Allica Bank

Annual Report and Accounts 2021

Contents

2021 at a glance

+1,158%
Loan book

£112 million
Additional capital raised

+2,105%
Number of customers

£1 billion
Gross deposits raised from savers

£0.6 billion
SME loan book acquisition from AIB

184
employees up from 78 in March 2020

Milestones in 2021

January	Asset Finance is launched
March	began partnership with Landbay
April	launched direct-to-SME proposition
August	announced first presence in Scotland
September	launched our specialist healthcare team
September	opened new headquarters in Milton Keynes
November	acquired £0.6bn SME loan book from AIB
November	completed £110m series B funding round
December	became first non-CBILS lender to join Recovery Loan Scheme

Awards

- **NACFB Awards 2021** – Most Innovative Lender, Commercial Lender, BDM Team and Patron of the Year
- **Bridging & Commercial Awards 2021** – Commercial Lender of the Year
- **Leasing World Gold Awards 2021** – New Entrant of the Year
- **MoneyNet Awards 2021** – Best New Savings Provider
- **Business Moneyfacts Awards 2021** – Highly commended in three categories
- Named one of UK's Top 20 fintechs by **The Times**

What our customers said

4.5
Star rating ('Excellent') on TrustPilot

88%
of brokers rated us as 'Very Good' or 'Excellent'

77%
of brokers rated our BDMs as 'Excellent'

Looking ahead

£1 billion
of committed loan offers in 2022

£3 billion
of lending to SMEs in next three years

300
employees by summer 2022

And later this year, we're launching our Business Rewards Account with market-beating cash back... watch this space!

Allica Bank Limited ("Allica") launched in autumn 2019, in the midst of uncertainties around Brexit and a UK general election. Shortly afterwards, the pandemic took hold and transformed the way we lead our lives. It has also had enormous consequences for the UK's small and medium-sized businesses (SMEs), which have endured unprecedented and unforeseen challenges.

Throughout this period and since our launch, Allica has had one purpose: to support the UK's established SMEs and to ensure that they get access to finance. Since Allica made its first loan in March 2020, we have provided over £566m of finance to more than 1,300 SMEs.

We are a Bank built on market-leading technology, but we are also a Bank which understands that business owners and intermediaries need someone to talk to; someone who listens to their needs and will take the time to understand their business.

The pandemic has accelerated the use of technology by SMEs, and we believe that our unique blend of people and cutting-edge technology has arrived just at the right time for the UK's business community.

We believe that Allica is leading the way in SME banking in the UK. Our role is to support established SMEs; help them understand and manage their risks and ultimately help their businesses to prosper and thrive. Our success has been recognised through feedback from our customers and the broker community, numerous prestigious industry awards and, not least, in our ability to attract and retain the best talent in the market – our colleagues.

A huge thank you must go to our colleagues, many of whom have been personally impacted by the pandemic. Since the pandemic began, we have grown from 78 to 220 employees. Nearly all interviews, onboarding and training has been remote, but nonetheless we have managed to deliver a market-leading service to our customers.

As a people and technology business, I am confident that we have the best of both worlds – a unique and market leading combination.

2021 has been an exciting year of delivery for Allica Bank. We saw strong growth in our loan book, and we made our first major acquisition: the GB loan book of Allied Irish Bank (AIB). We welcome the AIB customers and look forward to supporting them with their needs. This acquisition has been transformational for Allica and has enabled us to accelerate our plans for a market-leading current account for SMEs and growth in our direct-to-customer proposition. Allica sees a wide range of M&A opportunities, and we will continue to be highly selective around those that offer the best potential fit to realise our strategy.

Underpinning the AIB acquisition, we are delighted to welcome Atalaya Capital Management, a US fund with $6 billion in assets under management and deep expertise in commercial lending, following their investment in a major stake in the Bank. We would like to thank Atalaya for their confidence in us and also to our other investors, particularly Warwick Capital Partners, who have enabled and funded the launch, development and growth of Allica Bank. Our investors are strong supporters of our business and our vision, and they provide the sound capital foundation for our ambitious business plans.

Looking forward, the UK economy and the UK's SMEs will continue to face challenges from the consequences of the global pandemic, but also from the implications of the geopolitical environment, not least the war in Ukraine. As has been the case in many historic periods of hardship and uncertainty, it is UK SMEs that will lead the country through the challenges and help to revive the economy. We are committed to supporting our customers through this period and believe that we are well positioned to do so with market-leading technology, a world-class team, a clear and focussed strategy, and access to capital and liquidity to support our continued growth and that of our customers.

Allica Bank is now well established, strongly capitalised and on track to deliver our first month of profit in 2022. Our brand is recognised and respected and we are well positioned to deliver strong and profitable growth and, most importantly, improve the lives and prospects of our SME customers – the lifeblood of the UK economy.

"The pandemic has accelerated the use of technology by SMEs and we believe that our unique blend of people and cutting-edge technology has arrived at just the right time for the UK's business community."

Chairman
John Maltby

Allica's sole purpose is the provision of market-leading financial services to established SMEs in the UK, and Allica is the only fintech focused on this segment.

Established SMEs are businesses that typically have 10-250 staff and represent over 30% of the UK's GDP. Despite the importance of this segment, it has been increasingly ignored by incumbents and incoming fintechs as its needs are more complicated than those of retail and micro business customers. Incumbents are seeing high operating costs due to legacy processes and systems. This was amplified during Covid with the decline of in-branch banking and the deluge of government-guaranteed lending. It's resulted in many incumbents retreating from this segment altogether, as evidenced by AIB's sale of its SME loan book to Allica.

This is the reason I joined Allica in 2020. I am passionate about the UK's SME community. And as we emerge from the pandemic, these businesses need the support of a trusted partner built solely for their needs.

As well as being a people-focussed relationship Bank, we have also become a technology company, as we concluded there was no third party software that could really deliver for this segment's needs. Allica's proprietary software has enabled us to grow rapidly, with monthly recurring revenues increasing by 10.9x during 2021. We now employ over 60 software and data engineers, roughly a third of Allica's workforce, and we are currently expanding this further to over a hundred staff by autumn 2022. This will underpin our drive to build end-to-end proprietary software for both lending and payments that is uniquely tailored to this segment's needs, and to deliver substantial automation and operating efficiency that is the key to long-term success in this segment.

Importantly, 2021 saw Allica break out from its start-up phase with a number of major milestones achieved:

- We completed a successful series B capital raise of £110m, giving us a strong platform on which to continue our rapid lending growth and technology development.

"Our regular staff surveys have shown that 88% of our people would recommend Allica as a place to work"

Chief Executive
Richard Davies

- We exceeded our target to provide over half a billion pounds in committed term lending offers to UK businesses, and have raised this target to £1bn for 2022
- We signed the acquisition of the British SME loan book of AIB. This not only accelerates Allica financially, but also our ability to have a national relationship manager network, which is now in place. The migration of the first tranche of loans completed on 11 April 2022, with the second tranche due to migrate by the middle of the year, post finalisation of the transfer of the BBL/CBIL government guarantees.
- We grew our deposit base from £104m to £846m during the year, scoring 4.5* on Trustpilot for our own products, and we integrated new partnerships with Revolut, Chip, and Hargreaves Lansdown
- In 2021 we launched a five-year partnership with Landbay to provide residential buy-to-let mortgages and we are working on similar opportunities to partner with other established SME lenders during 2022.

2021 has been a tough year for individuals and businesses alike, which has made it all the more heartening to see the passion and commitment that our people have shown for our mission. We have worked hard throughout the pandemic to ensure our new recruits understand Allica's culture, ethics, principles and mission. Our regular staff surveys have shown that 88% of our people would recommend Allica as a place to work – made all the more remarkable given that the majority of our staff have joined and worked remotely throughout the year. I'd like to take the opportunity to thank everyone at Allica for their hard work and dedication during this difficult time.

We could not have achieved our success without the support of Allica's intermediaries and commercial finance brokers. We were delighted to win the NACFB's award, voted for by our broker partners, for best commercial mortgage lender in each of our first two trading years, and to win an unprecedented total of four NACFB awards in 2021. We are providing a market-leading service through our broker partners and we will look to further this in 2022.

We are on target to achieve monthly profitability in the second half of 2022 while continuing to develop new products and invest in our proprietary technology. One such new product is our SME payments and card proposition, which will be launching shortly following beta testing. It provides market-leading cash back and account fees through both mobile and web apps. This is an important step for us, as current accounts provide the foundation of a day-to-day relationship in terms of data, transactions and customer service. There are currently no alternatives to the painful and expensive propositions of the high street incumbents, and so we are excited to bring much-needed competition to this space.

Overall we enter 2022 in a strong position and I am looking forward to working with everyone at Allica, and our partners, to take Allica on to the next phase of our mission.

Who are Allica Bank?

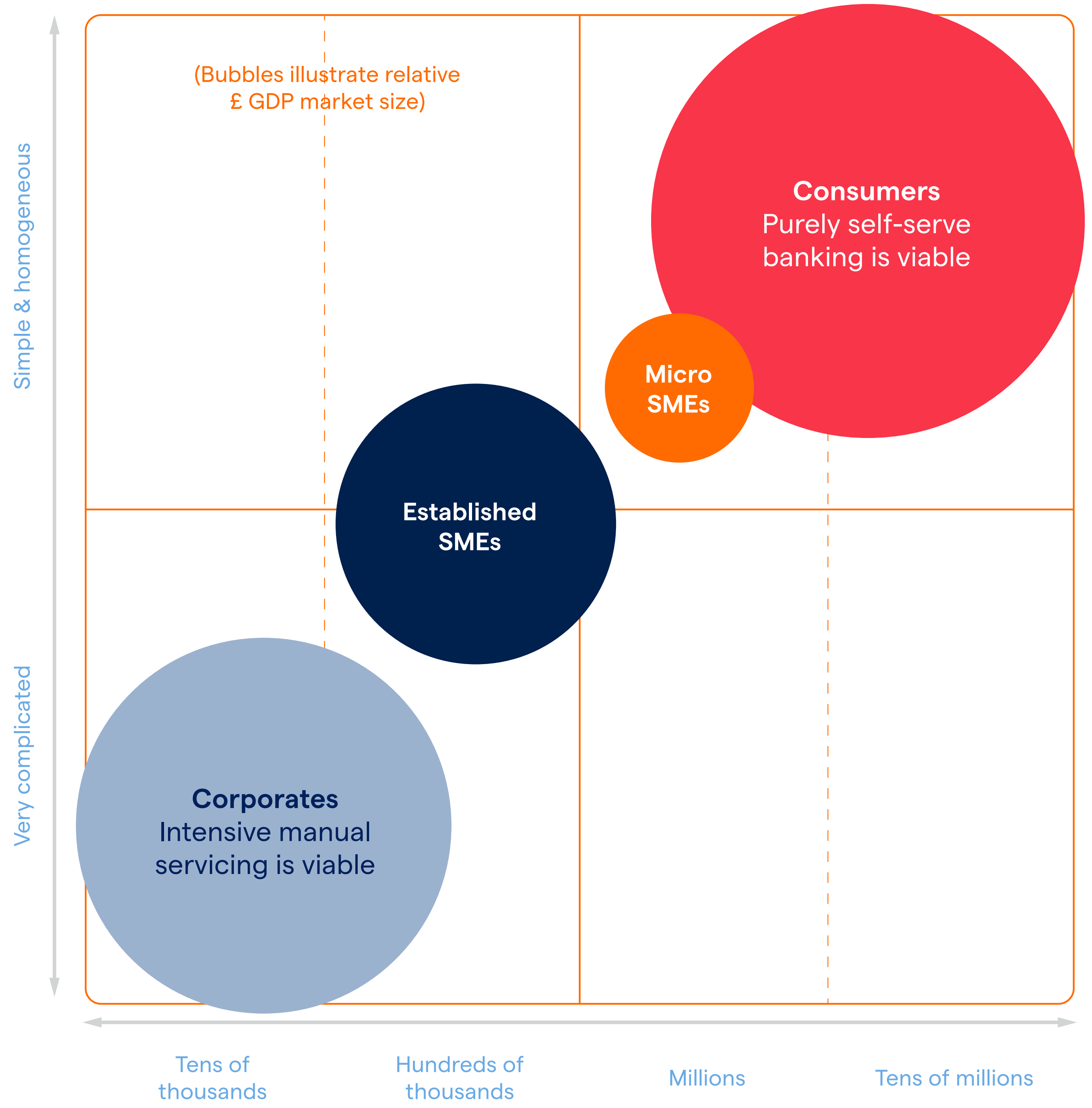
Our purpose and strategy

Allica exists to serve the UK's established small and medium-sized enterprises (SMEs). That means the half a million or so firms that typically have between 10 and 250 employees. These established SMEs are a crucial pillar of the UK's prosperity, representing more than 30% of all turnover and jobs.

For the incumbent high street banks, established SMEs sit awkwardly between their two core markets; tens of millions of homogeneous households and micro-businesses on one end, and a few thousand valuable large corporations on the other. As a result, established SMEs have been increasingly left behind by incumbent banks, leaving a sustainable gap for a focussed new challenger.

Ten years ago, these established SMEs could expect to have a relationship manager in their local bank branch. Since then, the UK has lost about five thousand local bank branches and with it thousands of these local relationship managers.

Recent surveys have shown that more than 40% of SMEs say that access to a relationship manager is important when choosing their bank, and barely 20% of SMEs would make a digital-only bank their first choice. For established SMEs, digital technologies can enhance the banking experience, but cannot fully replace expert human relationships.


(Bubbles illustrate relative £ GDP market size)
Consumers
Purely self-serve banking is viable
Micro SMEs
Established SMEs
Corporates
Intensive manual servicing is viable
Simple & homogeneous
Very complicated
Tens of thousands
Hundreds of thousands
Millions
Tens of millions

Allica's strategy is to restore relationship banking, by reimagining it with technology. We build our own technology in-house, which allows us to uniquely solve our customers' exact needs.

For established SMEs, we believe that there are four key ways in which they feel that current banking models do not work for them, and our strategy is to offer a clear alternative:

Why SME banking isn't working	How we aim to be different
X SMEs struggle to access the finance they need to fund their growth.	✓ A lender that seeks out ways to say yes, instead of reasons to say no.
X SMEs no longer have access to the expertise of a relationship manager, which high-street banks used to provide.	✓ A relationship manager who listens to you, not hides from you.
X Poor service and high fees mean SMEs feel taken advantage of by their bank.	✓ A current account that rewards you, instead of punishes you.
X Banking is not on their terms. SMEs often have to deal with fragmented systems and faceless call centres.	✓ Technology that brings us closer to you, instead of cutting you off.

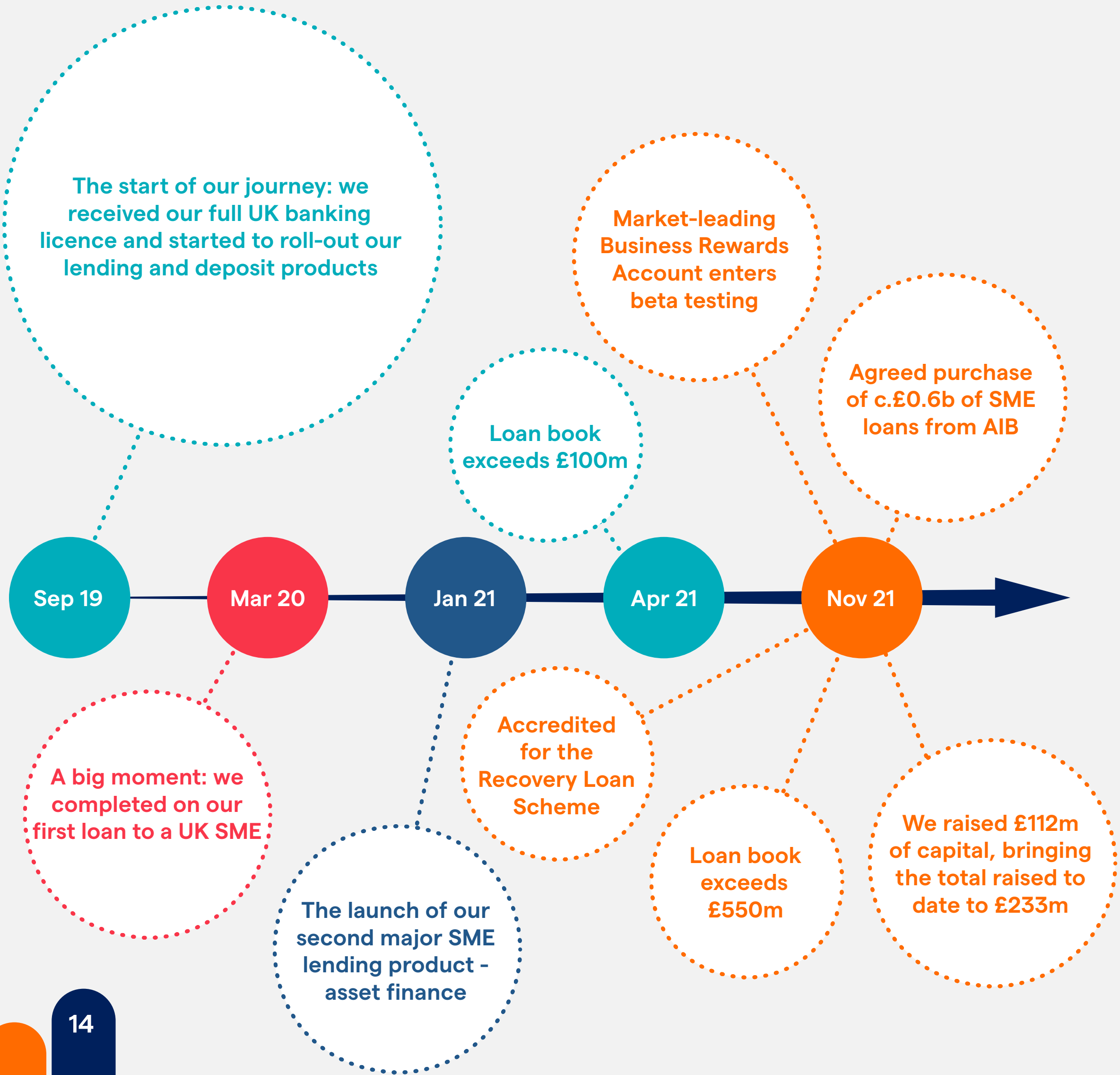
Established SMEs have a crucial part to play in the UK's economic recovery, and Allica is proud to be in the right place at the right time to make a real difference.

Our history and roadmap

Allica was granted its banking licence permissions by the Prudential Regulation Authority (PRA) in September 2019, enabling us to accept deposits from both personal and commercial customers. These deposits are raised from a mix of channels, both directly (such as by appearing in deposit rate comparison tables), and from partnerships (such as deposit aggregators and financial management apps).

Allica's first lending products were business loans secured on property and commercial investment loans. The first commercial loan drawdown took place in Spring 2020. Asset finance – typically secured on business vehicles and equipment – followed at the end of 2020. In Spring 2021, Allica announced its first third-party lending partnership with professional buy-to-let provider Landbay. In late 2021, Allica announced the acquisition of the SME lending portfolio of Allied Irish Bank (GB).

Towards the end of 2021, Allica began to test its Reward Account, which is ultimately intended to be a fully-fledged business current account for established SMEs.



Going forward, Allica intends to maintain its core focus on established SMEs, offering a broad suite of banking services to this underserved segment.

For Allica's lending, this will mean widening beyond asset and property-secured finance to add working capital solutions such as overdrafts and receivables finance. It will also mean Allica continuing to create balance sheet partnerships with selected lenders in adjacent lending segments.

The addition of a business current account during 2022 means that Allica will be able to provide a full banking relationship for established SMEs, covering lending, deposits and payments. In this respect, Allica is rare among challenger banks. Traditional challenger banks for established SMEs have typically acted more as monoline lenders. Conversely, digital neobanks that do offer business current accounts typically focus solely on the micro-business segment, rather than established SMEs.

With the foundations now laid for an innovative full banking offering, Allica believes it is uniquely positioned to become a genuine alternative to the incumbent banks for established SMEs, who represent over 30% of the UK economy.

The Board

Richard Davies
Chief Executive Officer

Before joining Allica, Richard was group COO at digital bank Revolut. Prior to that he was CEO of OakNorth and held leadership roles at TSB and HSBC.

Patrice McDonald
Chair of the Risk Committee

Patrice is a former Managing Director, Global Chief Risk Officer, & Head of Governance at Barclays Wealth. Patrice has also worked as a Partner at EY.

Rajan Kapoor
Chair of the Audit Committee & Remuneration Committee

Rajan Kapoor was Financial Controller of the Royal Bank of Scotland Group and held a number of senior finance positions in a 28-year career with RBS.

John Maltby
Chairman

John was CEO of Williams & Glyn and Group Director of the Commercial Bank of Lloyds Banking Group during his extensive executive career.

James Heath
Chief Financial Officer

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

Paul Marston
Notified Non-Executive Director

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

Our Executive team

Nick Baker
Chief Commercial Officer

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

Conrad Ford
Chief Product & Strategy Officer

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

Toby Mason
Chief Operating Officer

Toby has 22 years' experience in operations, including at American Express and ClearBank. Toby was also a Board member of UK Payments.

Neil Sculley
Chief Risk Officer

Neil has over 38 years of banking experience, most recently as Director of Commercial Credit at Williams & Glyn (part of RBS).

Ravneet Shah
Chief Technical Officer

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

Kate Valdar
General Counsel

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

Business review

Allica's plans for the next financial year

Thanks to our strong performance in 2021, we have a solid base upon which to build in 2022. With the continuing support of our majority shareholder, Warwick Capital Partners, and our new major investor, Atalaya Capital Management, we can continue to invest in our growth and capabilities.

Reaching profitability is a key milestone for any new company and, notwithstanding the significant investment we are making to further develop our SME services, we are confident that Allica will reach this milestone in 2022.

The first four months of the year have been busy, as we:

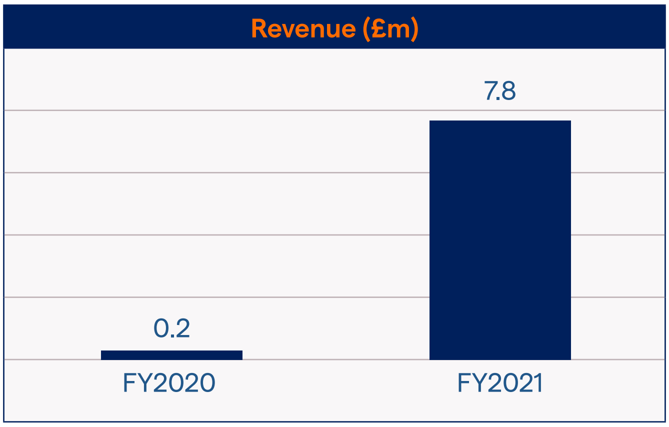
- **Migrated over 400 customers representing £210m of loans from AIB's systems to Allica's**
- **Introduced our Recovery Loan Scheme products to extend our reach to those SMEs hardest hit by the pandemic**
- **Grew our regional relationship manager team by 220%**
- **Continued to enhance our proprietary cloud-based microservices technology to deliver great products and service to our customers**

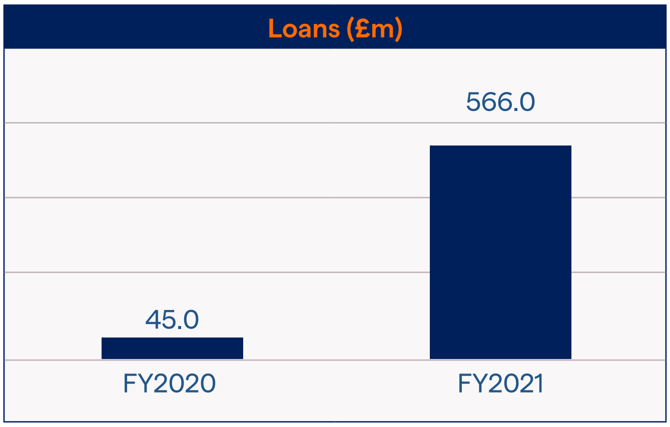
And there is still much more to come throughout 2022 as we:

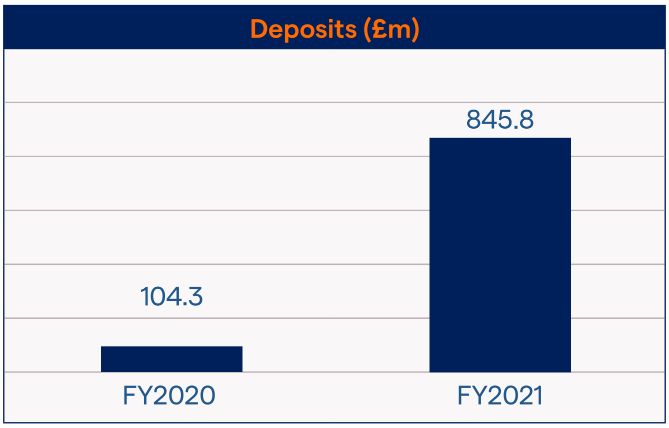
- **Build on our award-winning position in broker distribution and aim to offer over £1 billion of new lending to SMEs in 2022**
- **Continue to develop our partnership approach whereby Allica joins forces with selected lenders to widen our product range and lending capability**
- **Migrate the remaining loans and customers from AIB's systems to Allica's**
- **Continue to develop our Business Rewards Account functionality, adding features such as overdrafts, CHAPS and BACS payments, international payments, Open Banking and more**

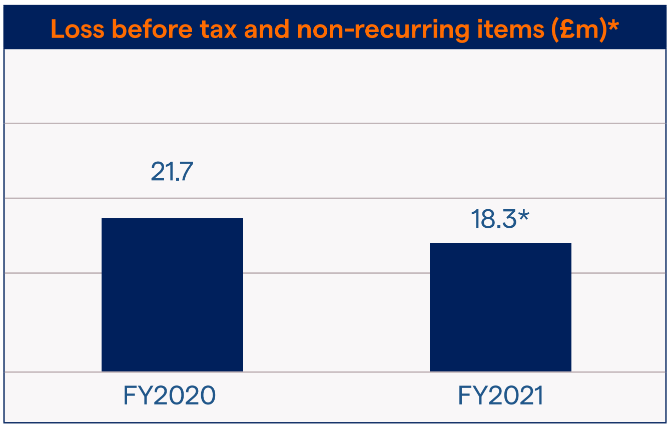
Performance review

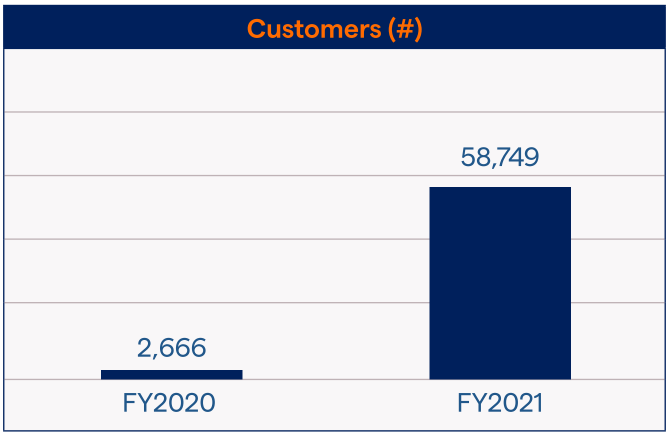
Key performance indicators

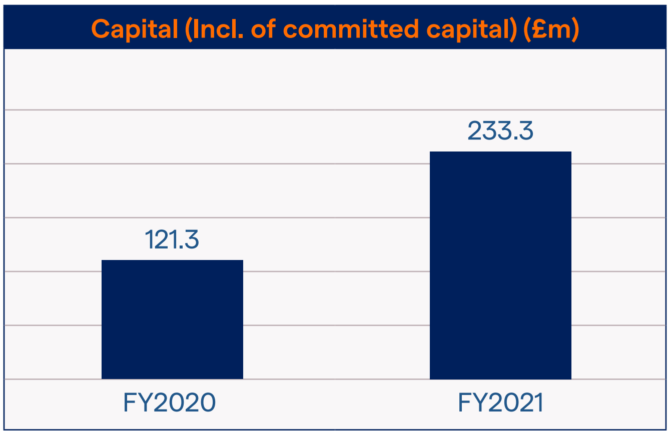












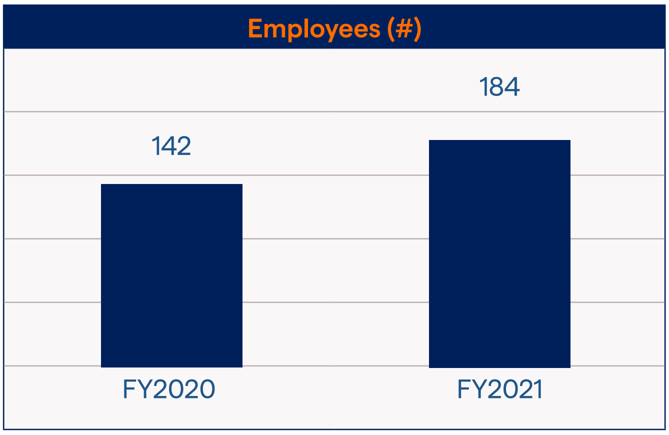
*This is a non-GAAP measure. The loss before tax for the year is £25.1m (2020: £21.7m). The reconciliation of the two is set out on page 23.

Profit and loss compared to the previous financial year

	Consolidated	
	Year ended	Year ended
	31/12/2021	31/12/2020
	£'000	£'000
Income		
Interest income using the effective interest method	11,494	739
Interest expense	(3,670)	(535)
Net interest income	7,824	204
Fee and commission income	157	-
Fair value losses	(155)	-
Total Operating Income	**7,826**	**204**
Expenses		
Administrative expenses	(7,890)	(8,001)
Depreciation and amortisation	(9,445)	(2,098)
Staff costs	(14,472)	(11,751)
Operating loss	(23,981)	(21,646)
Impairment losses	(1,077)	(68)
Loss before tax	(25,058)	(21,714)
Taxation	-	-
Loss after tax for the year	(25,058)	(21,714)
Other comprehensive income/(loss)		
Items that may be recycled subsequently to profit or loss		
Fair value (losses)/gains on debt securities	(4)	2
Net change in fair value of financial instruments during the year	20	(20)
Amounts recycled to profit or loss in year	23	-
Other comprehensive income/(loss) for the year, net of tax	39	(18)
Total comprehensive loss for the year	(25,019)	(21,732)

Alternative profit measure reconciliation to statutory profit

	2021	2020
	£'000	£'000
Loss before tax and non-recurring items	(18,346)	(21,714)
Intangible asset impairment charge	(6,712)	-
Statutory loss before tax	(25,058)	(21,714)



These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). For management review purposes, aspects of the results are adjusted for certain items to reflect how management assesses the Group's underlying performance without distortions caused by items that are not reflective of the Group's recurring business activities.

The following items have been excluded from Loss before tax and non-recurring items:

- Intangible asset impairment charge - the impairment charge of £6.7m of intangible software assets relates mainly to third party technology capitalised in the start-up phase of Allica's growth, as discussed in note 3 to the financial statements.

Net interest and other operating income

Net operating income increased from £0.2m to £7.8m. Nearly all of the Group's operating income is derived from net interest income and this grew in 2021 due to the strong growth in our loan book. It also includes the income we receive on our liquid assets.

Expenses

Expenses for the year were £31.8m including an impairment charge for intangible software assets of £6.7m. Excluding this impairment charge, underlying operating expenses increased by 15%. Nearly all of this increase is related to increased headcount as the Group continues to invest in growth and particularly its software and data engineering capability. The Group has shown a prudent control of costs in 2021 in spite of the rapid growth in its loans, deposits and customer numbers.

The impairment charge of £6.7m for intangible software assets relates mainly to third party technology capitalised in the start-up phase of the Bank's growth. Allica is investing heavily in building its own proprietary technology and is therefore reducing its use of, and replacing, third party technology products.

Impairment provisions

The 2021 charge for impairment provisions increased from £0.07m to £1.1m. Under IFRS 9 the Group was required to make an impairment provision for the portfolio of loans acquired in Q4 2021, which represented the expected losses for that portfolio over the twelve months following acquisition (Stage 1 IFRS 9 provision).

Taxation

The Group is currently loss making and therefore there is no charge for corporation tax.

The Group's balance sheet compared to last year:

	Consolidated	
	31/12/2021	31/12/2020
	£'000	£'000
Assets		
Cash and balances at central banks	295,291	92,925
Due from banks	17,290	10,338
Debt securities	40,406	-
Derivative financial instruments	58	4
Loans and advances to customers	566,040	45,040
Other assets	22,549	1,791
Tangible fixed assets	249	214
Right-of-use assets	146	339
Intangible assets	8,178	14,092
Total assets	950,207	164,743
Liabilities		
Derivative financial instruments	988	24
Customer deposits	845,769	104,299
Other liabilities	5,887	3,523
Provisions	66	88
Subordinated liabilities	7,500	-
Leases	114	321
Total liabilities	860,324	108,255
Net assets	89,883	56,488
Equity		
Share capital	1,417	1,003
Share premium	160,708	120,321
Perpetual convertible notes	17,500	-
Other reserves	2,110	(22)
Accumulated losses	(91,852)	(64,814)
Total equity	89,883	56,488

Loan book

The Bank's loan book grew from £45m to £566m in the year. The Group saw strong demand for its business loans and asset finance products with balances at the end of the year growing to £142.3m. The loans are made by way of term loans and hire purchase agreements to trading SME businesses and are secured on property, equipment, plant & machinery, vehicles and other similar assets.

In November 2021 the Group acquired a £0.6bn SME loan portfolio from AIB Group (UK) PLC. Tranche 1 completed in November totalling £263m and the second tranche to be completed in Q2 2022.

The Group also provides finance to professional property investors. Commercial investment mortgages totalled £114.7m at the year-end while residential investment mortgages, provided through our partner Landbay Partners Limited, grew to £37.4m.

Liquid assets

The Bank's stock of liquid assets comprises cash on deposit at the Bank of England, cash on deposit with investment grade financial institutions and highly rated marketable securities. Over the year these balances grew from £103.3m to £352.9m. The Group's Liquidity Coverage Ratio was 441% at the year-end. This was significantly higher than the regulatory minimum of 100% partly as a result of the Group holding excess liquidity in anticipation of completing on the second tranche of the acquisition in Q2 2022.

Deposits

The Group has not only successfully increased its deposits during the year, from £104.3m to £845.8m, but also diversified its product range and distribution channels by partnering with deposit platform providers and other financial institutions such as Flagstone, CHIP, Hargreaves Lansdown and Revolut. The Group provides term, notice and instant access deposits to both personal and business customers.

Derivative financial instruments

The Group only uses derivative financial instruments, specifically interest rate swaps, to hedge interest rate risk which arises from differences in the interest rate repricing profile of its assets and liabilities.

Intangible assets

The Group capitalises certain costs relating to the build of its technology systems including third party costs and internal costs such as staff costs. During the year, additional amounts of £3.2m were capitalised, however the intangible assets balance reduced from £14.1m to £8.2m due to the impairment charge described above. The amortisation charge for the year amounted to £2.4m.

Subordinated liabilities

During the year the Company issued £7.5m of subordinated debt which is eligible regulatory Tier 2 capital in accordance with the Capital Requirements Regulation.

Equity

During the year, the Company raised £41.4m of ordinary share capital from new and existing investors. As of 31st December 2021, a further £46.2m was committed by Atalaya Capital Management, which was received in April 2022.

In addition, the Company raised £17.5m of perpetual loan notes which are eligible for AT1 capital under the Capital Requirements Regulation.

The Group's total capital ratio at the year end was 19.7%.

Covid-19 statement

2021 was a difficult year for the whole country. The pandemic settled following the vaccine rollout and allowed for a welcome return to normality as lockdowns ended. But the resurgence of the virus through the Omicron variant again created social and economic uncertainty.

As a new lender in 2020, Allica didn't have a portfolio of loans which were made prior to the pandemic. As such, taking into account our customers' ability to withstand lockdowns, drops in demand, and similar interruptions to business has always been part of our lending assessment. This has stood us in good stead and, while our customers are not immune to the impact of Covid-19, we have looked ahead to assess downside risk as far as is possible.

Throughout the year we have benefited from our strong customer offering. Increasing organic lending has enabled Allica to respond quickly to customer lending requests, while other lenders may have been occupied dealing with issues in their back book.

As and when government restrictions allowed, we met with brokers, intermediaries and customers to ensure all necessary support was in place to provide the best service possible.

As restrictions eased in 2021, we returned to work in our London and Milton Keynes offices on a hybrid basis.

"During 2021 we raised an additional £112m of capital and continue to manage our liquidity successfully, with deposits raised in a timely manner."

Looking to 2022, we will continue to work within the constraints of the pandemic, prioritising our customers and the welfare of our staff. In particular, plans are already in place to help customers operating in affected sectors to manage any stresses that emerge relating to their loans.

People

Our people make Allica what it is, so we used their views and feedback to identify the values that matter most to them in their work. After careful consideration, four themes stood out as being most important to Allica employees: straightforwardness, collaboration, integrity, and delivery.

These values now act as the pillars of all our people-related decision making. Recruitment, performance, career development, benefits, and rewards are all based on values inspired by those who are directly affected by them.

We also make a point to acknowledge those who go above and beyond to live Allica's values through their work, with our internal recognition program, the Allica Bank Brilliance Awards or ABBAs as they have become known.

Our Values

Straightforward

- We keep ways of working as simple and practical as possible.
- We communicate clearly, concisely, and regularly.
- We are willing to have challenging conversations in order to improve.
- We take a logical and data-driven approach to investigating, decision-making, and measuring outcomes.

Collaboration

- We start with the customer and work backwards to ensure the best experience and outcome possible.
- We celebrate big and small wins, and inspire those around us to chase excellence.
- We value diversity, using our knowledge to help others develop while learning from them in return.

Integrity

- We do the right thing, even when no-one's looking.
- We aren't afraid to speak up, or take action when needed.
- We are trusted colleagues who can ask each other for advice and offer feedback.

Delivery

- We make decisions and deliver great solutions at pace.
- We set high standards our colleagues and customers can rely on.
- We seek ways for Allica to stand out from the crowd.
- We always seek to improve ourselves and our team.
- We never stop learning.

Recruitment

Allica's continued growth has called for us to significantly increase our headcount over the last two years. To support the growing demand for recruitment, we have updated both our HR system and recruitment software.

New faces

- Launched with 45 employees in September 2019.
- Our team numbered 184 in December 2021.
- That's over 300% growth in just 28 months.

While it was necessary to grow our team quickly, it is vital that all new employees share our values and complement our Company culture. The structure of our recruitment process heavily focusses on our values, ensuring that any new people we bring in can be successful and feel fulfilled in their roles at Allica.

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.

While it remains an ongoing focus for us, initiatives introduced to promote diversity and their impact to date reflect promising steps in the right direction.

Promoting diversity through

- Enhanced maternity and paternity leave.
- Flexible working arrangements.
- Support for returning parents.
- Staff wellbeing sessions.

Diversity progress to date

- BAME employees risen from 32% to 40% of workforce.
- Female workforce increased from 36% to 42%
- Women in senior leadership roles up from 11% to 28%.
- Women in technology and data roles up from 15% to 31%.

Great place to work

We spend a large part of our lives at work and it's important that our team enjoys the work they do and the workplace around them. We want to ensure that Allica is a great employer, and we regularly check in with our employees to ensure we're living up to our values and uncover anything we can improve.

We're proud to report that our latest employee survey reflects our efforts to create a great place to work. The results show that our team feel highly motivated and enjoy the working environment, culture and leadership at Allica.

- 92% of employees enjoy working for Allica.
- 88% of employees would recommend Allica as a place to work.
- 89% of employees think Allica's culture supports diversity.
- 93% of employees think their team is being well led.

Wellbeing

Part of ensuring we remain a great place to work is to actively support our employees' wellbeing. During the last year, we worked closely with our partners to deliver a wide range of sessions covering key aspects of our team's wellbeing. Including:

- Emotional intelligence.
- Financial wellbeing.
- Mental health.
- Stress, resilience, and confidence.
- Unconscious bias.
- Happiness, motivation, and mindset.

We put on a special programme of employee activities during National Stress Week and International Women's Day, including external speakers, internal round tables and videos.

Hybrid working

Allica is committed to hybrid working and the flexibility it brings our employees and the business. However we also recognise the importance of being together and building our Company culture and individual relationships. Therefore returning to the office in some form was important to us.

- We opened our new office in Milton Keynes to house our expanding workforce ensuring that the office has plenty of breakout and collaboration space for employees.
- We revamped our London office to provide employees with more space and more meeting rooms.
- We worked with our office providers to ensure our offices were Covid safe through enhanced ventilation, hand washing stations, deep cleaning and when required, social distancing.
- Getting people together, building relationships and embedding the culture through events such as our summer party and first ever Hackathon, in line with government Covid guidance.

Human rights, anti-bribery, and anti-corruption

We are committed to acting legally, ethically and honestly in all areas of our business. Allica takes a zero-tolerance approach to bribery and corruption; complying with all legal and regulatory requirements, as well as having controls and systems in place to identify and prevent such practices.

Allica strictly prohibits and does not tolerate the request, agreement to, receiving, offering, giving, solicitation or acceptance of any bribe, whether in cash or in any other form.

Our commitment to integrity also carries through the products and services we offer, and it is our aim to ensure that the staff and people acting on our behalf always comply with our Anti-Bribery and Corruption (ABC) Policy:

Relationships

Due diligence is performed regarding all staff, suppliers, service providers and associated persons prior to working with them, and periodically updated thereafter. We continually develop, implement, and maintain effective policies and procedures for ABC.

Auditing and monitoring

We continually assess our existing ABC processes and due diligence measures.

Risk register

We keep an up-to-date risk register which includes all risks associated with ABC and a set of associated operational procedures.

Transparent accounting

We have clearly defined accounting procedures that ensure payments are assessed, booked, recorded, and can be re-assessed, reviewed and audited in a transparent manner.

ABC training

Our induction and Annual Mandatory Training (AMT) includes a module on ABC. The training focusses on defining bribery and corruption, identifying what is and is not a bribe, protecting individual staff and Allica against bribery and corruption, and how the law has changed to counteract international bribery and corruption.

ABC testing

Our induction and AMT training includes an ABC test to demonstrate employees' understanding of the important concepts covered in the module.

Modern slavery statement

Our commitment to human rights and the ethical treatment of our colleagues, suppliers and customers is fundamental to what we stand for. We believe in acting ethically and with integrity in all our business relationships, and we have implemented 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.

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 sustainably deliver positive outcomes for our customers and other stakeholders.

Components of the risk management framework

The RMF sets out how the Bank manages and governs the risks it is exposed to, including, but not limited to, risks arising from financial, economic, operational and conduct factors.

The structure, processes, ownership, responsibilities, and the risk oversight required to support the effective implementation of the RMF across the Bank are all identified within the framework — the basis of which is the 'Three Lines of Defence' model.

First line of defence

The First Line of Defence (FLOD) is the business functions of the Bank comprising all staff which do not form part of the risk and compliance function. FLOD 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 its business area by undertaking and regularly maintaining a Risk Controls Self-Assessment (RCSA).
- Assessing each risk within its RCSA on an inherent and residual post control basis; rating all risks and incidents using a likelihood and Impact Rating Matrix (as appropriate).
- Regular testing of key controls to confirm they are suitably effective, and then amending each control as necessary.
- Using these controls and escalating any breaches to management and the Second Line of Defence.
- Escalating any emerging risks or incidents through the Risk Team.

Second line of defence

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

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

Third line of defence

Internal Audit is Allica's Third Line of Defence. This provides independent assurance on the effectiveness of risk management and the internal control framework, including testing of key controls. Internal Audit reports directly to the Chair of Audit Committee.

Risk appetite

Allica's risk appetite is set by the Board and is articulated through the Risk Appetite Statement. This outlines the level of risk the Bank is willing to accept across four enterprise-wide risks, subdivided into twenty key risks, in our risk taxonomy.

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

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

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

Risk taxonomy

Our risk taxonomy details the risks that Allica is exposed to, and our principal risks are captured within four main enterprise-wide risk types.

Financial risk

Failure to meet our financial objectives due to changes in external factors or inadequate internal management; inability to maintain adequate levels of capital to meet regulatory requirements and/or execute our growth plans; and inability to maintain levels of liquidity leading to a failure to meet regulatory requirements and/or obligations as they fall due or only being able to do so at excessive cost.

Credit risk

The risk of a customer defaulting on their obligations under a lending facility or a reduction in the value of the security held in relation to any facility. In addition, the risk that a counter-party with whom the Bank has lodged cash balances does not repay these at the due time, or that a counter-party with whom Allica has entered into derivative contracts does not fulfil their obligations under the contract. Either scenario may result in Allica suffering a financial loss.

Operational risk

The risk that Allica experiences financial loss as the result of a failure of internal people, processes, systems, or external events.

Conduct risk

The risk that our actions, or failure to act, are contrary to the fair treatment of customers, cause our customers harm, or adversely affect market integrity and competition.

Principal risks & uncertainties

We consider our principal risks and their related mitigating actions, for each of the four main enterprise-wide risk types, to be as follows:

Principal Risk	Mitigation	Comments
Capital There is a risk that Allica fails to maintain sufficient capital to meet its regulatory obligations and /or its business plan. This could occur due to economic stress, a failure to attract capital (noting that Allica is reliant on raising capital until it achieves sufficient self-generation).	• Annual ICAAP assessment of all material risks. • Allica's capital life expectancy is monitored monthly. • Capital related Key Risk Indicators monitored monthly and calibrated to maintain appropriate buffer over regulatory minima. • Capital raises are planned well ahead of time.	Allica has a proven track record in obtaining necessary capital in a timely manner. No regulatory breaches including use of buffers.
Liquidity There is a risk that the Bank fails to maintain sufficient liquidity to meet its regulatory obligations, sustain the aims of the corporate plan or to meet its financial obligations when they fall due.	• Multiple sources of deposit liquidity • Annual ILAAP assessment of all liquidity risks • Allica's liquidity profile is monitored daily • Assets held in High Quality Liquid Assets (HQLA) and cash. • Liquidity related Key Risk Indicators monitored monthly (daily if appropriate) to maintain appropriate buffer over regulatory minima.	Allica has a proven track record of maintaining and raising liquidity as required including that for the recent AIB loan portfolio acquisition.
Information security – cyber attack There is a risk that Allica is subject to a cyber-attack that could compromise its information and transaction systems and processes.	• Allica has multi-layered system security in line with government CESG standards, including firewalls, end-point protection, anti-virus together with preventative and detective controls. • Penetration testing undertaken quarterly. Independent Orpheus risk monitoring and system monitoring to counter data loss. • Cyber insurance is held.	No issues have been encountered since Allica's inception. Cyber security is under constant review with improvements in defence being made regularly.

Principal Risk	Mitigation	Comments
Business performance The Bank's business plan may not be achievable due to poor strategic decision making, adverse financial performance or stress factors from the competitive marketplace.	• Financial performance is monitored in detail across all elements including business pipeline, profit and loss, balance sheet and cashflow on an actual and forecast basis. • Risks to the business plan and strategic risks, are included in the Risk Register and are monitored by RMC, ExCo, BRC and the Board. • KRI's are monitored monthly by the Board.	Business performance is monitored very closely with strategic and tactical changes made in response to business/market challenge as required.
Credit risk There is a risk of a customer or counterparty defaulting on its obligations, being unable repay, or that any security held will depreciate in value.	• Clearly defined credit policies and lending guidelines with any exceptions noted and reported monthly to Risk Management Committee. • All loans are individually approved by the underwriting team in the Second Line of Defence reporting to the CRO. Loans provided on a forward flow basis are similarly segregated. • KRI's relating to credit quality are monitored monthly by the Board. • Separate concentration limits established across product, business sector, geography and single name – all monitored monthly by the Board.	Each loan is individually assessed for the potential impact of Covid-19 including extended lockdown/business interruption.
Operational Resilience There is a risk that the Bank's outsourced service providers fail to deliver the service that they have been engaged to provide. In not maintaining a high level of resilience there is a risk that the Bank's 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.	The Bank has completed its operational resilience self assessment in March 2022 with identified improvements all either complete or underway.

Principal Risk	Mitigation	Comments
Financial Crime There is a risk that the Bank is used for the facilitation of financial crime by criminals or is subject to external/internal fraud. This could be caused by inadequate onboarding procedures, customer negligence or complicity, poor systems and controls or staff collusion.	This is mitigated through closed loop transactions, robust KYC/KYB and ID&V onboarding process, customer screening, payment screening, automated AML, fraud monitoring and a low risk product base.	Ahead of the provision of a payment account during the latter part of 2022, the additional controls and resource required to mitigate and control financial crime risks are being embedded. These include but are not limited to recruitment of suitably experienced staff, so that Allica's defences remain appropriate.
Operational Risk Operational risk is the risk of loss resulting from failed or inadequate internal processes, people, systems or external events.	• Risk control self assessments undertaken by all businesses and functions with challenge from Second Line of Defence. • All risks and related controls recorded on the Bank's Risk Register. • Risk and incident escalation protocols firmly established. • KRIs monitored monthly by the Board.	Allica is committed to increasing its operational risk controls in line with its business growth. Identified operational risk losses in 2021 were less than £5,000 in total.
Conduct Risk Conduct risk is the risk that the Bank conducts its business improperly, in a manner that is contrary to the fair treatment of its customers and maintenance of market integrity, whether on occasion or systemically. This includes customer detriment or poor outcomes caused by unsuitable products, poor service or process failures.	• Allica utilises its Conduct Risk Framework, which identifies the areas of its business that carry conduct risk so that each of these have adequate controls including product design, culture and employee engagement. • A suite of conduct risk metrics is monitored monthly and reported to ExCo and the Board Risk Committee. • A quarterly Conduct Risk Forum is chaired by the Head of Compliance to provide a clear oversight of Conduct Risk across the Bank. • All new products and product amendments are subject to a full risk analysis, including Conduct Risk and Treating Customers Fairly.	No conduct related issues have arisen.

Principal Risk	Mitigation	Comments
Product Risk The risk that Allica fails to design products suitable to customers' needs and causes poor customer outcomes, fails to market/promote/sell a product in a manner which is of regulatory standard, fails to communicate with customers in a manner which is clear, fair and not misleading.	• All products are approved through the Bank's new product approval process with a focus on the key six consumer outcomes, as set out by the FCA, to ensure fair treatment. • All products are subject to assessment via a comprehensive business plan and all product risks are assessed by each function with appropriate controls applied. • Each product is reviewed at least annually to check performance against expectations.	All products reviews have been completed successfully with no issues outstanding. New products are subject to Board Risk Comittee approval and, in turn, advice to the PRA that all attendant risks have been considered with suitable mitigants in place.

Emerging risks

Principal Risk	Mitigation
Covid 19	Allica has been able to manage the credit related risks from Covid -19 to date well, as the vast majority of its own loans have been written during this period. Any lockdown/business interruption/liquidity risks relating to any specific transaction have been individually assessed at a loan underwriting stage. The purchase of loans from AIB does not include any defaulted loans. However, as SMEs adjust to the wider re-opening of society, coupled with the removal of government support schemes and the commencement of payments under government guaranteed loans, it is possible that the impact of these, together with continued stretched and displaced supply chains will see a rise in defaults and insolvencies across the UK. Allica is unlikely to be immune from these effects.
Geopolitical tensions	The crisis in Ukraine is having a material impact on the domestic and global economy, with the risk that higher energy, grain and fertiliser prices cause material global inflation leading to a global recession.
Inflation	Inflation has been increasing over H2 2021 as the economy rebounded and consumer confidence, and spending, increased. Rising energy prices also pushed up the inflation rate, which was 5% in Q1 2021. The last Bank of England forecast (February 2022) was for inflation to peak at around 6% and then gradually fall back down. That was before the events in Ukraine started to unfold. The British Chambers of Commerce (BCC) and Oxford Economics are forecasting inflation to hit 8% in Q2 2022. Should energy supplies from Russia be further disrupted, this could be significantly higher. As a result, demand for Allica loan products could fall and/or loan defaults rise.
Climate	Allica understands its responsibilities in relation to the impact of Climate Change. We have two offices and no branches so our own footprint is considered relatively low but we recognise that our operations contribute to the global climate crisis both directly, and indirectly through our lending. Our ESG approach continues to develop with Climate related issues enshrined within our lending policy and Risk Framework. Further details can be found on the environment on page 42.

IBOR reform

In response to initiatives from global regulators and central banks designed to replace Interbank Offered Rates (IBORs) with alternative Risk-Free Rates (RFRs) and following the cessation of the publication of the London Inter-Bank Offered Rate (LIBOR) in December 2021, the 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.

Allica has not offered IBOR products since its inception, although it has acquired some IBOR loans as part of the Allied Irish Bank loan portfolio acquisition. 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. The carrying value of these loans at 31st December 2021 was £35m, which is 6% of the Bank's total loan book as of that date. Therefore the Bank's products and business model are unlikely to be significantly affected. However, IBOR reform still exposes the Bank and the wider financial market to various risks, including:

- Conduct Risk arising from discussions with clients and market counterparties, which may lead to customer complaints, regulatory sanctions or reputational impact if the Bank is viewed as operating unfairly.
- Financial Risk to the Bank and its clients that markets are disrupted by changes in the valuation of financial assets and liabilities, resulting in financial losses.
- Pricing Risk from the potential lack of market information if new RFRs are considered illiquid and unobservable.
- Operational Risk arising from these reforms, which may result in changes to the Bank's IT systems, client account infrastructure, operational processes, and controls; and
- Accounting Risk from unrepresentative income statement volatility as financial instruments transition to RFRs. As discussed in notes 25 and 26, the Bank's hedging programme, which was implemented in 2021, mitigates the Bank against movements in the Sterling Overnight Index Average (administered by the Bank of England), which would potentially impact interest receivable from customer mortgages, or interest payable on customer deposits.

Management of these risks will remain a key area of focus for Allica in 2022.

Environment, social and governance

Environment

Allica identifies climate change as a key area of strategic focus, in terms of transition to a net zero economy, but also supporting our customers, colleagues and the wider community on this path. Our response to climate risk focuses on the impact of climate change on the Group and its business, as well as on the Group's impact on the climate and environment. While Allica has no branches and avoids the environmental footprint arising from running a large branch network of buildings, our operations still contribute to the global climate crisis both directly from the Group business and indirectly from our lending activities. The risks of climate change for Allica arise through the physical risks associated with changes in climate and severe weather, and through society's response to climate change and its transition to a low carbon economy, as well as from new climate-related policy and regulations.

Social

Community and social matters

Allica supported MacIntyre as its chosen charity partner in 2021.

The charity, established in 1966 by the parent of a disabled child, provides education, support and care for more than 1,200 children, young people and adults who have a learning disability and/or autism across England and Wales. It has grown to become a leading national charity, highly respected and committed to setting standards and increasing choice.

Allica Bank raised a total of £5,691 for MacIntyre in 2021 with events such as cake sales, Purple Day, "Climb Ben Nevis" and Race the Thames.

Ten members of staff together ran and cycled the distance of the River Thames (about 45km each) in the space of a week with one employee even dressing up as a can of spam for the final kilometres!

Vulnerable customers

Conduct risk management continues to be a key area of focus and a new Conduct Risk Forum was established during the year. The Board Risk Committee (BRC) approved updates to the Conduct Risk Management Framework following the annual review of its effectiveness and in addition, the BRC received regular reports on performance against conduct risk metrics and developments regarding new and existing products.

During the year, Allica has been working hard to support our customers and minimise the impact of COVID-19 for businesses and households across the UK, maintaining our customer service operations and distribution with minimal interruption. Our response to COVID-19 has resulted in enhancements and adjustments to the control environment across the Bank to better support our customers. This included facilitating working from home for most employees, adjusting the working environment for those employees that continued to work on-site, providing support to customers in financial difficulties, policy adjustments and supporting vulnerable customers.

Allica recognises and values our diverse customer base. We support our vulnerable customers and we invest in our colleagues to make sure that they give the best guidance and support.

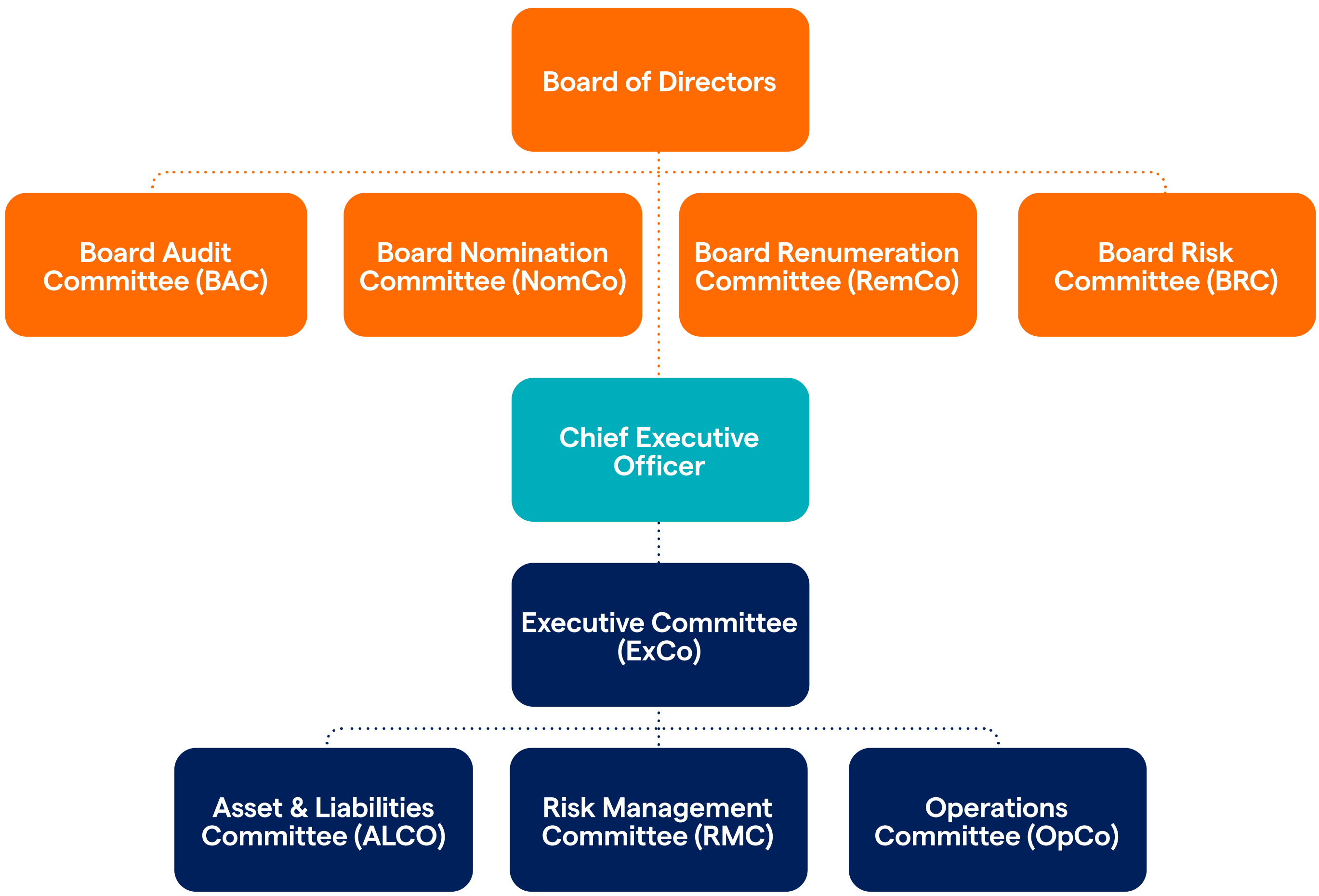
Governance

Allica is committed to achieving high corporate standards, rooted in a robust governance structure with clear individual lines of accountability and committee oversight responsibility.

Allica fully complies with the Senior Managers & Certification Regime by clearly conveying the roles and responsibilities of all senior management functions in individual Statements of Responsibilities.

Organisational framework, responsibilities and controls

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



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

The Board of Directors

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

- The approval of Allica's business strategy and risk appetite.
- Authority to act as the ultimate decision-making body.
- The right to delegate decision-making authority to either the CEO, members of senior management, or Board and Management Committees.
- Establishing policies to manage the strategy and risk appetite.
- Ensuring systems and controls are appropriate to manage business risks.
- Safeguarding the Bank's assets.
- Maintaining sound systems of internal controls
- Accountability for all decisions made by Board and Management Committees.

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

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

Terms of reference for the Board and each of the Board's Committees are set detailing 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 on updates, findings, and recommendations. Board meetings are scheduled to occur monthly or more often if required.

Conflicts of interest

The Board has established a conflicts of interest policy. The Directors and officers of the Bank are required to lodge conflicts of interest in the Conflicts of Interest Register, which is maintained by the Company Secretary.

In addition, the standing agenda of each Board and Management Committee contains a requirement for any attendee to disclose any conflict of interest. When a member has a conflict of interest they are required to abstain themselves from any voting or decision making on any related agenda item.

Board effectiveness

The Board is responsible for our strong and transparent governance, which enables us to achieve our purpose, drive improvement and ensure that all our stakeholders have a fair, balanced and understandable assessment of the way we do business.

All appointments to the Board are based on merit with candidates assessed against objective criteria. However, the Board recognises the importance of having a diverse range of skills, knowledge, experience and perspectives and any appointments seek to increase its diversity whilst not compromising on the quality of the Board. The Board operates in an environment that values the input of every Director and where bias and discrimination are not tolerated.

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:

- The primary role of the Committee is to assist the Board in overseeing the system of internal control and external financial reporting across the Group.
- As part of its review the Committee assessed management's application of key accounting policies, significant judgements and compliance with disclosure requirements to ensure that these were consistent and appropriate to satisfy the relevant requirements.
- The Committee considered the current position of the Group along with principal and emerging risks and assessed the prospects of the Group before recommending to the Board that the going concern basis should be adopted in preparing the annual financial statements.
- The Committee is responsible for 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.
- The Committee is responsible for overseeing the Group's relationship with its external auditor,EY. This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process which inform the Committee's recommendation to the Board relating to the auditor's appointment (subject to shareholder approval).
- The Committee is responsible for monitoring the Group's Whistleblowing Policy and arrangements.

Board Nomination Committee

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

- Managing the appointment process for new Board Directors and 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. Responsibilities include:

- To determine the policy for the remuneration - including benefits, pension arrangements, and termination payments - of the Chairperson of the Board, the Chief Executive Officer, the Executive Directors, and those subject to the Senior Managers and Certification Regime and material risk takers of the Bank.

Board Risk Committee

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

- To oversee Allica's overall risk management framework, as well as its risk appetite, strategy, principles, and policies.
- Review and monitor the risk profile of the Bank.
- Oversee and advise the Board on the risk profile of the Bank and its future risk strategy.
- Review and recommend for Board approval the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and the Bank's Internal Liquidity Adequacy Assessment Process (ILAAP).
- Review and recommend for Board approval the Bank's recovery and Solvent Wind Down plans.
- Consider and approve any required delegation of authority to the Chief Risk Officer (CRO).
- Consider and approve the remit of the risk and compliance function and ensure it has adequate resources.

Management Committees

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

Executive Committee (ExCo)

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

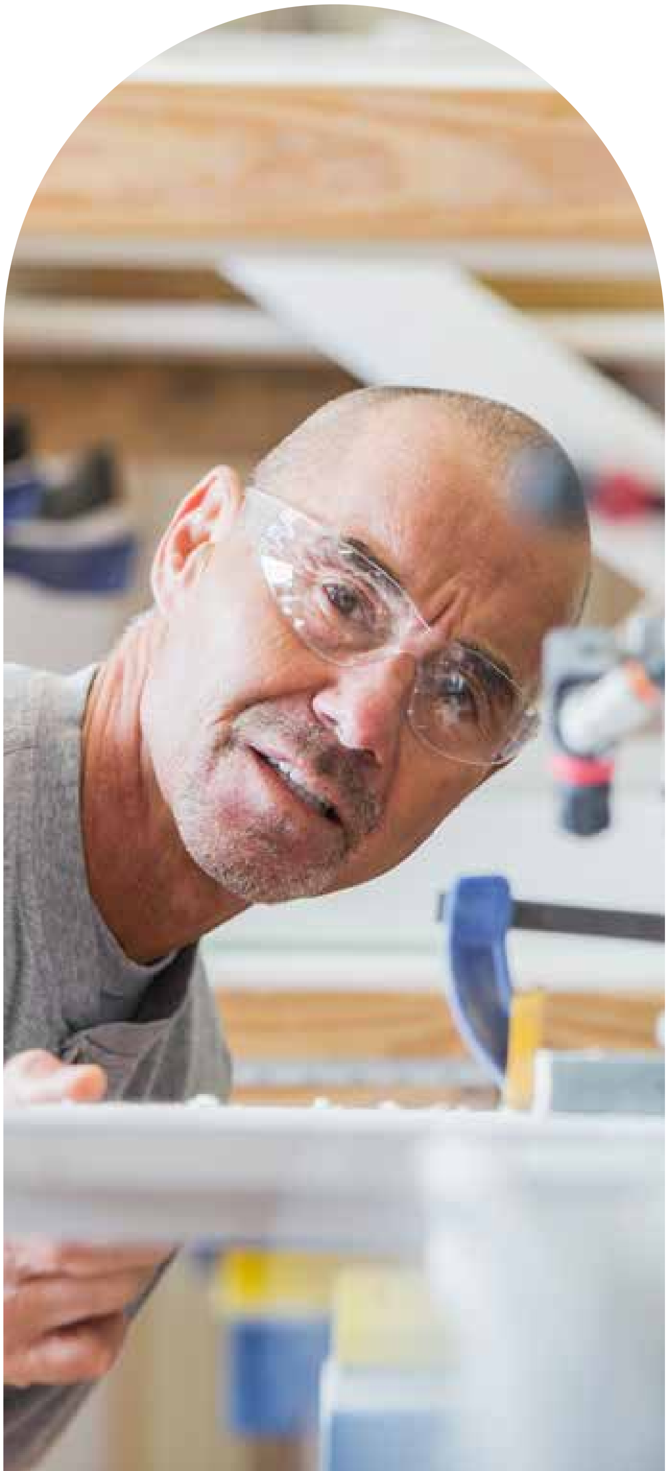
- Oversight of the Bank, including reviewing the key committee objectives and matters raised.
- Development, implementation and communication of strategy, operational plans, policies, procedures, and budgets.
- Monitoring of operating and financial performance.
- Oversight of Allica's culture, conduct and ethics.
- Identification, management, monitoring and assessment of the risks across the Bank and allocation of resources.

Risk Management Committee (RMC)

The Risk Management Committee is responsible for the monitoring and management of the Bank's Risk Management Framework.

Responsibilities also include:

- Ensuring all delegated risks are maintained 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 Bank's key risks to ExCo, Board Risk Committee and the Board.



Assets and Liabilities Committee (ALCO)

ALCO is responsible for the prudential management of Allica's balance sheet, and to ensure 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.

Responsibilities also include:

- Management of Allica's liquidity and capital positions so that adherence to the Bank's risk appetite and regulatory minima are maintained.
- Management of prudential risks under the ALCO's control (capital, liquidity, market, funding, and interest-rate risk).
- Monitoring and reporting of ALCO risks to evidence compliance with the risk appetite set by the Board.
- Maintenance of all finance and treasury related policies.
- Reviewing and monitoring the composition and growth of assets and liabilities of the Bank.
- To develop and apply appropriate hedging strategies to control volatility of balance sheet and earnings.

Operations Committee (OpCo)

OpCo is responsible for the management and control of the operational activities of the Bank 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.
- Recommendations of new products under Allica's new product approval process.

Functions and organisational structure

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

Allica Bank SMF functions			
Allocated to Non-Executive Directors		Allocated to senior Executives	
Chairman of the Board	SMF 9	Chief Executive Officer	SMF 1
Chairman of the Risk Committee	SMF 10	Chief Financial Officer	SMF 2
Chairman of the Audit Committee	SMF 11	Chief Risk Officer	SMF 4
Chairman of the Remuneration Committee	SMF 12	Chief Commercial Officer	SMF 6
Chairman of the Nomination Committee	SMF 13	Head of Compliance	SMF 16
Senior Independent Director	SMF 14	MLRO	SMF 17
		Chief Information Officer	SMF 24
		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 2021. Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, can be located as follows:

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 18 to 30.

Research and development

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

Dividends

The Directors are not recommending a dividend in respect of the year ended 31 December 2021 (2020: £nil).

Appointment and retirement of Directors

The Company's Articles of Association set out the process for the appointment and replacement of Directors.

The following persons were Directors of Allica Bank during the whole of the financial year and up to the date of this report:

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

Powers of Directors

The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association. Changes to the Company's Articles of Association must be approved by the shareholder passing a special resolution, and they 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 least 12 months (from the date of the financial statements' approval), and that the Bank/Group has sufficient capital and liquidity to meet its regulatory capital requirements set by the Prudential Regulation Authority (PRA).

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

The Bank's/Group's capital and liquidity plans have been stress tested in line with a wide range of scenarios and have been reviewed by the Directors.

While 2021 has been a difficult year for the market due to Covid-19, the UK government's successful vaccination program, roadmap to exit lockdown and increasing clarity around Brexit continues to increase investor confidence. Management has confidence that the Group will be able to raise the further capital required to deliver its business plan. The developments in 2021 that support this view are:

Strong business performance
Demand for the Bank's products was strong in 2021 with the loan book increasing from £45m in 2020 to £551m in November 2021 (including the AIB acquisition). This strong growth has continued in 2022. The monthly value of full credit applications received surpassed £150m in November 2021 – 3.1x the applications received 12 months previously in November 2020. Allica is clearly leading the market in its broker distributed commercial mortgage offering, demonstrated by winning four awards at the NACFB annual awards. Our asset finance product is gaining momentum after a slow start in 2021 due in part to Covid 19 and has shown good growth in the latter part of 2021 and the first quarter of 2022. Our residential buy-to-let partnership with Landbay continues to perform in line with expectations. The Company is forecasting to reach monthly profitability in 2022.

Successful capital raising
During 2021 Allica has raised an additional £110m of capital through a Series B funding round led by Atalaya Capital Management (a new Investor in 2021), alongside its existing lead investor, Warwick Capital Partners. Atalaya have invested £60m of CET1 capital of which £23.8m was paid up in November 2021 with the balance recieved by April 2022.

Deposit raising
Allica has demonstrated its ability to raise significant amounts of funding in a short period of time, as deposits increased from £104m to £846m over the course of 2021 to fund organic growth and the AIB portfolio. As well as its direct channel, Allica has diversified its funding in the last year by onboarding additional distribution partners. The Bank now has four of these platform partners in Flagstone; CHIP, Hargreaves Lansdown and Revolut. The Bank currently holds sufficient surplus funding over its regulatory liquidity requirement to pay for tranche 2 of the AIB portfolio.

Management forecasts demonstrate that, should further capital raising be delayed, it can take actions to preserve capital whereby it would not reach a point where its capital buffers would be utilised until January 2024 and whereby Total Capital Requirements would not be breached until well beyond the 12 month period of review.

Political and charitable donations

Allica has not made any donations to, or incurred expenses in relation to, any registered UK political party or other EU political organisations. The Bank has made donations to UK registered charities.

While it is our policy not to make political donations to, or campaign on behalf of, any political party, from time to time we engage with a range of government, regulators and public policy stakeholders, including cross-party All-Party Parliamentary Groups to provide our views on regulatory and policy issues relevant to our business and customers.

Share capital

Details of the Company's issued share capital, together with any details of its movement during the year, are shown in Note 21 of the Financial Statements. The Company's share capital comprises one class of ordinary share with a nominal value of £0.01 each of which 141,653,711 were in issue at 31 December 2021 (2020: 100,288,746).

Restrictions on the transfer of shares according to the Articles of Association and prevailing legislation there are no specific restrictions on the transfer of shares of the Company.

Section 172 statement

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

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

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

Stakeholder Group	How the Company adheres to s172
Employees	The Company actively monitors staff engagement through regular anonymous staff surveys, the results of which are then shared with all employees along with any resulting actions. Regular virtual social events are held which have been particularly important during the pandemic lockdowns. Diversity and inclusion is actively promoted with specific recruitment targets set for gender and ethnicity which are linked to variable remuneration for all employees.
Customers	The Company 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 Company does and the outcome for the customer of any action the Company takes is embedded in its processes and procedures.
Regulators	The Company has an open and transparent relationship with its regulators with regular communication maintained.
Investors	Allica maintains a regular, open dialogue with its principal investors. Warwick Capital Partners and Atalaya Capital Management 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 Company'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.

Statement of Directors' responsibilities

Disclosure of information to the auditor

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

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors must prepare the Group financial statements in accordance with UK-adopted international accounting standards andwith 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 their profit or loss for that period. In preparing the financial statements, the Directors are required to: select and apply accounting policies; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable an understanding of the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance. Finally, the Directors must assess Allica's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records which: are sufficient to show and explain the Group's transactions; disclose with reasonable accuracy the financial position of the 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 set of accounting standards, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group.
- The Strategic report (on pages 18 to 30) and the Directors' Report (on pages 52 to 59) include a fair review of the business' development and performance, as well as the principal risks and uncertainties they face.
- The Annual Report and Accounts are fair, balanced, and understandable, and that they provide the information necessary for the shareholders to assess the Group's position and performance, business model, and strategy.

Reappointment of the auditors

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

Approved on behalf of the Board by

Richard Davies
Director on 18 May 2022.

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

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

Opinion

In our opinion:

- the financial statements of Allica Bank Limited (the 'Parent Company') and its subsidiaries (together, the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's loss 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 (see table below) of the Parent Company and the Group for the year ended 31 December 2021 which comprise:

Group	Parent company
Consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2021;	Statement of financial position as at 31 December 2021;
Statement of financial position as at 31 December 2021;	Company statement of changes in equity for the year ended 31 December 2021;
Consolidated statement of changes in equity for the year ended 31 December 2021;	Company statement of cash flows for the year ended 31 December 2021; and
Consolidated statement of cash flows for the year ended 31 December 2021; and	Related notes 1 to 35 to the financial statements including a summary of significant accounting policies.
Related notes 1 to 35 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:

- We confirmed our understanding of management's going concern assessment process and engaged with management to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of budget and business plans, regulatory capital requirements, liquidity and existing shareholder support. It also assessed these positions considering internal stress scenarios which included a downside lending scenario 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 managements key assumptions and stressed managements models to challenge their reasonableness;
- We considered the impact of Covid-19 on the Group, and whether any further risks to going concern have arisen as a result;
- We made enquiries to the Group's principal investors Atalaya Capital Management and Warwick Capital Partners to understand their view of the Group, the long-term business and strategic plans, forecast capital, liquidity and funding positions; and
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for an 18-month period to 30 October 2023.

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 Parent Company
Key audit matters	• Capitalisation of software costs and impairment of IT software • Adequacy of allowance for expected credit losses • Accounting for the acquisition of the Allied Irish Bank ("AIB") loan portfolio
Materiality	• Overall Group materiality of £922k (2020: £565k) which represents 1.0% of equity (2020: 1.0% of equity).

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 the size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed.

Involvement with component teams

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

Climate change

The Group has determined that the majority of its climate-related risk lies in its financial instruments through lending and other financial intermediary activities. This is primarily explained on page 42 in the Environment, Social and Governance section of the strategic report, which forms part of the 'Other information'. Our procedures on these 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.

Our audit effort in considering the impact of climate change on financial instruments was focused on assessing whether the effects of potential climate risks have been appropriately reflected by management in their judgments in relation to the measurement of financial assets. We also challenged the Directors' considerations of climate change in their assessment of going concern and associated disclosure.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Capitalisation of software costs and impairment of IT software (£8,178k, prior year £14,092k) Refer to the accounting policies (page 84); and Note 14 of the Financial Statements (page 108) There is a risk that management does not correctly differentiate between expenses to be capitalised and those to be expensed in line with the requirements of IAS 38 Intangible Assets. In addition, there is a risk that management does not correctly identify whether any assets so capitalised should be impaired under the requirements of IAS 36 Impairment of Assets. Consequently, there is a risk of material misstatement with regards to the capitalisation and impairment of IT software.	We adopted a fully substantive approach to our testing. We reviewed the Group's software capitalisation policy and challenged its compliance with the requirements of IFRS. We obtained an understanding and challenged its application to the recognised software asset. We substantiated IT expenses through to invoices from vendors to determine whether the underlying costs incurred met the capitalisation criteria under IAS 38 Intangible Assets. We reviewed appropriateness of the staff costs capitalised during the year. 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.	Based on the procedures performed, we were satisfied that the IT software asset balance as at the period end and the costs capitalised during the period were reasonably stated.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Adequacy of allowance for expected credit losses (£984k, prior year £40k) Refer to the accounting policies (page 84); and Note 11 of the Financial Statements (page 104) There is a risk that management incorrectly determines the expected credit losses ('ECL') provision under IFRS 9 Financial Instruments. The appropriateness of the allowance for ECL is subjective due to the high degree of judgement applied in determining staging, modelling (including inputs) and assessing any individually impaired assets. This judgement and estimation heightened the risk that the allowances could be misstated. Management judgement is involved in determining the ECL, primarily in determining the probability of default ("PD") and loss given default ("LGD") and modelling expected exposures ("EAD"). Underlying inputs in these metrics include macroeconomic scenarios, collateral valuations, and indicators for significant increase in credit risk.	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. With the support of our credit risk modelling specialists, we independently re-performed the ECL calculation using the Group's assumptions. With the support of our real estate valuation specialists, we revalued a sample of collateral balances. We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards.	Based on the procedures performed, we were satisfied the ECL on loans and advances to customers is both appropriate and reasonably stated.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for the acquisition of the AIB loan portfolio (£263m, prior year nil) Refer to the accounting policies (page 84); and Note 11 of the Financial Statements (page 104) There is a risk that management incorrectly accounts for the acquisition of the loan portfolio under IFRS 9 Financial Instruments. The acquired loan portfolio comprises of a significant portion of the Group's assets. Given the quantum of the portfolio acquired, there is a high likelihood of material misstatement arising from any errors in accounting for the transaction. The fact that this is a non-routine transaction and the terms of the purchase for the Group increases the risk that the appropriate accounting treatment for the transaction may not be applied.	We adopted a fully substantive approach to our testing. We reviewed the sale agreement, transitional service agreement and loan service agreement to evaluate the arrangements implications on the accounting for the transaction and assess when the Group became party to the contractual provisions of the agreement. We determined that the transaction is appropriately considered an asset acquisition under IFRS 9 rather than a business combination under IFRS 3. We evaluated the terms of the agreement to identify any derivative financial instruments arising out of the transaction. We engaged our technical accounting specialists to evaluate management's accounting assessment and considerations for the transaction. We evaluated whether the assets acquired were Purchased or Originated Credit impaired (POCI). We assessed whether the transaction was recorded at fair value at initial recognition. We obtained access to the 3rd party data-site used in the due diligence phase of the transaction and reviewed the data used. We obtained a 3rd party confirmation from AIB confirming key elements of the transaction.	We worked through with management a number of alternative ways to account for the transaction and were satisfied that management alighted on the accounting treatment to appropriately reflect the facts and circumstances of the underlying agreements.

Accounting for the acquisition of the AIB loan portfolio is a new key audit matter included in the current year.

Understatement of accruals to improve performance and cash flow forecasts for going concern analysis is not considered 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 £922,000 (2020: £565,000), which is 1.0% of equity (2020: 1.0% of equity). The reason for selecting equity as the basis for our audit materiality consideration is that we see equity as a proxy for regulatory capital, as the main focus for the users of the financial statements given the importance of regulatory capital to the Group's solvency.

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.

Based on our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £461,000 (2020: £282,000). We have set performance materiality at this percentage based on our understanding of the Group and experience with the audit.

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 £46,000 (2020: £28,000), 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 58, 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 Allica Bank Limited is complying with those frameworks by making enquiries 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 Audit Committee; and gained an understanding of the Group's approach to governance.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the Group, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance incentives and their potential to influence management to manage earnings.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included 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. In addition, we performed procedures to identify any significant items inappropriately held in suspense and also any significant inappropriate adjustments made to the accounting records.
- The Group operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team, including auditor's specialists, to ensure that the team had the appropriate competence and capabilities, which included the use of 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

- 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 5 years, covering the periods ending 31 July 2017 to 31 December 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the 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
19 May 2022

Primary statements and notes

Allica Bank Limited
Consolidated statement of profit and loss and other comprehensive income
For the year ended 31 December 2021

		Group	
		Year ended	Year ended
		31/12/2021	31/12/2020
	Note	£'000	£'000
Income			
Interest income using the effective interest method		11,494	739
Interest expense		(3,670)	(535)
Net interest income	4 (a)	7,824	204
Fee and commission income		157	-
Fair value losses	4 (b)	(155)	-
Total Operating Income		7,826	204
Expenses			
Administrative expenses	5	(7,890)	(8,001)
Depreciation and amortisation	6	(9,445)	(2,098)
Staff costs	7	(14,472)	(11,751)
Operating loss		(23,981)	(21,646)
Impairment losses		(1,077)	(68)
Loss before tax		(25,058)	(21,714)
Taxation	10	-	-
Loss after tax for the year		(25,058)	(21,714)
Other comprehensive income/(loss)			
Items that may be recycled subsequently to profit or loss			
Fair value (losses)/gains on debt securities		(4)	2
Net change in fair value of financial instruments during the year		20	(20)
Amounts recycled to profit or loss in year		23	-
Other comprehensive income/(loss) for the year, net of tax		39	(18)
Total comprehensive loss for the year		(25,019)	(21,732)

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

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 84-138.

Allica Bank

Allica Bank Limited
Statements of financial position
As at 31 December 2021

		Group		Company	
		31/12/2021	31/12/2020	31/12/2021	31/12/2020
	Note	£'000	£'000	£'000	£'000
Assets					
Cash and balances at central banks	31	295,291	92,925	295,291	92,925
Due from Banks	31	17,290	10,338	14,761	10,338
Debt securities		40,406	-	40,406	-
Derivative financial instruments	25	58	4	58	4
Loans and advances to customers	11	566,040	45,040	500,805	44,977
Other assets	12	22,549	1,791	21,781	1,779
Tangible fixed assets	13	249	214	249	213
Right-of-use assets	20	146	339	146	339
Intangible assets	14	8,178	14,092	8,178	14,092
Amounts due from subsidiary	15	-	-	70,928	195
Total assets		950,207	164,743	952,603	164,862
Liabilities					
Derivative financial instruments	25	988	24	988	24
Customer deposits	16	845,769	104,299	845,769	104,299
Other liabilities	17	5,887	3,523	5,404	3,514
Provisions	18	66	88	66	88
Subordinated liabilities	19	7,500	-	7,500	-
Leases	20	114	321	114	321
Total liabilities		860,324	108,255	859,841	108,246
Net assets		89,883	56,488	92,762	56,616
Equity					
Share capital	21	1,417	1,003	1,417	1,003
Share premium	22	160,708	120,321	160,708	120,321
Perpetual convertible notes	23	17,500	-	17,500	-
Other reserves	23	2,110	(22)	2,110	(22)
Accumulated losses	23	(91,852)	(64,814)	(88,973)	(64,686)
Total equity		89,883	56,488	92,762	56,616

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 loss after tax for the year ended 31 December 2021 was £22,307k (2020: loss after tax of £21,586k). The results for the current and prior period are derived entirely from continuing operations.

The above statements of financial position should be read in conjunction with the accompanying notes on pages 84-138.

The financial statements were approved for issuance by the Board on 18 May 2022 and signed on its behalf by:

R Davies

Chief Executive Officer 18 May 2022

Allica Bank Limited
Consolidated statement of changes in equity
For the year ended 31 December 2021

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

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 84-138.

Allica Bank Limited
Company statement of changes in equity
For the year ended 31 December 2021

	Called up share capital	Share premium	Perpetual convertible notes	Other reserves	Retained earnings	Total equity
Company	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2021	1,003	120,321	-	(22)	(64,686)	56,616
Loss after tax for the year	-	-	-	-	(22,307)	(22,307)
Other comprehensive income for the year, net of tax	-	-	-	39	-	39
Total comprehensive income/(loss) for the year	-	-	-	39	(22,307)	(22,268)
Transactions with owners in their capacity as owners:						
Share-based payments	-	-	-	113	-	113
Issue of share warrants	-	-		1,980	(1,980)	-
Issue of perpetual convertible notes	-	-	17,500	-	-	17,500
Issue of ordinary share capital	414	40,387	-	-	-	40,801
Balance at 31 December 2021	1,417	160,708	17,500	2,110	(88,973)	92,762

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 84-138.

Allica Bank Limited
Consolidated statement of changes in equity
For the year ended 31 December 2020

	Called up share capital	Share premium	Other reserves	Retained earnings	Total equity
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2020	738	84,044	(4)	(43,100)	41,678
Loss after tax for the year	-	-	-	(21,714)	(21,714)
Other comprehensive loss for the year, net of tax	-	-	(18)	-	(18)
Total comprehensive loss for the year	-	-	(18)	(21,714)	(21,732)
Transactions with owners in their capacity as owners:					
Issue of ordinary share capital	265	36,277	-	-	36,542
Balance at 31 December 2020	1,003	120,321	(22)	(64,814)	56,488

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 84-138.

Allica Bank Limited
Company statement of changes in equity
For the year ended 31 December 2020

	Called up share capital	Share premium	Other reserves	Retained earnings	Total equity
Company	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2020	738	84,044	(4)	(43,100)	41,678
Loss after tax for the year	-	-	-	(21,586)	(21,586)
Other comprehensive loss for the year, net of tax	-	-	(18)	-	(18)
Total comprehensive loss for the year	-	-	(18)	(21,586)	(21,604)
Transactions with owners in their capacity as owners:					
Issue of ordinary share capital	265	36,277	-	-	36,542
Balance at 31 December 2020	1,003	120,321	(22)	(64,686)	56,616

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 84-138.

Allica Bank Limited
Consolidated statement of cash flows
For the year ended 31 December 2021

Group		Year ended 31/12/2021	Year ended 31/12/2020
	Note	£'000	£'000
Cash flows from operating activities			
Interest received		10,361	1,168
Interest paid		(2,217)	(250)
Cash flows from operations	31	179,363	39,261
Net cash from operating activities		187,507	40,179
Cash flows from investing activities			
Purchase of investments		(40,410)	-
Purchase of property, plant and equipment	13	(154)	(125)
Purchase of intangibles	14	(3,219)	(5,390)
Proceeds from disposal of investments		-	29,440
Net cash (used in)/from investing activities		(43,783)	23,925
Cash flows from financing activities	31		
Proceeds from issue of ordinary shares	21,22	40,801	36,542
Issue of subordinated debt	19	7,500	-
Issue of perpetual convertible notes	23	17,500	-
Capital repayment of lease liabilities		(207)	(199)
Net cash from financing activities		65,594	36,343
Net increase in cash and cash equivalents		209,318	100,447
Cash and cash equivalents at the beginning of the financial year		103,263	2,816
Cash and cash equivalents at the end of the financial year	31	312,581	103,263

The above statement of cash flows should be read in conjunction with the accompanying notes on pages 84-138.

Allica Bank Limited
Company statement of cash flows
For the year ended 31 December 2021

Company		Year ended 31/12/2021	Year ended 31/12/2020
	Note	£'000	£'000
Cash flows from operating activities	31		
Interest received		9,665	1,168
Interest paid		(1,885)	(250)
Cash flows from operations		177,198	39,261
Net cash from operating activities	13	184,978	40,179
Cash flows from investing activities	14		
Purchase of investments		(40,410)	-
Purchase of property, plant and equipment		(154)	(125)
Purchase of intangibles		(3,219)	(5,390)
Proceeds from disposal of investments	21,22	-	29,440
Net cash (used in)/from investing activities	19	(43,783)	23,925
Cash flows from financing activities	23		
Proceeds from issue of ordinary shares		40,801	36,542
Issue of subordinated debt		7,500	-
Issue of perpetual convertible notes		17,500	-
Capital repayment of lease liabilities		(207)	(199)
Net cash from financing activities	31	65,594	36,343
Net increase in cash and cash equivalents		206,789	100,447
Cash and cash equivalents at the beginning of the financial year		103,263	2,816
Cash and cash equivalents at the end of the financial year		310,052	103,263

The above statement of cash flows should be read in conjunction with the accompanying notes on pages 84-138.

Notes to the financial statements

Note 1. General information

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

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

Eldon House, 2-3 Eldon Street, London, England, EC2M 7LS.

A description of the nature of the Group's operations and its principal activities are included in the Strategic report on page 10.

Note 2. Basis of preparation and significant accounting policies

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

a) New or amended Accounting Standards and Interpretations adopted

The Group has adopted all the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period.

The Bank has adopted the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021, which impacts disclosure only. Other amendments and interpretations apply for the first time in 2021, but do not have a material effect on the Group's consolidated financial statements.

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 2020 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.

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

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

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

In performing this assessment, the Directors have considered:

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

In making their assessment of the appropriateness of adopting the going concern basis of accounting and material uncertainties, the Directors must consider a period of at least 12 months from the date the financial statements are approved. In making its assessment the Directors have chosen the period to 31 October 2023, representing eighteen months from the date of approval of these financial statements.

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

Regulatory capital requirements

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

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

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

To ensure that this is the case management has applied a number of 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.

During 2021 Allica raised an additional £110m of Tier 1 and Tier 2 capital (including £40.8m from share issues, £17.5m from perpetual convertible notes, a £7.5m subordinated loan, and the remainder from committed funding) through a Series B funding round led by Atalaya Capital Management (a new Investor in 2021), alongside its existing lead investor, Warwick Capital Partners. Atalaya has signed an Investment Memorandum for funding of CET1 to Allica, of which £23.8m was paid up in 2021 and a further £46.2m was received by April 2022, following regulatory approvals. Warwick held 69.9% of the ordinary shares of the Company at the date of these financial statements. Warwick has been a significant investor since early 2017 and since that date has continued to support and invest in the Company including in the most recent capital raise

Covid-19

Covid-19 has impacted Allica in a number of ways but principally in the following areas:

Operational logistics

The Group has demonstrated throughout the pandemic that it can operate effectively via remote working. The operational resilience of Allica's modern cloud-based technology has been tested and found to be robust and reliable and the Group is confident that it can continue to operate remotely if required to do so.

Business performance

As lenders reduced new business this allowed Allica to gain traction in the broker market more quickly than it would otherwise have done so. This, along with Allica's market leading offering, has enabled Allica to significantly grow its lending at robust margins throughout 2021 notwithstanding the return to the market of competitors.

In particular:

- In 2020 and into 2021 lenders across the market suspended or reduced new originations in order to focus on support for existing customers and pipeline business – this has resulted in Allica seeing strong demand for its business loans and commercial investment loans. New business levels in both business loans and commercial investment loans grew strongly throughout 2021 and this has continued into 2022.
- The Group's asset finance product was launched in December 2020. Growth in this business was slower than was hoped for in the first half of 2021, primarily due to the provision of the Coronavirus Business Interruption Loan Scheme (CBILS) for which Allica was not an accredited lender and a reduction in demand caused by lockdowns. However, the second half of the year saw volumes picking up and our asset finance business enters 2022 seeing strong and increasing demand.

The Directors have considered the current and forecast performance of the business in their going concern assessment which included reviewing the underlying assumptions underpinning the forecasts and the results of stress tests, including reverse stress tests, to inform the Directors of the potential risks to those forecasts. These stress tests included margin compression, an increase in loan impairment levels, the inability to raise further capital and increased deposit outflows/reduced inflows.

Deposit funding and liquidity

Allica relies on the ability to raise personal and/or commercial deposits to fund its loan book and operations. There is a risk that as a new Bank focused on lending to the UK SME sector, potential depositors may be deterred from placing funds with Allica due to the perceived impact of Covid-19 on the Group's prospects and stability.

It is management's view that this risk is mitigated in a number of ways:

- Allica's depositors are covered subject to the scheme's rules by the Financial Services Compensation Scheme ("FSCS"). This gives depositors confidence that their funds are not at risk. The FSCS has become much more widely understood by the depositor community since the financial crisis of 2007-8.
- Allica's funding requirement represents c. 0.07% of the combined UK personal and SME deposit market.
- Allica has successfully accessed deposits throughout the recent crisis via deposit rate comparison tables and in addition has entered into a number of significant new partnerships providing a further diversification of its distribution channels.

Discussion of how the Group manages its liquidity risk is given in note 26.

Based on its assessment of the above, the Board has concluded that the financial statements for the year ended 31 December 2021 should be prepared on a going concern basis and that no material uncertainty exists for the period of assessment.

d) Principles of consolidation

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

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

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

e) Significant accounting policies

Revenue recognition

The Group recognises revenue as follows:

Interest income

Interest revenue is recognised as interest accrues 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. When a financial asset is classified under IFRS 9 in stage 3, interest income is calculated on the carrying value of the financial asset net of the Expected Credit Loss (ECL) provision.

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.

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 an 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 retained earnings. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest.

Administrative expenses

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

Cash and cash balances at banks

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

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

Financial assets and liabilities

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

The Group initially recognises loans and advances, cash at central banks, due from banks and customer accounts on the date that they are originated.

Derecognition

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

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

Modification of financial instruments

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

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

Classification of financial assets and liabilities

I. Cash and balances at central banks

Cash and balances at central banks in the statement of financial position comprise short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. The Central bank balance is the reserve account with Bank of England.

II. Due from banks

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

III. Loans and advances to customers

Loans and advances to customers are measured at fair value on initial recognition and subsequently at amortised cost using 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. 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 19)

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

b) Share capital (see note 21)

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 22)
Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of the shares issued.

d) Perpetual convertible bonds (see note 23)
Since these bonds are not redeemable at the option of the holder, and interest is due and payable only at the sole and absolute discretion of the Group, these notes have been classified as equity in accordance with IAS 32, Financial instruments: Presentation, at the total proceeds of the issue. Any coupon payments made relating to the issue are treated as a dividend distribution when paid and disclosed as a Distribution on other equity instruments within the Statement of Changes in Equity, as a debit to Retained earnings.

e) Warrants (see note 23)
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 investments 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 are measured at fair value, with changes in fair value recognised in income statement as they arise. Further guidance on the treatment of derivative assets and liabilities is given in the policy on Derivatives held for hedging purposes on the following page.

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: **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 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 instrument.**

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.
  - Probability of Default ('PD') represents the likelihood of a customer defaulting on their loan. As a new Bank, Allica does not have sufficient proprietary data to utilise an internal scorecard to build its PD models. The PD is generated based on failure score data provided by a third-party credit rating agency.
  - Exposure at Default ('EAD') is based on the amount expected to be owed at default over the next 12 months or over the remaining lifetime. Committed undrawn loans will be treated as fully drawn for the calculation of EAD.

- Loss Given Default ('LGD') represents Allica's expectation of the extent of loss on a defaulted exposure.

- Determining a SICR since initial recognition: the impairment model utilises both relative and absolute criteria to identify increases in credit risk:
  - Payment 30+ days past due.
  - A 2-notch rating downgrade.
  - Other indicators of a SICR including qualitative factors such as forbearance and placing the exposure on a watch list.

- 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.

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

- Payment is 90+ days past due.
- Demand is made on the customer by the Group for full repayment due to a breach of lending terms including cross default with facilities provided elsewhere.
- Notice of either inability or unwillingness to pay.
- Notice of entering an insolvency process is received.

Write-off policy

A loan is written-off when Allica has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

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

During the year, the Group held a number of interest swaps, to protect against variability in the fair value of interest payments arising in fixed rate term mortgages and fixed rate deposits. All the Group's derivative instruments are fair valued through profit or loss.

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.

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 4.5% 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 short- leases with terms of 12 months or less and leases of low-value assets. Lease payments on right-of-use assets are expensed to profit or loss as incurred.

Hire purchase agreements

A hire purchase agreement is a finance lease that transfers all the risks and rewards incidental to ownership of an asset to the lessee. Hire purchase agreements are recorded as loans. Lease income is recognised in interest income in the income statement using the interest rate implicit in the lease. All the Group's finance leases are HP agreements (see note 11).

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 between the carrying amount and the disposal proceeds are taken to profit or loss.

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.

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.

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting taxable profits; 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 future taxable amounts will be available to utilise those temporary differences and losses.

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

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority either the same taxable entity or different taxable entities which intend to settle simultaneously.

Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Loan commitments

Irrevocable customer loan commitments, which were undrawn at 31 December 2021 were £163,175k (2020: £26,452k). 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.

Capitalisation of costs

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

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

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

Internally developed costs are expensed until the following milestones are reached; technological feasibility, probable future benefits, intent, and ability to use or sell the software, resources to complete the software, and ability to measure cost.

Impairment assessment

All intangible assets were assessed as at 31 December 2021. The assessment was done by comparing the carrying value amounts held in intangible assets with their recoverable amount, irrespective of whether there is any indication that these amounts may be impaired. The assessment was conducted on a cash-generating unit (CGU) basis, applying the above criteria. This resulted in an impairment charge of £6,712k (see note 14 below).

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 income statement. 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 expected credit losses shall always reflect the possibility that a credit loss occurs and the possibility that no credit loss occurs even if the most likely outcomes is no credit loss.

In the absence of its own data, management estimate the probability of default and credit grading of each customer based upon individual customer Credit Reference Agency scores providing probability of failure. Detailed analysis has been undertaken to support the use of the scores, which have an inherent level of judgement.

Loss Given Default is assessed with reference to the underlying security valuation and haircuts made to reflect market downturn during holding period, discount required for distressed sale and marketing/sales/holding costs. These haircuts are based upon informed market opinion from our property value manager in conjunction with market data. Nevertheless, the ultimate assessment is judgement based.

Exposure at Default is based upon the loan amount plus an assessment for accrued interest up to 90 days and prepayments. Both are based on expert judgement.

The Group's ECL model uses three economic forecasts: base, upside, and downside scenarios. The upside and downside scenarios are calculated from a range of economic variables (GDP, CPI, GFK Consumer Confidence, UK PMI, Corporate Insolvencies, Unemployment) that are stressed around the base case. These variables are then applied to PD, LGD and EAD, with the weighted average of the three scenarios used to calculate the ECL. Based on the economic scenario analysis conducted by the Group, the weightings for each scenario were 60% Baseline, 30% Downside (stress), and 10% Upside.

Scenario	Base Case		Downside		Upside	
Weighting	60%		30%		10%	
Year	2021	2022	2021	2022	2021	2022
GDP Growth (%)	+6.5	+6.0	+6.4	+2.0	+7.0	+7.2
CPI (%)	2.3	5.0	3.2	5.6	2.0	2.0
GFK consumer confidence (points)	-20	-2	-25	-20	+10	+10
UK PMI (points)	54	53.8	40	45	60	60
Company insolvencies (per quarter)	5,800	4,400	7,500	6,500	5,000	3,800
Unemployment (%)	5.2	4.4	6.0	6.5	5.0	4.0

The ECL calculation as at 31 December 2021 is derived from these three scenarios as follows:

Scenario	ECL £000
Upside	420
Base	784
Stress	1,573

This results in a weighted average ECL provision of £984k at 31 December 2021 (see note 11).

Assuming upside weighting stays at 10%, an increase/decrease of 10% in the weighting of the baseline scenario results in a decrease/increase of £79k in the ECL provision as at 31 December 2021.

Note 4. Net interest and other operating income

(a) Net interest income

	Year ended 31/12/2021	Year ended 31/12/2020
	£'000	£'000
Interest received on loans and advances to customers	11,082	643
Interest received on due from banks	196	28
Interest received on debt securities	52	68
Interest received from derivatives	164	-
	11,494	739
Interest paid on customer deposits	(3,288)	(529)
Subordinated loan interest expense	(108)	-
Other interest expense	(274)	(6)
	(3,670)	(535)
	7,824	204

(b) Fair value losses

	Year ended 31/12/2021	Year ended 31/12/2020
	£'000	£'000
Fair Value Movements (expense) on interest rate swaps	(1,035)	-
Fair Value Movements income on interest rate swaps	888	-
Other financial expense	(8)	
	(155)	-

Fair value movements on interest rate swaps relate to the fair value hedge programme discussed in note 25 and include £33k from interest rate swaps which were not designated as hedges, and £114k from hedges deemed ineffective. Other financial expense includes £23k of valuation losses recycled from Other Comprehensive Income during the year.

Note 5. Administrative expenses

	Year ended	Year ended
	31/12/2021	31/12/2020
	£'000	£'000
Accountancy fees	205	262
Advertising	481	436
Auditor's fees	360	240
Bank charges	118	84
Technology license fees and subscriptions	3,441	2,637
Exchange loss	(23)	11
Insurance	118	76
Licences and subscriptions	106	63
Office operating costs	550	455
Other expenditure (see a) below)	879	1,402
Professional fees	1,698	1,813
Travel and entertainment expenditure	143	59
Contractor costs	173	463
Buy-to-let servicing fee	63	-
Transitional Service Agreement (TSA) costs (see note 11)	436	-
	8,748	8,001
Loan acquisition project costs (see b) below)	(858)	
	7,890	8,001

a) Other expenditure for the current reporting period mainly consists of VAT expense and prior year includes non-capitalisable costs incurred in building Allica's core banking system.

b) Administrative expenses related to the acquisition of loans from AIB (see note 11) are included within the gross total of £8,748k. On completion of the transaction, these loan acquisition project costs were reclassified to loans and advances as part of the cost of the acquisition and are being recognised through the Income Statement on an Effective Interest Rate basis.

Note 6. Depreciation and amortisation

	Year ended	Year ended
	31/12/2021	31/12/2020
	£'000	£'000
Depreciation of tangible fixed assets and right-of-use assets	312	305
Amortisation and impairment of intangible assets	9,133	1,793
	9,445	2,098

Refer to notes 13 and 14 for further details.

Note 7. Staff costs

	Group	
	Year ended	Year ended
	31/12/2021	31/12/2020
	£'000	£'000
Wages and salaries	11,749	9,662
Social security costs	1,595	1,348
Contributions to defined contribution pension plan	1,005	741
Other staff costs	123	-
	14,472	11,751

The monthly average number of persons employed by the Group (including Directors) during the period was 180 (2020: 110). 110 of these were employed in Management, Operations and Administration (2020: 84) and 70 were employed in Customer operations (2020: 26).

Other staff costs relate to share-based payments to Directors (see notes 9 and 32).

Note 8. Auditor remuneration

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

	Group	
Audit services	Year ended	Year ended
	31/12/2021	31/12/2020
	£'000	£'000
Audit of the financial statements	390	240

The audit fee for 2021 includes £355k in respect of the parent company, Allica Bank Limited and includes £28k in respect of additional work performed in completing the 2020 audit. In addition, there were £30k on non-audit fees payable to Ernst & Young LLP in 2021.

Note 9. Directors' emoluments

	Group	
	Year ended	Year ended
	31/12/2021	31/12/2020
	£'000	£'000
Aggregate remuneration in respect of qualifying services	1,365	1,744
Aggregate amounts of contributions to pension schemes in respect of qualifying services	-	5
Aggregate amounts of termination benefits	-	250
Director loans	11	11
	1,376	2,010
Highest paid Director - aggregate remuneration	470	765

Aggregate remuneration includes termination benefit costs in year ended 31/12/2020.
Number of Directors accruing benefits under the defined contribution scheme was 1 (2020:1).

Directors' loans were made to Directors to fund awards under the joint share ownership plan (see note 32). Other staff costs in note 7 represent share-based payments to Directors (see note 32).

Note 10. Taxation

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

	Group	
	Year ended	Year ended
	31/12/2021	31/12/2020
	£'000	£'000
Loss before tax	(25,058)	(21,714)
Tax at the statutory tax rate of 19%	(4,761)	(4,126)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: Expenses not deductible for tax purposes	42	125
	(4,719)	(4,001)
Losses on which no deferred tax asset is recognised	4,719	4,001
Tax benefit/charge	-	-

The tax effect of tax losses has not been recognised in these financial statements as Allica is not yet generating a trading profit and consequently there is insufficient evidence that future taxable profits will be available to recognise a tax asset.

No corporation tax liabilities are payable nor receivable from HMRC for the period (2020: £nil).

At the statement of financial position date, the Group had tax losses carried forward of £90,830k (2020: £64,356k).

No deferred tax has been recognised as at 31 December 2021.

As per the 2021 Budget announcement on 3rd March 2021, the UK corporation tax rate is expected to rise to 25% from 19% with effect from 1 April 2023. As no deferred tax assets or liabilities are recognised, this announcement does not impact the current or deferred tax balances of the Group.

Note 11. Loans and advances to customers

	Group		Company	
	As at	As at	As at	As at
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
	£'000	£'000	£'000	£'000
Loans and advances to customers	567,024	45,080	501,623	44,977
Expected credit loss	(984)	(40)	(818)	-
	566,040	45,040	500,805	44,977

Acquisition of loans from AIB Group (UK) Plc
In November 2021 Allica agreed to acquire an estimated £610 million of commercial loans from AIB Group (UK) Plc following AIB's exit from the SME market in Great Britain. The completion of the acquisition is in two tranches In the first tranche of the acquisition, which was completed on 25 November 2021, Allica acquired the loan portfolio for cash at its fair value of £264 million. There was no day one gain recognised on acquisition, and the portfolio included no purchased or originated credit impaired (POCI) assets. There were no guarantees impacting the fair value of the loan book acquired. The acquisition does not meet the criteria of a business combination under IFRS 3 and has been accounted for under IFRS 9.

The components of the first tranche of loans acquired in 2021 can be analysed as follows:

Segment	% by balance	% by number of exposures
Business loans	93.2%	75.3%
Personal loans	6.8%	24.7%
Total	**100.0%**	**100.0%**

Security type	% by balance	% by number of exposures
Secured by property	82.7%	60.7%
Not secured by property	17.3%	39.3%
Total	**100.0%**	**100.0%**

Tranche 2 includes those customer relationships which have a Coronavirus Business Interruption Loan ("CBIL") and/or Bounce Back Loan (BBL"). It is estimated that the tranche 2 completion will occur in Q2 2022 following the required approval from H.M.Treasury and Department for Business, Energy & Industrial Strategy for the novation of CBILs and BBLs guarantees from AIB to Allica, which was received in April 2022.

Allica entered into a Transitional Servicing Agreement ("TSA") with AIB under which AIB serviced the acquired loans until they were migrated to Allica's systems in Q2 2022.

Finance lease receivables
Loans and advances to customers as at 31 December 2021 include the following finance leases where the Group is the lessor:

	Group
	As at
	31/12/2021
Gross investment in finance leases receivable:	**£'000**
Less than one year	8,876
Between one and two years	7,779
Between two and three years	6,396
Between three and four years	4,943
Between four and five years	2,772
More than five years	293
	31,059
Unearned Finance Income	(3,539)
Net Investment in Finance Leases	27,520

Net Investment in finance leases receivable:	**£'000**
Less than one year	7,469
Between one and two years	6,727
Between two and three years	5,748
Between three and four years	4,616
Between four and five years	2,679
More than five years	281
	27,520

The Group's asset finance business focuses on the provision of hire purchase agreements to customers. Assets funded include manufacturing equipment, production equipment, transportation, plant and machinery, material handling equipment and agriculture. The asset finance business went live on 30 November 2020, and the net investment in finance leases at 31 December 2020 totalled £61k. There are no lease receivables in the books of the Company.

The accumulated allowance for uncollectable minimum lease payments receivable is £92k (2020: nil).

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 31 December 2021 (2020: nil).

Note 12. Other assets

	Group		Company	
	As at	As at	As at	As at
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
	£'000	£'000	£'000	£'000
Prepayments	1,948	1,126	1,948	1,126
Other assets	20,601	665	19,833	653
	22,549	1,791	21,781	1,779

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

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

Other assets in 2021 include £18,547k receivable from AIB in respect of loan collections they have made in respect of the first tranche of loans acquired from them in November 2021 (see note 11).

Note 13. Tangible fixed assets

Group & Company	Fixtures and fittings	Office and IT equipment	Total
Cost	**£'000**	**£'000**	**£'000**
As at 1 August 2019	37	262	299
Additions	1	124	125
As at 31 December 2020	38	386	424
Additions	4	142	146
Adjustment	2	6	8
As at 31 December 2021	44	534	578

Accumulated depreciation	Fixtures and fittings	Office and IT equipment	Total
	£'000	**£'000**	**£'000**
As at 1 August 2019	4	94	98
Charge for the period	3	109	112
As at 31 December 2020	7	203	210
Charge for the period	5	114	119
As at 31 December 2021	12	317	329

Net book value	Fixtures and fittings	Office and IT equipment	Total
	£'000	**£'000**	**£'000**
As at 31 December 2021	**32**	**217**	**249**
As at 31 December 2020	31	183	214

Note 14. Intangible assets

Group & Company	As at 31/12/2021	As at 31/12/2020
	£'000	£'000
At cost	12,704	16,220
Less: Accumulated amortisation	(4,526)	(2,128)
	8,178	14,092

Reconciliations

Reconciliations of the written down values for intangible assets at the beginning and end of the current and previous financial year are set out below:

Group & Company	Software	Work in progress	Total
	£'000	£'000	£'000
Balance at 1 January 2020	10,332	162	10,494
Additions	-	5,390	5,390
Transfer from work-in-progress	4,947	(4,947)	-
Write off of assets	(16)	-	(16)
Amortisation expense	(1,776)	-	(1,776)
Balance at 31 December 2020	13,487	605	14,092
Additions	-	3,219	3,219
Transfer from work-in-progress	3,175	(3,175)	-
Impairment of assets	(6,712)	-	(6,712)
Amortisation expense	(2,421)	-	(2,421)
Balance at 31 December 2021	7,529	649	8,178

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

Note 15. Amounts due from subsidiary

	Company	
	As at	As at
	31/12/2021	31/12/2020
	£'000	£'000
Intercompany Loan	70,928	195

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

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

Note 16. Customer deposits

Group & Company	As at 31/12/2021 £'000	As at 31/12/2020 £'000
Notice deposit accounts	132,396	26,080
Term deposit accounts	389,645	77,914
Instant access deposit accounts	321,970	-
Deposit interest payable	1,758	305
	845,769	104,299

The Group provides notice, term and instant access deposits to both personal and business customers. The increase in the year reflects the diversification of the Group's product range and distribution channels by partnering with deposit platform providers and other financial institutions, which was used to fund the growth in the Group's loan book during the year.

Note 17. Other liabilities

	Group		Company	
	As at	As at	As at	As at
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
	£'000	£'000	£'000	£'000
Trade payables	674	312	584	312
Accruals	3,975	2,236	3,909	2,236
Fees payable to solicitors/valuers	133	553	-	553
Social security and other taxes	496	422	496	413
Other payables	609	-	415	-
	5,887	3,523	5,404	3,514

Refer to note 26-28 for further information on financial assets and liabilities.

The Group collects solicitor/valuation fees from customers and then pays them out to the providers of service.

Note 18. Provisions

	Group		Company	
	As at	As at	As at	As at
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
	£'000	£'000	£'000	£'000
Provision for Annual Leave	-	24	-	24
Dilapidation provision	38	38	38	38
Impairment losses	28	26	28	26
	66	88	66	88

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

Impairment losses of £28k (2020: £26k) relate to irrevocable loan commitments which had not been drawn down as at year-end.

Note 19. Subordinated liabilities

	Group		Company	
	As at	As at	As at	As at
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
	£'000	£'000	£'000	£'000
Subordinated liabilities	7,500	-	7,500	-

In July 2021 the Group borrowed £7.5m under a subordinated loan facility (see note 29). 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 20. Leases

Group & Company	As at 31/12/2021 £'000	As at 31/12/2020 £'000
Statement of financial position:		
Right-of-use asset	146	339
Lease liability	114	321
Statement of comprehensive income:		
Interest expense on lease liability	11	19
Depreciation expense on right-of-use asset	193	193

- The right-of-use asset relates to the office space in London.
- The asset has been depreciated using the straight-line method over 4 years, which is the lease-term.
- Incremental borrowing rate used in the calculation is 4.5%.
- Amounts expensed in the year on low value leases totalled £2k (2020: £2k). There were no short-term leases not accounted for under IFRS 16 (2020: nil).

Note 21. Share capital

Group & Company	As at 31/12/2021 Shares	As at 31/12/2020 Shares	As at 31/12/2021 £'000	As at 31/12/2020 £'000
Ordinary shares - fully paid of £0.01 each	141,653,711	100,288,746	1,417	1,003

	Shares	£'000
At 1 January 2020	73,808,727	738
Issued in 2020	26,480,019	265
At 31 December 2020	100,288,746	1,003
Issued in 2021	41,364,965	414
At 31 December 2021	141,653,711	1,417

The share issuances in 2020 and 2021 were as follows:

- On 30 March 2020, 7,528,473 shares were issued at £1.38 a share (£0.01 nominal and £1.37 share premium per share);
- On 24 October 2020, 18,951,546 shares were issued at £1.38 a share (£0.01 nominal and £1.37 share premium per share);
- On 29 June 2021, 25,064,965 shares were issued at £1 a share (£0.01 nominal and £0.99 share premium per share);
- On 22 November 2021, 13,800,000 shares were issued at £1 a share (£0.01 nominal and £0.99 share premium per share); and
- On 31 December 2021, 2,500,000 shares were issued at £1 a share (£0.01 nominal and £0.99 share premium per share).

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

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

Accounting policy for issued capital
Ordinary shares are classified as equity.

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

Allica Bank

Note 22. Share premium

Group & Company	£'000
At 1 January 2020	84,044
On ordinary shares Issued in 2020	36,277
At 31 December 2020	120,321
On ordinary shares Issued in 2021	40,951
Capital transaction costs written off against share premium	(564)
At 31 December 2021	160,708

Details of the share premium arising on ordinary share issuances in 2020 and 2021 are set out in note 21 above.

Note 23. Other capital and reserves

Movements in reserves

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

Group	Perpetual convertible notes	Retained earnings	Other Comprehensive Income	Share warrants	IFRS 2 reserve	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2020	-	(43,100)	(4)	-	-	(43,104)
Loss after tax	-	(21,714)		-	-	(21,714)
Other comprehensive income for the year	-	-	(18)	-	-	(18)
Balance at 31 December 2020	-	(64,814)	(22)	-	-	(64,836)
Loss before tax	-	(25,058)	-	-	-	(25,058)
Other comprehensive income for the year	-		39	-	-	39
Issue of share warrants	-	(1,980)	-	1,980	-	-
Share-based payments	-	-	-	-	113	113
Issue of perpetual convertible notes	17,500	-	-	-	-	17,500
Balance at 31 December 2021	17,500	(91,852)	17	1,980	113	(72,242)

Company	Perpetual convertible notes	Retained earnings	Other Comprehensive Income	Share warrants	IFRS 2 reserve	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2020	-	(43,100)	(4)	-	-	(43,104)
Loss after tax	-	(21,586)		-	-	(21,586)
Other comprehensive income for the year	-	-	(18)	-	-	(18)
Balance at 31 December 2020	-	(64,686)	(22)	-	-	(64,708)
Loss before tax	-	(22,307)	-	-	-	(22,307)
Other comprehensive income for the year	-		39	-	-	39
Issue of share warrants	-	(1,980)	-	1,980	-	-
Share-based payments	-	-	-	-	113	113
Issue of perpetual convertible notes	17,500	-	-	-	-	17,500
Balance at 31 December 2021	17,500	(88,973)	17	1,980	113	(69,363)

Perpetual convertible notes

During the year £17.5m of perpetual convertible notes ('AT1 capital') were issued to investors. The notes are perpetual, with no fixed redemption or maturity date but automatically convert to Common Equity Tier 1 (CET1) capital if a trigger event occurs, i.e. if the CET 1 ratio reaches or falls below 7%, resulting in conversion to ordinary shares at a price of £1 per share.

The Group has an embedded option to redeem the 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.

Issue of share warrants

During the year 9.5m share warrants were issued to investors (7.5m at a subscription price of £1.00 per warrant, and 2.0m at a subscription price of £0.01 per warrant). The amount credited to share warrants represents the difference between the subscription price and fair value of the underlying shares at the grant date. Of the 7.5m warrants issued at £1.00 per warrant, 2.5m were exercised on 31 December 2021 (see note 21), and 5.0m have lapsed.

IFRS 2 reserve

Share warrants with a fair value of £113k were awarded to senior management in the year under a salary sacrifice scheme (see note 32). These awards, which are fully vested, fall within the scope of IFRS 2, Share-based payment, and an equity reserve has been credited with the fair value of the award.

Note 24. Dividends

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

Note 25. Derivative financial instruments

Group & Company	Year ended 31/12/2021 £'000	Year ended 31/12/2020 £'000
Assets		
Derivative financial instruments	58	4
Liabilities		
Derivative financial instruments	(988)	(24)
	(930)	(20)

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) or liabilities (fixed rate deposits). These swaps were designated as fair value hedges in 2021 and their changes in fair value are included in the income statement, at the same time as an adjustment to the hedged item to reflect their hedging nature. The amount of cumulative change in fair value of the hedged item due to the hedged risk is assessed by using a hypothetical derivative method.

The hedges are subject to an ISDA Master Netting Agreement, which creates 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 agreement is not "unconditional", the derivative assets (£58k) and derivative liabilities (£988k) cannot be netted on the statement of financial position for accounting purposes. Similarly, cash collateral of £1,350,000, 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 Due from banks.

As at 31 December 2021 the outstanding nominal and fair values of the overnight index swaps (including accrued interest flows) were as follows:

	2021	
	Notional amount £'000	Fair value £'000
Interest rate swaps	307,000	(779)

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	
	£'000	£'000	£'000	£'000
31 December 2021	Assets	Liabilities	Assets	Liabilities
Financial assets:				
Fixed rate mortgages	25,000	-	-	(64)
Financial liabilities:				
Fixed rate customer deposits	-	(270,712)	847	-

Included in the above totals as at 31 December 2021 were overnight index swaps with a notional amount of £11m, and a fair value of (£33,000), which were not designated as hedges under IFRS 9.

As at 31 December 2020, the notional amount of overnight index swaps was £81m, with a fair value of (£23,000).

Details of how the hedging programme fits into the Group's approach to interest rate management are set out in note 26 below. Further quantitative disclosures on the derivative assets and liabilities are also given in notes 26-28 on financial assets and liabilities.

Note 26. 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 the Group is exposed to, 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 management of risk with second and third line oversight.

In order that the RMF can be applied to the day-to-day operation of the Group, it is translated into the Risk Appetite Statement.

Risk Appetite Statement

The Board's expression of Risk appetite is articulated through the Group's Risk Appetite Statement which outlines the level of risk the Group is willing to accept across Key Risks identified in the Group's Risk Taxonomy. Risk Appetite is expressed, for all risks, in quantitative measures though Key Risk Indicators 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 has limited appetite for risk. Nevertheless, the Group recognises that risk and its management lie at the centre of the Group's operations. It therefore identifies its top risks in order that effective controls can be applied to these. Top 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 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 2021 the CET1 capital ratio (unaudited) of the Group was 14.6% (2020: 66.8%), and the total capital ratio (unaudited) was 19.7% (2020: 66.8%).

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 loss due to the concentration of credit risk with 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. All such counterparties must be of minimum Investment Grade according to Credit Ratings Agencies, with limits allocated according to a Rating/Limit matrix and approved by ALCO.

Diversity and concentration of our loan portfolio

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

PRODUCT	Credit Exposure		Expected Credit Loss	
	2021	2020	2021	2020
	Total	Total	Total	Total
	£'000	£'000	£'000	£'000
Commercial Mortgages	512,815	45,446	818	40
Asset Finance	27,069	-	92	-
Buy to Let	37,389	-	74	-
Total	577,273	45,446	984	40
LTV BAND				
≤55%	231,922	7,598	175	-
>55%, ≤60%	54,396	7,612	34	4
>60%, ≤65%	60,201	6,768	62	5
>65%, ≤70%	76,111	10,541	114	13
>70%, ≤75%	38,875	12,443	64	17
>75%, ≤100%	34,413	484	69	1
>100%	9,500	-	45	-
Non-Property Business Lending	44,786	-	329	-
Asset Finance	27,069	-	92	-
Total	577,273	45,446	984	40
LOAN SIZE (£)				
≤150,000	57,070	5,086	184	7
>150,000, ≤250,000	96,597	9,603	154	9
>250,000, ≤350,000	65,224	7,763	87	6
>350,000, ≤500,000	65,917	6,759	140	8
>500,000, ≤1,000,000	110,995	10,425	177	8
>1,000,000	181,470	5,810	242	2
Total	577,273	45,446	984	40

REGION (OF PROPERTY SECURITY HELD)	Credit Exposure		Excepted Credit Loss	
	2021	2020	2021	2020
	Total	Total	Total	Total
	£'000	£'000	£'000	£'000
East	39,284	5,386	58	5
London	124,232	5,613	101	4
Midlands	87,642	5,047	142	4
North & Scotland	74,735	5,128	83	5
South East	100,456	13,448	103	12
South West & Wales	41,144	4,244	41	4
Yorkshire & Humber	37,925	6,580	35	6
Non-Property Business Lending	44,786	-	329	-
Asset Finance	27,069	-	92	-
Total	577,273	45,446	984	40

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

In addition, there are undrawn loan commitments of £163,175k as at 31 December 2021 (2020: £26,452k), with ECL provisions of £28k (2020: £26k).

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

Expected Credit Loss on loans and advances which have been drawn down by the customer as at 31 December 2021 are analysed in terms of the Group's internal risk ratings and the IFRS 9 three stage impairment model on the following page.

	Internal risk rating					
	Low	Medium	High	Balance	Provisions	Coverage Ratio
	£'000	£'000	£'000	£'000	£'000	%
Stage 1	279,476	285,727	6,284	571,487	918	0.161%
Stage 2	397	3,358	671	4,426	45	1.027%
Stage 3	-	-	1,360	1,360	21	1.576%
Total	279,873	289,085	8,315	577,273	984	0.171%
PD Range	<=1.27%	>1.27% <=3.13%	>3.13%			

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.

	31 December 2021	31 December 2020
	£'000	£'000
Included in the Statement of Financial Position:		
Cash and balances at central banks	295,291	92,925
Due from banks	17,290	10,338
Debt securities	40,406	-
Derivative financial instruments	58	4
Loans and advances to customers	567,024	45,080
Other financial assets	19,404	556
	939,473	148,903
Commitments to lend	163,175	143,759
Gross credit risk exposure	1,102,648	292,662
Less: allowance for impairment losses	(1,012)	(66)
Net credit risk exposure	1,101,636	292,596

Interest rate risk

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

In response to initiatives from global regulators and central banks to replace Interbank Offered Rates (IBORs) with alternative Risk-free Rates (RFRs) and following cessation of the publication of the London Inter-Bank Offered Rate (LIBOR) in December 2021, the Bank has continued to monitor the potential impact of these reforms across all areas of its business, including customer facing teams, Legal, Finance, Operations and Technology. The Bank has not offered IBOR products since its inception, although it has acquired some IBOR loans as part of the Allied Irish Bank loan portfolio acquisition. A process is in place to migrate these loans to alternative RFRs and the FCA has proposed a synthetic LIBOR rate for 'Tough Legacy' contracts, which will be applied on these loans until migration is complete. The carrying value of these loans at 31 December 2021 is £35.1m (being £31.3m three month GBP LIBOR, £3.4m one week GBP LIBOR and £0.4m one month GBP LIBOR), which totals 6% of the Bank's loan book at that date and therefore the Bank's products and business model are unlikely to be significantly affected.

As of 31 December 2021, the Group shows 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 the upward movement of the curve. This is driven by the origination of fixed rate assets with the repricing period of 3-5 years. The assets are funded by time deposits with shorter repricing period of 12 -24 months. The change in EVE is limited and managed through interest rates swaps (IRS).

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

+200bps - £1,135k (negative)

-200bps - £1,283k (positive)

Hedging programme

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

The Group believes that there is a 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 instru-ments 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, the ratio of hedging is 1:1 and potential sources of 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. Further details of these hedges are set out in note 25 above.

Liquidity risk

Liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities 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 28 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 2021 when it has started 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 31/12/2021	Held at amortised cost	Held at fair value	Total
Financial assets	**£'000**	**£'000**	**£'000**
Cash and balances at central banks	295,291	-	295,291
Due from Banks	17,290	-	17,290
Debt securities	-	40,406	40,406
Derivative financial instruments	-	58	58
Loans and advances to customers	566,040	-	566,040
Other financial assets	19,404	-	19,404
	898,025	40,464	938,439
Financial liabilities			
Trade creditors	(674)	-	(674)
Accruals	(3,975)	-	(3,975)
Derivative financial instruments	-	(988)	(988)
Customer deposits	(845,769)	-	(845,769)
Subordinated liabilities	(7,500)	-	(7,500)
Other financial liabilities	(609)	-	(609)
Lease liability	(114)	-	(114)
	(858,641)	(988)	(859,629)

Company - As at 21/12/2021	Held at amortised cost	Held at fair value	Total
Financial assets	**£'000**	**£'000**	**£'000**
Cash and balances at central banks	295,291	-	295,291
Due from Banks	14,761	-	14,761
Debt securities	-	40,406	40,406
Derivative financial instruments	-	58	58
Loans and advances to customers	500,805	-	500,805
Other financial assets	19,272	-	19,272
Amounts due from subsidiary	70,928	-	70,928
	901,057	40,464	941,521
Financial liabilities			
Trade creditors	(584)	-	(584)
Accruals	(3,909)	-	(3,909)
Derivative financial instruments	-	(988)	(988)
Customer deposits	(845,769)	-	(845,769)
Subordinated liabilities	(7,500)	-	(7,500)
Other financial liabilities	(413)	-	(413)
Lease liability	(114)	-	(114)
	(858,289)	(988)	(859,277)

Group & Company - as at 31/12/2020	Held at amortised cost £'000	Held at fair value £'000	Total £'000
Financial assets			
Cash and balances at central banks	92,925	-	92,925
Due from Banks	10,338	-	10,338
Derivative financial instruments	-	4	4
Loans and advances to customers	45,040	-	45,040
Funds held in client accounts	502	-	502
Other financial assets	54	-	54
	148,859	4	148,863
Financial liabilities			
Trade creditors	(312)	-	(312)
Accruals	(2,236)	-	(2,236)
Derivative financial instruments	-	(24)	(24)
Customer deposits	(104,299)	-	(104,299)
Other financial liabilities	(422)	-	(422)
	(107,269)	(24)	(107,293)

Note 27. Financial assets and liabilities by levels of inputs

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

Fair value hierarchy

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

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

	Level 1	Level 2	Level 3	Level 4
Group & Company - as at 31/12/2021	**£'000**	**£'000**	**£'000**	**£'000**
Assets				
Debt securities	40,406	-	-	40,406
Derivatives financial assets	-	58	-	58
Total assets measured at fair value	40,406	58	-	40,464
Liabilities				
Derivatives financial instruments (including accrued interest)	-	(837)	-	(837)
Total liabilities measured at fair value	-	(837)	-	(837)

	Level 1	Level 2	Level 3	Level 4
Group & Company - as at 31/12/2020	**£'000**	**£'000**	**£'000**	**£'000**
Assets				
Derivatives financial assets	-	4	-	4
Total assets measured at fair value	-	4	-	4
Liabilities				
Derivatives financial instruments	-	(24)	-	(24)
Total liabilities measured at fair value	-	(24)	-	(24)

There were no transfers between levels during the financial year.

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. As the derivatives are fully collateralised with cash, credit risk is mitigated in full.

Based on values as at 31 December 2021, a movement of +/- 0.25% in interest rates would have the following impact on the net carrying value of the derivative instruments, and on the income statement:

	Change in Fair Value	Income Statement
	£'000	£'000
+0.25%	(341)	(50)
-0.25%	342	34

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

Loans and advances to customers: carrying amount is obtained by deducting expected credit losses from the gross carrying amount of loans and advances to customers. At 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 25).

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 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 25.

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.

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.

Note 28. Contractual maturity of the financial assets and liabilities

Financial assets and liabilities by maturity as at 31 Dec 2021 (Group)	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and balances at central banks	295,291	-	-	-	295,291
Due from Banks	17,290	-	-	-	17,290
Debt securities	-	30,281	10,125	-	40,406
Derivative financial instruments	-	74	135	-	209
Loans and advances to customers	52,624	29,352	183,414	300,650	566,040
Other financial assets	19,404	-	-	-	19,404
	384,609	59,707	193,674	300,650	938,640
Financial liabilities					
Trade creditors	(674)	-	-	-	(674)
Accruals	(3,975)	-	-	-	(3,975)
Derivative financial instruments	(61)	(501)	(433)		(995)
Customer deposits	(459,507)	(294,904)	(99,379)	-	(853,790)
Subordinated liabilities	-	(900)	(3,600)	(10,200)	(14,700)
Other financial liabilities	(609)				(609)
Lease liability	(55)	(61)			(116)
	(464,881)	(296,366)	(103,412)	(10,200)	(874,859)
Loan commitments	163,175	-	-	-	-

Financial assets and liabilities by maturity as at 31 Dec 2021 (Company)	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and balances at central banks	295,291	-	-	-	295,291
Due from Banks	14,761	-	-	-	14,761
Debt securities	-	30,280	10,126	-	40,406
Derivative financial instruments	-	74	135	-	209
Loans and advances to customers	52,290	29,354	157,634	261,527	500,805
Other financial assets	19,272	-	-	-	19,272
Amount due from subsidiary	-	-	70,928	-	70,928
	381,614	59,708	238,823	261,527	941,672
Financial liabilities					
Trade creditors	(584)	-	-	-	(584)
Accruals	(3,909)	-	-	-	(3,909)
Derivative financial instruments	(61)	(501)	(433)		(995)
Customer deposits	(459,507)	(294,904)	(99,379)	-	(853,790)
Subordinated liabilities	-	(900)	(3,600)	(10,200)	(14,700)
Other financial liabilities	(413)				(413)
Lease liability	(55)	(61)			(116)
	(464,529)	(296,366)	(103,412)	(10,200)	(874,507)
Loan commitments	143,759	-	-	-	-

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 should all the terms and conditions of the offer be met. The offers were assessed for ECL and a provision of £28k was made at 2021 year-end (£26k as at 31 December 2020).

Cashflows for financial liabilities above are shown on an undiscounted basis.

Financial assets and liabilities by maturity as at 31 Dec 2020 (Group and 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 at central banks	92,925	-	-	-	92,925
Due from Banks	10,338	-	-	-	10,338
Loans and advances to customer	562	1,680	15,706	52,484	70,432
Funds held in client accounts	502	-	-	-	502
Derivative financial instruments	-	3	1	-	4
Other financial assets	-	-	54	-	54
	104,327	1,683	15,761	52,484	174,255
Financial liabilities					
Trade creditors	(293)	(19)	-	-	(312)
Accruals	(788)	(1,448)	-	-	(2,236)
Derivative financial instruments	-	(15)	(9)	-	(24)
Customer deposits	(26,223)	(53,500)	(25,195)	-	(104,918)
Other financial liabilities	(422)	-	-	-	(422)
Lease liabilities	(54)	(163)	(116)	-	(333)
	(27,780)	(55,145)	(25,320)	-	(108,245)
Loan commitments	26,452	-	-	-	-

Note 29. 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 33).

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 9 above. Included in Other assets (see note 12) are £11,199 of interest-free staff loans to Directors (2020: £11,199), for the aquisition of shares held in the joint share ownership plan (see note 32).

In June 2021 Allica issued perpetual convertible notes of £7.5m to Warwick European Opportunities Holding III LP (see note 23). In November 2021 Allica:

- Issued a further £7m of perpetual convertible notes to Warwick European Liquid Credit Fund (see note 23);
- Drew down a subordinated loan of £7.5m, provided by Warwick European Liquid Credit Fund and Warwick European Opportunities Holding III LP (see note 19); and
- Issued 1,400,000 of share warrants with a subscription price of £0.01 to Warwick European Liquid Credit Fund (see note 23).

Loans to/from related parties
During the period to 31 December 2021, no interest was paid to Warwick and its funds (2020: nil). As at 31 December 2021 there was accrued interest payable of £108k, in respect of the subordinated loan discussed above.

As at 31 December 2021, Allica Bank Limited had provided funding to its subsidiary Allica Financial Services Limited of £70,928k (2020: £63k), the terms of which are set out in note 15.

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 32.

Note 30. Interests in subsidiaries

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

	Principal place of business / Country of incorporation	Ownership interest	
		As at 31/12/2021	As at 31/12/2020
Allica Financial Services Limited	**Eldon House, 2-3 Eldon Street, London, EC2M 7LS, United Kingdom**	**100.0%**	**100.0%**

Note 31. Cash flow information

	Group		Company	
	Year ended 31/12/2021	Year ended 31/12/2020	Year ended 31/12/2021	Year ended 31/12/2020
	£'000	£'000	£'000	£'000
Loss before taxation	(25,058)	(21,714)	(22,307)	(21,586)
Non-cash flows in operating profit				
Depreciation	312	305	312	305
Amortisation	2,421	1,777	2,421	1,777
Intangible asset write off	6,712	16	6,712	16
Interest income accrued	(11,494)	(739)	(10,696)	(739)
Interest expense accrued	3,659	516	3,327	516
Interest on lease	11	19	11	19
Share-based payment charge	113	-	113	-
Net foreign exchange differences	-	11	-	11
Net fair value movements derivatives	147	-	147	-
Impairment losses	1,077	68	778	68
	2,958	1,973	3,125	1,973
Changes in assets and liabilities				
Changes in loans and advances to customers	(520,942)	(45,509)	(454,954)	(45,509)
Changes in amounts due from subsidiary	-	-	(70,733)	(195)
Changes in customer deposits	740,017	103,995	740,017	103,995
Changes in derivatives	806	-	806	-
Changes in trade and other debtors	(20,758)	(752)	(20,638)	(685)
Changes in trade and other creditors	2,364	1,433	1,906	1,433
Changes in provisions	(24)	(165)	(24)	(165)
	201,463	59,002	196,380	58,874
Cash generated from operations	179,363	39,261	177,198	39,261

Movements in cash and cash equivalents

	Group		Company	
	Year ended 31/12/2021	Year ended 31/12/2020	Year ended 31/12/2021	Year ended 31/12/2020
Cash and cash equivalents	£'000	£'000	£'000	£'000
Cash and balances at central banks	295,291	92,925	295,291	92,925
Due from banks	17,290	10,339	14,761	10,339
Impairment losses	-	(1)	-	(1)
	312,581	103,263	310,052	103,263

The increase in cash and cash equivalents in the year mainly reflects the increase in customer deposits, partly offset by the increase in loans and advances to customers. The balance at year-end is being held to fund the acquisition of Tranche 2 of the loans acquired from AIB Group (UK) Plc (see note 11).

The balance with central banks is the reserve account held with Bank of England.

Movements in liabilities arising from financing activities

	Group & Company		
	Subordinated liabilities	Perpetual convertible notes	Lease liability
	£'000	£'000	£'000
As at 1 January 2020	-	-	520
Cash flow items:	-	-	-
Interest on lease liability	-	-	19
Lease repayments	-	-	(218)
As at 31 December 2020	-	-	321
Cash flow items:			
Issued in year	7,500	17,500	-
Interest on lease liability	-	-	11
Lease repayments	-	-	(218)
As at 31 December 2021	7,500	17,500	114

Note 32. 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 2,501,605 (2020: 6,399,519) 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 2021 5,375,770 shares were allocated to Participants (2020: 7,470.534).

The total number of shares held by the EBT at 31 December 2021 is 12,450,293 of which 11,920,107 have been allocated to Participants (2020: 9,948,688 of which 6,589,274 had been allocated to Participants).

In addition to the above, share warrants with a fair value of £113k (weighted average fair value of £1 per warrant) were awarded to senior management in the year under a salary sacrifice scheme. These awards, which are fully vested, fall within the scope of IFRS 2, Share-based payment, and an equity reserve has been credited with the fair value of the award (see note 23).

Note 33. Ultimate controlling entity

At 31 December 2021, 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 34. Country by country reporting

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

Note 35. Events after the reporting period

In April 2022, Allica received approval from and the Department for Business, Energy & Industrial Strategy for the transfer of the relevant Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) guarantees from Allied Irish Bank to Allica Bank, following the acquisition of the loan portfolio discussed in note 11. The approval fulfilled the condition precedent for the remaining capital injection from Atalaya (see section on Going Concern in note 2).

Allica Bank

Allica Bank

www.allica.bank