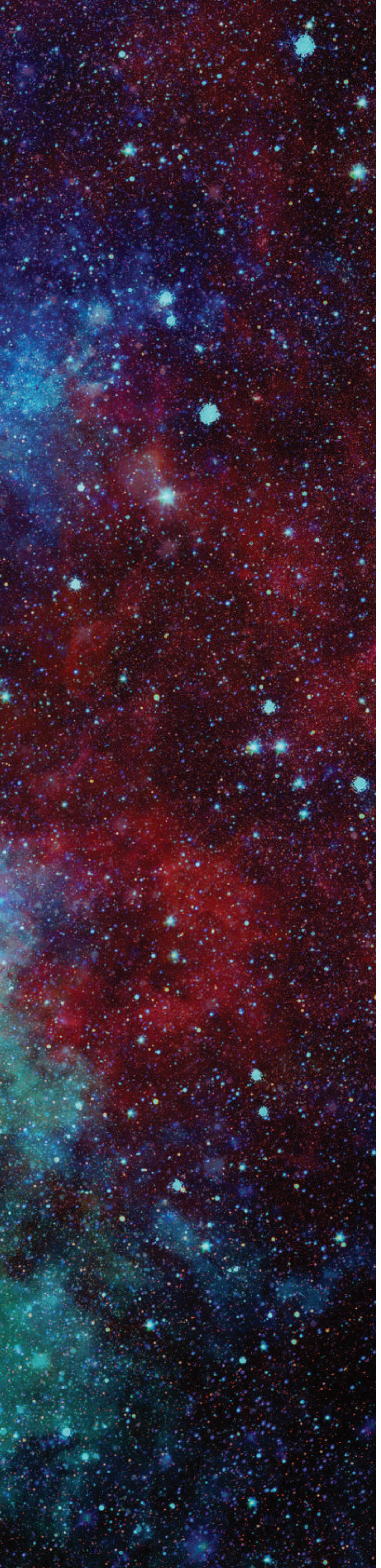
DIGITALISE-DISRUPT

ANNUAL REPORT 2017/18

Atom bank



Registered Office:
Atom bank plc
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

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 Annual Report are accurate and up-to-date but any reliance placed on this Annual Report is done entirely at the risk of the person placing such reliance.

The information contained in this Annual 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.

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References to "the year", "year end" and "2018" refers to the financial year from 1 April 2017 to 31 March 2018. References to "2017" refers to the financial year 1 April 2016 to 31 March 2017.

What's inside?

STRATEGIC REPORT

Who are we?

Hello, we're Atom bank. We're here to change banking and create a disruptive digital bank, keeping costs low and passing the value back to our customers.

Atom was founded in 2014 and launched in 2016 offering customers savings, business loans and residential mortgages. The Atom app is at the heart of the bank, with a 24/7 support team on hand to help with any queries by phone, chat, email and social media, from our home in the City of Durham.

Atom has grown quickly, taking our total retail deposits to £1.4bn, and loans to small businesses and homeowners to £1.2bn.

In the coming months and years, we will continue to expand our range of products and services to provide a genuine alternative to the established banks in the UK.

Atom by numbers

As at year end...

£1.4 billion
is the amount savers have deposited with Atom

34,000
new customers have joined the Atom family

5 stars
is our average customer rating on Trustpilot

£1.2 billion
is the amount we have loaned to small businesses and homeowners

16 seconds
is the fastest time a mortgage has been processed from application to offer

Year 1
of our partnership with the Prince's Trust to help develop STEM and digital literacy skills in the North East

10 minutes
is the average time it takes to open a savings account

310 employees
working from our Durham and London offices

Our Board of Directors

Bridget Rosewell
Chairman

Mark Mullen
Chief Executive Officer

Victoria del Castillo
Non-Executive Director

Patricia Jackson
Non-Executive Director

David McCarthy
Chief Finance Officer

Ergun Özen
Non-Executive Director

Laurel Powers-Freeling
Senior Non-Executive Director

Our Executive Management Team

Mark Mullen
Chief Executive Officer

David McCarthy
Chief Finance Officer

Rana Bhattacharya
Chief Technology Officer

Stewart Bromley
Chief Operating Officer

Maria Harris
Director of Intermediary Lending

Rachael McLauchlan
Chief Audit Executive

Chris Sparks
Chief Risk Officer

Edward Twiddy
Chief Innovation Officer
and Company Secretary

Lisa Wood
Chief Marketing Officer

Chairman's Statement

Bridget Rosewell

"We've made remarkable progress in the last year at Atom bank. As our new Chairman, I am delighted to lead the Atom team into the new financial year with bright prospects ahead. We will continue to digitalise, to disrupt and to invest in top-class innovation on our mission to reinvent banking."

I joined the Atom Board at the beginning of our journey in 2014. Back then it was little more than an idea – today it is a serious and fast-growing bank. Indeed, in the last year, Atom has grown at an extraordinary rate. Our challenge now is to keep it up and to broaden our offering.

Changes to the Board and Strategy Review

Anthony Thomson, our founding Chairman, stepped down in January this year. Our success under Anthony's chairmanship has been widely recognised, and on behalf of my colleagues, I would like to thank him and wish him well for the future. Our thanks also to Jon Hogan and to Teppo Paavola, both of whom have also stepped down to pursue new interests.

We welcome Victoria del Castillo as a new Non-Executive Director and will shortly appoint a new Independent Chair of the Audit Committee.

I believe the composition of experience and skills on the Board will continue to provide strong and effective governance and appropriate support for our Executive team.

These changes to the Board have been accompanied by a review and refresh of our strategy; 'Digitalise – Disrupt'. In response to this, we have decided to accelerate our investments in technology and enterprise capabilities, and to prioritise growth in market share. We believe that this renewed focus and increase in investment will help us create a more valuable proposition.

Since taking over the chairmanship of Atom, I have met with a great many of our shareholders, both large and small. In the months ahead, I will continue this engagement, listening carefully to what our owners want and expect of Atom.

Capital Raising

We announced our latest capital raise in March 2018. Led by BBVA, our largest shareholder, the raise has seen us add a further £153m in equity, bringing the total capital raised to date to almost £400m. BBVA has increased its holding to almost 40% and Toscafund have invested a further £54m, also increasing their stake in the Bank. This capital will enable us to grow our lending and to fund investment in technology and in our wider business strategy.

It's Bright Up North

Based in Durham, in the North East, we are determined to take full advantage of the skills and talent on our doorstep. We already work closely with Durham University, and have recently secured key projects with Newcastle University and Northumbria University's Computer Science departments and Business School. Through the Knowledge Transfer Partnership (KTP) initiative we have a number of innovative and collaborative projects in flight with these institutions, focussing on data analysis, blockchain and cryptography.

This year, we have hosted almost 40 MBA and undergraduate students from across Newcastle University's Business School, Durham University's Mathematics department and the CASS Business School in London. Alongside our work with the Prince's Trust and our well-established internship programme, these investments in training and education are critical to the future of our business, and highly beneficial to Science, Technology, Engineering and Mathematics (STEM) capabilities in our region.

The Gender Pay Gap

The beady-eyed among you will have noticed that I am a woman – one of the very few to chair a UK bank. Women are well-represented on Atom's Board and in the broader business leadership community. However, there is much to accomplish across our business to ensure that we achieve the right balance and fairness. For example, here at Atom the gender pay gap is 28.8%. While this is substantially lower than the banking industry average (39.9%) it's clearly not where Atom wants to be, so we are taking a number of steps to create better outcomes.

STEM and The Prince's Trust

During the year, we entered into a four-year partnership with The Prince's Trust to improve opportunities for grassroots education in STEM subjects in the North East. Banking and technology exist in a wider society where, quite simply, there are too few students choosing science and mathematics courses and within those, even fewer women. We see an urgent need to address systemic diversity issues and to find solutions through grassroots STEM education. We believe that developing an enthusiasm for STEM subjects in our schools removes a barrier for economic growth and equality, both here in the North East and further afield. We hope this will also begin to help address some of the wider industry diversity issues.

In his role as Strategic Board Advisor, Atom is also learning from will.i.am. His passion and experience in building successful STEM programmes in the US, epitomised by his i.am.angel foundation, provides a template of inspiration for our work here at Atom.

Looking Ahead

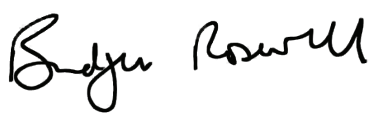
The financial services landscape is challenging, but it's also full of opportunity. We'll continue to embrace digital technologies such as blockchain and cloud computing, both as part of our existing investment plans, but also in developing thought leadership across the sector.

Regulatory changes continue to alter and shape our perspective. The post-credit-crisis reforms are now in their final stages of implementation and their long-term impact on the industry, and on individual firms, continues to play out. As a new and agile bank, we are well-positioned to succeed in this new regulatory environment.

In Conclusion

We believe that we have the right business model in place, and that we have proven that it is both scalable and resilient, for the long-term.

We have a strong and dedicated team working to ensure that Atom in turn, works for our many stakeholders. I am thrilled and honoured to take over as the new Chairman. I would like to thank my colleagues on the Board, our investors for their steadfast support and all of the Atom team, led by CEO Mark Mullen, for their hard work and endeavours over the past 12 months.



Bridget Rosewell, OBE
Chairman

Chief Executive's Review

Mark Mullen

"Our vision is clear and direct – Atom is here to reinvent banking. Our strategy is equally simple – to digitalise the banking model and disrupt a market that continues to be dominated by large banks to the detriment of customers".

We are set upon digitalising our entire business model, touching every part of our supply chain and of our customer proposition. We will leverage the resulting cost-efficient platform, to disrupt our competition by offering better value, together with faster and more innovative solutions for our customers.

We are committed to delivering:

- A centralised, automated, highly-scalable and cost-efficient business model.
- A strong lending business that develops into a range of transactional banking products and services.
- A focus on positive customer outcomes, underpinned by a culture of innovation and agility.
- A strong risk management and control ethos.

In these last 12 months, we have made excellent progress in delivering against these priorities.

Growth

We started the year with just under £100m in customer lending assets and we end it with over £1.2bn. In the same period, we increased our business headcount by just 29 FTE and have no plans to increase it significantly in the coming year.

Our growth was dominated by mortgages where our investment in automated processes has demonstrated our potential to disrupt this important market. We regularly process applications to offers in under 20 seconds, and are now working hard to make this exceptional service the norm. We have also extended high-quality secured loans of £106m to small businesses, and see opportunities to drive this business line much further in the year ahead.

Our lending was funded by strong growth in our UK deposits portfolio (£1.3bn on balance sheet) and we also added a European funding capability in partnership with Deposit Solutions.

Our lending has been of exceptional credit quality and moving forward, we will remain 'prime' focussed. We believe that over time we can achieve industry par in regard to both costs of funding and costs of capital, but that our rigorous focus on digitisation and our determination to automate every part of our proposition will create a significant and enduring operational cost advantage for Atom.

During the year we worked to reduce our cost of funds by making use of the Bank of England's Term Funding Scheme (TFS) facility and will continue to do so next year by extending our retail deposit proposition and through initiatives, such as our planned securitisation programme. We are also focussed on improving our capital efficiency and are making strong progress in developing our data and credit models to support Advanced Internal Ratings Based capital treatment.

Investing in Technology and Innovation

Technology and innovation remain central to our business model and our strategy. Although we are very pleased with the levels of automation we have already achieved, we will continue to focus on this important opportunity. For example, nearly all of our customer acceptance decisions for savers are fully automated. We are making strong progress in achieving a similar outcome for our mortgage applicants. In December of 2017, Atom was accepted as a member of the Faster Payments Scheme, the UK's real time payment service. We will continue to develop our payments solutions and infrastructure.

Financial Performance

We continue to be loss-making, but this reflects the investments we are making to establish our capabilities and bring to scale our brand and customer propositions.

We have used pricing promotions as an investment to build awareness among customers and brokers. While these investments result in negative revenue, they have allowed us to build a prime mortgage book and provided the collateral needed to access the lower cost of funds available from the TFS. In keeping with the prime nature of the portfolio, credit risk charges have been minimal.

Cost efficiency will be a key strategic differentiator for Atom. While operating costs were higher than the prior year, this was due to the full year effect of investments in people and infrastructure. As we continue to scale with marginal cost increases, we are targeting industry-leading cost efficiency.

During the year, £79m of equity capital was added to the balance sheet, and post year end, a further £153m of capital was received. Tier-2 capital of £8m was drawn-down in the year using a subordinated debt facility provided by the British Business Bank.

At the end of the financial year, our Common Equity Tier 1 (CET1) ratio stood at 18%, our total capital ratio was 19% and our leverage ratio was 5%. We consider these metrics to be appropriate and that Atom is adequately capitalised to fund our growth and investment plans in the coming financial year.

Caring for our Customers

Our long-term prospects are entirely dependent upon the quality of relationships we build with our customers. In this context, we are delighted that our customers have rated us as a five-star service provider on Trustpilot. Our overall Net Promoter Score is +75, making us one of the leaders in the banking sector, and our user ratings (tested continuously with Reevoo) consistently exceed 9 out of 10.

We have no tolerance for complacency or indifference. This year we will pay particular attention to improving our various App Store ratings, and we will continue to invest in our customer experience to secure a strong foundation for future growth.

Building our Team and our Community

We have continued to build our team, and our recruitment has focussed mainly on Technology. This will remain the case in 2018 as we acquire the skills and bandwidth required to build the full-service digital bank we aspire to be.

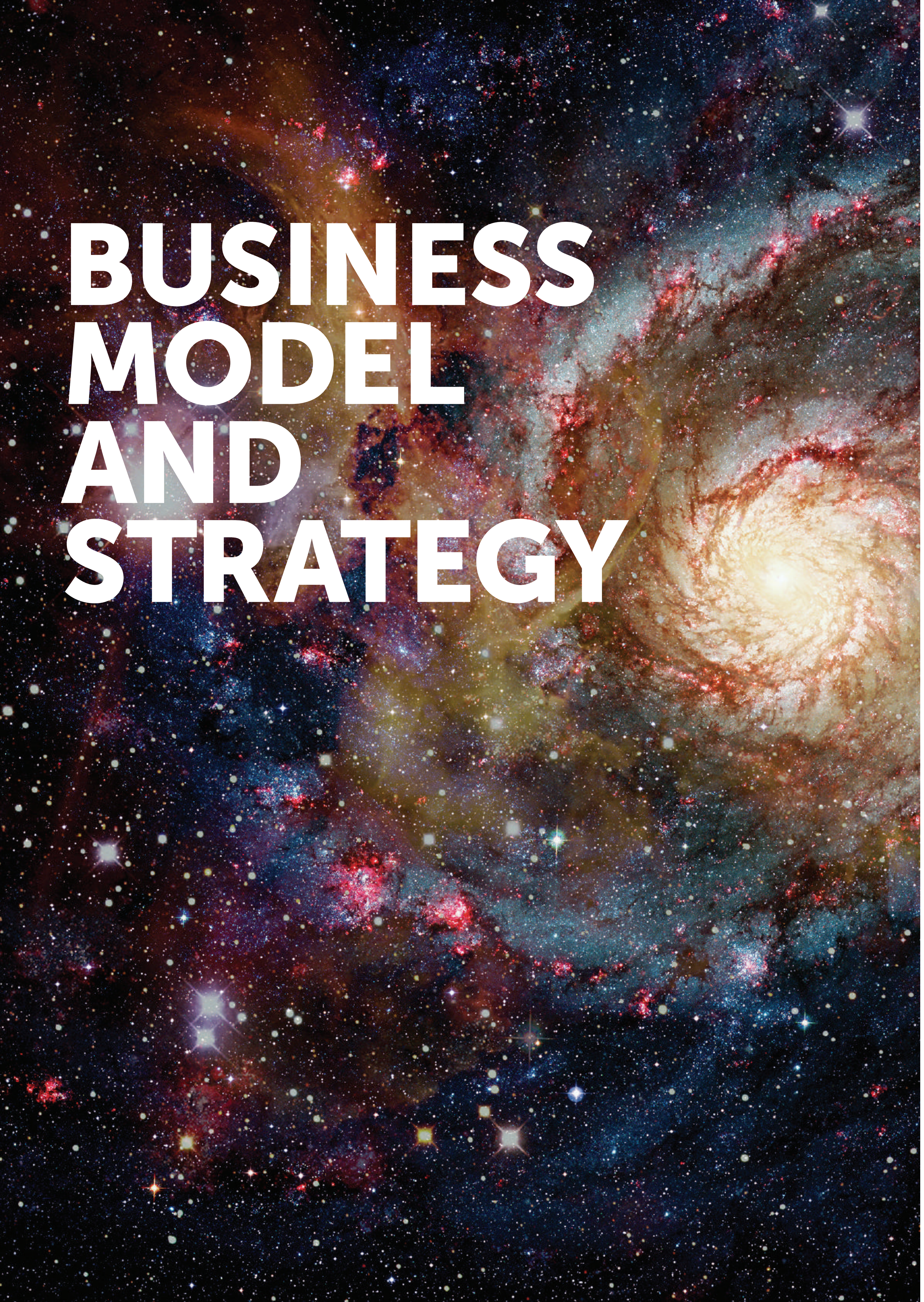
We continue to invest in the ongoing development of our people. We have delivered over 7,000 hours of training on technical and behavioural skills, coordinated by our in-house Learning & Development Team. We are also committed to delivering a strong and positive risk culture in Atom. Central to this culture is personal accountability. In recognition of this, we will continue to invest in communicating and embedding in support of the Senior Managers and Certification Regime (SMCR) throughout our organisation.

Thanks

I am grateful for the continued support of my fellow Board members and also for the dedication and energy of Atom's Executive Leadership team. Of course, we are nothing without the commitment of our customers and I am immensely thankful for the trust they have placed in Atom. Finally, I am proud of the Atom family. Their patience and hard work continue to provide me and my leadership team with the inspiration to continue our journey and fulfil our ambition.

Mark Mullen
Chief Executive Officer

BUSINESS MODEL AND STRATEGY



Business Model

The Atom business model is founded on investment in automated and highly-scalable technologies, combined with straightforward product and service design standards.

Our approach to providing financial services is very straightforward: we offer a range of transparent, competitively-priced deposit and lending products; deliver exceptional customer service through innovative technology; and provide a dedicated customer support team available 24 hours a day, 7 days a week from our Durham HQ.

We deploy the deposits from our savings customers to fund loans to small businesses and homeowners in the UK. These loans are distributed UK-wide by networks of intermediaries who offer whole-of-market advice to businesses and homebuyers. We receive income from these loans and pay interest to customers who have entrusted their deposits with us.

Our technology architecture and capabilities allow us to respond to changes in the external environment and enable us to offer competitively-priced products and a digital experience to which customers of many ages and life stages are attuned.

Strategic Priorities

1. Enhance our digital and 'open' capabilities

which allows Atom to...

2. Develop new products and revenue streams

which will...

3. Extend a market-leading customer experience

and...

4. Achieve market-leading operational and cost efficiency

which culminates in...

5. Attractive returns for investors

Atom was conceived to compete with the largest banks in the UK, by targeting the structural inefficiencies that have long characterised retail banking, and by concentrating resources on the development of an outstanding customer experience.

Consumer expectations of digital banking have been shaped by their everyday interactions with companies such as Netflix, Spotify and Amazon. Our vision is to reinvent banking and learn from industries well beyond the confines of the present banking monopoly. We intend to reimagine financial products and services from inception to delivery, mindful of contemporary technologies. The result will be a highly-scalable, cost-efficient platform designed to disrupt the incumbent retail players, offering faster, more innovative and ultimately better value banking services to our customers.

We resolutely believe in the value generation opportunities associated with the manufacture of financial products. Building and maintaining a high-quality balance sheet sits at the heart of our strategy and we continue to grow our business within our established risk appetite. Over the last twelve months we have proven the scalability and resilience of our technology stack and operating model, and are well-positioned to grow as a balance sheet lender, a deposit-taker and a transactional bank in the years ahead.

We don't intend to rest on our laurels. Over the next 18 months we will focus resources on reducing our cost of funding by launching new deposit products, broadening the range of our assets and improving the efficiency of our capital management. In parallel, we will continue to invest in our technologies to deliver an intelligent data infrastructure, efficient payments and enhanced manufacturing capabilities.

Our business performance

2018 was a hugely significant year for Atom as we continued our journey from a fintech start-up to a fully operational bank. Highlights include:

97% of customers say they would recommend us on Reevoo for savings and mortgages. We have an industry-leading NPS score of +75 and a 5-star Trustpilot score.

Atom continues to grow, develop and achieve at pace. Our achievements this year include:

- **Competitive rates** – We have continued to regularly offer interest rates at the top of the best buy tables.
- **App Store Ratings** – Apple and Android ratings of 2.7 and 2.8 respectively. We are working hard on app improvements to improve this score.
- **<20 seconds** – 68% of customer calls and 76% of app chats were answered within 20 seconds.
- **Growing panel of mortgage intermediaries** – 4008 intermediaries have been added to our panel so far.
- **LinkedIn's Top 25 Start-ups** – We have been ranked 14th in LinkedIn's Top 25 Start-ups in the UK.
- **Dynamites Awards 2017** – Outstanding Achievement award in the North East's IT and Technology sector.
- **KPMG's Fintech 100** – for the third year running we were recognised in KPMG's Fintech 100 which highlights the world's leading fintech innovators and ranked 8th.
- **Moneywise Mortgage Awards** – Innovator of the Year award.
- **Moneyfacts Awards** – Innovation in Personal Finance.
- **Credit Awards** – Mortgage Lender of the Year award.

During 2018 we've continued to deliver on our strategy and build a strong reputation for the Atom brand.

Award-winning Contact Centre
Our contact centre won five awards at the North East Contact Centre Awards 2017, including Contact Centre of the Year (under 50 seats).

Reevoo feedback
Customers have scored us 9/10 on Reevoo for savings and mortgages.

5* Rating
Customers have given us 5 stars on Trustpilot.

Financial Review

Profit & Loss

- Loss before tax for the year was £53m (2017: £42m). This was in line with our plans at the start of the year and reflects the investment in establishing and growing our residential mortgage and retail deposit propositions during the year.

- Net interest expense of £6m (2017: £1m) primarily reflects the difference between interest payable to retail deposit customers and interest received from residential mortgage and business customers. During the year we used pricing promotions on both lending and deposits as an investment in building awareness amongst both consumers and brokers. For example, our '5 year for 2 year' pricing offer for residential mortgages resulted in volumes over a 3 week period, that were the equivalent of >£10bn of applications on an annualised run rate basis.

  Whilst these investments resulted in negative revenue during the financial year, they have contributed to a prime, long-term mortgage book that has allowed us to access the Bank of England's Term Funding Scheme (TFS) and will also provide opportunities to access securitisation markets in the year ahead.

- Other income of £4m (2017: £0m), related to fair value gains and hedge ineffectiveness on the interest rate swaps used to hedge the fixed rate mortgage portfolio.

- Cost efficiency is a key strategic differentiator for Atom. Operating costs increased to £44m (2017: £37m), largely due to the full year effect of investments in people and infrastructure in the prior year, with staff costs increasing to £27m (2017: £19m).

- Despite the significant growth in volumes during the year, headcount increased modestly to 310 roles (2017: 281) and minimal growth is expected in the upcoming year.

Balance Sheet

Total assets grew to £2.0bn (2017: £649m) during the year as we continued to build and grow the Bank:

- In order to prove the scalability and origination capability of the Bank, loans and advances to customers increased to £1.2bn (2017: £99m). This was primarily due to hugely successful residential mortgage campaigns, with lending reaching £1.1bn (2017: £27m).

  Business Banking Secured Lending (BBSL) continued to grow steadily to £138m (2017: £33m).

- We have maintained prudent levels of liquidity to provide sufficient funds to cover our anticipated lending. At the year end, cash of £364m (2017: £420m) and debt instruments within our High Quality Liquid Asset portfolio of £322m (2017: £87m) provided a substantial buffer of liquidity that we intend to deploy in planned lending in the first part of the next financial year.

- These assets were primarily funded by an increase in customer deposits to £1.4bn (2017: £538m), which includes Sterling retail deposits of £1.3bn (2017: £538m). During the year we raised £137m of Euro deposits via a partnership with Deposit Solutions to offer retail deposits in Germany in order to diversify our funding options.

- Funding was further enhanced by drawing down £355m of TFS funding in the final quarter of 2018.

- We have also continued to invest in the IT infrastructure of the Bank with intangible assets growing to £34m (2017: £31m).

Capital

- During the year, £79m of equity capital was injected into the business

- Post year end, a further £153m of capital was received.

- £8m of Tier-2 capital was drawn down in the year from a facility agreed with the British Business Bank. A further £22m is available from this facility.

- Our Common Equity Tier 1 (CET1) ratio was 18%, our total capital ratio was 19% and our leverage ratio was 5%.

Raising capital and investing
We raised £79m of capital to support lending and investment in our technology.

Welcome home
We helped over 5,000 customers fund their homes with a £1bn increase in mortgage lending.

Supporting businesses
We continue to support small and medium businesses with £106m of lending during the year.

Saving savers
Our competitive rates have helped us attract an additional £765m of UK savers' money. We have also received £137m of deposits from German customers.

RISK AND GOVERNANCE

Material risks

Our business model and strategy create risks…

Building and running a bank is a complex challenge. As a result, the risks we face are carefully monitored and managed. The material risks our business model creates are as follows:

Strategic Activity	Related Material Risk
Running a growing bank in a competitive marketplace.	**Strategic risk.** The business could fail if management make poor strategic decisions, if decisions are poorly executed, or if the strategy does not effectively respond to changes in the external environment.
Building a strong-lending balance sheet.	**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.
Customer lending, deposits, and Treasury financial instruments legally commit Atom to exposures ultimately dependent on external market prices.	**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/liabilities.
A fully operational digital bank has a large number of complex processes.	**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.

Strategic Activity	Related Material Risk
Banking is a highly-regulated industry.	**Regulatory risk.** Failure to comply with regulatory or legislative requirements could result in financial loss and reputational damage. Furthermore, changes to regulatory rules could negatively impact Atom's strategy and business model.
In order to accept deposits and lend to customers, banks are required to hold minimum levels of high-quality capital.	**Capital 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.
Originating loans and accepting deposits means significant movement and transfer of cash.	**Liquidity risk.** Having insufficient cash could result in Atom failing to meet its obligations.
Retail financial products such as loans and deposits can have a significant impact on customers' lives and banks have a role to play in our wider society.	**Conduct risk.** Inappropriate behaviour by Atom in its relationship with customers, counterparties or markets can result in reputational and financial loss.

Strategic Activity	Related Material Risk
Liquid assets are placed with high-quality counterparties to manage liquidity requirements.	**Wholesale credit risk.** The risk that a wholesale counterparty defaults on its contractual obligations to Atom giving rise to financial losses.
Building a strong brand with customers, the regulator and counterparties.	**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.
Planning for the future using scenario analysis, together with financial, risk, statistical and economic models.	**Model risk.** The risk that Atom makes suboptimal decisions and/or suffers loss as a result of poorly-specified, incorrectly-implemented or inappropriately-applied models.

Key and emerging risks

As a rapidly growing business operating in an industry-facing structural change, successful delivery of our strategy requires regular monitoring of key and emerging risks.

The following chart summarises our current view of these risks together with an assessment of impact severity and time horizon:

Current 0-3 months

- Supplier risk
- Automation backlog
- Social media risk
- Key person risk
- Regulatory risk

Mid-Term 3-9 months

- Access to capital
- Operational resilience
- Cost management
- Economic/ geopolitical climate
- Programme governance
- Information security /Cyber crime

Horizon 9+ months

- Credit risk
- New product launch delay
- Financial crime/fraud
- Competition

Key

High impact
Significant impact on Atom's business plan delivery

Moderate impact
Moderate impact on Atom's business plan delivery

Low impact
Minor/no impact on Atom's business plan delivery

High-impact risks

Supplier risk. In order to minimise the cost of operations and building infrastructure, many of our key functions are outsourced to third-party contractors. If they fail to deliver in a timely and accurate manner, Atom's banking activities could be severely compromised. To mitigate this risk, we have a control framework for selection, contracting and management of outsourcing and other supplier arrangements. This includes appropriate monitoring and reporting, as well as business continuity and disaster recovery arrangements.

Regulatory risk. A number of important regulatory changes, including GDPR and PSD2, are currently being implemented. These require investment in terms of resource and technological development to ensure compliance. Horizon scanning suggests an ongoing stream of proposed regulation with potential to impact business activities and strategic planning. We are also mindful that Brexit may have a material impact on the regulatory environment, depending on the outcome of negotiations.

Access to capital. Our growth plans assume we raise additional capital. Unstable economic, or political conditions and negative investor sentiment may impact our ability to do so. Atom has a good track record of capital-raising activity and takes a proactive approach to ensure we have sufficient capital available.

Information security/Cyber crime. As a digital bank it is imperative that we have appropriate controls to protect customer data from loss or exploitation and in doing so avoid significant brand damage and customer detriment. As well as the due diligence, design and testing that contributes to building network and systems security, Atom operates perimeter controls to prevent and detect attempts to compromise systems.

Financial Crime/Fraud. Atom's current product offerings do not present a significant exposure to fraud or money laundering activities. However, any future 'transactional' accounts would introduce a greater potential threat. Atom will not be complacent in the context of a continually-evolving threat environment where the financial services industry is, and will remain, a target for increasingly sophisticated financial crime attacks. We will continue to review and develop our capability to manage the risk of financial crime.

Governance

We have created a strong team, organisational structure and culture to ensure the business is appropriately managing these risks...

Atom's Board of Directors is responsible for the overall governance of the Bank. Good corporate governance underpins the integrity of Atom and the wider community in which it operates. The success of the Bank is predicated on a framework of effective systems of internal control, risk management and compliance, in accordance with regulatory requirements.

Effective governance is achieved by a governance framework underpinned by structure, oversight responsibilities, talent, culture and infrastructure. The effective governance framework for Atom comprises the following:

- A Board comprising a mix of Executive and Non-Executive Directors with independent leadership.
- An Executive Committee reporting to the Board.
- Board committees for audit, risk and a combined remuneration and nominations committee.
- Executive business oversight committees.
- Senior Management apportionment of responsibilities.
- A 'Three Lines of Defence' operating model with independent reporting lines.
- Regular and transparent conversations with regulators.

Audit Committee

The primary role of the Board Audit Committee is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the systems of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations, and the code of conduct. This was chaired by Bridget Rosewell, until January 2018 and is now chaired by Patricia Jackson on an interim basis.

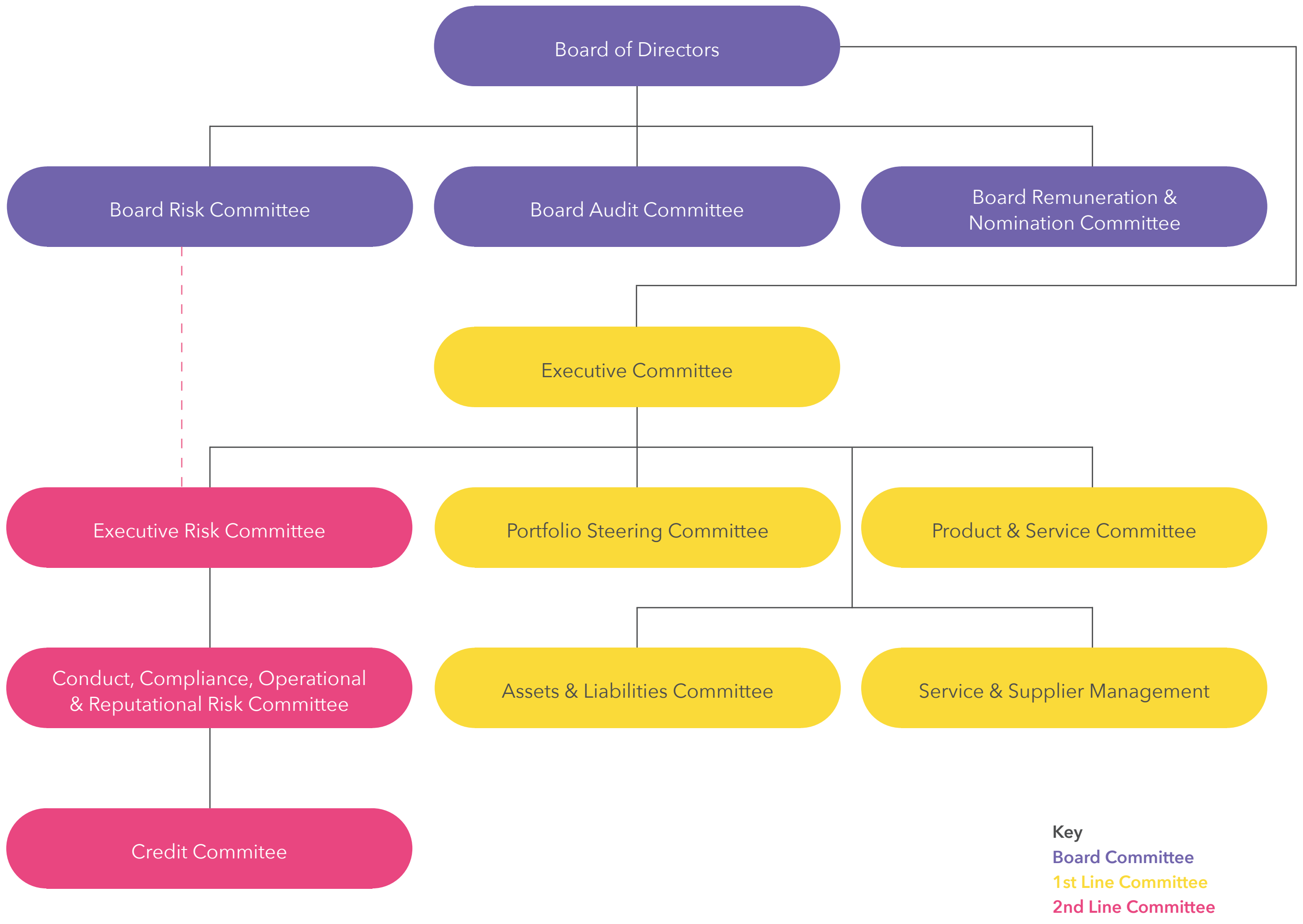
Risk Committee

The objective of the Board Risk Committee is to ensure the Bank's risk culture is appropriately designed, by anticipating changes in business, economic, political and social conditions. The Risk Committee is responsible for reviewing risk appetite and performance, and the effectiveness of the risk management framework. It is chaired by Patricia Jackson.

Remuneration and Nominations Committee

The Board Remuneration and Nominations Committee's core role is to lead to the appointments process for nominations to the Board, and to assist the Chairman in keeping the composition of the Board under review.

It will also approve the strategy for personal remuneration of the Board and senior management. It was chaired by Jonathan Hogan, up to his resignation on 24 January 2018 and is now chaired by Bridget Rosewell, with three further Non-Executive Directors appointed as members.



Risk management

Within this governance structure, we have a highly effective risk management framework and team…

Effective risk management is a core part of our strategy and is integral to Atom continuing to operate as an authorised and regulated institution. Our focus has been on implementing an effective risk management framework and strong risk management culture, with responsibilities clearly embedded throughout the business.

Risk management framework

Atom's Enterprise Risk Management Framework (ERMF) outlines Atom's approach to risk management, and how the key risk types are identified, assessed, managed, monitored and reported.

The ERMF is designed to ensure a holistic and consistent approach to the aggregation and management of all risks.

The ERMF has been established to:

- Articulate Atom's risk strategy
- Define standards for the consistent identification, measurement, management, monitoring and reporting of risk exposures
- Define the categories of risk to which the Bank is exposed
- Provide an overview of Atom's key risk management frameworks and processes
- Define the "Three Lines of Defence model"
- Outline the approach taken in respect of setting and defining risk appetite and associated tolerances
- Identify the governance committees that will provide oversight and challenge to the risk management process

Risk governance and oversight

Atom's risk governance is the architecture within which risks are identified, assessed, managed, monitored and reported. The Board is ultimately responsible for ensuring that the risk management framework, and risk governance structure is applied in practice, and operates robustly.

The Board Risk Committee is the primary committee to receive and review risk-related information. Effective risk management at Atom is supported by a 'Three Lines of Defence' model:

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

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

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

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 risk 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 well 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.

For more information about risk governance management and exposures, please read our Pillar 3 report, which is available at atombank.co.uk.

Our people

In common with all businesses, digital or analogue, Atom is entirely the product of human endeavour. Our people, their treatment, commitment and engagement, shape and define every outcome in our business.

Establishing a Strong Team

In the last 12 months, the Atom team has grown from 281 to 310 employees. We've built a strong and committed team, who are passionate about our customers and committed to driving much-needed change in the banking industry.

We're proud of our North East roots and continue to draw on the skills, experience and expertise throughout our region. We aim to build a pipeline of talent by reaching out to our communities and ensuring we offer high-quality and sustainable employment and career development.

Investing in Skills and Capabilities

As we expand the scope of our technology, we are also investing in skills development. In the last year, we've sponsored four team members through their apprenticeships in Project Management, Human Resources and Management & Leadership. We expect this number to grow in the coming year with apprenticeships in Finance, Operations and Technology.

As well as sponsoring members of our team through their technical professional qualifications, we also facilitate our team's personal development through our 'All About Me' fund.

Continued Professional Development (CPD) throughout our business is imperative, and those in Senior Manager and Certification Regime roles understand the importance of the roles they hold, as well as the importance of maintaining their continued professional standards and development.

Committing to Gender Diversity

We see an urgent need to address systemic diversity issues in the financial services and technology industries. On average, women at Atom are paid almost 30% less than men. This is ahead of the banking industry (39.9%), but still not where we want to be. It is a significant challenge to Atom, given our focus on technology, but one we are committed to meeting.

We are confident we have equal pay across our roles, and will continue to benchmark salaries against the market to ensure this remains the case. However, we won't stop there. Led by Bridget Rosewell as Chairman, today our Board is 57% female. We became one of the first signatories of the Tech Talent Charter to support diversity in the technology sector and we continued to collaborate with the Women in Finance Charter to increase diversity across the finance sector.

You can read our full gender pay gap report at atombank.co.uk/careers

Our values

Our values are integral to everything we do. They are an important part of our recruitment process, frame our approach to personal development and performance management; encourage our teams; and are an integral part of our broader employee value proposition.

Respectful

- We care. We take ownership. We stand by our commitments and will see them through.
- We act responsibly within our communities and for our environment.

Pioneering

- We are committed to transforming our industry for the better.
- We have freedom to explore and invent.

Sharing

- We seek out partnerships with our customers, our people and our suppliers.
- We are a united team.
- We collaborate internally and externally.

Courageous

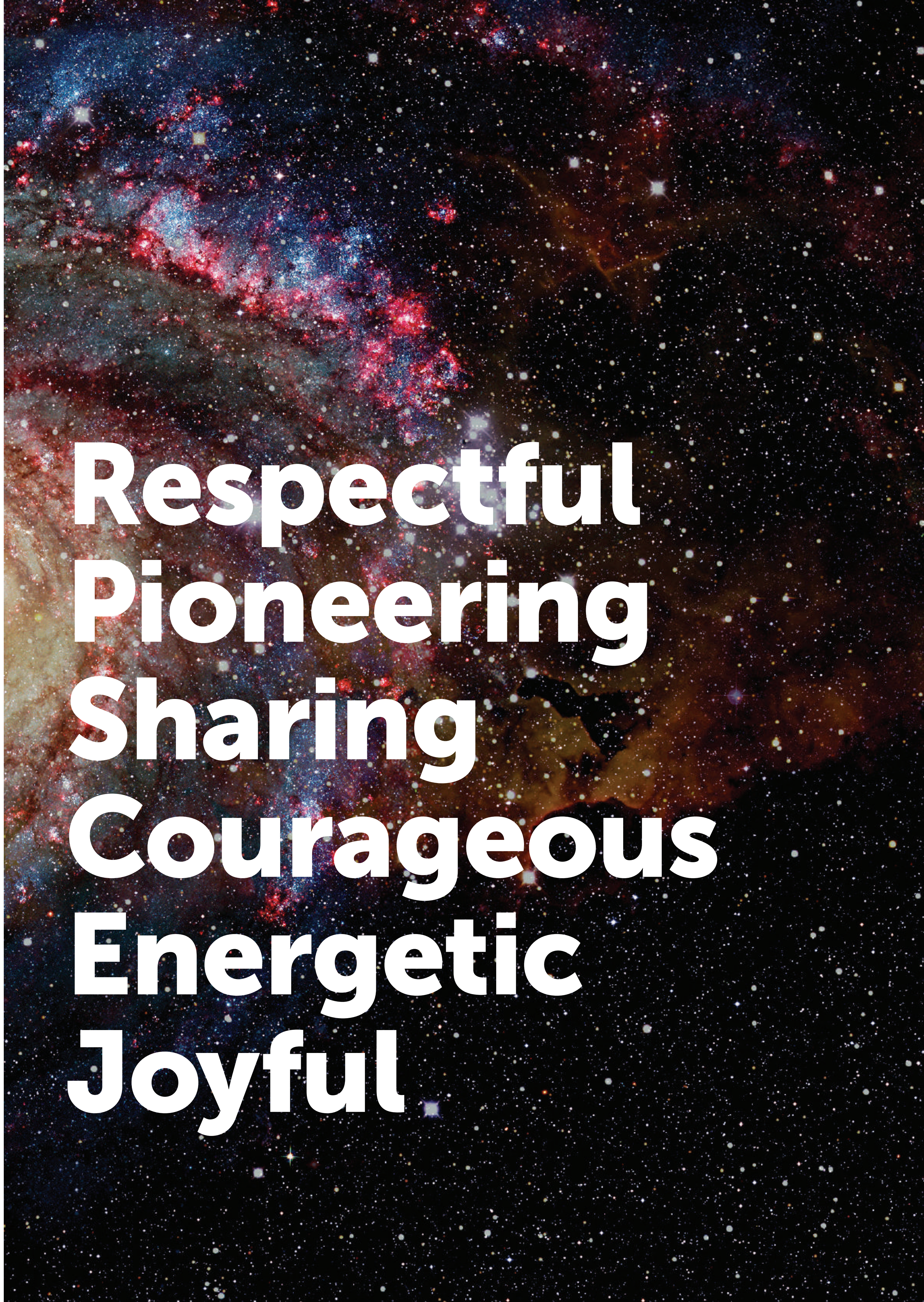
- We are authentic. We have integrity.
- We stand up for what is right and take the initiative.

Energetic

- We set the pace, one that anticipates and pre-empts.
- We are here for the long-term, but live in the moment.

Joyful

- We believe passionately in what we are doing. We have pride in who we are.
- Banking can, and will, be fun.
- We enjoy every day like it is our first.



DIRECTORS' REPORT

Directors' report

Mark Mullen

The Directors present their report and audited financial statements for the year ended 31 March 2018.

Atom bank plc is a public limited company, incorporated and domiciled in England and Wales, having its registered office in England and is authorised by the PRA and is regulated by the FCA and PRA.

Information regarding a review of the business, performance and risk management is disclosed in the Strategic Report.

Results

The statements of comprehensive income and the statements of financial position can be found on page 42 and 43 respectively. The directors do not declare a dividend.

Directors

The following people served as directors during the year and up to the date of approval of the report and financial statements:

- Victoria del Castillo (appointed 18 June 2018)
- Jonathan Hogan (resigned 24 January 2018)
- Patricia Jackson
- David McCarthy
- Mark Mullen
- Ergun Özen
- Teppo Paavola (resigned 1 June 2018)
- Laurel Powers-Freeling
- Bridget Rosewell
- Anthony Thomson (Chairman – resigned 24 January 2018)

Statement of disclosure of information to auditors

Each person who was a director when this report was approved confirms that:

- So far as he/she is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- He/she has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information, and to establish that the Bank's auditor is aware of that information.

This confirmation is given, and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be considered at the forthcoming Annual General Meeting.

Indemnity insurance

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during 2018 and at the date of approval of the financial statements, as the Company maintains Directors' & Officers' Liability Insurance, which gives appropriate cover for legal action brought against its Directors.

The Strategic Report and Directors' report were approved by the Board and signed on its behalf by

Mark Mullen
Chief Executive Officer
11 July 2018

Directors' responsibilities statement

Edward Twiddy

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Bank and Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law, the Directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Bank and Group, and of the profit or loss of the Bank and Group for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable IFRSs, as adopted by the European Union, have been followed for the Bank and Group financial statements, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume the Bank and Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's and Group's transactions, and disclose with reasonable accuracy at any time the financial position of the Bank and Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Bank and Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Approved by the Board and signed by order of the Board:

Edward Twiddy
Company Secretary
11 July 2018

Contents

Statements of comprehensive income

Year ended 31 March 2018

	Notes	Group and Bank 2018 £'000	Group and Bank 2017 £'000
For the year ended 31 March			
Interest income	2	13,738	725
Interest expense	2	(19,367)	(1,601)
Net interest expense		(5,629)	(876)
Fee and commission income		1,384	383
Fee and commission expense		(1,648)	(539)
Net fee and commission expense		(264)	(156)
Other income	3	3,573	2
Total expense		**(2,320)**	**(1,030)**
Credit impairment charges and other provisions	4	(256)	(305)
Net operating expense		**(2,576)**	**(1,335)**
Staff costs	5	(26,707)	(19,321)
Administrative and general expenses	7	(17,680)	(18,139)
Operating costs		**(44,387)**	**(37,460)**
Operating loss		**(46,963)**	**(38,795)**
Amortisation and depreciation	8	(5,717)	(3,417)
Loss before taxation		**(52,680)**	**(42,212)**
Taxation	9	-	43
Loss after taxation		**(52,680)**	**(42,169)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)			
- Net (loss)/gain in fair value		(766)	317
- Net amount transferred to profit or loss		95	9
Other comprehensive (expense)/income, net of tax		**(671)**	**326**
Total comprehensive expense attributable to equity holders of the parent		**(53,351)**	**(41,843)**

The result for the year is derived entirely from continuing activities.

The Group represents the consolidated results of the Bank, the Atom Employee Benefit Trust and Atom EBT Limited.

Statements of financial position

As at 31 March 2018

	Notes	Group 2018 £'000	Bank 2018 £'000	Group 2017 £'000	Bank 2017 £'000
As at 31 March					
Assets					
Cash and balances at central banks	18	364,309	364,309	419,765	419,765
Derivatives held for hedging purposes	25	8,008	8,008	-	-
Debt instruments at fair value through other comprehensive income	18	322,361	322,361	87,249	87,249
Loans and advances to customers	11	1,219,356	1,219,356	99,209	99,209
Other assets	34	8,168	8,649	11,346	11,482
Property, plant and equipment	33	539	539	722	722
Intangible assets	32	34,109	34,109	30,546	30,546
Total assets		**1,956,850**	**1,957,331**	**648,837**	**648,973**
Liabilities					
Customer deposits	20	1,439,793	1,439,793	538,060	538,060
Deposits from banks	21	355,215	355,215	-	-
Derivatives held for hedging purposes	25	-	-	124	124
Subordinated liabilities	21	8,134	8,134	-	-
Provisions	11	64	64	132	132
Other liabilities	35	19,154	19,154	6,575	6,575
Total liabilities		**1,822,360**	**1,822,360**	**544,891**	**544,891**
Equity					
Share capital and share premium	29	246,664	246,664	167,318	167,318
Other reserves	30	11,877	12,358	7,999	8,135
Retained earnings		(124,051)	(124,051)	(71,371)	(71,371)
Total equity		**134,490**	**134,971**	**103,946**	**104,082**
Total liabilities and equity		**1,956,850**	**1,957,331**	**648,837**	**648,973**

The notes and information on pages 46 to 113 form part of these financial statements. Unless explicitly stated, notes are for both the Group and Bank. The financial statements from pages 42 to 113 were approved by the Board of Directors on 11 July 2018 and signed on its behalf by:

Mark Mullen
Chief Executive Officer
11 July 2018

David McCarthy
Chief Financial Officer
11 July 2018

Statements of Changes in Equity

Year ended 31 March 2018

	Share capital and share premium £'000	Fair value reserve £'000	Share based payment reserve £'000	Other reserves and treasury shares £'000	Retained earnings £'000	Total £'000
Bank balance as at 1 April 2017	**167,318**	**326**	**7,809**	**-**	**(71,371)**	**104,082**
Purchase of treasury shares	-	-	-	(136)	-	(136)
Group balance as at 1 April 2017	**167,318**	**326**	**7,809**	**(136)**	**(71,371)**	**103,946**
Loss for the year	-	-	-	-	(52,680)	(52,680)
Fair value reserve (debt instruments), net of tax						
- Net loss in fair value	-	(766)	-	-	-	(766)
- Net amount transferred to profit or loss	-	95	-	-	-	96
Total comprehensive expense	**-**	**(671)**	**-**	**-**	**(52,680)**	**(53,351)**
Issue of new ordinary shares, net of transactions costs	79,346	-	-	-	-	79,346
Employee share schemes – value of employee services	-	-	4,894	-	-	4,894
Purchase of treasury shares	-	-	-	(345)	-	(345)
Group balance as at 31 March 2018	**246,664**	**(345)**	**12,703**	**(481)**	**(124,051)**	**134,490**
Consolidation of Employee Benefit Trust	-	-	-	481	-	**481**
Bank balance as at 31 March 2018	**246,664**	**(345)**	**12,703**	**-**	**(124,051)**	**134,971**
Group and Bank balance as at 1 April 2016	**54,997**	**-**	**3,501**	**-**	**(29,202)**	**29,296**
Loss for the year	-	-	-	-	(42,169)	(42,169)
Fair value reserve (debt instruments), net of tax						
- Net gain in fair value	-	317	-	-	-	317
- Net amount transferred to profit or loss	-	9	-	-	-	9
Total comprehensive income/(expense)	-	**326**	-	-	**(42,169)**	**(41,843)**
Issue of new ordinary shares, net of transactions costs	112,321	-	-	-	-	112,321
Employee share schemes – value of employee services	-	-	4,308	-	-	4,308
Bank balance as at 31 March 2017	**167,318**	**326**	**7,809**	**-**	**(71,371)**	**104,082**
Purchase of treasury shares	-	-	-	(136)	-	(136)
Group balance as at 31 March 2017	**167,318**	**326**	**7,809**	**(136)**	**(71,371)**	**103,946**

Cash flow statements

Year ended 31 March 2018

	Group 2018 £'000	Bank 2018 £'000	Group 2017 £'000	Bank 2017 £'000
For the year ended 31 March				
Cash flows from operating activities				
Loss for the year	(52,680)	(52,680)	(42,169)	(42,169)
Adjustments for non-cash items				
Depreciation and amortisation	5,717	5,717	3,417	3,417
Property, plant and equipment disposal	16	16	-	-
Share option scheme reserves	4,894	4,894	4,308	4,308
Other non cash movements	(85)	(85)	763	763
Changes in operating assets and liabilities				
Net (increase) in loans and advances to customers	(1,120,403)	(1,120,403)	(99,514)	(99,514)
Net increase in customer deposits	901,733	901,733	538,050	538,050
Net increase in deposits from banks	355,215	355,215	-	-
Net increase/(decrease) in other assets	3,178	2,833	(8,901)	(9,037)
Net decrease in tax asset	-	-	1,420	1,420
Net increase/(decrease) in other liabilities	12,578	12,578	(1,608)	(1,608)
Net (increase)/decrease in derivative financial instruments for hedging purposes	(8,132)	(8,132)	124	124
Net cash inflow/(outflow) in operating activities	**102,031**	**101,686**	**395,890**	**395,754**
Cash flows from investing activities				
Acquisition of intangible assets	(8,996)	(8,996)	(14,356)	(14,356)
Acquisition of property, plant and equipment	(117)	(117)	(504)	(504)
Acquisition of debt securities at FVOCI	(244,151)	(244,151)	(71,650)	(71,650)
Net cash (outflow) from investing activities	**(253,264)**	**(253,264)**	**(86,510)**	**(86,510)**
Proceeds from the issuance of subordinated debt	7,935	7,935	-	-
Interest paid on subordinated debt	(199)	(199)	-	-
Proceeds from the issuance of ordinary shares, net of expenses	79,346	79,346	112,321	112,321
Net purchase of treasury shares`	(345)	-	(136)	-
Net cash inflow from financing activities	**86,737**	**87,082**	**112,185**	**112,321**
Net (decrease)/increase in cash and cash equivalents	(64,496)	(64,496)	421,565	421,565
Cash and cash equivalents at the beginning of year	428,805	428,805	7,240	7,240
Cash and cash equivalents at the end of year	**364,309**	**364,309**	**428,805**	**428,805**
Cash and cash equivalents comprise:				
Cash and balances at central banks	364,309	364,309	419,765	419,765
Debt securities at FVOCI with original maturities less than 3 months	-	-	9,040	9,040
	364,309	**364,309**	**428,805**	**428,805**

Accounting for cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

1. Summary of significant accounting policies

This section describes the Group and Bank's significant policies and critical accounting estimates that relate to the financial statements and notes as a whole. If an accounting policy or a critical accounting estimate relates to a particular note, the accounting policy and/or critical accounting estimate is contained within the relevant note. Accounting policies have been applied consistently, other than where new policies have been adopted.

a. Reporting entity
These financial statements are prepared for Atom bank plc and its subsidiaries ("the Group", "Atom"). Atom bank plc ("the Bank") is a public limited company incorporated and registered in England and Wales and is limited by shares. Individual financial statements have been presented for the parent company.

b. Basis of preparation
The consolidated and individual financial statements have been prepared and approved by the Board of Directors in accordance with the Companies Act 2006 and with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). They are stated in thousands of pounds Sterling (£k), the functional and presentational currency of Atom.

The amounts expected to be recovered or settled for assets and liabilities in the financial statements are due no more than 12 months after the reporting period unless specifically stated.

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments.

c. Going concern
The consolidated and individual financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Group and the Bank has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, capital resources, cash flows and the long term strategy of the business.

Furthermore, Atom's forecasts and projections, including a range of stressed scenarios show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. After making due enquiries, the Directors believe that Atom has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and there is sufficient capital to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority (PRA).

d. Consolidation
Atom controls an entity when it is exposed to, or has rights to variable returns from the entity and has the ability to affect those returns through its power over the entity. Such ability, generally but not exclusively, accompanies a shareholding of more than half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank and are deconsolidated from the date that control ceases. Inter-company transactions and balances are eliminated on consolidation.

e. Financial assets and liabilities
The Bank applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities, the impairment of financial assets, and hedge accounting.

(i) Recognition
Financial assets and liabilities are recognised when Atom becomes party to the terms of the contract. For the purchase or sale of securities this is deemed to be the trade date as the Bank is legally committed to the transaction.

(ii) Classification and measurement
Financial assets and liabilities are initially recognised at fair value and may be held at amortised cost, Fair Value through Other Comprehensive Income (FVOCI), or Fair Value through P&L (FVTPL).

A debt instrument is generally measured at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is normally measured at FVOCI if both of the following conditions are met:

- The asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument that is not measured at amortised cost or at FVOCI is measured at FVTPL. Equity instruments and derivatives are normally measured at FVTPL.

The accounting policy for each type of financial asset or liability is included within the relevant note for the item.

(iii) Derecognition
Financial assets are derecognised where the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, with substantially all the risks and rewards of ownership transferred.

Financial liabilities are derecognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

f. Foreign currency translation
Foreign currency transactions are translated using the exchange rates prevailing at the date of the transaction. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the translation and settlement of such transactions are recognised in the income statement.

g. Critical accounting estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates.

Critical accounting judgements for share-based payments, credit impairment charges, and intangible assets are included in notes 6, 11 and 32 respectively.

h. Future accounting developments
At the date of authorisation of these financial statements, certain standards and interpretations were in issue but not yet effective and have not been applied in these financial statements. The impact of the following standards are as follows:

- IFRS 15 Revenue from Contracts with Customer (effective date for periods beginning on or after 1 January 2018) does not have a material impact on revenue recognition.
- IFRS 16 Leases (effective date for periods beginning on or after 1 January 2019) requires lessees to recognise both a right of use and lease liability on the balance sheet. This is currently being reviewed. On adoption, Atom is likely to incur a non-material increase in both assets and liabilities.

Performance

The notes in this section seek to explain Atom's Profit and Loss performance during the year. We seek to make profit by earning interest on loans originated to customers and on financial investments we hold. This income is reduced by the interest paid to customers on their deposits and on wholesale funding facilities which fund our lending and on credit risk losses. We also incur the costs of running a digital bank, with our primary expenditure on employees and technology infrastructure.

2. Net interest income

Accounting for interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method.

This method calculates the amortised cost of a financial asset or liability, and allocates the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument (or, where appropriate, a shorter period) to the gross carrying amount of the financial asset or liability. The Bank estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all amounts received or paid by the Bank that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

Interest income	2018 £'000	2017 £'000
Loans and advances to customers	12,307	196
Debt instruments at FVOCI	721	279
Cash and cash equivalents	710	250
Total interest income	**13,738**	**725**
Interest expense		
Customer deposits	(17,033)	(1,595)
Derivatives held for hedging purposes	(1,686)	(6)
Wholesale funding	(648)	-
Total interest expense	**(19,367)**	**(1,601)**
Net interest expense	**(5,629)**	**(876)**

Net interest expense of £5.6m (2017: £0.9m) was driven by £17.0m (2017: £1.6m) of interest expense on customer deposits. This was offset in part by £12.3m (2017: £0.2m) of interest generated by BBSL and Mortgage customer loans and advances. Furthermore, £1.4m (2017: £0.6m) of interest was received on debt instruments and cash held on deposit at the Bank of England. £1.7m (2017: £0) net interest expense was paid on derivatives hedging the customer deposit and mortgage portfolios.

3. Other income

Accounting for other income

The significant items within other income relate to gains and losses with respect to derivative financial instruments at fair value through the profit and loss and those designated within hedge relationships. Please see note 25 – Derivatives for further information.

	2018 £'000	2017 £'000
Other income		
Hedge ineffectiveness	1,690	8
Net income from mortgage hedging derivatives pre-designation	2,377	-
Loss on cross currency swaps held for Euro hedging	(962)	-
Foreign currency retranslation	537	-
Other	(69)	(6)
Total	**3,573**	**2**

4. Credit impairment charges and other provisions

Accounting for credit impairment charges and other provisions

Please see note 11 – Loans and advances to customers and impairment allowances for the accounting policy. The below table summarises the income statement charge.

	2018 £'000	2017 £'000
Net impairment on financial assets		
New impairment allowances for:		
Mortgages	339	7
BBSL	(110)	156
Impairment charges on loans and advances to customers	**229**	**163**
Provision charges on loan commitments for:		
Mortgages	39	18
BBSL	(108)	114
Provision charges on loan commitments	**(69)**	**132**
Credit impairment charge on debt instruments at FVOCI	96	10
Credit impairment charges and other provisions	**256**	**305**

The £256k (2017: £305k) charge reflects the recognition of impairment provisions under IFRS 9 Financial Instruments. The charge was primarily driven by the £1.2bn growth in Mortgage loans. Only £28m of Mortgage exposures are classified and provided for as Stage 2 due to relative increases in credit risk since origination with the remaining exposures classified for as Stage 1 Performing Assets. The release of the BBSL provisions, totalling £218k, was due to model refinement and recalibration.

5. Staff costs

Accounting for staff costs
The Bank applies IAS 19 Employee benefits in its accounting for most of the components of staff costs.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Accounting for share-based payments
See note 6 – Share-based payment arrangements for the accounting policy.

Staff costs	2018 £'000	2017 £'000
Wages and salaries	16,503	12,014
Social security contributions	3,682	1,408
Contributions to defined contribution plans	1,424	1,094
Equity-settled share-based payments	4,893	4,308
Cash-settled share-based payments	205	497
Total staff costs	**26,707**	**19,321**

The increase in staff costs to £26,707k (2017: £19,321k) reflects the full year effect of additional employees recruited in the prior year to support the operational running of Atom and changes in rate of pay. The increase in social security contributions is due to a change in accounting policy for employee share based payments. See note 6 for further details.

Average number of employees during the year	2018	2017
Executive	8	8
Business and customer operations	147	108
Administrative	80	59
Technology	68	41
Total	**303**	**216**

6. Share-based payment arrangements

Accounting for share-based payments
Employees may be entitled to receive remuneration in the form of share options to reward strong long-term business performance and to incentivise growth for the future.

In line with IFRS 2 share-based payments, the cost of the employee services received in respect of the share options granted is recognised in the income statement over the period that employees provide services. This is generally the period in which the award is granted or notified and the vesting date of the options.

The overall cost of the award is calculated using the number of options expected to vest and the fair value of options at the date of grant. For equity settled options, the fair value is set at the grant date and recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. For cash-settled options, the fair value is updated at each reporting date, with the cash settlement built up in other liabilities over the vesting period.

The fair value is determined using Black Scholes Merton valuation models which take into account the terms and conditions attached to the awards. Inputs into valuation models include the risk-free interest rate, the expected volatility of the Bank's share price and other various factors which relate to performance conditions attached to the award. As an unlisted entity share price, volatility is estimated using the performance of peers listed on the London Stock Exchange.

In previous years, the potential liability to pay Employers National Insurance Contributions on employee share options was recognised when options were exercised, as this is the point the tax liability becomes a legal obligation. In the current year, the Directors have concluded that it would be more appropriate to account for this in accordance with IFRS 2 "Share-based Payments" with a liability being accrued for in line with the vesting of the relating share option. This change increased the current year charge by £1.8m.

As at 31 March 2018 the Bank had the following employee share-based payment arrangements:

Scheme	Overview	Contractual life of options	Method of settlement
Build the bank share scheme	A one-off scheme designed to reward staff involved in the earliest stages in the development of Atom.	10 years	Equity/Cash
Annual performance share scheme (APSS) - 2015/ 2016/2017	Annual performance award. APSS17/18 includes an HMRC approved Company Share Option Plan.	10 years	Equity/Cash
Long-term incentive scheme (LTIP)	A retention scheme put in place for a limited number of senior staff.	10 years	Equity/Cash
Joint share ownership plan (JSOP)	This is an executive scheme implemented for a number of Atom's founders.	10 years	Equity

Method of settlement
In August 2016 and 2017, Atom held share option liquidity windows. These windows enabled employees with vested options to sell shares up to a maximum value of £5,000 to the Atom Employee Benefit Trust (EBT). In the current year, the Executive Committee confirmed the intention to continue to offer this facility annually. As a result, employees have the option to settle in cash or equity. For schemes in place before this date, this facility has been considered to be a modification to the award and as such the cash component has been measured and transferred from reserves to liabilities. There is no difference to the fair value of the award. The proportion of options expected to cash settle has been estimated using a Monte Carlo simulation, utilising data from the 2016 and 2017 liquidity window.

Employee Benefit Trust
To facilitate liquidity from the share options that have been awarded to employees, an EBT was set up to purchase shares allotted as a result of exercised share options. A subsidiary of Atom bank plc, Atom EBT Limited, was incorporated as a wholly owned subsidiary with a share capital investment of £1, and acts as sole trustee of the EBT. The Bank provided a further loan in the year of £345k (2017: £136k) to the EBT to fund the purchase of £345k (2017: £136k) shares from employees during the September liquidity window. As the Bank is exposed to the returns of the EBT, it has been fully consolidated. The Board has made a commitment to the EBT to fund share purchases in future liquidity windows. This commitment is capped annually by limiting the maximum amount of shares that can be purchased by the EBT.

Option valuation

For schemes issued in 2018, the cash and equity components are valued separately. At grant date, the value of the debt and equity components of the Atom options are the same.

	BTB	APSS	LTIP	JSOP
Outstanding as at 1 April 17	**3,947,000**	**5,801,405**	**627,584**	**4,000,000**
Forfeited during the year	-	(170,282)	-	(100,000)
Exercised during the year	-	(392,711)	-	(100,000)
Granted during the year	-	3,364,018	20,000	-
Outstanding as at 31 March 18	**3,947,000**	**8,602,430**	**647,584**	**3,800,000**
Exercisable as at 31 March 18	3,947,000	3,274,228	-	2,400,000
Weighted average exercise price (pence)	75	0.001	92	0.001
Weighted average remaining contractual life	8 years	9 years	7 years	9 years
Fair value of share awards issued in 2018 (pence)	N/A	115	24	N/A
Outstanding as at 1 April 16	**4,000,000**	**3,536,497**	**528,334**	-
Forfeited during the year	-	(18,563)	-	-
Exercised during the year	(53,000)	(331,813)	-	-
Granted during the year	-	2,615,284	99,250	4,000,000
Outstanding as at 31 March 17	**3,947,000**	**5,801,405**	**627,584**	**4,000,000**
Exercisable as at 31 March 17	3,947,000	1,544,324		2,000,000
Weighted average exercise price (pence)	75	0.001	92	0.001
Weighted average remaining contractual life	9 years	9 years	8 years	10 years
Fair value of share awards issued in 2017 (pence)	N/A	115	35	115

The fair value of share awards issued in 2018 was estimated on the grant date using the Black-Schole-Merton formula based on the following inputs:

Weighted average share price	115p
Exercise price – LTIP	115p
Exercise price – APSS17 and JSOP	0.001p
Expected volatility	29%
Expected life	3
Risk-free interest rate	0.87%

The expected share price volatility used was based on the historical volatility of listed peers, over a period equivalent to the expected life of the option.

Share options issued for services provided

During the year, Atom engaged with a third party to provide certain services where remuneration is partly paid in share options. The total number of options granted for services is 3,550,000. These options are subject to certain vesting periods and have an exercise price of £1.15 per share. The options have a contractual life of ten years and are equity settled. Each option has a fair value of 22p.

1,183,334 options have vested and are now exercisable. The fair value of options issued in 2018 was estimated on the service date using the Black-Scholes-Merton formula based on the following inputs:

Weighted average Share price	115p
Exercise price	115p
Expected volatility	27%
Expected life	3
Risk-free interest rate	0.23%

Critical accounting estimate

The calculation of the share-based payment charge and balance sheet position involves judgement, in particular the estimated number of options that will cash settle. Sensitivity analysis shows an additional £1,986k (2017: £763k) would be classified as cash settled and transferred to liabilities should all employees utilise the full £5,000 limit over the expected life.

7. Administrative and general expenses

	2018 £'000	2017 £'000
Administrative expenses	2,078	3,138
IT costs	10,192	9,858
Marketing	2,402	2,178
Legal and professional	1,704	1,591
Office and premises	1,304	1,374
Total administrative and general expenses	**17,680**	**18,139**

IT costs of £10,192k (2017: £9,858k) includes the running costs of customer savings and lending platforms, customer contact systems, and IT infrastructure supporting back office functions.

Marketing costs of £2,402k (2017: £2,178k) include investment in social media channels, direct customer sourcing and intermediary marketing.

During the year, the following services were received from the statutory auditors and its associates:

	2018 £'000	2017 £'000
Fees payable for the audit of these financial statements	175	160
Fees payable for other services		
Audited related assurance	11	21
Tax advisory	-	55
Other non-audit	16	-
	202	**236**

8. Amortisation and depreciation

Accounting for amortisation and depreciation

Accounting policies relating to amortisation and depreciation are set out in notes 32 and 33 respectively.

	2018 £'000	2017 £'000
Amortisation of intangible assets	5,434	3,152
Depreciation of property plant and equipment	283	265
Total amortisation and depreciation	**5,717**	**3,417**

The £5,717k (2017: £3,417k) charge primarily relates to amortisation of the app and related IT infrastructure following the launch of savings and lending products in prior years.

9. Taxation

Accounting for taxation

Income tax on the profit or loss comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity or other comprehensive income.

Current tax is the tax expected to be payable on the taxable profit, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is determined using tax rates and legislation in force at the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

	2018 £'000	2017 £'000
Loss on ordinary activities before tax	52,680	42,212
Standard rate of corporation tax	19%	20%
Expected tax credit	**10,009**	**8,442**
Expenses not deductible	(6)	(12)
Adjustments in respect of prior periods	-	(2)
Research and development tax credits	-	44
Impact of change in rates	(1,028)	-
Other temporary differences	(8,975)	(8,429)
Total tax credits	-	**44**

No corporation tax liabilities are payable nor receivable from HMRC for the year (2017: Nil).

The Directors have concluded that it is not appropriate to recognise a deferred tax asset at the balance sheet date as the majority of accumulated losses will be available to offset against future taxable profits and the Company is not expected to make a profit in the foreseeable future.

Were it to have been recognised, the deferred tax asset would have an estimated value of £20m, being £110m of trading losses carried forward and temporary differences of £11m in relation to share-based payments, taxed at the expected rate of 17%. These and other temporary differences may be recognised in the future as taxable profits arise.

Lending and credit risk

This section provides information on our lending and the provisions held for credit impairment. As a retail bank we use the funds deposited with us to lend to customers. We currently provide secured loans to small and medium enterprises and mortgages to individuals. As the principal risk of lending, disclosure is also provided on how Atom manages and mitigates credit risk.

10. Managing retail credit risk

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

Atom currently provide 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 a material risk to the Bank, there is significant management focus on setting credit risk appetite and embedding appropriate risk mitigation.

Retail Credit Risk Management

Exposure to credit risk is monitored and managed by the Credit Risk department and is overseen by the Credit Committee. Credit Committee's activities and decisions are overseen by both ERC and BRC.

The Board defines overall credit risk and concentration limits within the context of Atom's prudent risk appetite, namely to originate a high-quality and well-diversified residential mortgage and secured commercial-lending book.

The Board does this by setting and monitoring a responsible lending policy and ensuring appropriate controls are in place to maintain the quality of lending, including reviewing comprehensive management information that include credit portfolio and financial accounting metrics and undertaking benchmarking against comparative data.

Early warning indicators, credit performance trends and key risk indicators are monitored with recommendations discussed at Credit Committee, ERC and BRC for approval and subsequent implementation.

Retail Credit Risk Mitigation

Atom utilises a range of approaches to mitigate credit risk including risk and control self-assessment, setting of credit lending policy, allocation of underwriting mandates, credit underwriting processes, obtaining collateral, credit risk performance monitoring, adoption of forbearance procedures, stress testing and credit risk transfer.

The Credit Risk function sets the credit risk lending policy that is consistent with its specified risk appetite for each type of lending, with risk acceptance criteria reviewed at least annually. Credit risk lending policies are supported by lending manuals which define the responsibilities of underwriters and provide a rule set for credit decisions. Lending criteria are embedded with the Bank's credit decision engine to ensure accuracy and consistency of assessment.

The Board devolve underwriting approval authority and limits within the Bank's Risk Appetite Framework but retain final decision-making responsibility for higher value or out of policy transactions. Individual underwriter mandates are approved by the Credit Risk function based upon previous experience and verified evidence of satisfactorily applying lending policy on a suitable sample of cases and are monitored through regular quality assurance.

In order to assess the quality of new lending, Atom utilises a combination of statistical modelling (credit scores/risk grades) and assessment of applications against lending policy criteria, critically including a stressed loan affordability assessment, embedded within the Bank's credit decision system. This approach allows for consistent lending decisions and helps determine when manual intervention is required by skilled underwriters.

The sole collateral type for secured loans and advances to customers is a first charge over residential or commercial real estate. Property offered as collateral must be of acceptable construction and located in England, Wales, Scotland or Northern Ireland. Title to the property must be good, marketable and free from onerous restrictions and conditions.

Maximum loan to value ratio depends upon loan size and the collateral stress band associated with the type of security property. Collateral will be valued by an appropriately qualified surveyor, allocated by the bank's master valuer and subject to periodic audit checks, or by objective automated valuation models where sufficient recent comparable evidence is available to derive an accurate valuation. Collateral valuation is reviewed and updated on a regular basis. Lending decisions are predominantly based on a customer's ability to repay from normal business operations rather than reliance on the disposal of any security provided.

All lending policies are determined with reference to current and likely future expectations of the UK's macro-economic environment and with an expectation that material losses will not occur. Regular stress testing is undertaken on all retail credit portfolios to estimate losses which may emerge under a range of macroeconomic and specific stress scenarios to ensure that Atom remains within its retail credit risk appetite.

Atom places great emphasis on working with existing borrowers who experience financial difficulty on an individual basis, and to consider each case of financial hardship on its own merits. Atom will offer suitable customers a number of forbearance options ranging from straightforward and realistic payment arrangements (based upon income and expenditure assessments) to more complex loan restructuring. Repossession of a property is only sought where all reasonable efforts to regularise matters and repay missed mortgage payments have failed.

Collections and recovery activity is overseen by the Credit Committee, who set the collections policy with the objective of treating customers fairly, and subsequently monitor arrears performance and compliance with policy and regulation.

11. Loans and advances to customers and impairment allowances

Accounting for lending and credit risk
i) Classification and Measurement

Under IFRS 9 Mortgages and BBSL, loans are recognised at fair value upon legal completion. Subsequently, both products are classified and measured at amortised cost:

- as core products to Atom's retail bank strategy, the business objective of the lending is to hold the asset to collect contractual cash flows to maturity. There have been no historic sales and there are no current plans to sell the assets for fair value gains; and

- the contractual terms of the loans give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The loans are vanilla retail-lending products with no features that give rise to significant other cash flows.

The Structured Loan Note is considered to be a contractually-linked instrument under IFRS 9. This is because the payment on the note is contractually-linked to payments received on a pool of other instruments.

The classification criteria for contractually-linked instruments are assessed based on the conditions at the date that the investment is initially recognised using a "look through" approach. This approach looks at the terms of the instrument itself, as well as through to the pool of underlying instruments, and considers both the characteristics of these underlying instruments and the exposure to credit risk relative to the pool of underlying instruments.

The Structured Loan Note is held at amortised cost as the note itself gives rise to cash flows that are solely payments of principal and interest (SPPI) and the underlying pool only contains loans that have contractual cash flows that are SPPI on the principal outstanding.

Impairment
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 FVOCI and loan commitments. The guidance requires assets to be classified into the following three stages:

- Stage 1: instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and interest revenue is calculated on the gross carrying amount of the asset. 12-month ECL are the expected credit losses that result from default events that are expected within 12 months after the reporting date.
- Stage 2: instruments that have experienced a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount.

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

- *ECL model*

  Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. The impairment model calculates ECL at a customer level by multiplying probability of default (PD), exposure at default (EAD) and the loss given default (LGD) and discounting using the original EIR.

  - PD represents the likelihood of a customer defaulting on their loan. The 12-month PD is either taken from a behavioural or application scorecard. This is then extrapolated using historic industry data to calculate the lifetime PD.
  - EAD is based on the amount expected to be owed at default over the next 12 months or over the remaining lifetime.
  - LGD is the expectation of loss on a defaulted exposure.

- *Determining a significant increase in credit risk since initial recognition*

  The impairment model utilises both relative and absolute criteria to identify increases in credit risk:

  - Mortgages absolute: 30 days past due or unsatisfied CCJ/default on the customer's credit file (i.e. including credit events with other organisations).
  - Mortgages relative: a 2-fold increase in origination probability of default (PD) with a minimum 0.5% increase.
  - BBSL absolute: 30 days past due or account moved to watch list.
  - BBSL relative: moved to watchlist. Numerous quantitative and qualitative watchlist factors are monitored including changes in bureau behavioural score, formal credit actions (e.g. winding up orders, CCJs, meeting of creditors), adverse changes in financial performance, and changes in Directors. Current and forecast adverse changes in the customer's geography and sector are also considered.

- *Forecast economic data*

  IFRS 9 requires ECL to reflect a range of possible outcomes and consider possible future economic conditions. To achieve this, the model uses three economic forecasts: base, upside and downside scenarios. All of the scenarios have been sourced from an independent economic consultancy. The upside and downside scenarios are calculated from a range of economic variables that are stressed around the base case. An algorithm is then applied to select an upper and lower scenario that each have a 30% weighting.

  Statistical analysis has been performed to identify the economic variables that are significant to ECL. These variables are then applied to PD, LGD and EAD, with the weighted average of the three scenarios used to calculate the ECL.

- *Definition of default and credit-impaired assets*

  Both Mortgage and BBSL accounts are classified as 'in default' if any of the following criteria has been met: 90+ days past due; entered forbearance; security has been taken into possession; or the customer is bankrupt.

Write-off policy

A loan is written-off, either partially or in full, against the related provision when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off are recognised directly in the income statement.
The following table summarises lending as at the year end by IFRS 9 impairment stage and the related provision:

As at 31 March 2018:	Mortgages £'000	BBSL £'000	Structured Loan Note £'000	Total loans and advances to customers £'000
Gross carrying amount:				
Stage 1: 12 month expected loss	1,035,824	135,406	20,743	1,191,973
Stage 2: Lifetime – loans not credit impaired	28,056	2,985	-	31,040
Stage 3: Lifetime – credit impaired loans	-	-	-	-
Total gross carrying amount	**1,063,880**	**138,391**	**20,743**	**1,223,014**
Fair value adjustment	**(6,714)**	**-**	**-**	**(6,714)**
Effective interest rate adjustment*	**3,425**	**9**	**14**	**3,448**
Total gross carrying amount including valuation adjustments	**1,060,591**	**138,400**	**20,757**	**1,219,748**
Less impairment allowance:				
Stage 1: 12 month expected loss	(262)	(37)	-	(299)
Stage 2: Lifetime – loans not credit impaired	(84)	(9)	-	(93)
Stage 3: Lifetime – credit impaired loans	-	-	-	-
Provision for on balance sheet impairment losses	**(346)**	**(46)**	**-**	**(392)**
Net balance sheet carrying value	**1,060,245**	**138,354**	**20,757**	**1,219,356**
Loan commitments				
Gross commitments	132,091	33,609	-	165,700
12 month expected loss provision	**(58)**	**(6)**	**-**	**(64)**
Total credit impairment provision	**(404)**	**(52)**	**-**	**(456)**

*The effective interest adjustment has not been allocated across IFRS 7 credit risk disclosures as the impact is not deemed to be material.

As at 31 March 2017:	Mortgages £'000	BBSL £'000	Structured Loan Note £'000	Total loans and advances to customers £'000
Gross carrying amount:				
Stage 1: 12 month expected loss	26,627	32,880	39,865	99,372
Stage 2: Lifetime – loans not credit impaired	-	-	-	-
Stage 3: Lifetime – credit impaired loans	-	-	-	-
Total gross carrying amount	**26,627**	**32,880**	**39,865**	**99,372**
Less impairment allowance:				
Stage 1: 12 month expected loss	(7)	(156)	-	(163)
Stage 2: Lifetime – loans not credit impaired	-	-	-	-
Stage 3: Lifetime – credit impaired loans	-	-	-	-
Provision for on balance sheet impairment losses	**(7)**	**(156)**	**-**	**(163)**
Net balance sheet carrying value	**26,620**	**32,724**	**39,865**	**99,209**
Loan commitments				
Gross commitments	60,712	41,604	-	102,316
12 month expected loss provision	**(18)**	**(114)**	**-**	**(132)**
Total credit impairment provision	**(25)**	**(270)**	**-**	**(295)**

Mortgages

Fixed-rate mortgage products were first released to market in December 2016 via a broker network. During the financial year there was significant balance sheet growth of £1.0bn taking the period end balance to £1.1bn. The book continues to be of prime quality resulting in minimal provision charges. Only £28m of exposures in Mortgages are classified, and provided for as Stage 2, due to relative increases in credit risk since origination. The year end provision of £346k (2017: £7k) results in a coverage ratio of 0.03%.

Mortgages of £132m (2017: £61m) were also committed to 784 (2017: 279) customers, reflecting continued portfolio growth. A provision of £57k (2017: £18k) was held against this exposure, resulting in a total mortgage provision of £403k (2017: £25k).

The valuation adjustment of £6.7m reflects the IAS39 macro hedge adjustment as described in note 25 Derivatives.

No loans have been subject to modification.

BBSL

Atom started to offer secured loans to small and medium enterprises in April 2016. Gross carrying balances increased by £106m to £138m. Only £2.9m have deteriorated into stage 2 due to relative increases in credit risk since origination. The provision of £46k (2017: £156K) results in a coverage ratio of 0.033% (2017: 0.5%). The reduction in coverage ratio is due to model refinement and recalibration.

Loans totalling £33.6m (2017: £41.6m) were committed to 88 (2017: 132) customers. A provision of £6k (2017: £114K) was held against this exposure, resulting in a total BBSL provision of £53k (2017: £270k).

No loans have been subject to modification.

Structured loan note

In March 2017, Atom purchased a loan note which funds unsecured loans to SMEs. Principal and interest payments on the £20.7m loan note is legally supported by a pool of unsecured loans, which creates 20% first loss credit protection for Atom. There has been no deterioration in credit risk since origination. No loss provision has been recognised, as the first loss feature results in a probability of default that produces an insignificant provision.

Critical accounting estimate

The calculation of the credit impairment provision position involves judgement, in particular the weighting of economic scenarios used to calculate forecast losses. Sensitivity analysis shows that calculating the provision based solely on the downside scenario increases the charge by £42k (2017: £16k).

12. Collateral held and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of a first charge over residential or commercial real estate.

Credit risk disclosures report assets gross of collateral, and therefore disclose the maximum loss exposure. The value of collateral is reassessed if evidence of financial distress of the borrower has been observed.

	Stage 1		Stage 2	
As at 31 March 2018	**Gross carrying amount £'000**	**Impairment Allowance £'000**	**Gross carrying amount £'000**	**Impairment Allowance £'000**
Mortgages by LTV ratio				
LTV <= 60%	419,993	6	7,872	**1**
60% < LTV <= 65%	65,482	2	791	**-**
65% < LTV <= 70%	93,786	6	1,605	**1**
70% < LTV <= 75%	136,589	17	3,797	**7**
75% < LTV <= 80%	87,930	26	2,039	**3**
80% < LTV <= 85%	95,443	56	2,635	**13**
85% < LTV <= 90%	130,909	140	8,162	**48**
90% < LTV <= 95%	5,690	9	1,155	**11**
Total Mortgages	**1,035,824**	**262**	**28,056**	**84**

	Stage 1		Stage 2	
As at 31 March 2017	**Gross carrying amount £'000**	**Impairment Allowance £'000**	**Gross carrying amount £'000**	**Impairment Allowance £'000**
Mortgages by LTV ratio				
LTV <= 60%	15,466	-	-	-
60% < LTV <= 65%	247	-	-	-
65% < LTV <= 70%	2,490	-	-	-
70% < LTV <= 75%	4,455	1	-	-
75% < LTV <= 80%	639	-	-	-
80% < LTV <= 85%	617	1	-	-
85% < LTV <= 90%	2,568	4	-	-
90% < LTV <= 95%	145	1	-	-
Total Mortgages	**26,627**	**7**	**-**	**-**

As at 31 March 2018	Stage 1 Gross carrying amount £'000	Stage 1 Impairment Allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment Allowance £'000
BBSL by LTV ratio				
LTV <= 50%	30,036	4	188	-
50% < LTV <= 60%	44,374	7	1,704	2
60% < LTV <= 70%	48,250	14	610	2
70% < LTV <= 75%	12,746	12	483	5
Total BBSL	**135,406**	**37**	**2,985**	**9**

As at 31 March 2017	Stage 1 Gross carrying amount £'000	Stage 1 Impairment Allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment Allowance £'000
BBSL by LTV ratio				
LTV <= 50%	11,048	68	-	-
50% < LTV <= 60%	8,976	37	-	-
60% < LTV <= 70%	11,834	48	-	-
70% < LTV <= 75%	1,022	3	-	-
Total BBSL	**32,880**	**156**	**-**	**-**

There have been no significant changes in the value of collateral held as a result of deterioration in the quality of the collateral held or due to changes in collateral policies.

13. Credit quality

The tables below provide information on the credit quality of the loan book. The portfolio is segmented by risk grade, with each grade having an associated PD range.

As at 31 March 2018 Mortgages by behavioural PD	Stage 1 Gross carrying amount £'000	Stage 1 Impairment allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment allowance £'000	Stage 1 Gross loan commitment £'000	Stage 1 Provision for loan commitments £'000
Very low risk	742,071	78	1,079	-	65,784	12
Low risk	212,964	82	4,074	2	46,903	23
Medium low risk	59,550	56	10,930	26	11,948	10
Medium risk	21,239	46	11,973	56	7,456	13
Total Mortgages	**1,035,824**	**262**	**28,056**	**84**	**132,091**	**58**

As at 31 March 2017 Mortgages by behavioural PD	Stage 1 Gross carrying amount £'000	Stage 1 Impairment allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment allowance £'000	Stage 1 Gross loan commitment £'000	Stage 1 Provision for loan commitments £'000
Very low risk	16,807	2	-	-	33,059	3
Low risk	5,683	3	-	-	20,061	4
Medium low risk	2,591	1	-	-	4,267	5
Medium risk	1,546	1	-	-	3,325	6
Total Mortgages	**26,627**	**7**	**-**	**-**	**60,712**	**18**

The portfolio is currently predominantly in the very low risk band which is a reflection of lending to lower risk customers with no adverse credit history. The portfolio is monitored on an ongoing basis with behavioural scores updated monthly. Currently no forbearance arrangements have been made.

	Stage 1		Stage 2		Stage 1	
As at 31 March 2018 BBSL by origination PD	**Gross carrying amount £'000**	**Impairment allowance £'000**	**Gross carrying amount £'000**	**Impairment allowance £'000**	**Gross loan commitment £'000**	**Provision for loan commitments £'000**
Very low risk	24,359	2	231	-	5,578	-
Low risk	50,001	7	977	5	8,884	1
Medium risk	51,591	22	1,607	3	17,826	4
Medium high risk	9,455	6	170	1	1,321	1
Total BBSL	**135,406**	**37**	**2,985**	**9**	**33,609**	**6**

	Stage 1		Stage 2		Stage 1	
As at 31 March 2017 BBSL by origination PD	**Gross carrying amount £'000**	**Impairment allowance £'000**	**Gross carrying amount £'000**	**Impairment allowance £'000**	**Gross loan commitment £'000**	**Provision for loan commitments £'000**
Very low risk	3,487	4	-	-	8,665	4
Low risk	12,796	35	-	-	11,304	22
Medium risk	15,233	107	-	-	18,662	70
Higher risk	1,364	10	-	-	2,973	18
Total BBSL	**32,880**	**156**	**-**	**-**	**41,604**	**114**

The portfolio is currently predominantly in low and medium risk grades. This is driven by a concentration of exposure in investment property lending which is typically graded in these risk bands. Monitoring of customer profile and payment behaviour has resulted in eight customers being transferred to the watch list and classified as Stage 2. However, no loan accounts have entered the collections and recovery process.

The tables below provide information on the portfolio segmented by loan size.

	Stage 1		Stage 2		Stage 1	
As at 31 March 2018 Mortgages by loan size	**Gross carrying amount £'000**	**Impairment allowance £'000**	**Gross carrying amount £'000**	**Impairment allowance £'000**	**Gross loan commitment £'000**	**Provision for loan commitments £'000**
<= £250k	540,384	195	16,888	64	98,132	47
£250k ><= £500k	384,845	62	8,130	16	28,651	10
£500k ><= £1m	106,139	5	1,549	4	5,308	1
£1m ><= £2m	4,456	-	1,489	-	-	-
Total Mortgages	**1,035,824**	**262**	**28,056**	**84**	**132,091**	**58**

	Stage 1		Stage 2		Stage 1	
As at 31 March 2017 Mortgages by loan size	**Gross carrying amount £'000**	**Impairment allowance £'000**	**Gross carrying amount £'000**	**Impairment allowance £'000**	**Gross loan commitment £'000**	**Provision for loan commitments £'000**
<= £250k	12,715	6	-	-	28,741	12
£250k ><= £500k	10,882	1	-	-	24,643	5
£500k ><= £1m	3,030	-	-	-	7,328	1
Total Mortgages	**26,627**	**7**	**-**	**-**	**60,712**	**18**

As at 31 March 2018 BBSL by loan size	Stage 1 Gross carrying amount £'000	Stage 1 Impairment allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment allowance £'000	Stage 1 Gross loan commitment £'000	Stage 1 Provision for loan commitments £'000
<= £250k	19,897	8	723	2	6,239	2
£250k ><= £500k	34,139	14	1,064	5	8,216	1
£500k ><= £1m	52,839	12	1,198	-	15,162	2
£1m ><= £2m	25,582	3	-	2	3,992	1
>£2m	2,947	-	-	-	-	-
Total BBSL	**135,406**	**37**	**2,985**	**9**	**33,609**	**6**

As at 31 March 2017 BBSL by loan size	Stage 1 Gross carrying amount £'000	Stage 1 Impairment allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment allowance £'000	Stage 1 Gross loan amount £'000	Stage 1 Provision for loan commitments £'000
<= £250k	4,297	18	-	-	8,269	24
£250k ><= £500k	6,956	37	-	-	13,664	46
£500k ><= £1m	8,062	32	-	-	14,685	34
£1m ><= £2m	13,565	69	-	-	2,946	9
>£2m	-	-	-	-	2,040	1
Total BBSL	**32,880**	**156**	**-**	**-**	**41,604**	**114**

14. Credit concentrations

The Bank monitors concentrations of credit risk. Close monitoring of the geographical distribution of exposures, borrower profile, loan type and property characteristics help to manage the risk of overexposure to any one market segment.

As at 31 March 2018 Mortgages by geography:	Stage 1 Gross carrying amount £'000	Stage 1 Impairment allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment allowance £'000	Stage 1 Gross loan commitment £'000	Stage 1 Provision for loan commitments £'000
Greater London	301,120	23	7,356	5	12,488	5
Midlands	155,917	58	4,425	14	17,243	9
North	194,127	97	6,974	36	41,984	15
Northern Ireland	11,776	7	239	1	2,892	2
Scotland	64,589	30	2,134	7	17,091	8
South	288,202	39	6,626	20	35,397	17
Wales	20,093	8	302	1	4,996	2
Total Mortgages	**1,035,824**	**262**	**28,056**	**84**	**132,091**	**58**

As at 31 March 2017 Mortgages by geography:	Stage 1 Gross carrying amount £'000	Stage 1 Impairment allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment allowance £'000	Stage 1 Gross loan commitment £'000	Stage 1 Provision for loan commitments £'000
Greater London	9,026	1	-	-	24,547	4
Midlands	1,508	1	-	-	5,576	2
North	5,831	2	-	-	10,959	5
Northern Ireland	130	-	-	-	285	-
Scotland	1,168	-	-	-	3,481	1
South	7,873	2	-	-	15,459	6
Wales	1,091	1	-	-	405	-
Total Mortgages	**26,627**	**7**	**-**	**-**	**60,712**	**18**

As at 31 March 2018 BBSL by geography:	Stage 1 Gross carrying amount £'000	Stage 1 Impairment allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment allowance £'000	Stage 1 Gross loan commitment £'000	Stage 1 Provision for loan commitments £'000
Greater London	22,939	4	230	-	5,843	-
Midlands	16,480	4	170	1	9,582	3
North	54,135	15	2,146	7	7,720	2
Northern Ireland	4,011	1	-	-	1,657	-
Scotland	13,308	4	-	-	2,120	-
South	20,075	6	439	1	5,995	1
Wales	4,458	3	-	-	892	-
Total BBSL	**135,406**	**37**	**2,985**	**9**	**33,809**	**6**

As at 31 March 2017 BBSL by geography:	Stage 1 Gross carrying amount £'000	Stage 1 Impairment allowance £'000	Stage 2 Gross carrying amount £'000	Stage 2 Impairment allowance £'000	Stage 1 Gross loan commitment £'000	Stage 1 Provision for loan commitments £'000
Greater London	4,765	26	-	-	10,016	20
Midlands	4,933	25	-	-	8,349	23
North	18,201	80	-	-	16,147	56
Scotland	-	-	-	-	2,156	5
South	4,981	25	-	-	4,571	9
Wales	-	-	-	-	365	1
Total BBSL	**32,880**	**156**	**-**	**-**	**41,604**	**114**

Atom has a natural concentration in the UK market, as it only lends on residential and commercial properties within the UK.

15. Impairment allowance movement table

An analysis of changes in the IFRS 9 provision is as follows:

	Mortgages £'000	BBSL £'000	Total £'000
As at 1 April 2017	**7**	**156**	**163**
Transfer to lifetime ECL	84	9	93
New financial assets originated or purchased	258	32	290
Changes to models used for ECL calculation	-	(89)	(89)
Changes to data inputs to ECL calculation	(3)	(62)	(65)
As at 31 March 2018	**346**	**46**	**392**

The provision increase was primarily driven by the origination of £1.1bn of new residential mortgages and £107m of new BBSL loans in the year. The decrease in the BBSL provision was due to model refinement and recalibration.

Funding and liquid assets

Funding is primarily raised from customers depositing money in their fixed savings accounts. These funds are then used to lend to customers. To ensure the Bank has sufficient cash to repay customers when required, we hold a minimum level of liquid assets. During the year, Atom has also started to access wholesale funding facilities. Atom's Treasury team manage the level of liquid assets and funding to ensure we meet the demands of customers, creditors and regulators.

16. Managing liquidity risk

One of the principal risks faced by Atom is Liquidity Risk. This is the risk that the Bank could fail to meet its obligations as they fall due, including having the right type and quantity of funds, in the right place, at the right time and in the correct currency.

Liquidity Risk is managed by the Treasury department and is monitored by the Financial Risk team. Reporting and management of liquidity is monitored by the Assets & Liability Committee (ALCO), which meets on a monthly basis.

Key liquidity risk mitigations
The key liquidity risk mitigations used by Atom are the holding of a High Quality Liquid Assets (HQLA) portfolio which can be sold at any time to provide liquidity for the Bank. Atom uses a forward-looking projection of cash flows (both inflows and outflows) which are stressed to determine whether there will be sufficient liquidity to cope with unexpected liquidity challenges. Atom adheres to all regulatory liquidity requirements, but also considers additional, more severe stress scenarios and then ensures that a number of liquidity mitigations are put in place to ensure that the Bank has access to ample liquidity at all times. Intraday, daily and overnight liquidity positions are also assessed.

Key liquidity metrics
The key metrics used to monitor liquidity risk are the Liquidity Coverage Ratio (LCR) and three in-house stress measures that comprise the Bank's Overall Liquidity Adequacy Requirement (OLAR). These three stresses comprise:

- a 90-day slow-burn, persistent stress
- a 30-day stress that represents an in-house variant of the LCR stress
- a 14-day bank run stress.

All three stress tests are modelled using the LCR framework and are performed daily, so as to ensure robust control of the Bank's liquidity.

Although not yet a regulatory requirement, the Net Stable Funding Ratio (NSFR) is monitored on a daily basis. All the stress tests are performed not only on the Bank's current positions, but also on its short-term forecasts updated periodically.

At year end Atom were in excess of all liquidity limits.

17. Wholesale credit risk management

Wholesale credit risk arises from the portfolio of HQLA and other financial assets. Treasury manage and monitor the risk that counterparties will fail to repay amounts when due. Atom has a low appetite for this form of risk and consequently exposures are restricted to high-quality counterparties with a low-risk of failure. Exposure and tenor limits are set accordingly.

Treasury exposures and limits are focused on 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.

Counterparty credit limits are set in line with the Board approved Treasury and Financial Risk Management Policy which sets maximum limits relative to the Bank's capital base determined by their Atom Counterparty Rating which takes into account internal analysis, external credit ratings, country of domicile and any other relevant factors. All counterparty credit limits require Board approval and are subject to an initial assessment of the creditworthiness of the counterparty, with the approved limit then typically reviewed annually with continuous monitoring in-between.

18. Assets held for liquidity management

Accounting for debt instruments held at fair value through other comprehensive income (FVOCI)

Classification and measurement

The majority of assets held to manage liquidity risk are held at FVOCI as:

- The objective of Treasury in holding these assets is to generate a good interest yield, whilst having a sufficient mix of high-quality assets to sell when liquidity management requires additional cash outflows.
- The assets are vanilla debt instruments with return based upon the cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets included within the FVOCI category are initially recognised and subsequently measured at fair value. Movements in the carrying amount are recorded through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. Where the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Impairment

Financial assets held at FVOCI are within the scope of the IFRS 9 impairment policy described in note 11. IFRS 9 permits an exemption that it may be assumed that an instrument's credit risk has not increased significantly since initial recognition if it has a low credit risk at the reporting date. Such low-risk instruments are categorised as stage 1, with the provision based upon a 12-month probability of default. To apply the exception there needs to be evidence that the instrument is of low-risk. Atom has applied the exemption to all of the FVOCI assets held at year end, as they meet the definition of investment grade per the internal credit risk policy.

Cash and cash equivalents are carried at amortised cost.

	2018 £'000	2017 £'000
Cash and balances at central banks	**364,309**	**419,765**
Money Market Funds	-	9,040
UK Gilts	238,136	33,970
Covered bonds	20,939	20,752
Residential Mortgage Backed Securities (RMBS)	11,132	10,192
Multilateral Development Bank and Government Sponsored Debt	52,154	13,295
Total debt instruments at FVOCI	**322,361**	**87,249**
Financial assets held for liquidity management	**686,670**	**507,014**

The £686.7m of liquid assets held at the year end reflects ongoing regulatory requirements and includes a liquidity buffer held against expected future lending and deposit flows.

A 12-month ECL credit impairment provision of £105k (2017: £10k) is held against the £322m of debt securities. All positions are AAA or AA rated by major rating agencies.

19. Encumbered assets

Some of the Bank's assets are used to support secured funding arrangements with central banks. Assets that have been set aside for such purposes are classified as 'encumbered and pledged assets' and cannot be used for other purposes.

	Encumbered assets		Unencumbered assets		
	Prepositioned and encumbered assets with central banks £'000	Other £'000	Available as collateral £'000	Other £'000	Total £'000
Cash and balances at central banks	-	23,000	-	341,309	**364,309**
Derivatives held for hedging purposes	-	-	-	8,008	**8,008**
Debt instruments at fair value through other comprehensive income	-	-	322,361	-	**322,361**
Loans and advances to customers	611,245	-	608,111	-	**1,219,356**
Other assets	-	-	-	42,816	**42,816**
Total	**611,245**	**23,000**	**930,472**	**392,133**	**1,956,850**

Other encumbered assets are assets that cannot be used for secured funding due to legal or other reasons. These include the minimum requirement for the Faster Payments Service system.

20. Customer deposits

Accounting for customer deposits
Customer deposit liabilities are measured at amortised cost in accordance with IFRS 9. Deposits are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is adjusted for transaction costs that are incurred in raising the deposit, which is then recognised in interest expense using the effective interest rate method.

	2018 £'000	2017 £'000
Sterling denominated fixed term deposits	1,303,374	538,060
Euro denominated fixed term deposits	136,419	-
Total	**1,439,793**	**538,060**

During the year, we continued to fund our lending primarily through customer deposits which increased by £0.9bn to £1.4bn. This includes £137m of Euro denominated deposits from German retail investors, which we raised in partnership with Deposit Solutions.

The £1.3bn of sterling denominated deposits includes valuation adjustments of £901k (2017: £126k) which reflect the IFRS 9 micro hedge adjustment as described in note 25.

21. Wholesale funding

	2018 £'000	2017 £'000
Deposits from banks – secured loans	355,215	-
Subordinated liabilities – debt instruments	8,135	-
Total	**363,350**	**-**

Secured loans of £355m relate to drawdowns from the Bank of England's Term Funding Scheme. During the year, Atom issued two £4m fixed-rate callable subordinated Tier 2 notes at par with maturities of 27 September 2027 and 9 October 2027. The notes pay interest at a rate of 10% per annum, payable semi-annually in arrears. The Bank has the option to redeem these notes after five years, subject to PRA approval.

22. Contractual maturity of financial assets and liabilities

The table below presents the contractual residual maturities of the financial assets and liabilities on the balance sheet:

As at 31 March 2018	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Over 10 years £'000	Total £'000
Assets									
Cash and balances at central banks	364,309	-	-	-	-	-	-	-	**364,309**
Derivatives held for hedging purposes	-	(1,223)	(451)	(829)	4,287	6,221	2	-	**8,008**
Debt instruments at FVOCI	-	149,916	65,935	37,989	34,963	23,855	-	9,703	**322,361**
Loans and advances to customers	-	13,089	11,700	24,900	104,229	206,344	212,137	646,958	**1,219,356**
Total financial assets	**364,309**	**161,782**	**77,184**	**62,060**	**143,479**	**236,420**	**212,139**	**656,661**	**1,914,034**
Liabilities									
Customer deposits	-	(183,868)	(275,405)	(695,315)	(235,584)	(49,621)	-	-	**(1,439,793)**
Deposits from banks	-	(215)	-	-	-	(355,000)	-	-	**(355,215)**
Subordinated liabilities	-	(134)	-	-	-	-	(8,000)	-	**(8,134)**
Total financial liabilities	**-**	**(184,217)**	**(275,405)**	**(695,315)**	**(235,584)**	**(404,621)**	**(8,000)**	**-**	**(1,803,142)**
Off-balance sheet commitments						-	-	-	-
Loan commitments given	-	165,700	-	-	-	-	-	-	-

As at 31 March 2017	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Over 10 years £'000	Total £'000
Assets									
Cash and balances at central banks	419,765	-	-	-	-	-	-	-	**419,765**
Debt instruments at FVOCI	9,040	9,628	5,099	3,844	26,377	18,103	4,985	10,173	**87,249**
Loans and advances to customers	-	577	487	982	4,687	4,226	51,205	37,045	**99,209**
Total financial assets	**428,805**	**10,205**	**5,586**	**4,826**	**31,064**	**22,329**	**56,190**	**47,218**	**606,223**
Liabilities									
Customer deposits	-	534	20,859	336,823	159,962	19,882	-	-	**538,060**
Derivatives held for hedging purposes	-	-	13	40	71	-	-	-	**124**
Total financial liabilities	**-**	**534**	**20,872**	**336,863**	**160,033**	**19,882**	**-**	**-**	**538,184**
Off-balance sheet commitments									
Loan commitments given	-	102,316	-	-	-	-	-	-	**102,316**

23. Contractual maturity of non-derivative financial liabilities on an undiscounted basis

Contractual maturities for financial liabilities form an important source of information for the management of liquidity risk. The table below analyses non-derivative financial liabilities by relevant contractual maturity grouping on an undiscounted future cash flow basis based on the remaining period at the balance sheet date.

The balances in the below table do not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with future coupon payments.

For loan commitments, the amounts disclosed are the undiscounted cash flows on the basis of the earliest opportunity at which they are available to customers.

As at 31 March 2018	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Customer Deposits	21,555	170,680	279,120	707,636	243,643	51,506	-	**1,474,141**
Deposits from banks	-	232	616	1,734	8,894	360,573	-	**372,048**
Subordinated liabilities	-	199	204	397	1,602	1,601	11,805	**15,808**
Total non-derivative financial liabilities	**21,555**	**171,111**	**279,940**	**709,767**	**254,139**	**413,680**	**11,805**	**1,861,997**
Off-balance sheet commitments					-			
Loan commitments given	-	165,700	-	-		-	-	165,700

As at 31 March 2017	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Customer Deposits	-	1,339	21,768	344,071	164,501	20,869	-	**552,548**
Total non-derivative financial liabilities	-	**1,339**	**21,768**	**344,071**	**164,501**	**20,869**	**-**	**552,548**
Off-balance sheet commitments								
Loan commitments given	-	102,316	-	-	-	-	-	**102,316**

Market risk

As a result of the assets and liabilities we hold, we are exposed to market risk. This means we could incur losses as a consequence of movements in market prices. These losses could impact our earnings, and the value of assets, liabilities or reserves. The main source of market risk is our exposure to changes in interest rates. When market interest rates change our earnings and asset/liability values are impacted.

24. Market risk management

During the year, the Bank faced market risk exposure of Interest Rate Risk in the Banking Book (IRRBB), Basis Risk and Foreign Exchange Risk.

All fixed-rate cash flows, whether assets or deposits, have been hedged back to the Sterling OverNight Index Average (SONIA) by means of interest rate swaps. The SONIA rate is an overnight rate that correlates highly with the Bank of England's Base Rate during normal market conditions. Limits for exposures to interest rate risk other than those based on SONIA or the Bank of England's Base Rate are minimal.

Key interest rate risk mitigations
Atom actively hedges fixed-rate exposures to a floating basis by means of interest rate swaps. Wherever possible, Atom uses natural hedges which means the interest rate risk on an asset is matched against a liability of a similar tenor.

The Bank operates a structural hedge in which fixed-rate exposures are held until maturity, to counterbalance the Bank's equity.

Exposure to Interest Rate Risk
Interest rate risk exposure is measured by calculating the financial impact of both positive and negative instantaneous shocks to interest rates:

- Economic Value of Equity (EvE): sensitivity is expressed as the change in the net present value of the bank's asset, liability and derivative positions as a result of an instantaneous rate shock.
- Net Interest Income (NII): sensitivity to an instantaneous rate shock is considered for assets, liabilities and derivatives on a flat balance sheet over a 12-month period.

Both EvE and NII sensitivities are controlled by Board-defined, risk appetite limits and supporting metrics.

The regulatory "PV200" measure is a key metric that Atom evaluates for the purpose of measuring its interest rate risk. The PV200 test assesses the change in the net present value of the Bank's net cash flows if market interest rates were to experience a parallel shift, both upwards and downwards, of 200 basis points.

Basis risk positions are measured by netting off-balance sheet positions with their corresponding derivative hedge positions and evaluating the magnitude of basis exposure pairs.

EvE and NII sensitivity
Sensitivity analysis of EvE and NII is performed on the Bank's consolidated balance sheet. As at 31 March 2018, the projected change in response to an immediate parallel shift of 200bps in all relevant interest rates was:

- EvE: a £0.8m increase from a decrease in rates and a decrease of £0.7m from an increase in rates.
- NII: a £1m increase from an increase in rates and a decrease of £1m from a decrease in rates.

25. Derivatives

Accounting for derivatives and hedging

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. During the period, Atom have entered into derivatives to hedge against interest rate and foreign currency exposure.

All derivative financial instruments are recognised at their fair value. Fair values are calculated using valuation techniques, including discounted cash flow models, with inputs obtained from market rates. Derivatives are carried on the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of any derivative instrument are recognised immediately in the income statement.

Notional amounts of the contracts are not recorded on the balance sheet.

Hedge accounting

IFRS 9 hedge accounting, applies to all hedge relationships, with the exception of fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities (commonly referred to as 'fair value macro hedges'). This exception arises because the IASB has a separate project to address the accounting for macro hedges. In light of the above, IFRS 9 provides an accounting policy choice: entities can either continue to apply the hedge accounting requirements of IAS 39 until the macro hedging project is finalised, or they can apply IFRS 9 (with the scope exception only for fair value macro hedges of interest rate risk). This accounting policy choice will apply to all hedge accounting and cannot be made on a hedge-by-hedge basis. Atom have chosen to apply IFRS 9 with the scope exception.

Micro hedge accounting relationships were designated for derivatives used to hedge the interest risk on the fixed-rate customer deposit and macro relationships for mortgage products. Hedge accounting allows financial instruments, generally a derivative such as a swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of such instruments. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item and the hedging instrument, and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value of the hedged risk.

The effectiveness of the hedging relationship is tested both at inception and throughout its life, and if, at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Derivatives are classified as either hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of highly probable future cash flows attributable to recognised assets or liabilities (cash flow hedges). All designated hedges at the year end have been classified as fair value, which means any changes in the fair value of the hedged asset or liability attributable to the hedged risk and the hedging instrument are recognised directly in the income statement.

The following table sets out the derivative instruments the Bank holds:

	2018		2017	
As at 31 March 2018	**Notional contract amount £'000**	**Fair Value £'000**	**Notional contract amount £'000**	**Fair Value £'000**
Settled on a net basis				
Derivatives in accounting hedge relationships				
Interest rate	1,738,000	9,297	429,300	(124)
Derivatives in economic and not accounting hedges				
Cross currency swaps	136,857	(1,218)	-	-
FX forward	1,303	(71)	-	-
Total derivatives held for hedging purposes	**1,876,160**	**8,008**	**429,300**	**(124)**

Interest rate swaps

The Bank holds portfolios of fixed-term deposits and mortgages and therefore is exposed to changes in fair value due to movements in market interest rates. The risk exposure is managed by entering into floating/fixed interest rate swaps.

The interest rate risk is determined as the change in fair value of the fixed-rate deposits and mortgages arising solely from changes in SONIA, the benchmark rate. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge, and its effectiveness is assessed by comparing changes in the fair value of the customer deposits and mortgages attributable to changes in the benchmark rate of interest, with changes in the fair value of the interest rate swaps.

The effect of credit risk is expected to be minimal on the hedged item and the hedging instrument and is not expected to dominate the hedge relationship. The derivative counterparties are at least BBB+ rated and hence deemed to have adequate credit quality. Credit risk will continue to be assessed throughout the life of the hedge relationship to prove that credit risk does not dominate.

From a fair value perspective, fixed-rate cash flows are sensitive to changes in the underlying variable benchmark interest rate. As the hedge relationship is set up with the fixed leg of the hedging instrument being equal and opposite in terms of notional and interest rate, it follows that the fair value changes on the hedged item and the hedging instrument will generally offset each other with changes in the floating benchmark over the life of the hedge relationship.

Ineffectiveness is expected due to:

- The mismatch in the maturities of the hedged item and hedging instrument.
- For micro-deposit hedge relationships, the mismatch in interest accrual period on certain deposits that make up the hedged item that accrue on a monthly basis, compared to the hedging instrument that has an annual accrual. These sources of ineffectiveness are expected to be immaterial in value and have no material impact on the underlying economic relationship.
- For mortgage macro hedge relationships, an assumption is made on the quantum of early repayments during the fixed-term period. Variances to this assumption generate ineffectiveness.

There were no other sources of ineffectiveness in these hedge relationships. During the year, hedge ineffectiveness of £1,690k was recognised within Other income.

With regard to the mortgage macro hedge relationships, as Atom is exposed to interest rate risk from the point of making a customer a binding offer, interest rate swaps are entered into at the point of offer. However, IAS 39 only permits an accounting hedge relationship to be designated when the hedged item (the mortgage) is recognised on balance sheet. As a result, during this period, £2,377k of fair value gain in the swaps were not offset within the income statement.

Fair value gains on derivatives held in qualifying fair value hedging relationships, hedging gain or loss on the hedged items, and gain or losses on financial instruments at fair value through profit or loss are included in Other Income.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

	Nominal amount of the hedging instrument	Carrying Amount (asset/ (liability))	Line item in the statements of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for 2018 (income/ (charge))
As at 31 March 2018	**£'000**	**£'000**	**£'000**	**£'000**
Derivatives held to hedge fixed rate GBP deposits	833,000	(789)	Derivatives held for hedging purposes	(782)
Derivatives held to hedge fixed rate mortgages	905,300	10,085	Derivatives held for hedging purposes	8,413

	Nominal amount of the hedging instrument	Carrying Amount (asset/ (liability))	Line item in the statements of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for 2018 (income/ (charge))
As at 31 March 2017	**£'000**	**£'000**	**£'000**	**£'000**
Derivatives held to hedge fixed rate GBP deposits	429,300	(124)	Derivatives held for hedging purposes	(124)

The amounts relating to items designated as hedged items were as follows:

	Nominal amount of the hedging instrument	Carrying Amount (asset/ (liability))	Line item in the statements of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for 2018 (income/ (charge))
As at 31 March 2018	**£'000**	**£'000**	**£'000**	**£'000**
Fixed rate deposits	833,000	901	Customer deposits	774
Fixed rate mortgages	905,300	(6,714)	Loans and advances to customers	(6,714)
As at 31 March 2017				
Fixed rate deposits	429,300	126	Customer deposits	126

The following tables set out the maturity profile of the hedging instruments:

As at 31 March 2018	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Nominal value of derivatives held for hedging purposes							
Derivatives held to hedge fixed rate GBP deposits	40,000	110,000	606,500	76,500	-	-	**833,000**
Derivatives held to hedge fixed rate mortgages	-	-	-	235,500	622,500	47,000	**905,000**
Total	**40,000**	**110,000**	**606,500**	**312,000**	**622,500**	**47,000**	**1,738,000**

As at 31 March 2017	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Total £'000
Nominal value of derivatives held to hedge GBP deposits	-	15,000	291,100	123,200	429,300

The following table display future derivative cash flows in the relevant maturity groupings in which they fall due. Cash flows for the floating legs of derivative transactions are calculated using the forward interest rate curve. These cash flows are not discounted in the same way that derivative valuations are, and totals will therefore not be identical to those reported in the balance sheet.

As at 31 March 2018	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Settled on a net basis							
- Inflows	1,903	1,065	5,461	16,592	15,034	546	40,601
- Outflows	(2,350)	(1,186)	(6,137)	(12,159)	(8,545)	(544)	(30,921)
Total	**(477)**	**(121)**	**(676)**	**4,433**	**6,489**	**2**	**9,680**

Cross currency swaps

Atom also holds a portfolio of cross currency swaps which are used to hedge against the interest rate and currency risk of Euro-denominated customer deposits. At year end, these instruments were not designated into hedge accounting relationships. As a result, a fair value loss of £962k was recognised in other income. This was offset against a gain in the foreign currency retranslation of the Euro deposits of £537k.

The derivative counterparties are at least BBB+ rated and hence deemed to have adequate credit quality. Credit risk will continue to be assessed throughout the life of the relationship to prove that credit risk does not dominate.

Offsetting

In accordance with IAS 32 Financial Instruments: Presentation, Atom reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set-off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangements on derivative financial instruments reported net on the balance sheet:

As at 31 March 2018	Gross Amounts £'000	Amounts offset £'000	Net amounts reported on the balance sheet £'000	Related amounts not offset: Cash collateral placed £'000	Net amount £'000
Derivative Financial Assets	10,537	(2,529)	8,008	10,140	(2,132)
Derivative Financial Liabilities	(2,529)	2,529	-	-	-

As at 31 March 2017	Gross Amounts £'000	Amounts offset £'000	Net amounts reported on the balance sheet £'000	Related amounts not offset: Cash collateral placed £'000	Net amount £'000
Derivative Financial Assets	132	(132)	-	-	-
Derivative Financial Liabilities	(256)	132	(124)	280	156

The netting applied covers agreements with the same counterparties whereby all outstanding transactions can be offset and close-out netting applied if an event of default or other predetermined events occur.

26. Accounting for financial assets and liabilities – fair values

Accounting for fair values
All financial instruments are initially recognised at fair value on the date of initial recognition and, depending on the classification of the asset or liability, may continue to be held at fair value either through profit or loss or other comprehensive income. The fair value of a financial instrument is the price that is estimated that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Wherever possible, fair value is determined by reference to a quoted market price for that instrument.

For some of the instruments held by the Bank, in particular derivatives, quoted prices are not available and valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value.

IFRS 13 Fair Value Measurement requires the Bank to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below.

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 valuations are those where quoted market prices are not available, or valuation techniques are used to determine fair value and the inputs are based significantly on observable market data.
- Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

As at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivatives held for hedging purposes				
Interest rate	-	9,297	-	**9,297**
Cross currency swaps	-	(1,218)	-	**(1,218)**
FX forward	-	(71)	-	**(71)**
Debt instruments at FVOCI				
UK Gilts	238,136	-	-	**238,136**
Covered Bonds	20,939	-	-	**20,939**
RMBS	-	11,132	-	**11,132**
Multilateral Development Bank and Government	52,153	-	-	**52,153**
Total	**311,228**	**19,140**	**-**	**330,368**

As at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Debt instruments at FVOCI				
Money Market Funds	-	9,040	-	**9,040**
UK Gilts	33,970	-	-	**33,970**
Covered Bonds	20,752	-	-	**20,752**
RMBS	10,192	-	-	**10,192**
Multilateral Development Bank and Government	13,295	-	-	**13,295**
Liabilities				
Derivatives held for hedging purposes	-	(124)	-	**(124)**
Total	**78,209**	**8,916**	**-**	**87,125**

UK Gilts, covered bonds and government sponsored debt are valued using quoted market prices and are therefore classified as Level 1 assets.

RMBS are classified as level 2 as the unit price is dependent upon the observable prices of the underlying fund investment.

Derivative financial liabilities are interest rate swaps and are valued using a discounted cash flow model where the most significant input is interest yield curves which are developed from publicly-quoted rates.

27. Amortised cost assets: fair value

As at 31 March 2018	Carrying value £'000	Level 3 £'000
Assets		
Loans and advances to customers:		
BBSL	138,354	142,128
Mortgages	1,060,245	1,060,976
Structured Loan Note	20,757	21,014
Liabilities		
Customer Deposits	1,439,793	1,412,340
Deposits from banks	355,215	355,215
Subordinated debt	8,134	9,067

As at 31 March 2017	Carrying value £'000	Level 3 £'000
Assets		
Loans and advances to customers:		
BBSL	32,724	32,724
Mortgages	26,620	26,620
Structured Loan Note	39,865	39,865
Liabilities		
Customer Deposits	538,060	542,717

The fair value of amortised cost assets is estimated as follows:

- BBSL: discounting anticipated cash flows at the current rate for loans of similar remaining maturities. There were no significant changes in credit risk since origination.
- Mortgages: Atom currently provides mortgages with a fixed rate for a limited period after which the loan reverts to a standard variable rate. The fair value is estimated by discounting anticipated cash flows by reference to either the market rate or current rates for similar loans of maturity equal to the remaining fixed interest rate period.
- Structured Loan Note: fair value is estimated by discounting anticipated cash flows with an estimate of current market rates.
- Deposits from customers: is estimated by discounting anticipated cash flows applying either market rates or current rates for deposits of similar remaining maturities.
- Deposits from banks: the carrying amount of deposits from banks is a reasonable approximation of fair value due to wholly comprising of TFS funding from the Bank of England which is priced at a margin to base rates.
- Subordinated Liability: discounting anticipated cash flows with an estimate of current market rates.
- The carrying amount of cash and balances at central banks is a reasonable approximation of fair value therefore not included in the table above.

Capital

In order to protect customers, as a regulated bank we are required to hold a minimal level of capital. To date, this has been achieved through equity issuances to our investors. This has also provided the investment to build and grow the bank during our "start-up" phase. This section provides information on our share capital, retained earnings and other equity balances. It also provides a description of how we ensure sufficient capital is maintained for the prudent management of the Bank and to meet our regulatory requirements.

28. Managing capital risk

Capital risk is the risk that the Bank has insufficient capital resources to meet its regulatory 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 development cost for the business, or having lending origination rates that far exceed expectations.

Capital is one of the key measures of the Bank and the Board sets capital risk appetite. 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 ALCO. Both Exco and ERC review high-level capital metrics, together with more details if there are any matters of concern. The Board and BRC also receive high-level metrics and commentary on capital risk.

Key capital risk mitigations

Capital risk is particularly important for a growing bank, since if the Bank is either expanding rapidly or is experiencing setbacks, it will require more capital than originally estimated. Atom continues to work with its existing equity investor base to secure funding for future growth.

During the period, the Bank has diversified its capital sources, both in terms of the provider and in terms of the quality of capital, by entering into a facility with the British Business Bank. Under this facility, Atom may issue long-dated subordinated debt (which counts as Tier 2 capital) in proportion to its Tier 1 common equity.

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

Atom assesses the Bank's Pillar 1 capital 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 is also required to hold Pillar 2B capital, which is designed to allow banks to continue to meet their specific Total Capital Requirements and therefore comply with the overall capital adequancy rule under stressed conditions.

A series of extreme but plausible stresses that might arise during the three-year horizon of the business plan to assess the resilience of the capital position is also ran. The stress testing affects both capital (either by depletion of capital or by a failure to raise new capital) or by increasing capital requirements as a consequence of changes in risk profile. Apart from the Reverse Stress, Atom was able to withstand the Board-approved stress scenarios, in some cases due to management actions taken to mitigate the effect of these stresses. Periodic shorter term forecasts are also undertaken to understand and respond to variations in actual performance against plan.

In order to avoid breaching a regulatory capital measure, a Board Buffer of additional capital is imposed above the regulatory threshold. Unlike the regulatory limits, the Board Buffer is designed to be utilised in a controlled manner when required.

Key Capital 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 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.

During 2018, the Bank complied in full with all of its externally imposed capital requirements. The following tables provide information on capital and reserves per the IFRS balance sheet with a reconciliation to the regulatory definition of capital.

29. Share capital and share premium

Accounting policy for share capital

Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. Ordinary shares are classified as equity.

	Number of shares	Ordinary shares (£0.00001 each) £'000	Share premium £'000	Total share capital and share premium £'000
As at 1 April 2017	**183,637,050**	**2**	**167,316**	**167,318**
Issued during the year	69,512,325	-	79,917	79,918
Expenses of issue of shares	-	-	(571)	(571)
Issued to staff under share incentive plans	4,392,711	-	-	-
As at 31 March 2018	**257,542,086**	**2**	**246,662**	**246,664**

	Number of shares	Ordinary shares (£0.00001 each) £'000	Share premium £'000	Total share capital and share premium £'000
As at 1 April 2016	**74,573,229**	**1**	**54,996**	**54,997**
Issued during the year	108,679,008	1	112,864	112,865
Expenses of issue of shares	-	-	(544)	(544)
Redemption of preference shares	384,813	-	-	-
As at 31 March 2017	**183,637,050**	**2**	**167,316**	**167,318**

Ordinary shares have full voting rights attached, save that, irrespective of the number of shares held by funds managed by Woodford Investment Management Limited, it will hold a maximum of 19.5% of the voting rights in the Company.

During the year, 70m ordinary shares of £0.00001 were issued for £79.9m. Post year end, an additional 134m of shares were issued for £153m.

30. Other reserves

The Group's other reserves of £11.9m (2017: £8.0m) primarily relates to equity settled share-based payments of £12.7m (2017: £7.8m).

	Group 2018 £'000	Bank 2018 £'000	Group 2017 £'000	Bank 2017 £'000
Fair value reserve	(345)	(345)	326	326
Share based payment reserve	12,703	12,703	7,809	7,809
Other reserves and treasury shares	(481)	-	(136)	-
Total other reserves	**11,877**	**12,358**	**7,999**	**8,135**

The Group balance also includes £(0.3)m (2017: £0.3m) of fair value adjustments on assets held at FVOCI and treasury shares of £0.5m (2017: £0.1m) relating to the EBT (see note 6 for further information).

31. Regulatory capital

The following table presents a reconciliation between equity on the IFRS balance sheet and prudential capital. The amount of capital held is measured against the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV) as implemented in the UK by the Prudential Regulation Authority (PRA). Full details of the regulatory capital and leverage frameworks are provided in the Pillar 3 Report.

	2018 £'000 unaudited	2017 £'000 unaudited
Shareholders equity per the statement of financial position	**134,490**	103,946
Regulatory deductions	-	-
Intangible assets	(34,109)	(30,546)
Prudential valuation adjustment	(323)	(87)
Common Equity Tier 1 (CET1) capital	**100,058**	73,313
Eligible Tier 2 instruments	**7,935**	-
Regulatory credit risk adjustments	-	295
Tier 2 capital	7,935	295
Total capital	**107,993**	73,608
Risk weighted assets	**572,566**	157,394
Common Equity Tier (CET1) ratio	**17.5%**	43.9%
Total capital ratio	**18.9%**	44.1%
Leverage ratio	**5.0%**	10.9%

The Bank continues to maintain capital and leverage ratios that exceed its minimum requirements under the CRD IV regulatory framework.

Despite the increase in capital resources, the Bank's key capital ratios have fallen year on year due to the significant growth in customer lending and the corresponding increase in RWAs.

The growth in total balance sheet assets to £1.96bn (2017 £0.65bn) has driven the movement in the leverage ratio during the period. The impact of the increase in assets has been partially offset by the increase in Tier 1 capital resources in the year.

Other

This section contains other mandatory disclosures that are important to understand the performance and position of Atom.

32. Intangible assets

Accounting for intangible assets

Intangible assets with finite useful lives that are acquired or built are carried at cost less accumulated amortisation and impairment losses. Intangible assets with indefinite useful lives that are acquired or built are carried at cost less accumulated impairment losses. Amortisation is recognised on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life for each class of intangible asset is as follows:

- Banking Licence: The banking licence is assumed to have an indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate benefits for the business. Costs relating to obtaining this asset are held at cost and are not being amortised.
- IT Infrastructure: 5 years
- App Development: 7 years

At each balance sheet date, the Bank reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Research and development expenditure

Research expenditure is written-off to the income statement in the period in which it is incurred. Development expenditure is also written-off to the income statement, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised and amortised over the period in which Atom is expected to benefit.

The amortisation charge for 2018 increased as the IT stack continued to grow with new software and app versions beginning their useful life. Additionally, during 2017 the useful life of the IT stack relating to mortgages commenced, with 2018 seeing the full year amortisation charge.

Critical accounting estimate

In line with Atom's strategy, significant investment in the product range and development of underlying technology is planned. Due to the rapid development in the capabilities of available technology, there is a risk that the future roadmap might "sunset" or "retire" existing assets. This could result in the write-off, or an acceleration of amortisation of intangible assets. This is assessed as part of the annual impairment review. No significant assets were identified for impairment at year end.

	Banking license £'000	IT infrastructure and software £'000	App £'000	Total £'000
Cost				
As at 1 April 2017	887	23,280	10,016	34,183
Additions	-	5,658	3,338	8,996
As at 31 March 2018	**887**	**28,938**	**13,354**	**43,179**
Accumulated amortisation and impairment				
As at 1 April 2017	-	2,773	864	3,637
Amortisation charge	-	4,033	1,401	5,434
As at 31 March 2018	**-**	**6,806**	**2,265**	**9,070**
Net book value				
As at 31 March 2018	**887**	**22,132**	**11,090**	**34,109**

	Banking license £'000	IT infrastructure and software £'000	App £'000	Total £'000
Cost				
As at 1 April 2016	887	12,889	6,050	19,826
Additions	-	10,391	3,966	14,357
As at 31 March 2017	**887**	**23,280**	**10,016**	**34,183**
Accumulated amortisation and impairment				
As at 1 April 2016	-	485	-	485
Amortisation charge	-	2,288	864	3,152
As at 31 March 2017	**-**	**2,773**	**864**	**3,637**
Net book value				
As at 31 March 2017	**887**	**20,507**	**9,152**	**30,546**

33. Property, plant and equipment

Accounting for property, plant and equipment

Property, plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset.

Depreciation is provided on the depreciable amount of items of property, plant and equipment on a straight-line basis over their estimated useful economic lives. Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances. The Bank uses the following annual rates in calculating depreciation:

- Fixtures and fittings: 5-25 years
- Office and IT equipment: 3 years

Impairment of property, plant and equipment

At each balance sheet date, property, plant and equipment are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount which is the higher of the asset's net selling price and its value in use.

The carrying values of fixed assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount.

	Fixtures and Fittings £'000	Office and IT Equipment £'000	Total £'000
Cost			
As at 1 April 2017	389	763	1,152
Additions	57	60	117
Disposals	(24)	-	(24)
As at 31 March 2018	**422**	**823**	**1,245**
Accumulated depreciation and impairment			
As at 1 April 2017	96	334	430
Depreciation charge	43	241	284
Disposals	(8)	-	(8)
As at 31 March 2018	**131**	**575**	**706**
Net book value	**291**	**248**	**539**

	Fixtures and Fittings £'000	Office and IT Equipment £'000	Total £'000
Cost			
As at 1 April 2016	239	410	649
Additions	150	353	503
As at 31 March 2017	**389**	**763**	**1,152**
Accumulated depreciation and impairment			
As at 1 April 2016	28	137	165
Depreciation charge	68	197	265
As at 31 March 2017	**96**	**334**	**430**
Net book value	**293**	**430**	**722**

34. Other assets

	Group 2018 £'000	Bank 2018 £'000	Group 2017 £'000	Bank 2017 £'000
Cash collateral	-	-	280	280
Settlement and clearing accounts	5,114	5,114	8,245	8,245
Prepayments and other	3,054	3,054	2,821	2,821
Loan to EBT	-	481	-	136
Total other assets	**8,168**	**8,649**	**11,346**	**11,482**

Other assets includes £5.1m (2017: £8.2m) of settlement and clearing accounts, the majority of which relates to mortgage loans where cash is being held in escrow before completion.

35. Other liabilities

	2018 £'000	2017 £'000
Accounts payable and sundry creditors	4,669	3,558
Accrued expenses	3,643	2,520
Cash settled share based payment liability	702	497
Cash collateral	10,140	-
Total other liabilities	**19,154**	**6,575**

Cash collateral represents collateral received with respect to derivative contracts.

36. Operating leases

Accounting for operating leases

Atom applies IAS 17 Leases, for operating leases. An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor.

Where Atom is the lessee, rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease.

The Bank leases office premises and office equipment. With such operating lease arrangements, the asset is kept on the lessor's balance sheet and Atom reports the future minimum lease payments as an expense over the lease term. Some of these operating lease arrangements have renewal options and rent escalation clauses, although the effect of these is not material. No arrangements have been entered into for contingent rental payments.

	2018 £'000	2017 £'000
Not more than one year	770	191
Over one year but not more than five years	2,610	14
Later than five years	2,763	-
Total operating leases	**6,143**	**205**

The increase in operating lease commitments is due to the lease over The Rivergreen Centre, Durham signed in June 2017.

37. Related party transactions

Atom's related parties consist of key management personnel.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank which is the Board and Executive Committee. The compensation paid or payable to key management personnel is shown in the tables below.

Executive committee	2018 £'000	2017 £'000
Wages and salaries	1,669	1,390
Share based payments	650	819
Pension costs	184	143
Total	**2,503**	**2,352**

Directors emoluments	2018 £'000	2017 £'000
Wages and salaries	1,254	1,095
Compensation for loss of office	445	-
Share based payments	1,595	2,207
Pension costs	61	56
Total	**3,355**	**3,358**

Highest paid director	2018 £'000	2017 £'000
Wages and salaries	372	303
Share based payments	575	1,267
Pension Costs	0	23
Total	**947**	**1,593**

There were 2 directors (2017: 2) who accrued retirement benefits under the defined contribution scheme.
No directors exercised share options during the year (2017: nil).

38. Investments in subsidiary undertakings

The following entities were consolidated by the Bank during the year:

Name	Relationship
Atom EBT Limited	Wholly owned subsidiary
Atom Bank Employee Benefit Trust	Employee Trust

Independent auditors' report to the members of Atom bank plc

Report on the audit of the financial statements

Opinion

In our opinion, Atom bank plc's group financial statements and parent company (the "Bank") financial statements (the "financial statements"):

- Give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 March 2018 and of the Group's and the Bank's loss and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and Bank statements of financial position as at 31 March 2018; the Group and Bank statements of comprehensive income, the Group and Bank cash flow statements, and the Group and Bank statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Bank.

Other than those disclosed in note 1 to the financial statements, we have provided no non-audit services to the Group or the Bank in the period from 1 April 2017 to 31 March 2018.

Our audit approach

Overview

- Overall Group materiality:
  £1,341k based on 1% of net assets (2017: £759k based on 2% of total expenses).
  Overall Bank materiality:
  £1,341k based on 1% of net assets (2017: £759k based on 2% of total expenses).

- The Atom bank plc financial statements were designated as an in-scope component.

Key audit matters included:

- Risk of fraud in revenue recognition - EIR (Group and Bank).
- Impairment of loans and advances to customers (Group and Bank).
- Development costs capitalised may not be complete, accurate or meet capitalisation criteria (Group and Bank).
- Entity's ability to continue as a going concern (Group and Bank).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Bank financial statements, including, but not limited to, the Companies Act 2016 and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above, and the further removed non-compliance with laws and regulations is, from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Risk of fraud in revenue recognition – Effective interest rate (EIR) accounting (Group and Bank) See note 2 of the financial statements for the disclosure of the related accounting policies. The Bank's total loans and advances to customers balance of £1.2bn and related interest income of £12.3m include certain EIR adjustments as per the requirements of IFRS 9. The significant majority of the interest income recognised by the Bank is automatically calculated on the Bank's systems with minimal judgement involved, therefore we focused our work in relation to revenue recognition on EIR accounting due to the inherent subjectivity and complexity involved in forecasting future customer behaviour on which the EIR adjustment calculation is based. The Bank has limited historical experience to support these profiles and therefore management must apply judgement, in addition to any industry and management expert's information available.	As part of our detailed work, we: Assessed the appropriateness of key assumptions used, primarily the expected life applied, which we corroborated against recent Bank experience, our industry knowledge and benchmarks. Tested completeness and accuracy of inputs, feeding EIR calculation. Tested the EIR model code changes to ensure that implementation and calculation is in line with the approved methodology. Substantively tested a selection of fees incorporated within the calculation and confirmed the appropriateness of their inclusion in the EIR calculation. We concluded that, whilst there is significant judgement inherent in the EIR adjustment, the assumptions applied were within a reasonable range based on past experience and observed practice in the UK mortgage sector.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers (Group and Bank) See note 11 of the financial statements for the disclosure of the related accounting policies and critical estimates and judgements. In order to meet the requirements of the new standard, the Bank has developed IFRS 9 impairment models that are reliant on expert judgement and industry assumptions provided by third parties in the absence of internal historical data. We focused our audit on the key assumptions and judgements made by management that underlie the calculation of provisions. These included the probability of default, the loss given default, and forward-looking information.	We have reviewed the residential mortgages and BBSL models codes in the prior year and ensured they are in compliance with IFRS 9 requirements and the Bank's accounting policy. During the 2018 audit, we independently compared this and prior year models codes, understood and critically assessed the changes, ensuring the model remains appropriate for the Bank as it continues to grow. As part of our detailed work, we: Tested key assumptions used within the models to internal and external information where appropriate. Assessed the sufficiency of the disclosures in the financial statements relating to significant estimates made in the IFRS 9 impairment calculation, including disclosure of sensitivities. Assessed the completeness and validity of management's stage allocation in the mortgage book. Tested the completeness and accuracy of data inputs (including LTV, credit score, arrears) for the IFRS 9 models to identify any material inconsistencies with source system data. We found the approach taken in relation to the Bank's impairment provisions to be consistent with the requirements of IFRS 9 and judgements made were reasonable.

Key audit matter	How our audit addressed the key audit matter
Development costs capitalised may not be complete, accurate or meet capitalisation criteria (Group and Bank) See note 32 of the financial statements for the disclosure of the related accounting policies. During the year, the Bank has developed software including the app and related IT infrastructure. Management applies judgement in considering whether or not costs should be capitalised in the context of IAS 38. There is also an increased level of risk that capitalisation is not complete or accurate. At 31 March 2018, the Company's total net book value of intangible assets was £34.1m.	We assessed the Bank's capitalisation policy to check that it met the requirements of IAS 38. As part of our detailed work, we: Substantively tested a selection of costs to check that these meet the criteria of IAS 38 for capitalisation as intangible assets. Reviewed how the Bank expects these assets to generate probable future economic benefits through a review of the business plan. Tested the amounts capitalised on a sample basis to assess that they can be reliably measured, and tested a selection of cost expensed to check they should not have been capitalised. We are satisfied that the Bank has continued to demonstrate the feasibility and intention of completing the assets and the availability of adequate resources to enable their completion. We are also satisfied that additional amounts capitalised in the financial year, where material, were appropriately capitalised rather than expensed.

Key audit matter	How our audit addressed the key audit matter
Entity's ability to continue as a going concern (Group and Bank) Atom bank continues to seek additional working and regulatory capital to support its growth plans. While the directors expect that they will be able to raise the necessary capital successfully, the requirement for additional capital creates risk about the Bank's ability to continue as a going concern.	We obtained and reviewed management's going concern assessment, as well as capital and liquidity adequacy assessments. We had a number of meetings with key management personnel to update our understanding of future plans and strategy. As part of our detailed work, we: Assessed the key assumptions in management forecasts, including loan book growth and fundraising by comparing to recent experience. Performed sensitivity analyses of key judgements to understand the materiality of the potential realistic scenarios. Critically assessed management stress testing of capital and liquidity ratios. Compared current year actual results to forecasts to assess how accurate management are in their forecasting. Reviewed Board and executive committee meetings minutes, as well as regulatory correspondence. Reviewed and understood material post year end developments. Based on our procedures undertaken we concur with going concern basis of preparation being adopted and there are no material uncertainties for the Bank to continue as going concern.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Bank, the accounting processes and controls, and the industry in which they operate.

We updated our understanding of processes within the business in order to understand and evaluate the key financial processes and controls across the company. Following our procedures, we were able to obtain sufficient appropriate audit evidence to form a basis for our audit opinion.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures, and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£1,341k (2017: £759k)	£1,341k (2017: £759k)
How we determined it	1% of net assets (2017: 2% of total expenses)	1% of net assets (2017: 2% of total expenses)
Rationale for benchmark applied	Based on the life cycle of the Group net assets is the primary measure of Group growth	Based on the life cycle of the Bank net assets is the primary measure of Bank growth

Group components other than the Bank did not materially contribute to the Group's financial performance and/or position.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £67k (Group audit) (2017: £38k) and £67k (Bank audit) (2017: £38k) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Bank's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Bank, and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Bank's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the Directors on 19 March 2014 to audit the financial statements for the year ended 19 March 2014 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 19 March 2014 to 31 March 2018.

Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle
11 July 2018

Atom bank