



Annual Report

For the Year Ended 31 December 2021

Kroo Bank Ltd

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For the Year Ended 31 December 2021

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Company information

For the Year Ended 31 December 2021

Directors

HCG Marr (Chairperson)
A De Gottardo
SM Joseph
N Karsan
PLM Kenny
A Michaelides

Registered Office

LABS House
15-19 Bloomsbury Way
London
WC1A 2TH

Registered Number

10359002 (England and Wales)

Independent Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Strategic Report

for the year ended 31 December 2021

The directors present their strategic report for the year ended 31 December 2021.

Review of Business

Kroo Bank Ltd is in the process of obtaining authorisation as a bank. On 7 July 2021 Kroo received restricted authorisation from the Prudential Regulation Authority which limited the total deposits it was able to accept to no more than £50,000. This is a normal restriction for new banks, with the intention being that for a period of up to one year (called mobilisation) the new bank finalises its products, policies and procedures in order to be ready for full launch.

In advance of its authorisation as a bank, Kroo has offered its mobile app with an e-money account linked to a beta debit card. There was a marked growth in the number of customers during 2021, reaching 17,274 card holding customers at the end of 2021.

On 21 April 2021 Nazim Valimahomed resigned as a director and on the same day Andrea de Gottardo was appointed as a director and Chief Executive. On 9 July 2021 Cameron Marr was appointed as a director and independent Chairperson, while Serena Joseph and Penelope Kenny were appointed as independent non-executive directors. On 6 August 2021 Nooruddin Karsan was appointed as a non-executive director.

In July 2021 Kroo successfully raised £15.1m in its Series A funding round. Following this funding round, the Future Fund Convertible Loan of £2.7m together with £0.2m of accrued interest thereon were converted into equity.

Key Performance Indicators

Kroo made a loss of £7.7m for the year ended 31 December 2021 (2020: £4.1m). Its regulatory capital, all of which is in the form of Core Equity Tier 1 capital, stood at £9.6m at the balance sheet date, which exceeded the regulatory requirement.

Kroo does not currently offer banking products to the public, but it does offer an e-money account in association with PayrNet Limited. During 2021 Kroo has increased the number of customers from 2,110 to 17,274. The number of employees has increased during the year from 33 to 59. All staff have completed training on a range of learning modules including on combating money laundering and bribery and corruption.

Key Risks

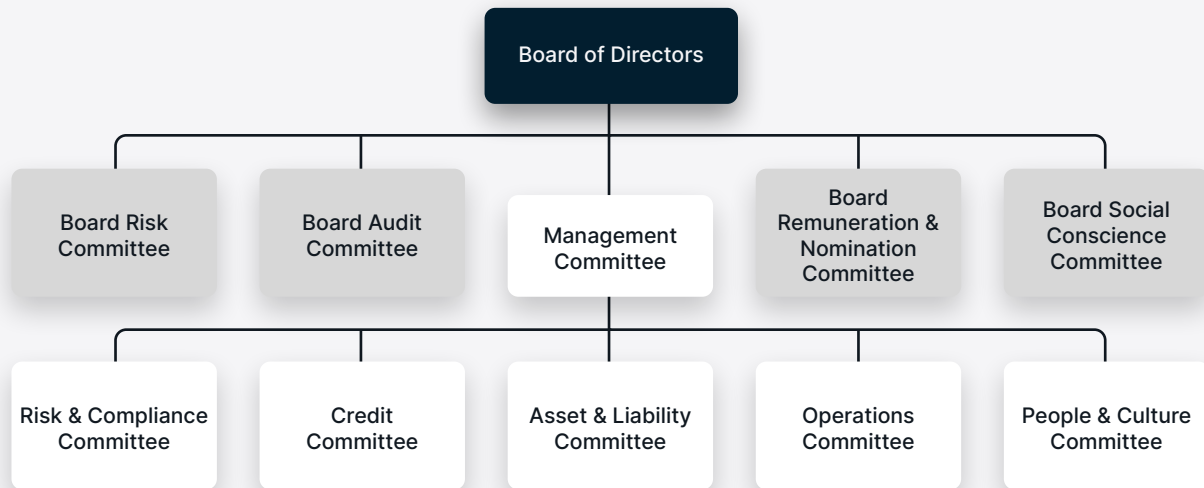
A review of the main risk areas is set out in the Directors' Report.

During 2021 Kroo has established a governance structure with a Board Risk Committee, a Board Audit Committee, a Board Remuneration & Nomination Committee and a Board Social Conscience Committee. At the executive level, the Management Committee has responsibility for day-to-day management of Kroo, including managing risks, and is assisted in this by the Risk & Compliance Committee, the Operations Committee and the People & Culture Committee. Kroo will also have a Credit Committee and an Asset and Liability Committee once full operations are launched.

Strategic Report

for the year ended 31 December 2021

The governance structure is set out in the diagram below:



The Board comprises an independent chairperson, two independent non-executive directors, one other non-independent non-executive director and two executives. The Board Committees comprise non-executive directors only but may be attended by executives.

Kroo's Risk Management Framework is built on the three lines of defence model. The three lines are as follows:

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.

Strategic Report

for the year ended 31 December 2021

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.

Going Concern

As part of their consideration of the appropriateness of adopting the going concern basis in preparing the annual report, the directors have assessed the extent of uncertainty surrounding Kroo's ability to continue as a going concern. The directors have reviewed the business plans and capital projections of the Company and the risks to the Company's continuing operations and are reasonably confident of Kroo's ability to raise sufficient equity funding to support its operations for the next twelve months, including the amount needed to meet capital requirements. This will also determine whether the Prudential Regulation Authority agrees to remove the current mobilisation restriction which limits total deposits to £50,000. In order for the restriction to be removed, the Prudential Regulation Authority has set a number of conditions. Kroo is required to meet these conditions by 7 July 2022, which is 12 months from when it received its restricted authorisation.

Kroo is in the process of raising £25m of equity funding in a Series B funding round for this purpose. Fundraising is proceeding well and the directors are confident that the required funding will be raised before the deadline.

Engagement with Stakeholders

This section of the Strategic Report describes how the directors have had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006. The Company recognises that it has six key stakeholders which the Company is required to treat fairly, namely:

CUSTOMERS

Kroo aims to deliver an exceptional quality of experience and service to its customers. Its products will be simple and straightforward and will be fairly priced. The Company pays close attention to feedback from customers whether that is in the form of interactions with customer service, reviews or indeed complaints. New products and significant changes to existing products are subject to a new product approval process which ensures that products are designed to meet customer needs.

SHAREHOLDERS

Kroo maintains a close relationship with shareholders. The largest shareholder is a member of the Board of Directors and all shareholders receive periodic updates on the Company's progress. Kroo's strategic objective is to build a successful and profitable bank which rewards shareholders with returns that reflect the risk they have assumed in the start-up phase.

Strategic Report

for the year ended 31 December 2021

EMPLOYEES

Employee satisfaction and engagement are key to the success of Kroo. The Company monitors staff engagement regularly through surveys and through close contact between colleagues at all levels of the organisation, something which has become especially important as remote working is establishing itself as part of the normal mix of hybrid working.

THIRD PARTY SUPPLIERS

Kroo operates with a large number of suppliers who are important in building the capabilities that are required to offer banking services and to ensure that these operate in a safe and secure way. Suppliers are subject to rigorous due diligence before they are selected and to periodic reviews thereafter.

REGULATORS

Kroo has developed a close, constructive and open relationship with the Prudential Regulation Authority and the Financial Conduct Authority during the authorisation process and aims to maintain the quality of this relationship once it receives its full authorisation.

Directors' Statement of Compliance with Duty to Promote the Success of the Company

The directors have acted in good faith and in a manner appropriate to the success of Kroo for the benefit of the members as a whole.

External Environment

The UK economy was affected throughout 2021 by the Covid-19 pandemic and by Brexit. Kroo is at a pre-revenue stage, so there was no impact on revenue, but the economic conditions in 2020 and early 2021 meant that the Series A funding round was completed later than originally planned. As Covid-19 restrictions are removed, growth in the economy is expected to continue but this is also leading to a more competitive labour market. We expect this growth to create a good economic climate in which to launch Kroo as a bank. The Bank of England is forecasting higher interest rates as it looks to control current rates of inflation with CPI at 6.2%. We expect Kroo's revenue to benefit from the increase in UK interest rates.

Future Developments

Kroo is currently undergoing its Series B funding round while at the same time seeking to exit mobilisation by the end of June 2022 with an unrestricted UK banking licence.

The first product to be launched by Kroo as a bank will be a personal current account with overdraft. Existing e-money account holders will be given the opportunity to apply for a current account.

Strategic Report

for the year ended 31 December 2021

On Behalf of the Board

CAMERON MARR (CHAIRPERSON)

DATE: 26 April 2022



Report of the Directors

for the year ended 31 December 2021

The directors present their report with the financial statements of the Company for the year ended 31 December 2021.

Dividends

No dividends will be distributed for the year ended 31 December 2021.

Directors

The directors shown below have held office during the the period from 1 January 2021 to the date of this report.

HCG Marr (**CHAIRPERSON, APPOINTED 9 JULY 2021**)

A De Gottardo (**APPOINTED 21 APRIL 2021**)

SM Joseph (**APPOINTED 9 JULY 2021**)

N Karsan (**APPOINTED 6 AUGUST 2021**)

PLM Kenny (**APPOINTED 9 JULY 2021**)

A Michaelides

N Valimahomed (**RESIGNED 21 APRIL 2021**)

Statement as to Disclosure of Information to Auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Main Risk Areas

Kroo has identified the following main categories of risk:

Capital adequacy risk: This is the risk that Kroo has inadequate capital to cover its risks appropriately. At this early stage in Kroo's life as a bank, the main source of capital adequacy risk would be the inability to raise sufficient capital to support its operations or an underestimate of its requirements. To assess its capital requirements Kroo carries out an Internal Capital Adequacy Assessment Process which is approved by the Board.

Report of the Directors

for the year ended 31 December 2021

Operational risk: This is the risk of loss, disruption to business, damage to reputation or of legal action arising from inadequate or failed internal processes, people and systems. This risk is elevated at the moment as Kroo is creating new processes and implementing systems in preparation for the launch of its customer offering. The risk register identifies key risks and these are mitigated by putting appropriate controls in place.

Conduct risk: This is the risk of loss or damage to Kroo's reputation through actions or omissions by Kroo which cause customer detriment. At the core of Kroo's approach to conduct risk is maintaining a culture that stresses the importance of treating customers fairly. New products or significant changes to products undergo a new product approval process which gives careful consideration to the impact on customers, including vulnerable customers.

Business risk: This is the risk that Kroo is not able to execute its strategy according to its plans, failing to generate expected revenues or failing to control costs. These risks are managed through Board oversight of the execution of strategy, regular reporting on project implementation and action to address deviations from plan.

Reputational risk: This is the risk of damage to Kroo's reputation through inappropriate actions by customers, employees or partners. Kroo addresses this through a thorough due diligence exercise on new customers, employees and partners.

Legal and regulatory risk: This is the risk of economic loss through a breach of legal or regulatory requirements. Kroo undertakes horizon scanning to identify new legal and regulatory requirements and ensures through the new product approval process that regulatory or legal considerations are taken into account in developing products.

Other risks: As Kroo develops its banking operations, its liquidity and funding risk, credit risk and market risk will grow from a relatively low level at the moment. The Asset & Liability Committee and Credit Committee will oversee the management of these risks at executive level.

Political and Charitable Contributions

The Company made no political donations during the year (2020: nil).

The Company made charitable donations of £1,600 (2020: nil).

Research and Development

Kroo invests in the development of its own platform and developing the interfaces between the platform and systems supplied by third parties. Kroo claims research and development relief from Her Majesty's Revenue and Customs.

Report of the Directors

for the year ended 31 December 2021

Directors' Indemnities

The Board of Directors has put in place a directors' and officers' liability insurance policy to indemnify the directors and officers of the Company against loss arising from any claim made against them jointly or severally for any failure of duty of care in their capacity as director or officer of the Company.

Auditors

The auditors, BDO LLP, will be proposed for re-appointment.

On Behalf of the Board

ANDREA DE GOTTARDO (DIRECTOR)

DATE: 26 April 2022

Statement of Directors' Responsibilities

for the year ended 31 December 2021

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the Independent Auditors to the Members of Kroo Bank Ltd

for the year ended 31 December 2021

Independent Auditor's Report to the Members of Kroo Bank Ltd

OPINION ON THE FINANCIAL STATEMENTS

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Kroo Bank Ltd (the 'Company') for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the board to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 December 2021.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Report of the Independent Auditors to the Members of Kroo Bank Ltd

for the year ended 31 December 2021

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 of the financial statements, which indicates that the ability of the company to continue as a going concern is dependent on it obtaining a further £25m of equity funding which has not been committed and having the initial regulatory authorisation restriction removed. As stated in Note 2, these events and conditions, along with other matters as set out in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The going concern of the entity is dependent on additional funding being obtained for both operating and regulatory capital requirements as disclosed in Note 2. As a result of the impact of this on our risk assessment and audit strategy we considered going concern to be a key audit matter.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting and our response to the key audit matter included the following:

- Review of the Directors projections for capital for a period of 12 months from the date of signing these financial statements to challenge the reasonableness of assumptions, including growth of deposits and loan portfolios by comparing to actuals to date, and economic variables to existing rates.
- We have reviewed key capital and liquidity ratios for significant deterioration which would raise doubt about the going concern assumption.
- We have agreed the existing capital position to supporting documentation and reviewed the nature of the Company's funding base and compared to that raised to date.
- We reviewed the term sheets for the £25m funding not yet committed.
- We considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively.
- We assessed the completeness and accuracy of the matters covered in the going concern disclosure within the financial statements using our knowledge of the relevant facts and circumstances developed during our audit work and consistency with the going concern assessment.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

OTHER MATTER

The corresponding figures are unaudited.

Report of the Independent Auditors to the Members of Kroo Bank Ltd

for the year ended 31 December 2021

OVERVIEW

Key audit matters	Going Concern	2021 ✓
Materiality	Company financial statements as a whole: £96,500 based on 1% of Net Assets	

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was developed by obtaining an understanding of the Company's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Company's transactions and balances which were most likely to give risk to a material misstatement. In addition, we also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement. All the audit work was undertaken by BDO LLP.

Key audit matters

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

Except for the matter described in the *Material uncertainty related to going concern* section, we have determined that there are no other key audit matters to communicate in our report.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

Report of the Independent Auditors to the Members of Kroo Bank Ltd

for the year ended 31 December 2021

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	2021 £
Materiality	96,500
Basis for determining materiality	1% of Net Assets
Rationale for the benchmark applied	We determined that net assets was the most appropriate benchmark considering the different stakeholders and this is considered to be the measure which closely corresponds to regulatory capital. Regulatory stability is considered to be a main driver for the Company as well as the purpose of the Company which is to optimise rather than maximise profits.
Performance materiality	62,000
Basis for determining performance materiality	Performance materiality has been set at 65% of materiality, based on our risk assessment together with our assessment of the company's overall control environment. A lower percentage has been used as this is the first year that the Company is subject to an audit.

Report of the Independent Auditors to the Members of Kroo Bank Ltd

for the year ended 31 December 2021

REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £4,800. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Report of the Independent Auditors to the Members of Kroo Bank Ltd

for the year ended 31 December 2021

OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

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

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

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

Matters on which we are required to report by exception

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

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

Report of the Independent Auditors to the Members of Kroo Bank Ltd

for the year ended 31 December 2021

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates and considered the risk of acts by the Company which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Companies Act 2006, those resulting from being regulated by the Financial Conduct Authority and Prudential Regulation Authority to undertake regulated activities, and the applicable accounting framework.

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and in relation to accounting estimates such as the fair value in relation to share based payments.

Our procedures included, but were not limited to:

- obtaining an understanding of the control environment for monitoring compliance with laws and regulations;
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;

Report of the Independent Auditors to the Members of Kroo Bank Ltd

for the year ended 31 December 2021

- enquiring of management and those charged with governance about their own identification and assessment of the risks of irregularities, including fraud;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, reporting to the Directors with respect to compliance with laws and regulations, legal correspondence and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority to identify any instances of non-compliance with laws and regulations and fraud;
- involving our internal valuation experts in the assessment of assumptions applied in the valuation of share options;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments and evaluating the business rationale for sample of significant transactions that are unusual or outside the normal course of business by agreeing to supporting documentation.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR REPORT

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

Report of the Independent Auditors to the Members of Kroo Bank Ltd

for the year ended 31 December 2021

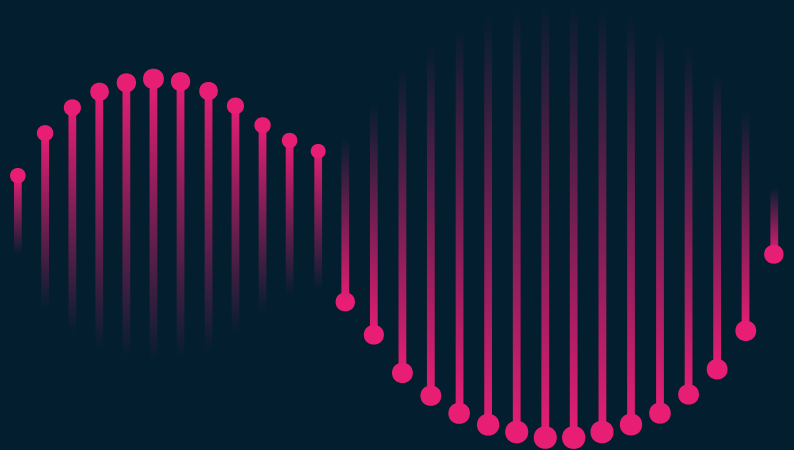
MATTHEW HOPKINS (SENIOR STATUTORY AUDITOR)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

27 April 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).



Statement of Comprehensive Income

for the year ended 31 December 2021

		2021 £	As restated Unaudited 2020 £
Interest income	Notes		
Other operating income		413	8,475
Interest payable and similar expenses	5	(263,545)	(211,496)
Net interest income		(263,132)	(203,021)
Non-staff costs	6	(3,336,660)	(3,392,963)
Staff costs including contractors	6	(5,464,866)	(1,395,545)
Total administrative expenses	6	(8,801,526)	(4,788,508)
Loss before taxation		(9,064,658)	(4,991,529)
Tax on loss	8	1,371,848	853,876
Loss for the financial year		(7,692,810)	(4,137,653)
Other comprehensive income		-	-
Total loss for the year		(7,692,810)	(4,137,653)

Statement of Financial Position

for the year ended 31 December 2021

			2021		As restated Unaudited 2020
Fixed assets	Notes	£	£	£	£
Tangible assets	10		110,458		92,392
Current assets					
Debtors	10	1,406,463		280,797	
Cash at bank		8,891,191		1,333,609	
		10,297,654		1,614,406	
Creditors					
Amounts falling due within one year	12	(542,981)		(3,029,674)	
Net current assets (liabilities)			9,754,673		(1,415,268)
Total assets less current liabilities			9,865,131		(1,322,876)
Accruals and deferred income	14		(307,982)		(84,036)
Net assets (liabilities)			9,557,149		(1,406,912)
Capital and reserves					
Called up share capital	15		41		26
Share based reserve			711,032		-
Other reserve			-		260,668
Share premium			31,207,390		13,000,898
Accumulated losses			(22,361,314)		(14,668,504)
Shareholders' funds			9,557,149		(1,406,912)

The financial statements were approved by the Board of Directors and authorised for issue on 26 April 2022 and were signed on its behalf by:

ANDREW MICHAELIDES (DIRECTOR)

DATE: 26 April 2022

Statement of Changes in Equity

for the year ended 31 December 2021

	Called up share capital £	Retained earnings £	Share premium £	Other reserve £	Share based reserve £	Total equity £
Fixed assets						
Balance at 1 January 2020	25	(10,530,851)	11,729,155	-	-	1,198,329
Changes in equity						
Issue of share capital	1	-	1,271,743	-	-	1,271,744
Conversion of Future Fund loan (restated)	-	-	-	260,668	-	260,668
Loss for the year (restated)	-	(4,137,653)	-	-	-	(4,137,653)
Unaudited balance at 31 December 2020 as restated	26	(14,668,504)	13,000,898	260,668	-	(1,406,912)
Changes in equity						
Loss for the year	-	(7,692,810)	-	-	-	(7,692,810)
Issue of share capital for cash	12	-	15,064,164	260,668	-	15,064,176
Conversion of Future Fund loan	3	-	3,142,328	(260,668)	-	2,881,663
Issue of share options to staff	-	-	-	-	711,032	711,032
Balance at 31 December 2021	41	(22,361,314)	31,207,390	-	711,032	9,557,149

Statement of Cash Flows

for the year ended 31 December 2021

	2021 £	As restated Unaudited 2020 £
Cash flows from operating activities		
Loss for the year	(9,064,658)	(4,991,529)
Adjustments for		
Depreciation	52,641	49,685
(Increase)/decrease in other assets	(232,127)	34,007
Increase/(decrease) in other liabilities	359,711	(219,023)
Value of share options issued	711,032	-
Interest on convertible loan	259,205	208,950
R&D tax credit received	478,309	853,876
Net cash from operating activities	(7,435,887)	(4,064,034)
Cashflows from investing activities		
Purchase of tangible fixed assets	(70,707)	(79,843)
Sale of tangible fixed assets	-	4,331
Net cash from investing activities	(70,707)	(75,512)
Cashflows from financing activities		
Issue of convertible loan note	-	2,674,176
Issue of share capital	15,064,176	1,271,744
Net cash from financing activities	15,064,176	3,945,920
Net cash from all activities	7,557,582	(193,626)
Increase / (Decrease) in cash and cash equivalents		
Cash at beginning of year	1,333,609	1,527,235
Cash at end of year	8,891,191	1,333,609
Movement in cash	7,557,582	(193,626)



Notes to the Financial Statements

for the year ended 31 December 2021

1. Statutory Information

Kroo Bank Ltd is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office address can be found on the Company Information page. The Company's principal activity is currently the offer of an e-money account linked to a beta debit card and a mobile app.

The presentational currency of the financial statements is the Pound Sterling (£).

2. Accounting Policies

BASIS OF PREPARING THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (FRS102) and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

GOING CONCERN

The Company incurred a loss of £7.7m for the 2021 (2020: £4.1m) and expects to continue to incur losses until its business is fully established.

The company is in the process of raising £25m in a Series B equity funding round from existing and new investors. Management considers that this amount would be sufficient to meet its operating requirements as well as its regulatory capital requirements until at least twelve months from the date of approval of these financial statements.

Sufficiency of capital for the first twelve months of operation of the bank is also a condition set by the Prudential Regulation Authority in order to agree to remove the current restriction on the bank's authorisation which limits it to holding no more than £50,000 of deposits in total. The Prudential Regulation Authority has set an expectation for newly authorised banks to have this restriction removed within twelve months of restricted authorisation. For Kroo this deadline is 7 July 2022.

The funding round is progressing well and the directors are confident that the company will successfully raise this amount before the deadline. However, this amount is not yet committed. As the status of Kroo as a going concern is dependent on securing this new equity funding and on having the initial authorisation restriction removed, the directors are of the opinion that these matters represent material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern and therefore its ability to realise its assets and settle its liabilities in the normal course of business.

Notwithstanding these material uncertainties, the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence, fulfil its regulatory capital requirements and meet its liabilities as they fall due for the foreseeable future, being a period of at least twelve months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing these financial statements. The financial statements do not include the adjustments that would be required should the going concern basis of preparation no longer be appropriate.

Notes to the Financial Statements

for the year ended 31 December 2021

2. Accounting Policies Continued

TANGIBLE FIXED ASSETS

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Fixtures and fittings - 10% on cost

Computer equipment - 33% on cost

FINANCIAL INSTRUMENTS

Financial instruments are classified by the conditions under FRS102. Financial instruments are recognised at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

TAXATION

Taxation for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

DEFERRED TAX

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

RESEARCH AND DEVELOPMENT

Expenditure on research and development is written off in the year in which it is incurred. Applicable R&D tax credits are accounted for on this expenditure. The R&D tax credit allows the deduction of 130% of qualifying costs from the yearly profit, as well as the normal 100% deduction, to make a total of 230% deduction.

Notes to the Financial Statements

for the year ended 31 December 2021

2. Accounting Policies Continued

FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the statement of financial position date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

LEASING COMMITMENTS

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

SHARE BASED COMMITMENTS

All new employees receive share options when they join the Company and may be entitled to further share options as a reward for performing well and to incentivise them to make Kroo a success. As an unlisted company granting share options to employees, Kroo is required to make several estimates and assumptions to calculate the value of options granted. The assumptions and estimates relate to current share price, volatility in the Black-Scholes model and assumption on future exercise scenarios. These are measured at fair value under FRS102. Further details are set out in note 19.

EMPLOYEE BENEFITS

The costs of short-term employee benefits are recognised as a liability and an expense.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

The obligations for contributions to defined contribution scheme are recognised as an expense in the period they are incurred. The assets of the scheme are held separately from those of the Company in an independently administered fund.

SHARE CAPITAL AND EQUITY INSTRUMENTS

Equity instruments issued by the Company are recorded at the proceeds received, net of transaction costs. In accordance with FRS102, financial instruments issued by the Company are treated as equity only to the extent they meet the following two conditions:

- They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or liabilities with another party under conditions that are potentially unfavourable to the Company; and
- Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging of a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Notes to the Financial Statements

for the year ended 31 December 2021

2. Accounting Policies Continued

CONVERTIBLE DEBT

The proceeds received on issue of the Company's convertible debt are allocated into their liability and equity components and presented separately in the balance sheet. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar instrument that did not include an option to convert.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

PRIOR YEAR ADJUSTMENT

Effective from 1 January 2021 the Company corrected an error in its accounting policy for convertible debt to allocate the proceeds of issuing convertible debt into their liability and equity components which are presented separately in the balance sheet. Previously the full proceeds were presented as a liability. The change has been made in order to correct the nature of convertible debt as required by Section 22 of FRS102.

Below is a summary of the impact of the prior year adjustment:

	2020 as previously stated £	Adjustment £	2020 Restated £
Interest payable	95,153	116,343	211,496
Creditors – other loans	(2,766,783)	144,325	(2,622,458)
Other reserves	-	(260,668)	(260,668)

3. Accounting Estimates and Judgements

The preparation of financial statements in conformity with FRS102 requires management to make judgements and estimates that affect the application of policies and reported amounts of assets, liabilities, income and expenditure.

These estimates are based on experience and various other factors that are believed to be reasonable in the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

Notes to the Financial Statements

for the year ended 31 December 2021

3. Accounting Estimates and Judgements Continued

In preparing these financial statements the directors have made the following judgements:

Deferred tax: The Company has tax losses available to reduce future corporation tax payments. The resulting deferred tax asset is recognised only to the extent that it is probable that it will be recovered against the reversal of deferred tax liabilities or other future taxable profits. The directors do not consider it appropriate to recognise a deferred tax asset at 31 December 2021, as the Company has not sufficiently evidenced the ability to generate profits.

Share-based payments: In determining the value of share-based payments under the Company Share Option Scheme the directors have made assumptions about the volatility of the share price, the risk-free interest rate and the life of the options. These are set out in note 19.

4. Directors Emoluments

	2021 £	2020 £
Directors' salaries	285,010	268,863
Directors' fees	55,000	-
Directors' National Insurance contributions	38,351	34,686
Directors' defined contribution pension costs	2,641	2,631
	381,002	306,180

The highest paid director received remuneration of £134,167 (2020: £146,563).

The value of the Company's contributions to a defined contribution pension scheme in respect of the highest director were £1,319 (2020: £1,134). During the year 1,110,000 options were granted to the Directors. No Directors exercised any share options.

5. Interest Payable And Similar Expenses

	2021 £	2020 £
Convertible loan interest	259,205	208,950
Other interest	4,340	2,546
	263,545	211,496

Notes to the Financial Statements

for the year ended 31 December 2021

6. Administrative Costs

The operating loss for the year is stated after charging:

	2021 £	2020 £
Non-staff costs	3,336,660	3,392,963
Staff costs, including contractor costs	5,464,866	1,395,545
	8,801,526	4,788,508

7. Employees

	2021 £	2020 £
Wages and salaries	3,351,245	2,367,315
National Insurance	402,309	282,053
Defined contribution pension cost	41,099	28,470
	3,794,653	2,677,838

Average number of employees (including directors) during the year was as follows:

Administration	44	27
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Notes to the Financial Statements

for the year ended 31 December 2021

8. Corporation Tax

ANALYSIS OF TAX CREDIT

The tax credit on the loss for the year was as follows:

	2021 £	2020 £
Current tax:		
UK Corporation Tax	(1,371,848)	(853,876)
Tax on loss	(1,371,848)	(853,876)

RECONCILIATION OF TOTAL TAX CREDIT INCLUDED IN PROFIT AND LOSS

The tax assessed for the year is lower than the standard rate of Corporation Tax in the UK. The difference is explained below:

	2021 £	2020 £
Loss before tax	(9,064,658)	(4,991,529)
Tax thereon at 19% (2020: 19%)	(1,661,832)	(926,285)
Effects of:		
Unutilised tax losses	1,661,832	926,285
R&D enhanced deduction 2021	(893,539)	-
R&D enhanced deduction 2020	(478,309)	-
R&D enhanced deduction 2019	-	(368,607)
R&D enhanced deduction 2018	-	(485,269)
Total tax credit	(1,371,848)	(853,876)

The Company is currently taxed in the UK at a rate of 19% (2020:19%). The UK Government announced in the Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. The Company has not recognised a deferred tax asset for tax losses carried forward in the UK totalling £1.6m (2020: £926k) as there is insufficient evidence of their recoverability.

Notes to the Financial Statements

for the year ended 31 December 2021

9. Auditors' Remuneration

	2021 £	2020 £
Fees payable to the Company's auditor for 2021 audit	54,000	-

Prior to 2021, Kroo Bank Ltd had opted to take advantage of the option as a small company not to have its financial statements audited.

10. Tangible Fixed Assets

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 January 2021	8,935	216,765	225,700
Additions	-	70,707	70,707
At 31 December 2021	8,935	287,472	296,407
Accumulated depreciation			
At 1 January 2021	2,321	130,987	133,308
Charge for the year	841	51,800	52,641
At 31 December 2021	3,162	182,787	185,949
Net book value			
At 31 December 2021	5,773	104,685	110,458
At 31 December 2020	6,614	85,778	92,392

Notes to the Financial Statements

for the year ended 31 December 2021

11. Debtors: Amounts Falling Due Within One Year

	2021 £	2020 £
Other debtors	1,113,468	91,624
Prepayments	292,995	189,173
	1,406,463	280,797

12. Creditors: Amounts Falling Due Within One Year

	2021 £	2020 Restated £
Other loans (see note 13)	-	2,622,458
Trade creditors	542,981	407,216
	542,981	3,029,674

13. Convertible Loans

An analysis of the maturity of loans is given below:

	2021 £	2020 Restated £
Amounts falling due within one year or on demand:		
Convertible loan notes	-	2,622,458

The convertible loan was issued on 27 July 2020 under the British Business Bank's Future Fund scheme. The principal amount of the loan, amounting to £2,674,176 converted into shares on 15 July 2021, in accordance with its terms, following the Series A equity funding round, at a 20% discount to the Series A price of £1.25. The loan was subject to interest at 8% per annum, with accrued interest of £207,487 converted into equity on the same date at the Series A price of £1.25 per shares. The carrying value of the loan was amortised at an effective interest rate of 20%.

Notes to the Financial Statements

for the year ended 31 December 2021

14. Accruals and Deferred Income

	2021 £	2020 £
Accruals and deferred income	307,982	84,036

15. Called Up Share Capital

14,902,296 ordinary shares of £0.000001 each were allotted and fully paid during the year.

	2021 £	2020 £
Ordinary shares of £0.000001		
At at 1 January 2021 26,443,917 ordinary shares	26	26
Issued during the year 14,902,296 ordinary shares	15	-
As at 31 December 2021 41,346,213 ordinary shares	41	26

16. Other Financial Commitments

At 31 December 2021, the minimum rental commitments were as follows:

	2021 £	2020 £
Less than one year	328,200	286,560

Rental payments which were included within administrative expenses during the year ended 31 December 2021 were £315,732 (2020: £393,824).

Notes to the Financial Statements

for the year ended 31 December 2021

17. Risk Management

CREDIT RISK

At 31 December 2021, Company had no exposure to borrowers. Its exposure to counterparties was as follows:

	2021 £	2020 £
UK financial institutions rated A1 by Moody's	2,917,828	1,333,609
UK financial institutions not rated	5,973,363	-
	8,891,191	1,333,609

The exposure is in the form of balances repayable on demand.

	2021 £	2020 £
Other debtors	1,113,468	91,624

LIQUIDITY RISK

At 31 December 2021 the Company had total customer deposits of £60 (2020: £nil), which were for current accounts created for testing purposes.

Notes to the Financial Statements

for the year ended 31 December 2021

18. Capital Management

The Company manages its capital in order to ensure that it maintains appropriate financial resources to support its strategy and meet regulatory requirements.

All the Company's regulatory capital is in the form of Core Equity Tier 1 capital and stands at £9,557,149, which is equal to the shareholders' funds. This capital ratio is 287% and the regulatory requirements are met.

The regulatory capital requirements are set by the Prudential Regulation Authority (PRA) under the Capital Requirements Regulation and Capital Requirements Directive, following review of the Company's own Internal Capital Adequacy Assessment Process (ICAAP) document. The PRA sets a total capital requirement (TCR), which is in excess of the minimum Pillar 1 requirement of 8% of Risk Weighted Assets. The Company is also required to meet the minimum capital requirement of €5m set out in Article 12 of the Capital Requirements Directive.

The Company has opted to adopt the Standardised Approach to capital requirements for credit risk.

19. Share-Based Payment Transactions

All new employees receive share options when they join the Company and may be entitled to further share options as a reward for performing well and to incentivise them to make Kroo a success.

The share options issued are equity settled with no cash settlement options. Options typically vest evenly over four years with a one year cliff.

Kroo's expense for the share options granted to employees is recognised over the period between the grant date and the vesting date of those options. The overall cost of the option award is calculated using the number of options expected to vest and the fair value of the options at the grant date. The overall cost is recognised as a personnel expense, with a corresponding increase in other reserves within equity, over the period that employees provide services. This is generally the period between the award being granted or notified and the vesting date of the options.

The fair value is determined using the Black-Scholes model which takes into account the terms and conditions attached to awards. Inputs into the valuation model include the risk-free rate, an estimate of the market share price and the expected volatility of the share price. The market share price is assessed using the pricing achieved in the round immediately preceding the issuances.

Kroo operates one equity share option scheme which has been approved by HMRC as a Company Share Option Plan (CSOP).

All options issued up to 31 December 2021 have been accounted for during 2021. The exercise price for options issued during 2021 was £1.05 (2020: £0.86p)

Notes to the Financial Statements

for the year ended 31 December 2021

The main assumptions used in deriving the value of the options at grant are shown below:

Valuation assumptions	Year ended 31 December 2021
Risk free rate	1%
Volatility	50%
Dividend Yield	Nil
Expected life	4 years

The expected volatility was determined by assessing the historical volatility of listed peers, comparable private companies and external specialists to obtain an estimated implied volatility. The total expense for the year ended 31 December 2021 was £711,032.

	CSOP number
At 1st January 2021	-
Accounted for during the period	2,336,114
Lapsed	-
Exercised	-
At 31st December 2021	2,336,114

20. Related Party Transactions

The Company had no related party transactions during the year ended 31 December 2021 or 31 December 2020.