Pillar 3 Disclosure.

31 December 2022

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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 Bank, its Board and Board committees
- The Bank's own funds information (capital resources) and regulatory capital requirements
- Compliance with the EU Capital Requirements Regulation.

Coverage

This disclosure applies to Kroo Bank Ltd (company number 10359002 and FCA registration number 953772 - "the Bank") for the year ended 31 December 2022. 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 2022, though may differ where regulatory requirements differ from the statutory requirements underlying the Annual Report and Accounts.

Legislative framework

Standards for capital and liquidity requirements for banks, building societies and related institutions are set out in the Capital Requirements Directive V ("CRD V") and the Capital Requirements Regulation ("CRR"). This legislation came into force on 1 January 2022, and references to CRR, as amended by CRR II, mean the regulatory requirements as they form part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended.

In the UK, prudential supervision with regards to capital and liquidity adequacy is overseen by the Prudential Regulatory Authority (PRA), and CRD V is implemented in the PRA Rulebook.

CRR not only sets out capital requirements, but also specifies 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 which is normally considered for prudential banking regulation.

- Pillar 1 defines minimum capital requirements for certain risks, including credit, market and operational risks.

  The minimum requirement is equal to 8% of Risk Weighted Assets ("RWAs") and the Bank uses the standardised approach to calculate credit risk RWAs.

  The Bank uses the Basic Indicator Approach ("BIA") to calculate operational risk RWAs. The Bank does not have a Pillar 1 requirement for market risk as it does not have a trading book and exposure to foreign exchange risk is de minimis (i.e. less than 2% of total regulatory capital).

- Pillar 2 sets out the supervisory review process. It considers whether any additional capital is required for risks either not covered or not adequately covered by Pillar 1.

  The Bank performs an internal assessment and specific stress tests to determine its Pillar 2 capital requirement and presents this assessment in its Internal Capital Adequacy Assessment Process ("ICAAP") which is reviewed by the PRA.

- Pillar 3 on market discipline specifies disclosure requirements, which allow market participants to assess key pieces of information on the Bank's capital, risk exposures and risk assessment process..

The Bank's Pillar 3 disclosures have been prepared in accordance with the CRR and CRD V, which came into force on 1 January 2022 and were implemented by the PRA via the PRA Rulebook. In particular, articles 431 to 455 of the CRR specify the requirements of the Pillar 3 framework. The CRR, as amended by CRR II, sets out the capital regulatory requirements and forms part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended.

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.

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Governance and Committees

The Board

The Board is responsible for the overall governance of the Bank. The key objectives of the Board are to build and maintain a business that is profitable, sustainable and well-capitalised and that has sufficient liquidity to meet its obligations, 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 enterprise wide 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 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 2022, it had in place adequate systems and controls regarding the Bank's risk profile and strategy.

The Board met 19 times during 2022.

Board composition

The Board of the Bank as of 31 December 2022 consisted of an Independent Chairman, four Non-Executive Directors ("NEDs") - of whom three are Independent Non-Executive Directors ("INEDs") - and two Executive Directors.

Each member of the Board contributes to the mix of relevant skills, has 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 for the day-to-day management of the Bank.

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

Table 1 - Board composition

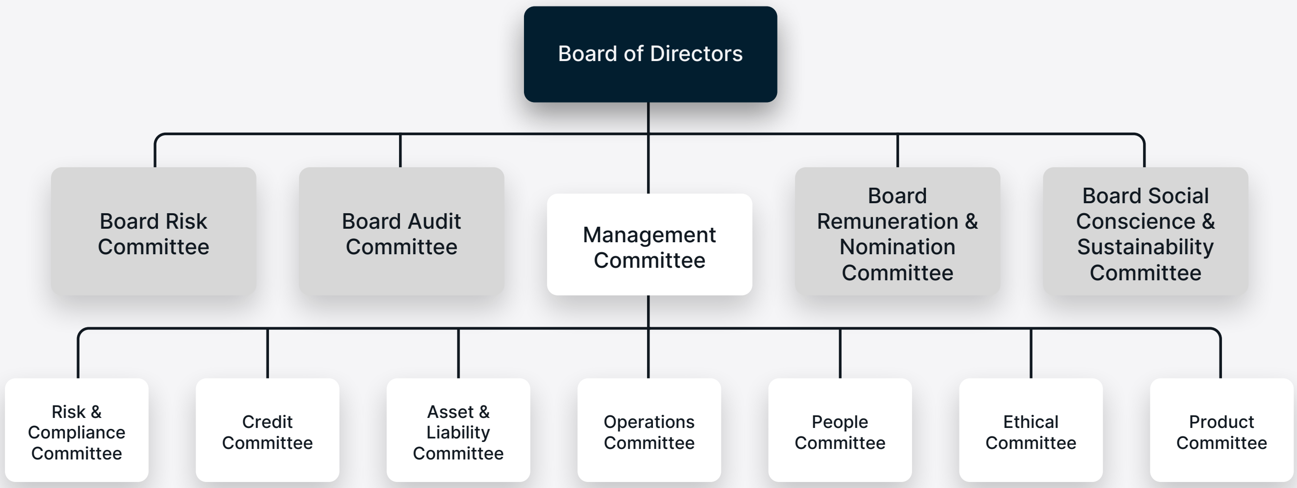
Name	Gender	Independent/ Executive	Date of Appointment	Total No of Directorships
Cameron Marr (Chairperson)	M	Independent	9 July 2021	6
Andrea de Gottardo	M	Executive	21 April 2021	1
Serena Joseph	F	Independent	9 July 2021	2
Rudy Karsan	M	Non-executive*	6 August 2021	10
Penelope Kenny	F	Independent	12 July 2021	5
Andrew Michaelides	M	Executive	7 April 2020	1
Christiaen Van Lanschot	M	Independent	12 August 2022	6

*Shareholder representative

Committee structure

The Bank operates four Board level committees and eight 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 & Sustainability 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 its 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 met 7 times during 2022.

Board Audit Committee ("BAC")

The Board has delegated to the BAC 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 BAC under the terms of reference for the committee. The BAC 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 BAC meetings when required.

The BAC is chaired by an Independent Non-Executive Director and met 5 times during 2022.

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 in the course of its work, taking into account the challenges and opportunities facing Kroo, and the skills and expertise needed on the Board in the future.

The RNC is chaired by an Independent Non-Executive Director and met 4 times during 2022.

Board Social Conscience & Sustainability Committee (“BSCSC”)

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

The Board Social Conscience & Sustainability Committee is chaired by the Chair of the Board and met 2 times during 2022.

Executive Management Committees

The Board delegates responsibility for the day-to-day management of the business to the Management Committee (“ManCo”). The Risk & Compliance Committee, Credit Committee, Asset & Liability Committee (“ALCO”), Operations Committee, People Committee, Ethical Committee and Product Committee are sub-committees of ManCo, and are chaired by members of the Senior Management Team, with each committee responsible for overseeing areas of the Bank’s operations and / or the associated risks.

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.

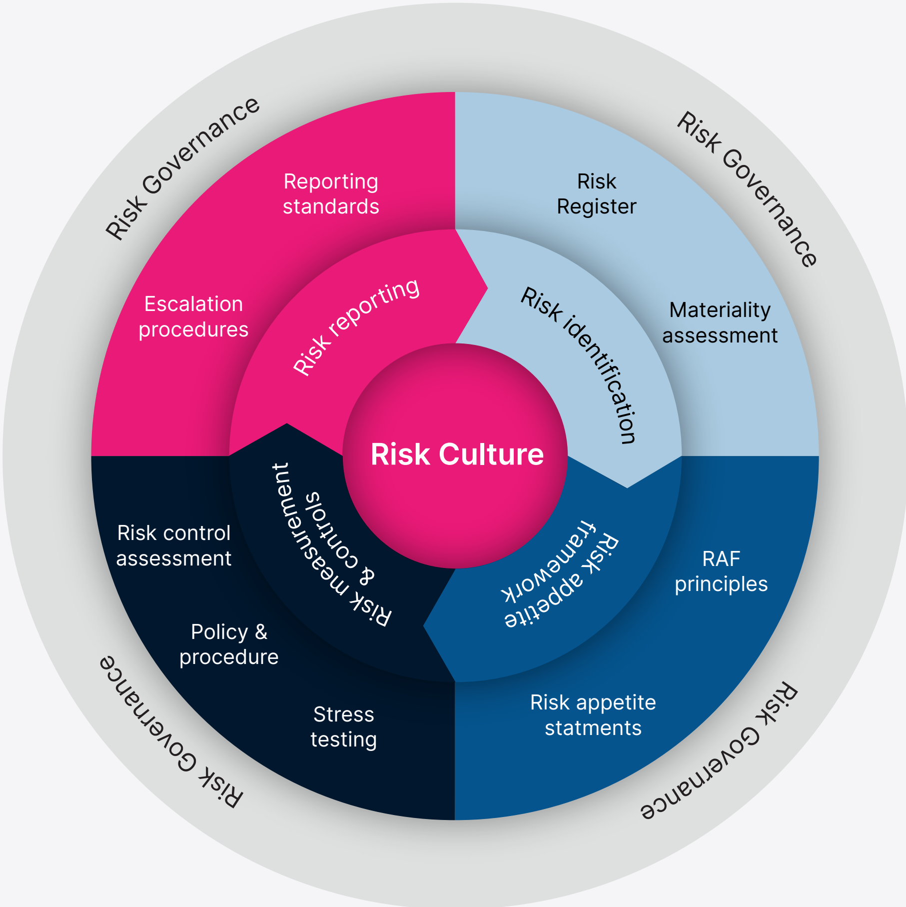
Decision-making responsibility for risk management lies with the Board of Directors. This is cascaded down through the organisation by delegation of responsibility to the main committees and through individuals' documented responsibilities. The Board has ultimate responsibility for setting the Bank's 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 ensure 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, 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 having clarity of expectations 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 "tone from the top", through which the Board sets clear expectations and strategic direction on how risk management contributes to achieving the strategic objectives of the Bank:
- Organisational structure: An organisational structure designed to align and reinforce the three lines of defence:
- Transparency — Risk-related decisions, information and behaviours shared across the Bank
- Empowerment — Clear apportionment of responsibility 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 Internal Capital Adequacy Assessment Process ("ICAAP"), 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 overleaf:

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. This can be driven by: • Incorrect or inadequate capital assessment; • Misinterpretation of capital-related regulatory guidance; • Significant weaknesses in risk management and governance.
Liquidity and funding risk	Liquidity and funding risk is the risk that the Kroo 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 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 losses resulting from adverse changes in the value of positions arising from movements in market prices across commodity, credit, equity, FX and interest rates risk factors.
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	Information and cyber security risk is the risk that the integrity, availability or confidentiality of our data, systems and services are compromised by deliberate or unintentional actions.
Financial crime risk	Financial crime risk is the risk that Kroo's products and services are used to facilitate financial crime and/or the bank fails to comply with financial crime regulation and legislation.
Conduct risk	Conduct risk is 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 error, or inappropriately designed products, 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.
Pension risk	Kroo is not exposed to this risk as we only offer a defined contribution employee pension scheme.

Risk appetite statement

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 Statement ("RAS") is a key component of Kroo's risk management framework, outlining the standards to which the Bank holds itself accountable in the establishment, governance, reporting and embedding of risk appetite.

The RAS 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 RAS is an integral part of the Bank's decision-making process and it is communicated and promoted throughout the organisation, starting from the top.

Kroo has 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 to which the Bank is exposed.

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.

As such 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, 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 has developed a 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 across 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 thresholds/appetite.

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 the 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 articulation of any breach and concrete proposed management actions to address it.

This reporting is presented monthly to the Risk & Compliance Committee and to the Management Committee and bi-monthly to the Board and the Board Risk Committee to ensure that the Bank remains within the agreed appetite and that the management of the Bank is focused on all material risks and potential emerging risks.

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 governance structure outlined on pages 8 to 11 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 all business and support functions which are responsible for the day to day identification, mitigation, management and monitoring of risks arising within their function, and ensuring procedures are up to date to ensure compliance with internal processes. The first line are the primary risk owners of the bank.

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 Bank's risk management framework;
- Producing the ICAAP in conjunction with the CFO;
- Ensuring the risk management tools and controls are appropriately designed and implemented;
- Ensuring the appropriateness and availability of the Bank-wide risk system;
- Developing and delivering bank 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 Bank's first and second lines of defence. The third line comprises Internal Audit which is provided by a third party on an outsourced basis.

The primary responsibilities of Internal Audit are as follows:

- Reviewing and maintaining a record of the Audit universe to ensure all risks are covered with the appropriate frequency;
- Developing and proposing the annual Internal Audit Plan;
- Carrying out audit reviews in accordance with the annual audit plan;
- Presenting final audit reports to the Board Audit Committee for review and agreement on management actions;
- Reviewing regularly with the Board Audit Committee the progress made on agreed management actions on all audit reports;
- Reviewing the bank's internal audit arrangements with relevant senior management.

In order to ensure the independence of the third line of defence, the appointed Internal Audit provider reports directly to the Board Audit Committee.

Capital Resources

Overview

As at 31 December 2022 and throughout 2022 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 V. The following table shows the breakdown of available capital of the Bank as at 31 December 2022:

Table 3 Capital resources

	31 December 2022 £
Tier 1 Capital:	
Share Capital	59
Share Premium	58,475,774
Accumulated losses	(37,212,989)
Share Based Payments Reserve	1,165,489
Total Tier 1 Capital Resources	22,428,333
Core tier 1 Capital as a percentage of risk weighted assets (CET1 Ratio)	93.18%
Risk Weighted Assets (RWAs)	24,070,601
Reconciliation of accounting and regulatory capital resources:	
Accounting capital resources	22,428,333
Adjustment for intangible assets	-
Regulatory capital resources	22,428,333

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 2022 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 £
Credit Risk				
Institutions	1,801,808	20%	360,362	28,829
Corporates	1,481,817	100%	1,481,817	118,545
Retail	10,446	75%	7,835	627
Central Bank & Government	19,805,871	0%	0	0
Other	2,611,837	100%	2,611,837	208,947
Credit Risk total	**25,711,779**		**4,461,851**	**356,948**
Operational Risk			**19,608,750**	**1,568,700**
Total	**25,711,779**		**24,070,601**	**1,925,648**

Table 5 Pillar 1 capital surplus

Pillar 1 capital surplus	£
Amount of regulatory capital resources	22,428,333
Total Pillar 1 capital requirement	1,925,648
Surplus Capital over Pillar 1 requirement	**20,502,685**
PRA set Total Capital Requirement (TCR) at the higher of 12.77% of Risk Weighted Assets or the Base Capital Requirement	**4,434,256**
Surplus Capital above TCR	**17,994,077**
2.5% Capital Conservation Buffer (CCB)	601,765
1% CounterCyclical Buffer (CCyB)	240,706
Surplus Capital above TCR and CCB/CCyB	17,151,606

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. As Kroo has not been operating as a bank for three years it uses forward-looking business estimates instead.

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 2022:

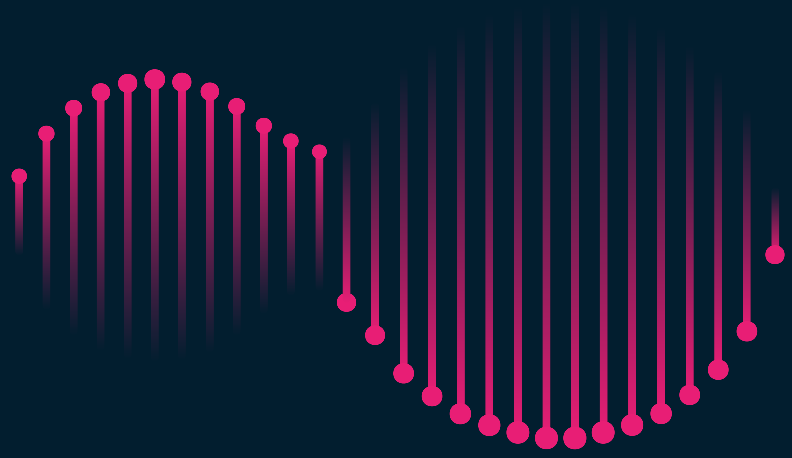
Table 6 Leverage ratio

Leverage ratio calculation	£
Tier 1 Capital Resources (without taking account of any derogations)	22,428,333
Total Balance Sheet Exposures	22,434,969
Leverage Ratio	**99.97%**

Table 7 Reconciliation of total balance sheet exposures

Total balance sheet exposures	£
Tangible assets	286,147
Current assets	25,425,632
Total assets per balance sheet	**25,711,779**
Total on balance sheet exposures (including claims on central banks)	**25,711,779**
(Claims on central banks excluded, capped at level of liabilities)	(3,283,446)
Total on balance sheet exposures (excluding claims on central banks)	**22,428,333**
Other off-balance sheet exposures at gross notional amount	66,361
(Adjustments for conversion to credit equivalent amounts)	(59,725)
Total off balance sheet exposures	**6,636**
Total exposures	**22,434,969**

Through ALCO, 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 2022 has stood at high levels because the Bank launched its current account to the public only at the end of 2022 and had not begun lending at this time.



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 transactions in place at 31 December 2022. A Counterparty Credit Risk policy has been developed to set out how limits for counterparties, countries and types of exposure will be determined and managed.

The bulk of Kroo's liquid assets are held in the form of deposits with the Bank of England, with funds held in nostro accounts as necessary for operational requirements.

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

The Bank's only material market risk is interest rate risk in the banking book (IRRBB). 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 is receivable on assets and payable on 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:

1. The impact on its net interest income (the NII basis)
2. The impact on the fair value of the Bank's assets and liabilities (the Economic Value of Equity or EVE basis)

At 31 December 2022 the Bank's interest rate risk on the NII basis was £370,000, well within its risk appetite of 4% of capital. On the EVE basis the Bank had an exposure of £217,000 at 31 December 2022, which is also well within its risk appetite of 4% of capital.

There are other types of interest rate risk to which Kroo was not exposed as at 31 December 2022:

- Optionality risk, when borrowers or counterparties have options available to them, such as early repayment of fixed rate loans, which would affect Kroo's interest income or expense if exercised by the borrower or customer.
- Basis risk, when assets or liabilities reprice in relation to different reference interest rates.

Encumbered Assets

The Bank had no encumbered assets on its balance sheet as at 31 December 2022.

Renumeration

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 met four times in 2022. Its members are three 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 clients 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.
- Adherence to regulatory guidelines.

Remuneration comprises two elements:

- Fixed remuneration in the form of basic salary. A basic salary is set for each role at a level which ensures that the appropriate calibre of staff are attracted and retained.
- Variable remuneration in the form of share options. Share options are provided under a Company Share Option Scheme and an unapproved scheme, to attract quality staff and to reward existing staff for exceptional contribution. Share option awards are discretionary. Kroo does not provide variable remuneration in the form of a discretionary bonus.

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 2022, there were 20 employees within the Bank 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 V.

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 & Nominations Committee.

Payments made to Material Risk Takers for the year to 31 December 2022 were as follows (No bonus payments were made in the financial year 31 December 2022):

Table 8 Material Risk Takers

Material Risk Takers	£
Fixed remuneration	2,181,606
Variable remuneration - share options	318,717
Total remuneration	**2,500,323**

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).

Kroo assesses its liquidity and funding risk profile annually as part of the Internal Liquidity Adequacy Assessment Process. The results of this exercise are reviewed and approved by the Board.

At 31 December 2022 the Bank held only a small amount of deposits, which were in the form of credit balances on current accounts. The Liquidity Coverage Ratios shown below are 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)			
£	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
No. of data points	12	12	12	9
Cash outflows				
Retail deposits - less stable	114,417	1,869	157	47
Overdrafts	6,293	91	75	0
Total cash outflows	**120,710**	**1,960**	**232**	**47**
Cash inflows				
Inflows from fully performing exposures	10,022,226	11,092,225	10,511,327	9,513,964
Total cash inflows	**10,022,226**	**11,092,225**	**10,511,327**	**9,513,964**
Inflows subject to 75% cap	**10,022,226**	**11,092,225**	**10,511,327**	**9,513,964**

Table 9 Liquidity coverage ratio (average)

	Total weighted value (average)			
£	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
No. of data points	12	12	12	9
Cash outflows				
Retail deposits - less stable	11,442	187	16	5
Overdrafts	315	5	4	0
Total cash outflows	**11,757**	**192**	**20**	**5**
Cash inflows				
Inflows from fully performing exposures	9,978,567	11,058,675	10,483,849	9,488,442
Total cash inflows	9,978,567	11,058,675	10,483,849	9,488,442
Inflows subject to 75% cap	**9,978,567**	**11,058,675**	**10,483,849**	**9,488,442**
Liquidity buffer	7,592,695	3,324,752	200	200
Total Net Cash Outflow	2,939	48	5	1
Liquidity coverage ratio	**258,343%**	**6,926,567%**	**4,000%**	**20,000%**

Use of External Credit Agencies

Under the Standardised approach to credit risk, the Bank makes use of External Credit Assessment Institutions' (ECAIs') credit ratings from the main three credit rating agencies (Fitch, S&P, 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	234,708	46,942
Institutions - Unrated	1,567,100	313,420
Total	**1,801,808**	**360,362**

Credit Risk

Credit exposures by exposure class are set out below:

Table 11 Credit exposures by exposure class

Asset Class	Exposure at 31 December 2022 £	Average exposure 2022 £	Risk weighted assets £
Retail	10,446	1,306	7,835
Institutions	1,801,808	11,551,289	360,362
Corporates	1,481,817	827,731	1,481,817
Central bank or central government	19,805,871	7,479,315	0
Cash	0	125	0
Other	2,611,837	1,716,960	2,611,837
Total	**25,711,779**	**21,576,726**	**4,461,851**

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	25,711,779	-	-	25,711,779
Total	25,711,779	-	-	25,711,779

The Bank's accounting policy for impairment and provisions is in accordance with FRS102. The Bank defines an exposure as being past due and impaired if any of the following applies:

1. The exposure is in the form of a consumer loan and any instalment or part of an instalment remains unpaid 90 days or more after it was due;
2. 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;
3. 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;
4. 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%;
5. A forborne exposure under probation is overdue by more than 30 days;
6. The borrower is considered unlikely to pay on the basis of information that has become available. Examples include:
    a. The borrower contacts the Bank 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
    b. The customer has entered into an Individual Voluntary Arrangement ("IVA") or is adjudged bankrupt
    c. A current account is overdrawn (whether within limit or over limit) and no credit has been received into the account for 90 days
7. 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.

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 2022 the Bank had £1,151 provisions for impairment and £nil in default.