Allica Bank Limited

Pillar 3 Report
For The Period Ended
31 December 2019

Registered Number: 7706156
Registered office: First Floor, Eldon House, 2-3 Eldon Street, London EC2M 7LS

Allica Bank

Contents

1 Overview

1.1 Overview and Scope

Allica Bank Limited ("Allica" or the "Bank") is a UK registered bank that is authorised by the Prudential Regulation Authority and is regulated by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Allica was granted Part 4A permission on 5 September 2019 and commenced operations on 2 October 2019. Allica provides Commercial Mortgages to UK based small and medium-size enterprises ("SMEs") for owner occupiers and for investment. It accepts fixed-term and notice deposits from UK-based SME's and personal customers. The Board-approved business plan includes the launch of an Asset Finance product for SME borrowers in late 2020.

1.2 Basis

Pillar 3 disclosure requirements are set out in Part VIII of the Capital Requirements Regulation ("CRR") under EU Regulation 575/2013, and under the fourth Capital Requirements Directive, together known as "CRD IV".

This is the 3rd Pillar of the original Basel Accord, designed to promote market discipline through the disclosure of key information relating to capital, risk exposures and risk management. The requirements under Pillar 1 and Pillar 2 are discussed in this document.

The CRR allows the Bank to exclude certain disclosures if they contain proprietary information or if the information is not material. However, Allica has not excluded any information on the grounds of being proprietary.

These disclosures were prepared for the stand-alone entity Allica Bank Limited and there are no consolidated entities in Allica Bank Limited at 31 December 2019. All information and applicable requirements apply to the Bank on an Individual basis only. Allica uses the Standardised Approach for computing capital requirements for credit risk and the Basic Indicator Approach for operational risk. Allica does not have any market risk. The disclosures in this document have been based on these approaches.

1.3 Frequency of Disclosures

The Bank's policy is to publish the Pillar 3 disclosures on an annual basis. The information is published in conjunction with the Bank's Financial Statements.
The disclosure will be updated should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements.

1.4 Verification

The Bank's Pillar 3 disclosures have been reviewed and approved by the Board Audit Committee on behalf of the Board. In addition, the remuneration disclosures as detailed in Section 10 of this document have been reviewed by the Remuneration Committee. The disclosures are not subject to audit.

1.5 Location

The Bank's Pillar 3 disclosures are published on the Bank's website and should be read in conjunction with Allica's Financial Statements for the period ended 31 December 2019 which are available from Companies House.

2 Risk Management Framework

2.1 Overview

Underpinning Allica's operations is a comprehensive Risk Management Framework ("RMF"), codified in a document which describes the Bank's governance and risk management arrangements, including its approach to setting and monitoring Risk Appetite Statements and Metrics. The RMF is updated periodically to reflect changes in the market in which the Bank operates, regulation and industry best practice.
Allica's business strategy is set within a defined risk appetite to ensure that the Bank delivers good customer outcomes whilst at the same time delivering sustainable long-term profitability for the Bank's stakeholders.
The RMF is approved by the Board and is set in compliance with relevant legal and regulatory frameworks (and accounting standards) including the Senior Manager and Certification Regime, Systems and Controls, and Capital Requirements Directive.

2.2 Components of the Risk Management Framework

The Risk Management Framework has eight elements and is based upon sound risk management principles established by the Bank:

- The Board sets the Bank's strategy and defines its risk appetite and risk management strategy;
- Roles and responsibilities are defined;
- Risk training is undertaken, and awareness raised, including common language and definitions;
- Risks are identified, measured, monitored and reported on;
- Policies and procedures are in place to control and mitigate identified risks, and business continuity planning is undertaken;
- Scenario analysis and stress testing is performed, including reverse stress tests and recovery and resolution planning;
- Capital adequacy and liquidity risk are assessed; and
- Regular reviews by the Bank's internal audit function.

Responsibility for the key risks is as follows. The respective risks are aggregated and overviewed by the CRO as Second Line of Defence and reported to EXCO and Board monthly/Board Risk Committee ("BRC") quarterly with escalation as required:

Risk	**Responsible Officer***	**Committee**
Credit Risk	CRO	Risk Management Committee
Concentration Risk	CRO	Risk Management Committee
Operational Risk	COO/GC/CIO/CFO/CCO/CRO**	RMC/OpCo/ALCO
Liquidity Risk	CFO	ALCO
Interest Rate Risk	CFO	ALCO
Funding Risk	CFO	ALCO
Conduct Risk	COO/GC/CIO/CFO/CCO/CRO**	Risk Management Committee
Governance and Culture	CEO	Risk Management Committee
Regulatory Risk	GC	Risk Management Committee
Business & Strategic Risk	CEO	Risk Management Committee
New Product Risk	CCO	OpCo

* refer to Glossary for full titles
**as relevant to their function/business

The Board approved Risk Management Framework ("RMF") sets out how the Bank manages risks and governs the approach to the management of all risks the Bank 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 Bank are all identified within the framework. The risk management framework utilises the "three lines of defence" model.

First Line of Defence

The First Line of Defence ("FLOD") is the Business – Distribution & Marketing, Operations, HR, Finance, Change, and IT – it is responsible for identification, monitoring and ownership of its risks. Each respective business is responsible for:

- Maintaining risks within Risk Appetite as detailed in the Risk Appetite Statement including monitoring of EWI's and KRI's;
- Identifying its key risks and related controls by undertaking and maintaining a Risk Controls Self-Assessment ("RCSA");
- Assessing each Risk within RCSA on an Inherent and Residual post control basis (rating of Risks & Incidents must use an Impact rating Matrix;
- Regular (as appropriate) testing of key controls to confirm their adequacy and effectiveness, developing/ amending as necessary;
- Operating the controls and escalating any breaches to Management and Second Line of Defence; and
- Escalating any Emerging Risks or Incidents via the Risk team.

Second Line of Defence

The Risk and Compliance Functions are Allica's Second Line of Defence ("SLOD") and are responsible for:

- Independent challenge and oversight of the First Line of Defence risk management;
- Developing and maintaining the Risk Management Framework and Risk Appetite Statement for approval by the ALCO/RMC/OpCo, EXCO, Board Risk Committee and ultimately Board;
- Formulation and execution of the Bank's Assurance and Compliance Monitoring Plans complementing the activity of Internal Audit, to assess effectiveness and adequacy of FLOD testing and, in turn, key controls;
- Maintenance of Allica's Risk Register, using RCSA as basis, Incident Log, Causality and Controls Libraries.

Third Line of Defence

Internal Audit is Allica's third line of defence, and it provides independent assurance on the effectiveness of risk management and the internal control framework, including testing of key controls. Internal Audit report directly to the Chair of Audit Committee.

Notwithstanding the three lines of defence, it is incumbent on every staff member of the Bank to flag any risk issues immediately as they are identified, whether potential or realised, and report to their line manager in accordance with the risk reporting protocols for noting in the Risk Register and for escalation and remedial action as appropriate.

The main risk management objectives are:

- Reduce the level of uncertainty associated with achieving the Bank's strategic objectives;
- To ensure significant risks are identified, measured, managed, monitored and reported in a consistent and effective manner across the Bank using appropriate risk management methodologies;
- To embed a culture of risk awareness and control consciousness in all business activities;
- Integrate/consolidate all components of risk information to provide a comprehensive picture and understanding of the Bank's risk exposure to the Executive Committee, Board Risk Committee, Board Audit Committee and the Board whereby performance can be evaluated on a more risk adjusted basis and risk/reward decisions optimised;
- Articulate and communicate the Board's risk appetite and ensure the Bank's risk profile is consistent with it.

2.3 Principal Risks

The Board's expression of Risk appetite is articulated through the Bank's Risk Appetite Statement which outlines the level of risk the Bank is willing to accept across 25 Key Risks identified in the Bank's Risk Taxonomy. This represents the key risks (as noted below) broken down to constituent elements (where appropriate) to enable articulation and measurement of the Bank's Risk Appetite through Key Risk Indicators. This allows the Bank to monitor its risk exposure, in conjunction with Early Warning Indicators which enable management action prior to any breach of appetite.

Capital Risk

There is a risk that the Bank fails to maintain sufficient capital to meet its regulatory obligations, sustain the aims of the corporate plan or to meet its financial obligations when they fall due. This risk could occur because of economic stresses, failure to attract/retain funding noting that Allica is reliant on capital raising during its formative period of trading until it achieves capital self-generation, and/or highly irregular outflows. If this risk were to occur, it could result in the invocation of the recovery or wind down/resolution plans and potentially the failure of the Bank.

Allica will maintain financial resources above that required to meet due financial commitments and regulatory obligations.

Information Security Risk (incorporating Cyber Crime Risk)

There is a risk that either the Bank's physical or digital elements of the information environment may be compromised in some way, whether malicious or not. This could be caused by poor information security and/or cyber security behaviours or malicious intent of internal/external parties. If this risk were to materialise, it could result in loss/unauthorised disclosure of information, loss in confidence by shareholders or customers (i.e. reputational damage) and regulatory censure.

Allica accepts that there will be attempts to compromise our systems but maintains appropriately secure systems and controls.

Financial Performance Risk

The risk that the Bank sets a business plan which is not achievable. This could be caused by poor strategic decision making, adverse financial performance or stress factors from the competitive marketplace. This could result in loss of shareholder confidence, reputational risk and/or financial loss.

Allica's approach is to maintain a detailed business plan based upon reasonable, modelled viability assumptions. Allica will seek to achieve this plan in an ethical manner and with due regard to a combination of the needs of its customers and its own profitability.

Model Risk

There is the risk that the Bank's models that are used for decisions, forecasts, or statutory/financial reporting contain methodology/design errors or are implemented or applied incorrectly resulting in poor decisions, unreliable forecasts, or incorrect reporting.

The models are constructed and approved through appropriate controls/governance with checks in place to ensure accuracy in reporting and forecasting

Liquidity Risk

Liquidity Risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meets its commitments as and when they fall due. The risk to capital resources of being able to secure that liquidity only at excessive cost is specifically addressed by the Bank by maintaining a high level of liquid assets comprising government bonds and balances with the Bank of England.

Allica will maintain financial resources above that required to meet due financial commitments and regulatory obligations.

Interest Rate Risk

There is a risk that the Bank's expected capital and earnings are eroded due to movements in interest rates that are adverse to the Bank's book composition. This could be caused by timing mismatches in the maturity and repricing of assets and liabilities, exposures arising from hedge positions, changes in the slope or shape of an anticipated yield curve or an exposure to options contracts where a detriment option is exercised by a counterparty such as a consumer.

Wholesale Credit Risk

There is a risk that a counterparty to a transaction may default on maturity of the transaction This could be caused by undertaking transactions with counterparties who have a higher risk of default which could result in financial loss.

Allica seeks to minimise any such risk by maintaining liquidity in investment grade quality assets, ensuring that the concentration risk of assets is managed to strict policy limits and ensuring that ratings meet the minimum criteria set in wholesale credit risk policy.

Credit Risk

There is a risk of a customer defaulting on its obligations under a Lending Facility and/or the value of any collateral held which may result in Allica suffering a financial loss.

Allica will provide credit facilities in line with its Credit Policy on a secured basis. Portfolios are monitored closely for any indications of stress and timely action is taken to support the customer in order to protect the Bank’s interest.

Concentration Risk

There is a risk that Allica’s lending is concentrated in a small number of customers and/or sectors or that Allica’s counterparty risk is concentrated in a small number of institutions. This could result in losses outside of credit appetite in the event a single default occurs.

Allica monitors sectoral exposure and will introduce specific sector limits once portfolio achieves critical mass. Allica monitors and controls a single name (or connection) lending limit; wholesale counterparties are controlled using a ratings-based approach.

Operational Risk

There is a risk that Allica experiences financial loss as result of the failure of people, process, systems failures, or external events.

Allica operates under defined policies, processes and procedures with Quality Assurance/Quality Control checks and Second Line Assurance to mitigate. Staff receive appropriate training. Allica has appropriate escalation process/procedures to identify, monitor, manage and report risks, individually and in aggregate.

People Risk

There is a risk that the Bank is unable to maintain adequate staffing levels and/or that staff are not qualified/experienced for the role. This could be caused by unexpected business levels, weak forecasting, poor recruitment, or failure to identify and deliver training requirements.

Allica will comply with relevant Senior Managers and Certification Regime regulations and remuneration codes. It will maintain necessary levels of staff to achieve business objectives and all staff members will adhere to the Bank’s performance review procedures. Recruitment will follow laid down procedures and onboarding processes. All staff will be provided with sufficient training according to their role.

Financial Crime Risk

There is a risk that the Bank is used for the facilitation of financial crime including the unlawful use of the Bank's services to steal customer funds. This could be caused by inadequate on boarding procedures, insufficient verification of customers, customer negligence or complicity and failure to identify transaction patterns consistent with financial crime. If this risk were to occur, it could result in customer detriment, regulatory censure, reputational damage, or financial loss.

Allica accepts there are inherent risks related to financial crime in its business model but has implemented procedures to identify, manage, report, and mitigate these risks which align with the Firm’s regulatory obligations, risk profile and risk appetite. A risk assessment will be conducted on at least an annual basis via the Compliance Monitoring Programme and confirmed within the annual Money Laundering Reporting Officer Report. The Bank will comply with, and continues to comply with all relevant statutory and regulatory obligations and that the Risk Appetite reflects any changes to applicable laws and regulations.

Data Quality Risk

There is a risk that the quality of data is not adequate and/or accurate which subsequently results in misinformed decisions or reporting. This could be caused by poor data entry or errors in data processing. The materialisation of this risk could lead to financial loss, regulatory censure, customer detriment and reputational damage.

Allica will ensure that all data reporting is from a single, known and validated source – the Enterprise Data Hub. Allica will operate integrated “4 eyes” Check process for all static data changes.

Financial Reporting Risk

There is a risk that Allica submits reports internally or to its Regulators that are late, inaccurate or misleading. This could be caused by misinterpretation of requirements, failure of a production or submission routine, intentional misreporting or underlying data quality issues. This could result in fines, regulatory scrutiny and reputational damage. Validation protocols will be run ahead of each submission.

Systems Risk

There is a risk that the Bank's critical service systems are insufficiently resilient to maintain an appropriate service level. This could be caused by poor systems testing, poor change management and/or an external event outside of the Bank's control such as a natural disaster. This could result in an inability to continue business operations, regardless of duration, and therefore could result in financial loss, loss of confidence from customers and shareholders (i.e. reputational damage), regulatory scrutiny and sanction.
Allica will maintain a functional service level above 99.5%. If an outage were to occur, critical services will continue to be provided and faults will be resolved in an appropriate timeframe. Business Continuity and Disaster Recovery Plans will be in place and supported by Business Impact Assessments.

Change Management Risk

There is a risk that delivery of change programme is sub-optimal and adversely impacts the delivery of the Bank's Business Plan, including strategy, operations, systems or reporting capabilities
All programme risks are identified through respective workstreams and aggregated at Project Working Group. Any risks that could materially affect delivery of the Bank's Business Plan will be escalated in accordance with agreed protocols so that appropriate corrective action is taken.

Vendor and Outsourcing Risk

There is a risk that the Bank's outsourced service providers fail to deliver the service that they have been engaged to provide, deliver a product that does not meet all functional specifications, or they may fail to meet contractual SLAs.
Our Vendor and Outsourcing procurements arrangements are in accordance with SYSC 8. We will ensure that all outsourcing arrangements undergo appropriate due diligence prior to entering a contractual agreement, with 'critical' supplier undergoing enhanced due diligence and more intensive ongoing performance monitoring.

Physical Safety and Security Risk

There is a risk to Allica of damage to its physical assets, employees or affiliates or to a public asset. This could be caused by insufficient oversight of company assets, non-reporting of health and safety risks or insufficient investment in the maintenance of company property. If this risk were to materialise, it could result in employee detriment, reputational damage and in extreme but plausible circumstances, significant financial loss arising from legal action.
Allica maintains its premises to comply with all HSE and ISO health and safety standards and supports home workers as required. It will arrange regular inspections of its property and assets. New joiners will receive training on H&S arrangements, with all staff receiving training annually. A workplace safety incident log will be maintained. In addition to supporting an individual's physical well-being Allica will also provide support on maintaining good mental health.

Governance & Culture

There is a risk that the Bank fails to organise and conduct itself with appropriate oversight or challenge from Senior leaders, caused by conflicts of interest, failure to adhere to corporate governance requirements or inadequate fulfilment of management responsibilities. If this risk were to materialise, it could result in poor strategic decision making and/or control framework breakdown.
Allica will maintain a Board structure which prevents any single individual or group of individuals from dominating key decision-making processes with an appropriate mix of skills and expertise. Allica will maintain a register of Committees and all meetings will be quorate and appropriately documented and governed. Allica maintains a culture that is risk focussed, customer centric and that makes decisions in the long-term interests of all its stakeholders.

Consumer Protection and Compliance Oversight Risk

There is a risk that the Bank conducts its business in a manner that is contrary to the fair treatment of its customers, whether on occasion or systemically. This could be caused by failure to embed a customer centric culture, too much importance being placed on driving profits or unacceptable attitudes of staff. This could result in unacceptable staff behaviours and ultimately; customer detriment and unfair customer outcomes, reputational damage and/or regulatory scrutiny.

Allica has embedded a culture and core values that put the customer at the heart of its activities, and it maintains appropriate controls to reduce the likelihood of customer harm arising from its conduct.

Compliance Risk
There is a risk that the Bank fails to comply with applicable laws, regulations, codes of conduct and standards of good practice in relation to its activities. Such risks could occur through failures in timely or inaccurate reporting to the regulator, deficiencies in horizon scanning and conduct issues, including those within the scope of the Senior Managers and Certification Regime. This could result in regulatory sanction/further scrutiny, material financial loss and/or reputational damage.
Allica has embedded a positive culture of compliance and maintains appropriate systems, controls, policies and procedures to reduce the likelihood of harm to the Bank or its customers through non-compliance.

Product Risk
There is a risk that Allica fails to appropriately manage its product range through the product development lifecycle. This could include failure to design a suitable product, failure to market/promote/sell a product in a manner which is of regulatory standard and failure to communicate with customers in a manner which is clear, fair and not misleading.
All products will be approved through appropriate governance highlighting all key features, risks and benefits to its customers. All pricing, terms and conditions will be clear and not misleading. Bank communications, including financial promotions are and will continue to be, fully transparent and easily understandable.

Account Management and Customer Service Risk
There is a risk that Allica fails to operate/service accounts in a manner which is acceptable to our customers and is in accordance with Regulations and Legal frameworks. regulators. This could be caused by failure to process payments in a timely manner and/or poor service proposition for customers.
All payments will be made and allocated in accordance with the Payment Services Regulations requirements. If the Bank is unable to allocate a payment, it will return the payment to the originator without undue delay.

Legal Risk
There is a risk that the Bank fails to conduct its business in a legally prudent manner which could be caused by failure to comply with its legal and regulatory obligations, failure to comply with its contractual obligations, failure to act in accordance with its corporate obligations, failure to communicate openly with its regulatory bodies in an open and co-operative manner and failure to communicate openly with its shareholders and failure to protect its business interests. If this risk were to materialise it could result in legal or regulatory action against the Bank and/or the inability of the Bank to pursue legal action in the rightful interests of the Bank.
Allica will comply with all relevant statutory obligations. Allica accepts that in the course of doing business, it is exposed to third parties undertaking legal action against it. Allica will always comply fully with the regulator's notification requirements.

2.4 Risk Appetite Metrics

The Board's expression of Risk appetite is articulated through the Bank's Risk Appetite Statement which outlines the level of risk the Bank is willing to accept across 25 Key Risks identified in the Bank's Risk Taxonomy. Risk Appetite is expressed, for all 25 risks, in quantitative measures though Key Risk Indicators ("KRIs") allowing the Bank to monitor its risk exposure, in conjunction with Early Warning Indicators ("EWIs") which enable management action prior to any breach of appetite.

KRIs and EWI's are monitored at RMC, OpCo, ALCO and BRC. Monitoring of the EWIs, alongside control assurance outcomes and any Incidents raised, ensures awareness and management of the changing risk environment.

2.5 Control Framework

Information is collected from the risk management database and regular reports are submitted to senior management. The Risk Management Committee and Board receive regular reports which include:

- Emerging risk issues;
- New or significantly changed key risk exposures;
- Breaches of risk appetite;
- Control weaknesses and actions to address these;
- Breaches of key risk indicator thresholds;
- The operational risk profile; and
- Details of operational risk incidents including material loss events, near misses and potential losses.

The control framework for each principal risk and the committee where the risk is monitored, is summarised below:

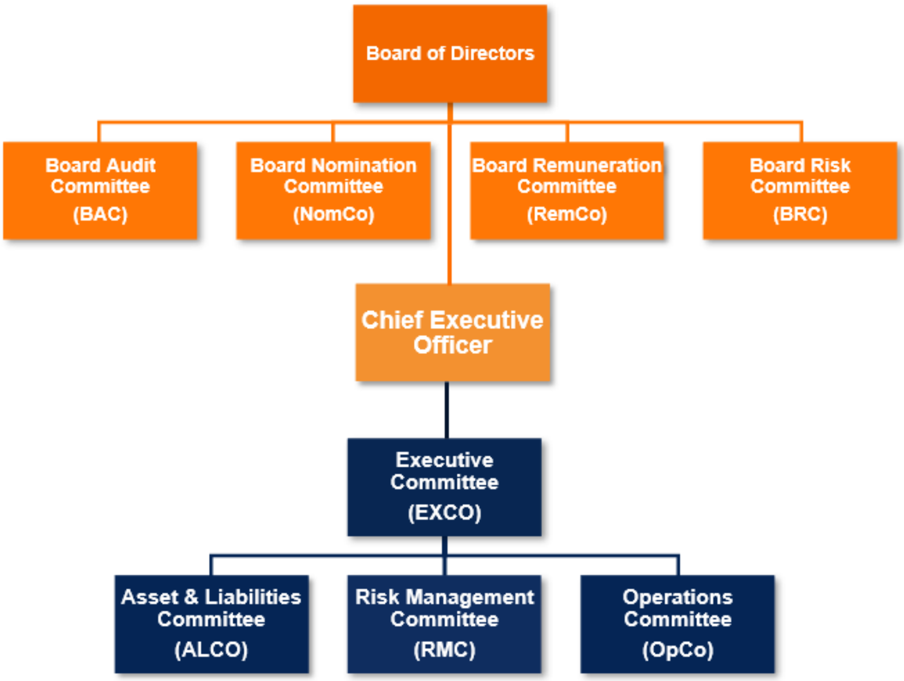
Risk Family	Key Risk Reference	Key Risk Category	Monitoring committee
Financial	1	Financial Performance	RMC
	2	Model Risk	RMC
	3	Capital Risk	ALCO
	4	Liquidity Risk	ALCO
	5	Market Risk	ALCO
	6	Interest Rate Risk	ALCO
Credit	7	Wholesale Credit Risk	ALCO
	8	Lending Quality	RMC
	9	Concentration Risk	RMC
Operational	10	Operational Incidents	RMC
	11	People Risk	OpCo
	12	Financial Crime Risk	RMC
	13	Information Security	OpCo
	14	Data Quality	OpCo
	15	Financial & Regulatory Reporting	ALCO
	16	Systems	OpCo
	17	Change Management	OpCo
	18	Vendor and Outsourcing Risk	OpCo
	19	Physical Safety & Security	OpCo
Conduct	20	Governance & Culture	RMC
	21	Consumer Protection	RMC
	22	Compliance Oversight	RMC
	23	Product Risk	OpCo
	24	Account Management and Customer Service	OpCo
	25	Legal Risk	RMC

Business units report to the EXCO and the Board Risk Committee and the Board regularly review existing risks and any new or significantly changed risk exposures. The review considers the outcomes of regular risk and control self-assessments and any actions taken to address weaknesses identified. Any breaches of thresholds or risk appetite are escalated to senior management and actions are established and tracked to resolve issues identified.

2.6 Risk Oversight, Monitoring and Reporting Structure

The Board, supported by the Risk Committee, is ultimately responsible for the risks taken by the Bank. It establishes the Bank's risk appetite, approves the Risk Management Framework, sets the tone for risk management and internal control, and establishes appropriate systems to enable it to meet its responsibilities effectively.
Each management committee has been provided with delegated authority from the Board via the CEO and/or CRO to manage and assess the level of risk appropriate to its function and the impact of these risks on the Bank's capital position.

The Board and management committee structure is as follows:



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

2.7 Adequacy of Risk Management Arrangements

The Board of Allica Bank retains responsibility for approving the RMF and the Business Strategy, for understanding the major risks faced by the Bank and that those risks are adequately measured, monitored and managed in accordance with limits which have been set by the Board.
The Board considers that, at 31 December 2019, it had in place an adequate framework of systems and controls with regard to Allica's risk profile and business strategy.

Additional information on governance arrangements: Directorships held by members of the Board
In accordance with Article 435(2)(a) of the CRR the number of external directorships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2019, in addition to their roles within Allica are disclosed below.

Director	Position	Directorships (1)
J B Heath	Chief Financial Officer	-
R Kapoor	Non-Executive Director	1
J N Maltby	Non-Executive Director & Chairman	3
P M Marston	Non-Executive Director	3
P J McDonald Pryer	Non-Executive Director	4
M S Stephens	Chief Executive Officer	2

(1) In line with Article 91(4) of the CRD, and in respect of the above directorships, a directorship across multiple entities within a group is counted as one directorship and per the EBA guidelines EBA/GL/2016/11 published in December 2016, they include directorships in non-commercial organisations. These are in addition to any positions held outside of Allica Bank.

3 Capital Resources and Capital Adequacy

3.1 Capital Management

Allica has a robust and comprehensive Internal Capital Adequacy Assessment Process (“ICAAP”) in place which is a formal capital planning exercise covering a multi-year time horizon. The purpose of the ICAAP is to enable to the Board to assess the adequacy of the current and projected capital resources given its business strategy, risks exposures and risk management framework.
The baseline projections, key risks and stress scenarios are discussed and challenged by EXCO and the Board. The capital forecast forms an integral component of the annual budgeting process and is updated in line with changes to the business plan.

The Bank’s capital is both monitored and reported against the regulatory capital framework which came into effect on 1 January 2014 under CRD IV, together with the relevant EU delegated acts, and supplemented by additional requirements from the PRA.

Under these, the supply of capital resources, referred to in the EU as ‘own funds’, are measured as ratios against risk sensitive (risk weighted assets) and non-sensitive measures (leverage).

Supply of capital: own funds
Common Equity Tier 1 (“CET1”) consists of ordinary shares, associated premium and allowable reserves. CET1 available to a bank is calculated after deducting certain regulatory adjustments. For Allica, the most significant being current period and prior period accumulated losses as well as intangible assets. Allica’s total capital resources consist entirely of CET1 capital.

Capital demand: requirements
The ‘capital stack’ comprises a Pillar 1, minimum capital requirement (“MCR”) with additional Pillar 2 requirements to cover risks not captured by the MCR. These requirements are supplemented by CRD IV buffers.

The MCR under Pillar 1 is calculated by prescribed percentages of total risk weighted assets (“RWAs”). The Bank must hold an amount of CET1 capital of at least 4.5% of RWA and at least 8% of RWA must be met by total own funds.

For additional risks not covered or fully covered by the MCR a firm specific ‘add-on’ is required under Pillar 2A. This is currently a fixed percentage of RWA, 56%of which must be met by CET1 and 100% to be met by total own funds. Allica met this requirement with CET1 capital. The binding requirement of Pillar 1 and Pillar 2A is the firm’s total capital requirement (“TCR”) and must be met at all times.

The CRD IV buffers or ‘combined buffer’, applicable to Allica comprise a countercyclical buffer (“CCyB”) and a capital conservation buffer (“CCB”). The CCyB is expressed as a fixed percentage of RWA and this institution specific buffer is derived from certain ‘relevant exposures’ which are dependent on a combination of geographic location and the respective rates set within the jurisdictions associated with the exposures. The CCB has been phased in under a transitional arrangement and now stands at 2.5% of RWA. Both the CCyB and CCB must be met with CET1 capital.

A firm specific Pillar 2B buffer which is not subject to disclosure, known as the PRA buffer, must also be met by CET1 and can be used for the stress factors against which it has been calibrated.

Where it is appropriate to do so, there may certain elements of the TCR, MCR, CRD IV and PRA buffers which may be offset against each other where they are deemed duplicative.

Allica met its TCR, combined buffers and PRA buffer with CET1 capital throughout the period.

The Bank will be subject to a non-risk sensitive leverage ratio, calculated as the proportion of own funds in relation to an asset-based measure. Allica currently monitors this measure, as set out in section 3.6 on a monthly basis.

The EU's implementation of the Financial Stability Board's ("FSB") requirements for Total Loss Absorbing Capacity ("TLAC"), is known in Europe as the Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") and is applicable to firms from 1 January and to be fully phased in by 1 January 2022. Allica is not currently required to hold any additional capital in respect of MREL.

3.2 Stress Testing

Stress testing is the process by which Allica's business plans are subjected to severe but plausible adverse scenarios to assess the impact on the Bank's capital and liquidity positions. The results of stress testing are incorporated in the Bank's ICAAP as well as in the Internal Liquidity Adequacy Assessment Process ("ILAAP").

3.3 Capital Resources

The table below shows the composition of Allica's regulatory capital resources at 31 December 2019 as measured under CRDIV.

Regulatory Capital	
	£'000
Share capital	84,782
Retained earnings	(43,100)
Other comprehensive income reserve	(4)
Shareholders' equity	41,678
Prudential filters: deductions from CET1 capital	
Intangible assets	10,494
Other deductions	30
Total Common Equity Tier 1 (CET1) capital	**31,154**
Total Regulatory capital	**31,154**

3.4 Capital Adequacy

The table below shows Allica's minimum capital requirement at 31 December 2019 as measured under CRDIV.

Risk Weighted Assets ("RWA") (1)

	£'000
Credit Risk	2,574
Market Risk	-
Operational Risk (2)	23,586
Total RWA	**26,160**

Capital Ratios (3)

Common Equity Tier 1 (CET1) capital ratio	**119%**
Total capital ratio	**119%**

(1) Article 92 of the CRR refers to 'risk weighted exposure amounts'. This document uses Risk weighted exposure amounts and 'risk weighted assets' interchangeably.

(2) Operational Risk RWAs are derived by multiplying the requirement generated in section 7.2 multiplied by 12.5 (the inverse of 8%).

(3) Capital ratios are derived from the proportion of RWA in relation to each key stage of capital.

3.5 Total Capital Requirement

The total capital requirement ("TCR"), defined as the amount of capital the Bank needs to comply with to meet its Pillar 1 (8% of RWA) and Pillar 2A (5.6% of RWA) was 13.6% at 31 December 2019.

3.6 Capital Buffers

In addition to the TCR, the Bank held capital in respect of both the combined buffer and the PRA buffer. The CCyB rate for UK exposures was 1% and the CCB rate increased to 2.5% during the year ending 2019 in line with the CRD IV transitional arrangements.

3.7 Leverage Ratio

CRD IV requires firms to calculate and disclose a non risk-based leverage ratio ("LR") and the measures which would be adopted to address the risk of excessive leverage.

The Bank monitors its LR under the EBA leverage ratio regime and it is expected that it will become a binding 3% minimum from June 2021. Separately the PRA have proposed a separate UK leverage ratio regime which requires a 3.25% minimum but excludes assets constituting 'claims on central banks' from the calculation of the total exposure measure. Allica is not in scope to comply with the UK LR framework as its deposit levels are less than £50 billion.

This section contains certain EU mandated disclosures with regard to the leverage ratio at 31 December 2019 for institutions under EU Regulation 2016/200 and the disclosures adjusted accordingly where there is no requirement.

Summary reconciliation of accounting assets and leverage ratio exposures

	£'000
Total assets per the financial statements	44,541
Adjustments for off-balance sheet items [1]	313
Other adjustments [2]	(10,524)
Total Leverage ratio exposure measure	34,330

Leverage ratio common disclosure

	£'000
On-balance sheet items	44,541
(Asset amounts deducted in determining Tier 1 capital)	(10,524)
Total on balance sheet exposures	34,017
Off-balance sheet exposures at gross notional amount	625
(Adjustments for conversion to credit equivalent amounts)	(312)
Other off-balance sheet exposures	313
Tier 1 capital	**31,154**
Leverage ratio total exposure measure	**34,330**
Leverage ratio	**91%**

Split of on-balance sheet exposures

	£'000
Total on balance sheet exposures, of which:	44,541
Banking book exposures, of which:	44,541
Exposures treated as sovereigns	29,458
Institutions	2,816
Other exposures [3]	12,267

(1) Off balance sheet items are stated after the application of conversion factors.

(2) Primarily related to intangible assets which have been removed from the leverage exposure since they have been deducted from CET1 capital.

(3) Non-credit obligation assets: primarily intangible assets, fixed assets and right-of-use assets in respect of the lease relating to the Bank's office premises.

The leverage ratio is significantly above the future regulatory requirement. The ratio is reported each month to the ALCO and also to BRC.

3.8 Capital Requirements

Allica's Pillar 1 capital requirements are calculated by adding the requirements for credit risk and operational risk. Allica has no market risk requirement or credit value adjustment requirement at the reporting date.
Pillar 1 capital requirement is calculated as 8% of risk weighted assets and its total capital requirement is 13.6% of risk weighted assets.

Total capital requirements

At 31 December 2019

	£'000
Credit risk	206
Market risk	-
Operational risk	1,887
Capital resources requirement under Pillar 1	2,093
Capital resources	31,154
Capital resources surplus over Pillar 1 requirement	29,061
Less:	
Pillar 2A assessment	1,465
CCB & CCyB	916
Capital to meet PRA and management buffers	26,680

4 Credit Risk

Credit risk is defined as 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.
This risk arises through Allica's lending activities and is the most significant risk faced by the Bank.

4.1 Composition of the Minimum Capital Requirements for Credit Risk

Exposures subject to the Standardised Approach to credit risk

At 31 December 2019

	Exposure value(1)	RWA	Minimum capital requirement
	£'000	**£'000**	**£'000**
Central governments and Central banks	29,458	-	-
Institutions	2,816	563	45
Secured by mortgages on immovable property	313	238	19
Other items	1,773	1,773	142
Total	**34,360**	**2,574**	**206**

(1) The exposure value includes all drawn and undrawn committed facilities. These are stated after the application of any applicable. credit conversion factors and before the SME support factor under article 501 of the CRR.

4.2 Geographical Distribution

All of Allica's business is in the UK and all of Allica's customers and associated collateral on all of the Bank's loans are located in the UK.

4.3 Credit Risk: Loans and Advances to Customers

At 31 December 2019 Allica did not have any drawn loans to customers however there was exposure value and capital requirement related to undrawn commitments for loans secured by mortgages.

Credit Control Processes
Allica has in place a detailed Credit Policy and Credit Appetite Guidelines which are designed to ensure that the Bank's lending is in line with the Board-approved strategy and risk appetite. The Credit Policy sets out the customer acceptance criteria for lending business and the roles and responsibilities of members of staff in each of the three lines of defence.
The Chief Risk Officer holds responsibility under the Senior Manager Regime for risk management and delegates the monitoring of the Bank's lending portfolio against Board-approved thresholds and limits to the Head of Credit along with making sure that the day-to-day decision-making processes and activity meet risk appetite limits.

Every loan is reviewed and approved by an experienced Credit Underwriter with an appropriate level of discretion before an offer of funding is made. Each customer (or prospective customer) is allocated a credit grade based on externally-sourced information; the credit grade is translated to a Probability of Default and each loan facility is allocated a Loss Given Default to reflect the value of collateral held by the Bank – these are recorded on the Bank's systems and are updated when the view of the customer's risk profile changes.
All loans are subject to review in the event of a change in the risk associated with that customer and at least annually.
Concentration risk is reported to the Risk Management Committee and Board each month and is monitored and managed against Board-agreed risk appetite.

Impairment: IFRS 9 - Financial Instruments ("IFRS 9")
Allica operates under an IFRS 9 framework which has been agreed by the Board Audit Committee. IFRS 9 Expected Credit Losses are reported to the Risk Management Committee on a monthly basis.

4.4 Credit Risk: Treasury Assets

Credit risk also occurs within Treasury Assets such as investment securities and deposits with other banks. The credit risk of Treasury Assets is considered by the Board to be low because Liquidity is maintained in investment grade quality assets, the concentration risk of assets is managed to strict policy limits and counterparty ratings which meet the minimum criteria set in wholesale credit risk policy. At 31 December 2019, Treasury Assets comprised UK Treasury bills. No assets are held for speculative gain nor are they actively traded. Allica had no derivative exposures at 31 December 2019.

5 Interest Rate Risk in the Banking Book

Allica's interest rate risk comes through lending and deposit-taking, treasury investments, and funding activities. Interest Rate Risk in the Banking Book ("IRRBB") refers to the current or prospective risk to the Bank's net economic value ("EV"), capital and earnings arising from adverse movements in interest rates that affect the banking book positions. The Bank measures the following sub-types of IRRBB:

- Gap risk which arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The risk to Allica arises when the rate of interest paid on liabilities increases before the rate of interest received on assets or reduces on assets before liabilities. The extent of gap risk depends on whether changes to term structure of interest rates occur consistently across the whole yield curve (parallel risk) or differently by period (non - parallel risk). The Bank measures and controls the gap risk through the re-pricing gap and the analysis of the net mismatch for every time band.
- Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices (bases). It arises from the imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar rate change characteristics. In order to hedge its structural interest rate risk exposure Allica will enter into Overnight Index Swap ("OIS") receivers. Thus, it will pay Sterling Overnight Index Average ("SONIA") rate on the floating leg of the swap. The Bank has administered rate assets with interest rates highly correlated to the Bank of England base rate. Therefore, Allica will be exposed to the movement in the spread Base Rate – SONIA. By default, the Bank's hedging strategy for basis risk consists in the attempt to match the risk factors on the asset and liability side to the extent possible. Additionally, it monitors the spread Base Rate- SONIA.
- Option risk arises from option derivative positions explicitly embedded within the contractual term of the balance sheet or behavioural optionality reflected by the uncertainty introduced by the customer side (prepayment and early withdrawal). Allica's exposure to the behavioural option risk is limited to a certain extent by the existence of the clause on a significant part of deposits which prohibit clients from the early withdrawal of funds before a certain period (known as notice period). However, the notice period is not intended as an IRRBB management tool, although it acts that way to a certain extent, but as a liquidity management tool. Allica has automatic options embedded in the Banking Book via its implicit contractual floor on its loans.
- Yield risk is the risk arising from unanticipated non – parallel shifts of the yield curve such as steepening, flattening, inverted curve and parallel shifts on the medium long part of the curve – herein this is understood as the exposure to the structural interest rate risk in the banking book. Allica will be liability sensitive on the medium long part of the curve as it funds the asset side with the fixed rate time deposits with average maturity between 1- 2 years. The asset side is composed of administered rate commercial mortgages and short-term High-Quality Liquid Assets ("HQLA"). This structure exposes the Bank to the downward movement of the curve which is actively managed by receiver swaps. Allica analyses and monitors the position in terms of change in Economic Value of Equity ("EVE") under 7 shocks scenarios.

The Bank manages the risk of banking book positions in accordance with the risk appetite framework and regulatory constraints. The Treasurer is responsible for management of IRRBB, reporting to ALCO at least monthly, and ultimately the Board.

6 Liquidity Risk

Liquidity risk is defined as the risk that the Bank will not be able to meet its financial obligations as they fall due, is not able to fund future lending growth opportunities or is able to do so only at significantly higher cost. Allica maintains liquidity resources within its risk appetite limits and above the regulatory minimum at all times. The Bank currently holds a liquidity buffer of High-Quality Liquid Assets (‘HQLA’) in the form of UK Government Treasury Bills. The key metric used to monitor liquidity risk is the Liquidity Coverage Ratio (“LCR”). At year end and at all times throughout the period, Allica was in excess of all liquidity targets. Liquidity Coverage Ratio The LCR, prepared in compliance with EU Regulations 2015/61 and 575/2013, is used by the Bank as a stressed measure of 30-day liquidity and is reported and monitored at ALCO on a monthly basis.

The table below shows the LCR at 31 December 2019.

	£’000
Liquidity Buffer in the form of HQLA	29,458
Net liquidity outflow	156
LCR	**18,883%**

7 Operational Risk

Operational risk is the risk that Allica experiences unexpected levels of financial loss as result of People, Process, Systems failures or External events. Allica has put in place a detailed Operational Risk framework which is described below.

7.1 Operational Risk Management

The Operational Risk Framework has been approved by the Board and is regularly reviewed in the light of changes in regulation, business strategy and industry best practice.

The business are owners of the operational risks in their area as first line of defence and have undertaken an assessment of the risks and associated controls in the Risk Control Self-Assessment process. Any Risks, Issues and near-misses are reported through Risk Management Committee, EXCO and the Board on a monthly basis.

Risk, as second line of defence, undertake assurance testing on the first line controls to provide confidence that they are being operated effectively.

Internal Audit, as third line of defence, carry out assurance testing in line with the Audit Plan to test the effectiveness of the first line controls and quality of the second line assurance as well as the overall operational risk framework.

7.2 Operational Risk Capital Charge Computation

The operational risk capital charge for the Bank under Pillar 1 is calculated using the Basic Indicator Approach. This normally involves a 15% multiplier to be applied to the 3-year historical average of net interest and fee income. Given the Bank is in its mobilisation phase, it does not yet have 3-years historical average, so the multiplier is applied to the aggregation of the firm’s forward-looking revenue projections. Under this methodology a capital charge for the period ending 31 December 2019 of £1.9m has been derived. The RWA equivalent is £23.6m.

8 Securitisation Exposures

At 31 December 2019, Allica had no exposure to securitisation structures.

9 Asset Encumbrance

At 31 December 2019, Allica had no assets encumbered.

10 Remuneration Disclosures

Decision making and governance

Remuneration for Allica is overseen by the Remuneration Committee. The membership of the committee is made up of three independent Non-executive Directors and a shareholder director who are appointed by the Board. The approach that Allica has taken in relation to remuneration reinforces its core values by ensuring that its employees are incentivised and rewarded for focusing on customer satisfaction and engaging in behaviours that are aligned with the long-term success of the business whilst delivering value for shareholders and avoiding unnecessary risk-taking. During the year, the committee met 4 times and aims to meet quarterly; more frequently if the need arises.

Allica applies the proportionality principle to ensure its practices and processes are appropriate to our size, internal organisation and the nature, scope and the complexity of our activities.

Remuneration structure

The Bank's approach to remuneration is designed to:

- ensure that the ratios of fixed pay and variable pay are appropriately balanced, that fixed pay is of a sufficiently high proportion of total remuneration to allow for the possibility of paying no variable pay;
- attract, recruit and retain the right individuals at the right level;
- adhere to the regulatory framework for the financial services sector;
- link reward with appropriate risk-taking;
- ensure it is line with our business strategy, objectives, values and long-term interests
- strike an appropriate balance between short and long-term rewards;
- avoid conflicts of interest; and
- enable the bank to achieve its objectives and deliver value to its shareholders.

The bank uses performance-based remuneration to ensure that remuneration is sufficiently performance-linked and rewarded appropriately. In order to measure this, we review performance against objectives for the year of the individual, business unit concerned and overall results of the Bank.

Any remuneration incentives will also take risk into consideration and be appropriately balanced within the bank's risk appetite, whilst also accounting for the long-term interests of the Bank. Remuneration must not encourage risk-taking that exceeds our level of tolerated risk and must promote effective risk management.

Remuneration components

Remuneration is set to attract and retain the people needed for the bank to meets its strategic objectives. The remuneration for each employee consists of a package encompassing the following:

- Fixed pay to reflect relevant professional experience, organisational responsibility and market conditions. It includes a base salary, benefits and pension contributions.
- Variable pay which reflects risk adjusted performance. The Bank operates a discretionary annual bonus plan for all employees and a long-term incentive plan for senior management.
- Other benefits include a medical insurance policy.

Further information on remuneration can be found in notes 5 and 6 of Allica's Financial Statements for the period ending 31 December 2019.

11 Own Funds Disclosures

The following table shows the composition of own funds and the key features of Allica's capital instruments in the format prescribed under EU Regulation 1423/2013 and the disclosures adjusted accordingly where there is no requirement.

Own funds disclosure template

Common Equity Tier 1 (CET1) capital: instruments and reserves	£'000
Capital instruments and the related share premium accounts	84,782
of which: Ordinary shares	84,782
Retained earnings	(43,100)
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(4)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	41,678
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments	(30)
Intangible assets	(10,494)
Total regulatory adjustments to common equity tier 1 (CET1)	(10,524)
Common equity tier 1 (CET1) capital	31,154
Tier 1 capital	31,154
Total capital	31,154
Total risk weighted assets	26,160
Capital ratios and buffers	
Common equity tier 1 (as a percentage of risk exposure amount)	119%
Tier 1 (as a percentage of risk exposure amount)	119%
Total capital (as a percentage of risk exposure amount)	119%
Institution specific buffer requirement (CET1) requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	3.5%
of which: capital conservation buffer requirement	2.5%
of which: countercyclical buffer requirement	1.0%
Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	105%

Capital instruments' main features template

Issuer	Allica Bank Ltd.
Unique identifier	N/A
Governing law(s) of the instrument	English
Regulatory treatment	
Transitional CRR rules	CET1
Post-transitional CRR rules	CET1
Eligible at solo/(sub-)consolidated/solo & (sub) consolidated	Solo
Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
Amount recognised in regulatory capital (currency in million, as of capital (currency in million, as of most recent reporting date)	£84.78
Nominal amount of instrument	£0.01
Issue price	Various
Redemption price	N/A
Accounting classification	Equity
Original date of issuance	Various
Perpetual or dated	Perpetual
Original maturity date	N/A
Issuer call subject to prior supervisory approval	N/A
Option call date, contingent call dates and redemption amount	N/A
Subsequent call dates if applicable	N/A
Coupons/Dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A
Existence of a dividend stopper	N/A
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
Existence of step up or incentive to redeem	N/A
Non-cumulative or cumulative	Non cumulative
Convertible or non-convertible	Non cumulative
If convertible, conversion triggers	N/A
If convertible, fully or partially	N/A
If convertible, conversion rate	N/A
If convertible, mandatory or optional conversion	N/A
If convertible, specify the instrument type convertible into	N/A

If convertible, specify the issuer of instrument it converts into	N/A
Write-down features	N/A
If write-down, write-down trigger(s)	N/A
If write-down, full or partial	N/A
If write-down, permanent or temporary	N/A
If temporary write-down description of write-up mechanism	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
Non-compliant transitioned features	N/A
If yes, specify non-compliant features	N/A

Glossary

ALCO	Asset & Liabilities Committee
BRC	Board Risk Committee
CCB	Capital conservation buffer
CCO	Chief Commercial Officer
CCyB	Countercyclical buffer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CIO	Chief Information Officer
COO	Chief Operating Officer
CRD	Capital Requirements Directive
CRDIV	Fourth Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EV	Economic value
EVE	Economic Value of Equity
EWIs	Early Warning Indicators
EXCO	Executive Committee
FCA	Financial Conduct Authority
FLOD	First Line of Defence
FSB	Financial Stability Board
GC	General Counsel
HQLA	High-Quality Liquid Assets
HR	Human Resources
H&S	Health and Safety
HSE	Health and Safety Executive
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
KRIs	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LR	Leverage ratio
MCR	Minimum capital requirement
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
OIS	Overnight Index Swap
OpCo	Operations Committee

PRA	Prudential Regulation Authority
RCSA	Risk Controls Self-Assessment
RMC	Risk Management Committee
RMF	Risk Management Framework
RWAs	Risk weighted assets
SLA	Service Level Agreement
SLOD	Second Line of Defence
SMEs	Small and medium-size enterprises
SONIA	Sterling Overnight Index Average
SYSC	Senior Management Arrangements, Systems and Controls
TCR	Total capital requirement
TLAC	Total Loss Absorbing Capacity

Allica Bank

www.allica.bank