Atom the trailblazing award-winning customer-focused cost-killing tech-tackling future-finding competition-crushing Trustpilot-triumphant branch-busting bold-as-brass bank

ANNUAL REPORT 2018/19

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.

This Annual Report includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should", or their negative variations or comparable terminology, or by discussions of strategies, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts.

They appear in a number of places throughout this Annual Report and include statements of the intentions, beliefs or current expectations relating to the results of operations, financial condition, liquidity, prospects and growth of Atom and the sector in which it operates.

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

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

References to "the year", "2018/19" and "2019" refers to the financial year from 1 April 2018 to 31 March 2019. References to "2018" refers to the financial year 1 April 2017 to 31 March 2018

What's inside?

Atom bank

Strategic Report

Atom at a glance

Who are we?

We're Atom bank. Founded in 2014 and the UK's first bank built exclusively for mobile, we're a passionate bunch based in the North East of England.

Our Vision

Atom empowers people to own their financial future and inspires them to make it happen.

We want to empower people by giving them the best tools to enable them to own their financial future: an exceptional app and a fantastic product range that is simple, transparent and great value.

We want to inspire people to make this happen with insights, nudges and tips that help them make the best decisions to achieve their goals.

Our Goal

To create the most customer centric bank on the planet.

Our Strategy

We have set four strategic priorities over the next 12 months. These are:

Build out the Atom Banking Machine

Build on our reputation for exceptional customer experience

Deliver market-leading cost efficiency

Deliver our revenue growth plan

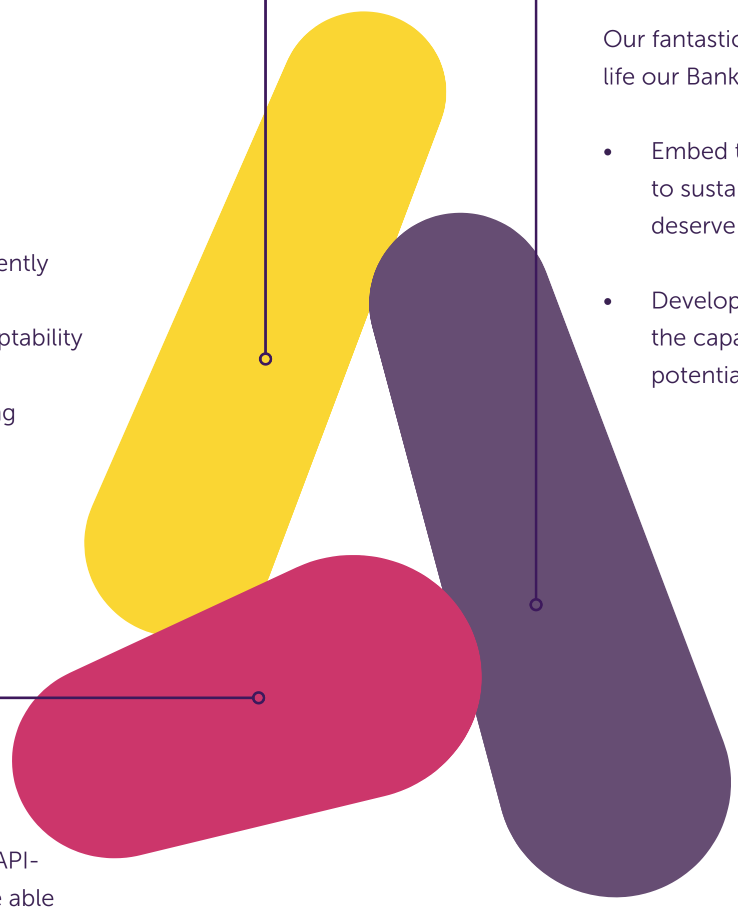
Building the Atom banking machine

Atom's Banking Machine fuses platform, people and data.

Platform

We're partnering with Thought Machine - one of the industry's most advanced core banking platforms, which will:

- Enable us to stand up new products quickly and efficiently
- Provide Atom with the adaptability and optionality to succeed in a rapidly evolving banking ecosystem



People

Our fantastic people are bringing to life our Banking Machine and will:

- Embed the culture and behaviours to sustain a bank customers deserve
- Develop talent in-house and build the capabilities to maximise the potential of Atom

Data

We're implementing the latest API-enabled data architecture to be able to deliver:

- Real time data streaming
- Optimisation of internal decision making
- Insight capabilities that add value to our customers

Atom's 2019 highlights

May 2018
First-Time Buyer mortgage launches

May 2018
Mortgage Lender of the Year at the Credit Awards

June 2018
Supported 32 young people through Prince's Trust

July 2018
3 & 6 month Fixed Savers launch

July 2018
Best Online Lender - What Mortgage Awards

July 2018
Atom Incubator for tech start-ups

October 2018
Mortgage Broker Net Promoter Score (NPS) reaches +70

October 2018
UK's first securitisation by mobile only bank

October 2018
Top 10 KPMG Global Fintech Innovators

October 2018
Reached 65,000 customers

October 2018
£1.8bn in retail deposits

November 2018
Portfolio Buy to Let product launched

November 2018
£2.0bn in completed mortgages

November 2018
Partnership with Thought Machine

December 2018
Bacs membership

December 2018
Most trusted UK bank on Trustpilot

February 2019
Contact Centre of the Year

At the North East Contact Centre Awards (under 250 seats)

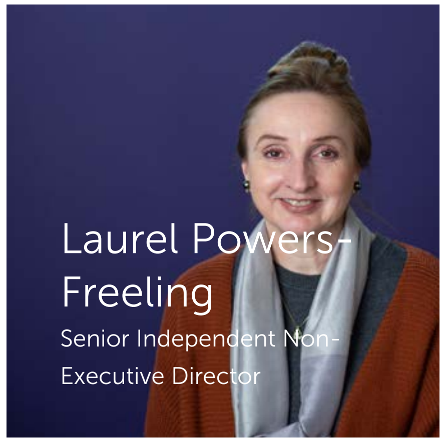
March 2019
Oldest customer turns 100

Our Board of Directors

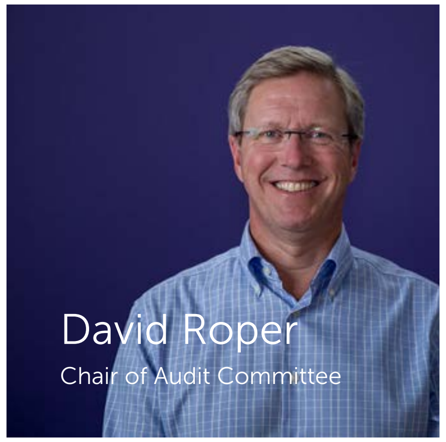

Bridget Rosewell
Chairman


Mark Mullen
Chief Executive Officer


David McCarthy
Chief Finance Officer


Laurel Powers-Freeling
Senior Independent Non-Executive Director


Patricia Jackson
Chair of Risk Committee


David Roper
Chair of Audit Committee


Cheryl Millington
Non-Executive Director


Ergun Özen
Non-Executive Director


Gonzalo Romera
Non-Executive Director


Ian Ormerod
Non-Executive Director

Our Executive Management Team


Mark Mullen
Chief Executive Officer


David McCarthy
Chief Finance Officer


Edward Twiddy
Chief Customer Officer


Rana Bhattacharya
Chief Technology Officer


Stewart Bromley
Chief Operating Officer


Maria Harris
Director of Intermediary Lending


Rachael McLauchlan
Chief Audit Officer


Chris Sparks
Chief Risk Officer

Bridget Rosewell, CBE

Chairman

Chairman's Statement

Who we are

Challenger bank? Fintech? Neo-bank?

There are no shortage of labels attached to the new generation of banks and in one way or another Atom can be said to tick all of the boxes. But at its heart Atom is a business, just like any other. And like any business we're here to serve customers, we're here to compete, we're here to create opportunities for our employees and we're here to create value for our owners.

We have a clear vision – to empower people to own their financial futures and inspire them to make it happen. We don't think it's an extravagant ambition - quite the opposite. Building both our customer relationships and capabilities is the backbone of how we can provide a banking machine. One that works for customers, and that doesn't see the customer themselves as the product.

We are clear that we must avoid the temptation to do as others do and exploit inertia; rather we will build loyalty by offering simple and uncomplicated products and services supported by clear and transparent information.

It's our job to make the management of money enjoyable and empowering, but at the same time, we can offer customers a better rate on their savings or lower costs on their borrowing. We do this by investing and continuing to invest in world-leading technology. Last year we showed that we are able to grow strongly, this year we are concentrating on investing in even more modern technology and systems which will improve speed and security for our customers.

The last 12 months...

A particularly challenging external environment together with some fundamental shifts in the banking landscape has made the banking bit of Atom considerably harder. The combination of the Term Funding Scheme (TFS) and the introduction of ring-fencing has provided a liquidity boost to larger banks. This is playing out in tighter margins on mortgage lending which in our view has the capacity to damage competition in the longer term. But we are rising to the challenges. In response, we have re-focussed our lending, slowed our asset growth and extended our wholesale capabilities (and on this latter point I'm particularly proud of our successful debut securitisation). In the year ahead we're building new ways of helping customers save and borrow and reducing our costs as we continue to challenge the 'bigger is best' banking model.

Strategy and Governance

We are confident our strategy will deliver a more valuable proposition and a better experience for customers. I am immensely proud of the progress the team has made on our new banking platform and the hard work of everyone involved in helping to deliver it. It will give us agility and it's exactly what we need to keep innovating and pushing for change in the banking industry.

Delivery of the strategy is monitored and reported to the Board through a fully formed, strong governance framework.

Experienced Board members oversee the team. In the last year Cheryl Millington and David Roper have joined our Board as independent non-executives bringing technology and audit experience respectively. Our BBVA members have also changed, with Victoria del Castillo replaced by Gonzalo Romera and Ian Ormerod as an alternate.

Capital management

At the start of the year, we received £153m of equity capital which enabled us to continue to grow the balance sheet, invest in technology, and fund early stage losses.

We are always looking to use our funding to enable us to be competitive and profitable in the long term. To date our investors have been supportive in this vision and we continue to work with them and prospective investors for future funding required to deliver on our strategy. As well as ensuring that we have the right level of equity investment, we are also looking at broadening sources of capital and funding.

University Partnerships

Our location in the North East is very important to us, not least because it allows us to engage with first class academic institutions. In 2018 we launched a new programme in partnership with both Durham and Newcastle Universities, financed by the Engineering and Physical Sciences Research Council, to look at machine learning and cyber security in banking. It is called the FinTrust programme and we will use it to understand customer needs and deliver better services.

Core to our development of customer solutions is our optimisation engine. This builds on what is now a longstanding partnership with Durham University to build a data-driven network of predictive machine-learning models which, using internal and external data, provide the intelligence to enable us quickly to understand the implications of our choices for our customers.

Our people

Atom aims to be a good citizen of our local community. One of our goals is to provide our people with a working environment which is fair and offers equal opportunity to all. Our gender pay gap as adjusted for hours of work has come down 8 percent and will remain a focus area until we achieve parity. We now track the gender balance in promotions, the length of time it takes for both men and women to progress through the organisation, as well as the rate of salary increase.

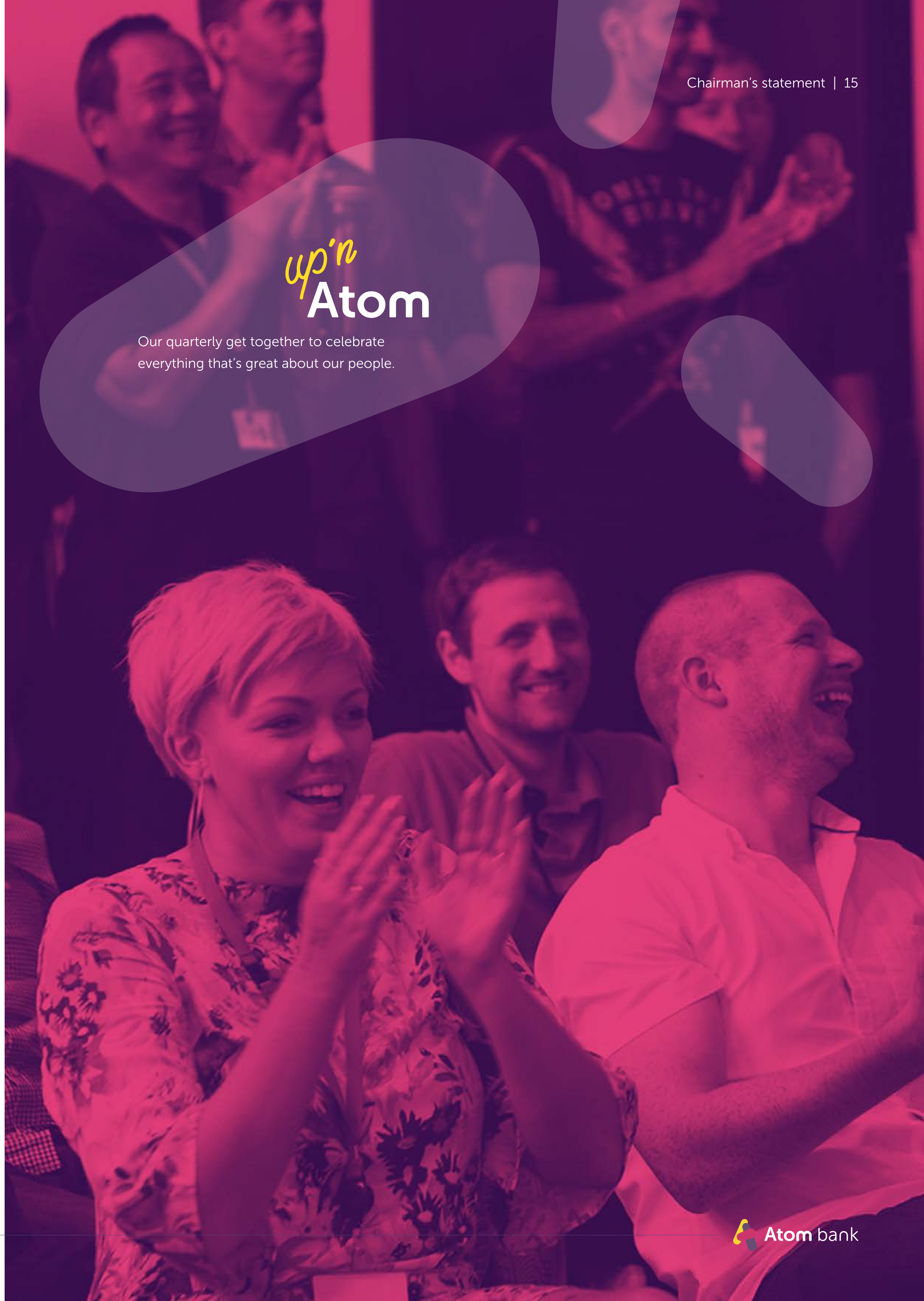
We use gender neutral terms in our recruitment, as well as providing flexible working and more family friendly hours.
Fairness at work starts with fairness at school and we are keen to support more young people in studying Science, Technology, Engineering and Mathematics (STEM). We have partnered with the Prince's Trust to increase opportunities for STEM education and training in the North East and we also host a coding club in our offices once a month.

We were one of the first businesses to sign the Women in Finance Charter in 2016, and also one of the first signatories of the Tech Talent Charter in 2017. We have been involved in a number of initiatives in the North East to encourage females in technology, including Tech Mums Club, Stemettes and TechUP.

And finally...

Building any business isn't easy, building a bank perhaps even less so. It requires the commitment and support of a wide variety of people; our employees, of course, but also our investors, our Board and our Executive Team. I would like to thank them all for their ideas, their energy and their combined commitment to Atom.

Bridget Rosewell, CBE
Chairman



Mark Mullen

Chief Executive Officer

Chief Executive's review

Just five years ago we founded Atom. We were licenced to accept deposits in June 2015 and a year later we started offering business loans and personal savings. We introduced our residential mortgage loans in January 2017 and since then we've expanded our offer to include First Time Buyer mortgages and most recently portfolio buy-to-let lending. Later this year we'll launch instant access savings for personal customers. We have no intention of stopping there. We have a long list of product and service additions on our roadmap as we work to create the most customer centric bank on the planet.

These last 12 months have been challenging for businesses here in the UK and particularly so for new and smaller banks. Nonetheless we have continued to make progress.

I remain optimistic that so long as we continue to focus on providing an outstanding experience for our customers and competitive products and services, we will succeed.

Our customers

Atom is creating a customer oriented culture and through that, a customer oriented business. We are proud of our customer Net Promoter Score (NPS) of +76 and our mortgage broker NPS of +70. At the time of writing we are the most trusted bank in the UK with a 5-star Trust Pilot rating. Our small customer contact centre continues to win awards and throughout the year we've delivered steady improvements in our Android and iOS app store ratings with lots more to come when we launch a new app next year.

We are continuing to invest in customer insight and innovation. We have built an award winning voice of the customer program that captures data across all lines of customer touch points. This insight lets us understand what matters most to customers and helps us prioritise our proposition and experience roadmap. Later this year we'll launch new savings products for personal customers and will automate the processes supporting business customer loan applications.

Throughout, we will continue to prize customer opinion – if it carries our brand it will carry our promise.

Investment in capabilities

In November, we announced a new strategic partnership between Atom and Thought Machine, a London based technology start-up focussed on the development of next generation core banking solutions. We have been working together for quite some time now and we plan to implement the first in a series of new products – instant access savings in the Autumn of 2019.

The decision to move new product launches onto the Thought Machine banking platform while at the same time transferring our entire technology stack to the cloud ensures that our future will be agile, resilient and unencumbered by complexity.

At the same time, we continue to invest in automation and to increase our engineering and service management capabilities.

The Atom Banking Machine is of course heavily reliant on technology but not exclusively so. We have grown - albeit modestly - our Finance, and Risk teams as we expand our wholesale banking and treasury management. We are also well advanced in building and embedding the use of our own credit loss models as we progress on our path to move away from standardised capital risk weightings.

In December of 2018 we joined the Bacs payment scheme. Already a member of Faster Payments, we see how being a direct payment scheme membership can be a driver of revenue and cost efficiency for Atom long into the future.

Financial performance

We have made progress in the direction of positive earnings but are still loss making with an operating loss of £49m (2018: £42m). In part this results from our decision to delay the launch of new products pending deployment of our new banking platform. However, it also reflects very challenging market conditions and in particular the largely artificial effects of the Term Funding Scheme and of ring-fencing. The combined impacts of these compressed spreads in residential mortgage lending during 2019.

We have taken steps to ensure that we focus our product mix, resources and capital on profitable growth opportunities. As a result we have achieved positive net interest income so far during the new financial year. We remain convinced that a strong and - in time - diversified deposit and lending business will generate value for the Atom.

To align with implementing our new banking technologies we have accelerated the write-down of some existing technology assets. While this has increased our loss before taxation by £19m we believe it's the right decision. Too often in our industry we see organisations carry legacy decisions into the future with all too predictable results; increased operational and resilience risks and higher ultimate replacement costs.

We have prioritised our investment in technology and in customer growth. At the same time, we are building a brand and in doing so are taking a longer term view. It's important that the big banks don't have it all their own way. A cursory glance at the savings rates offered by the UK's biggest banks tells its own story. They see no need to offer their customers better value. It's for this reason competition of the sort that Atom represents is much needed. More than ever, we are committed to the delivery of industry leading cost efficiency.

Looking forward

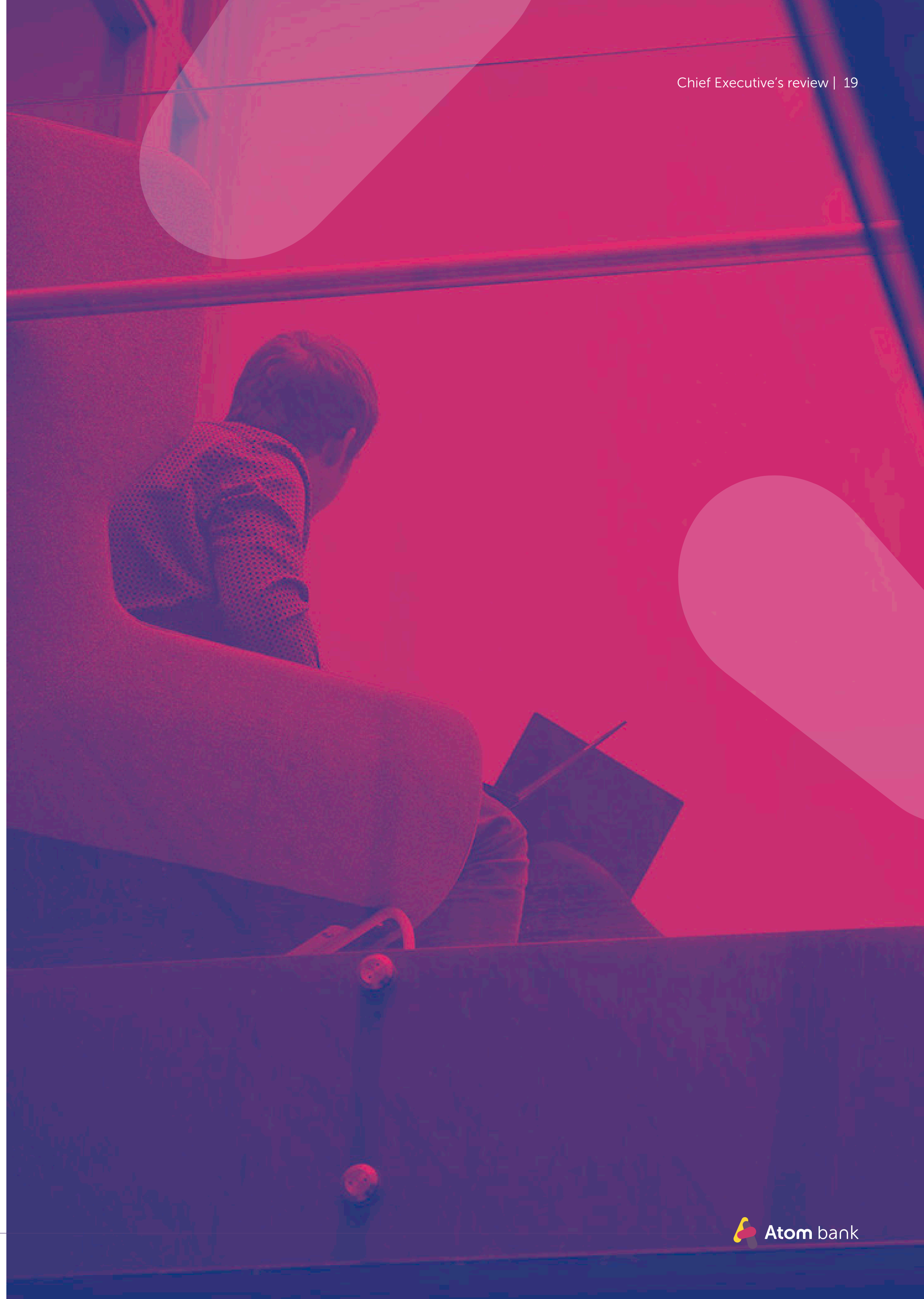
In the coming year we will significantly broaden the appeal of both our personal and business banking offer by introducing new products and by investing in automation (the latter point particularly relevant to business banking). We will measure our growth in favour of profitable opportunities, build out the technology underpinnings of the Atom Machine and continue to focus on cost control and scalable efficiency.

The actions already taken by the business will ensure that Atom is well placed to manage any short-term market volatility. We have a clear vision supported by a clear strategy, one that we will continue to implement vigorously.

Thanks

Building our bank has always been and remains a team endeavour. I would like to recognise the dedication and personal support of our Atom family, the continued trust and encouragement of my fellow Board members, our patient and loyal investors and above all, our customers, without whom we would be nothing.

Mark Mullen
Chief Executive Officer



Business model and strategy

Business Model

We're creating a radically different banking machine. It fuses platform, people and data to deliver market-leading efficiency and exceptional customer experiences.

This is founded on building a great team, creating automated and highly-scalable technologies and delivering straightforward products and services.

Today, Atom's business model centres on offering retail banking products to savers, homeowners and business owners. We use the money that our savings customers deposit with Atom to fund loans to small businesses and homeowners in the UK. These loans are distributed UK-wide by our intermediary partner networks who offer whole-of-market advice to customers. We receive income from these loans and pay interest to customers who have entrusted their savings with us.

Additional funding is raised from wholesale markets and in the form of equity capital provided by our shareholders.

In the months and years ahead, Atom will continue to extend its range of products and services as we move towards becoming a profitable bank. We will also work in partnership with like-minded brands and businesses to take full advantage of the growing digital economy.

Strategic priorities

Atom has four strategic priorities against which we have made strong progress in these last 12 months.

Strategic priority	Description	Progress
1. **Build out the Atom Banking Machine**	The Atom Banking Machine fuses platform, people and data. By moving to the cloud, investing in innovative technologies and moving to our new core banking platform, Atom will be faster, more agile and able to configure products more flexibly. We're developing talent in-house and continue to invest in agility to ensure we can fully realise the capability of our business. All of this combines together to build a bank that can meet and exceed customer expectations. How we measure ourselves: • Delivery of the transition to the cloud • Successfully launching new products on the new platform	• We started to transition our technology stack to the cloud, a process we will complete in 2020 • In collaboration with Thought Machine, we started work to introduce their next generation cloud native and smart contract based core banking platform • We joined the Bacs payment scheme • We strengthened our Technology, Finance and Risk teams as part of our continued investment in our capabilities

Strategic priority	Description	Progress
2. **Build on our reputation for exceptional customer experience**	We are building a reputation for exceptional customer experiences. We offer our customers an experience that's fast and easy, great value, insightful and human. We're always listening to our customers and using their feedback to improve what we do. For example, in the last year we've implemented a series of changes to our app, to our policies and to our processes in direct response to what we have been told. Of course things go wrong, but when they do our multiple award winning contact centre is on hand to sort it out, 24 hours a day, 7 days a week. How we measure ourselves: • Trustpilot, Reevoo and Net Promoter scores • App store rating	• Our customers have rated us 5 stars and we're the number one most trusted UK bank on Trustpilot • 97% of customers would recommend us on Reevoo • We have achieved an industry leading NPS score of +76 and a mortgage broker NPS score of +70 • App Store rating of 3.4 and Google Play Store rating of 2.9 out of 5 • Our quarterly brand research shows that one in four of the UK population have heard, when asked, of Atom We've also won lots of awards this year: • Mortgage Lender of the Year at the Credit Awards 2018 • Best Online Lender at the What Mortgage Awards 2018, as voted for by consumers • Contact Centre of the Year (under 250 seats) at the North East Contact Centre Awards 2018 • Best Innovation in the Mortgage Space at the MoneyAge Mortgage Awards • Best Fixed Rate Mortgage Lender at the Personal Finance Awards • Best Short Term Fixed Rate Bond Provider at the Savings Champion Awards • Business Leader: Intermediary Lender (less than £5bn gross lending) at the British Mortgage Awards 2018

Strategic priority	Description	Progress
3. **Deliver market-leading cost efficiency**	We recognise the inefficiencies that traditional banks can bring and understand that everything is paid for by the customer. We want to automate every aspect of our business in order to reduce costs and improve the customer experience by designing simple products, processes and policies. How we measure ourselves: • Cost asset ratio • Operating costs	• We're the fastest lender in the market as voted by brokers in the Smart Money People Mortgage Lender Benchmark Report. Our personal best from application to offer is just 14 seconds! • Our cost asset ratio has improved to 1.8% (2018: 3.0%) • We have doubled our mortgage book whilst maintaining flat operational headcount • Operating costs increased to £43m (2018: £39m) reflecting investment in new capabilities
4. **Deliver our revenue growth plan**	We will continue to grow the bank and broaden our range of products and services, whilst focusing our resources on higher yielding and profitable opportunities. How we measure ourselves: • Net interest margin • Balance sheet growth	• Net interest expense improvement of £4m to £2m. While still an expense, it is a 41bps improvement on the journey to positive interest margin • Reached over £2 billion in completed mortgages, less than two years after launching our first mobile mortgage product • Our cost of funding improved by completing our first residential mortgage-backed securitisation, as well as implementing two warehouse facilities with Tier 1 banks • Diversified our product range, offering additional fixed rate saver products, introducing a first-time buyer proposition and a pilot Portfolio Buy to Let product

Financial Review

Profit and Loss

Operating loss for the year of £49m (2018: £42m) is driven by operating costs of £43m (2018: £39m) with the increase due to continued investment in capabilities.

Our key strategic priority to build out the Atom Banking Machine is underpinned by a platform transformation project which will implement a new core platform and move the entire technology stack to the cloud. Therefore,

- We have recognised an impairment of £11m on parts of the existing banking platform that are being replaced.
- The useful economic life of intangible assets which continue to be used have been reduced to coincide with new technology launches. This results in a £4m increase taking amortisation to £12m (2018: £5m).
- A platform transformation provision of £4m has been recognised representing the committed cost to decommission and migrate away from the existing stack.

As a result, loss before tax for the year was £80m (2018: £53m).

Net interest expense

Net interest expense improvement of £4m to £2m. Whilst this is still negative, it is a 41bps improvement

- This is primarily driven by a cost of funds enhancement due to an extension of our wholesale funding capabilities
- We have also refocused our front book loan-to-value mix and introduced first-time buyer products which has allowed us to write more profitable mortgages and improve asset yields.
- Management of liquidity has been optimised.
- As a result we are achieving positive net interest income so far during the new financial year.

We have made progress in the direction of positive earnings, but are still loss making. In part, this results from our decision to delay the launch of new products pending deployment of the new banking stack. Furthermore, challenging market conditions and the structural interventions of ring fencing and the Term Funding Scheme have compressed spreads in residential lending.

Other expense of £1.4m (2018: income of £3.6m) is due to fair value losses before hedge accounting designation on derivatives used to hedge the fixed rate mortgage portfolio.

Operating expenses

Operating expenses were £43m (2018: £39m). Cost efficiency is a key strategic differentiator for Atom and our cost:asset ratio is 1.8% (2018: 3.0%).

The modest cost increase in comparison to the growth in our mortgage and deposit books is reflective of our scalable business model without compromising on customer service.

We have continued to invest in the Atom team:

- We have strengthened our Technology and Change teams to build the Atom banking machine with key roles delivering platform transformation, investing in automation, increasing our engineering and service management capabilities as well as developing our proposition.
- We also have strengthened our Finance and Risk teams as we expand our wholesale banking and treasury management capabilities.

Balance Sheet

Assets

Total assets grew 40% to £2.8bn (2018: £2.0bn) during the year as we continued to build and grow the bank. Loans and advances to customers increased to £2.4bn (2018: £1.2bn)

Mortgages
Our mortgage balances doubled, growing to £2.2bn (2018: £1.1bn) further proving the origination and servicing scalability of the business model with over 75% written during the first half of the year.
Towards the latter part of the year, we intentionally scaled back this rate of growth to focus on optimal deployment of capital and writing more profitable business with only a slight adjustment in risk appetite.

We continue to experience minimal deterioration in credit quality with a provision coverage ratio of 0.05% (2018: 0.03%)

Business Banking Secured Lending (BBSL)
Business banking continued to grow steadily to £183m (2018: £138m). This is slower than desired but we have made growing and developing this proposition a significant focus for the year ahead. The existing book continues to deliver strong returns with minimal credit losses.

Liquidity and funding

We have extended and invested in our wholesale funding capabilities to improve our cost of funds, as well as optimising our liquid asset portfolio.

- We remained significantly above our regulatory minimums throughout the year, with a Liquidity Coverage Ratio as at year end of 324% (2018: 485%)
- At year end we held cash of £252m (2018: £364m) and debt instruments within our High Quality Liquid Asset portfolio of £99m (2018: £322m). The year end position was inflated in preparation for a concentration of fixed saver maturities
- In September, we completed our first residential mortgage backed securitisation of £400m, laying the foundations and capabilities for further market and private issuances.
- We have also secured £500m of committed warehouse facilities with major banks helping to manage liquidity more efficiently.

Capital

At the start of the year we raised £153m of equity capital which was deployed to deliver our business plan and commitments to investors.

We are still loss making however are confident in raising future capital to deliver on our business plan and create a sustainable and profitable bank.

During the year we have remained above our regulatory limits and internal capital buffers. At year end, our Common Equity Tier 1 (CET1) ratio was 17.9% (2018: 17.5%), our total capital ratio was 18.7% (2018: 18.9%) and our leverage ratio was 6.5% (2018: 5.0%).

Risk and governance

Our business model and strategy create risks...

Material Risks

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

Strategic Activity	Related risk
In order to accept deposits and lend to customers, banks are required to hold minimum levels of high-quality capital.	**Capital adequacy risk.** The risk that Atom could have insufficient capital to withstand an extreme but plausible loss, and might expose its depositors and other creditors to losses.
Running a growing bank in a competitive market place.	**Strategic risk.** The business could fail if management make poor strategic decisions, if decisions are not well executed, or if the strategy does not effectively respond to changes in the external environment.
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.
Originating loans and accepting deposits means significant movement and transfer of cash.	**Liquidity and funding 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.
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.

Strategic activity	Related risk
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 or liabilities
A fully operational digital bank has a large number of complex processes and must be resilient to potential disruption.	**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.
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.
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.
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 sub-optimal decisions and/or suffers loss as a result of poorly specified, incorrectly implemented or inappropriately applied models.

Key and emerging risks

Atom maintains a register of its key and emerging risks.

We monitor the key elements of our material risks on an ongoing basis. This is integral to our approach to risk management, and forms a cornerstone of our business planning activities, ensuring that strategies and activities are appropriately focused on addressing these concerns. The following chart summarises our current view of these risks:

Risk	Impact
Externally driven	
Access to Capital	High
Information Security / Cyber Crime	High
Competition	High
Economic / Geopolitical Climate	Moderate
Regulatory Risk	Moderate
Social Media Risk	Moderate
Financial Crime / Fraud	Moderate
Internally driven	
Platform Transformation	High
Dependence on Third Parties	High
App-only Delivery Model	High
Low Headcount / Key People	Moderate
Model Risk	Moderate

High impact risks

Access to Capital
Atom takes a proactive approach to capital raising, working with existing and prospective investors well in advance so that any shortfall in uptake can be assessed and acted upon. We make regular assessments of cash depletion rates versus forecast to ensure capital levels are properly managed.

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. As well as the due diligence, design and testing that contributes to building network and systems security, Atom operates perimeter controls to detect and prevent attempts to compromise systems.

Competition
Atom operates in a competitive market where established banks and new entrants are fighting for market share. Against this backdrop, and in order to compete effectively, we have a series of initiatives underway to accelerate our path to profitability and continually improve our strong customer service reputation.

Platform Transformation
Atom is making a significant strategic and financial investment in a new core banking platform to support agile product development and an API-enabled banking stack. Atom is mitigating the risks of this programme through robust project management and governance arrangements.

Dependence on Third Parties
Atom continues to build resilience into its third party arrangements through detailed due diligence, appropriate monitoring and reporting, including business continuity and disaster recovery arrangements to ensure that outsourcing and other supplier arrangements are controlled, effective and fully compliant.

App-only Delivery Model
Atom is developing an operational resilience framework for delivery in 2019. This will set and monitor clear operational resilience tolerance levels for Atom's critical services, augmenting existing and complementary risk appetite measures. The framework will incorporate updated and augmented policies on business continuity, disaster recovery, cyber security and crisis management.

Governance

Governance

We have created a strong team culture and organisational structure 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.

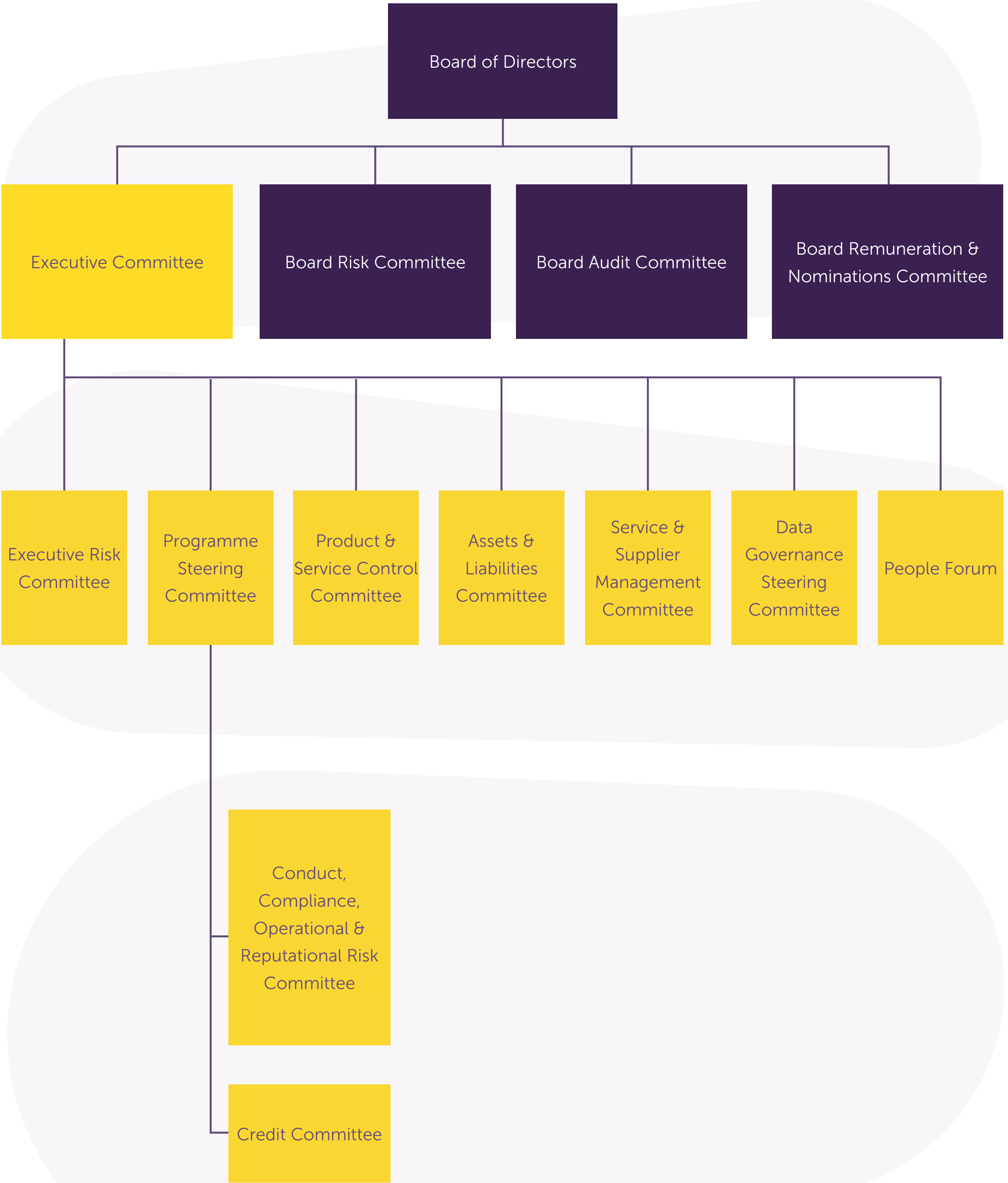
The success of the Bank is predicated on a framework of effective systems of internal control, risk management and compliance, in accordance with regulatory requirements.

Effective governance is not achieved by one single committee, structure or forum, but rather a governance framework. This is underpinned by structure, oversight responsibilities, talent, culture and infrastructure. The effective governance structure for Atom comprises the following:

- A Board of Executive and Non-Executive directors.
- 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.

Atom's Committees

The Bank has several distinct committees and is arranged as follows:



Board Audit Committee

The primary role of the Board Audit Committee (BAC) 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 Bank's process for monitoring compliance with laws and regulations and the code of conduct.

Board Risk Committee

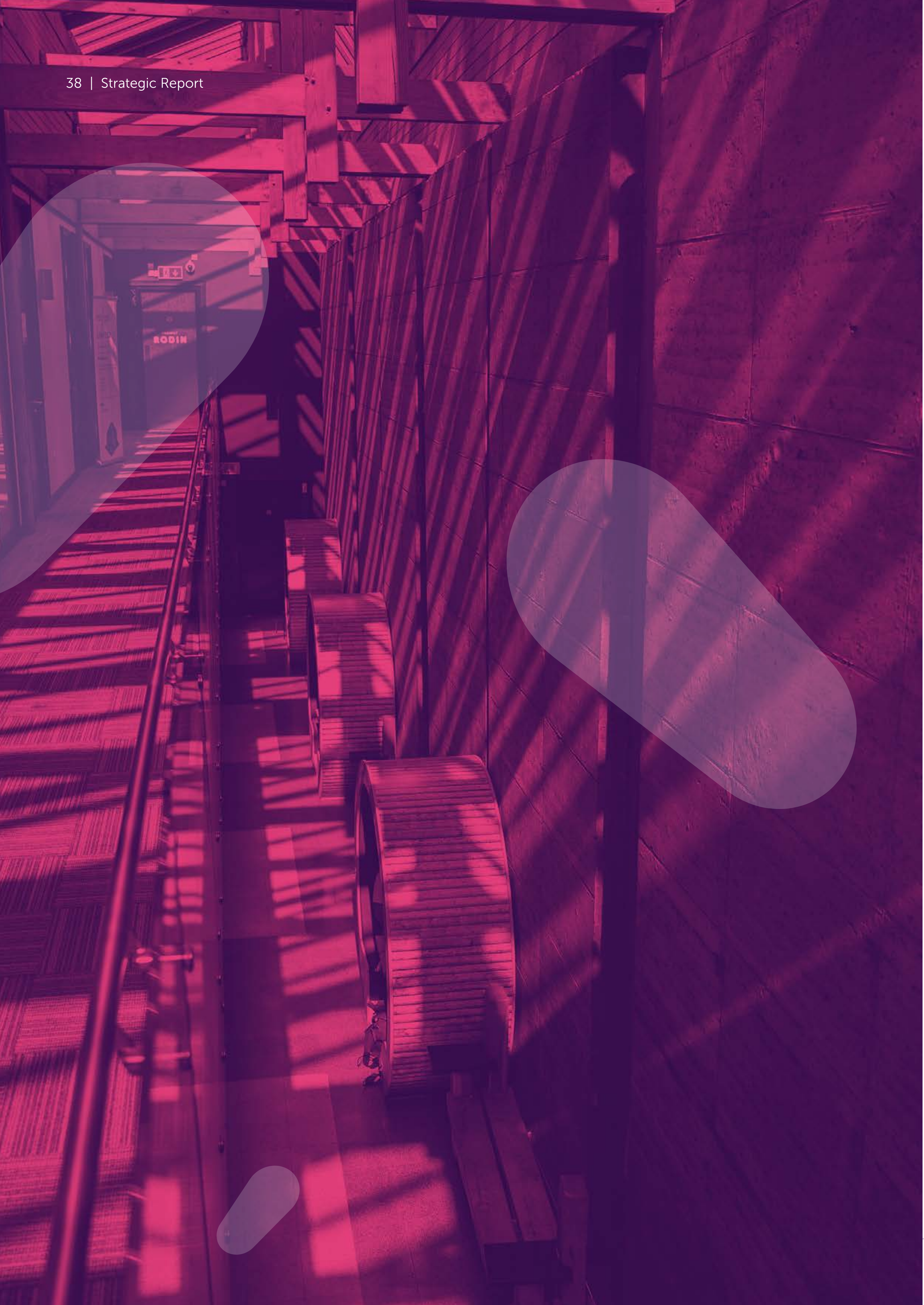
The objective of the Board Risk Committee (BRC) is to ensure the Bank's risk culture is appropriately designed by anticipating changes in business, economic, political and social conditions. The BRC is responsible for reviewing risk appetite and performance and the effectiveness of the risk management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

Board Remuneration and Nominations Committee

The Board Remuneration and Nominations Committee's core role is to lead the appointment process for nominations to the Board and to assist the Chairman in keeping the composition of the Board under review. It also approves the strategy for personal remuneration of the Board and senior management.

Executive Committees (Exco)

Exco reports to board and is responsible for executing the strategy and the day to day running of the Bank. It executes many of its responsibilities via a series of sub committees.



Enterprise Risk Management Framework

Within this governance structure, we have an effective risk management framework and team

Atom's enterprise risk management framework (ERMF) outlines our approach to risk management, and how the key risk types which the Bank is exposed to 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 and 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 BRC 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 that its requirements are translated into effective operating processes.

The second line of defence is the Risk function, which is 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 that have been set by the Board.

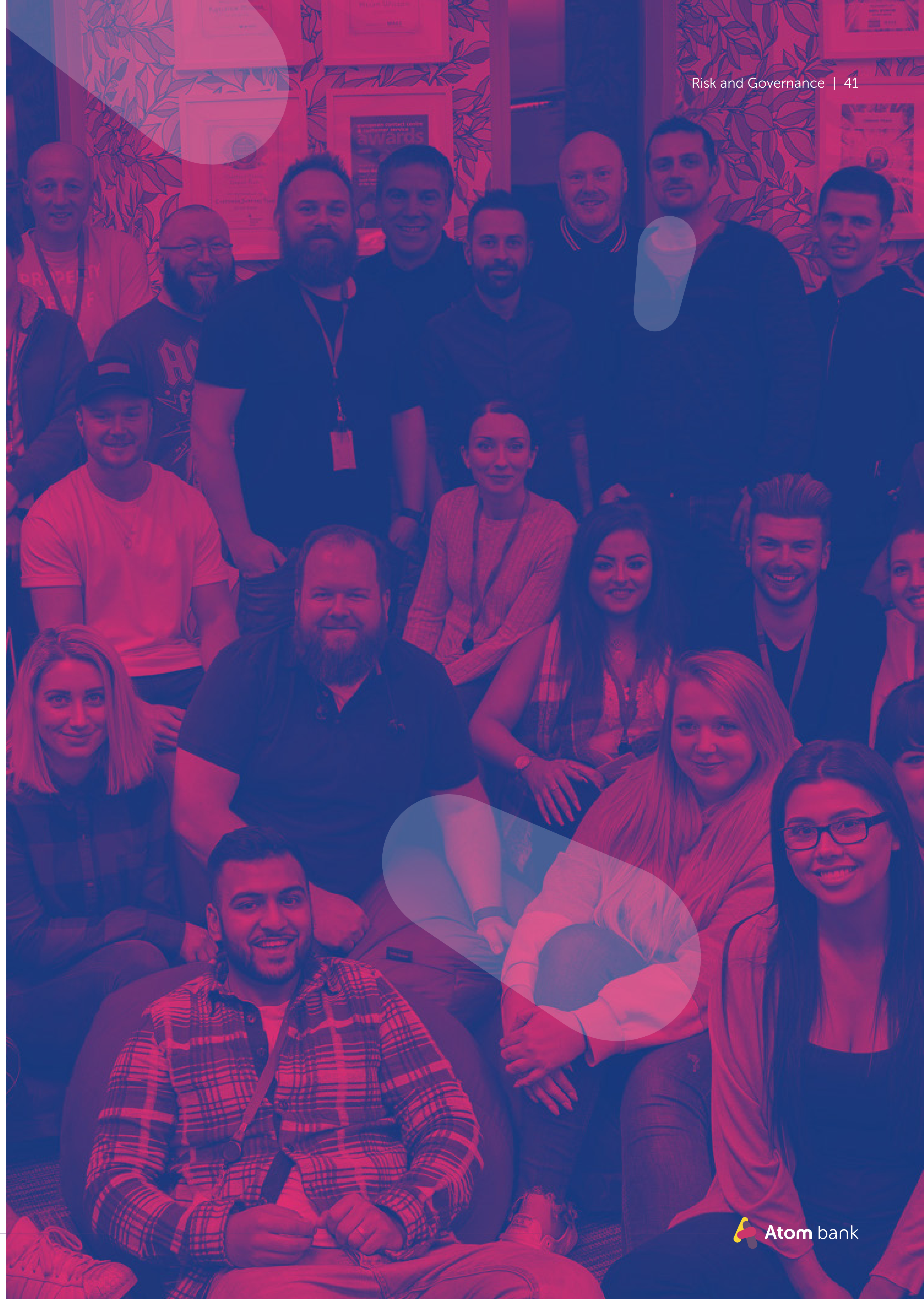
The third line of defence is the Internal Audit function, who provide independent assurance over the adequacy of first and second line activities in relation to all aspects of the business, including the effectiveness of risk management practices and internal controls.

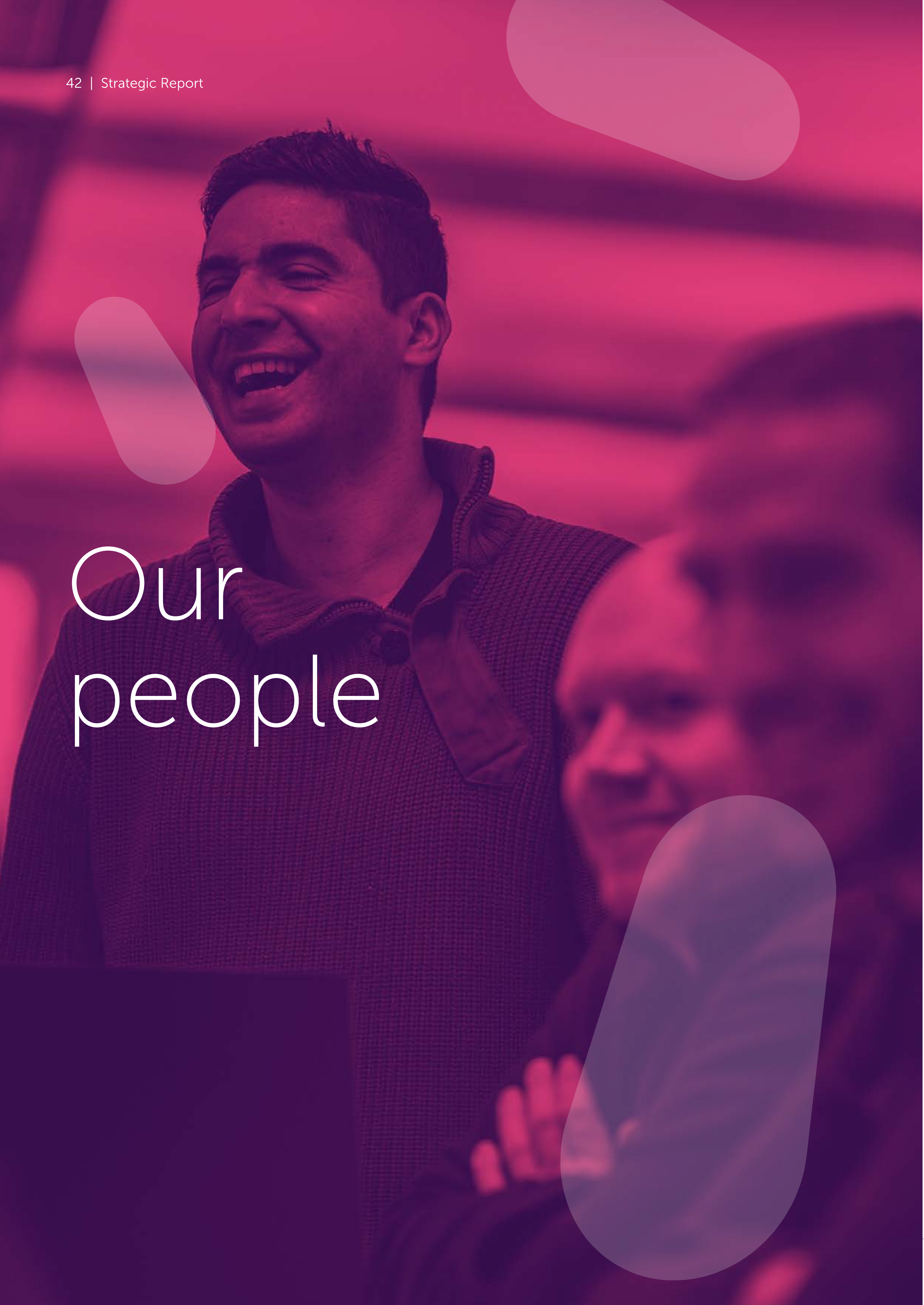
Risk appetite

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 on our risk governance management end exposures please read our Pillar 3 report, which is available at www.atombank.co.uk.





Our people

Creating the right culture

We're proud to be based in the North East and continue to take full advantage of the skills and expertise on our doorstep

The North East is rich in talent and we continue to draw on these skills in order to build our team by providing high quality and sustainable employment and career development.

We remain committed to ensuring that the right cultural mindset and behaviours are embedded throughout the organisation in support of formal governance, risk and control processes. Whilst the Senior Managers and Certification Regime (SM&CR) sets the minimum standards for the behaviour of financial services staff, we are pleased that we consistently ranked above the median in the 2018 Banking Standard Boards annual survey versus our peers.

We also continually assess our risk culture to understand what drives our behaviour and decision making. As the FCA look to build a different culture within the banking industry, this remains a key priority. The results have allowed us to understand our culture across all levels of the Bank and identified areas where we can further improve.

Investment in capabilities

Over the last 12 months, the Atom team has grown from 310 to 360 employees. This increase is predominantly within Technology, Treasury, Risk and Finance. Agility is an essential component to our success, therefore we have strengthened our Technology and Change teams as we build the Atom banking machine with key roles delivering platform transformation, investing in automation, increasing our engineering and service management capabilities as well as developing our proposition.

Investing in talent

We recruit a diverse workforce that draws on different experiences to make Atom the best we can for our customers. We have sponsored six individuals through apprenticeships in Technology, Finance and Operations and we will continue to offer apprenticeships in the future. We want to nurture and inspire the next generation and have done so by working with the Raspberry Pi foundation and delivering STEM sessions as part of our four-year partnership with the Prince's Trust.

We continue to have strong relationships with local universities. We have been involved in many partnerships including a three year project with Newcastle University, called FinTrust, to understand how financial services companies can design better and more trustworthy digital banking services. We are involved with Durham and nine other northern universities to boost inclusion and career pathways in engineering, technology and the physical sciences for protected and under-represented groups across the UK.

Diversity and inclusion

In 2018 women at Atom were paid almost 22% less than men at Atom. This compares to a difference of almost 30% in 2017. While this is lower than the industry average, this is still not where Atom want to be and we see an urgent need to address systemic diversity issues in the financial services and technology industries, primarily through grassroots STEM education.

We were one of the first businesses to sign the Women in Finance Charter in 2016 and also one of the first signatories of the Tech Talent Charter in 2017. We have been involved in a number of initiatives in the North East to encourage females in STEM with local universities, including Tech Mums Club, Stemettes and TechUP.

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

Atom in the Community

Pushing for parity

"Giving women the skills to redress the balance of gender representation in technology."

- TechMums
- Intitute of Coding - Graduate retraining
- Stemettes
- Tech Talent Charter
- Women in Finance Charter

Building the future

"Nurturing and inspiring the next generation of STEM talent"

- Prince's Trust
- Firetech
- Rapberry Pi
- CoderDojo

Tackling today

"Addressing the issues we face today and integrating with our local institutions"

- FinTrust partnership
- Atom incubator
- Knowledge Transfer Partnerships, business partners with CDTs and funding studentships
- Creating pathways into work - studentships, apprenticeships, interns

Supporting our home

"Being a visible and engaged part of our North East community"

- Durham Regatta
- Durham City Cricket Club
- Durham Book Festival
- Durham Poetry Festiival
- Lumiere Festival
- Families on track

Our Values

Our values are integral to everything we do.

They are an important part of our recruitment process, they frame our approach to personal development and performance, and are an integral part of our broader employee value proposition.

One family

One team, unified, supportive and together.

Energy

Bring drive, commitment and enthusiasm to each and every day.

Lead the way

Fearlessly! Relentlessly!

Be the customer

Live and breathe as they do. Be 'for them' – always.

The Directors present their report and financial statements for the year ended 31 March 2019.

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.

Director's report

Results

The statements of comprehensive income and the statements of financial position can be found on page 54 and 55 respectively. The directors do not propose to pay a dividend.

Directors

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

- Bridget C Rosewell CBE
- Mark T Mullen
- David J McCarthy
- Laurel C Powers-Freeling
- Patricia D Jackson
- David A Roper (Appointed 31/07/2018)
- Cheryl J Millington (Appointed 06/11/2018)
- Ergun S Özen
- Gonzalo Romera Lobo (Appointed 12/03/2019)
- Ian Ormerod (Appointed 06/11/2018)
- Victoria Del Castillo Marchese (Resigned 28/02/2019)

Auditors

Each person who was a director at the time 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 s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint 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 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
23 July 2019

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 that 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.

Directors' responsibilities statement

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

- Select suitable accounting policies and then 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, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and Group will continue in business.

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.

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. The base case forecast assumes Atom will enter into a number of capital transactions during this 12 month period to cover trading losses and fund asset growth. This includes a £50m equity issuance expected to complete in September 2019 which has been legally agreed with investors.

Should this, or future capital transactions be delayed, Atom would enact a series of actions to reduce capital outflows, primarily through contracting lending and reducing capital investment

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)

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's and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Bank and Group and hence 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 corporate and financial information included on 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

Financial Statements

Contents

Statements of comprehensive income

For the year ended 31 March	Notes	Group 2019 £'000	Bank 2019 £'000	Group and Bank 2018 £'000
Interest income		37,966	37,916	13,738
Interest expense		(39,967)	(39,800)	(19,367)
Net interest expense	2	**(2,001)**	**(1,884)**	**(5,629)**
Net fee and commission expense		(1,053)	(1,010)	(264)
Other (expense)/ income	3	(1,435)	(1,238)	3,573
Total fees and other expenses		**(4,489)**	**(4,132)**	**(2,320)**
Credit impairment charges	4	(893)	(893)	(256)
Net operating expense		**(5,382)**	**(5,025)**	**(2,576)**
Staff costs	5	(23,026)	(23,026)	(21,814)
Administrative and general expenses	7	(20,354)	(20,329)	(17,680)
Operating costs		**(43,380)**	**(43,355)**	**(39,494)**
Operating loss		**(48,762)**	**(48,380)**	**(42,070)**
Amortisation, depreciation and intangible impairment	8	(23,018)	(23,018)	(5,717)
Platform transformation costs	36	(3,500)	(3,500)	-
Equity-settled share-based payments	5	(4,959)	(4,959)	(4,893)
Loss before taxation		**(80,239)**	**(79,857)**	**(52,680)**
Taxation	9	-	-	-
Loss after taxation		**(80,239)**	**(79,857)**	**(52,680)**
Other comprehensive income/(expense)				
Items that are or may be reclassified subsequently to profit or loss				
Movement in fair value reserve (debt instruments)				
- Net gain/(loss) in fair value		171	171	(766)
- Net amount transferred to profit or loss		(83)	(83)	95
Other comprehensive income/(expense), net of tax		**88**	**88**	**(671)**
Total comprehensive expense attributable to equity holders of the parent		**(80,151)**	**(79,769)**	**(53,351)**

The result for the year is derived entirely from continuing activities.
The Group represents the consolidated results of the Bank and its subsidiaries.

Statements of financial position

As at 31 March	Notes	Group 2019 £'000	Bank 2019 £'000	Group 2018 £'000	Bank 2018 £'000
Assets					
Cash and balances at central banks	18	252,109	225,153	364,309	364,309
Loans and advances to customers	11	2,399,861	2,399,861	1,219,356	1,219,356
Debt instruments at fair value through other comprehensive income	18	99,072	99,072	322,361	322,361
Derivatives held for hedging purposes	26	-	-	8,008	8,008
Other assets	33	16,885	17,931	8,168	8,649
Property, plant and equipment	34	562	562	539	539
Intangible assets	35	29,720	29,720	34,109	34,109
Total assets		**2,798,209**	**2,772,299**	**1,956,850**	**1,957,331**
Liabilities					
Customer deposits	20	1,771,121	1,771,121	1,439,793	1,439,793
Borrowings from central banks	21	355,437	355,437	355,215	355,215
Deemed loan	21	-	364,204	-	-
Debt securities in issue	21	391,249	-	-	-
Repurchase agreements	21	34,851	34,851	-	-
Subordinated liabilities	21	8,149	8,149	8,134	8,134
Derivatives held for hedging purposes	26	8,628	8,628	-	-
Provisions	36	3,585	3,585	64	64
Other liabilities	37	13,753	13,620	19,154	19,154
Total liabilities		**2,586,773**	**2,559,595**	**1,822,360**	**1,822,360**
Equity					
Share capital and share premium	30	399,207	399,207	246,664	246,664
Other reserves	31	16,519	17,405	11,877	12,358
Accumulated losses		(204,290)	(203,908)	(124,051)	(124,051)
Total equity		**211,436**	**212,704**	**134,490**	**134,971**
Total liabilities and equity		**2,798,209**	**2,772,299**	**1,956,850**	**1,957,331**

The notes and information on pages 58 to 131 form part of these financial statements. Unless explicitly stated notes are for both the Group and Bank. The financial statements from pages 54 to 131 were approved by the Board of Directors on 22nd July 2019 and signed on its behalf by:

Mark Mullen
Chief Executive Officer
23 July 2019

David McCarthy
Chief Financial Officer
23 July 2019

Statements of Changes in Equity

	Share capital and share premium	Fair value reserve	Share based payment reserve	Other reserves and treasury shares	Accumulated Losses	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
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	-	-	-	95
Total comprehensive income/(expense)	**-**	**(671)**	**-**	**-**	**(52,680)**	**(53,351)**
Issue of new ordinary shares, net of transactions costs	79,346	-	-	-	-	79,346
Share schemes – value of services received	-	-	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**
Loss for the year					(80,239)	(80,239)
- Net gain in fair value	-	171	-	-	-	171
- Net amount transferred to profit or loss	-	(83)	-	-	-	(83)
Total comprehensive income/(expense)	**-**	**88**	**-**	**-**	**(80,239)**	**(80,151)**
Issue of new ordinary shares, net of transactions costs	152,543	-	-	-	-	152,543
Share schemes – value of services received	-	-	4,959	-	-	4,959
Purchase of treasury shares	-	-	-	(405)	-	(405)
Group balance as at 31 March 2019	**399,207**	**(257)**	**17,662**	**(886)**	**(204,290)**	**211,436**

	Share capital and share premium	Fair value reserve	Share based payment reserve	Other reserves and treasury shares	Accumulated Losses	Total Equity
Bank balance as at 1 April 2017	**167,318**	**326**	**7,809**	**-**	**(71,371)**	**104,082**
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	-	-	-	95
Total comprehensive income/(expense)	**-**	**(671)**	**-**	**-**	**(52,680)**	**(53,351)**
Issue of new ordinary shares, net of transactions costs	79,346	-	-	-	-	79,346
Share schemes – value of services received	-	-	4,894	-	-	4,894
Bank balance as at 31 March 2018	**246,664**	**(345)**	**12,703**	**-**	**(124,051)**	**134,971**
Loss for the year					(79,857)	(79,857)
- Net gain in fair value	-	171	-	-	-	171
- Net amount transferred to profit or loss	-	(83)	-	-	-	(83)
Total comprehensive income/(expense)	**-**	**88**	**-**	**-**	**(79,857)**	**(79,769)**
Issue of new ordinary shares, net of transactions costs	152,543	-	-	-	-	152,543
Share schemes – value of services received	-	-	4,959	-	-	4,959
Bank balance as at 31 March 2019	**399,207**	**(257)**	**17,662**	**-**	**(203,908)**	**212,704**

Cash flow statement

For the year ended 31 March	Group 2019 £'000	Bank 2019 £'000	Group 2018 £'000	Bank 2018 £'000
Cash flows from operating activities				
Loss for the year	(80,239)	(79,857)	(52,680)	(52,680)
Adjustments for non-cash items				
Depreciation and amortisation	12,416	12,416	5,717	5,717
Impairment	10,602	10,602	-	-
Property, plant and equipment disposal	-	-	16	16
Share option scheme reserves	4,959	4,959	4,894	4,894
Other non cash movements	3,609	3,609	(85)	(85)
Changes in operating assets and liabilities				
Net (increase) in loans and advances to customers	(1,180,505)	(1,180,505)	(1,120,403)	(1,120,403)
Net increase in customer deposits	331,328	331,328	901,733	901,733
Net increase in deposits from central banks	222	222	355,215	355,215
Increase in deemed loan	-	364,204	-	-
Increase in debt securities	391,249	-	-	-
Net increase in repurchase agreements	34,851	34,851	-	
Net increase in subordinated liabilities	15	15	7,736	7,736
Net (increase)/decrease in other assets	(8,717)	(9,282)	3,178	2,833
Net (decrease)/increase in other liabilities	(5,401)	(5,534)	12,578	12,578
Net decrease/(increase) in derivative financial instruments for hedging purposes	16,636	16,636	(8,132)	(8,132)
Net cash (outflow)/inflow in operating activities	**(468,975)**	**(496,336)**	**109,767**	**109,422**
Cash flows from investing activities				
Acquisition of intangible assets	(18,355)	(18,355)	(8,996)	(8,996)
Acquisition of property, plant and equipment	(297)	(297)	(117)	(117)
Net maturity/(acquisition) of debt securities at FVOCI	223,289	223,289	(244,151)	(244,151)
Net cash inflow/(outflow) from investing activities	**204,637**	**204,637**	**(253,264)**	**(253,264)**
Proceeds from the issuance of ordinary shares, net of expenses	152,543	152,543	79,346	79,346
Net purchase of treasury shares`	(405)	-	(345)	-
Net cash inflow from financing activities	**152,138**	**152,543**	**79,001**	**79,001**
Net (decrease) in cash and balances at central banks	(112,200)	(139,156)	(64,496)	(64,496)
Cash and balances at central banks at the beginning of year	364,309	364,309	428,805	428,805
Cash and balances at central banks at the end of year	**252,109**	**225,153**	**364,309**	**364,309**

Accounting for cash and cash equivalents

Cash and cash equivalents include notes, 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.

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 as applicable to companies using IFRS and with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). They are stated pounds Sterling (£) the functional and presentational currency of Atom, and are rounded to the nearest thousand (£'000) unless otherwise stated. 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 an 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 strategy of the business. Further information is included within the Directors statement on page 49.

d. Consolidation

Atom controls an entity when it has power over the relevant activities of the entity, 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. The assessment of control is based on all facts and circumstances. Controlled entities 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 in full upon consolidation.

The consolidated financial statements have been prepared using uniform accounting policies and on the same accounting period as that of Atom Bank plc.

e. Financial assets and liabilities

Atom 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 Atom 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 or estimates are disclosed within the note to which they relate; share based payments in note 6, credit impairment charges in note 10, provisions in note 36 and intangible assets for depreciation and amortisation in note 35.

h. New accounting standards

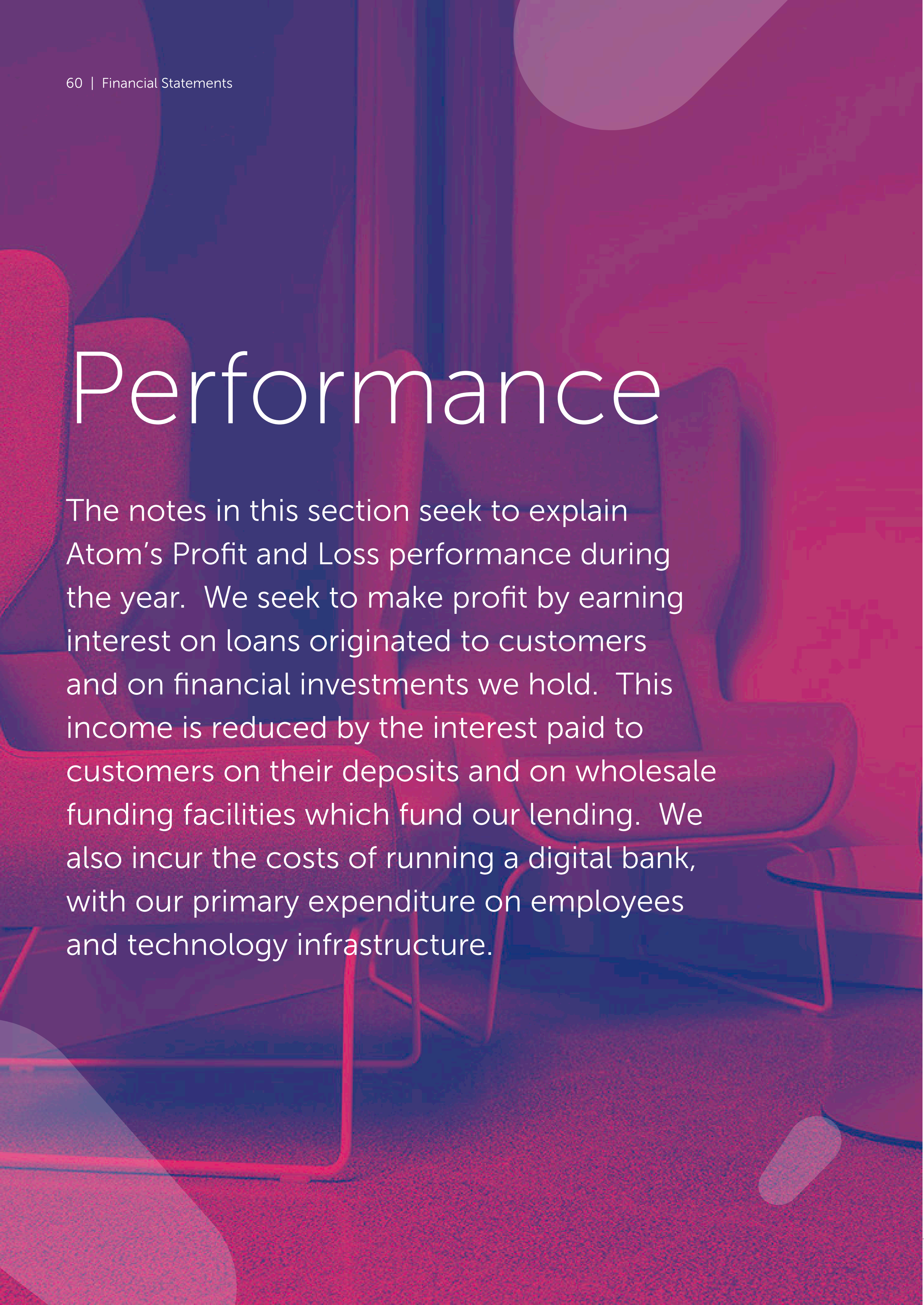
The accounting policies adopted are consistent with those of the previous financial year, other than where new policies have been adopted, such as the adoption of IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue and IAS 11 Construction contracts. There were no significant impacts from the adoption of IFRS 15 in relation to the timing of when the Group recognises revenue.

i. 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 only one of significance is IFRS 16.

IFRS 16 Leases will be applied for the first time from 1 April 2019. Leased property and equipment, which has previously been recognised as operating leases under IAS 17 will now qualify as leases as defined by IFRS 16. It is expected that a right of use asset of £5.7m will be recognised within Property, Plant and Equipment at 1 April 2019 along with a corresponding lease liability of the same amount. In the income statement, costs will be recorded as a finance expense or depreciation, rather than operating lease expense, and the impact of this is not expected to be significant.

Atom expects to transition in accordance with the modified retrospective approach and will not adjust the prior year figures. The Bank has elected not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC 4 and will apply the exemptions available for short term leases and those for which the underlying asset is of low value.



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. We also incur the costs of running a digital bank, with our primary expenditure on employees and technology infrastructure.

2. Net Interest Expense

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 and expense on derivatives designated as hedging instruments are recognised as part of net interest income (not as part of the fair value movement of the derivative), and are recorded as a reduction to the gross interest income or interest expense derived using the effective interest rate method on the related hedged asset or hedged liability

Other similar interest income/expense represents interest on derivatives in economic hedge relationships (see Note 26 - Derivatives) using the contractual interest rate.

	Group	**Bank**	**Group and Bank**
	2019	**2019**	**2018**
Interest and similar income	**£'000**	**£'000**	**£'000**
Cash and balances at central banks	2,854	2,804	710
Loans and advances to customers	34,188	34,188	12,307
Debt instruments at fair value through other comprehensive income	940	940	721
Total interest income	37,982	37,932	13,738
Other similar interest	(16)	(16)	-
Total interest and similar income	**37,966**	**37,916**	**13,738**
Interest and similar expense			
Customer deposits	(32,830)	(32,830)	(18,370)
Borrowings from central banks	(2,368)	(2,368)	(240)
Deposits from credit institutions	(50)	-	(15)
Deemed loan	-	(3,375)	-
Repurchase agreements	(50)	(50)	-
Debt securities in issue	(3,492)	-	-
Subordinated liabilities	(821)	(821)	(407)
Total interest expense	(39,611)	(39,444)	(19,032)
Other similar interest	(356)	(356)	(355)
Total interest and similar expense	**(39,967)**	**(39,800)**	**(19,387)**
Net interest expense	**(2,001)**	**(1,884)**	**(5,629)**

3. Other (expense)/income

Accounting for other (expense)/income

The significant items within other (expense)/income relate to gains and losses relating to derivative financial instruments at fair value through the profit and loss and those designated within hedge relationships. Please see note 26 – Derivatives for further information.

	Group	Bank	Group and Bank
	2019	2019	2018
Other (expense)/income	**£'000**	**£'000**	**£'000**
Hedge ineffectiveness	(45)	(45)	1,690
Net (expense)/income from mortgage hedging derivatives pre-designation	(1,776)	(1,776)	2,377
Derivatives in economic but not accounting hedges	881	881	(1,031)
Foreign currency retranslation	(495)	(495)	537
Servicing income	-	197	-
Total	**(1,435)**	**(1,238)**	**3,573**

4. Credit impairment charges

Accounting for credit impairment charges

Please see Note 11 - Loans and advances to customers and impairment allowances for the accounting policy. The below table summarises the charge for the year in the income statement.

	2019	2018
Net impairment on financial assets	**£'000**	**£'000**
New impairment allowances for:		
Mortgages	660	339
BBSL	304	(110)
Impairment charges on loans and advances to customers	**964**	**229**
Provision charges on loan commitments for:		
Mortgages	17	39
BBSL	4	(108)
Provision charges on loan commitments	**21**	**(69)**
Credit impairment charge on debt instruments at fair value through other comprehensive income	(92)	96
Credit impairment charges and other provisions	**893**	**256**

The £893k (2018: £256k) charge reflects the recognition of impairment provisions under IFRS 9 Financial Instruments. The increased charge is substantially due to growth in the loan book. Further information on the change in impairment allowances is disclosed in note 11.

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 plans
Obligations for contributions to defined contribution 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.

Share based payments
Please see note 6 – Share based payment arrangements for the accounting policy

	2019	2018
Staff Costs	**£'000**	**£'000**
Wages and salaries	17,692	16,503
Social security costs	1,827	3,682
Contributions to defined contribution plans	1,515	1,424
Cash-settled share-based payments	1,992	205
Total staff costs	**23,026**	**21,814**
Equity-settled share-based payments	4,959	4,893

	2019	2018
Average monthly number of employees during the year		
Executive	9	8
Business and customer operations	153	147
Administration	89	80
Technology	79	68
Total	**330**	**303**

Headcount increases within technology and administration represent strengthening of the Technology, Finance and Risk teams as we continue to build the Atom Banking Machine and deliver platform transformation, as well as expanding our treasury management capabilities. Operational headcount has remained relatively flat whilst the loan book has doubled.

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 value of the employee services received in exchange for share options granted is recognised as a staff cost in the income statement over the period that employees became unconditionally entitled to the awards (the vesting period). This is generally the period between the date the award is granted or notified and the vesting date of the options. All awards granted under current schemes were conditional on service conditions. No awards have non-market or market performance conditions.

The overall cost of the award is calculated using the number of share options expected to vest and the fair value of options at the date of grant. The determination of fair values excludes the impact of service conditions, which are included in the assumptions used to estimate the number of shares expected to vest. At each balance sheet date, this estimate is reassessed and revised if necessary. Any revision of the original estimate was recognised in the income statement.

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 recorded in other liabilities.

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.

As at 31 March 2019 the Bank had the following share-based payment arrangements:

Scheme	Overview	Contractual life of options	Method of settlement
Build the bank share scheme (BTB)	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 to 2019	Annual performance award. APSS17 to 19 includes a 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

Atom has held a share option liquidity window each year since 2017, which allows employees with vested options to sell shares up to a maximum value of £5,000 to the Atom Employee Benefits Trust (EBT). It is expected that this facility will be offered each year, which means settlement as either cash or equity is at the option of the employee. The proportion of options expected to be cash settled has been estimated utilising data from the previous liquidity windows.

Employee Benefit Trust

The Group acts as sole trustee to the EBT, which was set up to facilitate liquidity from the share options that have been awarded to employees. Shares purchased by the EBT during the annual liquidity window are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the Parent. The EBT has been fully consolidated as the Bank is exposed to its returns and has committed to fund share option purchases in future liquidity windows. This commitment is capped annually by limiting the maximum value of shares that employees can sell to the EBT. The Bank provided a loan in the year to fund the purchase of 423,983 shares (2018: 300,646). As at 31 March 2019 the loan totals £886k (2018: £345k).

Option valuation

For schemes issued in 2019 the cash and equity components are valued separately. At grant date, the fair value of the debt and equity components of the Atom options are the same.

The below table summarises for each employee share scheme, movements in the number of share options

In thousands of options	**BTB**	**APSS**	**LTIP**	**JSOP**
Outstanding as at 1 April 18	3,947,000	8,602,430	627,584	3,800,000
Forfeited during the period	-	(201,101)	(105,917)	-
Exercised during the period	-	(658,005)	-	-
Granted during the period	-	3,652,724	-	-
Outstanding as at 31 March 19	**3,947,000**	**11,396,048**	**521,667**	**3,800,000**
Exercisable as at 31 March 19	3,947,000	9,784,397	280,833	3,800,000
Weighted average exercise price (pence)	75	0.001	95	0.001
Weighted average remaining contractual life	7 years	9 years	6 years	8 years
Fair value of share awards issued in 2019 (pence)	N/A	122.5	N/A	N/A

In thousands of options	**BTB**	**APSS**	**LTIP**	**JSOP**
Outstanding as at 1 April 17	**3,947,000**	**8,602,430**	**647,584**	**4,000,000**
Forfeited during the period	-	(170,282)	-	(100,000)
Exercised during the period	-	(392,711)	-	(100,000)
Granted during the period	-	3,364,018	-	
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

The fair value of share award issued in 2019 was estimated on the grant date using the Black-Scholes-Merton formula based on the following inputs:

Weighted average share price	122.5p
Exercise price – APSS19	0.001p
Expected volatility (one standard deviation)	26%
Expected life (years)	2
Risk-free interest rate	0.63%

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

Atom engaged with a third party in the prior year to provide certain services where remuneration is partly paid in share options. No new options were granted during the year (2018: 3,550,000) The 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. The fair value of the options issued was 22p.

1,183,334 of these options vested during the year (2018: 1,183,334) and a total of 2,366,668 are now exercisable.

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 £508k (2018: £1,986k) 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

	Group	Bank	Group	Bank
	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
Administrative expenses	2,011	2,011	2,078	2,078
IT costs	12,555	12,555	10,192	10,192
Marketing	2,008	2,008	2,402	2,402
Legal and professional	2,290	2,265	1,704	1,704
Office and premises	1,490	1,490	1,304	1,304
	20,354	**20,329**	**17,680**	**17,680**

IT costs of £12.6m (2018: £10.2m) includes the running costs of customer savings and lending platforms, customer contact systems, and IT infrastructure supporting back office functions. Costs have increased year on year due to delivery of the Atom Machine and platform transformation.

Legal and professional fees includes auditors' remuneration for the audit of the consolidated financial statements of £272k (2018: £175k). Of this, £234k relates to the audit of Atom Bank plc. Additional remuneration for the auditors' assurance services was £66k (2018: £27k) and tax advisory was nil (2018: nil).

8. Amortisation, depreciation and impairment of intangible assets and property, plant and equipment

Accounting for amortisation and depreciation

Accounting policies and further details relating to amortisation, depreciation and impairment are set out in notes 34 and 35 respectively.

	2019	2018
	£'000	£'000
Amortisation of intangible assets	12,142	5,434
Impairment of intangible assets	10,602	-
Depreciation of property plant and equipment	274	283
Total amortisation, depreciation and impairment	**23,018**	**5,717**

The increase in amortisation of intangible assets is reflective of revised economic life of certain assets to align the end of their useful economic life with the completion of the platform transformation. Impairment charges of £10,602k relate to fully impaired intangible assets as these will be replaced by Thought Machine in the next year.

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.

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

	Group	Bank	Group and Bank
	2019 £'000	2019 £'000	2018 £'000
Loss on ordinary activities before taxation	80,239	79,857	52,680
Standard rate of corporation tax	19%	19%	19%
Expected tax credit	**15,245**	**15,173**	**10,009**
Items not taxable	(84)	-	-
Impact of change in rates	-	-	(1,028)
Other temporary differences	(15,161)	(15,173)	(8,981)
Total tax credits	**-**	**-**	**-**

No corporation tax liabilities are payable nor receivable from HMRC for the year (2018: 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 Bank is not expected to make a profit in the immediate future. The Board expect to recognise the asset assuming successful execution of the current strategy and as the Bank moves towards break even.

Were it to have been recognised, the deferred tax asset would have an estimated value of £36m (2018: £20m), being £190m (2018: £110m) of trading losses, £22m (2018: £11m) of deferred share scheme deductions and £1m (2018: £nil) of deferred interest deductions. Accelerated relief and untaxed amounts in relation to non-current assets of £4m (2018: £4m) is also not recognised. All these amounts are carried forward taxed at the expected rate of 17% (2018: 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 credit risk

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

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

Retail Credit Risk Management

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

The Board, acting via BRC, defines the Bank's overall risk appetite, namely that, by originating a high-quality and well-diversified residential mortgage and secured commercial lending portfolio, credit losses will remain sustainable throughout the economic cycle. BRC sets prudent credit risk limits to achieve this objective.

ERC is responsible for delivering BRC's defined risk appetite, and does this by setting and monitoring lending policy and ensuring appropriate controls are in place to maintain the quality of lending, including reviewing comprehensive management information, such as credit portfolio and financial accounting metrics, and undertaking benchmarking against comparative data.

Early warning indicators, credit performance trends and key risk indicators are regularly monitored by Credit Committee and any identified issues are highlighted to ERC and BRC. Any recommendations to change policy to maintain performance within appetite are discussed at Credit Committee prior to presentation to ERC 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 risk policy, allocation of underwriting mandates, credit underwriting processes, obtaining collateral, credit risk performance monitoring, stress testing and credit risk transfer.

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

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, completion of prescribed training 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 review of applications against lending policy criteria. In the case of mortgages this assessment is largely conducted automatically using the Bank's decision system. This approach allows for consistent lending decisions with minimal intervention by underwriters. For business lending all assessments of applications are carried out by experienced and appropriately mandated underwriters.

All lending decisions are predominantly based on an obligor's ability to repay rather than reliance on the disposal of any security provided. For every loan application a detailed affordability assessment based on provable income or business earnings and a stressed interest rate is conducted to establish the maximum loan size available.

The sole acceptable collateral type for mortgages and secured loans is a first charge over residential or commercial property. Property offered as security 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. 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.

Maximum loan to value ratio depends upon loan size and, in the case of commercial property, the collateral stress band associated with the type of security property. Property valuations are reviewed and updated on a regular basis.

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 such customers suitable forbearance options ranging from straight forward 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 resolve matters and repay missed 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 because:

- 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 raise to significant other cash flows.

Payments on the Structured Loan note are contractually linked to payments received on a pool of other instruments, so this is considered a contractually linked instrument under IFRS 9.

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 fair value through other comprehensive income 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.

Assessment of IFRS 9 impairments requires a number of supporting models and policies:

- **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), loss given default (LGD) and the exposure at default (EAD) 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 at the point of default.

- **Determining a significant increase in credit risk since initial recognition**
  The impairment model utilises both a 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 since inception date (i.e. including credit events with other organisations).
  - Mortgages relative: a two-fold increase in origination probability of default (PD) since origination with a minimum 0.5% increase.
  - BBSL absolute: 30 days past due.
  - 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 geographical location and sector are also considered.

Due to a lack of historic trading data the stage transition criteria were set using industry level data. Going forward the criteria will be refined once sufficient Atom specific trading data is available.

- **Forecast economic data**
  IFRS 9 requires ECL to reflect a range of possible outcomes and considering a range of future economic scenarios. The Bank utilises an independent economic consultancy to calculate its base economic scenario, as well as two other scenarios which are updated quarterly. The upper and lower alternative scenarios are calculated from a range of economic variables that are stressed around the base case. The ECL model combines the results of all these alternative scenarios with the base case results, with the upper and lower both assumed to have a 30% probability of occurrence.

  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.

  The most significant economic assumptions used for the ECL estimate are forecast interest rates, house price (residential only) and commercial real estate (BBSL) investment forecasts and unemployment rates. The five year average of each of these assumptions under the base, upper and lower scenario's are as follows:

	Base	Upper	lower
BoE Interest rate	1.7%	2.2%	1.3%
House price index	114	112	119
Commercial real estate index	98.5	98.0	99.0
Unemployment rate	4.1%	4.3%	4.0%

- **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:

At 31 March 2019:	Mortgages	BBSL	Unsecured funding loan note	Total loans and advances to customers
Gross carrying amount:	**£'000**	**£'000**	**£'000**	**£'000**
Stage 1: 12 month expected loss	2,145,404	175,664	6,967	2,328,035
Stage 2: Lifetime – loans not credit impaired	46,989	4,090	-	51,079
Stage 3: Lifetime – credit impaired loans	1,766	2,772	-	4,538
Total gross carrying amount	**2,194,159**	**182,526**	**6,967**	**2,383,652**
Fair value adjustment*	**10,300**	**-**	**-**	**10,300**
Effective interest rate adjustment*	**7,264**	**-**	**1**	**7,265**
Total gross carrying amount including valuation adjustments	**2,211,723**	**182,526**	**6,968**	**2,401,217**
Less impairment allowance				
Stage 1: 12 month expected loss	(695)	(154)	-	(849)
Stage 2: Lifetime – loans not credit impaired	(233)	(46)	-	(279)
Stage 3: Lifetime – credit impaired loans	(78)	(150)	-	(228)
Provision for on balance sheet impairment losses	**(1,006)**	**(350)**	**-**	**(1,356)**
Net balance sheet carrying value	**2,210,717**	**182,176**	**6,968**	**2,399,861**
Loan commitments				
Gross commitments	115,718	24,831	-	140,549
12 month expected loss provision	**(75)**	**(10)**	**-**	**(85)**
Total credit impairment provision	**(1,081)**	**(360)**	**-**	**(1,441)**
Total coverage ratio	**0.05%**	**0.17%**	**-**	**0.06%**

At 31 March 2018:	Mortgages	BBSL	Unsecured funding loan note	Total loans and advances to customers
Gross carrying amount:	**£'000**	**£'000**	**£'000**	**£'000**
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)**
Total coverage ratio	**0.03%**	**0.03%**	**-**	**0.03%**

*The fair value and effective interest adjustment have not been allocated across IFRS 7 credit risk disclosures as the impact is not deemed to be significant.

Mortgages

Fixed rate mortgage products offered to the market via broker networks have continued to experience significant balance sheet growth of £1.1bn (2018: £1.0bn) taking the period end balance to £2.2bn (2018: £1.1bn). The book continues to experience minimal deterioration in credit quality, with 98% (2018: 97%) of total mortgage value classified as Stage 1. The year end provision of £1,006k (2018: £346k) results in a coverage ratio of 0.05% (2018: 0.03%).

Mortgages of £116m (2018: £132m) were also committed to 655 (2018: 784) customers. A provision of £75k (2018: £57k) was held against this exposure, resulting in a total mortgage provision of £1,081k (2018: £403k).

The valuation adjustment of £10.3m (2018: £6.7m) reflects the IAS39 macro hedge adjustment as described in note 26.

No loans have been subject to modification.

BBSL

Atom offer secured loans to Small and Medium Enterprises. Gross carrying balances increased £45m to £183m (2018: £138m). £4.3m (2018: £2.9m) of loans have experienced deterioration into stage 2 or 3 during the year due to relative increases in credit risk since origination. The provision of £350k (2018: £46K) results in a coverage ratio of 0.19% (2018: 0.033%).

Loans totalling £24.8m (2018: £33.6m) were committed to 63 (2018: 88) customers. A provision of £10k (2018: £6K) was held against this exposure, resulting in a total BBSL provision of £360k (2018: £52k).

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 £7.0m (2018: £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 measurement of the expected credit loss allowance is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour, in particular the number and relative weighting of economic scenarios used to calculate forecast losses. Atom currently uses three economic scenarios; a most likely outcome ('base' scenario) and two less likely scenarios ('upside' and 'downside' scenarios). Each scenario is assigned a probability weighting which is used to compute ECL.

The credit impairment provision is sensitive to reasonably possible alternative scenarios and weightings. Applying a weighting of 100% to the downside scenario would result in an increase of £172k to the impairment provision across the full portfolio.

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.

The below tables show the total allowances categorized against the LTV ratio for residential mortgages and BBSL. In both the current and prior year no loan commitments are in stage 2 or stage 3.

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2019	**Gross carrying amount**	**Impairment Allowance**	**Gross carrying amount**	**Impairment Allowance**	**Gross carrying amount**	**Impairment Allowance**	**Gross loan commitment**	**Provision against loan commitments**
Mortgages by current LTV ratio	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
LTV <= 60%	623,893	15	8,222	4	190	1	7,067	1
60% < LTV <= 65%	146,354	11	1,189	1	-	-	3,362	-
65% < LTV <= 70%	183,839	23	3,728	9	109	2	3,739	1
70% < LTV <= 75%	213,051	38	2,845	3	329	5	8,227	2
75% < LTV <= 80%	213,878	67	2,786	9	620	34	13,032	6
80% < LTV <= 85%	256,142	119	5,998	33	340	15	11,603	7
85% < LTV <= 90%	446,952	327	18,475	150	71	5	55,090	42
90% < LTV <= 95%	61,295	95	3,746	24	107	16	13,598	16
Total Mortgages	**2,145,404**	**695**	**46,989**	**233**	**1,766**	**78**	**115,718**	**75**

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2018	**Gross carrying amount**	**Impairment Allowance**	**Gross carrying amount**	**Impairment Allowance**	**Gross carrying amount**	**Impairment Allowance**	**Gross loan commitment**	**Provision against loan commitments**
Mortgages by current LTV ratio	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
LTV <= 60%	419,993	6	7,872	1	-	-	20,735	2
60% < LTV <= 65%	65,482	2	791	-	-	-	4,787	1
65% < LTV <= 70%	93,786	6	1,605	1	-	-	11,623	2
70% < LTV <= 75%	136,589	17	3,797	7	-	-	18,598	4
75% < LTV <= 80%	87,930	26	2,039	3	-	-	7,963	3
80% < LTV <= 85%	95,443	56	2,635	13	-	-	12,831	6
85% < LTV <= 90%	130,909	140	8,162	48	-	-	55,554	40
90% < LTV <= 95%	5,690	9	1,155	11	-	-	-	-
Total Mortgages	**1,035,824**	**262**	**28,056**	**84**	**-**	**-**	**132,091**	**58**

As at 31 March 2019	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 50%	47,986	17	862	8	-	-	6,887	5
50% < LTV <= 60%	70,298	53	1,506	11	1,753	68	8,416	3
60% < LTV <= 70%	47,572	62	1,616	24	1,019	82	6,464	1
70% < LTV <= 80%	9,808	22	106	3	-	-	3,064	1
Total BBSL	**175,664**	**154**	**4,090**	**46**	**2,772**	**150**	**24,831**	**10**

As at 31 March 2018	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 50%	30,036	4	188	-	-	-	11,191	-
50% < LTV <= 60%	44,374	7	1,704	2	-	-	11,052	2
60% < LTV <= 70%	48,250	14	610	2	-	-	8,571	3
70% < LTV <= 75%	12,746	12	483	5	-	-	2,795	1
Total BBSL	**135,406**	**37**	**2,985**	**9**	**-**	**-**	**33,609**	**6**

Movements year on year in loan to value mix reflect slight changes the Bank's risk appetite and strategy. 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 below provides information on the credit quality of the loan book. The portfolio is segmented by the risk grade, with each grade having an associated PD range.

As at 31 March 2019	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by behavioural PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	1,470,858	203	2,481	-	-	-	43,205	14
Low risk	460,261	192	2,586	2	-	-	29,995	23
Medium low risk	124,021	140	14,437	37	-	-	10,374	13
Medium risk	57,905	150	27,485	194	-	-	5,590	17
Higher risk	32,359	10	-	-	1,766	78	26,554	8
Total Mortgages	**2,145,404**	**695**	**46,989**	**233**	**1,766**	**78**	**115,718**	**75**

As at 31 March 2018	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by behavioural PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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
Higher risk	-	-	-	-	-	-	-	-
Total Mortgages	**1,035,824**	**262**	**24,330**	**84**	**-**	**-**	**132,091**	**58**

The portfolio continues to be predominantly in the low and very low risk bands which is a reflection of lending to lower risk customers with little or no adverse credit history. The portfolio is monitored on an ongoing basis with behavioral scores updated monthly.

As at 31 March 2019	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by origination PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	29,300	9	1,378	18	-	-	5,554	2
Low risk	65,623	35	1,343	8	-	-	8,969	3
Medium risk	70,628	90	1,184	17	-	-	6,947	3
Medium high risk	10,113	20	185	3	2,772	150	3,361	2
Total Mortgages	**175,664**	**154**	**4,090**	**46**	**2,772**	**150**	**24,831**	**10**

As at 31 March 2018	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by origination PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	24,359	2	231	-	-	-	5,579	-
Low risk	50,002	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	-	-	1,322	1
Total Mortgages	**135,406**	**37**	**2,985**	**9**	**-**	**-**	**33,609**	**6**

The portfolio is currently predominantly in Low and Medium risk grades. Monitoring of customer profile and payment behaviour has resulted in 18 customers being transferred to the watch list, with a further 5 having entered the collections and recovery process.

The below provides information on the portfolio segmented by loan size.

As at 31 March 2019 Mortgages by loan size	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan <= £250k	1,297,012	525	33,157	197	965	35	78,619	60
£250k < Loan <= £500k	688,118	151	11,385	33	801	43	27,790	12
£500k < Loan <= £1m	152,399	17	1,100	1	-	-	5,570	2
£1m < Loan <= £2m	7,875	2	1,347	2	-	-	3,739	1
Total Mortgages	**2,145,404**	**695**	**46,989**	**233**	**1,766**	**78**	**115,718**	**75**

As at 31 March 2018 Mortgages by loan size	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan <= £250k	540,384	195	16,888	64	-	-	98,132	47
£250k < Loan <= £500k	384,845	62	8,130	16	-	-	28,651	10
£500k < Loan <= £1m	106,139	5	1,549	4	-	-	5,308	1
£1m < Loan <= £2m	4,456	-	1,489	-	-	-	-	-
Total Mortgages	**1,035,824**	**262**	**28,056**	**84**	**-**	**-**	**132,091**	**58**

As at 31 March 2019	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by loan size	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan <= £250k	26,454	35	717	8	188	24	4,729	2
£250k < Loan <= £500k	49,167	55	601	7	-	-	5,772	3
£500k < Loan <= £1m	68,620	51	1,692	23	1,589	90	9,969	4
£1m < Loan <= £2m	28,724	13	1,080	8	995	36	1,511	-
Loan > £2m	2,699	-	-	-	-	-	2,850	1
Total BBSL	**175,664**	**154**	**4,090**	**46**	**2,772**	**150**	**24,831**	**10**

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

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 2019	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	483,663	112	9,074	23	462	28	16,262	8
Midlands	348,440	80	9,714	28	275	1	25,122	12
North	508,640	283	13,215	114	362	12	33,923	30
Northern Ireland	28,968	18	648	4	-	-	3,731	3
Scotland	196,315	106	4,463	36	178	19	11,267	9
South	525,744	66	8,450	17	340	16	18,807	8
Wales	53,634	30	1,425	11	149	2	6,606	5
Total Mortgages	**2,145,404**	**695**	**46,989**	**233**	**1,766**	**78**	**115,718**	**75**

As at 31 March 2018	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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 2019	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	29,320	19	646	6	-	-	420	-
Midlands	28,900	28	1,334	12	-	-	10,378	4
North	65,077	52	1,657	22	1,777	114	5,915	3
Northern Ireland	7,515	7	-	-	-	-	2,901	1
Scotland	16,961	17	-	-	995	36	1,041	-
South	22,252	22	347	3	-	-	3,844	2
Wales	5,639	9	106	3	-	-	332	-
Total BBSL	**175,664**	**154**	**4,090**	**46**	**2,772**	**150**	**24,831**	**10**

As at 31 March 2018	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by UK Region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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**

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:

Residential mortgages	Stage 1	Stage 2	Stage 3	
	Impairment Allowance	Impairment Allowance	Impairment Allowance	Total
	£'000	£'000	£'000	£'000
At 1 April 2017	7	-	-	7
Increase due to originations	258	-	-	258
Change in credit risk	(2)	(1)	-	(3)
Transfers between stages	(1)	85	-	84
At 31 March 2018	**262**	**84**	**-**	**346**
Increase due to originations	784	-	-	784
Decrease due to repayments	(5)	(1)	-	(6)
Change in credit risk	(9)	(2)	-	(11)
Transfers between stages	(337)	152	78	(107)
At 31 March 2019	**695**	**233**	**78**	**1,006**

BBSL	Stage 1	Stage 2	Stage 3	
	Impairment Allowance	Impairment Allowance	Impairment Allowance	Total
	£'000	£'000	£'000	£'000
At 1 April 2017	156	-	-	156
Increase due to originations	32	-	-	32
Change in credit risk	(151)	-	-	(151)
Transfers between stages	-	9	-	9
At 31 March 2018	**37**	**9**	**-**	**46**
Increase due to originations	49	-	-	49
Decrease due to repayments	(3)	-	-	(3)
Change in credit risk	(14)	-	-	(14)
Model changes	95	-	-	95
Transfers between stages	(10)	37	150	177
At 31 March 2019	**154**	**46**	**150**	**350**

The residential mortgage provision increase was primarily driven by the origination of £1.2bn (2018: £1.1bn) of new lending. BBSL provision increase was due to refinement of model inputs as a result of more up to date industry data, and an additional £54m (2018: £107m) of new BBSL loans. Transfers between stages occured due to deterioration credit risk as a result of monitoring of customer profile and payment behaviour.

Funding and liquid assets

Atom's balance sheet is primarily funded by customers depositing money in their fixed savings accounts, supplemented with wholesale funding, including the proceeds of Atom's inaugural RMBS transaction. Atom's Treasury team manages the funding mix and liquid asset buffer to ensure the demands of customers, creditors and regulators are met at all times.

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. Liquidity risk exposures are measured and reported daily.

Oversight and governance are provided by the Asset & Liability Committee (ALCO), which meets on a monthly basis.

Key Liquidity Risk Mitigations

The key mitigation of liquidity risk is the High Quality Liquid Assets (HQLA) portfolio, which provides liquidity for the Bank. In addition, the Bank has access to committed secured funding facilities supplied by major banks and by the Bank of England. Atom uses a stressed forward looking cash flow profile (both inflows and outflows) to determine the minimum level of liquidity necessary to cope with unexpected liquidity challenges. In addition to meeting all regulatory liquidity requirements, Atom also considers a range of stress scenarios and holds liquidity sufficient to mitigate the worst-case scenario. The internal scenarios range in their nature, severity and minimum survival horizons. All of the scenarios are measured daily.

Key Liquidity Metrics

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

- a 90 day slow-burn scenario ("persistent" stress)
- a 60 day "market" stress which considers closure of wholesale markets
- a 45 day "acute" stress that represents an in-house variant of the LCR stress
- a 14 day bank run stress

All four stress tests are modelled using the LCR framework and are measured every day, to ensure robust control of the Bank's liquidity. In addition, all of the measures are forecast over a six-month time horizon at least weekly.

Although not yet a regulatory requirement, the Net Stable Funding Ratio (NSFR) is monitored on a daily basis.

At year end Atom held significant surplus liquidity over the minimum requirements.

17. Wholesale credit risk management

Wholesale credit risk arises from the portfolio of HQLA and other financial instruments which Treasury manages. It represents the risk that counterparties will fail to meet their obligations when they become due. Atom has a very limited appetite for this form of risk and consequently exposures are restricted to very high quality counterparties with a low risk of failure.

Treasury exposures and limits are focused on UK institutions, with additional limits extended to a small number of highly rated financial institutions in Europe and other G10 economies.

Counterparty credit limits are set in line with the Board approved Treasury and Financial Risk Management Policy. Maximum limits are determined by the Atom Risk Grade which takes into account internal analysis of a counterparty's creditworthiness, country of domicile and any other relevant factors.

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 hold assets that maximise an interest return, whilst having a sufficient mix of high quality assets to monetise 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 on page XX. 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.

	Group	Bank	Group and Bank
	2019	2019	2018
	£'000	£'000	£'000
Cash and balances at central banks	**252,109**	**225,153**	**364,309**
UK Gilts	22,032	22,032	238,136
Covered Bonds	49,975	49,975	20,939
Residential Mortgage Backed Securities (RMBS)	10,564	10,564	11,132
Multilateral Development Bank and Government Sponsored Debt	16,501	16,501	52,154
Total debt instruments at FVOCI	**99,072**	**99,072**	**322,361**
Financial assets held for liquidity management	**351,181**	**324,225**	**686,670**

The £351m (2018: £687m) 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 £13k (2018: £105k) is held against the £99m (2018: £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 and other wholesale funders. Assets that have been set aside for such purposes are classified as 'encumbered and pledged assets' and cannot be used for other purposes.

Group 31 March 2019	Encumbered assets		Unencumbered assets		
	Pledged as collateral	Other	Available as collateral	Other	Total
	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	-	-	-	252,109	252,109
Debt instruments at fair value through other comprehensive income	36,662	-	62,410	-	99,072
Loans and advances to customers	945,289	-	1,454,572	-	2,399,861
Other assets	4,950	12,518	-	29,699	47,167
Total assets	**986,901**	**12,518**	**1,516,982**	**281,808**	**2,798,209**

Bank 31 March 2019	Encumbered assets		Unencumbered assets		
	Pledged as collateral	Other	Available as collateral	Other	Total
	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	-	-	-	225,153	225,153
Debt instruments at fair value through other comprehensive income	36,662	-	62,410	-	99,072
Loans and advances to customers	945,289	-	1,454,572	-	2,399,861
Other assets	4,950	12,518	-	30,745	48,213
Total assets	**986,901**	**12,518**	**1,516,982**	**255,898**	**2,772,299**

Group and Bank 31 March 2018	Encumbered assets		Unencumbered assets		
	Pledged as collateral	Other	Available as collateral	Other	Total
	£'000	£'000	£'000	£'000	£'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 assets	**611,245**	**23,000**	**930,472**	**392,133**	**1,956,850**

Atom's main source of encumbrance of £987k (2018: £611k) is through its participation in the Bank of England TFS scheme and its securitisation issuance, Elvet mortgages 2018-1 plc.

Other encumbered assets are assets that cannot be used for secured funding due to legal or other reasons. These comprise the minimum requirement for the FPS payment 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.

	2019	2018
	£'000	£'000
Sterling denominated fixed term deposits	1,770,124	1,303,374
Euro denominated fixed term deposits	997	136,419
Total	**1,771,121**	**1,439,793**

During the year we continued to fund our lending partly through customer deposits which increased by £0.3bn to £1.8bn.

The £1.8bn of Sterling denominated deposits includes a valuation adjustment liability of £549k (2018: £901k asset) which reflects the IFRS 9 micro hedge adjustment as described in note 26.

No new Euro denominated fixed term deposits were raised during 2019 as a result of uncertainty around passporting rights post Brexit.

21. Wholesale Funding

Accounting for wholesale borrowings

Wholesale borrowings (which include borrowings from central banks, deemed loan, debt securities in issue and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate method.

Accounting for repurchase agreements

Financial instruments sold under a repurchase agreement, under which substantially all the risks and rewards of ownership are retained by Atom continue to be recognised on the balance sheet and the sale proceeds are recognised as a financial liability. The difference between the sale and repurchase price is recognised over the life of the agreement as interest expense using the effective interest method.

	Group	Bank	Group and Bank
	2019	2019	2018
	£'000	£'000	£'000
Borrowings from central banks – secured loans	355,437	355,437	355,215
Subordinated liabilities – debt instruments	8,149	8,149	8,134
Deemed Loan	-	364,204	-
Repurchase agreements	34,851	34,851	-
Debt securities in issue	391,249	-	-
Total	**789,686**	**762,641**	**363,349**

Secured loans of £355m (2018: £355m) relate to drawdowns from the Bank of England's Term Funding Scheme. During 2018, 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.

Debt securities in issue of £391m (£2018: £0m) represents the group's residential mortgage backed securitisation, as disclosed in Note 22. Within the Bank, a deemed loan of £364m relates to the same transaction. The difference between the Group and Bank is predominantly cash held within Elvet Mortgages 2018-1 plc at year end.

22. Securitisation

Accounting for securitisation

Securitisation is a means used by Atom to source funding backed by part of its mortgage portfolio. Securitised advances have been legally transferred at their principal value to structured entities and have been funded through the issue of residential mortgage backed securities by the structured entity to investors.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; or to derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained by the transfer.

In October 2018 Atom completed its first residential mortgage backed securitisation via a special purpose vehicle, Elvet-Mortgages 2018-1 plc (Elvet). The securitised mortgage loans, originated by the Bank, have been assigned at principal value to Elvet, a bankruptcy- remote structured entity, funded through the issue of residential mortgage backed debt to third-party debt investors. The Bank is entitled to any residual income from the Elvet after the debt obligations and senior expenses of the programme have been met. The securitised debt holders have no recourse to the Bank other than the principal and interest generated from the securitised mortgage loans. The Bank continues to service the mortgage loans in return for an administration fee.

The mortgage loans assigned to structured entities do not qualify for derecognition and are not treated as sales by the Bank, as the Bank remains exposed to the majority of the risks and rewards of the mortgage loan portfolio and associated credit risk. The securitised mortgage loans are retained on the Bank's balance sheet, and the assets, liabilities and results of the securitisation structured entities are consolidated in full.

The assets and liabilities in relation to securitisation notes in issue externally at 31 March are as follows:

	Group
	2019
Liabilities	**£'000**
At 1 April 2018	**-**
Issuance of debt	400,000
Repayments	(6,694)
Issuance costs net of amortisation	(2,057)
At 31 March 2019	**391,249**
Assets	
Securitised mortgage loans	526,050

The Bank issued £486m of class A notes on 17 October 2018 of which £400m were issued externally and £86m retained by the Bank. The notes have a coupon rate of 3 month GBP LIBOR + 0.75% and a call date of 22 October 2022. The Bank provides credit support to the structured entity via retained notes and reserve funds, partially funded through £16m in subordinated loans and £61m of retained Z notes at 31 March 2019.

The Bank has an obligation to repurchase mortgage exposures if certain loans no longer meet the programme criteria or representations and warranties.

The fair value of the transferred assets and associated liabilities at 31 March 2019 is disclosed within Note 28. The assets transferred are equivalent to the net value of the deemed loan liability held by the Bank, with the associated liability in the Group held in debt securities in issue.

23. Contractual maturity of financial assets and liabilities

Contractual maturities for financial liabilities form an important source of information for the management of liquidity risk. The tables below present the contractual residual maturities of the financial assets and liabilities on the balance sheet:

Group	**On demand**	**Not more than 3 months**	**Over 3 months but not more than 6 months**	**Over 6 months but not more than 1 year**	**Over 1 year but not more than 3 years**	**Over 3 years but not more than 5 years**	**Over 5 years but not more than 10 years**	**Over 10 years**	**Total**
As at 31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets									
Cash and balances at central banks	252,109	-	-	-	-	-	-	-	**252,109**
Loans and advances to customers	-	22,341	22,097	46,457	208,747	284,826	415,538	1,399,855	**2,399,861**
Debt instruments at FVOCI	-	-	6,036	1,146	38,400	46,104	-	7,386	**99,072**
Total financial assets	**252,109**	**22,341**	**28,133**	**47,603**	**247,147**	**330,930**	**415,538**	**1,407,241**	**2,751,042**
Liabilities									
Customer deposits	(27,827)	(368,164)	(410,706)	(620,157)	(285,069)	(59,198)	-	-	**(1,771,121)**
Deposits from banks	-	(437)	-	-	(355,000)	-	-	-	**(355,437)**
Debt securities in issue		(8,352)	(4,686)	(24,662)	(209,083)	(144,466)			**(391,249)**
Repurchase agreements	-	(10,031)	(24,820)	-	-	-	-	-	**(34,851)**
Subordinated liabilities	-	(149)	-	-	-	-	(8,000)	-	**(8,149)**
Derivatives held for hedging purposes	-	(2,021)	(108)	825	(7,291)	(30)	(3)	-	**(8,628)**
Total financial liabilities	**(27,827)**	**(389,154)**	**(440,320)**	**(643,994)**	**(856,443)**	**(203,694)**	**(8,003)**	**-**	**(2,569,435)**
Off-balance sheet commitments									
Loan commitments given	-	140,549	-	-	-	-	-	-	**140,549**

Bank	**On demand**	**Not more than 3 months**	**Over 3 months but not more than 6 months**	**Over 6 months but not more than 1 year**	**Over 1 year but not more than 3 years**	**Over 3 years but not more than 5 years**	**Over 5 years but not more than 10 years**	**Over 10 years**	**Total**
As at 31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets									
Cash and balances at central banks	225,153	-	-	-	-	-	-	-	**225,153**
Loans and advances to customers	-	22,341	22,097	46,457	208,747	284,826	415,538	1,399,855	**2,399,861**
Debt instruments at FVOCI	-	-	6,036	1,146	38,400	46,104	-	7,386	**99,072**
Total financial assets	**225,153**	**22,341**	**28,133**	**47,603**	**247,147**	**330,930**	**415,538**	**1,407,241**	**2,724,086**
Liabilities									
Customer deposits	(27,827)	(368,164)	(410,706)	(620,157)	(285,069)	(59,198)			**(1,771,121)**
Deposits from banks	-	(437)	-	-	(355,000)	-	-	-	**(355,437)**
Deemed Loan (Bank)		(7,775)	(4,361)	(22,958)	(194,630)	(134,480)	-	-	**(364,204)**
Repurchase agreements	-	(10,031)	(24,820)	-	-	-	-	-	**(34,851)**
Subordinated liabilities	-	(149)	-	-	-	-	(8,000)	-	**(8,149)**
Derivatives held for hedging purposes	-	(2,021)	(108)	825	(7,291)	(30)	(3)	-	**(8,628)**
Total financial liabilities	**(27,827)**	**(388,577)**	**(439,995)**	**(642,290)**	**(841,990)**	**(193,708)**	**(8,003)**	**-**	**(2,542,390)**
Off-balance sheet commitments									
Loan commitments given	-	140,549	-	-	-	-	-	-	**140,549**

Bank and Group	**On demand**	**Not more than 3 months**	**Over 3 months but not more than 6 months**	**Over 6 months but not more than 1 year**	**Over 1 year but not more than 3 years**	**Over 3 years but not more than 5 years**	**Over 5 years but not more than 10 years**	**Over 10 years**	**Total**
As at 31 March 2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'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	-	-	-	-	-	-	**165,700**

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

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 and future coupon payments.

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

Group	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	**Total**
As at 31 March 2019								
Customer Deposits	27,819	383,806	415,406	632,589	293,142	60,896	-	**1,813,658**
Deposits from banks	-	671	671	1,335	359,953	-	-	**362,630**
Debt securities in issue	-	8,747	6,285	27,833	216,487	146,161	-	**405,513**
Repurchase Agreement	-	10,039	24,892	-	-	-	-	**34,931**
Subordinated liabilities	-	199	204	397	1,600	1,602	10,800	**14,802**
Total non-derivative financial liabilities	**27,819**	**403,462**	**447,458**	**662,154**	**871,182**	**208,659**	**10,800**	**2,631,534**
Off-balance sheet commitments								
Loan commitments given	-	140,549	-	-	-	-	-	**140,549**

Bank	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	**Total**
As at 31 March 2019								
Customer Deposits	27,819	383,806	415,406	632,589	293,142	60,896	-	**1,813,658**
Deposits from banks	-	671	671	1,335	359,953	-	-	**362,630**
Deemed loan	-	11,784	8,466	37,497	291,651	196,907	-	**546,305**
Repurchase Agreement	-	10,039	24,892	-	-	-	-	**34,931**
Subordinated liabilities	-	199	204	397	1,600	1,602	10,800	**14,802**
Total non-derivative financial liabilities	**27,819**	**406,499**	**449,639**	**671,818**	**946,346**	**259,405**	**10,800**	**2,772,326**
Off-balance sheet commitments								
Loan commitments given	-	140,549	-	-	-	-	-	**140,549**

Group and Bank	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	**Total**
As at 31 March 2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'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**

Market Risk

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

25. Market risk management

The main source of market risk is our exposure to changes in interest rates. During the year the Bank managed exposures to Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange Risk.

Market risk is managed by the Treasury department, and monitored by the Financial Risk team. Interest rate risk exposures are measured and reported daily.

Oversight and governance are provided by the ALCO, which meets on a monthly basis.

Key interest rate and market risk mitigations

Fixed rate cashflows, whether assets or deposits, are predominantly hedged to Sterling Over Night Index Average (SONIA) by means of interest rate swaps. SONIA is an overnight interest 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.

Wherever possible, Atom uses existing balance sheet items to net interest rate exposures (e.g. the interest rate risk on an asset is matched against a liability of a similar tenor). Net exposures are hedged with external swap counterparties.

Foreign exchange exposures are managed to a minimal level via the use of spot and forward transactions and cross-currency swaps.

Key interest and market rate risk metrics

Atom uses two primary methods to quantify interest rate risk exposure, Economic Value of Equity (EVE) and Net Interest Income (NII). EVE measures the change in net present value of the Bank's asset, liability and derivative positions in response to an interest rate shock. NII measures the change in net interest income over a 12 month time horizon following changes in interest rates. Each of these measures is stress tested in a variety of interest rate scenarios, using both parallel and non-parallel yield curve shifts. The acceptable change to EVE and NII under each of the scenarios (i.e. interest rate exposure) is limited by the Board defined risk appetite.

Basis risk positions are measured by netting balance sheet positions with the corresponding derivative hedge positions to determine the notional magnitude of basis exposure pairs (e.g. 3 month LIBOR vs SONIA).

EVE and NII sensitivity

Sensitivity analysis of EVE and NII is performed on the Group balance sheet. The projected change in response to an immediate parallel shift of 200bps in all relevant interest rates was:

	2019	2018
	£'m	£'m
EVE: impact of increase in rates	(1.0)	(0.7)
EVE: Impact of decrease in rates	1.1	0.8
NII: impact of increase in rates	0.4	1.0
NII: impact of decrease in rates	(0.4)	(1.0)

26. Derivatives held for hedging purposes

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 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 Group and Bank hold:

	2019		**2018**	
	Notional contract amount	**Fair Value (asset/ (liability))**	**Notional contract amount**	**Fair Value (asset/ (liability))**
As at 31 March 2018	**£'000**	**£'000**	**£'000**	**£'000**
Settled on a net basis				
Derivatives in accounting hedge relationships				
Interest rate	2,978,300	(8,488)	1,738,000	9,297
Derivatives in economic and not accounting hedges				
Cross currency swaps	1,016	(30)	136,857	(1,218)
FX forward	2,539	(3)	1,303	(71)
Interest Rate	225,000	(107)	-	-
Total derivatives held for hedging purposes	**3,206,855**	**(8,628)**	**1,876,160**	**8,008**

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 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 investment grade 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 the 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 charge of £45k (2018: gain of £1,690k) was recognised within Other income.

With regard to the mortgage macro hedge relationships, as Atom are exposed to interest rate risk from the point of making a customer a binding offer, interest rate swaps are generally entered into at the point of full mortgage application. 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, a £1,776k fair value loss (2018: £2,377k 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 2019 (income/(charge))
	£'000	£'000	£'000	£'000
As at 31 March 2019				
Derivatives held to hedge fixed rate GBP deposits	1,247,800	824	Derivatives held for hedging purposes	1,467
Derivatives held to hedge fixed rate mortgages	1,730,500	(9,313)	Derivatives held for hedging purposes	(16,250)
As at 31 March 2018				
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

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

	Nominal amount of the hedging item	Accumulated amount of fair value adjustments on the hedged item (asset/ (liability))	Line item in the statements of financial position where the hedging item is included	Changes in fair value used for calculating hedge ineffectiveness for 2018 (income/(charge))
	£'000	£'000	£'000	£'000
As at 31 March 2019				
Fixed Rate deposits	1,247,800	(549)	Customer deposits	(1,449)
Fixed rate mortgages	1,730,500	10,300	Loans and advances to customers	17,015
As at 31 March 2018				
Fixed Rate deposits	833,000	901	Customer deposits	774
Fixed rate mortgages	905,300	(6,714)	Loans and advances to customers	(6,714)

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

	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but no more than 5 years	Over 5 but less than 10	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2019							
Nominal value of derivatives held for hedging purposes							
Derivatives held for to hedge fixed rate GBP deposits	283,500	343,000	507,800	113,500	-	-	1,247,800
Derivatives held for to hedge fixed rate mortgages -	20,000	20,000	70,000	448,500	1,172,000	-	1,730,500
Total	**303,500**	**363,000**	**577,800**	**562,000**	**1,172,000**	**-**	**2,978,300**
As at 31 March 2018							
Nominal value of derivatives held for hedging purposes							
Derivatives held for to hedge fixed rate GBP deposits	40,000	110,000	606,500	76,500	-	-	833,000
Derivatives held for 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**

The following tables display 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 as derivative valuations therefore differ to those reported in the balance sheet.

	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but no more than 5 years	Over 5 but less than 10	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2019							
Settled on a net basis	(621)	(1,100)	(841)	(5,041)	(1,487)	-	(9,090)
As at 31 March 2018							
Settled on a net basis	(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. These instruments were not designated into hedge accounting relationships. As a result, a fair value gain of £926k (2018: loss of £962k) was recognised in other income. This was offset against a loss in the foreign currency retranslation of the Euro deposits of £495k (2018: £537k gain).

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.

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 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. The following table shows the impact of netting arrangements on derivative financial instruments reported net on the balance sheet:

	Gross Amounts	Amounts offset	Net amounts reported on the balance sheet	Related amounts not offset: Cash collateral placed	Net amount
	£'000	£'000	£'000	£'000	£'000
As at 31 March 2019					
Derivative Financial Assets	4,859	(4,859)	-	-	-
Derivative Financial Liabilities	(13,487)	4,859	(8,628)	4,950	(3,678)
As at 31 March 2018					
Derivative Financial Assets	10,537	(2,529)	8,008	10,140	(2,132)
Derivative Financial Liabilities	(2,529)	2,529	-	-	-

27. 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 classification of 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.

Bank and Group	**Level 1**	**Level 2**	**Level 3**	**Total**
As at 31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**
Assets				
Debt instruments at FVOCI				
UK Gilts	22,032	-	-	**22,032**
Covered Bonds	49,975	-	-	**49,975**
RMBS	-	10,564	-	**10,564**
Multilateral Development Bank and Government Sponsored Debt	16,501	-	-	**16,501**
Total	**88,508**	**10,564**	**-**	**99,072**
Liabilities				
Derivatives held for hedging purposes				
Interest rate	-	(8,595)	-	**(8,595)**
Cross currency swaps	-	(30)	-	**(30)**
FX forward	-	(3)	-	**(3)**
Total	**-**	**(8,628)**	**-**	**(8,628)**

Bank and Group	**Level 1**	**Level 2**	**Level 3**	**Total**
As at 31 March 2018	**£'000**	**£'000**	**£'000**	**£'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 Sponsored Debt	52,153	-	-	52,153
Total	**311,228**	**19,140**	**-**	**330,368**

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.

28. Fair value of financial assets and liabilities recognised on the balance sheet at amortised cost

	Group		Bank	
	Carrying value	Level 3 Fair Value	Carrying value	Level 3 Fair Value
As at 31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**
Assets				
Loans and advances to customers:				
BBSL	182,176	179,935	182,176	179,935
Mortgages	2,210,717	2,199,896	2,210,717	2,199,896
Structured Loan Note	6,968	6,988	6,968	6,988
Liabilities				
Customer Deposits	1,771,121	1,742,011	1,771,121	1,742,011
Deposits from banks	355,437	355,437	355,437	355,437
Deemed Loan	-	-	364,204	362,421
Debt securities in issue	391,249	390,022	-	-
Subordinated debt	8,149	9,453	8,149	9,453
Repurchase agreement	34,851	34,853	34,851	34,853

	Group and Bank	
	Carrying value	Level 3 Fair Value
As at 31 March 2018	**£'000**	**£'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

The fair value of loans and advances to customers, for the purpose of this disclosure, is derived from discounting expected cash flows in a way that reflects the current market price for lending to issuers of similar credit quality. At the year end there are no significant differences between carrying and fair value:

- The fair value of BBSL is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk.
- 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 reference to the market rate for similar loans of maturity equal to the remaining fixed interest rate period.
- The fair value of repurchase agreements approximates carrying amounts as these balances are generally short dated.
- Debt securities in issue Fair values of other debt securities in issue are based on quoted prices where available

The fair value of deposits from customers are estimated using discounted cash flows applying either market rates or current rates for deposits of similar remaining maturities.

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

As a regulated bank, to protect customers we are required to hold a minimal level of capital. To date this has been predominantly achieved through equity issuances to our investors. This has also provided the investment to build and grow the Bank through the period of early stage losses. 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 in order to meet our regulatory requirements.

29. Managing capital risk

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

Capital is 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 is currently loss making and continues to work closely with its existing equity investor base to secure funding for future growth, execute the current strategy and move towards profitability.

The Bank also has a Tier 2 facility, under which Atom may issue long-dated subordinated debt 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 capital strategy and is submitted to the PRA following Board scrutiny and approval. It assesses the Bank's Pillar 1 requirements using the Standardised/ Basic Indicator approaches and determines additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. The Bank also holds Pillar 2B capital based upon wind-down costs and the regulatory defined capital conservation buffer and counter-cyclical buffer.

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 run. 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. 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 and they assess the current and projected capital up to six months forward. Since baseline projections are based upon future capital raises, an additional, stressed projection is also produced, which shows the potential capital position in the event capital raises were to prove impossible.

During 2019, the Bank complied in full with all its externally imposed capital requirements. The following tables provides information on capital and reserves per the IFRS balance sheet with a reconciliation to the regulatory definition of capital.

30. Share capital and 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. The below tables apply for the Group and Bank:

	Number of shares	Ordinary shares (£0.00001 each)	Share premium	Total share capital and share premium
		£'000	£'000	£'000
As at 1 April 2018	**257,542,086**	**2**	**246,662**	**246,664**
Issued during the year	133,966,272	2	153,366	153,368
Expenses of issue of shares	-	-	(825)	(825)
Issued to staff under share incentive plans	444,165	-	-	-
As at 31 March 2019	**391,952,523**	**4**	**399,203**	**399,207**

	Number of shares	Ordinary shares (£0.00001 each)	Share premium	Total share capital and share premium
		£'000	£'000	£'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**

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 134m ordinary shares of £0.00001 were issued for £153m.

31. Other reserves

Other reserves of £15.6m (2018: £11.9m) primarily relates to equity settled share based payments of £16.8m (2018: £12.7m). See note 6 for further information.

	Group	Bank	Group	Bank
	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
Fair value reserve	(257)	(257)	(345)	(345)
Share based payment reserve	17,662	17,662	12,703	12,703
Other reserves and treasury shares	(886)	-	(481)	-
Total other reserves	**16,519**	**17,405**	**11,877**	**12,358**

The balance also includes £(0.3)m (2018: £(0.3)m) of fair value adjustments on assets held at fair value through other comprehensive income and treasury shares of £(0.9)m (2018: £(0.5)m) relating to the EBT (see note 39 for further information).

32. Regulatory capital (unaudited)

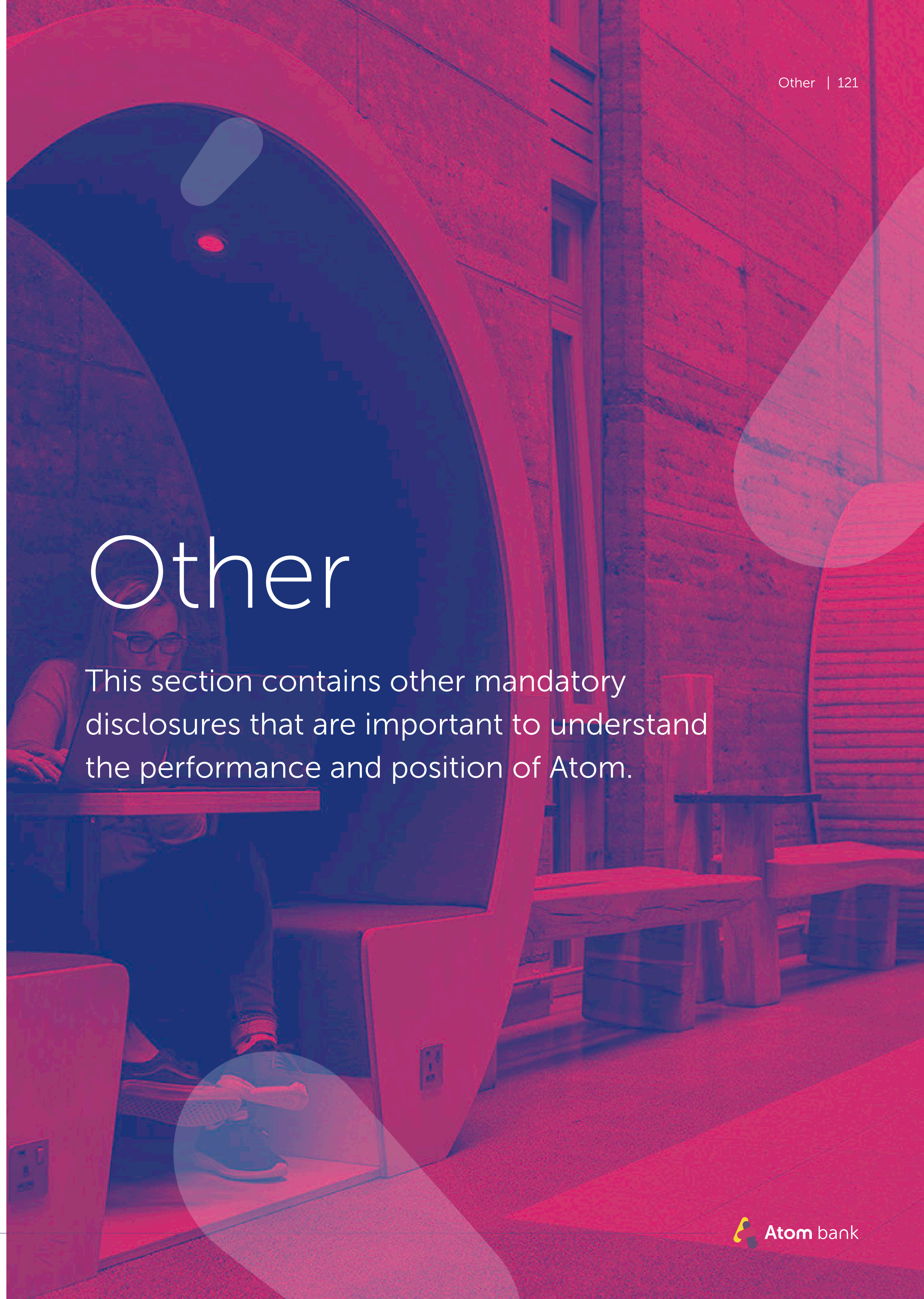
The following table presents a reconciliation for the Bank between equity on the IFRS balance sheet and prudential capital. The amount of capital held is measured against the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV) as implemented in the UK by the Prudential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

	2019 £'000 unaudited	2018 £'000 unaudited
Shareholders' equity per the statement of financial position	**212,704**	**134,490**
Regulatory adjustments		
Intangible assets	(29,720)	(34,109)
IFRS9 transitional adjustment	1,167	-
Prudential valuation adjustment	(101)	(323)
Common Equity Tier 1 (CET1) capital	**184,050**	**100,058**
Eligible Tier 2 instruments	7,949	7,935
Tier 2 capital	**7,949**	**7,935**
Total capital	**191,999**	**107,993**
Risk weighted assets (RWAs)	**1,028,247**	**572,566**
CET1 ratio	**17.9%**	**17.5%**
Total capital ratio	**18.7%**	**18.9%**
Leverage ratio	**6.5%**	**5.0%**

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

CET1 and total capital ratios of 17.9% (2018: 17.5%) and 18.7% (2018: 18.9%) respectively are reflective of the £153m capital raise, which was offset by annual losses of £79.9m and a £455m increase in RWAs.

The growth in total balance sheet assets to £2.8bn (2018; £2.0bn) has driven the increase 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.

33. Other assets

	Group 2019 £'000	Bank 2019 £'000	Group 2018 £'000	Bank 2018 £'000
Cash Collateral	4,950	4,950	-	-
Settlement and clearing accounts	6,852	6,852	5,114	5,114
Prepayments and other	5,083	4,576	3,054	3,054
Loan to group companies (note 39)	-	1,553	-	481
Total other assets	**16,885**	**17,931**	**8,168**	**8,649**

Other assets includes £6.9m (2018: £5.1m) of settlement and clearing accounts, the majority of which relates to mortgage loans where cash is being held in escrow before completion. Collateral represents margin calls made on derivative contracts.

34. 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 the 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 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	Office and IT Equipment	Total
	£'000	£'000	£'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**
Additions	40	257	297
Disposals	-	(42)	(42)
As at 31 March 2019	**462**	**1,038**	**1,500**
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**
Depreciation charge	63	211	274
Disposals	-	(42)	(42)
As at 31 March 2019	**194**	**744**	**938**
Net book value			
At 31 March 2019	**268**	**294**	**562**
At 31 March 2018	**291**	**248**	**539**

35. 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: up to 5 years
- App Development: up to 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.

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.

	Banking License	IT infrastructure and software	App	Total
	£'000	£'000	£'000	£'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**
Additions	-	15,057	3,298	18,355
As at 31 March 2019	**887**	**43,995**	**16,652**	**61,534**
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**
Amortisation charge	-	5,083	7,058	12,142
Impairment charge	-	9,220	1,382	10,602
As at 31 March 2019	**-**	**21,109**	**10,705**	**31,814**
Net Book Value				
As at 31 March 2019	**887**	**22,886**	**5,947**	**29,720**
As at 31 March 2018	**887**	**22,132**	**11,090**	**34,109**

Following the announcement of our partnership with Thought Machine an impairment review was performed over the existing IT infrastructure and software, some of which will no longer be used. The impairment charge of £10,602k (2018: £nil) relates to intangible assets which will be replaced by the Thought Machine Vault in the next year, and therefore have a reduced value in use.

The useful economic life of the app has been shortened to coincide with this and the launch of App v2.0, which has resulted in the increase in amortisation charged during the year.

A provision has also been recorded in relation to the decommissioning costs associated with these assets, as disclosed in note 36.

36. Provisions

	IFRS 9	Platform Transformation Provision	Total
	£'000	£'000	£'000
At 1 April 2018	64	-	64
Charged to the income statement	21	3,500	3,521
At 31 March 2019	**85**	**3,500**	**3,585**

Platform transformation provision

A platform transformation provision has been recognised to decommission IT infrastructure and transition to cloud hosting. In determining the fair value of this provision, assumptions and estimates are made in relation to the expected cost and the expected timing of these costs. The carrying amount of the provision £3.5m. The Bank estimates that the cost of this will be realised within the next 12 months.

37. Other liabilities

	Group 2019 £'000	Bank 2019 £'000	Group 2018 £'000	Bank 2018 £'000
Accounts payable and sundry creditors	5,456	4,996	4,669	4,669
Accrued expenses	3,731	3,730	3,643	3,643
Cash settled share based payment liability	4,566	4,566	702	702
Cash collateral	-	-	10,140	10,140
Intercompany loan payable	-	328	-	-
Total other liabilities	**13,753**	**13,620**	**19,154**	**19,154**

Collateral represents margin calls made on derivative contracts.

38. 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.

	2019 £'000	2018 £'000
Not more than one year	926	770
Over one year but not more than five years	3,245	2,610
Later than five years	2,535	2,763
Total operating leases	**6,706**	**6,143**

Operating lease costs of £643k (2018: £625k) have been incurred and are included within administrative and general expenses. From 1 April 2017 the group will apply IFRS 16 Leases for the first time, further information in relation to the transition and expected impact are disclosed in note 1.

39. Related party transactions

Atom enters into transactions with related parties in the normal course of business, as detailed below:

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

Executive Committee (excluding directors)	2019	2018
	£'000	£'000
Wages and salaries	1,479	1,669
Compensation for loss of office	173	-
Share based payments	1,289	650
Pension costs	66	184
Total	**3,007**	**2,503**

Directors emoluments	2019	2018
	£'000	£'000
Wages and salaries	1,253	1,254
Compensation for loss of office	-	445
Share based payments	849	1,595
Pension costs	-	61
Total	**2,102**	**3,355**

Highest paid director	2019	2018
	£'000	£'000
Wages and salaries	405	372
Share based payments	530	575
Total	**935**	**947**

No directors (2018: 2) accrued retirement benefits under the defined contribution scheme. No directors exercised share options during the year (2018: nil).

(ii) investment in subsidiaries
The following entities are accounted for as subsidiary companies of the Bank, as a result of either direct or indirect control of the entity. Control under IFRS 10 is when the group is exposed to or has rights to variable returns from its involvement in the entity and has the ability to affect those returns. All subsidiaries are 100% controlled and operate and are incorporated in the UK.

Company Name	Holding	Registered address
Direct holdings		
Atom EBT Limited	100% Ordinary shares	The Rivergreen Centre, Aykley Heads, Durham, DH1 5TS
Associated undertakings		
Atom Bank Employee Benefit Trust	Employee trust	The Rivergreen Centre, Aykley Heads, Durham, DH1 5TS
Special Purpose vehicles		
Elvet Mortgages 2018-1 plc	Issue of securitised notes	5th Floor, 100 Wood Street, London EC2V 2EX
Prebends Warehouse 2019-1 Ltd	Issue of securitised notes	5th Floor, 100 Wood Street, London EC2V 2EX

In the course of its business, the Bank transacts with structured entities which have been designed to finance the purchase of assets through securitisation and therefore raise finance from external investors by enabling them to invest in parcels of specified financial assets. At 31 March 2019 Atom has two consolidated structured entities, Elvet Mortgages 2018-l plc and Prebends Warehouse 2019-1 Ltd, which are included above.

(iii) Transactions with subsidiaries
Amounts due to and from controlled entities of the Bank other related parties are as follows:

	Bank	Bank
	2019	2018
	£'000	£'000
Other assets		
Amounts due from EBT	886	481
Amounts due from Prebends Warehouse 2019-1 Ltd	667	-
Deemed Loan		
Amounts due to Elvet Mortgages 2018-1 plc	364,204	-
Other Liabilities		
Amounts due to Elvet Mortgages 2018-1 plc	328	-

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 ("Bank") financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Banks's affairs as at 31 March 2019 and of the Group's and Bank's loss and the Group's and the Bank's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 2019; the Group and Bank statement 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

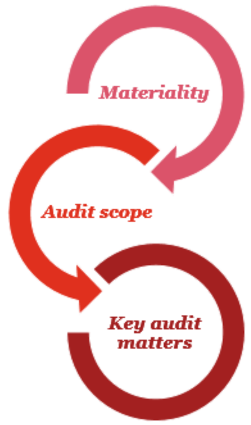
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 7 to the financial statements, we have provided no non-audit services to the Group or the Bank in the period from 1 April 2018 to 31 March 2019.

Our audit approach

Overview



Materiality

- Overall Group materiality: £2.2 million (2018: £1.3 million), based on 1% of net assets.
- Overall Bank materiality: £2.2 million (2018: £1.3 million), based on 1% of net assets.

Audit Scope

- We conducted all our work across the Group using one engagement team.
- We performed audit procedures over all material account balances and financial information of the Bank due to its significance to the Group's financial performance.
- We performed audit procedures over specific account balances and financial information in one other Group undertaking that materially contributed to the Group's financial performance and/or position.

Key audit matters

- Risk of fraud in revenue recognition – Effective interest Rate ("EIR") (Group and Bank)
- Impairment of loans and advances to customers (Group and Bank).
- IT software and infrastructure may be impaired (Group and Bank).
- Group and Bank's ability to continue as a going concern (Group and Bank).

These items were discussed with the Audit Committee as part of our audit plan communicated in November 2018. These were the key audit matters for discussion at the conclusion of our audit.

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority or the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, Financial Services and Markets Act 2000, Prudential Regulation Authority's regulations and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure or increase the capital position of the Group and Bank, and management bias in accounting estimates. Audit procedures performed by the Group engagement team included:

- review of correspondence with and reports to the regulators;
- review of correspondence with legal advisors;
- discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- review of internal audit reports in so far as they related to the financial statements;
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the related key audit matters below.

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. Also, 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.

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 – EIR (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 £2,399.9m and related interest income of £34.2m include certain EIR adjustments as per the requirements of IFRS 9. The significant majority of the income recognised by the Bank is automatically calculated on the Banks 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 utilising information where available from the industry.	We understood management's EIR process and tested key controls including the EIR model code changes to ensure that implementation and calculation is in line with the approved methodology. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. 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 into the EIR calculation. • Tested a sample of fee and commission income/expense to ensure it was appropriately included. • Assessed the sufficiency of the disclosures in the financial statements relating to significant estimates made in the EIR calculation, including disclosure of sensitivities. 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.
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 standard, the Bank has previously 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 understood management's process and tested key controls around the determination of expected credit loss allowances, including controls relating to: • Appropriateness of modelling methodologies and monitoring of model performance; and • model review, validation and approval of changes to the model. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit.

As part of our detailed work, we:

- Tested key assumptions used within the models to internal and external information where appropriate;
- 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;
- Assessed the sufficiency of the disclosures in the financial statements relating to the significant estimates made in the IFRS9 impairment calculation, including disclosure of sensitivities.

We used credit risk modelling specialists to support the audit team in the performance of these audit procedures.

Based on the evidence obtained, we found that the methodologies, modelled assumptions, management judgements and data used within the impairment allowance to be appropriate and in line with the requirements of IFRS 9.

IT software and infrastructure may be impaired (Group and Bank)

See note 35 of the financial statements for the disclosure of the related accounting policies. At 31 March 2019, the Company's total net book value of intangible assets was £29.7m.

The Bank are committed to developing a new banking platform and other back office functions, which will replace aspects of the current software used. As a result, the Bank has recognised an impairment charge of £10.6m on it's intangible assets during the year, and has reduced the useful economic life of its first iteration of the banking app creating additional amortisation in the year of £5.2m.

There is an increased risk that other software currently capitalised may not be in use for the full amortisation period and might be impaired.

We assessed the Bank's impairment review with regards to intangible assets, and as part of our detailed work, we:

- Inspected current IT software and infrastructure for signs of impairment confirming each element is still in use and expected to generate future economic benefits;
- Inquired of management and read relevant board/committee meetings about adopting new software that will replace some of the current software, considering its' incompatibility with existing systems. We also inspected relevant legal documents and contracts with the new supplier;
- Assessed whether any unimpaired intangible assets meet or continue to meet the technical accounting criteria for capitalisation;
- Challenged managements useful economic lives of the remaining intangibles assets;
- Reviewed and challenged the discounted cash flow model used to support the carrying value of intangible assets; and
- Performed sensitivity analysis of key assumptions used in the discounted cash flow model.

Based on the evidence obtained, we are satisfied that it is management's intention to continue to use the remaining intangible assets and that those assets are not impaired.

Group and Bank's ability to continue as a going concern

Atom Bank continues to seek additional capital to support its growth plans and its base case forecast assumes that the group will enter into a number of capital transactions during the 12 months from the date of approval of the financial statements to cover trading losses and fund asset growth. If capital raises in the future are unsuccessful, management would be required to implement actions to maintain capital levels above regulatory requirements and thresholds.

We considered this to be a key audit matter because whilst the directors fully expect that they will be able to raise the necessary capital successfully, there is inevitable uncertainty as to the timing and extent of the capital transactions and any mitigating actions the Group may need to take in such scenarios.

We obtained and evaluated management's going concern assessment, which included their forecast of capital and liquidity levels under different future scenarios. We held a number of meetings with key management personnel to update our understanding of their future plans and strategy and how capital would be impacted by those plans.

As part of our detailed work, we:

- assessed management's capital forecasting model, and tested the mathematical accuracy of the calculations of future capital levels under management's different scenarios;
- Challenged the key assumptions in management forecast, including how management actions in relation to loan book growth impacted on the capital position of the bank;
- Performed sensitivity analyses of key assumptions to understand the materiality of the potential future scenarios;
- Compared current year actual results to forecasts to assess how accurate management are in their forecasting, understanding rationales for variances and challenging the feasibility of the updated business plan;
- Met with the regulator to discuss their supervision of the bank as well as reading key regulatory correspondence; and
- Discussed the capital forecasts with the audit committee and read Board and executive committee meeting minutes.

Our conclusion with respect to going concern is set out below on page 139.

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 Group. Our audit plan was presented to the Audit Committee. Following our procedures, we were able to obtain sufficient appropriate audit evidence to form a basis for our audit opinion.

In the current year, the consolidated financial statements include the Group's first securitisation related SPV, Elvet Mortgages 2018-1 Plc. Certain SPV balances were scoped in for audit on a line by line basis based on their proportion of the consolidated financial statement line item to ensure adequate overall audit coverage for each line item. 100% of net interest income interest income, profit before tax and total assets were subject to audit.

All of the audit work was completed by the Group engagement team.

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	***Bank financial statements***
Overall materiality	£2.2 million (2018: £1.3 million).	£2.2 million (2018: £1.3 million).
How we determined it	1% of net assets.	1% of net assets.
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.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £2.2 million and £2.1 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £110,000 (Group audit) (2018: £67,000) and £110,000 (Bank audit) (2018: £67,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

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 2019 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 the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, 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 13 March 2014 to audit the financial statements for the period ended 31 July 2014 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the periods ended 31 July 2014 to 31 March 2019.

D Brydon

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
23 July 2019

Atom bank