



## Pillar 3 disclosure

## Introduction

The European Union's Capital Requirements Regulation and Capital Requirements Directive (CRD IV) provide a regulatory framework for the amount and nature of capital that credit institutions and investment firms must hold. This regulatory framework rests on three pillars:

- Pillar 1 takes a formulaic approach to assessing the capital required to cover credit, market and operational risks to set the minimum capital requirement.
- Pillar 2 is an assessment of all risks, particularly those that are not adequately captured by the Pillar 1 assessment. This is achieved through the Internal Capital Adequacy Assessment Process and the Financial Conduct Authority's Supervisory Review and Evaluation Process (ICAAP).
- Pillar 3 complements the above and requires a firm to publish information about its risk management, capital and governance. It also requires the disclosure of its remuneration policy that applies to certain categories of staff.

The Capital Requirements Regulation and CRD IV apply to Digital Moneybox Limited (Moneybox) and this document is our disclosure in line with the Pillar 3 requirement. The figures provided in this document are aligned to the date of our financial year end (31 May 2019), which is the date used for both our audited accounts and our ICAAP document.

## Governance

The Moneybox Board is the ultimate decision-making forum for Moneybox. The Board meets every two months and discusses business progress, financial reporting, business plans, and any significant risk or compliance events. The Board is supported by a Board Risk Committee (RiskCo). The RiskCo is a formally delegated board committee that is responsible for the oversight of risk and compliance. The RiskCo meets before each Board (every two months), receives risk and compliance reporting that includes key risk indicators, and discusses key developments and specific issues. Significant items are escalated by the RiskCo to the Board.

### Diversity

Moneybox puts great emphasis on providing equality of opportunity for all employees and ensures that fair selection and development procedures apply. The aim of the policy is to ensure that no job applicant or employee receives less favourable treatment on the grounds of age, sex, sexual orientation, disability, marital status, colour, religion, race, or ethnic origin, or is disadvantaged by conditions or requirements which cannot be shown to be justifiable. In the event of an employee becoming disabled whilst in Moneybox's employment, measures will be taken to ensure to ensure that they can continue in their employment as far as is practical.

## Risk management

As a savings and investment platform, the main source of risk to Moneybox is operational risk. Moneybox manages operational risk by automating tasks when possible and establishing robust processes and controls when automation is not possible. Risk events are quickly reviewed and remedied, with regular reporting provided to the RiskCo. Extreme operational risk scenarios and their potential impact on Moneybox were explored through our ICAAP, which produced a total operational risk requirement of £1,164,000.

Moneybox's risk appetite sets out the level of risk the firm is prepared to accept in pursuit of its strategic and operational objectives. The appetite is set by the Moneybox board. Risk limits have been established that are the quantitative interpretation of the risk appetite and should not be breached. Key risk indicators have also been established, act as the thresholds that require action to keep Moneybox within its risk appetite, and are monitored to provide an early warning for action. This does not prevent action being taken before a key risk indicator is triggered. The appropriateness of the key risk indicators used is reviewed annually by the RiskCo.

Moneybox's risk management framework is made up of a number of components that are summarised in the diagram below. How we consider and manage risk is influenced by Moneybox's culture, directed by our governance structure, described in our policies and discharged through the design of our controls.



Moneybox's risk management approach aims to identify, rate and prioritise risks consistently. The risk management framework is designed to be flexible so that it can evolve with changing external threats and Moneybox's operations. It employs a top down approach set by senior management and the Board that is informed and challenged from the bottom up (risk owners, risk events).

The risk management framework includes three main parts:

- 1) we identify risks and consider the likelihood of a risk occurring and the impact it would have if it did occur;
- 2) processes, systems and controls are designed and reviewed to manage the risks; and
- 3) we assess the amount of capital required to mitigate the impact of a risk.

The risks Moneybox is exposed to are kept under review and changes to risk management are implemented when necessary to account for changes in Moneybox's risk profile.

The Moneybox Board has reviewed our risk management arrangements through the ICAAP and is satisfied that they are adequate for Moneybox's profile and business strategy.

## Capital resources

Moneybox's total capital resources at 31 May 2019 were £8,548,293. Moneybox's capital is made up of Moneybox shares (ordinary share capital) and cash (share premium). Certain deductions need to be made from capital resources, which are set out in the table below:

<b>Tier 1</b>	<b>(£)</b>
Ordinary share capital	28
Share premium	21,335,342
Audited retained earnings	-9,878,411
<b>Total tier 1 capital</b>	<b>11,456,959</b>
Tier 1 deduction - intangible assets	-1,908,666
Total tier 1 capital after deductions	9,548,293
Total capital deduction - illiquid assets	-1,000,000
<b>Total regulatory capital resources</b>	<b>8,548,293</b>

The company's capital requirement and resource ratios are as follows:

Equity Type	Requirement	Resources	Surplus
Common Equity Tier 1	4.5%	41.4%	36.9%
Tier 1	6.0%	44.6%	38.6%
Total equity	8.0%	44.6%	36.6%

## Capital requirement

The ICAAP is a forward-looking assessment and takes account of the foreseeable changes to the business over the coming year. Moneybox is able to take a proportional approach to its Pillar 2 assessment, which Moneybox has used. Below we summarise the key risk types that contribute to Moneybox's capital requirement.

### **Credit and counterparty credit risk**

Moneybox has limited credit risk exposure. There are two sources of credit risk: pre-payments for media and office rent. There are no other sources of credit risk that need to be addressed under Pillar 2 so we use the Pillar 1 value.

### **Market Risk**

Moneybox has limited market risk exposure, which comes from two areas: direct debit indemnity claims and funding withdrawals. There are no other sources of market risk that need to be addressed under Pillar 2 so we use the Pillar 1 value.

### **Operational Risk**

The Operation Risk assessment considers low-frequency, high-severity events resulting from failures in processes, systems or controls, or from external events. To identify a broad range of potential operational risks, Moneybox held workshops with all areas of the business to identify risks based on any previous events at Moneybox, knowledge of events in the wider industry, and Moneybox's operating model. We evaluated risks for potential financial loss, considering reasonable management action to mitigate our liabilities should the risk crystallise to produce a short list of the most significant risks to calculate Moneybox's operational risk requirement.

## **Remuneration**

Performance of each member of staff is reviewed every six months. Assessment of performance is based on the achievement of objectives, their conduct, behaviour and how this aligns to our company values. Any changes to remuneration are proposed by the line manager for approval by one of the co-founders. The remuneration of the Head of Compliance is overseen by the Board. Changes to remuneration may be implemented through changes to base salary or offering additional Moneybox share options. Moneybox share options vest over a period of three years.

At 31 May 2019, Moneybox had 6 staff subject to the Remuneration Code. The combined annual salary for these staff was £338,634 and the combined value of variable remuneration was £9,963.