Pillar 3 Disclosures

31 December 2021

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Introduction

Overview

The purpose of this document is to provide stakeholders with information on Kroo Bank Ltd's approach to risk management and maintenance of its capital strength. The document includes details of:

- Kroo's approach to risk management, its policies and objectives
- The governance structure of the Board and Board committees
- Own funds information (capital resources)
- Regulatory capital requirements
- Compliance with the EU Capital Requirements Regulation

Kroo received restricted authorisation as a bank on 7 July 2021. The principal restriction in its authorisation is a limit on total deposits of £50,000. This is a normal restriction for new banks, with the intention being that for a period up to one year (called mobilisation) the new bank finalises its products, policies and procedures in order to be ready for full launch. This restriction was removed on 24 June 2022 and Kroo is now a fully authorised bank.

Coverage

This disclosure applies to Kroo Bank Ltd (company number 10359002 and FCA registration number 953772 - "the Bank" or "Kroo") for the year ended 31 December 2021. Kroo Bank Ltd is a standalone legal entity and not part of any group structure. The information presented is based on the Bank's annual report and accounts as at 31 December 2021, although may differ where regulatory requirements differ from the statutory requirements underlying the Annual Report and Accounts.

Legislative Framework

European standards for capital and liquidity requirements for banks, building societies and related institutions are set out in the Capital Requirements Directive IV (Directive 2013/36/EU, "CRD IV") and the Capital Requirements Regulation (Regulation (EU) No 575/2013, "CRR"). This legislation came into force on 1 January 2014, and is the European implementation of Basel III, which sets out global standards for capital and liquidity adequacy.

At the UK national level, prudential supervision with regards to capital and liquidity adequacy is overseen by the Prudential Regulatory Authority (PRA), and CRD IV is implemented in the PRA Rulebook. CRR on the other hand is directly applicable, without implementation in national legislation. CRD IV and CRR are supported by additional guidance and standards defined both on a European and on a national level.

CRR sets out not only capital requirements, but also what the Bank must disclose in regard to its risk management policies, procedures, and performance, including the main risks faced by the Bank and the governance of those risks. These disclosure requirements are usually referred to as "Pillar 3", being the third pillar of the three-pillar approach to prudential banking regulation:

- Pillar 1 defines minimum capital requirements for certain risks, including credit, market and operational risks;
- Pillar 2 sets out the supervisory review process;
- Pillar 3 on market discipline specifies disclosure requirements, which allow market participants to assess key pieces of information on the firm's capital, risk exposures and risk assessment process.

Following the UK's withdrawal from the European Union, EU capital rules that existed on 31 December 2020 (including those governing Pillar 3 disclosure requirements) continue to apply to UK banks, subject to the Temporary Transitional Powers (TTP) granted to the Prudential Regulation Authority (PRA) which extend until 31 March 2022. The Bank's Pillar 3 disclosures have been prepared in accordance with the requirements of CRD IV, as amended, and associated European Banking Authority (EBA) guidelines and technical standards that were in force on 31 December 2021.

Review

This document will be reviewed annually by the Asset & Liability Committee (ALCO) and the Management Committee and approved by the Audit Committee and will be published on the Bank's website (www.kroo.com) in conjunction with the Bank's Annual Report.

Governance and Committees

Governance Framework

The Board is responsible for the overall governance of the Bank. Good corporate governance underpins the integrity of the business. The key objectives of the Board are to build and maintain a business that is profitable, sustainable, well-capitalised and which has sufficient liquidity to meet its obligations, and one which operates within an established framework of internal control and is compliant with regulatory requirements.

The primary responsibilities of the Board include:

- Setting the Bank's strategy taking into account the interests of its stakeholders.
- Ensuring that the business has an effective system of internal control and management of business risks and is conducted in accordance with the Principles for Business set by the FCA and Fundamental Rules set by the PRA.
- Monitoring financial information and reviewing the overall financial condition of the Bank and its position as a going concern.
- Reviewing major developments in business lines and support units.
- Reviewing the priorities for allocating capital and operating resources.
- Monitoring of compliance and reputational issues.
- Reviewing the market, credit and liquidity risks and exposures with additional oversight and control over credit risk management.
- Reviewing the application of stress tests and the appropriateness of the Bank's stress testing Policy.

To assist the Board in discharging and overseeing its responsibilities, it has delegated certain responsibilities to senior management and Board-appointed committees, for which terms of reference are in place.

The Board considers that, as at 31 December 2021, it had in place adequate systems and controls regarding the Bank's risk profile and strategy.

Board Composition

The Board of the Bank during the year and as of 31 December 2021 consisted of an Independent Chairman, three Non-Executive Directors (NEDs) - one of whom is a shareholder representative - and two Executive Directors.

Each member of the Board contributes to the mix of relevant skills, shoulders specific individual duties and, as a component part of the group, collectively shares responsibility for control and governance of the Bank. The Executive Directors are responsible not only for the day-to-day management of the Bank, but also their individual portfolios.

The directors who served the Bank as at 31 December 2021 were as follows:

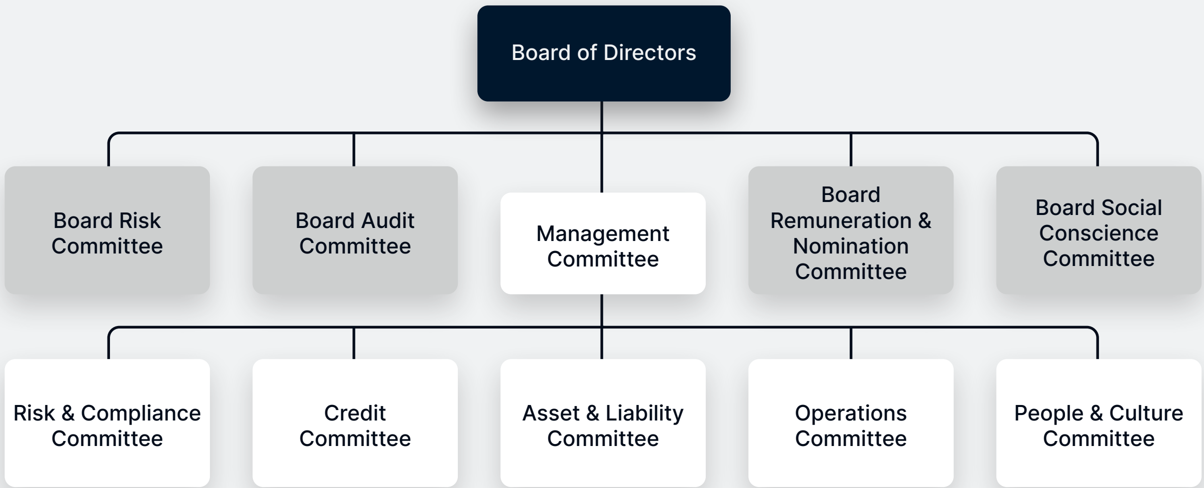
Table 1 - Board composition

Name	Gender	Independent/ Executive	Date of Appointment	Total No of Directorships
HCG Marr (Chairperson)	M	Independent	9 July 2021	6
A de Gottardo	M	Executive	21 April 2021	1
SM Joseph	F	Independent	9 July 2021	2
N Karsan	M		6 August 2021	10
PLM Kenny	F	Independent	12 July 2021	5
A Michaelides	M	Executive	7 April 2020	1

The Committee Structure

The Bank operates four Board level committees and five executive level committees as shown in Figure 1.

Figure 1 Governance structure



The Board Risk Committee, the Board Audit Committee, the Board Remuneration & Nomination Committee and the Board Social Conscience Committee are all sub-committees of the Board.

BOARD RISK COMMITTEE (BRC)

The Board has delegated to the BRC responsibility to advise the Board on Kroo's risk appetite, tolerance and strategy and assist the Board in their implementation, including monitoring Kroo's actual risk profile against its risk appetite.

The BRC is also responsible for reviewing the effectiveness of the risk management function, overseeing Kroo's overall risk culture, promoting an open and collaborative attitude and approach towards risk management, and monitoring the effectiveness of Kroo's internal controls and internal risk management framework.

The BRC is chaired by an Independent Non-Executive Director and meets bi-monthly.

BOARD AUDIT COMMITTEE (AC)

The Board has delegated to the AC responsibility to oversee financial reporting, to ensure appropriate actions are taken with regard to internal and external audit and to aid in managing relationships with relevant external parties including the external auditors.

The Internal Audit function reports directly to the Chair of the AC under the terms of reference for the committee. The AC approves the term of appointment of internal and external auditors and receives reports from the internal and external auditors. Both the internal and external auditors attend AC meetings when required.

The AC is chaired by an Independent Non-Executive Director and meets at least quarterly.

BOARD REMUNERATION & NOMINATION COMMITTEE (RNC)

The Board has delegated to the RNC responsibility to ensure that Kroo's remuneration policies and practices remain aligned with Kroo's long-term business plans and continue to support and reinforce a healthy work culture.

The RNC carries out an annual review of the structure, size and composition of the Board (including its skills, knowledge, experience and diversity) and makes recommendations to the Board with regard to any changes. It formulates succession plans for directors and other senior executives, taking into account the challenges and opportunities facing Kroo, and the skills and expertise needed on the Board and in the senior management team in the future.

The RNC is chaired by an Independent Non-Executive Director and meets at least semi-annually.

BOARD SOCIAL CONSCIENCE COMMITTEE (BSCC)

The Board has delegated to the BSCC responsibility for ensuring that Kroo's culture remains consistent with its founding principles and oversee the development of social and ethical behaviour throughout the business.

The BSCC is chaired by the Chair of the Board and meets at least semi-annually.

EXECUTIVE MANAGEMENT COMMITTEES

The Board delegates responsibility for the day-to-day management of the business to the Management Committee (Manco). The Risk and Compliance Committee, Credit Committee, Asset & Liability Committee, Operations Committee and People & Culture Committee are all sub-committees of Manco, and are chaired by members of the senior management team, with each committee responsible for specific risks faced by the Bank.

Risk management policies and objectives

Introduction

A core objective for the Bank is the effective management of risk. The Bank faces a number of risks including credit, market, and operational risks, although it recognises that the range of risks that it faces is broad and ever changing. The Bank ensures that appropriate processes are in place to ensure that risks are properly identified, assessed, mitigated, monitored, and communicated.

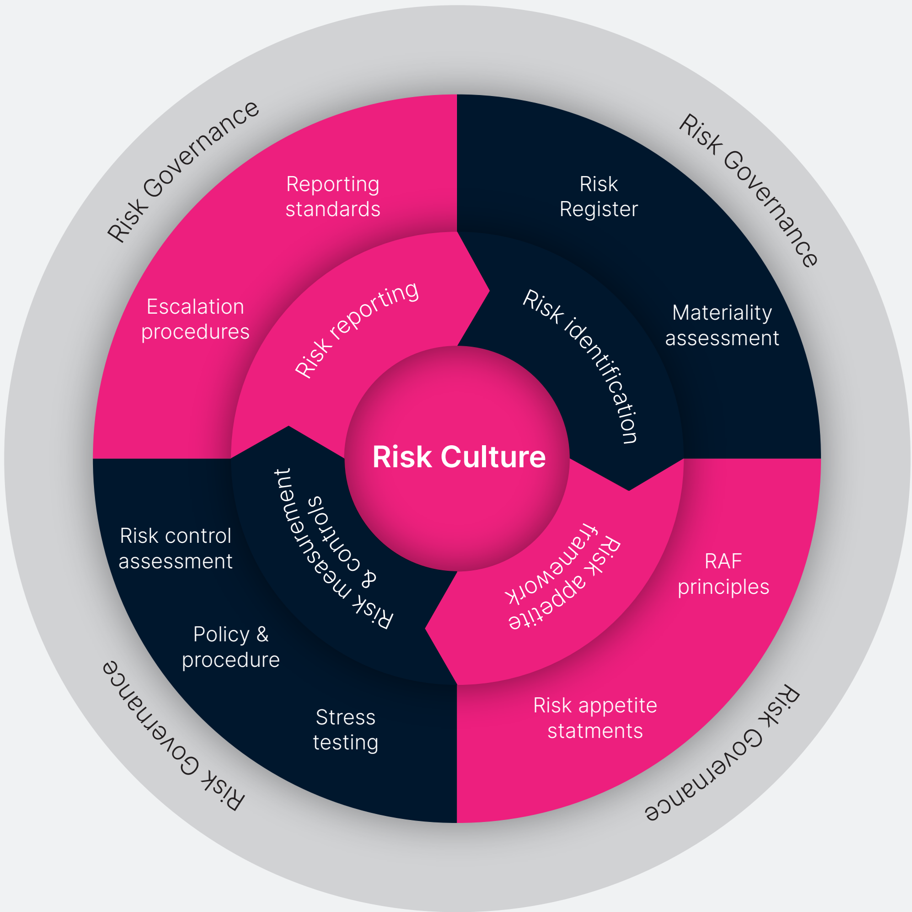
Decision-making responsibility for risk management lies with the Board of Directors. This is cascaded down through the organisation by delegation of responsibility to the main committees and through individuals' documented responsibilities. The Board has ultimate responsibility for setting the Bank's strategy, risk appetite and control framework.

Risk management framework

Kroo is committed to maintaining a strong and effective Risk Management Framework (RMF). The RMF revolves around the principles of a strong risk culture, aimed at ensuring that consideration of risk is embedded in all aspects of the business whether to ensure the commercial viability of the business, to meet regulatory requirements or to make sure customers receive excellent customer service and can be confident that good conduct outcomes will be achieved when banking with Kroo.

Building on this cultural foundation, the RMF is designed to ensure the Risk Appetite of the Bank can be implemented, monitored and reported on, while at the same time establishing clear ownership and a mechanism for risk identification and ongoing management across the three lines of defence. Figure 2 below provides a pictorial representation of the RMF as developed for the bank.

Figure 2 Risk Management Framework



The following principles guide the Bank's overall approach to risk management:

- The Board sets risk appetite and an appropriate "tone from the top" and leads by example with regard to risk management.
- Risk management is structured around the Bank's principal risk categories, which are updated at least annually as part of the RMF.
- The Bank maintains a robust Risk Appetite Framework (RAF), manages exposures within the appetite using an approved set of metrics, and reports to senior management at least monthly.
- The Bank regularly undertakes stress tests to ensure that it remains resilient to shocks and sustainable as a bank, including during plausible but severely adverse economic conditions, both market-wide and idiosyncratic.
- The approach to remuneration ensures that fair customer outcomes and prudent decision making within risk appetite are incentivised.

Risk culture

Kroo's objective is to establish a generative risk culture fully embedded within the Bank, to ensure all staff feel ownership and a responsibility for identifying and managing risk while at the same time knowing clearly what is expected of them in their individual roles and the boundaries within which they are able to exercise personal judgement.

The risk culture has been designed along the following structures:

- Leadership — The Board sets the "tone from the top" and clear expectations and strategic direction on how risk management contributes to achieving the strategic objectives of the Bank
- Organisational structure — The organisational structure is designed to align and reinforce the three lines of defence
- Transparency — Risk-related decisions, information and behaviours are shared in the Bank
- Empowerment — Clear apportionment of responsibility is accompanied by appropriate training to empower individuals to manage risks faced within the boundaries of the RMF

Risk identification and assessment of risks

Risk identification helps to identify all the potential risks the Bank might be exposed to. The most efficient way to articulate this is through the creation of a risk register, a repository for all risks identified in the Bank.

The Bank fully recognises the importance of having a comprehensive risk register in place, as this is the foundation for key elements of the risk management function. It is used to support a number of the Bank's key processes, including the capital risk assessment, risk appetite and risk and control assessment. Moreover, the risk register provides a common risk language to ensure that consistent terminology is used across the Bank.

The business and the second line of defence are jointly responsible for ensuring that all the risks that the Bank might be exposed to are appropriately captured in the risk register. The risk register is subject to annual refresh to ensure it remains a comprehensive and meaningful list of risks the Bank is facing.

The principal risks faced by the Bank along with their definitions are summarised below:

Table 2 - Risk summary

Key Risks	**Definition**
Business risk	Business risk is the risk that Kroo is not able to execute the chosen strategy as communicated to its shareholders and potential shareholders, regulators, staff and other key stakeholders.
Capital adequacy risk	Capital adequacy risk is the risk of Kroo being unable to meet its capital requirements.
Liquidity and funding risk	Liquidity risk is the risk that the Bank will not be able to meet its financial obligations as they fall due, or can do so only at excessive cost.
Credit Risk	Credit risk is defined as the risk of a loss due to the failure of a customer or counterparty to meet its obligation to settle outstanding amounts.
Market risk	Market risk is the risk of a change in key market rates or prices such as interest rates or foreign exchange rates impacting on the earnings or capital of the bank.
Operational risk	Operational risk is the risk of an economic loss, a disruption to business, an adverse impact on reputation or on customer relationships or of legal action arising from inadequate or failed internal processes, people and systems.
Information and cyber security risk	Risk that the integrity, availability or confidentiality of our data, systems and services are compromised by deliberate or unintentional actions.
Financial Crime Risk	Kroo recognises the importance of understanding the risks of financial crime that the Bank is exposed to and implements effective controls to identify and mitigate these risks. This includes an Anti-Money Laundering & Terrorist Financing Policy, an Anti-Bribery & Corruption Policy, and policies to address other types of financial crime such as the corporate offence of facilitating tax evasion. Kroo has in place robust customer due diligence on-boarding measures and ongoing reviews.
Conduct risk	Kroo defines conduct risk as the risk that harm is caused to its customers, counterparties or itself and its employees because of inappropriate judgement in the execution of business activities, human errors, or inappropriately designed policies and procedures resulting in poor customer outcomes relative to their needs and objectives in seeking banking services from Kroo.
Regulatory and legal risk	Regulatory and legal risk is the risk that the Bank does not comply with all relevant regulation and all applicable laws (including codes of conduct which have legal implications) and/or legal obligations.

Risk Appetite Framework

Risk Appetite is defined as the amount and type of risk that an organisation is willing to take in order to meet its strategic objectives and business plans.

The Risk Appetite Framework (RAF) is a key component of Kroo's risk management framework, outlining the standards to which the Bank will hold itself accountable in the establishment, governance, reporting and embedding of risk appetite.

The RAF provides a common framework and comparable measures across the Bank to ensure that senior management and the Board are able to clearly communicate, understand, and assess the types and level of risk that they are willing to accept. The RAF is an integral part of the Bank's decision-making process and it is communicated and promoted throughout the organisation, starting from the top.

The Risk Appetite is communicated via risk appetite statements, which are established for each material risk that the bank is exposed to.

Kroo has developed an overarching Risk Appetite Statement with qualitative statements of appetite and quantitative risk appetite limits.

Risk measurement and controls

Kroo has a strong focus on defining accurate risk measurement and creating a robust control environment to ensure the effectiveness of processes, policies and procedures and to facilitate the management and the controls of the risks the Bank is exposed to.

STRESS TESTING AND SCENARIO ANALYSIS

Stress testing and scenario analysis across all risk disciplines help in building a robust business that is able to adapt to changing circumstances and markets while maintaining an appropriate level of preparedness for unexpected events.

A stress testing and scenario analysis framework is in place which allows for bank-wide stresses as well as risk specific tests e.g. liquidity stresses or system outages. The framework encompasses regulatory requirements, e.g. the Bank of England stress scenario, in addition to Bank specific scenarios.

RISK CONTROL SELF-ASSESSMENT

In order to ensure appropriate control on risks, Kroo is building a robust risk control self-assessment (RCSA) process to identify, assess and manage the key processes in the Bank. The RCSA is a key component of the operational risk framework, providing an integrated view of risks and issues.

KEY RISK INDICATORS

As part of the controls framework, Key Risk Indicators (KRIs) are in place in the various risk disciplines for monitoring whether risk exposure is within appetite. Given the variety of risks facing the Bank some KRIs are qualitative, e.g. review of customer feedback.

Within the KRIs, where appropriate, trigger levels are set to draw management's attention to a change in risk exposure. Appropriate management actions might include a review of exposure or potential re-setting of the risk appetite limits and triggers.

RISK MANAGEMENT POLICIES

To ensure consistency of execution of all activities and set minimum standards/expectations, the bank maintains a policy tree to track all policies and ensure appropriate governance.

Risk reporting

The first line of defence is responsible for producing timely and effective reporting on risk appetite. The reporting is integrated with the business and financial performance and has a forward-looking element, considering potential changes in macro-economic environment and emerging risks.

This reporting includes, at minimum, the following elements for all material risks:

- Risk appetite limits and triggers;
- Current utilisation of limits and triggers;
- Current and forward-looking Risk Appetite RAG (Red, Amber Green) status;
- Detailed rationale to explain status, trends and peaks; and
- Clear explanation of any breach and concrete proposed management actions to address it.

Risk governance

Responsibility for risk governance rests with the Board. There is clear delegation of authority from the Board through the management structure. The executive team is supported by a committee-based structure designed to ensure open challenge and support effective decision-making.

The Risk Management Framework presented in Figure 2 on page 13 is critical to effective risk management across the Bank. This structure outlines the flow and escalation of risk information and reporting from the business and the Risk function to the Management Committee and Board. Conversely, strategic direction and guidance is cascaded down from the Board and Management Committee. The regular reporting from the Risk & Compliance Committee to the Board Risk Committee and Management Committee strengthens the Risk function's independence from the CEO and allows an appropriate identification, assessment, management and communication of risks at Board level.

THREE LINES OF DEFENCE MODEL

The Bank's risk management practices are organised according to the principles of the "Three Lines of defence model". This segregates duties between:

FIRST LINE OF DEFENCE

The first line comprises central functions such as finance, IT, human resources and operations as well as customer-facing functions such as customer support, lending and deposit-taking teams. The first line of defence has primary responsibility for the identification, mitigation, management and monitoring of risks arising within each function. The first line are the primary risk owners.

SECOND LINE OF DEFENCE

The second line of defence comprises the Risk and Compliance department which is responsible for providing oversight and challenge to the first line as well as helping establish the risk boundaries within which the first line must operate. In addition to the above responsibilities Risk is responsible for:

- Designing, maintaining and improving the Company's risk management framework.
- Ensuring the risk management tools and controls are appropriately designed and implemented.
- Ensuring the appropriateness and availability of the company-wide risk system.
- Developing and delivering company wide training on the various elements of the risk framework to the appropriate staff.
- Producing regular, relevant, risk reporting to management and the Board; and
- Producing the Company's risk policies and maintaining the company-wide policy framework.

THIRD LINE OF DEFENCE

The third line of defence is responsible for providing assurance on the adequacy, appropriateness and effectiveness of the Company's first and second lines of defence. The third line comprises Internal Audit which is provided by a third party on an outsourced basis.

Capital Resources

Kroo Bank Ltd was authorised as a bank with restrictions on 7 July 2021 and on that day it came within the scope of UK bank regulation. As at 31 December 2021 and throughout the period from its authorisation the Bank complied with its capital requirement as laid down by the PRA. The capital resources of the Bank are calculated under Pillar 1 of Capital Requirements Directive IV. The following table shows the breakdown of the Bank's available capital as at 31 December 2021:

Table 3 Capital resources

	31 December 2021 **£**
Tier 1 Capital:	
Share Capital	41
Share Premium	31,207,390
Accumulated losses	(22,361,314)
Share Based Payments Reserve	711,032
Total Tier 1 Capital Resources	9,557,150
Core Tier 1 Capital as a percentage of risk weighted assets (CET1 Ratio)	287.76%
RISK WEIGHTED ASSETS (RWAs)	3,321,197
RECONCILIATION OF ACCOUNTING AND REGULATORY CAPITAL RESOURCES:	
ACCOUNTING CAPITAL RESOURCES	9,557,150
Adjustment for intangible assets	-
REGULATORY CAPITAL RESOURCES	9,557,150

The only form of capital instruments in issue is ordinary shares of £0.000001 each, with equal voting rights and ranking equally for dividends.

Adequacy of capital resources

Underpinning the Bank's strategic plan is the need to maintain its capital strength above the Board agreed requirement, which is 5% above the regulatory required minimum capital. In order to do this, the Bank needs to generate, and retain, profits that will add to the general reserves, the main source of capital. During its start-up phase when the Bank is not yet profitable, it will seek to raise sufficient equity capital from investors to meet its operational requirements and regulatory requirements.

Complementing the Strategic Plan, the Bank annually undertakes an Internal Capital Adequacy Assessment Process (ICAAP), to ensure that the Bank's capital resources are sufficient to deliver the strategic plan objectives in normal as well as stressed conditions.

This process involves reviewing all risks relevant to the Bank, and assessing the required capital to mitigate those risks, through analysing the impact of a range of stress scenarios. The key risks that are evaluated as part of the ICAAP are the primary risks identified in Table 2 on page 15. The Bank also assesses how much capital would be required in order to achieve an orderly and solvent wind-down of its business.

The Board assesses relevant information on each of these areas against a clearly defined risk appetite and approves the capital requirements arising from this detailed review.

The Bank translates its overall risk appetite for risk into a range of policy limits controlling the exposures taken. These exposures, and other risks, are carefully monitored by the Board and Board committees on a regular basis, as part of the Bank's governance structure.

Risk weighted exposure amounts, operational risk capital and leverage ratio

Risk weighted exposure amounts

The assets of the Bank are analysed by risk category and given risk weightings according to the level of risk entailed. The risk weightings are determined by the "standardised approach" to credit risk and "basic indicator approach" to operational risk. The Bank's Pillar 1 capital requirement as at 31 December 2021 based on 8% of its risk-weighted assets is derived as follows:

Table 4 Risk weighted assets

Exposure Type	Assets £	Risk Weight %	Risk Weighted Assets £	Minimum Capital Requirement £
Institutions	8,858,394	20%	1,771,679	141,734
Corporates	545,521	100%	545,521	43,642
Cash	200	0%	-	-
Other	1,003,997	100%	1,003,997	80,320
Total	**10,408,112**		**3,321,197**	**265,696**

Table 5 Pillar 1 capital surplus

Pillar 1 capital surplus	**£**
Amount of regulatory capital resources	9,557,150
Total Pillar 1 capital requirement	265,696
SURPLUS CAPITAL OVER PILLAR 1 REQUIREMENT	**9,291,454**
PRA SET TOTAL CAPITAL REQUIREMENT (TCR) 45.64%	**1,516,111**
SURPLUS CAPITAL ABOVE TCR	**8,041,039**
2.5% CAPITAL CONSERVATION BUFFER (CCB)	**83,029**
SURPLUS CAPITAL ABOVE TCR AND CCB	**7,958,008**
MINIMUM CAPITAL REQUIREMENT €5,000,000 AT €1=£0.84	**4,200,000**
SURPLUS CAPITAL ABOVE €5,000,000 MINIMUM REQUIREMENT	**5,357,150**

The UK Countercyclical buffer is 0% as at 31 December 2021, which applies to 100% of Kroo's credit exposures.

Operational risk

The Bank uses the Basic Indicator Approach to set operational risk capital requirement. Under this approach the capital requirement is normally set at 15% of the average annual income in the past three years. Where a bank has not been operating for three years it may use forward-looking business estimates instead. For newly-authorised banks which are operating under mobilisation restrictions, the PRA recognises that the structure and operational risk profile that exist in mobilisation are materially different from those which would exist post mobilisation. Consequently, income projections from the post mobilisation period are not included in the calculation of the operational risk capital requirement during mobilisation.

The Bank has no income during mobilisation, so its operational risk capital requirement in this period is nil.

Leverage ratio

The leverage ratio is defined as the ratio between the Tier 1 capital and the total on and off balance sheet asset exposure, without taking into account any risk weighting. Its objective is to reduce the risk of excessive leverage (i.e. an excessively low amount of own funds compared to total assets), as well as acting as a backstop against the model complexities involved in calibrating risk weights.

The total exposure measure and leverage ratio are shown below based on the total balance sheet exposures at 31 December 2021:

Table 6 Leverage ratio

Leverage ratio calculation	**£**
Tier 1 Capital Resources (without taking account of any derogations)	9,557,150
Total Balance Sheet Exposures	10,408,112
LEVERAGE RATIO	**91.82%**

Table 7 Reconciliation of total balance sheet exposures

Total balance sheet exposures	**£**
Tangible assets	110,458
Current assets	10,297,654
Total assets per balance sheet	10,408,112
TOTAL BALANCE SHEET EXPOSURES	**10,408,112**

The Bank manages the risk of excessive leverage by monitoring the leverage ratio each month and, when necessary, taking appropriate action to increase the ratio.The leverage ratio in 2021 has stood at high levels because the Bank has not yet begun to take deposits nor has it sought other forms of non-equity funding for its operations during 2021.

Counterparty Credit Risk

The Counterparty Credit Risk requirements of the CRR apply to derivative transactions such as interest rate swaps and forward foreign-exchange contracts. The Bank had no such transaction in place at 31 December 2021. A Counterparty Credit Risk policy will be developed to set out how limits for counterparties, countries and types of exposure will be determined and managed.

Market Risk: Interest Rate Risk in the Banking Book (IRRBB)

The Bank's only material market risk is interest rate risk in the banking book. This is reviewed under its Pillar 2 assessment. No Pillar 1 capital is held for market risk.

IRRBB is the impact on capital and net interest income arising from resetting interest rates where there are timing differences between the dates on which interest rate are set on assets and liabilities. Kroo is exposed to interest rate risk arising from changes in the prices and interest rates of its financial instruments. The Bank does not take speculative views on future interest rate movements when investing surplus funds nor does it hold a trading book.

The Bank measures IRRBB on a monthly basis by applying a 2% parallel shift (upwards and downwards) to interest rates and measuring:

- The impact on its Net Interest Income (the NII basis)
- The impact on the fair value of the Bank's assets and liabilities (the Economic Value of Equity or EVE basis)

At 31 December 2021 the Bank had no interest-bearing assets or liabilities. Consequently its interest rate risk on the NII basis was nil. On the EVE basis the Bank had an exposure of £84,000 at 31 December 2021, which is well within its risk appetite of 4% of capital.

Encumbered Assets

The Bank had no encumbered assets on its balance sheet as at 31 December 2021.

Remuneration

Kroo's remuneration policies set out how staff are remunerated in a way that promotes the success of Kroo without driving excessive risk-taking. The Remuneration & Nomination Committee reviews the policies to ensure that they support these objectives. The Committee was formally constituted on 15 July 2021, following the restricted authorisation of Kroo on 7 July 2021, and met four times between that date and 31 December 2021. Its members are two independent non-executive directors and the non-independent non-executive director.

The terms of reference of the committee as regards remuneration include:

- Ensuring that Kroo's remuneration policies and practices remain aligned with Kroo's long-term business plans and continue to support and reinforce a healthy work culture and the right behaviours.
- Ensuring that diversity and inclusion are embedded in Kroo's approach to rewarding individuals, and that unconscious bias is avoided.
- Recommending to the Board the framework or broad policy for the remuneration of the Chief Executive, executive directors, other senior executives and for Dual-Regulated Remuneration Code staff. That policy shall have the objective of ensuring that members of the executive management of Kroo are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of Kroo.
- Defining, approving and overseeing a remuneration policy for employees who directly serve clients, with such policy aiming to encourage responsible business conduct and fair treatment of customers as well as avoiding conflicts of interest in relationships with clients.
- Overseeing any major changes in employee benefits structures throughout Kroo.
- Making recommendations to the Board about the pay of directors whose remuneration shall be a matter for the Chairperson and the members of the Board. No director or manager is involved in any decisions concerning his or her own remuneration.

Remuneration comprises two elements:

- Basic salary, which is set for each role at a level that will ensure that the appropriate calibre of staff are attracted and retained
- Share options, both under a Company Share Option Scheme and under an unapproved scheme, to attract quality staff and to reward existing staff for exceptional contribution. Awards are discretionary

No Executive Director holds a contract with a notice period of more than 12 months.

Material Risk Takers

The Board has determined that for the year to 31 December 2021, there were 17 employees who are designated as being subject to the PRA Remuneration Code, as set out in SYSC 19A. These staff are identified as Material Risk Takers under CRD IV.

The remuneration of the Bank's Executive Directors is determined by the Board and that of other members of senior management and Material Risk Takers is determined by the Remuneration & Nomination Committee.

Payments made to Material Risk Takers for the year to 31 December 2021 were as follows (No bonus payments were made in the financial year 31 December 2021):

Table 8 Material Risk Takers

Material Risk Takers	Directors	Senior Managers	Other MRTs	Total
Number of beneficiaries	5	5	7	17
Fixed remuneration (£)	270,000	399,327	376,202	1,045,529
Variable remuneration - share options (£)	236,229	121,947	57,297	415,473
TOTAL REMUNERATION (£)	**506,229**	**521,274**	**433,499**	**1,461,002**
Variable as % of fixed	87.5%	30.5%	15.2%	39.7%

Liquidity

Liquidity risk is the risk that the Bank fails to meet its obligations as and when they fall due or that they can only be met at an uneconomic price. At all times the Bank has had sufficient liquid assets to meet its liabilities. Liquidity risk is managed by the Finance function and the Bank monitors funding and liquidity risk daily using a range of sources and metrics including the ratio of deposits to loans, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

At 31 December 2021 the Bank was in mobilisation and held only a small amount of deposits, which were in the form of credit balances on current accounts opened for testing purposes. The LCR shown below is therefore not representative of the ratios expected once the Bank begins to hold meaningful amounts of deposits.

Table 9 Liquidity coverage ratio (average)

	Total unweighted value (average)		**Total weighted value (average)**	
£	**31/12/2021**	**30/9/2021**	**31/12/2021**	**30/9/2021**
No. of data points	6	3	6	3
CASH OUTFLOWS				
Retail deposits - less stable	60	-	6	-
TOTAL CASH OUTFLOWS	60	-	6	-
CASH INFLOWS				
Inflows from fully performing exposures	10,787,258	11,766,806	10,787,258	11,766,806
TOTAL CASH INFLOWS	10,787,258	11,766,806	10,787,258	11,766,806
INFLOWS SUBJECT TO 75% CAP	10,787,258	11,766,806	10,787,258	11,766,806
LIQUIDITY BUFFER			200	200
Total Net Cash Outflow			1.50	-
LIQUIDITY COVERAGE RATIO			**13,333%**	**N/A**

Use of External Credit Agencies

Under the Standardised approach to credit risk, the Bank makes use of credit ratings from the three main External Credit Assessment Institutions (ECAIs) - Fitch, S&P and Moody's - to assess the credit risk weight of exposures to institutions. Ratings published by the ECAIs are mapped to Credit Quality Steps (CQS) according to mapping tables laid down by the FCA and European Banking Authority (EBA). The CQS value is then mapped to a risk weight percentage.

Table 10 Exposure to institutions: use of ECAIs

Asset Class	Exposure	Risk weight
Institutions - CQS 2	2,885,091	577,018
Institutions - Unrated	5,973,303	1,194,661
TOTAL	**8,858,394**	**1,771,679**

All exposures of the Bank are in a UK geographical location.

Credit Risk

Credit exposures by exposure class are set out below:

Table 11 Credit exposures by exposure class

Asset Class	Exposure at 31 December 2021 £	Average exposure July to December 2021 £	Risk weighted assets £
Institutions	8,858,394	10,760,990	1,771,679
Corporates	545,521	518,720	545,521
Cash	200	200	-
Other	1,003,997	242,746	1,003,997
Total	**10,408,112**	**11,522,656**	**3,321,197**

All exposures were within 12 months maturity and their geographical location was the United Kingdom.

Table 12 Maturity and geographical profile of exposures

Geographical region	Less than 3 months	3 months to 1 year	Greater than 1 year	Total Exposure
UK	10,408,112	-	-	10,408,112
TOTAL	**10,408,112**	-	-	**10,408,112**

Impairments and Provisions

The Bank's accounting policy for impairment and provisions is in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and the Republic of Ireland. The Bank defines an exposure as being past due and impaired if any of the following applies:

- The exposure is in the form of a consumer loan and any instalment or part of an instalment remains un paid 90 days or more after it was due
- The exposure is in the form of a current account which has been continuously overdrawn without an overdraft facility in place for 90 days or more
- The exposure is in the form of a current account with an overdraft facility and the account has been continuously overdrawn in excess of the overdraft limit for 90 days or more
- A forbearance arrangement is considered to be 'distressed restructuring', in that the net present value of cash flows under the revised arrangement are lower than the net present value of the original contractual arrangement by more than 1%
- A forborne exposure under probation is overdue by more than 30 days
- The borrower is considered unlikely to pay on the basis of information that has become available

  Examples would include:

  - The borrower contacts Kroo to say that he or she has suffered a negative change of circumstances, for example he or she has lost his or her job and wishes to discuss a delay to the repayment schedule
  - The customer has entered into an Individual Voluntary Arrangement (IVA) or is adjudged bankrupt
  - A current account is overdrawn (whether within limit or over limit) and no credit has been receive into the account for 90 days

- If for any borrower exposures representing a material proportion of the total exposure to that borrower across all accounts are in default according to the above criteria, then all other exposures of that borrower are deemed to be in default as well. For these purposes a material exposure is considered to be one representing at least 20% of the customer exposure [1].

The Bank classifies exposures meeting the above criteria as being past due and impaired on the basis of a monthly review of exposures. A general credit risk adjustment is made for impairments not specifically identified on the basis of an estimate of the expected loss rate by category of exposure and the length of time normally taken to identify impairments (the emergence period).

At 31 December 2021 the Bank had £nil provisions for impairment and £nil in default.

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[1] Regulations allow banks to consider default at the individual exposure level in the case of retail exposures. Kroo considers that where a borrower has a significant proportion of debt in default it will wish to take action in relation to all exposures and should therefore treat them as being in default.