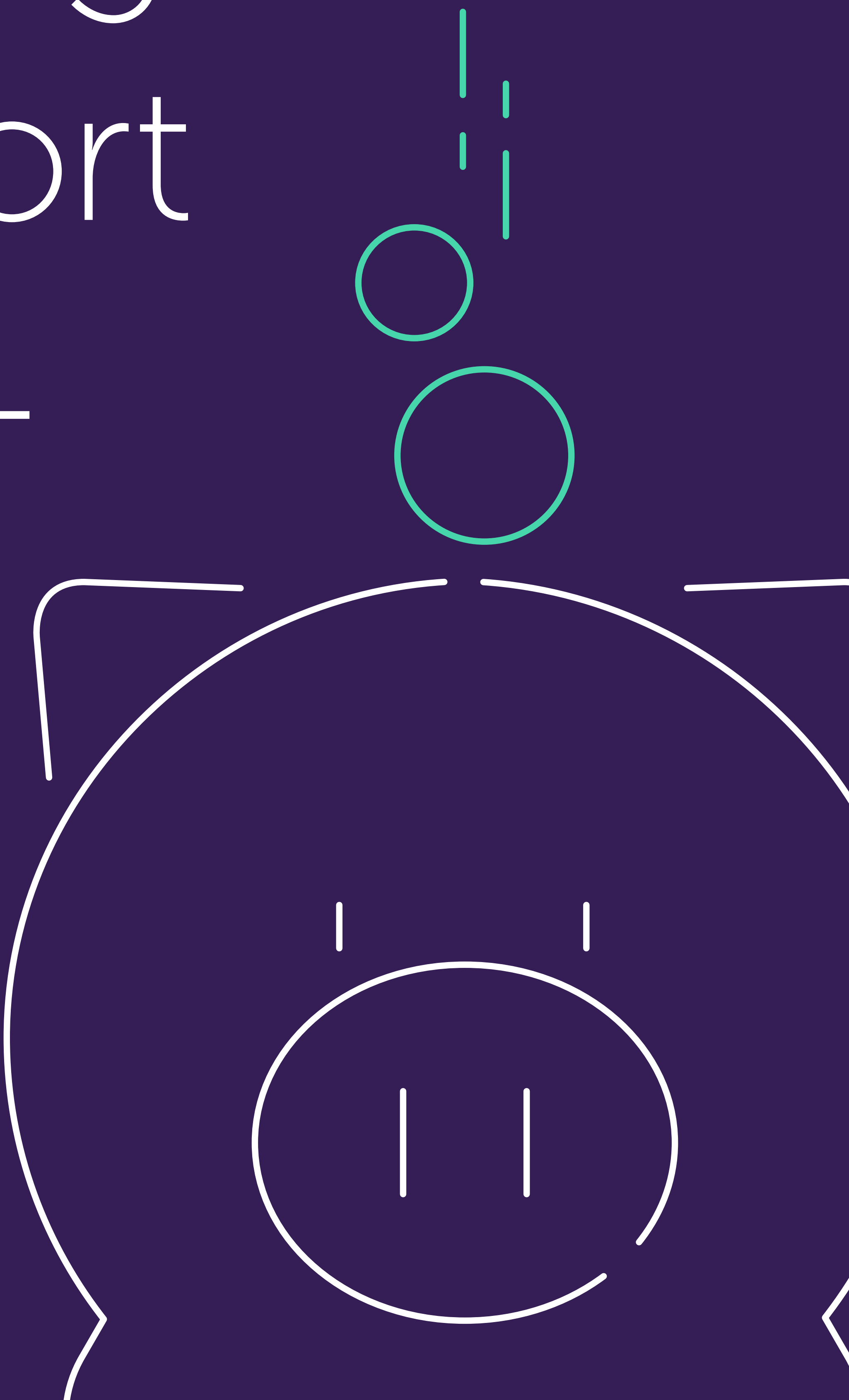
Atom

Pillar 3 Report 2021



Registered office

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

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

This Pillar 3 Report contains general information about Atom and is intended for informational purposes only. Atom has taken all reasonable care to ensure the information and facts contained in this Report are accurate and up-to-date but any reliance placed on this Report is done entirely at the risk of the person placing such reliance.

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

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

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

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

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

References to "the year" and "2021" refers to the financial year from 1 April 2020 to 31 March 2021. References to "2020" refers to the financial year 1 April 2019 to 31 March 2020.

What's inside

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1. Introduction

Who are we?

Founded in 2014, we are a digitally enabled App based bank. Headquartered in Durham and, for the last year, in 400+ spare rooms and lounges across the UK. We are led by a management team with proven track records in banking and technology and supported by a highly experienced board.

What do we do?

- We offer commercial loans to SMEs and mortgage loans to personal customers. We also offer savings accounts to personal customers.
- We manage the funding and maturity transformation of our balance sheet in-house through our product management and treasury teams.
- We deliver change initiatives by architecting, engineering, integrating, testing and programme managing technology transformations.
- We design and implement lifecycle credit risk management strategies and capabilities, including underwriting and servicing.
- We provide contact centre and back office administrative support for customers.

How do we do it?

- Working with our partners, we have created a state-of-the art banking platform hosted on Google's Cloud platform (GCP).
- We use our technology to manufacture and distribute loans, savings, and payments solutions to customers directly (via Apps) and via brokers. We provide banking and customer support services via our Apps and through our centralised and automated operational hub in Durham.
- We employ talented and motivated people who believe in what we do and who are dedicated to providing our customers with exceptional banking experiences.

This report

This is Atom's annual Pillar 3 report for the period to 31 March 2021. Pillar 3 requirements are predominantly set out under the Capital Requirements Directive & Regulation (CRD V) and are designed to promote market discipline through the disclosure of key information around capital, risk exposures and risk management.

The report should be read in conjunction with the 2021 Atom Bank Annual Report. The analysis presented provides detail on aspects of the Atom's risk profile and describes how the Bank assesses, manages, and mitigates risk.

2. Overview

Basis of preparation

Atom's capital position is calculated for prudential regulatory reporting purposes for year ended 31 March 2021 using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented by the European Union in the CRR and CRD and by the PRA rulebook for the UK banking industry. Atom's Pillar 3 disclosures comply with the new CRD V approaches adopted on 28 December 2020 which are expected to remain in place post the end of the Brexit transition period. 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.

In light of the PRA statement of intention in CP5/21 to reverse the CRR Quick Fix in relation to software intangibles, Atom continues to fully deduct all intangible assets from CET1 capital. If Atom had taken the benefit of the revised EBA treatment of software intangibles, the CET1 ratio would have increased from 15.3% to 17.7%.

Credit risk exposures are presented on different bases within the document, with the exposure basis indicated in either column headings or supporting narrative. Counterparty credit risk exposures are presented on a post-CRM basis unless otherwise stated.

Scope of consolidation

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

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

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

During November 2019, Atom transferred residential mortgage loans with a book value of £488m to a newly established unconsolidated structured entity, Elvet Mortgages 2019-1 plc. The transaction resulted in full derecognition of loans from Atom Bank's statement of financial position because all of the residual income associated with the mortgages has been transferred to the note holders. A further derecognition transaction took place in July 2020 where residential mortgage loans with a book value of £764m were transferred to a newly established unconsolidated structured entity, Elvet Mortgages 2020-1 plc. As balance sheet derecognition was achieved in both transactions, the capital required on the underlying mortgage exposures was derecognised with the exception of the retained 5% share of mortgages in the form of Vertical Risk Retention notes.

Frequency and location of disclosures

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

2. Overview continued...

Verification

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

Regulatory developments

The regulatory framework in the UK continues to evolve.

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

Certain amendments, primarily relating to MREL, took immediate effect. These changes did not impact the Bank. The other amendments are expected to take effect from 1 January 2022 in the UK following a joint statement from HM Treasury, the PRA and the FCA in November 2020 on the implementation of prudential reforms.

The Covid-19 pandemic has created an unprecedented challenge to the global economy, including the economic environment in which Atom operates. In line with the rest of the world, the UK Government, Bank of England and Regulatory Authorities have responded to this challenge with a number of supportive measures. Those included the 'CRR Quick Fix' referred to below. A summary of those impacting Atom Bank at 31 March 2021 are:

- Customer support measures, mainly payment moratoria. The Regulators have supported those measures by providing further guidance on interpretation of those measures in the context of capital and accounting frameworks. The majority of Atom's payment moratoria have come to a close.
- A reduction in the countercyclical buffer rate to zero.
- The launch of several Government Loan Schemes. Atom has participated in the Coronavirus Business Interruption Loan Scheme (CBILS), offering both secured and unsecured loans. The Government has guaranteed 80% of the loan and pays fees as well as interest for the first 12 months.

In June 2020, the EBA published its "Guidelines to address gaps in reporting data and public information in the context of Covid-19", which included Pillar 3 disclosure templates. Atom has chosen to omit those disclosures on the grounds that the PRA waived the application of the disclosure templates for firms that are not globally or other systemically important institutions.

Also during June 2020, to support the economy and banks in response to the Covid-19 pandemic, the EBA published amendments to the CRR (the CRR 'Quick Fix'). In July 2020, HMT published a statement on applicability of those amendments detailing specific provisions that have been onshored in the UK. Atom has applied the benefit of both the revised SME supporting factor and amendments to the IFRS 9 transitional relief add-back to capital. Significantly, the IFRS 9 transitional relief allows 100% relief on stage 1 and 2 impairment provisions recognised since 1 January 2020 before starting to reduce on a straight-line basis, in Atom's case from 1 April 2022.

The UK left the EU on 31 January 2020 but remained subject to EU law during the transition period which ended on 31 December 2020. Under temporary transitional powers granted to the PRA, EU capital rules that existed on 31 December 2020 will continue to apply until 31 March 2022. Elements of CRD V were implemented in the UK on 28 December 2020 by PRA policy statement PS29/20. In February 2021, CP5/21 "Implementation of Basel Standards" consulted on a proposed new PRA Capital Requirements Regulation (CRR) rule instrument, in order to implement key elements of the EU's CRR II. The consultation closed on 3 May 2021 and responses are expected later in 2021, with the proposals taking effect on 1 January 2022. CP5/21 also set out the PRA's proposals to update the UK Pillar 3 disclosure requirements, with all disclosure templates and instructions to be included in the PRA Rulebook.

3. Summary analysis

This section provides a summary analysis of the Bank's capital position, leverage and risk-weighted assets (RWAs) at 31 March 2021.

Table 1 – Capital and leverage ratios

	2021	2020
CET1 ratio	15.3%	18.6%
T1 ratio	15.3%	18.6%
Total capital ratio	16.4%	19.5%
Leverage ratio	3.9%	6.0%

Throughout 2021 the Bank continued to maintain capital and leverage ratios that exceeded its minimum requirements under the CRD V regulatory framework.

Total Capital Ratio (TCR) reduced to 16.4% (2020: 19.5%) due to losses of £62.4m. This was partially offset by the derecognition of £764m residential mortgages in the Elvet 2020-1 transaction which resulted in a net reduction in risk weighted assets of £193.9m after adjusting for the retained notes.

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

Following year end, capital of £39m after issue costs was received from investors in April 2021.

Table 2 – Own funds

Common Equity Tier 1	2021 £'000	2020 £'000
Paid up share capital and associated premium	448,935	448,935
Other reserves	22,627	19,421
Retained losses	(330,232)	(267,853)
Total equity per balance sheet	**141,330**	**200,503**
Regulatory capital adjustments		
Intangibles	(35,889)	(36,646)
IFRS 9 transitional adjustments	8,729	4,969
Prudential valuation adjustments	(158)	(181)
Common Equity Tier 1	**114,012**	**168,645**
Tier 2 Capital		
Issued Tier 2 Capital Instruments	7,978	7,964
Total Tier 2 capital	**7,978**	**7,964**
Total own funds	**121,990**	**176,609**

3. Summary analysis continued...

Total balance sheet equity reduced to £141.3m (2020: £200.5m) due to retained losses of £62.4m which was offset by a £3.2m increase in other reserves. Following the application of prudential filters, including the full deduction of intangible assets and revised IFRS9 transitional relief, available CET1 resources stood at £114.0m (2019: £168.6m).

The amount of eligible Tier 2 instruments recognised in regulatory capital was £8m (2020: £8m) having considered associated issue costs that are amortised over the life of the instruments. Atom's Tier 2 instruments are held by the British Business Bank.

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

Table 3 – Summary of risk weighted assets

	2021 £'000	2020 £'000
Credit risk	658,405	872,639
Counterparty credit risk	3,117	3,052
Credit valuation adjustment	560	2,709
Credit risk - Securitisation	81,214	28,758
Total RWAs	**743,296**	**907,158**

Credit risk RWAs have reduced to £743m (2020: £907m) primarily due to derecognition of mortgage loans transferred to Elvet Mortgages 2020-1 along with lower mortgage lending volumes following the start of the Covid-19 pandemic in 2020. Also, loans originated under CBILS benefit from credit risk mitigation due to government guarantees, resulting in a lower effective risk weighting.

This was partially offset by securitisation holdings increasing due to retention of notes issued in the Elvet 2020-1 transaction, including the mandatory 5% holding.

The credit valuation adjustment continues to reduce as all new swap transactions are centrally cleared and not subject to the CVA capital charge.

4. Regulatory capital framework

CRD V was adopted in the UK on 28 December 2020. This section contains an outline of the capital regulations (as implemented in the UK by the PRA policy statement PS29/20) 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 2021, Atom had eligible Tier 2 capital instruments with a notional value of £8m in issuance.

Capital requirements

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

Pillar 1 capital requirements

The Pillar 1 requirements set out the rules used to determine the minimum capital requirement for credit, counterparty credit, CVA, market and operational risks. The Pillar 1 capital requirement is 8% of RWAs.

CRD V 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, however Atom currently has a zero operational risk requirement due to historic losses made in accordance with CRR Article 316. Further detail explaining the methodology for calculating RWAs is provided in section 8.

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 9.53% of RWAs. This means that in order to meet its TCR, Atom must hold capital equal to 1.53% of RWAs in addition to the 8% minimum requirement under Pillar 1.

Pillar 2B

All firms are 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. For certain firms, in scope of the Supervisory Statement 3/21, the PRA also considers their Solvent Wind Down Plan (SWDP). The PRA reviews banks' wind down cost and stressed capital projections and set the total buffer requirement considering the principles and methodologies set out in the Supervisory Statement.

The PRA buffer takes into consideration the extent to which the CRD V Combined Buffer (the Capital Conservation Buffer and the Countercyclical Capital Buffer) already captures the risks that are considered as part of the PRA buffer assessment. At any point, the greater of the PRA buffer assessment and the CRD V Combined Buffer requirement is binding.

Capital Conservation Buffer (CCB)

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

4. Regulatory capital framework continued...

Countercyclical Capital Buffer (CCyB)

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

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

In response to the outbreak of Covid-19, on 11 March 2020, the FPC reduced the UK countercyclical capital buffer rate to 0% of banks' exposures to UK borrowers with immediate effect. The rate had been 1% and had been due to reach 2% by December 2020. In March 2021, the FPC confirmed that it expects the UK CCyB rate to remain at 0% until at least December 2021, therefore the 12-month implementation period means that any subsequent increase will not take effect until the end of 2022 at the earliest.

Atom has no exposures outside of the UK that are relevant exposures for the purpose of calculating the CCyB.

Sectoral capital requirements

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

4. Regulatory capital framework continued...

Table 4 – Summary of capital requirements

The following table summarises the CRD V 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 RWAs met by CET1 capital 6% of RWAs met by Tier 1 capital 8% of RWAs met by Total capital	The impact of the Pillar 1 capital requirements can be seen in section 8.
Pillar 2A	Expressed as a percentage of RWAs	56.25% to be met by CET1 capital 75% to be met by Tier 1 capital 100% to be met by Total capital	Atom's Pillar 2A capital requirement is 1.53% of RWAs
Countercyclical buffer (Pillar 2B)	Expressed as a percentage of RWAs	CET1 Capital	0% effective from 11 March 2020
Systemic buffers (Pillar 2B)	Expressed as a percentage of RWAs	CET1 Capital	Applicable only to global and other systemically important institutions
Capital conservation buffer (Pillar 2B)	Expressed as a percentage of RWAs	CET1 Capital	2.5% effective from 1 January 2019
PRA Buffer (Pillar 2B)	Expressed as a percentage of RWAs, a fixed amount or a combination thereof	CET1 Capital	The buffer is set by the PRA and is confidential. The Pillar 2B buffer is the greater of either the PRA buffer or the total of the Countercyclical buffer and Capital conservation buffer.

4. Regulatory capital framework continued...

Pillar 3

The aim of Pillar 3 is to improve market discipline and transparency by developing a set of disclosure requirements that provide market participants with access to key pieces of information on capital, risk exposures and risk assessment processes. The minimum disclosure requirements are set out in part VIII 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 V, including implementing and delegated legislation and any PRA guidelines in force at 31 March 2021.

Leverage ratio framework

The CRR, supplemented by EU Regulation 2015/62, as transposed into UK regulation, form the legal basis upon which banks are compelled to publish information on leverage.

The UK does not currently apply a binding leverage capital requirement to firms with retail deposits less than £50 billion, which are instead only subject to reporting and disclosure requirements.

The Financial Policy Committee and Prudential Regulation Committee have announced that they will conduct a review of the UK leverage ratio framework. The PRA expects this review to conclude in summer 2021.

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

Minimum Requirements for own funds and Eligible Liabilities (MREL)

MREL became applicable from 1 January 2016 and will be phased in fully by 1 January 2022, with the Bank of England having granted an extension on end-state compliance for certain mid-tier banks to 1 January 2023.

Atom's MREL requirement is equal to its CRD V 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 V requirement. The Bank does however consider the implications of the current 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.

The Bank of England (BoE) published a Discussion Paper in December 2020 that is the first part of its review of the BoE's approach to setting MREL. The BoE intends to publish a Consultation Paper in summer 2021, setting out any proposed changes to its MREL framework, with policy changes targeted by the end of 2021.

5. Risk management

A core objective for the Bank is the effective management of risk. The responsibility for identifying and managing the principal risks rests with the Board of Directors. The Board has ultimate responsibility for setting the Bank's strategy, risk appetite and control framework. The Board considers that, as at 31 March 2021, it had in place adequate systems and controls regarding the Bank's risk profile and strategy.

Principal risks

Capital Adequacy Risk – The risk that Atom has insufficient quantity or quality of capital to support its operations

Strategic Risk – the business could fail if Management makes 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 Atom has loaned money will default on their contractual obligations to Atom giving rise to financial losses.

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

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

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

Operational Risk – inadequate or failed internal processes or systems, human error or external events create a risk of direct or indirect financial loss and reputational damage. This includes the operational resilience of Atom's processes or system to manage changing environments or disruptive events.

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

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

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

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

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

Atom also considers the impact of Climate Change Risk but this is not included as a distinct risk universe category as climate change is likely to be caused or affected by the other risk universe categories.

5. Risk management continued...

Atom's Enterprise Risk Management Framework (ERMF)

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

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

Risk strategy

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

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

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

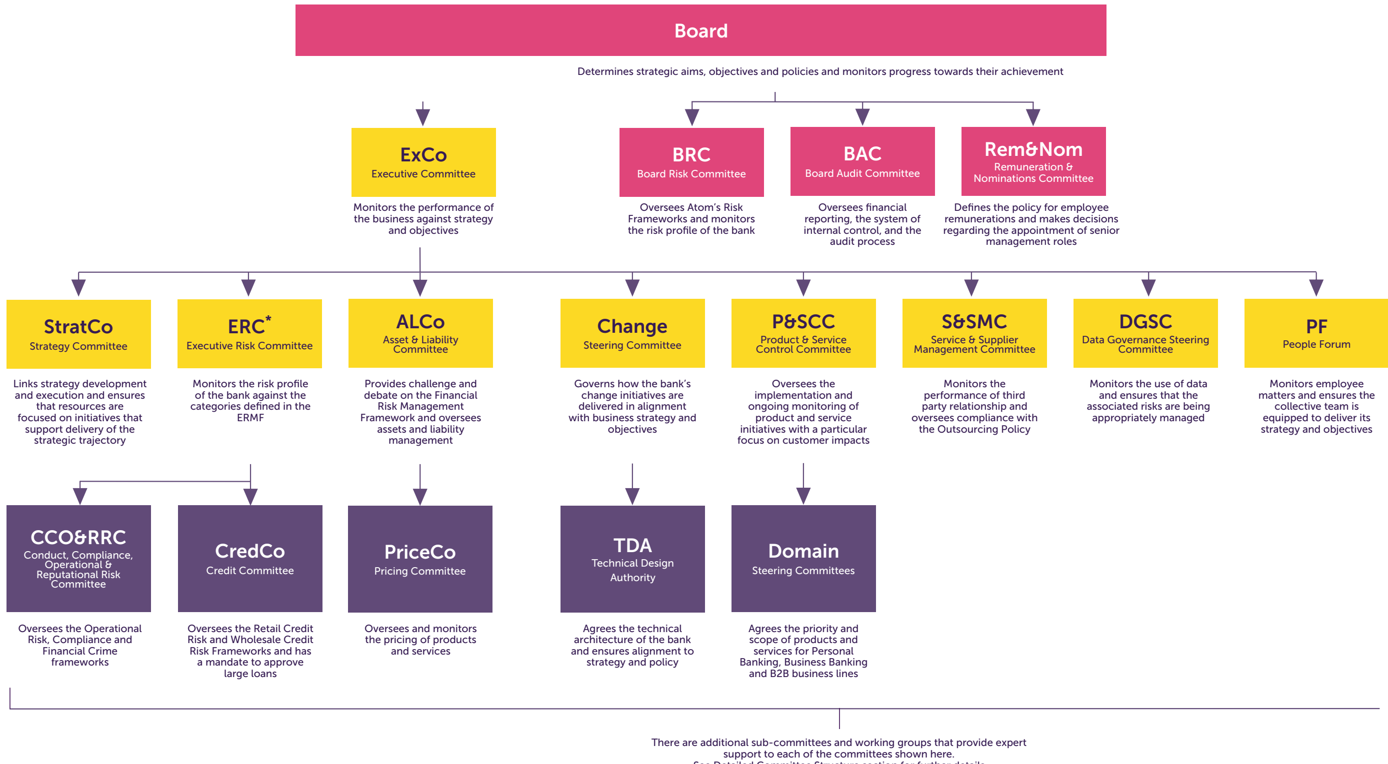
Risk governance and escalation

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

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

5. Risk management continued...

The diagram below illustrates Atom's current governance structure.



*ERC has a parallel reporting line into Board Risk Committe

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

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

Executive Risk Committee (ERC) - a sub-committee of the ExCo, dedicated to scrutinising risk matters, especially those destined for review and approval by the BRC. ERC will closely monitor Atom's risk profile against risk appetite limits and ensure that any breaches or early warnings are escalated to the Board.

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

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

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

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

5. Risk management continued...

Risk operating model

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

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

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

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

Risk appetite

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

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

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 nature and 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.

5. Risk management continued...

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.
- Risk events, 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 Control Self-Assessment (RCSA)

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

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

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

Risk measurement

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

Risk management

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

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

5. Risk management continued...

Key and Emerging Risk Register (K&ERR)

Atom's 'Key Risks' are current, emerged risks that have arisen across any of its 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 29 in the Annual Report.

Stress testing and scenario analysis

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

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

Operational resilience and contingency planning

Atom has continued to develop its operational resilience framework during 2021. This augments the existing approaches to business continuity planning, IT disaster recovery, cyber security and crisis management planning, and aligns them with regulatory expectations regarding the identification of key business services and Atom's associated impact tolerances for disruption.

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

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

5. Risk management continued...

The BCP addresses the following primary objectives:

- Prevention – minimising the probability of business interruptions by integrating BCP standards into all areas of operations.
- Containment – minimising the impact of any business interruption by maintaining business as usual operations / activities.
- Recovery – ensuring the restoration of normal operations as swiftly as possible using an Incident Management Team.
- Effective communication – a key aspect of managing any incident is the proactive management of both internal and external communications.

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

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

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

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

5. Risk management continued...

Recovery and resolution planning

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

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

Compliance and customer outcome testing

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

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

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

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.

The risk culture of Atom will ensure that all business functions and employees consider risk management and consult appropriately with the Risk Function during the development of new products, procedures, policies and systems.

6. Capital adequacy risk

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

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

The principal committee at which the Bank's current and forecast capital position is scrutinised and managed is the ALCO. Both the ExCo and the ERC review high level capital metrics, together with more focus on risks to the projected position over the short to medium term horizon. The Board and the BRC also receive high level metrics, projections and commentary on current and forecast capital adequacy risk.

Key capital adequacy risk mitigants

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

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

The Bank also has Tier 2 notes in issuance, which can be used to meet regulatory capital requirements in proportion to its Tier 1 common equity.

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

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

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

Key capital adequacy risk metrics

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

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

6. Capital adequacy risk continued...

Table 5 – Movement in capital resources

The following table shows the movement in own funds during the year ending 31 March 2021.

	CET1 £'000	Tier 2 £'000	Total Own Funds £'000
As at 1 Apr 2020	**168,645**	**7,964**	**176,609**
Loss for the period	(62,379)	-	(62,379)
Fair value reserve (debt instrument)	709	-	709
Movement in share based payment reserve	2,497	-	2,497
Movement in intangible assets	757	-	757
Movement in prudential valuation adjustment & amortisation of fees	23	14	37
Movement in IFRS 9 transitional provisions	3,760	-	3,760
As at 31 March 2021	**114,012**	**7,978**	**121,990**
Total RWAs			**743,296**
CET1 ratio			**15.3%**
Total Capital Ratio			**16.4%**

6. Capital adequacy risk continued...

Table 6 – Movement in capital resources

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

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

Table 7 – Breakdown of the leverage ratio

	2021 £'000	2020 £'000
Tier 1 capital resources	**114,012**	**168,645**
Exposure measure		
Total balance sheet assets	2,827,122	2,705,431
Regulatory exposure value for derivatives	11,557	9,745
Other off-balance sheet items	80,909	17,665
Other regulatory adjustments	(5,321)	64,895
Total leverage ratio exposure measure	**2,914,267**	**2,797,736**
Leverage ratio	**3.9%**	**6.0%**

The growth in off-balance sheet items is mainly due to outstanding commitments for unsecured CBILS lending.
Other regulatory adjustments include:

- Cash held in Elvet Mortgages 2018-1 of £27.4m (2020: £98.3m). It is included in the Bank's exposure to account for the obligor and counterparty credit risk associated with the Z notes held; and
- Intangible assets deduction of £35.9m (2020: £36.6m).

7. Liquidity and funding risk

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

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

Key liquidity and funding risk mitigants

The Bank primarily mitigates liquidity risk by holding adequate balances at central banks and stocks of High Quality Liquid Assets (HQLA), which could be deployed to meet any expected or unexpected outflow. Atom also holds other liquid assets, which could be monetised through outright sale, repurchase agreements (repos) or used with the Bank of England's Sterling Monetary Framework (SMF) facilities. In addition, the Bank maintains a substantial amount of eligible collateral at the Bank of England to provide additional sources of liquidity in times of stress.

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 products and wholesale markets.

Atom completes an assessment of its liquidity and funding risk profile and adequacy annually, which it summarises in its ILAAP Document. The ILAAP concludes with scrutiny and approval by the Board. The PRA uses the Bank's ILAAP Document 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 and funding.

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

Key liquidity and funding risk metrics

Liquidity and funding risk is measured through stress tests and balance sheet ratios. Atom uses a stressed forward looking cash flow profile (both inflows and outflows) to determine the minimum level of liquidity resources necessary to cope with expected and unexpected liquidity challenges. In addition to assessing compliance with all regulatory liquidity requirements, Atom also measures the adequacy of liquidity resources against net outflows in a range of internally designed stress scenarios. The internal scenarios express the Bank's liquidity risk appetite. They range in their nature, severity and minimum survival horizons.

Liquidity and funding risk is managed and monitored by the Treasury department with day-to-day oversight by the Financial Risk team. This activity covers both regulatory and internally defined metrics and indicators of potential or actual stress events. Should any exceptions or material unexpected changes occur, these are escalated and investigated. The Liquidity Contingency and 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.

Executive level oversight and governance are provided by ALCO, which reviews performance and forecasts monthly. The BRC sets risk appetite and approves the Bank's policy for liquidity and funding risk, reviews and approves metrics or stress test scenarios and the calibration of their severity on recommendation from the ERC. The Bank's Pricing Committee meets with weekly cadence, taking input from a preceding liquidity forum. The ExCo reviews key business performance weekly, including key liquidity and funding metrics. In addition to the ILAAP, the BRC reviews and challenges the Recovery Plan (including the Liquidity Contingency Plan), the Resolution Pack and the Solvent Wind Down Plan, which all consider liquidity and funding scenarios and impacts.

Table 8 – Liquidity coverage ratio

	2021 £'000	2020 £'000
Liquidity buffer	425,461	290,230
Net cash outflows	204,060	38,003
Liquidity coverage ratio	208.5%	763.7%

The Bank's LCR was maintained comfortably above minimum regulatory requirements at March 2021. The Bank's total liquidity buffer has increased between March 2020 and March 2021, which is largely due to the successful launch of the Instant Access Saving product.

The nature of the Instant Access product and greater lending commitments outstanding at 31 March 2021 drove the significantly higher net cash outflow requirements.

8. 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.

8.1 Overview

The Bank uses the Standardised Approach for credit risk, including for securitisation exposures, the mark-to-market method for counterparty credit risk, the standardised method for CVA risk and the Basic Indicator Approach to calculate the capital requirement for operational risk. Atom has a nil operational risk requirement due to historic losses in accordance with CRR Article 316.

Table 9 – Summary of Pillar 1 requirements by risk category

	RWAs		Capital Requirement	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Credit risk	658,405	872,639	52,672	69,811
Counterparty credit risk	3,117	3,052	249	244
Credit risk securitisation exposures	81,214	28,758	6,497	2,301
Total credit risk	**742,736**	**904,449**	**59,418**	**72,356**
Credit valuation adjustment	560	2,709	45	217
Total RWAs	**743,296**	**907,158**	**59,463**	**72,573**

The fall in credit risk requirement was largely due to the derecognition of mortgages on sale to Elvet Mortgages 2020-1. As part of the transaction the Bank purchased a portion of the senior notes issued by Elvet Mortgages 2020-1 which resulted in the increase in credit risk relating to securitisation exposures.

8.2 Credit risk

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

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

8. Pillar 1 capital requirements continued...

Credit risk exposures

The tables below show the total exposure value, RWAs and Pillar 1 requirement by exposure class at 31 March and the average exposure value for each exposure class over the period. The average exposure value is calculated using month end exposures for the 12 months to 31 March before the effect of credit risk mitigation (CRM) and before credit conversion factor (CCF). Credit conversion is a factor defined by regulation to determine the likelihood of an off-balance sheet exposure, such as a commitment to lend, would turn into lending, i.e. an on-balance sheet exposure.

Within the retail class and immovable property class the recognition of guarantees on Covid-19 government lending schemes drives the reduction of pre-CRM exposure to post-CRM exposure. Exposures to central governments and central banks post-CRM reflects the recognition of guarantees on Covid-19 government lending schemes. RWA density in tables 10 and 11 is RWAs expressed as a percentage of exposures post-CCF and CRM.

Table 10 – Year end and average exposure values over the period split by exposure category at 31 March 2021

	Exposures before CCF and CRM		Exposures post CCF and CRM					
£'000s	On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWAs	RWA Density	Capital Requirement	Average Exposure Value
Central governments and central banks	378,639	-	689,594	47,137	-	0.0%	-	439,899
Multilateral development banks	37,403	-	37,403	-	-	0.0%	-	19,661
Institutions	59,174	-	50,513	-	10,909	21.6%	873	53,687
Retail	335,103	52,325	92,023	10,465	63,407	61.9%	5,073	237,299
Retail: SMEs	309,849	43,000	66,769	8,600	43,068	57.1%	3,445	203,508
Secured by mortgages on immovable property	1,309,943	180,222	1,242,186	23,307	562,178	44.4%	44,974	1,477,909
Secured by mortgages on immovable property: SMEs	351,669	80,078	283,913	3,278	219,772	76.5%	17,582	343,622
Exposures in default	3,906	-	3,787	-	4,026	106.3%	322	4,506
Covered bonds	48,530	-	48,530	-	4,853	10.0%	388	42,085
Collective investment undertakings	-	-	-	-	-	0.0%	-	9,167
Securitisation positions	649,557	-	649,557	-	81,214	12.5%	6,497	672,529
Other exposures	16,151	-	16,151	-	16,151	100.0%	1,292	21,769
Total	**2,838,406**	**232,547**	**2,829,744**	**80,909**	**742,738**		**59,419**	**2,978,511**

8. Pillar 1 capital requirements continued...

Table 11 – Year end and average exposure values over the period split by exposure category at 31 March 2020

£'000s	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs	RWA Density	Capital Requirement	Average Exposure Value
	On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount				
Central governments and central banks	366,214	-	366,214	-	-	0.0%	-	231,420
Multilateral development banks	16,609	-	16,609	-	-	0.0%	-	16,652
Institutions	78,687	-	78,687	-	16,841	21.4%	1,347	67,410
Retail	51,173	4,368	51,173	874	39,035	75.0%	3,122	63,825
Retail: SMEs	-	-	-	-	-	0.0%	-	-
Secured by mortgages on immovable property	1,920,495	83,958	1,920,495	16,791	787,395	40.6%	62,992	2,313,603
Secured by mortgages on immovable property: SMEs	236,967	39,687	236,967	7,937	195,062	79.6%	15,605	254,117
Exposures in default	3,858	-	3,858	-	4,534	117.5%	363	5,484
Covered bonds	54,529	-	54,529	-	5,453	10.0%	436	55,471
Securitisation positions	224,902	-	224,902	-	28,758	12.8%	2,301	100,346
Collective investment undertakings	36,950	-	36,950	-	7,390	20.0%	591	4,492
Other	15,043	-	15,043	-	15,043	100.0%	1,203	14,550
Total	**2,768,460**	**88,326**	**2,768,460**	**17,665**	**904,449**		**72,355**	**2,873,253**

In December 2018, the EBA published guidelines on the disclosure of non-performing and forborne exposures, to be applied from December 2019. Proportionality is embedded in the guidelines and therefore only three of the ten templates are applicable to Atom and these are presented in tables 12, 13 and 14 below. Note that definitions within those tables are subject to the FINREP regulations as set out in Annex V to Commission Implementing Regulation (EU) No 680/2014.

8. Pillar 1 capital requirements continued...

Table 12 – Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment	
	Performing Forborne	Non Performing forborne	Of which: Defaulted	Of Which: Impaired	On performing forborne exposures	On non-performing forborne exposures
	£'000	£'000	£'000	£'000	£'000	£'000
Loans & Advances	129	828	828	828	-	(190)
Non-financial Corporations	-	422	422	422	-	(167)
Households	129	406	406	406	-	(23)
Total	**129**	**828**	**828**	**828**	**-**	**(190)**

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

	Gross carrying amount/ nominal amount											
	Performing Exposures			Non-Performing Exposures								
	Total	Not past due or past due <=30 days	Past due > 30 days <= 90 days	Total	Unlikely to pay that are not past due or are past due <= 90 days	Past due >90 days <= 180 days	Past due >180 days < = 1 Year	Past due > 1 year <= 2 Years	Past due > 2 years <= 5 Years	Past Due > 5 years <= 7 years	Past due > 7 years	Of which: defaulted
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans & Advances	1,629,782	1,629,782	-	8,907	7,277	532	980	118	-	-	-	6,781
Other Financial Corporations	6,008	6,008	-	194	194	-	-	-	-	-	-	-
Non-financial Corporations	650,865	650,865	-	5,069	4,335	-	734	-	-	-	-	3,492
SMEs	656,873	656,873	-	5,263	4,529	-	734	-	-	-	-	3,492
Households	972,909	972,909	-	3,644	2,748	532	246	118	-	-	-	3,289
Total	**1,629,782**	**1,629,782**	**-**	**8,907**	**7,277**	**532**	**980**	**118**	**-**	**-**	**-**	**6,781**

8. Pillar 1 capital requirements continued...

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

	Gross carrying amount/ nominal amount						Accumulated impairment						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing Exposures			Non-performing exposures			Performing Exposures			Non-performing exposures				On Performing Exposures	On Non-Performing Exposures
		Of Which: Stage 1	Of Which: Stage 2		Of Which: Stage 2	Of Which: Stage 3		Of Which: Stage 1	Of Which: Stage 2		Of Which: Stage 2	Of Which: Stage 3			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans and Advances	1,629,768	1,513,908	115,860	8,921	2,129	6,792	(8,387)	(5,880)	(2,507)	(1,353)	(137)	(1,216)	-	1,567,767	8,891
Other Financial Corporations	6,007	5,394	613	194	-	194	(67)	(65)	(2)	(74)	-	(74)	-	5,251	194
Non-Financial Corporations	650,853	582,447	68,406	5,082	1,773	3,309	(8,008)	(5,659)	(2,349)	(1,015)	(70)	(945)	-	589,608	5,052
Of Which: SMEs	656,860	587,841	69,019	5,276	1,773	3,503	(8,075)	(5,724)	(2,351)	(1,089)	(70)	(1,019)	-	594,859	5,246
Households	972,908	926,067	46,841	3,645	356	3,289	(312)	(156)	(156)	(264)	(67)	(197)	-	972,908	3,645
Off-balance sheet exposures	232,549	232,549	-	-	-	-	(67)	(67)	-	-	-	-	-	232,549	-
Non-Financial Corporations	123,079	123,079	-	-	-	-	(38)	(38)	-	-	-	-	-	123,079	-
Households	109,470	109,470	-	-	-	-	(29)	(29)	-	-	-	-	-	109,470	-
Total	1,862,317	1,746,457	115,860	8,921	2,129	6,792	(8,454)	(5,947)	(2,507)	(1,353)	(137)	(1,216)	-	1,800,316	8,891

8. Pillar 1 capital requirements continued...

Table 15 – Summary of contractual residual maturity of exposures at 31 March 2021

	On demand	Not more than 3months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 5 years	Over 5 years	No defined maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Central governments or central banks	313,247	-	59,936	-	5,031	-	425	378,639
Multilateral development banks	-	6,497	-	-	30,906	-	-	37,403
Institutions	38,956	-	-	-	20,218	-	-	59,174
Retail	-	-	-	-	309,849	25,254	-	335,103
Retail: SMEs	-	-	-	-	309,849	-	-	309,849
Secured by mortgages on immovable property	-	4,395	2,200	21,217	232,639	1,049,492	-	1,309,943
Secured by mortgages on immovable property: SMEs	-	4,305	2,184	21,211	229,281	94,688	-	351,669
Exposures in default	-	-	-	241	596	3,069	-	3,906
Covered bonds	-	4,198	-	-	44,332	-	-	48,530
Securitisation positions	-	-	-	-	-	649,557	-	649,557
Other	-	-	-	-	-	-	16,151	16,151
Total	**352,203**	**15,090**	**62,136**	**21,458**	**643,571**	**1,727,372**	**16,576**	**2,838,406**

Exposures are presented on a pre-CRM basis, net of provisions, and only include on balance sheet exposures. Where an exposure is repaid in instalments, the exposure is allocated to the maturing bucket corresponding to the last instalment. Prior year figures have been revised on this basis for consistency.

8. Pillar 1 capital requirements continued...

Table 16 – Summary of contractual residual maturity of exposures at 31 March 2020 (Revised)

	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than than 1 year	Over 1 year but not more than 5 years	Over 5 years	No defined maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Central governments or central banks	262,363	-	93,505	5,065	5,043	-	238	366,214
Multilateral development banks	-	-	-	10,100	6,509	-	-	16,609
Institutions	68,942	-	-	-	9,745	-	-	78,687
Secured by mortgages on immovable property	-	1,407	3,876	2,454	221,451	1,742,480	-	1,971,668
Secured by mortgages on immovable property: SMEs	-	1,407	3,869	2,419	216,999	12,273	-	236,967
Exposures in default	-	-	-	-	922	2,936	-	3,858
Covered bonds	-	6,004	-	-	48,525	-	-	54,529
Securitisation positions	-	-	-	-	-	224,902	-	224,902
Collective investment undertakings	36,950	-	-	-	-	-	-	36,950
Other	-	-	-	-	-	-	15,043	15,043
Total	**368,255**	**7,411**	**97,381**	**17,619**	**292,195**	**1,970,318**	**15,281**	**2,768,460**

Credit risk mitigation

Credit risk mitigation techniques are used to reduce credit risk on an exposure. During the year, Atom originated loans under the UK government-backed CBILS. Those loans are shown within the "Exposures secured by financial guarantees" column in the following table. For exposures secured on immovable property, the protection effect of mortgage collateral is intrinsically part of the definition of the original exposure class, so that has not been reflected below. Exposures are reported at their gross carrying value. 2020 comparative information has not been provided on the grounds of materiality.

8. Pillar 1 capital requirements continued...

Table 17 - Total exposures covered by credit risk mitigation

	Exposure value covered by eligible financial collateral	Exposure value covered by guarantees	Total exposure value covered by credit risk mitigation
	£'000	£'000	£'000
Institutions	20,218	-	20,218
Retail	-	346,850	346,850
Retail: SMEs	-	346,850	346,850
Secured by mortgages on immovable property	-	164,305	164,305
Secured by mortgages on immovable property: SMEs	-	164,305	164,305
Exposures in Default	-	148	148
Total	**20,218**	**511,303**	**531,521**

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. IFRS 9 requires recognition of expected credit losses based on unbiased forward-looking information and is applicable to all financial assets at amortised cost, debt financial assets at fair value through other comprehensive income and loan commitments. See the Annual Report for further information on the calculation of IFRS 9 credit provisions.

At 31 March 2021 provisions stood at £9.8m (2020: £7.0m). Please refer to note 11 of the Annual Report for further information on the IFRS 9 provisions, with the increase reflecting growth in lending, particularly unsecured business lending.

8. Pillar 1 capital requirements continued...

Wholesale credit risk

Wholesale credit risk arises from the portfolio of HQLA and other financial exposures which are managed by the Treasury function. Wholesale credit risk is defined as the risk that counterparties or issuers will fail to meet their obligations when they become due. Atom has a very limited appetite for this form of risk and consequently exposures are restricted to very high quality 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 government and central bank, UK banks and building societies, with additional limits extended to a small number of highly rated banks in Europe and other developed economies. The Bank also has exposure to a central clearing counterparty to allow it to comply with its obligations to centrally clear all of its new eligible derivative transactions, (see Section 8.4). In addition, the Bank has appetite for exposures to UK residential mortgage-backed securities (RMBS) (see Section 8.3) although they are managed as part of the Bank's wholesale credit risk framework.

The wholesale credit limit framework is set out in the Board approved policy. Maximum limits are determined by the Atom Risk Grade, which takes into account internal analysis of a counterparty's creditworthiness and the Bank's limited appetite for large, concentrated exposures. Maximum limits are also set relative to the Bank's capital base.

Atom's Board has delegated its authority to the Credit Committee to approve individual counterparty credit limits within the 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 of counterparties and issuers are conducted at the outset and typically reviewed annually.

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 regulation and then applies the resultant risk weight to the exposure value to calculate the RWA value.

Table 18 – Wholesale exposure values after credit risk mitigation by external credit ratings

		2021		2020
	AAA to A-	Unrated	AAA to A-	Unrated
	£'000	£'000	£'000	£'000
Central governments and central banks	736,732	-	366,214	-
Multilateral development banks	37,403	-	16,609	-
Institutions	50,513	-	78,687	-
Covered bonds	48,530	-	54,529	-
Securitisation positions[1]	591,906	57,651	201,309	23,593
Collective investment undertakings[1]	-	-	36,950	-
Total	**1,465,084**	**57,651**	**754,298**	**23,593**

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

8. Pillar 1 capital requirements continued...

The significant increase in the exposures to central governments and central banks is due to the guarantee provided by the UK government for 80% of all CBILS-backed lending by the Bank.

The increase in securitisation positions was driven by the Bank's purchase of a portion of the senior notes issued by Elvet Mortgages 2020-1. Unrated positions represent Atom's holdings of Vertical Risk Retention notes in Elvet 2019-1 and Elvet 2020-1 to meet the mandatory retained 5%.

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 19 – Exposure values before credit risk mitigation by geographic location at 31 March 2021

	UK	Europe	North America	Total
	£'000	£'000	£'000	£'000
Central governments and central banks	378,639	-	-	378,639
Multilateral development banks	-	26,586	10,817	37,403
Institutions	31,818	10,927	16,429	59,174
Retail	379,968	-	-	379,968
Retail: SMEs	352,849	-	-	352,849
Secured by mortgages on immovable property	1,345,987	-	-	1,345,987
Secured by mortgages on immovable property: SMEs	367,685	-	-	367,685
Exposures in default	3,906	-	-	3,906
Covered bonds	48,530	-	-	48,530
Securitisation positions	649,557	-	-	649,557
Other exposures	16,151	-	-	16,151
Total	**2,854,556**	**37,513**	**27,246**	**2,919,315**

Atom had exposures to Multilateral Development Banks that were located outside the UK. These exposures are subject to a 0% risk weight. In addition, short term exposures were held with several highly rated banks in and outside the UK, subject to a risk weight of 20%. There were no impaired or past due exposures outside of the UK.

8. Pillar 1 capital requirements continued...

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

	UK £'000	Europe £'000	North America £'000	Total £'000
Central governments and central banks	366,214	-	-	366,214
Multilateral development banks	-	6,509	10,100	16,609
Institutions	17,289	22,097	39,301	78,687
Retail	52,047	-	-	52,047
Secured by mortgages on immovable property	1,937,286	-	-	1,937,286
Secured by mortgages on immovable property: SMEs	244,904	-	-	244,904
Exposures in default	3,858	-	-	3,858
Covered bonds	54,529	-	-	54,529
Collective investment undertakings	-	36,950	-	36,950
Securitisation positions	224,902	-	-	224,902
Other exposures	15,043	-	-	15,043
Total	**2,671,168**	**65,556**	**49,401**	**2,786,125**

8. Pillar 1 capital requirements continued...

Table 21 – Exposure values before credit risk mitigation by sector at 31 March 2021

	Individuals £'000	Secured Lending to Corporate SMEs £'000	Unsecured Lending to Corporate SMEs £'000	Financial/ Sovereign £'000	Other £'000	Total £'000
Accommodation and food service activities	-	40,685	6,931	-	-	47,616
Construction	-	6,593	57,033	-	-	63,626
Education	-	7,191	1,705	-	-	8,896
Financial	-	2,793	3,780	1,173,303	-	1,179,876
Human health services and social work activities	-	39,197	13,101	-	-	52,298
Manufacturing	-	12,862	46,217	-	-	59,079
Other	-	-	43,252	-	16,151	59,403
Electricity, gas and water supply	-	177	5,438	-	-	5,615
Residential lending to individuals	1,008,004	-	-	-	-	1,008,004
Real estate, professional services and support activities	-	219,666	67,669	-	-	287,335
Recreational, personal and community service activities	-	7,383	10,660	-	-	18,043
Transport, storage and communication	-	5,703	29,524	-	-	35,227
Wholesale and retail trade	-	26,639	67,658	-	-	94,297
Total	**1,008,004**	**368,889**	**352,968**	**1,173,303**	**16,151**	**2,919,315**

8. Pillar 1 capital requirements continued...

Table 22 – Exposure values before credit risk mitigation by sector at 31 March 2020

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

8.3 Credit risk - securitisation

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

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

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

As an investor Atom invests directly in third party asset backed securities as part of efficient management of liquid assets. From time to time Atom also purchases a portion of the senior notes issued by the structured entity, as it did in the case of the Elvet 2019-1 and 2020-1 issuances.

Elvet 2018-1

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

Elvet 18 funded the transfer through a £486m issuance of residential mortgage-backed debt to third-party debt investors. As at March 2021, £141m was outstanding on the loan notes. The Bank provides credit support to Elvet 18 via retained notes and reserve funds, partially funded through £15m in subordinated loans, and £61m of retained Z notes. The Bank also holds £53m in retained A notes. An IFRS 9 impairment provision of £0.1m was held against the underlying mortgages with £10.2m of the underlying mortgages classified as stage 2 and 3.

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

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

Elvet 2019-1

During December 2019 Atom, as an originator, transferred residential mortgage loans with a book value of £488m to a newly established unconsolidated structured entity, Elvet Mortgages 2019-1 plc (Elvet 19). The transaction resulted in full derecognition of the loans from Atom Bank's statement of financial position because all of the residual income associated with the mortgages has been transferred to the note holders. As significant risk transfer was achieved, the capital required on the underlying mortgage exposures was derecognised with the exception of the mandatory retained 5% (2021: £22m) share of mortgages. At year end Atom also held £180m of the A notes issued by Elvet 19. As an STS compliant note these are risk weighted at 10%.

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

Elvet 2020-1

During July 2020 Atom, as an originator, transferred residential mortgage loans with a book value of £764m to a newly established unconsolidated structured entity, Elvet Mortgages 2020-1 plc (Elvet 20). The transaction resulted in full derecognition of the loans from Atom Bank's statement of financial position because all of the residual income associated with the mortgages has been transferred to the note holders. As significant risk transfer was achieved, the capital required on the underlying mortgage exposures was derecognised with the exception of the mandatory retained 5% (2021: £36m) share of mortgages. At year end Atom also held £370m of the A notes and £42m of B Notes issued by Elvet 20. As STS compliant notes these are risk weighted at 10% and 15% respectively.

Elvet 20 utilises the services of two External Credit Assessment Institutions (ECAIs), Fitch and Standard & Poor's, to rate the securitisation transactions in issue. The ratings assigned assess the ability of the structure to allow for the timely payment of interest and the ultimate payment of principal of each of the rated notes.

8. Pillar 1 capital requirements continued...

Calculation of risk-weighted assets

A new securitisation framework was fully implemented on 1 January 2020 through amendments to the CRR and the introduction of a new regulatory framework for securitisation. All securitisation positions are now risk weighted under the revised framework hierarchy of methods laid out in the CRR Article 254. At 31 March 2021, all securitisation positions represented holdings in Elvet 2019-1 and Elvet 2020-1 as detailed above and the SEC-SA approach was followed for the whole portfolio. Atom held no positions in third party asset backed securities at year end (2020: £1.8m).

Securitisation exposure risks

The primary risk exposure for mortgages securitised as part of Elvet 18 continues to be credit risk. The processes undertaken by the Bank to monitor changes in the credit risk of securitised mortgages are the same as mortgages not securitised in Elvet 18 as described in 8.2. A charge of £54k has been recognised in the income statement in respect of impairment provisions held against securitisation investment exposures.

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

8.4 Counterparty credit risk and CVA risk

Counterparty credit risk is the risk that a counterparty fails to meet their obligations when they become due during the life of a 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 38.

Atom ensures that an enforceable ISDA agreement is in place before transacting with any swap counterparty. All agreements include a credit support annex (CSA) that ensures contracts with negative fair values can be offset against those with a positive fair value within the same netting set. Collateral arrangements are based on the net fair value of the swaps contained within each netting set and collateral is provided or received accordingly. An exception is made to collateral requirements for the swap contract between the securitisation SPVs Atom uses and their counterparties: the swap counterparty is not required to post collateral provided its credit rating does not fall below a pre-determined level. The SPV does not need to provide collateral under any circumstances.

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

From 18 October 2019, all new eligible derivative transactions that Atom enters into are cleared through a Qualifying Central Counterparty Clearing House (QCCP). At 31 March 2021, centrally cleared derivatives accounted for £3,675k of the net derivative exposure, mainly representing the PFCE add-on under the mark-to-market method.

Atom's approach to collateral management is included in its policies and procedures. Atom accepts cash and UK government debt instruments as collateral with its CSAs with derivative counterparties. Atom assesses the need for collateral and pledges or receives variation margin daily depending on the value of the underlying contracts.

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.

8. Pillar 1 capital requirements continued...

Table 23 – Derivative exposures

	2021 £'000	2020 £'000
Gross positive fair values of derivatives contracts	10,991	10,936
Negative fair values of derivative contracts available for netting	(2,241)	(8,231)
Net credit exposure before collateral	**8,750**	**2,705**
Collateral received	(8,661)	(2,423)
Net current exposure	**89**	**282**
Potential future credit exposure	6,256	5,785
Net derivative exposure	**6,345**	**6,067**

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 9 shows RWAs and the Pillar 1 requirement for CVA risk.

8.5 Operational risk

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

The Basic Indicator Approach uses an average of the last three years' operating income to determine the Pillar 1 requirement. The requirement is equal to 15% of the average operating income over the three-year period. As the Bank now has three years of actual results, these have been used for determining the operational risk requirement rather than forecast figures used previously. This has resulted in a nil operational risk requirement due to losses.

8. Pillar 1 capital requirements continued...

8.6 Market risk

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

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

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

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

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

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

All sources of market risks are assessed annually through the ICAAP. The ICAAP informs the Bank's Pillar 2A add-on. The Bank's TCR includes an element for interest rate risk. In addition, upon the introduction of new products or initiatives, risks are assessed, measured and, where possible, mitigated. Sources of risks that may change frequently are measured daily. These are gap risk and basis risk.

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

See page 104 of the Annual Report for further information on the management and mitigation of market risk, and an analysis of its interest rate sensitivity.

8.7 Climate change risk

Progress Statement

Atom are in the process of incorporating climate-related risk approaches, both physical and transitional, into how risk is managed. The approach to climate risk management will be enhanced during 2021 and beyond, further embedding recommendations from the Task Force on Climate Related Financial Disclosures (TCFD) while continuing to meet regulatory obligations.

Governance

Atom has established a governance framework to ensure that the risks associated with climate change are deliberated at senior levels within the business. The BRC set the Bank's overarching approach to managing climate change risk with periodic reports provided as part of the wider review of the business' risk profile. The Chief Customer Officer, supported by the Chief Risk Officer, has assumed responsibility for identifying, monitoring, managing and reporting the risks arising from climate change, with oversight provided by the ERC. Climate change risk has already been included in governance committee terms of references and a variety of policies and further embedding of Climate Change Risk is currently underway.

8. Pillar 1 capital requirements continued...

Strategy

Atom is focussed on effectively managing its carbon footprint by reducing absolute carbon emissions. The Bank has continued to invest in the energy efficiency of operations, sensitising direct procurement and management of outdoor space, and by consideration of the environmental impact associated with its lending policies. Atom purchases all power for its headquarters, in Durham, from zero carbon suppliers, and some years ago decided to occupy a building with solar and biofuel heating and hot water systems. As a result of these investments, the use of fossil sources of carbon has been cut to a single back up system which is used only in the event of failure of the two biofuel boilers. In addition to the continued sensitive maintenance of the grounds around the headquarters to support biodiversity, procurement of many raw ingredients for the café has been switched towards local, sustainable and organic farm gate suppliers. Travel to the workplace remains a source of pollution and Atom supplies free charging for electric vehicles on site, whilst promoting flexible remote working.

When evaluating business strategy, the Bank considers the financial risks and impacts resulting from both the physical risk stemming from climate and weather-related events and the ongoing risks from the transition to a low carbon economy driven by societal and regulatory changes. Extreme weather events are becoming more frequent and their impact on the economy is becoming more acute whilst changing customer expectations are having a significant impact on certain business sectors that are more sensitive to the effects of physical and transition risks. As well as risks, there are opportunities with the transition to a low carbon economy and the Bank is reviewing ways to support the transition through the services it offers customers.

Risk Management & Scenario Modelling

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

Atom are taking a pro-active approach to assessing the potential impacts of climate change risk on its business model. The financial risks posed by climate change are being integrated into the existing enterprise risk management framework, including risk appetite, policies and controls. Consequently, a list of industrial sectors is maintained that Atom will typically only lend to if the lending is actively part of a company's transition planning away from fossil carbon use.

A review of Atom's physical exposure to climate change risk via flooding and coastal erosion has been undertaken for the residential mortgage and secured business lending portfolios, which make up most Atom's assets on the balance sheet. This analysis showed only a small number of properties at a high risk of flooding but as this is the first step in climate change risk exposure analysis, the methodology will be enhanced in future iterations as new data and tools become available. Atom have also reviewed the sectors of the business banking book which may be exposed to transition risk due to changes in regulation or customer behaviour driven by climate change objectives. Given the portfolio composition is predominately weighted towards property investment, largely to commercial, retail and office, the transition risk to Atom's balance sheet is very low. Further detailed analysis of transition risks will be undertaken for both the residential mortgage and business banking portfolios.

Climate-related financial risks have been modelled within sensitivity and stress testing analysis. Further enhancements to Climate Risk modelling are planned to take place over the next year with new sources of data being reviewed to support this.

Metrics

Atom consumed 203 megawatt hours (MWh) (FY20: 358 MWh) of energy during the year as a business, or 47 tCO_2e (FY20: 92 tCO_2e), a measure of greenhouse gas emissions. Emissions per FTE have reduced to 0.12 tCO_2e per FTE (2020: 0.26 tCO_2e per FTE) equivalent during the year because Atom employees have been working from home if they were able to safely do so throughout the year.

9. Remuneration

This section provides details of the remuneration of Atom's Material Risk Takers (MRT) together with an explanation of remuneration policies, practice and governance. MRTs are those individuals whose actions have a material impact on the Bank's risk profile, based on criteria set by the EBA. During the year there were a total of 36 MRTs.

Approach to remuneration

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

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

Atom's overall principles for reward are:

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

However, to make sure these principles are adhered to, the following processes are in place:

- Strong clear and open communication, ensuring effective feedback mechanisms both up and down the management structure.
- A robust performance process.
- A clear and effective controls framework.
- Monitoring and review of Atom's 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.

9. Remuneration continued...

Methods of remuneration

Basic pay

Market data to compare pay for roles within Atom to that of comparative companies is regularly reviewed. This data will include Market Median and range information. All Grade Bands (1 – 4) are compared to national and regional benchmark data using Financial Services and Technology pay data where applicable to roles.

Cost of Living

Assuming the business is progressing satisfactorily, each year an assessment of whether to make cost-of-living changes is conducted. Atom will re-verify its roles against the benchmark data provided by the National Office of Statistics and any other relevant market data. Any proposed cost-of-living adjustment will take into consideration the affordability within the business. Cost-of living proposals must be pre-approved by the EXCO and then given full approval by the Remuneration and Nomination Committee. Annual cost of living adjustments are not guaranteed. In FY21 a cost of living increase was given to those employees who met the criteria.

Variable pay – Annual Performance Share Scheme (APSS)

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

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

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

The actual amount allocated will be based on the individual's performance for that year. The share option award is calculated based on the current share price value. Share options within the Annual Performance Share Scheme are exercisable at 0.001p.

In FY21, all employees received 50% of their variable pay (bonus) as a cash payment. The remainder of each award was made in share options which were subject to the usual terms and conditions as below.

These share options have vesting periods which are based on grade band:

- 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

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

Underperformers will not receive a performance related award.

9. Remuneration continued...

Long-term Incentive (LTI) Share Option Scheme

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

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

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

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

Remuneration decision making process

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

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

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

- Bridget Rosewell (Chairman)
- Patricia Jackson
- David Roper
- 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 and Chief People Officer) may be invited to attend meetings when appropriate or necessary but are excluded from discussions relating to their own remuneration arrangements.

Due to the impact of Covid-19 the decision was made that ExCo and Board members agreed to a pay deduction, repayable on the successful conclusion of the next equity capital raise. These changes were agreed by the Remuneration and Nomination Committee.

9. Remuneration continued...

Recruitment policies

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

Table 24 - Summary of remuneration

	Senior Management	Other MRTs	Total
Number of MRTs	**16**	**36**	**52**
Remuneration of MRTs	**£'000**	**£'000**	**£'000**
Fixed	3,123	3,971	7,094
Variable	1,031	726	1,757
Total	4,154	4,697	8,851

A severance payment of £54k for 1 Senior Manager was made during the year.
The vesting of 54,422 share options (£66K) were accelerated for 1 Senior Manager as part of a severance award 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 2021 in the format prescribed in Regulation (EU) 1423/2013. Any blank cells in the template have been removed from this disclosure.

Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and related share premium	448,935
2	Retained earnings	(267,853)
3	Accumulated other comprehensive income (and other reserves)	22,627
6	**Common Equity Tier 1 before regulatory adjustments**	**203,709**
Common Equity Tier 1 capital: regulatory adjustments		
7	Additional valuation adjustments	8,571
8	Intangible assets	(35,889)
25a	Losses for the current financial year	(62,379)
28	**Total regulatory adjustments to CET1**	**(89,697)**
29	**Common Equity Tier 1 CET1 capital**	**114,012**
45	**Tier 1 (T1) capital**	**114,012**
	Tier 2 (T2) capital and provisions	
46	Capital instruments and the related share premium accounts	7,978
51	**Tier 2 (T2) capital before regulatory adjustments**	**7,978**
58	**Tier 2 (T2) capital**	**7,978**
59	**Total capital (TC = T1 + T2)**	**121,990**
60	**Total risk weighted assets**	**743,296**
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.3%
62	Tier 1 (as a percentage of total risk exposure amount)	15.3%
63	Total capital (as a percentage of total risk exposure amount)	16.4%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation buffer and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7.0%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	0.0%
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.3%

Appendix 2 – Key features of capital instruments

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

1	Issuer	Atom Bank plc	Atom Bank plc	Atom Bank plc
2	Unique identifier	N/A	N/A	N/A
3	Governing law(s) of the instrument	English	English	English
Regulatory treatment				
4	Transitional CRR rules	CET1	T2	T2
5	Post-transitional CRR rules	CET1	T2	T2
6	Eligible at solo/(sub-)consolidated/solo & sub consolidated	Solo	Solo	Solo
7	Instrument types (types to be specified by each jurisdiction)	Share capital	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£449m	£4m	£4m
9	Nominal amount of instrument	£0.00001	£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 disclosure template

The following tables disclose information relevant for the calculation of the countercyclical buffer at 31 March 2021 in accordance with Regulation (EU) 2015/1555.

As at 31 March 2021	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	1,436,448	-	-	-	649,557	-	52,049	-	6,497	58,546	100%	0%
Total	1,436,448	-	-	-	649,557	-	52,049	-	6,497	58,546	100%	0%

Amount of institution-specific countercyclical capital buffer

Total risk weighted assets	731,825
Institution's specific countercyclical buffer rate	0%
Institution's specific countercyclical buffer requirement	-

Appendix 4 – Analysis of the leverage ratio

The following tables disclose information on Atom's leverage ratio at 31 March 2021 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	2,827,122
4	Adjustment for derivative financial instruments	11,557
6	Adjustments for off balance sheet items (conversion of credit equivalent amount for off-balance sheet items)	80,909
7	Other adjustments	(5,321)
8	**Leverage ratio total exposure amount**	**2,914,267**

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)	2,849,196
2	Asset amounts deducted in determining Tier 1 capital	(27,395)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**2,821,801**
	Derivative exposures	
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	5,301
5	Add-on amounts for PFE associated with all derivative transactions (mark-to-market method)	6,256
11	**Total derivatives exposure**	**11,557**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	232,547
18	Adjustments for conversion to credit equivalent amounts	(151,638)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**80,909**
	Capital and total exposure measure	
20	Tier 1 capital	114,012
21	Leverage ratio total exposure measure (sum of lines 3, 11 and 19)	2,914,267
22	Leverage ratio	3.91%
	Choice on transitional arrangements and fiduciary items	
EU-23	Choice on transitional arrangements for the definition of capital	Transitional

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)	2,821,801
EU - 3	Banking book exposures, of which:	2,821,801
EU - 4	Covered bonds	48,530
EU - 5	Exposures treated as sovereigns	726,997
EU - 7	Institutions	38,956
EU - 8	Secured by mortgages on immovable property	1,242,187
EU - 9	Retail exposures	92,023
EU - 11	Exposures in default	3,787
EU - 12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	669,321

Appendix 4 – Analysis of the leverage ratio

continued...

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 managed as part of the broader capital management, with the leverage ratio being considered in Atom's business planning processes and stress analysis. For a description of the governance to oversee leverage ratio, as part of capital adequacy risk refer to Section 6.
2	**Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers** A fall in Tier 1 capital resources, primarily due to losses, is the main driver for the fall in the leverage ratio in the year.

Appendix 5 – Encumbered assets disclosure templates

The following tables provide information on Atom's encumbered assets at 31 March 2021 in accordance with Regulation (EU) 2017/2295. Any blank cells in these templates have been removed from this disclosure.

A – Encumbered and unencumbered assets

	Carrying amount of encumbered assets £'000 010	Of which: notionally eligible EHQLA and HQLA £'000 030	Fair value of encumbered assets £'000 040	Of which: notionally eligible EHQLA and HQLA £'000 050	Carrying amount of unencumbered assets £'000 060	Of which: EHQLA and HQLA £'000 080	Fair value of unencumbered assets £'000 090	Of which: EHQLA and HQLA £'000 100
010 Assets of the reporting institution	695,183	675,624	-	-	2,014,736	1,233,576	-	-
020 Loans on demand	-	-	-	-	277,195	-	-	-
040 Debt securities	327,924	327,924	327,622	327,622	484,807	383,973	485,096	384,418
100 Loans and advances	347,700	347,700	-	-	1,190,223	849,603	-	-
120 Other assets	19,559	-	-	-	62,511	-	-	-

B - Collateral received

		Fair value of encumbered collateral received or own debt securities issued £'000 010	Of which: notionally eligible EHQLA and HQLA £'000 030	Fair value of collateral received or own debt securities issued available for encumbrance £'000 040	Of which: notionally eligible EHQLA and HQLA £'000 060
250	Total assets, collateral received and own debt securities issued	695,183	675,624	-	-

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	612,560	730,280
120	Other sources of encumbrance	-	8,473

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 2021.

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

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 2021		£'000
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1) capital	114,012
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	105,283
3	Tier 1 capital	114,012
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	105,283
5	Total capital	121,990
6	Total capital as if IFRS 9 transitional arrangements had not been applied	113,261
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	743,296
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	748,878
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.3%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	14.1%
11	Tier 1 (as a percentage of risk exposure amount)	15.3%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	14.1%
13	Total capital (as a percentage of risk exposure amount)	16.4%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	15.1%
	Leverage ratio	
15	Leverage ratio total exposure measure	2,914,267
16	Leverage ratio	3.9%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	3.6%

Appendix 7 – Analysis of directorships

The following table shows the number of directorships held by Atom Board members at 31 March 2021. As per CRD V rules, multiple directorships within the same group are treated as a single role and directorships with bodies that do not predominantly pursue commercial objectives are excluded.

	Number of directorships
Mark Mullen	1
David McCarthy	1
Patricia Jackson	3
Cheryl Millington	3
Gonzalo Romera	1
David Roper	2
Bridget Rosewell	3
Alicia Pertusa Santos	2
Ergun Ozen	3

Atom