Allica Bank

Annual Report and Accounts 2022

Company Number 07706156

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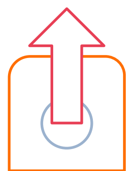
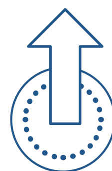
2022 at a glance

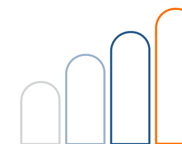
Key metrics



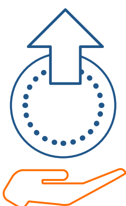
534%
revenue growth



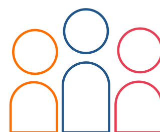
139%
increase in loan book



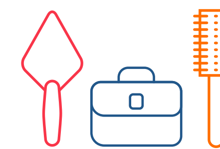
£155m
Additional capital raised



£6.9m
net operating profit

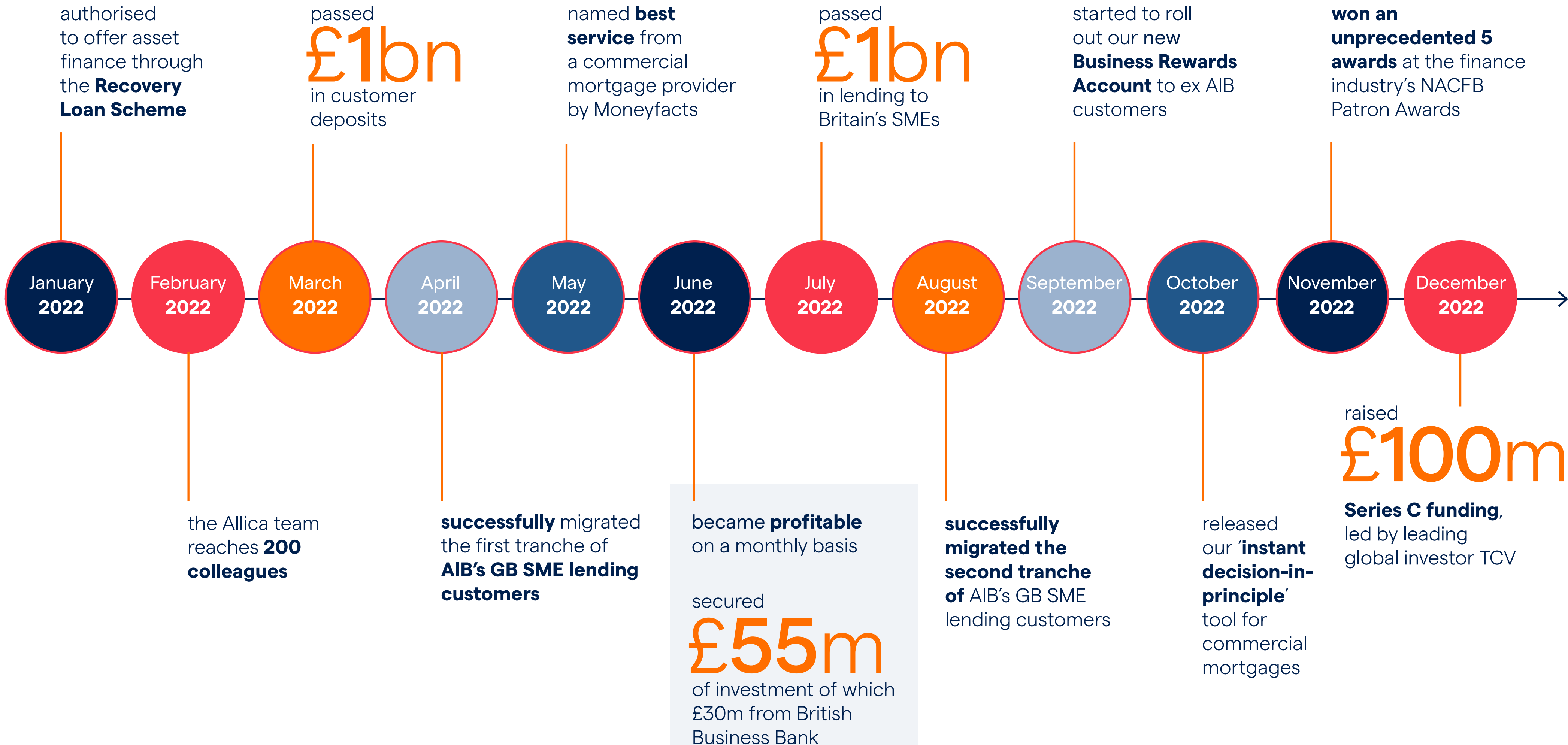


324
colleagues up from 184 in December 2021



£1.4bn
billion lent to UK's SMEs

Key milestones in 2022



Awards won

AltFi Awards
Editor's Choice

Banking Tech Awards
Top Banking Tech Team UK
Rising FinTech Star

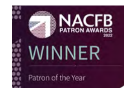
Business Moneyfacts Awards
Best Service from a Commercial Mortgage Provider

British Bank Awards
Best Business Finance Provider

NACFB Patron Awards
Business Bank of the Year
Commercial Mortgage Lender of the Year
BDM Team of the Year
Specialist Lender of the Year
Patron of the Year

Bridging and Commercial Awards
Best Specialist Bank
Commercial Lender of the Year

LeasingWorld Gold Awards
SME Best New Service



Feedback

Our customers

4.5

star rating ('Excellent') on independent reviews website Trustpilot

89%

of AIB's migrated GB SME customers rated their experience with Allica as 'Excellent' or 'Good'

"Five out of five stars – Great bank with superb customer service which is rare these days. Easy to obtain the required information via email / chat. Very friendly, prompt and professional. Can't recommend this bank any higher."

Trustpilot review

Our partners

91%

of our broker partners rated their overall experience with Allica Bank as 'Excellent' or 'Good'

95%

of our broker partners said their Allica relationship manager's expertise, responsiveness and working relationship was 'Excellent' or 'Good'

"My customer and I are very impressed with the deal we have agreed on with Allica. The new reduction of 0.25% in interest rate for the property having an EPC rating between A-C will be very helpful and save a massive amount of money in interest."

Westminster Finance Limited

Chairman's review

Chairman's review

2022 was a tough year for the small and medium sized enterprises (SMEs) that are the engine of the UK's economy. A sharp fall in consumer confidence combined with spiralling energy costs, higher inflation and increasing interest rates led to difficult trading conditions and a squeeze on the finances of UK businesses.

Throughout the year, including through the market turmoil of the third and fourth quarters, Allica has continued to deliver an uninterrupted service to its SME customers and broker partners, as we did through the pandemic. This provided much needed funding to allow these businesses to both weather the storm and, in many cases, grow their business. We are also proud to have passed on the increasing interest rates to our deposit customers. As of April 2023, we are offering rates of over 4% on our retail fixed term deposits and a market leading 3% on our instant access business savings account.

The challenges of 2022 further demonstrated the strength of Allica's business model. During the year, we also cemented our position as the UK's leading provider of broker introduced finance, winning numerous awards voted for by our customers and partners.

As planned, Allica achieved the milestone of becoming profitable mid-way through the year, following the successful completion of the AIB acquisition and delivery of our organic business plan. This is testament to Allica's approach to controlled growth combined with a tight control of costs. Allica now has nearly £1.4bn of loans and over £1.5bn of deposits on its balance sheet.

The strength of Allica's business model and clarity of vision was further endorsed with a Series C capital raise of £100m led by a new, incoming investor TCV alongside existing investors Warwick Capital Partners and Atalaya Capital Management. This funding round was closed in the fourth quarter of the year at a time when many investors had taken fright at the political and market disruption in the UK, and many fintechs were finding it hard to raise capital. I would like to thank TCV, Warwick and Atalaya for their support and confidence in our business model and prospects. We now have a great investor base with three multi-billion dollar funds that bring different perspectives covering both technology and credit.

The development of our direct to customer proposition, alongside our market leading broker proposition, is key to our future. A core part of this proposition has been the launch of a Business Current Account product, our "Business Rewards Account". This account not only provides businesses with modern, easily accessible payment technology but also cash-back on expenditure and a linked savings pot paying a top rate of interest.

We will also be growing our nationwide team of relationship managers ensuring our customers have access to Allica not just through great technology but also with someone who understands their business and needs.

At the core of Allica is our team, our people. We are delighted that we continue to attract and retain the best talent in the market. Their commitment, skill and experience have been central to our success to date and to our potential for the future. On behalf of the Allica Board and our customers, I would like to

Allica has been built with one, single purpose: to provide the banking that the UK's established SMEs deserve and need to help them realise their potential.

John Maltby, MBE Chairman

thank all of the Allica team for their hard work and outstanding contribution.

2022 was a watershed year for Allica. We have a solid, profitable base on which to build our products and services for SMEs and achieve our aim of becoming the most recommended business bank in the UK.

Looking forward to 2023 there remains much uncertainty both geo-politically and in terms of the UK's economic outlook. The latest view from the Bank of England suggests that the downturn may be shallower than predicted last year. However, Allica remains cautious in its approach to credit risk and we are well positioned for whatever the economic future delivers. Allica is also conscious of the risks, uncertainties and opportunities arising from climate change. We are fully focused on this for our own business, Allica Bank, and also in support of SMEs as they adapt to the changing environment.

Allica has been built with one, single purpose: to provide the banking that the UK's established SMEs deserve and need to help them realise their potential. We are delivering against this purpose and we are confident that we will be providing better banking to many more SMEs in the future.

Chief Executive's review

Chief Executive's review

Allica's purpose is to give established small and medium-sized enterprises (SMEs) the banking they deserve. Established SMEs are businesses that typically have 10–250 staff and represent over 30% of the UK's GDP.

These established businesses are critical for the UK's economy and society, but their banking is increasingly impersonal, inconvenient and poor value. This is driven by incumbents pulling back from the segment given high operating costs due to legacy processes and systems, amplified during Covid with the decline of in-branch banking and the deluge of government guaranteed lending.

We are focused on delivering a market leading, full-service banking proposition to established SMEs in the UK, and we are the only fintech focused on this large opportunity.

We are doing this by investing in a combination of people to understand their business, and technology built just for businesses like them.

Allica has had two major chapters to date – the first chapter to become authorised as a bank which concluded in 2019, and the second chapter to become a business with strong product-market fit and put in place our strategic technology and proposition foundations for the future.

2022 marked the end of chapter two, and was a transformative year for Allica

1 We reached profitability in June, ahead of prior business plans, and were profitable for H2–22 and expect this to continue in 2023. We are one of the fastest UK fintechs to hit this key milestone.

2 We grew revenues by over 500% year-on-year, whilst operating costs grew by just 30% in the same period. We achieved this with strong credit risk management discipline, with non-performing loans of less than 1% of our outstanding loan book at the year-end.

3 We successfully migrated and integrated AIB's GB SME loan portfolio we signed the purchase agreement for in November 2021. This was a significant and complex transaction and migration undertaken in two main tranches, proving out Allica's M&A capabilities.

4 We launched our in-house developed Business Rewards Account, a critical product for both our customer franchise and our long-term cost of funds. We are now unique in being the only non-high street full-service proposition for established SMEs.

5 We deployed new proprietary software capabilities including our automated decision in principle software for commercial mortgages.

Richard Davies, Chief Executive Officer

It was great to see this progress recognised by investors. Despite the market downturn we raised a total of £155m of regulatory capital in 2022, with a £100m round closed late in 2022 led by leading global growth equity investor TCV (whose portfolio includes Airbnb, Spotify, and Nubank) and a £55m round earlier in the year including £30m in Tier 2 capital from British Business Investments.

We were also humbled to see our efforts recognised externally with more than ten awards won in the year including Best Business Finance Provider at the British Bank Awards, an unprecedented five awards voted for by members of the National Association of Commercial Finance Brokers, and Top Tech Team UK at the Banking Tech Awards.

I am pleased to say that despite the turmoil in US banking, we have seen no noticeable impact of this in the UK banking market, which we believe the UK regulators deserve credit for, having run a much better regulatory regime for smaller banks. In this context, Allica has a strong liquidity position and takes minimal interest rate risk. As at the end of March 2023, 95% of Allica's deposits were covered by the Financial Services Compensation Scheme, Allica had a Liquidity Coverage Ratio of 253% (more than double the regulatory minimum), had only £250k of mark to market exposure on securities, and had Interest Rate Risk exposure as measured by Economic Value of Equity of only 1.00%, less than a tenth of the regulatory maximum in Europe of 15%.

2023 and beyond represents a new, third chapter for Allica. We have now established strong traction in lending, become profitable, and laid the foundations for our longer term strategy in terms of Direct to Customer and BCA launches. The new chapter will be focused around building out our full service franchise, with the BCA as a centrepiece of customer relationships. This product offers market leading capabilities including no subscription fees, cashback on card spend, and currently a 3% interest on an embedded savings account. There are currently no alternatives to the painful and expensive propositions of the high street incumbents, and so we are excited to bring much needed competition to this space.

We will continue to develop and embed our proprietary software, processes and data capabilities to achieve sustainable best in class performance and keep bringing new products to our customers. We have scaled our product, engineering and data functions to over a hundred colleagues to support this.

We will also continue to invest in scaling our risk management capabilities, to ensure our control framework keeps pace with business growth, and we are operationally resilient.

I'd like to thank all of Allica's hard working colleagues, as well as our customers, brokers and suppliers for helping deliver a very successful 2022, and we look forward to continued progress in 2023.

Who Are Allica Bank?

Our purpose

Established businesses are critical for the UK's economy and society, but their banking is increasingly impersonal, inconvenient and poor value.

We exist solely to give established businesses the banking they deserve.

We are doing this by investing in a combination of people to understand their business, and technology built just for businesses like them.

Our aim is for our customers to make us the UK's most recommended business bank.

Our history

Allica was granted its banking licence by the UK Prudential Regulation Authority (PRA) in September 2019, enabling us to accept deposits from both personal and commercial customers.

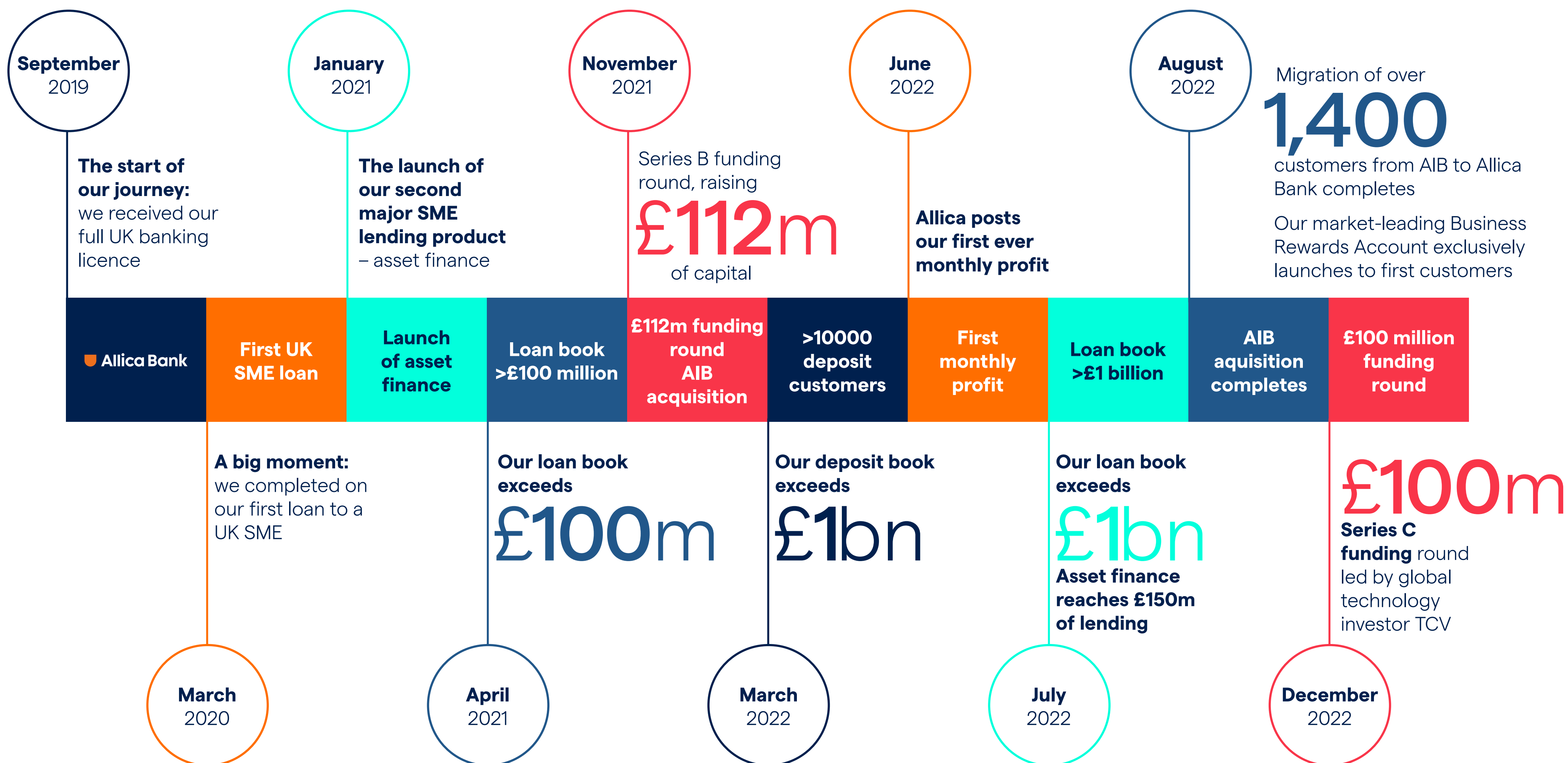
This was quickly followed by Allica launching our first lending products: business loans secured on property and commercial investment loans. Our first commercial property-backed loan drawdown took place in March 2020. Asset finance – business funding typically secured on business vehicles, plant or machinery – followed at the end of 2020.

Then, in late-2021, Allica announced the acquisition of the £0.6 billion GB SME lending portfolio of Allied Irish Bank, an acquisition which was successfully completed during 2022. Along with strong organic growth, this contributed to our loan book and deposit base exceeding £1 billion in 2022.

In mid-2022, Allica was excited to become the first non-branch based challenger bank to launch a business current account for established businesses – the market-leading Business Rewards Account. This is set to become an anchor product for Allica in 2023 as we look to expand both the depth and breadth of our presence in the established SME segment.

Allica achieved monthly profitability in the summer of 2022, which helped us sign a £100 million Series C funding round in November led by leading global technology investor TCV, the backers of Netflix, Nubank and Revolut. This brought the total amount of funding raised during 2022 to £155 million, following additional investment earlier that year by British Business Investments alongside existing investors Warwick Capital Partners and Atalaya Capital Management.

Our journey so far...

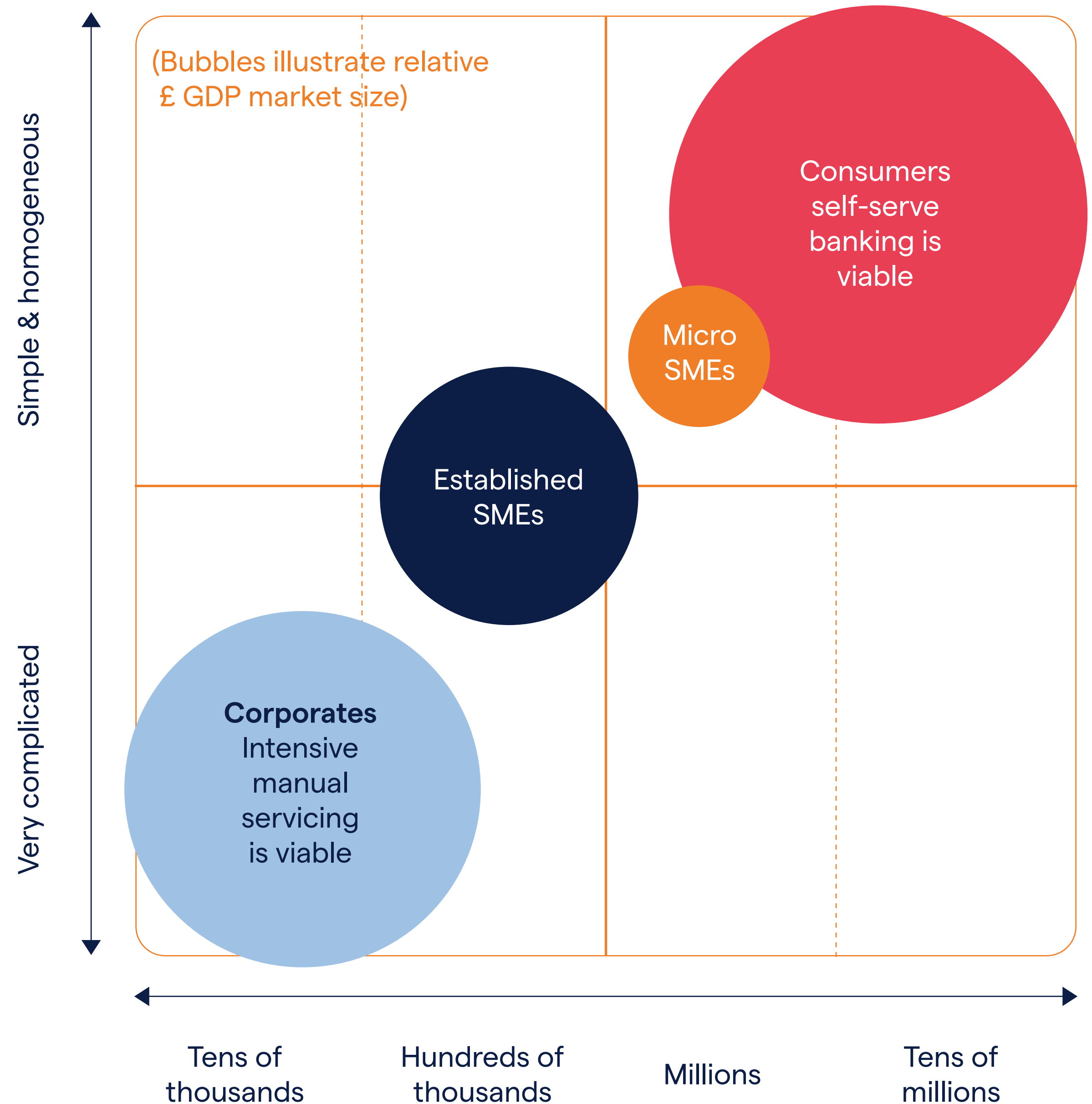


Our strategy

Allica Bank exists to help established SMEs to succeed. These established businesses are critical for our economy and communities – making up a third of UK employment and turnover – yet are poorly served by the incumbent high-street banks.

Legacy technology and poor processes dated back to branch based operating models means the incumbent banks are often slow and cumbersome for established businesses to deal with. As a result – and despite high fees – established SMEs face a poor banking service, and often no longer have access to a relationship manager who understands their business.

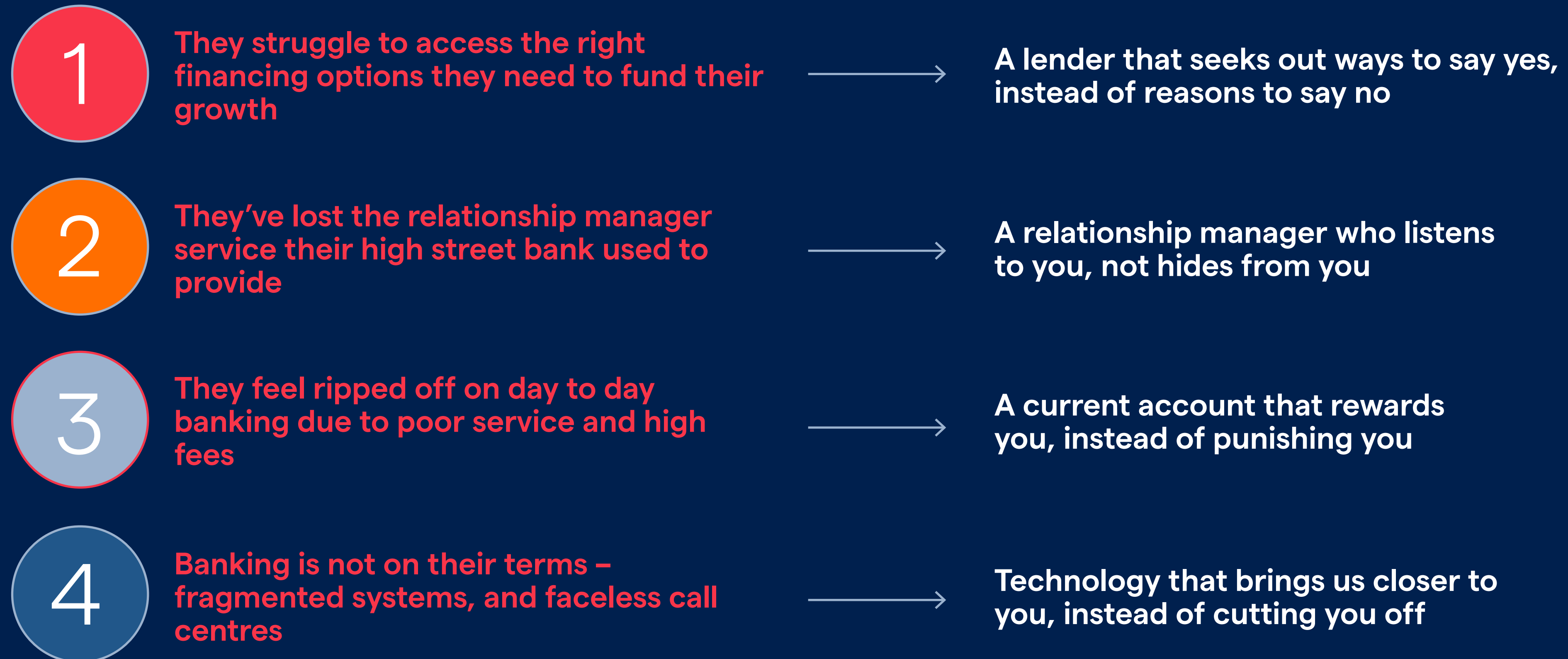
For these traditional banks, established SMEs sit awkwardly between their two core markets of tens of millions of homogeneous households and micro-businesses on one side, and a few thousand highly valuable large corporations on the other. As a result, incumbent banks find the complex needs of established SMEs too costly to serve due to unsuitable technology platforms and operating models.



Our banking experience

Allica is doing things differently. We are committed exclusively to the needs of this large and crucial segment of the economy. We are reimagining how relationship banking can be delivered efficiently, by using modern technology. Our proprietary technology also allows us to deliver a superior customer experience in areas such as faster lending decisions, intuitive self-serve banking, and more convenient communications.

We express this though four pillars of differentiation against their current banking experience:



Our next chapter

Allica is already well on the way to becoming the challenger bank of choice for established businesses in the UK. Looking ahead, we intend to build a true alternative to the high street bank incumbents, by making the sum of our products far greater than the individual parts.

At the heart of this is the scaling up of our new business current account – called the Business Rewards Account. This will enable us to have a full banking relationship with our customers, covering lending, savings and payments – making us the first fintech challenger bank to offer this to established SMEs.

An example of the strategic benefits of this full-service banking approach is in business lending, where the core of prime, secured SME lending remains captive to current account holding banks, and therefore inaccessible to traditional 'monoline' challengers. Equally, an integrated business current account and savings proposition positions us better to compete against the funding structures of traditional incumbents.

We have strong conviction that getting our technical and data foundations right will deliver sustained – and growing – competitive advantage as we continue to scale.

As such, Allica will continue to invest in our proprietary technology and data platform. An example of this is our proprietary automated loan decision-in-principle tool, which we launched for our property-backed lending business in late-2022. This has already saved thousands of hours in operational costs, whilst delivering new levels of customer experience for our partners.

The Board

The Board

John Maltby
Chairman

Alongside his Chairman role, John is also Chair of West Bromwich Building Society, Chair of Max Nicholas Renewables and is a NED of Nordea Bank. He has been CEO of Williams & Glyn and Group Director of the Commercial Bank of Lloyds Banking Group during his extensive executive career.

Richard Davies
Chief Executive Officer

Alongside his CEO role, Richard is a NED on the group board of UK unicorn payments fintech Zepz. Previously, Richard was group COO at digital bank Revolut, the inaugural CEO of OakNorth, and held senior leadership roles at TSB and HSBC.

James Heath
Chief Financial Officer

Most recently, James was CFO of ABN AMRO UK. Prior to this, he was CFO at Cambridge & Counties Bank and Finance Director, Banking at Close Brothers.

The Board

Patrice McDonald
Chair of the Risk Committee and Senior Independent Director

Patrice is a former Managing Director, Global Chief Risk Officer, & Head of Governance at Barclays Wealth. Patrice has also worked as a Partner at EY. Alongside her roles at Allica, she is also a non-executive chair of Board at TD Bank Europe.

Rajan Kapoor
Chair of the Audit Committee and Remuneration Committee

In addition to his roles at Allica, Rajan is a non-executive director at OneSavings Bank. He has also been Financial Controller of the Royal Bank of Scotland Group and held a number of senior finance positions in a 28-year career with RBS.

Paul Marston
Notified Non-Executive Director

Paul is currently CEO of the FSE Group, while he has also held senior roles at Secure Trust Bank, RBS, NatWest, and Lombard.

Our Executive team

Our Executive team

Nick Baker
Chief Commercial Officer

Nick has over 15 years of experience working with brokers in the financial space, having spent almost 12 years as a Director of broker firm Christie Finance before joining Allica.

Conrad Ford
Chief Product & Strategy Officer

Conrad was founder and CEO of Funding Options, having previously been COO for Barclays ClearlyBusiness and Product & Marketing Director at Validis.

Keith Middlemass
Chief Operating Officer

Keith has 30 years' experience in financial services, most recently at NatWest as CDIO. His experience includes senior leadership roles in TSB, Accenture and Capgemini.

Our Executive team

Aileen Gillan
Chief Risk Officer

Prior to joining Allica, Aileen was Chief Risk Officer at Intertrust Group NV and Metro Bank. Aileen has also held senior risk leadership roles at Lloyds Banking Group.

Ravneet Shah
Chief Technical Officer

Ravneet joined Allica in January 2020 as a lead engineer and is now our Chief Technology Officer. Previously she has worked at Santander, Teradata and Infosys.

Kate Valdar
General Counsel & Company Secretary

Kate has over 16 years of experience working as a corporate and commercial lawyer. Most recently, Kate worked as General Counsel and Company Secretary at Tandem Bank.

Non-financial performance review

Allica's plans for the next financial year

Allica started 2023 from a position of strength, thanks to achieving profitability in 2022, alongside investment of £100m led by leading global technology investor, TCV.

We will continue to invest in two core pillars that will support superior customer experience and sustainable competitive advantage as we grow:

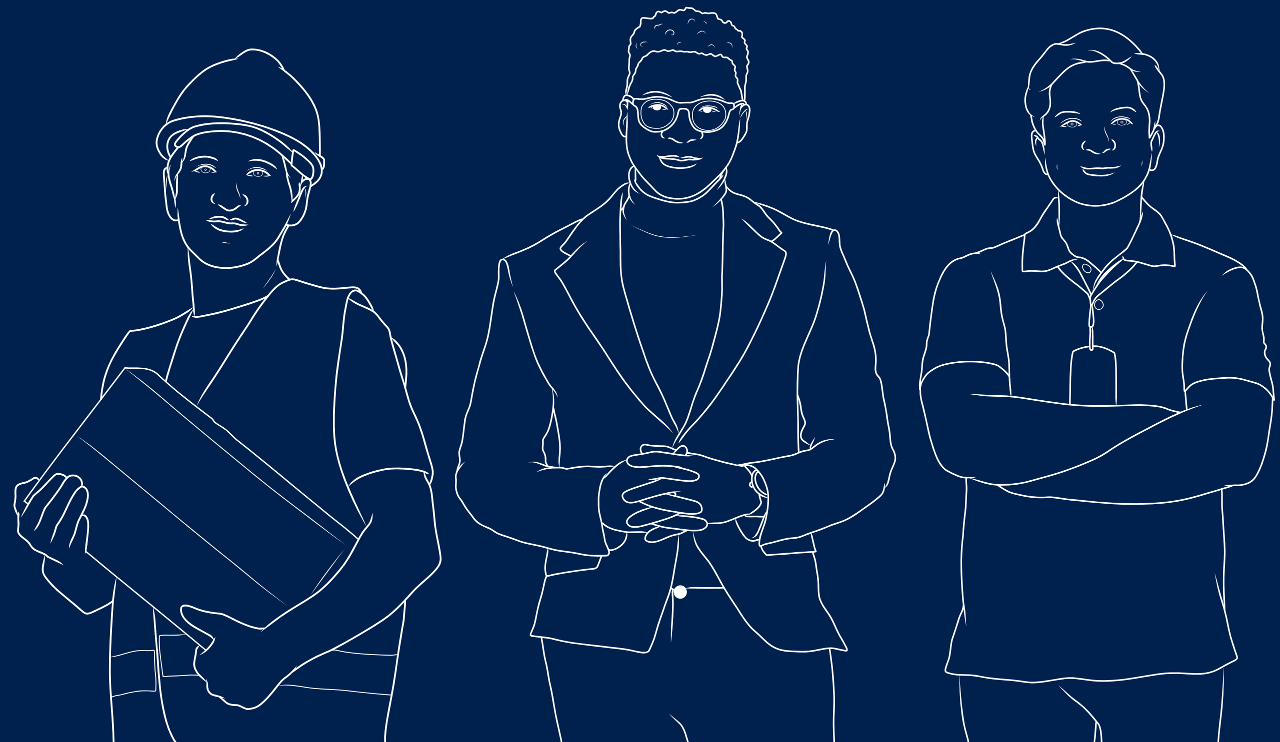
- One pillar is Technology & Data, where our proprietary banking platform has already taken major steps forward in the first quarter of 2023.
- The other is People & Culture, where 90% of surveyed colleagues say they would recommend working at Allica, and 96% feel positive about our culture.

We start 2023 with all the key components of our business model in place.

- Our business banking product range now covers secured loans, working capital finance and government-backed lending, complemented by our business current account and business savings products.
- In our routes to market, our existing strength among intermediary channels is now complemented by a direct franchise, helped by the successful integration of AIB's GB SME lending portfolio during 2022.

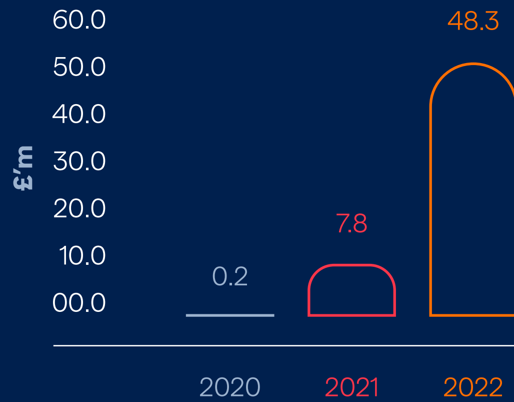
With both strong foundations and key business model components in place, a key focus in 2023 is making the sum greater than the individual parts. This means that our established SME customers will increasingly have a relationship with Allica – not just with one of our products. This also means that established SMEs – and their trusted advisors – will increasingly see Allica as a true alternative to the incumbent high street banks.

Financial performance review

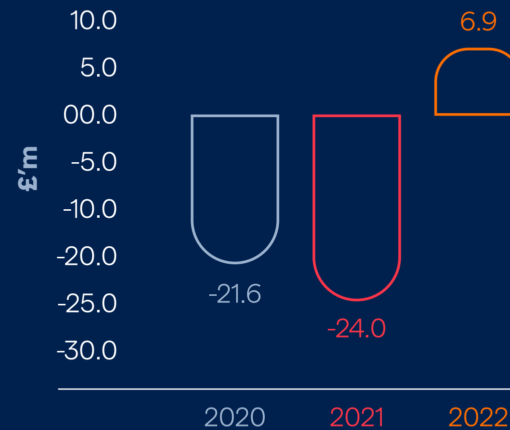


At a glance

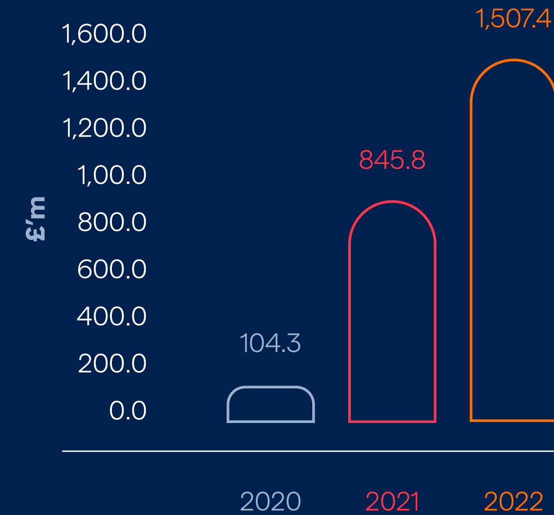
Operating income



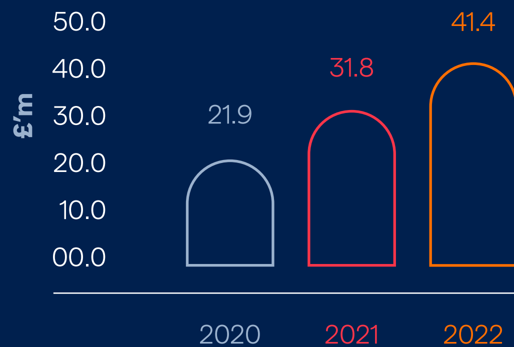
Net operating profit/(loss)



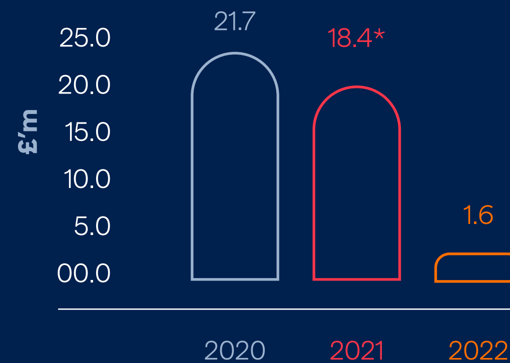
Deposits



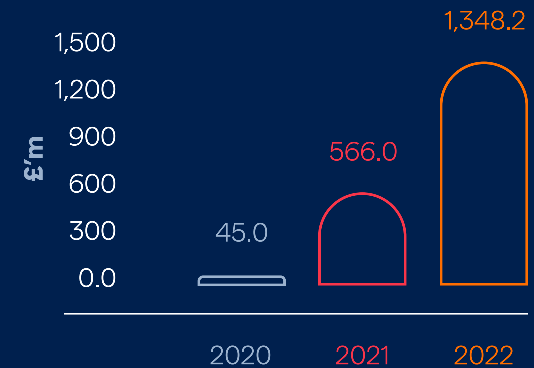
Expenses



Loss before tax



Loans

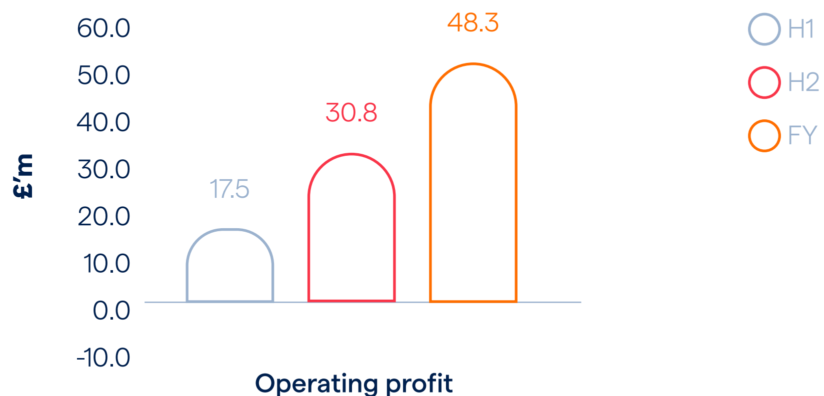


*This was a non-GAAP measure exclusive of write down of intangible assets amounting to £6.7m. The GAAP loss for the year was £25.1m.

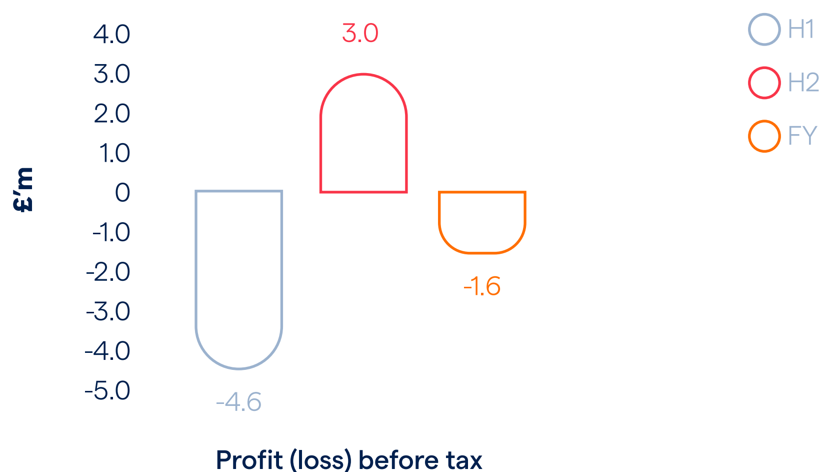
Financial year review

The Bank reported £3m profit before tax in the second half of the financial year with an annual loss before tax of £1.6m (2021: £25m loss before tax).

H1 and H2 2022 operating profit



H1 and H2 2022 profit/loss before tax



Financial year review (continued)

The Group's profit and loss account compared to the prior year

	2022 £'000	2021 £'000
Net interest income	**48,911**	7,824
Net fee and commission income	(666)	157
Fair value losses	67	(155)
Total operating income	**48,312**	7,826
Total expenses	(41,426)	(31,807)
Profit / (loss) before tax and impairment	**6,886**	(23,981)
Impairment charges	(8,473)	(1,077)
Loss before tax	**(1,587)**	(25,058)
Tax	7,210	–
Profit / (loss) after tax for the year	**5,623**	(25,058)

Total operating income

Total operating income increased from £7.8m to £48.3m with nearly all of the Group's operating income derived from net interest income. Interest on loans and advances increased by £54.2m during the year due to strong growth in our loan book. The Group also earned interest from its liquid asset portfolio which increased by £6.6m in the year. These were off-set by higher interest expenses of £19.7m due to an increase in the Group's interest bearing liabilities.

Impairment charges

Impairment charges increased to £8.5m (2021: £1.1m). This reflected the growth in the loan book and also management's view of the worsening macro-economic outlook. Cost of risk for 2022 was 0.92% with the coverage ratio of loans and advances standing at 0.7% at the year end. Out of total impairment provisions held on loans and advances of £9.0m, £1.5m were stage 3. These ratios reflect the predominantly secured nature of the bank's loan book.

Taxation

There was net tax benefit recorded during the year. A current tax charge of £75k was offset against a deferred tax benefit recorded on brought forward tax losses. These tax losses have been realised against the gain on fair value movements in cashflow hedges recorded in other comprehensive income, as well as on timing differences arising on fair value hedge movements.

Expenses

Total expenses of £41.4m have increased by 30% since last year. The majority of this increase related to staff costs which increased by 65% to £23.8m (2021: £14.5m) as Allica continues to invest in its growth, particularly its loan distribution and software engineering capabilities. Colleague numbers increased to 324 (2021: 184). Administrative costs increased by 81% to £14.3m (2021: £7.9m).

Financial year review (continued)

The Group's balance sheet compared to the prior year

	2022 £'000	2021 £'000
Assets		
Loans and advances to customers	1,348,166	566,040
Cash, cash equivalents and other liquid assets	359,795	352,987
Other assets	52,311	31,180
Deferred tax asset	2,198	-
Total assets	1,762,470	950,207
Liabilities		
Customer deposits	1,507,433	845,769
Provisions	490	66
Other liabilities	45,276	14,489
Total liabilities	1,553,199	860,324
Equity		
Share capital	2,501	1,417
Share premium	266,332	160,708
Other capital and reserves	(59,562)	(72,242)
Total equity	209,271	89,883
Total liabilities and equity	1,762,470	950,207

Loans and advances to customers

Loans and advances to customers increased by 138% to £1,348m.

The Bank saw strong growth across all lending products. Business loans to SMEs secured on property increased from £275.3m in 2021 to £478.9 in 2022.

Our asset finance offering which comprises term loans and hire purchase agreements increased by £121m to £148m.

Our successful partnership with Landbay, which originates residential buy-to-let loans on behalf of the bank through a forward flow agreement, saw lending increase to £264.6m from £37.4m in 2021.

In November 2021 the Bank acquired an SME loan portfolio from AIB Group (UK) PLC. The first tranche of these loans (£263m) completed in 2021 with the second tranche (£199m) completing in May 2022.

The Bank also launched a new partnership with UK Agricultural Finance which specialises in lending to the UK agricultural sector.

Cash, cash equivalents and other liquid assets

The Bank's liquid assets comprise cash on deposits at the Bank of England, cash on deposit with financial institutions and highly rated marketable securities. Over the year, these balances grew from £353m to £360m. The Bank's liquidity coverage ratio was 145.2% at the end of 2022, 45.2% higher than the regulatory minimum of 100%.

Customer deposits

Customer deposits have increased by 78.2% from £845.8m to £1,507.4m in the year. The Group provides term, notice and instant access deposits to both personal and business customers. As well as providing deposits direct to its customers, Allica continues to partner with deposit platform providers and other financial institutions such as Flagstone, CHIP, Hargreaves Lansdown and Revolut to diversify its funding streams.

Equity

In H1 of 2022, £46.2m of share capital was invested by existing shareholders. This amount formed part of the Series B capital raise which was signed in 2021. In November 2022, the Bank closed its Series C capital round, securing committed capital of £100m led by new investors TCV alongside existing investors Warwick and Atalaya. Tranche 1 of Series C (£29.4m) was received in December 2022. The Bank's total regulatory capital ratio at the end of the year was 18.8%.

People

Allica's mission is to be the UK's most recommended business bank – and that goes for our colleagues too. We want to be the best place our colleagues have ever worked, which means creating an enjoyable, healthy and rewarding work experience. It means, too, having a working environment that encourages diversity and for every colleague to feel comfortable to bring their whole self to work.

This philosophy helps Allica attract and retain the best talent on the market – high achievers who consistently deliver – and will be pivotal in supporting Allica to achieve its ambitious plans.

Allica is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, race, colour, age, disability, sexual orientation or marital or civil partner status. Allica is committed to ensuring that disabled people are afforded equality of opportunity with respect to entering into and continuing employment with Allica. This includes all stages from recruitment and selection, terms and conditions of employment, access to training and career development.

Our values

Our values are the driving force behind Allica's people. We have a robust recruitment process which ensures that all new starters to Allica share our values and can demonstrate with examples how they lived by them in their previous experience.

It is crucial that every colleague lives our values consistently. Allica's values shape our decisions and ensure they are aligned with our goals and objectives. They reflect our culture by shaping the way our colleagues interact with each other and with our customers. They give us a common language and basis on which to help integrate new colleagues and a mutual understanding of collaboration. Our culture and values help us build lasting relationships with our customers as, lived consistently, they create a perceptible difference and, most importantly, trust. The trust our customers place in us reflects our relentless focus on excellent customer service, which helps to set us apart from our competitors.

Straightforward

We keep ways of working as **simple and practical** as possible.

We **communicate clearly, concisely, and regularly**.

We are **willing to have challenging conversations** in order to improve.

We take a **logical and data-driven approach** to investigating, decision-making, and measuring outcomes.

Collaboration

We start with the customer and work backwards to ensure the best experience and outcome possible.

We **celebrate big and small wins** and inspire those around us to chase excellence.

We value diversity, using our knowledge to help others develop while learning from them in return.

Integrity

We do the right thing, even when no-one's looking.

We aren't afraid to **speak up or take action** when needed.

We are trusted colleagues who can ask each other for advice and offer feedback.

Delivery

We make decisions and **deliver great solutions** at pace.

We set high standards our colleagues and customers can rely on.

We seek ways for Allica to **stand out from the crowd**.

We always **seek to improve ourselves** and our team.

We never stop learning.

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A great place to work

Employee surveys

Ensuring that our colleagues are engaged and that Allica is a great place to work is one of our key objectives. We check in with our colleagues regularly to ensure that this is the case and to identify areas that we can improve.

We're proud that the results of our internal surveys continue to show that Allica's colleagues are highly engaged, motivated and enjoy working in Allica's diverse culture.

91% **of colleagues enjoy working at Allica**

90% **would recommend working at Allica to a friend or relative**

96% **of responses on Allica's culture were positive**

85% **of colleagues think their team is being well led**

Diversity

Allica is committed to diversity and to nurturing a workplace culture that is fair and supportive for all. We recognise diversity as being central to our future success and in ensuring our service to customers continues to be of the highest standard. Diversity is and will always be a focus for Allica. During 2022, Allica became a signatory of the Women in Finance charter, and we continue to work towards the range of goals we have set ourselves, supported by our Diversity & Belonging group.

92% **of colleagues believe that Allica supports diversity**

The number of female colleagues at Allica has decreased by 1% to an overall percentage of

40%

52%

of internal promotions were female and 33% from an ethnic minority background

The number of females in senior leadership roles has remained static at 25%. However, the number of females in our executive team has increased from 14% to

37%

The number of colleagues from an ethnic minority background has remained static at

38%

Recruitment

Allica's continued growth and product diversification has required a significant increase in the number of colleagues from 184 to 324 – an increase of 76%.

We continue to see a strong and growing interest in all roles across Allica, with over 24,000 applications for our open positions.

A new location

Despite our growth in recent years we expect to continue to increase the number of colleagues in the short, medium and long term.

It is important that we continue to hire the most talented individuals who share our values and purpose. In order to maximise the talent pool, we have started to build out a software engineering team based in India using an Employer of Record model. This team has grown to 12 colleagues at the end of 2022 and we are excited by the opportunity India presents to support the continued growth in our software engineering team and beyond.

Hybrid working

Allica remains committed to hybrid working and the flexibility it brings our colleagues and the business. However, we also recognise the importance of gathering together in nurturing our culture and individual relationships.

During 2022 our headcount grew significantly, and we have observed a trend of colleagues starting to return to the office on a more regular basis.

It was important for Allica to give colleagues the right environment to do this. Therefore, we have made a number of changes to our physical office spaces during the year.

We moved our London office a short distance from Eldon Street to Bishopsgate in the heart of the city. Our new office gives us more space, meetings rooms, collaboration areas and, most importantly, an area for table football!

We expanded our Milton Keynes office to provide more desks, offices and a new kitchen area.

We launched a small satellite office in Manchester to provide a regional hub for colleagues based in the Northwest.

Supporting our colleagues

We recognise that with the increase costs of living in the UK, 2022 has been a difficult time financially for many – including Allica colleagues. In order to support our colleagues through this difficult period, all Allica colleagues in position on 1 July 2022 were given an additional £1,000 payment which will be paid in four instalments during 2022/23. Allica also became a signatory of the Living Wage foundation, reflecting our commitment to ensure that all colleagues receive a real living wage.

Human rights, anti-bribery and corruption

Bribery, corruption and human rights abuses have impacts that stretch from our local communities right across the globe. That's why we are committed to acting legally, ethically and transparently in all areas of our business. Allica sets a clear tone from the top, with a zero-tolerance approach to human rights abuses, bribery and corruption in any form. We do so by complying with all legal and regulatory requirements, as well as having systems and controls in place to identify and prevent such practices.

Allica's Anti-Bribery and Corruption Policy prohibits the request, agreement to, receiving, offering, giving, solicitation or acceptance of any bribe, whether in cash or in any other form. It sets out the requirement for our colleagues and third parties to maintain our ethical standards and is supported by the following policies:

- Whistleblowing Policy
- Gifts and Hospitality Policy
- Conflicts of Interest Policy
- Financial Crime Policy
- Market Abuse Policy
- Customer Due Diligence Standards

Our relationships

Our procedures set out the requirement to perform due diligence on all colleagues, suppliers, service providers and associated persons prior to working with them, and periodically thereafter. We are committed to reviewing and developing our policies and procedures continually to ensure we maintain effective controls against bribery and corruption.

Alongside this, our colleague induction and Annual Mandatory Training (AMT) include a module and test on anti-bribery and corruption. The training focusses on defining bribery and corruption, identifying what constitutes a bribe, protecting individual colleagues and the Group against bribery and corruption, and setting out how the law has developed to counteract bribery and corruption. Our induction and AMT training also includes a test to ensure colleagues are able to demonstrate understanding of the important concepts covered in the module.

Our monitoring

As part of our commitment to combatting bribery and corruption, we maintain an up-to-date risk register which includes all associated risks. This year, we've enhanced our risk register further with a deep dive into the bribery and corruption risks we face and how we can mitigate those risks with suitable controls.

This is supported by operational procedures, planned compliance monitoring and internal audit to allow us to demonstrate the effectiveness of our approach.

Modern slavery statement

Our commitment to human rights and the ethical treatment of our colleagues, suppliers and customers is fundamental to who we are and what we stand for. Acting with integrity in all our business relationships is a core value and we continually demonstrate this with our implementation of systems and controls to ensure slavery and human trafficking is not taking place anywhere in our business or supply chains.

Several policies are in place to facilitate this, including our supplier onboarding, financial crime, anti-bribery & corruption, and whistleblowing. We also actively engage with new suppliers to identify and mitigate any risk of human trafficking or modern slavery in our supply chain, and we continue to monitor those risks throughout the course of our long-term relationships.

The fight against financial crime

Allica continues to work with law enforcement agencies, anti-fraud groups and our industry partners to share intelligence and discuss existing and emerging financial crime risks. This collaboration has provided the opportunity to contribute to wider discussions on financial crime issues, and to ensure we play our part in keeping the financial system safe.

Section 172 statement

The Directors of the Company act in good faith to promote the success of the Company for the benefit of its members as a whole and in doing so have regard (among other matters) to:

- The likely consequences of any decision in the long term.
- The interests of the Company's employees.
- The need to foster the Company's business relationships with suppliers, customers and others.
- The impact of the Company's operations on the community and the environment.
- The desirability of the Company maintaining a reputation for high standards of business conduct.
- The need to act fairly between members of the Company.

The table below shows the key stakeholder groups identified by the Directors and how the Company satisfies the requirements under Section 172 of the Companies Act 2006.

Stakeholder Group	How the Company adheres to S172
Colleagues	Allica actively monitors colleague engagement through regular anonymous surveys, the results of which are then shared with all colleagues along with any resulting actions. Regular social events such as summer and Christmas parties, charity events and monthly drinks allow our colleagues to develop strong relationships particularly as a lot of them work remotely. Diversity and inclusion are actively promoted with specific recruitment targets set for gender and ethnicity which are linked to variable remuneration for all colleagues.
Customers	Allica regularly seeks customer feedback through surveys and the results are reviewed by the Board along with any resulting actions. The customer is at the forefront of everything the Group does and the outcome for the customer of any action the Group takes is embedded in its processes and procedures.
Regulators	Allica has an open and transparent relationship with its regulators and maintains regular communication with them.
Investors	Allica maintains a regular, open dialogue with its principal investors. Warwick Capital Partners, Atalaya Capital Management and TCV have each appointed observers who have the right to attend all Board meetings. Long-term management incentive schemes are designed to align management's aims with those of the Group's investors.
Suppliers	Allica recognises the importance of its suppliers to its success. Allica has a formal supplier management and outsourcing policy, with all key suppliers having a named relationship owner, and regular bilateral senior meetings to review and strengthen relationships, with periodic updates on the most important relationships at Operations Committee.
Environment	We look at the impacts of running our business on the environment and the climate crisis and how we can mitigate them. Climate change is a key focus for the Board and is a standing agenda item for our executive committee. More details can be found in the "Environmental" section on page 52.

This Strategic Report was approved by the board and signed on its behalf by:

Richard Davies
Chief Executive Officer

19 April 2023

Risk management

Overview

Allica's operations are underpinned by a comprehensive and Board-approved Risk Management Framework (RMF). This defines our approach to governance and risk management, including setting and monitoring our risk appetite. The RMF also complies with all legal and regulatory frameworks and is regularly updated to reflect changes to regulations and best practice in our industry.

Allica's overall business strategy is set within our Board-defined risk appetite, aiming to deliver sustainable positive outcomes for our customers and other stakeholders.

Components of the risk management framework

First line of defence

The First Line of Defence (FLOD) is made up of the business functions of the Group, comprising all colleagues who do not form part of the risk and compliance or audit functions. FLOD is responsible for the identification, assessment, mitigation, monitoring and ownership of its risks. This entails:

- Managing risks within the risk appetite detailed in the Risk Appetite Statement, including monitoring of Early Warning Indicators and Key Risk Indicators.
- Identifying key risks and related controls by undertaking and regularly maintaining a Risk & Controls Self-Assessment (RCSA).
- Assessing each risk within its RCSA on an inherent and residual post control basis; rating all risks and incidents using a Likelihood and Impact Rating Matrix (as appropriate).
- Regular testing of key controls to confirm they are appropriately designed, adequate and operating effectively, and where necessary, amending each control to ensure effectiveness.
- Monitoring the performance of these controls and escalating any trigger alerts or breaches to management and the Second Line of Defence.
- Escalating any emerging risks or incidents through the Risk Team (Second Line of Defence).

Second line of defence

The risk and compliance function is Allica's Second Line of Defence (SLOD) and is responsible for:

- Developing and maintaining the RMF and Risk Appetite Statement (RAS) for recommendation by the Risk Management Committee (RMC), Assets & Liabilities Committee (ALCO), Operations Committee (OpCo), Executive Committee (ExCo), and approval by Board Risk Committee (BRC) and ultimately the Board (on the recommendation of the BRC).
- Formulation and execution of Allica's Assurance & Compliance Monitoring Plans (complementing the activity of Internal Audit), to assess effectiveness and adequacy of FLOD testing and key controls.
- Maintenance of Allica's Risk Register, Incident Log, causality and control libraries.
- Providing independent oversight and challenge of risk management activity conducted by the First Line of Defence.

Third line of defence

Internal Audit is Allica's Third Line of Defence. This provides independent assurance on the effectiveness of risk management and the internal control environment, including testing of key controls. Internal Audit reports directly to the Chair of Audit Committee. Internal Audit is currently provided via a co-sourced arrangement with Mazars, a leading audit and advisory firm.

Risk appetite

Allica's risk appetite is set by the Board and articulated through the Risk Appetite Statement. This outlines the level of risk the Group is willing to accept across our principal risks and key risks, in our risk taxonomy. The Board has approved an overarching Risk Appetite Statement that determines the level of risk we are willing to take in pursuit of our mission to build a profitable, sustainable business, even in times of stress. We take risks required to build and scale our business provided those risks are understood and can be managed. We will not take risks that expose the Group to any single significant loss event, or risk significant damage to the brand. We use a mix of qualitative and quantitative measures of risk, across principal risk types, reflecting our appetite and capacity for risk absorption through the cycle.

Risk appetite is expressed in quantitative measures across all key risks through Key Risk Indicators (KRIs). This allows us to monitor risk exposure, in conjunction with Early Warning Indicators (EWIs) which allow management actions prior to any breach of appetite.

KRIs and EWIs are monitored at RMC, OpCo, ALCO and BRC. Monitoring EWIs, alongside control assurance outcomes and any incidents raised, ensures awareness and management of the changing risk environment. The Chief Risk Officer is responsible for aggregating all key risks and reporting to ExCo, BRC and the Board.

The Board is ultimately responsible for risk across the Group, while being supported by the Board Risk Committee.

Principal risks & uncertainties

We consider our principal risks and their related responses, to be as follows:

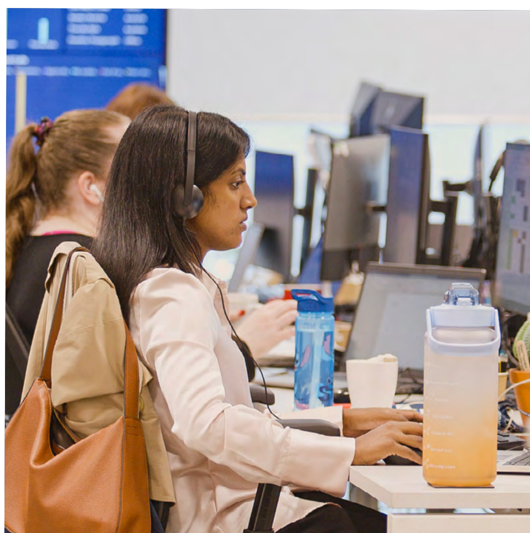
Principal risk	Risk description	Group's response to the risk
Capital Adequacy	The risk that Allica does not have adequate capital resources to meet minimum regulatory capital requirements, sustainably achieve the objectives of the corporate plan or meet its financial obligations when they fall due.	The Group aims to hold sufficient capital to cover unexpected losses through the planning period. Its capital requirements are calculated based on the Standardised approach to Credit Risk and the Basic Indicator Approach to Operational Risk. Our capital planning approach is focused on maintaining sufficient capital while optimising value for shareholders. Allica has a proven track record of maintaining and raising capital, including Series C funding of £100m in Q4 2022. The Group has reviewed and responded to the PRA's consultation paper (CP16/22) which sets out its proposed implementation of the Basel 3.1 standards. In addition, the Group is monitoring the PRA's proposals for its Strong and Simple framework. Given that the implementation of the remaining Basel 3.1 rules is under consultation and that the majority of the proposals for the Strong and Simple framework have not yet been published, it is too early to ascertain what the impact on the Group's regulatory requirements may be. The Group is actively engaged in dialogue with the PRA on the consultations.
Liquidity	The risk that Allica could fail to meet its short-term obligations as they fall due, or future asset growth cannot occur because of an inability to obtain funds at a reasonable price within a reasonable time.	The Group aims to hold a prudent level of liquidity to cover unexpected outflows such that the Group would be able to meet its financial commitments for an extended period in times of stress. The Group assesses the level of liquidity necessary to cover both systemic and idiosyncratic risks and always maintains an appropriate liquidity buffer. The Group also maintains a balance sheet structure that limits reliance on volatile sources of funding. Allica has a proven track record of maintaining and raising liquidity as required including that for the recent AIB loan portfolio acquisition.
Strategic Risk	The risk of Allica having an insufficiently defined, flawed or poorly implemented strategy, a strategy that does not respond effectively to changes in the external environment and/or a strategy that does not meet the requirements and expectations of our stakeholders.	Allica maintains a detailed business plan based upon reasonable, modelled viability assumptions. Allica will execute this plan with integrity and in line with the requirements of its stakeholders including investors, colleagues, customers and its own profitability.
Credit Risk	The risk of financial loss arising from a borrower failing to fulfil their contractual obligations on time and in full. The risk primarily crystallises by customers defaulting on lending facilities.	Allica aims to have a well-balanced and diversified loan portfolio, through the economic cycle, that reflects the SME market it is focused on serving and weighs risk and reward appropriately in lending decisions. The Group's lending policies ensure credit risk-taking is based on sound credit risk principles. Limits are set for each borrower, and large single name exposure limits are consistent with our appetite for single name concentration which is in line with prudential regulatory rules.

Principal risks & uncertainties (continued)

Principal risk	Risk description	Group's response to the risk
Market (Interest Rate) Risk	The risk that Allica's earnings or economic value of equity or capital will underperform due to changes in interest rates or financial market asset prices. Allica's ability to manage market risks contributes to our overall capital management.	Allica has limited appetite for exposure to interest rate risk in the banking book (IRRBB), in terms of both potential changes to economic value of equity or to expected net interest income or earnings. Management regularly monitors exposures to price risk and market movements. Market positions will only be taken for the purposes of liquidity management and hedging, and the Group does not operate a trading book.
Financial Crime	The risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime (which we define to include internal or external fraud, money-laundering, terrorist financing, bribery & corruption and sanctions compliance).	Allica complies with all applicable laws, rules, regulations, industry guidance and sourcebooks, and has no appetite for regulatory breaches. The Group has detailed policies, procedures and controls in place to ensure compliance with financial crime related obligations, and robust oversight and monitoring to evidence its compliance. The Group regularly engages with its regulatory supervisors and other industry bodies to manage this risk.
Conduct Risk	The risk that Allica's colleagues' behaviours or actions result in unfair outcomes or detriment to customers and/or undermine market integrity resulting in regulatory censure, financial loss and reputational damage.	Allica has no appetite for unfair customer outcomes, whether arising from product design, sales or after-sales processes. The Group provides customers with simple, fairly priced products and monitors the performance of these products, and the service delivered via its digitally enabled relationship model, to minimise the risk of customer harm.
Compliance and Regulatory Risk	The risk of failure to comply with regulatory or legislative requirements resulting in regulatory censure, financial loss and reputational damage.	Allica complies with all applicable laws, rules, regulations and sourcebooks, and has no appetite for regulatory breaches. Detailed policies, procedures and controls have been put in place to ensure compliance with regulatory obligations, and robust oversight and monitoring to evidence compliance. The Group regularly engages with its regulatory supervisors and other industry bodies to manage this risk.
Operational Risk	The risk that inadequate or failed processes or systems, human error or external events result in direct or indirect financial loss, regulatory censure, service disruption, customer detriment and/or reputational damage.	Allica aims to maintain robust operational systems and controls and seeks a low level of operational risk. The Group has detailed policies, procedures and controls in place which are designed to evaluate, monitor and report these risks as well as, where appropriate, develop mitigation plans to minimise the impact of losses sustained in the normal course of business (expected losses) and to avoid or reduce the likelihood of sustaining a large, extreme (or unexpected) loss.
Model Risk	The risk of potential loss, sub-optimal decision making and regulatory non-compliance due to decisions that could be principally based on the output of models, due to errors in the design, development, implementation, or use of such models.	Allica recognises the risks inherent in reliance on models, specifically of running levels of risk in excess of those generally deemed acceptable. The Group's approach to model risk management is still developing, but it has a low appetite for model risk, based on the desire to ensure that data and model limitations are understood by model users and decision makers.

Other key risks

Other key risk	Risk description	Group's response to the risk
Operational Resilience	• The risk that the Group's outsourced service providers fail to deliver the service that they have been engaged to provide. • Critical service systems (internal and external) are insufficient to maintain an appropriate service level.	• All outsourcing arrangements undergo appropriate due diligence prior to entering a contractual agreement. • Critical suppliers will undergo enhanced due diligence and more intensive ongoing performance monitoring. • Resilience plans are in place to ensure provision of services in the event of a systems outage. • Business Continuity & Disaster Recovery Plans are in place and supported by business impact/important business services assessments.
Information Security – Cyber Attack	The risk that Allica is subject to a cyber-attack that could compromise its information and transaction systems and processes.	• Allica has multi-layered system security in line with government CESG standards, including firewalls, end-point protection, anti-virus together with preventative and detective controls. • Penetration testing is undertaken quarterly. Independent Orpheus risk monitoring and system monitoring to counter data loss. • The Group holds cyber insurance.



External and emerging risks

Principal risk	Description of risk and potential impact on the Group
Inflationary pressures and rising cost of living	The UK government has responded to persistent inflationary pressures and pursued a policy of raising interest rates whilst providing short-term subsidies for consumers and industry. Changes to the schemes during 2023 could cause upward cost pressure on SMEs which may increase our expected credit loss and suppress demand for Allica loan products.
Geopolitical tensions	The crisis in Ukraine continues to have a material impact on the domestic and global economy, with the risk that continued higher energy, grain and fertiliser prices will continue to impact global inflation and increase costs for trading SMEs. This may result in a fall in demand for Allica lending products.
Climate	Allica understands its responsibilities in relation to the impact of climate change. We have two offices and no branches, so our own footprint is considered relatively low, but we recognise that our operations contribute to the global climate crisis both directly, and indirectly through our lending. Our ESG approach continues to develop with Climate related issues enshrined within our lending policy and Risk Management Framework. Further details can be found on "Environmental" matters on page 52.
Consumer duty of care	There were significant regulatory developments during the year and the Group expects this to continue due to the prevailing economic conditions. Allica is preparing for the implementation of the FCA's new Consumer Duty rules, which were released in July 2022 and will come into effect from 2023, and will monitor any further regulatory developments that may impact the Group.

IBOR reform

In response to initiatives from global regulators and central banks designed to replace Interbank Offered Rates (IBORs) with alternative Risk-Free Rates (RFRs) and following the cessation of the publication of the London Inter-Bank Offered Rate (LIBOR) in December 2021, the Group has continued to monitor the potential impact of these reforms across all areas of its business, including customer facing teams, legal, finance, operations and technology.

Allica has not offered IBOR products since its inception, although it has acquired some IBOR loans as part of the Allied Irish Bank loan portfolio acquisition. The Group continues to apply the FCA proposed synthetic LIBOR rate for 'Tough Legacy' contracts which the Group is running down. The carrying value of these loans at 31 December 2022 was £16.6m (2021: £35.1m), which is 1.2% of the Bank's total loan book as of that date (2021: 6%). Therefore, the Group is unlikely to be significantly affected. Whilst the IBOR reform still exposes the Group to various risks, their impact to the Group, its products and business model are not considered material.

Environmental, social and governance

Environmental

Introduction

At Allica we exist to give established small and medium sized businesses the banking they deserve. The risks and opportunities presented by climate change and associated regulatory shifts form part of this, with Allica seeking to find ways to support SMEs in adapting to the changing environment.

We recognise the importance of transparently reporting the impact of climate change on the Group, and the impact of the Group's lending on the environment. As we continue our climate journey, we are focussing on more fully understanding the magnitude of our client portfolio's effect on climate, and on gaining a clearer view of the potential impact of both physical and transitional risks on our clients' businesses and assets.

In the following sections we set out current status, the progress we expect to make in each area in the coming year and how these improvements will be achieved.

Governance

Current Position YE2022:

The board has overall responsibility for Environmental, Social, and Governance (ESG) risks at Allica, of which risks from climate change are a key component. Reports on climate change risk and opportunities are presented on an ad-hoc basis at Board Risk Committee (BRC).

Climate change-related matters are discussed at the Executive Committee (ExCo) and the Risk Management Committee (RMC). These committees have reviewed and discussed Allica's climate risk assessment and action plan and have responsibility for ensuring that the climate risks are embedded into lending policy, the new product approval process, and the risk appetite statement (RAS).

The Chief Risk Officer (CRO) has direct oversight over climate risks, with responsibilities cascaded to the Head of Credit Portfolio and Policy and the respective Portfolio Leads.

Desired Position YE2023:

Allica will identify specific accountabilities and allocate these to individual executives. These accountabilities, including Allica's own energy efficiency, will be reported upon monthly. In addition, climate change will be explicitly incorporated into the various policy documents within the relevant risk categories and reflected in the three lines of defence framework.

Strategy

Current Position YE2022:

Allica has performed an initial review of the physical and transition risks and opportunities arising from climate change against the risk taxonomy (Credit Risk, Financial Risk, Operational Risk, and Conduct Risk). Risks have been assessed across Allica's secured lending product types. The review has been discussed at the Executive Committee and presented and approved at Board Audit Committee (BAC) and Board Risk Committee (BRC).

Key risks likely to be realised within the short and medium term are:

- reduction in security value as a result of floods, storms, and other natural disasters, with a concomitant risk of financial difficulty as customers face interruptions of business as a result of disaster or fund the costs of increased insurance and improving property defences;
- reduced demand for Allica products due to a shift in demand to "green loans" and carbon-neutral products & services not currently offered; and
- a potential reduction in asset prices that form the collateral for loans due to transition costs associated with climate change (e.g., improving buildings' energy efficiency).

Risk Management Committee MI provides monthly updates on flood risk policy exceptions and EPC ratings of loans.

The review has identified opportunities to provide loans to support climate-change related transition costs and improvement of property to the standards required by government regulation, as well as partnering with environmental specialists to support clients with expert advice on climate impact.

Desired Position YE2023:
The Group will continue to develop and expand its assessment of physical and transition-related climate change risks across short-, medium- and long-term time scales. All relevant policies will include a reference to climate risk and the credit policy will be enhanced based on scenario analysis and wider risk assessment.

Formal Key Risk Indicators will be set in the 2023 Risk Appetite Statement for transition risks and ESG.

Research will be undertaken into possible green product offerings, to provide support to SMEs in transitioning to greater energy efficiency.

Risk Management

Current Position YE2022:
Allica has conducted an initial qualitative climate risk assessment across relevant risk categories with the data currently available and presented results at ExCo and the Board Audit Committee. As a result, limits have been placed on lending against high-risk energy performance and flood risk within the credit risk policy to control the proportion of such lending within the portfolio. Exceptions to this policy are reported and discussed at RMC, and broader risks are identified and discussed at RMC through analysis of at-risk sectors.

Desired Position YE2023:
Data has been identified as a key challenge to improvement. Accordingly, we will engage with partners and suppliers to increase access to climate-risk related data to expand the assessment of climate risk on our SME client base and associated loans. This will include collection of EPC ratings and flood risk for the acquired AIB portfolio (these are already held for the organic portfolio), and for asset finance data will be collected on vehicle drive-train and emissions.

This data will be used to improve the assessment of climate risk, including incorporation of quantitative measures and key risk indicators (KRIs). Monthly reporting against these KRIs will be provided to both RMC and ExCo.

In addition, scenario analysis capabilities will be developed to support the qualitative review of risks.

Metrics and Targets

Current Position YE2022:
Allica is developing metrics and targets to monitor the Group's progress against climate-related commitments and provide ongoing assessment of climate-related risks and opportunities.

We have performed a review of potential climate-related risks and opportunities and identified quantitative measures of physical and transition risk on the mortgage portfolio. Data on risks to the secured loan portfolio is gathered on organic origination but has not yet been assessed for acquired loans.

Allica did not meet the threshold under the SECR reporting requirement for emissions as of year-end 2021 and so has not reported its scope 1 and 2 carbon emissions in 2022.

Desired Position YE2023:
Allica will extend its acquisition of climate-risk related data to the entire secured loan portfolio and to the asset finance portfolio. Formal targets, metrics, and KRIs will be set and approved, with further targets and metrics defined as the Group continues its ESG journey.

Allica will measure its scope 1 and 2 and transportation-related scope 3 carbon emissions to fulfil the SECR reporting requirement if Allica is required to under the SECR threshold as of year-end 2022. In order to gain a clear understanding of the impact of our lending on climate change we will engage third-party assistance to calculate our scope 3 financed emissions across our loan portfolios. This will allow us to consider suitable targets to combine portfolio growth with mitigation of climate impact and provide the building blocks for further quantitative analysis.

Social

Purpose

Allica exists to give established SMEs the banking they deserve. Established SMEs are critical for the UK's economy and society, but their banking is increasingly impersonal, inconvenient, and poor value.

As such we believe Allica's core purpose is fully aligned to the 'Social' aspects of ESG as we focus on a segment that is increasingly underserved by incumbent banks despite the fact that it represents over 30% of UK jobs and turnover.

Community and social matters

In 2022 Allica supported the Henry Allen Trust, a local Milton Keynes charity.

The charity, established in April 2014, provides support to children and teenagers with cancer and also support to their families so they do not have to face it alone.

The Henry Allen Trust's aim is to provide benefits for the patients of children's hospital oncology units:

- To help relieve sickness and preserve health by providing, or assisting in the provision of, equipment and facilities, recreation, services and ancillary to those provided by doctors for individuals and groups.
- To promote and protect physical and mental health through financial assistance, support, education, practical advice and counselling.
- To relieve the sickness of child oncology patients by offering respite through the provision of short breaks and holidays.
- To advance the education of the general public in relation to life threatening diseases and terminal illness in children, including the hope and encouragement that can be found through better understanding and survivors success stories.

Allica Bank raised a total of £10,885 for the Henry Allen Trust in 2022 with events such as bake sales, a colleague step challenge to encourage health and wellbeing while raising funds for the charity, the Milton Keynes Color Obstacle Rush, a local Milton Keynes cricket tournament for staff vs local professional business, a charity football tournament at Powerleague Milton Keynes, attending and donating towards the Henry Allen Trust's Black & Gold ball, sponsoring a table, as well as entering the Milton Keynes Dragon Boat Race, donations of Christmas hampers to the charity from generous colleagues, and the Jurassic Coast Ultra Run.

Consumer duty of care

With the introduction of the Consumer Duty of Care legislation in 2022, the Group has created an implementation plan in line with the July 2023 deadline. We are working to ensure our Business Current Account and deposit products meet the four consumer outcomes and the three cross-cutting rules and have undertaken a gap analysis with remedial actions proposed. The introduction of this duty will see a greater emphasis on the customer and will ensure that our products, and associated policies and procedures, are designed and managed with the four outcomes in mind. Part of the implementation will involve building a suite of MI to monitor our delivery on these outcomes. The vulnerable customers policy will also be reviewed in conjunction with the Duty and will be updated to reflect our revisions.

Allica is a relationship Bank, and we work hard to ensure that the customer is at the forefront of our decision-making. The Consumer Duty of Care itself will become embedded in our culture and we will seek to continuously challenge one another with the aim of delivering consistently positive outcomes for our customers.

Governance

Allica is committed to achieving high corporate standards, rooted in a robust governance structure with clear individual lines of accountability and committee oversight responsibility. Allica fully complies with the Senior Managers & Certification Regime by clearly conveying the roles and responsibilities of all senior management functions in individual Statements of Responsibility.

Organisational framework, responsibilities and controls

The Board has established a framework of Management Committees to enable efficient and effective management and control of the business as shown here.

Allica has governance arrangements in place that are consistent and compliant with the Financial Reporting Council's UK Corporate Governance Code. The Board is the governing body of the Group; holding ultimate responsibility for the performance and oversight of the business. The Board elects a Chairman from its independent Non-Executive Directors, as well as appointing a Chief Executive Officer and the Executive Management team.

The Board of Directors

The Board has put in place written terms of reference, which set out its responsibilities. These are designed to promote the effective exercise of the Board's oversight and management of the Group. The Board's responsibilities include:

- approval of Allica's business strategy and risk appetite;
- authority to act as the ultimate decision-making body;
- the right to delegate decision-making authority to either the CEO, members of senior management, or Board and Management Committees;
- establishing policies to manage the strategy and risk appetite;
- ensuring systems and controls are appropriate to manage business risks;
- safeguarding the Group's assets;
- maintaining sound systems of internal controls; and
- accountability for all decisions made by Board and Management Committees.

The Board is the forum where all key management decisions are tabled and approved. The chair of each committee is charged with reporting back to the Board on updates, findings and recommendations. Board meetings are scheduled to occur monthly or more often if required.

Allica's Nomination Committee was established to control and manage all Board and senior appointments. The Board, led by the Chairman, continuously reviews its composition to ensure the correct level of competency to govern Allica effectively.

The Board has ruled that the Chairman shall not be a member of the Executive Management Team and shall not be the CEO, in accordance with CRD IV Art88(1)(e). There are three additional independent Non-Executive Directors undertaking the roles of Chair of the Audit Committee, Chair of Remuneration Committee, Chair of the Nominations Committee, and Chair of the Risk Committee. In addition, there is a notified Non-Executive Director and two Executive Directors.

Conflicts of interest

The Board has an established conflicts of interest policy. The Directors and officers of the Group are required to lodge conflicts of interest in the Conflicts of Interest Register, which is maintained by the Company Secretary. In addition, the standing agenda of each Board and Management Committee contains a requirement for any attendee to disclose any conflict of interest. When a member has a conflict of interest, they are required to abstain themselves from any voting or decision making on any related agenda item.

Board effectiveness

The Board is responsible for our strong and transparent governance, which enables us to achieve our purpose, drive improvement and ensure that all our stakeholders have a fair, balanced and understandable assessment of the way we do business. All appointments to the Board are based on merit with candidates assessed against objective criteria. However, the Board recognises the importance of having a diverse range of skills, knowledge, experience and perspectives and any appointments seek to increase its diversity whilst not compromising on the quality of the Board. The Board operates in an environment that values the input of every Director and where bias and discrimination are not tolerated.

Company Secretary

The Board has unfettered access to the advice and support of the Company Secretary who ensures that good governance practices are maintained and works closely with the Chairman, CEO and the chairs of the Board Committees to set meeting agendas and ensure that there is effective communication between the Board and the Executive.

Board Activities During 2022

During 2022, the Board focused on implementation of the Group's strategy and execution of the Group's business plan. The Board oversaw two funding rounds from existing and new shareholders in a very turbulent market.

The Board also oversaw the migration of the AIB customers that were acquired in 2021 and the development and launch of the Business Rewards Account.

The Board undertook deep dives into key business areas including hedging, cyber resilience and ESG in order to assess the performance and strategy of the Group.

In addition, the Board receives regular performance updates, from management on the implementation of new technology, system migrations, operations, people, culture and talent.

Board Committees

The Board delegates its authority to the Audit Committee, Nomination Committee, Remuneration Committee, and Risk Committee, as detailed below.

Board Audit Committee

The minimum composition of the Board Audit Committee is two members drawn from the independent Non-Executive Directors. Responsibilities of the Committee, in accordance with the recommendations of the UK Corporate Governance Code and applicable relevant standards of the Institute of Chartered Accountants in England and Wales, include:

- assisting the Board in overseeing the system of internal control and external financial reporting across the Group;
- assessing management's application of key accounting policies, significant judgements and compliance with disclosure requirements to ensure that they were consistent and appropriate to satisfy the relevant requirements;
- considering the current position of the Group along with principal and emerging risks and assessing the prospects of the Group before recommending to the Board that the going concern basis should be adopted in preparing the annual financial statements;
- approving the remit of Internal Audit together with its annual plan and ensuring it has appropriate access to information to enable it to perform its function effectively. The Committee also ensures that the Internal Audit function is free from management or other restrictions which may impair its independence and objectivity;
- overseeing the Group's relationship with its external auditor, Ernst & Young LLP. This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process, which informs the Committee's recommendation to the Board relating to the auditor's appointment (subject to shareholder approval).
- recommending to the Board that the going concern basis for preparation of the financial statements is appropriate;
- advising the Board as to whether the financial statements, when taken as a whole, are fair, balanced and understandable;
- approving the remuneration and terms of engagement with the external auditors;
- developing and implementing policy of the external auditor to supply non-audit services;
- monitoring the Group's Whistleblowing Policy and reviewing the Group's systems and controls for the prevention of bribery and detection of fraud. The Chair of the Audit Committee is the whistleblowing champion of the Bank.

Board Nomination Committee

The minimum composition of the Board Nomination Committee is two members drawn from the independent Non-Executive Directors. The Committee's responsibilities include:

- managing the appointment process for new Board Directors, senior Executives and persons holding Senior Management Function responsibility, including induction, training, and continued development;
- evaluating Board and committee effectiveness and membership;
- overseeing the Board and senior Executive succession planning, executive pipeline, and talent development.

Board Remuneration Committee

The minimum composition of the Board Remuneration Committee is two members drawn from the independent Non-Executive Directors. The Committee's responsibilities include:

- determining the policy for remuneration – including benefits, pension arrangements, and termination payments – of the Chairperson of the Board, the Chief Executive Officer, the Executive Directors, and those subject to the Senior Managers and Certification Regime and material risk takers of the Group;
- ensuring that the remuneration policy has regard to the risk appetite of the Group and alignment to the Group's long term strategic goals and that remuneration is structured to promote the long-term success of the Group.

Board Risk Committee

The minimum composition of the Board Risk Committee is two members drawn from the independent Non-Executive Directors. The Committee's responsibilities include:

- overseeing Allica's overall risk management framework, as well as its risk appetite, strategy, principles, and policies;
- reviewing and monitoring the risk profile of the Group;
- overseeing and advising the Board on the risk profile of the Group and its future risk strategy;
- reviewing and recommending for Board approval the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and the Bank's Internal Liquidity Adequacy Assessment Process (ILAAP);
- reviewing and recommending for Board approval the Bank's Recovery and Liquidity Contingency Plan and Solvent Wind Down plan;

- considering and approving any required delegation of authority to the Chief Risk Officer (CRO);
- considering and approving the remit of the risk and compliance function and ensuring it has adequate resources;
- reviewing the effectiveness of the processes and policies by which the Group identifies and manages Conduct Risk;
- reviewing and approving the Annual Compliance Plan, including details of activities, and available skills, experience and expertise.

Management Committees

Oversight of Allica's day-to-day operations is managed through several management committees, detailed below.

Executive Committee (ExCo)

To assist in the delivery of the Group's strategy, the CEO maintains an Executive Committee. The responsibilities of ExCo include:

- oversight of the Group, including reviewing the key committee objectives and matters raised;
- development, implementation and communication of strategy, operational plans, policies, procedures, and budgets;
- monitoring of operating and financial performance;
- oversight of Allica's culture, conduct and ethics;
- identification, management, monitoring and assessment of the risks across the Group and allocation of resources.

Risk Management Committee (RMC)

The Risk Management Committee is responsible for the oversight and monitoring of the Group's Risk Management Framework. Responsibilities also include:

- ensuring all delegated risks are managed within risk appetite, including reporting and monitoring of Key Risk Indicators and Early Warning Indicators;
- monitoring of key trends and metrics;
- monitoring of any policy or lending guideline exceptions;
- monitoring and approval of any risks or incidents raised together with any associated action plans;
- responsibility for management and approval/recommendation of all policies under the remit of the committee;
- assessment of Allica's overall risk profile and articulation of the Group's key risks to Board Risk Committee and the Board.

Assets and Liabilities Committee (ALCO)

ALCO is responsible for the prudential management of Allica's balance sheet, and for ensuring appropriate levels of liquidity, solvency, and capital adequacy. ALCO is responsible for the identification, management, monitoring and reporting of risks arising from asset and liability management, including the approval of related policies and controls. The Committee's responsibilities also include:

- management of Allica's liquidity and capital positions so that adherence to the Group's risk appetite and regulatory minima are maintained;
- management of prudential risks under the ALCO's control (capital, liquidity, market, funding, and interest-rate risk);
- monitoring and reporting of ALCO risks to evidence compliance with the risk appetite set by the Board;
- maintenance of all finance and treasury related policies;
- reviewing and monitoring the composition and growth of assets and liabilities of the Group;
- developing and applying appropriate hedging strategies to control volatility of balance sheet and earnings.

Operations Committee (OpCo)

OpCo is responsible for the management and control of the operational activities of the Group and for the identification, management, monitoring and reporting of risks arising from people, processes, systems and external events. Responsibilities also include:

- reviewing and approving changes to operational processes, procedures, roles and responsibilities;
- monitoring and reporting of operational activity across operations, HR, marketing and technology;
- maintaining an effective and adequate operational resilience plan with appropriate testing and controls;
- approval and recommendation of relevant policies and procedures;
- recommendation of new products under Allica's new product approval process.

Product Committee (ProdCo)

ProdCo is responsible for managing and monitoring the Group's approach to creating, maintaining, amending and retiring products and services. Responsibilities also include:

- recommending all proposed new products and material amendments to existing products to ExCo;
- approving all non-material product amendments, product reviews and withdrawals;
- reviewing existing products at agreed intervals;
- ensuring that the Group takes the interests of customers into consideration and that we comply with the FCA's principle of treating customers fairly when developing and amending products;
- making sure that product literature sets out all relevant information and that it is clear, concise and jargon free.

Functions and organisational structure

The Board allocates responsibilities to Senior Management Functions (SMFs) among its own membership and that of the Executive Management. The Board has also set out statements of responsibility for each SMF. The Group has integrated standing agenda items and functional roles for these SMF individuals within its governance and organisational structure.

Allica Bank Senior Management Functions			
Allocated to Non-Executive Directors		**Allocated to Senior Management**	
Chairman of the Board	SMF 9	Chief Executive Officer	SMF 1
Chairman of the Risk Committee	SMF 10	Chief Financial Officer	SMF 2
Chairman of the Audit Committee	SMF 11	Chief Risk Officer	SMF 4
Chairman of the Remuneration Committee	SMF 12	Chief Commercial Officer	SMF 6
Chairman of the Nomination Committee	SMF 13	Head of Compliance	SMF 16
Senior Independent Director	SMF 14	MLRO	SMF 17
		Chief Operations Officer	SMF 24

Directors' report

The Directors of the Group present their report together with the audited financial statements for the year ended 31 December 2022.

Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, can be located as follows:

Page	Subject
20	Directors & Executive biographies
26	Business review
28	Performance review
33	People
51	Environment, social & governance
62	Political & charitable donations
42	Risk management & exposures
138	Related party transactions
142	Events after the reporting period
142	Share-based payments

Section 414 of the Companies Act 2006 requires the Directors to present a strategic report in the Annual Report and Accounts. The information can be found on pages 3 to 41.

Research and development

During the period Allica invested in the development of its own platforms and products. This included enhancement of lending and deposit products.

Dividends

The Directors are not recommending a dividend in respect of the year ended 31 December 2022 (2021: £nil).

Appointment and retirement of Directors

The Bank's Articles of Association set out the process for the appointment and replacement of Directors. The following persons were Directors of Allica Bank during the whole of the financial year and up to the date of this report:

J Maltby
R Davies
J Heath
R Kapoor
P Marston
P McDonald Pryer

Power of Directors

The Directors' powers are conferred on them by UK legislation and by the Bank's Articles of Association. Changes to the Bank's Articles of Association must be approved by the shareholders passing a special resolution and must comply with the provisions of the Companies Act 2006.

Directors' indemnities

Allica has indemnified all the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provision was in force during the year.

Going concern

Allica's financial statements are prepared on a going concern basis as the Directors believe the Group has sufficient resources to continue its activities for 12 months from the date of the financial statements' approval, and that the Bank/Group has sufficient capital and liquidity to meet its regulatory capital requirements set by the Prudential Regulation Authority (PRA).

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including: the current statement of financial position; future projections of profitability; cash flows and capital resources; and the long-term strategy of the business.

The Bank's/Group's capital and liquidity plans have been stress tested in line with a wide range of scenarios and have been reviewed by the Directors. Taking this review and the following factors into account, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

Strong business performance

The Bank reached monthly profitability in June 2022 and continues to be profitable. The loan book has increased from £566m to £1,348m in the financial year with strong growth in all products. Allica continues to lead the market in its broker distributed term loan products, demonstrated by our continued success at the NACFB annual awards and excellent broker survey feedback. Please refer to page 27 for future developments.

Successful capital raising

During 2022 Allica completed the AIB portfolio acquisition thereby securing the remaining £46m of capital from Series B funding round led by Atalaya Capital Management (a new investor in 2021), alongside its existing lead investor, Warwick Capital Partners. In addition, Allica completed its Series C funding round of £100m led by TCV, a global Fintech investor with over $21bn of assets under management, alongside Atalaya and Warwick.

Deposit raising

Allica has continued to demonstrate its ability to raise sufficient deposit funding to meet the requirements of a rapidly growing loan book and its internal and regulatory liquidity requirements. Deposits increased from £846m to £1,507m over the course of 2022. As well as its direct channel, Allica has continued to diversify its funding through multiple platform partners.

Political and charitable donations

Allica has not made any donations to, or incurred expenses in relation to, any registered UK political party or other EU political organisations. The Group has made donations to UK registered charities. While it is our policy not to make political donations to, or campaign on behalf of, any political party, from time to time we engage with a range of government, regulators and public policy stakeholders, including cross-party All- Party Parliamentary Groups to provide our views on regulatory and policy issues relevant to our business and customers.

People

Please refer to page 33 for further information on employment of disabled persons.

Share capital

Details of the Bank's issued share capital, together with any details of its movement during the year, are shown in Note 22 of the Financial Statements. The Bank's share capital comprises one class of ordinary share with a nominal value of £0.01 each of which 250,070,170 were in issue as of 31 December 2022 (2021: 141,653,711).

Restrictions on the transfer of shares

Restrictions on the transfer of shares are set out in the Articles of Association and prevailing legislation.

This Directors' Report was approved by the board and signed on its behalf by:

Richard Davies
Chief Executive Officer

19 April 2023

Statement of directors' responsibilities

Statement of Directors' responsibilities

Disclosure of information to the auditor

The Directors confirm that, so far as each Director is aware, there is no relevant audit information the auditor is unaware of. The Directors have also taken all required steps in their roles to make themselves aware of any relevant audit information, and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors must prepare the Group financial statements in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006.

Under Company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of Allica and of its profit or loss for that period. In preparing the financial statements, the Directors are required to: select and apply accounting policies; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable an understanding of the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance. Finally, the Directors must assess Allica's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records which: are sufficient to show and explain the Group's transactions; disclose with reasonable accuracy the financial position of the Group at any given time; and enable the Directors to ensure the financial statements comply with the Companies Act 2006. Additionally, the Directors are responsible for safeguarding the Group's assets and hence, taking reasonable steps to prevent and detect fraud or other irregularities.

The Directors confirm to the best of their knowledge that:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group.
- The Strategic report (on pages 3 to 41) and the Directors' Report (on pages 60 to 62) include a fair review of the business' development and performance, as well as the principal risks and uncertainties they face.
- The Annual Report and Accounts are fair, balanced, and understandable, and that they provide the information necessary for the shareholders to assess the Group's position and performance, business model, and strategy.

Reappointment of the auditors

Independent auditors Ernst & Young LLP served as auditors throughout the year and based on recommendation by Directors have been reappointed by shareholders as auditors pursuant to section 487(2) of the Companies Act 2006.

Approved by the Board and signed on its behalf by

Richard Davies
Chief Executive Officer

19 April 2023

Independent auditor's report

Independent auditor's report to the members of Allica Bank Limited

Opinion

In our opinion:

- Allica Bank Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Allica Bank Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise:

Group	Parent company
Statement of profit and loss and other comprehensive income for the year then ended.	Statement of financial position as at 31 December 2022.
Statement of financial position as at 31 December 2022.	Statement of changes in equity for the year then ended.
Statement of changes in equity for the year then ended.	Statement of cash flows for the year then ended.
Statements of cash flows for the year then ended.	Related notes 1 to 36 to the financial statements including a summary of significant accounting policies.
Related notes 1 to 36 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 UK adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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 evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We confirmed our understanding of management's going concern assessment process and engaged with management to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of budget and business plans, regulatory capital requirements, liquidity and existing shareholder support. It also assessed the reduced lending scenario considering internal stress scenarios and reverse stress testing;
- We evaluated management's assessment by considering the group's ability to continue in operation and meets its liabilities under different scenarios. With the use of specialists, we independently evaluated management's key assumptions and stressed management's models to challenge their reasonableness;
- We made enquiries to the group's principal investors Atalaya Capital Management, Warwick Capital Partners and TCV XI AB Holdings to understand their view of the group, the long-term business and strategic plans, forecast capital, liquidity and funding positions; and

- We reviewed the group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern over the twelve months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the group and the parent company
Key audit matters	• Capitalisation of costs and impairment of IT software, including management override of controls. • Effective Interest Rate (EIR) revenue recognition, including management override of controls. • Adequacy of allowance for expected credit losses on loans and advances to customers. • Accounting for the acquisition of the second tranche of the Allied Irish Bank ("AIB") loan portfolio.
Materiality	• Overall group materiality of £1,301k (2021: £922k) which represented 1.0% of the equity (2021: 1.0% of equity) at the time of assessment.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, the potential impact of climate change and changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

Involvement with component teams

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

Climate change

Stakeholders are increasingly interested in how climate change will impact the group. The group has determined that the most significant future impacts from climate change on its operations lies in its financial instruments through lending and other financial intermediary activities. These are explained on page 52 in the Environmental, Social and Governance section of the strategic report, which form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

The group has explained in Note 27 Financial Assets and Liabilities how climate change has been reflected in the financial statements, and the significant judgements and estimates relating to climate change.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition and the significant judgements and estimates disclosed in Note 27 and whether these have been appropriately reflected in asset values where these are impacted by future cash flows and in the timing and nature of liabilities recognised, following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Capitalisation of costs and impairment of IT software, including management override of controls (Net book value of Intangible Assets–£12,857k, 2021: £8,178k) Refer to the accounting policies (page 87) and Note 15 (page 109) of the Consolidated Financial Statements; There is a risk that management does not correctly differentiate between expenses to be capitalised and those to be expensed in line with the requirements of IAS 38 Intangible Assets. In addition, there is a risk that management does not correctly identify whether any assets so capitalised should be impaired under the requirements of IAS 36 Impairment of Assets. Consequently, there is a risk of material misstatement with regards to the capitalisation and impairment of IT software. The risk has remained the same in the current year.	We adopted a fully substantive approach to our testing. We reviewed the group's software capitalisation policy, challenged its compliance with the requirements of accounting standards and challenged its application to the recognised software asset. We substantiated IT expenses through to invoices from vendors to determine whether the underlying costs incurred met the capitalisation criteria under IAS 38 Intangible Assets. For a sample of transactions, we assessed the appropriateness of the staff costs capitalised during the year by reviewing management's calculation and performing a sensitivity analysis and verified the costs capitalised by tracing them to payslips for internal resource and invoices for external contractors capitalised. We evaluated and assessed the appropriateness of the useful economic life of the intangible asset through benchmarking and sensitivity analysis. We re-calculated the amortisation expense on intangible assets. We examined and challenged management's impairment assessment of the IT software recognised in the financial statements and challenged the key estimates and judgments made by comparing them to independently developed expectations.	We were satisfied that the capitalised costs were appropriate and in line with IAS 38. During the year, management decided to retire their existing loan and deposit portfolio management system and migrate to different systems. As a result there was a change in useful economic life which resulted in additional amortisation which was appropriately recorded.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Effective Interest Rate (EIR) revenue recognition, including management override of controls (£72,252k, 2021: £11,494k) Refer to the accounting policies (page 87) and Note 4 (page 99) of the Consolidated Financial Statements Auditing standards include a presumption that for all companies there is significant financial statement risk, including the risk of fraud, in relation to revenue recognition. We have considered where significant financial statement risk manifests itself in relation to revenues as the timing of income recognition under EIR accounting relies heavily on management's forecasts of future cashflows and can be highly sensitive to changes in the assumptions used, and more susceptible to manipulation and error.	We adopted a fully substantive approach to our testing. We reviewed the group's revenue recognition policy and challenged its compliance with the requirements of accounting standards. We involved specialists to test the behavioural assumptions that impact the calculation of EIR, such as the appropriateness of the estimated life, reversion periods and prepayment assumptions. For a sample of loans, verified the inputs to the underlying loan agreements in order to conclude on the occurrence and completeness of interest income balances recognised in the financial statements and recalculated the EIR to ensure accuracy. We agreed quantitative disclosures to source data, and ensured qualitative disclosures are compliant with accounting standards.	Based on the procedures performed, we are satisfied that revenue recognised using the EIR method is reasonably stated.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Adequacy of allowance for expected credit losses on loans and advances to customers (£8,473k, 2021: £1,077k) Refer to the accounting policies (page 87); and Note 27 (page 120) of the Consolidated Financial Statements The determination of the allowance for ECLs is highly judgemental and there is significant estimation involved in the impairment model. This means that a large degree of subjectivity exists in assessing the adequacy of allowance for expected credit losses on loans and advances to customers. The risk of material misstatement exists due to the significant judgments and management estimation on these areas and manifests itself across the following areas: • Staging Assessment: There is subjectivity whereby Allica must assess and assign each loan an appropriate credit rating. Many factors which are considered in this credit review are subject to interpretation and a level of professional judgement must be applied to reach a conclusive rating. The credit ratings will drive how the loans are categorised within the ECL model between Stages 1–3 and the assigned ratings also have an impact on PD rates used in a calculation of ECL.	We adopted a fully substantive approach to our testing. We obtained an understanding of the process of key data flows and reconciliations that ensure the completeness and accuracy of information used in the ECL calculation. We assessed the judgements and assumptions made in the ECL calculation, including staging of loans. We tested the appropriateness and accuracy of the key model inputs and assumptions used and performed industry benchmark comparisons. We tested key data fields in the due diligence data used to underlying evidence such as loan agreements, collateral valuations and charge registrations, repayment schedules, evaluated qualitative and quantitative assessment factors for IFRS 9 staging through review of credit assessments, risk rating reports, and tested loan cashflows to bank statements. With the support of our credit risk modelling specialists, we independently re-performed the ECL calculation using the group's assumptions. We validated the collateral through review of the valuation reports of management's valuer and independently assessed the skills, competence and adequacy of the valuer. We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards.	Based on the procedures performed, we are satisfied that ECL on loans and advances to customers is both appropriate and reasonably stated.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
• Collateral valuation: The extent of loss on a loan if the customer defaults is dependent on the value of collateral held by the Bank against that exposure. Hence, the risk of a material misstatement in credit losses increases if the collateral value is misstated. Collateral valuations can be subjective, and consequently there is a heightened risk that the assumptions applied in the impairment model could be subject to error or management bias. The risk is further exacerbated by the recent inflationary pressures and the interest rate changes.		
Accounting for the acquisition of the second tranche of AIB loan portfolio (£198m, 2021: £264m) Refer to Note 12 (page 105) of the Consolidated Financial Statements. There is a risk that management incorrectly accounts for the acquisition of the loan portfolio under IFRS 9 Financial Instruments. The acquired loan portfolio comprises of a significant portion of the group's assets. Given the quantum of the portfolio acquired, there is a high likelihood of material misstatement arising from any errors in accounting for the transaction. Furthermore, there is a risk that the calculation of the effective interest rate is not line with the relevant accounting standard and is recorded incorrectly and, as a result, revenue is incorrectly recognised.	We adopted a fully substantive approach to our testing. We reviewed the terms of the acquisition to understand the details of the arrangement and assess the accounting treatment of the transaction in accordance with the requirements of the applicable accounting standards. We engaged our technical accounting specialists to evaluate management's accounting assessment and considerations for the transaction. We evaluated whether any evidence indicates that the underlying assets are Purchased or Originated Credit Impaired (POCI). We evaluated the appropriateness of Day 2 ECL computed and recorded on the acquired assets. We tested key data fields in the due diligence data used to underlying evidence such as loan agreements, collateral valuations and charge registrations, repayment schedules, assessed whether the loans meet SPPI criteria and performing business model assessment, evaluated qualitative and quantitative assessment factors for IFRS 9 staging through review of credit assessments, risk rating reports, and tested loan cashflows to bank statements. We recomputed interest income using the EIR method.	Based on the procedures performed we are satisfied that the transaction has been appropriately accounted for in the financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group and parent company to be £1,301k (2021: £922k), which is 1% (2021: 1%) of the group's equity at the time of our audit planning. Although we noted an increase in equity between the planning stage of the audit and 31 December 2022, we concluded that it remained appropriate to keep materiality levels the same (lower materiality level - 0.6% of the group's equity at year end) based on our prior experience, our ability to assess the likelihood of misstatements and other factors affecting the entity and its financial reporting. We have selected equity as the basis of materiality as this aligns closely with the expectations of primary users of the financial statements being its majority shareholder and the UK regulator to whom capital adequacy and solvency of the group is critical.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely £650k (2021: £461k). We have based the percentage of performance materiality on a number of considerations, including the number and amount of identified misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £65k (2021: £46k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 63, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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 or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are:
  - The regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA')
  - Companies Act 2006;
  - Financial Reporting Council ('FRC') reporting requirements; and
  - Tax legislation.
- We understood how the group is complying with those frameworks by making enquires of management, and those responsible for legal and compliance matters. We also reviewed correspondence between the group and regulatory bodies; reviewed minutes of the Board and Risk Committees, and gained an understanding of the group's governance framework.
- Conducted a review of correspondence with and reports from the regulators, including the PRA and FCA.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We also identified the risks of fraud in our key audit matters as described above and identified areas that we considered when performing our fraud procedures, including performance incentives and their potential to influence management to manage earnings. Our procedures over our key audit matters and other significant accounting estimates included challenging management on the assumptions and judgements made in determining these estimates.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of management, and those responsible for legal and compliance matters, as well as focused testing referred to in the Key Audit Matters section above.
- Identified and tested journal entries, including those posted with certain descriptions or unusual characteristics, backdated journals or posted by infrequent and unexpected users.
- The group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

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

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 4 August 2017 to audit the financial statements for the year ending 31 July 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 31 July 2017 to 31 December 2022.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

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.

Peter Wallace (Senior Statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor London

25 April 2023

Statement of profit or loss and other comprehensive income

Consolidated statement of profit or loss and other comprehensive income

	Note	Group Year end 31/12/2022 £'000	 Year end 31/12/2021 £'000
Revenue			
Interest income		72,252	11,494
Interest expense		(23,341)	(3,670)
Net interest income	4	48,911	7,824
Fair value gains/(losses) on financial instruments	4	67	(155)
Fee and commission income		587	159
Fee and commission expense		(1,253)	(2)
Net fee and commission (expense)/income	5	(666)	157
Total operating income		**48,312**	**7,826**
Expenses			
Administrative expenses	6	(14,266)	(7,890)
Depreciation and amortisation	7	(3,337)	(9,445)
Staff costs	8	(23,823)	(14,472)
Total operating expenses		(41,426)	(31,807)
Operating profit/(loss) before impairment losses		6,886	(23,981)
Impairment losses		(8,473)	(1,077)
Loss before tax credit		**(1,587)**	**(25,058)**
Tax credit	11	7,210	–
Profit/(loss) after tax credit for the year		**5,623**	**(25,058)**

Consolidated statement of profit or loss and other comprehensive income (continued)

		Group	
		Year end 31/12/2022	Year end 31/12/2021
	Note	£'000	£'000
Other comprehensive income			
Items that may be recycled subsequently to profit or loss			
Fair value gains/(losses) on debt securities		(764)	(4)
Net change in fair value of financial instruments during the year		–	20
Cash flow hedges: Gains arising during the year	26	20,431	–
Amounts recycled to profit or loss during the year	26	(84)	23
Tax	11	(5,087)	–
Other comprehensive income for the year, net of tax		14,496	39
Total comprehensive income/(loss) for the year		**20,119**	**(25,019)**

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

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 87–142.

Statement of financial position

Statements of financial position

		Group		Company	
		As at 31/12/2022	As at 31/12/2021	As at 31/12/2022	As at 31/12/2021
	Note	£'000	£'000	£'000	£'000
Assets					
Cash and balances at central banks	32	230,150	295,291	230,150	295,291
Loans and advances to banks	32	64,093	17,290	59,433	14,761
Debt securities		65,552	40,406	65,552	40,406
Derivative financial instruments	26	27,846	58	27,846	58
Loans and advances to customers	12	1,348,166	566,040	940,591	500,805
Investments		1,000	–	1,000	–
Other assets	13	8,659	22,549	5,631	21,781
Tangible fixed assets	14	616	249	616	249
Right-of-use assets	21	1,333	146	1,333	146
Intangible assets	15	12,857	8,178	12,857	8,178
Deferred tax asset	11	2,198	–	2,198	–
Amounts due from subsidiary	16	–	–	427,727	70,928
Total assets		**1,762,470**	**950,207**	**1,774,934**	**952,603**
Liabilities					
Cash collateral	32	23,514	–	23,514	–
Derivative financial instruments	26	3,915	988	3,915	988
Customer deposits	17	1,507,433	845,769	1,507,433	845,769
Other liabilities	18	9,023	5,887	8,802	5,404
Provisions	19	490	66	490	66
Subordinated liabilities	20	7,500	7,500	7,500	7,500
Leases	21	1,324	114	1,324	114
Total liabilities		**1,553,199**	**860,324**	**1,552,978**	**859,841**

Statements of financial position (continued)

		Group		Company	
		As at 31/12/2022	As at 31/12/2021	As at 31/12/2022	As at 31/12/2021
	Note	£'000	£'000	£'000	£'000
Equity					
Share capital	22	2,501	1,417	2,501	1,417
Share premium	23	266,332	160,708	266,332	160,708
Perpetual notes (including convertible)	24	9,886	17,500	9,886	17,500
Other components of equity	24	16,781	2,110	16,781	2,110
Accumulated losses	24	(86,229)	(91,852)	(73,544)	(88,973)
Total equity		**209,271**	**89,883**	**221,956**	**92,762**
Total liabilities and equity		**1,762,470**	**950,207**	**1,774,934**	**952,603**

As permitted by Section 408 of the Companies Act 2006, a separate income statement has not been presented in respect of the parent company, Allica Bank Limited. The profit after tax for the year ended 31 December 2022 was £15,429k (2021: loss after tax of £22,307k). The results for the current and prior period are derived entirely from continuing operations.

The above statements of financial position should be read in conjunction with the accompanying notes on pages 87-142.

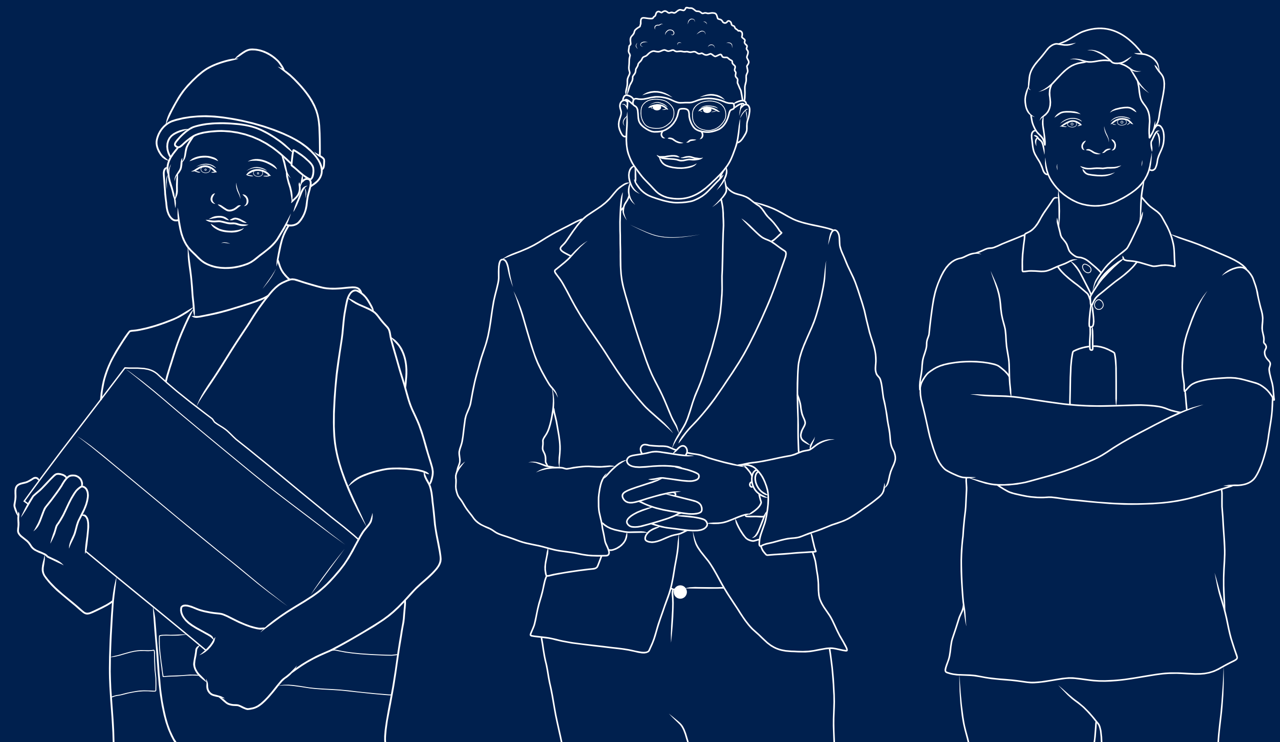
The financial statements were approved for issuance by the Board on 19 April 2023 and signed on its behalf by:

Richard Davies

Chief Executive Officer

19 April 2023

Statements of changes in equity



Consolidated statement of changes in equity

Group	Called up share capital £'000	Share premium £'000	Other components of equity £'000	Perpetual notes (including convertible) £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2021	1,003	120,321	(22)	–	(64,814)	56,488
Loss after tax for the year	–	–	–	–	(25,058)	(25,058)
Other comprehensive income for the year, net of tax	–	–	39	–	–	39
Total comprehensive income/(loss) for the year	–	–	39	–	(25,058)	(25,019)
Transactions with owners in their capacity as owners:						
Share-based payments	–	–	113	–	–	113
Issue of share warrants	–	–	1,980	–	(1,980)	–
Issue of perpetual notes (including convertible)	–	–	–	17,500	–	17,500
Issue of ordinary share capital	414	40,387	–	–	–	40,801
Balance at 31 December 2021	**1,417**	**160,708**	**2,110**	**17,500**	**(91,852)**	**89,883**

Group	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2022	1,417	160,708	2,110	17,500	(91,852)	89,883
Profit after tax credit for the year	–	–	–	–	5,623	5,623
Other comprehensive income for the year, net of tax	–	–	14,496	–	–	14,496
Total comprehensive income for the year	–	–	14,496	–	5,623	20,119
Transactions with owners in their capacity as owners:						
Share-based payments	–	–	288	–	–	288
Conversion of perpetual notes (including convertible) – net	–	–	–	(7,614)	–	(7,614)
Issue of ordinary share capital	1,084	105,624	(113)	–	–	106,595
Balance at 31 December 2022	**2,501**	**266,332**	**16,781**	**9,886**	**(86,229)**	**209,271**

Company statement of changes in equity

	Called up share capital	Share premium	Other components of equity	Perpetual notes (including convertible)	Accumulated losses	Total equity
Company	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2021	1,003	120,321	(22)	–	(64,686)	56,616
Loss after tax for the year	–	–	–	–	(22,307)	(22,307)
Other comprehensive income for the year, net of tax	–	–	39	–	–	39
Total comprehensive income/(loss) for the year	–	–	39	–	(22,307)	(22,268)
Transactions with owners in their capacity as owners:						
Share-based payments	–	–	113	–	–	113
Issue of share warrants	–	–	1,980	–	(1,980)	–
Issue of perpetual notes (including convertible)	–	–	–	17,500	–	17,500
Issue of ordinary share capital	414	40,387	–	–	–	40,801
Balance at 31 December 2021	**1,417**	**160,708**	**2,110**	**17,500**	**(88,973)**	**92,762**
Company	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2022	1,417	160,708	2,110	17,500	(88,973)	92,762
Profit after tax credit for the year	–	–	–	–	15,429	15,429
Other comprehensive income for the year, net of tax	–	–	14,496	–	–	14,496
Total comprehensive income for the year	–	–	14,496	–	15,429	29,925
Transactions with owners in their capacity as owners:						
Share-based payments	–	–	288	–	–	288
Conversion of perpetual notes (including convertible) – net	–	–	–	(7,614)	–	(7,614)
Issue of ordinary share capital	1,084	105,624	(113)	–	–	106,595
Balance at 31 December 2022	**2,501**	**266,332**	**16,781**	**9,886**	**(73,544)**	**221,956**

Statements of cash flows

Statements of cash flows

	Note	Group		Company	
		Year end 31/12/2022 £'000	Year end 31/12/2021 £'000	Year end 31/12/2022 £'000	Year end 31/12/2021 £'000
Cash flows from operating activities					
Interest received		71,813	10,361	73,884	9,665
Interest paid		(17,118)	(2,217)	(16,950)	(1,885)
Cash flows from operations	32	(168,238)	179,363	(172,608)	177,198
Net cash from/(used in) operating activities		(113,543)	187,507	(115,674)	184,978
Cash flows from investing activities					
Purchase of debt securities		(25,737)	(40,410)	(25,737)	(40,410)
Purchase of investments		(1,000)	–	(1,000)	–
Purchase of property, plant and equipment	14	(613)	(154)	(613)	(154)
Purchase of intangibles	15	(7,525)	(3,219)	(7,525)	(3,219)
Net cash used in investing activities		(34,875)	(43,783)	(34,875)	(43,783)
Cash flows from financing activities	32				
Proceeds from issue of ordinary shares	22, 23	98,981	40,801	98,981	40,801
Issue of subordinated debt	20	–	7,500	–	7,500
Issue of perpetual notes (including convertible)	24	–	17,500	–	17,500
Capital repayment of lease liabilities		(298)	(207)	(298)	(207)
Net cash from financing activities		98,683	65,594	98,683	65,594
Net increase/(decrease) in cash and cash equivalents		(49,735)	209,318	(51,866)	206,789
Cash and cash equivalents at the beginning of the financial year		312,581	103,263	310,052	103,263
Cash and cash equivalents at the end of the financial year	32	262,846	312,581	258,186	310,052

Notes to the financial statements

Notes to the Financial Statements

Note 1. General information

The consolidated financial statements comprise Allica Bank Limited ("the Company" or "the Bank") and its subsidiary, Allica Financial Services Limited (together "the Group" or "Allica"). The consolidated financial statements are presented in pounds sterling, which is the Group's functional and presentation currency.

Allica Bank Limited is a private company limited by shares, incorporated and domiciled in the England and Wales. Its registered office and principal place of business is:

4th Floor, 164 Bishopsgate, London,
England, EC2M 4LX.

A description of the nature of the Group's operations and its principal activities are included in the Strategic report on page 15.

Note 2. Basis of preparation and significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the reporting periods presented, unless otherwise stated.

a) New or amended Accounting Standards and Interpretations adopted

The Group has adopted all the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period. The effect of these new or amended standards was not material for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The impact of these forthcoming Accounting Standards or Interpretations is not expected to be material.

b) Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, and derivative financial instruments.

Comparative information

The performance, position and cash flows of the parent in 2021 were not materially different to those of the consolidated group unless otherwise stated.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of Group operations and are not considered material.

Rounding of amounts

Amounts in this report have been rounded off to the nearest thousand pounds, or in certain cases, the nearest pound.

Note 2. Basis of preparation and significant accounting policies (continued)

c) Going concern

Companies are required to adopt the going concern basis of accounting for the preparation of financial statements unless the Directors determine at the date of approval of the financial statements either that they intend to liquidate the Company or to cease trading or have no realistic alternative to liquidation or cessation of operations.

The Board has assessed the appropriateness of using the going concern basis in preparing the financial statements in accordance with accounting standards and guidance from the Financial Reporting Council ('FRC'). As part of that assessment, the Directors have considered whether there are any material uncertainties relating to events or conditions (other than those with a remote probability of occurring) that may cast significant doubt on the use of the going concern basis to prepare these financial statements.

A material uncertainty is one relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and that may, therefore, indicate that it may not be able to realise its assets and discharge its liabilities in the normal course of business. Set out below is the Board's assessment of the uncertainties facing Allica.

In performing this assessment, the Directors have considered:

- The key financial forecasts of the Group which include an assessment of profitability, capital and liquidity resources;
- These forecasts alongside the principal risks and uncertainties affecting the business; and
- The likely impact of Covid-19 and the current economic situation (in particular the situation in Ukraine) on the Group's financial forecasts and performance downside scenarios whereby the financial forecasts are stressed for a number of potential risks.

In making their assessment of the appropriateness of adopting the going concern basis of accounting and material uncertainties, the Directors have considered a period of 12 months from the date the financial statements are approved.

The material issues and uncertainties which the Directors have considered in assessing the going concern assumption are set out on as follows.

Regulatory capital requirements and other considerations

In assessing the Group's capital requirements and resources over the period of review, the Board has considered a number of scenarios. These scenarios assess, inter alia, differing levels of loan book growth and the resulting implications for the Group's capital requirements. Loan book growth is a key driver of capital requirements for the Group and therefore the management of this growth is key to ensuring that the Group has sufficient capital resources to meet those requirements.

Allica originates most of its lending through intermediaries and as such can control the flow of new loans onto its balance sheet. This means that the Group has the ability to manage the growth in lending and therefore manage the growth in its regulatory capital requirements.

In assessing whether the Group has sufficient regulatory capital to meet its requirements during the period of assessment, management has prepared a scenario in which subsequent funding rounds are delayed and actions need to be taken to preserve capital, principally reducing new business lending volumes. It is on this scenario which management has based its going concern assessment. Management actions taken to reduce new lending volumes would include some or all of: reducing the number of introducer intermediaries; adjusting lending criteria; increasing pricing and exiting specific market sectors. These management actions are all within the control of the Group and the Directors are satisfied that there are no material barriers to implementing such actions.

The Group's forecasts show that by managing capital in this way it has sufficient capital during the going concern assessment period to meet its minimum regulatory capital requirements. Although the point at which the Group is forecast to reach monthly profitability is delayed by reducing lending volumes, in the Directors' view the timeline to profitability under this scenario continues to demonstrate viability.

To ensure that this is the case, management has applied various stress tests to the Group's forecasts, including reverse stress testing. These show that under stressed conditions the Group has sufficient capital resources to meet its minimum regulatory capital requirements for the period of the assessment.

Note 2. Basis of preparation and significant accounting policies (continued)

During 2022, following regulatory approvals, £46.2m was received from Atalaya in line with an Investment Memorandum signed in 2021. Additionally, an Investment Memorandum was signed with the Group's principal investors committing to a further £100m investment in Tier 1 and Tier 2 capital through a Series C funding round led by TCV (a new investor in 2022) alongside Atalaya and Warwick. £29.4m of Tier 1 capital has been subscribed during the year. Following this, Warwick holds 52.5% of ordinary shares of the Bank at the date of these financial statements.

d) Principles of consolidation

The consolidated financial statements comprise Allica Bank Limited ("the Company" or "the Bank") and its wholly owned subsidiary, Allica Financial Services Limited (together "the Group" or "Allica").

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and could affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances, and unrealised gains on transactions between entities in the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

e) Significant accounting policies

Revenue recognition

The Group recognises revenue as follows:

Interest income

Interest income is recognised using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

The Group calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired (and is therefore regarded as 'Stage 3'), the Group calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

Fees and commissions

Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the service. The Group applies the five-step process set out in IFRS 15, Revenue from contracts with customers, to ensure an appropriate revenue recognition policy is in place, i.e.:

1. Identify the contract with a customer.
2. Identify the separate performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the separate performance obligations.
5. Recognise revenue when/as each performance obligation is satisfied.

The income is recognised on an accrual basis over the period where the service has been provided.

Note 2. Basis of preparation and significant accounting policies (continued)

Employee benefits

Short-term employee benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period which employees have provided services. Bonuses are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are accounted for in accordance with the requirements of IAS 19, 'Employee benefits'. All expenses relating to employee benefits are recognised in the income statement in staff costs.

Share-based payment

The Group operates equity-settled, share-based remuneration plans for senior management. None of the Group's plans feature any options for a cash settlement. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees are rewarded using share based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted.

This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to IFRS 2 reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest.

Administrative expenses

Administrative expenses are recognised on an accrual basis over the period where the goods or services have been provided.

Cash and cash balances at banks

Cash and cash balances at banks are held on demand. Cash and cash balances at banks are recognised initially at fair value and then at amortised cost.

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than investment or other purposes. Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial assets and liabilities

The Group's business model is to hold assets to collect contractual cash flows, and it assesses whether the assets' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is measured at fair value through profit or loss ("FVTPL").

Criteria for classification of assets

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

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

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

Note 2. Basis of preparation and significant accounting policies (continued)

Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and customer deposits, are initially recognised on the trade date i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises customer deposits when funds are transferred to the Group.

Derecognition

Financial assets are derecognised only when the contractual rights to receive the cash flows from the financial asset expire or the Group has transferred substantially all the risks and rewards of the ownership of the assets.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

Modification of financial instruments

The Group derecognises a financial instrument when the terms and conditions have been renegotiated to the extent that it becomes substantially a new instrument, with the difference recognised as a derecognition gain or loss in the income statement.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Classification of financial assets and liabilities

I. Cash and balances at central banks

Cash and balances at central banks in the statement of financial position comprise short term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. The central bank balance is the reserve account held with Bank of England. This balance also includes the cash ratio deposit held with the central bank which is considered restricted and therefore not part of cash and cash equivalents.

II. Due from banks

Due from banks comprise cash on hand, deposits held at call with financial institutions and are subject to an insignificant risk of changes in value. Cash and balances due from banks are initially recognised at fair value and then amortised cost.

III. Loans and advances to customers

Loans and advances to customers are measured at fair value on initial recognition and subsequently at amortised cost using the effective interest rate method. Detailed information about the judgements and estimates are set out in note 3.

IV. Derivatives

Derivatives, which are held for risk management purposes, are measured at fair value in the statement of financial position.

V. Other assets

Other assets, receivables and prepayments are recognised initially at fair value and subsequently measured at amortised cost.

VI. Investments

The Group has invested in equity instruments. These investments are classified as fair value through profit or loss and are recorded in the statement of financial position at their fair value, with any changes in fair value recorded in profit or loss account.

VII. Capital instruments

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an instrument contains no obligation on the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable, or where the instrument will or may be settled in the Group's own equity instruments but includes no obligation to deliver a variable number of the Group's own equity instruments, the instrument is treated as an equity instrument.

a) Subordinated loans (see note 20)

Subordinated loans are treated as debt instruments, at amortised cost, using the effective interest rate method.

b) Share capital (see note 22)

Ordinary shares are classified as part of equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds and charged against share premium.

Note 2. Basis of preparation and significant accounting policies (continued)

c) Share premium (see note 23)

Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of the shares issued.

d) Perpetual notes (including convertible) (see note 24)

Since these bonds are not redeemable at the option of the holder, and interest is due and payable only at the sole and absolute discretion of the Group, these notes have been classified as equity in accordance with IAS 32, Financial instruments: Presentation, at the total proceeds of the issue. Any coupon payments made relating to the issue are treated as a dividend distribution when paid and disclosed as a distribution on other equity instruments within the Statement of Changes in Equity, as a debit to Retained earnings.

e) Warrants (see note 24)

Share warrants are accounted for under IFRS 2 if they are issued in exchange for goods or services provided to the issuer. Share warrants issued to management are treated as equity settled, and are charged to staff costs, with the credit being posted to the IFRS 2 reserve in equity.

Share warrants not issued in exchange for goods or services are accounted for as financial instruments within the scope of IAS 32 and IFRS 9. Where the exercise price of the share warrant is different from the fair value of the underlying shares at the grant date, the difference is credited to equity, because it includes an obligation to issue a fixed number of shares, whilst the debit is treated as a distribution to existing shareholders and is therefore charged against retained earnings.

Measurement of financial assets and liabilities

Amortised Cost

Assets held at amortised cost (e.g., loans and advances to customers) are measured at the amount recognised at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and any loss allowance. Interest income is calculated using the effective interest method and is recognised in profit and loss.

FVOCI

Debt securities are held to meet liquidity requirements and are classified as Fair Value Through Other Comprehensive Income ('FVOCI'). Debt securities are measured at fair value and changes in fair value are taken to other comprehensive income and on derecognition are recycled to the income statement.

FVTPL

Derivative assets and liabilities, and investments are measured at fair value, with changes in fair value recognised in income statement as they arise. Further guidance on the treatment of derivative assets and liabilities is given in the policy on derivatives held for hedging purposes on page 93.

Impairment under IFRS 9

IFRS 9 requires loss provisioning to be based on expected future losses as well as incurred losses. IFRS 9 requires assets to be classified into the following three stages:

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

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

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

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

- **ECL model**: Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial asset. The impairment model calculates ECL at a customer level by multiplying probability of default ("PD"), exposure at default ("EAD") and the loss given default ("LGD") and discounting using the original EIR, under three economic scenarios. The economic scenarios are incorporated into the Bank's ECL calculation through a bespoke macroeconomic model. This scenario based ECL outcomes are weighted by their probability of occurrence to obtain a probability weighted ECL value.

Note 2. Basis of preparation and significant accounting policies (continued)

- *Probability of Default ('PD')* represents the likelihood of a customer defaulting on their loan over a time period. As a new Bank, Allica does not have sufficient historical data to include in its PD models. The Bank derives its PDs from scores obtained from leading external credit rating agencies.
- *Exposure at Default ('EAD')* is based on the amount expected to be owed at default at a future date. This considers the repayments of principal and interest, accrued interest due to missed payments and expected drawdowns. Committed undrawn loans will be treated as fully drawn for the calculation of EAD and is assigned to the same stage as the drawn component.
- *Loss Given Default ('LGD')* represents Allica's expectation of the extent of loss on a defaulted exposure. It is expressed as a percentage of EAD.

• **Determining a SICR since initial recognition**:
The impairment model utilises both relative and absolute criteria to identify significant increase in credit risk in its financial assets. This determines whether the financial asset would be subject to 12-month ECL or lifetime ECL. Allica Bank uses the criteria below to determine if there has been a SICR:

- Payment 30+ days past due.
- An increase in a customer's PD at the reporting date compared to the expected PD when the account was originated. The Group segments its credit portfolios into PD bands and has determined a relevant threshold for each PD band, where a movement in excess of the threshold is considered to be a significant increase in credit risk.
- Other indicators of a SICR including qualitative factors such as probation and watch list.

The Bank continues to assess the effectiveness of its SICR criteria.

Allica assesses a state of default in the portfolio which is defined at customer level and will include any of the following criteria:

- The borrower is more than 90 days past due on any material credit obligation.
- Allica Bank considers that the borrower is unlikely to pay its credit obligations in full without recourse, such as realising security.
- Demand is made on the customer by the Bank for total outstanding due to a breach of lending terms including cross default with facilities provided elsewhere (and including any foreclosure process).
- Notice of either inability or unwillingness to pay (including leading to the granting of forbearance or a distressed restructuring).
- Notice of entering an insolvency process.

• **Forecast economic data**.
The key inputs into the forecast economic data are discussed in the Impairment: expected credit loss (ECL) section of Note 3 'Critical accounting judgements, estimates and assumptions'.

Write-off policy

A loan is written-off (wholly or partially) when Allica has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery of the financial asset or a portion of it.

Derivatives held for hedging purposes

On initial designation of a hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. Management makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated. The Group normally designates a portion of the cash flows of a financial instrument for cash flow or fair value changes attributable to a benchmark interest rate risk if the portion is separately identifiable and reliably measurable.

Fair value hedges

Where a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, the change in fair value of the hedged item attributable to the hedged risk is also recognised in profit or loss. If the hedged

Note 2. Basis of preparation and significant accounting policies (continued)

item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

Cash flow hedges

The Group applies the requirements of IFRS 9 in accounting for cash flow hedges. The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and will be included in the 'other gains and losses' line item. As there is no ineffective portion for 2022, the amounts recognised in the 'other gains and losses' line item are nil and therefore not presented in the profit or loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. If the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Leases

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of–use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments, any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. The incremental borrowing rate of 3.3% has been used in calculation of the lease liability.

Note 2. Basis of preparation and significant accounting policies (continued)

Short-term and low value leases

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for leases with terms of 12 months or less and leases of low-value assets. Lease payments on right-of-use assets are expensed to profit or loss as incurred.

Hire purchase agreements

A hire purchase agreement is a finance lease that transfers all the risks and rewards incidental to ownership of an asset to the lessee. Hire purchase agreements are recorded as loans. Lease income is recognised in interest income in the profit or loss account using the interest rate implicit in the lease. All the Group's finance leases are HP agreements (see note 12).

Property, plant and equipment

Items of tangible fixed assets are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Office and IT equipment: 3 to 5 years

Fixtures and fittings: 8 to 10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss account.

Intangible assets

Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Software

Directly attributable costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 7 years. However, amortisation on certain assets has been accelerated during 2022 to fully amortise by 2023 after a reassessment of their remaining economic life. This has had the following impact on the profit or loss account for the current and following years:

Group and Company

Year ended	2022 £'000	2023 £'000	2024 £'000	2025 £'000	2026 £'000	2027–2029 £'000	Total impact £'000
Favourable/(adverse) impact	(931)	(678)	505	504	419	181	–

Work in progress

Software projects under which assets are not ready for their intended use are shown as work in progress and are subject to impairment review. Amortisation commences when the assets are ready for their intended use.

Research and development

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when Allica has demonstrated:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) Its intention to complete the intangible asset and use or sell it;

(c) Its ability to use or sell the intangible asset;

(d) How the intangible asset will generate probable future economic benefits;

(e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date,

Note 2. Basis of preparation and significant accounting policies (continued)

taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Taxation

The tax expense or benefit for the period is the tax payable or recoverable on that period's taxable income based on the applicable corporation tax rate, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Current tax

Current tax is expected tax payable or receivable and is based on the amount expected to be payable or receivable on the taxable profit or tax allowable losses at rates that are enacted or substantively enacted and applicable to the relevant period.

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.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and timing of the reversal can be controlled, and it is probable that the temporary difference will not reverse in the foresee future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and it is the Group's intention to settle on a net basis.

Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Loan commitments

Irrevocable customer loan commitments, which were undrawn at 31 December 2022 were £98,705k with ECL provisions of £452k. The prior year loan commitments disclosed (£163,175k) included all loans under offer at 31 December 2021. The irrevocable loan commitments as at 31 December 2021 amounted to £55,541k with ECL provisions of £28k.

Loan commitments are recognised at the stage when they are in solicitor hands – the last step before the drawdown. These commitments represent agreements to lend in future subject to terms and conditions of the agreement, so the amount and timing of the future cash flows are uncertain.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events — which management believes to be reasonable. The resulting accounting judgements and estimates may differ from those that arise from future events. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Accounting estimates

Impairment: expected credit loss (ECL)

At each reporting date, the portfolio of loans measured at amortised cost is assessed for impairment and presented as impairments in the profit or loss account. Loss allowances are based on a forward-looking, probabilistic approach and will provide ECL under a number of economic scenarios on all exposures in the lending portfolio. An estimate of ECL shall always reflect the possibility that a credit loss occurs. In the absence of its own data, management estimate the probability of default (PD) and credit grading of each customer based upon individual customer Credit Reference Agency scores. Detailed analysis has been undertaken to support the use of the scores, which have an inherent level of judgement.

Loss Given Default (LGD) is assessed with reference to the underlying security valuation and haircuts made to reflect various factors that are likely to impact the recovery amount at any point in time. These haircuts are based upon informed market opinion from external consultants, market data and the Group's internal assessment.

Exposure at Default (EAD) is based upon the loan amount plus an assessment for accrued interest up to 90 days and prepayments.

The Bank's ECL model uses three economic forecasts (base, upside, and downside scenarios). The scenario forecasts are used as inputs to a macroeconomic model to produce PD scalars. The scalars are used in estimating scenario based ECL amounts with the weighted average of the three scenarios being the final ECL. Based on the economic scenario analysis conducted by the Bank, the weightings for each scenario were 45% Base, 40% Downside, and 15% Upside.

Economic Variable	Scenario	2023	2024	2025	2026	2027
UK GDP Growth, % Year on Year	Upside	1.4	3.0	3.5	2.5	1.6
	Base Case	(0.9)	1.5	2.7	2.2	1.7
	Downside	(4.6)	0.2	2.3	2.1	1.8
Bank Rate, % Year End	Upside	5.3	4.9	3.4	2.3	2.3
	Base Case	4.0	3.1	2.1	1.8	1.7
	Downside	3.5	2.9	1.9	1.3	1.3
CPI Inflation, % Year Average	Upside	8.3	3.9	1.4	0.7	1.4
	Base Case	7.6	2.5	1.2	0.8	1.5
	Downside	6.3	0.9	1.1	0.9	1.4
ILO Unemployment Rate, % Year Average	Upside	4.1	4.0	3.8	3.7	3.6
	Base Case	4.4	4.4	4.0	3.9	3.8
	Downside	5.3	6.5	7.1	6.9	6.6

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Post-model adjustments

Limitations in the impairment models used to calculate ECLs may be identified through the ongoing assessment and validation of the outputs from the models. Consequently, in certain circumstances, the Group makes PMAs to ensure the loss allowance recognised adequately reflects the expected outcome. These adjustments are generally modelled to take into account the particular attributes of the account that have not been adequately captured by the models.

During the year ended 31 December 2022, PMAs were applied due to certain limitations in the existing models and the underlying data fields. As at 31 December 2022, specific PMAs added to the modelled loss allowance totalled £675k and are as follows:

- End of Term ("EoT") Risk (£590k) – The model does not appropriately capture the refinancing of a specific portfolio of loans at their maturity. This judgemental PMA has therefore been applied to account for "EoT" risk not being captured in current modelling. The PMA covers both loans secured on commercial properties and loans that do not benefit from property security. The adjustment has been assigned between Stage 1 and Stage 2.
- Buy to Let data limitation (£85k) – This judgemental PMA has been applied to account for current data limitations within the Group's Buy-to-Let portfolio limiting the identification and flagging of a SICR. The adjustment has been assigned to Stage 1.

Sensitivity of scenario weightings

Assuming upside weighting stays at 15%, an increase/decrease of 10% in the weighting of the base scenario results in a decrease/increase of £963k in the ECL provision as at 31 December 2022.

The ECL calculation as at 31 December 2022 is derived from these three scenarios as follows:

Scenario	ECL £'000
Upside	4,096
Base	5,307
Downside	14,935

The combined impact of the above results in a scenario weighted ECL of £8,977k at 31 December 2022 and has been calculated by applying the scenario weightings indicated above to the ECL for each scenario.

Accounting judgements

Capitalisation of costs

It is Allica's policy to capitalise software development expenditure which includes payroll costs in line with IAS 38. IAS 38 requires an entity to recognise an intangible asset, whether purchased or self-created if:

- It is probable that the future economic benefits that are attributable to the asset will flow to the group; and
- The cost of the asset can be measured reliably.

The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset. The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination.

Internally incurred costs are expensed unless these are development costs which meet the capitalisation criteria outlined on page 95.

Effective Interest Rate (EIR) method

The Bank's EIR method, as explained in note 2, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments, penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well as expected changes to Bank of England base rate and other fee income/expense that are integral parts of the instrument.

Notes to the Financial Statements

Note 4. Net interest and other operating income

(a) Net interest income

	Group	
	Year ended 31/12/2022 £'000	Year ended 31/12/2021 £'000
Interest income calculated using effective interest rate:		
On loans and advances to customers	65,253	11,082
On loans and advances to banks	4,359	196
On debt securities	1,002	52
On derivatives	1,638	164
	72,252	**11,494**
Interest expense:		
On customer deposits	(19,765)	(3,288)
On subordinated debt	(935)	(108)
On derivatives	(2,544)	–
On other interest bearing financial instruments	(97)	(274)
	(23,341)	**(3,670)**
Net interest income	**48,911**	**7,824**

(b) Fair value gains and losses on financial instruments

	Group	
	Year ended 31/12/2022 £'000	Year ended 31/12/2021 £'000
Fair value losses on interest rate swaps	(6,426)	(1,035)
Fair value gains on interest rate swaps	6,409	888
Other financial income/(expense)	84	(8)
	67	**(155)**

Fair value movements on interest rate swaps relate to the fair value hedge programme discussed in note 26. All fair value movements relate to interest rate swaps designated as hedges and deemed effective. Other financial income/(expense) comprises valuation gains and losses recycled from Other Comprehensive Income during the year.

Notes to the Financial Statements

Note 5. Net fee and commission income

	Group	
	Year ended 31/12/2022	Year ended 31/12/2021
	£'000	£'000
Fee and commission income:		
Fee income on loans and advances to customers	587	159
Fee and commission expense:		
Servicing fees for loans and advances to customers	(769)	–
Servicing fees for customer deposits	(301)	–
Other expenses on loans and advances to customers	(183)	(2)
	(1,253)	**(2)**
Net fee and commission (expense)/income	**(666)**	**157**

Note 6. Administrative expenses

	Group	
	Year ended 31/12/2022	Year ended 31/12/2021
	£'000	£'000
Technology licence fees and subscriptions	4,294	3,441
Legal and professional fees	3,168	2,533
Transitional Service Agreement (TSA) costs (see note 12)	1,631	436
Marketing	929	481
Office operating costs	753	550
Travel and entertainment expenditure	449	143
Other expenditure (see a) below)	3,042	1,164
	14,266	**8,748**
Loan acquisition project costs (see b) below)	–	(858)
	14,266	**7,890**

a) Other expenditure primarily consists of irrecoverable VAT expenses.

b) Costs incurred in prior year of £858k, directly attributable to the acquisition of loans from AIB, are recognised through the Income Statement on an effective interest rate basis, and are therefore not included in administrative expenses in 2021. There have been no additional costs of this nature incurred relating to the loan acquisition from AIB in 2022.

The presentation of administrative expenses in this disclosure have been updated during the year for better presentation, however has not changed the total amount of administrative expenses for 2021.

Note 7. Depreciation and amortisation

	Group	
	Year ended 31/12/2022	Year ended 31/12/2021
	£'000	£'000
Depreciation of tangible fixed assets and right-of-use assets	491	312
Amortisation and impairment of intangible assets	2,846	9,133
	3,337	**9,445**

In 2021, impairment of £6,712k was recorded on intangible assets while there has been no impairment in 2022.

Refer to notes 14 and 15 for further details.

Note 8. Staff costs

	Group	
	Year ended 31/12/2022	Year ended 31/12/2021
	£'000	£'000
Wages and salaries	19,801	11,749
Social security costs	2,432	1,595
Contributions to defined contribution pension plan	1,479	1,005
Other staff costs	111	123
	23,823	**14,472**

The monthly average number of persons employed by the Group (including Directors) during the period was 269 (2021: 153). 140 of these were employed in management, administration and other back-office functions (2021: 87) and 129 were employed in customer operations (2021: 66).

Note 9. Auditor remuneration

During the financial year, the following fees were paid or payable for services provided by Ernst & Young LLP, the auditor of the Group:

	Group	
	Year ended 31/12/2022	Year ended 31/12/2021
	£'000	£'000
Audit services		
Audit of the financial statements	595	390

The audit fee for 2022 includes £505k in respect of the parent company, Allica Bank Limited and includes £25k in respect of additional work performed in completing the 2021 audit. In addition, there were £15k of non-audit fees payable to Ernst & Young LLP in 2022 relating to their legally mandated work on the Bank's equity raises during the year.

Note 10. Directors' emoluments

	Group	
	Year ended 31/12/2022	Year ended 31/12/2021
	£'000	£'000
Aggregate remuneration in respect of qualifying services	**1,620**	**1,365**

Number of directors accruing benefits under the defined contribution scheme was 1 (2021:1).

The highest paid directors' aggregate remuneration is £654k (2021: £470k).

Directors' loans of £45k were made during the year (2021: £11k) to fund awards under the joint share ownership plan (see note 33). Total directors' loans at 31 December 2022 amount to £68k (2021: £22k). Other staff costs in note 8 include share-based payments to Directors (see note 33).

Notes to the Financial Statements

Note 11. Income tax

The components of income tax for the years ended 31 December 2022 and 2021 are, as follows:

	Group	
	Year ended 31/12/2022	Year ended 31/12/2021
	£'000	£'000
Current tax charge	75	–
Deferred tax credit	(7,285)	–
Taxation credit	**(7,210)**	**–**

A reconciliation of the tax benefit/charge to the standard rate of corporation tax is set out below.

	Group	
	Year ended 31/12/2022	Year ended 31/12/2021
	£'000	£'000
Loss before tax	(1,587)	(25,058)
Tax at the statutory tax rate of 19%	(302)	(4,761)
Effects of:		
Expenses not deductible for tax purposes	718	42
Impact of tax rate change	(1,642)	–
Non-taxable income	(277)	–
Deferred tax recognised which was not previously recognised	(4,606)	–
Tax losses/temporary differences for which no deferred taxes were recognised	(1,101)	4,719
Taxation credit	**(7,210)**	**–**

Corporation tax liabilities amounting to £75k are payable to HMRC for the period (2021: £nil).

At the statement of financial position date, the Group had tax losses carried forward of £82,673k (2021: £88,060k) and £52,973 on which no deferred tax asset has been recognised.

As per the 2021 Budget announcement on 3rd March 2021, the UK corporation tax rate will rise to 25% from 19% with effect from 1 April 2023. Deferred tax assets and liabilities have therefore been recognised at the rate at which they are expected to unwind.

The Group has recognised a net deferred tax asset which is regarded as recoverable. This is on the basis of all available evidence including the Group's financial projections and forecasts, and can be regarded as probable that there will be suitable future taxable profits against which the unwinding of the asset can be offset.

Note 11. Income tax (continued)

The following table shows analysis of net deferred tax asset recorded in the statement of financial position and changes recorded for taxation:

	Group		
	Net deferred tax asset As at 31/12/2022	Income statement Year ended 31/12/2022	OCI Year ended 31/12/2022
	£'000	£'000	£'000
Revaluation of fair value hedges	1,364	(1,364)	–
Revaluation of cash flow hedges	(5,087)	–	5,087
Utilisation of tax losses against revaluation of cash flow hedges	5,087	(5,087)	–
Utilisation of tax losses against future taxable profits	834	(834)	–
	2,198	**(7,285)**	**5,087**

Note 12. Loans and advances to customers

	Group		Company	
	As at 31/12/2022 £'000	As at 31/12/2021 £'000	As at 31/12/2022 £'000	As at 31/12/2021 £'000
Loans and advances to customers	1,357,143	567,024	947,334	501,623
Allowance for impairment losses	(8,977)	(984)	(6,743)	(818)
	1,348,166	**566,040**	**940,591**	**500,805**

Acquisition of loans from AIB Group (UK) Plc

In November 2021 Allica agreed to acquire an estimated £610 million of commercial loans from AIB Group (UK) Plc following AIB's exit from the SME market in Great Britain. The completion of the acquisition was in two tranches with the first tranche of the acquisition completed on 25 November 2021.

While Tranche 1 comprised business and personal loans, Tranche 2 also included those customer relationships which have a Coronavirus Business Interruption Loan ("CBIL") and/or Bounce Back Loan ("BBL"). Completion of Tranche 2 occurred on 31 May 2022 following the approval from H.M.Treasury and Department for Business, Energy & Industrial Strategy for the novation of CBILs and BBLs guarantees from AIB to Allica.

Allica acquired the Tranche 2 loan portfolio for cash at its fair value of £198 million. There was no day one gain recognised on acquisition, and the portfolio included no purchased or originated credit impaired (POCI) assets. There were no guarantees impacting the fair value of the loan book acquired. The acquisition does not meet the criteria of a business combination under IFRS 3 and has been accounted for under IFRS 9.

Allica also entered into a Transitional Servicing Agreement ("TSA") with AIB under which AIB serviced the acquired loans, however this agreement has concluded following the complete migration of the entire portfolio onto Allica's systems in H2-2022.

The components of Tranche 2 of loans acquired in 2022 can be analysed as follows:

	% by balance	% by number of exposures
Segment		
Business Loans	68.2%	23.5%
Coronavirus Business Interruption Loans ("CBIL")	16.1%	67.7%
Bounce Back Loans ("BBL")	14.9%	7.0%
Personal Loans	0.8%	1.8%
Total	**100.0%**	**100.0%**
Security type		
Secured by property	**72.8%**	**24.5%**
Not secured by property (including BBL and CBIL)	**27.2%**	**75.5%**
Total	**100.0%**	**100.0%**

Notes to the Financial Statements

Note 12. Loans and advances to customers (continued)

Finance lease receivables

Loans and advances to customers as at 31 December 2022 include the following finance leases where the Group is the lessor:

	Group	
	Year ended 31/12/2022	Year ended 31/12/2021
Gross investment in finance leases receivable:	£'000	£'000
Less than one year	48,220	8,876
Between one and two years	44,443	7,779
Between two and three years	37,737	6,396
Between three and four years	25,877	4,943
Between four and five years	11,491	2,772
More than five years	1,499	293
	169,267	**31,059**
Unearned finance income	**(20,313)**	**(3,539)**
Net investment in finance leases	**148,954**	**27,520**
Net investment in finance leases receivable:		
Less than one year	39,885	7,469
Between one and two years	38,292	6,727
Between two and three years	34,074	5,748
Between three and four years	24,202	4,616
Between four and five years	11,069	2,679
More than five years	1,432	281
Net investment in finance leases	**148,954**	**27,520**

The Group's asset finance business focuses on the provision of hire purchase agreements to customers. Assets funded include manufacturing equipment, production equipment, transportation, plant and machinery, material handling equipment and agriculture.

The accumulated allowance for uncollectable minimum lease payments receivable is £1,366k (2021: £92k).

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 31 December 2022 (2021: nil).

Note 13. Other assets

	Group		Company	
	As at 31/12/2022	As at 31/12/2021	As at 31/12/2022	As at 31/12/2021
	£'000	£'000	£'000	£'000
Prepayments	2,632	1,948	2,632	1,948
Other assets	6,027	20,601	2,999	19,833
	8,659	**22,549**	**5,631**	**21,781**

Prepayments include amounts prepaid in respect of licence fees and other miscellaneous items.

Other assets include funds held in client accounts, staff and Directors' loans and other sundry debtors.

Other assets in 2021 included £18,547k receivable from AIB in respect of loan collections they have made in respect of the first tranche of loans acquired from them in November 2021 (see note 12).

Notes to the Financial Statements

Note 14. Tangible fixed assets

Group & Company Cost	Fixtures and fittings £'000	Office and IT equipment £'000	Total £'000
As at 1 January 2021	38	386	424
Additions	4	142	146
Adjustments	2	6	8
As at 31 December 2021	**44**	**534**	**578**
Additions	57	556	613
Disposals	(34)	(41)	(75)
As at 31 December 2022	**67**	**1,049**	**1,116**

Accumulated depreciation	Fixtures and fittings £'000	Office and IT equipment £'000	Total £'000
As at 1 January 2021	7	203	210
Charge for the period	5	114	119
As at 31 December 2021	**12**	**317**	**329**
Charge for the period	5	182	187
Disposals	(13)	(3)	(16)
As at 31 December 2022	**4**	**496**	**500**

Net book value	Fixtures and fittings £'000	Office and IT equipment £'000	Total £'000
As at 31 December 2022	63	553	616
As at 31 December 2021	32	217	249

Notes to the Financial Statements

Note 15. Intangible assets

Group & Company	Software £'000	Work in progress £'000	Total £'000
Cost			
As at 1 January 2021	15,592	605	16,197
Additions	–	3,219	3,219
Transfer from work in progress	3,175	(3,175)	–
Impairment of assets	(6,712)	–	(6,712)
As at 31 December 2021	**12,055**	**649**	**12,704**
Additions	–	7,525	7,525
Transfer from work-in-progress	7,805	(7,805)	–
Amortisation expense	(2,861)	–	(2,861)
Balance at 31 December 2022	**16,999**	**369**	**17,368**

Group & Company	Software £'000	Work in progress £'000	Total £'000
Accumulated amortisation			
As at 1 January 2021	2,105	–	2,105
Amortisation expense	2,421	–	2,421
As at 31 December 2021	**4,526**	**–**	**4,526**
Amortisation expense	2,846	–	2,846
Assets written off	(2,861)	–	(2,861)
As at 31 December 2022	**4,511**	**–**	**4,511**

Group & Company	Software £'000	Work in progress £'000	Total £'000
Net book value			
As at 31 December 2022	12,488	369	12,857
As at 31 December 2021	7,529	649	8,178

Work in progress represents intangible assets within software projects under which assets are not ready for their intended use.

Note 16. Amounts due from subsidiary

	Company	
	As at 31/12/2022	As at 31/12/2021
	£'000	£'000
Intercompany loan	**427,727**	**70,928**

The intercompany loan represents amounts due to the Company from its subsidiary, Allica Financial Services Limited (AFSL). The loan is repayable on the earlier of (a) twelve months' written notice from the Company, and (b) two weeks' written notice from the borrower, AFSL.

Interest is recharged on a matched funding basis, reflecting the cost of funding incurred by the Company and recharged to AFSL. Expected credit loss (ECL) on this loan is considered to be immaterial and therefore no ECL provision has been booked.

Note 17. Customer deposits

	Group & Company	
	As at 31/12/2022	As at 31/12/2021
	£'000	£'000
Personal deposits	1,387,520	796,615
SME deposits	119,913	49,154
	1,507,433	**845,769**

The presentation of customer deposits in this disclosure have been updated during the year for better presentation, however has not changed the total amount of customer deposits for 2021.

Note 18. Other liabilities

	Group		Company	
	As at 31/12/2022	As at 31/12/2021	As at 31/12/2022	As at 31/12/2021
	£'000	£'000	£'000	£'000
Trade payables	8	674	8	584
Accruals	7,561	3,975	7,420	3,909
Fees payable to solicitors/valuers	–	133	–	–
Social security and other taxes	1,021	496	1,021	496
Current tax payable	75	–	75	–
Other payables	358	609	278	415
	9,023	**5,887**	**8,802**	**5,404**

Refer to notes 27–29 for further information on financial assets and liabilities.

Note 19. Provisions

Group & Company	As at 31/12/2022 £'000	As at 31/12/2021 £'000
Dilapidation provision	38	38
Impairment losses	452	28
	490	**66**

The dilapidation provision represents amounts provided for dilapidation of the London office which have been reassessed in the year.

Impairment losses of £452k (2021: £28k) relate to irrevocable loan commitments which had not been drawn down as at year-end and are categorised as stage 1.

Note 20. Subordinated liabilities

Group & Company	As at 31/12/2022 £'000	As at 31/12/2021 £'000
Subordinated liabilities	**7,500**	**7,500**

In July 2021 the Group borrowed £7.5m under a subordinated loan facility (see note 30). Interest is payable on 30 June and 31 December each year, at a rate of 12% per annum. The loan is repayable on the eighth anniversary of drawdown, in July 2029.

Note 21. Leases

Group & Company	As at 31/12/2022 £'000	As at 31/12/2021 £'000
Statement of financial position:		
Right-of-use asset	1,333	146
Lease liability	1,324	114
Statement of comprehensive income:		
Interest expense on lease liability	17	11
Depreciation expense on right-of-use asset	304	193

- The Bank entered into a new lease during the year. The lease liability has been calculated using an incremental borrowing rate of 3.3%. A corresponding right-of-use asset of £1,491k has been recognised and is being depreciated using the straight-line method over the lease term of 3 years.
- £298k has been paid during the year on account of the Group's lease liabilities.
- Amounts expensed in the year on low value leases totalled £2k (2021: £2k). There were no short-term leases not accounted for under IFRS 16 (2021: nil).
- Refer to Note 29 'Contractual maturity of the financial assets and liabilities' and Note 32 'Cash flow information' for further details on lease liabilities.

Note 22. Share capital

Group & Company	As at 31/12/2022 Shares	As at 31/12/2021 Shares	As at 31/12/2022 £'000	As at 31/12/2021 £'000
Ordinary shares – fully paid of £0.01 each	**250,070,170**	**141,653,711**	**2,501**	**1,417**

	Shares	£'000
At 1 January 2021	100,288,746	1,003
Issued in 2021	41,364,965	414
At 31 December 2021	**141,653,711**	**1,417**
Issued in 2022	108,416,459	1,084
At 31 December 2022	**250,070,170**	**2,501**

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Group in proportion to the number of and amounts paid on the shares held. The Group does not have a limited amount of authorised capital.

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Accounting policy for issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 23. Share premium

Group & Company	£'000
At 1 January 2021	120,321
On ordinary shares issued in 2021	40,951
Capital transaction costs written off against share premium	(564)
At 31 December 2021	**160,708**
On ordinary shares issued in 2022	107,581
Capital transaction costs written off against share premium	(1,957)
At 31 December 2022	**266,332**

Note 24. Other components of equity

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Group	Perpetual notes (including convertible)	Accumulated losses	Other Comprehensive Income	Share warrants	IFRS 2 reserve	Cash flow hedge reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2021	–	(64,814)	(22)	–	–	–	(64,836)
Loss before tax	–	(25,058)	–	–	–	–	(25,058)
Other comprehensive income for the year	–	–	39	–	–	–	39
Issue of share warrants	–	(1,980)	–	1,980	–	–	–
Share-based payments	–	–	–	–	113	–	113
Issue of perpetual notes (including convertible)	17,500	–	–	–	–	–	17,500
Balance at 31 December 2021	**17,500**	**(91,852)**	**17**	**1,980**	**113**	**–**	**(72,242)**
Profit after tax	–	5,623	–	–	–	–	5,623
Other comprehensive income for the year	–	–	(764)	–	–	–	(764)
Share-based payments	–	–	–	–	288	–	288
Net fair value movements in cash flow hedges	–	–	–	–	–	20,347	20,347
Deferred tax expense on cash flow hedges	–	–	–	–	–	(5,087)	(5,087)
Conversion of perpetual notes (including convertible) – net of transaction costs	(7,614)	–	–	–	–	–	(7,614)
Issue of ordinary share capital	–	–	–	–	(113)	–	(113)
Balance at 31 December 2022	**9,886**	**(86,229)**	**(747)**	**1,980**	**288**	**15,260**	**(59,562)**

Note 24. Other components of equity (continued)

Company	Perpetual notes (including convertable)	Accumulated losses	Other Comprehensive Income	Share warrants	IFRS 2 reserve	Cash flow hedge reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2021	–	(64,686)	(22)	–	–	–	(64,708)
Loss before tax	–	(22,307)	–	–	–	–	(22,307)
Other comprehensive income for the year	–	–	39	–	–	–	39
Issue of share warrants	–	(1,980)	–	1,980	–	–	–
Share-based payments	–	–	–	–	113	–	113
Issue of perpetual notes (including convertible)	17,500	–	–	–	–	–	17,500
Balance at 31 December 2021	**17,500**	**(88,973)**	**17**	**1,980**	**113**	**–**	**(69,363)**
Profit after tax	–	15,429	–	–	–	–	15,429
Other comprehensive income for the year	–	–	(764)	–	–	–	(764)
Share-based payments	–	–	–	–	288	–	288
Net fair value movements in cash flow hedges	–	–	–	–	–	20,347	20,347
Deferred tax expense on cash flow hedges	–	–	–	–	–	(5,087)	(5,087)
Conversion of perpetual notes (including convertible) – net of transaction costs	(7,614)	–	–	–	–	–	(7,614)
Issue of ordinary share capital	–	–	–	–	(113)	–	(113)
Balance at 31 December 2022	**9,886**	**(73,544)**	**(747)**	**1,980**	**288**	**15,260**	**(46,877)**

Note 24. Other components of equity (continued)

Perpetual notes (including convertible)

During 2021, £17.5m of perpetual notes including convertible ('AT1 capital') were issued to investors. The notes are perpetual, with no fixed redemption or maturity date. £7.5m of the notes were automatically convertible to Common Equity Tier 1 (CET1) capital on certain profitability metrics being reached. On 27 September 2022, these profitability metrics had been reached and consequently these notes were converted into CET1 capital.

The Group has an embedded option to redeem any extant notes at issue price after five years, subject to regulatory conditions being met. Since the AT1 Capital is not redeemable at the option of the holder, and interest is due and payable only at the sole and absolute discretion of the Group, these notes have been classified as equity in accordance with IAS 32, Financial instruments: Presentation.

IFRS 2 reserve

Share warrants with a fair value of £288k were awarded to senior management in the year (see note 33). These awards, which are fully vested, fall within the scope of IFRS 2, Share-based payment, and an equity reserve has been credited with the fair value of the award.

The share warrants issued in 2021 with a fair value of £113k have been exercised in the year, resulting in a transfer from share warrants reserve to equity.

Cash flow hedge reserve

This reserve relates to derivative instruments held by the bank for hedging purposes. For details, refer to Note 26 'Derivative financial instruments'.

Note 25. Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 26. Derivative financial instruments

Group & Company	As at 31/12/2022 £'000	As at 31/12/2021 £'000
Assets		
Derivative financial instruments	27,846	58
Liabilities		
Derivative financial instruments	(3,915)	(988)
	23,931	**(930)**

Fair value hedges

The Group holds overnight index swaps where a fixed rate is either paid or received against a floating rate indexed to SONIA in order to protect the fair value of the assets (fixed rate mortgages classified under 'loans and advances to customers') or liabilities (fixed rate deposits classified under 'customer deposits'). These swaps were designated as fair value hedges and their changes in fair value are included in the income statement, at the same time as an adjustment to the hedged item to reflect their hedging nature. The amount of cumulative change in fair value of the hedged item due to the hedged risk is assessed by using a hypothetical derivative method. There has been no hedge ineffectiveness on these derivatives during the year.

As at 31 December 2022, the outstanding nominal and fair values of the overnight index swaps designated as fair value hedges (including accrued interest amounting to £71k) were as follows:

	As at 31/12/2022			As at 31/12/2021		
	Notional amount	Fair value	Change in fair value of hedging instrument for ineffectiveness assessment[1]	Notional amount	Fair value	Change in fair value of hedging instrument for ineffectiveness assessment
	£'000	£'000	£'000	£'000	£'000	£'000
Interest Rate Swaps (Assets)	116,000	5,545	5,399	10,000	55	58
Interest Rate Swaps (Liabilities)	111,000	(2,013)	(1,007)	297,000	(834)	(955)

Note 26. Derivative financial instruments (continued)

The accumulated fair value adjustments arising from these hedge relationships during the year was as follows:

	Carrying amount of hedged items		Accumulated fair value adjustments on hedged items		Change in fair value of hedged items for ineffectiveness assessment[1]
	£'000	£'000	£'000	£'000	£'000
31 December 2022	Assets	Liabilities	Assets	Liabilities	
Financial assets:					
Loans and advances: Fixed rate mortgages	56,000	–	(5,466)	–	(5,402)
Financial liabilities:					
Customer deposits: Fixed rate deposits	–	(171,000)	–	1,840	993
31 December 2021					
Financial assets:					
Loans and advances: Fixed rate mortgages	25,000	–	(64)	–	(64)
Financial liabilities:					
Customer deposits: Fixed rate deposits	–	(270,712)	–	847	847

As at 31 December 2022, all overnight index swaps were designated as fair value hedges under IFRS 9. As at 31 December 2021, overnight index swaps with a notional amount of £11m and a fair value of (£33,000) were not designated as hedges under IFRS 9.

[1] The change in fair value during the year that was used as the basis for calculating hedge ineffectiveness has been recognised in the Statement of Comprehensive Income during the year in the line "Fair value gains/(losses) on financial instruments".

Note 26. Derivative financial instruments (continued)

Cash flow hedges

The Group holds overnight index swaps where a fixed rate is paid against a floating rate indexed to SONIA in order to protect the variability of cash flows associated with future highly probable SONIA referenced funding for maturities between 5 and 6 years. These swaps have been traded during 2022 and designated as cash flow hedges under IFRS9, and as no ineffectiveness has occurred, all their changes in fair value are included in Other Comprehensive Income, in the Cash Flow Hedge Reserve. The amount of cumulative change in fair value of the hedged item due to the hedged risk is assessed by using a hypothetical derivative method. There has been no hedge ineffectiveness on these derivatives during the year.

As at 31 December 2022 the outstanding nominal amount and fair value (including accrued interest amounting to £52k) of the overnight index swaps designated as cash flow hedges were as follows:

	As at 31/12/2022		
	Notional amount	Fair value	Change in fair value of hedging instrument for ineffectiveness assessment
	£'000	£'000	£'000
Interest rate swaps	**473,000**	**20,399**	**20,347**

Timing of nominal amount and rates of hedging instruments

The below table shows a profile of the timing of the nominal amount of the hedging instrument and the average rate of the hedging instrument.

	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
Interest Rate Swaps Receiving Fixed designated as FVHs						
Notional (£'000)	171,000	–	–	–	–	–
Average Weighted Fixed Rate	2.581%	n/a	n/a	n/a	n/a	n/a
Interest Rate Swaps Paying Fixed designated as FVHs and CFHs						
Notional (£'000)	529,000	529,000	524,000	524,000	499,000	235,000
Average Weighted Fixed Rate	2.804%	2.804%	2.822%	2.822%	2.908%	3.320%

Note 26. Derivative financial instruments (continued)

Timing of cash flows

	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Cash inflows	1,055	6,806	22,407	95	30,363
Cash outflows	(11)	(2,158)	(1,843)	(304)	(4,316)
Net cash inflows/(outflows)	**1,044**	**4,648**	**20,564**	**(209)**	**26,047**

Offsetting

The hedges are subject to ISDA Master Netting Agreements with the counterparties, which create a legally enforceable right of offset that comes into effect only on specific events, e.g., in the case of a default of any party. As the agreements are not "unconditional", the derivative assets (£27,846k) and derivative liabilities (£3,915k) cannot be netted on the statement of financial position for accounting purposes. Similarly, cash collateral of £23,514k, which has been posted in respect of the hedges' fair value, cannot be netted against the hedges on the statement of financial position, as there is no unconditional legally enforceable right to set-off, and is classified within amounts shown as "Cash collaterals".

The table below summarises the financial assets and liabilities subject to offsetting, enforceable master netting and similar agreements, as well as financial collateral received to mitigate credit exposures for these financial assets, and whether offset is achieved in the Statement of Financial Position:

		Netting potential not recognised on the statement of financial position			Assets not subject to netting arrangements		Maximum exposure to risk
£'000	Gross assets before offset	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets recognised on the statement of financial position	Total assets recognised in the statement of financial position	After consideration of netting potential
Loans and advances to banks	28,527	(3,915)	–	24,612	35,566	64,093	60,178
Derivative financial instruments	27,846	–	(23,514)	4,332	–	27,846	4,332
	56,373	**(3,915)**	**(23,514)**	**28,944**	**35,566**	**91,939**	**64,510**

Details of how the hedging programme fits into the Group's approach to interest rate management are set out in Note 27.

Further quantitative disclosures on the derivative assets and liabilities are also given in notes 27–29 on financial assets and liabilities.

Note 27. Financial assets and liabilities

Financial risk management objectives

Allica's operations expose it to a variety of financial risks: market risk (in the form of interest rate risk), credit risk and liquidity risk. A core objective of Allica is the effective management of risk. The responsibility for identifying and managing the key risks ultimately rests with Allica's Board of Directors. The Board has ultimate responsibility for setting Allica's strategy, risk appetite and control framework. Allica has developed its Risk Management Framework as the basis for a comprehensive internal governance and controls structure for the management and control of risks.

Risk Management Framework

The Board approved Risk Management Framework ("RMF") sets out how the Group manages risks and governs the approach to the management of all risks to which the Group is exposed, including, but not limited to, risks arising from financial, economic, operational and behavioural factors. The structure, processes, ownership, responsibilities and the risk oversight required to support its effective implementation across the Group are all identified within the framework. The risk management framework utilises the "three lines of defence" model, reinforcing the need for first line ownership and management of risk with second and third line oversight.

Risk Appetite Statement

The Board sets an overarching expression of Risk appetite, which is articulated through the Group's Risk Appetite Statement that determines the level of risk the Group is willing to take in pursuit of its mission to build a profitable and sustainable business, even in times of stress. The Group uses a mix of qualitative and quantitative measures across principal risk types, reflecting its appetite and capacity for risk absorption through the cycle. Key Risk Indicators are set, allowing the Group to monitor its risk exposure, in conjunction with Early Warning Indicators which enable management action prior to any breach of appetite. The Group recognises that risk and its management lie at the centre of the Group's operations. It therefore identifies its principal risks in order that effective controls can be applied to them. Principal risks are monitored and reported each month to Risk Management Committee and to Board Risk Committee each quarter for challenge and debate.

Capital management

There is a risk that the Group fails to maintain adequate capital resources to meet its regulatory obligations, sustain the aims of the corporate plan or to absorb unexpected losses if they were to occur.

Causes of inadequate capital could include a high level of default on customer lending, large unexpected operational or credit losses, or the inability to raise additional capital in a timely manner.

Capital risk appetite is set by the Board so that the Group maintains sufficient capital in excess of regulatory requirements. Allica undertakes an assessment of its capital requirements through its Internal Capital Adequacy Assessment Process (ICAAP). This is refreshed annually, or more frequently if required, and is submitted to the PRA following Board approval. In their review of the ICAAP document the PRA advise the Group on its Total Capital Requirement based on the proposal detailed in the ICAAP, plus any appropriate additional buffers, which dictate the minimum level of regulatory capital that must be maintained. Allica follows the Standardised/ Basic Indicator approaches for respectively credit risk and operational risk capital. Allica has complied with all regulatory minimum requirements throughout the period.

The principal committee at which the Group's capital is scrutinised and managed is ALCO with key capital metrics being the current and projected surplus of capital resources over regulatory capital requirements and Capital Life Expectancy. The Board, Board Risk Committee and Executive Committee also receive reporting and commentary on capital risk and projections of capital usage and surplus.

Allica's total capital resources consist of both Tier 1 and Tier 2 capital instruments. As at 31 December 2022 the CET1 capital ratio (unaudited) of the Group was 17.1% (Pillar 3 disclosure 2021: 14.1%), and the total capital ratio (unaudited) was 18.8% (Pillar 3 disclosure 2021: 19.3%).

Note 27. Financial assets and liabilities (continued)

Risks

Credit risk

Credit risk is the risk of a customer defaulting on its obligations under a Lending Facility and/or the value of any collateral held falling in value resulting in Allica suffering a financial loss. The Group also considers and manages concentration risk. This is defined as the risk of losses arising as a result of concentrations of exposures due to imperfect diversification. The imperfect diversification can arise with respect to a specific customer or other counterparty, industry sector, region or product.

Allica manages this risk through its Risk Appetite Statement which includes specific Risk Appetite and Early Warning Indicators for product lines, sectors, geographies and single name. Limits are set for Market Counterparties including nostro balances, deposit of surplus cash positions, investment of the Group's liquidity, and hedging activities.

Diversity and concentration of our loan portfolio

As shown in our analysis of customer loans and advances below, we monitor concentration of credit risk by product, loan size, LTV value and region of the loan:

	Credit exposure		Expected credit loss	
	As at 31/12/2022 £'000	As at 31/12/2021 £'000	As at 31/12/2022 £'000	As at 31/12/2021 £'000
Product				
Commercial investment	393,889	192,737	2,231	168
Business loans secured on commercial property	478,884	275,292	2,542	321
Buy-to-let	264,640	37,389	792	74
Asset finance	147,778	27,069	1,349	92
Non-property business lending	34,952	44,786	1,159	329
Government-backed lending	52,969	–	904	–
Total	**1,373,112**	**577,273**	**8,977**	**984**
LTV band				
≤55%	354,086	231,922	788	175
>55%, ≤60%	99,334	54,396	349	34
>60%, ≤65%	143,299	60,201	955	62
>65%, ≤70%	164,463	76,111	1,253	114
>70%, ≤75%	128,965	38,875	1,031	64
>75%, ≤100%	248,129	34,413	1,168	69
>100%	8,176	9,500	137	45
Asset finance	147,778	27,069	1,349	92
Non-property business lending	34,952	44,786	1,159	329
Non-property government-backed lending	43,930	–	788	–
Total	**1,373,112**	**577,273**	**8,977**	**984**

Note 27. Financial assets and liabilities (continued)

	Credit exposure		Expected credit loss	
	As at 31/12/2022 £'000	As at 31/12/2021 £'000	As at 31/12/2022 £'000	As at 31/12/2021 £'000
Loan size (£)				
≤150,000	226,397	57,070	1,700	184
>150,000, ≤250,000	227,837	96,597	1,454	154
>250,000, ≤350,000	154,762	65,224	1,110	87
>350,000, ≤500,000	158,705	65,917	1,076	140
>500,000, ≤1,000,000	272,805	110,995	2,025	177
>1,000,000	332,606	181,470	1,612	242
Total	**1,373,112**	**577,273**	**8,977**	**984**
Sector				
Accommodation and food	124,809	54,272	947	175
Activities of households	14,488	12,226	410	92
Administrative and support	48,759	20,029	473	46
Agriculture, forestry and fishing	4,943	1,186	26	1
Arts, entertainment and recreation	12,820	3,693	905	7
Construction	58,814	23,799	409	32
Education	25,807	25,723	93	48
Financial and insurance	23,404	13,028	124	25
Human health and social work	69,578	51,876	371	69
Information and communication	7,911	3,307	53	7
Manufacturing	39,183	14,509	226	27
Professional, scientific and technical activities	31,323	20,852	185	76
Real estate (Buy to Let)	264,640	37,389	792	74
Real estate activities	445,004	207,742	2,498	189
Transportation and storage	63,073	13,553	454	29
Water supply, sewerage and waste management	18,986	10,640	144	7
Wholesale and retail trade	97,902	48,414	667	50
Other	21,668	15,035	200	30
Total	**1,373,112**	**577,273**	**8,977**	**984**

Note 27. Financial assets and liabilities (continued)

	Credit exposure		Expected credit loss	
	As at 31/12/2022 £'000	As at 31/12/2021 £'000	As at 31/12/2022 £'000	As at 31/12/2021 £'000
Region (of property security held)				
East	94,719	39,284	420	58
London	277,607	124,232	1,015	101
Midlands	190,738	87,642	1,182	142
North & Scotland	191,071	74,735	1,093	83
South East	190,410	100,456	973	103
South West & Wales	118,609	41,144	547	41
Yorkshire & Humber	81,269	37,925	450	35
Outside UK	2,029	–	1	–
Asset finance	147,778	27,069	1,349	92
Non-property business lending	34,952	44,786	1,159	329
Non-property government backed lending	43,930	–	788	–
Total	**1,373,112**	**577,273**	**8,977**	**984**

The loan portfolio is well collateralised, with 83.5% (2021: 87.6%) of the portfolio being secured by commercial or residential property. The average Loan to Value of exposures secured by commercial property is 56.1% (2021: 52.4%) and the average LTV of exposures secured by residential property is 73.7% (2021: 75.0%).

In addition, there are irrevocable loan commitments of £98,705k as at 31 December 2022 with ECL provisions of £452k. The prior year loan commitments disclosed (£163,175k) included all loans under offer at 31 December 2021. The irrevocable loan commitments as at 31 December 2021 amounted to £55,541k with ECL provisions of £28k.

The key estimations used in the ECL model, and their sensitivity to changes in economic scenarios, are discussed in note 3.

Note 27. Financial assets and liabilities (continued)

Expected credit loss on loans and advances which have been drawn down by the customer as at 31 December 2022 are analysed in terms of the Group's internal risk ratings and the IFRS 9 three stage impairment model below.

	Internal risk rating					
	Low	Medium	High	Balance	Provisions	Coverage Ratio
	£'000	£'000	£'000	£'000	£'000	%
Stage 1	632,083	631,933	13,397	1,277,413	5,667	0.444%
Stage 2	28,728	54,886	2,897	86,511	1,815	2.098%
Stage 3	–	–	9,188	9,188	1,495	16.271%
Total	**660,811**	**686,819**	**25,482**	**1,373,112**	**8,977**	**0.654%**
PD range	Under 2.02%	2.02% to 4.97%	Over 4.97%			

The following table provides an analysis of movements during the year in the loss allowance associated with loans and advances to customers. The table is compiled by comparing the position at the end of the year to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the year, with all other movements shown in the stage in which the asset is held at the end of the year.

	Stage 1		Stage 2		Stage 3	
	Credit exposure	Expected credit loss	Credit exposure	Expected credit loss	Credit exposure	Expected credit loss
	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 31 December 2021	571,487	918	4,426	45	1,360	21
Improvement in credit exposure						
Stage 2 to Stage 1	275	9	(275)	(9)	–	–
Deterioration in credit exposure						
Stage 1 to Stage 2	(36,740)	(60)	36,740	60	–	–
Stage 1 to Stage 3	(2,042)	(9)	–	–	2,042	9
Stage 2 to Stage 3	–	–	(861)	(4)	861	4
Opening balance after transfers	532,980	858	40,030	92	4,263	34
Movements during the year						
Repayments of loans and advances	(151,686)	–	(83)	–	(487)	–
Movement in ECL due to model and exposure changes	–	849	–	865	–	266
Changes due to new business	896,176	4,017	46,564	858	5,412	1,195
Bad debts written off	(57)	(57)	–	–	–	–
Balance as at 31 December 2022	**1,277,413**	**5,667**	**86,511**	**1,815**	**9,188**	**1,495**

Note 27. Financial assets and liabilities (continued)

Maximum exposure to credit risk

The Group's maximum exposure to credit risk for loans, debt securities, derivatives and other on-balance sheet financial instruments, before taking into account any collateral held or other credit risk mitigation, is the carrying amount. For loan commitments, the maximum exposure to credit risk represents the full amount of any irrevocable commitment to lend.

	As at 31/12/2022	As at 31/12/2021
	£'000	£'000
Included in the Statement of Financial Position:		
Cash and balances at central banks	230,150	295,291
Due from banks	64,093	17,290
Debt securities	65,552	40,406
Derivative financial instruments	27,846	58
Loans and advances to customers	1,357,143	567,024
Other financial assets	6,027	19,404
	1,750,811	**939,473**
Commitments to lend	98,705	163,175
Less: allowance for impairment losses	(452)	(1,012)
Net credit risk exposure	**1,849,064**	**1,101,636**

Note 27. Financial assets and liabilities (continued)

Interest rate risk

There is a risk that the Group's expected capital and earnings are eroded due to movements in interest rates. This could be caused by timing mismatches in the maturity and repricing of assets and liabilities, exposures arising from hedge positions, or changes in the slope or shape of an anticipated yield curve. If this risk were to occur, it would adversely affect performance against the corporate plan and potentially result in a financial loss.

In response to initiatives from global regulators and central banks to replace Interbank Offered Rates (IBORs) with alternative Risk-free Rates (RFRs) and following cessation of the publication of the London Inter-Bank Offered Rate (LIBOR) in December 2021, the Bank has continued to monitor the potential impact of these reforms across all areas of its business, including customer facing teams, Legal, Finance, Operations and Technology. The Bank has not offered IBOR products since its inception, although it has acquired some IBOR loans as part of the Allied Irish Bank loan portfolio acquisition. A process is in place to migrate these loans to alternative RFRs and the FCA has proposed a synthetic LIBOR rate for 'Tough Legacy' contracts, which will be applied on these loans until migration is complete. The carrying value of these loans at 31 December 2022 is £16.6m (being £16.5m three month GBP LIBOR and £0.1m one month GBP LIBOR), which totals 1% of the Bank's loan book at that date and therefore the Bank's products and business model are unlikely to be significantly affected.

As of 31 December 2022, the Group shows a net asset position on the medium long part of the interest rate curve (above 12 months). Therefore, in terms of the change in the Economic Value of Equity (EVE) of the banking book, it is exposed to an upward movement of the curve. This is driven by the origination of fixed rate assets with a repricing period of 3–5 years. The assets are funded by time deposits with shorter repricing period of 12–24 months. The change in EVE is limited and managed through interest rates swaps (IRS).

In line with regulatory reporting requirements, the Group considers a parallel 200 basis points movement to be appropriate for evaluating the sensitivity to interest rate risk. The Group estimates that a +/- 200bps movement in interest rates would have impacted the economic value of equity as follows:

+200bps – £3,257k (negative)

-200bps – £3,614k (positive)

Hedging programme

When the Group originates fixed rate term deposits or fixed rate assets it becomes exposed to interest rate risk, as the fair value of those fixed rate assets and liabilities may change overtime driven by the fluctuations of the OIS curve. Therefore, the Group enters into interest rate swaps, receiving or paying fixed rates and paying or receiving SONIA benchmark.

The Group believes that there is a direct economic relationship between the hedged item and the hedging instrument, as the critical terms of the hedged item and the hedging instrument are very closely matched in their terms: (a) the notional amount of the hedging instrument equals the notional amount of the hedged Item, (b) the interest reference for both the hedged item and the hedging instruments are the same (FIXED), and observed on the same dates, although paid both on the same or in some cases, different dates, and (c) the maturity date of the hedging instrument is usually only marginally beyond the maturity of the hedged Item.

To maximise effectiveness, a hedging ratio of 1:1 is set by comparing the notional of the derivatives with the principal amount of the hedged items. Potential sources of hedge accounting ineffectiveness may include: (a) Credit risk of both counterparties under the swap (bilateral credit value adjustment), which is mitigated by collateralisation, (b) change in the timing of the occurrence of the cash flows being hedged, and (c) the hedged transactions being no longer highly probable (for instance if repaid prior to maturity), hence the notional of the hedging instrument being larger than the actual expected exposure. No sources of hedge accounting ineffectiveness have been identified during the year. Further details of these hedges are set out in note 26.

Note 27. Financial assets and liabilities (continued)

Liquidity risk

Liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to meet obligations as and when they become due and payable, which it manages under its internal liquidity adequacy assessment process (ILAAP).

The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Note 29 'Contractual maturity of the financial assets and liabilities' below sets out this analysis.

The Group initially recognises all financial assets and liabilities and holds at fair value and subsequently at amortised cost. Loans to customers are held at amortised cost, net of provisions for expected credit losses.

Climate-related financial risks

The Group may be exposed to climate-related risks in relation to its financial instruments through its lending and other financial intermediary activities. The Group is committed to minimising its impact on the environment and ensuring that climate-related financial risks are well managed. The Group's approach to climate-related financial risk has been an important area of focus in 2022 as it continued to embed climate risk into its Risk Management Framework, with both physical and transitional risks being factored into its Credit Policy.

Financial assets and liabilities by measurement basis

Group – As at 31/12/2022	Held at amortised cost £'000	Held at fair value through profit or loss £'000	Held at fair value through other comprehensive income £'000	Total £'000
Financial assets				
Cash and balances at central banks	230,150	–	–	230,150
Loans and advances to banks	64,093	–	–	64,093
Debt securities	–	–	65,552	65,552
Derivative financial instruments	–	27,846	–	27,846
Loans and advances to customers	1,348,166	–	–	1,348,166
Investments	–	1,000	–	1,000
Other financial assets	6,027	–	–	6,027
	1,648,436	**28,846**	**65,552**	**1,742,834**
Financial liabilities				
Cash collateral	(23,514)	–	–	(23,514)
Derivative financial instruments	–	(3,915)	–	(3,915)
Customer deposits	(1,507,433)	–	–	(1,507,433)
Trade creditors	(8)	–	–	(8)
Accruals	(7,561)	–	–	(7,561)
Current tax payable	(75)	–	–	(75)
Other financial liabilities	(358)	–	–	(358)
Subordinated liabilities	(7,500)	–	–	(7,500)
Lease liability	(1,324)	–	–	(1,324)
	(1,547,773)	**(3,915)**	–	**(1,551,688)**

Note 27. Financial assets and liabilities (continued)

Company – As at 31/12/2022	Held at amortised cost £'000	Held at fair value through profit or loss £'000	Held at fair value through other comprehensive income £'000	Total £'000
Financial assets				
Cash and balances at central banks	230,150	–	–	230,150
Loans and advances to banks	59,433	–	–	59,433
Debt securities	–	–	65,552	65,552
Derivative financial instruments	–	27,846	–	27,846
Loans and advances to customers	940,591	–	–	940,591
Investments	–	1,000	–	1,000
Other financial assets	2,999	–	–	2,999
Amounts due from subsidiary	427,727	–	–	427,727
	1,660,900	**28,846**	**65,552**	**1,755,298**
Financial liabilities				
Cash collateral	(23,514)	–	–	(23,514)
Derivative financial instruments	–	(3,915)	–	(3,915)
Customer deposits	(1,507,433)	–	–	(1,507,433)
Trade creditors	(8)	–	–	(8)
Accruals	(7,420)	–	–	(7,420)
Current tax payable	(75)	–	–	(75)
Other financial liabilities	(278)	–	–	(278)
Subordinated liabilities	(7,500)	–	–	(7,500)
Lease liability	(1,324)	–	–	(1,324)
	(1,547,552)	**(3,915)**	**–**	**(1,551,467)**

Note 27. Financial assets and liabilities (continued)

Group – As at 31/12/2021	Held at amortised cost £'000	Held at fair value through profit or loss £'000	Held at fair value through other comprehensive income £'000	Total £'000
Financial assets				
Cash and balances at central banks	295,291	–	–	295,291
Loans and advances to banks	17,290	–	–	17,290
Debt securities	–	–	40,406	40,406
Derivative financial instruments	–	58	–	58
Loans and advances to customers	566,040	–	–	566,040
Other financial assets	19,404	–	–	19,404
	898,025	**58**	**40,406**	**938,489**
Financial liabilities				
Derivative financial instruments	–	(988)	–	(988)
Customer deposits	(845,769)	–	–	(845,769)
Trade creditors	(674)	–	–	(674)
Accruals	(3,975)	–	–	(3,975)
Other financial liabilities	(609)	–	–	(609)
Subordinated liabilities	(7,500)	–	–	(7,500)
Lease liability	(114)	–	–	(114)
	(858,641)	**(988)**	**–**	**(859,629)**

Note 27. Financial assets and liabilities (continued)

Company – As at 31/12/2021	Held at amortised cost £'000	Held at fair value through profit or loss £'000	Held at fair value through other comprehensive income £'000	Total £'000
Financial assets				
Cash and balances at central banks	295,291	–	–	295,291
Loans and advances to banks	14,761	–	–	14,761
Debt securities	–	–	40,406	40,406
Derivative financial instruments	–	58	–	58
Loans and advances to customers	500,805	–	–	500,805
Other financial assets	19,272	–	–	19,272
Amounts due from subsidiary	70,928	–	–	70,928
	901,057	**58**	**40,406**	**941,521**
Financial liabilities				
Derivative financial instruments	–	(988)	–	(988)
Customer deposits	(845,769)	–	–	(845,769)
Trade creditors	(584)	–	–	(584)
Accruals	(3,909)	–	–	(3,909)
Subordinated liabilities	(7,500)	–	–	(7,500)
Other financial liabilities	(413)	–	–	(413)
Lease liability	(114)	–	–	(114)
	(858,289)	**(988)**	**–**	**(859,277)**

Note 28. Financial assets and liabilities by levels of inputs

The fair value of financial assets and liabilities is the price that would be received or paid to transfer an asset or liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1, including balances held with third parties that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

	Level 1	Level 2	Level 3	Total
Group & Company – as at 31/12/2022	£'000	£'000	£'000	£'000
Assets				
Debt securities	65,552	–	–	65,552
Derivative financial assets	–	27,846	–	27,846
Investments	–	–	1,000	1,000
Total assets measured at fair value	**65,552**	**27,846**	**1,000**	**94,398**
Liabilities				
Derivatives financial instruments	–	(3,915)	–	(3,915)
Total liabilities measured at fair value	**–**	**(3,915)**	**–**	**(3,915)**

	Level 1	Level 2	Level 3	Total
Group & Company – as at 31/12/2021	£'000	£'000	£'000	£'000
Assets				
Debt securities	40,406	–	–	40,406
Derivative financial assets	–	58	–	58
Total assets measured at fair value	**40,406**	**58**	**–**	**40,464**
Liabilities				
Derivative financial liabilities	–	(988)	–	(988)
Total liabilities measured at fair value	**–**	**(988)**	**–**	**(988)**

Note 28. Financial assets and liabilities by levels of inputs (continued)

There were no transfers between levels during the financial year. The level 3 investments have been purchased during the year at their fair value of £1,000k. There have been no further movements in these investments.

Debt securities: fair values of debt securities are obtained from quoted market prices in active markets.

Derivative financial instruments: these have been valued by discounting the future cash flows estimated to be paid or received under those contracts using a valuation technique that uses data inputs from short term rates, futures, and swap rates. As the derivatives are fully collateralised with cash, credit risk is mitigated in full.

Investments: these are valued using appropriate valuation techniques such as discounted cash flow models.

Based on values as at 31 December 2022, a movement of +/- 0.25% in interest rates would have the following impact on the net carrying value of the derivative instruments, other comprehensive income and the income statement:

	Change in Fair Value	Other Comprehensive Income	Income Statement
	£'000	£'000	£'000
+0.25%	4,992	4,830	(13)
-0.25%	(5,067)	(4,901)	13

Financial instruments held at amortised cost

The carrying amounts for financial instruments held at amortised cost are assumed to approximate their fair values. All the fair values of financial assets and liabilities carried at amortised cost are considered to be Level 2 valuations which are determined using directly or indirectly observable inputs other than unadjusted quoted prices, except for loans and advances to customers which are Level 3.

Cash at central banks, loans and advances to banks, funds held in client accounts, trade and other receivables and trade and other payables: these are assumed to approximate their fair values, as they are either short-term in nature or re-price frequently.

Loans and advances to customers: carrying amount is obtained by deducting expected credit losses from the gross carrying amount of loans and advances to customers. At the balance sheet date, the carrying values are assumed to approximate fair values (reflecting the impact of the fair value hedges on the fixed rate mortgages – see note 26).

Other assets: payment made in advance to client account and hence fair value approximates to carrying amount as there is minimal credit losses and short-term in nature.

Customer deposits: at the balance sheet date the carrying values of customer deposits are assumed to approximate fair values. For fixed rate customer deposits, this reflects the impact of the fair value hedges, which hedge against material movements in the fair value of fixed rate customer deposits – see note 26.

Other liabilities: payment to suppliers and hence fair value approximates to carrying amount as there is minimal credit losses and short-term in nature.

Note 28. Financial assets and liabilities by levels of inputs (continued)

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Notes to the Financial Statements

Note 29. Contractual maturity of the financial assets and liabilities

Financial assets and liabilities by maturity as at 31/12/2022 (Group)	Less than 3 months £'000	3 months to 1 year £'000	1 year to 5 years £'000	Over 5 years £'000	Total £'000
Financial assets					
Cash and balances at central banks	230,150	–	–	–	230,150
Due from banks	64,093	–	–	–	64,093
Debt securities	9,978	55,574	–	–	65,552
Derivative financial instruments	1,055	6,806	22,407	95	30,363
Loans and advances to customers	88,137	174,734	630,606	1,415,905	2,309,382
Other financial assets	6,027	–	–	–	6,027
	399,440	**237,114**	**653,013**	**1,416,000**	**2,705,567**
Financial liabilities					
Trade creditors	(8)	–	–	–	(8)
Accruals	(7,561)	–	–	–	(7,561)
Derivative financial instruments	(11)	(2,158)	(1,843)	(304)	(4,316)
Customer deposits	(733,586)	(718,013)	(69,678)	–	(1,521,277)
Subordinated liabilities	–	(900)	(3,600)	(8,850)	(13,350)
Other financial liabilities	(358)	–	–	–	(358)
Lease liability	(122)	(377)	(911)	–	(1,410)
	(741,646)	**(721,448)**	**(76,032)**	**(9,154)**	**(1,548,280)**
Loan commitments	**98,705**	**–**	**–**	**–**	**98,705**

Note 29. Contractual maturity of the financial assets and liabilities (continued)

Financial assets and liabilities by maturity as at 31/12/2022 (Company)	Less than 3 months £'000	3 months to 1 year £'000	1 year to 5 years £'000	Over 5 years £'000	Total £'000
Financial assets					
Cash and balances at central banks	230,150	–	–	–	230,150
Due from banks	59,433	–	–	–	59,433
Debt securities	9,978	55,574	–	–	65,552
Derivative financial instruments	1,055	6,806	22,407	95	30,363
Loans and advances to customers	73,071	132,245	463,192	999,827	1,668,335
Other financial assets	2,999	–	–	–	2,999
	376,686	**194,625**	**485,599**	**999,922**	**2,056,832**
Financial liabilities					
Trade creditors	(8)	–	–	–	(8)
Accruals	(7,420)	–	–	–	(7,420)
Derivative financial instruments	(11)	(2,158)	(1,843)	(304)	(4,316)
Customer deposits	(733,586)	(718,013)	(69,678)	–	(1,521,277)
Subordinated liabilities	–	(900)	(3,600)	(8,850)	(13,350)
Other financial liabilities	(278)	–	–	–	(278)
Lease liability	(122)	(377)	(911)	–	(1,410)
	(741,425)	**(721,448)**	**(76,032)**	**(9,154)**	**(1,548,058)**
Loan commitments	**71,304**	**–**	**–**	**–**	**71,304**

Note 29. Contractual maturity of the financial assets and liabilities (continued)

Financial assets and liabilities by maturity as at 31/12/2021 (Group)	Less than 3 months £'000	3 months to 1 year £'000	1 year to 5 years £'000	Over 5 years £'000	Total £'000
Financial assets					
Cash and balances at central banks	295,291	–	–	–	295,291
Due from banks	17,290	–	–	–	17,290
Debt securities	–	30,281	10,125	–	40,406
Derivative financial instruments	–	74	135	–	209
Loans and advances to customers	52,624	29,352	183,414	300,650	566,040
Other financial assets	19,404	–	–	–	19,404
	384,609	**59,707**	**193,674**	**300,650**	**938,640**
Financial liabilities					
Trade creditors	(674)	–	–	–	(674)
Accruals	(3,975)	–	–	–	(3,975)
Derivative financial instruments	(61)	(501)	(433)	–	(995)
Customer deposits	(459,507)	(294,904)	(99,379)	–	(853,790)
Subordinated liabilities	–	(900)	(3,600)	(9,750)	(14,250)
Other financial liabilities	(609)	–	–	–	(609)
Lease liability	(55)	(61)	–	–	(116)
	(464,881)	**(296,366)**	**(103,412)**	**(9,750)**	**(874,409)**
Loan commitments (see a) below)	**163,175**	**–**	**–**	**–**	**163,175**

Note 29. Contractual maturity of the financial assets and liabilities (continued)

Financial assets and liabilities by maturity as at 31/12/2021 (Company)	Less than 3 months £'000	3 months to 1 year £'000	1 year to 5 years £'000	Over 5 years £'000	Total £'000
Financial assets					
Cash and balances at central banks	295,291	–	–	–	295,291
Due from banks	14,761	–	–	–	14,761
Debt securities	–	30,280	10,126	–	40,406
Derivative financial instruments	–	74	135	–	209
Loans and advances to customers	52,290	29,354	157,634	261,527	500,805
Other financial assets	19,272	–	–	–	19,272
Amount due from subsidiary	–	–	70,928	–	70,928
	381,614	**59,708**	**238,823**	**261,527**	**941,672**
Financial liabilities					
Trade creditors	(584)	–	–	–	(584)
Accruals	(3,909)	–	–	–	(3,909)
Derivative financial instruments	(61)	(501)	(433)	–	(995)
Customer deposits	(459,507)	(294,904)	(99,379)	–	(853,790)
Subordinated liabilities	–	(900)	(3,600)	(9,750)	(14,250)
Other financial liabilities	(413)	–	–	–	(413)
Lease liability	(55)	(61)	–	–	(116)
	(464,529)	**(296,366)**	**(103,412)**	**(9,750)**	**(874,057)**
Loan commitments (see a) below)	**143,759**	**-**	**-**	**-**	**143,759**

a) Loan commitments represent the last stage of the loan offer process before drawdown and is deemed to be the stage of commitment from the Group when all the terms and conditions of the offer are met. The prior year loan commitments disclosed (£163,175k) included all loans under offer at 31 December 2021. The irrevocable loan commitments as at 31 December 2021 amounted to £55,541k. The offers were assessed for ECL and a provision of £452k has been made as at 31 December 2022 (2021: £28k).

All cash flows above are shown on an undiscounted basis.

Note 30. Related party transactions

Parent entity and ultimate controlling entity

Allica Bank Limited is the parent company of the Group.

Warwick Capital Partners LLP is the ultimate controlling entity of the Group (see note 34).

Other related parties

During the year, TCV and Atalaya Capital Management (Atalaya) have participated in a series C funding round issued by the Group providing them with a significant influence over the Group. As a result, these are considered related parties for the Group.

Transactions with related parties

The Board of Directors of Allica Bank Limited are its key management personnel. Details of Directors' emoluments are set out in note 10 above. Included in Other assets (see note 13) are £67,856 of interest-free staff loans to Directors (2021: £22,690), for the acquisition of shares held in the joint share ownership plan (see note 33).

In June 2021, Allica issued perpetual notes (including convertible) of £7.5m to Warwick European Opportunities Holding III LP. These were converted to ordinary shares on 27 September 2022 at a conversion price of £1.05 per share, and 7,142,857 shares were duly issued.

In December 2022, Allica issued 722,222 share warrants (conversion price of £1.20) and 1,750,000 conditional share warrants (conversion price of £1) to Warwick European Opportunities Holding III LP. Additionally, 12,500,000 share warrants and 30,000,000 conditional share warrants were issued to TCV and 1,444,444 share warrants and 3,500,000 conditional share warrants were issued to Atalaya with similar conversion price.

During the year, the Group accrued interest expense of £935k on the subordinated loan (see note 20) provided by Warwick European Liquid Credit Fund and Warwick European Opportunities Holding III LP.

Loans to/from related parties

During the period to 31 December 2022, interest of £589k was paid to Warwick and its funds (2021: nil). As at 31 December 2022, there was accrued interest payable of £454k (2021: £108k), in respect of the subordinated loan discussed above.

As at 31 December 2022, Allica Bank Limited had provided funding to its subsidiary Allica Financial Services Limited of £427,727k (2021: £70,928k), the terms of which are set out in note 16.

Employee benefit trust

Details of shares held by the Allica Limited Employee Benefit Trust, as part of the Bank's joint share ownership plan (JSOP), are set out in note 33.

Note 31. Interests in subsidiaries

Information relating to subsidiaries related to the consolidated entity are set out below:

		Ownership interest	
	Principal place of business / Country of incorporation	As at 31/12/2022	As at 31/12/2021
Allica Financial Services Limited	4th Floor 164 Bishopsgate, London, England, EC2M 4LX	100.00%	100.00%

Note 32. Cash flow information

	Group		Company	
	Year ended 31/12/2022 £'000	Year ended 31/12/2021 £'000	Year ended 31/12/2022 £'000	Year ended 31/12/2021 £'000
Loss before taxation	**(1,587)**	**(25,058)**	**8,219**	**(22,307)**
Non-cash flows in operating profit				
Depreciation	491	312	491	312
Amortisation	2,846	2,421	2,846	2,421
Loss on disposal of fixed assets	59	–	59	–
Intangible asset write off	–	6,712	–	6,712
Interest income accrued	(72,252)	(11,494)	(74,130)	(10,696)
Interest expense accrued	23,358	3,670	23,190	3,338
Net fair value movements on derivatives	17	147	(5,385)	147
Share-based payment charge	288	113	288	113
Impairment losses	8,417	1,077	6,349	778
	(36,776)	**2,958**	**(46,292)**	**3,125**
Changes in assets and liabilities				
Changes in balances at central banks	(2,870)	–	(2,870)	–
Changes in loans and advances to banks	(28,527)	–	(28,527)	–
Changes in loans and advances to customers	(795,711)	(520,942)	(446,094)	(454,954)
Changes in amounts due from subsidiary	–	–	(356,799)	(70,733)
Changes in cash collateral	23,514	–	23,514	–
Changes in customer deposits	657,114	740,017	657,114	740,017
Changes in derivatives	–	806	–	806
Changes in trade and other debtors	13,890	(20,758)	16,150	(20,638)
Changes in trade and other creditors	2,715	2,364	2,977	1,906
Changes in provisions	–	(24)	–	(24)
	(129,875)	**201,463**	**(134,535)**	**196,380**
Cash generated from operations	**(168,238)**	**179,363**	**(172,608)**	**177,198**

Note 32. Cash flow information (continued)

Cash and cash equivalents

	Cash and cash equivalents		Not considered cash and cash equivalents	
	Year ended 31/12/2022	Year ended 31/12/2021	Year ended 31/12/2022	Year ended 31/12/2021
Group	£'000	£'000	£'000	£'000
Assets				
Cash and balances at central banks	227,280	295,291	2,870	–
Loans and advances to banks	35,566	17,290	28,527	–
	262,846	**312,581**	**31,397**	**–**
Liabilities				
Cash collateral	–	–	(23,514)	–
Company				
Assets				
Cash and balances at central banks	227,280	295,291	2,870	–
Loans and advances to banks	30,906	14,761	28,527	–
	258,186	**310,052**	**31,397**	**–**
Liabilities				
Cash collateral	–	–	(23,514)	–

The balances with central banks include the reserve account and cash ratio account held with the Bank of England.

Loans and advances to banks include cash collaterals paid against derivative financial instruments. As these amounts are restricted, they are not considered cash and cash equivalents. Similarly, cash collaterals received against derivative financial instruments are classified as liabilities and not considered cash and cash equivalents due to similar restrictions.

Note 32. Cash flow information (continued)

Movements in liabilities arising from financing activities

Group & Company	Subordinated liabilities £'000	Perpetual notes (including convertible) £'000	Lease liability £'000
As at 1 January 2021	–	–	321
Cash flow items:			
Issued in year	7,500	17,500	–
Interest on lease liability	–	–	11
Lease repayments	–	–	(218)
As at 31 December 2021	**7,500**	**17,500**	**114**
Cash flow items:			
Issued in year	–	–	1,491
Interest on lease liability	–	–	17
Lease repayments	–	–	(298)
Non-cash flow items:	–	–	–
Conversion of notes to equity	–	(7,614)	–
As at 31 December 2022	**7,500**	**9,886**	**1,324**

Note 33. Share-based payments

Allica has a joint share ownership plan ("JSOP") under which selected senior employees and Executive Directors of the Group ("Participants") acquire and hold a beneficial interest in shares of the Bank.

Under the terms of the JSOP, during the year the participating shareholders transferred the legal title of 9,454,821 (2021: 2,501,605) shares to the Allica Bank Employee Benefit Trust ("EBT") which was established to manage the plan on behalf of the Participants and the participating shareholders (known together as the "JSOP Holders"). The JSOP shares are beneficially owned by the JSOP Holders as tenants in common in undivided shares. During 2022, 8,712,878 shares were allocated to Participants (2021: 5,375,770).

The total number of shares held by the EBT at 31 December 2022 is 21,905,114 of which 20,632,985 have been allocated to Participants (2021: 12,450,293 of which 11,920,107 had been allocated to Participants).

In addition to the above, share warrants with a fair value of £288k (weighted average fair value of £0.40 per warrant) were awarded to senior management in the year. These awards, which are fully vested, fall within the scope of IFRS 2, Share-based payment, and an equity reserve has been credited with the fair value of the award (see note 24).

Note 34. Ultimate controlling entity

At 31 December 2022, the Ultimate Controlling Entity of the Group was Warwick Capital Partners LLP, a limited liability partnership registered in England and Wales (No. OC351587). Warwick is authorised and regulated by the FCA, reference number: 518214. Financial Statements are available from 86 Duke of York Square, 3rd Floor, London, SW3 4LY.

Note 35. Country-by-country reporting

The Capital Requirements Directive 4 ("CRD IV") requirements stipulate reporting on a consolidated basis, by country where the reporting institution has an establishment, the name, nature of activities, geographical location, number of employees, turnover, pre-tax profit/ loss, corporation taxes paid, and any public subsidies received. Allica is a UK based Bank and only operates out of its offices in the UK.

Note 36. Events after the reporting period

Subsequent to the year end, the Group's investor TCV has obtained S178 approval from the PRA prescribing TCV as controllers of the Group. In addition, the Group has received PIN approval for the issuance of AT1 capital to its investors and has duly issued the AT1 capital on 30 March 2023. Besides these, no other matters or circumstances have arisen since 31 December 2022 that have significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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