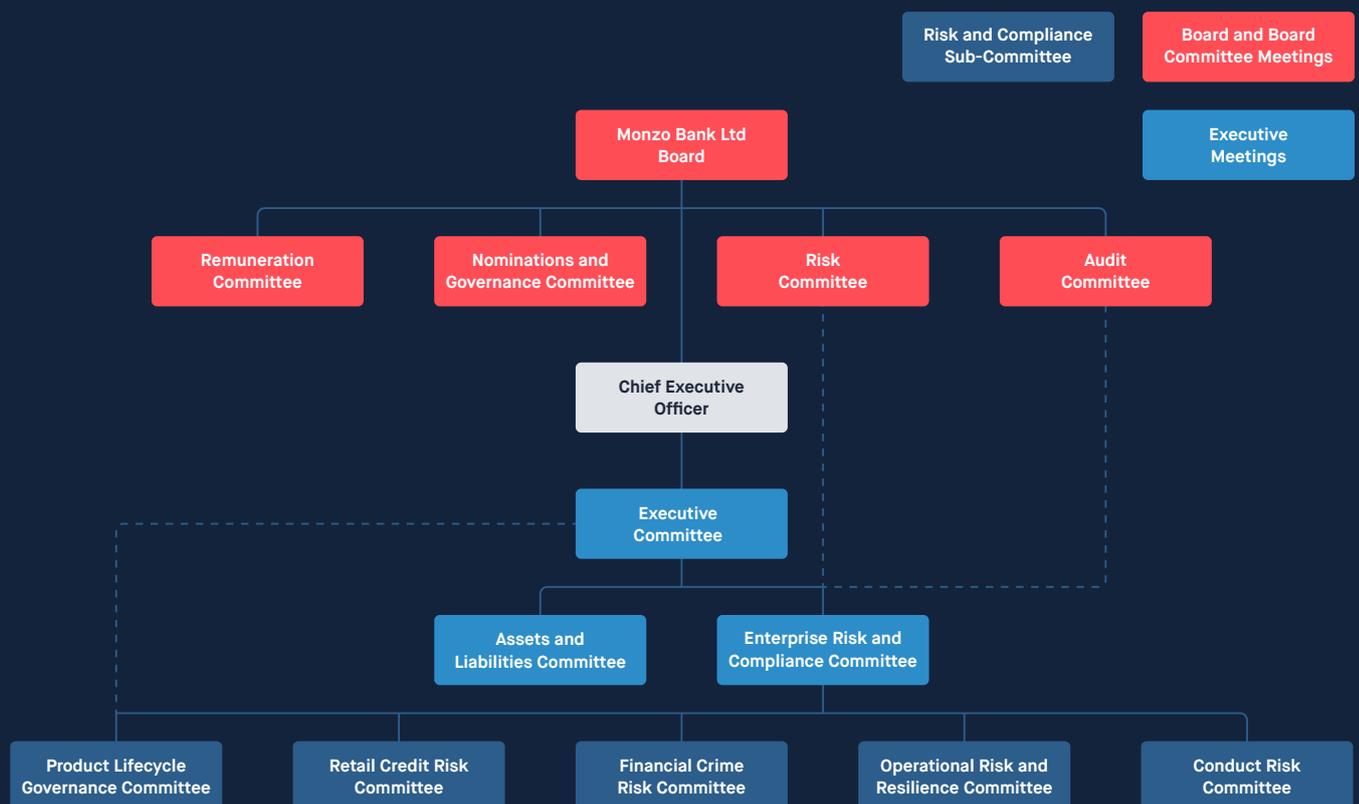
We've structured our Board and principal committees for effective governance and to support our Board in discharging its responsibilities.

The Board's authority is set out in our Articles of Association and has its own schedule of matters reserved for its decision making. It delegates 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 reviews and approves annually.

We review the Board Committee membership when needed to make sure there's an appropriate balance of skills and expertise. Including when a new Non-executive Director joins the Board. There's more information on the structure and key responsibilities of each of these Committees below.

The 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. We've outlined the ExCo's responsibilities in their terms of reference. They're responsible for developing and implementing the strategy agreed by the Board, directing the organisation and discussing business performance. Two executive committees report to ExCo: the Assets and Liability Committee for balance sheet matters and the Enterprise Risk and Compliance Committee for risk issues. Our governance structure is shown below.

The Board gets written updates on Risk and Compliance at each meeting. These are given by the Chief Risk Officer and include information on Board Risk Appetite performance, risk events and exposures, and capital adequacy.



1. Nomination and Governance Committee (Nom & Gov)

Role and responsibilities and main activities

Nom & Gov's primary responsibilities are to support the Board by:

- leading the process for Board and Board Committee appointments to all companies within the Monzo Group
- dealing with succession planning and making sure we have a diverse pipeline for Board and senior management positions
- monitoring our governance arrangements and making best practice recommendations to the Board
- agreeing the process for the annual Board effectiveness review
- making sure we comply with the Senior Managers and Certification Regime.

The Committee is responsible for reviewing the balance of skills and diversity on the Board. It also leads the search and appointment process for candidates with the right experience. The Committee used external search consultants Egon Zehnder for a targeted external search process for two new iNEDs based on agreed criteria.

During the year, Nom & Gov met formally three times and focused on the following key areas:

- Reviewed the Board Diversity Policy.
- Led the process for appointing and recommending TS as our new CEO to the Board.
- Reviewed and recommended to the Board how we allocate prescribed responsibilities and business activities under the Senior Managers Regime.
- Reviewed the Board's record of external directorships and other business interests to identify conflicts of interest.
- Agreed the process for and supervised the Board skills assessment for FY2020 and oversaw the implementation of the action plan.
- Approved the Directors' induction and training plan.

Nom & Gov members and attendance

Committee members	Nomination and Governance Committee Meetings attended/eligible to attend
Gary Hoffman (Chair)	3/3
Fiona McBain	3/3
Phillip Riese	3/3
Eileen Burbidge MBE	3/3

Our Nom & Gov is made up of a majority of independent NEDs. While only members of the Committee are entitled to attend the meeting, we give a standing invitation to the CEO and may ask non-members to attend the Committee if needed.

Nom & Gov matters and application of the Code

We have a majority of Board members that we consider as independent

We consider that just over half of our Board, including the Chair, is made up of independent NEDs. Our aim is to make sure that the Board has a majority of independent NEDs who objectively challenge management, and that there's the right blend of skills and experience on the Board. We try to make sure that the terms of service of the Chair and NEDs continue to meet Code requirements.

Our Board, through Nom & Gov, reviews the independence of its NEDs at least annually

Between February 2020 and June 2020, our Chair, Gary offered to help the Executive team by overseeing our Legal, Operation and People teams until we hired someone who could. When we appointed TS as CEO and Sujata as COO, Gary stopped his executive oversight of these areas and returned to his Chair responsibilities. We carefully reviewed each meeting agenda for potential conflicts of interest and made sure that he didn't take part in decision making in these areas. We considered Gary as independent for all other purposes, and have considered him to be fully independent again after stopping his executive oversight.

We make sure our Directors have enough time to commit to us

We ask all new Directors to share other significant commitments with us and the time needed for them before their appointment. The Board approves any external appointments, which Nom & Gov review annually. You can find a list of our Board's external directorships on 7–9.

All new Directors receive an in depth induction into the business

Our induction process involves the new Director meeting with the Chair of the Board, NEDs, members of the executive committee and other key senior executives from across all areas of the business, and major shareholders. Nom & Gov review the induction plan annually and refresh it throughout the year as needed.

We make sure our Board receives appropriate training and development

Throughout the year, the Board had technical training on the following topics: operational resilience, senior managers and certification regime, financial crime risk management, UK prudential regime and risk management and conduct risk.

Each year Nom & Gov agree on a training programme for the Board for the next 12 months. At the end of FY2021, all Directors developed their own personal training and development plans which they'll use to form the Board's future training needs.

The Board performed a skills self-assessment this year

This assessment created a number of actions, including these:

- Each Director having to develop a personal training and development plan.
- Implementing an enhanced training plan focused on the gaps identified in the self-assessment.
- The planned hiring of two new iNEDs over the next 24 months. We appointed Valerie Dias in June 2021, filling one of these roles.

In line with the Code, an external party should evaluate the Board every 3 years. And our internal auditors will carry out the Board and Board Committee evaluation later this year.

The Chair also carried out a performance review of each NED and our SID met with the NEDs to review the Chair's performance.

2. Our Audit Committee (AuditCo)

Role and responsibilities and main activities

The AuditCo's primary responsibilities are to support the Board by overseeing and reviewing:

- the integrity of our financial statements and related announcements
- the effectiveness of our internal systems of financial control
- the independence and effectiveness of the internal and external audit processes.

During the year, AuditCo met formally seven times and focused on the following key areas:

Internal Audit (IA)

- Reviewed and approved the internal audit plan for the year, methodology and deliverables.
- Reviewed and discussed the outcomes of internal audits focusing on the remediation plan for audits rated unsatisfactory.
- Approved the transition to a hybrid IA function and received regular updates on progress to establish this.
- Approved our IA charter.
- Reviewed the independence of the IA function in line with the International Professional Practices Framework (IPPF).
- Agreed key performance indicators to measure IA's performance and received regular updates on their performance.
- Received and discussed IA's report on our control environment.

External Audit and Financial Statements

- Reviewed and discussed EY's 2021 Audit Plan and areas of focus.
- Oversaw reports from EY on progress of the 2021 audit, any key risk areas and material accounting and control issues identified.

- Discussed feedback on our critical accounting estimates and judgments in relation to the financial statements.
- Discussed upcoming prudential regulatory changes and their impact on Monzo.

Impairment Loss Allowance

- Reviewed our impairment provision adequacy on a quarterly basis, specifically focusing on IFRS9 modelling and documentation enhancements, economic forecasting, refreshing our impairment policy and the procedures supporting it, benchmarking our provisioning against industry standards and our disclosures.

Internal Systems of Financial Control

- Reviewed and discussed the financial control framework remediation plan and progress made against it.
- Assessed the execution risk of delivering the plan and made sure that the right areas are prioritised to help strengthen our control environment and allow us to move away from a substantive audit to a control-based one.

AuditCo members and attendance

Committee members	Audit Committee
	Meetings attended/ eligible to attend
Fiona McBain (Chair)	7/7
Amy Kirk	7/7
Keith Woollard	7/7
Tim Brooke Thom (former AuditCo chair)	4/4

Our AuditCo is made up entirely of independent NEDs. Fiona McBain replaced Tim Brooke Thom as Chair of the AuditCo following the signing of the FY2020 accounts on 29 July 2020. As part of the transition process Fiona attended all AuditCo meetings since her appointment to the Board on 1 January 2020. Fiona satisfies the requirement for recent and relevant financial experience and competence in accounting. On 30 April, the Board approved Gary Hoffman as Interim Audit Chair while Fiona took some time away from her responsibilities for personal reasons.

While only members of the AuditCo are entitled to attend the meeting, standing invitations are given to the CEO, CFO, CRO, head of internal audit and external auditors. Other Board Directors often attend AuditCo and non-members may be asked to attend the Committee when required. Following each meeting, the AuditCo members meet in private with the internal and external auditors without management being present.

In preparation for the financial statements, the Committee considered a number of key areas

During the year and in preparation for the publication of these financial statements, the Committee considered key accounting and financial reporting matters, areas of significant judgements and estimates, internal and external audit:

Area of focus	Committees responsibilities and action taken
Going concern assessment	<p>The Board must consider whether it is appropriate to prepare the financial statements on a going concern basis.</p> <p>As discussed in Note 1 to the financial statements, the Directors recognise that there are material uncertainties that cast doubt on our ability to continue as a going concern.</p> <p>To satisfy itself that the financial statements should be prepared on a going concern basis, the Board and Committee considered:</p> <ul style="list-style-type: none"> • our response to COVID-19, • the regulatory review and investigation into our compliance with financial crime regulation (see Note 25), • business performance and our path to profitability, • our series G funding round in March 2021, • our capital requirements and fundraising plans in FY2022, and • our confidence in those plans to raise the additional capital we need to meet our regulatory requirements (See our Group Directors' report). <p>Overall the Committee were satisfied that the financial statements could be prepared on a going concern basis and they've recommended this to the Board.</p>
Expected Credit Loss and Impairment Loss Allowance	<p>During the year, the Committee reviewed and discussed quarterly reports on the IFRS 9 impairment loss allowance position to gain assurance that the level of provisioning was adequate based on our current level of credit risk and the economic outlook.</p> <p>The Committee reviewed the key judgments underpinning the calculation of expected Credit loss and interrogated sensitivity analysis that included the economic scenarios as well as the other key judgements. The Committee also assessed the quantum of the post model adjustments and their motivation.</p> <p>Supported by historical data, benchmarking against peers, performance against expectations and an independent evaluation the Committee has concluded that the impairment loss allowance (provision) of £17.4m for FY 2021 is considered adequate for the level of credit risk in the portfolio and the likely macroeconomic outturn. In particular, the Committee agreed that when the full recovery of an asset is considered unlikely a write-off that removes assets from the balance sheet should be performed.</p>
Impairment, provisions and contingent liabilities	<p>The Committee reviewed several assessments related to impairment triggers on our right-of-use assets and Monzo Bank Limited's investments in subsidiaries. They also reviewed reports on provisions recognised and contingent liabilities covered in the financial statements, including those only considered for disclosure.</p> <p>The Committee concluded these were adequate at the balance sheet date.</p>

Area of focus	Committees responsibilities and action taken
Financial Controls Environment	<p>The Committee is responsible for reviewing our internal financial controls and making recommendations to ensure its integrity.</p> <p>Throughout the year, the Committee received regular reports on the progress made against the financial control framework (FCF).</p> <p>It also considered two internal audit reports on the FCF design and the specific control uplift programme to better assess its effectiveness.</p> <p>The full implementation of the FCF will allow our audit to move from a substantive based audit to a controls based one. The Committee specifically asked to understand what interim steps were being taken to address any deficiencies in the control environment.</p>
Internal Audit	<p>The Committee reviewed the audit plan and its alignment to our key risk areas.</p> <p>The Committee also considered the key trends and material findings arising from the internal audit reports and memos as well as reviewed the adequacy of the actions to address the findings.</p> <p>The Committee also reviewed and approved the plans to transition to an in-house IA function.</p>
Control Environment	<p>Through the review of the internal audit reports and the dynamic risk assessment, the Committee continues to monitor the effectiveness and development of our control environment.</p>
Revenue recognition	<p>The Committee has ongoing oversight of the financial reporting landscape, including review of specific revenue recognition matters. During the year the Committee reviewed revenue recognition for new products, changes to our approach and corrections to identified issues.</p>
Valuation of share options	<p>The Committee was updated on our approach to valuing share options and our use of external experts during the year. The Committee reviewed the key inputs underpinning the calculation of share-based payments along with sensitivity analysis to those inputs.</p>

We make sure to safeguard our internal auditor's independence and effectiveness

During FY2021, the internal audit function was made up of an in-house Head of Internal Audit supported by an outsourced team from KPMG. Over the next 12 months, the function will transition to a hybrid model with half the audit team being in-house and the rest continuing to be outsourced to KPMG. Assuming the expected benefits are realised this would transition into a full in-house model by FY2023, albeit retaining a co-sourcing budget to give access to subject matter expertise that isn't economically viable to bring in house.

The AuditCo is responsible for assessing the independence and effectiveness of our internal audit function. This responsibility is discharged throughout the year during committee meetings, private sessions and meetings with the AuditCo chair.

AuditCo also maintain oversight over IA's independence by:

- being responsible for the appointment and removal of the Head of Internal Audit
- receiving an annual attestation from the Head of Internal Audit confirming the function's independence.

The Committee annually reviews the performance of the IA function. The assessment is made up of three parts:

- An assessment of the Internal Audit function against the IPPF
- Feedback from key stakeholders
- A review of the Monzo/KPMG relationship.

In addition to the annual performance review, the Committee also approved a set of key performance indicators to measure IA's performance which the Committee reviews quarterly. Additionally following each review, a questionnaire is sent out to the auditees for their feedback on their audit experience.

We make sure to safeguard our external auditor's independence and effectiveness

We appointed EY as our external auditors on 7 November 2016 with effect from the 2017 year end. Javier Faiz has been our audit partner since EY's appointment. In accordance with the professional and regulatory standards, to maintain external auditors independence and objectivity, the audit partner will rotate every five years. As such this will be Javier's last year as our audit partner.

The policy sets out how we maintain external auditor's independence and outlines the limited circumstances where external auditors may perform non-audit services, and the steps required to maintain their independence in providing these services. The non-audit services process is described in more detail below.

The policy includes the following guardrails to make sure that EY maintains their independence.

- They must meet a defined set of requirements before providing a service as defined in the FRC's revised ethical standard 2019.
- They can only provide audit and audit related services.
- We can't employ or use the services of an individual who has a close relationship with the external auditor either through employment or close family members.

- They must notify the AuditCo of any changes to their independence.
- The audit engagement partner and key audit partners must rotate every five years.

In addition to the above, the Committee also fulfills its responsibilities for oversight of the external audit process by:

- considering and assessing their declaration of independence as presented in the audit plan
- reviewing and approving on behalf of the Board EY's terms of engagement and audit fee
- running the tender process and making recommendations to the Board in relation to external auditor's appointment, re-appointment and removal
- reviewing and approving non-audit services
- reviewing EY's management representation letter following the conclusion of the audit.

EY confirms annually that they remain independent, their terms of engagement have not been compromised and that they have complied with the FRC's Revised Ethical Standard.

We have non-audit services guardrails in place to protect our external auditor's independence

Under the external audit independence policy, we use the following guardrails for non-audit services.

- The AuditCo chair must approve all non-audit services before external auditors can start any work, regardless of whether the service provided is a permitted non-audit service.
- There must be a good reason why the external auditors are the most appropriate supplier to provide the permitted non-audit service.
- The total fee incurred for non-audit services is limited to no more than 70% of the average of the fee paid to the external auditor in the last three consecutive years for the audit.

During FY2021, our external auditors did no non-audit work, see Note 33.

3. Our Board Risk Committee (BRC)

Role and responsibilities and main activities

The BRC's primary responsibilities are to support the Board by:

- considering and recommending our risk appetite and tolerance for level 1 risks
- reviewing the management of level 1 risks in the enterprise risk management framework (ERMF)
- reviewing our risk profile for those level 1 risks
- receiving and considering reports on key risk issues
- reviewing and monitoring the independence of, and overseeing the performance of, the Risk and Compliance functions.

During the year, the BRC met 27 times, including a number of ad hoc and 'challenge and discussion' sessions where the committee carried out deep dives into specific topics. BRC's key areas of focus in respect of each level 1 risk throughout the year were as follows.

Financial Crime Risk

- Oversee and monitor the progress made on the financial crime change programme.
- Approve the financial crime policy.

Credit Risk

- Oversee the plans for growing our overdrafts and loans in a controlled manner.

Operational Risk

- Review the risks involved in outsourcing our COps through our outsourcing partner.
- Consider recommendations from our Data Protection Officer and oversee the Data Protection Programme's execution.
- Monitor customer complaints to understand their root cause and improve our customer service.
- Review our plans to become more operationally resilient.

- Review and recommend our plans to address our key information security risks and build a sustainable and high performing information security function.

Conduct Risk

- Approve the growth of our business banking product in a staged approach.

Financial Risk

- Recommend our financial regulatory submissions to the Board, including ICAAP ILAAP, Solvent Wind Down Plan and the Recovery and Resolution Plan.

Strategic Risk

- Consider the impact of Brexit on our risk profile.

Risk Governance

- Review and recommend our new risk appetite framework to the Board.
- Review and supervise the implementation of the enhanced ERMF.
- Analyse the output from our risk and control self assessment.

BRC members and attendance

Committee members	Meetings attended/eligible to attend
Keith Woollard (Chair)	27/27
Amy Kirk	26/27
Fiona McBain	19/19
Phillip Riese	26/27
Tim Brooke Thom (former BRC member)	10/11

Our BRC is made up entirely of independent NEDs. Fiona McBain replaced Tim Brooke Thom as a member of BRC upon her appointment as Chair of the AuditCo following the signing of the FY2020 accounts on 29 July 2020.

While only members of the BRC are entitled to attend the meeting, standing invitations are given to the CEO, CFO, CRO, COO and head of Internal Audit. Other Board Directors often attend BRC and non-members may be asked to attend the Committee when required.

4. Our Remuneration Committee (RemCo)

Roles and responsibilities and main activities

RemCo's primary responsibilities are to support the Board by:

- deciding the overall compensation for the Chair of the Board, our senior executives and material risk takers
- setting the remuneration scheme and policies for everyone who works at Monzo
- making 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.

The Committee is responsible for making sure we:

- comply with applicable laws, regulations and guidance
- avoid incentives for excessive risk taking and encourage effective risk management
- align colleague incentives to our long-term success
- take into account the risk management framework, liquidity and capital levels
- support the Board's monitoring of how company remuneration policies and practices support culture and strategy.

During the year, RemCo met six times, its key areas of focus throughout the year were as follows:

- Review the options framework for executive managers and material risk takers.
- Review our Gender Pay Gap report and the Women in Finance Charter summary.
- Review the terms of the UK redundancy process.

- Assess and approve the CEO's remuneration.
- Review Executive Directors remuneration, taking into account clarity, simplicity, risk, predictability and proportionality.
- Review how culture and behaviours are embedded into our performance review process.
- Recommend the approval of the implementation of clawback provisions for all colleagues, double trigger vesting and annual vesting schedule based on performance criteria for future executive option grants.
- Recommended the approval of the CSOP remediation to the Board.

RemCo members and attendance

Committee members	Attendance Meetings attended/ eligible to attend
Amy Kirk (Chair)	6/6
Gary Hoffman	6/6
Keith Woollard	6/6
Tim Brooke Thom (former RemCo member)	4/4

Our RemCo is made up entirely of independent NEDs. While only members of RemCo are entitled to attend the meeting, standing invitations are given to the CEO and People Director. Other Board Directors often attend RemCo and non-members may be asked to attend the Committee when required.

We make sure that our remuneration attracts, motivates and retains the people we need to deliver our mission

We aim to pay all our colleagues, including Executive Directors, market competitive base salaries that are affordable at our current stage of growth and sustainable for the long-term. Every colleague is also awarded share options that should align their long-term interests with those of the bank. We don't offer short-term variable remuneration as our culture is built around creating long-term value.

Our clear and simple approach of fixed base salaries and share options supports effective risk management as future reward value is linked to future value creation.

Our approach to remuneration has operated as intended throughout the year.

All offers for new hires, and changes to existing remuneration, with a base salary of £150,000 or higher are considered by the Remuneration Committee acting with delegated authority from the Board.

No Director is involved in setting their own remuneration. The Chair, Investor Directors and Executive Directors set the remuneration of Independent Non-executive Directors. The Remuneration Committee sets remuneration of the Chair and Executive Directors, and the Chair doesn't attend any Remuneration Committee meeting where they discuss his remuneration. Non-executive Director remuneration doesn't include share options or performance-related elements.

Stakeholder engagement

We engage with our stakeholders and consider them in our key decisions

Our Directors have a special responsibility under section 172 of the Companies Act 2006 to consider the interests of our stakeholders in their decision making. It's part of their wider duty to promote the long-term sustainable success of the company, while maintaining high standards of business conduct.

We've made sure that when matters come to the Board and Board Committees for consideration, we've labelled the impact on stakeholders, and we've fully considered them when making decisions. Sometimes decisions require us to make trade offs between some of these stakeholder groups. But when this happens, we always try to make sure that the people impacted are treated fairly.

Our key stakeholders

Colleagues (Co)

These are any full-time, part-time, distributed or office-based colleagues or contractors.

Our people are what make Monzo special and are always considered by senior management and the Board.

We hold weekly All Hands meetings hosted by one of our colleagues, where different collectives and senior executives share updates on what they're working on, what our priorities are and any important news. Each All Hands ends with a Q&A session where one of our senior executives or Board Director takes a place in the hot seat and answers some of our colleagues' questions.

We've also created a Customer Operations (COps) Council. A specific forum for representatives of COps and Operations management to discuss and solve for the biggest barriers to team engagement. The Council meets monthly to discuss feedback, ideas and concerns that relate to COps engagement.

All colleagues also complete a quarterly engagement survey. This gives senior management and the Board data on what's driving engagement and areas to work on to improve culture. This employer net promoter score (eNPS) is monitored regularly at senior management meetings and at Board level.

You can read more about our approach to people on page 54.

Customers (Cu)

There are now 5m people who have opened a UK or US account with Monzo. Our focus with customers is to deliver a high quality and reliable product that's supported by the best possible customer service.

Current, past and future customers, are at the heart of Monzo, and customer interest is at the forefront of every decision.

Transparency with our customers is key; we regularly keep them updated with emails, in-app notifications and blog posts on new products and features, how to use Monzo and future plans. The past year we've also leaned more heavily on social media to engage with our customers to keep them up-to-date on what we're up to.

Suppliers and partners (SP)

We work with in excess of 450 suppliers and partners locally and internationally. They provide a range of services from platform to internal communication tools.

We maintain the highest level of integrity in all business relationships and only engage with suppliers and partners that align with our values. We do this by undertaking a fair selection process to identify the product or service that is in our customers and our best interest. We also aim to be commercially competitive and make it easy for suppliers to deal with us. Our selection process also includes meeting with our key suppliers and partners to understand their processes and witness first-hand how they align with our values.

As part of our ongoing relationship we collaborate with our key suppliers through workshops and projects to improve our systems and processes optimising change management and reduction in incidents.

We also work with our card payment scheme providers and card manufacturers on new customer offerings and card design innovation.

The communities we serve (CS)

We look at this in two ways: how our activities impact our most passionate advocates, superusers and ambassadors and in terms of society as a whole.

As a company we engage with our community regularly, through our blog, user testing and our forum.

In summer 2020 we began our social programme. A programme which helps make money work for people, but also extends further into areas like environmental and social impact.

In February this year, we launched a campaign asking the government for a new law that would mean every bank customer in the UK has access to a gambling block on their account, regardless of who they bank with. For more information on this campaign and other initiatives see section on Our Community and Social Matters on page 58.

COVID-19 has put some of our FY2021 community plans on hold – most notably our office events, but we look forward to restarting them as soon as possible.

Environment (E)

We look at the impacts of running our business on the environment and the climate crisis and how we can mitigate them.

We encourage our colleagues to be environmentally friendly and we aim to reduce our carbon footprint and waste where possible. We have measured and reported on our carbon footprint and are developing a plan to reduce our footprint, as well as a net zero goal. Please see more information of how we engaged with the environment in the section called Environment on page 61.

Shareholders (SH)

Anyone who owns Monzo shares. From venture capital and crowdfund investors to former and current colleagues.

We have two Investor Non-executive Directors on our Board, representing two of our largest investors.

Our CEO, Chair and other Board members have frequent interaction with our major shareholders. In March 2021 we also set up a Strategic Advisory Group to allow the executives and Board representatives to engage with our lead investors on our strategic developments, business plan and performance.

Regulatory bodies (RB)

As a regulated bank, we have two main financial services regulators in the UK: FCA and PRA. We also work closely with a number of other financial and non-financial regulatory bodies, for example: Bank of England, Financial Ombudsman, Information Commissioner's Office (ICO), Financial Reporting Council.

We're committed to an open and collaborative relationship with our regulators and we support this through a centralised Regulatory Affairs team. The team manages our day-to-day interactions which include regular meetings with our management team as well as our Board members, business and product updates, information requests and thematic reviews.

Our Board has taken our key stakeholders into consideration in all of its key decisions

Decision: Building a path to profitability

Strategic Actions supported by the Board:

- We made the difficult decision to close our Customer Operations office in Las Vegas in April 2020. You can read more about this on page 17. (Co) (Cu) (SH)
- We introduced fair use fees for ATM withdrawals and card replacements. You can read more about this on page 26. (Cu) (SH) (RB)
- The launch of Monzo Plus and Monzo Premium as well as the growth of Business Banking. You can read more about this on page 22–23. (Cu) (SH) (RB)
- We adopted a credible business plan to reach profitability and serve customers for years and years to come, in line with our strategy and mission. See 'Our business model and strategy' on page 19. And all of this while taking into account the COVID-19 impact on our business. (Cu) (SH) (RB) (Co) (CS) (SP)
- Over the past 12 months we've raised just over £200m in capital to help us on our path to profitability. You can read more about this on page 16. (Cu) (SH) (RB) (Co) (CS) (SP)

Impact on the long-term success of the company

Building a path to profitability improves our financial performance and long-term sustainability for the benefit of all our stakeholders.

Decision: Integration with CIFAS and Confirmation of Payee

Strategic Actions supported by the Board:

- Become a member of CIFAS national fraud database, a fraud and financial crimes prevention database. This has allowed us to strengthen our financial crime prevention measures, protecting customers and the community. (CS) (Cu)
- Joining Confirmation of Payee. You can read more about this on page 23. (CS) (Cu)

Impact on the long-term success of the company

Instances of fraud cost us money and reducing the number of fraud cases lets us protect our customers and reduce unnecessary costs.

Decision: Improving our operational resilience

Strategic Actions supported by the Board:

- We developed a new operational resilience strategy, operating model and framework. This body of work increased our oversight, accountability and governance on operational resilience. You can read more about this on page 16. (RB) (Cu)
- The implementation and delivery of a more robust third party management programme. (SP)
- We outsourced some of our COps activities, which diversified our operations and continues to build our resilience. (SP) (Cu)

Impact on the long-term success of the company

Focusing on resilience has reduced the possibility of potential disruptions to our customers and further strengthened the stability of our internal systems.

Non-Financial Reporting statement

We're defined as a large business and have to comply with the Non-Financial Reporting requirements from sections 414CA and 414CB of the Companies Act 2006. We've detailed our policies and achievements where available. For the areas where we're still developing policies and the due diligence on them, we've explained our progress. We look forward to building and sharing more key performance indicators as we grow.

The following table shows where to find the information we've prepared to meet the requirements.

Reporting requirement	Description	References and policies
Colleagues	We have a strong focus on our colleagues and their wellbeing. We're transparent with them, building a strong, motivated and diverse team. We have a number of policies, training and approaches to make sure everyone feels like they belong and have a voice.	<ul style="list-style-type: none">• Our approach to people p54.• People policy.• Health and safety.• Conflicts of interest.• Recruitment and selection.• Remuneration policy.
Community and social matters	Our focus on community and society underpins our mission to make money work for everyone. Our policies and statements outline how we aim to help our customers and have a positive social impact.	<ul style="list-style-type: none">• Our community and social matters, p58.• Vulnerable customers policy.• Financial difficulty policy.• Accessibility statement.

Reporting requirement	Description	References and policies
Environment	We've built a bank with lower greenhouse gas emissions than the high street banks. But, our operations still contribute to the global climate crisis. As one of the fastest growing banks in the UK, we recognise that our carbon footprint will grow rapidly if we don't make a conscious effort to reduce it. We've measured and reported on our carbon footprint and are developing a plan to reduce our footprint, as well as a net zero goal. We've also joined forces with other leading UK tech companies by becoming a member of the Tech Zero Taskforce.	<ul style="list-style-type: none"> • Our approach to the environment p61.
Anti-corruption and anti-bribery	Preventing financial crime is a key responsibility and commitment for us as a bank. Our business and Financial Crime Teams monitor these key risks by applying our policies on a daily basis.	<ul style="list-style-type: none"> • Respect for human rights, anti-bribery and anti-corruption p65. • Supplier and Outsourcing Policy. • Anti Bribery and Corruption Policy. • Market Abuse Policy. • Whistleblowing Policy.
Human rights	Our commitment to human rights and the ethical treatment of our colleagues, suppliers and customers is aligned with our core values. We published our Modern Slavery Act Statement in August 2020 and we continue to develop our policies and procedures to provide a framework that strengthens our approach to human rights.	<ul style="list-style-type: none"> • Respect for human rights, anti-bribery and anti-corruption p65.
Description of our principal risks and impact of our business activity		<ul style="list-style-type: none"> • Our current risks p32.
Description of our business model		<ul style="list-style-type: none"> • Business model and strategy p19.

Our approach to people

At Monzo we create an environment where everyone feels supported to do the best work of their lives. This is our mission in the People Collective (Collectives is the word we use for groups of people working in the same area). Later in this section we'll expand on our values and how we've continued to improve and embed them, but before we do that, we should touch on the effects COVID-19 had on Monzonauts.

Adjusting to the COVID-19 crisis

We were lucky that our familiarity with working from home helped adjust to full remote working quickly. We supported people to make suitable home offices and invested time and effort in keeping the Monzo culture alive by adapting our rituals and socials.

We onboarded people remotely and re-created – as best we could – what makes Monzo magic by sharing our stories and connecting people across the business. We were able to work, collaborate and socialise online, but we were not immune to the external environment.

To try and prevent redundancies we used the furlough scheme and were grateful to those who volunteered for it. Sadly, we couldn't prevent redundancies fully but we were able to reduce the number of people for proposed redundancy by 42%. Seeing friends and colleagues leave Monzo was difficult and to support them in their next steps we created a public website listing individual roles and achievements and used our networks to help them find new opportunities.

Helping everyone belong whilst working from home

We worked hard to offer an inclusive and delightful experience for our colleagues as we adjusted to being fully remote. We gave everyone a budget to set up their home working environment with the office equipment they needed. We continue to hold team and company-wide social events (albeit all from home), from things like pasta-making to afternoon bingo. We also ran events focused on wellbeing, like resilience coaching, bodyweight workouts and lunchtime meditation.

Beyond that, we continue to support the parents and carers in our Monzonaut community by giving them increased work flexibility. After navigating redundancies and furlough in the middle of the pandemic, we've seen eNPS steadily increase back to pre-COVID levels.

As we continue to hire while we're all working from home, we've worked hard to create an excellent candidate experience for potential new Monzonauts. We launched new interview training for anyone looking to hire at Monzo, focusing on giving great feedback, making sure the interviews are as inclusive and without bias as possible, and clearer guidelines on how to get meaningful answers from competency-based questions.

When a new starter arrives, we want them to feel welcome and supported, even if they can't see their new team physically. We've adapted our onboarding programme to be fully digital and deliverable remotely. This allows new Monzonauts to transition into their teams from the comfort of their own home, no matter where they are in the UK. Our knowledge management team has grown to three members, and they work hard to make sure our documentation is clear, accurate, and accessible to everyone so all Monzonauts can get the information they need, when they need it. Beyond that, they work with third parties to push for integrations with our internal tools that improve the way we manage knowledge at Monzo.

Continuing to grow Monzo safely

A year ago we introduced a new Monzo value, 'Think customer first; grow Monzo safely'. It's a statement of commitment to our regulatory and social responsibility, and how we embed this in everything we do. We covered our approach to risk management earlier, from page 30.

In the People Collective, we've worked hard to add rigour to our approach to change management. We rolled out a new process for People Process Change Governance, and now have set requirements so we make impactful changes in a controlled and compliant way.

Working to improve our learning and development offering, we've now onboarded a new learning management system, migrating our regulatory training to a platform, Looop, that helps to track, remind, and assess our Monzonauts' learning in more granular detail.

Embedding our values and expanding our leadership team

Since announcing our values two years ago, we've been working hard to evaluate them and embed them in the business. We've tied our values to the majority of our people processes: hiring, performance, and progression and recognition. We continue to work on defining our values to nurture our culture for the future.

We haven't included our diversity and inclusion information in this report because we're changing how we collect it to make it easier for everyone to have their say. We'll share a meaningful and complete view of it on our website later in the year.

Our Policies

Policy	Summary	Due Diligence
People Policy	Our People Policy outlines our approach to making sure we have a strong team that's high performing, motivated and professionally fulfilled. The policy is there to address people risk. That's the risk of financial, operational or reputational loss due to our team as a whole, or individuals in it, not working optimally – whether through being incapable, unmotivated or ineffective, or through improper conduct.	<ul style="list-style-type: none"> • See individual policy diligence below.
Health & Safety	This policy sets out our high-level approach to Health and Safety. Our focus is to protect the health and safety of our colleagues and any visitors to our offices.	<ul style="list-style-type: none"> • We appoint and train first aiders and fire marshalls. We explain what people should do in the event of a fire on their first day. • As a company we don't provide nuts, to protect people with allergies. • We don't provide any tablets or medication either.
Conflicts of Interest	This policy outlines what it means to act with integrity and to make sure we're not compromised in our decision making.	<ul style="list-style-type: none"> • The People team reviews our conflict of interest register every week, and follows up on any potential conflicts with the person individually. • Our Second Line of Defence, the Risk and Compliance Team, also review this. Every year we share a company-wide announcement reminding our colleagues to log any conflicts.
Recruitment and Selection	We aim to attract and hire exceptionally talented people who best meet our needs. We do this through a transparent, fair and non-discriminatory hiring process.	<ul style="list-style-type: none"> • Finance and ExCo approve the final headcount plan. • We're in the process of rolling out interview and bias training to the company. We'll track interviewers to confirm they've completed training. • The Reward team determine pay ranges by level and function. They also review all offers to make sure they're within the framework and approve any offers outside of the framework. • We review our new starters the week before they start to confirm that their pre-employment checks are complete. We have an escalation process in place for failed checks.

Policy	Summary	Due Diligence
Remuneration Policy	<p>This policy sets out our approach to remuneration with all colleagues. Its objective is to make sure we can attract, motivate and keep the people we need for each phase of our growth. The Remuneration Committee approved the policy in February 2020.</p>	<ul style="list-style-type: none"> • To make sure we're sticking to our reward principles the Reward team approves all new hire offers and oversees all promotions. • They carry out an equal pay audit and make recommendations to the Executive Committee for any remedial action. • They also review each element of remuneration and check it aligns with our values-reward map. We adapt or discontinue any element that doesn't align. • The Reward team reviews the relevant regulatory requirements and adapts any practises they don't consider to be compliant.

Our community and social matters

Our responsibilities as a company go beyond our mission, and are bigger than banking. We hold ourselves to high standards of ethical behaviour, starting with the way we support our colleagues, by creating an environment where everyone belongs. We believe that as a business, we can make the world a better place, and help our customers do the same.

This year, we've formalised our social programme, a series of projects that help us to be an ethical, socially responsible business, building on work that we've already done, and bringing information and resources into one place on our website so our customers can see and engage with our work.

We're focused on making simple, practical changes that support people, and we'll judge our efforts using independent standards where possible. We also work in partnership with charities and other organisations to campaign for the change we want to see, whether it's protecting the environment, or promoting financial inclusion.

Part of our social programme is our approach to the environment, which you can read about on page 61. Next, we set out some of the other things we've been working on.

Money and mental health support

The long-term effects of the pandemic are emerging and we want to support our customers struggling with their mental health. We're working with our friends at the Money and Mental Health Policy Institute to improve our accessibility for customers with mental health problems by becoming the first bank to take part in their Mental Health Accessible Lite programme. We reported the findings from the assessment, and our response, on our blog.

We've spent time learning about access needs for people experiencing mental health problems, and how to meet those needs where possible. We make our language in communications simple to understand, and our help page easy to find so customers can get the information they need. We know that it's difficult for people to talk to their bank about a mental health problem, due to stigma and uncertainty over how the bank will use that information. Our Share with us tool makes this a better experience and lets customers use their own words to describe their needs.

There are areas we can work on in the coming year to improve our understanding of the effects of mental health on a person's finances. We'll improve the training and customer support resources we offer by including more detail on the access needs of customers with mental health problems. We'll also review our support channels and tooling to make it even easier for customers to talk about their needs and get support.

Our gambling reform campaign

In 2018 we became the first bank to introduce a gambling block, a response to customers who told us they wanted help controlling their gambling addictions. More than 330,000 customers have turned the gambling block on, and less than 10% have ever switched it off permanently.

This year the government is reviewing the Gambling Act. In February, we joined forces with top NHS clinicians, academics and gambling harm reduction charities to call on the Government to let everyone in the UK access gambling blocks no matter who they bank with, how they gamble, or how they pay. Nearly 1,000 people signed our open letter to the government, and in March our campaign was joined by the All Party Parliamentary Group for Gambling Harms, a cross party coalition of MPs dedicated to securing gambling reform.

Together, we're calling on the Government to do these things.

1. Make all UK bank account providers offer a friction driven, card based gambling block.
2. Mandate gambling firms to put their bank account details on a central registry so banks and other providers can extend their gambling blocks to bank transfers made to gambling companies as well as card payments.
3. Work with gaming firms to find a way to differentiate and identify loot box transactions from typical gaming purchases, so gamers can choose to block these transactions as part of existing gambling blocks.

You can find more information about the campaign on our website.

Our pilot to create an open banking powered gambling block

Most of the gambling blocks on the market today work by blocking card payments to specific 'merchant category codes', assigned by card schemes (like Mastercard or Visa). These codes let the bank know what type of business their customer is trying to pay before they send the money.

With more and more gambling providers switching to convenient, open banking powered payments, we teamed up with TrueLayer to pilot an innovative extension to our gambling block, offering the same protections for customers using these new payment methods to gamble.

This pilot means our customers will benefit from an extended block that stops open banking powered payments to operators supported by TrueLayer. We're already talking to other open banking firms to extend the pilot, but most importantly, we hope that it'll lead to all other banks with a block copying our approach.

Charity partnerships

This year we've been working with some great charities on issues that we're passionate about. For more detail, go to our website.

Giving our spare laptops to schools through Open Palm

The pandemic meant that most school children spent much of the year learning remotely. Not everyone has easy access to computers, high speed internet or the other resources that children need to learn effectively in a remote setting. At the end of last year, we donated our spare laptops to Ashmole Primary school in London, and this year we're working with Open Palm to donate our spare laptops from now on. Open Palm is a charity with a mission to empower people to succeed regardless of their ethnic background, through delivering educational life-skills programmes, improving learning environments and addressing racial inequality. They're helping us to distribute our spare laptops to children who will most benefit from them.

Working with Surviving Economic Abuse

Surviving Economic Abuse is the only UK charity dedicated to raising awareness of restricted or exploited access to money and life's other essential resources and transforming responses to this abuse. The charity works day in, day out to help women not only to survive, but also to thrive. This year we've worked with them to give specialist training to our customer support team, which we're also rolling out more widely. We also supported their successful campaign to amend the Domestic Abuse Bill, which will lead to post-separation abuse becoming a criminal offence.

Social policies and statements

Policy	Summary	Due diligence
Vulnerable customers policy	This policy covers how we spot and support customers who are more susceptible to difficulties managing their money or may find it harder to interact with us. It also covers how we train our colleagues and approach design to give these customers the best experience possible.	<p>We regularly review these things.</p> <ul style="list-style-type: none"> • Customer support interactions to make sure we're providing a tailored and flexible service to customers with additional needs. • Our guidance and processes to make sure they're helping us spot signs of vulnerability in the best way and meet the needs of our customers. • Trends to understand where we can focus our efforts and drive initiatives to improve our product and service design.
Financial difficulty policy	This policy covers how we support customers that owe us in a way that's fair, transparent and focused on delivering good customer outcomes.	<p>We regularly review these things.</p> <ul style="list-style-type: none"> • Customer support interactions to make sure we've complied with all relevant regulations and guidance, and resolved customers' issues. • Our procedures and guidance, to make sure they're still fit for purpose and delivering good customer outcomes.
Accessibility statement	For us, accessibility applies to both physical and mental health as well as wider circumstances. We want everyone to be able to access Monzo.	<ul style="list-style-type: none"> • We've partnered with the Digital Accessibility Centre to measure monzo.com against the Web Content Accessibility standards (WCAG). • We've worked with the Money & Mental Health Policy Institute on their Mental Health Accessible Lite Programme to understand where we can make improvements to our service and product.

Our approach to the environment

Everyone has their part to play in the battle against the climate crisis. Businesses have a responsibility to act and to take decisions that will support a sustainable, low carbon future. Scientists say that we need to halve global greenhouse gas emissions by 2030 and get to net zero by 2050 to avoid the worst impacts on the environment. According to the Intergovernmental Panel on Climate Change, failure to drastically reduce emissions this century will negatively impact ecosystems, communities and economies around the world.

We've built a bank with lower greenhouse gas emissions than the high street banks. We don't have branches, avoiding the emissions associated with running a large network of buildings. We don't invest in fossil fuel-based energy companies (or arms or tobacco companies). But, our operations still contribute to the global climate crisis. As one of the fastest growing banks in the UK, we recognise that our carbon footprint will grow rapidly if we don't make a conscious effort to reduce it. It's our responsibility to minimise our carbon footprint and take care of our planet.

In our 2020 annual report we said we'd develop an environmental policy. Since then, we've taken several important steps to set the foundation for our climate programme, which we have more detail on later. We'll also report on new developments for the coming year, which we'll also post on our new social programme web pages, to keep customers and investors up to date.

Our approach

We know that the terminology around the climate crisis and environmental policies can be complicated and difficult to understand. So like everything else we do at Monzo, we want our approach to be simple and transparent, so that everyone can understand it and engage with it.

To achieve that, we're committing to 3 key things.

1. Measure and report our emissions comprehensively and to a market leading standard

We'll always publish our full carbon footprint on our website, including scope 1, 2 and 3 emissions. Scope 1 covers things that we own, that directly emit greenhouse gases into the atmosphere. Scope 2 covers the electricity that we buy, which generates greenhouse gases while being produced. Scope 3 refers to emissions incurred by suppliers of goods and services provided to us. Scope 3 emissions represent the majority of our carbon footprint, so it's critical that we measure them comprehensively.

We won't attempt to limit our measurement to disguise the true impact of our emissions, for example by removing things like payment processing.

2. Set climate targets that reflect our whole carbon footprint

We'll set targets that are clear and easy to understand and measure, and won't disguise our progress by only using some aspects of our carbon footprint.

3. Keep customers updated on how we invest deposits

We believe the best way we can give you confidence in what we do with your money is by telling you exactly how we use your deposits. Anyone can find that information on the business practices section of our website.

Partnering with Watershed Climate

To help us build our environmental programme, we've partnered with Watershed, a software company that helps businesses understand and reduce their emissions. Watershed have measured our carbon footprint in line with industry-leading protocols, and will help us reduce and offset our emissions.

We chose to work with Watershed because of their industry-leading analytics software, carbon measurement capabilities, and track record helping fast growing technology and financial services businesses develop net zero plans.

Our carbon footprint

This year we started measuring our carbon footprint. We share the high level data later, but a more detailed breakdown is available on our website.

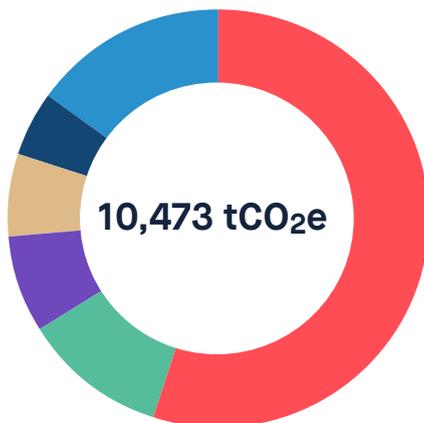
Like many businesses, the pandemic has meant that our emissions have been unusual this year – we've switched to full remote working and our colleagues have travelled less. To give better context around our footprint and to take a more informed approach to our emissions goals, we've also shared our 2019 carbon footprint on our website. We'll use our 2019 footprint as our base year for changes in 2021, as it'll give us a better idea of our largest areas of impact under more 'normal' circumstances, when teams are back in the office and working from home less often.

We have used calendar year, rather than financial year data to measure our emissions. As such the data in this report covers the calendar year period of 1 January 2020 to 31 December 2020. Our total emissions for the calendar year 2020 were 10,473 tonnes of carbon dioxide equivalent, or tCO₂e. The graph below gives a high level breakdown by category. Watershed Climate measured our carbon footprint consistent with the Greenhouse Gas (GHG) Protocol promoted by the World Resources Institute and the World Business Council for Sustainable Development.

Emissions by category 2020 (calendar year)

The table below shows each category of 2020 emissions in tCO₂e and as a % of total emission:

Emissions category	tCO ₂ e	Percentage of total emissions
Goods and services (e.g. IT equipment and legal services)	5775	55.1%
Products (e.g. Monzo cards)	1161	11.1%
Capital Goods	795	7.6%
Employees	674	6.4%
Buildings	510	4.9%
Other	1558	14.9%
Total	10,473	100%



- Goods & services 55.1%
- Products 11.1%
- Capital goods 7.6%
- Employees 6.4%
- Buildings 4.9%
- Other 14.9%

The category named ‘other’ contains a range of emissions that are less easy to categorise. To give more context, the largest components of that category are:

1. Cloud computing: 506 tCO_{2e}
2. Travel spend: 436 tCO_{2e}
3. Payment processing: 409 tCO_{2e}

Under the GHG Protocol, the majority of our emissions (95.97%) fall under Scope 3. A total of 3.67% of our emissions are Scope 2, and 0.36% are Scope 1. This reflects the nature of our business model, as an app-only, digital service bank.

Scope 1 emissions are a result of activities owned or controlled by us that release emissions into the atmosphere. They’re known as direct emissions.

Scope 2 emissions are those released into the atmosphere associated with our consumption of purchased electricity, heat, steam and cooling. These are indirect emissions that are a consequence of our activities, but happen at sources we don’t own or control.

Scope 3 emissions are a consequence of our actions, which happen at sources we don’t own or control and aren’t classed as Scope 2 emissions. They’re typically from our supply chain.

By comparison, our overall emissions for the calendar year 2019 were higher, at 12,970 tonnes of carbon dioxide equivalent, or tCO_{2e}. In 2019 the balance between different scopes of emissions was very similar to 2020 – Scope 3 emissions were 96.01%, scope 2 emissions were 3.69% and scope 1 emissions were 0.29%.

Our net zero goal

The world’s goal is to get to zero emissions by 2050, and it’s vital that we play our part. Our goal is to reach net zero emissions as a business by 2030. We’ll work on reducing the emissions in our carbon footprint as much as possible, including emissions from our supply chain. To eliminate the environmental impact of any emissions that are left, we’ll fund projects to remove the equivalent amount from the atmosphere.

We’re proud to have joined forces with other leading UK tech companies by becoming a member of the Tech Zero Taskforce (Taskforce). The Taskforce has brought together tech companies through shared commitments for environmental goals, including net zero, with the aim of getting 1,000 UK companies to agree to them before the UN’s 26th Climate Change Conference of the Parties (COP26) conference in Glasgow in November 2021.

Actions we’ve already taken to reduce our footprint

1. Our card packaging is fully recyclable.
2. We recycle in our UK offices. Both offices also use Environmentally Preferred Purchasing (EPP), so our washrooms are stocked with animal friendly and organic products, and we’ve removed most single-use toiletries.
3. All UK Monzonauts can join the [Cycle to Work](#) scheme, so it’s more convenient to use environmentally friendly transport for their commute. Our Cardiff office has also committed to the [Business Healthy Travel Charter Wales](#).
4. Now that we have an office in the US and in multiple locations in the UK, and team travel is common, we encourage colleagues to buy offset credits for their work flights, which they can expense as part of their trip.

Streamlined Energy and Carbon Reporting (SECR)

GHG emissions and energy use data for period 1 Jan 2020 to 31 Dec 2020

Below is our SECR Report. It sets out required data on our UK energy use and associated GHG emissions for the calendar year 2020, 1 January 2020 to 31 December 2020 (inclusive). You can find a more detailed breakdown of our carbon footprint on our website.

	Calendar year 2020	
	UK and offshore	Global (excluding UK and offshore)
Energy consumption used to calculate emissions in KWh	1,073,952 KWh	44,880 KWh
Emissions from combustion of gas in tCO ₂ e (Scope 1)	0 tCO ₂ e	1 tCO ₂ e
Emissions from combustion of fuel for transport purposes (Scope 1)	0 tCO ₂ e	0 tCO ₂ e
Emissions from business travel in rental cars or colleague-owned vehicles where company is responsible for purchasing the fuel (Scope 3)	0 tCO ₂ e	0 tCO ₂ e
Emissions from purchased electricity in KWh (Scope 2, location – based)	1,073,952 KWh	37,510 KWh
Total gross tCO ₂ e based on above fields	371.9 tCO ₂ e	13.8 tCO ₂ e
Intensity ratio: tCO ₂ e per £million of income (gross figure) – based on mandatory fields above (scope 1 and 2 emission)	4.8 tCO ₂ e per £1M of revenue	
Intensity ratio: tCO ₂ e per £million of income (gross figure) – based on mandatory fields above and also including scope 3 emissions	131.5 tCO ₂ e per £1M of revenue	
Methodology	Watershed calculated the above data for the 2020 calendar year using the Greenhouse Gas Protocol promoted by the World Resources Institute and the World Business Council for Sustainable Development.	
Energy efficiency action taken in the reporting period	This year we've focused on measuring and understanding our carbon footprint, to decide the action we'll take to reduce it and to improve our energy efficiency. Because of this, we haven't taken any specific energy efficiency actions this year. Earlier we mentioned some of the actions we've taken in previous years, and our website sets out some of the measures we'll take once we've measured our carbon footprint.	

Respect for human rights, anti-bribery and anti-corruption

Preventing and tackling bribery and corruption is rooted in our values. Senior management have a clear message of respecting human rights and a zero-tolerance approach to bribery and corruption.

Anti-Bribery and Anti-Corruption

We have a moral and social responsibility to our customers, stakeholders and the general public to prevent, deter, detect and report bribery and corruption when we suspect it. Strong anti-bribery and corruption systems, controls and procedures also protect us against reputational damage.

It's our responsibility to prevent financial crime, put internal controls in place and check they're working effectively, and train colleagues appropriately. The second line Financial Crime team supports this responsibility within the Risk and Compliance function.

We're committed to preventing financial crime and have created clear lines of internal accountability, responsibility and reporting. This year, we've spent a lot of time enhancing our financial crime policies, and have written and implemented a new standalone Anti-Bribery and Corruption (ABC) policy which comprehensively outlines our zero-tolerance approach to managing our bribery and corruption risks. The ABC policy includes the roles and responsibilities of senior management in this space. This year we also did our first dedicated anti-bribery and corruption systems and controls testing to check they're working effectively. We'll continue to invest in and develop this area.

To make sure that we're tackling bribery and corruption risks across the board, our ABC Policy is supported by our:

- Conflicts of Interest Policy
- Whistleblowing Policy
- Supplier and Outsourcing Policy
- Market Abuse Policy
- Financial Crime Policy
- Politically Exposed Persons (PEP) Policy
- Gifts & Entertainment Procedure.

All of our colleagues complete annual training on anti-bribery and corruption, as part of the gifts and entertainment module. Our mandatory training also includes modules on our conflicts of interest policy and procedure, and market abuse policies which everyone gets when they join and has annual refresher courses on.

Our supplier onboarding team does due diligence and enhanced due diligence on our suppliers to make sure they're ethically aligned to our beliefs and maintain high standards of integrity. We remain committed to improving our supply chain by reviewing our policies and internal controls. Transparency is a core belief at Monzo, and we encourage colleagues to speak up with confidence to their managers or our whistleblowing champion if they have any concerns.

Looking ahead

In FY2022 we'll continue to review and develop our anti-bribery and corruption control framework. We have a plan to tackle our increasing exposure to ABC risks as we grow as a business. We want to make sure that our controls meet regulatory requirements and address weaknesses that have been identified.

Specifically, we're doing these things:

- Reviewing our risk assessment to make sure that we've considered our exposure to ABC risks as we grow as a business.
- Improving and promoting our gifts and entertainment procedure to check that it's working as it should to mitigate ABC risks across our business operations.
- Developing a specific ABC module as part of our mandatory training to raise further awareness of bribery and corruption risks.
- Making sure that suppliers improve their policies and procedures to address weaknesses that we identify.
- Putting regular quality assurance in place to help identify any ongoing weaknesses in our processes.
- Continuing to test and evaluate the effectiveness of our controls on an ongoing basis.

Human rights

Our commitment to human rights and the ethical treatment of our colleagues, suppliers and customers is fundamental to what we stand for.

In FY2020 we became large enough to have to report under the Modern Slavery Act, and in August 2020 we published our [Modern Slavery and Human Trafficking Statement](#). We continue to develop our policies and procedures to provide a framework that strengthens our approach to human rights, whether in the workplace, across our customer base or in our supplier chain.

Human rights and the workplace

We value the people who work for Monzo. We promote the personal and professional growth of our Monzonauts by giving them a range of benefits and development opportunities. This creates an environment where our people not only do well but can also do good.

We believe diverse teams make better decisions. We're committed to promoting an inclusive and empowering working environment to support each and every team member. Having a workforce that reflects the diversity of our customer base, and a working environment where a diverse workforce can feel comfortable being themselves, are part of our values.

We provide a healthy and safe workplace where mutual respect is key and discrimination isn't tolerated. Our Whistleblowing Policy gives Monzonauts a way to safely and confidentially speak up, should they need to. In 2020 we also introduced a new, external channel for them to speak up through It's run by a whistle blowing service provider called Safecall, who are independent from us.

With COVID-19 taking a toll on business as usual, we've enhanced wellbeing initiatives, moved all of our training online, have offered Monzonauts working from home equipment and encouraged everyone to take leave. We understand the challenges of balancing personal and family life, so we issued management messages encouraging Monzonauts to care for themselves and their families as a priority.

Human rights in our supply chain

We have strong views on our moral and social responsibility to maintain an ethical supply chain, which includes making sure there's no use of slavery or human trafficking. The majority of our suppliers are based in the UK, USA, and Europe, and all of our suppliers are based in countries with a low prevalence of modern slavery according to the Global Slavery Index.

We carry out due diligence on any potential suppliers to make sure we're only working with companies who are aligned to our values. For those where we identify risks, we carry out enhanced due diligence to make sure we haven't missed anything. We updated our Supplier and Outsourcing Policy in FY2020 and continue to develop our controls framework, which our second line of defence oversees.

In FY2021 we've focused on using stronger controls and refining existing controls, especially in the higher risk indirect chain, and developed a financial crime-specific Outsourcing Policy to support our framework. We work closely with our suppliers to monitor their progress and spot new risks that might come up in our supply chain.

We're also creating a training module around modern slavery and human trafficking, which will become part of everyone's annual mandatory training by the end of 2021. This will sit alongside existing mandatory training on things like financial crime and whistleblowing.

To the best of our knowledge, there have been no incidences of modern slavery or human trafficking in our direct or indirect supply chain.

Human rights and our customers

Modern slavery and forms of human trafficking are crimes, meaning the benefits from this activity are considered proceeds of crime. We have a responsibility to detect, discourage and prevent anybody using the financial system from laundering the proceeds of crime.

In FY2021, we've improved our due diligence procedures to identify and verify customers at the point where they apply for an account with us. We continue to monitor customer activity to detect suspicious transactions that could be the proceeds of crime like modern slavery and human trafficking.

Our Financial Intelligence Unit, which we set up in FY2021, works closely with law enforcement, the Joint Money Laundering Intelligence Taskforce, The Gangmasters and Labour Abuse Authority to support investigations. Our strong cooperation with law enforcement also gives us intelligence that helps with our constant development of up to date transaction monitoring and proactive internal investigations.

As we grow, we keep investing heavily in our Financial Crime Framework to make sure that everyone has the tools they need to stop modern slavery, human trafficking and all financial crimes.

Looking ahead

Here's what we plan to work on in the year ahead.

- Launching a new modern slavery and human trafficking policy that sets minimum policy standards for how we make sure there's no modern slavery or human trafficking in our direct and indirect supply chains.
- Updating our supply chain procedures in line with this new policy.
- Improving our financial crime controls, policies and procedures.
- Rolling out mandatory modern slavery training for everyone at Monzo.

The Strategic Report was approved by the Board of Directors and signed on behalf of the Board.



Alwyn Jones
Director
26 July 2021

Group Directors' report



The Directors present their report and audited financial statements for the year ended 28 February 2021 for Monzo Bank Limited (The Bank) and the Monzo Group (The Group).

Monzo Bank Ltd is a private limited company, incorporated and domiciled in England and Wales, with its registered office in England and is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and Financial Conduct Authority (FCA). Monzo's registration number is 09446231.

We've prepared these financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Directors

The Directors who served the Company during the year and up to the date these financial statements were approved were:

- G Hoffman (Chair)
- TS Anil (Appointed 6 October 2020)
- T Blomfield (Resigned 17 June 2020)
- T Brooke Thom (Resigned 30 September 2020)
- V Dias (Appointed 1 June 2021)
- E Burbidge
- M Grimshaw (Resigned 20 July 2021)
- A Jones
- A Kirk
- F McBain
- P Riese
- K Woollard

Results and dividends

The consolidated loss for the year after taxation was £129.7m (FY2020: loss of £113.8m). The Directors don't recommend a final dividend (FY2020 – £nil).

Directors' liabilities

We've indemnified all of the Group's Directors from claims brought against them by third parties (subject to section 234 of the Companies Act 2006). The insurance doesn't cover claims arising from fraud or dishonesty. The indemnity was in place during the year.

The following information, required by the 2008 Regulations, is included in the Strategic Report.

- A fair and balanced review of the business.
- A description of the principal risks and uncertainties facing the business.
- A description of our principal objectives, strategy and business model.
- An analysis of developments and performance for the financial year and the position at the end of the year.
- Trends and factors likely to affect the future development, performance and position of the business.
- Information on our team and community.

Donations

We haven't made any donations or incurred any expense to any registered UK political party or other EU political organisation.

Branches

We don't have any branches in or outside of the UK.

Events since the balance sheet date

We've listed the key events that happened since the balance sheet date below (see Note 34 for more details).

- On 8 March 2021 we raised £15m of Tier 2 debt in our first issuance.
- On 8 March 2021 we also received the final £4m of capital, closing our Series G fundraising.

- On 7 May 2021 the FCA told us that they've started an investigation into our compliance with financial crime regulation. See Note 25 for more information.
- On 7 June 2021 we issued 4.9m options related to our CSOP scheme.

There have been no other material post-balance sheet events.

Financial instruments

We finance our activities by issuing ordinary shares, as mentioned in Note 29, and through cash deposits held as mentioned in Note 11. We also hold customer deposits classified as a financial liability, and issue overdrafts and loans to customers which are classified as financial assets. We make treasury investments in debt instruments as mentioned in Note 12. Other financial assets and liabilities like trade creditors come from our operating activities. We record foreign currency transactions using the exchange rate at the date of the transaction.

Read Notes 21 and 23 for information on managing risks related to financial assets and liabilities.

We don't use any other financial instruments.

Research and development activities

We invest in the development of our own platforms and products, so we've applied to claim Research & Development (R&D) relief from HMRC, see Note 14.

Policy on employing people living with disabilities

We're committed to employing and supporting colleagues in line with the Equality Act 2010 and our People Policy. We also want to make sure disabled people can fulfil their potential and realise their aspirations.

We make reasonable adjustments to support all disabled job applicants and colleagues.

Some examples of supportive adjustments we've made in the past include:

- making changes to shift patterns (like phased return to work, flexible working hours or part-time working)
- giving extra training or mentoring
- making access alterations to the offices
- giving information in accessible formats
- adapting equipment or providing specialist equipment
- any other ad hoc reasonable request, like someone with social anxiety disorder being given their own desk instead of hot-desking.

The list above certainly isn't limited. Our policy aims to accommodate all reasonable requests to make sure our people are fully supported during their time at Monzo.

Our approach to transparency and colleague engagement

We default to transparency, so colleagues have access to any information that's relevant to them. We hold company-wide meetings weekly where people can share their opinions and ask questions of management.

All colleagues have a vested interest in our performance through our share option schemes. They're kept up to date with business performance through a weekly KPIs email we send to everyone, as well as dashboards highlighting monthly financial performance.

Our approach to engagement with other stakeholders

We've included a statement in line with our Section 172 requirements under 'Our stakeholders' in the 'Governance at Monzo' section of the Strategic Report. You can find this on page 49.

Our approach to the environment

The Companies (Directors' Reports) and Limited Liability Partnerships (Energy and Carbon) Regulations 2018 (Regulations) brought in the UK Government's Streamlined Energy and Carbon Reporting (SECR) policy.

We're a large unquoted company under those regulations. So we need to report our energy use and carbon emissions. The SECR requirements apply to us for the first time in the financial year ending 28 February 2021 (Reporting Period). So we don't have a previous report for comparison. We've included our SECR reporting under the 'Our approach to the environment' section of the Strategic Report, where you can also find more details about our carbon footprint and our wider environmental goals.

We've prepared these statements on a going concern basis

Our going concern is dependent on maintaining enough capital to fund the balance sheet and meet our capital requirements. The Directors have assessed our ability to continue as a going concern for the period of at least 12 months from the date the financial statements are approved. They concluded it remains appropriate to continue preparing our financial statements on a going concern basis, but note the material uncertainties discussed below. The financial statements don't include any adjustments that would result if the company was unable to continue as a going concern.

During the assessment the Directors considered a broad range of information and scenarios, including our medium term business plan, our ability to raise capital and the growing economic recovery as vaccines are successfully rolled out. They also assessed the impact of COVID-19 on our operations, expected credit losses, asset valuations and our ability to launch new products. Our capital and liquidity positions were reviewed under normal and stress scenarios based on the ICAAP, updated for recent trends where appropriate, along with possible management actions if needed.

The Directors considered the possible impact of changes to the law, our regulatory capital requirements and a regulatory investigation (see Note 25) which may result in stricter financial crime requirements. They also reviewed the operational resiliency of our IT systems and core banking platform, our ability to work remotely and our key suppliers and colleagues' ability to serve our customers.

The Directors recognise that material uncertainties cast doubt on our ability to continue as a going concern. We're currently loss-making and although our revenues have grown, some of our revenue streams have continued to be affected by the pandemic (see page 35 for more details on the risks we face). As in previous years, we expect to raise additional capital in the next 12 months on our path to growing and becoming profitable, but there's always a risk we can't raise the amount needed. The Directors are confident that we can deliver our business plan and raise the capital needed for the following reasons.

Showing our resilience

We've continued to grow, successfully raising investment and delivering important products and features for our customers through a global pandemic.

Our supportive investor base

We've successfully fundraised £202m from new and existing investors during an extremely challenging period. This highlights their belief in us and our ability to continue growing the business and serving more customers. We remain confident that as we continue to execute our plan we'll be able to raise the capital we need.

Our reputation, customer base and products

Despite the pandemic our revenues have grown, we've launched new products and diversified our revenue streams. Our customer numbers have increased and customers are using our products and features more. We expect to see this trend continue as we launch more products, restrictions ease and customer spending returns.

Management's focus on executing our business plan

We launched new products and grew revenues during the pandemic. We're confident we can continue to successfully launch products and features that increase revenues, while delighting our customers. We also made a number of difficult decisions, including making redundancies, closing our Vegas office, taking salary sacrifices and delaying product launches. Management remains committed to prioritising objectives appropriately and making hard choices if necessary to optimise our performance and become profitable.

Government support

We believe the UK Government, regulators and central banks around the world will continue to support the economy as needed.

Disclosing information to the auditor

As far as each person who was a Director at the date of approving this report is aware, there's no relevant audit information, being information needed by the auditor in connection with preparing its report, which the auditor isn't aware of. Having made enquiries of fellow Directors and the Group's auditor, each Director has taken all the steps that they're obliged to take as a Director to make themselves aware of any relevant audit information, and to establish that the auditor is aware of that information.

Auditor

Ernst & Young LLP have been re-appointed pursuant to section 487(2) of the Companies Act 2006 unless the members or Directors resolve otherwise.

On behalf of the Board



Alwyn Jones
Director
26 July 2021

Statement of Directors' responsibilities



The Directors are responsible for preparing the Strategic report, Group Directors' Report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have to prepare the Bank and Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act.

Under Company Law the Directors must not approve the financial statements unless they're satisfied that they present a true and fair view of the financial position, financial performance and cash flows of the Bank and Group for that period. In preparing those financial statements the Directors need to:

- select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs, as required by the Companies Act 2006, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance;

- state that we have complied with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures and explained in the financial statements; and
- make an assessment of the Group's and Company's ability to continue as a going concern, and if appropriate prepare the financial statements on a going concern basis.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions. They have to disclose with reasonable accuracy at any time the financial position of the Group and make sure that the financial statements comply with the Companies Act 2006.

They're also responsible for safeguarding the assets of the Group and for taking reasonable steps to detect and prevent fraud and other irregularities.

Approved by the Board and signed on behalf of the Board.



Alwyn Jones
Director
26 July 2021

Independent Auditor's report

To the members of
Monzo Bank Limited



Opinion

In our opinion:

- Monzo Bank Limited’s group financial statements and parent company financial statements (the “financial statements”) give a true and fair view of the state of the group’s and of the parent company’s affairs as at 28 February 2021 and of the group’s loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;

- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Monzo Bank Limited (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 28 February 2021 which comprise:

Group	Parent company
Consolidated statement of financial position as at 28 February 2021	Statement of financial position as at 28 February 2021
Consolidated statement of comprehensive loss for the year then ended	Statement of comprehensive loss for the year then ended
Consolidated statement of changes in equity for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Statement of cash flows for the year then ended
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 34 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to the Basis of Preparation in Note 1 in the financial statements, which indicates that the ability of the group to continue as a going concern is subject to material uncertainty. The group is expected to continue to be loss making over the twelve months from the date of the issuance of the financial statements and will not be able to meet its regulatory capital requirements without raising additional capital, as undertaken in prior years.

As stated in Note 1, these conditions indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's ability to continue to adopt the going concern basis of accounting included:

- The audit engagement partner increased his time directing and supervising the audit procedures on going concern and senior members of the audit team increased their time and involvement in performing the audit procedures on going concern.
- We confirmed our understanding of management's going concern assessment process.
- We used our valuation specialists to test the mathematical accuracy of the financial forecasting models used to develop business plan under the base and stress case scenarios.
- We also used our valuation specialists to challenge the appropriateness of management's forecasts by assessing historical forecasting accuracy and performed downside sensitivity analysis on individual assumptions and composite scenarios in order to understand the impact on capital requirements.
- We evaluated management's plans for future actions by assessing the likelihood of raising sufficient amount of additional capital in the short-term to maintain a surplus to the regulatory capital requirements. In our assessment, we considered the recent capital raising activities, the risks associated to the achievement of the business plan and current capital market environment.
- We utilised our regulatory specialists to evaluate the appropriateness of Core Equity Tier 1 capital and Tier 2 debt classification, inspect regulatory correspondence and assess the overall impact of on-going reviews on the basis of the capital calculation at 28 February 2021 and for the twelve months from the date of our audit opinion;
- We used our regulatory specialists to also review the liquidity and leverage position and assess the risk of a liquidity shortfall or breach of leverage ratio in the next twelve months from the date of our audit opinion;
- We used our specialists to assess the appropriateness of the financial crime change programme and the associated cost estimates and evaluated the impact on the business plan.
- We discussed the bank's overall regulatory requirements with the Prudential Regulation Authority ('PRA');

- We assessed the disclosures in the Annual Report & Accounts relating to going concern, including the material uncertainties, to ensure they were in compliance with IAS1.

Based on the work we have performed, we concluded that a material uncertainty exists that may cast significant doubt on the group’s ability to continue as a going concern for a period of twelve months from the date of the issuance of the financial statements.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group’s ability to continue as a going concern.

Overview of our audit approach

Audit scope	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of one component and audit procedures on specific balances for a further two components. • The components where we performed full or specific audit procedures accounted for 100% of Loss before tax, 100% of Revenue and 100% of Total assets.
Key audit matters	<ul style="list-style-type: none"> • IFRS 9 Financial Instruments – Expected credit loss (‘ECL’) provision • Improper revenue recognition – Effective Interest Rate (‘EIR’) income recognition • Developing control environment • Valuation of Share Based Payments
Materiality	<ul style="list-style-type: none"> • Overall group materiality of £2.22m which represents 1% of equity.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the three reporting components of the Group, we selected all three components covering entities within the United Kingdom and the United States of America, which represent the principal business units within the Group.

Of the three components selected, we performed an audit of the complete financial information of one component (“full scope component”) which was selected based on size or risk characteristics. For the remaining two components (“specific scope components”), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (FY2020: 100%) of the Group's Loss before tax, 100% (FY2020: 100%) of the Group's Revenue and 100% (FY2020: 100%) of the Group's Total assets. For the current year, the full scope component contributed 98.2% (2020: 100%) of the Group's Loss before tax, 99.9% (2020: 97.2%) of the Group's Revenue and 99.9% (FY2020: 95.1%) of the Group's Total assets. The specific scope components contributed 1.8% (FY2020: 2.8%) of the Group's Loss before tax, 0% (FY2020: 4.9%) of the Group's Revenue and 0.1% (FY2020: 0.1%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>FRS 9 Financial Instruments – expected credit loss ('ECL') provision</p> <p>Expected credit loss provision of £17.4m (FY2020: £20.0m)</p> <p>Refer to the Accounting policies (page 100); and Note 4 of the Consolidated Financial Statements (Page 103).</p> <p>Loans and advances to customers comprise unsecured personal loans and overdrafts.</p> <p>Credit provisions represent Management's best estimate of impairment and significant judgements and estimates are made in determining the timing and measurement of expected credit loss ('ECL').</p> <p>The key judgements and estimates in respect of the timing and measurement of ECL include:</p> <ul style="list-style-type: none"> a. The accounting interpretations, modelling assumptions and data used in the models that calculate ECL; b. Inputs and assumptions used to estimate the impact of the multiple economic scenarios; c. Allocation of assets to Stage 1, 2 or 3 using criteria in accordance with IFRS9; and d. Completeness and valuation of post model adjustments, including the risk of management override. 	<p>Having assessed the design and implementation of controls, we undertook a substantive audit approach. We performed the following procedures:</p> <p>We tested the data used in the ECL calculation on a sample basis. In order to complete this testing, we independently reconciled a sample of data feeding the models to underlying support.</p> <p>We reviewed the reasonableness of SICR criteria in the light of COVID-19 including the impact of government measures and relief moratoria. We then recalculated the staging of all unsecured personal loans and overdrafts.</p> <p>We reviewed all IFRS9 models to assess the conceptual soundness, design, modelling technique and assumptions.</p> <p>We developed a full challenger approach, which included applying our own independent assumptions including Probability of Default, Loss Given Default, Exposure at Default (EAD) and Significant Increase in Credit Risk (SICR), to model our own estimate of the ECL provision.</p> <p>We assessed the base and alternate economic scenarios, including challenging probability weights and comparing to other scenarios from a variety of external sources.</p> <p>We challenged model adjustments for appropriateness using our knowledge and experience across the industry as well as recalculating their accuracy. We also considered the completeness of risk event overlays such as COVID-19.</p> <p>Performed a stand-back analysis to assess whether the IFRS 9 impairment provisions recorded by management were reasonable and how this compares to other market participants.</p> <p>We reviewed the adequacy of credit risk disclosures in the financial statements and reconciled the tables presented to the underlying ECL model data.</p>	<p>Our testing of models and model assumptions identified some instances of over and under estimation when compared to our point estimate. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable.</p> <p>We also considered the overall provision levels against available peer information and our understanding of the credit environment.</p> <p>Overall, we are satisfied that provisions for the impairment of loans and advances to customers are reasonable and recognised in accordance with IFRS9.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Improper revenue recognition – Effective Interest Rate (‘EIR’) revenue recognition as it relates to personal loans</p> <p>Interest income recognition in the current year is £3.9m (FY2020: £1.8m).</p> <p>Refer to the Accounting Policies for EIR income recognition (page 98); and Note 2 (page 101) of the Consolidated Financial Statement.</p> <p>There is a risk that the recognition of interest income relating to personal loans does not comply with the requirements of IFRS 9. This is due to the fact that the Bank currently uses the simple interest rate method rather than using the effective interest rate method for the recognition of interest income relating to personal loans</p> <p>We have assessed all revenue streams recognised by the group and assessed the nature of each of these streams and whether they could give rise to a material error in the financial statements. We have determined that all other streams are unlikely to drive a material difference and have excluded them from the significant risk.</p>	<p>To address the identified risk of EIR revenue recognition relating to personal loans, we took a substantive based approach and performed the following audit procedures:</p> <ul style="list-style-type: none"> • We involved our technical accounting experts to assess Monzo’s technical accounting policy relating to EIR. • We have involved valuation specialists to develop a challenger model to assess the impact of using simple interest vs our internal EIR challenger model. • We performed sensitivity analysis over key assumptions and judgements • We agreed quantitative disclosures to source data; and ensured qualitative disclosures are compliant with accounting standards 	<p>We have concluded that the revenue recognised at year-end as it relates to personal loans is reasonable and that the use of simple interest rate as a proxy to EIR would not drive a material misstatement.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Developing Control Environment</p> <p>The risk relates to the fact that the group’s governance and control environment has not yet matured fully. In particular, there is a risk relating to the design, implementation and operating effectiveness of key controls, including financial controls, customer onboarding controls and IT general controls.</p> <p>In such circumstances, where we have not relied on financial or IT controls, we are required to undertake additional substantive audit procedures in order to gain reasonable assurance over the balances reported in the financial statements.</p>	<p>Our audit approach included an assessment of the process level financial controls that management relies on for financial reporting, customer onboarding controls and IT general controls.</p> <p>In relation to process level financial controls, we were unable to place control reliance. We addressed the increased risk by designing and then undertaking audit procedures to obtain a greater proportion of evidence from substantive testing and the use of increased sample size. This included substantively testing the full population of key payment scheme accounts relating to Mastercard interchange fees, BACS, CHAPS, FPS and cheques (together, the ‘Payment Schemes’).</p> <p>We involved our IT specialists to perform testing of IT general controls (ITGC) relating to the core banking platform, NetSuite, BigQuery and supporting tools.</p> <p>We involved our forensic specialists to perform testing on the customer onboarding procedures.</p>	<p>As a result of ITGC testing, we have found that the issues identified in the prior year have been resolved and therefore, we have concluded that the design, implementation and operating effectiveness of ITGCs over the core banking platform, NetSuite, BigQuery and supporting tools are effective.</p> <p>We highlighted to the Audit Committee the requirement to ensure there are appropriate governance and controls in place across the three lines of defence and an appropriate level of skills and experience within the group. We note that whilst progress has been made in the development of the control environment, the pace of improvement is not keeping up with the pace of growth in the business and the accompanying risks. Our observations communicated to the Audit Committee included the need to ensure that controls, including customer acceptance, are designed and implemented effectively and embedded so that they are operating effectively during the period and adequately documented.</p> <p>We highlighted to the Audit Committee that we do rely on ITGCs but were not in a position to place reliance on process level financial controls and so we undertook a substantive audit approach. In addition, we concluded that customer transactions for key payment schemes were appropriately recorded in the customer ledger in line with payment scheme instructions.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of share based payments</p> <p>Share based payments expense in the current year is £25.1m (FY2020: £14.3m)</p> <p>Refer to the Accounting policies (page 100); and Note 31 (page 146) of the Consolidated Financial Statements.</p> <p>There is a risk that the judgements made by management in the valuation of share based payments are not reasonable and not in accordance with IFRS.</p>	<p>In respect of Share Based Payments, we undertook a substantive audit approach and performed the following procedures:</p> <ul style="list-style-type: none"> • We obtained an understanding of the key controls around the share based payments process and tested the design adequacy and implementation of these key controls. • We involved our technical accounting experts to assess whether the accounting policy relating to share based payments is in accordance with IFRS 2. • We involved valuation specialists to assess the reasonableness of the following parameters: <ul style="list-style-type: none"> – Key input parameters, namely: risk free rate, volatility, expected life, dividend yield and share price, into the valuation model; – Completeness of the parameters in the valuation model; – Methodology design of the valuation model; and • We tested the completeness of share based payments expense by performing the following procedures: <ul style="list-style-type: none"> – We reconciled share options granted with the share options recorded in the expense calculation; – We reconciled the employees in the payroll expense to those in the share based payments expense. For a sample of employees in payroll expense that were not recorded in the share based payment expense, we obtained confirmation that share options had not been granted to these employees; – We performed cut off procedures at the balance sheet date and for a sample of share options granted before the year end but recorded post year end, to determine whether they were recorded in the correct period. • We involved our tax specialists to review the key tax assumptions relating to the addition options issued under the Company Share Options Plan (CSOP). • We vouched a sample of options granted to underlying share-based payments option certificates and employment contracts. • We tested the mathematical accuracy of the share-based payments expenses and performed a reconciliation between the valuation outputs and the general ledger. 	<p>We concluded that the valuation and disclosures relating to share based payments are reasonable and in accordance with IFRS.</p>

In the prior year, we have determined a key audit matter in relation to improper revenue recognition – payment network provider bonus income. This was recognised in full in the prior year and is therefore no longer a key audit matter in the current year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £2.22 million (FY2020: £1.28 million), which is 1% (FY2020: 1%) of equity. We believe that equity reflects the most useful measure for users of the financial statements, given that the group is loss making and operates in a regulated industry. The increase in materiality is consistent with the increase in equity during the year.

We determined materiality for the parent company to be £2.22 million (FY2020: £1.28 million), which is 1% (FY2020: 1%) of equity. The materiality of the Parent Company is based on equity as we consider this to be the most appropriate factor to the users of the financial statements.

During the course of our audit, we reassessed initial materiality and made adjustments based on the final equity after incorporating the result of the financial position of the group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 50% (FY2020: 50%) of our planning materiality, namely £1.11m (FY2020: £0.64m). We set performance materiality at this percentage (which is the lowest in the range) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial report.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the performance materiality allocated to the component was £0.33m (FY2020: £0.19m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £111k (FY2020: £64k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 74, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 68, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and have a direct impact on the preparation of the financial statements. We determined that the most important direct laws and regulations related to the group related to company law, tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how the group is complying with those frameworks by making enquiries of senior management, reviewing regulatory correspondence between the group and UK regulatory bodies and reviewing minutes of the Board and Risk Committee.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the controls that the group has established to address risks identified by the group, or that otherwise seek to prevent, deter or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of senior management, legal counsel, compliance and internal audit, review of correspondence with regulatory bodies and minutes of meetings of the Board and Risk committees, involvement of conduct risk specialists, and focused testing.
- Based on our procedures performed on components, no instances of noncompliance with laws and regulations were identified
- The parent company operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the

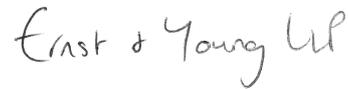
Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 28 February 2017 to audit the financial statements for the year ending 28 February 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 28 February 2017 to 28 February 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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



Javier Faiz
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
26 July 2021

Notes:

The maintenance and integrity of the Monzo Bank Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of comprehensive income

For the year ended
28 February 2021



	Notes	Group		Company	
		Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
		£'000	£'000	£'000	£'000
Interest income	2	23,950	25,018	23,950	25,018
Interest expense	2	(1,564)	(589)	(1,564)	(589)
Net interest income		22,386	24,429	22,386	24,429
Fee and commission income	3	54,139	40,085	54,112	40,082
Fee and commission expense	3	(11,827)	(10,681)	(11,827)	(10,681)
Net fee and commission income		42,312	29,404	42,285	29,401
Credit loss expense on financial assets	4	(3,821)	(20,254)	(3,821)	(20,254)
Other operating income	5	1,329	2,079	1,656	3,488
Net operating income		62,206	35,658	62,506	37,064
Personnel expenses	6	(103,890)	(77,486)	(99,792)	(73,785)
Depreciation & impairment expense	15	(9,010)	(3,210)	(8,983)	(3,182)
Other operating expense	9	(79,342)	(70,372)	(83,267)	(76,391)
Total operating expense		(192,242)	(151,068)	(192,042)	(153,358)
Exchange differences through profit or loss		35	(61)	78	(50)
Loss before tax		(130,001)	(115,471)	(129,458)	(116,344)
Taxation	10	303	1,655	303	1,655
Loss for the year		(129,698)	(113,816)	(129,155)	(114,689)
Total comprehensive loss for the year, net of tax		(129,698)	(113,816)	(129,155)	(114,689)

The results for the current and prior year are derived entirely from continuing operations.

The Notes 1 to 34 form an integral part of these financial statements.

Statement of financial position

For the year ended
28 February 2021



	Notes	Group		Company	
		28 February 2021	29 February 2020	28 February 2021	29 February 2020
		£'000	£'000	£'000	£'000
Assets					
Cash and balances at bank	11	2,977,368	1,373,722	2,975,670	1,373,302
Treasury investments	12	376,641	98,953	376,641	98,953
Loans and advances to customers	13	87,147	123,913	87,147	123,913
Other assets	14	105,642	87,925	105,881	87,661
Property, plant and equipment	15	26,595	21,253	26,581	21,089
Investment in subsidiaries	30	–	–	1,820	443
Collateral held with third parties	17	56,314	15,642	55,920	15,175
Total assets		3,629,707	1,721,408	3,629,660	1,720,536
Liabilities					
Customer deposits	18	3,124,046	1,392,517	3,124,046	1,392,517
Other liabilities	19	283,767	199,887	283,920	199,883
Total liabilities		3,407,813	1,592,404	3,407,966	1,592,400
Equity					
Called up share capital	29	0	0	0	0
Share premium account		508,478	311,139	508,478	311,139
Other reserves		42,544	17,301	42,675	17,306
Accumulated losses		(329,128)	(199,436)	(329,459)	(200,309)
Total equity		221,894	129,004	221,694	128,136
Total liabilities and equity		3,629,707	1,721,408	3,629,660	1,720,536

The Notes 1 to 34 form an integral part of these financial statements.

The financial statements on pages 88 to 149 were approved and authorised for issuance by the Board on 22 July 2021 and signed on its behalf by:



Alwyn Jones
Director
26 July 2021

Statement of changes in equity

For the year ended
28 February 2021



Group	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
Cumulative translation adjustment	-	-	(5)	-	(5)
Share buyback	-	-	(209)	-	(209)
Exercise of options	0	22	(20)	20	22
Losses for the year	-	-	-	(113,816)	(113,816)
Balance as at 1 March 2020	0	311,139	17,301	(199,436)	129,004
Shares issued	0	198,019	-	-	198,019
Cost of issuance	-	(476)	-	-	(476)
Share based payments reserve	-	0	25,171	-	25,171
Cumulative translation adjustment	-	0	(131)	-	(131)
Share cancellation	-	(209)	209	-	-
Exercise of options	0	5	(6)	6	5
Losses for the year	-	0	-	(129,698)	(129,698)
Balance as at 28 February 2021	0	508,478	42,544	(329,128)	221,894

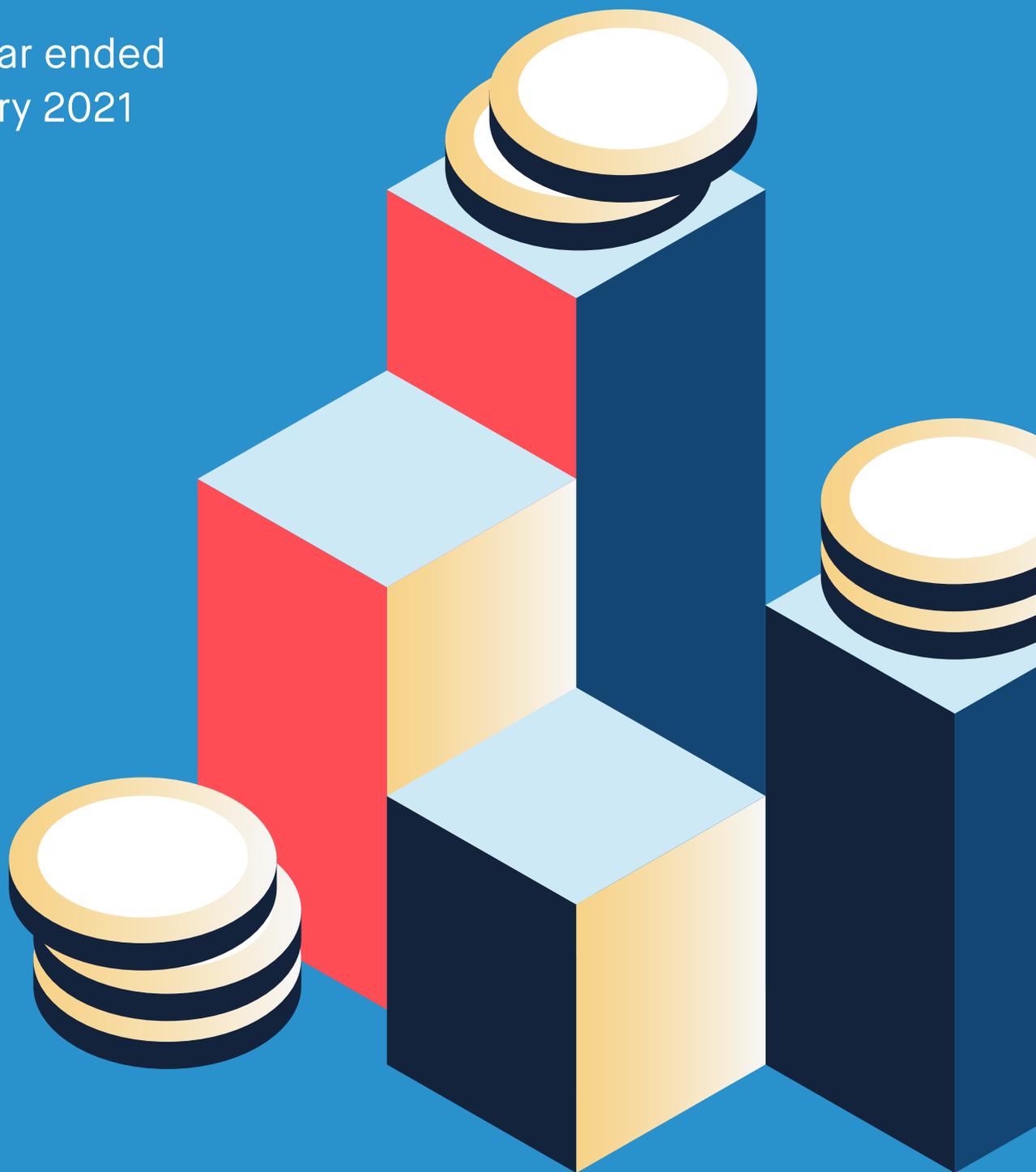
Company	Share capital	Share premium	Other reserves	Retained losses	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 28 February 2019	0	198,146	3,164	(85,640)	115,670
Shares issued	0	113,629	-	-	113,629
Cost of issuance	-	(658)	-	-	(658)
Share based payments reserve	-	-	14,371	-	14,371
Share 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
Shares issued	0	198,019	-	-	198,019
Cost of issuance	-	(476)	-	-	(476)
Share based payments reserve	-	-	25,165	-	25,165
Share cancellation	-	(209)	209	-	-
Exercise of options	0	5	(5)	5	5
Losses for the year	-	-	-	(129,155)	(129,155)
Balance as at 29 February 2021	0	508,478	42,675	(329,459)	221,694

The share capital as at 28 February 2021 was £16 (FY2020: £13) which is shown as £nil (rounded to £'000) in the above table. See Note 29 for further detail.

In the current year, we released £6k of reserves related to options exercised from other reserves into retained losses (FY2020: £20k).

Statement of cash flows

For the year ended
28 February 2021



	Notes	Group		Company	
		Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
		£'000	£'000	£'000	£'000
Cash flows from operating activities					
Loss for the year		(129,698)	(113,816)	(129,155)	(114,689)
Adjustments for non-cash items:					
Depreciation of property plant and equipment	15	9,010	3,210	8,983	3,182
Share-based payments	6	25,168	14,365	24,833	14,294
Loss on disposals and write-offs	9	274	47	105	29
Loss on impairment of investment in subsidiaries	30	–	–	1,820	4,286
Increase in other provisions	19	8,098	–	8,098	–
Interest on leases	2	1,450	491	1,450	491
Interest on treasury investments	2	(183)	(358)	(183)	(358)
Changes in operating assets and liabilities:					
Movement in loans and advances to customers	13	36,766	(107,859)	36,766	(107,859)
Movement in customer deposits	18	1,731,529	930,696	1,731,529	930,696
Movement in other assets (excluding R&D tax credit)	14	(20,379)	(61,060)	(20,882)	(60,801)
Movement in R&D tax credit receivable	14	2,662	2,569	2,662	2,569
Movement in collateral held with third parties	17	(40,672)	1,135	(40,745)	1,602
Movement in other liabilities excl leases and provisions	19	71,024	145,270	71,181	145,230
Net cash from operating activities		1,695,049	814,690	1,696,462	818,672
Cash flows from investing activities					
Purchase of treasury investments	12	(420,977)	(121,611)	(420,977)	(121,611)
Interest received on treasury investments	2, 12	1,359	41	1,359	41
Proceeds from sale and maturity of treasury investments	12	142,112	22,975	142,112	22,975
Purchase of property, plant and equipment	15, 16, 27	(8,290)	(3,279)	(8,189)	(3,092)
Proceeds on disposal of property, plant and equipment		75	–	–	–
Investment in Subsidiaries		–	–	(2,867)	(4,578)
Cumulative translation adjustment		(38)	–	(38)	–
Net cash from investing activities		(285,759)	(101,874)	(288,600)	(106,265)
Cash flows from financing activities					
Net proceeds from issuance of ordinary shares		197,548	112,993	197,548	112,993
Payment of interest portion of lease liabilities	16	(388)	(165)	(388)	(165)
Payment of principal portion of lease liabilities	16	(2,654)	(1,555)	(2,654)	(1,555)
Purchase of treasury shares		–	(209)	–	(209)
Net cash from financing activities		194,506	111,064	194,506	111,064
Effect of exchange rates on cash and cash equivalents		(150)	(5)	–	–
Net increase in cash and cash equivalents		1,603,646	823,875	1,602,368	823,471
Cash and cash equivalents at beginning of year		1,373,722	549,847	1,373,302	549,831
Cash and cash equivalents at end of year		2,977,368	1,373,722	2,975,670	1,373,302

Notes to the financial statements

For the year ended
28 February 2021



1. Significant accounting policies

Reporting entities

These financial statements are prepared for Monzo Bank Limited and its subsidiaries (the Group, Monzo, We, Us, Our). Monzo Bank Limited (the Company, the Bank) is a private limited company incorporated and registered in England and Wales. The subsidiaries include Monzo Inc. and Monzo Support US Inc. which were both incorporated in Delaware; United States. We've presented individual and consolidated financial statements for the Company and the Group.

Basis of preparation

We've prepared the individual and consolidated financial statements on a historical cost basis, except for financial assets which are held at amortised cost, in accordance with international accounting standards in conformity with the requirements of the Companies Act.

We present the financial statements in Sterling which is the Company's functional currency. Figures in tables are shown in thousands of pounds sterling unless otherwise stated.

We present our statement of financial position in order of liquidity. We base this on our intention and ability to recover, or settle, the majority of assets, or liabilities, in the financial statement line.

As we covered in the Directors' Report there are still challenging market conditions that, without an additional capital raise as in previous years, risk our ability to achieve our business plan and become profitable. And our reliance on fundraising creates material uncertainties, which may cast significant doubt over our ability to continue as a going concern. But, as we set out in the Directors' Report, the Directors are confident in our ability to execute our business plan and raise the expected capital required.

The Directors therefore expect us to have enough financial resources to meet our regulatory requirements for at least 12 months and conclude it's still appropriate to continue preparing our financial statements on a going concern basis. The financial statements therefore do not contain adjustments that would result if the company was unable to continue as a going concern.

Summary of significant accounting policies

Basis of consolidation

Monzo Bank Limited has two wholly-owned subsidiaries, Monzo Inc. and Monzo Support US Inc., incorporated in Delaware; US. Monzo Bank Limited has prepared consolidated accounts under IFRS 10.

The consolidated financial statements include the results of the Company and its subsidiaries. The subsidiaries are the entities over which Monzo Bank Limited exercises control. Control exists when the Company has the power to govern the relevant activities of an entity, to vary the returns it receives from the activities of the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The financial results of subsidiaries are included in the consolidated financial statements from the date control starts until the date that control ends.

In preparing the consolidated financial statements intra-group balances, and transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company accounts, the investment in subsidiaries is held at historical cost less impairment. We assess impairment annually or as we become aware of any indicators of impairment.

Foreign exchange

The financial statements are presented in the Group's functional currency Sterling.

The Group applies IAS 21 The Effects of Changes in Foreign Exchange Rates. Transactions in foreign currencies are translated into Sterling at the exchange rate on the date of the transaction. Foreign currency monetary balances are translated into Sterling at the period end exchange rates. Exchange gains and losses on such balances are taken to the Statement of Comprehensive Income. Non-monetary foreign currency balances are translated at historical transaction-date exchange rates.

Interest income and expense calculated under the effective interest rate (EIR) method

According to IFRS 9, we recognise interest income in line with the effective interest rate.

This represents the internal rate of return on the overdraft facilities, loans, treasury assets and deposits with central banks, incorporating where relevant, all interest, direct fees, commissions and charges that are integral to the yield. The internal rate of return is calculated using the expected life of the financial assets. The identified interest, fees and charges are deferred and amortised over the product life.

An interest expense is recognised on balances within Monzo Plus and Monzo Premium accounts which is calculated under the effective interest rate. The monthly fee is a key part of the effective interest rate calculation, as the fee the customer pays determines the rate of interest earned on their balance.

In June 2019, the Financial Conduct Authority (FCA) announced that it was introducing new rules for banks that offer overdrafts to use an Annual Percentage Rate (APR), to make overdraft rates more comparable for customers. We began migrating customers from our fixed fee offering in December 2019 and by April 2020 we had moved all customers over to an APR based overdraft.

Fee and commission income/expense and other operating income

We've recognised fee and commission income and other operating income for the year according to the principles of IFRS 15: Revenue from contracts with customers using the five-step model:

1. Identify the contracts with customers.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction to the performance obligations in the contract.
5. Recognise the revenue when (or as) the entity satisfies the performance obligation.

We only recognise fee and commission income and other operating income over the life of a contract when performance obligations are satisfied.

The key components of fee and commission income are Interchange income, Banking Services income and Partnership commission. Interchange income is recognised at the point that the transaction is cleared. The amount is based on the presentment values which confirm that the performance obligations have been met. Banking Services income includes Subscription income and ATM fees. Subscription income is recognised evenly over the subscription period in line with the services provided. ATM fees are recognised at the point at which the ATM transaction takes place. Partnership commission is earned for introducing our customers to partners, revenue is recognised when we have fulfilled the requirements of the contract with the partner.

Financial instruments

We apply IFRS 9 to recognise, classify, measure and de-recognise financial assets and liabilities, and to record any impairment on those financial assets. We also apply IFRS 7, disclosing information about the significance of financial instruments and the nature and extent of risks arising from financial instruments, in both qualitative and quantitative terms. Where assets are measured at fair value, we apply IFRS 13 to measure the value of those assets.

Recognition. We recognise financial assets and liabilities when Monzo becomes party to a contract. Financial instruments are initially recognised at fair value, inclusive of directly attributable transaction costs.

After initial recognition financial assets and liabilities are then adjusted by the effective interest rate, to be recognised at amortised cost.

The effective interest rate is the rate that exactly discounts estimated future cash flows (including fees that are an integral part of the effective interest rate) through the expected life of the asset or liability.

Financial instruments held at amortised cost are also subject to expected credit loss (ECL) provisions, per IFRS 9. We give more detailed information on our ECLs in Note 24.

Classification and measurement. We classify financial assets on the basis of the business model within which they are managed and their contractual cash flows where they are solely payments of principal and interest.

Our business model is to hold financial assets and liabilities to collect or pay contractual cash flows, rather than to sell the instrument before maturity. The contractual terms of the financial assets held by the Group give rise to cash flows that are solely payments of principal and interest. Therefore, financial assets and liabilities are held at amortised cost using the effective interest rate method.

Contractually defined (regular way) purchases and sales of financial assets are accounted for at trade date.

The contractual maturity and fair value of financial assets and liabilities held at amortised cost are shown in Note 20 and 21.

Derecognition. We derecognise a financial asset, or a part of it, from the balance sheet when the contractual rights to cash flows from the asset have either expired, transferred or have been sold, along with substantially all the risks and rewards of the asset.

We may also make the decision to fully write-off balances, when we decide there is no recoverable value (see Note 24).

Financial liabilities are derecognised when they are settled, have expired or been extinguished.

New and updated accounting standards adopted in the year

There were no new or updated standards relevant to Monzo in the current financial year.

Critical accounting estimates, judgments and assumptions

Preparing the financial statements means using accounting judgements and assumptions. These assumptions and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. We consider the accounting estimates relating to the issues below are the most material to the financial statements:

Going concern

Our Directors have assessed our ability to continue as a going concern and are satisfied that we have the resources to continue for the foreseeable future. But, there is a risk we won't be able to execute our business plan, which could impact our ability to generate a profit or raise enough capital to meet future regulatory capital requirements.

Because of these obstacles, the Directors recognise there continue to be material uncertainties which may challenge our ability to continue as a going concern.

But, the Directors do remain confident in our ability to achieve our business plan and raise capital if necessary. For those reasons, we've continued to prepare the financial statements on a going concern basis. See the Directors' Report for more detail.

Revenue recognition

We recognise revenue which requires estimates and judgements regarding their timing, the completion of performance obligations and when we have reasonable assurance all contractual conditions are met. We recognise performance incentives from our payment scheme providers, which require estimates for transaction volumes and assessment of performance obligations. But, the provider confirms these after recognition.

Recognition of research & development grants (Note 14)

We claim research and development grants which require estimates and assumptions on the time our colleagues spend on certain projects. We use an external advisor to help assess our claim.

Fair valuing stock based compensation (Note 31)

As an unlisted company granting share options to our colleagues, several estimates and assumptions are made to calculate the quarterly options price. The most material estimates relate to the current share price of Monzo, the volatility inputs to our Black-Scholes model and our assumptions on future exercise scenarios. A 5% increase in the share price assumption leads to an additional £0.5m charge in FY2021. Several external sources are used to assess comparable transactions which may not fully represent Monzo.

The measurement of expected credit losses (Note 24)

Under the IFRS 9 accounting standard we have to hold an impairment loss allowance equal to the Expected Credit Loss. The calculation of expected credit losses is complex and involves the use of judgement, specifically regarding the amount and timing of future cash flows and also determining significant increases in credit risk. Our estimates are driven by a number of factors including:

- macro-economic scenarios and their probability weightings;
- the likelihood of default;
- the amount of loss if default occurs; and
- our assessment of significant increases in credit risk.

More information on the calculation of ECL and sensitivity analysis to material inputs is detailed in Note 24.

Tax

We measure current income tax assets and liabilities for the current period at the amount we expect to recover or pay to the taxation authorities. They involve a degree of estimation and judgement. To compute the amounts, we use the tax rates and tax laws which are enacted or substantively enacted at the reporting date when the Company generates taxable income.

We periodically evaluate the positions we take in terms of tax returns where the regulations are subject to interpretation, and establish provisions where we need to. We base tax assets and liabilities relating to open and judgemental matters, including those related to the R&D reclaim, on our assessment of the most likely outcome based on information available and probability of potential challenge.

The recognition of Provisions and Contingent liabilities

Monzo operates in an environment with lots of laws and regulations. This exposes us to significant operational risks. We can be involved in litigation, arbitration and regulatory investigations, both in the UK and other countries we operate.

At any point in time we may have a number of matters being reviewed to assess if we have an obligation that will result in economic outflows from the Group. If we can reliably measure any outflows that are considered probable, we recognise a provision. If an outflow is considered possible we would recognise a contingent liability. But, if we believe sharing details on individual cases would prejudice their outcomes, we don't share detailed, case-specific information in our financial statements. See Notes 25 and 27 for further detail.

Impairment

When we assess assets for impairment, several methods can be used to calculate the fair value, value in use or the recoverable amount of those assets. All of these methods use judgements and estimates to calculate expected values which are often subjective and based on information at the balance sheet date. These calculations regularly include cash flow projections, assumptions on future economic conditions, discount rates and estimates on the value assets could be sold to a third party. See Note 15 and Note 30 for further details.

2. Interest income and expense calculated under the effective interest rate (EIR) method

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Interest income				
Cash and balances at central banks	2,397	6,173	2,397	6,173
Loans and advances to customers	21,359	18,444	21,359	18,444
Treasury assets	183	358	183	358
Other interest income	11	43	11	43
	23,950	25,018	23,950	25,018
Interest expense				
Interest expense on customer deposits	(114)	(98)	(114)	(98)
Interest expense on leases	(1,450)	(491)	(1,450)	(491)
	22,386	24,429	22,386	24,429

Interest expense is charged on the outstanding balance of lease liabilities. The interest rate charged is the proxy for the incremental borrowing rate used to calculate the lease liability at the inception of the lease.

3. Net fees and commission

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Fee and commission income				
Interchange income	39,872	32,621	39,845	32,618
Banking services income	11,416	6,059	11,416	6,059
Partnership commission	781	696	781	696
Partnership commission from trust and other fiduciary activities	2,070	709	2,070	709
	54,139	40,085	54,112	40,082
Fee and commission expense				
Interchange expense	(2,482)	(3,198)	(2,482)	(3,198)
Banking services expense	(9,345)	(7,483)	(9,345)	(7,483)
Net fees and commission	42,312	29,404	42,285	29,401

The reported fees and commissions are those which don't contain an interest element and don't form part of any effective interest rate calculations. We launched new products like Monzo Plus and Monzo Premium this year. Which increased our income from banking services.

4. Credit loss expense on financial assets

We give customers overdraft facilities and unsecured loans to earn a return through interest income. Lending creates credit risk as borrowers might fail to pay the interest or outstanding balance. Credit risk is the risk of financial loss when customers or other counterparties fail to settle their contractual obligations with us or fail to make payments on time. This is usually caused by adverse changes in macro-economic factors or a change in an individual customer's behaviour and circumstances.

The maximum exposure to credit risk includes the total committed overdrafts (Note 24), overdrawn balances and loans on the balance sheet (Note 13). As a material risk to us, there is significant management focus on setting credit risk appetite and embedding appropriate risk mitigation.

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Overdrafts and overdrawn balances and undrawn commitments	1,096	18,053	1,096	18,053
Loans (ECL charge)	2,637	2,974	2,637	2,974
Credit loss expense on loans and advances to customers	3,733	21,027	3,733	21,027
Receivables	88	(773)	88	(773)
Total credit impairment charges	3,821	20,254	3,821	20,254

See Note 24 for more information on the credit loss expense that comes from holding an impairment loss allowance in respect of loans, overdrafts, overdrawn balances and receivables.

In FY2019 we held a credit loss expense against an amount receivable under the prepaid card scheme. In the prior year the outstanding balance was settled, and the credit loss expense unwound, further details can be found in Note 24.

5. Other operating income

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Other income	1,329	2,079	1,329	2,079
Intercompany income	–	–	327	1,410
	1,329	2,079	1,656	3,488

Other operating income includes income from contracts with a payment network provider. From FY2021 we're making R&D tax claims through the Research and Development Expenditure Credit (RDEC) scheme instead of claiming R&D tax credits through the SME scheme. We recognise net RDEC claims in other income and an R&D tax reclaim asset in other assets, see note 14.

6. Personnel expenses

Pensions

We participate in single defined contribution pension schemes in the UK and the US. The contribution payable to a defined contribution plan is a fixed percentage of the person's salary each month which is the same for all colleagues of each entity, unless they have opted out. This is recorded as an expense under personnel expenses. Unpaid contributions are recorded as a liability.

We don't operate any defined benefit pension plans.

People-related expenses are made up of the costs summarised in the table below.

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Salaries	68,174	54,466	65,202	51,618
Share-based payments	25,168	14,365	24,833	14,294
Social security contributions	7,187	5,603	6,917	5,284
Contributions to defined contribution plans	2,060	1,718	2,006	1,712
Other personnel expenses	1,301	1,334	834	878
	103,890	77,486	99,792	73,785

The increase in people costs to £103.9m (FY2020: £77.5m) reflects the additional people hired during the year to support the operational running of the Group. We also recognised a non-recurring expense of £11.0m on share-based payments. See note 31 for more details.

We recognised a £1.4m reduction to personnel expenses because of a government grant. See Note 7 for more details on the grant.

The average number of people in the Group during the period was 1,332 (FY2020: 1,128), 503 (FY2020: 479) of these worked in Management, Operations and Administration and 829 (FY2020: 649) worked in Customer Operations (COps).

7. Government grants

We only recognise government grants when we have reasonable assurance that we'll meet the conditions attached to the grant, and the grant will be received.

We recognise grants as income or as a reduction to expense, on a straight-line basis, in the same period as the related costs.

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
As at 1 March	365		365	
Received during the year	1,719	365	1,719	365
Released to the statement of profit or loss	(1,419)	–	(1,419)	–
At 28 February	665	365	665	365

During the year we made use of the Furlough (Coronavirus Job Retention) Scheme. We recognised the claimed amounts as a deduction to personnel expenses at the time of the claim. We received the full £1.4m that we claimed during the year in cash by the 28th of February 2021, see Note 6. There were no unfulfilled conditions or contingencies on the grants recognised in personnel expenses.

We've received another government grant which we haven't recognised in the year. The grant relates to our team in Cardiff. We haven't met all of the requirements to recognise the grant. So we've included it in Deferred income in Other Liabilities Note 19.

8. Directors' remunerations

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Total Directors' emoluments				
Salaries	1,134	724	1,134	724
Share-based payments	686	265	686	265
Contributions to defined contribution plans	23	12	23	12
	1,843	1,001	1,843	1,001
Highest paid Director				
Salaries	260	173	260	173
Share-based payments	401	265	401	265
Contributions to defined contribution plans	10	8	10	8
	671	446	671	446

As at 28 February 2021 there were no loans outstanding to Directors (FY2020: £nil) and there were no loans made to Directors during the period (FY2020: £nil).

Some Directors were granted share options in the year. There were no share options exercised by Directors in the year and there were no shares given to Directors under any compensation schemes.

9. Other operating expenses

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Current account operating costs	32,493	25,406	32,524	25,199
Technology costs	14,393	10,257	14,373	10,168
Marketing	526	16,837	525	16,770
Administrative expenses	5,454	6,397	5,235	6,279
Premise and office costs	4,166	4,179	3,906	3,691
Legal and professional fees	19,307	5,686	18,832	4,894
Accountancy and audit fees	2,351	1,107	2,351	1,107
Product development	389	421	370	391
Write-offs & Disposals	274	47	105	29
Prepaid card scheme	(11)	35	(11)	23
Intercompany expenses	–	–	3,237	3,554
Impairment of investment in subsidiaries	–	–	1,820	4,286
	79,342	70,372	83,267	76,391

Current account operating costs include the cost of payment schemes, card production, card distribution, customer on-boarding and operational losses. These costs are lower for the Group because Monzo Inc received a reimbursement in the year.

Technology costs include charges for servers, cloud services and software.

Legal and professional fees include the costs of consultants, lawyers and other outsourced teams like internal audit. These costs have increased as we've brought in expertise to work on specific projects to improve our business. And also to give us more flexibility over the number of people we need at a given time.

10. Taxation

Current taxation

We measure current income tax assets and liabilities for the current period at the amount we expect to recover or pay to the taxation authorities. They involve a degree of estimation and judgement. To compute the amounts, we use the tax rates and tax laws which are enacted or substantively enacted at the reporting date when the Company generates taxable income.

Management periodically evaluates the positions we take in terms of tax returns where the regulations are subject to interpretation, and establishes provisions where we need to. We base tax assets and liabilities relating to open and judgemental matters, including those related to the R&D reclaim, on our assessment of the most likely outcome based on information available and probability of potential challenge. We engage constructively and transparently with the tax authorities with a view to resolving any uncertain tax matters.

Deferred tax

No deferred tax assets have been recognised as at 28 February 2021 (FY2020: £nil).

We recognise deferred tax on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. We determine deferred income tax based on tax rates and laws which have been enacted, or substantively enacted, by the reporting date and are expected to apply when the asset is realised or the deferred income tax liability is settled.

We recognise deferred income tax assets only to the extent that it's probable that future taxable profits will be available against which we can use the temporary differences.

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Current tax				
UK corporation tax credit on loss for the period	–	1,968	–	1,968
Adjustment in respect of prior years	303	(313)	303	(313)
Total for the year	303	1,655	303	1,655

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Current tax				
Loss on ordinary activities before tax	130,001	115,471	129,458	116,344
Standard rate of corporation tax	19%	19%	19%	19%
Expected tax credit	24,700	21,940	24,597	22,106
Effects of:				
Fixed asset differences	(150)	–	(150)	
Expenses not deductible for tax	(2,216)	(272)	(2,561)	(1,086)
Share options exercised	2	34	2	34
Qualifying donations unutilised	(1)		(1)	
Additional deduction for R&D expenditure	–	1,457	–	1,457
Impact of surrendering losses at lower rate for R&D credit	–	(611)	–	(611)
R&D expenditure credits	(38)		(38)	
Adjustment to tax charge in respect of prior period	303	(313)	303	(313)
Impact of differences in overseas tax rates	229	201	–	–
Other	(119)	(4)	–	–
Deferred tax asset not recognised	(22,370)	(20,777)	(21,849)	(19,932)
Impact of FX rates	(37)	–	–	–
Total UK corporate tax credit for the period	303	1,655	303	1,655

The Group's profits/losses are taxed at different rates depending on the country they are made. The Group is currently taxed in the UK at a rate of 19% (2020:19%) and in the US at a rate of 29.56% (2020: 24.95%).

Since the end of our financial year, the UK Government announced in the Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change was substantively enacted on 24 May 2021.

We have not recognised a deferred tax asset for tax losses carried forward in the UK totalling £260m (2020: £160m) and the US totalling \$7.6m (2020: \$2.2m) as there isn't enough evidence of their recoverability.

A deferred tax asset has not been recognised on the following items:

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Deferred tax				
Unused tax losses	51,022	27,741	49,420	27,278
Fixed asset timing differences	505	176	281	176
Share based payments	30,374	24,646	30,271	24,628
Other deductible temporary differences	72	435	77	69
	81,973	52,998	80,049	52,151

Our unrecognised deferred tax is a mixture of unrecognised deferred tax assets relating to the UK and applying a rate of 19% (2020: 17%) and US at the rate of 29.56% (2020: 24.95%).

We didn't hold any cash equivalents in the year.

Cash and balances at banks are recognised initially at fair value and then at amortised cost.

11. Cash and balances at banks

Cash and balances are held on demand, except for amounts held as collateral at central banks. We show them in accordance with the regulatory license held by the institution.

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Cash and balances held with:				
Central banks	2,808,297	1,316,459	2,808,297	1,316,459
Other banks	62,802	35,277	61,124	34,895
E-money institutions	186	627	166	589
Reserves with central banks	106,083	21,359	106,083	21,359
	2,977,368	1,373,722	2,975,670	1,373,302

At the end of the reporting period £43.1m of the reserves with central banks were encumbered. They're held at central banks as cash collateral and not available for use in day-to-day operations. We need this to be a direct settling participant of

the Faster Payments Service. Overnight deposits accrue compounding interest daily, but the interest is only made available to us at each rate setting meeting.

12. Treasury investments

Treasury assets consist of fixed coupon bonds and are first measured at fair value and then at amortised cost. It is our business model to hold the investments to maturity and the cash flows of the investments are solely payments of principal and interest.

No impairment is held against senior UK government, senior supranational debt or central bank deposits as the probability of default is negligible under any range of reasonable, probability-weighted scenarios.

For further information on the fair value and contractual maturity of our treasury investments, see Notes 20 and 21.

For further information on the fair value and contractual maturity of our treasury investments, see Notes 21.

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Treasury investments at amortised cost				
UK Government debt	–	98,953	–	98,953
Supranational debt	376,641	–	376,641	–
	376,641	98,953	376,641	98,953

At the end of the reporting period £32.2m of our Treasury investments were encumbered. So these assets aren't considered to be High Quality Liquid Assets (HQLA).

13. Loans and advances to customers

Loans and advances to customers are made up of unsecured loans, approved overdrafts and overdrawn balances (unarranged overdrafts). We measure them under IFRS 9, first at fair value and then at amortised cost less ECL.

The table below shows the gross loans and advances to customers, the ECL on those balances, and the net carrying value. The figures are split out by the type of balance the customer has.

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Gross Loans and Advances to Customers				
Overdrafts and overdrawn balances	56,818	72,980	56,818	72,980
Loans	47,772	70,929	47,772	70,929
Gross Loans and Advances to Customers	104,590	143,909	104,590	143,909
Credit loss provision				
Overdrafts and overdrawn balances	(12,600)	(17,014)	(12,600)	(17,014)
Loans	(4,843)	(2,982)	(4,843)	(2,982)
Credit loss provision	(17,443)	(19,996)	(17,443)	(19,996)
Loans and Advances to Customers (net of provisions)				
Overdrafts and overdrawn balances	44,218	55,966	44,218	55,966
Loans	42,929	67,947	42,929	67,947
Loans and Advances to Customers	87,147	123,913	87,147	123,913
Analysis of Gross Loans and Advances to Customers				
Due within one year	75,047	95,020	75,047	95,020
Due in more than one year	29,543	48,889	29,543	48,889
Loans and Advances to Customers	104,590	143,909	104,590	143,909

Loans and advances to customers are made up of approved overdrafts given to customers of £54.7m (FY2020: £71.5m), overdrawn balances on current accounts of £1.5m (FY2020: £1.5m), and loans of £47.8m (FY2020: £70.9m). See Note 24 for more information on the impairment charge in respect of overdraft, overdrawn balances, and loans.

14. Other assets

1. **Receivables** – We recognise receivables first at fair value and then at amortised cost. We recognise expected credit losses under IFRS 9 against certain receivables. The Group's expected credit losses for the year are shown in Note 4. Receivables in respect of payment schemes represent cash balances which are due to be received from third party payment schemes. The settlement cycle is dependent on the scheme, but is usually within a few working days of the transaction.

2. **Accrued income** – We recognise accrued income where we have earned income under our contracts with partners but have not yet invoiced those partners or received the cash due to us.

3. **Inventory** – We value inventory at the lower of cost and net realisable value. It includes bank cards held for sale in the ordinary course of business.

4. **Prepayments** – We recognise prepayments where we've bought goods or services that we haven't yet used.

		Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020	
	£'000	£'000	£'000	£'000	
Other assets					
Receivables in respect of payments schemes	91,247	67,583	91,238	67,575	
Accrued income	481	378	526	378	
Inventory	2,806	2,241	2,806	2,241	
Prepayments	6,821	8,856	6,751	8,732	
Other receivables	292	691	286	663	
Intercompany accounts receivable	–	–	287	–	
VAT receivable	–	142	–	142	
R&D tax reclaim	847	3,509	847	3,509	
Deposits	3,148	4,525	3,140	4,421	
	105,642	87,925	105,881	87,661	

Included within other assets are £95.1m (FY2020: £73.2m) of financial assets and £10.5m (FY2020: £14.7m) of non-financial assets. The credit quality of the financial assets is considered low risk. They're mostly settled the next working day, so the balance is higher when our financial year end falls on a weekend. £84.1m of this balance settled on 1st March 2021.

We've recognised an R&D tax reclaim based on an analysis of eligible costs and treat it as a non-financial asset. During the year we received £1.5m and £2.3m relating to our FY2019 and FY2020 claims, respectively. Our estimated net RDEC claim of £0.8m for FY2021 has been recognised in full in other operating income.

15. Property, plant and equipment

We show items of property, plant and equipment at cost less accumulated depreciation and impairment. Historical cost includes expenditure that's directly attributable to the cost of the assets.

We recognise right-of-use assets at the commencement date of the lease. The Group has lease contracts for various offices and premises and IT infrastructure, see Note 16. We recognise depreciation on fixtures and fittings, which include office fit-out costs, on a straight-line basis over the life of the lease.

During the year we renegotiated the timing, and amount, of lease payments for one of our offices. We've treated this as a lease modification resulting in a £0.7m reduction in right-of-use assets at cost, shown in the table below. There was a corresponding reduction in the outstanding lease liability, shown in Note 16.

We provide depreciation on all property, plant and equipment, and calculate it using the straight-line method to allocate the cost, net of residual values, over the estimated useful lives, as follows:

- Office and IT Equipment: 3 years.
- Fixtures and fittings: 3–5 years.
- Offices and premises: 2–5 years.
- IT infrastructure:* 3 years.

* We have 'evergreen' lease contracts which continue until either we, or the lessor, cancel the contract. We expect the most likely term for these leases to be the same as for other IT equipment. We've calculated a right-of-use asset and lease liability on this basis.

At the end of each reporting period we check to see whether there are signs that any of our assets could be impaired. At the end of the year, part of our office space was not being used which indicated that it may be impaired. We assessed the assets value-in-use and compared it with the carrying value.

We've estimated the value-in-use as £2.9m using a discount rate of 8.3%. From our assessment we concluded that we needed an impairment of £3.9m, which is a non-recurring expense. This impairment is shown in the table below:

Group	Property, plant and equipment		Right-of-use assets		Total
	Fixtures and fittings	Office and IT equipment	Offices and premises	IT infrastructure	
	£'000	£'000	£'000	£'000	
Cost					
As at 1 March 2020	1,914	4,115	19,159	158	25,346
Additions	6,294	1,780	7,535	–	15,609
Modifications	–	–	(733)	–	(733)
Impairments	–	–	(3,876)	–	(3,876)
Write-offs	(841)	(447)	(1,456)	–	(2,744)
As at 28 February 2021	7,367	5,448	20,629	158	33,602
Depreciation					
As at 1 March 2020	843	1,698	1,501	51	4,093
Charge for the period	1,064	1,447	2,570	53	5,134
Depreciation on assets written off	(775)	(200)	(1,245)	–	(2,220)
As at 28 February 2021	1,132	2,945	2,826	104	7,007
Net book value as at 28 February 2021	6,235	2,503	17,803	54	26,595
Cost					
As at 1 March 2019	936	2,241	2,244	33	5,454
Additions	1,036	1,882	16,915	125	19,958
Write-offs	(58)	(8)	–	–	(66)
As at 29 February 2020	1,914	4,115	19,159	158	25,346
Depreciation					
As at 1 March 2019	261	638	–	–	899
Charge for the period	593	1,065	1,501	51	3,210
Depreciation on assets written off	(11)	(5)	–	–	(16)
As at 29 February 2020	843	1,698	1,501	51	4,093
Net book value as at 29 February 2020	1,071	2,416	17,658	107	21,253

Company	Property, plant and equipment		Right-of-use assets		Total
	Fixtures and fittings	Office and IT equipment	Offices and premises	IT infrastructure	
	£'000	£'000	£'000	£'000	
Cost					
As at 1 March 2020	1,912	3,927	19,159	158	25,156
Additions	6,294	1,679	7,535	–	15,508
Modifications	–	–	(733)	–	(733)
Impairments	–	–	(3,876)	–	(3,876)
Write-offs	(841)	(188)	(1,456)	–	(2,485)
As at 28 February 2021	7,365	5,418	20,629	158	33,570
Depreciation					
As at 1 March 2020	844	1,671	1,501	51	4,067
Charge for the period	1,064	1,420	2,570	53	5,107
Depreciation on assets written off	(775)	(165)	(1,245)	–	(2,185)
As at 28 February 2021	1,133	2,926	2,826	104	6,989
Net book value as at 29 February 2021	6,232	2,492	17,803	54	26,581
Cost					
As at 1 March 2019	915	2,241	2,244	33	5,433
Additions	1,036	1,694	16,915	125	19,770
Write-offs	(39)	(8)	–	–	(47)
As at 29 February 2020	1,912	3,927	19,159	158	25,156
Depreciation					
As at 1 March 2019	261	638	–	–	899
Charge for the period	592	1,038	1,501	51	3,182
Depreciation on assets written off	(9)	(5)	–	–	(14)
As at 29 February 2020	844	1,671	1,501	51	4,067
Net book value as at 29 February 2020	1,068	2,256	17,658	107	21,089

16. Leases

We recognise lease liabilities in Other Liabilities, further information is included in Note 19.

At the start of a contract we assess whether it is, or contains, a lease. That is, if the contract gives us the right to control the use of an identified asset for a period of time in exchange for payment.

We apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. We recognise lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Lease liabilities

At the commencement date of the lease, we recognise lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable. None of the leases have variable lease payments. Where leases include extension options, and these options are reasonably certain to be exercised, we include the option to extend in the lease term.

In calculating the present value of lease payments, we use a proxy for our incremental borrowing rate at the lease commencement date because neither the interest rate implicit in the lease or an incremental borrowing rate is available. After the commencement date, we increase lease liabilities to reflect the accumulation of interest and reduce them for lease payments made.

Estimating the incremental borrowing rate

We can't readily determine the interest rates implicit in these leases or our incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that we'd have to pay to borrow over a similar term, for a similar security, to fund an asset of similar value in a comparable economic environment. The IBR reflects what we 'would have to pay', which we have to estimate as we don't have internal observable rates as we've not entered into any financing transactions.

We've estimated our IBR using external observable inputs (like the borrowing rates of peers and the nominal spot curves at the beginning of the lease to adjust for the term of the lease) when available to calculate a proxy for the IBR specific to each lease.

Short-term leases and leases of low-value assets

We apply the short-term lease recognition exemption to leases with terms of 12 months or less, at the commencement date, and that do not contain a purchase option. We also apply the 'lease of low-value assets' recognition exemption to new leases of assets, worth less than £5k. We recognise lease payments on short-term leases and leases of low value assets as an expense on a straight-line basis over the lease term.

During the year we renegotiated the timing, and amount, of lease payments for one of our offices. We've treated this as a lease modification which resulted in a £0.7m reduction in lease liabilities, shown in the table below. There's a corresponding reduction in the right-of-use asset at cost, shown in Note 15.

We've shown below the movements on lease liabilities during the year:

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Lease liabilities				
As at 1 March	17,023	2,623	17,023	2,623
Additions	7,052	15,684	7,052	15,684
Modifications	(733)	–	(733)	–
Interest expense on leases	1,373	446	1,373	446
Payments	(3,042)	(1,730)	(3,042)	(1,730)
As at 28 February	21,673	17,023	21,673	17,023

The interest expense on leases shown above doesn't include the unwinding of the discount on dilapidation provisions related to those leases. That's included in Note 27.

We've shown below the amounts relating to leases that have been recognised in profit or loss:

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Amounts recognised in profit or loss				
Depreciation expense on right-of-use assets	6,499	1,552	6,499	1,552
Interest expense on leases	1,373	446	1,373	446
Expense relating to short-term leases included in operating expenses	241	432	–	–
Expense relating to low-value leases included in operating expenses	45	9	45	9
	8,158	2,439	7,917	2,007

We had total cash outflows for leases, not including short-term or low-value, of £3.0m in FY2021 (FY2020: £1.7m). We also had non-cash additions to right-of-use assets and lease liabilities of £7.1m in FY2021 (FY2020: £15.7m).

17. Collateral held with third parties

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Held as part of lease agreements	–	290	–	290
Held with payment network providers	56,314	15,352	55,920	14,885
	56,314	15,642	55,920	15,175

We've had to set aside more money as collateral for our payment network providers because our customers are spending more money.

18. Customer deposits

We recognise customer deposit liabilities firstly at fair value and then at amortised cost.

The Bank holds customer deposits at the end of the year of £3,124.0m (FY2020: £1,392.5m) which are held on demand.

19. Other liabilities

Customer funds in transit

These amounts represent cash balances which are due to be settled with third party payment network providers or third party savings accounts. The settlement cycle is dependent on the counterparty, but is usually within a few working days of the transaction. On settlement, we derecognise these amounts from the balance sheet. We recognise these amounts at amortised cost.

Provisions

We recognise provisions under IAS 37 where we have present obligations arising from past events and the payment of the obligation can be reliably estimated and is probable. We've recognised provisions for the cost of returning leased office space to its original condition at the end of the lease. We also recognised provisions for professional service fees and customer remediation costs expected in FY2022 where an obligation arose for those costs in FY2021. See Note 27.

Deferred income

This represents amounts charged to, or received from, customers and amounts received as part of Government grants, where we haven't yet met the criteria to recognise the amounts as income.

Leases liabilities

For information on the recognition of lease liabilities please see Note 16. For an analysis of the contractual maturity of lease payments, see Note 21.

Other

These amounts represent liabilities for goods and services provided to Monzo before the end of the financial period which are unpaid. The amounts are unsecured and paid in line with the specific terms agreed with the counterparty. We recognise them first at fair value and then at amortised cost.

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Other liabilities				
Customer funds in transit	235,698	166,421	235,698	166,421
Lease liabilities	21,673	17,023	21,673	17,023
Accruals	10,179	6,285	10,055	6,142
Accounts payable and other creditors	2,641	6,298	2,590	6,082
Other taxes and social security costs	2,886	2,405	2,886	2,405
Deferred income	1,443	414	1,443	414
Provisions	1,149	1,041	1,149	1,041
Other provisions	8,098	–	8,098	–
Intercompany accounts payable	–	–	328	355
	283,767	199,887	283,920	199,883

Included within other liabilities are £270.2m (FY2020: £196.1m) of financial liabilities and £13.6m (FY2020: £3.8m) of non-financial liabilities

20. Fair value of financial assets and liabilities recognised at amortised cost

Fair value hierarchy

The fair value of financial assets and liabilities is the price that would be received or paid to transfer an asset or liability in an orderly transaction between market participants at the measurement date.

IFRS 13 has sought to make measurements at fair value more consistent and comparable by categorising fair value according to the hierarchy of the inputs used to measure them. These categories, from Level 1 to Level 3, are based on how observable the fair value is.

Level 1

Quoted prices in active markets for identical assets or liabilities which we can access at the date of measurement.

Level 2

Inputs other than quoted market prices included in Level 1 that are observable either directly or indirectly.

Level 3

Inputs that are not based on observable market data.

We've summarised the fair values of financial assets and liabilities by the level of inputs below. We've only shown these for the Group because they're not materially different for the Company.

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£'000	£'000	£'000	£'000	
As at 28 February 2021					
Financial assets					
Cash and balances at bank	–	2,977,368	–	2,977,368	2,977,368
Treasury investments	373,296	–	–	373,296	376,641
Loans and advances to customers	–	–	86,473	86,473	87,147
Other assets	–	95,121	–	95,121	95,121
Collateral held with third parties	–	56,314	–	56,314	56,314
Total financial assets	373,296	3,128,803	86,473	3,588,572	3,592,591
Financial liabilities					
Customer deposits	–	3,124,046	–	3,124,046	3,124,046
Other liabilities	–	248,522	21,673	270,195	270,195
Total financial liabilities	–	3,372,568	21,673	3,394,241	3,394,241
Net asset position	373,296	(243,765)	64,800	194,331	198,350
As at 29 February 2020					
Financial assets					
Cash and balances at bank	–	1,373,722	–	1,373,722	1,373,722
Loans and advances to customers	–	–	120,436	120,436	123,913
Treasury investments	98,960	–	–	98,960	98,953
Other assets	–	73,192	–	73,192	73,192
Collateral held with third parties	–	15,642	–	15,642	15,642
Total financial assets	98,960	1,462,556	120,436	1,681,952	1,685,422
Financial liabilities					
Customer deposits	–	1,392,517	–	1,392,517	1,392,517
Other liabilities	–	179,078	–	179,078	179,078
Total financial liabilities	–	1,571,595	–	1,571,595	1,571,595
Net asset position	98,960	(109,039)	120,436	110,357	113,827

Basis of valuation

Cash and balances at banks

We consider fair value to approximate carrying value because cash and balances at banks have minimal credit risk and are short term in nature, other than amounts held as collateral with central banks.

Loans and advances to customer

We've determined the fair value of the overdrafts and loans by discounting the gross carrying value to present value, using market interest rates, less Expected Credit Losses.

Treasury investments

We've taken the fair value of investments with an active market from the market price available at year end.

Customer deposits

We consider the fair value of deposit liabilities held on demand to approximate the carrying value.

Other assets and liabilities

We consider the fair value of other assets and liabilities to approximate the carrying value.

21. Liquidity risk management

Liquidity risk is the risk that we fail to meet our 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. Our liquidity risk appetite is to meet all liabilities as they fall due. The contractual maturities of financial assets and liabilities are calculated on the contractual cash flows. We've shown them undiscounted below.

Contractual maturity of financial assets and liabilities

	On demand	Less than three months	Between three and six months	Between six months and one year	Over one year	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 28 February 2021						
Gross financial assets						
Cash and balances at bank	2,871,285	168	–	–	105,914	2,977,367
Treasury investments	–	344	187	2,322	376,892	379,745
Loans and advances to customers	55,327	6,715	5,359	9,536	31,614	108,551
Other assets	84,866	7,107	–	–	3,148	95,121
Collateral held with third parties	–	–	–	–	56,314	56,314
Total gross financial assets	3,011,478	14,334	5,546	11,858	573,882	3,617,098
Financial liabilities						
Customer deposits	3,124,046	–	–	–	–	3,124,046
Other liabilities – excluding lease liabilities	31,134	217,388	–	–	–	248,522
Lease liabilities	–	1,534	1,534	2,956	19,515	25,539
Total financial liabilities	3,155,180	218,922	1,534	2,956	19,515	3,398,107
Net asset position	(143,702)	(204,588)	4,012	8,902	554,367	218,991
As at 29 February 2020						
Gross financial assets						
Cash and balances at bank	1,352,363	660	–	–	20,700	1,373,723
Treasury investments	–	98,953	–	–	–	98,953
Loans and advances to customers	71,035	8,861	6,712	12,363	53,078	152,049
Other assets	64,219	6,648	105	12	2,208	73,192
Collateral held with third parties	5	290	–	477	14,870	15,642
Total gross financial assets	1,487,622	115,412	6,817	12,852	90,856	1,713,559
Financial liabilities						
Customer deposits	1,392,517	–	–	–	–	1,392,517
Other liabilities – excluding lease liabilities	24,759	154,319	–	–	–	179,078
Other liabilities	–	903	996	1,992	16,976	20,867
Total financial liabilities	1,417,276	155,222	996	1,992	16,976	1,592,462
Net asset position	70,346	(39,810)	5,821	10,860	73,880	121,097

Our undrawn overdraft commitments of £222.9m (FY2020: £278.1m) are all on demand.

Our Treasury team manages liquidity risk. ALCo monitors the reporting and management of liquidity risk, which meets on a monthly basis. We currently hold our surplus assets in overnight deposits with central banks and in treasury assets which can be liquidated on demand to give liquidity. The key metric we use to monitor liquidity risk is the Liquidity Coverage Ratio (LCR). At year end and at all times throughout the year, we were significantly in excess of all liquidity targets.

22. Capital risk management

Capital risk is the risk that we don't have the quantity or quality of capital resources to meet our capital requirements and to absorb unexpected losses if they were to occur. Causes of inadequate capital could include a high level of default on overdrafts, or having large unexpected operational losses.

We continue to maintain capital ratios that exceed our minimum requirements under the Capital Requirement Directive IV regulatory framework. Full details of our regulatory capital and calculation of our regulatory total capital requirement are given in the Pillar 3 report published on our website. We refresh our ICAAP on an annual basis, which includes a 3 year forecast of our capital position. The ICAAP is used to inform the future capital strategy. We submit it to the PRA following Board scrutiny and approval.

The ICAAP assesses our Pillar 1 requirements using the Standardised/Basic Indicator approaches (for respectively credit risk and operational risk capital) and determines additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. We also hold Pillar 2B capital based upon wind-down costs and the regulatory determined capital conservation buffer and countercyclical buffer.

We also do a series of stress and scenario testing during a 3 year forecast to assess the resilience of the capital position. In all cases, we've shown that we're able to withstand the Board approved stress scenarios, in some cases because management actions have been taken to mitigate the effect of these stresses.

Key capital risk metrics

Our key capital metric is the current and projected surplus of capital resources over regulatory capital requirements. We also monitor the CET1 ratio. Currently our capital resources consist solely of paid up share capital. As at 28 February 2021 our CET1 ratio was 99% (FY2020: 70%) (unaudited) based on our minimum capital requirements. During the year ended 28 February 2021, we complied in full with all our externally imposed capital requirements.

23. Market risk management

Interest rate risk

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

- **Duration risk** – when the re-pricing of banking products (assets and liabilities) is mismatched across time buckets.
- **Basis risk** – when banking book items re-price in relation to different reference rates, like the central bank base rate.
- **Optionality risk** – when our customers and counterparties have choices within their contracts with us, like the ability to repay at a different point in time.

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 line with our risk appetite framework and our regulatory constraints. Our governance committees manage these risks, including the ALCo who evaluate new initiatives and risks.

Our Treasury team monitors Interest rate risk on a daily and monthly basis. Our Treasury team is overseen by our Risk function and reports to the ALCo on a monthly basis. The Treasury team is responsible for balance sheet management and hedging strategies to manage interest rate risk.

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. This includes the six scenarios set out in EBA guidelines on the management of interest rate risk arising from non-trading book activities. We apply a floor to the yield curve used in IRRBB analysis.

	28th February 2021	
Interest rate risk	-200bps	+200bps
Impact to annual interest income (£'000)	(19,405)	55,058
Impact as percentage of Net Assets at year end	-8.75%	24.81%
Impact as percentage of Net Assets at year end	(11,521)	30,457

Foreign exchange risk

Foreign currency risk arises from having assets and liabilities in currencies other than Sterling.

At year end our main exposure to foreign currency risk was on balances held in US Dollars and Euros for use in day-to-day operations. We consider the risk of fluctuations in foreign exchange rates on these balances to be immaterial.

24. Credit risk

Credit risk is the risk of financial loss when customers or other counterparties fail to settle their contractual obligations to us or fail to perform their obligations in a timely manner.

We currently give overdrafts and short term unsecured loans to individuals to generate a return through overdraft fees and interest income. Lending creates credit risk as borrowers might fail to pay the fees/interest or the capital due.

As a material risk to us, there's significant management focus on setting credit risk appetite and monitoring and managing the credit risk in the portfolio.

Credit risk management

Credit risk in the retail portfolios is monitored and managed by the Borrowing Collective and overseen by the CRO function as the 2nd Line of Defence. The principal committee at which our retail credit risk is scrutinised and managed is the Credit Risk Committee which is overseen by the ERCC. In addition, the overall risk appetite and lending criteria and policy are approved by the Board.

The Credit Risk Committee monitors a responsible lending policy and ensures appropriate controls are in place to maintain the quality of lending, including reviewing management information that includes credit portfolio and financial accounting metrics. Early warning indicators, credit performance trends and key risk indicators are monitored within the Borrowing Collective with recommendations discussed at the Credit Risk Committee for approval and subsequent implementation. These indicators and trends include IFRS 9 related measures like PD and loss amounts. These are used in combination with other metrics to inform the business strategy. Overarching appetite indicators are tracked at the ERCC and at the Board Risk Committee.

There's also Credit Risk in the Treasury portfolio, albeit, given the low risk investment strategy it's not significant. Any wholesale credit risk is monitored and managed through ALCo with onward reporting to the Board as needed.

Credit risk mitigation

Retail credit risk is mitigated through the use of robust assessment criteria and processes at point of origination together with active customer management practices.

We use lending criteria when assessing applications for overdrafts and loans which are aligned to Affordability principles (as outlined in the FCA's Consumer Credit sourcebook) and our risk appetite. The general approval process uses application data provided by the customer when they take on an overdraft or loan and their credit history using information held by credit reference agencies.

Customer exposure is actively managed to make sure that lending exposure is within the risk appetite at all times. As a result, overdraft limits can be revised when applications are reassessed. All lending policies are determined with reference to current and likely future expectations of the UK's macroeconomic environment and with an expectation that material losses will not occur.

The primary aim of ongoing customer management activity is to treat customers fairly. When appropriate, we contact each customer in financial difficulty individually to discuss their circumstances. Where a customer is identified as vulnerable or in financial difficulty, we offer a range of support, tools and assistance (or signpost them towards external organisations that can give them extra support). This means we can agree individual actions or plans with each customer, which helps to bring customers' facilities back into a sustainable position or help customers repay their remaining debt at an affordable rate.

Wholesale credit risk is trivial and is mitigated through a cautious wholesale credit risk appetite set and overseen by ALCo. This restricts exposure only to high quality counterparties.

Credit Impairment Loss Allowance

To account for the credit risk in the portfolio, Monzo reduces the value of the assets on the balance sheet using an Impairment Loss Allowance (provision) under the IFRS 9 accounting standard. IFRS 9 requires the calculation of an Expected Credit Loss (ECL) for assets on the balance sheet held at amortised cost or Fair Value through Other Comprehensive Income.

Impairment Loss Allowance under IFRS 9

IFRS 9 requires the recognition of an ECL that is unbiased based on forward-looking information probability weighted across a range of possible outcomes. For Monzo this is applicable to all financial assets measured at amortised cost. Under the IFRS 9 standard, 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, a 12-month ECL is recognised and interest income is calculated on the gross carrying amount of the asset. The 12-month ECL is the expected credit losses that result from default events that are anticipated within the 12 months following 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, a lifetime ECL is recognised and interest income is still calculated on the gross carrying amount of the asset. The lifetime ECL is the expected credit losses that result from all possible default events over the expected life of the asset.
- **Stage 3** – For assets that have objective evidence of impairment at the reporting date and meet our definition of default, a lifetime ECL is recognised and interest income is calculated on the carrying amount net of the impairment loss allowance.

The IFRS 9 Impairment Loss Allowance is approved by the CFO supported by the Impairment Council, which is chaired by the CFO. The loss allowance is governed by the Impairment Policy which is ultimately approved by the Board. The Impairment Council is responsible for recommending the monthly IFRS 9 ECL numbers recognised in our books and records, ensuring that ECL have been calculated in line with the governance and controls required by the Monzo IFRS 9 Impairment Policy.

The meeting provides the primary means for:

- Oversight and governance of controls for the impairment process.
- Ongoing assessment of the suitability, structure, implementation and performance of the controls embedded within the First Line of Defence.
- Selection of IFRS 9 economic scenarios and their weighting.
- Making recommendations on the need for Expert Credit Judgement provision, including the quantum and period of application. This includes both in-model and post-model adjustments.
- Assessment of drivers of change in ECL, with a specific focus on the metrics required for external and regulatory reporting.

- Making recommendations to the Board on changes to policy, and highlight impacts to impairment loss allowance on risk appetite, business planning, strategy and product changes.

Wholesale and Other assets

We have applied the low credit risk exemption for wholesale assets including UK Treasury investments and assets held with central banks. Low credit risk is defined when there is a low risk of default, the borrower has a strong capacity to meet its short term obligations and adverse changes in economic and business conditions will not necessarily reduce the ability of the borrower to meet its longer term obligations.

We also applied a simplified approach to other trade receivables. These are short term in nature, the lifetime ECL does not exceed the 12-month ECL and where recognised, the lifetime ECL doesn't identify significant increases in credit risk.

Expected Credit Loss modelling

The Expected Credit Losses are the anticipated shortfalls from the contractual cash flows over the expected life of a financial asset allowing for the time value of money. ECL is calculated at the individual financial instrument level, but a collective approach (grouping financial instruments with similar risk characteristics together) is used where effects can only be seen at a collective level, e.g. for forward-looking information. The assets are currently grouped by lending product as these share similar risk characteristics. The results of any collective approach are applied at individual asset level. The impairment model calculates ECL at an account level by multiplying the probability of default (PD), exposure at default (EAD) and the loss given default (LGD) and discounting using the original effective interest rate (EIR) or an approximation thereof.

- PD represents the likelihood of a customer defaulting on their overdraft or loan over a suitable time frame (the next 12 months or the remaining lifetime). This uses data provided by an external Credit Reference Agency which is suitably combined with internal performance data.

- EAD estimates the amount expected to be owed at default. For overdrafts, the EAD is calculated by taking the current drawn balance and adding a credit conversion factor that allows for the expected drawdown of the remaining limit by the time of default. For Loans, the EAD is calculated based on the contractual repayment schedule and accounts for missed payments and accrued interest up to the point of default.

- LGD is the expectation of loss on an exposure that meets our definition of default. It represents our expectation of the extent of loss on a defaulted exposure and is expressed as a percentage loss per unit of EAD.

The ECL is calculated across a range of macroeconomic scenarios and the probability weighted average across the multiple economic scenarios is taken as the ECL.

Unless otherwise noted, the amount that best represents the maximum credit exposure at the reporting date is the carrying value of the financial asset.

Expected lifetime

The expected lifetime of a financial asset is generally the contractual term. For unsecured personal loans, the life is taken as the contractual term. In the case of overdrafts, credit losses are assessed over the period that there is exposure to credit risk. This is estimated using industry insights due to the lack of observable internal data. The current expected lifetime used in calculating the ECL for overdrafts is 5 years.

Changes in estimation techniques

During FY21 the ECL models were improved to correct for historic weaknesses as well as to better respond to the impact of COVID-19. The changes included:

- Overdraft PD have undergone a full recalibration based on known performance data, reducing the reliance on expert judgement.
- The Overdraft LGD assumption has been adjusted based on known performance and now incorporates an Asset Recovery Model in its estimation.

- A new Forward Looking Adjustment (FLA) model that better incorporates economic forecasts in the calculation of ECL has been developed and implemented.

Further changes to the loans models are planned for FY22; pending these changes a PMA has been introduced.

ECL model governance

IFRS 9 models are governed in accordance with the bank-wide Model Risk Policy, which establishes minimum standards and guidelines relating to the development, use, validation and monitoring of models within Monzo. The Model Risk Policy is owned by the CRO and approved by ERCC.

The expected credit loss models are developed in line with the Monzo's credit model development standards and approved by the CRO, supported by a series of first and second line fora. All models are subject to a second line review, challenge, independent validation and ongoing oversight in line with Monzo's internal model validation and model monitoring standards.

Determining a significant increase in credit risk since initial recognition

Under the IFRS 9 standard, we must determine if there has been a significant increase in credit risk since initial recognition for assets that do not meet the defaulted (Stage 3 criteria). The impairment model utilises both relative and absolute criteria to identify increases in credit risk. Any changes to these criteria are considered model changes and are approved and governed under the model governance framework.

- **Quantitative criteria** – the quantitative trigger has been based around the comparison of the remaining lifetime PD at observation (i.e. reporting date) against the remaining lifetime PD from origination, when the exposure was first recognised. When the ratio of these two PDs breaches a predefined threshold (currently the threshold is set at $1.8 \times$ remaining lifetime PD from initial recognition), the account is moved into Stage 2 and its ECL is calculated on a Lifetime basis.

- **Qualitative criteria** – qualitative factors, including forbearance treatments, indicating potential financial difficulty have 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).

For overdrafts, if an account goes more than 15 days past due, this is taken as an indication of a significant increase in credit risk. Similarly for loans, if an account goes into arrears (i.e. one day past the monthly payment due date), it is moved into Stage 2.

- **Backstop** – A rebuttable presumption within IFRS 9 is that, where the customer is more than 30 days past due, credit risk has significantly increased. This backstop has not been rebutted.

When an account no longer meets the criteria for being in Stage 2, it cannot return to Stage 1 until 120 days have passed without it meeting any of the qualitative criteria (overdrafts) or 120 days since there have been any arrears (loans).

Definition of default and credit-impaired assets

We consider a financial instrument to meet the accounting definition of default and therefore be allocated to Stage 3 (credit-impaired) for ECL calculations when the borrower is considered unlikely to pay together with a backstop of 90 days past due. The definition of default used for accounting purposes is aligned to that used for capital and regulatory reporting purposes.

As part of a qualitative assessment of whether a customer meets the accounting definition of default, we consider a variety of events that may indicate unlikelihood to pay. When such events occur, we carefully consider whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations. Events that trigger inclusion in default include:

- the customer filing for bankruptcy or Individual Voluntary Agreement;
- the customer is deceased;

- the overdraft or loan has been renegotiated because the customer's condition has deteriorated. As an example, this includes cases where a specific repayment plan has been agreed and interest has been frozen; and
- the customer has requested 'breathing space' i.e. when the Bank agrees to give the customer some time in which they won't be contacted about their arrears at all and fees or interest is frozen.

In the case of overdrafts, a customer is deemed to be credit impaired when the account has been above its overdraft limit, or overdrawn without an agreed limit, for 90 or more days. For loans an account is deemed credit impaired when they become more than three instalments behind their agreed monthly repayment schedule.

Our policy is to consider an overdraft account as exited default ('cured') and therefore re-classified out of Stage 3 when the outstanding balance is reduced to below the authorised limit and a fixed probation period of 3 months has passed. Loans are considered 'cured' and therefore re-classified out of Stage 3, when all past due repayments are repaid and a fixed probation period of 3 months post arrears has passed.

Forecast economic data

IFRS 9 requires the ECL to reflect a range of possible outcomes and consider possible future economic conditions. A monthly Economic Update Forum chaired by the CFO reviews the latest economics data and forecasts. This forum recommends to the CFO which economic forecasts should be applied to the calculation of ECL. To achieve this, the impairment calculation uses four (FY2020: three) economic forecasts:

- the base case forecast (Base) – a central forecast assuming a gradual unlocking commencing in early Q2 2021 – this is benchmarked against consensus views.
- an upside scenario (Upside) assuming a more rapid recovery following the vaccine rollout;
- a more pessimistic downturn scenario (Downside 1) based on issues developing with the vaccine rollout together with short term Brexit related trade disruption causing more company failures and associated unemployment; and

- a more severe downturn (Downside 2) in which vaccines fail to work and lockdowns continue throughout most of 2021, Brexit related non-tariff trade barriers introduce greater than expected disruption.

All of the scenarios have been sourced from an independent economist. The scenarios are forecast for 5 years which is the maximum lifetime of any lending.

The COVID-19 pandemic has significantly impacted the UK and global economies and therefore the finances of our customers. The increased risk of default and loss in our overdraft and unsecured personal loan products is through the use of robust model calibrations together with consideration of appropriate management adjustments. The macroeconomic scenarios make reasonable assumptions about the outturn of COVID-19 measures including government interventions based on information available as at 28 February 2021.

The forward looking economic variables considered as inputs to the final ECL calculation are (i) UK unemployment hazard rates and (ii) Debt to income ratio. We implemented a new model this year which uses the debt to income ratio instead of the mortgage interest gearing ratio used in the previous model. These are combined using statistical techniques to estimate the relative change in default expectations within the different scenarios. These relative changes are then applied to increase/ decrease the ECL parameters appropriately for each scenario. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on ECL.

The scenario weightings are as below. These are based on a series of triangulation points including, the recommendation of the independent economist, assessment of the severity and probability weightings from other sources and the likelihood of macroeconomic outturns produced by the Bank of England. The macroeconomic scenarios and weightings are reviewed by the Impairment Council, CFO and Audit committee to confirm they are appropriate.

	Economic scenarios				
	Upside	Base	Downside 1	Downside 2	Multiple Economic Scenario
28 February 2021					
Scenario probability Weights (%)	20%	45%	30%	5%	
As at 28 February 2021 (5 year Average)					
Unemployment (%)	4.3%	5.1%	5.9%	7.4%	
Debt to Income	13.4%	14.6%	15.0%	15.6%	
Peak Value					
Unemployment (%)	5.4%	6.5%	8.0%	10.0%	
Debt to income ratio	13.5%	14.8%	15.2%	16.0%	
Impairment allowance with 100% Weighted scenarios (£000s) Total	16,103	17,119	18,287	19,931	17,443
29 February 2020					
Scenario probability Weights (%)		50.0%	47.5%	2.5%	
As at 29 February 2020 (5 year Average)					
Unemployment (%)		4.5%	5.5%	8.0%	
Mortgage Interest Gearing		2.4%	2.4%	2.4%	
Peak Value					
Unemployment (%)		5.1%	6.1%	12.1%	
Mortgage Interest Gearing		2.5%	2.5%	2.5%	
Impairment allowance with 100% Weighted scenarios (£000s) Total		18,236	18,824	77,177	19,989

In FY2020, the 3 scenarios used were weighted Base: 50%, Downside 1: 47.5%, Downside 2: 2.5%. The central scenario used is more pessimistic than that used in FY2020 (peak unemployment 6.5% FY21 cf 5.1% FY20) due to the more prolonged nature of the COVID-19 pandemic and associated economic scarring.

It is worth noting that macroeconomic conditions have continued to evolve throughout 2020 into 2021 as both the impact of Brexit and the COVID-19 pandemic have changed. As at 28th February 2021, there's more positive vaccine news (albeit, potential risks on the horizon). The agreement of a Brexit free trade agreement at the end of 2020 removes the possibility of no-deal, but there remains the possibility of non-tariff barriers having an impact on trade. The scenarios and weights above reflect management's assessment of a meaningful range of scenarios and associated probability weightings.

Modification

We sometimes make a concession in the terms of a loan or overdraft when a customer gets into financial difficulty (this is known as forbearance), or for other commercial reasons. Long-term forbearance can result in modifications to contractual cash flows. When this occurs we have confirmed the gross carrying value of a financial asset is not impacted, so no gain or loss is taken to the income statement. But the ECL of these financial assets change, as they're classified as Stage 3 and are therefore under lifetime ECL. Where we grant a financial concession to a customer we'll treat them as credit impaired and move them to Stage 3.

As at 28 February 2021, the gross carrying amount of accounts in forbearance was £3.2m (FY2020: £1.0m). The lifetime ECL booked against these accounts as at 28 February 2021 was £2.3m (FY2020: £0.9m).

Other formal arrangements that represent a change in a customer's obligation are treated as a modification, when this change was not permitted in the terms and conditions of the customer's original agreement. For any change that is categorised as a modification of terms, the gross carrying amount of the modified asset is calculated based on the net present value of all expected future cash flows based on the modified terms, discounted at the original effective interest rate. The change in the net present value of the asset will be recorded as a modification gain or loss.

If the modification is considered to be significant then the original arrangement is derecognised and a new one recognised.

Write off

A loan or overdraft is fully or partially written off against the related provision, when there is no realistic prospect of recovering an asset in its entirety. The criteria for assessing that there is no realistic prospect of full recovery include the confirmation of insolvency, confirmation of deceased status, long-term arrears etc.

Expected recoveries from written off financial assets subject to enforcement activity are recognised in the income statement.

The contractual amount outstanding on financial assets that were written off during the year and that are still subject to enforcement activity is £6.7m (FY2020: £4.1m).

Post Model Adjustments

The calculation of the Expected Credit Losses for the purposes of assessing Impairment Loss allowance is complex and involves judgement, particularly where there is a known limitation or weakness in the model that leads to the risk of the ECL being biased. The CFO, supported by the impairment council has considered areas of weakness or limitation in the models and has approved the following judgemental adjustments to the ECL:

- **Loan Model limitations** – Model monitoring has highlighted weaknesses in the existing loans models; pending implementation of new models, analysis supports an adjustment of £0.9m is required. This is across all stages (1,2,3).
- **Overdraft Model limitations** – The overdraft model development was based on data observed over the COVID period. We've added a £2.6m post model adjustment because of the uncertainty in the underlying data used in building the PD model. This impacted Stage 1 and 2 assets.
- **Uncertainty in the measurement of ECL** – Due to COVID-19, the temporary government support and uncertainty surrounding potential impacts on macroeconomic data Monzo has decided to hold an overlay reflecting the risk that measurement of credit risk has been suppressed. This is judgmentally assessed at £0.5m across overdrafts and loans and is held on Stage 1 assets.

Analysis of overdrafts and loans by stage

As at 28 February 2021, our portfolio consisted entirely of retail lending within the UK. The following table summarises lending as at the year end by IFRS 9 impairment stage and the related provision.

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
As at 28 February 2021				
Overdrafts and overdrawn balances	23,732	28,078	5,008	56,818
Loans	36,327	8,823	2,622	47,772
Gross carrying amount	60,059	36,901	7,630	104,590
Overdrafts and overdrawn balances	(1,497)	(5,324)	(3,117)	(9,938)
Undrawn overdraft commitments	(1,114)	(1,342)	(206)	(2,662)
Loans	(222)	(2,675)	(1,946)	(4,843)
Impairment allowance	(2,833)	(9,341)	(5,269)	(17,443)
Overdrafts	21,121	21,412	1,685	44,218
Loans	36,105	6,148	676	42,929
Net amounts receivable	57,226	27,560	2,361	87,147
ECL Coverage Ratio (%)	4.72%	25.31%	69.06%	16.68%
Undrawn Commitments				
Gross Undrawn Exposure	200,526	22,007	414	222,947
Impairment allowance	(1,113)	(1,342)	(206)	(2,662)
Net carrying value	199,412	20,665	208	220,285
ECL Coverage Ratio (%)	0.56%	6.10%	49.77%	1.19%

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
As at 29 February 2020				
Overdrafts and overdrawn balances	45,567	24,738	2,675	72,980
Loans	61,913	8,412	604	70,929
Gross carrying amount	107,480	33,150	3,279	143,909
Overdrafts and overdrawn balances	(925)	(5,391)	(2,345)	(8,661)
Undrawn overdraft commitments	(5,189)	(3,100)	(64)	(8,353)
Loans	(1,285)	(1,154)	(543)	(2,982)
Impairment allowance	(7,399)	(9,645)	(2,952)	(19,996)
Overdrafts and overdrawn balances	39,453	16,247	266	55,966
Loans	60,628	7,258	61	67,947
Net amounts receivable	100,081	23,505	327	123,913
ECL Coverage Ratio (%)	6.88%	29.10%	90.03%	13.89%
Undrawn Commitments				
Gross carrying amount	263,846	14,226	73	278,145
Impairment allowance	(5,189)	(3,100)	(64)	(8,353)
Net carrying value	258,657	11,126	9	269,792
ECL Coverage Ratio (%)	1.97%	21.79%	87.67%	3.00%

Stage 2 financial assets

The following table shows the breakdown of the Stage 2 financial assets. The Overdraft population has been split between those with a higher lifetime PD (> 5% per annum) vs those with a lower lifetime D (<= 5% per annum).

The table is prepared on a hierarchical basis from top to bottom, for example, accounts in arrears with PD deterioration will only be reported under arrears.

	As at February 2021			As at February 2020		
	Gross carrying amount	Impairment Allowance	Coverage	Gross carrying amount	Impairment Allowance	Coverage
	£'000	£'000	%	£'000	£'000	%
Overdrafts and overdrawn balances						
Arrears (15 DPD)	1,886	939	50%	3,908	1,196	31%
Qualitative	34	7	22%	135	29	21%
PD Quantitative <=5% Lifetime PD per annum	16,171	1,392	9%	8,388	539	6%
PD Quantitative >5% Lifetime PD per annum	7,158	1,189	17%	8,031	1,144	14%
Probation	2,829	231	8%	4,276	292	7%
PMA	–	1,566	–	–	2,192	–
Overdraft Total	28,078	5,324	19%	24,738	5,391	22%
Loans						
Backstop	1,291	403	31%	824	270	33%
Probation	2,834	143	5%	2,622	145	6%
Qualitative	86	5	6%	44	1	3%
PD Quantitative	4,612	538	12%	4,921	610	12%
PMA	–	1,586	–	–	128	–
Loans Total	8,823	2,675	30%	8,412	1,154	14%
Undrawn commitments						
Arrears (15 DPD)	–	–	–	–	–	–
Qualitative	6	1	8%	4	–	4%
PD Quantitative <=5% Lifetime PD per annum	18,727	700	4%	9,522	445	5%
PD Quantitative >5% Lifetime PD per annum	2,759	232	8%	4,241	484	11%
Probation	515	14	3%	459	12	3%
PMA	–	395	–	–	2,158	–
Undrawn Total	22,007	1,342	6%	14,226	3,100	22%

Following the introduction of new overdraft PD models, there has been a significant increase in the proportion of assets in Stage 2. This is due to the fact that the revised remaining lifetime PDs are being compared with the original PDs from initial recognition. This has increased the proportion of lower risk balances (annualised lifetime PD <5%) in Stage 2 to 60% from 34%.

Stage 3 financial assets

The following table shows the breakdown of the Stage 3 financial assets. The table is prepared on a hierarchical basis from top to bottom.

	As at February 2021			As at February 2020		
	Gross carrying amount	Impairment Allowance	Coverage	Gross carrying amount	Impairment Allowance	Coverage
	£'000	£'000	%	£'000	£'000	%
Overdrafts and overdrawn balances						
Backstop	1,466	998	68%	1,519	1,352	89%
Qualitative	2,262	1,202	53%	830	738	89%
Probation	1,280	917	72%	326	319	98%
PMA	–	–	–	–	–	–
Overdraft and Overdrawn Total	5,008	3,117	62%	2,675	2,409	90%
Loans						
Backstop	1,673	1,506	90%	581	481	83%
Qualitative	884	739	84%	–	–	–
Probation	65	58	90%	23	21	91%
PMA	–	(357)	–	–	41	–
Loans Total	2,622	1,946	74%	604	543	90%
Undrawn commitments						
Backstop	–	–	–	1	1	86%
Qualitative	120	42	35%	35	30	86%
Probation	294	164	56%	37	33	91%
PMA	–	–	–	–	–	–
Undrawn Total	414	206	50%	73	64	88%
Monzo – all products						
Backstop	3,139	2,504	80%	2,100	1,832	87%
Qualitative	3,147	1,941	62%	830	738	89%
Probation	1,344	976	73%	349	340	97%
PMA	–	(357)	–	–	41	–
Total	7,630	5,063	66%	3,279	2,952	90%

The coverage on Stage 3 assets has reduced since FY2020 as we've introduced an updated write-off policy and recovery model that better forecasts cash recoveries post Stage 3 default.

Credit Impairment provision movement table

An analysis of changes in the gross overdraft and loan amounts receivable from customers and undrawn commitments:

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Gross Loans and Advances to customers				
As at March 1 2019	14,804	3,293	1,076	19,173
New facilities originated	91,976	–	–	91,976
Transfer to Stage 1	2,253	(2,232)	(21)	–
Transfer to Stage 2	(21,984)	22,008	(24)	–
Transfer to Stage 3	(2,783)	(781)	3,564	–
Change due to exposure	30,422	12,562	2,972	45,956
De-recognition	(7,208)	(1,700)	(162)	(9,070)
Write Offs	–	–	(4,126)	(4,126)
As at March 1 2020	107,480	33,150	3,279	143,909
New facilities originated	7,330	3,246	807	11,383
Transfer Stage 1 to Stage 2	(22,993)	22,993	–	–
Transfer Stage 2 to Stage 1	8,344	(8,344)	–	–
Transfer into Stage 3	(5,303)	(5,852)	11,155	–
Transfer from Stage 3	121	322	(443)	–
Change due to exposure	(17,414)	(1,112)	(187)	(18,713)
Other movements impacting exposure	(670)	(3,829)	315	(4,184)
De-recognition	(16,836)	(3,673)	(559)	(21,068)
Write Offs (since March 1 2020)	–	–	(6,737)	(6,737)
As at Feb 28 2021	60,059	36,901	7,630	104,590

	Stage 1	Stage 2	Stage 3	Total
Gross Undrawn Commitments	£'000	£'000	£'000	£'000
As at March 1 2019	78,178	2,736	113	81,027
New facilities originated	219,423	–	–	219,423
Transfer to Stage 1	2,710	(2,658)	(52)	–
Transfer to Stage 2	(21,742)	21,742	(5)	–
Transfer to Stage 3	(2,928)	(96)	3,024	–
Change due to exposure	(7,676)	(7,228)	(2,514)	(17,418)
De-recognition	(4,119)	(275)	(61)	(4,455)
Write Offs	–	–	(432)	(432)
As at March 1 2020	263,846	14,226	73	278,145
New facilities originated	16,057	2,072	101	18,230
Transfer Stage 1 to Stage 2	(17,194)	17,194	–	–
Transfer Stage 2 to Stage 1	6,660	(6,660)	–	–
Transfer into Stage 3	(1,670)	(469)	2,139	–
Transfer from Stage 3	21	23	(44)	–
Change due to exposure	8,989	(27)	12	8,974
Other movements impacting exposure	936	(1,430)	(962)	(1,456)
De-recognition	(77,119)	(2,922)	(905)	(80,946)
As at Feb 28 2021	200,526	22,007	414	222,947

An analysis of changes in the Impairment provision is as follows:

	Stage 1	Stage 2	Stage 3	Total
Impairment allowance	£'000	£'000	£'000	£'000
As at March 1 2019	1,198	961	960	3,119
New facilities originated	4,738	–	–	4,738
Transfer to Stage 1	312	(293)	(19)	–
Transfer to Stage 2	(818)	840	(22)	–
Transfer to Stage 3	(194)	(300)	494	–
Changes in ECL due to stage transfer	(257)	1,386	2,858	3,987
Other changes in net exposure	(2,395)	(15,550)	(2,715)	(20,660)
Changes in risk parameters	4,987	22,662	5,594	33,243
De-recognition	(217)	(61)	(72)	(350)
Write Offs	–	–	(4,126)	(4,126)
As at March 1 2020	7,399	9,645	2,952	19,996
New facilities originated	228	525	708	1,461
Transfer Stage 1 to Stage 2	(633)	633	–	–
Transfer Stage 2 to Stage 1	1,298	(1,298)	–	–
Transfer into Stage 3	(137)	(1,417)	1,554	–
Transfer from Stage 3	123	306	(428)	–
Remeasurement following transfer of stage	(1,185)	2,557	8,453	9,825
Change due to exposure	(533)	(139)	(258)	(930)
Other movements impacting impairment including model parameter changes.	(2,910)	(813)	(434)	(4,157)
De-recognition	(817)	(658)	(541)	(2,015)
Write Offs (since March 1 2020)	–	–	(6,737)	(6,737)
As at Feb 28 2021	2,833	9,341	5,269	17,443

We've shown a reconciliation of the movement in the Balance Sheet ECL to the credit impairment charges to the Statement of Comprehensive Income below:

	Loans and advances to customers	Receivables	Total
	£'000	£'000	£'000
Reconciliation of Credit impairment charge/(release)			
Movement in impairment allowance	(2,553)	–	(2,553)
Write-offs	6,286	88	6,374
Income statement charge/(release) for the period	3,733	88	3,821

We've shown the sensitivity of the IFRS9 ECL to critical judgements used in the models in the following table:

		Impact on ECL	
		£'000	% Change
Estimate	Closing ECL 28 February 2021	17,443	
OD lifetime	Reduce to 48 months	(475)	-2.7%
	Increase to 72 months	250	1.4%
Lifetime PD	Relative 10% increase	931	5.3%
	Relative 10% decrease	(1,103)	-6.3%
LGD Cure Rate	Absolute 10% increase	(840)	-4.8%
	Absolute 10% decrease	709	4.1%
LGD recoveries	Absolute 5% increase	(370)	-2.1%
	Absolute 5% decrease	239	1.4%
SICR threshold	Increase to 200%	(336)	-1.9%
	Increase to 250%	(927)	-5.3%

Credit quality

We've shown information on the credit quality of our overdraft and loan book in the table below. We've segmented by PD ranges based on currently approved IFRS 9 PD models. The impairment segmentation excludes Post Model adjustments.

Risk grade	Stage PD Range %	Gross balances				Impairment allowance				Net balances £'000	ECL Cov- erage %
		1	2	3	Total	1	2	3	Total		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Very low risk	0% < to 1.15%	58,815	1,491	–	60,306	3,821	90	–	3,911	56,395	6%
Low risk	1.15% < to 2.50%	31,701	5,473	–	37,174	1,240	984	–	2,224	34,950	6%
Medium risk	2.50% < to 4.97%	11,333	6,433	–	17,766	1,069	1,325	–	2,394	15,372	13%
High risk	4.97% < to 8.32%	2,841	5,284	–	8,125	526	1,759	–	2,285	5,840	28%
Very high risk	8.32% < to 99.99%	2,780	6,478	–	9,258	742	2,483	–	3,225	6,033	35%
Arrears	15% to 78%	10	7,991	–	8,001	1	3,004	–	3,005	4,996	38%
Default	100%	–	–	3,279	3,279	–	–	2,952	2,952	327	90%
As at 29 February 2020		107,480	33,150	3,279	143,909	7,399	9,645	2,952	19,996	123,913	14%

Risk grade	Stage PD Range %	Gross balances				Impairment allowance				Net balances £'000	ECL Cov- erage %
		1	2	3	Total	1	2	3	Total		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Very low risk	0% < to 1.15%	25,480	1,367	–	26,847	427	21	–	448	26,399	2%
Low risk	1.15% < to 2.50%	16,811	2,848	–	19,659	493	232	–	725	18,934	4%
Medium risk	2.50% < to 4.97%	9,974	10,006	–	19,980	431	1,011	–	1,442	18,538	7%
High risk	4.97% < to 8.32%	4,803	8,227	–	13,030	307	1,035	–	1,342	11,688	10%
Very high risk	8.32% < to 99.99%	2,991	11,277	–	14,268	334	2,153	–	2,487	11,781	17%
Arrears		–	3,176	–	3,176	–	1,342	–	1,342	1,834	42%
Default		–	–	7,630	7,630	–	–	5,626	5,626	2,004	74%
PMA		–	–	–	–	841	3,547	(357)	4,031	(4,031)	
As at 28 February 2021		60,059	36,901	7,630	104,590	2,833	9,341	5,269	17,443	87,147	17%

Out of cash and balances at banks stated at £2,977.4m (FY2020: £1,373.7), £2,914.4m (FY2020: £1,337.8m) are held with central banks and £62.8m (FY2020: £35.3m) are held with one UK bank which has an investment grade credit rating.

Other ECL balances

In the prior year we held a credit impairment charge against an amount receivable under the prepaid card scheme. In the current year the outstanding balance was settled, and the credit impairment charge unwound.

	Group		Company	
	Year ended 28 February 2021	Year ended 29 February 2020	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000	£'000	£'000
Opening expected credit loss	–	773	–	773
Charged	88	–	88	–
Written-off	(88)	(23)	(88)	(23)
Unused amounts reversed	–	(750)	–	(750)
Closing expected credit loss	–	–	–	–

25. Legal proceedings, contingent liabilities and undrawn commitments

Legal proceedings

We said in last year's annual report that we were starting a review of our financial crime controls framework after a regulatory review (relating to a s.166 Skilled Person review under section 166 of the Financial Services Markets Act 2000). The FCA formally told us to appoint the Skilled Person in respect of the review in August 2020. This work is still ongoing, and in May 2021, the FCA notified us that it had started an investigation into our compliance with the Money Laundering Regulations 2017, potential breaches of some of the FCA Principles for Businesses and related FCA rules for anti-money laundering and financial crime systems and controls between 1 October 2018 to 30 April 2021. This investigation is looking into both potential civil and criminal liability. We're cooperating with the FCA's investigation, which is at an early stage.

Contingent liabilities

The FCA are reviewing and investigating our compliance with financial crime regulation. We're co-operating with them, but we expect it to take time to resolve. This could have a material negative impact on our financial position, but we won't know when or what the outcome will be for some time.

We may, from time to time, be party to claims arising in the ordinary course of business and have to give redress. The amount of any redress is not reliably measurable and will depend on the circumstances pertaining to each individual claim.

Undrawn commitments

Total committed but undrawn facilities as at 28 February 2021 are £222.9m (2020: £278.1m) in respect of customer overdraft agreements. These commitments represent agreements to lend in the future subject to the terms and conditions of the agreement, so the amount and timing of future cash flows are uncertain.

26. Contingent asset

We have several insurance policies to protect ourselves against potential losses arising during the normal course of business. We currently have an open claim of £0.3m in relation to external fees, where the insurer has given written consent for the costs. Therefore, payment is highly probable. But as the insurer has not explicitly confirmed reimbursement we have not recognised the amount as a receivable.

27. Provisions

We have leases on office buildings in London and Cardiff. The leases include dilapidation provisions to bring the buildings back to the original state at the end of the lease. At the inception of the leases we recognised a provision for the contracted amount included in the lease or using an estimate where an estimate could be reliably given. We discounted the provisions to the present value at the start of the lease, using the same proxy for our incremental borrowing rate as used in the calculation of the lease liability. We're unwinding the discount over the life of the lease.

We've also recognised other provisions of £8.1m for professional service fees and customer remediation costs. The costs are expected in FY2022 but an obligation arose for those costs in FY2021. These rely on assumptions to estimate the costs. A 5% margin of error to the key assumptions could result in a £0.3m increase or decrease in provisions.

	Group and Company		
	Dilapidation of offices	Other provisions	Total
	£'000	£'000	£'000
Opening provision – 1 March 2020	1,041	–	1,041
Additions	267	8,098	8,365
Used	(25)	–	(25)
Unused amounts reversed	(211)	–	(211)
Unwinding of discount	77	–	77
Closing provision – 28 February 2021	1,149	8,098	9,247

28. Country reporting disclosure

In 2014, the UK Government enacted legislation (contained in the Financial Services and Markets Act 2000 Statutory Instrument 3118) with respect to country reporting disclosure.

Monzo Bank Limited is incorporated in the UK and undertakes banking activities as described in the Strategic Report.

Monzo Support US Inc. is incorporated in the USA and provided support services to Monzo Bank Limited during the year. The entity is in the process of being wound up.

Monzo Inc. is incorporated in the USA and offers a prepaid card product to customers in the USA.

	UK	USA	Total
	£'000	£'000	£'000
Average number of employees (FTE)	1,310	22	1,332
Turnover (Total income)	79,391	27	79,418
Loss before tax	129,458	543	130,001
Corporation tax credit	303	–	303
Public subsidies received	1,719	–	1,719

29. Called up share capital

	Year ended 28 February 2021	Year ended 29 February 2020
	£	£
Ordinary shares of £000000.1 each	16	13
	16	13

	Nominal	Number of ordinary shares	Share Capital
As at 28 February 2019		120,724,571	12
Shares issued	0.0000001	8,722,160	1
Options exercised	0.0000001	22,466	–
As at 29 February 2020		129,469,197	13
Shares issued	0.0000001	31,646,676	3
Options exercised	0.0000001	3,545	0
As at 28 February 2021		161,119,418	16

Our ordinary shares have several share classes, all of which have the same full voting rights attached and rank pari passu in all respects, with the exception of anti-dilution rights and the distribution of proceeds from a share sale event which involves a change in control.

Some of the shares in issue are owned by members of the Board, management and colleagues. At the balance sheet date 10,866,226 (FY2020: 7,117,508) share options were unvested.

In November 2019 we bought 16,035 of our own ordinary shares for £208,764.96. In FY2020 we recognised these as Treasury Shares within Other Reserves. In FY2021 we updated the treatment of these shares and have now cancelled them, reclassing the balance from Other Reserves to Share Premium.

Other reserves are made up of the share-based payments that haven't yet been exercised at year end.

30. Group structure

Group entities

The Group consists of Monzo Bank Limited as the Parent and ultimate controlling entity along with two wholly-owned subsidiaries. We've set out the shareholding and registered offices of each entity below.

Legal entity	Shareholding	Registered office
Monzo Bank Limited	Parent	Broadwalk House, 5 Appold Street, London, United Kingdom, EC2A 2AG
Monzo Support US Inc	100%	1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, USA
Monzo Inc	100%	1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, USA

We also serve as trustee of bare trusts used with savings providers for the benefit of our customers, which aren't reported on our Statement of Financial Position. During FY2021, on the instructions of our customers we transferred £2,468.5m (FY2020 £1,302.6m) to our savings providers. During FY2021, £2,004.9m (FY2020 £678.6m) was returned to customers. We earned commission in relation to our role as trustee as described in Note 3. We have no exposure to loss on these deposits.

Investment in subsidiaries

	Company	
	28 February 2021	29 February 2020
	£'000	£'000
Cost		
Opening balance	443	78
Additions	3,179	4,651
Impairment	(1,820)	(4,286)
Closing balance	1,820	443

Impairment

At each reporting date, we have to assess whether there are indications of impairment of our investment in our subsidiaries. Assets have to be carried at no more than the recoverable amount, the recoverable amount being an asset's fair value less costs to sell or value in use.

In FY2020 we fully impaired the Company's investment in Monzo Support US Inc after we announced our intention to close the entity. In FY2021 we reassessed the impairment triggers and partially reversed this impairment to recognise the investment at the net asset value of £0.6m on the 28th February 2021.

We've also impaired the Company's investment in Monzo Inc by £2.5m. The progress of the US business and our US Banking Charter application is difficult to value, therefore we have decided to hold our investment at its net asset value. We continue to support this entity.

This has resulted in a charge to the Company's Statement of Comprehensive Income of £1.8m.

31. Share-based payments

All new colleagues (including senior Executives) receive share options when they join the Company and may be entitled to further share options as a reward for performing well and to incentivise them to make Monzo a success.

The share options issued are equity settled with no cash settlement options. Options typically vest evenly over four years with a one year cliff; if a colleague leaves within the first year of employment, they forfeit all vested options at that date. A limited number of options have non-market vesting conditions.

Our expense for the share options granted to our colleagues is recognised over the period between the grant date and the vesting date of those options. We calculate the overall cost of the option award using the number of shares and number of options expected to vest and the fair value of the options at the grant date. The overall cost is recognised as a personnel expense, with a corresponding increase in other reserves within equity, over the period that colleagues provide services. This is generally the period between the award being granted or notified and the vesting date of the options.

We determine the grant date fair value using Black Scholes models which take into account the terms and conditions attached to the awards. Inputs into the valuation models include the risk free rate, an estimate of our market share price and the expected volatility of the share price. Our market share price is assessed using the pricing achieved in the funding round immediately preceding the issuances. If a period of 6 months has passed following an observable funding price, a valuation exercise considering our performance and growth is used to calculate an appropriate share price.

We operated four equity settled share options schemes, three in the UK and one in the US. The first was an HMRC approved Company Share Option Plan (CSOP), where awards were made to colleagues subject to conditions. The strike price for these options was set according to the fair market share price at the time of issue as agreed with HMRC. The fair market share price was based on the pricing achieved in the funding round immediately preceding the issuances.

Not all of the conditions of the CSOP have been met, meaning they're not HMRC approved, so options under this plan are now considered unapproved options. Option granting under this plan ended in April 2020. In June 2021 we issued additional unapproved options to qualifying colleagues, this resulted in a non-recurring option expense of £11.0m. Under the requirements of IFRS 2, the expense was recognised in FY2021, prior to the options being issued. As these options amortise we expect to recognise a further £1.5m in future periods. This doesn't impact our current capital or cash flows, and if our team exercised these additional options, we'd receive an extra £12.8m in capital.

The second scheme is an unapproved plan, these awards are made with the strike price set to £0.00001. The third scheme is a Leaver Share Option Plan (LSOP) which converts the vested CSOP share options for leavers into unapproved options. The strike price was set at the fair market value determined at the grant date of the original CSOP options.

We also operate an equity settled Incentive Stock Option (ISO) scheme for colleagues in our US business, which involves the equity instruments of Monzo Bank Limited. The strike price is determined by a third party valuation exercise conducted in accordance with Section 409A of the Internal Revenue Code. In the Company only accounts, this arrangement leads to the US subsidiaries recognising a capital contribution from the parent, with Monzo Bank Limited recognising a corresponding increase to its investment in the US subsidiaries.

We measure the cost of all equity-settled options based on the fair value of the awards at the date of grant. The fair value is determined using Black Scholes models since the share options aren't actively traded. Using an option valuation model to determine the fair value means including highly subjective assumptions including the fair market share price, expected price volatility, expected life of the award and dividend yield. Changes in the subjective assumptions can materially affect the fair value estimates.

The main assumptions we've used in deriving the value of the options at grant are shown below.

	Year ended 28 February 2021	Year ended 29 February 2020
Valuation assumptions		
Risk free rate	-0.05%	0.45%
Volatility	40%	40%
Dividend yield	nil	nil
Expected life	4 years	4 years

The expected volatility was determined by assessing the historical volatility of listed peers, comparable private companies and external specialists to obtain an estimated 'implied' volatility.

We recognise the fair value of options at grant date as a colleague expense with a corresponding increase in other reserves over the period that the colleagues become unconditionally entitled to the awards. The total expense in the year ended 28 February 2021 was £25.2m (FY2020: £14.4m).

	CSOP Number	Non-CSOP Number	ISO Number
At 1 March 2019	7,358,365	5,022,806	-
Granted during the period	984,114	3,646,422	223,823
Lapsed	(857,595)	(856,774)	(16,040)
Exercised	(22,073)	(393)	-
At 29 February 2020	7,462,811	7,812,061	207,783
Granted during the period	127,454	11,972,198	313,128
Lapsed	(1,335,791)	(4,413,740)	(225,469)
Exercised	(2,076)	(1,469)	-
At 28 February 2021	6,252,398	15,369,050	295,442

We've restated the number of options reported in FY2020 to include additional lapsed options that we didn't include before.

The weighted average exercise prices, remaining life, and fair value of all outstanding options as at 28 February 2021 are outlined in the table below.

	Year ended 28 February 2021			Year ended 28 February 2020		
	CSOP	Non-CSOP	ISO	CSOP	Non-CSOP	ISO
Range of exercise prices for outstanding options	£0.1997 – £13.0194	£0.00001 – £7.7145	£2.53	£0.1997 – £13.0194	£0.00001	£10.42
Range of exercise prices for exercised options	2.3566	£0.00001	n/a	£0.1997 – £1.0058	£0.00001	n/a
Weighted average exercise price for outstanding options	£2.84	£0.98	£2.53	£4.98	£0.00001	£10.42
Weighted average fair value of options at grant date	£0.44	£2.47	£2.54	£3.32	£5.36	£5.13
Weighted average remaining life of outstanding options	6.494	8.717	9.83	7.6	7.8	8.2

Options issued under the Leaver Share Option Plan are considered to be ‘replacement equity instruments’ under IFRS 2: *Share based payment*. The terms and conditions of the cancelled CSOP options and the replacement Non-CSOP options were the same, with the exception of the time frame for exercise, which was modified from 6 months to 10 years. The incremental fair value impact of this modification has been assessed as immaterial.

32. Related party transactions and controlling parties

Controlling parties

In the opinion of the Directors there is no overall controlling party at year end.

Transactions with key management personnel

Key management personnel are defined as those people with authority and responsibility for planning, directing and controlling the activities of the Company. This includes the Board of Directors and Executive Committee.

The compensation paid or payable to key management personnel is shown in the tables below:

	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000
Transactions with key management personnel		
Salaries & remuneration	2,303	1,806
Social security contributions	250	74
Share based payments	2,329	1,378
Contributions to defined contribution plans	50	53
	4,932	3,311

In addition, a total of 5,081 shares were purchased by Directors’ at a fair value of £39,197 in the year ended 28 February 2021.

The deposits, overdrafts and loans of key management personnel on the balance sheet at year end are shown in the table below:

	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000
Balances of key management personnel		
Deposits	469	144
Overdrafts	0	–
Loans	–	–

In addition, overdrafts totalling £0.01m (FY2020: £0.02m) were available to key management personnel at year end.

Any deposits, loans or overdrafts with key management personnel are on the same terms as those with our customers.

Transactions with related parties

There were no transactions with related parties during the year other than those mentioned above.

33. Auditor's remuneration

Auditors' remuneration for the audit of the financial statements was £2.4m (FY2020: £1.1m), £0.5m of this related to the FY2020 audit but was recognised in FY2021. There was no remuneration for non-audit services in the current or prior year.

34. Events after the reporting date

- On 8 March 2021 we raised £15m of Tier 2 debt in our first issuance.
- On 8 March 2021 we also received the final £4m of capital, closing our Series G fundraising.
- On 7 May 2021 the FCA told us that they've started an investigation into our compliance with financial crime Money Laundering Regulations. See Note 25 for more information.
- On 4 June 2021 we issued 4.9m options related to our CSOP scheme.

