Atom

Atom Bank Pillar 3 Report 2020

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The terms “Atom” and “the Group” refer to Atom bank plc together with its subsidiaries. “Atom bank” and “the Bank” refers to Atom bank plc (company number 08632552).

The term “Board” refers to the board of directors of Atom bank plc from time to time. The term “Director” means a director of Atom bank plc.

This Annual Report contains general information about Atom and is intended for informational purposes only. Atom has taken all reasonable care to ensure the information and facts contained in this Report are accurate and up-to-date but any reliance placed on this Report is done entirely at the risk of the person placing such reliance.

The information contained in this Report does not constitute an invitation or inducement to engage in investment activity in connection with any security or financial instrument issued by or on behalf of Atom, nor does it purport to contain information that should form the basis of, or be relied upon, in making any investment decision in connection with the same. If you require any advice, please consult with a professional financial adviser.

This Report includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should”, or their negative variations or comparable terminology, or by discussions of strategies, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Report and include statements of the intentions, beliefs or current expectations relating to the results of operations, financial condition, liquidity, prospects and growth of Atom and the sector in which it operates.

Forward-looking statements involve known and unknown risks and uncertainties because they relate to events, and depend on circumstances, that may or may not occur in the future and that may be beyond Atom’s control. Forward-looking statements reflect the current views of Atom with respect to prospective events, and are not guarantees of future performance. Many factors could cause Atom’s actual performance to differ materially from the prospective performance expressed or implied by such forward-looking statements. Some of these factors are described in more detail in this Report. In addition, even if the results of operations, financial condition, liquidity, prospects, growth, strategies, dividend policy and the development of the sector in which it intends to operate, are consistent with the forward-looking statements in this Report, those results or developments may not be indicative of results or developments in subsequent periods.

The directors of Atom undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Recipients of this Annual Report should consider all forward-looking statements in the light of these explanations and should not place undue reliance on such statements.

References to “the year” and “2020” refers to the financial year from 1 April 2019 to 31 March 2020. References to “2019” refers to the financial year 1 April 2018 to 31 March 2019 and references to “2018” refers to the financial year 1 April 2017 to 31 March 2018.

What's inside

List of tables

1. Introduction

We’re Atom. We're an app based and customer first bank.

Our vision is to create the most trusted and admired bank anywhere. We exist to change banking for good – to create better outcomes for customers.

This document is Atom’s annual Pillar 3 report for the period to 31 March 2020. Pillar 3 requirements are predominantly set out under the Capital Requirements Directive & Regulation (CRD IV) and are designed to promote market discipline through the disclosure of key information around capital, risk exposures and risk management.

This report should be read in conjunction with the 2020 Atom Bank Annual Report. The analysis presented provides detail on aspects of the Atom’s risk profile and describes how the Bank assesses, manages and mitigates risk.

2. Overview

Basis of preparation

The Capital Requirements Regulation (CRR) (EU Regulation No 575/2013) and the fourth Capital Requirements Directive (CRD) (EU Directive 2013/36) were implemented in the UK on 1 January 2014 and are collectively known as the CRD IV package (CRD IV). Atom's Pillar 3 disclosures comply with the requirements of CRD IV including any EU implementing and delegated legislation and any European Banking Authority (EBA) guidelines in force at 31 March 2020.

In accordance with Article 432 of the CRR, the Bank is permitted to exclude certain disclosures if they contain proprietary information or are non-material.

In March 2017 the EBA issued guidelines (EBA/GL/2017/01) on the disclosure requirements for the liquidity coverage ratio (LCR). In line with this guidance, Atom has adopted the disclosures to the extent that they are applicable to all institutions and has chosen to omit those disclosures that are only applicable to globally and other systemically important institutions.

Additionally, in April 2017 the PRA issued supervisory statement SS2/17 which effectively modifies the disclosure requirements for remuneration. The statement introduces a proportional approach, with the extent of the disclosure being based on a measure of total balance sheet assets. Atom continues to meet its obligations to disclose remuneration information, complying with the requirements of the CRR as modified by SS2/17.

Scope of consolidation

Atom has one wholly owned subsidiary, Atom EBT Limited, which is deemed de minimis for regulatory purposes.

During October 2018 the Bank completed its inaugural securitisation of residential mortgages via a special purpose vehicle called Elvet Mortgages 2018-1 Plc. The mortgages assigned to Elvet Mortgages 2018-1 do not qualify for derecognition and were not treated as a sale by the Bank, as the Bank remains exposed to the majority of the risks and rewards of the mortgages and associated credit risk.

The securitised mortgages are retained on the Bank's balance sheet and, within this Report, are included in the 'Secured by mortgages on immovable property' section. While Elvet Mortgages 2018-1 is consolidated under IFRS accounting rules, as Elvet Mortgages 2018-1 does not meet the CRR definition of a subsidiary, Atom continues to be regulated as a solo entity with disclosures prepared on this basis.

During November 2019, Atom transferred residential mortgage loans with a book value of £488m to a newly established unconsolidated structured entity, Elvet Mortgages 2019-1 plc. The transaction resulted in full derecognition of loans from Atom Bank's statement of financial position because all of the residual income associated with the mortgages has been transferred to third party note holders.
As significant risk transfer was achieved, the capital required on the underlying mortgage exposures was derecognised with the exception of the retained 5% share of mortgages.

Frequency and location of disclosures

Atom's policy is to publish the Pillar 3 disclosures on the corporate website www.atombank.co.uk. Disclosures will be published on an annual basis on the same day as the annual report and accounts.

2. Overview continued...

Verification

In accordance with Part VIII of the CRR and the Bank's Pillar 3 disclosure policy, Atom is required to ensure that its external disclosures accurately and comprehensively describe its risk profile. The Directors have considered the adequacy of the Pillar 3 disclosures in relation to those requirements and are satisfied that the disclosures are both accurate and comprehensive.

Regulatory developments

CRR II final rules were published in June 2019. As an amending regulation, the existing provisions of CRR apply unless they are amended by CRR II. Key changes include the introduction of a binding leverage ratio requirement for all institutions, introduction of net stable funding ratio requirements with published weightings, revised rules on capital requirements for counterparty credit risk and for exposures to central counterparties and a revised Pillar 2 framework.

Certain amendments, primarily relating to MREL, took immediate effect. These changes did not impact the Bank during the year. The other amendments are expected to take effect from 28 June 2021. Certain aspects of CRR II are dependent on final technical standards to be issued by the European Banking Authority (EBA) and adopted by the European Commission as well as UK implementation of the rules.

The Covid-19 pandemic has created unprecedented challenge to the global economy, including the economic environment in which Atom operates. In line with the rest of the world, the UK Government, Bank of England and Regulatory Authorities have responded to this challenge with a number of support measures, including regulatory measures. As the position continues to evolve, only a summary of those impacting Atom Bank at 31 March 2020 is provided below.

- Customer support measures, mainly payment moratoria. The Regulators have supported those measures by providing further guidance on interpretation of those measures in the context of capital and accounting frameworks.
- A reduction in the countercyclical buffer rate to zero.

Furthermore, during June 2020, the EU agreed to amend CRR II to improve banks' capital ratios so that they can support the real economy and absorb expected losses related to Covid-19.

The UK left the EU on 31 January 2020. The UK remains subject to EU law during the implementation period, which is currently expected to end on 31 December 2020; this is subject to review and may be extended by a further two years. In the event of the implementation period not being extended, the PRA and FCA have confirmed that they will grant a further transitional period that delays the prudential impacts until 31 March 2022.

3. Summary analysis

This section provides a summary analysis of the Bank's capital position, leverage and risk-weighted assets (RWA) at 31 March 2020.

Table 1 – Capital and leverage ratios

	2020	2019
CET1 ratio	18.6%	17.9%
T1 ratio	18.6%	17.9%
Total capital ratio	19.5%	18.7%
Leverage ratio	6.0%	6.5%

Throughout 2020 the Bank continued to maintain capital and leverage ratios that exceed its minimum requirements under the CRD IV regulatory framework.

Total Capital Ratio (TCR) increased to 19.5% (2019: 18.7%), reflective of a £50m capital raise that completed in July 2019, together with £121m reduction in RWAs mainly due to the sale of mortgages to Elvet 2019-1, partially offset by annual operating losses.

At this stage of Atom's development, capital resources are utilised to fund early stage losses, continued investment in technology, and to support the growth in lending required to scale the business. Under these circumstances the key ratios will spike when capital contributions are received from investors and then gradually fall as capital is consumed. Key ratios will become more stable over time as Atom grows its high-quality lending portfolio, achieving the scale required to cover operational costs and generate capital internally.

Table 2 – Own funds

	2020	2019
Common Equity Tier 1	**£'000**	**£'000**
Paid up share capital and associated premium	448,935	399,207
Other reserves	19,421	17,405
Retained losses	(267,853)	(203,908)
Total equity per balance sheet	**200,503**	**212,704**
Regulatory capital adjustments		
Intangibles	(36,646)	(29,720)
IFRS 9 transitional adjustments	4,969	1,167
Prudential valuation adjustments	(181)	(101)
Common Equity Tier 1	**168,645**	**184,050**
Tier 2 Capital		
Issued Tier 2 Capital Instruments	7,964	7,949
Total Tier 2 capital	**7,964**	**7,949**
Total own funds	**176,609**	**191,999**

3. Summary analysis continued...

During the year Atom raised £49.7m (after issue costs) of ordinary share capital to support planned lending activity and to continue to develop the Bank's capabilities. Retained losses increased by £63.9m and other reserves increased by £2.0m resulting in a net decrease in balance sheet equity of £12.2m, to £200.5m. Following the application of prudential filters, available CET1 resources stood at £168.6m (2019: £184.0m).

The amount of eligible Tier 2 instruments recognised in regulatory capital was £8m having considered associated issue costs that are amortised over the life of the instruments. Atom's Tier 2 instruments are held by the British Business Bank.

The key features of Atom's capital instruments are listed in Appendix 2.

Table 3 – Summary of risk weighted assets

	2020 £'000	2019 £'000
Credit risk	872,639	1,000,236
Counterparty credit risk	3,052	3,105
Credit valuation adjustment	2,709	2,893
Credit risk - Securitisation	28,758	9,327
Operational risk	-	12,686
Total RWA	**907,158**	**1,028,247**

4. Regulatory capital framework

CRD IV came into force on 1 January 2014. This section contains an outline of the capital regulations (as implemented in the UK by the PRA policy statement PS7/13) which define the framework of regulatory capital resources and the requirements applicable to the Bank.

Regulatory capital resources

Common Equity Tier 1

This is the strongest form of capital and consists of ordinary share capital, associated share premium and allowable reserves. Available CET1 resources are stated after the deduction of prudential filters, which for Atom include intangible assets and prudential valuation adjustments, offset by transitional IFRS 9 adjustments.

Additional Tier 1 Capital

AT1 instruments are non-cumulative perpetual securities that can be written down following a defined trigger event. Atom currently has no AT1 securities in issue.

Tier 2 Capital

Tier 2 capital will typically consist of other subordinated debt that does not meet the eligibility criteria for inclusion as AT1 capital. As at 31 March 2020, Atom held issued eligible Tier 2 capital instruments with a notional value of £8m.

Capital requirements

In order to meet their capital requirements, banks must ensure they hold sufficient quantity and quality of capital resources. Table 4 below shows the summary of capital requirements as they apply to Atom.

Pillar 1 capital requirements

The Pillar 1 requirements set out the rules used to determine the minimum capital requirement for credit, counterparty credit, CVA, market and operational risks. The Pillar 1 capital requirement is 8% of RWAs. CRD IV allows a range of approaches that vary in sophistication to be used to determine RWA amounts. Atom currently uses the Standardised Approach to determine risk weights for credit risk, the mark-to-market method for counterparty credit risk and the standardised method for CVA risk. Atom has no Pillar 1 market risk exposures. The Basic Indicator Approach is used to determine operational risk RWAs. Further detail explaining the methodology for calculating RWAs is provided in section 8.

4. Regulatory capital framework continued...

Pillar 2 Capital Requirements

The Pillar 2 requirements play an important role in ensuring that institutions hold appropriate levels of capital for the risks to which they are exposed. As part of the Supervisory Review and Evaluation Process (SREP), the PRA have assessed Atom's capital adequacy and Atom's own assessment of its capital adequacy determined by the Internal Capital Adequacy Assessment Process (ICAAP). Following the SREP, Atom has been advised of its additional capital requirements under Pillar 2A and Pillar 2B.

Pillar 2A

Pillar 2A requirements are designed to capture the bank specific risks that are not addressed or not fully captured by the minimum capital requirements under Pillar 1. The PRA informs banks of their Pillar 2A requirements after evaluating banks' own ICAAPs by setting a firm-specific Total Capital Requirement (TCR).

Atom's prescribed TCR is 10.02% of RWAs. This means that in order to meet its TCR, Atom must hold capital equal to 2.02% of RWAs in addition to the 8% minimum requirement under Pillar 1.

Pillar 2B

All firms will be subject to a PRA buffer assessment as part of the SREP. A bank's ICAAP is the starting point for determining the Pillar 2B buffer requirement. The PRA will review banks' stressed capital projections and set the total buffer requirement at a level that would allow losses to be absorbed under those stressed conditions, while still allowing banks to meet their specific TCR requirements.

The PRA buffer takes into consideration the extent to which the CRD IV Combined Buffer (The Capital Conservation Buffer and any applicable systemic buffers) already captures the risks that are considered as part of the PRA buffer assessment. If the PRA buffer assessment is greater than the CRD IV Combined Buffer requirement, the PRA buffer is binding, and an additional buffer requirement is imposed.

Capital Conservation Buffer (CCB)

The CCB is a general buffer that is designed to build up a bank's available capital resources, and therefore resilience, during non-stressed periods. From 1 January 2019 Atom has been required to hold a CCB of 2.5% of RWAs in the form of CET1.

4. Regulatory capital framework continued...

Countercyclical Capital Buffer (CCyB)

Atom is required to maintain a CCyB of up to 2.5% of RWAs. The firm specific buffer is calculated by multiplying the country specific CCyB rate with the RWAs for any relevant credit exposures in that country.

The CCyB rate for the UK is set by the Financial Policy Committee (FPC) of the Bank of England. Institutions have 12 months from the date of a rate increase announcement to meet the increased buffer requirement. In contrast any rate reductions are applied with immediate effect.

In response to the outbreak of Covid-19, on 20 March 2020, the FPC reduced the UK countercyclical capital buffer rate to 0% of banks' exposures to UK borrowers with immediate effect. The rate had been 1% and had been due to reach 2% by December 2020. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

Atom has small exposures outside of the UK that are relevant exposures for the purpose of calculating the CCyB. As the value of these exposures is less than 2% of all relevant credit exposures it is considered de minimis for the purpose of the CCyB. Therefore, Atom has chosen to treat these exposures as arising in the UK.

Sectoral capital requirements

The FPC is also responsible for setting additional sectoral capital requirements. Institutions may be required to hold additional capital for exposures to particular sectors, if the FPC believes that excessive lending to those sectors poses a risk to financial stability. Atom does not currently have a sectoral capital requirement.

4. Regulatory capital framework continued...

Table 4 – Summary of capital requirements

The following table summarises the CRD IV capital requirements as they apply to Atom.

Requirement or buffer	Calculation method	Quality of capital required to meet the requirement	Impact on Atom
Pillar 1	Fixed percentage of RWAs as prescribed in Article 92 of the CRR	4.5% of RWA met by CET1 capital 6% of RWAs met by T1 capital 8% of RWAs met by Total capital	The impact of the Pillar 1 capital requirements can be seen in section 8
Pillar 2A	Expressed as a percentage of RWAs	56% to be met by CET1 capital 75% to be met by T1 capital 100% to be met by Total capital	Atom's Pillar 2A capital requirement is 2.02% of RWAs
Countercyclical buffer	Expressed as a percentage of RWAs	CET1 Capital	0% effective from March 2020
Systemic buffers	Expressed as a percentage of RWAs	CET1 Capital	Applicable only to global and other systemically important institutions
Capital conservation buffer	Expressed as a percentage of RWAs	CET1 Capital	2.5% effective from 1 January 2019
PRA Buffer (Pillar 2B)	Expressed as a percentage of RWAs	CET1 Capital	This buffer is set by the PRA and is confidential

4. Regulatory capital framework continued...

Pillar 3

The aim of Pillar 3 is to improve market discipline and transparency by developing a set of disclosure requirements that provide market participants with access to key pieces of information on capital, risk exposures and risk assessment processes. The minimum disclosure requirements are set out in part eight of the CRR.

While retaining a non-prescriptive approach for most of its disclosure requirements, the CRR empowered the EBA to foster more consistency in the disclosure format. As a result, the European Commission's implementing and delegated regulations, as well as further EBA guidelines, have been issued since 2013 regarding the content and format of disclosures.

These Pillar 3 disclosures comply with the requirements of CRD IV, including implementing and delegated legislation and any European Banking Authority (EBA) guidelines in force at 31 March 2020.

Leverage ratio framework

The CRR, supplemented by EU Regulation 2015/62, form the legal basis upon which banks are compelled to publish information on leverage. Despite this obligation to disclose leverage ratio information, there is currently no binding minimum leverage ratio in force at the EU level.

CRR II introduces a minimum binding leverage ratio of 3% which comes into effect from 28 June 2021.

In the UK the PRA have implemented a UK Leverage Framework, however Atom is not in scope of this framework as its retail deposit levels are less than £50bn.

Further details of how Atom manages and monitors leverage can be found in Section 6 – Capital Adequacy Risk.

Minimum Requirements for own funds and Eligible Liabilities

Minimum Requirements for own funds and eligible liabilities (MREL) became applicable from 1 January 2016 and will be phased in fully by 1 January 2022.

Atom's MREL requirement is equal to its CRD IV requirement under Pillar 1 and Pillar 2A. Consequently, the Bank does not need to hold any MREL compliant instruments in addition to those needed to satisfy its CRD IV requirement. The Bank does however consider the implications of the MREL rules in its strategic planning process in order to ensure that it maintains sufficient MREL compliant liabilities should it trigger MREL requirements in the future.

5. Risk management

A core objective for the Bank is the effective management of risk. The responsibility for identifying and managing the principal risks rests with the Board of Directors. The Board has ultimate responsibility for setting the Bank's strategy, risk appetite and control framework. The Board considers that, as at 31 March 2020, it had in place adequate systems and controls regarding the Bank's risk profile and strategy.

Principal risks

Capital Adequacy Risk – the risk that Atom could have insufficient capital to withstand an extreme but plausible loss, and might expose its depositors and other creditors to losses.

Strategic Risk – the business could fail if Management make poor strategic decisions, if decisions are not well executed, or if the strategy does not effectively respond to changes in the external environment.

Credit Risk – there is a risk that customers to whom we have loaned money will default on their contractual obligations to Atom giving rise to financial losses.

Liquidity and Funding Risk – the risk that the Bank could fail to meet its obligations as they fall due.

Wholesale Credit Risk – the risk that a wholesale counterparty defaults on its contractual obligations to Atom giving rise to financial losses.

Market Risk – changes in market prices, for example interest rates, create the risk of financial loss through a reduction in earnings or change in the value of assets or liabilities.

Operational Risk – inadequate or failed internal processes or systems, human error or external events create a risk of direct or indirect financial loss and reputational damage.

Regulatory Risk – failure to comply with regulatory or legislative requirements could result in regulatory censure, financial loss and reputational damage. Furthermore, changes to regulatory rules could negatively impact Atom's strategy and business model.

Conduct Risk – inappropriate behaviour by Atom in its relationship with customers, counterparties or markets can result in reputational and financial loss.

Reputational Risk – damage to reputation and brand as a result of the actions of Atom itself, or indirectly via actions of employees, suppliers or other parties.

Model Risk – the risk that Atom makes sub-optimal decisions and/or suffers loss as a result of poorly specified, incorrectly implemented or inappropriately applied models.

Data Protection Risk - Inappropriate collection, storage, security or use of personal data that results in a breach of data protection regulation.

5. Risk management continued...

Risk strategy

Atom's risk strategy is to facilitate the creation of a reputable, responsible and sustainable business, which provides a range of financial products and services to personal and business customers.

Using a centralised, self-service and technologically enabled operational model, the Bank aims to deliver better prices, faster processes and greater transparency for customers. Sustainable growth will be underpinned by appropriately pricing for risk, protecting and enhancing the Bank's reputation and focussing on minimising both credit and non-credit losses.

For further information on Atom's business model and strategy refer to the Annual Report.

Atom's Enterprise Risk Management Framework (ERMF)

Atom's ERMF outlines the Bank's approach to risk management. The framework describes how the key risks to which the Bank is exposed are identified, assessed, managed, monitored and reported.

The application of the ERMF includes all principal risk types facing the Bank. The ERMF has been designed to ensure a holistic and consistent approach to the aggregation and management of all risks, which is integrated into business management and decision making. The ERMF comprises risk strategy, governance and escalation, risk operating model, risk management processes, monitoring and reporting, and risk culture.

Risk culture

Underpinning the effectiveness of the ERMF is a strong risk culture which sets the tone for the Bank, influencing the risk consciousness of employees as they conduct their daily activities and pursue business objectives.

Atom's strong risk culture ensures that current and potential risks are a key consideration in all decision making, and that risk management is embedded in all processes.

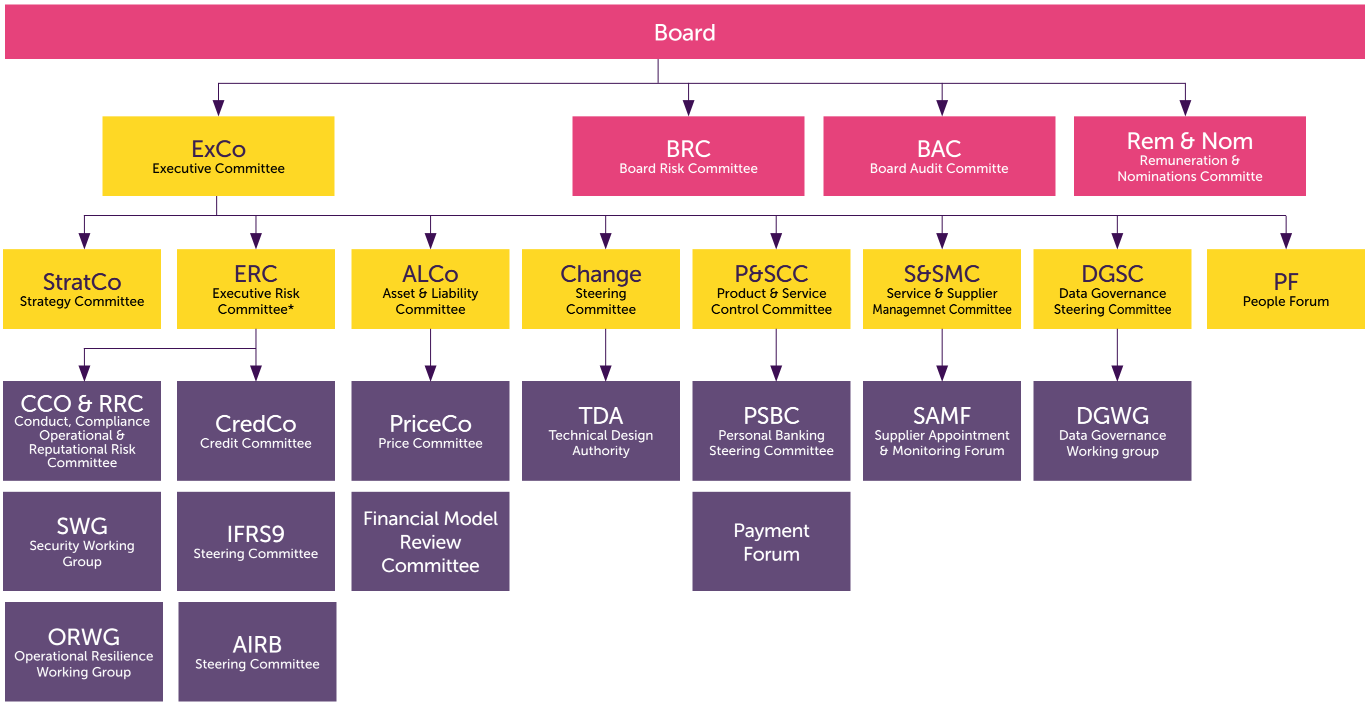
Risk governance and oversight

The Board is ultimately responsible for ensuring that the ERMF and risk governance structure is applied in practice and operates robustly.

It is the Board that approves the risk appetite that defines the type and level of risk that the Bank is prepared to take in pursuit of its business plan. The risk appetite is expressed in the form of a series of strategic risk objectives and risk appetite metrics, with a limit structure in place to ensure delivery against appetite.

5. Risk management continued...

The diagram below illustrates Atom's current governance structure.



*ERC has a parallel reporting line into Board Risk Committe

Atom has several distinct committees with responsibility for risk management oversight arranged as follows:

Board Risk Committee (BRC) - ensures the Bank's risk culture is appropriately designed by anticipating changes in business, economic, political and social conditions. The BRC is responsible for reviewing risk appetite and performance and the effectiveness of the risk management framework.

Executive Risk Committee (ERC) - a sub-committee of the ExCo, dedicated to scrutinising risk matters, especially those destined for review and approval by the BRC.

Credit Committee (CredCo) – a sub-committee of the ERC, tasked with scrutinising retail and Small & Medium sized Enterprise (SME) exposures, as well as wholesale credit risks.

Conduct, Compliance, Operational & Reputational Risk Committee – a sub-committee of the ERC, tasked with control and oversight regarding operational risk, operational resilience, regulatory compliance, conduct risk and financial crime matters.

Assets & Liabilities Committee (ALCo) – a sub-committee of the ExCo, tasked with monitoring the Bank's capital and liquidity.

The BRC convenes seven times per annum, and all other risk committees meet on a monthly basis.

5. Risk management continued...

Risk operating model

Atom employs a 'Three Lines of Defence' model which defines clear responsibilities and accountabilities, thereby ensuring effective independent assurance over key business activities.

The first line of defence is responsible for identifying, assessing and managing risks and controls related to their own business line activities on a day-to-day basis. First line colleagues operate the business in accordance with the risk management framework and ensure that its requirements are translated into effective operating processes.

The second line of defence is the Risk Function, which is independent of the first line and is responsible for overseeing the application of the risk management framework and ensuring that the business operates within the risk appetite, limits and tolerances that have been set by the Board.

The third line of defence is the Internal Audit function, which provides independent assurance over the adequacy of the first- and second-line activities in relation to all aspects of the business, including the effectiveness of the risk management practices and internal controls.

Monitoring and reporting

Risk monitoring ensures that the selected risk management approach is working effectively, the key requirements of which include:

- Monitoring exposures on a regular basis, with the frequency depending upon the materiality of the risk.
- Monitoring key indicators as early triggers for action.
- Conducting stress tests, scenario analyses and trend analyses.
- Putting documented escalation processes in place.
- Agreeing corrective action plans with business areas where the risk monitoring outcomes demonstrate that the risk management approach is not operating as intended.

Risk reporting provides the Board, Executive and senior management with an accurate, timely and clear account of the current risk exposure and helps to highlight any risks to the achievement of business objectives.

The reporting requirements for each of the risk categories are set out in the individual frameworks, policies and standards. Such reporting includes:

- Regular reporting of key metrics and other measures for monitoring control effectiveness and risk exposures against appetite.
- Integrated stress and scenario testing and trend analysis.
- Escalation and reporting of policy breaches and significant control weaknesses.
- Near miss and loss events.
- Progress reporting on control remediation and action plans designed to bring risk exposures back within appetite.

5. Risk management continued...

Risk management processes

The risk management processes, described below, outline the key requirements for the way in which risk management is conducted across Atom.

Risk identification

The process seeks to identify the risks to which Atom is exposed across each of the material risk categories. The risk identification process requires in-depth knowledge of the Bank's strategic objectives, business objectives and operational processes and includes a detailed review of the risk factors that could impact Atom, with consideration given to the potential impact upon elements, such as the balance sheet, profit and loss, customers, employees, reputation, regulators, investors and other stakeholders.

A regular risk review cycle is integrated into the business planning process, new product development and project management process.

Risk measurement

Risk measurement quantifies the risks to the business and allows the selection of the appropriate means of managing the risk and enabling appropriate resources to be dedicated to the management of that risk.

Risk appetite

Atom's Board-approved risk appetite defines the type and level of risks that the Bank is prepared to take in pursuit of its business plan. The risk appetite is expressed in the form of a series of strategic objectives and risk appetite metrics, with a limit structure in place to ensure delivery against appetite.

Furthermore, the risk appetite considers the material risks to the Bank, with consideration given to the potential impact on elements such as the balance sheet, sustainability, customers, employees, reputation, regulators and stakeholders. Atom's appetite is set within a capacity for risk that includes boundaries surrounding regulatory minima for capital and liquidity, as well as critical conduct factors for Atom in terms of customer treatment.

Risk management

Risk management is the process of identifying an appropriate strategy to address the risk or issue in question, including acceptance, avoidance, transfer and mitigation.

Atom's risk governance structure, including committees and the three lines of defence, is responsible for ensuring the effectiveness of the chosen risk management approach. In the case of risk mitigation, risk owners and senior management will ensure that ongoing monitoring is in place to manage the risk effectively.

5. Risk management continued...

Risk Control Self-Assessment (RCSA)

The RCSA methodology is one of the key risk management processes used across Atom. All business areas are required to complete RCSA analyses, whereby senior management are expected to identify and assess the operational risks to which the business function is exposed. Management must demonstrably accept, avoid, transfer or mitigate each risk, and determine how each risk exposure should be monitored.

RCSA activity is supported by the second line of defence through the provision of tools, training and guidance.

Atom's key control population, as identified through the RCSA process, is subject to a regular testing and attestation process to ensure that there is a robust control environment in operation.

Key and Emerging Risk Register (K&ERR)

Atom's 'Key Risks' are current, emerged risks that have arisen across any of our risk categories and which have the potential to have a material impact on the Bank's financial position, reputation or on the sustainability of the business model, and which may form and crystallise within a year.

'Emerging risks' are those with potentially significant, but uncertain, outcomes, which may form and crystallise beyond a one-year horizon, and which could have a material impact on Atom's ability to achieve its long-term strategy.

The identification and monitoring of these risks is integral to the risk management framework. This informs business planning activities and ensures that strategies and activities are appropriately focussed on addressing these concerns.

Atom's K&ERR is reviewed bi-annually, with input from the Executive team, and is reported to the BRC. Once agreed, this population of risks forms the basis for regulatory, investor and market disclosures of key risks during the period. These risks are also used during the scenario analysis process to review the vulnerability of Atom to extreme but plausible threats, and they inform Atom's ICAAP and Internal Liquidity Adequacy Assessment Process (ILAAP) submissions.

For further information on the key and emerging risks at the year end, please refer to page 27 in the Annual Report.

Stress testing and scenario analysis

Atom recognises the importance of stress testing as a key risk management tool. The Bank's robust stress testing approach enables Atom to assess its risk appetite under expected and stressed operating conditions (including regulatory and in-house stress scenarios). Stress testing enables an informed understanding and appreciation of Atom's capacity and resilience to withstand shocks of varying severity. Additionally, stress testing is a key tool in assisting the business in strategic and capital planning and is critical in assessing the capital and liquidity requirements for the Bank's ICAAP and ILAAP.

Scenario analysis focuses on those events that are extreme but plausible. The objective of scenario analysis is to determine, through qualitative means (i.e. business experience, knowledge and judgement), the potential impact of low frequency, high impact events. The results of the scenario analysis are reported to the BRC and form a key input into determining whether the capital requirements that have been defined are sufficient and whether risk appetite has been set at the appropriate level. Scenario analyses based upon quantitative assessments are also conducted where there is a wealth of market data, such as the assessment of the Bank's Interest Rate Risk in the Banking Book (IRRBB).

5. Risk management continued...

Operational resilience and contingency planning

Atom has continued to develop its operational resilience framework during 2020. This augments the existing approaches to business continuity planning, IT disaster recovery, cyber security and crisis management planning, and aligns them with regulatory expectations regarding the identification of key business services and associated impact tolerances for disruption.

The Business Continuity Plan (BCP) is a critical element of Atom's infrastructure and affirms the Bank's commitment towards delivering a continued effective service to customers and employees.

The BCP covers the Bank's approach to preventing, containing and recovering from both disaster recovery events (relating to natural or human-induced disasters) and business continuity events (relating to any form of incident e.g. technological or other and of varying severity, which affects the ability of the Bank to operate the business normally).

The BCP addresses the following primary objectives:

- Prevention – minimising the probability of business interruptions by integrating BCP standards into all areas of operations. Prevention also manifests itself in several other Bank policies/ document, which places emphasis on system redundancy and security in relation to the Bank's IT infrastructure.
- Containment – minimising the impact of any business interruption by maintaining business as usual operations / activities.
- Recovery – ensuring the restoration of normal operations as swiftly as possible using an Incident Management Team.
- Effective communication – a key aspect of managing any incident is the proactive management of both internal and external communications.

The effective operation of Atom's BCP is supported by individual business area continuity plans, which are maintained and signed off by the relevant member of the ExCo.

The IT Disaster Recovery (ITDR) plan sets out Atom's approach for recovering critical technology platforms and telecommunications infrastructure where our aim is to ensure information system uptime, data integrity and availability following a disaster event.

Cybersecurity is the protection of internet-connected systems, including hardware, software and data, from cyberattacks. In order to maintain a successful cybersecurity approach, multiple layers of protection are spread across the hardware, networks, programs and data.

Atom has created a Crisis Management Framework (CMF) to aid in the resolution of high severity or cross-business events and crises which have the potential to disrupt the normal running of Atom and/or cause physical, financial and/or reputational damage to the Bank. The CMF is for use in any event or incident that disrupts or threatens operations and which cannot be effectively managed using business as usual processes, including events which may lead to full or partial invocation of the BCP and/or the ITDR plan.

5. Risk management continued...

Recovery and Resolution Planning

Atom maintains a Board-approved Recovery Plan and a separate Resolution Pack. The Recovery Plan identifies and calibrates indicators to detect stresses, assesses and documents the recovery options available to the Bank in the event of a severe stress situation and allows for these recovery options to be mobilised quickly and effectively if ever required.

The Resolution Pack provides the relevant regulatory bodies with the information and analysis on Atom's business to enable the authorities to ensure that an orderly resolution could be carried out should it become necessary.

Compliance and customer outcome testing

The Compliance Framework is used to provide assurance to the Board, the ExCo and senior management on the adequacy of policies, procedures, systems and controls to ensure compliance with Atom's obligations under the regulatory system.

A risk-based compliance monitoring plan is prepared on an annual basis, outlining both the thematic and on-going monitoring activity that will be undertaken in the following 12-month period. The compliance monitoring approach considers both quantitative and qualitative metrics to provide assurance over the delivery of fair customer outcomes, focussing activity on the following key areas: customer complaints, responsible lending, arrears and collection activity, mortgage intermediary practices, and financial promotions and marketing material.

The compliance monitoring plan is reviewed on a quarterly basis to ensure that it remains in line with business and regulatory requirements.

6. Capital adequacy risk

Capital adequacy risk is the risk that the Bank has insufficient capital resources to meet its capital requirements and to absorb unexpected losses if they were to occur. Causes of insolvency could include suffering a high level of defaults on loans already made by the Bank, having a large unexpected operational cost for the business, having lending origination rates that far exceed expectations or the inability to raise new equity to fund losses.

Capital is actively managed with regulatory ratios being a key factor in Atom's planning processes and stress analysis.

The principal committee at which the Bank's capital is scrutinised and managed is the ALCo. Both the Exco and the ERC review high level capital metrics, together with more details if there are any matters of concern. The Board and the BRC also receive high level metrics and commentary on capital adequacy risk.

Key capital adequacy risk mitigants

Capital is one of the key measures of the Bank and the Board sets capital risk appetite. In order to avoid breaching a regulatory capital measure, a Board Buffer of additional capital is imposed above the regulatory threshold. This Buffer is designed to, and may be, utilised in a controlled manner when required at the discretion of the Board.

Capital risk is particularly important for a growing bank to support lending and investment into new capabilities, as such Atom will require more capital from time to time. Atom is currently loss making and continues to work with existing and new equity investors to secure funding for future growth, execute the current strategy and move towards profitability.

Atom refreshes its ICAAP document on an annual basis, which includes a three-year forecast of the Bank's capital position. The ICAAP document is used to inform the Bank's future capital strategy and is submitted to the PRA following Board scrutiny and approval.

It assesses the Bank's Pillar 1 requirements using the Standardised/ Basic Indicator approaches and determines additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. The Bank also holds Pillar 2B capital based on wind-down costs and the regulatory defined capital conservation buffer and countercyclical buffer.

A series of severe but plausible stresses that might arise during the three-year horizon of the business plan is also run to assess the resilience of the capital position. The stress testing affects both capital resources and capital requirements as a consequence of changes in risk profile. Periodic shorter-term forecasts are also undertaken to understand and respond to variations in actual performance against plan.

Key capital adequacy risk metrics

Atom's key capital metric is the current and projected surplus of capital resources over capital requirements. The Leverage Ratio is also monitored, so as not to overstretch the extent of its balance sheet in comparison with its capital base.

Capital adequacy metrics are produced monthly to assess the current position compared to the latest forecast. A revised forecast is produced quarterly in business as usual and stressed conditions, showing the potential capital position in the event that further capital raises prove to be delayed or unsuccessful. The Bank maintains a Recovery Plan, which lists potential ways to increase available capital resources or to reduce the need for capital resources. The viability of these steps is assessed periodically to inform management and the Board of mitigating actions available to address capital adequacy risks.

6. Capital adequacy risk continued...

Table 5 – Movement in capital resources

The following table shows the movement in own funds during the year ending 31 March 2020.

	CET1 £'000	Tier 2 £'000	Total Own Funds £'000
As at 1 Apr 2019	**184,050**	**7,949**	**191,999**
Loss for the period	(63,945)	-	(63,945)
Fair value reserve (debt instrument)	(176)	-	(176)
Issue of new ordinary shares	49,728	-	49,728
Issue of shares under employee share schemes	2,192	-	2,192
Movement in intangible assets	(6,926)	-	(6,926)
Movement in prudential valuation adjustment	(80)	-	(80)
Amortisation of fees	-	15	15
Movement in IFRS 9 transitional provisions	3,802	-	3,802
As at 31 March 2020	**168,645**	**7,964**	**176,609**
Total RWA			**907,158**
CET1 ratio			**18.6%**
Total Capital Ratio			**19.5%**

During the year, Atom raised £49.7m (after issue costs) of ordinary share capital which was utilised by losses in the period and development of intangible assets.

6. Capital adequacy risk continued...

Table 6 – Movement in capital resources

The following table shows the movement in own funds during the year ending 31 March 2019.

	CET1 £'000	Tier 2 £'000	Total Own Funds £'000
As at 1 Apr 2018	**100,058**	**7,935**	**107,993**
Loss for the period	(79,857)	-	(79,857)
Fair value reserve (debt instrument)	88	-	88
Issue of new ordinary shares	152,543	-	152,543
Issue of shares under employee share schemes	4,959	-	4,959
Increase in treasury shares	482	-	482
Movement in intangible assets	4,389	-	4,389
Movement in prudential valuation adjustment	221	-	221
Amortisation of fees	-	14	14
Movement in IFRS 9 transitional provisions	1,167	-	1,167
As at 31 March 2019	**184,050**	**7,949**	**191,999**
Total RWA			**1,028,247**
CET1 ratio			**17.90%**
Total Capital Ratio			**18.70%**

Table 7 – Breakdown of the leverage ratio

	2020 £'000	2019 £'000
Tier 1 capital resources	**168,645**	**184,050**
Exposure measure		
Total balance sheet assets	2,705,431	2,772,299
Regulatory exposure value for derivatives	9,745	6,210
Securities financing transactions	-	1,811
Other off-balance sheet items	17,665	70,272
Other regulatory adjustments	64,895	(4,477)
Total leverage ratio exposure measure	**2,797,736**	**2,846,115**
Leverage ratio	**6.0%**	**6.5%**

Other regulatory adjustments include:

- Cash held in Elvet Mortgages 2018-1 of £98.3m. It is included in the Bank's exposure to account for the obligor and counterparty credit risk associated with the Z notes held; and
- Intangible assets deduction of £36.6m.

7. Liquidity and funding risk

One of the principal risks faced by Atom is liquidity risk. This is the risk that the Bank fails to meet its obligations as they fall due.

Funding risk represents the risk that the bank fails to raise the required levels of funding to meet its planned new lending or refinance its existing sources of funding at an acceptable cost. Funding risks typically stem from concentration of funding sources or from an overreliance upon any particular type or source of funding.

Key liquidity and funding risk mitigants

The Bank maintains liquidity resources and manages its balance sheet ratios within risk limits, in normal conditions, in order to have sufficient flexibility to react to stress scenarios. The liquidity resources include central bank reserves, high quality marketable debt securities, a variety of collateral pre-positioned at the Bank of England to access its facilities, retained AAA-rated RMBS securities and committed secured funding lines available for use against mortgage collateral.

Refinancing maturing funding sources is carefully planned and executed to prevent repayments turning into a liquidity stress. Funding concentration is mitigated through Atom's strategic development programmes, which are aimed at diversifying its funding capabilities across retail and wholesale markets.

Atom completes an assessment of its liquidity and funding risk profile and adequacy annually, which it summarises in its ILAAP statement. It reviews the Bank's liquidity risk profile and risks in its funding plan at reference date and throughout the three-year strategic plan. The ILAAP considers a series of severe, but plausible, stresses that might arise during the time horizon of the Bank's business plan and is approved by the Board. The PRA uses the Bank's ILAAP statement as part of its Liquidity SREP (L-SREP) reviews.

Atom operates a Funds Transfer Pricing (FTP) framework, which guides product managers in assessing the relative contribution of their products to the Bank's net interest margin, considering interest rates and the cost of liquidity.

The Bank maintains a Liquidity Contingency Plan (LCP) as part of its Recovery Plan to enable it to detect signs of liquidity or funding stresses early and enables it to react through a listing of considered actions available to avoid or remedy stressed circumstances.

Key liquidity and funding risk metrics

Atom uses a variety of measures to monitor liquidity and funding risk. These include ratios and net outflows, applied in a range of short and longer term stress scenarios covering: regulatory, industry standard and internally set metrics, specific to the Bank's risk profile. Risk appetite is expressed through setting limits and triggers on the key metrics, particularly on minimum liquidity resources required to survive a variety of stress tests in quantity and quality.

Atom's liquidity and funding position is monitored daily by Treasury, Risk and senior management. This activity covers both regulatory and internally monitored metrics. Should any exceptions or material unexpected changes occur, these are escalated and investigated. The Recovery Plan provides a formal framework to follow should a potential or actual stress scenario ensue. Frequently updated cash flow plans form an essential part of the monitoring environment, bringing the asset and liability product managers into the stakeholder group.

The primary formal governance forum to review liquidity and funding risks is the ALCo. The ERC reviews recommendations to change risk appetite, policy, metrics or stress test scenarios and the calibration of their severity. The ExCo reviews key business performance weekly, including key metrics, providing an opportunity to exercise management-level oversight more frequently than the formal monthly governance committees, should they be required. The BRC is the primary board level committee to oversee this risk category, as well as to review and approve the funding plan, and any of the changes that the ERC presents. The BRC also review the Recovery Plan, the Resolution Pack and Wind Down Plan for liquidity and funding scenarios, amongst others.

7. Liquidity and funding risk continued...

Table 8 – Liquidity coverage ratio

	2020 £'000	2019 £'000
Liquidity buffer	290,230	216,650
Net cash outflows	38,003	66,951
Liquidity coverage ratio	763.7%	323.6%

The Bank's LCR ratio is significantly higher than the minimum regulatory requirement. This positioned the Bank in a strong position as the impact of Covid-19 was emerging, and to ensure funding was in place to support a concentration of upcoming deposit maturities.

8. Pillar 1 capital requirements

8.1 Overview

The Pillar 1 requirements set out the rules used to determine the minimum capital requirement for credit, counterparty credit, CVA, market and operational risks.

The Bank uses the Basic Indicator Approach to calculate the capital requirement for operational risk, the Standardised Approach for credit risk, including for securitisation exposures, the mark-to-market method for counterparty credit risk and the standardised method for CVA risk. As the Bank now has three years of actual results, these have been used for determining the operational risk requirement rather than forecast figures used previously. This has resulted in a nil operational risk requirement due to losses.

Table 9 – Summary of Pillar 1 requirements by risk category

	RWAs		Capital Requirement	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Credit risk	872,639	1,000,236	69,811	80,019
Counterparty credit risk	3,052	3,105	244	248
Credit risk securitisation exposures	28,758	9,327	2,301	746
Total credit risk	**904,449**	**1,012,668**	**72,356**	**81,013**
Credit valuation adjustment	2,709	2,893	217	232
Operational risk	-	12,686	-	1,015
Total RWA	**907,158**	**1,028,247**	**72,573**	**82,260**

The fall in credit risk requirement was largely due to the derecognition of mortgages on sale to Elvet Mortgages 2019-1. As part of the transaction the bank purchased a portion of the senior notes issued by Elvet Mortgages 2019-1 which resulted in the increase in credit risk relating to securitisation exposures.

8. Pillar 1 capital requirements continued...

8.2 Credit risk

Credit risk is the current or prospective risk that a customer of the Bank defaults on their contractual obligations to Atom or fails to perform their obligations in a timely manner.

Atom currently provides mortgages to individuals and secured loans to businesses in order to generate a return through interest income. Lending creates credit risk as borrowers might fail to pay the interest or the capital due. This is usually caused by adverse changes in macro-economic factors or a change in an individual customer's behaviour and circumstances. As this is a material risk to the Bank, there is significant management focus on setting credit risk appetite and embedding appropriate risk mitigation.
See the Annual Report for further information on the management and mitigation of credit risk.

Credit risk exposures

The tables below show the total exposure value, RWAs and Pillar 1 requirement by exposure class at 31 March and the average exposure value for each exposure class over the period. The average exposure value is calculated using month end exposures for the 12 months to 31 March.

The "Secured on immovable property" category as at 31 March 2020 includes exposures in default of £3,858k and associated RWAs of £4,534k, representing 0.2% and 0.6% of the total loan book respectively. IFRS 9 provisions of £1,139k are held against these defaulted loans. There are no defaulted loans in any other exposure category.

In December 2018, the EBA published guidelines on the disclosure of non-performing and forborne exposures, to be applied from December 2019. Proportionality is embedded in the guidelines and therefore only three of the ten templates are applicable to Atom and these are presented in tables 12, 13 and 14 below. Note that definitions within those tables are subject to the FINREP regulations. Where exposure categories have no non-performing, forborne or defaulted exposures, those rows have been removed from the templates.

Table 10 – Year end and average exposures over the period split by exposure category at 31 March 2020

	Exposures before CCF and CRM		Exposures post CCF and CRM					
£'000s	On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWA	RWA Density	Capital Requirement	Average Exposure Value
Secured on immovable property	1,975,526	88,326	1,975,526	17,665	830,964	41.7%	66,477	2,293,197
Central governments and central banks	366,214	-	366,214	-	-	-	-	231,420
Multilateral development banks	16,609	-	16,609	-	-	-	-	16,652
Institutions	78,687	-	78,687	-	16,841	21.4%	1,347	67,410
Covered bonds	54,529	-	54,529	-	5,453	10.0%	436	55,471
Securitisation positions	224,902	-	224,902	-	28,758	12.8%	2,301	100,346
Collective investment undertakings	36,950	-	36,950	-	7,390	20.0%	591	4,492
Other	15,043	-	15,043	-	15,043	100.0%	1,203	14,550
Total	**2,768,460**	**88,326**	**2,768,460**	**17,665**	**904,449**		**72,355**	**2,783,538**

RWA density in tables 10 and 11 is RWA expressed as a percentage of Exposures post-CCF and CRM

8. Pillar 1 capital requirements continued...

Table 11 – Year end and average exposures over the period split by exposure category at 31 March 2019

£'000s	Exposures before CCF and CRM		Exposures post CCF and CRM					
	On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWA	RWA Density	Capital Requirement	Average Exposure Value
Secured on immovable property	2,394,517	140,545	2,394,517	70,272	978,175	39.7%	78,254	2,024,475
Central governments and central banks	245,385	-	245,385	-	-	-	-	472,477
Multilateral development banks	16,651	-	16,651	-	-	-	-	36,111
Institutions	36,548	-	36,548	-	9,190	25.1%	735	24,289
Covered bonds	51,622	-	51,622	-	5,162	10.0%	413	34,451
Securitisation positions	15,496	-	15,496	-	9,327	60.2%	746	22,054
Other	10,814	-	10,814	-	10,814	100.0%	865	25,143
Total	**2,771,033**	**140,545**	**2,771,033**	**70,272**	**1,012,668**		**81,013**	**2,639,000**

Table 12 – Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures					
		Non Performing forborne			Accumulated impairment	
	Performing Forborne		Of which: Defaulted	Of Which: Impaired	On performing forborne exposures	On non-performing forborne exposures
	£'000	£'000	£'000	£'000	£'000	£'000
Loans & Advances	-	1,379	1,379	1,379	-	(162)
Non-financial Corporations	-	512	512	512	-	(92)
Households	-	867	867	867	-	(70)
Total	**-**	**1,379**	**1,379**	**1,379**	**-**	**(162)**

8. Pillar 1 capital requirements continued...

Table 13 – Credit quality of performing & non-performing exposures by past due days

	Gross carrying amount/ nominal amount											
	Performing Exposures			Non-Performing Exposures								
		Not past due or past due <=30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past due or are past due <= 90 days	Past due >90 days <= 180 days	Past due >180 days < = 1 Year	Past due > 1 year <= 2 Years	Past due > 2 years <= 5 Years	Past Due > 5 years <= 7 years	Past due > 7 years	Of which: defaulted
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans & Advances	1,951,231	1,951,231	-	5,009	2,834	2,175	-	-	-	-	-	5,009
Other Financial Corporations	2,611	2,611	-	-	-	-	-	-	-	-	-	-
Non-financial Corporations	235,032	235,032	-	2,299	714	1,585	-	-	-	-	-	2,299
Of Which: SMEs	237,643	237,643	-	2,299	714	1,585	-	-	-	-	-	2,299
Households	1,713,588	1,713,588	-	2,710	2,120	590	-	-	-	-	-	2,710
Total	**1,951,231**	**1,951,231**	**-**	**5,009**	**2,834**	**2,175**	**-**	**-**	**-**	**-**	**-**	**5,009**

8. Pillar 1 capital requirements continued...

Table 14 – Performing and non-performing exposures and related provisions

	Gross carrying amount/ nominal amount						Accumulated impairment							Collateral and financial guarantees received	
	Performing Exposures			Non-performing exposures			Performing Exposures			Non-performing exposures			Accumulated partial write-off	On Performing Exposures	On Non-Performing Exposures
		Of Which: Stage 1	Of Which: Stage 2		Of Which: Stage 2	Of Which: Stage 3		Of Which: Stage 1	Of Which: Stage 2		Of Which: Stage 2	Of Which: Stage 3			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans and Advances	1,951,231	1,786,906	164,325	5,009	-	5,009	(5,538)	(1,890)	(3,648)	(1,139)	-	(1,139)	-	3,319,685	8,420
Other Financial Corporations	2,611	2,611	-	-	-	-	(14)	(14)	-	-	-	-	-	6,265	-
Non-Financial Corporations	235,032	181,649	53,383	2,299	-	2,299	(4,511)	(1,451)	(3,060)	(945)	-	(945)	-	485,060	4,897
Of Which: SMEs	237,643	184,260	53,383	2,299	-	2,299	(4,525)	(1,465)	(3,060)	(945)	-	(945)	-	491,325	4,897
Households	1,713,588	1,602,646	110,942	2,710	-	2,710	(1,013)	(425)	(588)	(194)	-	(194)	-	2,828,360	3,523
Off-balance sheet exposures	88,373	88,373	-	-	-	-	(307)	(307)	-	-	-	-	-	137,963	-
Non-Financial Corporations	39,730	39,730	-	-	-	-	(282)	(282)	-	-	-	-	-	76,884	-
Households	48,643	48,643	-	-	-	-	(25)	(25)	-	-	-	-	-	61,079	-
Total	**2,039,604**	**1,875,279**	**164,325**	**5,009**	**-**	**5,009**	**(5,845)**	**(2,197)**	**(3,648)**	**(1,139)**	**-**	**(1,139)**	**-**	**3,457,648**	**8,420**

8. Pillar 1 capital requirements continued...

Table 15 – Summary of contractual residual maturity of exposures at 31 March 2020

	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 5 years	Over 5 years	No defined maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans to individuals secured on immovable property	-	16,470	16,275	32,596	247,407	1,424,458	9,728	1,746,934
Loans to SME secured on immovable property	-	4,939	3,884	12,728	208,025	8,744	7,937	246,257
Secured on immovable property	**-**	**21,409**	**20,159**	**45,324**	**455,432**	**1,433,202**	**17,665**	**1,993,191**
Central governments and central banks	262,601	-	93,505	5,065	5,043	-	-	366,214
Multilateral development banks	-	-	-	10,100	6,509	-	-	16,609
Institutions	68,942	-	-	-	9,745	-	-	78,687
Covered bonds	-	6,004	-	-	48,525	-	-	54,529
Securitisation positions	-	-	-	-	-	224,902	-	224,902
Collective investment undertakings	36,950	-	-	-	-	-	-	36,950
Other	-	-	-	-	-	-	15,043	15,043
Total	**368,493**	**27,413**	**113,664**	**60,489**	**525,254**	**1,658,104**	**32,708**	**2,786,125**

At 31 March 2020, the residential mortgage pipeline stood at £48.6m (2019: £115.7m) and the BBSL mortgage pipeline was £39.7m (2019: £24.8m). The exposure value for commitments, such as Atom's residential and BBSL pipeline, are stated net of specific impairment and after the application of a 20% credit conversion factor. These commitments are included in the 'no defined maturity' category in the table above.

8. Pillar 1 capital requirements continued...

Table 16 – Summary of contractual residual maturity of exposures at 31 March 2019

	On demand	Not more than 3months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 5 years	Over 5 years	No defined maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans to individuals secured on immovable property	-	20,783	20,655	41,445	322,792	1,806,476	57,857	2,270,008
Loans to SME secured on immovable property	-	1,571	1,452	5,077	166,956	7,309	12,415	194,781
Secured on immovable property	**-**	**22,354**	**22,107**	**46,522**	**489,748**	**1,813,785**	**70,272**	**2,464,789**
Central governments and central banks	223,165	-	6,032	-	16,188	-	-	245,385
Multilateral development banks	-	-	-	-	16,651	-	-	16,651
Institutions	30,425	-	-	-	6,123	-	-	36,548
Covered bonds	-	-	-	-	51,622	-	-	51,622
Securitisation positions	-	-	-	1,146	6,968	7,382	-	15,496
Other	-	-	-	-	-	-	10,814	10,814
Total	**253,590**	**22,354**	**28,139**	**47,668**	**587,300**	**1,821,167**	**81,086**	**2,841,305**

8. Pillar 1 capital requirements continued...

Accounting provisions

Under the Standardised Approach the exposure value is stated net of specific credit risk adjustments. Specific credit risk adjustments are determined in accordance with IFRS 9 Financial Instruments which Atom early adopted during 2017. IFRS 9 requires recognition of expected credit losses based on unbiased forward-looking information and is applicable to all financial assets at amortised cost, debt financial assets at fair value through other comprehensive income and loan commitments. See the Annual Report for further information on the calculation of IFRS 9 credit provisions.

At 31 March 2020 provisions stood at £7.0m (2019: £1.4m). Please refer to note 11 of the Annual Report for further information on the IFRS 9 provisions, with the increase primarily relating to the risk posed by the Covid-19 pandemic.

Wholesale credit risk

Wholesale credit risk arises from the portfolio of High Quality Liquid Assets (HQLA) and other financial exposures which are managed by Atom's Treasury. Wholesale credit risk is defined as the risk that counterparties will fail to repay amounts owed or perform obligations when due. Atom has a low appetite for this form of risk and consequently exposures are restricted to high quality issuers and counterparties with a low risk of failure. Exposure and tenor limits are set accordingly. Treasury exposures and limits are focused mainly on the UK sovereign, UK institutions and UK RMBS issuers, with additional limits extended to a small number of highly rated banks in Europe and other developed economies. Exposures to UK RMBS issuers are covered separately under Section 8.3 due to disclosures rules, although they are managed as part of the Bank's wholesale credit risk framework.

Atom's Board has delegated its authority to the Credit Committee to approve individual counterparty credit limits within a Board-defined limit framework. These guidelines are based upon the tenor of exposure, whether or not the exposure is secured and crucially upon the creditworthiness of the counterparty.

The in-house creditworthiness assessments are conducted at the outset and typically reviewed annually. Counterparty credit limits are set in line with the Board-approved policy, which sets maximum limits relative to the Bank's capital base. The magnitude of such limits is set according to the Atom Risk Grade that has been determined for the specific counterparty or exposure type. The Atom Risk Grades take into account internal analysis of an obligor's risk profile, country of domicile, risk mitigation in exposures and other relevant factors.

Credit ratings, where available, are also used to derive risk weights for wholesale exposures. Atom uses ratings published by Fitch Ratings and Standard & Poor's, to determine risk weighted exposure amounts under the Standardised Approach. Atom maps the ratings to the appropriate credit quality step using the method prescribed by Commission Implementing Regulation (EU) 2016/1799 and then applies the resultant risk weight to the exposure value to calculate the RWA value.

8. Pillar 1 capital requirements continued...

Table 17 – Wholesale exposure values before credit risk mitigation by external credit ratings

	2020 AAA to A- £'000	2019 AAA to A- £'000
Central governments and central banks	366,214	245,385
Multilateral development banks	16,609	16,651
Institutions	78,687	36,548
Covered bonds	54,529	51,622
Securitisation positions[1]	224,902	15,496
Collective investment undertakings[1]	36,950	-
Total	**777,891**	**365,702**

[1] Reflects similar rating grades in the securitisation and money market fund ratings framework, typically indicated by a "sf" or "mf" suffix, respectively.

Credit risk exposures by geography and sector

The majority of Atom's credit exposures are UK exposures. The following tables summarise the geographic distribution of exposures by exposure class.

Table 18 – Exposure values before credit risk mitigation by geographic location at 31 March 2020

	UK £'000	Europe £'000	North America £'000	Total £'000
Secured on immovable property	1,993,191	-	-	1,993,191
Central governments and central banks	366,214	-	-	366,214
Multilateral development banks	-	6,509	10,100	16,609
Institutions	17,289	22,097	39,301	78,687
Covered bonds	54,529	-	-	54,529
Securitisation positions	224,902	-	-	224,902
Collective investment undertakings	-	36,950	-	36,950
Other	15,043	-	-	15,043
Total	**2,671,168**	**65,556**	**49,401**	**2,786,125**

8. Pillar 1 capital requirements continued...

At 31 March 2020 Atom had exposures to Multilateral Development Banks that were located outside the UK. These exposures are subject to a 0% risk weight. In addition, Atom held short term exposures with a several highly rated banks in and outside the UK, as well as with a money market fund based in the EU to diversify its exposures. These bank and money market fund exposures were subject to a risk weight of 20%.

Table 19 – Exposure values before credit risk mitigation by geographic location at 31 March 2019

	UK £'000	Europe £'000	North America £'000	Total £'000
Secured on immovable property	2,464,789	-	-	2,464,789
Central governments and central banks	245,385	-	-	245,385
Multilateral development banks	-	6,528	10,123	16,651
Institutions	10,064	10,927	15,557	36,548
Covered bonds	51,622	-	-	51,622
Securitisation positions	15,496	-	-	15,496
Other	10,814	-	-	10,814
Total	**2,798,170**	**17,455**	**25,680**	**2,841,305**

At 31 March 2019 Atom had exposures to Multilateral Development Banks that were located outside the UK. These exposures are subject to a 0% risk weight

8. Pillar 1 capital requirements continued...

Table 20 – Exposure values before credit risk mitigation by sector at 31 March 2020

	Individuals	Secured Lending to Corporate SMEs	Financial/ Sovereign	Other	Total
	£'000	£'000	£'000	£'000	£'000
Accommodation and food service activities	-	17,609	-	-	17,609
Construction	-	3,233	-	-	3,233
Education	-	2,396	-	-	2,396
Electricity, gas and water supply	-	-	-	-	-
Financial	-	2,791	777,891	-	780,682
Human health services and social work activities	-	17,355	-	-	17,355
Manufacturing	-	3,115	-	-	3,115
Mining and quarrying	-	210	-	-	210
Other	-	-	-	15,043	15,043
Residential lending to individuals	1,746,934	-	-	-	1,746,934
Real estate, professional services and support activities	-	176,928	-	-	176,928
Recreational, personal and community service activities	-	4,454	-	-	4,454
Transport, storage and communication	-	3,118	-	-	3,118
Wholesale and retail trade	-	15,048	-	-	15,048
Total	**1,746,934**	**246,257**	**777,891**	**15,043**	**2,786,125**

8. Pillar 1 capital requirements continued...

Table 21 – Exposure values before credit risk mitigation by sector at 31 March 2019

	Individuals £'000	Secured Lending to Corporate SMEs £'000	Financial/ Sovereign £'000	Other £'000	Total £'000
Accommodation and food service activities	-	14,404	-	-	14,404
Construction	-	4,448	-	-	4,448
Education	-	2,021	-	-	2,021
Electricity, gas and water supply	-	510	-	-	510
Financial	-	201	365,702	-	365,903
Human health services and social work activities	-	8,288	-	-	8,288
Manufacturing	-	2,201	-	-	2,201
Mining and quarrying	-	215	-	-	215
Other	-	4,311	-	10,814	15,125
Residential lending to individual	2,270,008	-	-	-	2,270,008
Real estate, professional services and support activities	-	139,130	-	-	139,130
Recreational, personal and community service activities	-	4,192	-	-	4,192
Transport and storage	-	3,433	-	-	3,433
Wholesale or retail trade	-	11,427	-	-	11,427
Total	**2,270,008**	**194,781**	**365,702**	**10,814**	**2,841,305**

8. Pillar 1 capital requirements continued...

8.3 Credit Risk - securitisation

Atom is a participant in the securitisation market, operating as an originator and an investor in third party securitisations.

The Bank has invested in several highly rated, marketable loan notes that it uses to manage overall liquidity requirements. These notes are backed by residential mortgage assets. The tables above show such exposures and RWAs under 'securitisation positions'.

As an originator Atom uses mortgage securitisation as a means of managing its balance sheet. Although primarily a funding tool, Atom will also use securitisations to generate capital efficiently when the opportunity arises.

Securitisation transactions typically involve the sale of a portfolio of mortgages to a structured entity. The structured entity is a purposely created company within a group of companies where the ultimate holding company of the group is unrelated to the originator and is usually held by a trust. This means the Bank does not legally own the structured entity. As the mortgage originator, the Bank does however receive fees for servicing the loans.

As an investor, Atom invests directly in third party asset backed securities as part of the efficient management of liquid assets.

Elvet 2018-1

During October 2018 Atom, as an originator, completed its first residential mortgage backed securitisation. £526m of securitised mortgage loans, originated by the Bank, were assigned at principal value to a bankruptcy remote structured entity called Elvet Mortgages 2018-1 plc (Elvet 18).

Elvet 18 funded the transfer through a £486m issuance of residential mortgage backed debt to third-party debt investors. As at March 2020, £334m was outstanding on the loan notes. The Bank provides credit support to Elvet 18 via retained notes and reserve funds, partially funded through: £15m in subordinated loans, and £61m of retained Z notes. The Bank also holds £71m in retained A notes. An IFRS 9 impairment provision of £0.2m was held against the underlying mortgages with £22.2m classified as stage 2 and 3.

The mortgages assigned to Elvet 18 do not qualify for derecognition and were not treated as a sale by the Bank, as the Bank remains exposed to the majority of the risks and rewards of the mortgages and associated credit risk. The securitised mortgages are retained on the Bank's balance sheet and, within this Report, are included in the 'secured by mortgages on immovable property'. Risk weights continue to be calculated in line with capital requirements applied to the underlying mortgage assets. The retained notes held by the Bank are offset against the deemed loan liability attributable to Elvet 18.

Elvet 18 utilises the services of two External Credit Assessment Institutions (ECAIs), Moody's and Fitch, to rate the securitisation transactions in issue. The ratings assigned assess the ability of the structure to allow for the timely payment of interest and the ultimate payment of principal of each of the rated notes.

8. Pillar 1 capital requirements continued...

Elvet 2019-1

During 2020 Atom, as an originator, transferred residential mortgage loans with a book value of £488m to a newly established unconsolidated structured entity, Elvet Mortgages 2019-1 plc (Elvet 19). The transaction resulted in full derecognition of the loans from Atom Bank's statement of financial position because all of the residual income associated with the mortgages has been transferred to the note holders. As significant risk transfer was achieved, the capital required on the underlying mortgage exposures was derecognised with the exception of the mandatory retained 5% (2020: £23m) share of mortgages. A loss on disposal of £9m was recorded in the statement of comprehensive income.

At year end Atom also held £200m of the A notes issued by Elvet 19. As an STS compliant note these are risk weighted at 10%.

Elvet 19 utilises the services of two ECAIs, Fitch and Standard & Poor's, to rate the securitisation transactions in issue. The ratings assigned assess the ability of the structure to allow for the timely payment of interest and the ultimate payment of principal of each of the rated notes.

Investment in third party RMBS

Atom held £1.8m in AAA rated third party RMBS.

Securitisation exposure risks

The primary risk exposure for mortgages securitised as part of Elvet 18 continues to be credit risk. The processes undertaken by the Bank to monitor changes in the credit risk of securitised mortgages are the same as mortgages not securitised in Elvet 18 as described in 8.2. A charge of £42k has been recognised in the income statement in respect of impairment provisions held against securitisation investment exposures and mortgages underlying the Elvet 18 transaction.

Both the notes in issue and the underlying asset pools are exposed to market risk in the form of interest rate risk. These risks are mitigated by entering into interest rate swap agreements as described in 9.6.

Liquidity risk arises where insufficient funds are received by the SPVs to service payments to the noteholders as they fall due. The Bank is under no obligation to support any losses that may be incurred by holders of the notes issued and does not intend to provide such support.

Note 22 in the Atom Annual Report provides more information on the securitisation programme.

8. Pillar 1 capital requirements continued...

8.4 Counterparty credit risk and CVA risk

Counterparty credit risk is the risk of losses caused by a counterparty to a transaction defaulting on its obligations during the life of that transaction. Atom is exposed to counterparty credit risk through its use of derivative contracts to manage interest rate and currency risk.

Atom's counterparty risk limits are part of the wholesale credit risk framework described on page 30.

Atom ensures that an enforceable ISDA agreement is in place before transacting with any swap counterparty. All agreements include a credit support annex (CSA) that ensures contracts with negative fair values can be offset against those with a positive fair value within the same netting set. Collateral arrangements are based on the net fair value of the swaps contained within each netting set and collateral is provided or received accordingly.

Wrong way risk can occur when exposure to a counterparty is adversely correlated with the credit quality of that counterparty or the collateral. As such, there is potential for the exposure to increase as the creditworthiness or the value of the collateral decreases. The Bank mitigates wrong way risk by ensuring that exposures on derivatives are managed via CSA agreements where applicable, are regularly re-margined and are collateralised with cash or high quality debt instruments not issued by the counterparty. Wrong way risk is considered immaterial by the Bank.

An exception is made to collateral requirements for the swap contract between the securitisation SPVs Atom uses and their counterparties: the swap counterparty is not required to post collateral provided its credit rating does not fall below a pre-determined level. The SPV does not need to provide collateral under any circumstances.

From October 2019, all new eligible derivative transactions that Atom enters into are cleared through a Qualifying Central Counterparty Clearing House (QCCP). At 31 March 2020, centrally cleared derivatives accounted for £743k of our net derivative exposure.

Atom's approach to collateral management is included in its policies and procedures. Atom accepts cash and UK government debt instruments as collateral with its CSAs with derivative counterparties. Atom assesses the need for collateral and pledges or receives variation margin daily depending on the value of the underlying contracts. Atom does not have a senior unsecured credit rating by an ECAI. As a result, there is no additional collateral requirement arising on a downgrade in its credit rating.

Derivative exposures are measured using the mark-to-market method. Under this approach, the exposure value of each contract is the sum of its replacement cost and the Potential Future Credit Exposure (PFCE). The PFCE is a regulatory add-on that is derived by applying a standardised multiple to the contract's notional value.

Table 22 – Derivative exposures

	2020 £'000	2019 £'000
Gross positive fair values of derivatives contracts	10,936	8,817
Negative fair values of derivative contracts available for netting	(8,231)	(8,817)
Net credit exposure before collateral	**2,705**	**0**
Collateral received	(2,423)	121
Net current exposure	**282**	**121**
Potential Future Credit Exposure	5,785	6,089
Net derivative exposure	**6,067**	**6,210**

Atom is also required to hold capital for CVA risk due to the Bank's exposure to bilateral derivatives. CVA risk represents the market value of counterparty credit risk inherent in derivative contracts. Table 9 shows RWAs and the Pillar 1 requirement for CVA risk.

8. Pillar 1 capital requirements continued...

8.5 Operational risk

Operational risk is the risk of loss, whether direct or indirect, to which Atom is exposed due to inadequate or failed internal processes or systems, human error or external events. Atom uses the Basic Indicator Approach to determine its Pillar 1 requirements for operational risk.

The Basic Indicator Approach uses an average of the last three years' operating income to determine the Pillar 1 requirement. The requirement is equal to 15% of the average operating income over the three-year period.

Table 9 shows RWAs and the Pillar 1 requirement for operational risk.

8.6 Market risk

Market risk is the risk that unfavourable market movements lead to a reduction in earnings or the Bank's economic value. Atom does not have a trading book. All derivative and foreign exchange contracts are conducted with the intent of hedging.

Since Atom does not operate a Trading Book, its only market risk exposures that are subject to Pillar 1 capital requirements arise from its foreign exchange (FX) exposures. Atom has limited appetite for FX risk, commensurate to only efficiently hedging its day-to-day business, including payments to suppliers in certain currencies. As this net open exposure is less than the de minimis level prescribed by the CRR, the Bank does not have a Pillar 1 requirement.

Atom's main source of market risk is interest rate risk. The Bank is exposed to a reduction in earnings or economic value through gap risk, basis risk and optionality risk.

Gap risk arises from mismatches between the repricing or maturity of assets, liabilities and off-balance sheet items.

Basis risk arises where the repricing of assets, liabilities and off-balance sheet items is linked to different reference rates, such as Bank of England base rate, SONIA or LIBOR.

Optionality risk captures pipeline risk and prepayment risk, where variations in business volumes or customer behaviours may cause future mismatches between assets, liabilities and off-balance sheet items, which are currently offsetting.

All sources of risks are assessed annually through the ICAAP for point in time exposure and looking forward over the ICAAP's stress testing horizon. The ICAAP informs the Bank's Pillar 2A add-on. The Bank's TCR includes an element for interest rate risk. In addition, upon the introduction of new products or initiatives, risks are assessed, measured and mitigated. Material sources of risks are measured daily. These are gap risk and basis risk.

Atom's assumptions in measuring interest rate risk exposure are limited to the time over which it manages earnings risk related to its equity capital. The Bank measures earnings risk to a fall in interest rates with and without the application of floors to customer deposits.

See note 10 of the Annual Report for further information on the management and mitigation of market risk, and an analysis of its interest rate sensitivity.

8. Pillar 1 capital requirements continued...

8.7 Climate change risk

Atom has established a governance framework to ensure that the risks associated with climate change are deliberated at senior levels within the business. The BRC set the Bank's overarching approach to managing climate change risk with periodic reports provided as part of the wider review of the business' risk profile. The Chief Customer Officer, supported by the Chief Risk Officer, has assumed responsibility for identifying, monitoring, managing and reporting the risks arising from climate change, with oversight provided by the ERC.

When evaluating business strategy the Bank considers the financial risks and impacts resulting from both the physical risk stemming from climate and weather related events and the ongoing risks from the transition to a low carbon economy driven by societal and regulatory changes. Extreme weather events are becoming more frequent and their impact on the economy is becoming more acute whilst changing customer expectations are having a significant impact on certain business sectors that are more sensitive to the effects of physical and transition risks.

These climate change risks manifest across multiple risk types such as credit, market, operational and conduct risk. For example, increased defaults may accrue due to the reduced profitability of certain industries and through higher unemployment levels whilst actual or increased potential for physical property damage may adversely affect both residential and commercial real estate prices thereby elevating levels of impairments and write-offs. In addition, the Bank's operational resilience may be impacted by damage to our own premises or via impacted travel links.

Atom are taking a pro-active approach to assessing the potential impacts of climate change risk on the business model. The financial risks posed by climate change are being integrated into the existing enterprise risk management framework, including risk appetite, policies and controls. Consequently, a list is maintained of industrial sectors that Atom will typically only lend to if the lending is actively part of a company's transition planning away from fossil carbon use. Geospatial modelling is being conducted to understand the potential impact of climate change on existing residential and commercial property portfolios and to inform future lending policy. Climate-related financial risks are being considered within sensitivity and stress testing analysis.

9. Remuneration

This section provides details of the remuneration of Atom's Material Risk Takers (MRT) together with an explanation of remuneration policies, practice and governance. MRTs are those individuals whose actions have a material impact on the Bank's risk profile, based on criteria set by the EBA. During the year there were a total of 39 MRTs.

Approach to remuneration

Our approach to remuneration should be taken in context with the broader Employee Value Proposition, which incorporates our entire approach to investing in people. Our remuneration elements cover:

- Basic Pay – the monies people receive each month that reflect the core skills and experience they bring to their role, in relationship to the market.
- Variable Performance Reward – to underpin a meritocracy where those that outperform will receive more and underperformers receive less. Variable reward is given as equity in the Company and is awarded through share options via the Annual Performance Share Scheme.
- Long-term Incentive Reward – to incentivise longer-term commitments from highly valuable Atom resources. Long-term incentive reward is given as equity in the Company and is awarded through share options via the Long-Term Incentive Plan.

Atom's overall principles for reward are:

- Respect people for their skills and experience; recognise and reward people for their commitment, performance and contribution on a balance of measures that ensure positive customer outcomes, risk management and customer experience;
- Be competitive in the marketplace;
- Offer a total reward approach, including intrinsic and extrinsic factors;
- Ensure consistency and equality of treatment;
- Recognise positive action and behaviour, and immediately identify and act against negative action and behaviour;
- Engage our people across the Employee Value Proposition using language, process and behaviours that exemplifies our values;
- Build pride in our brand, and a sense of ownership in its success; and
- Connect variable reward (bonuses) to future sustainability and avoid entirely the payment of cash sums.

9. Remuneration continued...

However, to make sure that we can effectively stick to these principles, we also need to have:

- Strong clear and open communication, ensuring effective feedback mechanisms both up and down the management structure.
- A robust performance process.
- A clear and effective controls framework.
- Monitoring and review of our policies and processes.
- Independent entry and exit interviews.
- Efficient reward management systems, including up-to-date external benchmarking.
- Comprehensive, accurate and timely management information.
- Access to the Board for all members of the team and an effective whistleblowing policy.

Methods of remuneration

Basic pay

We will regularly collect market data to compare pay for roles within Atom to that of comparative companies. This data will include Market Median and range information:

- Grade Band 1 and Grade Band 2– will be compared to National Financial Service and Tech pay scales;
- Grade Band 3 and Grade Band 4– will be compared to Regional Financial Service and Tech pay scales.

As Atom is a talent proposition, we would expect our people, who are performing to the levels required by the role, to be around the market median. However, in practice our highest performers could be in the first quartile and lowest performers lower than market median.

Variable pay – Annual Performance Share Scheme (APSS)

Atom has taken the decision to not award Variable pay – APSS for 2020. However, the information below sets out our usual approach to Variable Pay – APSS which is normally calculated based on performance.

This award is discretionary. Each employee has the ability to earn a performance related bonus every year. This is awarded through the Annual Performance Share Scheme (APSS) as equity in the Company. The overall performance of the business is assessed on an annual basis which in turn will determine the size of the performance share option allocation across the business. This is agreed by our Board each year.

The opportunity to earn performance share options varies by grade band:

- Grade Band 1– Up to 100% of basic salary
- Grade Band 2– Up to 50% of basic salary
- Grade Band 3– Up to 25% of basic salary
- Grade Band 4– Up to 10% of basic salary

9. Remuneration continued...

Prior to finalising an individual's performance for the year, recommendations by each Head of Department will be made in regard to the overall performance of the individual. The Remuneration and Nominations Committee will then approve the overall shape of the award, and specifically the Grade Band 1 allocation.

Underperformers will not receive a performance related award.

Long-term Incentive (LTI) Share Option Scheme

This award is discretionary. Heads of Department and Executives can nominate people from their teams each year for an LTI award. Awards vary by grade:

- Grade Band 1 – Up to 100% of basic salary
- Grade Band 2 – Up to 50% of basic salary

These awards are calculated based on the award date share price and can be exercised based on the price at the point of the award. 50% of these shares vest for three years, and 50% vest after five years. Recommendations of awards will be made to the Remuneration and Nominations Committee for approval.

Each year individual nominations from the Grade Band 1 and 2 population will be consolidated from across the Company, along with a brief rational for awarding them LTI options.

Remuneration decision making process

Remuneration and Nominations Committee is responsible for determining remuneration strategy and policy for the Chair, the Executive Directors and other employees who are deemed to be MRTs in accordance with the PRA Remuneration Code.

This includes approving the design of, and determining the performance targets for, any discretionary performance awards operated for the benefit of employees within the Committee's remit and approving the total annual payments under such plans. The Committee also oversees the Remuneration Policy throughout the Bank, with a specific focus on the risks posed by remuneration policies and practices.

Remuneration and Nominations Committee met three times during the year. The Committee members are:

- Bridget Rosewell (Chair)
- Patricia Jackson
- Laurel Powers-Freeling
- Cheryl Millington
- Gonzalo Romera

Only members of the Committee have the right to attend and vote at Committee meetings. However, other individuals (such as the CEO, Chief Operating Officer and Head of People Experience) may be invited to attend meetings when appropriate or necessary but are excluded from discussions relating to their own remuneration arrangements.

Due to the impact of Covid-19 the decision was made that variable incentive (APSS) would not be offered to any employee in 2020.
In addition, the ExCo and Board members agreed to a temporary pay reduction. These changes were agreed by Remuneration and Nominations Committee.

9. Remuneration continued...

Recruitment policies

Atom always aims to recruit the person who is most suited to the particular job. Recruitment will be solely based on the applicant's abilities and individual merit as measured against the criteria for the job. Qualifications, experience and skills will be assessed at the level that is relevant to the job. This applies to all roles. Job descriptions describe the duties, responsibilities and level of seniority associated with the post, while the person specification will describe the type of qualifications, training, knowledge, experience, skills, aptitudes and competencies required for effective performance of the job. Roles which fall within the Senior Manager or Certification Regime are highlighted at the point of advertisement and the subsequent recruitment activities, including the enhanced vetting and referencing processes, ensure that we appoint senior individuals who are competent, capable and understand their accountabilities as a senior manager in the Bank.

Atom is committed to applying its equal opportunities policy at all stages of recruitment, selection and throughout the employee lifecycle. Individuals in roles at all levels should be able to perform in their role without any regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origins, religion or belief, age, pregnancy or maternity leave or trade union membership. Senior managers are recruited on the same basis and will be advocates and role models of Atom's value of Respect of individuality.

Remuneration for Material Risk Takers

The table below details the remuneration for MRTs during the year. Fixed remuneration includes base salary, allowances, benefits and pension. Variable awards are all share options schemes and are subject to vesting conditions. As indicated above, there were no variable awards made during 2020 due to the impact of Covid-19.

Table 23 – Summary of remuneration

	Senior Management	MRT's	Total
Number of MRTs	**17**	**38**	**55**
Remuneration of MRTs	**£'000**	**£'000**	**£'000**
Fixed	3,468	4,347	7,815
Variable	-	-	-
Total	**3,468**	**4,347**	**7,815**

No joining or severance awards were made to MRTs during the year.

Appendix 1 – EBA own funds disclosure template

The following table shows the make-up of own funds of the Bank at 31 March 2020 in the format prescribed in Regulation (EU) 1423/2013. Any blank cells in the template have been removed from this disclosure.

	Common Equity Tier 1 (CET1) capital: instruments and reserves	
1	Capital instruments and related share premium	448,935
2	Retained earnings	(203,908)
3	Accumulated other comprehensive income (and other reserves)	19,421
6	**Common Equity Tier 1 before regulatory adjustments**	**264,448**
	Common Equity Tier 1 capital: regulatory adjustments	
7	Additional valuation adjustments	4,788
8	Intangible assets	(36,646)
25a	Losses for the current financial year	(63,945)
28	**Total regulatory adjustments to CET1**	**(95,803)**
29	Common equity tier 1 CET1 capital	168,645
45	Tier 1 (T1) capital	168,645
	Tier 2 (T2) capital and provisions	
46	Capital instruments and the related share premium accounts	7,964
51	**Tier 2 (T2) capital before regulatory adjustments**	**7,964**
58	**Tier 2 (T2) capital**	**7,964**
59	**Total capital (TC = T1 + T2)**	**176,609**
60	**Total risk weighted assets**	**907,158**
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	18.6%
62	Tier 1 (as a percentage of total risk exposure amount)	18.6%
63	Total capital (as a percentage of total risk exposure amount)	19.5%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation buffer and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7.0%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	0.0%
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	10.6%

Appendix 2 – Key features of capital instruments

The following table shows the key features of Atom's capital instruments in the format prescribed by Regulation (EU) 1423/2013.

1	Issuer	Atom Bank plc	Atom Bank plc	Atom Bank plc
2	Unique identifier	N/A	N/A	N/A
3	Governing law(s) of the instrument	English	English	English
	Regulatory treatment			
4	Transitional CRR rules	CET1	T2	T2
5	Post-transitional CRR rules	CET1	T2	T2
6	Eligible at solo/(sub-)consolidated/solo & sub consolidated	Solo	Solo	Solo
7	Instrument types (types to be specified by each jurisdiction)	Share capital	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£449m	£4m	£4m
9	Nominal amount of instrument	£0.000	£4m	£4m
9a	Issue price	Various	£4m	£4m
9b	Redemption price	N/A	£4m	£4m
10	Accounting classification	Equity	Subordinated debt	Subordinated debt
11	Original date of issuance	14 March 2014	22 August 2017	9 September 2017
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	N/A	22 August 2027	9 September 2027
14	Issuer call subject to prior supervisory approval	N/A	Yes	Yes
15	Option call date, contingent call dates and redemption amount	N/A	After 5 years, callable at Atom's discretion	After 5 years, callable at Atom's discretion
16	Subsequent call dates if applicable	N/A	N/A	N/A
	Coupons/Dividends			
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed
18	Coupon rate and any related index	N/A	10%	10%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify the instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify the issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down description of write-up mechanism	N/A	N/A	N/A
35	Position in hierarchy in subordination liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	All liabilities except the subordinated liabilities	All liabilities except the subordinated liabilities
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

Appendix 3 - Countercyclical capital buffer disclosures

The following tables disclose information relevant for the calculation of the countercyclical buffer at 31 March 2020 in accordance with Regulation (EU) 2015/1555.

As at 31 March 2020	General Credit Exposures		Trading Book Exposures		Securitisation Exposures		Own Funds Requirements					
	Exposure Value for Standardised Approach	Exposure Value for IRB "	Sum of long and short positions of trading book positions for the standardised approach	Value of trading book exposures for internal models	Exposure Value for Standardised Approach	Exposure Value for IRB	Of Which: General Credit Exposures	Of Which: Trading Book Exposures	Of Which: Securitisation Positions	Total	Own Funds Requirements weights	Countercyclical buffer rate
Breakdown by country:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
UK	2,099,713	-	-	-	224,902	-	68,707	-	2,301	71,008	100%	0%
Total	**2,099,713**	**-**	**-**	**-**	**224,902**	**-**	**68,707**	**-**	**2,301**	**71,008**	**100%**	**0%**

Amount of institution-specific countercyclical capital buffer

Total risk weighted assets	907,158
Institution's specific countercyclical buffer rate	0%
Institution's specific countercyclical buffer requirement	-

Appendix 4 – Analysis of the leverage ratio

The following tables disclose information on Atom's leverage ratio at 31 March 2020 in the format prescribed by Regulation (EU) 2016/200. Any blank cells have been removed from the disclosure.

LR Sum: Summary reconciliation of accounting assets and leverage ratio exposures

		£'000
1	Total assets per published financial statements	2,705,431
4	Adjustment for derivative financial instruments	9,745
6	Adjustments for off balance sheet items (conversion of credit equivalent amount for off-balance sheet items)	17,665
7	Other adjustments	64,895
8	Leverage ratio total exposure amount	2,797,736

LR Com: Leverage ratio common disclosure

		£'000
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,802,440
2	Asset amounts deducted in determining Tier 1 capital	(32,114)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**2,770,326**
	Derivative exposures	
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	3,960
5	Add-on amounts for PFE associated with all derivative transactions (mark-to-market method)	5,785
11	**Total derivatives exposure**	**9,745**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	88,326
18	Adjustments for conversion to credit equivalent amounts	(70,661)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**17,665**
	Capital and total exposure measure	
20	Tier 1 capital	168,645
21	Leverage ratio total exposure measure (sum of lines 3, 11, 19, EU-19a and EU-19b)	2,797,736
22	**Leverage ratio**	**6.03%**
	Choice on transitional arrangements and fiduciary items	
EU-23	Choice on transitional arrangements for the definition of capital	Transitional

Appendix 4 – Analysis of the leverage ratio continued...

LR Spl: Split-up of on-balance sheet exposures (excluding derivatives and SFTs)

		£'000
EU - 1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	2,770,326
EU - 2	Trading book exposures	-
EU - 3	Banking book exposures: of which	2,770,326
EU - 4	Covered Bonds	54,529
EU - 5	Exposures treated as sovereigns	382,823
EU - 6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
EU - 7	Institutions	68,942
EU - 8	Secured by mortgages on immovable property	1,971,669
EU - 9	Retail exposures	-
EU - 10	Corporates	-
EU - 11	Exposures in default	3,858
EU - 12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	288,505

LR Qua **Free format text boxes for disclosure on qualitative items**

1 **Description of the processes used to manage the risk of excessive leverage**

Leverage is actively managed, with the leverage ratio being a key factor in Atom's business planning processes and stress analysis.

The principal committee at which the Bank's leverage ratio is scrutinised and managed is the ALCO, which is a sub-committee of the ExCo. Both the ExCo and the ERC review high level capital metrics, together with more details if there are any matters of concern. The Board and the BRC also receive high level metrics and commentary on capital adequacy risk.

2 **Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers**

A fall in balance sheet assets following derecognition of mortgages transferred to Elvet 19 is primarily responsible for the fall in the leverage ratio during the period. The leverage exposure measure was £2,798m (2019: £2,845m). This has been partially offset by a reduction in Tier 1 capital resources from £184.0m to £168.6m. This resulted in a fall in the leverage ratio from 6.5% to 6.0%.

Appendix 5 – Encumbered assets

The following tables provide information on Atom's encumbered assets at 31 March 2020 in accordance with Regulation (EU) 2017/2295. Any blank cells in these templates have been removed from this disclosure.

A – Encumbered and unencumbered assets

		Carrying amount of encumbered assets £'000	Of which: notionally eligible EHQLA and HQLA £'000	Fair value of encumbered assets £'000	Of which: notionally eligible EHQLA and HQLA £'000	Carrying amount of unencumbered assets £'000	Of which: EHQLA and HQLA £'000	Fair value of unencumbered assets £'000	Of which: EHQLA and HQLA £'000
		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	941,446	913,658			1,881,529	1,545,523		
020	Loans on demand					211,719			
040	Debt securities	12,930	12,930	12,930	12,930	87,016	84,327	87,016	84,327
100	Loans and advances	900,728	900,728			1,530,540	1,461,196		
120	Other assets	27,788				52,254			

B - Collateral received

		Fair value of encumbered collateral received or own debt securities issued £'000	Of which: notionally eligible EHQLA and HQLA £'000	Fair value of collateral received or own debt securities issued available for encumbrance £'000	Of which: notionally eligible EHQLA and HQLA £'000
		010	030	040	060
130	Collateral received by the reporting institution				
240	Own debt securities issued other than own covered bonds or ABSs				
241	Own covered bonds and asset-backed securities issued and not yet pledged				
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	941,446	913,658		

Appendix 5 – Encumbered assets continued...

C - Encumbered assets/collateral received and associated liabilities

	Matching liabilities, contingent liabilities or securities lent £'000 010	Assets, collateral received, and own debt securities issued other than covered bonds and ABSs encumbered £'000 030
010 Carrying amount of selected financial liabilities	689,783	911,078
120 Other sources of encumbrance		14,690

D – Information on importance of encumbrance

Exposure values for encumbrance values are presented as median values of the four quarter-end positions over the 12 months to 31 March 2020.

Atom's assets are used to support collateral requirements for central bank operations, third-party repurchase agreements, swap transactions (initial and variation margin), securitisation and the Term Funding Scheme.

Appendix 6 – IFRS 9 transitional arrangements

The following table shows a comparison of capital resources, requirements and ratios with and without the application of transitional arrangements for IFRS 9. Only transitional arrangements arising from the implementation of IFRS 9 are considered in this template.

As at 31 March 2020

		£'000
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1) capital	168,645
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	163,676
3	Tier 1 capital	168,645
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	163,676
5	Total capital	176,609
6	Total capital as if IFRS 9 transitional arrangements had not been applied	171,640
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	907,158
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	902,951
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	18.6%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	18.1%
11	Tier 1 (as a percentage of risk exposure amount)	18.6%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	18.1%
13	Total capital (as a percentage of risk exposure amount)	19.5%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	19.0%
	Leverage ratio	
15	Leverage ratio total exposure measure	2,797,736
16	Leverage ratio	6.0%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	5.9%

Appendix 7 – Analysis of directorships

The following table shows the number of directorships held by Atom Board members at 31 March 2020. As per CRD IV rules, multiple directorships within the same group are treated as a single role and directorships with bodies that do not predominantly pursue commercial objectives are excluded.

	Number of directorships
Mark Mullen	1
David McCarthy	1
Patricia Jackson	4
Cheryl Millington	4
Laurel Powers-Freeling	3
Gonzalo Romera	1
David Roper	2
Bridget Rosewell	2
Ergun Ozen	1