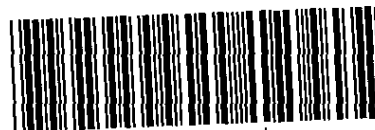


Monzo Bank Limited Annual Report and Group Financial Statements

28 February 2019

Registered number: 09446231

Registered office: 38 Finsbury Square London EC2A 1PX



A37 *A88L9QFL* #187
28/06/2019
COMPANIES HOUSE

What's in this report?

Strategic report	3
Who we are and why we're here	4
Our history and highlights	5
Our team	7
Chair's review	9
Chief Executive's review	10
Business model and strategy	12
A review of our performance	13
Our approach to people	17
Our community	22
Governance at Monzo	23
Strong risk management is at the heart of everything we do	26
Group Directors' report	31
Statement of Directors' responsibilities	35
Independent auditors' report	37
Statement of comprehensive income	47
Statement of financial position	49
Statement of changes in equity	51
Statement of cash flows	53
Notes to the financial statements	55

Strategic Report

Who we are and why we're here

We're Monzo, a bank that lives on your phone. For too long, banking has been harder than it needs to be. By solving your problems, treating you fairly and being totally transparent, we believe we can make banking better.

Traditional banking isn't built for the way we use money as part of our everyday lives with friends and family. So we've made it our mission to make money work for everyone. Managing your money should be effortless, not complicated or stressful.

We want to make sure you get the most out of your money, whether that's switching to a better energy deal, earning cashback or rewards, or finding affordable ways to borrow. And with the help of our amazing community who suggest features, give feedback and help us test the app, we can build the kind of bank you want to use, together.

Already, more than two million people have our hot coral cards to manage their money and spend around the world. Our goal is to bring Monzo to one billion people and beyond. But it's not just about how many people have Monzo, it's also about who's using it. Almost a quarter of the world's population don't have access to vital banking services. We want to help the financially excluded access bank accounts, as well as supporting vulnerable customers and developing an empathetic approach to debt management. Through clear communications and educational content we'll do our part to improve financial literacy and help everyone better understand their money.

Monzo makes money work for everyone

Only those quantitative measures highlighted in the Strategic Report that are directly referable to the audited primary financial statements or the notes to those financial statements (see pages 47 to 92) or explicitly annotated as "audited" have been audited. All other measures noted are unaudited.

History

2015

Our CEO Tom sets out our mission in a blog post on 01 June 2015:

"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.

2016

We released the Mondo public beta app.

We ran the fastest crowdfund in history: people pledged £1 million 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.

2017

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

Another crowdfund, aiming for £2.5 million... In the end, 41,267 people pledged more than £12 million.

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

2018

We finished upgrading everyone from prepaid to full UK current accounts, and 94% of active accounts moved.

We announced a new round of investment of £85 million.

Crowdfunding time again – we raised £20 million in record time.

2019

We launched a small test of business accounts to 100 sole traders and limited companies.

Two million people have Monzo to spend and manage their money!

We launched our first TV ads.

We announced our latest investment round of £113 million.

We announced our plans to launch a prepaid card product in the US, in collaboration with a partner bank.

**1.01m new customers
in the year**



**Feb 2018
590k**



**Feb 2019
1.6m**

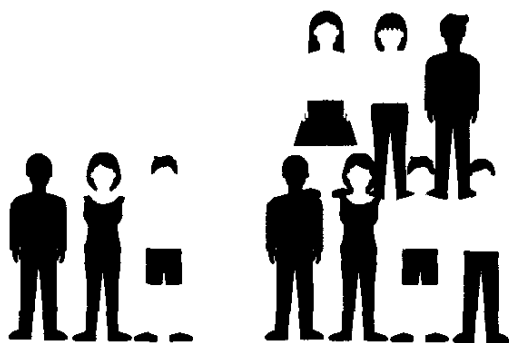
**Customer deposits
increased by
£390.5m in the year**



**Feb 2018
£71.3m**

**Feb 2019
£461.8m**

**413 new employees
in the year across
3 offices**

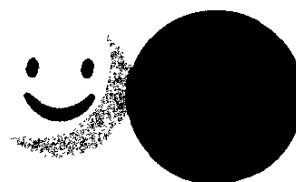


**Feb 2018
300 people**

**Feb 2019
713 people**

**859,394 conversations
resolved, from
466,078 unique users**

**We saw our NPS
score increase**



**Feb 2018
NPS +70**



**Feb 2019
NPS +80**

Our team

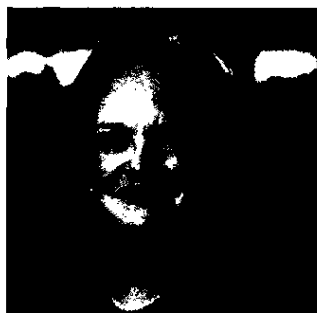
Board of Directors



Gary Hoffman
Chair



Tim Brooke
Senior Independent Director



Amy Kirk
Independent Non-Executive
Director



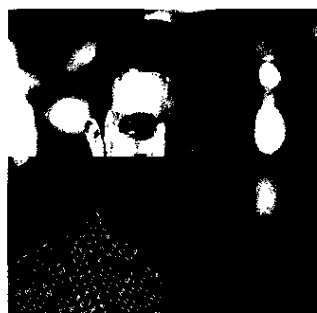
Keith Woollard
Independent Non-Executive
Director



Miles Grimshaw
Investor Non-Executive Director



Eileen Burbidge
Investor Non-Executive Director



Tom Blomfield
Chief Executive Officer –
Executive Director



Alwyn Jones
Chief Financial Officer –
Executive Director



Susan Adams
Company Secretary

Our team

Executive Management Team



Tom Blomfield
Chief Executive Officer –
Executive Director



Alwyn Jones
Chief Financial Officer –
Executive Director



Paul Rippon
Deputy Chief Executive Officer



Meri Williams
Chief Technology Officer



Tim Traylor
Chief Credit Officer



Libby Townsend
Chief People Officer



Dean Nash
Chief Legal Officer



Tom Foster-Carter
Chief Operating Officer



Jonas Templestein
Co-founder

We are currently recruiting for the permanent Chief Risk Officer position

Chair's review



Gary Hoffman
Chair

I'm really pleased to have joined Monzo as Chair. I've spent more than 35 years in banking and payments, and led lots of innovation – but it feels like the world has been waiting for Monzo. We're here to make money work for everyone, and that fierce focus on our mission means a reinvention of what banking has been in the past.

Our social conscience and community work is absolutely essential to what we do, and a big part of what made working here such an unmissable opportunity. Our compassionate approach to people experiencing financial difficulties, the "No Barriers to Banking" campaign and our work with The Big Issue are just a few examples of that.

We're early in our development but have huge support from our customers and investors. And our ambition is for our governance to reflect what we want to be rather than what we are – this is a work in progress but we're getting there without losing sight of what makes Monzo, Monzo.

I'd like to thank my predecessors Denise Kingsmill, the original Monzo Chair who stepped down during 2018, and our Senior Independent Director, Tim Brooke, who agreed to be Chair in the interim. Amy Kirk also deserves thanks for standing as Senior Independent Director. Monzo wouldn't be where it is now without them.

Special thanks are also due to Gary Dolman, Co-founder and former CFO, who retired at the end of the financial year. We wish Gary well in his retirement.

I also welcome Alwyn Jones, our new CFO, to the Board. In the coming year, I'll be looking at the mix of skills and experience needed for the Monzo Board of the future, bearing in mind the need for diversity and our commitment to the Women in Finance Charter.

We have a great management team in Tom, Alwyn and their Executive Committee (ExCo) colleagues and I look forward to working with them. We're building a business that will be global, safe and secure. A business that will make money work for everyone.

A stylized, handwritten signature in black ink, appearing to read 'Gary Hoffman'.

Gary Hoffman
Chair, Board of Directors
25 June 2019

Chief Executive's review



Tom Blomfield
Chief Executive Officer –
Executive Director

Remarking on how much has changed seems to have become something of a habit in Monzo annual reports. In that sense, the last 12 months have been no different – the pace of change remains staggering.

We've just passed 2 million total users, and we're adding more than 200,000 new accounts every month, helped by a successful TV ad campaign. A year ago, we added 60,000 a month. Net Promoter Score remains steadily at about +80, and we've won multiple awards for our customer service.

We've grown revenue considerably: we've just crossed £40m of annual run-rate revenue (based on May 2019 revenue), but there's still plenty of work to do to get to profitability. Around 30% of active users deposit at least £1,000 per month (our definition of 'salaried'), up from 13% a year ago.

Per-user contribution margin (revenue minus variable costs including expected credit losses) is a key metric that we've worked to improve over the last couple of years. It tells you whether each active customer using Monzo generates more incremental revenue than they create in cost. Annual per-customer contribution margin is now +£4 as at May 2019, up from -£15 a year ago, and -£65 in 2017. The longer customers are with us, the more profitable they become, and salaried users contribute +£30 – mainly driven by the money we make when people use their Monzo cards.

Hitting short-term financial metrics is important, but value is created over the long-term. We're gaining customers faster than any other UK bank, at a cost that's an order of magnitude cheaper. Our total cost to run an account is also an order of magnitude cheaper than high-street banks. Engagement, retention and customer service remain industry-leading. We still need to make more revenue to become profitable as a business, but we're showing good progress on that front.

I'm glad to say that we have a Board of Directors and a set of shareholders who are aligned with that long-term approach. We've added more than £200m of additional capital in the last 12 months from world-class investors, along with 36,000 customer crowd investors. That money will go towards sustaining our growth, building new revenue-generating features and helping us expand outside of the UK – our next stop is the United States, where we're launching with a partner bank similar to how we started in the UK.

As we grow, we need to make sure we have strong governance, risk management and compliance in place. As a regulated bank, it's crucial that we're in control of the risks we face, otherwise we risk losing the trust of our customers. This is an objective we don't take lightly. In the last 12 months, we've added 4 new C-level executives and a new Chair of our Board. Our control functions (Risk, Compliance, Financial Crime, Finance and Legal) will grow to more than 200 people by the end of the year.

Our vision for Monzo is the same as the first day we started: we're trying to build a hub for all of your money. The one place that lets you see and control everything financial in your life. We can already see this starting to develop with our savings marketplace, offering interest rates well above those available at the high street banks. We expect to see those rates continue to improve for customers as more partners come on board, and we're aiming to add simple investing products and pension management over time, giving customers a view of their assets too.

On the borrowing side, we're offering Monzo customers overdrafts and loans, and we're trialling mortgage switching through a broker. In future, we'd like to do more to demystify credit scores, and let people keep track of all of their borrowing in Monzo.

Finally, we're working to simplify insurance and utility bills, helping customers get a great deal without the hassle of switching every 12 months. These products won't all be on our balance sheet, but they will be accessible through the Monzo app. In future, Monzo should be the first place a customer goes with any questions about their money.

At Monzo, our mission is to make money work for everyone. Key to that mission is long-term sustainability. That means generating sustainable profits, but also playing our part in society. It means contributing where we can. It means building the kind of bank we'd be proud to call our own. This year we launched our first big community campaign, focused on removing barriers to banking, and we also partnered with The Big Issue to let sellers make more out of each sale.

I can't wait to see what we achieve in the rest of 2019 and beyond.

A handwritten signature in black ink, appearing to read 'T. Blomfield', written in a cursive style.

Tom Blomfield
Chief Executive Officer
25 June 2019

Business model and strategy

Here's where we're focused heading into FY2020.

Good governance has to be the backbone of Monzo

Our mission is to make money work for everyone, and we recognise that to achieve this we must invest in strong governance that will let us sustainably grow into the future. We've evolved our senior management team to bring in experienced leaders who can lead Monzo to growth, whilst also focusing on developing and embedding our risk assessment and controls.

Cross-functional teams build better things

We believe that getting the right people with the right mix of skills together on a project helps us create better features for our customers. A typical Monzo product team will feature engineers, designers, data analysts, product marketers, writers and user researchers working together to solve problems.

Organic and paid growth work together

We've enjoyed sustained organic user growth to date which has shown the strength of our brand, making up the majority of new customers in FY2019. We expect this to continue, but we're also increasing focus on paid marketing to open us up to new potential customers as only around 43% of the UK market are aware of Monzo.

Also, a growing number of people in the UK have more than one bank account, meaning people are increasingly open to banking with Monzo alongside other banks. We've planned carefully internally to make sure we're effective at welcoming, onboarding and managing the inflow of new customers.

We launch fast, get feedback, and improve

We believe the most effective way to create something successful is to launch it, get feedback and iterate fast. This is how we started with our prepaid card, getting lots of knowledge and feedback, which we've applied to our current account. This lets us quickly react where we need to make improvements and not over-invest in something that doesn't work from either a customer, governance or regulatory perspective.

We're focusing on growing revenue

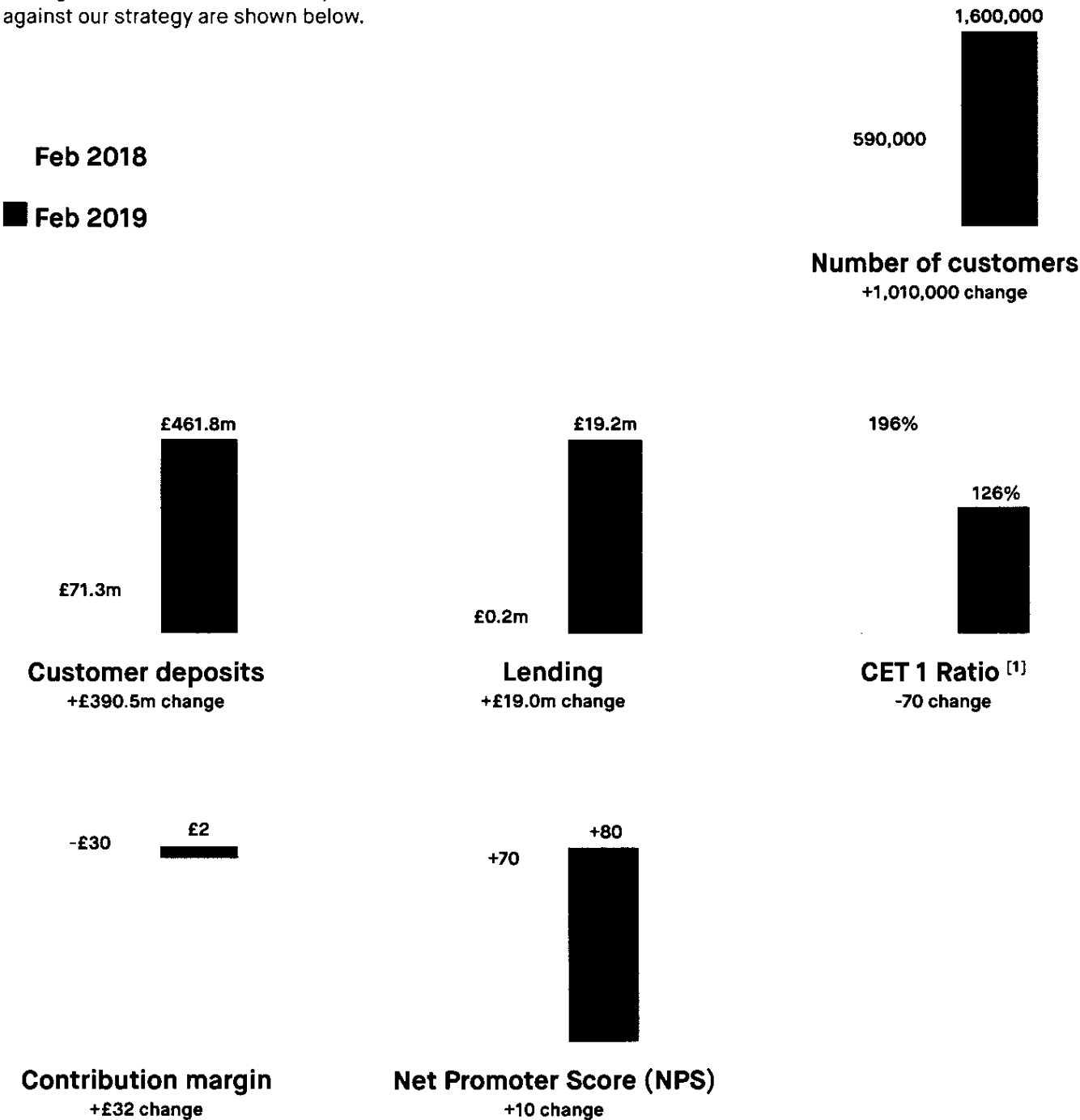
Fair, flexible lending – We believe our approach to lending is fair and transparent. We let customers stay in control and offer support to those in financial difficulty. Our plan is to offer mainstream lending products like overdrafts and loans with a mid-market pricing strategy, and without penalty charges where they're not necessary. We want to compete on customer experience and ease of use, rather than by being the cheapest provider.

The best deals in one place – We also want to be the centre of our customers' financial lives. This will be a key differentiator for Monzo and a primary example of how we can help money work for everyone. We want to bring people offers, products and services through Monzo that mean managing their money and making the most of it is a breeze. That's kicked off with energy switching and savings, and there's plenty more to come.

A review of our performance

Key Performance Indicators

Some of the key metrics our Board and senior management use to measure our performance against our strategy are shown below.



^[1] The ratio of our core equity capital (share capital and share premium less our losses to date) to our risk-weighted assets (weighted according to their Credit, Market and Operational risk).

Our business review: our non-financial performance

More and more customers are enjoying Monzo

In September 2018 we welcomed our 1 millionth customer. By the end of our financial year we'd reached 1.6 million customers, and now more than 2 million people have Monzo to spend and manage their money.

We've launched lots of new features and products

In 2017 we launched current accounts and became a fully fledged bank, with 94% of our customers transferring from the prepaid card when the program ended in April 2018. Soon after, we released 'The Big List,' which showed all of the basic but essential features people told us they needed to make Monzo their everyday account. We've worked our way through this list and added plenty more features alongside.

It's now easier for people to manage their money with joint accounts, quick bill splitting, seeing their committed spending (upcoming Direct Debits and standing orders), and paying or requesting money in a few taps with 'Nearby Friends.'

We've also teamed up with other companies to help our customers manage their money in the best way for them. Our customers can now:

- Deposit cash at any PayPoint location across the UK
- Earn interest on their savings pots with Investec (and we've recently launched ISAs and savings pots with Oaknorth and Shawbrook)
- Transfer money overseas with TransferWise
- Spend using Google Pay and Apple Pay
- See digital receipts and get rewards with Flux
- Automate their finances with IFTTT (to automate things like saving money and filing expenses)
- Switch energy providers to get a better and greener deal (we've teamed up with Octopus Energy and OVO, but we want to add more options in the future)
- Add extra features like travel insurance with Monzo Plus

We're helping customers borrow fairly

We're bringing transparency and clarity to loans and overdrafts, addressing the problems people typically face when they borrow (hidden fees, inflexible payments and complicated paperwork, to name a few). We've started small with lower value loans, and we're gradually rolling out more options to more customers with plenty of feedback along the way.

We're testing business banking

We know that the needs of small or medium sized businesses are very different, but traditionally banks have put them all in one category. We've started testing business banking with a small number of businesses and we want to offer features that actually help them to achieve their goals.

We've hired more than 400 people to keep building Monzo

Our team of Monzonauts are based in offices in London, Cardiff and Las Vegas. And we have a growing number of people working remotely around the world.

Our customer service is award winning

Our growing team gives fast, friendly support which has won a number of awards for customer service, and maintains a Net Promoter Score of around +80.

Community is still at the heart of everything we do

We continue to engage with our customers regularly through our blog, community forum and monthly open office events. And we were blown away by the support we received during our latest crowdfunding round.

Our work is being recognised

We've won a bunch of awards which reflect the work we've been doing over the past year.



Money Saving Expert 2019

number 1 in the customer services poll



British Banking Awards 2019

winner of Best Banking App



LinkedIn Top Startups 2018

number 1 most sought-after startup in the UK



KPMG Fintech100 2018

in the 'Top 50' most innovative Fintech companies globally



Tech Nation Future Fifty 2019

one of the UK's most successful digital businesses

Our financial review

Profit and loss – our income and expenses for the year

The loss for the year after tax was £47.2m

The loss for the year after taxation was £47.2m (compared to a loss of £30.5m in 2018). This reflects the significant investment we've put into building more products and features that:

1. Scale to meet the needs of our customers
2. Generate revenue for Monzo

Our contribution margin is positive

From September 2017 to February 2018 we cut the cost to run each account from £65 to £30. In November last year, we reached a positive contribution margin and by year end we hit plus £2.

This means that on average every active customer who uses Monzo makes us more revenue than the variable costs for us to run their account. We'll continue growing this as we release more new products, and increase the benefits of scale on our costs, in order to achieve overall profitability.

We've grown our interest income from deposits and lending

We've grown our net interest income to £4.9m, up from £0.2m in 2018. This is because we've increased the amount of money we hold that's earning interest at central banks, and increased the number of customers using overdrafts. We've also earned interest on a small number of loans to customers, which we began offering in late 2018; this is set to grow as we expand our loan offering to a larger set of customers.

Customers are spending more with Monzo

Our net fee and commission income grew to £6.6m (from £1.4m in 2018) due to more ATM fees earned abroad and interchange income on point-of-sale transactions. This reflects the huge increase in spending through Monzo, with £4bn spent by customers in the last year.

Our partnership income also grew from customers sending money abroad and using savings pots. We're busy testing more partnerships to help customers take control of their finances and earn more revenue for Monzo.

We've invested in hiring great people

Our people costs rose to £25.7m (from £9.2m in 2018) because we've invested heavily in hiring people to build the bank of the future. At the end of the year we had 713 people working at Monzo, up from 300 in 2018. And an average of 437 people for the year, up from 183 people in 2018.

We're using our own technology to be more efficient with operating expenses

We've increased our operating costs slightly from £25.4m to £33.4m, which reflects the cost savings from running the current account on our own technology, compared with the prepaid scheme.

The costs of accommodating our staff have increased, but the cost per person decreases as we fill our current office space and people increasingly take advantage of distributed working. We've increased marketing spend in the year from offering existing customers incentives to refer their friends. The rate of growth in our number of customers will increase as a result.

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

More people are using Monzo as their main account so our customer deposits have increased from £71.3m in 2018 to £461.8m in 2019.

Our total assets have grown from £139.8m to £614.4m. This is primarily made up of loans and advances to customers and cash.

We're lending more to customers

We grew our lending book from £0.2m in 2018 to £19.2m in 2019. This was mostly due to overdrafts, but we also offered loans to a small number of customers.

We set our credit risk appetite at Board level and monitor our exposure on an ongoing basis. This involves calculating and recording the expected credit loss against our customer overdrafts and deposits. Our total Expected Credit Loss on lending for 2019 was £3.1m, reflecting the growth in our lending book.

We've taken a prudent approach to liquidity

Our portfolio of High Quality Liquid Assets (those that can be quickly and easily converted to cash) is held on overnight deposit at central banks and has grown to £510.3m, from £82.5m in 2018. We'll keep using this as we expand the availability of loans and advances to customers in the year ahead.

Capital – our shareholders' interest in the business

We raised equity in the year

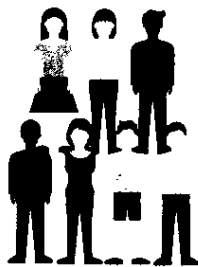
During the year, we raised £105m of equity capital, including £20m in the largest crowdfunding round ever for a tech company. After year end we also raised another £113m of equity capital. All this money will go towards building the bank and launching new features for our customers.

Capital ratios

Our Common Equity Tier 1 (CET1) ratio, the ratio of our core equity capital (share capital and share premium less our losses to date) to our risk-weighted assets (weighted according to their Credit, Market and Operational risk), was 126%. This is in excess of our current minimum capital requirements.

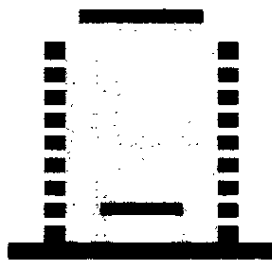
Our approach to people

At Monzo we create an environment where everyone feels supported to do the best work of their lives and carry out our mission of making money work for everyone.



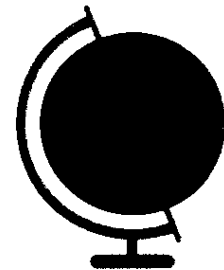
713
Headcount
Feb 2019

Growth of +413 people in the year from March 2018



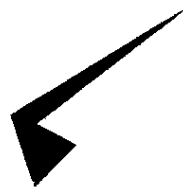
450/713
Monzonauts are
office based

Split across 3 sites –
London, Cardiff
and Vegas



263/713
Monzonauts are
distributed

We are in places around
the world including:
Spain, France, Canada



0.97%
Voluntary
leaver's rate

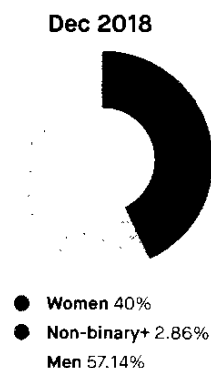
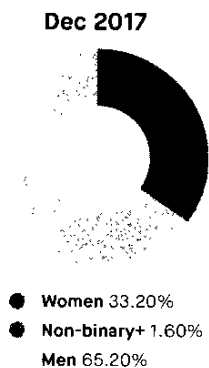
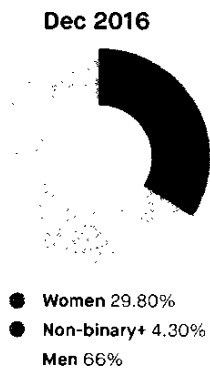


73 ENPS
Engagement score

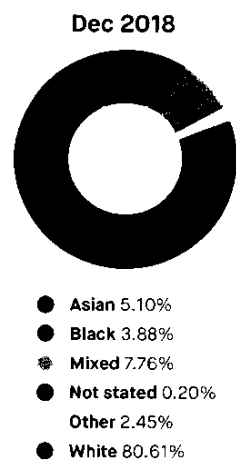
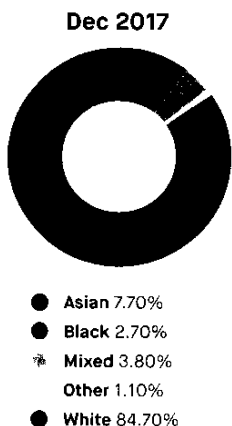
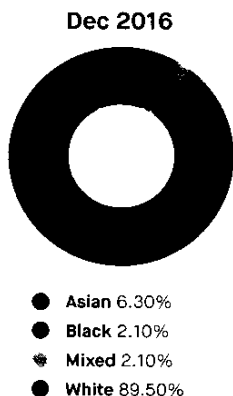
We saw a 78% aggregated
participant rate – Feb 2019

Diversity and inclusion

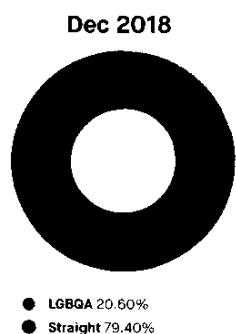
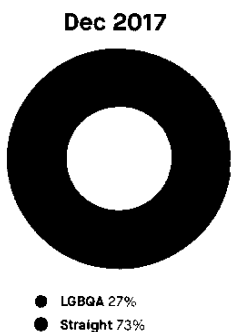
Gender identity



Ethnicity



Sexual orientation



Our values

We're growing at a rapid pace. In the last year alone we grew by 413 people – 58% of the company. As we grow, we want to make sure our values stay at the forefront of our collective mind and guide every decision we make.

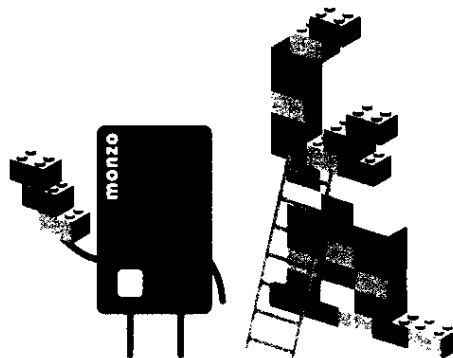
These are our values as they stand now. As with everything we do, we'll iterate on these over time to make sure they're always fit for purpose, and represent what we stand for as a business and as a community.



Default to transparency

Defaulting to transparency means being as open as possible. We make things public unless there's a strong argument not to. This motivates our team to move quickly and be honest, even when it's uncomfortable. We've created a culture which welcomes regular, open feedback and encourages collaboration across teams and projects. Our feedback platform means Monzonauts can give feedback to anyone in the company. And we encourage people to make this public as often as they can. As a community, this requires trust and integrity.

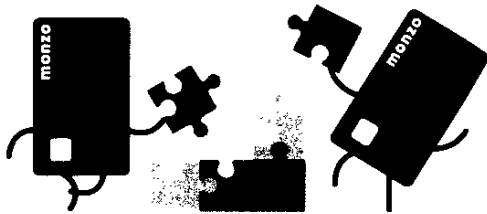
Our weekly all-hands meeting is streamed live and recorded to make sure the whole company can get involved. It's a chance for teams to share what they're working on and is followed by a Q&A from our CEO Tom, or other senior staff members. Monzonauts ask questions and start discussions directly, no matter how challenging they may be.



Think big, start small, own it

Monzo is a fast-paced environment. We nurture ambitious ideas to help solve our customers' problems and empower people closest to the problems to find the best solutions. But we understand that ambition must be matched with a robust governance framework. This means that we support big ideas and we iterate in small steps to minimise risk for customers. Regardless of the scale of the project, we tell Monzonauts to own it.

This approach means we can move quickly but requires our team to adapt and develop. We're committed to supporting development – every Monzonaut gets an annual training budget to contribute towards courses, conferences and books that help them learn and grow in their role.

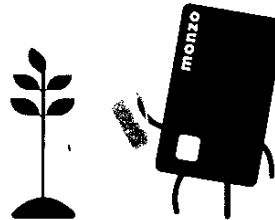


Be hard on problems, not people

We know that we have an ambitious mission. To make money work for everyone, we need to thrive in a competitive business environment while maintaining our growth.

We want to keep our intense approach to problem-solving as we continue to expand, and it's crucial that we view all problems as tractable problems that can be solved. It's also crucial that we maintain a collaborative environment where people work on tricky problems together.

We try to look for the systemic reasons when things have gone wrong, rather than blaming any individuals involved. When people make mistakes, we focus on fixing processes that may lead to human error. And wherever possible, we automate repetitive processes to keep the risk of human error to a minimum.

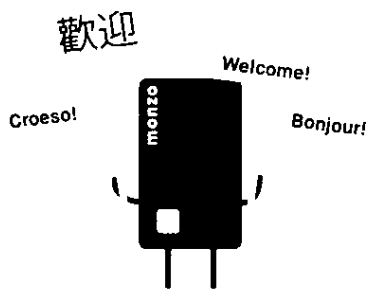


Make a difference

We want to have a meaningful impact on the lives of our customers and our colleagues. We do this by encouraging our team to think outside of the box when creating product features and when working with each other.

This has led to some amazing team efforts which have produced things like bill splitting, and a way to combat problem gambling through our gambling block feature. It's great to see other financial services companies following our lead and introducing similar features to help more people.

The way in which teams across different Collectives (what we call our different business areas) work collaboratively together makes sure that we're all truly focused on making a difference in the best way that we can.



Help everyone belong

Everyone is welcome at Monzo. And we want to make sure that everyone feels this way throughout their time here. One way we do this is by striving for a fair and unbiased hiring process. Our aim is to get the best person for a role. We advertise through diverse job boards to make sure our jobs are seen by diverse candidates and have also started to engage with partners that help people with disabilities enter the workforce.

We also make sure that our interview processes are balanced by holding briefings beforehand, and debriefs at the end of the interview process, to make sure we're treating our candidates fairly and without bias. Plus, we make sure our panels are as diverse as possible, and made up of people who are relevant to the role.

We've given training on combating internal biases and racism which we will continue. And we're committed to flexible working and encourage working from home, where possible, to accommodate important commitments outside of work. Our recent blogs on diversity and inclusion and the gender pay gap, as well as our 2018 Women in Finance Charter submission, give more insight into the steps we're taking to make sure that Monzo is an inclusive place to work. We know we have lots more to do in this space, and we welcome Monzonaut and community feedback.

We take responsibility to support each other, and a big part of this involves creating a positive mental health culture. We've introduced a number of internal and external tools that Monzonauts have access to, to help them better cope with any form of stress. We've worked collaboratively with the apps Headspace and Spill. We also offer yoga and meditation sessions, as well as training some of our team to become mental health first aiders who can signpost others to the right places for further support. We feel that our focus on wellbeing leads us in the right direction towards Monzo being the most inclusive and supportive working environment. If you want to read about how we do this in more detail, please have a look at our blog on "How we manage mental health".

Social development is also important to us. Forming real connections is invaluable in the workplace. We foster these connections by encouraging a culture of team and company wide socials, 1:1s (which can be about work or just getting to know each other), and Monzo-funded sports and activities.

We're committed to building a community that is dedicated to the mission of making money work for everyone, and who in return get to benefit from an amazing place to work.

Our community

The last year has been a really exciting one for the Monzo community. We hosted and supported more than 40 events in our London office and around the country. And we were thrilled to see the community response to crowdfunding, raising £20 million from 36,000 people in just over two days.

This year we've been engaging with our community in more ways than ever. The Making Monzo Twitter account we launched last May – to give a behind the scenes look at things we're working on – has over 16,600 followers. We've also explored new community opportunities online, with close to 7,000 people liking our Monzo Money Tips Facebook page, and a growing community of just under 3,400 savers in our Monzo Saving Squad Facebook group.

We've seen the power of our community in action too. Early this year we launched our #YearInMonzo campaign – to let Monzo customers see and share a visual breakdown of their spending from the last 12 months. The hashtag #YearInMonzo trended on Twitter and around 278,000 people took a look at where and how much they'd spent. And it wasn't just customers who got excited about the campaign. The Times, HuffPost and This is Money covered the campaign, and even non-Monzo customers said they'd be signing up to join in the fun next year.

Our most important piece of work to date might be launching our #NoBarriersToBanking campaign. It's a long-term financial inclusion campaign that aims to help make financial services accessible to everyone. How will we do it? We've built an online tool to help the financially excluded access genuinely helpful support and advice. We've already started running a series of events around the country too. The events bring together organisations working in financial inclusion and help them find and share solutions. We'll also publish resources on our blog about things like how to write accessible terms and conditions and much more.

Our forum is still a key part of our community, with customers giving us great feedback on new features through Monzo Labs. This year, we've launched Joint Accounts, bill splitting and Shared Tabs all with the help and feedback we've had from the forum.

**16,600
followers**

**Making Monzo
Twitter**

**7,000
people**

**liking Monzo
Money Tips Facebook**

**3,400
followers**

**in Monzo Saving
Squad Facebook**

Governance at Monzo

Our Board is in charge of our long term sustainable success

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

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

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

Our Board is composed of 8 directors

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

We're adding experience to our Board

In the course of this year we appointed a new Chair, Gary Hoffman, who brings a wealth of board-level experience in banking and financial services. We also appointed Alwyn Jones as our new CFO, who again offers the Board deep experience in banking, and Susan Adams as our first company secretary. In July 2019, we'll be joined by Phillip Riese as independent non-executive director. Phillip is a seasoned non-executive who brings a wealth of board experience in banking and fintech.

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

What we've done in the last year

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

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

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

We're continuing to develop our vision for governance

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



**Monzo Bank Ltd
Board of Directors**

**Board Risk
Committee**

**Audit
Committee**

**Nomination
and Governance
Committee**

**Remuneration
Committee**

**Executive
Committee***

**Executive Risk
Committee
(ERC)***

**Asset and
Liability
Committee
(ALCO)***

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

Our board delegates authority to four committees

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

This committee supports the Board by:

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

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

2. Our Audit Committee is chaired by Tim Brooke

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

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

3. Our Board Risk Committee is chaired by Keith Woollard

The committee does the "heavy lifting" for the board on risk issues and is responsible for:

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

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

4. Our Remuneration Committee is chaired by Amy Kirk

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

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

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

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

Strong risk management is at the heart of everything we do

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

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

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

Our risk management framework

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

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

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

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

Our policies tell us which guardrails we can safely operate within by translating our risk appetites in a transparent way that everyone can understand. They set expectations for all Monzonauts and signpost where they can get more information if they need it.

Each policy is owned by a member of the Executive team, who makes sure they're implemented properly and remain effective. All our policies get approved by the Board.

We're organised into three lines of defence

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

We use a variety of tools to manage our risk effectively

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

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

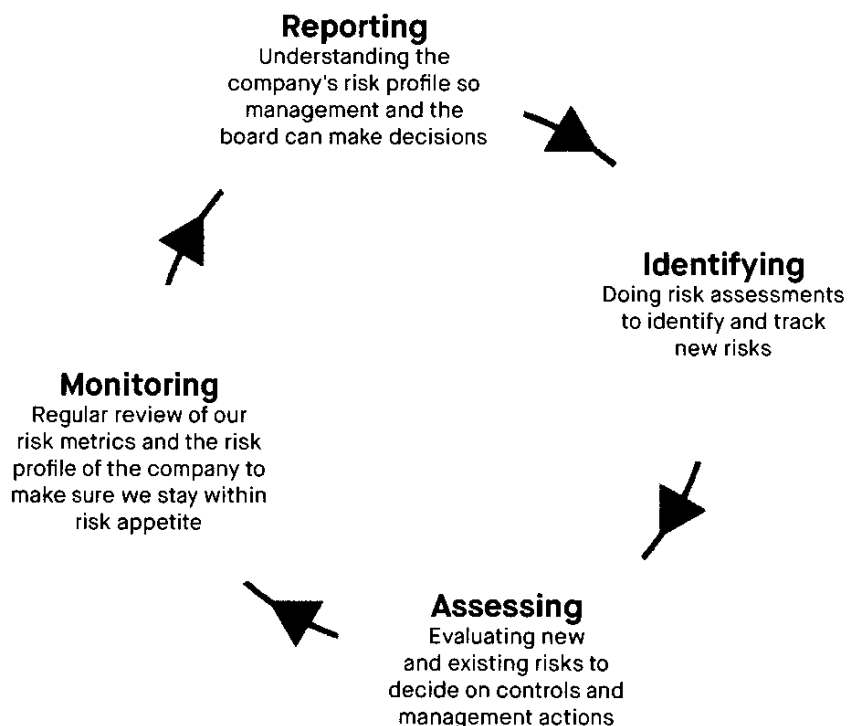
We believe we make better decisions when we use metrics. So we have metrics against each of our risks which everyone can use to make informed decisions.

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

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

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

Operational Risk Management Cycle



What we're doing	The risk	How we mitigate the risk
Operating in a highly regulated industry	Compliance Risk: the risk of not meeting relevant legislation, rules and regulations which could cause customer harm, financial losses or reputational damage. There's also a risk that regulatory changes could negatively affect our business model	• All our policies make sure we're compliant with rules and regulations and we have specific policies for financial crime, conflicts of interest, anti-bribery and corruption, market abuse and whistleblowing • A compliance programme covering assurance testing, thematic and policy reviews which is regularly reviewed by the Board
Movements of cash because of lending, deposits and working with third parties, including payment schemes	Liquidity Risk: the risk that Monzo doesn't hold enough liquid assets to meet our financial obligations	• We carry out our ILAAP to review how we think about our liquidity requirements • We actively monitor our intra-day, daily and overnight liquidity positions • We have liquidity policies and procedures, with much of the risk managed by the Treasury as 1st line • We discuss liquidity issues regularly at our ALCO
Because we're a bank, we store a lot of personal data	Data Privacy Risk: the risk that our customers' data is misappropriated and / or fraudulently used	• We use secure development practices for our systems and follow a 'defence in depth' approach, with multiple layers of security controls • We run regular penetration tests and simulated phishing attempts to check how effective our controls are and identify any weaknesses • We've built detection capabilities to monitor and alert us about system attacks. We use incident management procedures and playbooks to respond to attacks • We train all our staff on data protection

On behalf of the Board



Tom Blomfield
Director
25 June 2019

Our current risks

What we're doing	The risk	How we mitigate the risk
Growing a bank in a competitive landscape	Business Model Risk: the business fails or our model isn't sustainable	- Quarterly strategic planning and prudent capital management - A culture of fast learning and iterating - Hiring experienced people to ExCo and the Board
Growing our lending book (overdrafts and unsecured loans)	Credit Risk: customers borrowing money won't repay or don't pay on time, causing financial losses	- Credit decisioning rules to calculate the probability of default and affordability risk - Provisions for credit losses in line with IFRS9 (International Financial Reporting Standard) - A Credit Risk committee for members of ExCo to discuss lending risks - The Board approves our credit risk appetite which we monitor actively - Credit related policies and procedures, including collections, financial difficulties and vulnerable customers
Offering current accounts, business banking accounts and developing a financial marketplace	Financial Crime Risk: the risk that Monzo is used to launder the proceeds of crime, finance terrorist activities, commit fraud or evade financial sanctions Customer Outcomes Risk: the risk that our culture, behaviours or actions result in harm to our customers, for example developing a product that doesn't meet their needs	- Financial crime policies and procedures and regular quality assurance - An in-house transaction monitoring system which we continually improve - Conduct-related policies and procedures, covering: - customer outcomes - product approval - financial difficulties and vulnerable customers - change management - complaints management - A product approval process with sign-off from the 2nd line - A technology-led, interdisciplinary Customer Operations team - Training to all staff on Treating Customers Fairly - Internal and external transparency, with customer-facing documents written in plain English
Running a resilient digital bank and financial marketplace	Operational Risk: the risk that failures in people, processes or systems could lead to a service disruption or financial losses Capital Adequacy Risk: the risk that Monzo doesn't have enough capital for the level and types of risk that we take, or to absorb potential losses	- Policies and procedures covering our people, systems, data, security and how we work with third parties - Business continuity and disaster recovery plans and regular exercises to test these - A robust incident escalation framework - Penetration testing and simulated phishing campaigns - A buffer of capital above the minimum regulatory requirements - The Board and the ALCO regularly review the capital risk appetite limit - We carry out our ICAAP to assess capital requirements - Increased Monzo's capital runway by closing a funding round in October 2018 and a further funding round in June 2019

Group Directors' report

Group Directors' report

The Directors present their report and audited financial statements for the year ended 28 February 2019 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, having its registered office in England and is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and Financial Conduct Authority (FCA). The registration number of Monzo is 09446231.

These financial statements have been prepared under International Financial Reporting Standards as adopted by the European Union.

Directors

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

T Blomfield

A Jones (Appointed 5 April 2019)

G Hoffman (Chairman appointed 1 February 2019)

T Brooke (acting Chairman until 31 January 2019)

A Kirk

K Woollard

E Burbidge

M Grimshaw

G Dolman (resigned 28 February 2019)

Baroness D Kingsmill (resigned 23 March 2018)

Results and dividends

The loss for the year after taxation amounted to £47.2m (2018: loss of £30.5m). The directors do not recommend a final dividend (2018 – £nil).

Directors' liabilities

The Group has indemnified all Directors of the Group against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. This qualifying third party indemnity provision was in force 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 the company's 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 employees and community
- Information about gender diversity

Donations

The Group hasn't made any donations or incurred any expense to any registered UK political party or other EU political organisation.

Branches

The Group does not have any branches within or outside of the UK.

Events since the balance sheet date

The key events that have occurred since the balance sheet date are listed below (see Note 37 for further details):

- The Bank raised additional capital of £113m in June 2019.
- The Group announced plans to launch a prepaid card product in the US in collaboration with a partner bank.
- The Bank's submitted R&D reclaim for the 2018 year end was paid in full subsequent to the financial year end.

There have been no other material post balance sheet events.

Financial Instruments

The Bank finances its activities through the issue of ordinary shares as disclosed in Note 24 and through cash deposits held as disclosed in Note 16. The Bank also holds customer deposits classified as a financial liability, and issues overdrafts and loans to customers which are classified as financial assets. Other financial assets and liabilities like trade creditors arise from the Bank's operating activities. Foreign currency liabilities are settled using the foreign exchange rate at the date of the transaction.

Refer to Notes 31 to 36 for information on the management of the risks related to financial assets and liabilities.

The Group doesn'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 18.

Policy on employing people living with disabilities

We're committed to employing and supporting employees 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 employees.

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

- Making changes to shift patterns (such as phased return to work, flexible working hours or part-time working)
- Giving extra training or mentoring
- Making access alterations to the office premises
- Making sure we give information in accessible formats
- Modifying equipment, or providing specialist equipment
- Any other ad hoc reasonable request; like someone with social anxiety disorder being given their own desk instead instead of hot-desking

The list above is certainly not limited. The essence of our policy is to accommodate all reasonable requests to make sure our people are fully supported during their time at Monzo.

Our approach to transparency and employee involvement

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

All employees are involved in Monzo's performance through our share option schemes. They're kept up to date with business performance through a weekly KPIs email sent to everyone at Monzo, as well as dashboards highlighting monthly financial performance.

These statements are prepared on a going concern basis

The going concern basis is dependant on maintaining enough capital and funding the balance sheet. The Directors have considered a number of factors including the projections for the Group, its capital and funding position, and the most recent fundraising round in June 2019. Having considered this and other appropriate enquiries management consider that the Group has raised enough equity to make sure it can operate for at least 12 months from the date these financial statements are approved. Details of equity raised are in Note 37. Consequently the financial statements have been prepared on a going concern basis.

Disclosing information to the auditors

So 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 is unaware 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.

Auditors

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



Tom Blomfield
Director
25 June 2019

Statement of Directors' responsibilities

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 under International Financial Reporting Standards (IFRS) as adopted by the European Union.

Under Company Law the Directors mustn't 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 and then apply them consistently
- Present information, including accounting policies, in a manner that gives relevant, reliable, comparable and understandable information
- Give additional disclosures when complying with the specific requirements in IFRS isn't enough to let users understand the impact of particular transactions, other events and conditions on the Company's financial position and performance
- Prepare the financial statements on a going concern basis unless it's inappropriate to presume the Bank and Group will continue in business
- State that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements

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.



Tom Blomfield
Director
25 June 2019

Independent auditors' report

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 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union (EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions 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 which comprise:

Group	Parent company
Consolidated statement of financial position as at 28 February 2019	Statement of financial position as at 28 February 2019
Consolidated statement of comprehensive income for the year then ended	Statement of comprehensive income 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 37 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 37 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 Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions 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 below. We are independent of the group and parent company 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.

Conclusions relating to going concern

We have determined going concern to be a Key Audit Matter in our audit and, having concluded our procedures, we have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report To The Members Of Monzo Bank Limited

Overview of our audit approach

Key audit matters	• Going concern • IFRS 9 Financial Instruments – expected credit loss ('ECL') provision • Improper revenue recognition • Risk of management override • Developing control environment
Audit scope	• We performed an audit of the complete financial information of one component and audit procedures on specific balances for a further one component. • 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.
Materiality	• Overall group materiality of £1.16m which represents 1% of equity.

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
Going Concern Refer to the Directors' Report (page 31) and Accounting policies (page 47). The annual report & accounts have been prepared on a going concern basis which the Board and management have considered appropriate, having reference to the Bank's capital and liquidity requirements for a year from the date of this opinion. We have assessed the Bank's ability to continue as a going concern over the year horizon from the date of this opinion.	We performed the following procedures: • Compared the reported capital ratio to the Bank's submitted regulatory returns; • Compared the revenue and expenditure assumptions underpinning the Bank's financial plan and its associated capital utilisation rates against the capital requirements for 12 months from the date of this opinion; • Assessed the reasonableness of the Bank's capital utilisation projections by reviewing its historical accuracy of achieving its financial plans, making adjustments, where necessary, to reasonably estimate revenue, expenditure and impairment; • Discussed the Bank's overall capital requirements with the Prudential Regulation Authority; • Confirmed that a further capital raising was secured post balance sheet that supplements existing reported capital and that this qualified as Core Equity Tier 1 capital for prudential reporting purposes; • Reviewed the Bank's cashflow forecasts and the cash resources required over the forthcoming 12 months from the date of this opinion.	We were satisfied that the Bank has sufficient capital and liquidity to meet its obligations over the coming year. In particular, we confirmed: • The Bank's reported capital reconciled to the submitted regulatory returns; • The Bank's approved Core Equity Tier 1 capital position, combined with the post year end capital raise was sufficient to support reasonably anticipated capital attrition rates over the forthcoming 12 months; • The Bank's liquidity position was sufficiently robust to support its requirements in the Bank's financial plan in the forthcoming 12 months.

Risk

IFRS 9 Financial Instruments – expected credit loss ('ECL') provision

Provision of £3,119k, (2018: £12k)

Refer to the Accounting policies (page 58); and Note 31 of the Consolidated Financial Statements (page 84)

IFRS 9 Financial Instruments became effective for annual periods beginning on or after 1 January 2018 and the year ended 28 February 2019 is the first year of full implementation for the Bank. We identified the following heightened areas of focus:

- Completeness and accuracy of capture of data to feed the IFRS 9 model assessment;
- Design of impairment assessment models under IFRS 9 for overdrafts;
- Application of post model adjustments and multiple economic scenarios to determine the staging provisions; and
- Disclosure of IFRS 9 staging and provisioning in the financial statements.

Our response to the risk

We undertook a substantive audit approach. We performed the following procedures:

- Reconciled the general ledger to the banking ledger for assurance over the completeness of accounts in overdraft.
- Verified for completeness and accuracy of the data that inputs to the provision calculation model, including overdraft information, credit risk scoring by customer, origination date, forward looking adjustments and arrears classification.
- Traced a sample of overdrafts to post year end settlement or movement in the account.
- Reperformed the ECL methodology of the IFRS 9 model to validate its appropriate application of IFRS 9 and recomputed its provision calculation, including staging, to confirm the based model output.
- Used specialists to assess the appropriateness of the multiple economic scenarios to validate the underlying ECL assumptions were appropriate.
- Assessed the reasonable movement and completeness of management's post model adjustment.
- Reviewed the adequacy of disclosure of IFRS 9 in the financial statements and reconciled these disclosures to underlying ECL model data.

Key observations communicated to the Audit Committee

We noted no unadjusted audit differences with this aspect of our audit. In particular:

- We noted no issues in our testing of the completeness of the overdrafts.
- We noted no unadjusted differences in the completeness or accuracy of key data inputs into the provisioning model.
- We successfully traced a sample of overdrafts to post year end settlements in those accounts.
- We noted no unadjusted differences arising from our reperformance of the ECL methodology in the provisioning model, including no unadjusted differences arising from our testing of the staging criteria.
- We considered the ECL calculation's incorporation of multiple economic scenarios to be appropriate in terms of the scenarios and relative weightings applied as well as being accurately calculated.
- We considered the post model adjustments to be complete and reasonably computed in assessing the reasonableness of the ECL provision.
- We judged the ECL disclosures to be complete and appropriately reconciled to the underlying ECL model data.

Risk

Improper revenue recognition – Payment Network Provider Bonus Income

Payment Network Provider Bonus recognition £0.9m, (2018: £0.3m)

Refer to the Accounting policies (page 57); and Note 9 of the Consolidated Financial Statements (page 63)

We reviewed the revenue streams earned by the Group, and assessed the subjectivity of each of these streams and which streams could give rise to a material error in the financial statements.

We determined that the Payment Network Provider Bonus contractual arrangements were subjective in nature and we assessed that this could be subject to material error by not complying with the requirements of IFRS15.

We determined that all other streams (including Overdraft Income and ATM interchange fee income) were highly automated in nature and not subjective in their application and so we excluded these from the significant risk.

Our response to the risk

We undertook a substantive audit approach. To address the identified risk of Payment Network Provider Bonus recognition, we performed the following audit procedures:

- Reviewed the contracts and engaged with our technical accounting specialists to confirm the accounting treatment for the significant transactions is in accordance with IFRS 15.
- Vouched the volumes represented as achieved to date by the company back to Payment Network Provider's confirmation.
- We recalculated the bonus earned/deferred during the current year.
- We traced the bonus paid by Payment Network Provider to the bank statements.

Key observations communicated to the Audit Committee

We are satisfied that the Group has recorded revenue in line with its accounting policies.

We concluded that the revenue recognised related to the Payment Network Provider Bonus is fairly stated and in accordance with the requirements of IFRS 15.

Risk

Risk of management override of controls

Refer to the Accounting policies (page 57); and Note 12 of the Consolidated Financial Statements (page 65)

International Standards on Auditing (UK) mandate the consideration of management override of internal controls as a fraud risk on all audits.

The susceptibility of an accounting estimate to management bias increases with the subjectivity involved in making it. As part of our response to the risks of material misstatement involving management, we review significant accounting estimates for evidence of management bias. We identified the following significant transactions and estimates:

- Judgements applied by management in the valuation of share based payments;
- Judgments applied by management in assessing accounting treatments for significant transactions; and
- Judgements applied by management in the entry and authorisation of journal entries.

Our response to the risk

In respect of each of the areas noted below, we undertook a substantive audit approach.

In respect of share based payments, we performed the following procedures:

- We used valuation specialists to assess the reasonableness of the following aspects:
 - key input parameters, namely; volatility, risk free rate and term into call option pricing model
 - completeness of the parameters in the call option pricing model
 - methodology design of existing valuation model
 - recalculation of the fair value for all new options granted during the year under audit
- We agreed the completeness of share based payments by comparing the quantum of share options granted with the quantum of share options included in the expense calculation.
- We compared the reward of share based payments to employees and vouched a sample to underlying agreements and communications.

In respect of significant transactions, we performed the following procedures:

- We obtained copies of all new key agreements entered into by the Bank during the year and assessed the implications of them on the financial statements.
- We verified the completeness of the agreements based on discussions with managements, review of minutes, review of media publications of new product launches and review of material significant accounts.
- We assessed the accounting impact of the agreements on the financial statements of the Bank and engaged with our technical IFRS specialist as required.

In respect of journal entries, we performed the following procedures:

- We completed journal entry testing throughout the year, focusing on significant or unusual journals, significant risk areas, journals posted around key estimates and any topside adjustments using data analytics.
- We performed full scope audit procedures over this risk area in one location, which covered 100% of the risk amount.

Key observations communicated to the Audit Committee

Share based payments

Based on our work performed, we concluded that the Bank has appropriately valued the share based payments as at the year end date, using reasonable input assumptions to derive the share valuations.

We were satisfied that the valuation model inputs, including employee awards and the other inputs were accurately included.

We were comfortable that the valuation outputs were accurately posted to the general ledger.

Significant transactions

Based on our work performed, we believe management's interpretation of significant contracts for accounting purposes to be reasonable.

Journal entries

Based on our work performed, we did not identify any unusual journals.

Risk

Our response to the risk

Key observations communicated to the Audit Committee

Developing Control Environment

The Bank is still at a relatively early stage of development and the governance and control environment has not yet matured fully.

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.

Our audit approach included an assessment of the quality and effectiveness of the key entity level controls that management relies on for financial reporting.

We used IT specialists within our audit team to conduct our IT procedures which included, amongst others, testing IT general controls relating to system access and change management, and testing controls over specific IT applications which are required to operate effectively to mitigate the risk of misstatement within the financial statements.

Where we were unable to place such 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 sizes.

We highlighted to the Audit Committee that while progress has been made in developing the control environment, we were not in a position to rely on controls and so we undertook a substantive audit approach.

We note that we completed our procedures and noted no unadjusted audit differences in the financial statements.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity 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 two reporting components of the Group, we selected two components covering entities within the United Kingdom and the United States of America, which represent the principal business units within the Group.

Of the two components selected, we performed an audit of the complete financial information of one component ("full scope components") which was selected based on their size or risk characteristics. For the remaining component ("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% (2018: 100%) of the Group's Loss before tax, 100% (2018: 100%) of the Group's Revenue and 100% (2018: 100%) of the Group's Total assets. For the current year, the full scope components contributed 100% (2018: 100%) of the Group's Loss before tax, 100% (2018: 100%) of the Group's Revenue and 100% (2018: 100%) of the Group's Total assets. The specific scope component contributed 0% (2018: 0%) of the Group's Loss before tax, 0% (2018: 0%) of the Group's Revenue and 0% (2018: 0%) 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 accounts tested for the Group.

Changes from the prior year

The United States of America was added into scope for the current year due to the inception of the Group's wholly-owned subsidiaries, Monzo Support US Inc. and Monzo Inc.

Involvement with component teams

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

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 £1.16 million (2018: £0.60 million), which is 1% (2018: 1%) of equity. We believe that equity provides us with the appropriate basis on which an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, would reasonably be expected to influence the economic decisions of the users of the financial statements. The increase in materiality is consistent with the increase in equity during the year.

We determined materiality for the Parent Company to be £1.16 million (2018: £0.60 million), which is 1% (2018 1%) of equity.

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% (2018: 50%) of our planning materiality, namely £579k (2018: £300k). We set performance materiality at this percentage (which is the lowest in the range) due to misstatements which were identified in the prior year audit. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected misstatements does not exceed our overall materiality of £1.16 million (2018: £0.6 million) for the Group financial statements as a whole.

Audit work at component location 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 range of performance materiality allocated to components was £58k to £579k (2018: Not applicable).

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 £58k (2018: £30k), 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 1 to 36, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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 35, 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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- 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 Bank 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. We also reviewed significant correspondence between the Group and UK regulatory bodies, reviewed minutes of the Board and Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework and internal control processes.
- 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. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors.
- 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 management and Internal Audit, review of significant correspondence with regulatory bodies and minutes of meetings of the Board and certain Board committees, and focused testing, as referred to in the Key Audit Matters section above.
- Based on our procedures performed on component, no instances of non compliance with laws and regulations were identified.
- The 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.
- The Group is a regulated entity and offers a range of services to its customers including receiving deposits and offering overdrafts.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

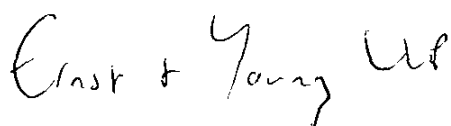
- We were appointed by the Company on 28 February 2017 to audit the financial statements for the year ending 28 February 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 28 February 2017 to 28 February 2019.
- 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

Notes

1. The maintenance and integrity of the Monzo Bank Limited web site 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 web site.
2. Legislation in the United Kingdom governing the *preparation and dissemination of financial statements* may differ from legislation in other jurisdictions.

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 June 2019

Statement of comprehensive income

Statement of comprehensive income for the year ended 28 February 2019

		Group	Group	Company	Company
		Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Notes					
		4,918	150	4,918	150
Interest income					
		4,918	150	4,918	150
Net interest income					
		13,231	2,201	13,231	2,201
Fee and commission income					
		(6,664)	(834)	(6,664)	(834)
Fee and commission expense					
Net fee and commission income	7	6,567	1,367	6,567	1,367
Credit loss expense on financial assets	8	(3,880)	(12)	(3,880)	(12)
Other operating income	9	1,553	309	1,553	309
Net operating income		9,158	1,814	9,158	1,814
Personnel expenses	10	(25,654)	(9,214)	(25,610)	(9,214)
Depreciation expense	19	(799)	(250)	(799)	(250)
Other operating expense	13	(33,421)	(25,426)	(33,465)	(25,426)
Total operating expense		(59,874)	(34,890)	(59,874)	(34,890)
Loss before tax		(50,716)	(33,076)	(50,716)	(33,076)
Taxation	15	3,552	2,530	3,552	2,530
Loss for the year		(47,164)	(30,546)	(47,164)	(30,546)
Total comprehensive loss for the year, net of tax		(47,164)	(30,546)	(47,164)	(30,546)

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

The Notes 1 to 37 form an integral part of these financial statements.

Statement of financial position

Statement of financial position for the year ended 28 February 2019

		Group	Group	Company	Company
		Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
	Notes				
Assets					
Cash and balances at bank	16	549,847	96,943	549,831	96,943
Loans and advances to customers	17	16,054	160	16,054	160
Other assets	18	29,434	28,348	29,429	28,348
Property, plant and equipment	19	2,278	823	2,257	823
Intangible assets		-	14	-	14
Investment in subsidiary		-	-	78	-
Collateral held with third parties	20	16,777	13,532	16,777	13,531
Total assets		614,390	139,820	614,426	139,820
Liabilities					
Customer deposits	22	461,821	71,276	461,821	71,276
Other liabilities	23	36,899	12,365	36,935	12,365
Total liabilities		498,720	83,641	498,756	83,641
Equity					
Called up share capital	24	0	0	0	0
Share premium account		198,146	93,989	198,146	93,989
Other reserves		3,164	871	3,164	871
Accumulated losses		(85,640)	(38,681)	(85,640)	(38,681)
Total equity		115,670	56,179	115,670	56,179
Total liabilities and equity		614,390	139,820	614,426	139,820

The Notes 1 to 37 form an integral part of these financial statements. The financial statements on pages 47 to 92 were approved and authorised for issuance by the Board on 25 June 2019 and signed on its behalf by:



Tom Blomfield
Director

25 June 2019

Statement of changes in equity

Statement of changes in equity for the year ended 28 February 2019

Statement of Changes in Equity – Group

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained losses £'000	Total equity £'000
Balance as at 28 February 2017	0	26,298	235	(8,135)	18,398
Shares issued	0	67,849	–	–	67,849
Cost of issuance	–	(437)	–	–	(437)
Share based payments reserve	–	–	915	–	915
Exercise of options	0	279	(279)	–	–
Losses for the year	–	–	–	(30,546)	(30,546)
Balance as at 28 February 2018	0	93,989	871	(38,681)	56,179
Shares issued	0	105,294	–	–	105,294
Cost of issuance	–	(1,207)	–	–	(1,207)
Share based payments reserve	–	–	2,511	–	2,511
Exercise of options	0	70	(218)	205	57
Losses for the year	–	–	–	(47,164)	(47,164)
Balance as at 28 February 2019	0	198,146	3,164	(85,640)	115,670

Statement of Changes in Equity – Company

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained losses £'000	Total equity £'000
Balance as at 28 February 2017	0	26,298	235	(8,135)	18,398
Shares issued	0	67,849	–	–	67,849
Cost of issuance	–	(437)	–	–	(437)
Share based payments reserve	–	–	915	–	915
Exercise of options	0	279	(279)	–	–
Losses for the year	–	–	–	(30,546)	(30,546)
Balance as at 28 February 2018	0	93,989	871	(38,681)	56,179
Shares issued	0	105,294	–	–	105,294
Cost of issuance	–	(1,207)	–	–	(1,207)
Share based payments reserve	–	–	2,511	–	2,511
Exercise of options	0	70	(218)	205	57
Losses for the year	–	–	–	(47,164)	(47,164)
Balance as at 28 February 2019	0	198,146	3,164	(85,640)	115,670

The share capital as at 28 February 2019 was £12 (2018: £11) which is shown as £nil (rounded to £'000) in the above table. See Note 24 for further detail. In the current year, we released £205k of reserves related to options exercised from other reserves into retained losses (2018: £nil).

Statement of cash flows

Statement of cash flows for the year ended 28 February 2019

		Group	Group	Company	Company
		Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Notes					
Cash flows from operating activities					
		(47,164)	(30,546)	(47,164)	(30,546)
Loss for the year					
Adjustments for non-cash items					
Depreciation of property plant and equipment	19	799	241	799	241
Amortisation of intangible assets		–	10	–	10
Share based payments	12	2,511	916	2,511	916
Loss on disposal of assets		161	–	161	–
Changes in operating assets and liabilities:					
Net increase in loans and advances to customers	17	(15,893)	(148)	(15,893)	(148)
Net increase in customer deposits	22	390,545	71,276	390,545	71,276
Increase in other assets (excluding R&D tax credit)	18	(2,329)	(26,406)	(2,324)	(26,406)
Cash received in relation to R&D tax credit	18	1,242	–	1,242	–
Increase in collateral held with third parties	20	(3,245)	(11,071)	(3,245)	(11,071)
Increase in other liabilities	23	24,534	11,285	24,570	11,285
Net cash from operating activities		351,161	15,557	351,202	15,557
Cash flows from investing activities					
Acquisition of property, plant and equipment	19	(2,415)	(886)	(2,394)	(886)
Proceeds on disposal of property, plant and equipment		8	–	8	–
Investment in subsidiaries		–	–	(78)	–
Net cash from investing activities		(2,407)	(886)	(2,464)	(886)
Cash flows from financing activities					
Net proceeds from issuance of ordinary shares		104,150	67,398	104,150	67,398
Net cash from financing activities		104,150	67,398	104,150	67,398
Net increase in cash and cash equivalents					
		452,904	82,069	452,888	82,069
Cash and cash equivalents at beginning of the period		96,943	14,874	96,943	14,874
Cash and cash equivalents at end of year	16	549,847	96,943	549,831	96,943

Notes to the financial statements

Notes to the financial statements for the year ended 28 February 2019

1. Reporting entities

These financial statements are prepared for Monzo Bank Limited and its subsidiaries ("the Group", "Monzo", "We", "Us"). 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.

2. Basis of preparation

We've prepared the individual and consolidated financial statements on an historical cost basis, except for financial assets which are held at fair value or amortised cost, in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and Companies Act 2006.

We present the financial statements in Sterling, which is also the Company's functional currency. Figures in tables are shown in £'000 and references in text are shown in £k or £m and this is stated in each case.

The amounts expected to be recovered or settled for assets and liabilities in the financial statements are due no more than 12 months after the reporting period unless specifically stated.

3. New and updated accounting standards adopted in the year

IAS 1 Presentation of Financial Statements

With effect from 1 January 2018 and applied from 1 March 2018, paragraph 82(a) of IAS 1 Presentation of Financial Statements requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately on the face of the income statement. This did not have a material impact as all interest income is recognised under the effective interest rate method.

IFRS 9 Financial Instruments

We have adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 March 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. We did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, we elected not to restate comparative figures, which are based on IAS 39. No adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period as they are considered immaterial.

The adoption of IFRS 9 has resulted in changes in our accounting policies for the impairment of financial assets. Other than the ECL change in accounting policy, IFRS 9 has not impacted the recognition and measurement of financial assets and liabilities, all of which are held at amortised cost.

IFRS 15 Revenue from Contracts with Customers

With effect from 1 January 2018 and applied from 1 March 2018, the Group adopted IFRS 15 using the full retrospective approach to each prior reporting period presented. We have reviewed contracts with customers and determined that there would be no impact to the recognition of revenue in the reporting periods shown.

4. New accounting standards in issue but not yet adopted

As at the date of these financial statements, certain standards were in issue and effective for periods beginning on or after 1 January 2019 which we haven't adopted for the year ended 28 February 2019. These standards have been adopted from 1 March 2019.

IFRS 16 Leases (effective date for periods beginning on or after 1 January 2019)

This standard will result in lessees recognising both a right of use asset and a lease liability on the balance sheet under a single lease model, removing the distinction between finance and operating leases.

We've performed a detailed analysis of the impact which concluded that when we adopt the standard there will be an increase in both assets and liabilities. There will also be an increase in interest expense and depreciation and a decrease in other operating expenses. The net impact is a decrease in our operating profit for the year, due to the change in the accounting for expenses that were classified as operating leases under IAS 17. Further details are provided in Note 21.

5. Critical accounting estimates, judgments and assumptions

Preparing the financial statements means using accounting estimates and assumptions. Estimates 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.

Management considers that the accounting estimates relating to these issues are the most material to the financial statements:

- Going concern (see Directors report)
- The recognition of income from contracts (Note 9)

- Fair valuing stock based compensation (Note 12)
- The recognition of expected credit losses (Note 31)

6. Summary of significant accounting policies

This note lists significant accounting policies we used when preparing these financial statements which we haven't disclosed in other notes above.

(a) Basis of consolidation

In the period two wholly-owned subsidiaries, Monzo Inc and Monzo Support US Inc, were incorporated in Delaware; US. There were no transactions within Monzo Inc during the year. Monzo Bank Limited has prepared consolidated accounts under IFRS 10 in the year for the first time.

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 financial and operating policies of an entity to vary the benefits 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, and any unrealised income and expenses arising from intra-group 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 subsidiary is held as historical cost less impairment. We assess impairment annually or as we become aware of any indicators of impairment.

(b) Interest income calculated under the effective interest rate 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, and deposits with central banks, incorporating where relevant, all interest, direct fees, commissions and charges that are integral to the yield. This reflects a change from prior year treatment (where the overdraft income was recognised as fee income) as the product and fee structure has evolved to introduce more tiers and variation in margin. The internal rate of return is calculated by reference to the weighted average behavioural life of the financial assets with the identified interest, fees and charges being deferred and amortised over that product life. Comparative information is presented under IAS 39.

(c) 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 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

Fees and commission income is recognised in the income statement as performance obligations are satisfied.

The key components of fees and commission income are Interchange income and ATM fees. Interchange income is recognised at the point that transaction is cleared. The amount is based on the presentment values which confirm that the performance obligations have been met. ATM fees are recognised at the point at which the ATM transaction takes place.

(d) Financial assets and liabilities

The Bank applies IFRS 9 to recognising, classifying, measuring and de-recognising financial assets and liabilities. We also apply IFRS 7 to disclosing information about the significance of financial instruments and the nature and extent of risks arising from financial instruments to the entity in both qualitative and quantitative terms.

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

The measurement basis, contractual maturity and fair value of financial assets and liabilities are shown in Note 30.

(i) Cash and balances at bank

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

(ii) Loans and advances to customers

Loans and advances to customers consist of unsecured loans, overdrafts and overdrawn balances (unarranged overdrafts). We measure them under IFRS 9, first at fair value and then at amortised cost less Expected Credit Losses (ECL).

The daily fee we charge on overdrafts and the interest we charge on loans are recognised within interest income, and are calculated under the effective interest rate method.

Measuring the Expected Credit Loss allowance for financial assets at amortised cost is an area that requires us to use complex models and significant assumptions about future economic conditions and credit behaviour (like the likelihood of customers defaulting and the resulting losses). We've detailed the inputs, assumptions and estimation techniques used in measuring ECL in Note 31.

We make a number of significant judgements in applying the accounting requirements for measuring ECL, like:

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for measuring ECL; and
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 31.

(iii) Other assets

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 31.

(iv) Customer deposits

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

(v) Customer deposits in transit

These amounts represent cash balances which customers have requested to deposit into third party savings accounts. The deposits are paid out to the third party providers the following business day after the customer request is initiated, after which they are derecognised from the balance sheet (upon settlement). We recognise these amounts at amortised cost.

(vi) Other liabilities

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 usually paid within 30 days of recognition. We recognise them first at fair value and then at amortised cost.

(e) 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. The Group did not record any provisions under IAS 37 in the financial year.

(f) Cash and cash equivalents

Cash and balances are held on demand, except for amounts held as collateral at central banks as shown in Note 16. We show them in accordance with the regulatory license held by the institution.

The Group didn't hold any cash equivalents in the year.

(g) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the cost of the assets.

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

Office and IT Equipment — 3 years

Fixtures and fittings — 3–5 years

Fixtures and fittings, which include office fit-out costs, are recognised on a straight-line basis over the life of the lease.

(h) Impairment of non-financial assets

We assess, at each reporting date, whether there are any indicators of impairment. If any indicators exist, we estimate the asset's recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired, and is written down to its recoverable amount.

(i) 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.

(j) Deferred tax

No deferred tax assets have been recognised as at 28 February 2019.

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.

(k) Leases

The Company applies IAS 17 Leases to its operating lease of office premises. We expense rentals payable under operating leases to the income statement on a straight line basis over the period of the lease including any rent free periods.

(l) Share-based payments

Employees (including senior executives) may be entitled to 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 vest evenly over four years with a one year cliff, where if an employee leaves within the first year of employment, they forfeit all vested options at that date. There are no non-market vesting conditions.

Our expense for the share options granted to our employees 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 an employee expense, with a corresponding increase in other reserves within equity, over the period that employees 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 valuation models which take into account the terms and conditions attached to the awards. Inputs into the valuation model include the risk free rate and the expected volatility of the Company's share price. The Company's market share price is reassessed through a quarterly valuation exercise conducted by management, which considers revenue and contribution exit multiples (see Note 12).

(m) Pensions

We participate in a single defined contribution pension scheme in each of 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 employees 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.

(n) Foreign exchange

The financial statements for the Group and the Company are presented in GBP, which is the functional currency of the Company, as well as the currency of the primary economic environment we operate in.

We initially record transactions in foreign currencies at the functional currency rate on the day of the transaction. We retranslate monetary assets and liabilities denominated in foreign currencies at the functional currency rate on the reporting date. All differences are taken to the Statement of Comprehensive Income.

We translate non-monetary items measured at historical cost in a foreign currency using the exchange rates on the day of the initial transactions. We translate non-monetary items measured at fair value in a foreign currency using the exchange rates on the day when the fair value is determined.

(o) Capitalisation of software development costs

It is our policy to capitalise software development costs in line with IAS 38. We have not capitalised any software development costs because we had not met the criteria of IAS 38 Intangible Assets by the end of the year.

7. Net fees and commission

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.

	Group	Group	Company	Company
	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Fees and commission income				
Fee income on banking services	2,539	160	2,539	160
Interchange fee income	10,555	2,041	10,555	2,041
Partnership commission	85	–	85	–
Partnership commission from trust and other fiduciary activities	52	–	52	–
Fees and commission expense				
Interchange fee expense	(6,664)	(834)	(6,664)	(834)
Net fees and commission	6,567	1,367	6,567	1,367

8. Credit impairment charges

For more information on the impairment charge in respect of loans, overdrafts, overdrawn balances and receivables see Notes 31, 32 and 33.

	Group	Group	Company	Company
	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Credit impairment charge on overdrafts and overdrawn balances	3,084	12	3,084	12
Credit impairment charge on loans	23	–	23	–
Credit impairment charges on receivables	773	–	773	–
Credit impairment charges	3,880	12	3,880	12

9. Other operating income

Other operating income includes income from contracts with a payment network provider of £1.4m (2018: £0.3m), which includes a sign-on bonus of £0.9m recognised as a result of achieving certain performance targets related to new customer business agreements signed within the financial year.

10. Personnel Expenses

Employee benefit expenses (including Directors) comprise of the costs summarised in the table below.

The average number of employees of the Group during the period was 437 (2018: 183), 217 of these were employed in Management, Operations and Administration and 220 were employed in Customer Operations (COps).

The increase in staff costs to £25.7m (2018: £9.2m) reflects the additional employees hired during the year to support the operational running of the Company.

	Group	Group	Company	Company
	Year ended	Year ended	Year ended	Year ended
	28 Feb 2019	28 Feb 2018	28 Feb 2019	28 Feb 2018
	£'000	£'000	£'000	£'000
Salaries	19,376	7,167	19,346	7,167
Social security contributions	2,680	860	2,676	860
Contributions to defined contribution plans	761	194	760	194
Share-based payments	2,511	916	2,511	916
Other personnel expenses	326	77	317	77
Total personnel expenses	25,654	9,214	25,610	9,214

11. Directors' remunerations

As at 28 February 2019 there were no loans outstanding to directors (2018: £nil) and there were no loans made to directors during the period (2018: £nil).

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

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

12. Share-based payments

The Company operates two share options schemes. The first is an HMRC approved Company Share Option scheme ('CSOP'), where awards can be made to employees subject to conditions. The strike price for these options is 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, since the shares aren't actively traded. The second scheme is a Non-CSOP scheme, these awards are made with the strike price set equal to the £0.0001.

For accounting purposes, the fair market share price was evaluated on a quarterly basis through valuation exercise conducted by management, which considered relevant metrics such as revenue and contribution exit multiples. Where there was an external valuation (eg through fundraising) close to the date of the internal valuation, management have used the external valuation for purposes of calculating share based payments.

The Company measures the cost of equity-settled options based on the fair value of the awards granted. The fair value is determined based on the Black-Scholes valuation model 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 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:

Risk free rate — 0.82%

Volatility — 40%

Dividend yield — nil

Expected life — 4 years

We recognise the fair value of options at grant date as an employee expense with a corresponding increase in other reserves over the period that the employees become unconditionally entitled to the awards. The total expense in the year ended 28 February 2019 was £2.5m (2018: £0.9m).

	CSOP Number	Non – CSOP Number
At 28 February 2017	2,828,696	3,214,419
Granted during the period	2,601,094	1,752,032
Lapsed	(216,599)	(240,096)
Exercised	(47,415)	–
At 28 February 2018	5,165,776	4,726,355
Granted during the period	2,863,554	2,121,839
Lapsed	(577,455)	(317,962)
Exercised	(126,951)	(1,457,532)
At 28 February 2019	7,324,924	5,072,700

The range of exercise prices for the CSOP share options remaining is £0.1997 – £7.7145. The range of exercise prices for CSOP share options exercised in the financial year was £0.1997 – £1.0058. The exercise price for the non-CSOP share options is always £0.0001. The weighted average remaining life of the CSOP and non-CSOP share options is 8.51 years, whilst the weighted average fair value of the options at grant date was £3.7100.

There have been no modifications to share-based payment transactions which resulted in a change in their classification from cash-settled to equity-settled.

There are no share-based payments issued for employees of the subsidiaries involving equity instruments of Monzo Bank Limited.

13. Operating expenses

Auditors' remuneration for the audit of the financial statements was £0.4m (2018: £0.1m) and remuneration in respect of non-audit services was £0.03m (2018: nil).

Technology costs includes charges for servers, data warehousing, cloud services and software.

Current account operating costs includes the cost of payment schemes, card production and customer on-boarding.

	Group	Group	Company	Company
	Year ended	Year ended	Year ended	Year ended
	28 Feb 2019	28 Feb 2018	28 Feb 2019	28 Feb 2018
	£'000	£'000	£'000	£'000
Prepaid card scheme	415	14,308	415	14,308
Technology costs	4,389	1,815	4,389	1,815
Premise and office costs	4,695	952	4,680	952
Marketing	2,730	390	2,730	390
Legal and professional fees	3,345	857	3,330	857
Accountancy and audit fees	423	450	423	450
Current account operating costs	14,190	5,953	14,190	5,953
Product development	260	–	260	–
Administrative expenses	2,974	701	2,972	701
Intercompany expenses	–	–	76	–
	33,421	25,426	33,465	25,426

14. Operating lease payments

The total operating lease payments recognised as an expense in the year were £1.1m. The minimum lease payments outstanding at the balance sheet date are included in Note 26. Contingent liabilities and commitments.

15. Taxation

We have not recognised a deferred tax asset in respect of tax losses carried forward totalling £68.8m (2017: £29.6m) as there isn't enough evidence as to their recoverability.

	Group	Group	Company	Company
	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Current tax				
UK corporation tax credit on loss for the period	1,858	2,530	1,858	2,530
Adjustment in respect of prior years	1,694	0	1,694	0
Total for the year	3,552	2,530	3,552	2,530
 Loss on ordinary activities before tax	 50,716	 33,076	 50,716	 33,076
Standard rate of corporation tax	19%	19%	19%	19%
Expected tax credit	9,636	6,312	9,636	6,312
 Effects of:				
Expenses not deductible for tax	(209)	(12)	(209)	(12)
Share options exercised	697	19	697	19
Additional deduction for R&D expenditure	1,376	1,882	1,376	1,882
Impact of surrendering losses at lower rate	(576)	(800)	(576)	(800)
Adjustment to tax charge in respect of prior period	1,694	0	1,694	0
Deferred tax asset not recognised	(9,066)	(4,871)	(9,066)	(4,871)
Total UK corporate tax credit for the period	3,552	2,530	3,552	2,530

Deferred tax

The deferred tax included in the balance sheet is as follows:

Included in debtors	-	-	-	-
	-	-	-	-
Accelerated capital allowances	-	(1)	-	(1)
Losses	-	1	-	1
	-	-	-	-

A deferred tax asset has not been recognised in respect of the following:

	Group	Group	Company	Company
	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Unused tax losses	11,704	5,026	11,704	5,026
Fixed asset timing differences	116	0	116	0
Share based payments	6,686	1,127	6,686	1,127
Other deductible temporary differences	27	7	27	7
	18,533	6,160	18,533	6,160

Factors affecting future tax charge

The UK Government has announced reductions in UK corporation tax to 17% by 1 April 2020. The closing deferred tax assets and liabilities have been calculated taking into account that existing temporary differences may unwind in periods subject to the reduced rates.

16. Cash and balances at bank

Our cash and balances at bank are held on demand unless otherwise stated. We show them in accordance with the regulatory license held by the institution.

The reserves with central banks are encumbered as they are held at central banks as cash collateral and not available for use in day-to-day operations. This is required for the Bank to be a direct settling participant of the Faster Payments Service.

	Group	Group	Company	Company
	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Held with central banks	510,314	82,543	510,314	82,543
Held with other banks	28,936	13,400	28,920	13,400
Held with e-money institutions	597	–	597	–
Reserves with central banks	10,000	1,000	10,000	1,000
	549,847	96,943	549,831	96,943

17. Loans and advances to customers

Loans and advances to customers consist of approved overdrafts provided to customers of £18.5m (2018: £0.1m), overdrawn balances on current accounts of £0.1m (2018: £0.1m), and loans of £0.6m (2018: nil). See Note 31 for more information on the impairment charge in respect of overdraft, overdrawn balances, and loans.

	Group	Group	Company	Company
	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Gross amounts receivable from customers				
Overdrafts and overdrawn balances	18,570	170	18,570	170
Loans	603	2	603	2
Gross amounts receivable from customers	19,173	172	19,173	172
Amounts receivable from customers				
Gross receivables	19,173	172	19,173	172
Credit loss provision	(3,119)	(12)	(3,119)	(12)
Amounts receivable from customers	16,054	160	16,054	160
Amounts receivable from customers net of provisions				
Overdrafts and overdrawn balances	15,474	158	15,474	158
Loans	580	2	580	2
Fair value of amounts receivable from customers	16,054	160	16,054	160
Analysis of receivables from customers				
Due within one year	19,173	172	19,173	172
Due in more than one year	–	–	–	–
Amounts receivable from customers	19,173	172	19,173	172

18. Other assets

Included within other assets are £19.8m (2018: £22.4m) of financial assets and £9.6m (2018: £5.9m) of non financial assets. The credit quality of the financial assets is considered low risk. The other receivables balance is short term in nature and included £3.5m of receivables in respect of payment network scheme refunds due, these were received in March.

Receivables in respect of the prepaid card program are shown net of Expected Credit Losses as disclosed in Note 31.

The recognised R&D asset is considered a non-financial asset and is based on analysis of eligible costs. During the year we concluded our discussions with HMRC in relation to our R&D reclaim for the 2017 year end of £1.2m (including interest). The reclaim was agreed and repayment made during the financial year. Our submitted R&D reclaim of £4.2m for the 2018 year end has also been repaid in full subsequent to the financial year end. Our estimated R&D reclaim of £1.9m for the 2019 year end has been recognised in full.

	Group	Group	Company	Company
	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Prepayments	3,207	2,016	3,202	2,016
R&D tax reclaim	6,078	3,768	6,078	3,768
VAT receivable	143	–	143	–
Accrued income	839	1,568	839	1,568
Deposits on premises	182	143	182	143
Receivables in respect of the prepaid card program	3,313	11,288	3,313	11,288
Receivables in respect of the Faster Payments Service	11,020	2,062	11,020	2,062
Other receivables	4,652	7,504	4,652	7,504
	29,434	28,348	29,429	28,348

19. Property, plant and equipment

Group	Fixtures & fittings £'000	Office & IT equipment £'000	Total £'000
Cost:			
As at 1 March 2017	1	219	220
Additions	174	712	886
Disposals	–	–	–
As at 28 February 2018	175	931	1,106
Depreciation:			
As at 1 March 2017	–	42	42
Charge for the period	47	194	241
Depreciation on assets disposed	–	–	–
As at 28 February 2018	47	236	283
Net book value as at 28 February 2018	128	695	823
Cost:			
As at 1 March 2018	175	931	1,106
Additions	937	1,478	2,415
Disposals	–	(44)	(44)
Write-offs	(176)	(124)	(300)
As at 28 February 2019	936	2,241	3,177
Depreciation:			
As at 1 March 2018	47	236	283
Charge for the period	281	518	799
Depreciation on assets disposed	–	(35)	(35)
Depreciation on assets written off	(67)	(81)	(148)
As at 28 February 2019	261	638	899
Net book value as at 28 February 2019	675	1603	2,278

Company

	Fixtures & fittings £'000	Office & IT equipment £'000	Total £'000
Cost:			
As at 1 March 2017	1	219	220
Additions	174	712	886
Disposals	–	–	–
As at 28 February 2018	175	931	1,106
Depreciation:			
As at 1 March 2017	–	42	42
Charge for the period	47	194	241
Depreciation on assets disposed	–	–	–
As at 28 February 2018	47	236	283
Net book value as at 28 February 2018	128	695	823

Cost:			
As at 1 March 2018	175	931	1,106
Additions	916	1,478	2,394
Disposals	–	(44)	(44)
Write-offs	(176)	(124)	(300)
As at 28 February 2019	915	2,241	3,156
Depreciation:			
As at 1 March 2018	47	236	283
Charge for the period	281	518	799
Depreciation on assets disposed	–	(35)	(35)
Depreciation on assets written off	(67)	(81)	(148)
As at 28 February 2019	261	638	899
Net book value as at 28 February 2019	654	1,603	2,257

20. Collateral held with third parties

Collateral held with third parties includes £14.8m (2018: £9.8m) of encumbered assets which are required to be held for access to payment networks, and £1.9m (2018: £nil) cash held in escrow to cover future rent payments on our London office.

21. Impact assessment of transition from IAS 17 to IFRS 16

New Standard

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for recognising, measuring, presenting and disclosing leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases, leases with a lease term of 12 months or less. At the start date of a lease, a lessee will recognise a lease liability and a right-of-use asset. Lessees have to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Transition to IFRS 16

The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Group has not applied any practical expedients on transition.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months of the start date, and lease contracts for which the underlying asset is of low value.

The Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

	Group	Company
Impact on the statement of financial position (increase/(decrease)) as at 28 February 2019:	£'000	£'000
Assets		
Right-of-use assets	2,239	2,239
Total assets	2,239	2,239
Liabilities		
Lease liabilities	2,294	2,294
Total liabilities	2,294	2,294
Equity		
Accumulated losses	(55)	(55)
Total equity	(55)	(55)
Total liabilities and equity	2,239	2,239

**Impact on the statement of profit or loss
(increase/(decrease)) for 2019:**

Increase in depreciation and amortisation expense	1,019	1,019
Increase in finance costs	141	141
Decrease in other operating expense	(1,106)	(1,106)
Increase in total operating expense	54	54
<i>Increase in loss before tax</i>	54	54
Taxation	-	-
Increase in loss for the year	54	54
Increase in total comprehensive loss for the year, net of tax	54	54

Impact on statement of changes in equity

Balance as at 28 February 2018	(1)	(1)
Shares issued	-	-
Cost of issuance	-	-
Share based payments reserve	-	-
Exercise of options	-	-
Losses for the year	(54)	(54)
Balance as at 28 February 2019	(55)	(55)

22. Customer deposits

The Bank holds customer deposits at the end of the year of £461.8m (2018: £71.3m) which are held on demand.

23. Other liabilities

Included within other liabilities are £30.0m (2018: £6.0m) of financial liabilities and £6.9m (2018: £6.3m) of non financial liabilities.

	Group	Group	Company	Company
	Year ended	Year ended	Year ended	Year ended
	28 Feb 2019	28 Feb 2018	28 Feb 2019	28 Feb 2018
	£'000	£'000	£'000	£'000
Accruals	4,075	3,910	4,063	3,910
Accounts payable and other creditors	2,041	1,363	2,031	1,363
Intercompany accounts payable	-	-	58	-
Customer funds in transit	27,958	6,044	27,958	6,044
Other taxes and social security costs	1,080	431	1,080	431
Deferred income	1,745	617	1,745	617
	36,899	12,365	36,935	12,365

24. Called up share capital

The ordinary shares have several share classes all of which have the same full voting rights attached and rank *pari passu* in all respects except of the distribution of the proceeds on a share sale event involving a change in control and anti-dilution rights.

Some of the shares in issue are owned by the board, management and staff. At the balance sheet date 9,659,785 (2018: 3,142,018) shares were unvested.

Other reserves are made up of the share-based payments that haven't yet been exercised at year end.

	Year ended 28 Feb 2019 £	Year ended 28 Feb 2018 £
Ordinary shares of £0.000000.1/£0.0001 each	12	11
	12	11

	Nominal	Number of ordinary shares	Number of deferred shares	Share Capital £
As at 28 February 2017		71,696,550	–	7
Shares issued	0.0000001	33,655,679	–	4
Options exercised	0.0000001	47,415	–	0
As at 28 February 2018		105,399,644	–	11
Shares issued	0.0000001	13,766,369	–	1
Options exercised	0.0000001	1,584,483	–	0
As at 28 February 2019		120,750,496	–	12

25. Related party transactions and controlling parties

Controlling parties

In the opinion of the Directors there is no overall controlling party.

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 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Salaries & remuneration	1,415	433
Social security contributions	68	47
Share based payments	637	217
Contributions to defined contribution plans	27	12
	2,147	709

In addition, a total of 129,706 shares were purchased by Directors' at a fair value of £222,253 in the year ended 28 February 2019.

The deposits, overdrafts and loans of key management personnel and their close family members on the balance sheet at year end are shown in the table below:

	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Deposits	147	96
Overdrafts	0	0
Loans	-	-

In addition, overdrafts totalling £0.01m were available to key management personnel at year end.

Transactions with related parties

There were no transactions with related parties during the year other than those disclosed above.

26. Contingent liabilities and commitments

Contingent liabilities

There are no significant contingent liabilities as at 28 February 2019 (2018: none).

From time to time and in the normal course of business, the Company can be subject to a variety of claims, actions or proceedings. We do not expect the resolution of any such matters to have a significant impact on our financial position.

Undrawn commitments

Total committed but undrawn facilities as at 28 February 2019 are £81.0m (2018: £0.7m) 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.

Operating lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Year ended 28 Feb 2019 £'000	Year ended 28 Feb 2018 £'000
Within one year	1,307	651
Later than one year but not later than five years	1,275	879
Later than five years	-	-
Total	2,582	1,530

27. Contingent asset

In the year ended 28 February 2019, the Group renegotiated its contract with a key payment network provider. The new contract includes certain discounts on cross-border fees, based on achieving transaction volume targets by 30 September 2019. Management deemed the discount to be a contingent asset arising from past events under IAS 37. As at 28 February 2019, this target had not been achieved, and therefore it was not virtually certain that this benefit will be realised and therefore no asset was recognised. Management has estimated the value of the contingent asset to be at £350k at year end.

28. Provisions

In the previous financial year, management recognised an uncertain tax provision of £2.5m in relation to ongoing enquiries from HMRC into the R&D reclaim for the 2017 year end. This provision was wholly reversed in this financial year as the reclaim was fully agreed and settled. No other IAS 37 provisions were recognised in the year.

	R&D reclaim £'000	Total £'000
Opening provision – 1 March 2018	2,470	2,470
Additions	–	–
Used	–	–
Unused amounts reversed	(2,470)	(2,470)
Unwinding of discount	–	–
Closing provision – 28 February 2019	–	–

29. 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 provides support services to Monzo Bank Limited.

Monzo Inc is incorporated in the USA, there was no activity in the entity for the year ended 28 February 2019.

	UK £'000	USA £'000	Total £'000
Average number of employees (FTE)	436	1	437
Turnover (Total income)	19,702	–	19,702
Loss before tax	50,716	–	50,716
Corporation tax credit	3,552	–	3,552
Public subsidies received	0	–	0

30. Financial assets and liabilities

The balances in the tables below relate to financial assets and liabilities only. The figures in the balance sheet also include non-financial assets and so certain figures in the table below don't agree directly with the figures in the balance sheet.

The Group initially recognises all of the financial assets and liabilities it holds at fair value and then at amortised cost.

The Group classifies its financial assets at amortised cost only if both of the following criteria are met:

(i) The asset is held within a business model whose objective is to collect the contractual cash flows.

(ii) The contractual terms give rise to cash flows that are solely payments of principal and interest.

The loans and advances to customers are held at amortised cost, net of provisions for expected credit losses, as shown in Note 17.

Financial assets and liabilities by measurement basis

As at 28 February 2019	Amortised cost £'000	Fair value £'000	Total £'000
Financial assets			
Cash and balances at bank	549,847	–	549,847
Loans and advances to customers	16,054	–	16,054
Other assets	19,824	–	19,824
Collateral held with third parties	16,777	–	16,777
Total financial assets	602,502	–	602,502
Financial liabilities			
Customer deposits	461,822	–	461,822
Other liabilities	29,999	–	29,999
Total liabilities assets	491,821	–	491,821
As at 28 February 2018			
Financial assets			
Cash and balances at bank	96,943	–	96,943
Loans and advances to customers	160	–	160
Other assets	26,198	–	26,198
Collateral held with third parties	9,755	–	9,755
Total financial assets	133,056	–	133,056
Financial liabilities			
Customer deposits	71,276	–	71,276
Other liabilities	6,044	–	6,044
Total liabilities assets	77,320	–	77,320

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 are categorised from Level 1 as the highest priority to Level 3 as the lowest.

Level 1 – Quoted prices in active markets for identical assets or liabilities which the Group 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.

Basis of valuation

Cash and balances at bank

Fair value approximates carrying value because cash and balances at bank have minimal credit risk and are short term in nature other than amounts held as collateral with central banks.

Loans and advances to customers

The Group provides overdrafts and loans. The fair value of the overdrafts has been determined through discounting (using EIR) the gross carrying value of the overdrafts to present value less ECL. Due to the short term nature of loans and as market rates have not changed since the loans have been in issue the Group has assessed that their fair value has not varied significantly from their carrying value.

Customer deposits

Fair value of deposit liabilities held on demand are deemed to approximate the carrying value.

Other assets and liabilities

Fair value of other assets and liabilities are deemed approximate to the carrying value.

The following table summarises the fair values of financial assets and liabilities by the level of inputs that are not reported on the balance sheet at their fair value but are instead reported using amortised cost.

As at 28 February 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000	Total carrying value £'000
Financial assets					
Cash and balances at bank	-	549,847	-	549,847	549,847
Loans and advances to customers	-	-	15,766	15,766	16,054
Other assets	-	16,511	3,313	19,824	19,824
Collateral held with third parties	-	16,777	-	16,777	16,777
Total financial assets	-	583,135	19,079	602,214	602,502
Financial liabilities					
Customer deposits	-	461,822	-	461,822	461,822
Other liabilities	-	29,999	-	29,999	29,999
Total financial liabilities	-	491,821	-	491,821	491,821
Net asset position	-	91,314	19,079	110,393	110,681

As at 28 February 2018					
Financial assets					
Cash and balances at bank	-	96,943	-	96,943	96,943
Loans and advances to customers	-	160	-	160	160
Other assets	-	26,198	-	26,198	26,198
Collateral held with third parties	-	9,755	-	9,755	9,755
Total financial assets	-	133,056	-	133,056	133,056
Financial liabilities					
Customer deposits	-	71,276	-	71,276	71,276
Other liabilities	-	6,043	-	6,043	6,043
Total financial liabilities	-	77,319	-	77,319	77,319
Net asset position	-	55,737	-	55,737	55,737

Contractual maturity of financial assets and liabilities

As at 28 February 2019	On demand £'000	Less than three months £'000	Between three and six months £'000	Less than one year £'000	Over one year £'000	Total £'000
Financial assets						
Cash and balances at bank	539,847	–	–	–	10,000	549,847
Loans and advances to customers	15,474	580	–	–	–	16,054
Other assets	15,446	1,065	3,313	–	–	19,824
Collateral held with third parties	–	124	–	–	16,653	16,777
Total financial assets	570,767	1,769	3,313	–	26,653	602,502
Financial liabilities						
Customer deposits	461,822	–	–	–	–	461,822
Other liabilities	28,425	1,574	–	–	–	29,999
Total financial liabilities	490,247	1,574	–	–	–	491,821
Net asset position	80,520	195	3,313	–	26,653	110,681

As at 28 February 2018

Financial assets						
Cash and balances at bank	96,943	–	–	–	–	96,943
Loans and advances to customers	160	–	–	–	–	160
Other assets	1,568	23,922	709	–	–	26,199
Collateral held with third parties	–	–	–	–	9,755	9,755
Total financial assets	98,671	23,922	709	–	9,755	133,057
Financial liabilities						
Customer deposits	71,276	–	–	–	–	71,276
Other liabilities	–	6,044	–	–	–	6,044
Total financial liabilities	71,276	6,044	–	–	–	77,320
Net asset position	27,395	17,878	709	–	9,755	55,737

31. Credit risk

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

The Bank currently provides overdraft facilities and short term unsecured loans to individuals in order 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. 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 26) and loans on the balance sheet (Note 17). As a material risk to the Bank, there is significant management focus on setting credit risk appetite and embedding appropriate risk mitigation.

The below disclosures do not contain IFRS 9 or IFRS 7 comparatives for the prior year as they are not material.

Credit risk management

Exposure to credit risk is monitored and managed by the Lending department and overseen by the CRO function in the 2nd line of defense. The principal committee at which the bank's retail credit risk is scrutinised and managed is the Credit Risk Committee which is overseen by the Executive Risk Committee. In addition, the overall Risk appetite and lending criteria and policy is 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 include credit portfolio and financial accounting metrics.

Early warning indicators, credit performance trends and key risk indicators are monitored within the Lending department with recommendations discussed at the Credit Risk Committee for approval and subsequent implementation. Overarching appetite indicators are tracked at the Executive Risk Committee and at the Board Risk Committee.

Credit risk mitigation

The Bank uses 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 the Bank's 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 macro-economic environment and with an expectation that material losses will not occur.

The main goal of the collections policy is to treat customers fairly. The Bank contacts each customer in financial difficulty individually to discuss their circumstances. Where a customer is identified as vulnerable or in financial difficulty, the Bank offers a range of support, tools and assistance (or points them towards external organisations that can give them extra support). This means the Bank can agree individual actions or plans with each customer, which helps to bring customers facilities back into a sustainable position.

Impairment under IFRS 9:

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

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

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

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

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

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

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

- **Determining a significant increase in credit risk since initial recognition.** The impairment model utilises both relative and absolute criteria to identify increases in credit risk:

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

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

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

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

- **Definition of default and credit-impaired assets.**

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

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

- 1) The customer filing for bankruptcy or Individual Voluntary Agreement; or
- 2) The customer is deceased;
- 3) The overdraft or loan has been renegotiated because the customer's condition has deteriorated. This includes cases where a specific repayment plan has been agreed.
- 4) The customer has requested 'breathing space' ie 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.

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

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

- **Write-off policy.** A loan or overdraft is written-off, either partially or in full, against the related provision when sufficient time has passed and the Bank has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:
 - a) Customer indicates inability (cannot afford) to pay the outstanding balance over a reasonable period through a renegotiated repayment plan; and
 - b) It is deemed that the customer does not show enough "willingness to pay":
 - (i) Not keeping a promise to pay over a period of time;
 - (ii) Defaulting in renegotiated repayment plan; and
 - (iii) Not contactable.

Other than the £383k of unauthorized overdrafts which were directly written off to the profit and loss during the year, no overdraft or loan assets were written off during the year.

Critical accounting estimate:

The calculation of the credit impairment provision position involves judgement, in particular the weighting of economic scenarios used to calculate forecast losses. Sensitivity analysis shows that calculating the provision based solely on the downside scenario increases the charge by £0.4m.

As at 28 February 2019, the Bank's portfolio consisted entirely of retail lending within the UK. There is no concentration of credit risk by any particular feature within the portfolio. The following table summarises lending as at the year end by IFRS 9 impairment stage and the related provision. Note that comparative measures are not presented as they are not material.

As at 28 Feb 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Overdrafts and overdrawn balances	14,226	3,273	1,071	18,570
Loans	578	20	5	603
Gross carrying amount	14,804	3,293	1,076	19,173
Overdrafts and overdrawn balances	(1,187)	(954)	(955)	(3,096)
Loans	(11)	(7)	(5)	(23)
Impairment provision	(1,198)	(961)	(960)	(3,119)
Overdrafts and overdrawn balances	13,039	2,319	116	15,474
Loans	567	13	0	580
Net amounts receivable	13,606	2,332	116	16,054

During the year, the Bank also recognised an expected credit loss against a receivable balance related to the closed prepaid card programme due to the ongoing efforts associated with its recovery. The Bank applied the simplified approach, as permitted under IFRS 9 for trade receivables, meaning that the lifetime ECL was recognised on this balance.

	Receivables £'000	Total £'000
Opening expect credit loss – 1 March 2018	–	–
Additions	773	773
Used	–	–
Unused amounts reversed	–	–
Unwinding of discount	–	–
Closing expected credit loss – 28 February 2019	773	773

32. Impairment allowance movement table

An analysis of changes in the gross loan and overdraft amounts receivable from customers and the related IFRS 9 provision is as follows:

The provision increase was primarily driven by the origination of £18.8m of new overdraft accounts and £0.6m of new loans.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross balances				
Gross amounts due from customers				
As at 1 March 2018	172	~	–	172
New facilities originated	19,379	~	–	19,379
Transfer to Stage 2	(3,322)	3,322	–	–
Transfer to Stage 3	(1,367)	(79)	1,446	–
Increase / (decrease) in credit risk	(58)	50	8	–
De-recognition	–	~	(378)	(378)
As at 28 February 2019	14,804	3,293	1,076	19,173
Impairment				
As at 1 March 2018	12	~	–	12
New facilities originated	1,339	~	–	1,339
Transfer to Stage 2	(79)	79	–	–
Transfer to Stage 3	(53)	~	53	–
Impact on year end ECL of exposures transferred between stages during the year	(98)	662	1,112	1,676
Changes to models used for ECL calculation	(32)	208	173	349
Changes in data inputs to ECL calculation	109	12	–	121
De-recognition	–	~	(378)	(378)
As at 28 February 2019	1,198	961	960	3,119

33. Credit quality

The table below provides information on the credit quality of the Bank's overdraft and loan book. This is segmented by risk grades which are determined via reference to credit scores provided by an external Credit Bureau agency with each having an associated PD range. This is consistent with the Bank's internal credit risk policy.

Risk grade	Gross receivables due from customers £'000	Impairment allowance £'000	Net receivables due from customers £'000
Very low risk	4,473	(532)	3,941
Low risk	3,493	(206)	3,287
Medium risk	3,573	(321)	3,252
High risk	2,878	(389)	2,489
Very high risk	4,756	(1,671)	3,085
As at 28 February 2019	19,173	(3,119)	16,054

34. Liquidity risk management

Liquidity risk is the risk that the Company fails to meet its obligations as they fall due or can only do so at exceptional cost. This includes having the right type and quantity of funds, in the right place, at the right time and in the correct currency. Monzo's liquidity risk appetite is to meet all liabilities as they fall due. The contractual maturities of financial assets and liabilities are included in Note 30.

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

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

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

35. Capital management

Capital risk is the risk that the Company has sub-optimal quantity or quality of capital resources to meet its 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 already made by the Company, or having large unexpected operational losses.

Capital is one of the Bank's key measures and the Board approved capital risk appetite makes sure we're holding sufficient capital within regulatory requirements. The principal committee at which the bank's capital is scrutinised and managed is ALCO. The Executive Committee and Risk Committee review high level capital metrics, together with more specific details if there are any concerns. The Board and Risk Committees also receive high level metrics and commentary on capital risk and projections of capital usage and surplus going forward.

Monzo continues to maintain capital ratios that exceed its minimum requirements under the capital requirement directive IV regulatory framework. Monzo refreshes its Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, which includes a 3 year forecast of the Bank's capital position. The ICAAP is used to inform the future capital strategy and is submitted to the PRA following Board scrutiny and approval.

The ICAAP assesses the Company's 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. The Company also holds Pillar 2B capital based upon wind-down costs and the regulatory determined capital conservation buffer and counter-cyclical buffer.

A series of stress and scenario testing during a 3 year forecast is also undertaken to assess the resilience of the capital position. In all cases, Monzo has shown that it is 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

Monzo's key capital metric is the current and projected surplus of capital resources over regulatory capital requirements. The CET1 ratio is also monitored. Currently Monzo's capital resources consists solely of paid up share capital. As at 28 February 2019 Monzo's CET1 ratio is 126% (unaudited) based on our current capital minimum capital requirements.

During the year ended 28 February 2019, the Bank complied in full with all its externally imposed capital requirements.

36. Market risk management

Interest rate risk

Interest rate risk for the Group relates to the interest earned on deposits with central banks. The Group monitors the risk at the ALCO meetings on a monthly basis. The Group assesses this risk by:

- considering any impacts of new products (including associated terms and returns)
- conducting portfolio stresses by calculating the impact of a 200 basis point movement in interest rates from the rate of 0.75% prevailing at year end

Based on the Group's deposits with central banks at year end this would result in a +/- £10.4m impact on profit or loss.

Foreign exchange risk

Foreign currency risk arises from having assets and liabilities in currencies other than Sterling. The ALCO monitors the impact of a 10% movement in foreign exchange rates.

At year end the Group holds balances in US Dollars and Euros. The impact that this would have given the year end foreign currency balances is +/- £30k to profit or loss.

Monzo Support US also holds cash at bank for its operational use and this is deemed immaterial to the group.

37. Events after the reporting date

The Company raised an additional £113m of equity share capital, from new and existing investors, in June 2019. As a result, 8,677,650 new shares were issued.

The Group announced plans to launch a prepaid card product in the US in collaboration with a partner bank.

Our submitted R&D reclaim of £4.2m for the 2018 year end was paid in full subsequent to the *financial year end*.