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

PILLAR 3 DISCLOSURES

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 refers to the financial year 1 April 2017 to 31 March 2018.

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1. Introduction

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 is to empower people to own their financial future and inspire them to make it happen. In doing so our goal is to create the most customer centric bank on the planet.

We have grown quickly since our launch and in this reporting period have doubled our lending to customers to £2.4bn. 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.

This document is Atom's annual Pillar 3 report for the period to 31 March 2019.

2. Disclosure Policy

Basis of preparation

The Capital Requirements Regulation (CRR) (EU Regulation No 575/2013) and the fourth Capital Requirements Directive (CRD) (EU Directive 2013/36) were implemented in the UK on 1 January 2014 and are collectively known as the CRD IV package (CRD IV). Atom's Pillar 3 disclosures comply with the requirements of CRD IV including any EU implementing and delegated legislation and any European Banking Authority (EBA) guidelines in force at 31 March 2019.

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

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

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

Scope of consolidation

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

During 2019 the Bank completed its inaugural securitisation of residential mortgages via a special purpose vehicle called Elvet Mortgages 2018-1 Plc (Elvet).

The mortgages assigned to Elvet do not qualify for derecognition and were not treated as a sale by the Bank, as the Bank remains exposed to the majority of the risks and rewards of the mortgages and associated credit risk.

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

Frequency and location of disclosures

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

Verification

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

3. Regulatory developments

In the European Union (EU), elements of the Basel Committee's Basel III reforms are still to be implemented. In 2016 the European Commission published the proposal to implement these changes through revisions to the CRR and the CRD (collectively referred to as 'CRR 2'). The key revisions affecting the Bank include changes to the counterparty credit risk framework and the introduction of binding leverage and net stable funding ratios. The CRR 2 changes have been issued as EU Regulation 2019/876 ('CRR 2') and as EU Directive 2019/878 ('CRD V') with an implementation date of 28 June 2021.

In December 2017 the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision, endorsed the outstanding Basel III post-crisis regulatory reforms. The final package includes a number of revisions that will affect the Bank, including changes to the credit risk, credit valuation adjustment and operational risk frameworks and to the definition of the exposure measure used to calculate bank leverage. There is no firm date set for legislation for implementation in the EU.

In December 2017 EU Regulation 2017/2395 was published in the official journal of the EU with an effective date of 1 January 2018. The regulation introduced transitional provisions allowing banks to phase in the impact of IFRS 9 credit provisions on regulatory capital. Atom commenced application of the transitional provisions from 1 April 2018.

In January 2018 the EBA published final guidelines (EBA/GL/2018/01) on disclosure requirements for IFRS 9 transitional provisions. Atom has adopted the disclosure requirements effective 1 April 2018 to coincide with the application of those provisions.

4. Summary analysis

This section provides a summary analysis of the Bank's capital position, leverage and risk-weighted assets (RWA) at 31 March 2019.

Table a – Capital and leverage ratios

	2019	2018
CET1 ratio	17.9%	17.5%
T1 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.

Total Capital Ratio (TCR) decreased to 18.7% (2018: 18.9%) as continued growth in customer lending and losses in the period offset £152.5m of capital raised.

The increase in Tier 1 capital resources in the year outweighed the growth in total balance sheet assets to £2.8bn (2018: £2.0bn) resulting in the leverage ratio increase to 6.5% (2018: 5.0%).

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

Table b – Own funds

	2019	2018
Common Equity Tier 1	**£'000**	**£'000**
Paid up share capital and associated premium	399,207	246,664
Other reserves	17,405	11,877
Retained losses	(203,908)	(124,051)
Total equity per balance sheet	**212,704**	**134,490**
Regulatory capital adjustments		
Intangibles	(29,720)	(34,109)
IFRS 9 transitional adjustments	1,167	-
Prudential valuation adjustments	(101)	(323)
Common Equity Tier 1	184,050	100,058
Tier 2 capital		
Issued Tier 2 Capital Instruments	7,949	7,935
Total Tier 2 capital	**7,949**	**7,935**
Total own funds	**191,999**	**107,993**

4. Summary analysis continued...

During the year ending 31 March 2019 Atom raised £152.5m (after issue costs) of ordinary share capital to support planned lending activity and to continue to develop the Bank's capabilities. Retained losses increased by £79.9m and other reserves increased by £5.6m resulting in a net increase in balance sheet equity of £78.2m, to £212.7m. Following the application of prudential filters, available CET1 resources stood at £184.0m (2018: £100.1m).

The amount of eligible Tier 2 instruments recognised in regulatory capital was £8m having considered associated issue costs that are amortised over the life of the instruments. Atom's Tier 2 instruments are held by the British Business Bank, who have committed up to a maximum of £30m of Tier 2 capital, subject to the Bank meeting certain performance criteria.

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

Table c – Summary of risk weighted assets

	2019 £'000	2018 £'000
Credit risk	1,000,236	529,996
Counterparty credit risk	3,105	2,928
Credit valuation adjustment	2,893	3,529
Credit risk - Securitisation	9,327	23,427
Operational risk	12,686	12,686
Total RWA	**1,028,247**	**572,566**

RWAs for credit risk, including for securitisation exposures, are calculated using the standardised approach; counterparty credit risk is quantified using the mark-to-market method; credit valuation adjustment (CVA) risk is calculated using the standardised method and RWAs for operational risk are calculated using the basic indicator approach. Operational risk RWAs are unchanged year-on-year given Atom's net interest margin calculation methodology. Further information on RWAs is provided in section 9.

5. Regulatory capital framework

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

Regulatory capital resources

Common Equity Tier 1

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

Additional Tier 1 Capital

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

Tier 2 Capital

Tier 2 capital will typically consist of other subordinated debt that does not meet the eligibility criteria for inclusion as AT1 capital. As at 31 March 2019, Atom held issued eligible Tier 2 capital instruments with a notional value of £8m.

Capital requirements

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

Pillar 1 capital requirements

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

The Pillar 1 capital requirement is 8% of RWAs.

CRD IV allows a range of approaches that vary in sophistication to be used to determine RWA amounts. Atom currently uses the Standardised Approach to determine risk weights for credit risk, the mark-to-market method for counterparty credit risk and the standardised method for CVA risk. Atom has no Pillar 1 market risk exposures. The Basic Indicator Approach is used to determine operational risk RWAs. Further detail explaining the methodology for calculating RWAs is provided in section 9.

5. Regulatory capital framework continued...

Pillar 2 Capital Requirements

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

Pillar 2A

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

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

Pillar 2B

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

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

Capital Conservation Buffer (CCB)

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

Countercyclical Capital Buffer (CCyB)

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

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

In November 2017, the FPC announced an increase in the buffer rate from 0.5% to 1%. Consequently, Atom has been required to hold a CCyB buffer of 1% of RWAs from November 2018.

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

5. Regulatory capital framework continued...

Sectoral capital requirements

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

Table d – Summary of capital requirements

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

Requirement or buffer	Calculation method	Quality of capital required to meet the requirement	Impact on Atom
Pillar 1	Fixed percentage of RWAs as prescribed in Article 92 of the CRR	4.5% of RWA met by CET1 capital 6% of RWAs met by T1 capital 8% of RWAs met by Total capital	The impact of the Pillar 1 capital requirements can be seen in section 9
Pillar 2A	Expressed as a percentage of RWAs	56% to be met by CET1 capital 75% to be met by T1 capital 100% to be met by Total capital	Atom's Pillar 2A capital requirement is 2.02% of RWAs
Countercyclical buffer	Expressed as a percentage of RWAs	CET1 Capital	1% effective from November 2018
Systemic buffers	Expressed as a percentage of RWAs	CET1 Capital	Applicable only to global and other systemically important institutions
Capital conservation buffer	Expressed as a percentage of RWAs	CET1 Capital	2.5% effective from 1 January 2019
PRA Buffer (Pillar 2B)		CET1 Capital	This buffer is set by the PRA and is confidential

5. Regulatory capital framework continued...

Pillar 3

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

While retaining a non-prescriptive approach for most of its disclosure requirements, the CRR empowered the EBA to foster more consistency in the disclosure format.

As a result, the European Commission's implementing and delegated regulations, as well as further EBA guidelines have been issued since 2013 regarding the content and format of disclosures.

These Pillar 3 disclosures comply with the requirements of CRD IV, including implementing and delegated legislation and any European Banking Authority (EBA) guidelines in force at 31 March 2019.

Leverage ratio framework

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

CRR 2 introduces a minimum binding leverage ratio of 3% which comes into effect from 28 June 2021.

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

Further details of how Atom manages and monitors leverage can be found in Section 7 – Capital adequacy risk.

Minimum Requirements for own Funds and eligible liabilities

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

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

6. Risk management

A core objective for the Bank is the effective management of risk. The responsibility for identifying and managing the principal risks rests with the Board of Directors. The Board has ultimate responsibility for setting the Bank's strategy, risk appetite and control framework. The Board considers that, as at 31 March 2019, it had in place adequate systems and controls with regard to the Bank's risk profile and strategy.

Material risks

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

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

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.

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.

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.

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

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.

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.

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.

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

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.

6. Risk management continued...

Risk strategy

Atom's risk strategy is to facilitate the creation of a reputable, responsible and sustainable business, which provides a range of products and services to personal and business customers. Using a centralised, self-service and technologically enabled operational model, the Bank aims to deliver better prices, faster processes and greater transparency for customers. Sustainable growth will be underpinned by appropriately pricing risk, protecting and enhancing the Bank's reputation and focussing on minimising both credit and non-credit losses.

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

Atom's Enterprise Risk Management Framework (ERMF)

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

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

Risk culture

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

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

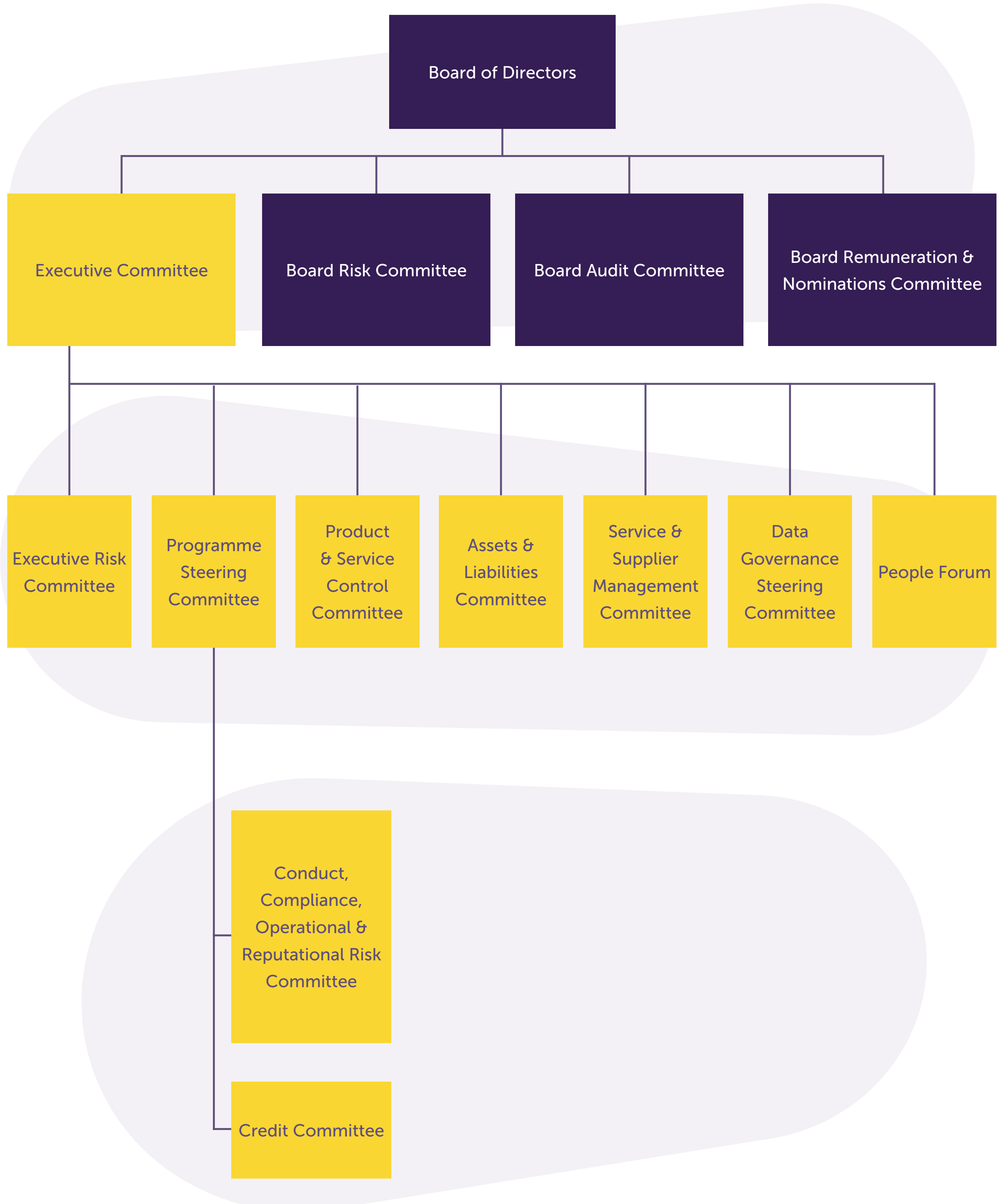
Risk governance and oversight

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

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

6. Risk management continued...

The diagram below illustrates Atom's current risk management governance structure.



6. Risk management continued...

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

Board Risk Committee (BRC) - a sub-committee of the Board, dedicated to scrutinising risk matters and to approving the risk appetite of the Bank under its delegated authority from the Board.

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

Credit Committee – a sub-committee of the ERC, tasked with scrutinising retail and Small & Medium sized Enterprise (SME) exposures, as well as wholesale credit risks. It has recently been granted delegated authority by the BRC to approve new and renewed individual wholesale credit lines within certain strict risk appetite parameters.

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

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

The BRC convenes quarterly, and all other risk committees meet on a monthly basis.

Risk operating model

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

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

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

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

6. Risk management continued...

Monitoring and reporting

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

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

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

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

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

Risk management processes

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

Risk identification

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

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

Risk measurement

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

6. Risk management continued...

Risk appetite

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

Furthermore, the risk appetite considers the material risks to the Bank, with consideration given to the potential impact on elements such as the balance sheet, sustainability, customers, employees, reputation, regulators and stakeholders. Atom’s appetite is set 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.

Risk management

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

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

Risk Control Self-Assessment (RCSA)

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

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

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

Key and Emerging Risk Register (K&ERR)

Atom’s ‘Key Risks’ are current, emerged risks that have arisen across any of our risk categories and which have the potential to have a material impact on the Bank’s financial position, reputation or on the sustainability of the business model, and which may form and crystallise within a year. ‘Emerging risks’ are those with potentially significant, but uncertain, outcomes, which may form and crystallise beyond a one-year horizon, and which could have a material impact on Atom’s ability to achieve its long-term strategy.

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

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

For further information on the key and emerging risks at the year end, please refer to page 32 in the Annual Report.

6. Risk management continued...

Stress testing and scenario analysis

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

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

Operational resilience and contingency planning

Atom is developing an operational resilience framework for delivery in 2019 which will augment the existing approaches to business continuity planning, IT disaster recovery, cyber security and crisis management planning.

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

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

The BCP addresses the following primary objectives:

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

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

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

6. Risk management continued...

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

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

Recovery and Resolution Planning

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

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

Compliance and customer outcome testing

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

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

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

7. Capital adequacy risk

Capital Adequacy risk is the risk that the Bank could have insufficient capital to withstand an extreme, but plausible loss, and thereby expose its depositors and other creditors to losses. Causes of insolvency could include suffering a high level of defaults on loans written by the Bank; having a large unexpected development cost for the business; or having lending origination rates that far exceed expectations.

Key capital adequacy risk mitigants

Capital adequacy risk is particularly important for a growing bank like Atom, given that capital resources are utilised to fund the early stage losses, continued investment in technology and capability, and to support the growth in lending. Atom continues to work with its existing equity investor base to secure investment for future growth in lending and to continue to develop the Bank's capabilities.

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

The ICAAP statement assesses the Bank's Pillar 1 requirements using the applicable approaches and proposes its assessment of additional Pillar 2A capital to be held for those risks that are either not captured or not fully captured in Pillar 1. The Bank is also required to hold Pillar 2B capital, which is designed to allow banks to continue to meet their specific Pillar 1 + Pillar 2A requirements and therefore comply with the overall capital adequacy rule under stressed conditions.

The ICAAP considers a series of extreme, but plausible, stresses that might arise during the three-year time horizon of the Bank's business plan projection to assess the resilience of the capital position. The stress testing affects capital by: the depletion of capital, a failure to raise new capital, or by increasing the capital requirements, as a consequence of changes in the mix and creditworthiness of the Bank's assets.

In order to avoid breaching a regulatory capital measure, an in-house Board Buffer of additional capital is imposed above the regulatory threshold. The Board Buffer is designed to be utilised in a controlled manner when required at Atom's discretion.

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

Capital is one of the key measures of the Bank and so it is the Board that defines Atom's capital adequacy 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 the ALCO. Both the ExCo and the ERC review the capital adequacy metrics reported and projections. The Board and BRC also receive up-to-date metrics, forecast and commentary on capital adequacy.

7. Capital adequacy risk continued...

Key capital adequacy risk metrics

Atom's key capital adequacy metric is the current and projected surplus of capital resources over regulatory capital requirements. The leverage ratio is also monitored to ensure compliance with future requirements of CRR 2.

Table e – Movement in capital resources

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

	CET1 £'000	Tier 2 £'000	Total Own Funds £'000
As at 1 Apr 2018	**100,058**	**7,935**	**107,993**
Loss for the period	(79,857)	-	(79,857)
Fair value reserve (debt instrument)	88	-	88
Issue of new ordinary shares	152,543	-	152,543
Issue of shares under employee share schemes	4,959	-	4,959
Movement in treasury shares	482	-	482
Movement in intangible assets	4,389	-	4,389
Movement in prudential valuation adjustment	221	-	221
Amortisation of fees	-	14	14
Stage 1 and 2 IFRS 9 Provisions	1,167	-	1,167
As at 31 March 2019	**184,050**	**7,949**	**191,999**
Total RWA			**1,028,247**
CET1 ratio			**17.9%**
Total Capital Ratio			**18.7%**

During the year, Atom raised £152.5m (after issue costs) of ordinary share capital which was primarily utilised by losses in the period and the growth in lending RWAs.

7. Capital adequacy risk continued...

Table f – Movement in capital resources

The following table shows the movement in own funds during the year ending 31 March 2018.

	CET1 £'000	Tier 2 £'000	Total Own Funds £'000
As at 1 Apr 2017	**73,313**	**295**	**73,608**
Loss for the period	(52,680)	-	(52,680)
Fair value reserve (debt instrument)	(671)	-	(671)
Issue of new ordinary shares	79,346	-	79,346
Issue of shares under employee share schemes	4,894	-	4,894
Movement in treasury shares	(345)	-	(345)
Movement in intangible assets	(3,563)	-	(3,563)
Movement in prudential valuation adjustment	(236)	-	(236)
General credit risk adjustments	-	(295)	(295)
Issuance of Eligible Tier 2 Instruments	-	7,935	7,935
As at 31 March 2018	**100,058**	**7,935**	**107,993**
Total RWA			**572,566**
CET1 ratio			**17.5%**
Total Capital Ratio			**18.9%**

Table g – Breakdown of the leverage ratio

	2019 £'000	2018 £'000
Tier 1 capital resources	**184,050**	**100,058**
Exposure measure Total balance sheet assets	2,772,299	1,957,158
Regulatory exposure value for derivatives	6,210	5,856
Securities financing transactions	1,811	-
Other off-balance sheet items	70,272	82,921
Other regulatory adjustments	(4,477)	(42,438)
Total leverage ratio exposure measure	**2,846,115**	**2,003,497**
Leverage ratio	**6.5%**	**5.0%**

Other regulatory adjustments include:

- Intangible assets deduction of £29.7m, and
- Cash transferred to Elvet of £26.5m. It is included in the Bank's exposure to account for the counterparty credit risk associated with the Z notes held.

8. Liquidity and funding risk

Liquidity Risk is defined as the risk that Atom 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 required currency.

Funding Risk is defined as the risk that the Bank fails to raise the required levels of funding to meet its planned new lending or refinance its existing sources of funding at an acceptable cost.

Liquidity exposure is represented by the outflows less inflows in a stressed environment. The Bank's two main sources of liquidity risk are its committed pipeline of lending and the potential for lower than expected retention of retail deposits at the end of their fixed term. The Bank does not have material sight deposits and as a result, Atom has limited risk arising from any sudden, unexpected withdrawal of demand deposits.

Funding exposure is the Bank's inability to raise funding for the planned level of lending beyond those already committed and refinance its maturing deposits. Exposure also materialises in having limited sources of funds, limitations in markets, types of products or instruments and in the concentration of maturities.

Key liquidity and funding risk mitigants

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

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

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

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

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

8. Liquidity and funding risk continued...

Key liquidity and funding risk metrics

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

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

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

Table h – Liquidity coverage ratio

	2019 £'000	2018 £'000
Liquidity buffer	216,650	643,721
Net cash outflows	66,951	132,684
Liquidity coverage ratio	323.6%	485.2%

The Bank's LCR ratio is significantly higher than the minimum regulatory requirement. This is primarily due to the activities undertaken by the Bank to ensure funding is in place to support deposit maturities, and planned lending activity beyond the 30-day window of the LCR.

9. Pillar 1 capital requirements

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

The Bank uses the Basic Indicator Approach to calculate the capital requirement for operational risk, the Standardised Approach for credit risk, including for securitisation exposures, the mark-to-market method for counterparty credit risk and the standardised method for CVA risk.

Table i – Summary of Pillar 1 requirements by risk category

	RWAs		Capital Requirement	
	2019 £'000	**2018 £'000**	**2019 £'000**	**2018 £'000**
Credit risk	1,000,236	529,996	80,019	42,400
Counterparty credit risk	3,105	2,928	248	234
Credit risk securitisation exposures	9,327	23,427	746	1,874
Total credit risk	**1,012,668**	**556,351**	**81,013**	**44,508**
Credit valuation adjustment	2,893	3,529	232	282
Operational risk	12,686	12,686	1,015	1,015
Total RWA	**1,028,247**	**572,566**	**82,260**	**45,805**

The increase in credit risk RWAs was largely due to the significant growth in the residential lending and Business Banking Secured Lending (BBSL) portfolios in the period. Operational risk is unchanged year-on-year given Atom's net interest margin calculation methodology.

9.2 Credit risk

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

Atom currently provides mortgages to individuals and secured loans to businesses in order to generate a return through interest income. Lending creates credit risk as borrowers might fail to pay the interest or the capital due. This is usually caused by adverse changes in macro-economic factors or a change in an individual customer's behaviour and circumstances. As this is a material risk to the Bank, there is significant management focus on setting credit risk appetite and embedding appropriate risk mitigation. See page 73 of the Annual Report for further information on the management and mitigation of credit risk.

Credit risk exposures

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

The "Secured on immovable property" category as at 31 March 2019 includes exposures in default of £4,395k and associated RWAs of £5,737k, representing 0.2% and 0.6% of the total loan book respectively. Due to the insignificance of these balances, no further analysis is provided.

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

	Exposure Value	RWA	Capital Requirement	Average Exposure Value
	£'000	£'000	£'000	£'000
Secured on immovable property	2,464,789	978,175	78,254	2,024,475
Central governments and central banks	245,385	-	-	472,477
Multilateral development banks	16,651	-	-	36,111
Institutions	36,548	9,190	735	24,289
Covered bonds	51,622	5,162	413	34,451
Securitisation positions	15,496	9,327	746	22,054
Other	10,814	10,814	865	25,143
Total	**2,841,305**	**1,012,668**	**81,013**	**2,639,000**

9.2 Credit risk continued...

Table k – Year end and average exposures over the period split by exposure category at 31 March 2018

	Exposure Value	RWA	Capital Requirement	Average Exposure Value
	£'000	£'000	£'000	£'000
Secured on immovable property	1,281,619	517,314	41,385	831,972
Central governments and central banks	604,975	-	-	292,173
Multilateral development banks	45,621	-	-	53,032
Institutions	9,681	4,691	376	14,903
Covered bonds	20,893	2,089	167	15,366
Securitisation positions	31,878	23,427	1,874	42,183
Collective investment undertakings	-	-	-	1,295
Other	8,830	8,830	706	21,282
Total	**2,003,497**	**556,351**	**44,508**	**1,272,206**

9. Pillar 1 capital requirements continued...

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

	On demand	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 5 years £'000	Over 5 years £'000	No defined maturity £'000	Total £'000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans to individuals secured on immovable property	-	20,783	20,655	41,445	322,792	1,806,476	57,857	2,270,008
Loans to SME secured on immovable property	-	1,571	1,452	5,077	166,956	7,309	12,415	194,781
Secured on immovable property	**-**	**22,354**	**22,107**	**46,522**	**489,748**	**1,813.785**	**70,272**	**2,464,789**
Central governments and central banks	223,165	-	6,032	-	16,188	-	-	245,385
Multilateral development banks	-	-	-	-	16,651	-	-	16,651
Institutions	30,425	-	-	-	6,123	-	-	36,548
Covered bonds	-	-	-	-	51,622	-	-	51,622
Securitisation positions	-	-	-	1,146	6,968	7,382	-	15,496
Other	-	-	-	-	-	-	10,814	10,814
Total	**253,590**	**22,354**	**28,139**	**47,668**	**587,300**	**1,821,167**	**81,086**	**2,841,305**

At 31 March 2019, the residential mortgage pipeline stood at £115.7m (2018: £132.1m) and the BBSL mortgage pipeline was £24.8m (2018: £33.8m). The exposure value for commitments, such as Atom's residential and BBSL pipeline, are stated net of specific impairment and after the application of a 50% credit conversion factor. These commitments are included in the 'no defined maturity' category in the table above.

9. Pillar 1 capital requirements continued...

Table m – Summary of contractual residual maturity of exposures at 31 March 2018

	On demand £'000	Not more than 3months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 5 years £'000	Over 5 years £'000	No defined maturity £'000	Total £'000
Loans to individuals secured on immovable property	-	8,338	10,586	21,437	166,772	853,220	66,016	1,126,369
Loans to SME secured on immovable property	-	1,092	1,150	3,544	124,383	8,176	16,905	155,250
Secured on immovable property	**-**	**9,430**	**11,736**	**24,981**	**291,155**	**861,396**	**82,921**	**1,281,619**
Central governments and central banks	360,522	149,790	65,869	6,480	22,264	-	50	604,975
Multilateral development banks	-	-	-	28,964	16,657	-	-	45,621
Institutions	3,824	-	-	-	5,857	-	-	9,681
Covered bonds	-	-	-	2,507	18,386	-	-	20,893
Securitisation positions	-	-	-	-	22,185	9,693	-	31,878
Other							8,830	8,830
Total	**364,346**	**159,220**	**77,605**	**62,932**	**376,504**	**871,089**	**91,801**	**2,003,497**

Accounting provisions

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

9. Pillar 1 capital requirements continued...

At 31 March 2019 provisions stood at £1.4m (2018: £0.5m). Please refer to note 11 (page 75) of the Annual Report for further information on the IFRS 9 provisions.

Wholesale credit risk

Wholesale credit risk arises from the portfolio of High Quality Liquid Assets (HQLA) and other financial exposures which are managed by Atom's Treasury. Wholesale credit risk is defined as the risk that counterparties will fail to repay amounts owed or perform obligations when due. Atom has a low appetite for this form of risk and consequently exposures are restricted to high quality issuers and counterparties with a low risk of failure. Exposure and tenor limits are set accordingly. Treasury exposures and limits are focused mainly on the UK sovereign, UK institutions and UK RMBS issuers, with additional limits extended to a small number of highly rated banks in Europe and other developed economies. Exposures to UK RMBS issuers are covered separately under Section 9.3 due to disclosures rules, although they are managed as part of the Bank's wholesale credit risk framework.

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

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

Credit ratings, where available, are also used to derive risk weights for wholesale exposures. Atom uses ratings published by Fitch Ratings and Standard & Poor's, to determine risk weighted exposure amounts under the Standardised Approach. Atom maps the ratings to the appropriate credit quality step using the method prescribed by Commission Implementing Regulation (EU) 2016/1799 and then applies the resultant risk weight to the exposure value to calculate the RWA value. of the changes that the ERC presents. The BRC also review the Recovery Plan and the Resolution Pack for liquidity and funding scenarios, amongst others.

9. Pillar 1 capital requirements continued...

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

	2019 AAA to A- £'000	2018 AAA to A- £'000	2018 BBB+ to B- £'000
Central governments and central banks	245,385	604,975	-
Multilateral development banks	16,651	45,621	-
Institutions	36,548	6,356	3,325
Covered bonds	51,622	20,893	-
Securitisation positions	15,496	31,878	-
Total	**365,702**	**709,723**	**3,325**

Credit risk exposures by geography and sector

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

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

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

At 31 March 2019 Atom had exposures to Multilateral Development Banks that were located outside the UK. These exposures are subject to a 0% risk weight. Atom also had short term exposures to Institutions outside the UK based in the US and in continental Europe.

9. Pillar 1 capital requirements continued...

Table p – Exposure values before credit risk mitigation by geographic location at 31 March 2018

	UK £'000	Europe £'000	North America £'000	Total £'000
Secured on immovable property	1,281,619	-	-	1,281,619
Central governments and central banks	598,496	6,480	-	604,975
Multilateral development banks	15,343	20,159	10,119	45,621
Institutions	9,680	-	-	9,680
Covered bonds	20,893	-	-	20,893
Securitisation positions	31,878	-	-	31,878
Other	8,830	-	-	8,830
Total	**1,966,739**	**26,639**	**10,119**	**2,003,497**

At 31 March 2018 Atom had exposures to non-UK resident Multilateral Development Banks and Sovereigns that attract a 0% risk weight.

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

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

9. Pillar 1 capital requirements continued...

Table r – Exposure values before credit risk mitigation by sector at 31 March 2018

	Individuals £'000	Secured Lending to Corporate SMEs £'000	Financial/ Sovereign £'000	Other £'000	Total £'000
Accommodation and food service activities	-	13,744	-	-	13,744
Construction	-	3,876	-	-	3,876
Education	-	1,772	-	-	1,772
Electricity, gas and water supply	-	173	-	-	173
Financial	-	186	713,048	-	713,234
Human health services and social work activities	-	5,238	-	-	5,238
Manufacturing	-	2,567	-	-	2,567
Mining and quarrying	-	582	-	-	582
Other	-	1,993	-	8,830	10,823
Residential lending to individuals	1,126,370	-	-	-	1,126,370
Real estate, professional services and support activities	-	110,833	-	-	110,833
Recreational, personal and community service activities	-	3,677	-	-	3,677
Transport and storage	-	814	-	-	814
Wholesale or retail trade	-	9,794	-	-	9,794
Total	**1,126,370**	**155,249**	**713,048**	**8,830**	**2,003,497**

9.3 Credit Risk - Securitisation

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

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

During the period Atom, as an originator, completed its first residential mortgage backed securitisation. £526m of securitised mortgage loans, originated by the Bank, were assigned at principal value to a bankruptcy remote structured entity called Elvet 2018-1 plc (Elvet). Elvet funded the transfer through a £486m issuance of residential mortgage backed debt to third-party debt investors. The Bank provides credit support to Elvet via retained notes and reserve funds, partially funded through: £16m in subordinated loans, £85m in retained A notes, and £61m of retained Z notes.

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

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

Credit risk of the mortgages continues to be the primary risk exposure within underlying asset pool. The processes undertaken by the Bank to monitor changes in the credit risk of securitised mortgages are the same as unsecuritised mortgages as described in 9.2.

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

Note 22 (page 98) in the Atom Annual Report provides more information on the securitisation programme.

9.4 Counterparty credit risk and CVA risk

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

Atom's counterparty risk limits are part of the wholesale credit risk framework described on page 32.

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

An exception is made to collateral requirements for the swap contract between the securitisation SPV Elvet 2018-1 and its counterparty: the swap counterparty is not required to post collateral provided its credit rating does not fall below a pre-determined level. The SPV does not need to provide collateral under any circumstances.

Atom's approach to collateral management is included in its policies and procedures. Atom assesses the need for collateral and pledges or receives variation margin daily depending on the value of the underlying contracts.

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

Table s – Derivative exposures

	2019 £'000	2018 £'000
Gross positive FV of derivative contracts	8,817	10,786
Collateral pledged	4,810	-
Gross derivative exposure	**13,627**	**10,786**
Negative FV of contracts available for netting	(13,506)	(2,496)
Collateral received	-	(8,290)
Potential future credit exposure	6,089	5,856
Net derivative exposure	**6,210**	**5,856**

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

9.5 Operational risk

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

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

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

9.6 Market risk

Market risk is the risk that Atom could lose money as a consequence of movements in the market prices of elements for which the Bank has positions at risk, such as interest rates and foreign exchange rates.

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

Atom's main source of market risk is interest rate risk. The Bank's Treasury is responsible for managing this risk and does this through natural offsets of matching assets and liabilities where possible. Residual positions are hedged using interest rate swaps, for the net open exposure to remain within limits set by the Board. Interest Rate Risk in the Banking Book (IRRBB) is assessed under Pillar 2A and the capital requirements imposed on Atom through the Bank's specific TCR include an element for interest rate risk.

See page 105 of the Annual Report for further information on the management and mitigation of market risk.

10. Remuneration

This section provides details of the remuneration of Atom's Material Risk Takers (MRT) together with an explanation of remuneration policies, practice and governance. MRTs are those individuals whose actions have a material impact on the Bank's risk profile, based on criteria set by the EBA. During the year there were a total of 43 MRTs.

Approach to remuneration

Atom is a small, talented team that has been hand-picked to help disrupt the banking industry. This is no mean feat, and as such Atom will reward people accordingly for their knowledge, experience, commitment and contribution.

The aim is to make Atom's people feel valued, and to respect people for what they bring to Atom. This isn't all about remuneration, as the Atom Employee Value Proposition is much broader than the extrinsic pay factors. Nevertheless, it is important to offer a compelling package, in order to both recruit and retain talented individuals. Remuneration covers the following main elements:

- Basic Pay – basic monthly salary that reflect the core skills and experience colleagues bring to their role, in relation to the market.
- Variable Performance Share Scheme – to underpin a meritocracy where those who outperform will receive more annual performance shares, whilst underperformers receive less.
- Long-term Incentive Share Scheme – to incentivise longer-term commitments from highly valuable Atom resources

Atom's overall principles for reward are:

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

10. Remuneration continued...

To ensure that these principles are adhered to, Atom has:

- A strong, clear and open communication, ensuring effective feedback mechanisms both up and down the management structure.
- A robust performance management process.
- A clear and effective controls framework.
- Monitoring and review of our policies and processes.
- Independent entry and exit interviews.
- Efficient reward management systems, including up-to-date external benchmarking.
- Comprehensive, accurate and timely management information.
- Access to the Board for all members of the team and an effective whistleblowing policy.
- Effective governance structure internally with an effective remuneration committee, chaired by a Non-Executive Director; and attendance from two more NEDs, CEO, CFO and Chief Operations Officer.
- An appreciation and recognition culture.

Methods of remuneration

Basic pay

Individual's pay is assessed on an annual basis considering the following:

- Benchmarking pay by role to that of comparative companies including market median and range information.
- Changes in the cost of living.
- Individual and company level performance.

Basic pay increases are not the norm and should not be expected. Further, it may be appropriate for some roles to receive pay increments, if the market has changed specifically for those job roles. Underperforming individuals will not be awarded any basic pay increase.

The Remuneration and Nomination Committee (RemCo), will agree the overall pay market data and recommendations each year, and will specifically approve Grade Band 1 remuneration.

Variable pay – Annual Performance Share Scheme (APSS)

This award is linked to performance. Atom's organisation goals are set and agreed by the Board and the Executive Team each year. These goals are cascaded through each of Atom's Executive areas and take the form of personalised objectives for each individual. Individual performance is assessed on the progress and achievements against objectives, all of which lead to the overall success of the business. Individual performance is calibrated across the organisation through peer review sessions to ensure consistency and fairness in awarding variable pay.

10. Remuneration continued...

Individual performance is rewarded through variable pay in the form of share options. The annual performance award “pool” is based on the company performance and is allocated to individuals based on grade and performance. The maximum award by grade band is as follows:

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

The share option award is calculated based on the current share price value. To help retention and to align employees’ long-term performance with the interests of shareholders, the options are subject to the following vesting conditions:

- Grade Band 1 – 25% on award, then 25% for next three anniversaries
- Grade Band 2 – 50% on award, then 25% for next two anniversaries
- Grade Band 3 – 75% on award, then 25% on the following anniversary
- Grade Band 4– 100% on award.

Underperformers will not receive a Performance Share Option award.

Long-term Incentive Share Option Scheme

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

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

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

Remuneration decision making process

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

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

10. Remuneration continued...

RemCo met three times during the year. The Committee members are:

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

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

Recruitment policies

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

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

Remuneration for Material Risk Takers

The table below details the remuneration for MRTs during the year. Fixed remuneration includes base salary, allowances, benefits and pension. Variable awards are all share options schemes and are subject to vesting conditions. Value is the fair value of the options awarded. Annual performance share scheme (APSS) awards for the current financial year are not granted to employees until June 2019, however have been included in the table.

10. Remuneration continued...

Table t – Summary of remuneration

Number of MRTs	Senior Management 16	MRT's 43	Total 59
Remuneration of MRTs	£'000	£'000	£'000
Fixed	3,204	5,067	8,271
Variable	2,024	1,826	3,850
Total	**5,228**	**6,893**	**12,121**

No joining awards were made to MRTs during the year.

Severance awards

A total of £75k severance awards was made to 1 Senior Manager during the year, and £45k in severance awards were made to 5 MRTs during the year. A vesting of a total number of 643,364 (£0.7m) share options were accelerated as part of severance awards for 7 MRTs during the year.

Appendix 1 - EBA own funds disclosure template

The following table shows the make-up of own funds of the Bank at 31 March 2019 in the format prescribed in Regulation (EU) 1423/2013. Any blank cells in the template have been removed from this disclosure.

Common Equity Tier 1 (CET1) capital: instruments and reserves

1	Capital instruments and related share premium	399,207
2	Retained earnings	(124,051)
3	Accumulated other comprehensive income (and other reserves)	17,405
6	**Common Equity Tier 1 before regulatory adjustments**	**292,561**
	Common Equity Tier 1 capital: regulatory adjustments	1,066
7	Additional valuation adjustments	
8	Intangible assets	(29,720)
25a	Losses for the current financial year	(79,857)
28	**Total regulatory adjustments to CET1**	**(108,511)**
29	**Common equity tier 1 CET1 capital**	**184,050**
45	**Tier 1 (T1) capital**	**184,050**
	Tier 2 (T2) capital and provisions	
46	Capital instruments and the related share premium accounts	7,949
51	**Tier 2 (T2) capital before regulatory adjustments**	**7,949**
58	**Tier 2 (T2) capital**	**7,949**
59	**Total capital (TC = T1 + T2)**	**191,999**
60	**Total risk weighted assets**	**1,028,247**
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.9%
62	Tier 1 (as a percentage of total risk exposure amount)	17.9%
63	Total capital (as a percentage of total risk exposure amount)	18.7%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation buffer and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	8.0%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	1.0%
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	10.7%

Appendix 2 - Key features of capital instruments

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

1	Issuer	Atom Bank plc	Atom Bank plc	Atom Bank plc
2	Unique identifier	N/A	N/A	N/A
3	Governing law(s) of the instrument	English	English	English
	Regulatory treatment			
4	Transitional CRR rules	CET1	T2	T2
5	Post-transitional CRR rules	CET1	T2	T2
6	Eligible at solo/(sub-)consolidated/solo & sub consolidated	Solo	Solo	Solo
7	Instrument types (types to be specified by each jurisdiction)	Share capital	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£399m	£4m	£4m
9	Nominal amount of instrument	£0.00001	£4m	£4m
9a	Issue price	Various	£4m	£4m
9b	Redemption price	N/A	£4m	£4m
10	Accounting classification	Equity	Subordinated debt	Subordinated debt
11	Original date of issuance	14 March 2014	22 August 2017	9 September 2017
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	N/A	22 August 2027	9 September 2027
14	Issuer call subject to prior supervisory approval	N/A	Yes	Yes
15	Option call date, contingent call dates and redemption amount	N/A	After 5 years, callable at Atom's discretion	After 5 years, callable at Atom's discretion
16	Subsequent call dates if applicable	N/A	N/A	N/A
	Coupons/Dividends			
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed
18	Coupon rate and any related index	N/A	10%	10%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify the instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify the issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down description of write-up mechanism	N/A	N/A	N/A
35	Position in hierarchy in subordination liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	All liabilities except the subordinated liabilities	All liabilities except the subordinated liabilities
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

Appendix 3 - Countercyclical capital buffer disclosures

The following tables disclose information relevant for the calculation of the countercyclical buffer at 31 March 2019 in accordance with Regulation (EU) 2015/1555.

As at 31 March 2019	**General Credit Exposures**		**Trading Book Exposures**		**Securitisation Exposures**		**Own Funds Requirements**					
	Exposure Value for Standardised Approach	Exposure Value for IRB	Sum of long and short positions of trading book positions for the standardised approach	Value of trading book exposures for internal models	Exposure Value for Standardised Approach	Exposure Value for IRB	Of Which: General Credit Exposures	Of Which: Trading Book Exposures	Of Which: Securitisation Positions	Total	Own Funds Requirements weights	Countercyclical buffer rate
Breakdown by country:	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**%**
UK	2,522,829	-	-	-	15,496	-	79,073	-	746	79,819	100%	1.0%
Total	**2,522,829**	**-**	**-**	**-**	**15,496**	**-**	**79,073**	**-**	**746**	**79,819**	**100%**	**1.0%**

Amount of institution-specific countercyclical capital buffer	
Total risk weighted assets	1,028,247
Institution's specific countercyclical buffer rate	1%
Institution's specific countercyclical buffer requirement	10,282

Appendix 4 – Analysis of the leverage ratio

The following tables disclose information on Atom's leverage ratio at 31 March 2019 in the format prescribed by Regulation (EU) 2016/200. Any blank cells have been removed from the disclosure.

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

		£'000
1	Total assets per published financial statements	2,772,299
4	Adjustment for derivative financial instruments	6,210
5	Adjustments for securities financing transactions (SFTs)	1,811
6	Adjustments for off balance sheet items (conversion of credit equivalent amount for off-balance sheet items)	70,272
7	Other adjustments	(4,477)
8	**Leverage ratio total exposure amount**	**2,846,115**

LR Com: Leverage ratio common disclosure

		£'000
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,772,299
2	Asset amounts deducted in determining Tier 1 capital	(4,477)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**2,767,822**
	Derivative exposures	
4	Replacement cost associated with all derivative transactions (ie. net of eligible cash variation margin)	121
5	Add-on amounts for PFE associated with all derivative transactions (mark-to-market method)	6,089
11	**Total derivatives exposure**	**6,210**
	Securities financing transaction exposures	
14	Counterparty credit risk exposure for SFT assets	1,811
16	**Total securities financing transaction exposures**	**1,811**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	140,544
18	Adjustments for conversion to credit equivalent amounts	(70,272)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**70,272**
	Capital and total exposure measure	
20	Tier 1 capital	184,049
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16,19, EU-19a and EU-19b)	2,846,115
22	**Leverage ratio**	**6.47%**
	Choice on transitional arrangements and fiduciary items	
EU-23	Choice on transitional arrangements for the definition of capital	Transitional

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

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

		£'000
EU - 1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	2,767,822
EU - 2	Trading book exposures	-
EU - 3	Banking book exposures: of which	2,767,822
EU - 4	Covered Bonds	51,622
EU - 5	Exposures treated as sovereigns	245,385
EU - 6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	16,651
EU - 7	Institutions	30,425
EU - 8	Secured by mortgages on immovable property	2,390,122
EU - 9	Retail exposures	-
EU - 10	Corporates	-
EU - 11	Exposures in default	4,395
EU - 12	Other exposures (eg equity, securitisations and other non-credit obligation assets)	29,222

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

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

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

The principal committee at which the Bank's leverage ratio is scrutinised and managed is the ALCO, which is a sub-committee of ExCo. 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 adequacy risk.

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

Significant growth in total balance sheet assets, and therefore the leverage ratio exposure measure, is primarily responsible for the movement in the leverage ratio during the period. Total balance sheet assets stood at £2,798m (2018: £1,957m). After considering all off-balance sheet items, deductions for items deducted from Tier 1 and derivative exposures, the leverage ratio exposure measure was £2,846m (2018: £2,004m).

The impact of the increase in the leverage ratio exposure measure was partially offset by an increase in Tier 1 capital during the period. Tier 1 capital was £182.5m (2018: £100.1m).

Appendix 5 – Encumbered assets

The following tables provide information on Atom's encumbered assets at 31 March 2019 in accordance with Regulation (EU) 2017/2295.

A – Encumbered and unencumbered assets

		Carrying amount of encumbered assets £'000 010	Of which: central bank's eligible £'000 030	Fair value of encumbered assets £'000 040	Of which central bank's eligible £'000 050	Carrying amount of unencum-bered assets £'000 060	Of which: central bank's eligible £'000 080	Fair value of unencum-bered assets £'000 090	Of which: central bank's eligible £'000 100
010	Assets of the reporting institution	819,939	794,431			1,744,008	1,313,966		
020	Loans on demand					340,755			
040	Debt securities	11,877	11,877	11,877	11,877	121,227	113,716	72,857	69,594
100	Loans and advances	782,554	782,554			1,212,303	1,200,250		
120	Other assets	25,508				69,723			

B - Collateral received

		Fair value of encumbered collateral received or own debt securities issued £'000 010	Of which: central bank's eligible £'000 030	Fair value of collateral received or own debt securities issued available for encumbrance £'000 040	Of which: central bank's eligible £'000 060
130	Collateral received by the reporting institution			6,198	
241	Own covered bonds and asset-backed securities issued and not yet pledged			73,418	42,877
250	Total assets, collateral received and own debt securities issued	506,025	492,139		

C - Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent £'000 010	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £'000 030
010	Carrying amount of selected financial liabilities	552,433	796,138
120	Other sources of encumbrance	11,560	23,801

Appendix 5 – Encumbered assets continued...

D – Information on importance of encumbrance

Exposure values for encumbrance values are presented as median values of the four quarter-end positions over the 12 months to 31 March 2019.

Atom's main sources of encumbrance is through its participation in the Bank of England TFS scheme and through its sponsorship of the Elvet 2018-1 RMBS issuance. The Bank is also obliged to place collateral with the Bank of England as a direct member of the Faster Payments Scheme and the Bankers' Automated Clearing Services (BACS) scheme.

Under the current collateral agreements with its two derivatives counterparties, Atom is required to pledge variation margin, as was the case at 31 March 2019.

Appendix 6 – IFRS 9 transitional arrangements

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

As at 31 March 2019

		£'000
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1) capital	184,050
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 had not been applied	182,883
3	Tier 1 capital	184,050
4	Tier 1 capital as if IFRS 9 had not been applied	182,883
5	Total capital	191,999
6	Total capital as if IFRS 9 had not been applied	190,832
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	1,028,247
8	Total risk-weighted assets as if IFRS 9 had not been applied	1,028,535
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	17.9%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 had not been ap-plied	17.8%
11	Tier 1 (as a percentage of risk exposure amount)	17.9%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 had not been applied	17.8%
13	Total capital (as a percentage of risk exposure amount)	18.7%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 had not been applied	18.6%
	Leverage ratio	
15	Leverage ratio total exposure measure	2,846,115
16	Leverage ratio	6.5%
17	Leverage ratio as if IFRS 9 had not been applied	6.4%

Appendix 7 – Analysis of directorships

The following table shows the number of directorships held by Atom Board members at 31 March 2019. As per CRD IV rules, multiple directorships within the same group are treated as a single role and directorships with bodies that do not predominantly pursue commercial objectives are excluded.

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