Annual Report and Accounts 2023

Allica Bank Limited
Company Number 07706156

Contents

Strategic report

2023 at a glance

Key metrics

141%
growth in gross revenue[1]

£16.1m
Profit before tax (2022: Loss before tax of £1.6m)

£2bn
Loans and advances to customers
(47% increase vs 2022)

£72.5m
Gross profit after risk[2]
(2022: £39.8m)

496
colleagues
(172 increase vs 2022)

£2.6bn
Customer deposits
(75% increase vs 2022)

1. Gross revenue comprises interest income, fee and commission income, and fair value and other gains for the year
2. Gross profit is calculated as total operating income less impairment losses

Key milestones in 2023

We passed
£200m
of asset finance lending

Allica Wins
Best Business Finance Provider
at the British Bank Awards

Our
first ever brand campaign
is rolled out across billboards, TV and radio

Our Business Rewards Account hits
2,000
customers

Q1 | Q2 | Q3 | Q4

Our current account, the
Business Rewards Account is launched

We pass the landmark figure of
£2bn
in customer deposits

Our
£7.5bn
Savings Squeeze campaign is covered by the Times and Telegraph

We're announced the
fastest-growing UK fintech ever
in the history of Deloitte's Fast 50 Awards

Awards won in 2023

British Bank Awards
Best Business Finance Provider

Banking in Tech Awards
Tech Leadership – Ravneet Shah

Best Use of Tech in SME Banking

Bridging & Commercial Awards
Commercial Lender of the Year

Asset Finance Connect Awards
AF50 list, highest ranked new entrant

Business Moneyfacts Awards
Commercial Mortgage Provider of the Year

Deloitte Technology Fast 50
Fastest-growing company in the UK

FinTech Awards
FinTech Scale Up of the Year

UK FinTech Awards
Director of the Year – Richard Davies

NACFB Lender Awards
Business Bank of the Year

Commercial Finance Lender of the Year

Challenger Bank of the Year

Specialist Lender of the Year

Service Excellence

Rising Star – Eshna Harper

Qorus SME Banking Awards
SME Neobank of the Year

Leasing World Awards
Best New Service of the Year

Paytech Awards
Woman in Tech – Ravneet Shah

Paytech Team of the Year

Lending Awards
Best Challenger Bank

London Fast Growth 50 Awards
Fastest growing company in London

Feedback in 2023

Our customers

4.5

our star rating ('Excellent') on Independent reviews website Trustpilot, from 800+ reviews

+60

our customer Net Promoter Score (NPS) as measured by RFI Global in November 2023

> I don't usually leave reviews but... without doubt the most positive experience I've ever had with a bank.
>
> **Henry Burrows,** Trustpilot review

Our partners

88%

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

93%

of brokers said their Allica relationship managers' expertise was **'Excellent'** or **'Good'**

> Really good, experienced people who are keen to support businesses, so I highly recommend them.
>
> **Irina Rickerby,** Asset Finance Solutions (UK) Ltd

Our colleagues

88%

of our colleagues would recommend Allica as a place to work

92%

of our colleagues tell us they believe diversity is working at Allica

> There's something different about Allica. I really connect with the ambition, the drive and the purpose.
>
> **Colleague in our anonymous colleague survey**

Customer stories in 2023

"I can honestly say I have never worked with a nicer, more understanding, more effective bank manager and part of our success is down to his help."

Ania George, FD, Ashley Care Group

"We were really pleased with the result and how Allica have helped. If we were dealing with a call centre or 20 different people who were just reading notes and trying to help, I don't think it would've happened."

Joe Dunn, MD, Iceni Financial Advisers

"The most important thing was that we were listened to and that Allica built a relationship with us from day one. The decision-making was never just based on numbers."

Amin Fard, Founder, Lyon Tech

Customer stories in 2023 (continued)

"We've always worked with likeminded organisations and when we were looking to expand the business, we approached Allica to see if they could finance our expansion. Very quickly we realised they had the same ethos.

Simon Foulkes, MD, Rainbow Productions"

"Working with Allica works for us because we adapt our services to meet our customers' needs, and we appreciate that we're working with another company that mirrors that for us.

Emma Hickling, FD, KCM Waste Management"

"Having a dedicated relationship manager made it so much easier. I would 100% recommend Allica Bank because their focus is on supporting small businesses. I got the product that I wanted and the turnaround time was really quick.

Ovais Ahmed, Owner, Kinder City"

Chair's review

2023 has been another difficult year for the UK's SME community. Although inflation has eased, prices remain considerably higher and interest rates continued to increase to 5.25% with a technical recession at the end of the year, though with signs of recent improvement showing in the Purchasing Managers' Index.

Throughout this period, Allica has continued to support established SMEs in the UK as they deal with this tough trading environment. Our target established SMEs (ESME) market provides a third of UK GDP and therefore is a vital segment of the UK economy. We advanced more than £861m of new loans to ESMEs with our stock of loans now having surpassed £2bn. This is providing much needed funding for customers to not only weather the current economic conditions but also to grow their businesses and protect and provide jobs for local communities.

The last two financial years have seen Allica establish itself as the UK's market leader for broker distributed ESME lending, having again won a wide range of awards for our service and products. 2023 saw us build on this success by growing our direct to customer offering, including via our market leading Business Rewards Account. We have been delighted with the feedback so far which has helped us achieve a Trustpilot rating of "Excellent".

As well as rapidly increasing funding to ESMEs, we have also focused on providing business savings accounts paying interest rates that our customers deserve. There has been much focus, and rightly so, on banks failing to provide competitive rates to retail customers but less focus on SMEs. We have campaigned for better rates for the UK's SME savers, highlighting that £7.5bn of interest is being forgone through larger banks not passing on market interest rate increases. We have raised this issue with the Treasury Select Committee and will continue to campaign for UK SMEs to get a better deal. We have continued to grow our business savings balances since the start of 2024 and are consistently in the top three rates paid in the UK.

2023 also brought the introduction of the long awaited new FCA Principle on Consumer Duty. We see this new principle as directly linking to our goal of helping UK SMEs to get a better deal, and firms across the banking sector now need to evaluate the "fair value" of their products. Allica has taken the steps to implement these new requirements, and we gladly welcome this industry wide enhancement.

In terms of financial performance, 2023 was an excellent year for Allica. Having already reached monthly profitability midway through 2022, 2023 saw a full year pre-tax profit of £16.1m accompanied by strong capital and liquidity ratios. This puts us in an excellent position to increase our investment in our SME products and services, particularly our relationship banking model focussed around the Business Rewards Account.

Our three equity investors, Warwick Capital Partners, TCV and Atalaya Capital Management continue to show strong support for the business. In Q1 2023, we received the final instalment of our 2022 series C capital raise.

The firm has done a lot of work to ensure the important issue of the regulatory capital treatment of SME lending under the PRA's proposals for Basel 3.1 is fully considered, with economics consultancy Oxera finding the draft proposals could lead to a material reduction in lending or increase in pricing. The team has worked hard to provide detailed and constructive feedback to the PRA ahead of the final draft rules expected to be published in Q2 2024.

Looking forward to 2024, we hope that falling interest rates and inflation will bring some relief to the UK's SMEs which have proved to be remarkably resilient to the turmoil of the last few years. Whatever the economic conditions in the next year, we are in a strong position to double down on our mission to bring better business banking to UK ESMEs and become the most recommended UK business bank.

And finally, a huge thank you to our dedicated colleagues, without whom we would not be where we are today and would not be able to achieve our ambitions of tomorrow. We spend considerable time thinking about how we can create a rewarding and inclusive environment for our colleagues. The results of our most recent anonymous colleague survey, where 92% either agreed or strongly agreed that they love working at Allica, are gratifying.

Chief Executive Officer's review

Last year I wrote about Allica's two major chapters to date, with 2022 marking the end of our second chapter where we became a business with a strong product-market fit and put in place our strategic technology and proposition foundations for the future.

It was fantastic to see our hard work over the 2019–2022 period culminate in being named the UK's fastest growing technology company in Deloitte's 2023 Fast 50 awards, and the fastest growing UK fintech ever in the 26-year history of these awards, eclipsing Revolut who had previously held this record. We have also been named as the #1 fastest-growing startup on the Sifted 100 across the UK and Ireland.

We started our third chapter in 2023 – where we aim to give established SMEs the banking they deserve by disrupting the existing SME banking industry that too often gives established SMEs inconvenient, impersonal and poor value services.

It has been a year of strong progress to deliver an exceptional full-service proposition to established SMEs in the UK. We started to market our award-winning business current account more widely from March 2023, named the Business Rewards Account. This account is unique in offering established SMEs full current account functionality, while rewarding customers for using it, rather than punishing them with fees. It includes free domestic payments, cashback on Visa card spend, an embedded savings pot currently paying a best-in-class 4.33%, and a named relationship manager. There are no monthly fees for the account.

We have seen strong growth for this offering, with well over 2,000 customers now using our business current account. However, this remains only c.0.5% of our target market, and we are turbocharging our investment in this space in 2024 with a range of extra sales, marketing, relationship management, and engineering resource deployed.

In October 2023 we published research that exposed how UK SMEs are missing out on £7.5bn in savings interest each year. We are determined to call out and challenge the neglect and profiteering out of this key segment of the economy. Off the back of this research, I wrote to the Chair of the Treasury Select Committee calling for a much greater focus on savings rates for small businesses.

In December 2023 we launched our first ever major brand campaign, bringing Allica to TV screens, radios, magazines and billboards across the country in a highly targeted manner as we look to build our brand with ESMEs.

We continue to receive incredible feedback from our customers and brokers, being recognised as "excellent" on TrustPilot and winning a record six awards at the National Association of Commercial Finance Brokers annual awards in November.

We have continued to invest in developing and embedding our proprietary software, processes and data capabilities to achieve sustainable best in class performance, with over 1,800 software releases made in 2023 across our Lending, Payments, Channels, and Customer tribes. We are implementing a machine learning based credit capability, and also running pilots on incorporating Large Language Model Artificial Intelligence (LLM AI) technology to substantially speed up a range of our processes. During the year our India legal entity went live, where we are recruiting talented engineering and data colleagues to further enhance our UK capabilities.

We have also invested in scaling our risk and compliance capabilities, and we now have a 'twin peaks' model in place with a financial risk focused Chief Risk Officer (Alan Dunmur), and a non-financial risk focused Chief Compliance Officer (Mitch Trehan), with deep expertise sitting on our Executive Committee.

I was also very pleased to welcome Niv Subramanian to Allica as Chief Lending Officer in July 2023. We now have an incredibly strong team with which to keep disrupting in our segment, and deliver much better outcomes for established SMEs.

It was pleasing to see us record a full year profit after tax of £19.2m and a 80% growth in total operating income to £86.8m. We exceeded £2.5bn in customer deposits and have recently surpassed £2bn in lending, with £861m of new lending completed during 2023.

Despite the growth levels we have achieved, we have continued to create a working environment that supports our people. We have grown our number of employees by 53% in the year to nearly 500 people, with 92% of those saying they love working at Allica and 92% also saying our culture supports diversity.

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 2023, and we look forward to continued progress in 2024.

Our business model and strategy

Our strategy and purpose

Allica exists to serve established SMEs, meaning businesses which typically have 5–250 staff. 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.

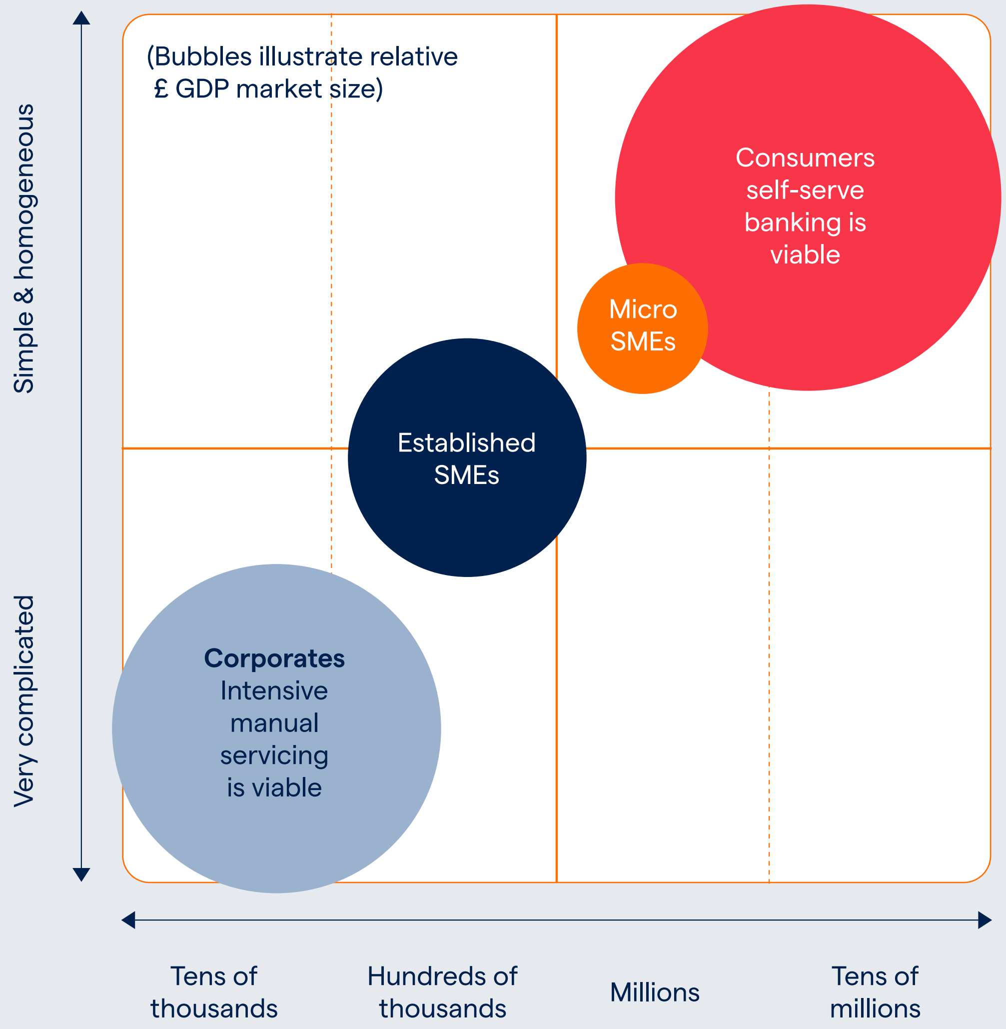
Legacy technology and poor processes mean the incumbent banks are often slow and cumbersome for established businesses to deal with. As a result – and despite high fees – established businesses commonly face a poor banking service.

For traditional banks, established businesses 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 businesses too costly to serve due to unsuitable technology platforms and operating models.

Allica is doing things differently. We are committed exclusively to the needs of this large and valuable segment of the economy. Our proprietary technology allows us to deliver a superior customer experience in areas such as faster lending decisions, intuitive self-serve banking and targeted relationship management.

We express our strategy to colleagues, partners and customers through 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.



How we're different for our customers

Because Allica prioritises the needs of established SMEs, we're able to focus relentlessly on solving their particular banking needs and pains.

We express this through four pillars of differentiation – against the current experience that established SMEs face from incumbent high street banks.

	Experience with incumbents	How we seek to be different
1	They struggle to access the right financing options they need to fund their growth	A lender that seeks out ways to say yes, instead of reasons to say no
2	They've lost the relationship manager service their high street bank used to provide	A relationship manager who listens to you, not hides from you
3	They feel ripped off on day to day banking due to poor service, low interest and high fees	A current account that rewards you, instead of punishing you
4	Banking is not on their terms – fragmented systems, and faceless call centres	Technology that brings us closer to you, instead of cutting you off

How Allica is built differently for long-term advantage

Incumbent banks suffer from legacy systems – often from third-parties – that were not designed with the unique characteristics of the established SME segment in mind.

This typically leads to manual processes, endemic rework, weak insight and poor customer experience.

We have high 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.

	Incumbents' legacy foundations	vs	Our getting the foundations right
Customer experience	• Product-level relationships, not customer-level relationships • Customer experience is forced to fit inflexible internal processes		• A single customer view creates joined up experiences • Cross sales come naturally – and efficiently
Product	• Each minor product iteration bakes in a further layer of inefficiency • Each major product iteration involves costly change programmes		• Able to evolve our product suite to evolving customer needs • New processes can be automated quickly
Data	• Constant waste and rework from the need to remediate data • Duplicated and dispersed data undermines business visibility		• A single source of truth, and minimal data rework • Process and performance insights accurately in real-time
Operations	• New processes inevitably add manual workarounds • Specialist products undermined by high operating costs		• Processes can constantly improve based on data insights • Able to profitably offer higher-margin specialist products
Scaling =	Legacy begets more legacy	vs	A virtuous circle

The only full service digital bank for ESMEs

Allica has completed two major chapters to date. In our first chapter – which concluded in 2019 – we became fully authorised as a bank. In our second chapter we became a business with strong product-market fit – and with strategic technology and proposition foundations for the future. Our current third chapter is about delivering 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 continuing to scale up our business current account – called the Business Rewards Account. This enables 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 businesses that represent a third of the UK economy.

Allica's full-service offering

A full-service banking proposition with vastly superior experience and operating economics, that can fully replace the large incumbents

An example of the strategic benefits of our full-service banking approach is in business lending, where the core of SME lending remains captive to current account holding banks – and therefore inaccessible to traditional 'monoline' challengers, who are forced to play at the fringes of the market.

Equally, an integrated business current account and savings proposition positions us better to compete against the funding structures of traditional incumbents. Traditional challenger banks – who rely on costly price-led deposit-raising for their funding – are typically fenced into higher-risk lending segments.

Our 2023 priorities

In 2023 we chose to measure our performance against the four key priorities of:

1 Most recommended in all we do

2 Full-service banking growth

3 Best in class efficiency

4 Robust risk outcomes

Delivery of these four key priorities are underpinned by the twin pillars of Talent & Culture, and Technology & Data.

This framework underpins our internal performance measurement through relevant objectives and key performance indicators (KPIs), as well as acting as our balanced scorecard for performance management and colleague remuneration.

Reflecting the growing maturity of our business – as we scale through a consistent and focused strategy – we are using the same thematic framework for our prioritisation and performance management in 2024.

Our priorities

Most recommended in all we do

To be the most recommended business bank among our customers, their trusted advisors such as brokers and accountants, and our colleagues

Full-service banking growth

To grow our new product distribution, whilst deepening our banking relationships through our business current account and product cross-sell

Best in class efficiency

To deliver a market leading customer acquisition cost (CAC) and automation to improve our operating leverage, whilst reducing our cost of funds and capital

Robust risk outcomes

To ensure an effective risk management culture, we have a stringent focus on delivering on all our Key Risk Indicators (KRIs) and audit actions

Supporting pillars

Talent and Culture

Technology and Data

Delivering on our 2023 priorities

1 Most recommended in all we do

Recommended by our customers

In 2023, we took our first steps to directly measure propensity of our business customers to recommend Allica, using the recognised Net Promoter Score (NPS) methodology. The exercise carried out by financial services research firm RFI Global in November 2023 showed an NPS of +60 – considered a strong rating, and already well ahead of major high street bank peers in our segment.

Recommended by our partners

Our largest channel for lending is commercial finance brokers, whose role is to recommend suitable loans to their business clients. Our 2023 year-end broker survey showed that 88% of our broker partners rated their overall experience with Allica as 'Excellent' or 'Good', with 93% saying the same about their Allica relationship managers' expertise, responsiveness and market knowledge.

Recommended by our colleagues

In our end-of-year anonymous colleague survey (with more than two-thirds of colleagues responding), 88% of colleagues would recommend Allica as a place to work.

> *If you want to be stretched and challenged whilst working in a positive environment then I would have no doubts about recommending Allica*
>
> **Respondent in our December 2023 anonymous colleague survey**

2 Full-service banking growth

Grow our new product distribution

Our loan book grew by 47% from £1.3bn to £2.0bn in 2023, primarily from growth in our organic ESME lending products including business loans secured on property and asset finance. We also successfully launched our innovative new Growth Finance product – which delivers flexible working capital to ESMEs, as well as the commencement of a forward flow arrangement with one of our origination partners.

Our deposit balances also grew strongly in 2023 – increasing 75% from £1.5bn to £2.6bn year-on-year – as we continued to pass on increasing interest rates to our personal and business depositors.

Scaling our current account relationships

Central to our strategy is our new business current account – called the Business Rewards Account – which enables us to have a full banking relationship with customers. The Business Rewards Account makes us the only fintech challenger bank able to offer a full banking relationship across lending, savings and payments to established businesses.

After a successful test phase in 2022, 2023 we began to acquire Business Rewards Account customers on the open market, and reached

2,000

accounts by the end of 2023, with 66% of this acquisition happening in the second half of the year

Delivering on our 2023 priorities (continued)

3 Best in class efficiency

Improving our operating leverage

Central to Allica's strategy is to use proprietary technology to drive both enhanced operating efficiencies and customer experience – we believe that the degradation of SME banking services by incumbents stems in part from a false choice between the two. In 2023 we further solidified this progress in our financial results, with operating income growing nearly twice as fast as operating costs.

An example is our market first automated decision-in-principle (DiP), which delivers both enhanced customer experience from instantaneous answers, alongside enhanced efficiency from reduced manual underwriting activities.

4 Robust risk outcomes

A grown-up risk management culture for sustainable growth

Risk management is central to our culture and objectives, underpinned by a comprehensive and Board-approved Risk Management Framework (RMF) and associated Risk Appetite Statement (RAS).

Two risk measures underpin our company balanced scorecard, the first being the percentage of board-level KRIs in breach of trigger, and the second the number of overdue audit actions. In both measures we had exceeded internal objectives at the 2023 year-end.

In addition to these two risk management measures on our company balanced scorecard, our 2023 risk objectives also covered areas such as:

- Credit risk, defined as delivering appropriate risk-reward through the cycle.
- Interest rate & liquidity risk, defined as stability of funding cost to support our clients; and
- Customer outcomes, defined as delivering operationally resilient, transparent & fairly priced services for clients.

In 2023 we continued to mature our risk management, for example our third line of defence (3LOD) was enhanced with the appointment of a Chief Internal Auditor – having previously been led through an outsourcing arrangement with Mazars.

Chief Financial Officer's review

I am pleased to report our first full year of profitability, with profit before tax of £16.1m for the year (2022: loss before tax of £1.6m). We have achieved significant growth in gross revenue and total operating income, with an increase of £111.7m (141%) in gross revenue and an increase of £38.5m (80%) in total operating income whilst continuing to carefully manage our cost base as we fund our growth. This is demonstrated by a reduction in our cost to income ratio, from 85.7% to 65.0%. Gross profit after risk has increased by 82.1% to £72.5m (2022: £39.8m), demonstrating the continued focus on the quality of the Bank's loan book alongside its growth.

Our balance sheet has now grown to total assets of £3.0bn (2022: £1.8bn), primarily due to the growth in our lending with £861m of new lending completed in the year (2022: £792m).

Gross revenue
£191.0m
FY22: £79.3m

Gross profit after risk
£72.5m
FY22: £39.8m

Profit after tax
£19.2m
FY22: £5.6m profit after tax

New organic lending[1]
£729.1m
FY22: £565.9m

Net Interest Margin[2]
5.0%
FY22: 3.6%

Cost: Income Ratio[3]
65.0%
FY22: 85.7%

Total Capital Ratio
19.5%
FY22: 18.8%

1. New organic lending excludes loans advanced through forward flow arrangements and loan portfolio acquisitions
2. Net interest margin represents net interest income as a percentage of average loans and advances to customers
3. Cost: Income ratio is calculated as total operating expenses divided by total operating income

Summary performance metrics

Gross revenue (£'000)	190,991	79,332
Gross profit after risk (£'000)	72,529	39,839
Net interest margin	5.00%	3.60%
Cost to income ratio	65.0%	85.7%

Condensed profit or loss account

	Year end 31/12/2023	Year end 31/12/2022
	£'000	£'000
Total operating income	**86,808**	**48,312**
Total operating expenses	(56,438)	(41,426)
Profit before tax and impairment	30,370	6,886
Impairment charges	(14,279)	(8,473)
Profit/(loss) before tax	**16,091**	**(1,587)**
Taxation	3,059	7,210
Profit after tax	**19,150**	**5,623**

Total operating income

Net interest income increased 64% from £48.9m to £80.0m due primarily to the growth in our balance sheet.

Interest income increased by £105.6m (146%) to £177.8m (2022: £72.3m) due primarily to an increase in interest income on loans and advances to customers of £59.6m (91%) to £124.9m (2022: £65.3m) as well as an increase in interest income on loans and advances to banks of £31.2m (717%) to £35.6m (2022: £4.4m). The increase in interest income on loans and advances to customers was driven by balance sheet growth as well as improvement in our lending yields, whereas the increase in interest income on loans and advances to banks was due to an increase in the level of Bank of England reserves held as a result of strong deposit inflows and a higher rate of interest earned due to the base rate environment.

Interest expense increased by £74.5m (319%) to £97.8m (2022: £23.3m) due to an increase in our cost of funds as a result of higher interest rates paid to our deposit customers and an increase in customer deposits as noted on page 20.

Net interest margin (NIM) increased 140 basis points to 5.0% (2022: 3.6%), primarily reflecting the base rate environment and the timing lag between the yields on the Bank's lending and the cost of deposits.

Total operating expenses

Total operating expenses increased by £15.0m (36%) from £41.4m to £56.4m. £9.2m of this relates to an increase in staff costs, as Allica continues to invest in its growth with colleague numbers rising to 496 at the end of 2023 (2022: 324). Administrative costs saw an increase of £3.8m to £18.0m mainly as a result of an investment in marketing spend, including our first major brand campaign, as well as a rise in software license expense and other costs resulting from the increased colleague numbers. In the backdrop of continued high inflation during the year and a 33% increase in the balance sheet, the comparative growth in our cost base demonstrates the scalability of Allica's platform and commitment to carefully manage cost growth.

Impairment losses

Impairment losses, which relate to expected credit losses under IFRS 9, increased by £5.8m (69%) to £14.3m. This is predominantly due to the continued growth in our loan book, as well as an increase in provision coverage rates to 1.1% (2022: 0.7%) reflecting a maturing loan book and our view of a deteriorating macroeconomic outlook.

Taxation

There was a net tax benefit of £3.1m for 2023. A current tax charge of £0.8m was offset by a net deferred tax benefit of £3.9m. The net deferred tax benefit was primarily due to the recognition of a deferred tax asset relating to the expected future utilisation of brought forward tax losses (see Note 11 of the financial statements), offset by the net deferred tax impact of cash flow hedges.

The Group's condensed balance sheet

	2023 £'000	2022 £'000
Assets		
Loans and advances to customers	1,976,826	1,348,166
Cash, cash equivalents and other liquid assets	922,342	359,795
Other assets	46,849	52,311
Deferred tax asset	12,902	2,198
Total assets	**2,958,919**	**1,762,470**
Liabilities		
Customer deposits	2,633,247	1,507,433
Provisions	1,617	490
Other liabilities	44,913	45,276
Total liabilities	**2,679,777**	**1,553,199**
Equity		
Share capital	2,873	2,501
Share premium	301,158	266,332
Perpetual convertible notes	45,127	9,886
Other capital and reserves	(70,016)	(69,448)
Total equity	**279,142**	**209,271**
Total liabilities and equity	**2,958,919**	**1,762,470**

Other financial position metrics

New organic lending (£'000)	729,099	565,921
Total capital ratio	19.5%	18.8%
Liquidity coverage ratio	219.1%	145.4%

Loans and advances to customers

The Bank has continued to grow and expand its lending to established SMEs in 2023, with an increase in Loans and advances to customers of 47% to £1,976.8m (2022: £1,348.2m). This increase was primarily due to new lending, with £861.3m of total new loans completed in the year (2022: £792.4), of which £729.1m was organic through our direct distribution and through our broker partners (2022: £565.9m), offset by an increase in the provision recognised for expected credit losses to £22.0m (2022: £9.0m).

In addition, we entered into a new a forward-flow partnership during the year to further enhance our lending capabilities. Forward flow arrangements contributed £132.2m of our new lending in the year (2022: £226.5m).

Cash, cash equivalents and other liquid assets

The Bank's liquid assets comprise cash on deposit with the Bank of England, cash on deposit with financial institutions and highly liquid marketable securities. Over the year, these balances grew significantly from £359.8m to £922.3m. The Bank's liquidity coverage ratio was 219% at the end of 2023, more than double the regulatory minimum of 100%.

Customer deposits

Customer deposits have increased by 75% from £1,507.4m to £2,633.2m in the year. The Bank provides a range of saving accounts to its customers including term, notice and instant access deposits. Another growth area was the Business Rewards Account which was fully launched during 2023. In the year, Business Rewards Account balances grew by 731% from £20.0m in 2022 to £166.2m in 2023. The Business Rewards Account offers customers market leading benefits such as cashback up to 1.5% and digital wallet features such as saving pots with top rates of interest.

Equity and capital

In 2023, the final instalment (£35.4m) of our Series C round was received. Of the £45.1m of AT1 securities in issue, £35.3m is convertible to equity on various triggers including profitability and capital metrics.

Allica continues to maintain a strong capital position, in excess of its minimum regulatory capital requirements. As noted, Allica reached profitability during the second half of 2022 and has continued to be profitable throughout 2023, generating a profit after tax of £19.2m for the year.

As at 31 December 2023, Allica's CET 1 ratio was 15.7% compared to 17.2% in 2022 and the Bank's total capital ratio was 19.5% compared to 18.8% in 2022.

Our approach to people

People

Allica's mission is to be the UK's most-recommended business bank. Our colleagues are at the heart of this; they are what makes Allica different, they are what makes Allica great.

Therefore, we don't just want to be the most recommended business bank for our customers, we want to be the most recommended bank 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. Furthermore, it also involves having a working environment that encourages diversity, allowing every colleague to feel comfortable in bringing their whole self to work.

This philosophy helps Allica attract the best talent in the market – high achievers who consistently deliver – and is vital if Allica is to achieve its ambitious plans.

Our values

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

It is crucial to our success that every colleague lives our values consistently. Allica's values frame 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.

Moreover, 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. 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 our 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 never stop learning and we always seek to improve ourselves and our team.

Our values (continued)

Finding the right people to work at Allica is vital to help fuel our rapid growth. Throughout 2023, we have doubled down on the importance of finding the right candidates, and for our senior roles we have introduced an extra interview stage conducted by experienced Allica colleagues with a proven history of hiring great people.

This interview builds upon our values and looks deeper at the characteristics and traits of the best Allica employees, we call these characteristics and traits our 7Ps:

- **Purposeful**
- **Passion**
- **Perseverance**
- **Pace**
- **Practical**
- **Probing**
- **Progression**

A great place to work

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 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 colleagues are highly engaged, motivated and enjoy working in Allica's diverse culture.

We asked our colleagues to describe how they felt about 2024 and the results were overwhelmingly positive with: Excited, Growth, Motivated and Opportunity being the top responses.

92%

of colleagues love working at Allica

88%

would recommend working at Allica to a friend or relative

92%

of colleagues believe that Allica's culture supports diversity

83%

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.

Through our diversity initiatives Allica has developed a truly diverse workforce with 42% of colleagues identifying as female (ExCo: 36%) and 40% of our colleagues are from Ethnic minority groups (ExCo: 27%).

We have continued to develop our Diversity group and this has evolved into our Diversity & Inclusion Forum, comprised of colleagues committed to diversity and inclusion within the organisation. The main goal of the forum is to promote an environment where colleagues feel genuinely represented and empowered to embrace their authentic selves at work.

Throughout the year, the forum has celebrated multiple events aimed at enhancing visibility and understanding among colleagues regarding various cultural, social, and identity-related themes.

We have hosted several colleagues' conversations within the organisation allowing people to share their experiences on diverse topics. We have covered handling parenting non-binary children, managing step parenting, adoption, sexuality & gender, the impacts of apartheid, living in the UK with different cultural backgrounds, and men's mental health.

Additionally, we have also arranged several 'time to talk' sessions for all colleagues to join remotely. Within these sessions we have discussed mental health and neurological disorders which impact colleagues in the workplace and how we can best manage them. These sessions breakout into smaller groups and allow everyone to share their thoughts and experiences. These events serve as invaluable opportunities for dialogue, education, and celebration, enriching the organisational culture and strengthening interpersonal connections.

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 people with a disability 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.

Recruitment

Allica's continued growth and product diversification has required a significant increase in the number of colleagues from 324 to 496 – an increase of 53%.

We continue to see significant candidate pools in India and this has led to us establishing a new legal entity in India. Allica India Technology Services has enabled us to accelerate our hiring in India to 25 people – we expect this to double during 2024.

Develop the best

Whilst it is important for Allica to continue to attract the best talent from outside the business, it is also important that we support the development of our existing colleagues.

During 2023 we launched the Allica Bank Management Foundations programme. The programme allows both new and experienced managers to grow and develop their skills in order to become future leaders at Allica. After launching in 2023, the programme will run 3 times in 2024. It is not just internal schemes which have supported the development of colleagues, during 2023 Allica has continued to invest in colleague development through external courses, subscriptions and platforms.

Through these initiatives, Allica has promoted 78 colleagues which is 16.1% of the colleague base, demonstrating that working for Allica truly accelerates your career development

Our approach to transparency and colleague engagement

We default to transparency, so colleagues have access to any information that's relevant to them. We hold regular All-Bank meetings where people can share their opinions and ask questions of management. All colleagues have a vested interest in our performance through our remuneration plans which are a blend of bonus shares and joint share ownership plans. They're kept up to date with business performance through these meetings, as well as from frequent updates provided by the Executive team.

Financial crime

Anti-financial crime measures

At Allica Bank, we recognise the profound impact that financial crimes – which include money laundering, terrorist financing, tax evasion, bribery and corruption and sanctions breaches – can have on local communities and the world at large. Our commitment to ethical banking goes beyond financial transactions; it extends to safeguarding the well-being of the communities we serve and contributing to the national fight against illicit activities.

Financial crimes pose a direct threat to the stability and prosperity of local communities. Money laundering can fund illegal activities, jeopardising the safety and livelihoods of our neighbours. We acknowledge that tax evasion deprives governments of vital resources needed for public services, education, and healthcare. Bribery and corruption erode the foundations of fair competition and trust, hindering economic growth and development. Sanctions breaches not only violate international laws, but also contribute to geopolitical instability. Allica Bank condemns such practices and is committed to maintaining the highest standards of transparency and integrity in all its operations.

As a responsible financial institution, we wholeheartedly acknowledge our duty to actively prevent, detect, and report financial crimes. In order to fulfil this commitment, we have established a robust financial crime framework which encompasses the following measures, designed to be proactive, reflecting a focus on staying ahead of evolving risks.

- **Policies:** A robust financial crime policy is maintained and supported by broad processes and governance measures.
- **Customer Onboarding:** Every new customer undergoes a thorough onboarding process that evaluates their background, financial history, ensuring we comply with regulatory requirements.
- **Continuous Monitoring:** We implement continuous monitoring mechanisms to dynamically assess the activities of our customers, enabling detection of suspicious or non-compliant behaviour.
- **Training and Awareness:** Ongoing training programmes and awareness initiatives equip our colleagues to stay informed about, and alert to, the latest developments in financial crime and strengthen our collective ability to combat illicit activities.
- **Regular Audits and Assurance activities:** We conduct regular audits and assessments to evaluate the effectiveness of our financial crime prevention measures, allowing us to refine and enhance our approach on an ongoing basis.
- **Governance and Oversight:** Comprehensive metrics and supporting information are reported to keep senior management updated on key indicators and trends related to financial crime. This transparent reporting mechanism also underpins senior management accountability.

Modern slavery

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 policies. 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.

Section 172(1) statement

The Directors of the Bank 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 Bank's employees.
- The need to foster the Bank's business relationships with suppliers, customers and others.
- The impact of the Bank's operations on the community and the environment.
- The desirability of the Bank maintaining a reputation for high standards of business conduct.
- The need to act fairly between members of the Bank.

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 the Board along with any resulting actions. Monthly "All-Bank" calls occur enabling colleagues to submit anonymous questions which are addressed on the calls. 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 belonging are actively promoted with specific recruitment targets set for gender and ethnicity which are linked to variable remuneration for all colleagues. Additionally, Allica has a dedicated Diversity and Inclusion committee.
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 34.

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

Richard Davies, Chief Executive Officer (16 April 2024)

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

The RMF represents the overarching framework established by the Bank to manage its risk profile, in line with the business strategy and objectives. It describes how risk management is established and implemented through all levels of the Bank.

The key objectives of the RMF are to:

- Articulate the Bank's risk management principles, culture, policies, procedures and ensure that the Board, senior management, and all key stakeholders have a consistent and consolidated view of the Bank's risk management practices and approaches.
- Establish a comprehensive framework to support, organise and coordinate risk management activities at the Bank.
- Align long term strategic objectives with shorter term, day-to-day risk management activities.
- Articulate the Risk Appetite statements and measures established by the Bank's Board and Senior Management that feed down through the business.
- Establish the flow of risk information through the organisation, enabling effective monitoring and management of risk at various levels within the Bank.

The risk management activities and enablers together form a framework for identifying, measuring, mitigating, controlling, and reporting on the performance and status of risk within the business.

The basis of all risk management is the adoption of a 'Three Lines of Defence' model.

First line of defence

The First Line of Defence (1LOD) is the business functions of the Bank comprising all colleagues who do not form part of the risk, compliance and internal audit function. 1LOD is responsible for identification, monitoring, and ownership of its risks. This entails:

- Maintaining 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 in our business by regularly undertaking a Risk Controls Self-Assessment (RCSA).
- Assessing each risk within the RCSA on an inherent and residual post control basis; rating all risks and incidents using a Likelihood and Impact Classification Matrix.
- Regular evaluation and 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 Second Line of Defence Risk and Compliance Team.

Second line of defence

The risk and compliance function is Allica's Second Line of Defence (2LOD) 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 the Board.
- Formulation and execution of Allica's Assurance & Compliance Monitoring Plans (complementing the activity of Internal Audit), to assess effectiveness and adequacy of 1LOD 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

Allica's Chief Internal Auditor is responsible for the third line of defence. Internal Audit is an independent control function reporting to the Chair of the Board Audit Committee (an independent non-executive director).

The Internal Audit function in Allica Bank is responsible for assessing and evaluating the effectiveness of risk management, control, and governance processes, providing independent assurance and oversight.

Risk appetite

The Bank has a defined and embedded Risk Appetite. The purpose of the Risk Appetite is to establish a clear set of parameters, alongside the intention and rationale for the chosen appetite, within which the Bank's management can operate the business . This allows the day-to-day management of the business to take place with informed and controlled risk taking and provides an objective framework against which actions and results can be measured.

The Risk Appetite Statement ("RAS") drives business and risk decision making across the organisation on a day-to-day basis. Risk appetite plays an important part in supporting risk assessment, monitoring, and control activities. It does this by helping colleagues understand the relative significance of the risks faced by the Bank and thereby better prioritise risk monitoring and control activities.

The Board defines the overarching risk strategy and appetite in consideration of the Bank's performance, financial objectives, prudential and conduct related requirements, and protecting the competitive advantage of its business model. The Board has approved 10 Principal Risks that represent the most material and impactful risks that occur in the day to day running of the Bank. Each Principal Risk has a risk appetite statement together with appropriate measures and limits that represent the Board's appetite for risk.

The Bank's approach to setting its RAS is based upon qualitative statements which articulate the Board's attitude and expectations with regards to assuming and managing risks. The qualitative statements are supported by quantitative measures together with triggers and limits. The RAS acts as a catalyst for action to manage the relevant risks and control the level of risk.

The Bank's risk appetite is determined by the amount and type of risk we are willing to seek or accept in pursuit of our long-term objectives.

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.	Through the annual ICAAP process, the Group assesses its requirements and 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. Allica is monitoring the PRAs approach to the implementation of Basel 3.1 as well as the proposed regime for Small Domestic Deposit Takers. No decisions have been taken whilst we await further publications from the PRA.
Liquidity	The risk that Allica could fail to meet its liabilities 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.	Through the annual ILAAP process, the Group assesses its requirements and 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.
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, regulators, 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.
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.

Principal risks & uncertainties (continued)

Principal risk	Risk description	Group's response to the risk
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 because 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/or 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 continuing to develop, but it has a low appetite for model risk, based on the desire to ensure that model limitations are understood by model users and decision makers.

Other key risks

Other risks that are worthy of note are as below:

Principal 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.
Data Risk	The potential for harm or loss associated with the collection, transmission, or use of data.	High quality data underpins Allica's strategic ambitions. As the organisation matures, so does our management of the risks associated with our data. During 2023, a data framework was approved that captures the principles to follow in how we mitigate data risk across the Bank.
Reputational Risk	The potential for harm or loss associated with damage caused from adverse events that impact public perception.	Whilst reputational risk is not considered a principal risk by itself as it cuts across a number of the Principal Risks, the Bank's standing in the eyes of customers, counterparties, regulators and the general public is of critical importance. An appraisal of potential reputational damage is included in the assessment of all risk types and in all operations, products and behaviours.

External and emerging risks

Principal risk	Risk description
Inflationary pressures and persistently high 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. Increased costs for SMEs could suppress demand for loan products as well as increase our credit losses.
Geopolitical tensions	The crises in Ukraine and latterly the Middle East continue to have the potential to create material movements in global energy prices. This remains a risk for trading SMEs as despite an anticipated fall in headline inflation during 2024 there is considerable volatility in global energy prices. This could result in a fall in demand for Allica lending products.

Impact of environmental change on the Bank

Risk management of climate change

Climate change has explicitly been incorporated into the Risk Appetite Statement (RAS), lending policy and new product approval process.

The Bank's risk management processes involve effective decision-making to mitigate, transfer, accept, or control climate-related risks. Allica has conducted a gap analysis with the help of external consultants to determine what climate data gaps exist. We have also performed an initial review of the physical and transition risks, and opportunities arising from climate change against the risk taxonomy (e.g. Credit Risk, Financial Risk, Operational Risk, and Conduct Risk).

The Bank considers that there are two primary climate related risks, being physical risk and transition risk. These risks manifest themselves in credit, operational and market risks that could lead to expected and unexpected financial losses.

Physical risk refers to the potential hazards and damages posed to properties or assets, as a result of various environmental factors. These risks can significantly impact our credit assessments for commercial property lending, thereby influencing lending decisions. Flood risk, subsidence and coastal erosion are a few examples of physical risk.

Allica's lending portfolio is inherently exposed to flood risk, especially in regions prone to the risk. The Bank has undertaken an exercise to map flood risk based on the vulnerability of properties to flooding by region, and we are building capabilities to improve flood risk monitoring and include subsidence and coastal erosions as a part of our Risk Management Framework (RMF).

Transition risk refers to the financial risks associated with the transition to a low-carbon economy, and the potential impacts of changes in policies, market conditions, and technology advancements on the value of assets, as well as changes to energy prices and the associated impact on income and creditworthiness of borrowers.

Allica regularly assesses its lending appetite, including considerations for both physical risk and transition risk. For example, the Bank has restricted lending to properties with an Energy Performance Certificate (EPC) rating worse than E for properties in England and Wales and have also provided a pricing discount for properties with an EPC rating C or above.

Allica considers the key risks arising from climate-related issues is increased credit risk in our loan book, as the crystallisation of these risks and changes in related regulation could impact the ability of the Bank's customers to repay or refinance, resulting in an increase in probability of default (PD) and loss given default (LGD). Allica considers climate-related risks as part of its underwriting processes, with actions taken where required to reduce the Bank's exposure to credit risk.

Environmental, social & governance

Environmental and social

Allica Bank exists to serve the UK's few hundred thousand established SMEs, that collectively represent around a third of the economy.

Each UK town has numerous established SMEs, and they are crucial pillars of each local community.

As such, we believe that our core purpose of delivering the business banking that established SMEs deserve is a societal good – and an environmental one too, as activities stay local.

We support levelling up, as around 80% of our lending is to SMEs outside London – and in 2023 we began to collect data that shows how our lending supports local economic growth.

However, we do not believe that our social and environmental obligations should end there. Our own activities directly impact the environment, such as our infrastructure and transport emissions. Our activities also impact the environment indirectly – such as through the impact of our lending policies. Equally, we want to give back to the local communities we serve.

2023 has been a year of progress in our environmental and social activities, from better assessing our transition risk, to new voluntary disclosures recommended by the Task Force on Climate Related Financial Disclosures (TCFD), and from new green lending to supporting grassroots sport in our local communities.

2023 at a glance

Our first Scope & Task Force on Climate Related Financial Disclosures (TCFD) reporting

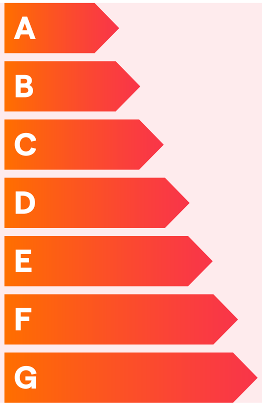
Partnered with elite netball players to inspire the next generation of British players

Launched

£10m

Electric Vehicle Fund

Energy Efficiency Incentives on property secured loans



Became members of **Bankers for Net Zero (BANZ)** and founding signatory of **Project Perseus** – an industry initative to develop emission reporting standards for SMEs

Our impact on the environment

We want to build an environmentally responsible bank, which means aligning to climate change regulation and best practice, as well as supporting our SME customers in adapting to environmental change.

Allica has implemented several measures to assess and manage climate-related impacts across our lending portfolio. We've also deepened initiatives aimed at helping our SME customers adapt to environmental change. Examples are a new electric vehicle (EV) lending fund in our asset finance business, and our support for Project Perseus – an industry initiative to develop a rapidly scalable, low friction sustainability reporting solution for SMEs.

In addition, we have partnered with Octopus Electric Vehicles in the period to offer our UK-based staff the ability to lease a new electric car via a salary sacrifice arrangement.

Due to limited data availability at the time, our 2022 annual report did not contain quantitative information on climate change. Since then, we've engaged external consultants to perform a gap analysis to enhance our climate risk management and reporting capabilities, which has driven enhancements in our reporting for 2023.

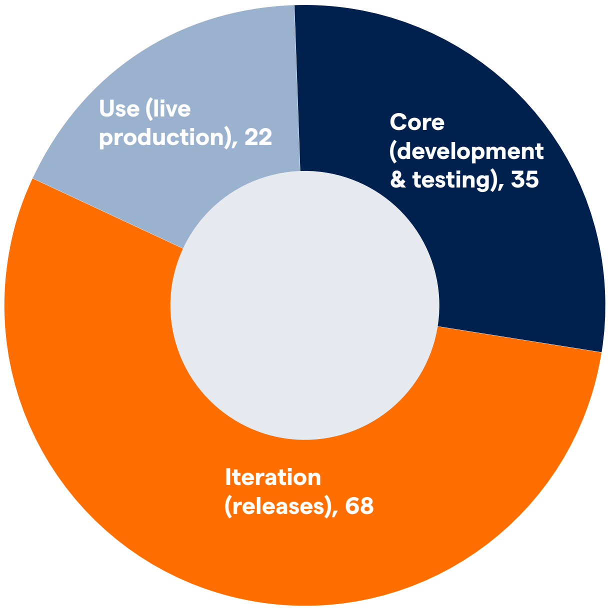
Case study

Our technology emissions

In October 2023, external consultancy GoCodeGreen assessed Allica's technology practices and infrastructure, finding strong performance.

Their assessment covered Allica's proprietary micro-services layer across three technology lifecycle stages of Core, Iteration and Use.

Total emissions of **125 tCO2e** were estimated, using a location-based method aligned to IPCC tier 2, with the Carbon Intensity Ratio calculated based on the framework set by the GHGG Protocol ICT sector guidance.



Figures in tco2e

Commendable performance from a sustainability standpoint, predominantly attributable to good design and engineering choices

GoCodeGreen report

Task Force on Climate-related Financial Disclosures (TCFD)

Governance	Progress during 2023
Board's oversight of climate related risks and opportunities	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 a quarterly agenda item at the ExCo, and a standing agenda item for the Board bi-annually.
Management's role in assessing and managing climate related risks and opportunities.	Assigned responsibilities within the management team are dedicated to monitoring climate-related risks, ensuring that these responsibilities are closely tied to the institution's broader risk management strategies. The Chief Risk Officer (CRO) has direct oversight over climate risks, with responsibilities cascaded to the Head of Enterprise Risk and Policy.

Strategy	Progress during 2023
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	In the short term, risks related to regulatory changes, including evolving environmental policies and standards, e.g. minimum energy efficiency standard (MEES) for all commercial properties must have an EPC rating of at least E in England & Wales. The Scottish EPC rating scale differs to England & Wales, therefore we look for commentary from the assessor to see how it translates to an England & Wales scale where possible and ensure it is in line to an E rating or equivalent. Over the medium term, the shift in consumer preferences towards sustainable and environmentally responsible financial products presents an opportunity for market expansion. In the long term, the transition to a low-carbon economy poses significant challenges and opportunities in terms of market positioning and financial performance.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	We incorporated climate risk into our risk management framework. Environmental scores and factors related to specific sectors are defined in our Credit Appetite, where we will not lend to borrowers that operate in sectors with a high environmental impact. We consider other climate risks, such as flood risks from rivers, sea and surface water when completing credit assessments. In the period, we launched a green financing product to our customers as well as partnering with Octopus Electric Vehicles to offer our UK-based colleagues the ability to lease a new electric car via a salary sacrifice arrangement. We continue to assess opportunities to develop propositions that support our customers' investment in initiatives that reduce their impact on the environment.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	In 2023, we have considered a range of scenarios in line with the Network for Greening the Financial System (NGFS) scenarios. These have been included within the Bank's stress scenario library.

Task Force on Climate-related Financial Disclosures (TCFD) (continued)

Risk management	Progress during 2023
Describe the organisation's processes for identifying and assessing climate-related risks	We have assessed the impact of climate risk on all the key principal risks of the Bank. We have started to undertake scenario analysis to understand the potential impacts of climate risks on our strategy.
Describe the organisation's processes for managing climate-related risks.	Allica has integrated environmental risks including the energy performance of a property to be held as security, the risk of flooding, and any sector-specific or business-specific environmental concerns into the Risk Appetite Statement (RAS) of the bank and underwriting assessment.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Climate change has explicitly been incorporated into the RAS, lending policy and new product approval process. Climate change has been incorporated into various policy documents with relevant risk categories described under the risk management framework.

Metrics and targets	Progress during 2023
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Metrics used by Alllica for Climate related risk: • EPC ratings (transition risk) and Flood risk mapping (physical risk) embedded into the risk management framework. • Evaluating environmental score for each sector sourced from IBIS World data. Allica's Score falls under "moderate low" bucket.
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	This is the first year for Allica to disclose our operating carbon emissions. Scope 1 & 2 include energy emissions from our offices across London, Milton Keynes and Manchester which are detailed on page 38.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	This was the first year for Allica to integrate climate risk into the risk management framework. EPC ratings, flood risk mapping and environmental sector scores are part of credit assessment already. We have an ambition to embed climate risk into our risk management framework to better serve our SME customer and help them transition towards a Net Zero economy.

Our carbon emissions disclosures

We provide Streamlined Energy & Carbon Reporting (SECR) disclosures for the first time this year.

We have gone beyond minimum SECR reporting standards to report our estimated Scope 1 & 2 emissions.

Scope 1 emissions comprise air conditioning (A/C) emissions from our offices where applicable.

Scope 2 emissions comprise electricity emissions from our three offices – both location-based and market-based emissions are used. The location-based emission method represents our electricity use based on the average emission intensity of the power grid our offices are using. The market-based emission method calculates our emissions based on the energy that we purchase.

Scope 1 emissions	**tCO$_2$e**
Air-conditioning (A/C) emissions	0.05
Total Scope 1 emissions	**0.05**

Scope 2 location-based emissions	
London offices	9.64
Milton Keynes offices	9.84
Manchester offices	1.48
Total Scope 2 location-based emissions	**20.96**

Scope 2 market-based emissions	
London offices	7.07
Milton Keynes offices	5.66
Manchester offices	1.42
Total Scope 2 market-based emissions	**14.15**

Our impact on society

As noted in previous pages, our aim is to give established SMEs the banking they deserve. Our SME customers are a crucial segment of the UK economy, providing more than a third of UK GDP, but the existing SME banking industry too often provides inconvenient, impersonal and poor value services to this segment.

The Great British savings squeeze

Small businesses lose out on £7.5 billion a year in savings interest because banks aren't offering them the interest rates their hard work deserves.

We want to fix the savings market and get small businesses the money they deserve. We're calling for change in the business savings market and want government and regulators to:

- **End the SME savings penalty** – get banks to start offering small businesses the same savings rates as big businesses.
- **Notify SMEs of better rates** – banks should actively notify their SME customers of what the top 3 rates in the market are.
- **Increase protections for SME deposits** – give small businesses confidence to save large amounts with all banks, by raising limits for the small business Financial Services Compensation Scheme.

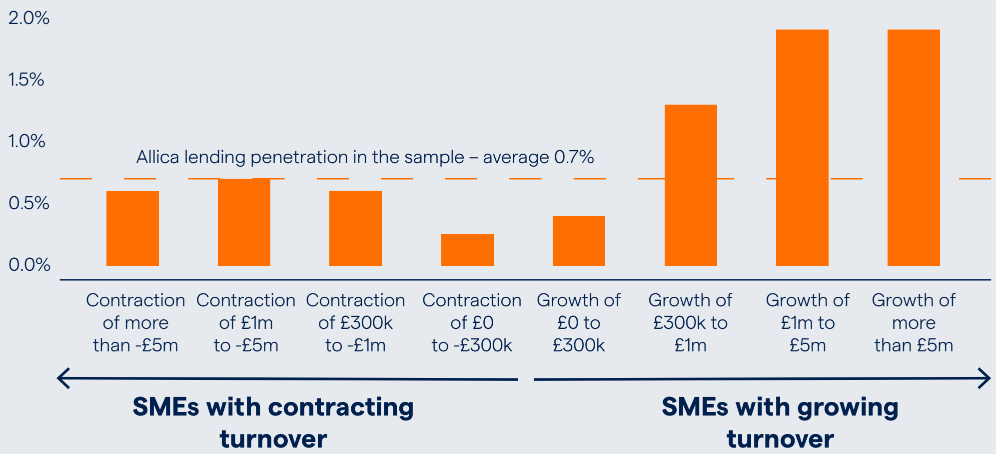
GREAT BRITISH SAVINGS SQUEEZE
Supported by Allica Bank

Supporting economic growth

To begin to understand our impact on the wider UK economy, in 2023 we worked with business information provider Experian to look at the growth characteristics of Allica's established SME customer base against the UK average for the segment.

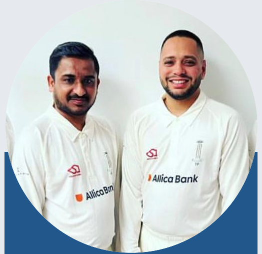
The exercise looked at the growth rate in current account turnover of a sample of c. 200k established SMEs with 5–250 employees, which we then mapped against c. 1k of our own lending customers identified in the sample.

Allica's established SME customers appear to have a much stronger propensity towards recent turnover growth than the UK average – in other words, our lending disproportionately tends to be supporting growing SMEs:



Analysis based on the most recent year's growth (Y/E September 2023 vs Y/E September 2022). Compares growth or contraction in turnover data for 197,044 SMEs with 10–250 employees and >=3 years of data available, against 1,340 Allica lending customers identified in the sample.

Our support for charity



Allica sponsors Knotty Green Cricket Club.

January

Annual Charity Bake Sale in London, selling homemade cakes and biscuits.

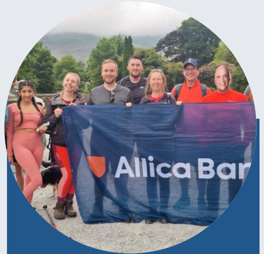
March

Funds were raised for our charity partner Blood Cancer UK.

London Colour Obstacle Rush – three colleages were sponsored to run for our charity sponsor.

May

Funds were raised for Blood Cancer UK and Stray Cat Rescue.



The Allica Bank Broker Business Development team took part in the Ten Peaks Challenge.

June

Funds were raised for Blood Cancer UK and the Newman Holiday Trust.

We sponsored two dragon boats at the Milton Keynes Dragon Boat Festival at Willen Lake.

June

Funds were raised for our charity partner Blood Cancer UK.

Two colleagues took part in the Great South Run.

October

Funds were raised for our charity partner, Blood Cancer UK.

Blood cancer UK

Our colleagues raised £19,247 through bake sale and charity talks, 10k runs, cricket matches, boat race, and bucket collection to support our charity relationship with Blood Cancer UK.

Our support for grassroots sport

ESMEs and grassroots sports are both vital parts of local communities. They bring people together, provide vital services and represent the very best of what Britain has to offer.

As such, Allica has decided to support grassroots sports as part of our #SupportUs campaign, to celebrate the ambition and resilience that unites sports players and business owners across the UK.

Grassroot sports example: sponsoring the children of City Bells FC.

Under-represented sports

During the 2023 Netball Word Cup, Allica worked with three celebrated netball players, Sasha Corbin, Tamsin Greenway and Laura Malcolm to inspire the next generation of British players.

Environmental and Social

Governance

Allica continues to be committed to achieving high corporate standards, rooted in a robust governance structure with clear individual lines of accountability and committee oversight responsibility. The Board recognises that effective governance is necessary to facilitate purposeful decision-making and to ensure that the business strategy is implemented for the benefit of shareholders and other stakeholders. 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.

Allica has a well-established Board with an independent Chair and four independent NEDs with a diverse skill base. Allica has recently conducted a detailed Board effectiveness review via a third-party expert who concluded:

> *We find the Board to be mature and fully functioning, well beyond its own start-up phase – the Directors are a strong and cohesive group, well supported by Management… The Board is engaged on strategic matters at an early stage, with good visibility of what is happening in the business, and a relatively generous allocation of time to short-term strategic planning. Executive Directors are credited for their performance and their openness with the Board… Shareholders play the observer role appropriately, with limited participation and no signs of undue influence*

Meet our Board of Directors

John Maltby

Chair

Alongside his Chair 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.

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 and Revolut Newco UK Limited. He was Group Financial Controller of Natwest Group (formerly Royal Bank of Scotland Group) and held a number of senior finance positions in a 28-year career with Natwest Group.

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.

Paul Marston

Notified Non-Executive Director

Paul is currently CEO of the FSE Group, previously holding senior roles at Secure Trust Bank and NatWest Group including Lombard.

Meet our Board of Directors

James Heath

Chief Financial Officer

Prior to joining Allica, James has been CFO of ABN AMRO UK, founding CFO at Cambridge & Counties Bank and Finance Director, Banking at Close Brothers.

Patrick Magee

Notified Non-Executive Director

Following an extensive career with JP Morgan Cazenove, Patrick worked for ten years on the establishment and growth of the British Business Bank, where he was Chief Commercial Officer.

Patrice McDonald

Chair of the Risk Committee and Senior Independent Director

Alongside her roles at Allica, Patrice is also the Non-Executive Chair of the Board of TD Global Finance and TD Bank (Europe), and the Chair of the Risk Committee at Brown Brothers Harriman Trustee Services. She has previously been a Non-Executive Director of Simcorp PLC and the Non-Executive Chair of Marshall Wace's Super ManCo. During her executive career, she was the Global Chief Risk Officer & Head of Governance at Barclays Wealth and Barclays Capital.

Meet 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.

Kate Valdar
General Counsel & Company Secretary

Kate has over 17 years of experience working as a corporate and commercial lawyer. Most recently, Kate worked as General Counsel and Company Secretary at Tandem Bank.

Conrad Ford
Chief Product & Strategy Officer

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

Alan Dunmur
Chief Risk Officer

Alan has over 20 years of experience in financial services, most recently as director of financial risk at Monzo. His experience includes senior positions held at the Bank of Ireland, Tesco Bank and RBS.

Keith Middlemass
Chief Operating Officer

Keith has 30 years of experience in banking, most recently as Chief Digital and Information officer for NatWest Commercial. His experience includes senior leadership roles in TSB, Accenture and Capgemini.

Meet our Executive team

Ravneet Shah

Chief Technology 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.

Mitch Trehan

Chief Compliance Officer

Mitch has held senior positions at Citi, Barclays and JP Morgan, and is Chair of the Interbank Payment Policy Committee for UK Finance.

Niv Subramanian

Chief Lending Officer

Prior to joining Allica, Niv was General Manager and CFO at Previse. Before that Niv has been responsible for UK and global business lines at HSBC, Barclays and TSB, and was part of the Executive team that built and received the licence at Oaknorth Bank. Niv was also founder and CEO of Economyz, a green startup.

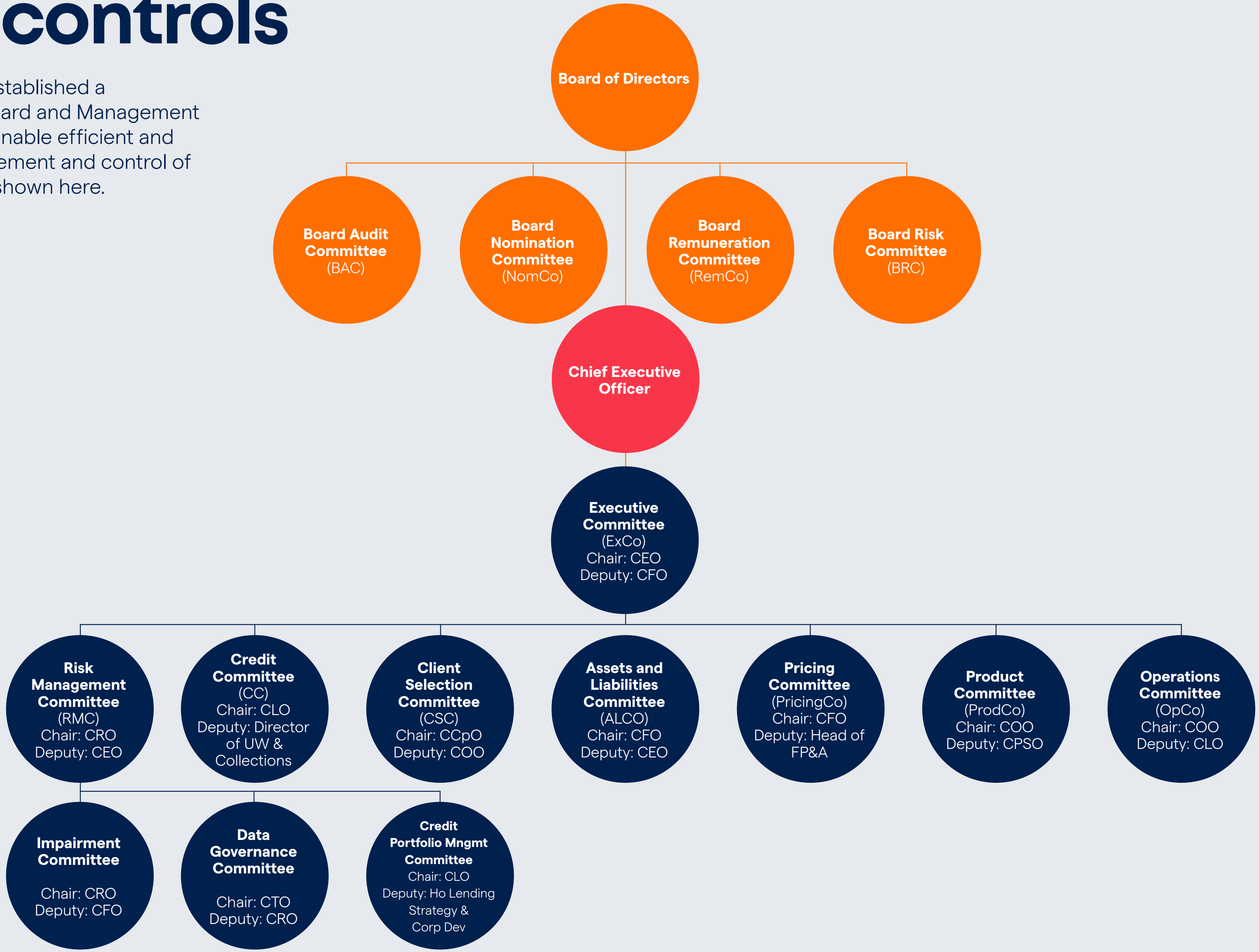
Patricia Otegui Gava

Chief Internal Auditor

With 25 years experience working in financial services, Patricia has previously managed Internal Audit at HSBC and Santander.

Organisational framework, responsibilities and controls

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



The Bank has a governance arrangement consistent and compliant with the Financial Reporting Council's UK Corporate Governance Code. The Board is the governing body of the Bank with ultimate responsibility for the performance and oversight of the business. The Board elects, from amongst its independent non-executive Directors, a Chair and appoints a separate CEO and other Executive Management to support the CEO. The Board subsequently establishes various committees, as presented above, and appoints individuals to specific roles within the committees.

The Board has put in place written terms of reference, which set out the Board's responsibilities and are designed to promote the effective exercise of the Board's powers of oversight and management of the Bank. Further details of governance arrangements can be found in the Bank's articles of association and the Board's terms of reference. The Board's responsibilities include:

- approval of the business strategy and risk appetite
- authority to act as the ultimate decision-making body and the right to delegate this authority to the CEO, to members of senior management and to board and management committees
- establishment of appropriate policies to manage the strategy and risk appetite
- assurance that the systems and controls are appropriate to manage the risks of the business
- safeguarding the Group's assets
- maintenance of sound systems and financial control
- maintenance of accountability for all decisions of the board and management committees

The Board, led by the Chair, continuously review their composition to ensure that there is appropriate level of competency to allow effective governance of the Bank.

The Chair of the Board is John Maltby, and he has been appointed to run the Board and to lead the Board in its capacity to deliver the Bank's strategy and to support and challenge the CEO in discharging his day-to-day business responsibilities. The Board has ruled that the Chair 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 four additional independent non-executive Directors. The Board has an Audit Committee, a Remuneration Committee, a Risk Committee and a Nomination Committee. Each Committee is chaired by an appropriate NED, or in the case of the Nomination Committee, the Chair. In addition to the five non-executive Directors there are two executive directors.

Terms of reference for the Board and each of the Board's committees detail the primary responsibilities along with the governance arrangements, control of affairs, standing agenda items, specific monitoring and composition. 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 in accordance with its terms of reference, including material events, changes or trends together with recommendations as appropriate. Board meetings are held monthly or more often if required.

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. All registered conflicts are monitored and reviewed regularly. 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 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. During 2023, the Board engaged an external consultant to review and assess its effectiveness. Interviews were undertaken with the members of the Board and key members of the management team. The review found that the Board and the Board Committees function effectively and fulfil their responsibilities appropriately. A number of actions were agreed to further improve effectiveness and the Chair has been assigned responsibility for making sure that these actions are implemented.

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 Chair, CEO and the chairs of the Board Committees to set meeting agendas, ensure that there is an appropriate balance between strategy, regulatory and operational matters whilst also ensuring that there is effective communication between the Board and the Executive.

Board activities during 2023

During 2023, the Board continued to focus on developing and implementing the Group's strategy to deliver the business plan.

This included overseeing the migration from the original legacy loans and deposits system to new systems including a proprietary software, which has aided the Group's operational efficiencies and prepared it for the next phase of scale and growth.

As part of the broader business strategy, the Board oversaw the development and growth of the Group's 'Direct to Customer' initiative with the introduction of the Client Relationship division and creation of Central Business Management and Cash Sales divisions. In addition, the Group increased it's product portfolio with the launch of the Business Rewards Account and further Business Deposit products alongside Growth Finance and specialist sector lending which have seen positive feedback within the market to date and an array of awards, including the Deloitte UK Technology Fast 50 award. All this activity was supported by the first major brand campaign for the Group – Get your money hat on!

The Board approved the incorporation of a new subsidiary company in India, established to continue to attract and maintain strong talent in product and technology and they supported the management team more widely in prioritising and furthering the diversity and inclusion program to create an environment with a clear purpose, that celebrates talent and diversity of thought.

In addition, the Board oversaw the implementation of Consumer Duty of Care regulation and witnessed strong customer experience results via external surveys.

In line with all development, the Board continues to strive for the highest level of risk management and governance alongside its unprecedented growth, ensuring the business grows in a controlled manner with advancements across its Risk and Compliance functions, systems and processes and continuing people development to support its ambition to be most recommended.

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 for preparing the annual financial statements is appropriate;
- 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);
- 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 Chair of the Board, the Chief Executive Officer, the Executives 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, as well as 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 the Bank's day-to-day operations is managed through management committees, detailed below. The CRO and Chief Compliance Officer (CCO) are responsible for the Second Line of Defence with respective Executives responsible for risks within their domain as First Line of Defence.

Executive Committee (ExCo)

To assist in the delivery of the Group's strategy, the CEO maintains an Executive Committee. The purpose of Exco is to allow the CEO to allocate responsibilities, liaise and co-ordinate with the leadership team, review projects, and keep abreast of the day-to-day management of the Bank. Exco meet at least monthly, or sooner at the discretion of the CEO. The responsibilities of ExCo include:

- to provide oversight of the Bank, including reviewing the key committee objectives and matters raised, accountable to the CEO.
- development, implementation and communication of strategy, operational plans, policies, procedures and budgets.
- monitoring of operating and financial performance.
- responsibility for the Bank's culture, conduct and ethics.
- identification, management, monitoring and assessment of the risks across the Bank.

- whilst subsidiary Committees have responsibility for the monitoring and management of specific Key Risk Categories, the CRO and CCO are responsible for the aggregation of these and reporting of the Bank's Risk profile to Exco including compliance with Risk Appetite limits and related Key Risk/Early Warning Indicators.
- prioritisation and allocation of resources.
- monitoring competitive forces in each area of operation.

Risk Management Committee (RMC)

The RMC is chaired by the Chief Risk Officer and is responsible for the monitoring and management of the Bank's overall Enterprise-Wide Risk profile. Responsibilities also include:

- ensuring that 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 chaired by the Chief Financial Officer and 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 treasury related policies;
- reviewing and monitoring the composition and growth of assets and liabilities of the Group;
- evaluating and assessing the impact of other potential drivers of earnings volatility, such as competitive pressures or non-interest rate related changes to market conditions;
- developing and applying appropriate hedging strategies to control volatility of balance sheet and earnings.

Operations Committee (OpCo)

OpCo is chaired by the Chief Operating Officer and 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 chaired by the Chief Operating Officer and is responsible for the approval of new products under Allica's New Product Approval Process, changes to existing products and for managing the operational performance of products.

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 principles of Treating Customers Fairly and Consumer Duty when developing and amending products;
- making sure that product literature sets out all relevant information and that it is clear, concise and jargon free.

Pricing Committee (PricingCo)
PricingCo is chaired by the Chief Financial Officer and is responsible for reviewing and approving any changes to the pricing of loan book products.

Responsibilities also include:

- reviewing existing pricing and resultant financial returns;
- assessing the appropriateness of product pricing in meeting Allica's commercial and financial objectives;
- reviewing the appropriateness of underlying pricing model assumptions;
- deciding if any change to product pricing is required and deciding launch pricing for new product launches.

Client Selection Committee*
The Client Selection Committee is chaired by the CCO and is a forum for assessing whether to onboard customers that may be in high-risk sectors or in segments where business appetite is unclear or borderline.

Responsibilities include:

- considering individual cases that have been escalated by the first line of defence;
- assessing potential risks and mitigants in line with the Bank's control framework;
- updating the sector appetite list as appropriate following any decision.

*the Client Selection Committee is not responsible for 'exiting' customers

Credit Committee
The Credit Committee is chaired by the Chief Lending Officer and is responsible for reviewing individual lending transactions.

Responsibilities include:

- reviewing individual credit decisions of larger transactions to ensure they are within the Bank's risk appetite;
- reviewing individual credit decisions to ensure they are within the Bank's concentration risk for such assets and/or sectors.

Functions and organisational structure

The Chair allocates prescribed responsibilities to Senior Management Functions (SMFs) among its own membership and that of the Executive Management. There are 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.

Allocated to Non-Executive Directors		Allocated to Senior Management	
Chair of the Board	SMF 9	Chief Executive Officer	SMF 1
Chair of the Risk Committee	SMF 10	Chief Financial Officer	SMF 2
Chair of the Audit Committee	SMF 11	Chief Executive Officer Chief Financial Officer	SMF 3
Chair of the Remuneration Committee	SMF 12	Chief Risk Officer	SMF 4
Chair of the Nomination Committee	SMF 13	Chief Internal Auditor	SMF 5
Senior Independent Director	SMF 14	Chief Lending Officer	SMF 6
		Chief Compliance Officer	SMF 16
		MLRO	SMF 17
		Chief Product and Strategy Officer	SMF 18
		Chief Operations Officer	SMF 24

Directors' report

The Directors of the Company present their report together with the audited financial statements for the year ended 31 December 2023.

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
15	Business review
18	Performance review
21	People
25	Section 172(1) statement
26	Risk management & exposures
33	Environment, social & governance
43	Directors & Executive biographies
56	Political & charitable donations
129	Related party transactions
135	Share-based payments
135	Events after the reporting period

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 2 to 25.

Research and development

During the year, Allica continued investing 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 2023 (2022: £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, unless otherwise stated:

J Maltby
R Davies
J Heath
R Kapoor
P Marston
P McDonald Pryer
P Magee (appointed 1 May 2023)

Powers 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 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. This included forecast projections prepared using detailed financial planning by the Bank's management that considers the current and future economic environment, the principal and emerging risks as set out in page 29 and a prudent view of the Bank's growth.

The Directors note that the Group generated a profit after tax of £19.2m for the year-ended 31 December 2023 and the forecasts project the Group will continue to be profitable and remain within its regulatory capital requirements for the foreseeable future.

The Directors have also reviewed the financial and capital impact of a range of severe capital and liquidity stresses on the forecast projections. The Group has implemented both a high and low interest rate variant, as well as further reverse, idiosyncratic and single-variable stress tests in order to test the limits and vulnerabilities of the business plan and strategy. The impact of management actions that might be taken to mitigate the impact of these stresses is also assessed.

Having considered all available information, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

Political and charitable donations

Allica has not made any donations 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 and third parties to provide our views on regulatory and policy issues relevant to our business and customers or engage in events organised by third parties at party conferences. These activities are not intended or considered to be political campaigning, activity, or support.

People

Please refer to page 23 for further information on employment of disabled persons.

Share capital

Details of the Bank's issued share capital and 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 287,181,979 were in issue as of 31 December 2023 (2022: 250,070,170).

Restrictions on the transfer of shares

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

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make them aware of any relevant information and to establish that the Group's auditor is aware of that information.

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.

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

Richard Davies
Chief Executive Officer

16 April 2024

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 the year. 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 Company 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 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 2 to 25) and the Directors' Report (on pages 54 to 56) 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.

Approved by the Board and signed on its behalf by

Richard Davies
Chief Executive Officer

16 April 2024

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 2023 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 2023 which comprise:

Group	Parent company
Consolidated statement of profit and loss and other comprehensive income for the year then ended	Statements of financial position as at 31 December 2023
Statements of financial position as at 31 December 2023	Company statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Statements 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 assessed a reduced lending scenario and considered 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; 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	• Effective Interest Rate (EIR) revenue recognition, including management override of controls. • Adequacy of allowance for expected credit losses on loans and advances to customers. • Capitalisation of costs and impairment of IT software, including management override of controls.
Materiality	• Overall group materiality of £1,546k (2022: £1,301k) which represents 0.5% of the equity (2022: 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 pages 43 in the Environment, 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".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

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
Effective Interest Rate (EIR) revenue recognition, including management override of controls (£177,843k, 2022: £72,252k) Refer to the accounting policies (page 79) and Note 4 (page 89) 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 scrutinised the material fee income and expense accounts to validate that the fees that are integral part of the loan are appropriately amortised through EIR. We assessed the reasonableness of 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, we 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 (£14,279k, 2022: £8,473k) Refer to the accounting policies (page 79); and Note 27 (page 111) 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 a degree of 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. Factors such as the credit ratings, days past due, ability of customers to repay the loan will drive how the loans are categorised within the ECL model between categories 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.	During the year, we identified model misalignment in lifetime PD curve used for accounts in Stage 2, resulting in an overstatement of ECL. The overstatement was immaterial and therefore was not adjusted by the Directors.

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 Allica 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. • Post-model adjustments - Appropriateness, completeness and valuation of post-model adjustments which represent approximately 10.1% of total ECL (2022 – 7.5%), including adjustments required to address the limitation in the existing and underlying data fields incorporated in the models. The risk is further exacerbated by the recent inflationary pressures and the interest rate changes.		

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 - £18,426k, 2022: £12,857k) Refer to the accounting policies (page 79) and Note 15 (page 98) 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 or there has been a change to the useful economic life of the asset resulting in accelerated amortisation. Consequently, there is a risk of material misstatement with regards to the capitalisation and impairment of IT software.	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. For a sample of transactions, 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. We verified the percentage used to capitalise staff cost by reviewing management's calculation and performing a sensitivity analysis. 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. For a sample of IT systems in the books at year-end, verified that those are still in use and therefore don't need to be impaired or subject to accelerated amortisation.	Based on the procedures performed, we are satisfied that capitalised costs are appropriate and in line with IAS 38, We are also satisfied with management's conclusion over the charge for accelerated amortisation that arose as a result of change in useful economic life of certain IT software mainly due to the migration projects undertaken is appropriate and that there were no impairment indicators present for the IT software remaining on the books.

In the prior year, our auditor's report included a key audit matter in relation to Accounting for the acquisition of the second tranche of the AIB loan portfolio. Given that the transaction is now complete, we have not included as a key audit matter in the current year.

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 £1,546k (2022: £1,301k), which is 0.5% (2022: 1%) of the group's equity at the time of our audit planning (0.6% of the group's equity at year end). Although we noted a decrease in equity between the planning stage of the audit and 31 December 2023, we concluded that it remained appropriate to keep materiality levels the same 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. We compared the materiality to peers and noted that the range of materiality typically used is 0.5%-0.8% of equity. As such we decided to use 0.5% of equity (lower end of the range) on the grounds that the group operates within a highly regulated industry with increased focus on capital adequacy and the yearend value of remained within that benchmark range.

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% (2022: 50%) of our planning materiality, namely £773k (2022: £650k). 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 £77k (2022: £65k), 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 57, 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 7 years, covering the years ending 31 July 2017 to 31 December 2023.
- 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

16 April 2024

Financial Statements

Consolidated statement of profit or loss and other comprehensive income

	Note	Group Year ended 31/12/2023 £'000	Group Year ended 31/12/2022 £'000
Income			
Interest income		177,843	72,252
Interest expense		(97,813)	(23,341)
Net interest income	4	80,030	48,911
Fair value gains on financial instruments	4	6,905	67
Fee and commission income		2,838	587
Fee and commission expense		(2,965)	(1,253)
Net fee and commission expense	5	(127)	(666)
Total operating income		**86,808**	**48,312**
Expenses			
Administrative expenses	6	(18,016)	(14,266)
Depreciation and amortisation	7	(5,394)	(3,337)
Staff costs	8	(33,028)	(23,823)
Total operating expenses		(56,438)	(41,426)
Operating profit before impairment losses		30,370	6,886
Impairment losses		(14,279)	(8,473)
Profit/(loss) before tax		**16,091**	**(1,587)**
Tax	11	3,059	7,210
Profit after tax for the year		**19,150**	**5,623**

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

	Note	Group Year ended 31/12/2023 £'000	Group Year ended 31/12/2022 £'000
Other comprehensive income			
Items that may be recycled subsequently to profit or loss			
Fair value gains/(losses) on debt securities		837	(764)
Cash flow hedges: (Losses)/gains arising during the year	26	(20,264)	20,431
Amounts recycled to profit or loss during the year	26	(6,759)	(84)
Tax credit/(expense)	11	6,756	(5,087)
Other comprehensive (loss)/income for the year, net of tax		(19,430)	14,496
Total comprehensive (loss)/income for the year		**(280)**	**20,119**

The results for the current and prior year 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 77–133.

Statements of financial position

		Group		Company	
		As at 31/12/2023	As at 31/12/2022	As at 31/12/2023	As at 31/12/2022
	Note	£'000	£'000	£'000	£'000
Assets					
Cash and balances at central banks	32	718,805	230,150	718,805	230,150
Loans and advances to banks	32	87,763	64,093	84,406	59,433
Debt securities		115,774	65,552	115,774	65,552
Derivative financial instruments	26	19,570	27,846	19,570	27,846
Loans and advances to customers	12	1,976,826	1,348,166	1,256,626	940,591
Investments		1,000	1,000	1,000	1,000
Other assets	13	6,212	8,659	5,606	5,631
Tangible fixed assets	14	805	616	805	616
Right-of-use assets	21	836	1,333	836	1,333
Intangible assets	15	18,426	12,857	18,426	12,857
Deferred tax asset	11	12,902	2,198	12,902	2,198
Amounts due from subsidiary	16	–	–	735,806	427,727
Total assets		**2,958,919**	**1,762,470**	**2,970,562**	**1,774,934**
Liabilities					
Cash collateral	32	3,485	23,514	3,485	23,514
Derivative financial instruments	26	22,518	3,915	22,518	3,915
Customer deposits	17	2,633,247	1,507,433	2,633,247	1,507,433
Other liabilities	18	10,523	9,023	9,934	8,802
Provisions	19	1,617	490	1,563	490
Subordinated liabilities	20	7,500	7,500	7,500	7,500
Leases	21	887	1,324	887	1,324
Total liabilities		**2,679,777**	**1,553,199**	**2,679,134**	**1,552,978**

Statements of financial position (continued)

		Group		Company	
		As at 31/12/2023	As at 31/12/2022	As at 31/12/2023	As at 31/12/2022
	Note	£'000	£'000	£'000	£'000
Equity					
Share capital	22	2,873	2,501	2,873	2,501
Share premium	23	301,158	266,332	301,158	266,332
Perpetual notes (including convertible)	24	45,127	9,886	45,127	9,886
Other components of equity	24	(2,937)	16,781	(2,937)	16,781
Accumulated losses	24	(67,079)	(86,229)	(54,793)	(73,544)
Total equity		**279,142**	**209,271**	**291,428**	**221,956**
Total liabilities and equity		**2,958,919**	**1,762,470**	**2,970,562**	**1,774,934**

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 2023 was £18,751k (2022: £15,429k). The results for the current and prior year are derived entirely from continuing operations.

The above statements of financial position should be read in conjunction with the accompanying notes on pages 77–135.

The financial statements were approved for issuance by the Board on 16 April 2024 and signed on its behalf by:

Richard Davies
Chief Executive Officer

16 April 2024

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 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**

Group	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2023	2,501	266,332	16,781	9,886	(86,229)	209,271
Profit after tax credit for the year	–	–	–	–	19,150	19,150
Other comprehensive loss for the year, net of tax	–	–	(19,430)	–	–	(19,430)
Total comprehensive income/(loss) for the year	–	–	(19,430)	–	19,150	(280)
Transactions with owners in their capacity as owners:						
Share-based payments	7	281	(288)	–	–	–
Employee bonus share issuance	11	405	–	–	–	416
Issue of ordinary share capital	354	34,140	–	–	–	34,494
Issue of perpetual convertible notes	–	–	–	35,241	–	35,241
Balance at 31 December 2023	**2,873**	**301,158**	**(2,937)**	**45,127**	**(67,079)**	**279,142**

Company statement of changes in equity

Company	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 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**

Company	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2023	2,501	266,332	16,781	9,886	(73,544)	221,956
Profit after tax credit for the year	–	–	–	–	18,751	18,751
Other comprehensive loss for the year, net of tax	–	–	(19,430)	–	–	(19,430)
Total comprehensive income/(loss) for the year	–	–	(19,430)	–	18,751	(679)
Transactions with owners in their capacity as owners:						
Share-based payments	7	281	(288)	–	–	–
Employee bonus share issuance	11	405	–	–	–	416
Issue of ordinary share capital	354	34,140	–	–	–	34,494
Issue of perpetual notes (including convertible)	–	–	–	35,241	–	35,241
Balance at 31 December 2023	**2,873**	**301,158**	**(2,937)**	**45,127**	**(54,793)**	**291,428**

Statements of cash flows

		Group		Company	
		Year ended 31/12/2023	Year ended 31/12/2022	Year ended 31/12/2023	Year ended 31/12/2022
	Note	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Interest income received		158,027	71,813	166,198	73,884
Interest expense paid		(76,617)	(17,118)	(76,617)	(16,950)
Cash flows from operations	32	400,096	(168,238)	393,228	(172,608)
		481,506	(113,543)	482,809	(115,674)
Tax paid		(1,024)	–	(1,024)	–
Net cash from/(used in) operating activities		480,482	(113,543)	481,785	(115,674)
Cash flows from investing activities					
Purchase of debt securities		(49,641)	(25,737)	(49,641)	(25,737)
Purchase of investments		–	(1,000)	–	(1,000)
Purchase of property, plant and equipment	14	(568)	(613)	(568)	(613)
Purchase of intangibles	15	(10,114)	(7,525)	(10,114)	(7,525)
Net cash used in investing activities		(60,323)	(34,875)	(60,323)	(34,875)
Cash flows from financing activities	32				
Proceeds from issue of ordinary shares	22, 23	34,494	98,981	34,494	98,981
Issue of perpetual notes (including convertible)	24	35,241	–	35,241	–
Capital repayment of lease liabilities		(437)	(298)	(437)	(298)
Net cash from financing activities		69,298	98,683	69,298	98,683
Net increase/(decrease) in cash and cash equivalents		489,457	(49,735)	490,760	(51,866)
Cash and cash equivalents at the beginning of the year		262,846	312,581	258,186	310,052
Cash and cash equivalents at the end of the year	32	752,303	262,846	748,946	258,186

Notes to the financial statements

Note 1. General information

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

Allica Bank Limited is a private company limited by shares, incorporated and domiciled in the United Kingdom. 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 11.

Note 2. Basis of preparation and material accounting policies

The material 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 2022 were not materially different to those of the consolidated group unless otherwise stated.

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 material 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.

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 effect of the current economic situation in the UK and the geopolitical risks (in particular the situation in Ukraine and the Middle East) on the Group's financial forecasts and downside scenarios whereby the financial forecasts are stressed for a number of potential risks crystallising.

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 the as follows.

Regulatory 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 the Directors have based their 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.

To ensure that this is the case, the Directors have 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. Due to the importance of liquidity management to the management and Board, the stress tests and reverse stress testing has taken this into consideration and determined that the Group holds sufficient liquid assets to withstand the stresses applied.

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

d) Principles of consolidation
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) Material 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 material 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.

Loans and advances to banks

Loans and advances to banks are recognised initially at fair value and subsequently at amortised cost.

Cash and cash equivalents

These balances include cash and cash equivalents that 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. Cash collaterals held on derivative financial instruments are not considered cash and cash equivalent since these are not held at call.

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.

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.

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

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 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. Loans and advances to banks
Loans and advances to banks cash on hand, deposits held at call with financial institutions, and cash collaterals held on derivative financial instruments; these assets are subject to an insignificant risk of changes in value. Cash and balances due from banks are initially recognised at fair value and subsequently at 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 effective interest 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 unlisted 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.

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.

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

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.

FVPL
Derivative assets and liabilities, and investments are measured at fair value, with changes in fair value recognised in income statement as they arise. Further details on derivative assets and liabilities is given in the policy on Derivatives held for hedging purposes on page 83.

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.
  - *Probability of Default ('PD')* represents the likelihood of a customer defaulting on their loan over a time period. As a young Bank, Allica does not have sufficient historical data to build 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 are treated as fully drawn for the calculation of EAD and assigned to the same stage as the drawn component.

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

- *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 financial assets. This determines whether the financial asset would be subject to 12-month ECL or lifetime ECL. Allica uses the criteria below to determine if there has been a SICR:
  - The borrower is more than 30 days past due on any material credit obligation;
  - A significant increase in a customer's PD at the reporting date compared to the expected PD when the asset 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; or
  - Other indicators of a SICR including qualitative factors such as probation accounts and customers on watchlist.

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

- 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; or
- 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 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.

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

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. There is no ineffective portion for 2023.

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. 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.

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 these 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).

Notes to the financial statements

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

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 derecognized upon disposal or when there is no future economic benefit to the Group. Gains and losses reflecting the difference 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 to fully amortise during 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 & Company	Year ended 2023 £'000	Year ended 2024 £'000	2025 £'000	2026 £'000	2027 £'000	2028–2030 £'000	Total impact £'000
Favourable/ (adverse) impact	(939)	210	210	207	192	120	–

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, 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.

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

Taxation
The tax expense or benefit for the year is the tax payable or recoverable on that year'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 tax 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.

Notes to the financial statements

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

Loan commitments

Irrevocable customer loan commitments, which were undrawn at 31 December 2023 were £95,053k (2022: £98,705k) with ECL provisions of £991k (2022:£452k).

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 reflects 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 by 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), which are provided by a reputable external company and are refreshed quarterly. The scenario forecasts have been fed into 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 50% Base, 35% Downside, and 15% Upside (2022: 45% Base, 40% Downside, and 15% Upside).

Economic Variable	Scenario	2024	2025	2026	2027	2028
UK GDP Growth, % Year on Year	Upside	3.0	2.9	2.6	1.7	1.3
	Base Case	0.5	1.5	1.9	1.5	1.4
	Downside	(3.1)	0.2	1.4	1.4	1.5
Bank Rate, % Year End	Upside	5.8	5.1	4.1	3.1	2.5
	Base Case	4.9	3.8	2.8	2.0	2.0
	Downside	3.9	2.6	1.6	1.5	1.5
ILO Unemployment Rate, % Year Average	Upside	4.2	3.9	3.8	3.7	3.7
	Base Case	4.5	4.4	4.1	3.9	3.8
	Downside	5.4	6.5	7.1	7.0	6.6

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

Post-model adjustments (PMA)
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 loans with ECL estimates that have not been adequately captured by the models. PMAs are reviewed and approved on a periodic basis at the Board Risk Committee.

During the year ended 31 December 2023, PMAs were applied due to certain limitations in the existing models and the underlying data fields. As at 31 December 2023, specific PMAs added to the modelled loss allowance totalled £2,231k and are as follows:

- Probability of Default ("PD") update (£1,929k charge) – A PMA has been applied in anticipation of updated IFRS 9 PD models being implemented into production in 2024, once these have been validated and approved through internal governance processes. The PMA covers exposures across all products. The adjustment have been assigned between Stage 1 and Stage 2.
- Sole trader data limitation (£302k charge) – This PMA is being held to account for the current data limitations for Sole Traders within the Group's portfolios, which prevents the identification and flagging of SICR.
- The End of Term ("EoT") Risk PMA previously held at the end of 2022 (£590k) has been released as modelling now fully reflects this risk. Additionally, the "Buy to Let data limitation" PMA held at the end of 2022 (£85k) has also been released as the Group now has sufficient data for the identification and flagging of SICR events for the Buy to Let portfolio.

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 £2,385k in the ECL provision as at 31 December 2023.

The ECL calculation as at 31 December 2023 is derived from these three scenarios as follows:

Scenario	ECL £'000
Upside	8,527
Base	13,137
Downside	40,403

The combined impact of the above results in a scenario weighted ECL of £21,989k at 31 December 2023 (2022: £8,977k) 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 which requires an entity to recognise an intangible asset, whether purchased or self-created if:

- It is probable that 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 85.

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 yield from the instrument.

Note 4. Net interest and other operating income

(a) Net interest income

	Group	
	Year ended 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Interest income calculated using effective interest rate:		
On loans and advances to customers	124,885	65,253
On loans and advances to banks	35,593	4,359
On debt securities	4,001	1,002
On derivatives	13,364	1,638
	177,843	**72,252**
Interest expense:		
On customer deposits	(82,982)	(19,765)
On subordinated debt	(959)	(935)
On derivatives	(13,702)	(2,544)
On other interest bearing financial instruments	(170)	(97)
	(97,813)	**(23,341)**
Net interest income	**80,030**	**48,911**

(b) Fair value gains and losses on financial instruments

	Group	
	Year ended 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Fair value losses on interest rate swaps	(3,405)	(6,426)
Fair value gains on interest rate swaps	3,551	6,409
Other financial income/(expense)	6,759	84
	6,905	**67**

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 of 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 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Fee and commission income:		
Fee income on loans and advances to customers	2,838	587
Fee and commission expense:		
Servicing fees for loans and advances to customers	(2,261)	(769)
Servicing fees for customer deposits	(538)	(301)
Other expenses on loans and advances to customers	(166)	(183)
	(2,965)	**(1,253)**
Net fee and Commission expense	**(127)**	**(666)**

Note 6. Administrative expenses

	Group	
	Year ended 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Technology license fees and subscriptions	5,651	4,294
Legal and professional fees	3,752	3,168
Transitional Service Agreement (TSA) costs (see a) below)	–	1,631
Marketing	3,347	929
Office operating costs	620	753
Travel and entertainment expenditure	799	449
Other expenditure (see b) below)	3,847	3,042
	18,016	**14,266**

a) In November 2021, Allica agreed to acquire £610 million of commercial loans from AIB Group (UK) Plc following its decision to exit from the SME market in Great Britian. Allica also entered into a Transitional Servicing Agreement ("TSA") with AIB under which AIB serviced the acquired loans; this agreement has concluded following the complete migration of the entire portfolio onto Allica's systems by October 2022.

b) Other expenditure primarily consists of irrecoverable VAT expenses.

Notes to the financial statements

Note 7. Depreciation and amortisation

	Group	
	Year ended 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Depreciation of tangible fixed assets and right-of-use assets	849	491
Amortisation and impairment of intangible assets	4,545	2,846
	5,394	**3,337**

Refer to notes 14, 15 and 21 for further details.

Note 8. Staff costs

	Group	
	Year ended 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Wages and salaries	27,350	19,801
Social security costs	3,170	2,432
Contributions to defined contribution pension plan	2,242	1,479
Other staff costs	266	111
	33,028	**23,823**

The monthly average number of persons employed by the Group (including Directors) during the year was 416 (2022: 269). 222 of these were employed in management, administration and other back-office functions (2022: 140) and 194 were employed in customer operations (2022: 129).

Notes to the financial statements

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 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Audit services		
Audit of the financial statements of the Group and its subsidiaries	750	595

The audit fee for 2023 includes £693k in respect of the parent company, Allica Bank Limited, £52k in respect of subsidiaries and £5k relates to additional work performed in completing the 2022 audit. In addition, there were £25k of non-audit fees payable to Ernst & Young LLP in 2023 relating to interim profit verification procedures.

Note 10. Directors' emoluments

	Group	
	Year ended 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Aggregate remuneration in respect of qualifying services	**1,942**	**1,620**

Number of Directors accruing benefits under the defined contribution pension scheme was 1 (2022:1).

The highest paid directors' aggregate remuneration was £828k (2022: £654k).

Directors' loans of £30k were made during the year (2022: £45k) to fund awards under the joint share ownership plan (see note 33). Total directors' loans at 31 December 2023 amount to £98k (2022: £68k). Other staff costs in note 8 represent 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 2023 and 2022 are, as follows:

	Group	
	Year ended 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Current Tax Expense		
Current tax charge on income for the year at statutory rate	962	75
Current tax adjustment in respect of prior years	(73)	-
Deferred Tax (Income)/Expense		
Deferred tax recognised on future taxable losses	(7,192)	(7,285)
Impact of difference between current tax and deferred tax rate	195	-
Losses utilised in the current year	3,049	-
Taxation Credit	**(3,059)**	**(7,210)**

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

	Group	
	Year ended 31/12/2023	Year ended 31/12/2022
	£'000	£'000
Profit/(Loss) before tax	16,091	(1,587)
Tax at the statutory tax rate of 23.5% (2022: 19%)	3,781	(302)
Effects of:		
Expenses not deductible for tax purposes	1,014	718
Differences between current tax and deferred tax rate	195	(1,642)
Income not deductible for tax purposes	(879)	(277)
Utilisation of deferred taxes	(7,192)	(4,606)
Tax losses/temporary differences for which no deferred taxes were recognised	22	(1,101)
Taxation credit	**(3,059)**	**(7,210)**

Corporation tax liabilities amounting to £889k are payable to HMRC within one year (2022: nil).

At the statement of financial position date, the Group had tax losses carried forward of £76,716k (2022: £82,673k) and £38,018k on which no deferred tax asset has been recognised.

Notes to the financial statements

Note 11. Income tax (continued)

As per the 2021 Budget announcement on 3rd March 2021, the UK corporation tax rate rose 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, as it is probable that there will be sufficient future taxable profits to utilise tax losses brought forward.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 assets	Income statement	OCI	Net deferred tax assets	Income statement	OCI
	As at 31/12/2023	Year ended 31/12/2023	Year ended 31/12/2023	As at 31/12/2022	Year ended 31/12/2022	Year ended 31/12/2022
	£'000	£'000	£'000	£'000	£'000	£'000
Revaluation of fair value hedges	301	(1,063)	–	1,364	(1,364)	–
Revaluation of cash flow hedges	1,669	–	6,756	(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	10,932	5,011	–	834	(834)	–
	12,902	**3,948**	**6,756**	**2,198**	**(7,285)**	**5,087**

Note 12. Loans and advances to customers

	Group		Company	
	As at 31/12/2023	As at 31/12/2022	As at 31/12/2023	As at 31/12/2022
	£'000	£'000	£'000	£'000
Loans and advances to customers	1,998,815	1,357,143	1,270,716	947,334
Allowance for impairment losses	(21,989)	(8,977)	(14,090)	(6,743)
	1,976,826	**1,348,166**	**1,256,626**	**940,591**

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

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	
	As at 31/12/2023	As at 31/12/2022
Gross investment in finance leases receivable:	£'000	£'000
Less than one year	110,257	48,220
Between one and two years	97,418	44,443
Between two and three years	75,456	37,737
Between three and four years	45,998	25,877
Between four and five years	16,564	11,491
More than five years	2,257	1,499
	347,950	**169,267**
Unearned finance income	**(46,295)**	**(20,313)**
Net investment in finance leases	**301,655**	**148,954**
Net investment in finance leases receivable:	£'000	£'000
Less than one year	90,048	39,885
Between one and two years	83,267	38,292
Between two and three years	67,611	34,074
Between three and four years	42,751	24,202
Between four and five years	15,839	11,069
More than five years	2,139	1,432
Net investment in finance leases	**301,655**	**148,954**

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 £3,299k (2022: 1,366K).

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 31 December 2023 (2022: nil).

Note 13. Other assets

	Group		Company	
	As at 31/12/2023	As at 31/12/2022	As at 31/12/2023	As at 31/12/2022
	£'000	£'000	£'000	£'000
Prepayments	3,634	2,632	3,615	2,632
Other assets	2,578	6,027	1,991	2,999
	6,212	**8,659**	**5,606**	**5,631**

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.

Notes to the financial statements continue on the next page

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 2022	44	534	578
Additions	57	556	613
Disposals	(34)	(41)	(75)
As at 31 December 2022	**67**	**1,049**	**1,116**
Additions	–	568	568
Write-off	–	(273)	(273)
As at 31 December 2023	**67**	**1,343**	**1,411**

Accumulated depreciation	Fixtures and fittings £'000	Office and IT equipment £'000	Total £'000
As at 1 January 2022	12	317	329
Charge for the year	5	179	184
Disposals	(13)	–	(13)
As at 31 December 2022	**4**	**496**	**500**
Charge for the year	13	338	351
Write-off	–	(245)	(245)
As at 31 December 2023	**17**	**589**	**606**

Net book value	Fixtures and fittings £'000	Office and IT equipment £'000	Total £'000
As at 31 December 2023	50	755	805
As at 31 December 2022	63	553	616

Notes to the financial statements

Note 15. Intangible assets

Group & Company	Software £'000	Work in progress £'000	Total £'000
Cost			
As at 1 January 2022	12,055	649	12,704
Additions	–	7,525	7,525
Transfer from work in progress	7,805	(7,805)	–
Impairment of assets	(2,861)	–	(2,861)
As at 31 December 2022	**16,999**	**369**	**17,368**
Additions	–	10,114	10,114
Transfer from work in progress	8,840	(8,840)	–
Assets written off	(1,466)	–	(1,466)
As at 31 December 2023	**24,373**	**1,643**	**26,016**
Accumulated amortisation			
As at 1 January 2022	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**
Amortisation expense	3,606	–	3,606
Assets written off	(527)	–	(527)
As at 31 December 2023	**7,590**	**–**	**7,590**
Net Book Value			
As at 31 December 2023	16,783	1,643	18,426
As at 31 December 2022	12,488	369	12,857

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

Notes to the financial statements

Note 16. Amounts due from subsidiary

	Company	
	As at 31/12/2023	As at 31/12/2022
	£'000	£'000
Intercompany loans	735,806	427,727

The intercompany loans represent amounts due to the Company from Allica Financial Services Limited (AFSL) and Allica India Technology Services Private Limited (AITS). The loans are repayable on the earlier of (a) twelve months' written notice from the Company, and (b) two weeks' written notice from the borrower.

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

Note 17. Customer deposits

	Group & Company	
	As at 31/12/2023	As at 31/12/2022
	£'000	£'000
Personal deposits	2,220,314	1,387,520
SME deposits	412,933	119,913
	2,633,247	**1,507,433**

Notes to the financial statements continue on the next page

Note 18. Other liabilities

	Group		Company	
	As at 31/12/2023	As at 31/12/2022	As at 31/12/2023	As at 31/12/2022
	£'000	£'000	£'000	£'000
Trade payables	703	8	693	8
Accruals	7,773	7,561	7,189	7,420
Social security and other taxes	1,313	1,021	1,313	1,021
Current tax (receivable)/payable	(60)	75	(60)	75
Other payables	794	358	799	278
	10,523	**9,023**	**9,934**	**8,802**

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

Note 19. Provisions

	Group		Company	
	As at 31/12/2023	As at 31/12/2022	As at 31/12/2023	As at 31/12/2022
	£'000	£'000	£'000	£'000
Impairment losses	991	452	937	452
Other provisions	626	38	626	38
	1,617	**490**	**1,563**	**490**

Impairment losses relate to irrevocable loan commitments which had not been drawn down as at year-end and are categorised as stage 1.

Other provisions comprise of dilapidation and indemnity provisions provided to external parties in the normal course of business.

Notes to the financial statements

Note 20. Subordinated liabilities

Group & Company	As at 31/12/2023 £'000	As at 31/12/2022 £'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 31/12/2023 £'000	As at 31/12/2022 £'000
Statement of financial position:		
Right-of-use asset	836	1,333
Lease liability	887	1,324
Statement of comprehensive income:		
Interest expense on lease liability	36	17
Depreciation expense on right-of-use asset	498	304

- 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.
- £473k 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 (2022: £2k). There were no short-term leases not accounted for under IFRS 16 (2022: 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.

Notes to the financial statements

Note 22. Share capital

Group & Company	As at 31/12/2023 Shares	As at 31/12/2022 Shares	As at 31/12/2023 £'000	As at 31/12/2022 £'000
Ordinary shares – fully paid of £0.01 each	287,181,979	250,070,170	2,873	2,501

	Number of shares	£'000
At 1 January 2022	141,653,711	1,417
Issued in 2022	108,416,459	1,084
At 31 December 2022	**250,070,170**	**2,501**
Issued in 2023	37,111,809	372
At 31 December 2023	**287,181,979**	**2,873**

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.

Note 23. Share premium

Group & Company	£'000
At 1 January 2022	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**
On ordinary shares issued in 2023	35,678
Capital transaction costs written off against share premium	(852)
At 31 December 2023	**301,158**

Notes to the financial statements

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) £'000	Accumulated losses £'000	Other Comprehensive Income £'000	Share warrants £'000	IFRS 2 reserve £'000	Cash flow hedge reserve £'000	Total £'000
Balance at 1 January 2022	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
Conversion of perpetual notes (including convertible) – net of transaction costs	(7,614)	–	–	–	–	–	(7,614)
Issue of ordinary share capital	–	–	–	–	(113)	–	(113)
Net fair value movements in cash flow hedges	–	–	–	–	–	20,347	20,347
Deferred tax expense on cash flow hedges	–	–	–	–	–	(5,087)	(5,087)
Balance at 31 December 2022	**9,886**	**(86,229)**	**(747)**	**1,980**	**288**	**15,260**	**(59,562)**
Profit after tax	–	19,150	–	–	–	–	19,150
Other comprehensive income for the year	–	–	837	–	–	–	837
Share-based payments	–	–	–	–	(288)	–	(288)
Net fair value movements in cash flow hedges	–	–	–	–	–	(27,023)	(27,023)
Deferred tax expense on cash flow hedges	–	–	–	–	–	6,756	6,756
Issue of perpetual notes (including convertible	35,241	–	–	–	–	–	35,241
Balance at 31 December 2023	**45,127**	**(67,079)**	**90**	**1,980**	–	**(5,007)**	**(24,889)**

Note 24. Other components of equity (continued)

Company	Perpetual notes (including convertible) £'000	Accumulated losses £'000	Other Comprehensive Income £'000	Share warrants £'000	IFRS 2 reserve £'000	Cash flow hedge reserve £'000	Total £'000
Balance at 1 January 2022	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
Issue of perpetual convertible notes	(7,614)	–	–	–	–	–	(7,614)
Issue of ordinary share capital	–	–	–	–	(113)	–	(113)
Net fair value movements in cash flow hedges	–	–	–	–	–	20,347	20,347
Deferred tax expense on cash flow hedges	–	–	–	–	–	(5,087)	(5,087)
Balance at 31 December 2022	**9,886**	**(73,544)**	**(747)**	**1,980**	**288**	**15,260**	**(46,877)**
Profit after tax	–	18,751	–	–	–	–	18,751
Other comprehensive income for the year	–	–	837	–	–	–	837
Share-based payments	–	–	–	–	(288)	–	(288)
Net fair value movements in cash flow hedges	–	–	–	–	–	(27,023)	(27,023)
Deferred tax expense on cash flow hedges	–	–	–	–	–	6,756	6,756
Issue of perpetual notes (including convertible	35,241	–	–	–	–	–	35,241
Balance at 31 December 2023	**45,127**	**(54,793)**	**90**	**1,980**	–	**(5,007)**	**(12,603)**

Note 24. Other components of equity (continued)

Perpetual convertible notes
During 2023, £35.25m of perpetual convertible notes ('AT1 capital') were issued to investors as part of the Series C funding round, which closed in November 2022. These notes are convertible to Common Equity Tier 1 (CET1) on various triggers, including profitability and capital metrics.

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 options issued in 2022 with a fair value of £288k have been exercised in the year resulting in a transfer from IFRS 2 reserve to equity.

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

Note 25. Dividends

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

Notes to the financial statements continue on the next page

Notes to the financial statements

Note 26. Derivative financial instruments

Group & Company	As at 31/12/2023 £'000	As at 31/12/2022 £'000
Assets		
Derivative financial instruments	19,570	27,846
Liabilities		
Derivative financial instruments	(22,518)	(3,915)
	(2,948)	**23,931**

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 are designated as fair value hedges and changes in their 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 2023 the outstanding nominal and fair values of the overnight index swaps designated as fair value hedges, including accrued interest amounting to £1,015k (2022: £71k), were as follows:

	As at 31/12/2023			**As at 31/12/2022**		
	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[1]
	£'000	£'000	£'000	£'000	£'000	£'000
Interest Rate Swaps (Assets)	698,200	6,208	(479)	116,000	5,545	5,399
Interest Rate Swaps (Liabilities)	222,500	(2,893)	(682)	111,000	(2,013)	(1,007)

Notes to the financial statements

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 item for ineffectiveness assessment[1]
	£'000	£'000	£'000	£'000	£'000
	Assets	Liabilities	Assets	Liabilities	
31 December 2023					
Financial assets:					
Loans and advances: Fixed rate mortgages	101,000	–	(1,215)	–	4,251
Financial liabilities:					
Customer deposits: Fixed rate deposits	–	(819,700)	–	(1,103)	(2,944)
31 December 2022					
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

As at 31 December 2023, all overnight index swaps were designated as fair value 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 2023 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 2023 the outstanding nominal amount and fair value, including accrued interest amounting to £413k (2022: £52k), of the overnight index swaps designated as cash flow hedges were as follows:

	As at 31/12/2023			As at 31/12/2022		
	Notional amount	Fair value	Change in fair value of hedging instrument for ineffectiveness assessment	Notional amount	Fair value	Change in fair value of hedging instrument for ineffectiveness assessment
	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate swaps	1,118,000	(6,263)	(27,023)	473,000	20,399	20,347

Timing of nominal amount and rates of hedging instruments

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

As at 31/12/2023	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 and CFHs						
Notional (£'000)	1,069,700	184,367	83,333	–	–	–
Average Weighted Fixed Rate	5.237%	4.633%	4.585%	–	–	–
Interest Rate Swaps Paying Fixed designated as FVHs and CFHs						
Notional (£'000)	969,000	964,000	964,000	904,000	520,000	105,000
Average Weighted Fixed Rate	3.552%	3.566%	3.566%	3.586%	3.919%	4.278%

Note 26. Derivative financial instruments (continued)

As at 31/12/2022	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 and CFHs						
Notional (£'000)	171,000	–	–	–	–	–
Average Weighted Fixed Rate	2.581%	–	–	–	–	–
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%

Timing of cashflows

	Less Than 3 Months	3 Months to 1 year	1 year to 5 years	Over 5 Years	Total
As at 31/12/2023	£'000	£'000	£'000	£'000	£'000
Cash Inflows	3,955	10,526	9,377	–	23,858
Cash Outflows	(825)	(1,392)	(25,893)	(391)	(28,501)
Net Cash Inflows/(Outflows)	**3,130**	**9,134**	**(16,516)**	**(391)**	**(4,643)**

As at 31/12/2022	£'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 (£19,570k) and derivative liabilities (£22,518k) cannot be netted on the statement of financial position for accounting purposes. Similarly, cash collateral of £4,322k, 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".

Note 26. Derivative financial instruments (continued)

The tables on the following pages summarise 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:

As at 31/12/2023		Netting potential not recognised on the statement of financial position			Assets/ (liabilities) not subject to netting arrangements		Maximum exposure to risk
£'000	Gross assets/ (liabilities) before offset	Collateral received	Collateral paid	Assets/ (liabilities) after consideration of netting potential	Assets/ (liabilities) recognised on the statement of financial position	Total assets/ (liabilities) recognised in the statement of financial position	After consideration of netting potential
Derivative financial assets	17,637	(18,008)	–	–	1,933	19,570	1,933
Derivative financial liabilities	(22,013)	–	22,476	–	(505)	(22,518)	(505)
	(4,376)	**(18,008)**	**22,476**	**–**	**1,428**	**(2,948)**	**1,428**

As at 31/12/2022		Netting potential not recognised on the statement of financial position			Assets/ (liabilities) not subject to netting arrangements		Maximum exposure to risk
£'000	Gross assets/ (liabilities) before offset	Collateral received	Collateral paid	Assets/ (liabilities) after consideration of netting potential	Assets/ (liabilities) recognised on the statement of financial position	Total assets/ (liabilities) recognised in the statement of financial position	After consideration of netting potential
Derivative financial assets	27,389	(27,037)	–	352	457	27,846	809
Derivative financial liabilities	(3,581)	–	3,535	(46)	(334)	(3,915)	(380)
	23,808	**(27,037)**	**3,535**	**306**	**123**	**23,931**	**429**

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 2023 the CET1 capital ratio (unaudited) of the Group was 15.0% (2022: 17.1%), and the total capital ratio (unaudited) was 18.8% (2022: 18.9%).

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 31/12/2023 £'000	As at 31/12/2022 £'000	As at 31/12/2023 £'000	As at 31/12/2022 £'000
PRODUCT				
Commercial investment	589,507	393,889	4,783	2,231
Business loans secured on commercial property	636,751	478,884	7,568	2,542
Buy to Let	292,181	264,640	1,236	792
Asset finance	283,703	147,778	3,299	1,349
Non-property business lending	45,879	34,952	1,468	1,159
Government backed lending	151,608	52,969	3,635	904
Total	**1,999,629**	**1,373,112**	**21,989**	**8,977**
LTV BAND				
≤55%	321,322	354,086	771	788
>55%, ≤60%	110,391	99,334	356	349
>60%, ≤65%	165,253	143,299	888	955
>65%, ≤70%	156,552	164,463	1,152	1,253
>70%, ≤75%	252,485	128,965	1,939	1,031
>75%, ≤100%	481,718	248,129	7,598	1,168
>100%	38,149	8,176	1,027	137
Asset finance	283,703	147,778	3,299	1,349
Non-property business lending	45,879	34,952	1,469	1,159
Non-property government backed lending	144,177	43,930	3,490	788
Total	**1,999,629**	**1,373,112**	**21,989**	**8,977**

Notes to the financial statements

Note 27. Financial assets and liabilities (continued)

	Credit exposure		Expected Credit Loss	
	As at 31/12/2023 £'000	As at 31/12/2022 £'000	As at 31/12/2023 £'000	As at 31/12/2022 £'000
LOAN SIZE(£)				
≤150,000	403,171	226,397	5,513	1,700
>150,000, ≤250,000	307,903	227,837	2,754	1,454
>250,000, ≤350,000	208,269	154,762	2,248	1,110
>350,000, ≤500,000	208,226	158,705	1,899	1,076
>500,000, ≤1,000,000	346,109	272,805	3,765	2,025
>1,000,000	525,951	332,606	5,810	1,612
Total	**1,999,629**	**1,373,112**	**21,989**	**8,977**
SECTOR				
Accommodation and food	133,534	124,809	1,719	947
Activities of households	13,866	14,488	424	410
Administrative and support	108,966	48,759	1,344	473
Agriculture, forestry and fishing	20,944	4,943	260	26
Arts, entertainment and recreation	16,514	12,820	588	905
Construction	149,101	58,814	1,831	409
Education	24,515	25,807	194	93
Financial and insurance	53,503	23,404	1,031	124
Human health and social work	84,734	69,578	1,044	371
Information and communication	25,510	7,911	243	53
Manufacturing	74,221	39,183	742	226
Professional, scientific and technical activities	55,406	31,323	747	185
Real estate (Buy to Let)	292,181	264,640	1,236	792
Real estate activities	598,986	445,004	5,115	2,498
Transportation and storage	110,348	63,073	1,434	454
Water supply; sewerage and waste management	30,933	18,986	303	144
Wholesale and retail trade	157,157	97,902	3,088	667
Other	49,210	21,668	646	200
Total	**1,999,629**	**1,373,112**	**21,989**	**8,977**

Note 27. Financial assets and liabilities (continued)

	Credit exposure		Expected Credit Loss	
	As at 31/12/2023 £'000	As at 31/12/2022 £'000	As at 31/12/2023 £'000	As at 31/12/2022 £'000
REGION (OF PROPERTY SECURITY HELD)				
East	125,668	94,719	1,075	420
London	349,147	277,607	2,595	1,015
Midlands	250,662	190,738	2,373	1,182
North & Scotland	261,565	191,071	2,130	1,093
South East	256,769	190,410	2,098	973
South West & Wales	167,999	118,609	1,592	547
Yorkshire & Humber	114,061	81,269	1,868	450
Outside UK	–	2,029	–	1
Asset finance	301,655	147,778	3,357	1,349
Non-property business lending	45,879	34,952	1,468	1,159
Non-property government backed lending	126,224	43,930	3,433	788
Total	**1,999,629**	**1,373,112**	**21,989**	**8,977**

The loan portfolio is well collateralised, with 76.3% (2022: 83.5%) of the portfolio being secured by commercial or residential property. The average Loan to Value of exposures secured by commercial property is 65.0% (2022: 56.1%) and the average LTV of exposures secured by residential property is 72.8% (2022: 73.7%).

In addition, there are irrevocable loan commitments of £95,053k as at 31 December 2023 (2022: £98,705k) with ECL provisions of £991k (2022: £452k).

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 2023 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	%
2023						
Stage 1	897,709	895,110	4,926	1,797,745	13,815	0.77%
Stage 2	18,018	139,105	14,668	171,791	3,856	2.24%
Stage 3	–	–	30,093	30,093	4,318	14.35%
Total	**915,727**	**1,034,215**	**49,687**	**1,999,629**	**21,989**	**1.10%**
PD Range	Under 2.47%	2.47% to 6.09%	Over 6.09%			
2022						
Stage 1	632,083	631,933	13,397	1,277,413	5,667	0.44%
Stage 2	28,728	54,886	2,897	86,511	1,815	2.10%
Stage 3	–	–	9,188	9,188	1,495	16.27%
Total	**660,811**	**686,819**	**25,482**	**1,373,112**	**8,977**	**0.65%**
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 2022	1,277,413	5,667	86,511	1,815	9,188	1,495
Improvement in Credit Exposure						
Stage 2 to Stage 1	23,980	535	(23,980)	(535)	–	–
Stage 3 to Stage 2	–	–	1,296	56	(1,296)	(56)

The above table continues on the next page

Note 27. Financial assets and liabilities (continued)

	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
Deterioration in credit exposure						
Stage 1 to Stage 2	(86,955)	(364)	86,955	364	–	–
Stage 1 to Stage 3	(19,684)	(109)	–	–	19,684	108
Stage 2 to Stage 3	–	–	(2,558)	(62)	2,558	63
Opening Balance after transfers	1,194,754	5,729	148,224	1,638	30,134	1,610
Movements during the year						
Repayments of loans and advances	(203,346)	–	(17,339)	–	(2,375)	–
Movement in ECL due to model and exposure changes	–	557	–	992	–	1,996
Changes due to new business	806,337	7,528	40,906	1,226	2,184	562
Bad debts written off	–	–	–	–	150	150
Balance as at 31 December 2023	**1,797,745**	**13,814**	**171,791**	**3,856**	**30,093**	**4,318**

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 31/12/2023	As at 31/12/2022
	£'000	£'000
Included in the Statement of Financial Position:		
Cash and balances at central banks	718,805	230,150
Due from banks	87,763	64,093
Debt securities	115,774	65,552
Derivative financial instruments	19,570	27,846
Loans and advances to customers	1,998,815	1,357,143
Other financial assets	2,578	6,027
	2,943,305	**1,750,811**
Commitments to lend	95,053	98,705
Gross credit risk exposure	**3,038,358**	**1,849,516**
Less: allowance for impairment losses on loan and advances	(21,989)	(8,977)
Less: allowance for impairment losses on loan commitments	(991)	(452)
Net credit risk exposure	**3,015,378**	**1,840,087**

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. affectedAs of 31st December 2023, there is only a single loan remaining that is linked to 3-month LIBOR with a value of £2m. With synthetic LIBOR due to cease after 28th March 2024 this loan will be migrated to a different reference before this date.

As of 31 December 2023, 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 evaluates the impact of a parallel 200 basis points movement in interest rates on the Group's economic value of equity as follows:

+200bps – £5,600k (negative)

-200bps – £6,319k (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 over time 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.

At the same time, when the Group assumes variable SONIA funding, it becomes exposed to interest rate risk, as the cash flows of interest to pay due to SONIA may change over time. Therefore, the Group enters into interest rate swaps, paying fixed rates and receiving SONIA benchmark.

The Group believes that there is a clear 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 close in their terms: (a) the notional amount of the hedging instrument equals the notional amount of the hedged item, (b) the benchmark interest reference for both the hedged item and the hedging instruments are the same (SONIA), 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.

As per above, 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 above.

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 it 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 2023 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 31/12/2023	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	718,805	–	–	718,805
Loans and advances to banks	87,763	–	–	87,763
Debt securities	–	–	115,774	115,774
Derivative financial instruments	–	19,570	–	19,570
Loans and advances to customers	1,976,826	–	–	1,976,826
Investments	–	1,000	–	1,000
Current tax receivable	60	–	–	60
Other financial assets	2,578	–	–	2,578
	2,786,032	**20,570**	**115,774**	**2,922,376**
Financial liabilities				
Cash collateral	(3,485)	–	–	(3,485)
Derivative financial instruments	–	(22,518)	–	(22,518)
Customer deposits	(2,633,247)	–	–	(2,633,247)
Trade creditors	(703)	–	–	(703)
Accruals	(7,773)	–	–	(7,773)
Other financial liabilities	(794)	–	–	(794)
Subordinated liabilities	(7,500)	–	–	(7,500)
Lease liability	(887)	–	–	(887)
	(2,654,389)	**(22,518)**	–	**(2,676,907)**

Notes to the financial statements

Note 27. Financial assets and liabilities (continued)

Company – As at 31/12/2023	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	718,805	–	–	718,805
Loans and advances to banks	84,406	–	–	84,406
Debt securities	–	–	115,774	115,774
Derivative financial instruments	–	19,570	–	19,570
Loans and advances to customers	1,256,626	–	–	1,256,626
Investments	–	1,000	–	1,000
Current tax receivable	60	–	–	60
Other financial assets	1,991	–	–	1,991
Amounts due from subsidiary	735,806	–	–	735,806
	2,797,694	**20,570**	**115,774**	**2,934,038**
Financial liabilities				
Cash collateral	(3,485)	–	–	(3,485)
Derivative financial instruments	–	(22,518)	–	(22,518)
Customer deposits	(2,633,247)	–	–	(2,633,247)
Trade creditors	(693)	–	–	(693)
Accruals	(7,189)	–	–	(7,189)
Other financial liabilities	(799)	–	–	(799)
Subordinated liabilities	(7,500)	–	–	(7,500)
Lease liability	(887)	–	–	(887)
	(2,653,800)	**(22,518)**	**–**	**(2,676,318)**

Note 27. Financial assets and liabilities (continued)

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)**

Notes to the financial statements

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.

Group & Company – As at 31/12/2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Debt securities	115,774	–	–	115,774
Derivatives financial assets	–	19,570	–	19,570
Investments	–	–	1,000	1,000
Total assets measured at fair value	**115,774**	**19,570**	**1,000**	**136,344**
Liabilities				
Derivatives financial instruments	–	22,518	–	22,518
Total liabilities measured at fair value	**–**	**22,518**	**–**	**22,518**

Group & Company – As at 31/12/2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'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				
Derivative financial liabilities	–	3,915	–	3,915
Total liabilities measured at fair value	**–**	**3,915**	**–**	**3,915**

There were no transfers between levels during the financial year.

Note 28. Financial assets and liabilities by levels of inputs

Debt securities: fair values of Bonds and Treasury Bills 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.

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

Based on values as at 31 December 2023, 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%	7,119	7,177	(11)
-0.25%	(7,220)	(7,273)	11

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-priced 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.

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.

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

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 continue on the next page

Notes to the financial statements

Note 29. Contractual maturity of the financial assets and liabilities

	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Financial assets and liabilities by maturity as at 31 December 2023 (Group)	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and balances at central banks	718,805	–	–	–	718,805
Due from Banks	87,763	–	–	–	87,763
Debt securities	64,726	50,975	–	–	115,701
Derivative financial instruments	3,955	10,526	9,377	–	23,858
Loans and advances to customers	126,338	259,826	1,155,876	1,597,942	3,139,982
Other financial assets	2,578	–	–	–	2,578
	1,004,165	**321,327**	**1,165,253**	**1,597,942**	**4,088,687**
Financial liabilities					
Trade creditors	(703)	–	–	–	(703)
Accruals	(7,773)	–	–	–	(7,773)
Derivative financial instruments	(825)	(1,392)	(25,893)	(391)	(28,501)
Customer deposits	(1,718,305)	(863,995)	(49,845)	–	(2,632,145)
Subordinated liabilities	(450)	(900)	(4,050)	(7,950)	(13,350)
Other financial liabilities	(794)	–	–	–	(794)
Lease liability	(130)	(400)	(424)	–	(954)
	(1,728,980)	**(866,687)**	**(80,212)**	**(8,341)**	**(2,684,220)**
Loan commitments	**95,053**	**–**	**–**	**–**	**95,053**

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

Financial assets and liabilities by maturity as at 31 December 2023 (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	718,805	–	–	–	718,805
Due from Banks	84,406	–	–	–	84,406
Debt securities	64,726	50,975	–	–	115,701
Derivative financial instruments	3,955	10,526	9,377	–	23,858
Loans and advances to customers	85,428	148,887	728,744	1,422,483	2,385,542
Other financial assets	1,991	–	–	–	1,991
	959,311	**210,388**	**738,121**	**1,422,483**	**3,330,303**
Financial liabilities					
Trade creditors	(693)	–	–	–	(693)
Accruals	(7,189)	–	–	–	(7,189)
Derivative financial instruments	(825)	(1,392)	(25,893)	(391)	(28,501)
Customer deposits	(1,718,305)	(863,995)	(49,845)	–	(2,632,145)
Subordinated liabilities	(450)	(900)	(4,050)	(7,950)	(13,350)
Other financial liabilities	(799)	–	–	–	(799)
Lease liability	(130)	(400)	(424)	–	(954)
	(1,728,391)	**(866,687)**	**(80,212)**	**(8,341)**	**(2,683,631)**
Loan commitments	**94,474**	**–**	**–**	**–**	**94,474**

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

Financial assets and liabilities by maturity as at 31 December 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 (see a) below)	**98,705**	**–**	**–**	**–**	**98,705**

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

Financial assets and liabilities by maturity as at 31 December 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)**	**(1,548,059)**
Loan commitments	**71,304**	**–**	**–**	**–**	**71,304**

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 offers were assessed for ECL and a provision of £991k has been made as at 31 December 2023 (2022: £452k).

All cashflows above are shown on an undiscounted basis.

Notes to the financial statements

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
Atalaya Capital Management (Atalaya) and TCV XI AB Holdings (TCV) 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. Included in Other assets (see note 13) are £98,316 of interest-free staff loans to Directors (2022: £67,856), for the acquisition of shares held in the joint share ownership plan (see note 33).

During the year, the Group accrued interest expense of £959k 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 year to 31 December 2023, interest of £944k was paid to Warwick and its funds (2022: £589k). As at 31 December 2023, there was accrued interest payable of £469k (2022: £454k), in respect of the subordinated loan discussed above.

As at 31 December 2023, Allica Bank Limited had provided funding to its subsidiaries of £735,806k (2022: £427,727k), 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	
Subsidiary	Principal place of business / Country of incorporation	As at 31/12/2023	As at 31/12/2022
Allica Financial Services Limited	4th Floor 164 Bishopsgate, London, England, EC2M 4LX	100.00%	100.00%
Allica India Technology Services Private Limited	Golden Square No 102, Eden Park, Mahatma Gandhi Road, Bangalore, India	100.00%	100.00%

Notes to the financial statements

Note 32. Cash flow information

	Group		Company	
	Year ended 31/12/2023	Year ended 31/12/2022	Year ended 31/12/2023	Year ended 31/12/2022
	£'000	£'000	£'000	£'000
Profit/(Loss) before taxation	**16,091**	**(1,587)**	**15,692**	**8,219**
Non-cash flows in operating profit				
Depreciation	849	491	849	491
Amortisation	3,606	2,846	3,606	2,846
Loss on disposal/write-off of fixed assets	28	59	28	59
Loss on write-off of intangible assets	939	–	939	–
Interest income receivable	(177,843)	(72,252)	(174,401)	(74,130)
Interest expense payable	97,813	23,358	97,813	23,190
Net fair value movements on derivatives	(146)	17	(146)	(5,385)
Share-based payment charge	–	288	–	288
Impairment losses	14,279	8,417	8,420	6,349
	(60,475)	**(36,776)**	**(62,892)**	**(46,292)**
Changes in assets and liabilities				
Changes in balances at central banks	(6,106)	(2,870)	(6,106)	(2,870)
Changes in loans and advances to banks	(16,762)	(28,527)	(16,762)	(28,527)
Changes in loans and advances to customers	(618,964)	(795,711)	(312,148)	(446,094)
Changes in amounts due from subsidiary	–	–	(308,079)	(356,799)
Changes in cash collateral	(20,029)	23,514	(20,029)	23,514
Changes in customer deposits	1,101,860	657,114	1,101,860	657,114
Changes in trade and other debtors	2,447	13,890	25	16,150
Changes in trade and other creditors	2,034	2,715	1,667	2,977
	444,480	**(129,875)**	**440,428**	**(134,535)**
Cash generated from operations	**400,096**	**(168,238)**	**393,228**	**(172,608)**

Note 32. Cash flow information (continued)

Cash and cash equivalents

	Cash and cash equivalents		Not considered cash and cash equivalents	
	Year ended 31/12/2023	Year ended 31/12/2022	Year ended 31/12/2023	Year ended 31/12/2022
Group	£'000	£'000	£'000	£'000
Assets				
Cash and balances at central banks	709,829	227,280	8,976	2,870
Loans and advances to banks	42,474	35,566	45,289	28,527
	752,303	**262,846**	**54,265**	**31,397**
Liabilities				
Cash collateral	–	–	(3,485)	(23,514)
Company				
Assets				
Cash and balances at central banks	709,829	227,280	8,976	2,870
Loans and advances to banks	39,117	30,906	45,289	28,527
	748,946	**258,186**	**54,265**	**31,397**
Liabilities				
Cash collateral	–	–	(3,485)	(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.

Notes to the financial statements

Note 32. Cash flow information (continued)

Movements in liabilities arising from financing activities

	Subordinated liabilities	Lease liability
	£'000	£'000
Group & Company		
As at 1 January 2022	7,500	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	–	–
As at 31 December 2022	**7,500**	**1,324**
Cash flow items:		
Issued in year	–	–
Interest on lease liability	–	36
Lease repayments	–	(473)
As at 31 December 2023	**7,500**	**887**

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 19,989,998 (2022: 9,454,821) 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 2023, 19,443,625 shares were allocated to Participants (2022: 8,712,878).

The total number of shares held by the EBT at 31 December 2023 is 41,895,112 of which 40,076,610 have been allocated to Participants (2022: 21,905,114 of which 20,632,985 had been allocated to Participants).

Note 34. Ultimate controlling entity

At 31 December 2023, 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. These disclosures are not required for the Group as the turnover threshold for reporting has not yet been met.

Note 36. Events after the reporting period

There have been no significant events between 31 December 2023 and the date of approval of these accounts which would require a change or additional disclosure.

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Allica Bank

Annual Report and Accounts **2023**

Allica Bank

Annual Report and Accounts **2023**