Atom

The Banking Machine

ANNUAL REPORT 2020

Registered office

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

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

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

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

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

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

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

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

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

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

Annual Report 2020

What's inside

Strategic report

Our board of directors

Bridget Rosewell
Chairman, Chair of Remuneration and Nominations Committee

Mark Mullen
Chief Executive Officer

David McCarthy
Chief Finance Officer

Laurel Powers-Freeling
Senior Independent Non-Executive Director

Patricia Jackson
Chair of Risk Committee

David Roper
Chair of Audit Committee

Cheryl Millington
Non-Executive Director

Ergun Özen
Non-Executive Director

Gonzalo Romera Lobo
Non-Executive Director

Alicia Pertusa
Non-Executive Director
(Appointed 14 May 2020)

Our Executive Management team

Mark Mullen
Chief Executive Officer

David McCarthy
Chief Finance Officer

Edward Twiddy
Chief Customer Officer

Rana Bhattacharya
Chief Technology Officer

Stewart Bromley
Chief Operating Officer

Rachel McLauchlan
Chief Audit Executive

Chris Sparks
Chief Risk Officer

Laura Farnworth
General Counsel and Company Secretary

Marcus Mitchell
Director of Strategy

Chairman's statement

Bridget Rosewell, CBE

Chairman

Welcome to Atom

In these last 12 months we have been making steady progress towards a new financial year in which we plan to make great leaps forward. The final quarter of the financial year proved rather more challenging than we had expected. However, while the Covid-19 pandemic has slightly altered our trajectory, I want to start by paying tribute to the commitment shown by all our people in making sure that we have stayed pretty much on track delivering our business plan, albeit with inevitable delays to some programmes.

Going back to the beginning of the year, we started by having just signed Master Service Agreements with two new strategic partners; Google Cloud Platform and Thought Machine. Together, these partnerships allow us to take advantage of capabilities designed for the cloud that were not available to us when we first started our journey. Such capabilities increase our speed and agility as well as data management and insight delivery.

That investment, which has been significant across the whole business, is already showing benefits in our planning. For example, not only have we launched an entirely rewritten App but delivered eight updates in two months. The Thought Machine platform enables us to deliver new products at a faster pace and the first implementation will be the Instant Access Saver (IAS) account, which is now in production mode.

The final launch of the IAS has inevitably been affected by the current pandemic. I have been enormously impressed by the speed with which the team first limited access to our offices - well before lockdown – and then facilitated everyone working from home. We adjusted our short term plans to prioritise support for our customers, answering their questions, helping them set up repayment holidays and generally just making sure that we are on hand to help them in any way we could. Nonetheless, we continue to pursue our strategy to build a bank with excellent customer services and market leading cost efficiency. Indeed, current circumstances and the increase in demand for digital banking further supports the strategic plans for a low cost and fully digital bank. Homeowners and business owners still need to save and to borrow and that is what we are here for.

We have welcomed the government's support for business and in April joined the Coronavirus Business Interruption Loan programme (CBILS). The CBILS scheme attaches a partial government guarantee to loans made under it. We are open for business in this scheme via the provision of secured business loans and are also working with partners to provide unsecured business loans.

Looking forward, 2021 is, and will continue to be, a year of challenges. The investments in capability of the past year will enable the Bank to rise to these. Our capital trajectory is strong and I expect progress to accelerate in the coming year. We will be working with shareholders and stakeholders to support this.

Our Shareholders

Our major shareholders further supported the bank in 2020 with additional capital of £50 million. We also welcomed Schroders to the register following their appointment as managers of the Patient Capital Trust formerly managed by Woodford. I welcome the support and expertise of all our shareholders.

Our current levels of capital can support the bank for at least a further 12 months as the going concern statement attests, and much work has been done to stress the robustness of this conclusion. Of course, to meet our ambition for growth and scale capability, we will be looking to add new capital in due course and will be working with our advisers and shareholders to achieve this.

Our Board

I continue to enjoy the input of highly experienced colleagues around the board table (or virtual table as it has become more recently). At the beginning of the year, Cheryl Millington and David Roper had recently joined our board as independent non-executives and brought with them a wealth of experience in Technology and Audit respectively. I have found their contribution to be invaluable alongside longer standing colleagues. Ian Ormerod who represented BBVA on the board has recently stood down and has been replaced by Alicia Pertusa.

Delivery of the strategy continues to be monitored and reported to the Board through a fully formed, highly effective governance framework. We have increased the frequency of Board meetings and sub-committees, a reflection of our growing maturity and sophistication

Our People

We have continued to grow our team, in particular bringing people in-house for technology roles. That has helped both develop career paths and manage costs at the same time. The team has continued to develop coaching skills and these efforts have been leveraged in our reaction to the pandemic and the pressures of working from home.

We work hard to improve diversity, encourage women into STEM careers, and raise awareness of the opportunities in technology and banking. It's still hard to really make a difference here and our success in recruiting women at junior levels has actually resulted in an increase in the gender pay gap this year. We monitor at Board level how women are being promoted but it will take time for this to show through.

Conclusion

Over the last few months we have all learnt a lot about how we work together and sometimes about each other's bookshelves. That experience will be built on and taken forward by the team as we emerge into a different world and one in which Atom is well placed to become an effective partner for home and business owners.

An increasingly digital world is one in which we can provide the services our customers need and we aim to do so with excellent customer services as well as cost effectively. We recognise that there will continue to be stressful times ahead for many customers; we aim to reduce that as much as possible.

Bridget Rosewell, CBE
Chairman

Chief Executive's review

Mark Mullen,

Chief Executive Officer

A severe sting in the tail

Covid-19 made the end of our financial year unusually challenging but we reacted both quickly and decisively, first to protect the health and safety of our team by implementing full home working for all roles, and then to continue providing service and support to our customers. Indeed shortly after we closed our books on the year end, we applied for and were approved as a Coronavirus Business Interruption Loan Scheme (CBILS) lender. We have now started to offer CBILS loans to SMEs, and in doing so we are building on our track record of lending to UK businesses. We have also entered into a partnership to offer unsecured CBILS SME loans. We are working hard to support all of our customers, in particular our home owners and business owners many of whom are making use of mortgage and loan repayment holidays. We will continue to do everything in our power to help them through this crisis.

Implementing our Strategy

Throughout 2020 we continued to focus our energies on implementing our strategy, in particular completing the process of redeveloping our banking stack and transitioning it to the cloud. The first of a number of implementation phases commenced in Q4 of 2019 and the process is scheduled to complete in June of this year. By then we'll be ready to launch our first completely new product in some time. Our instant access savings account will offer customers good value and an engaging experience. Already the early results of the investment are highly encouraging; our App store ratings have improved significantly and we can take much greater advantage of agile working methodologies.

We have ambitious plans for the year ahead, not least adding more new products to the platform and also building out our business banking proposition. In quarter 3 we were delighted to win an award of £10m from the Banking Competition Remedies panel to invest in expanding our business lending franchise. Although the early disruption and uncertainty created by Covid-19 has caused some delay (which will be covered in more detail in our Public Commitment progress update at the end of August), we remain committed to launching new SME products starting later this year. We have made significant progress in building the underlying core technology in support of this initiative.

Serving our Customers

We are proud to be Trustpilot's most trusted UK bank. We consistently achieve Net Promoter Scores in excess of +75 and at the time of writing, our App store rating is 4.7* across both Android and iOS. We have continued to win industry recognition and just recently we've been included in the Tech Nation Future Fifty business community.

We are continuing to invest in customer insight and innovation. We work closely with leading universities in the North East of England through the Knowledge Transfer Partnership to build customer data and blockchain solutions that will help us speed up mortgage customer journeys. We have an industry leading "voice of the customer" programme and recently we've launched our "kitchen" customer panel to help us collect feedback and test ideas and concepts.

Financial Performance

We've made substantial progress towards our goal of building a business that creates strong and sustainable profits. We have taken steps to improve asset yields by increasing our lending to SMEs and refocusing our offer to residential mortgage customers. As we now have a larger and more granular balance sheet, we have been able to manage liquidity more efficiently with consequent benefits to net interest income. The result is an underlying net interest income improvement over the year of £5m. Economic uncertainty notwithstanding, we expect this progress to accelerate significantly in the coming year. Anticipating a more stressed economic outlook in the year ahead, in March we increased our credit impairment provisions and have taken a prudent approach both to stress testing and capital conservation.

We have continued to invest in our team and in our capabilities with a particular focus on Change and Technology to ensure that we are well placed to accelerate the launch of new products. Overall however we have maintained control and cost discipline.

We completed a residential mortgage securitisation in quarter 3. Although this resulted in a loss on sale it did generate substantial regulatory capital release and removed £488m of relatively low yield assets from our balance sheet. We consider this a worthwhile price of supporting our mortgage franchise across the LTV ranges in 2018 (when the effects of ring-fencing were at their most damaging to competition and to the establishment of Atom as a new business).

Looking to the Future

We will continue to grow our capabilities in the coming year, enhancing our automation and building out our inventory of products. The tactical actions taken by the business recently will ensure that Atom is well placed to scale and to grow profitably, even in the face of present economic uncertainty. We're here to create the most efficient and engaging experience in banking.

Thank you

It remains for me to thank all of my Atom colleagues for their inexhaustible dedication and support. My thanks are also due to their friends and families – Atom has forced itself into their homes in ways that just a few months ago we might scarcely have imagined. Thanks also to our shareholders for their continued faith and encouragement and as always, to our customers without whose patronage nothing worthwhile is possible. These last months have been tragic and stressful. I know that I speak for the entire Atom family when I extend my sympathy to those who have lost loved ones to Covid-19 and my best wishes for a brighter future to everyone here in the UK and beyond.

Mark Mullen
Chief Executive Officer

Business model and strategy

Who are we

We're Atom. We're an app based and customer first bank. We're also the UK's number one rated bank on Trustpilot, and we're here to deliver better outcomes for homeowners and business owners.

Our vision

To create the most trusted and admired bank anywhere.

Our mission

We exist to change banking for good - to create better outcomes for customers.

Our objective:

to create the most efficient and engaging experience in banking.

iOS 4.7
4.2k reviews total

Trustpilot
Trust Score 4.7/5
No. 1 rated Bank in the UK.

Android 4.6
1.3k reviews total

Reevoo
Savings: 9.1/10
Mortgages: 8.8/10

NPS
Retail 2020: +77
Business 2020: +4

Our advantage:

by leveraging the most cost-efficient bank in the industry.

Total mortgage applications since launch	Total business applications since launch	Total deposit gross inflows since launch	New business margins on 2020 completions
£3.2bn	£1.2bn	£4.4bn	~100bps

Business model

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

This is founded on building a great team, and we've created an automated and highly-scalable technology platform to enable us to react quickly to market conditions and deliver straightforward products and services. Our technology platform provides a product agnostic, cloud native technology stack, capable of supporting a wide range of borrowing, savings and payments products. We have payments processing capabilities and we have a payments licence. We are an active issuer of RMBS. We have proven wholesale funding and capital management capabilities in place.

Atom's business model centres on offering retail banking products to savers, homeowners and business owners. We currently offer mortgages together with secured business loans and personal savings accounts and we will be adding additional personal and business products during 2021. We originate and service directly via our own App and partner with brokers to introduce mortgage and business customers.

We use the money that our savings customers deposit with Atom to fund loans to small businesses and homeowners in the UK. These loans are distributed UK-wide by our intermediary partner networks who offer whole-of-market advice to customers. We receive income from these loans and pay interest to customers who have entrusted their savings with us.

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

In the months and years ahead, Atom will continue to extend its product inventory and services, we'll leverage our new technology platform whilst continuing to build our customer engagement, expand our distribution channels. We'll also continue to focus on both cost and operational efficiency.

Our Strategy

We have a clear and focused strategy: to create the most efficient and engaging experience in banking.

We combine category leading cost efficiency with exceptional customer experience. We offer superior rates to homeowners and business owners and use our exceptional customer experience to build trust and win market share from the high street banks. As the business grows, improving cost efficiency will create a virtuous circle.

Atom had four clear strategic priorities for 2020 and we're proud to say we progressed well against their delivery.

Business model and strategy

Strategic Progress

We made good progress against our strategic objectives during 2020   In particular, completing the process of redeveloping our banking stack and transitioning it to the cloud. The early results of the investment are highly encouraging; our App store ratings have improved significantly and we can take much greater advantage of agile working methodologies.

Looking ahead to 2021, we're focussed on building out our inventory of products, widening our distribution and enhancing our automation capabilities in order to further enhance our customer experience and cost efficiency credentials while continuing to improve Net Interest Margin and move towards profitability.

1. Build out the Atom banking machine

The Atom banking machine fuses platform, people and data.

By moving to the cloud, investing in innovative technologies and moving to our new core banking platform, Atom is now positioned to be faster, more agile and able to configure products more flexibly.

We've developed and are continuing to develop talent in-house and invest in agility to ensure we can fully realise the capability of our business and new technology platform. All of this combines together to build a bank that can meet and exceed customer expectations.

Progress:

- Transitioned technology stack to the cloud.
- In collaboration with Thought Machine, implemented our next generation cloud native and smart contract based core banking platform.
- Strengthened teams across the business, in particularly IT engineering.

2. Build on our reputation for exceptional customer experience

We are building a reputation for exceptional customer experiences and our Trustpilot, Reevoo and NPS scores all point to the successes we have already achieved.

We offer our customers an experience that's fast and easy, great value, insightful and human. We're always listening to our customers and using their feedback to improve what we do. For example, in the last year we've implemented a series of changes to our app, to our policies and to our processes in direct response to what we have been told.

Of course things go wrong, but when they do our multiple award winning contact centre is on hand to sort it out.

Progress:

- Rated 4.7 stars by customers on Trustpilot - the UK's highest rated bank as at 31 March 2020.
- NPS scores consistently above target of +75.
- Successfully launched App 2.0 with a rating of 4.7* on iOS and 4.6* on Android.
- We have implemented a world-leading voice of the customer programme, enabling us to react quickly to customer feedback.
- We have launched our first community initiative with a subset of our existing customer panel.

3. Deliver market-leading cost efficiency

We recognise the inefficiencies that traditional banks can bring and understand that everything is paid for by the customer.

We want to automate every aspect of our business in order to reduce costs and improve the customer experience by designing simple products, processes and policies.

Progress:

- Cost-asset ratio of 1.4% is competitive to banking peers and set to further improve with scaling of the balance sheet.
- Operational efficiency driven through first time contact resolution of c80%.

4. Deliver our revenue growth plan

We continue to grow the bank and broaden our range of products and services, whilst focusing our resources on higher yielding and more profitable opportunities.

Progress:

- Underling net interest margin improved by 16bps
- Release of new products on new banking stack imminent.
- Return on front book lending in line with target

Financial review

David McCarthy

Chief Finance Officer

Underlying operating loss of £46m has improved £4m in part due to improvements in net interest income, and tighter cost control. The statutory loss before tax for the year was £66m (2019: £80m), a £14m improvement from the prior year. Last year significant platform transformation costs were incurred, including impairment charges and accelerated amortisation.

The financial review provides a summary of our results and performance. Underlying performance measures are used to enable management and investors to better understand the like for like results and performance of the Bank by isolating significant non-recurring items that may distort the comparison between this year and last. Where underlying measures are used, these are disclosed and reconciled to the statutory measures.

Underlying Operating Loss

£46m (2019: £50m)

The underlying operating loss of £46m has reduced £4m as a result of an improvement in adjusted net interest income of £5.1m less an increase in credit impairment charges of £4.9m

For the year ended 31 March	2020 £m	2019 £m
Total loss before other charges	(56.8)	(48.8)
Less: loss on sale of securitiesd mortgages	9.1	-
volatility from hedge accounting	1.8	(0.8)
Underlying operating loss	(46.0)	(49.6)

Loss before other charges of £57m (2019: £49m) has increased £8m as a result of the loss arising on successful completion of our first off balance sheet securitisation transaction. The loss on sale has been excluded from the underlying operating cost metric.

The transaction released £488m of loans from the balance sheet and released capital, which we have been able to redeploy into higher yielding assets.

Within net interest income £1.8m (2019: £0.8m gain) volatility experienced on derivatives that are part of our mortgage hedge accounting strategy is excluded from the underlying metrics. This arises due to changes in market interest rates outside of our control and will unwind over the life of a derivative.

Net Interest Income

Underlying **£2.3m (2019: £2.8m expense)**

Statutory **£0.5m (2019: £2.0m expense)**

Underlying net interest income improved by £5.1m to £2.3m. Underlying net interest margin increased to 8bps (2019: -8bps).

Our focus has been on continuing to support our customers whilst improving our asset yields. As a result, net interest income has steadily improved throughout the year, primarily achieved through:

- Growth in our higher yielding BBSL lending to SMEs.
- Moved away from the top of competitor best buy tables as the brand has strengthened and attracts new customers. This has allowed us to improve margins on new residential lending by 60bps and commercial lending by 50bps
- Optimising liquidity management to improve our cost of funding
- This was offset by continued compressed spreads in residential lending and a slowdown in the housing market towards the end of the year.

We continue to make progress in improving interest income while maintaining our cost base. The launch of new products including an instant access saver and increased lending portfolio will help to accelerate this progress.

Credit impairment

£5.8m (2019: £0.9m)

We have increased our expected credit loss provision at year end to £7m (2019: £1m), incorporating a Covid-19 post model adjustment of £6m. This adjustment is in response to the expected economic deterioration caused by the global pandemic and the impact this will have on the levels of credit losses expected in the future.

Our loan book has remained high quality through 2020 and to date we have experienced no write offs at all, and limited deterioration in credit quality.

Proportion of book in arrears or forbearance	2020	2019
Residential	0.0%	0.0%
BBSL	2.0%	1.0%

We have reclassified certain customers, including those in sectors most highly impacted by Covid-19 into Stage 2 at year end where customers have taken advantage of government endorsed payment holidays.

We are satisfied that the levels of provision in place are sufficient, given the latest available information.

We are focused on becoming a strong and sustainable business, being able to scale our proposition without a similar growth in operating expenses.

Staff and admin expenses

£40m (2019: £43m)

Staff costs and administrative expenses were £40m (2019: £43m). Several cost containment initiatives were put in place during the year and we also made the decision not to award a staff bonus for 2020. Doing this conserves capital in the short term allowing us to better respond to the challenges Covid-19 will present.

Year on year comparisons as follows:	
Staff and administrative expenses	-8%
Assets under management (total assets plus securitised loans held off balance sheet)	+9%
Retail deposits	+5%
Customers	+3%

Cost efficiency is a key strategic differentiator for Atom. Our cost:assets under management (AUM) ratio has been reduced further to 1.4% (2019: 1.9%) primarily as a result of:

- controlling our staff and administrative expenses despite growth in the business and investment in employees
- developing our technology team and in-house capabilities to reduce reliance and spend with third parties

We expect there to be a significant disparity between the rate of growth in operating expenses and in assets under management (AUM) as the business continues to scale.

Balance sheet

Assets

Total assets have been held broadly flat at £2.8bn (2019: £2.8bn), with lending growth offset by the derecognition of £488m of mortgages balances as part of a securitisation transaction completed during the year.

Loans and advances to customers decreased to £2.0bn (2019: £2.4bn):

Mortgages

£488m of mortgages were derecognised as part of a securitisation transaction in November, consequently the mortgage balance has fallen to £1.7bn (2019: £2.2bn). We have limited our residential lending volumes this year in order to optimise use of capital and improve net interest margin. The origination and servicing scalability of the business are proven, and lending volumes can be quickly increased.

In March we increased our expected credit loss provision as a result of Covid-19 reflecting changes to the macroeconomic forecasts and customer payment holidays. This increased our provision coverage ratio to 0.07% (2019: 0.05%). Through the year we experienced no significant arrears or defaults.

Business Banking Secured Lending (BBSL)

Our business banking lending book grew 31% to £240m (2019: £183m) and progress has been made in automating and developing our proposition. We have experienced no defaults or write offs in the BBSL book, with an insignificant portion of the portfolio in arrears or forbearance at the end of the year.

Liquidity and funding

During the year further improvements were made in our wholesale funding capabilities which has enabled the Bank to improve cost of funds while maintaining prudent levels of liquidity.

We remained significantly above our regulatory minimums throughout the year, with a Liquidity Coverage Ratio (LCR at year end of 764% (2019: 324%). We maintained a higher LCR through March to ensure we were well positioned to meet the unknown future demands of Covid-19.

At year end we held cash of £368m (2019: £252m) and debt instruments within our High Quality Liquid Asset portfolio of £177m (2019: £99m).

Capital

During the year we raised £50m of equity capital, to pay for operating losses and capital expenditure and to allow us to maintain adequate regulatory capital whilst growing our assets.

Following the success of our first residential mortgage backed securitisation last year, we completed a second securitisation transaction which met derecognition criteria. Derecognition of assets previously recorded on the balance sheet reduced our Risk Weighted Assets total thereby reducing required minimum capital for regulatory purposes. This has provided an efficient alternative to issuing new capital for growth purposes.

As at year end, our Common Equity Tier 1 (CET1) ratio was 18.6% (2019: 17.9%), our total capital ratio was 19.5% (2019: 18.7%) and our leverage ratio was 6.0% (2019: 6.5%).

Atom is still loss making, and is therefore reliant on further capital injections in order to continue to expand our proposition and deliver our strategy.

Risk and governance

Our business model and strategy create risks...

Principal risks

Building and running a bank is a complex challenge. As a result, the risks our business faces are carefully monitored and managed. Atom's Enterprise Risk Management Framework (ERMF) includes the following 12 principal risk categories:

Strategic activity	Related risk	Key Mitigation
In order to accept deposits and lend to customers, banks are required to hold minimum levels of capital	**Capital adequacy risk.** The risk that Atom could have insufficient capital to withstand an extreme but plausible loss, and might expose its depositors and other creditors to losses.	• At least annual assessment of capital requirements using the Internal Capital Adequacy Assessment Process (ICAAP) • Forward-looking capital adequacy is monitored to ensure resource consumption effectively managed. • Periodic capital raise from investors and progression to break-even.
Running a growing bank in a competitive market place	**Strategic risk.** The business could fail if management make poor strategic decisions, if decisions are not well executed, or if the strategy does not effectively respond to changes in the external environment.	• Alignment between strategic business planning activity and risk appetite. • Experienced Board and Executive Leadership Team supported by an established corporate governance framework. • Regular validation and review of business plan delivery.
Building a strong lending balance sheet	**Credit risk.** There is a risk that customers to whom we have loaned money will default on their contractual obligations to Atom giving rise to financial losses.	• Defined risk appetite and limits are set out within the Retail Credit Risk Framework and Concentration Risk Policy. • Robust lending policies ensure that the credit quality within the diverse lending portfolios remain within risk limits. • Collections policies ensure sustainable forbearance solutions to deliver fair customer outcomes whilst we rehabilitate accounts in financial difficulties. • Dedicated Credit Committee monitors credit metrics on a monthly basis. • Stress and scenario testing is performed regularly to ensure the portfolio is resilient to market wide and idiosyncratic events.
Liquidity is fundamental to a bank's credibility with customers and regulators	**Liquidity and Funding Risk.** This is the risk that the Bank could fail to meet its obligations as they fall due.	• Maintaining and planning for access to additional liquidity facilities. • Daily measurement and frequent forecasting of liquidity position. • At least annual assessment of liquidity and funding requirements using the Internal Liquidity Adequacy Assessment Process (ILAAP).
A bank maintains liquid assets and relies on counterparties to manage its market risks	**Wholesale Credit Risk.** The risk that a wholesale counterparty defaults on its contractual obligations to Atom giving rise to financial losses.	• Defined risk appetite and limits focusing exclusively on high quality credits. • Robust assessment framework for wholesale credit names. • Daily collateralisation of derivative and repurchase transactions exposures. • Daily monitoring of early warning indicators for potential deterioration of credit quality.
Serving customers through lending and deposit taking exposes a bank to changes in market prices	**Market Risk.** Changes in market prices, for example interest rates, create the risk of financial loss through a reduction in earnings or change in the value of assets or liabilities.	• Defined risk appetite and limits are set out within the Risk Appetite Statement. • Exposures are mitigated through the use of natural offsets and derivatives.

Strategic activity	Related risk	Key Mitigation
A fully operational digital bank has a large number of complex processes and must be resilient to potential disruption	**Operational Risk.** Inadequate or failed internal processes or systems, human error or external events, create a risk of direct or indirect financial loss and reputational damage.	• Policies and procedures covering our people, technology, security and third party relationships. • Key risks and controls identified as part of the Risk and Control Self Assessment (RCSA) process. • Business continuity and IT disaster recovery plans are refreshed and tested regularly. • Dedicated Operational Resilience Programme.
Banking is a highly regulated industry	**Regulatory Risk.** Failure to comply with regulatory or legislative requirements could result in financial loss and reputational damage. Furthermore, changes to regulatory rules could negatively impact Atom's strategy and business model.	• Robust Anti-Money Laundering (AML) systems and controls in place to onboard customers. • Policies and procedures ensure compliance with applicable regulations. • Mandatory training is provided to all staff Compliance Monitoring Plan regularly tests process adherence.
Retail financial products such as loans and deposits can have a significant impact on customers' lives and banks have a role to play in our wider society	**Conduct Risk.** Inappropriate behaviour by Atom in its relationship with customers, counterparties or markets can result in reputational and financial loss.	• Conduct Risk Policy sets the framework for the fair treatment of customers and the appropriate conduct of employees in line with the FCA's Conduct Rules. • Customer outcome focussed policies and procedures are in place covering product approval, change management, complaint handling, financial hardship and vulnerable customers. • Customer outcome measures are reviewed at key governance committees.
Building a strong brand with customers, the regulator and counterparties	**Reputational Risk.** Damage to reputation and brand as a result of the actions of Atom itself, or indirectly via actions of employees, suppliers or other parties.	• Effective systems and controls in place to ensure high levels of customer service and compliance. • Use of customer feedback to inform our change agenda. • Monitor events with the potential to cause reputational damage.
Planning for the future using scenario analysis, together with financial, risk, statistical and economic models	**Model Risk.** The risk that Atom makes sub-optimal decisions and/or suffers loss as a result of poorly specified, incorrectly implemented or inappropriately applied models.	• Model Governance Policy ensures a consistent approach to the development, validation, implementation and ongoing monitoring of models. • Independent Model Validation is performed by a specialist third party for high materiality models.
Collecting and using data in a secure and compliant manner to support the bank and its customers	**Data Protection Risk.** Inappropriate collection, storage, security or use of personal data results in a breach of data protection regulation.	• Policies and procedures ensure compliance with all relevant data protection regulations. • Compliance Monitoring Plan provides assurance regarding data protection activities. • Atom's Record of Processing documents all data artefacts that exist within the business.

Key and emerging risks

Atom maintains a register of its key and emerging risks. We monitor the key elements of our Principal Risk on an ongoing basis. This is integral to our approach to risk management and forms a cornerstone of our business planning activities, ensuring that strategies and activities are appropriately focussed on addressing these concerns.

The current risks are as follows:

Access to Capital

Capital raising is an integral part of Atom's strategy and we are working with existing and prospective investors to ensure that future raises are managed effectively and completed in a timely manner. We monitor capital consumption regularly and track against the forecast usage in the business plan to ensure we stay comfortably above regulatory minima.

Economic and Geopolitical Climate

The emergence of the Covid-19 pandemic has generated a sudden and unprecedented downturn in the economy with an unfavourable short to medium term outlook. Given the already uncertain economic situation arising from Brexit, concerns remain about the level of disruption that the wider economy, and financial services in particular, might experience including potential shocks that could lead to pressures on funding and a deterioration in Atom's credit risk outlook.

Credit Risk

The Covid-19 pandemic is likely to result in a sharp macroeconomic downturn with GDP falling, unemployment rising, residential and commercial real estate prices reducing and a rise in business insolvencies. Whilst several macroeconomic outcomes are possible, with different severity and duration, all are likely to result in an increase in defaults. For those cases that fall into possession, lower property prices will likely result in greater financial losses. These macro-economic impacts have been incorporated into our latest lending policies, stress testing and credit provisioning models to mitigate these issues.

Platform Transformation

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

Operational and Cyber Resilience

Effective operational risk management results in increased resilience to failures, however, Atom recognises that it cannot prevent all eventualities from occurring and that it must take steps to ensure failures are quickly identified and that adequate procedures exist to restore service as quickly as possible while minimising disruption to customers.

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

Climate Change

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

Atom has established a governance framework to ensure that the risks associated with climate change are deliberated at senior levels within the business. Our Board sets the overarching approach to managing climate change risk with periodic reports provided as part of the wider review of the business' risk profile.

Governance

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

Atom's Board of Directors is responsible for the overall governance of the Bank. Good corporate governance underpins the integrity of Atom and the wider community in which it operates.

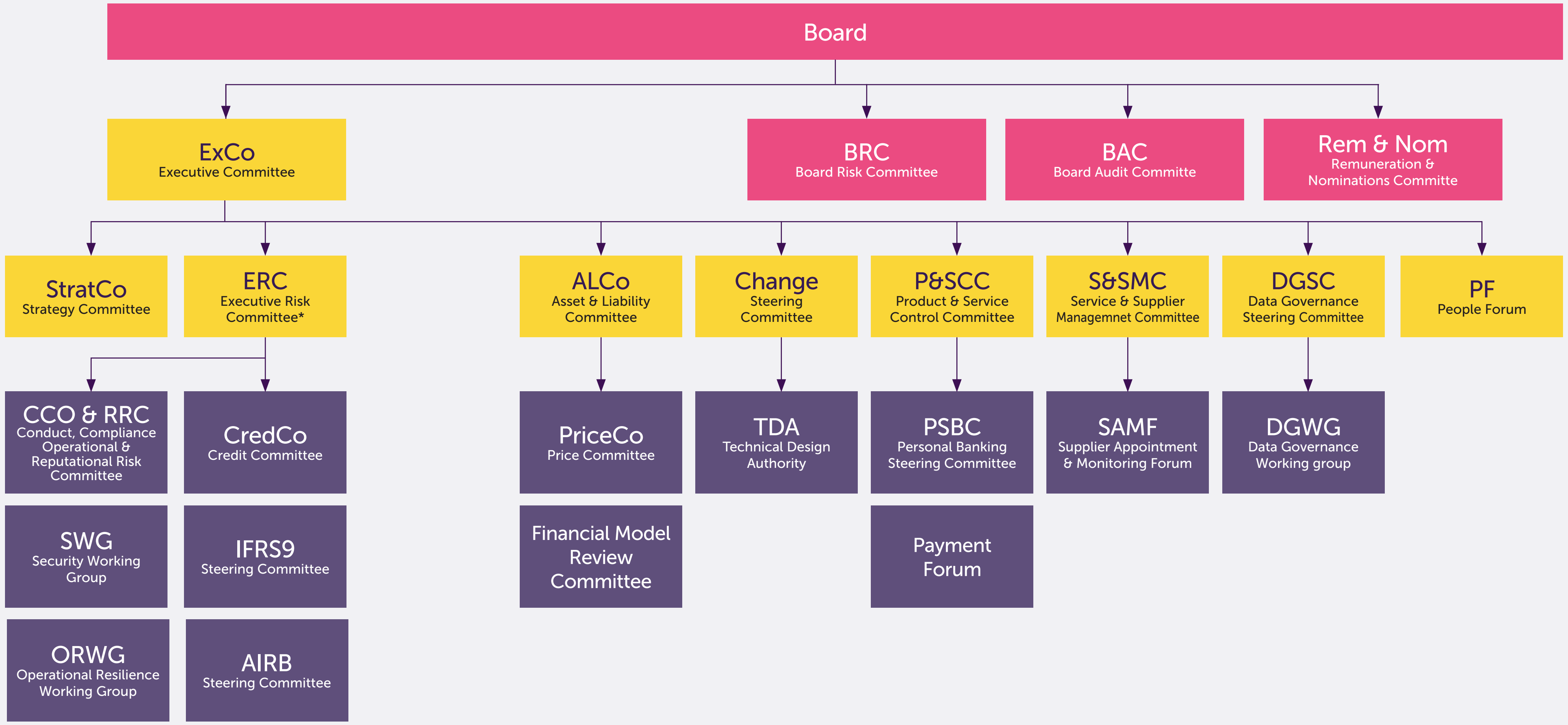
The success of the Bank is predicated on a framework of effective systems of internal control, risk management and compliance with regulatory requirements.

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

- A Board of Executive and Non-Executive Directors.
- An Executive Committee reporting to the Board.
- Board committees for audit, risk and a combined remuneration and nominations committee.
- Executive business oversight committees.
- Senior management apportionment of responsibilities.
- A "three lines of defence" operating model with independent reporting lines.
- Regular and transparent interaction with regulators.

Atom's Committees

Atom has several distinct committees and is arranged as follows:



*ERC has a parallel reporting line into Board Risk Committe

Board Risk Committee

The 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.

Board Remuneration and Nominations Committee

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

Board Audit Committee

The primary role of the Board Audit Committee (BAC) is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, systems of internal control, the internal audit process, and the processes for monitoring compliance with all applicable laws and regulations.

Executive Committee

The Executive Committee (ExCo) reports to the Board and is responsible for executing the strategy and the day to day running of the Bank. It executes many of its responsibilities via a series of sub committees.

Enterprise Risk Management Framework

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

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

The ERMF is designed to ensure a holistic and consistent approach to the aggregation and management of all risks and has been established to:

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

Risk governance and oversight

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

The BRC is the primary committee to receive and review risk-related information. Effective risk management at Atom is supported by a three lines of defence model.

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

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

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

Risk appetite

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

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

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

Our People and environment

Anne-Marie Lister,

Head of People Experience

Talent Development

Over the last 12 months our team has grown from 360 to 410. Our team is rich in talent and aptitude with a passion for customer experience and new technology. In the last year we have strengthened our capabilities with key Technology roles in Engineering, DevOps as well as Insight and Intelligence. Whilst we continue to draw on the skills and expertise on our doorstep in the North East, we are also growing our own talent. In the last year we hired 35 junior roles who we are training and developing across a range of professional skills and particularly in Technology. Our six apprentices across Technology, Finance and Operations are contributing to our own talent pipeline as we continue to work to address systemic diversity issues in the financial services and technology industries.

Insourcing more activities whilst managing cost

At the start of the year a number of activities were insourced within our Technology function. In doing so we provided career and development opportunities within our own team whilst managing cost. 87 people took up a secondment or promotion this year, further supporting the insourcing and growing the capability and engagement across the team.

Investing in our people - employer of choice

Holistic development is important in creating a diverse and innovative team. Investing in developing the skills and expertise of our people as well as supporting their health and well-being remains a focus. In 2020 the Atom Academy launched, which provides development for all employees. Employees can self-select into a number of development pathways that will support their technical, business and personal development whilst providing depth and structure to their learning. In support of this 70 of our Coaches (Line Managers) were enrolled on to a Level 3 Coaching course which is not only enhancing coaching skills and abilities in our business but also providing further development opportunities for the wider team through the conversations that they have. Our employees have access to an Employee Assistance Programme which includes support in a range of health and wellbeing activities including many happening onsite throughout the year which are supported by our 17 fully qualified Mental Health First Aiders.

Achievements and successes are celebrated, and the whole team is kept up to date via various online platforms and quarterly Up'n'Atom events.

Diversity and inclusion

Atom is a truly inclusive employer. Our team is made up of talented individuals from a wide range of backgrounds and experiences. Whilst there are internal policies which outline our approach to equal opportunities and supporting those who may be disadvantaged, people are not segregated into defining groups. Instead, Atom has created an environment which is inclusive for all.

We continue to work to address systemic diversity issues in the financial services and technology industries, however it has been difficult to source female talent in new technologies, particularly at senior levels. As a result women at Atom were paid almost 28% less than men this year compared to 22% in the prior year. The investments made in training and promoting staff internally will take time to redress this pay gap.

Our activities focus on grassroots STEM education and providing opportunities for young people through our partnership with the Princes' Trust.

We work closely with our regional universities to boost inclusion and career pathways in engineering, technology and the physical sciences for protected and under-represented groups across the UK.

We continue to work with the Women in Finance Charter and Tech Talent Charter as well as a number of initiatives in the North East such as Tech Mums Club, Stemettes and TechUP to encourage diversity. Our links with local universities and the Princes' Trust are aimed at encouraging diversity in STEM and providing opportunity for those who may never have imagined a career in Fintech possible. You can read our full gender pay gap report at: https://www.atombank.co.uk/gender-pay-gap

Our environment

Atom is focussed on effectively managing our own carbon footprint by reducing absolute carbon emissions. We have continued to invest in the energy efficiency of our operations, sensitising our direct procurement and management of our outdoor space, and by consideration of the environmental impact associated with our lending policies.

Atom purchases all power for its headquarters 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 we have cut the use of fossil sources of carbon 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 our headquarters to support biodiversity, we have switched procurement of many raw ingredients for our café towards local sustainable and organic farm gate suppliers. Travel to the workplace remains a source of pollution and whilst we supply free charging for electric vehicles on site we have also benefited from changes to the road layout serving the building that will enable the City's Park and Ride buses to come direct to Atom's front door in the future.

Our Values

Be the Customer

- We are the customer
- We understand and we care
- We are open, honest and fair
- We listen and we act

Always Up

- We are energetic and positive
- We are creative and ambitious
- We act with pace

Our Values

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

Family

- We are in this together
- We engender alliance
- We engage, We connect, We are fun
- We believe, We commit, We are one

Lead the Way

- We are true to ourselves
- We do the right thing
- We appreciate Individuality
- We stand up for what is right
- We are who we are, and we are proud of it

Directors' report

Directors' report

The Directors present their report and financial statements for the year ended 31 March 2020.

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

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

Results

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

Directors

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

- Bridget C Rosewell CBE
- Mark T Mullen
- David J McCarthy
- Laurel C Powers-Freeling
- Patricia D Jackson
- David Roper
- Cheryl Millington
- Ergun Özen
- Gonzalo Romera
- Ian Ormerod - resigned 12 March 2020
- Alicia Pertusa - appointed 14 May 2020

Auditors

Each person who was a director at the time this report was approved confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

Indemnity insurance

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during 2020 as the Company maintains Directors' & Officers' Liability Insurance which gives appropriate cover for legal action brought against its Directors.

Approved by the Board and signed on its behalf by

Mark Mullen

Chief Executive Officer
26 June 2020

Section 172(1) statement

The directors have acted act in a way that they consider, in good faith, to be most likely to promote the success of Atom for the benefit of its members as a whole, and in doing so had regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the Bank's employees;
- The need to foster the Bank's business relationships with suppliers, customers and others;
- The impact of the Bank's operations on the community and the environment;
- The desirability of the Bank maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the Bank

The Board engages directly with certain stakeholder groups when it determines that a decision would impact them significantly. It also meets regularly to review strategy, financial and operational performance as well as areas such as key risks and compliance. The information provided and discussed provides the ExCo with an overview of engagement with stakeholders, and other relevant factors, which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006. More information on how the board operates and the way it makes decisions is included on page 28 of our governance report

Who are our key stakeholders	Customers	People	Investors	Regulators
Where you can find how we consider these stakeholders in decision making	Business model and strategy (page 13)	Our people and environment (page 32)	CEO and Chairman statements (pages 8 and 10)	Risk and governance (page 23)

Directors' responsibilities statement

Company law requires the Directors to prepare financial statements for each financial year.

Under that law, the Directors have prepared the Bank and Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and Group and of the profit or loss of the Bank and Group for that period.

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

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

The consolidated and individual financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Group and the Bank have the resources to continue in business for the foreseeable future, which has been taken as 12 months from the date of approval of the financial statements.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current financial position, capital resources and expected future cash flows. The Bank's financial forecasts include projections under a range of stressed scenarios. Particular attention has been paid to the potential increased variability in credit losses and the ability to raise new capital given the current and potential impacts of the Covid-19 pandemic. In making the overall assessment, the Board has also considered actions that can be taken, which include cost reductions, reduced lending and reducing capital investment. Based on this assessment and the actions available, the Board is satisfied that the business can continue for the foreseeable future.

With regard to the ongoing viability of Atom, in order to execute the Board's three year plan, additional capital is required to fund balance sheet growth and capability investment. This includes a capital injection in the period to March 2021. Should the Bank fail to raise sufficient capital on a timely basis, a range of actions are available to extend the period of compliance with minimum regulatory requirements

Should the failure to raise capital persist, in keeping with regulatory requirements, the Board would be required to invoke formal Recovery and Resolution procedures before considering a solvent wind down. The latest plans submitted to the Prudential Regulation Authority (PRA) indicates that a solvent and orderly wind down process would take approximately 20 months

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

They are also responsible for safeguarding the assets of the Bank and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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

Laura Farnworth

Company Secretary
26 June 2020

Financial Statements

Contents

Statements of comprehensive income

For the year ended 31 March	Note	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Interest income		46,512	46,363	37,966	37,916
Interest expense		(45,973)	(45,135)	(39,967)	(39,800)
Net interest income/ (expense)	2	**539**	**1,228**	**(2,001)**	**(1,884)**
Net fee and commission expense		(2,440)	(775)	(1,053)	(1,010)
Loss on disposal of assets held at amortised cost	22	(9,074)	(9,074)	-	-
Other income/ expense	3	(131)	(131)	(1,435)	(1,238)
Credit impairment charges	4	(5,781)	(5,781)	(893)	(893)
Net operating income/ (expense)		**(16,887)**	**(14,533)**	**(5,382)**	**(5,025)**
Staff costs	5	(20,554)	(20,554)	(23,026)	(23,026)
Administrative and general expenses	7	(19,371)	(19,210)	(20,354)	(20,329)
Staff and administrative expenses		**(39,925)**	**(39,764)**	**(43,380)**	**(43,355)**
Loss before other charges		**(56,812)**	**(54,297)**	**(48,762)**	**(48,380)**
Amortisation, depreciation and intangible impairment	8	(7,156)	(7,156)	(23,018)	(23,018)
Platform transformation costs	36	(300)	(300)	(3,500)	(3,500)
Equity-settled share-based payments	5	(2,192)	(2,192)	(4,959)	(4,959)
Other charges		(9,648)	(9,648)	(31,477)	(31,477)
Loss before and after taxation	9	**(66,460)**	**(63,945)**	**(80,239)**	**(79,857)**

Other comprehensive (expense)/income					
Items that are or may be reclassified subsequently to profit or loss					
Movement in fair value reserve (debt instruments classified as fair value through other comprehensive income)					
- Net (loss)/gain in fair value		(305)	(305)	171	171
- Net amount transferred to profit or loss		129	129	(83)	(83)
Other comprehensive (expense)/ income, net of tax		**(176)**	**(176)**	**88**	**88**
Total comprehensive expense attributable to equity holders of the parent		**(66,636)**	**(64,121)**	**(80,151)**	**(79,769)**

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

Statements of financial position

As at 31 March	Notes	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Assets					
Cash and balances at central banks	18	368,268	269,915	252,109	225,153
Debt instruments at fair value through other comprehensive income	18	176,733	176,733	99,072	99,072
Debt instruments held at amortised cost	18	223,311	223,311	-	-
Derivatives held for hedging purposes	26	736	736	-	-
Loans and advances to customers	11	1,970,818	1,970,818	2,399,861	2,399,861
Other assets	33	19,350	21,634	16,885	17,931
Property, plant and equipment	34	5,638	5,638	562	562
Intangible assets	35	36,646	36,646	29,720	29,720
Total assets		**2,801,500**	**2,705,431**	**2,798,209**	**2,772,299**
Liabilities					
Customer deposits	20	1,864,812	1,864,812	1,771,121	1,771,121
Borrowings from central banks	21	355,481	355,481	355,437	355,437
Deemed loan	21	-	233,091	-	364,204
Debt securities in issue	21	333,789	-	391,249	-
Repurchase agreements	21	-	-	34,851	34,851
Subordinated liabilities	21	8,166	8,166	8,149	8,149
Derivatives held for hedging purposes	26	15,113	15,113	8,628	8,628
Provisions	36	2,752	2,752	3,585	3,585
Other liabilities	37	25,244	25,513	13,753	13,620
Total liabilities		**2,605,357**	**2,504,928**	**2,586,773**	**2,559,595**
Equity					
Share capital and share premium	30	448,935	448,935	399,207	399,207
Other reserves	31	17,958	19,421	16,519	17,405
Accumulated losses		(270,750)	(267,853)	(204,290)	(203,908)
Total equity		**196,143**	**200,503**	**211,436**	**212,704**
Total liabilities and equity		**2,801,500**	**2,705,431**	**2,798,209**	**2,772,299**

The notes and information on pages 48 to 126 form part of these financial statements. Unless explicitly stated notes are for both the Group and Bank. The financial statements from pages 42 to 126 were approved by the Board of Directors on 26 June 2020 and signed on its behalf by:

Mark Mullen
Chief Executive Officer
26 June 2020

David McCarthy
Chief Financial Officer
26 June 2020

Statement of changes in equity

	Share capital and share premium	Fair value reserve	Share based payment reserve	Other reserves and treasury shares	Accumulated Losses	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
Group balance as at 1 April 2018	246,664	(345)	12,703	(481)	(124,051)	134,490
Loss for the year	-	-	-	-	(80,239)	(80,239)
Fair value reserve (debt instruments)						
- Net loss in fair value	-	171	-	-	-	171
- Net amount transferred to profit or loss	-	(83)	-	-	-	(83)
Total comprehensive income/ (expense)	**-**	**88**	**-**	**-**	**(80,239)**	**(80,151)**
Issue of new ordinary shares	152,543	-	-	-	-	152,543
Share schemes – value of services received	-	-	4,959	-	-	4,959
Purchase of treasury shares	-	-	-	(405)	-	(405)
Group balance as at 31 March 2019	**399,207**	**(257)**	**17,662**	**(886)**	**(204,290)**	**211,436**
Loss for the year					(66,460)	(66,460)
Fair value reserve (debt instruments)						
- Net loss in fair value	-	(305)	-	-	-	(305)
- Net amount transferred to profit or loss	-	129	-	-	-	129
Total comprehensive income/ (expense)	**-**	**(176)**	**-**	**-**	**(66,460)**	**(66,636)**
Issue of new ordinary shares	49,728	-	-	-	-	49,728
Share schemes – value of services received	-	-	2,192	-	-	2,192
Purchase of treasury shares	-	-	-	(577)	-	(577)
Group balance as at 31 March 2020	**448,935**	**(433)**	**19,854**	**(1,463)**	**(270,750)**	**196,143**

	Share capital and share premium	Fair value reserve	Share based payment reserve	Other reserves and treasury shares	Accumulated Losses	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
Bank balance as at 1 April 2018	246,664	(345)	12,703	-	(124,051)	134,971
Loss for the year	-	-	-	-	(79,857)	(79,857)
Fair value reserve (debt instruments)						
- Net loss in fair value	-	171	-	-	-	171
- Net amount transferred to profit or loss	-	(83)	-	-	-	(83)
Total comprehensive income/ (expense)	**-**	**88**	**-**	**-**	**(79,857)**	**(79,769)**
Issue of new ordinary shares	152,543	-	-	-	-	152,543
Share schemes – value of services received	-	-	4,959	-	-	4,959
Bank balance as at 31 March 2019	**399,207**	**(257)**	**17,662**	**-**	**(203,908)**	**212,704**
Loss for the year	-	-	-	-	(63,945)	(63,945)
Fair value reserve (debt instruments)						
- Net gain in fair value	-	(305)	-	-	-	(305)
- Net amount transferred to profit or loss	-	129	-	-	-	129
Total comprehensive income/ (expense)	**-**	**(176)**	**-**	**-**	**(63,945)**	**(64,121)**
Issue of new ordinary shares, net of transactions costs	49,728	-	-	-	-	49,728
Share schemes – value of services received	-	-	2,192	-	-	2,192
Bank balance as at 31 March 2020	**448,935**	**(433)**	**19,854**	**-**	**(267,853)**	**200,503**

Financial Statements

Cash flow statement

For the year ended 31 March	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Cash flows from operating activities				
Loss for the year	(66,460)	(63,945)	(80,239)	(79,857)
Adjustments for non-cash items				
Depreciation and amortisation	7,156	7,156	12,416	12,416
Impairment of intangible assets	-	-	10,602	10,602
Share option scheme reserves	2,192	2,192	4,959	4,959
Other non cash movements	(1,201)	(1,201)	3,609	3,609
Changes in operating assets and liabilities				
Loans and advances to customers	429,043	429,043	(1,180,505)	(1,180,505)
Customer deposits	93,691	93,691	331,328	331,328
Borrowings from central banks	44	44	222	222
Deemed loan	-	(131,113)	-	364,204
Debt securities in issue	(57,460)	-	391,249	-
Debt instruments held at amortised cost	(223,311)	(223,311)	-	-
Repurchase agreements	(34,851)	(34,851)	34,851	34,851
Other assets	(2,465)	(3,703)	(8,717)	(9,282)
Other liabilities and provisions	6,661	7,063	(5,386)	(5,519)
Derivatives held for hedging purposes	5,749	5,749	16,636	16,636
Net cash inflow/ (outflow) in operating activities	**158,788**	**86,814**	**(468,975)**	**(496,336)**
Cash flows from investing activities				
Acquisition of intangible assets	(13,105)	(13,105)	(18,355)	(18,355)
Acquisition of property, plant and equipment	(297)	(297)	(297)	(297)
Net (acquisition)/ maturity of debt securities at FVOCI	(77,661)	(77,661)	223,289	223,289
Net cash (outflow)/ inflow from investing activities	**(91,063)**	**(91,063)**	**204,637**	**204,637**
Cash flows from financing activities				
Proceeds from the issuance of ordinary shares, net of expenses	49,728	49,728	152,543	152,543
Purchase of treasury shares	(577)	-	(405)	-
Payment of principal portion of lease liabilities	(717)	(717)	-	-
Net cash inflow from financing activities	**48,434**	**49,011**	**152,138**	**152,543**
Net increase/(decrease) in cash and balances at central banks	116,159	44,762	(112,200)	(139,156)
Cash and balances at central banks at the beginning of year	252,109	225,153	364,309	364,309
Cash and balances at central banks at the end of year	**368,268**	**269,915**	**252,109**	**225,153**

1. Summary of significant accounting policies

This section describes the Group and Bank's significant policies and critical accounting estimates that relate to the financial statements and notes as a whole. If an accounting policy or a critical accounting estimate relates to a particular note, the accounting policy and/ or critical accounting estimate is contained within the relevant note.

a. Reporting entity

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

b. Basis of preparation

The consolidated and individual financial statements have been prepared and approved by the Board of Directors in accordance with the Companies Act 2006 as applicable to companies using IFRS and with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). They are stated pounds Sterling (£) the functional and presentational currency of Atom, and are rounded to the nearest thousand (£'000) unless otherwise stated.

The amounts expected to be recovered or settled for assets and liabilities in the financial statements are typically due no more than 12 months after the reporting period. Maturity analysis is presented in note 23, disclosing those balance sheet items with a due date more than 12 months after the reporting date.

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

c. Going concern

The consolidated and individual financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Group and the Bank has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, capital resources, cash flows and the strategy of the business. Further information is included within the Directors' responsibilities statement on page 39.

d. Consolidation

Atom controls an entity when it has power over the relevant activities of the entity, is exposed to or has rights to variable returns from the entity, and has the ability to affect those returns through its power over the entity. Such ability, generally but not exclusively, accompanies a shareholding of more than half of the voting rights. The assessment of control is based on all facts and circumstances. Controlled entities are fully consolidated from the date on which control is transferred to the Bank and are deconsolidated from the date that control ceases. Inter-company transactions and balances are eliminated in full upon consolidation.

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

e. Presentation of financial statements

Atom presents its statement of financial position in order of liquidity based on its intention and perceived ability to recover/ settle the majority of assets/ liabilities of the corresponding financial statement line item. Where a balance sheet item has recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current), a maturity analysis is presented in note 23.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria are met.

Other instruments, primarily over-the-counter derivatives, are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event and the Bank also intends to settle on a net basis in all the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of Atom and/ or its counterparties

f. Cash and Cash Equivalents

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

g. Operating Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Chief Operating Decision Maker of the Group is the Board of Directors. The Board considers the results of the Group as a whole when assessing the performance of the Group and allocating resources. Accordingly, the Group is considered to be a single operating segment. We operate solely within the UK and, as such, no geographical analysis is required.

h. Financial assets and liabilities

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

(i) Recognition

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

(ii) Classification and measurement

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

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

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

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

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

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

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

(iii) Derecognition

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

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

i. Foreign currency translation

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

j. Critical accounting estimates and judgements

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

Critical accounting judgements or estimates are disclosed within the note to which they relate; going concern basis of accounting within the Directors statement; credit impairment charges in note 11, and intangible assets for amortisation in note 35.

k. New accounting standards

The accounting policies adopted are consistent with those of the previous financial year, with the exception of the adoption of IFRS 16 Leases. This was adopted from 1 April 2019 under the modified retrospective method. The comparatives for the year ended 31 March 2019 have not been restated. The impact of IFRS 16 is disclosed in note 38 - Leases.

l. Future accounting developments

IFRS 9, IAS 39 and IFRS 7 – Amendments relating to Interest Rate Benchmark Reform

Amendments to IFRS 9, IAS 39 and IFRS 7 were made in September 2019, and will be effective for the Bank from 1 April 2020. These amendments provide temporary exceptions from applying specific hedge accounting requirements during the period of uncertainty resulting from interest rate benchmark reform. Atom predominantly hedges exposure to fixed rate cash flows to Sterling Over Night Index Average (SONIA) so this will have minimal impact for the Group.

Performance

The notes in this section seek to explain Atom's Profit and Loss performance during the year. We seek to make profit by earning interest on loans originated to customers and on financial investments we hold.

This income is reduced by the interest paid to customers on their deposits and on wholesale funding facilities which fund our lending. We also incur the costs of running a digital bank, with our primary expenditure on employees and technology infrastructure.

2. Net interest income/ (expense)

Accounting for interest income and expense

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

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

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

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

Interest and similar income	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Loans and advances to customers	42,884	42,884	34,188	34,188
Other assets held at amortised cost	2,777	2,628	2,854	2,804
Assets held at fair value through other comprehensive income	986	986	940	940
Total interest income	46,647	46,498	37,982	37,932
Other similar interest	(135)	(135)	(16)	(16)
Total interest and similar income	**46,512**	**46,363**	**37,966**	**37,916**
Interest and similar expense				
Customer deposits	(35,533)	(35,533)	(32,830)	(32,830)
Other liabilities held at amortised cost	(10,429)	(9,591)	(6,781)	(6,614)
Total interest expense	(45,962)	(45,124)	(39,611)	(39,444)
Other similar interest	(11)	(11)	(356)	(356)
Total interest and similar expense	**(45,973)**	**(45,135)**	**(39,967)**	**(39,800)**
Net interest income/(expense)	**539**	**1,228**	**(2,001)**	**(1,884)**

Net interest income improved by £2.5m to £0.5m in the Group and by £3.1m to £1.2m in Bank. This includes a £1.8m charge (2019: £0.8m gain) due to volatility experienced on derivatives used to hedge the fixed rate mortgage portfolio. The improvement was driven by stronger front book pricing and more efficient liquidity management

3. Other expense

Accounting for other (expense)

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

Other (expense)	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Hedge ineffectiveness	(703)	(703)	(45)	(45)
Net (expense)/income from mortgage hedging derivatives pre-designation	224	224	(1,776)	(1,776)
Derivatives in economic but not accounting hedges	271	271	881	881
Foreign currency retranslation	-	-	(495)	(495)
Other Income	77	77	-	197
Total	**(131)**	**(131)**	**(1,435)**	**(1,238)**

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4. Credit impairment charges

Accounting for credit impairment charges

Please see Note 10 - Amounts arising from expected credit losses for the accounting policy. The below table summarises the charge for the year in the income statement.

Net impairment on financial assets	Group and Bank 2020 £'000	Group and Bank 2019 £'000
New impairment allowances for:		
Mortgages	406	660
BBSL	5,120	304
Impairment charges on loans and advances to customers	**5,526**	**964**
Provision charges on loan commitments for:		
Mortgages	(49)	17
BBSL	272	4
Provision charges on loan commitments	**223**	**21**
Credit impairment charge on debt instruments at amortised cost	6	-
Credit impairment charge/(reversal) on debt instruments at FVOCI	26	(92)
Credit impairment charges and other provisions	**5,781**	**893**

The £5,781k (2019: £893k) charge reflects the recognition of impairment provisions under IFRS 9 Financial Instruments. The increased charge is predominantly due to the expected impact of Covid-19 on the credit performance of customers. Further information on the change in impairment allowances is disclosed in note 11.

5. Staff costs

Accounting for staff costs

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

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

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

Share based payments

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

Staff Costs	Group and Bank 2020 £'000	Group and Bank 2019 £'000
Wages and salaries	18,440	17,692
Social security costs	2,067	1,827
Contributions to defined contribution plans	1,658	1,515
Cash-settled share-based payments	(1,611)	1,992
Total staff costs	20,554	23,026
Equity-settled share-based payments	2,192	4,959

Total staff costs have decreased £5.2m to £22.7m as no bonus was awarded to staff for the year as a result of Covid-19. This cost saving is offset by an increase in underlying wages and salaries due to higher headcount.

The credit to cash-settled share-based payments of £1.6m is due to a modification to the previously awarded share option schemes, meaning these can no longer be cash-settled.

Average monthly number of employees during the year	Group and Bank 2020	Group and Bank 2019
Executive	8	9
Business and customer operations	199	208
Administration	52	34
Technology	98	79
Total	**357**	**330**

Headcount increases within Technology and Administration represent strengthening of these teams, as these capabilities have developed in order to reduce reliance on, and spend with third parties.

6. Share based payment arrangements

Accounting for share based payments

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

In line with IFRS 2 Share Based Payments, the value of the employee services received in exchange for share options granted is recognised as a staff cost in the income statement over the period that employees became unconditionally entitled to the awards (the vesting period). This is generally the period between the date the award is granted or notified and the vesting date of the options. All awards granted under current schemes were conditional on service conditions. No awards have non-market or market performance conditions.

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

For equity settled options the fair value is set at the grant date and recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. For cash settled options the fair value is updated at each reporting date, with the cash settlement recorded in other liabilities.

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

As at 31 March 2020 the Bank had the following share-based payment arrangements:

Scheme	Overview	Contractual life of options	Method of settlement
Build the bank share scheme (BTB)	A one off scheme designed to reward staff involved in the earliest stages in the development of Atom.	10 years	Equity
Annual performance share scheme (APSS) – 2015 to 2019	Annual performance award. APSS17 to 19 includes a HMRC approved Company Share Option Plan	10 years	Equity
Long term incentive scheme (LTIP)	A retention scheme put in place for a limited number of senior staff.	10 years	Equity
Joint share ownership plan (JSOP)	This is an executive scheme implemented for a number of Atom's founders	10 years	Equity

Method of settlement

Atom held an annual share option liquidity window between 2017 and 2019, enabling employees with vested options to sell shares up to a maximum value of £5,000 each year to the Atom Employee Benefits Trust (EBT). During the current year this facility was closed with the final event taking place in September 2019. This has been considered to be a modification to the existing APSS awards, and as such the element which was previously considered to be cash settled has been re-measured and transferred from liabilities to reserves. There is no difference in the fair value of the awards.

Employee Benefit Trust

The Group acts as sole trustee to the EBT, which was set up to facilitate liquidity from the share options that have been awarded to employees. Shares purchased by the EBT during liquidity windows are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the Parent. The EBT has been fully consolidated as the Group is exposed to its returns. The Bank provided a loan in the year to fund the purchase of 470,975 shares (2019: 423,983). As at 31 March 2020 the loan totals £1,463k (2019: £886k).

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

	BTB	APSS	LTIP	JSOP
Outstanding as at 1 April 19	**3,947,000**	**11,396,048**	**521,667**	**3,800,000**
Forfeited during the period	-	(186,395)	(31,944)	-
Exercised during the period	(4,000)	(1,129,687)	-	-
Outstanding as at 31 March 20	**3,943,000**	**10,079,966**	**489,723**	**3,800,000**
Exercisable as at 31 March 20	3,943,000	7,809,052	250,833	3,800,000
Weighted average exercise price (pence)	75	0	95	0
Weighted average remaining contractual life	6 years	7 years	5 years	7 years

	BTB	APSS	LTIP	JSOP
Outstanding as at 1 April 18	**3,947,000**	**8,602,430**	**627,584**	**3,800,000**
Forfeited during the period	-	(201,101)	(105,917)	-
Exercised during the period	-	(658,005)	-	-
Granted during the period	-	3,652,724	-	-
Outstanding as at 31 March 19	**3,947,000**	**11,396,048**	**521,667**	**3,800,000**
Exercisable as at 31 March 19	3,947,000	9,784,397	280,833	3,800,000
Weighted average exercise price (pence)	75	0	95	0
Weighted average remaining contractual life	7 years	9 years	6 years	8 years
Fair value of share awards issued in 2019 (pence)	N/A	123	N/A	N/A

No new share options were issued during the year, as no bonus was awarded to staff in 2020.

Share options issued for services provided

Atom engaged with a third party in 2018 to provide certain services where remuneration is partly paid in share options. No new options were granted during the year (2019: nil). The options are subject to certain vesting periods and have an exercise price of £1.15 per share. The options have a contractual life of ten years and are equity settled. The fair value of the options issued was 22p.

1,183,333 of these options vested during the year (2019: 1,183,334) and a total of 3,550,000 are now exercisable.

7. Administrative and general expenses

	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Administrative expenses	1,219	1,493	2,011	2,011
IT costs	13,662	13,662	12,555	12,555
Marketing	1,574	1,574	2,008	2,008
Legal and professional	2,141	1,706	2,290	2,265
Office and premises	775	775	1,490	1,490
Total administrative and general expenses	**19,371**	**19,210**	**20,354**	**20,329**

IT costs of £13.7m (2019: £12.6m) includes the running costs of customer savings and lending platforms, customer contact systems, and IT infrastructure supporting back office functions.

Office rental expenses are no longer recorded within office and premises costs and instead a right-of-use asset is recognised and depreciated, as disclosed within note 34.

Legal and professional fees includes auditors' remuneration, with details as follows:

	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Audit Fees for the Group and Bank statutory audit	194	194	234	234
Fees payable for other services:				
Audit of Group Subsidiaries	42	-	38	-
Total audit and audit related assurance services	236	194	272	234
Other non-audit services	70	70	66	66
Total Auditors remuneration	306	264	338	300

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

Accounting for amortisation and depreciation

Accounting policies and further details relating to amortisation, depreciation and impairment are set out in notes 34 - Property, plant and equipment, and note 35 - Intangible assets respectively

	Group and Bank 2020 £'000	Group and Bank 2019 £'000
Amortisation of intangible assets	6,179	12,142
Impairment of intangible assets	-	10,602
Depreciation of property plant and equipment	977	274
Total amortisation, depreciation and impairment	**7,156**	**23,018**

No impairment charge was recorded during the year. The £10.6m prior year charge related to assets being replaced as part of the platform transformation. Amortisation of intangible assets was higher in 2019 as the economic life of certain assets was shortened to align with the completion of this transformation.

Depreciation of property plant and equipment has increased following the adoption of IFRS 16 Leases from 1 April 2019 as the depreciation charge associated with the lease right-of-use asset is included.

9. Taxation

Accounting for taxation

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

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

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

	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Loss on ordinary activities before taxation	66,460	63,945	80,239	79,857
Standard rate of corporation tax	19%	19%	19%	19%
Expected tax credit	12,627	12,150	15,245	15,173
Items not taxable	(447)	30	(84)	-
Impact of change in rates	-	-	-	-
Other temporary differences	(12,180)	(12,180)	(15,161)	(15,173)
Total tax credits	-	-	-	-

No corporation tax liabilities are payable or receivable from HMRC for the year (2019: Nil).

The Directors have concluded that it is not appropriate to recognise a deferred tax asset at the balance sheet date as the majority of accumulated losses will be available to offset against future taxable profits and the Bank is not expected to make a profit in the immediate future. The Board expect to recognise the asset assuming successful execution of the current strategy and as the Bank moves towards break even.

Were it to have been recognised, the deferred tax asset would have an estimated value of £50m (2019: £36m), being £245m (2019: £190m) of trading losses, £19m (2019: £22m) of deferred share scheme deductions and £1m (2019: £1m) of deferred interest deductions. Accelerated relief and untaxed amounts in relation to non-current assets of £4m (2018: £4m) is also not recognised.

Following the UK budget of 2020, the substantively enacted rate is now 19%. All these amounts are valued at 19% in arriving at the deferred tax asset of £50m (2019: 17%).These and other temporary differences may be recognised in the future as taxable profits arise.

Lending and credit risk

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

10. Managing credit risk

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

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

Retail Credit Risk Management

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

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

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

Early warning indicators, credit performance trends and key risk indicators are regularly monitored by Credit Committee and any identified issues are highlighted to ERC and BRC. Any recommendations to change policy to maintain performance within appetite are discussed at Credit Committee prior to presentation to ERC for approval and subsequent implementation.

Retail Credit Risk Mitigation

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

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

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

In order to assess the quality of new lending, Atom utilises a combination of statistical modelling (credit scores/risk grades) and review of applications against lending policy criteria. In the case of mortgages this assessment is largely conducted automatically using the Bank's decision system. This approach allows for consistent lending decisions with minimal intervention by underwriters. For business lending all assessments of applications are carried out by experienced and appropriately mandated underwriters.

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

The sole acceptable collateral type for mortgages and secured business loans is a first charge over residential or commercial property. Property offered as security must be of acceptable construction and located in England, Wales, Scotland or Northern Ireland. Title to the property must be good, marketable and free from onerous restrictions and conditions. Collateral will be valued by an appropriately qualified surveyor allocated by the Bank's master valuer and subject to periodic audit checks, or, for residential properties, by objective automated valuation models where sufficient recent comparable evidence is available to derive an accurate valuation.

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

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

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

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

Atom use a suite of probability of default (PD), exposure at default (EAD) and loss given default (LGD) models to assess the ongoing risk of loss for all mortgage loans. This information is utilised to support portfolio management, including post contract variation and collections activity.

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11. Loans and advances to customers and impairment allowances

Accounting for lending and credit risk

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

- As core products to Atom's retail bank strategy the business objective of the lending is to hold the asset to collect contractual cash flows to maturity. Any sales via securitisation are to manage short term capital or liquidity requirements as the Bank progresses to scale and profitability. The Bank's strategy remains unchanged, with loans originated to generate economic value via interest rather than fair value gains; and
- the contractual terms of the loans give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.The loans are vanilla retail lending products with no features that give raise to significant other cash flows.

The Structured Loan Note was a contractually linked instrument under IFRS 9. It was held at amortised cost as the note itself gave rise to cash flows that were solely payments of principal and interest (SPPI) and the underlying pool only contained loans that had contractual cash flows that were SPPI on the principal outstanding.

ii) Impairment
IFRS 9 requires recognition of expected credit losses based upon unbiased forward-looking information and is applicable to all financial assets at amortised cost, debt financial assets at fair value through other comprehensive income and loan commitments. The guidance requires assets to be classified into the following three stages:

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

Assessment of IFRS 9 impairments requires a number of supporting models and policies. To reflect the impact of Covid-19 on the 2020 balance sheet, a number of post model adjustments (PMA) were also recognised.

ECL model

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

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

Determining a significant increase in credit risk since initial recognition

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

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

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

The treatment and impact of Covid-19 payment holidays has been considered via a PMA as detailed below

Forecast economic data

IFRS 9 requires ECL to reflect a range of possible outcomes and consider a range of future economic scenarios. The Bank utilises an independent economic consultancy to calculate its base and alternative scenarios on a quarterly basis. Three (2019: two) alternative scenarios are calculated from a range of economic variables that are stressed around the base case.

Statistical analysis has been performed to identify the economic variables that are significant to ECL. These variables are then applied to PD, LGD and EAD, with the weighted average of the four scenarios used to calculate the ECL. The most significant economic assumptions used for the ECL estimate are forecast interest rates, house price (residential), GDP business investment forecasts (BBSL), and unemployment rates.

The initial year end model run was based on forecast data pre the Covid-19 outbreak, with the five year average of each of these assumptions follows:

	2020				2019		
	Base	**Upside**	**Downside 1**	**Downside 2**	**Base**	**Upside**	**Downside**
Scenario weighting	40%	25%	30%	5%	40%	30%	30%
BoE Interest rate	1.0%	0.50%	1.6%	2.9%	1.7%	2.2%	1.3%
House price index	119.9	124.8	117.7	110.8	114.0	112.0	119.0
Commercial real estate index	99.1	99.4	98.6	62.7	98.5	98.0	99.0
Unemployment rate	3.9%	3.8%	4.1%	4.8%	4.1%	4.3%	4.0%

Additional scenarios reflecting the impact of Covid-19 on forecast economic data have been incorporated via a PMA as described below.

Definition of default and credit impaired assets

Atom's default definition is aligned to EBA guidelines and utilises a wide range of criteria. Both Mortgage and BBSL accounts are classified as in default if any of the following criteria has been met: 90 days past due; entered forbearance; security has been taken into possession; or the customer is bankrupt.

Write off policy

A loan is written off, either partially or in full, against the related provision when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised directly in the income statement.

Covid-19 post model adjustments

Due to the unprecedented impact the Covid-19 pandemic is having on the global and UK economies, two PMAs have been recognised to estimate the impact on the IFRS 9 impairment.

(a) Macro economic forecast

Due to the severe and idiosyncratic nature of the Covid-19 pandemic and government's unprecedented policy response, there is significant uncertainty regarding the ultimate impact it will have on the global and domestic economy, let alone individual Atom customers. Consequently, the traditional drivers of credit risk, as predicted in existing ECL models, may not fully reflect the current situation. A PMA has been used to estimate the impact on impairment primarily based upon the following:

Recession forecast

In line with economies across the world, the impact of the government enforced lockdown is likely to move the UK into a recession. A range of ECL outcomes were modelled based upon three increasingly severe recession scenarios:

- V shaped - The virus is controlled relatively quickly during the summer of 2020. The impact of lockdown is temporary, and aided by substantial government support, allows the economy to quickly rebound to pre-Covid-19 levels of activity and growth.
- U shaped - The time taken to control the virus is extended, resulting in a slower return to normal economic activity with some permanent reduction in capacity.
- L shaped - The virus and lockdown causes significant and permanent damage to the economy. This is a dramatic and severe recession, with two years of GDP reduction before a gradual recovery.

The following table illustrates the key inputs used in each recession forecast for the next three years

	2020			2021			2022		
	V	U	L	V	U	L	V	U	L
Annual change GDP	(7.7)%	(11.8)%	(17.3)%	9.2%	2.6%	(6.3)%	1.9%	3.1%	0.7%
BoE Interest rate	0.4%	0.0%	0.0%	1.0%	0.3%	0.0%	1.2%	0.3%	0.3%
House price index	83.4	80.5	83.1	109.3	84.7	83.1	115.4	88.2	83.1
Commercial real estate index	85.7	77.4	62.1	100.1	94.3	51.8	97.9	90.9	54.2
Unemployment rate	4.2%	8.3%	12.7%	4.0%	8.0%	14.7%	4.1%	7.4%	14.3%

LGD assumptions

- Given the high probability of recession, downturn parameters were used for forced sale discount (FSD) and the probability of possession given default (PPD). This increased the applied range of FSD to 20-49% and PPD to 16-64%.

The above analysis has resulted in a PMA of £0.9m for Mortgages and £4.3m for BBSL.

(b) Payment holidays

As at 31 March, Atom had granted government endorsed payment holidays due to the impact of Covid-19to 878 mortgage customers (7%, £158m balances) and 154 BBSL customers (24%, £69m balances).

In the normal course of business, a customer requesting a payment holiday is likely to be a strong indicator of a significant increase in credit risk, and would result in a customer being transferred into stage 2 or 3.

These payment holidays, which are government endorsed as part of a broad set of policy measures to protect the UK economy, are unlikely to be such a reliable indicator of credit risk. They have been designed to help the borrower through short term cash flow challenges caused by the impact of Covid-19. Consequently, at year end Covid-19 payment holiday customers have not been automatically reclassified into stage 2 or 3. Instead a PMA has been recognised based upon reclassifying the following "higher risk" customers to stage 2:

- Customers in higher risk grades (7 and 8);
- Mortgage customers in medium risk grades (5 and 6) with a higher LTV (over 85%/75%); and
- BBSL customers in business sectors more adversely affected by the pandemic and related lockdown

This resulted in a PMA of £0.2m for Mortgages and £0.5m for BBSL.

Provision by stage and product

The following table summarises lending for the Group and Bank as at the year end by IFRS 9 impairment stage and the related provision:

At 31 March 2020:	Mortgages	BBSL	Total loans and advances to customers
Gross carrying amount:	**£'000**	**£'000**	**£'000**
Stage 1: 12 month expected loss	1,598,033	184,268	1,782,301
Stage 2: Lifetime - loans not credit impaired	110,639	53,385	164,024
Stage 3: Lifetime - credit impaired loans	2,703	2,300	5,003
Total gross carrying amount	**1,711,375**	**239,953**	**1,951,328**
Fair value adjustment*	**21,254**	**-**	**21,254**
Effective interest rate adjustment*	**4,913**	**-**	**4,913**
Total gross carrying amount including valuation adjustments	**1,737,542**	**239,953**	**1,977,495**
Less impairment allowance:			
Stage 1: 12 month expected loss	(424)	(1,467)	(1,891)
Stage 2: Lifetime - loans not credit impaired	(589)	(3,060)	(3,649)
Stage 3: Lifetime - credit impaired loans	(194)	(943)	(1,137)
Provision for on balance sheet impairment losses	**(1,207)**	**(5,470)**	**(6,677)**
Net balance sheet carrying value	**1,736,335**	**234,483**	**1,970,818**
Loan commitments			
Gross Commitments	48,643	39,730	88,373
12 month expected loss provision	(26)	(282)	(308)
Total credit impairment provision	**(1,233)**	**(5,752)**	**(6,985)**
Total Coverage Ratio	**0.07%**	**2.06%**	**0.34%**

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

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

Mortgages

Fixed rate mortgage products are offered to the market via broker networks. The book value has decreased by £0.5bn (2019: increased by £1.1bn) to £1.7bn (2019: £2.2bn), predominantly due to mortgage derecognition on completion of a securitisation transaction (see note 22).

The year end provision of £1,207k (2019: £1,006k) results in a coverage ratio of 0.07% (2019: 0.05%) with the increase as a result of the Covid-19 PMA.Low levels of credit deterioration continue to be experienced, with 93% (2019: 98%) of total mortgage value classified as Stage 1.

Mortgages of £49m (2019: £116m) were also committed to 283 (2019: 655) customers. A provision of £26k (2019: £76k) was held against this exposure, resulting in a total mortgage provision of £1,233k (2019: £1,081k).

The valuation adjustment of £21.2m (2019: £10.3m) reflects the IAS 39 macro hedge adjustment as described in note 26.

With the exception of the Covid-19 payment holidays noted above, no mortgages have been subject to modification.

BBSL

Atom offers secured loans to Small and Medium Enterprises. Gross balances increased by £57m to £240m (2019: £183m). The provision for these loans has increased by £5.1m to £5.5m primarily due to the Covid-19 PMA. The provision of £5.5m (2019: £350K) results in a coverage ratio of 2.30% (2019: 0.17%).

The increased proportion of loans in stage 2 to 22% (2019: 2%) is due to the Covid-19 PMA. Very low levels of forbearance and arrears were experienced, with 2% (2019: 1%) of the portfolio value in these categories.

Loans totalling £39.8m (2019: £24.8m) were committed to 79 (2019: 63) customers. A provision of £282k (2019: £10K) was held against this exposure, resulting in a total BBSL provision of £5,752k (2019: £360k).

With the exception of the Covid-19 payment holidays noted above, no BBSL accounts have been an insignificant level of BBSL accounts subject to modification.

Structured loan note

A loan note purchased in March 2017 to fund unsecured loans to SMEs was fully redeemed during the year (2019: £7.0m).

Critical accounting estimate

The measurement of the expected credit loss allowance is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour, in particular the number and relative weighting of economic scenarios used to calculate forecast losses. The outbreak of Covid-19 and the unprecedented impact it is having on the global economy has significantly increased the level of uncertainty and range of plausible outcomes.

To illustrate the impairment models sensitivity to the macroeconomic scenarios, if a weighting of 100% was applied to the V recession PMA scenario, the provision would be reduced by c£4m, while applying a 100% severe L PMA scenario, the provision would be increased by c£9m.

12. Collateral held and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of a first charge over residential or commercial real estate. Credit risk disclosures report assets gross of collateral and therefore disclose the maximum loss exposure. The value of collateral is reassessed if evidence of financial distress of the borrower has been observed.

The below tables show the total allowances for the Group and Bank categorised against the LTV ratio for residential mortgages and BBSL. In both the current and prior year no loan commitments are in stage 2 or stage 3. The vast majority of accounts in stage 2 are due to a significant increase in credit risk, as evidenced by the behavioural PD, with few accounts having reached 30 days past due.

As at 31 March 2020	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by current LTV ratio	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
LTV <= 60%	467,176	12	23,169	22	355	3	2,674	-
60% < LTV <= 65%	116,133	9	6,035	9	105	5	855	-
65% < LTV <= 70%	141,219	17	4,889	10	212	4	1,164	-
70% < LTV <= 75%	124,362	23	7,153	26	66	4	3,923	-
75% < LTV <= 80%	148,901	40	11,417	49	173	16	2,625	1
80% < LTV <= 85%	222,367	95	15,980	133	838	80	3,959	1
85% < LTV <= 90%	283,132	167	28,368	240	761	68	17,528	15
90% < LTV <= 95%	94,743	61	13,628	100	193	14	15,915	9
Total Mortgages	**1,598,033**	**424**	**110,639**	**589**	**2,703**	**194**	**48,643**	**26**

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

As at 31 March 2020	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by current LTV ratio	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
LTV <= 50%	57,353	260	12,203	586	346	335	9,343	43
50% < LTV <= 60%	65,130	610	20,891	1,218	1,954	608	7,198	57
60% < LTV <= 70%	51,403	497	17,199	1,088	-	-	15,706	152
70% < LTV <= 80%	10,382	100	3,092	168	-	-	7,483	30
Total BBSL	**184,268**	**1,467**	**53,385**	**3,060**	**2,300**	**943**	**39,730**	**282**

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

Movements year on year in loan to value mix reflect slight changes to the Bank's risk appetite and strategy. There have been no significant changes in the value of collateral held as a result of deterioration in the quality of the collateral held or due to changes in collateral policies.

13. Credit quality

The table below provides information on the credit quality of the loan book for the Group and Bank. The portfolio is segmented by the risk grade, with each grade having an associated PD range.

As at 31 March 2020	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by behavioural PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	1,108,697	85	1,662	1	-	-	42,265	21
Low risk	284,995	75	11,260	14	-	-	3,932	3
Medium low risk	118,086	67	34,047	70	-	-	1,466	2
Medium risk	86,255	197	63,670	504	-	-	980	-
Higher risk	-	-	-	-	2,703	194	-	-
Total	**1,598,033**	**424**	**110,639**	**589**	**2,703**	**194**	**48,643**	**26**

As at 31 March 2019	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by behavioural PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	1,499,610	211	2,481	-	-	-	56,071	15
Low risk	462,612	192	2,586	2	-	-	38,928	25
Medium low risk	125,277	141	14,437	37	-	-	13,464	15
Medium risk	57,905	151	27,485	194	-	-	7,255	20
Higher risk	-	-	-	-	1,766	78	-	-
Total	**2,145,404**	**695**	**46,989**	**233**	**1,766**	**78**	**115,718**	**75**

The mortgage portfolio continues to be predominantly in the very low and low risk bands which is a reflection of our risk appetite of only lending tocustomers with little or no adverse credit history. The portfolio is monitored on an ongoing basis with behavioural scores updated monthly.

The basis of preparation of this table has been updated in 2020 to align with the latest behavioural PD models. Prior year tables have been updated to aid comparability.

As at 31 March 2020	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by origination PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	43,496	134	5,396	466	-	-	18,948	57
Low risk	76,271	463	11,263	370	-	-	5,292	30
Medium risk	60,077	765	26,828	1,544	-	-	12,499	142
Medium high risk	4,424	105	9,898	680	2,300	943	2,991	53
Total	**184,268**	**1,467**	**53,385**	**3,060**	**2,300**	**943**	**39,730**	**282**

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

The BBSL portfolio is currently predominantly in Low and Medium risk grades. Monitoring of customer profile and payment behaviour through monthly credit bureau updates has resulted in 11 customers being transferred to the watch list, four of which have entered the collections and recovery process.

Forbearance measures are concessions towards those customers that are experiencing or about to experience difficulties in meeting their financial commitments. Accounts are determined to be in arrears if they have missed at least one payment. The below tables provide analysis of those loans that were in arrears or forbearance measures at year end.

	2020			2019		
	Gross carrying amount	Proportion of loan portfolio	Impairment Allowance	Gross carrying amount	Proportion of loan portfolio	Impairment Allowance
Mortgages	£'000	%	£'000	£'000	%	£'000
Forbearance measures (not in arrears)	-	0.0%	-	-	0.0%	-
Arrears	338	0.0%	31	424	0.0%	18
Arrears and Forbearance	260	0.0%	43	-	0.0%	-
Total	**598**	**0.0%**	**74**	**424**	**0.0%**	**18**

	2020			2019		
	Gross carrying amount	Proportion of loan portfolio	Impairment Allowance	Gross carrying amount	Proportion of loan portfolio	Impairment Allowance
BBSL	£'000	%	£'000	£'000	%	£'000
Forbearance measures (not in arrears)	-	0.0%	-	669	0.4%	30
Arrears	3,799	1.6%	1,094	1,077	0.6%	77
Arrears and Forbearance	883	0.4%	97	-	0.0%	-
Total	**4,682**	**2.0%**	**1,191**	**1,746**	**1.0%**	**107**

The table below provides information on the portfolio for the Group and Bank segmented by loan size.

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2020	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by loan size	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan <= £250k	973,885	333	72,829	438	2,703	194	34,533	22
£250k < Loan <= £500k	492,052	77	29,158	123	-	-	10,783	4
£500k < Loan <= £1m	122,627	13	5,911	26	-	-	3,327	-
£1m < Loan <= £2m	9,469	1	2,741	2	-	-	-	-
Total	**1,598,033**	**424**	**110,639**	**589**	**2,703**	**194**	**48,643**	**26**

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

As at 31 March 2020	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
BBSL by loan size	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loan <= £250k	22,560	198	10,153	783	146	29	4,725	47
£250k < Loan <= £500k	46,815	442	18,693	1,027	-	-	8,839	61
£500k < Loan <= £1m	72,123	602	21,234	1,090	1,501	529	14,071	94
£1m < Loan <= £2m	28,671	158	3,305	160	653	385	9,342	68
Loan > £2m	14,099	67	-	-	-	-	2,753	12
Total	**184,268**	**1,467**	**53,385**	**3,060**	**2,300**	**943**	**39,730**	**282**

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

14. Credit concentrations

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

The table below provides information on the portfolio for the Group and Bank segmented by geographic distribution.

As at 31 March 2020	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by UK region	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Greater London	324,730	43	16,048	53	173	16	4,430	-
Midlands	268,286	60	17,842	66	950	44	10,925	4
North	390,698	158	28,156	205	561	50	15,450	13
South	379,852	51	25,124	78	582	43	9,725	3
Scotland	159,286	71	16,802	117	157	12	4,863	3
Wales	43,652	25	2,787	17	280	29	1,891	1
Northern Ireland	31,529	16	3,880	53	-	-	1,359	2
Total	**1,598,033**	**424**	**110,639**	**589**	**2,703**	**194**	**48,643**	**26**

As at 31 March 2019	Stage 1		Stage 2		Stage 3		Stage 1	
	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross carrying amount	Impairment Allowance	Gross loan commitment	Provision against loan commitments
Mortgages by UK region	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Greater London	483,663	112	9,074	23	462	28	16,262	8
Midlands	348,440	80	9,714	28	275	1	25,122	12
North	508,640	283	13,215	114	362	12	33,923	30
South	525,744	66	8,450	17	340	16	18,807	8
Scotland	196,315	106	4,463	36	178	19	11,267	9
Wales	53,634	30	1,425	11	149	2	6,606	5
Northern Ireland	28,968	18	648	4	-	-	3,731	3
Total	**2,145,404**	**695**	**46,989**	**233**	**1,766**	**78**	**115,718**	**75**

As at 31 March 2020	Stage 1 Gross carrying amount	Stage 1 Impairment Allowance	Stage 2 Gross carrying amount	Stage 2 Impairment Allowance	Stage 3 Gross carrying amount	Stage 3 Impairment Allowance	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by UK region	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Greater London	28,210	210	5,071	436	-	-	3,085	11
Midlands	38,846	312	12,373	657	-	-	6,467	43
North	60,896	481	11,364	649	1,647	558	13,269	81
Northern Ireland	8,070	68	2,447	90	-	-	734	8
Scotland	15,746	110	9,759	506	653	385	5,205	47
South	27,657	228	10,930	540	-	-	9,643	86
Wales	4,843	58	1,441	182	-	-	1,327	6
Total	**184,268**	**1,467**	**53,385**	**3,060**	**2,300**	**943**	**39,730**	**282**

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

Atom has a natural concentration in the UK market, as it only lends on residential and commercial properties within the UK, and the Bank's exposure by region is broadly reflective of UK lending. BBSL stage 2 provisions for Scotland and N. Ireland are heightened due to greater exposure to business sectors more impacted by the Covid-19 pandemic.

The table below provides information on the BBSL portfolio for the Group and Bank, segmented by the business sector.

As at 31 March 2020	Stage 1 Gross carrying amount	Stage 1 Impairment Allowance	Stage 2 Gross carrying amount	Stage 2 Impairment Allowance	Stage 3 Gross carrying amount	Stage 3 Impairment Allowance	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by sector	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accommodation & Food Services	4,579	22	11,032	567	713	124	2,806	19
Human Health & Social Work	11,521	46	3,743	123	-	-	10,242	55
Manufacturing	3,093	23	-	-	76	9	1,413	4
Property & Real Estate	140,131	1,263	33,152	1,884	858	426	19,865	172
Transport, Storage & communications	3,297	10	-	-	-	-	250	-
Wholesale & Retail Trade	9,707	32	5,012	384	-	-	2,204	11
Construction	2,604	14	-	-	653	384	1,887	16
Other	9,336	57	446	102	-	-	1,063	5
Total	**184,268**	**1,467**	**53,385**	**3,060**	**2,300**	**943**	**39,730**	**282**

As at 31 March 2019	Stage 1 Gross carrying amount	Stage 1 Impairment Allowance	Stage 2 Gross carrying amount	Stage 2 Impairment Allowance	Stage 3 Gross carrying amount	Stage 3 Impairment Allowance	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by sector	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accommodation & Food Services	13,229	14	638	10	647	29	-	-
Human Health & Social Work	7,026	4	-	-	-	-	2,639	1
Manufacturing	2,140	2	79	-	-	-	1,836	1
Property & Real Estate	127,878	119	1,766	15	1,275	88	16,720	8
Transport, Storage & communications	2,917	1	-	-	-	-	1,511	-
Wholesale & Retail Trade	10,106	5	1,406	17	-	-	353	-
Construction	2,682	3	201	4	850	33	-	-
Other	9,686	6	-	-	-	-	1,772	-
Total	**175,664**	**154**	**4,090**	**46**	**2,772**	**150**	**24,831**	**10**

There is a greater exposure to the commercial property investment sector as a result of the Bank's focus on business lending against commercial property and the broker-led distribution model.

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15. Impairment allowance movement table

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

Mortgages	Stage 1 Impairment Allowance £'000	Stage 2 Impairment Allowance £'000	Stage 3 Impairment Allowance £'000	Total £'000
At 1 April 2018	**262**	**84**	**-**	**346**
Increase due to originations	784	-	-	**784**
Decrease due to repayments	(5)	(1)	-	**(6)**
Change in credit risk	(9)	(2)	-	**(11)**
Transfers between stages	(337)	152	78	**(107)**
At 31 March 2019	**695**	**233**	**78**	**1,006**
Increase due to originations	223	-	-	**223**
Decrease due to repayments	(211)	(66)	(46)	**(323)**
Change in credit risk	(296)	(168)	-	**(464)**
Model Changes	(421)	(79)	(36)	**(536)**
Transfers between stages	49	108	44	**201**
Increase due to Covid-19	385	561	154	**1,100**
At 31 March 2020	**424**	**589**	**194**	**1,207**

BBSL	Stage 1 Impairment Allowance £'000	Stage 2 Impairment Allowance £'000	Stage 3 Impairment Allowance £'000	Total £'000
At 1 April 2018	**37**	**9**	**-**	**46**
Increase due to originations	49	-	-	**49**
Decrease due to repayments	(3)	-	-	**(3)**
Change in credit risk	(14)	-	-	**(14)**
Model changes	95	-	-	**95**
Transfers between stages	(10)	37	150	**177**
At 31 March 2019	**154**	**46**	**150**	**350**
Increase due to originations	119	-	-	**119**
Decrease due to repayments	(55)	(2)	-	**(57)**
Change in credit risk	87	(2)	24	**109**
Model changes	31	72	30	**133**
Transfers between stages	-	6	10	**16**
Increase due to Covid-19	1,131	2,940	729	**4,800**
At 31 March 2020	**1,467**	**3,060**	**943**	**5,470**

The mortgages and BBSL provision increases were primarily driven by the Covid-19 PMA. Transfers between stages occured due to deterioration in credit risk as a result of monitoring of customer profile and payment behavior

The model changes made during the year reflect updates to incorporate more sophisticated modelling components from A-IRB mortgage models and enhancements to model methodology following annual review.

Funding and liquid assets

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

16. Managing liquidity 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.

Management

Liquidity and funding risk is managed and monitored by the Treasury department with day-to-day oversight by the Financial Risk team.

Executive level oversight and governance are provided by the Asset & Liability Committee (ALCo), which reviews performance and forecasts monthly. The BRC sets risk appetite and approves the Bank's policy for liquidity and funding risk on recommendation from the ERC.

A comprehensive assessment of liquidity and funding is performed at least annually, documented through the ILAAP Document, which is reviewed and approved by the Board through its Risk Committee.

Key Liquidity Risk Mitigations

The Bank primarily mitigates liquidity risk by holding a prudent suite of High Quality Liquid Assets (HQLA), which could be deployed to meet any expected or unexpected outflow. In addition, Atom has access to market-based warehouse and Bank of England facilities to provide additional sources of liquidity.

The Bank maintains a list of potential management actions to mitigate any potential or actual stress event. These management actions are documented in the Recovery Plan, updated at least annually.

Measurement

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.

The regulatory and the four in-house stresses comprise:

- Liquidity Coverage Ratio (LCR) is a 30-day regulatory stress metric assessing a bank's HQLAs against its net stressed outflows. Regulation defines in detail the definitions of the numerator and denominator of the ratio, as well as the weighting applied to each component of the calculation.
- a 90-day slow-burn scenario assessing the Bank's ability to fund its lending pipeline while experiencing greater than normal deposit outflows ("persistent" stress)
- a 60-day "market-wide" stress which considers closure of wholesale markets and the impact thereof on increased competition for retail funding
- a 45-day "acute" stress that considers a deposit outflow stress with greater severity and time horizon than the LCR
- a 14-day extreme "bank run" stress assessing the adequacy of the most readily available liquidity resources to meet deposit withdrawals

The results of all five stress tests are expressed both as ratios and as surplus metrics.

Funding risk is measured through a variety of metrics:

- the Net Stable Funding Ratio (NSFR) is monitored ahead of it becoming a regulatory minimum as part of CRR II
- the Asset Encumbrance ratio
- the value of readily available funding sources using unencumbered collateral
- the Loan to Deposit ratio

Monitoring

All liquidity and funding metrics are monitored daily to ensure robust control of the Bank's liquidity, with the exception of NSFR, which is monitored monthly. NSFR is less liable to daily fluctuations, as it measures funding risk over a 1-year horizon. In addition, all of the measures are forecast over a six-month time horizon at least weekly.

Atom maintains and monitors a set of liquidity and funding early warning indicators to identify signs of potential forthcoming stress events. These indicators are documented in the Recovery Plan, and reassessed at least annually.

At year end Atom held significant surplus liquidity over the minimum requirements. Additional disclosures are included within the Pillar 3 report, which is available at https://www.atombank.co.uk/investor-information.

17. Wholesale credit risk management

Wholesale credit risk arises from the portfolio of HQLA and other financial instruments, which the Treasury department manages. It represents the risk that counterparties and issuers 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.

Treasury exposures and limits are focused on the UK government and central banks, supranational institutions and UK banks and building societies, with additional limits extended to a small number of highly rated financial institutions in Europe and other G10 economies. The Bank also has exposure to a central clearing counterparty to allow it to comply with its obligations to centrally clear most of its new derivative transactions.

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

18. Assets held for liquidity management

Accounting for debt instruments

Classification and measurement

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

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

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

Certain assets are held at amortised cost, when:

- The objective of Treasury in holding these assets is to collect contractual cash flows, which are solely payments of principal and interest.
- The assets are held to maximise an interest return, whilst maintaining encumbrance and liquidity targets, the assets will not be sold to manage short term liquidity.

Financial assets held at amortised cost are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Cash and balances at central banks are carried at amortised cost.

Impairment

Financial assets held at FVOCI or amortised cost are within the scope of the IFRS 9 impairment policy described on page 64. IFRS 9 permits an exemption that it may be assumed that an instrument's credit risk has not increased significantly since initial recognition if it is determined to have a low credit risk at the reporting date. Such low risk instruments are categorised as stage 1, with the provision based upon a 12 month probability of default. Atom has applied this exemption to all of the below instruments as they meet the definition of investment grade per the internal credit risk policy, which is evidence that the instrument is of low risk.

	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Cash and balances at central banks	368,268	269,914	252,109	225,153
UK Gilts	103,717	103,717	22,032	22,032
Covered Bonds	54,584	54,584	49,975	49,975
RMBS	1,807	1,807	10,564	10,564
Multilateral Development Bank and Government Sponsored Debt	16,625	16,625	16,501	16,501
Total debt instruments at FVOCI	**176,733**	**176,733**	**99,072**	**99,072**
RMBS	223,311	223,311	-	-
Total debt instruments at amortised cost	**223,311**	**223,311**	**-**	**-**
Financial assets held for liquidity management	**768,312**	**669,958**	**351,181**	**324,225**

The £768m (2019: £351m) of liquid assets held at the year end reflects ongoing regulatory requirements and includes a liquidity buffer held against expected future lending and deposit flows. Surplus liquidity carried at year end, resulting in the increase in liquid assets, positioned the Bank to manage the uncertainties created by the Covid-19 pandemic.

The Bank retained £223m of RMBS from the derecognition securitisation in the year. These assets are held at amortised cost as they are held in order to receive payments of principal and interest.

A 12 month ECL credit impairment provision of £32k is held against the £400m (2019: £99m) of debt securities. £6k (2019 £nil) against the Amortised costs assets and £26k (2019 £13k) against the FVOCI assets. All positions are AAA or AA rated by major rating agencies.

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19. Encumbered assets

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

Group 31 March 2020	Encumbered assets		Unencumbered assets			
			Unencumbered assets not pre positioned with central banks			
	Encumbered with counterparties other than central banks	Prepositioned and encumbered assets held with central banks	Readily realisable	Other realisable assets	Cannot be used	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	-	18,135	350,133	-	-	368,268
Derivatives held for hedging purposes	-	-	-	-	736	736
Debt instruments at FVOCI	-	174,314	2,419	-	-	176,733
Debt Securities held at amortised cost	-	199,504	-	-	23,807	223,311
Loans and advances to customers	265,888	725,928	-	797,706	181,296	1,970,818
Other assets	11,395	-	-	-	50,239	61,634
Total assets	**277,283**	**1,117,881**	**352,552**	**797,706**	**256,078**	**2,801,500**

Bank 31 March 2020	Encumbered assets		Unencumbered assets			
			Unencumbered assets not pre positioned with central banks			
	Encumbered with counterparties other than central banks	Prepositioned and encumbered assets held with central banks	Readily realisable	Other realisable assets	Cannot be used	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	-	18,135	251,780	-	-	269,915
Derivatives held for hedging purposes	-	-	-	-	736	736
Debt instruments at FVOCI	-	174,314	2,419	-	-	176,733
Debt Securities held at amortised cost	-	199,504	-	-	23,807	223,311
Loans and advances to customers	265,888	725,928	-	797,706	181,296	1,970,818
Other assets	11,395	-	-	-	52,523	63,918
Total assets	**277,283**	**1,117,881**	**254,199**	**797,706**	**258,362**	**2,705,431**

Group 31 March 2019	Encumbered assets		Unencumbered assets			
			Unencumbered assets not pre positioned with central banks			
	Encumbered with counterparties other than central banks	Prepositioned and encumbered assets held with central banks	Readily realisable	Other realisable assets	Cannot be used	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	-	12,518	239,591	-	-	252,109
Debt instruments at FVOCI	-	62,547	36,525	-	-	99,072
Loans and advances to customers	380,614	709,300	-	1,118,342	191,605	2,399,861
Other assets	4,950	-	-	-	42,217	47,167
Total assets	**385,564**	**784,365**	**276,116**	**1,118,342**	**233,822**	**2,798,209**

Bank 31 March 2019	Encumbered assets		Unencumbered assets			
			Unencumbered assets not pre positioned with central banks			
	Encumbered with counterparties other than central banks	Prepositioned and encumbered assets held with central banks	Readily realisable	Other realisable assets	Cannot be used	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	-	12,518	212,635	-	-	225,153
Debt instruments at FVOCI	-	62,547	36,525	-	-	99,072
Loans and advances to customers	380,614	709,300	-	1,118,342	191,605	2,399,861
Other assets	4,950	-	-	-	43,263	48,213
Total assets	385,564	784,365	249,160	1,118,342	234,868	2,772,299

Atom's main sources of asset encumbrance of £696 (2019: £987) are through its participation in the Bank of England's TFS and its securitisation issuance via Elvet Mortgages 2018-1 plc. Mortgages and other liquid securities have been used to provide the required collateral.

The loans and advances to customers encumbered with counterparties other than central banks are encumbered via the Elvet Mortgages 2018-1 consolidated securitisation.

Assets regarded as readily realisable are not subject to any restrictions on their use and are readily realisable in the normal course of business, to secure funding, to meet collateral needs, or be sold to reduce potential future funding requirements.

20. Customer deposits

Accounting for customer deposits

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

	Group and Bank 2020 £'000	Group and Bank 2019 £'000
Sterling denominated fixed term deposits	1,864,146	1,770,124
Euro denominated fixed term deposits	666	997
Total	**1,864,812**	**1,771,121**

During the year Atom continued to fund lending predominantly through customer deposits, which increased by £0.1bn to £1.9bn.

The £1.9bn of Sterling denominated deposits includes a valuation adjustment liability of £3,965k (2019: £549k liability), which reflects the IFRS 9 micro hedge adjustment as described in note 26.

No new Euro denominated fixed term deposits were raised during the year (2019: none)

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21. Wholesale Funding

Accounting for wholesale borrowings

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

Accounting for repurchase agreements

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

	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Borrowings from central banks – secured loans	355,481	355,481	355,437	355,437
Deemed Loan	-	233,091	-	364,204
Debt securities in issue	333,789	-	391,249	-
Repurchase agreements	-	-	34,851	34,851
Subordinated liabilities – debt instruments	8,166	8,166	8,149	8,149
Total	**697,436**	**596,738**	**789,686**	**762,641**

Secured loans of £355m (2019: £355m) relate to drawdowns from the Bank of England's Term Funding Scheme.

Subordinated liabilities represent two £4m fixed-rate callable subordinated Tier 2 notes maturing in 2027. The notes pay interest at a rate of 10% per annum, payable semi-annually in arrears. The Bank has the option to redeem these notes in 2023, subject to PRA approval.

Debt securities in issue of £334m (2019: £391m) represents the Group's residential mortgage backed securitisation, as disclosed in Note 22. Within the Bank, a deemed loan of £232m (2019: £364m) relates to the same transaction. The source of difference between the Group and Bank is predominantly cash held within Elvet Mortgages 2018-1 plc at year end.

22. Securitisation

Accounting for securitisations

Securitisation is a means used by Atom to source funding and capital backed by part of its mortgage portfolio. Securitised advances have been legally transferred at their principal value to special purpose entities, which fund the purchase of these assets through the issuance of RMBS to investors.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; or in derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained by the transfer. Full derecognition only occurs when the Group transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest risk, as well as transferring the contractual right to receive cash flows from the financial assets.

Securitisation that does not result in derecognition

In October 2018, mortgage loans originated by the Bank were assigned at their principal value to Elvet Mortgages 2018-1 Plc, a bankruptcy- remote structured entity, funded through the issue of RMBS to third-party debt investors. The Bank is entitled to any residual income generated by the Elvet 2018-1 entity after the debt obligations and senior expenses of the programme have been met. The securitised debt holders have no recourse to the Bank other than the principal and interest generated from the securitised mortgage loans. The Bank continues to service the mortgage loans in return for a servicing fee.

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

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

	Group 2020 £'000	Group 2019 £'000
Assets		
Securitised mortgage loans	383,332	526,050
Liabilities		
Elvet 2018-1 issued debt	333,789	391,249

The class A notes have a coupon rate of 3 month GBP LIBOR + 0.75% and a call date of 22 October 2022.

The Bank provides credit support to the structured entity via retained notes and reserve funds and has an obligation to repurchase mortgage exposures if certain loans no longer meet the programme criteria or representations and warranties.

The fair value of the transferred assets and associated liabilities is disclosed within note 28.

Securitisation that results in derecognition

In 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. A 5% interest in the transaction has been retained, which entitles the Bank to 5% of all available receipts generated by the mortgage loans in the entity in line with the regulatory requirements. The transaction resulted in full derecognition of loans from the Bank's statement of financial position because substantially all of the risks and rewards associated with those mortgages have been transferred to the note holders. A loss on disposal of £9m was recorded in the statement of comprehensive income.

Determining whether the Bank has control of the transferred mortgages involves some judgement. Various stressed scenarios were modelled and considered to determine that the risk and reward associated with the transferred mortgages was not retained by Atom.

£201m of the issued AAA notes were retained by Atom. These notes are being held as debt instruments at amortised cost.

The Bank continues to service the mortgage loans in return for a servicing fee, and recognised income of £0.1m during the year.
The Bank has an obligation to repurchase mortgage exposures if certain loans no longer meet the programme criteria or representations and warranties.

23. Contractual maturity of financial assets and liabilities

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

Group	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Over 10 years	Total
As at 31 March 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets									
Cash and balances at central banks	368,268	-	-	-	-	-	-	-	368,268
Loans and advances to customers	-	21,385	20,127	45,297	223,674	232,363	332,268	1,095,704	1,970,818
Debt instruments at FVOCI	-	6,010	93,599	15,180	44,828	15,310	-	1,806	176,733
Debt instruments at amortised costs	-	3,176	2,238	4,706	19,202	193,989	-	-	223,311
Derivatives held for hedging purposes	-	11	(14)	1,205	(285)	(181)	-	-	736
Total financial assets	**368,268**	**30,582**	**115,950**	**66,388**	**287,419**	**441,481**	**332,268**	**1,097,510**	**2,739,866**
Liabilities									
Customer deposits	(32,190)	(327,339)	(393,931)	(606,683)	(469,980)	(34,689)	-	-	(1,864,812)
Deposits from banks	-	(481)	-	-	-	(355,000)	-	-	(355,481)
Debt securities in issue	-	(13,440)	(35,272)	(47,590)	(237,487)	-	-	-	(333,789)
Subordinated liabilities	-	(166)	-	-	-	-	(8,000)	-	(8,166)
Derivatives held for hedging purposes	-	(996)	(853)	(1,047)	(9,956)	(2,259)	-	-	(15,111)
Total financial liabilities	**(32,190)**	**(342,422)**	**(430,056)**	**(655,320)**	**(717,423)**	**(391,948)**	**(8,000)**	**-**	**(2,577,359)**
Off-balance sheet commitments									
Loan commitments given	-	28,160	60,212	-	-	-	-	-	88,372

Bank	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Over 10 years	Total
As at 31 March 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets									
Cash and balances at central banks	269,914	-	-	-	-	-	-	-	269,914
Loans and advances to customers	-	21,385	20,127	45,297	223,674	232,363	332,268	1,095,704	1,970,818
Debt instruments at FVOCI	-	6,010	93,599	15,180	44,828	15,310	-	1,806	176,733
Debt instruments at amortised costs	-	3,176	2,238	4,706	19,202	193,989	-	-	223,311
Derivatives held for hedging purposes	-	11	(14)	1,205	(285)	(181)	-	-	736
Total financial assets	**269,914**	**30,582**	**115,950**	**66,388**	**287,419**	**441,481**	**332,268**	**1,097,510**	**2,641,512**
Liabilities									
Customer deposits	(32,190)	(327,339)	(393,931)	(606,683)	(469,980)	(34,689)	-	-	(1,864,812)
Deposits from banks	-	(481)	-	-	-	(355,000)	-	-	(355,481)
Deemed Loan	-	(9,384)	(24,631)	(33,233)	(165,841)	-	-	-	(233,089)
Subordinated liabilities	-	(166)	-	-	-	-	(8,000)	-	(8,166)
Derivatives held for hedging purposes	-	(996)	(853)	(1,047)	(9,956)	(2,259)	-	-	(15,111)
Total financial liabilities	**(32,190)**	**(338,366)**	**(419,415)**	**(640,963)**	**(645,777)**	**(391,948)**	**(8,000)**	**-**	**(2,476,659)**
Off-balance sheet commitments									
Loan commitments given	-	28,160	60,212	-	-	-	-	-	88,372

Group	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Over 10 years	Total
As at 31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets									
Cash and balances at central banks	252,109	-	-	-	-	-	-	-	252,109
Loans and advances to customers	-	22,341	22,097	46,457	208,747	284,826	415,538	1,399,855	2,399,861
Debt instruments at FVOCI	-	-	6,036	1,146	38,400	46,104	-	7,386	99,072
Total financial assets	**252,109**	**22,341**	**28,133**	**47,603**	**247,147**	**330,930**	**415,538**	**1,407,241**	**2,751,042**
Liabilities									
Customer deposits	(27,827)	(368,164)	(410,706)	(620,157)	(285,069)	(59,199)	-	-	(1,771,121)
Deposits from banks	-	(437)	-	-	(355,000)	-	-	-	(355,437)
Debt securities in issue	-	(8,352)	(4,686)	(24,662)	(209,083)	(144,466)	-	-	(391,249)
Repurchase agreements	-	(10,031)	(24,820)	-	-	-	-	-	(34,851)
Subordinated liabilities	-	(149)	-	-	-	-	(8,000)	-	(8,149)
Derivatives held for hedging purposes	-	(2,021)	(108)	825	(7,291)	(30)	(3)	-	(8,628)
Total financial liabilities	**(27,827)**	**(389,154)**	**(440,320)**	**(643,994)**	**(856,443)**	**(203,694)**	**(8,003)**	**-**	**(2,569,435)**
Off-balance sheet commitments									
Loan commitments given	-	140,549	-	-	-	-	-	-	140,549

Bank	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Over 10 years	Total
As at 31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets									
Cash and balances at central banks	225,153	-	-	-	-	-	-	-	225,153
Loans and advances to customers	-	22,341	22,097	46,457	208,747	284,826	415,538	1,399,855	2,399,861
Debt instruments at FVOCI	-	-	6,036	1,146	38,400	46,104	-	7,386	99,072
Total financial assets	**225,153**	**22,341**	**28,133**	**47,603**	**247,147**	**330,930**	**415,538**	**1,407,241**	**2,724,086**
Liabilities									
Customer deposits	(27,827)	(368,164)	(410,706)	(620,157)	(285,069)	(59,199)	-	-	(1,771,121)
Deposits from banks	-	(437)	-	-	(355,000)	-	-	-	(355,437)
Deemed Loan (Bank)	-	(7,775)	(4,361)	(22,958)	(194,630)	(134,480)	-	-	(364,204)
Repurchase agreements	-	(10,031)	(24,820)	-	-	-	-	-	(34,851)
Subordinated liabilities	-	(149)	-	-	-	-	(8,000)	-	(8,149)
Derivatives held for hedging purposes	-	(2,021)	(108)	825	(7,291)	(30)	(3)	-	(8,628)
Total financial liabilities	**(27,827)**	**(388,577)**	**(439,995)**	**(642,290)**	**(841,990)**	**(193,708)**	**(8,003)**	**-**	**(2,542,390)**
Off-balance sheet commitments									
Loan commitments given	-	140,549	-	-	-	-	-	-	140,549

24. Contractual maturity of financial assets and liabilities

The table below analyses non-derivative financial liabilities by relevant contractual maturity grouping on an undiscounted future cash flow basis based on the remaining period at the balance sheet date.

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

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

Group	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Total
As at 31 March 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Customer Deposits	32,075	347,851	398,067	618,026	477,436	35,349	-	**1,908,804**
Deposits from banks	-	89	89	177	355,305	-	-	**355,660**
Debt securities in issue	-	13,692	36,324	49,384	241,731	-	-	**341,131**
Subordinated liabilities	-	199	204	397	1,600	1,602	10,800	**14,802**
Total non-derivative financial liabilities	**32,075**	**361,831**	**434,684**	**667,984**	**1,076,072**	**36,951**	**10,800**	**2,620,397**
Off-balance sheet commitments								
Loan commitments given	-	28,160	60,212	-	-	-	-	**88,372**

Bank	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Total
As at 31 March 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Customer Deposits	32,075	347,851	398,067	618,026	477,436	35,349	-	**1,908,804**
Deposits from banks	-	89	89	177	355,305	-	-	**355,660**
Deemed loan	-	15,386	40,817	55,493	271,636	-	-	**383,332**
Subordinated liabilities	-	199	204	397	1,600	1,602	10,800	**14,802**
Total non-derivative financial liabilities	**32,075**	**363,525**	**439,177**	**674,093**	**1,105,977**	**36,951**	**10,800**	**2,662,598**
Off-balance sheet commitments								
Loan commitments given	-	28,160	60,212	-	-	-	-	**88,372**

Group	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Total
As at 31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Customer Deposits	27,819	383,806	415,406	632,589	293,142	60,896	-	**1,813,658**
Deposits from banks	-	671	671	1,335	359,953	-	-	**362,630**
Debt securities in issue	-	8,747	6,285	27,833	216,487	146,161	-	**405,513**
Repurchase Agreement	-	10,039	24,892	-	-	-	-	**34,931**
Subordinated liabilities	-	199	204	397	1,600	1,602	10,800	**14,802**
Total non-derivative financial liabilities	**27,819**	**403,462**	**447,458**	**662,154**	**871,182**	**208,659**	**10,800**	**2,632,534**
Off-balance sheet commitments								
Loan commitments given	-	140,549	-	-	-	-	-	**140,549**

Bank	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Total
As at 31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Customer Deposits	27,819	383,806	415,406	632,589	293,142	60,896	-	**1,813,658**
Deposits from banks	-	671	671	1,335	359,953	-	-	**362,630**
Deemed loan	-	11,784	8,466	37,497	291,651	196,907	-	**546,305**
Repurchase Agreement	-	10,039	24,892	-	-	-	-	**34,931**
Subordinated liabilities	-	199	204	397	1,600	1,602	10,800	**14,802**
Total non-derivative financial liabilities	**27,819**	**406,499**	**449,639**	**671,818**	**946,346**	**259,405**	**10,800**	**2,772,326**
Off-balance sheet commitments								
Loan commitments given	-	140,549	-	-	-	-	-	**140,549**

Market Risk

Atom offers fixed and variable rate loans to borrowers and funds those with a mix of mainly fixed rate deposits and variable rate wholesale funding.

As a result, we are exposed to market risk. Atom's Treasury team manages market risk exposures to prevent an exposure greater than the limited exposure the Board's risk appetite permits.

25. Market risk management

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.

The main source of market risk is our exposure to changes in interest rates in the banking book. During the year the Bank also managed exposures to foreign exchange risk.

Management

Market risk is managed and monitored by the Treasury department with day-to-day oversight by the Financial Risk team.

Executive level oversight and governance are provided by the ALCo, which reviews metrics and key risk indicators monthly. The ALCo also reviews and approves key models and assumptions used in the measurement of interest rate risk. The Committee considers proposals on the ongoing management of market risk to keep net exposures within risk appetite limits.

A comprehensive assessment of the Bank's exposures to market risk is conducted at least annually, documented through the ICAAP Document, which is reviewed and approved by the Board through its Risk Committee.

Key interest rate and market risk mitigations

The acceptable exposure to changes in interest rates and foreign exchange rates is limited by Board defined risk appetite.

Fixed rate cashflows, whether assets or deposits, are predominantly hedged to Sterling Over Night Index Average (SONIA) by means of interest rate swaps. SONIA is an overnight interest rate that correlates highly with the Bank of England's Base Rate during normal market conditions. Limits for exposures to interest rate risk other than those based on SONIA or the Bank of England's Base Rate are minimal.

Wherever possible, Atom uses existing balance sheet items to net offsetting gross interest rate exposures (e.g. the interest rate risk on an asset is matched against a liability of a similar tenor). Net exposures are hedged with external swap counterparties, where appropriate. The Group's net exposure to LIBOR is managed within tight limits.

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

Measurement

Atom uses two primary methods to quantify interest rate risk exposure, Economic Value (EV) and Net Interest Income (NII). EV sensitivity measures the change in net present value of the Bank's asset, liability and derivative positions in response to an interest rate shock. NII sensitivity measures the change in net interest income over a 12 month time horizon following an interest rate shock. Each of these measures is stress tested in a variety of interest rate scenarios, using both parallel and non-parallel yield curve shifts. During the financial year the Bank has started measuring earnings risk to a fall in interest rates with and without the application of floors to customer deposits.

Basis risk positions are measured as the net of assets, liability and derivative exposure to each interest rate basis, such as LIBOR and SONIA.

EV and NII sensitivity

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

	2020 £'m	2019 £'m
EV: impact of increase in rates	0.5	(1.0)
EV: Impact of decrease in rates	(0.6)	1.1
NII: impact of increase in rates	0.7	0.4
NII: impact of decrease in rates	(0.7)	(0.4)
NII: impact of decrease in rates with floor for customer deposits	(0.8)	n/a

26. Derivatives held for hedging purposes

Accounting for derivatives and hedging

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

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

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

Hedge accounting

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

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

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

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

The following table sets out the derivative instruments the Group and Bank hold:

	2020			2019	
	Notional contract amount	Asset carrying value	Liability carrying value	Notional contract amount	Liability carrying value
	£'000	£'000	£'000	£'000	£'000
Settled on a net basis					
Derivatives in accounting hedge relationships					
Interest rate	3,209,985	666	(15,152)	2,978,300	(8,488)
Derivatives in economic and not accounting hedges					
Cross currency swaps	657	2	-	1,016	(30)
FX forward	827	-	(44)	2,539	(3)
Interest Rate	215,000	68	83	225,000	(107)
Total derivatives held for hedging purposes	**3,426,469**	**736**	**(15,113)**	**3,206,855**	**(8,628)**

Interest rate swaps

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

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

The effect of credit risk is expected to be minimal on the hedged item and the hedging instrument and is not expected to dominate the hedge relationship. The derivative counterparties are either a qualifying clearing house or of investment grade and hence deemed to have adequate credit quality. Credit risk will continue to be assessed throughout the life of the hedge relationship to prove that credit risk does not dominate.

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

Ineffectiveness is expected due to:

the mismatch in the maturities of the hedged item and hedging instrument.

- for micro deposit hedge relationships, the mismatch in interest accrual period on the certain deposits that make up the hedged item that accrue on a monthly basis, compared to the hedging instrument that has an annual accrual. These sources of ineffectiveness are expected to be immaterial in value and have no material impact on the underlying economic relationship.
- for mortgage macro hedge relationships, an assumption is made on the quantum of early repayments during the fixed term period. Variances to this assumption generate ineffectiveness.
- There were no other sources of ineffectiveness in these hedge relationships. During the year hedge ineffectiveness charges of £703k (2019: charges of £45k) were recognised within Other income.

With regard to the mortgage macro hedge relationships, as Atom are exposed to interest rate risk from the point of making a customer a binding offer, interest rate swaps are generally entered into at the point of full mortgage application. However, IAS 39 only permits an accounting hedge relationship to be designated when the hedged item (the mortgage) is recognised on balance sheet. As a result during this period, a £224k fair value gain (2019: £1,776k loss) in the swaps was not offset within the income statement.

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

	Nominal amount of the hedging instrument	Carrying Amount (asset/ (liability))	Line item in the statements of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness (income/ (charge))
	£'000	£'000	£'000	£'000
As at 31 March 2020				
Derivatives held to hedge fixed rate GBP deposits	1,402,500	3,917	Derivatives held for hedging purposes	3,356
Derivatives held to hedge fixed rate mortgages	1,807,485	(18,403)	Derivatives held for hedging purposes	(17,737)
As at 31 March 2019				
Derivatives held to hedge fixed rate GBP deposits -	1,247,800	824	Derivatives held for hedging purposes	1,467
Derivatives held to hedge fixed rate mortgages -	1,730,500	(9,313)	Derivatives held for hedging purposes	(16,250)

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

	Nominal amount of the hedging item	Accumulated amount of fair value adjustments on the hedged item (asset/ (liability))	Line item in the statements of financial position where the hedging item is included	Changes in fair value used for calculating hedge ineffectiveness(income/ (charge))
	£'000	£'000	£'000	£'000
As at 31 March 2020				
Fixed rate deposits	1,402,500	(3,965)	Customer deposits	(3,416)
Fixed rate mortgages	1,807,485	21,254	Loans and advances to customers	17,094
As at 31 March 2019				
Fixed rate deposits	1,247,800	(549)	Customer deposits	(1,449)
Fixed rate mortgages	1,730,500	10,300	Loans and advances to customers	17,015

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

	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but no more than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2020						
Nominal value of derivatives held for hedging purposes						
Derivatives held for to hedge fixed rate GBP deposits	286,100	335,900	508,500	272,000	-	1,402,500
Derivatives held for to hedge fixed rate mortgages -	127,000	88,000	70,000	700,500	821,985	1,807,485
Total	**413,100**	**423,900**	**578,500**	**972,500**	**821,985**	**3,209,985**
As at 31 March 2019						
Nominal value of derivatives held for hedging purposes						
Derivatives held for to hedge fixed rate GBP deposits	283,500	343,000	507,800	113,500	-	1,247,800
Derivatives held for to hedge fixed rate mortgages -	20,000	20,000	70,000	448,500	1,172,000	1,730,500
Total	**303,500**	**363,000**	**577,800**	**562,000**	**1,172,000**	**2,978,300**

The following tables display derivative cash flows in the relevant maturity groupings in which they fall due. Cash flows for the floating legs of derivative transactions are calculated using the forward interest rate curve. These cash flows are not discounted in the same way as derivative valuations therefore differ to those reported in the balance sheet.

Settled on a net basis	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but no more than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2020						
Assets	11	(13)	1,166	(277)	(175)	712
Liabilities	(1,005)	(854)	(1,052)	(10,114)	(2,305)	(15,330)
As at 31 March 2019						
Liabilities	(621)	(1,100)	(841)	(5,041)	(1,487)	(9,090)

Cross currency swaps

Atom also holds a portfolio of cross currency swaps which are used to hedge against the interest rate and currency risk of Euro denominated customer deposits. These instruments were not designated into hedge accounting relationships. As a result, a fair value gain of £43k (2019: gain of £926k) was recognised in other income. There was no gain or loss in the foreign currency retranslation of the Euro deposits (2019: £495k loss).

The derivative counterparties are of investment grade and hence deemed to have adequate credit quality. Credit risk will continue to be assessed throughout the life of the hedge relationship to prove that credit risk does not dominate.

Offsetting

In accordance with IAS 32 Financial Instruments: Presentation, Atom reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set-off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The netting applied covers agreements with the same counterparties whereby all outstanding transactions can be offset and close-out netting applied if an event of default or other predetermined events occur. The following table shows the impact of netting arrangements on derivative financial instruments reported net on the balance sheet:

	Gross Amounts	Amounts offset	Net amounts reported on the balance sheet	Related amounts not offset: Cash collateral placed	Net amount
As at 31 March 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Derivative Financial Assets	4,070	(3,334)	736	475	1,211
Derivative Financial Liabilities	(18,447)	3,334	(15,113)	8,450	(6,663)
As at 31 March 2019					
Derivative Financial Assets	4,859	(4,859)	-	-	-
Derivative Financial Liabilities	(13,487)	4,859	(8,628)	4,950	(3,678)

27. Accounting for financial assets and liabilities - fair values

Accounting for fair values

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

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

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

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

Bank and Group	**Level 1**	**Level 2**	**Level 3**	**Total**
As at 31 March 2020	**£'000**	**£'000**	**£'000**	**£'000**
Assets				
Debt instruments at FVOCI				
UK Gilts	103,717	-	-	103,717
Covered Bonds	54,584	-	-	54,584
RMBS	-	1,807	-	1,807
Multilateral Development Bank and Government Sponsored Debt	16,625	-	-	16,625
Derivatives held for hedging purposes				
Interest rate	-	734	-	734
Cross currency swaps	-	2	-	2
Total	**174,926**	**2,543**	**-**	**177,469**
Liabilities				
Derivatives held for hedging purposes				
Interest rate	-	(15,069)	-	(15,069)
FX forward	-	(44)	-	(44)
Total	**-**	**(15,113)**	**-**	**(15,113)**

Bank and Group As at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Debt instruments at FVOCI				
UK Gilts	22,032	-	-	22,032
Covered Bonds	49,975	-	-	49,975
RMBS	-	10,564	-	10,564
Multilateral Development Bank and Government Sponsored Debt	16,501	-	-	16,501
Total	**88,508**	**10,564**	**-**	**99,072**
Liabilities				
Derivatives held for hedging purposes				
Interest rate	-	(8,595)	-	(8,595)
Cross currency swaps	-	(30)	-	(30)
FX forward	-	(3)	-	(3)
Total	**-**	**(8,628)**	**-**	**(8,638)**

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

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

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

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

		Group		Bank
As at 31 March 2020	Carrying value £'000	Level 3 Fair Value £'000	Carrying value £'000	Level 3 Fair Value £'000
Assets				
Loans and advances to customers:				
BBSL	234,483	232,128	234,483	232,128
Mortgages	1,736,335	1,714,641	1,736,335	1,714,641
Debt Instruments held at amortised cost	223,311	223,691	223,311	223,043
Liabilities				
Customer Deposits	1,864,812	1,832,907	1,864,812	1,832,907
Deposits from banks	355,481	355,481	355,481	355,481
Deemed Loan	-	-	233,091	230,177
Debt securities in issue	333,789	331,456	-	-
Subordinated debt	8,166	8,678	8,166	8,678

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

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

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

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

The carrying amount of cash and balances at central banks is a reasonable approximation of fair value therefore not included in the table above.

Capital

As a regulated bank, to protect customers we are required to hold a minimal level of capital. To date this has been predominantly achieved through equity issuances to our investors. This has also provided the investment to build and grow the Bank through the period of early stage losses. This section provides information on our share capital, retained earnings and other equity balances. It also provides a description of how we ensure sufficient capital is maintained in order to meet regulatory requirements.

29. Managing capital adequacy risk

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

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

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

Key capital risk mitigations

Capital is one of the key measures of the Bank and the Board sets capital risk appetite. In order to avoid breaching a regulatory capital measure, a Board Buffer of additional capital 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 funding for future growth, execute the current strategy and move towards profitability.

The Bank also has a Tier 2 facility, under which Atom may issue long-dated subordinated debt in proportion to its Tier 1 common equity.

Atom refreshes its ICAAP document on an annual basis, which includes a three-year forecast of the Bank's capital position. The ICAAP document is used to inform the future capital strategy and is submitted to the PRA following Board scrutiny and approval. It assesses the Bank's Pillar 1 requirements using the Standardised/ Basic Indicator approaches and determines additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. The Bank also holds Pillar 2B capital based on wind-down costs and the regulatory defined capital conservation buffer and counter-cyclical buffer.

A series of extreme but plausible stresses that might arise during the three-year horizon of the business plan to assess the resilience of the capital position is also run. The stress testing affects both capital 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 risk metrics

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

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

During 2020, the Bank complied in full with all its externally imposed capital requirements. The following tables provide information on capital and reserves per the IFRS balance sheet with a reconciliation to the regulatory definition of capital.

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30. Share capital and premium

Accounting policy for share capital

Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. Ordinary shares are classified as equity. The below tables apply for the Group and Bank:

	Number of shares	Ordinary shares (£0.00001 each) £'000	Share premium £'000	Total share capital and share premium £'000
As at 1 April 2019	**391,952,523**	**4**	**399,203**	**399,207**
Issued during the year	40,827,913	-	50,014	50,014
Expenses of issue of shares	-	-	(286)	(286)
Issued to staff under share incentive plans	476,592	-	-	-
As at 31 March 2020	**433,257,028**	**4**	**448,931**	**448,935**

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

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

During the year 41.3m ordinary shares of £0.00001 were issued for £49.7m.

31. Other reserves

Other reserves of £18.0m (2019: £16.5m) primarily relate to equity settled share based payments of £19.9m (2019: £17.7m). See note 6 for further information.

	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Fair value reserve	(433)	(433)	(257)	(257)
Share based payment reserve	19,854	19,854	17,662	17,662
Other reserves and treasury shares	(1,463)	-	(886)	-
Total other reserves	**17,958**	**19,421**	**16,519**	**17,405**

The balance also includes £(0.4)m (2019: £(0.3)m) of fair value adjustments on assets held at fair value through other comprehensive income and treasury shares of £(1.5)m (2019: £(0.9)m) relating to the EBT (see note 39 for further information).

32. Regulatory capital

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

	2020 £'000	2019 £'000
Shareholders' equity per the statement of financial position	200,503	212,704
Regulatory adjustments		
Intangible assets	(36,646)	(29,720)
IFRS9 transitional adjustment	4,969	1,167
Prudential valuation adjustment	(181)	(101)
Common Equity Tier 1 (CET1) capital	**168,645**	**184,050**
Eligible Tier 2 instruments	7,964	7,949
Tier 2 capital	**7,964**	**7,949**
Total capital	**176,609**	**191,999**
Risk weighted assets (RWAs) (unaudited)	**907,158**	**1,028,247**
Common Equity Tier (CET1) ratio (unaudited)	**18.6%**	**17.9%**
Total capital ratio (unaudited)	**19.5%**	**18.7%**
Leverage ratio (unaudited)	**6.0%**	**6.5%**

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

CET1 and total capital ratios of 18.6% (2019: 17.9%) and 19.5% (2019: 18.7%) respectively are reflective of the £50m capital raise, together with £121m reduction in RWAs mainly due to the derecognition of residential mortgage loans, partially offset by annual losses of £63.9m.

The fall in tier one capital has driven the reduction in the leverage ratio during the period.

Other

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

33. Other assets

	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Cash collateral	10,695	10,695	4,950	4,950
Settlement and clearing accounts	2,312	2,312	6,852	6,852
Prepayments and other	6,343	5,893	5,083	4,576
Loan to group companies (note 39)	-	2,734	-	1,553
Total other assets	**19,350**	**21,634**	**16,885**	**17,931**

Other assets include £2.3m (2019: £6.9m) of settlement and clearing accounts, the majority of which relates to mortgage loans where cash is being held in escrow before completion. Collateral represents margin calls made on derivative contracts.

34. Property, plant and equipment

Accounting for property plant and equipment

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

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

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

Impairment of property, plant and equipment

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

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

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Group and Bank	Fixtures and Fittings £'000	Office and IT Equipment £'000	Right-of-use Assets (note 38) £'000	Total £'000
Cost				
As at 1 April 2018	422	823	-	1,245
Additions	40	257	-	297
Disposals	-	(42)	-	(42)
As at 31 March 2019	**462**	**1,038**	**-**	**1,500**
Right of use asset recognition (note 38)	-	-	5,756	5,756
As at 1 April 2019	**462**	**1,038**	**5,756**	**7,256**
Additions	18	260	19	297
As at 31 March 2020	**480**	**1,298**	**5,775**	**7,553**
Accumulated depreciation and impairment				
As at 1 April 2018	131	575	-	706
Depreciation charge	63	211	-	274
Disposals	-	(42)	-	(42)
As at 31 March 2019	**194**	**744**	**-**	**938**
Depreciation charge	68	177	732	977
As at 31 March 2020	**262**	**921**	**732**	**1,915**
Net book value				
At 31 March 2020	**218**	**377**	**5,043**	**5,638**
At 31 March 2019	**268**	**294**	**-**	**562**

35. Intangible assets

Accounting for intangible assets

Intangible assets with finite useful lives that are acquired or built are carried at cost less accumulated amortisation and impairment losses. Intangible assets with indefinite useful lives that are acquired or built are carried at cost less accumulated impairment losses. Amortisation is recognised on a straight line basis over their estimated useful lives.

Critical accounting estimate
The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life for each class of intangible asset is as follows:

- Banking Licence: the banking licence is assumed to have an indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate benefits for the business. Costs relating to obtaining this asset are held at cost and are not being amortised.
- IT Infrastructure: up to 10 years
- App Development: up to 4 years

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

Research and development expenditure

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

Group and Bank	Banking License £'000	IT infrastructure and software £'000	App £'000	Total £'000
Cost				
As at 1 April 2018	887	28,938	13,354	43,179
Additions	-	15,057	3,298	18,355
As at 31 March 2019	**887**	**43,995**	**16,652**	**61,534**
Additions	-	11,102	2,003	13,105
As at 31 March 2020	**887**	**55,097**	**18,655**	**74,639**
Accumulated amortisation and impairment				
As at 1 April 2018	-	6,806	2,265	9,071
Amortisation charge	-	5,083	7,058	12,141
Impairment charge	-	9,220	1,382	10,602
As at 31 March 2019	**-**	**21,109**	**10,705**	**31,814**
Amortisation charge	-	5,136	1,043	6,179
As at 31 March 2020	**-**	**26,245**	**11,748**	**37,993**
Net Book Value				
As at 31 March 2020	**887**	**28,852**	**6,907**	**36,646**
As at 31 March 2019	**887**	**22,886**	**5,947**	**29,720**

Following the announcement of our partnership with Thought Machine in 2018, an impairment review was performed over the existing IT infrastructure and software, some of which will no longer be used. No further impairment has been charged in the year (2019: £10,602k).

A provision is maintained in relation to the decommissioning costs associated with the IT infrastructure, as disclosed in note 36.

36. Provisions

Group and Bank	IFRS 9	Platform Transformation Provision	Total
	£'000	£'000	£'000
At 1 April 2019	**64**	**-**	**64**
Charged to the income statement	21	3,500	3,521
At 31 March 2019 and 1 April 2019	85	3,500	3,585
Amounts utilised	-	(1,356)	(1,356)
Charged to the income statement	223	300	523
At 31 March 2020	**308**	**2,444**	**2,752**

The IFRS 9 provision represents expected credit losses on loan commitments, in line with our credit risk policies disclosed in note 10.

The platform transformation provision relates to the decommissioning of IT infrastructure and transition to cloud hosting. In determining the fair value of this provision, assumptions and estimates are made in relation to the expected cost and the expected timing of these costs.
The carrying amount of the provision £2.4m (2019: £3.5m). The Bank estimates that the cost of this will be realised within the next 12 months.

37. Other liabilities

	Group 2020 £'000	Bank 2020 £'000	Group 2019 £'000	Bank 2019 £'000
Accounts payable and sundry creditors	3,008	2,906	5,456	4,996
Accrued expenses	4,315	4,312	3,731	3,730
Cash settled share based payment liability	1,304	1,304	4,566	4,566
Cash collateral	1,770	1,770	-	-
Lease liability	5,040	5,040	-	-
BCR fund	9,807	9,807	-	-
Intercompany loan payable	-	374	-	328
Total other liabilities	**25,244**	**25,513**	**13,753**	**13,620**

Collateral represents margin calls made on derivative contracts.

A lease liability was recognised on transition to IFRS 16, see note 38.

During the year, the Bank was awarded £10m from pool C of the Capability and Innovation Fund administered by Banking Competition Remedies (BCR). The funds will be used to develop and launch a suite of lending products for SMEs. The income is being recognised in line with IAS 20 - government grants and is initially recognised on the balance sheet, being released over the period necessary to match this with the related costs for which it is intended to compensate.

38. Leases

Accounting for leases

Atom has applied IFRS 16 Leases for the first time from 1 April 2019. Leased property and equipment, which was previously recognised as operating leases under IAS 17 now qualify as leases as defined by IFRS 16.

Atom transitioned in accordance with the modified retrospective approach and no adjustment has been made to the prior year figures. The Bank has elected not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC 4 and applies the exemptions available for short term leases and those for which the underlying asset is of low value.

A lease liability for the obligation to make lease payments, and a right of use asset for the right to use the underlying asset for the lease term are recognised on inception of a lease. Subsequently, the lease liability accumulates interest and is reduced reflecting payments made, while the right of use asset is depreciated in accordance with our property, plant and equipment accounting policy.

The Bank leases office premises and office equipment. The total operating lease liability at 31 March 2019 was £6,706. On 1 April 2019 this lease liability was discounted using an average incremental borrowing rate of 2.30% resulting in the recognition of a lease liability of £5,756k. A right of use asset of the same value was recognised at the same time, presented within property, plant and equipment.

The below table sets out a maturity analysis of undiscounted lease liabilities, showing the lease payments to be paid after the reporting date. The comparative table is the future minimum lease payments due by the Group and Bank under non-cancelable operating leases, as accounted for under IAS 17.

	2020 £'000	2019 £'000
Not more than once year	855	926
Over one year but not more than five years	3,133	3,245
Later the 5 years	1,560	2,535
Total undiscounted lease liabilities as at 31 March	**5,548**	**6,706**

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39. Related party transactions

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

(i) Key management personnel

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

Executive Committee (excluding directors)	2020 £'000	2019 £'000
Wages and salaries	1,390	1,479
Compensation for loss of office	-	173
Share based payments	423	1,289
Pension costs	34	66
Total	**1,847**	**3,007**

Directors emoluments	2020 £'000	2019 £'000
Wages and salaries	1,354	1,253
Share based payments	194	849
Total	**1,548**	**2,102**

Highest paid director	2020 £'000	2019 £'000
Wages and salaries	414	405
Share based payments	109	530
Total	**523**	**935**

No directors (2019: nil) accrued retirement benefits under the defined contribution scheme. No directors exercised share options during the year (2019: nil).

(ii) investment in subsidiaries

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

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

In the course of its business, the Bank transacts with structured entities which have been designed to finance the purchase of assets through securitisation and therefore raise finance from external investors by enabling them to invest in specified financial assets. At 31 March 2020 Atom has two consolidated structured entities, Elvet Mortgages 2018-1 plc and Prebends Warehouse 2019-1 Ltd, which are included above.

(iii) Transactions with subsidiaries

Amounts due to and from controlled entities of the Bank other related parties are as follows:

	Bank 2020 £'000	Bank 2019 £'000
Other assets		
Amounts due from EBT	1,463	886
Amounts due from Prebends Warehouse 2019-1 Ltd	1,271	667
Deemed Loan		
Amounts due to Elvet Mortgages 2018-1 plc	233,091	364,204
Other Liabilities		
Amounts due to Elvet Mortgages 2018-1 plc	374	328

No ECL credit impairment provision (2019: none) is held against Intercompany receivables at year end.

Independent auditors' report to the members of Atom Bank Plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2020 and of the group's and the company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the group and bank statements of financial position as at 31 March 2020; the group and bank statements of comprehensive income, the group and bank cash flow statements, and the group and bank statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

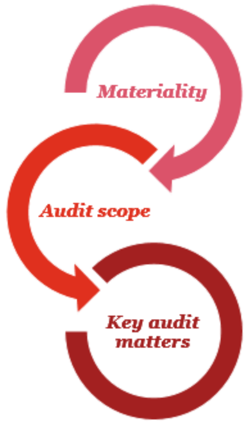
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

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

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 April 2019 to 31 March 2020.

Our audit approach

Overview



- Overall group and bank materiality: £1.96 million (2019: £2.20 million), based on 1% of net assets.

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

Key audit matters:

- Risk of fraud in revenue recognition – EIR (Group and Bank);
- Impairment of loans and advances to customers (Group and Bank);
- IT infrastructure and software may be impaired or recognition criteria for newly capitalised IT software may not have been met (Group and Bank);
- Assessment of the use of the going concern assumption (Group and Bank); and
- Considerations relating to COVID-19 (Group and Bank).

These items were discussed with the Audit Committee as part of our audit plan communicated in January 2020. These were the key audit matters for discussion at the conclusion of our audit.

Independent auditors' report

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

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

- review of the financial statement disclosures to underlying supporting documentation;
- review of correspondence with and reports to the regulators;
- review of correspondence with legal advisors;
- enquiries of management;
- review of internal audit reports in so far as they related to the financial statements;
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the related key audit matters below;

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Risk of fraud in revenue recognition – EIR (Group and Bank) See note 2 of the financial statements for the disclosure of the related accounting policies. The Bank's total gross loans and advances to customers balance of £1,945m and related interest income of £42.9m include certain EIR adjustments as per the requirements of IFRS 9. The significant majority of the income recognised by the Bank is automatically calculated on the Banks systems with minimal judgement involved, therefore we focused our work in relation to revenue recognition on EIR accounting due to the inherent subjectivity and complexity involved in forecasting future customer behaviour on which the EIR adjustment calculation is based. The Bank has limited historical experience to support these profiles and therefore management must apply judgement, in addition to utilising information where available from the industry.	We understood management's EIR process and tested key controls including the EIR model code to ensure that implementation and calculation is in line with the approved methodology. As part of our detailed work, we: • Assessed the appropriateness of key assumptions used, primarily the expected life applied, which we corroborated against recent Bank experience, our industry knowledge and benchmarks; • Considered the impact of Covid-19 on the key assumptions, including expected lives; • Tested completeness and accuracy of inputs feeding into the EIR calculation; • Tested a sample of fee and commission income/expense to ensure they were appropriately included or excluded from the model; • Recalculated a sample of EIR asset outputs from the model to ensure the code was being applied accurately. • Performed sensitivity analysis to understand the impact of altering the key behavioural assumptions. Based on the procedures performed and evidence obtained, we found management's conclusions to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers (Group and Bank) See note 11 of the financial statements for the disclosure of the related accounting policies and critical estimates and judgements. In order to meet the requirements of the standard, the Bank has developed IFRS 9 impairment models that are reliant on expert judgement and industry assumptions provided by third parties in the absence of internal historical data. We focused our audit on the key assumptions and judgements made by management that underlie the calculation of expected credit loss (ECL). These included the probability of default, the loss given default, and forward looking economic information. Post model adjustments (PMAs) have been recorded to reflect the impact of COVID-19 on the ECL as at the balance sheet date focussing on the uncertain macroeconomic forecasts and payment holidays. The PMAs required significant management judgement given the limited experience and the uncertain economic conditions. Our audit work was focused on the appropriateness of these judgements and the supporting calculations.	We understood management's process and tested key controls around the determination of ECL allowances, including controls relating to: • Appropriateness of modelling methodologies and monitoring of model performance; and • model review, validation and approval of changes to the model. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. As part of our detailed work, we: • Tested key assumptions used within the models to internal and external information where appropriate; • Assessed the completeness and validity of management's stage allocation in the mortgage book; • Tested the completeness and accuracy of data inputs (including LTV, credit score, arrears) for the IFRS 9 models to identify any material inconsistencies with source system data; • We used credit risk modelling specialists and economics experts to support the audit team in the performance of these audit procedures. We also used our economics and credit risk modelling teams to support our testing of the PMAs. They helped us critically assess the reasonableness of the multiple economic scenarios and weights used when calculating the associated PMA. We considered external economic data and consensus forecasts and whether management's forecasts appropriately reflected the economic consequences of COVID-19. We concluded that management's scenarios and associated weights used in calculating the macroeconomic PMA were reasonable. For the payment holiday PMA, we validated the assumptions used by management in determining the stage allocation for those customers who had taken a payment holiday, and tested the sensitivity in relation to which customers had an increase in credit risk and those that did not. Based on the evidence obtained, we found that the methodologies, modelled assumptions, management judgements and data used within the impairment allowance to be appropriate and in line with the requirements of IFRS 9.

Key audit matter	How our audit addressed the key audit matter
IT infrastructure and software may be impaired or recognition criteria for newly capitalised IT software may not have been met (Group and Bank) See note 35 of the financial statements for the disclosure of the related accounting policies. At 31 March 2020, the Company's total net book value of intangible assets was £36.6m. The Bank are committed to developing a new banking platform and other back office functions, and capitalised £13.1m in the year in relation to IT infrastructure and software and the second version of their banking app (App 2.0). In the prior year, the Bank recognised an impairment charge of £10.6m relating to the fact that it was replacing aspects of the software used.	We checked the Bank's capitalisation policy to confirm it met the requirements of IAS 38. As part of our detailed work we: • Substantively tested a selection of costs to confirm that these meet the criteria of IAS 38 for capitalisation as intangible assets; • Reviewed how the Bank expects these assets to generate future economic benefits through a review of the business plan; • Assessed whether existing assets continue to be used by the business or demonstrate any indicators of impairment; • Tested the amounts capitalised on a sample basis to assess that they can be reliably measured, and tested a selection of costs expensed to confit they should not have been capitalised; and • Performed an assessment of the discounted cash flows to support the recoverability of the value of the intangible assets. Based on the procedures performed and evidence obtained, we found management's conclusions to be appropriate.
Assessment of the use of the going concern assumption (Group and Bank) Atom Bank continues to seek additional capital to support its growth plans and its base case forecast assumes that the group will enter into a number of capital transactions during the 12 months from the date of approval of the financial statements to cover trading losses and fund asset growth. If capital raises in the future are unsuccessful, management would be required to implement actions to maintain capital levels above regulatory requirements and thresholds. We considered this to be a key audit matter because whilst the directors plan assumes that they will be able to raise the necessary capital successfully, there is uncertainty as to the timing and extent of the capital transactions and any mitigating actions the Group may need to take in such scenarios.	We obtained and evaluated management's going concern assessment, which included their forecast of capital and liquidity levels under different future scenarios. We held a number of meetings with key management personnel to update our understanding of their future plans and strategy and how capital would be impacted by those plans. As part of our detailed work, we: • assessed management's capital forecasting model, and tested the mathematical accuracy of the calculations of future capital levels under management's different scenarios; • challenged the key assumptions in management forecast, including how management actions in relation to loan book growth impacted on the capital position of the bank and the severity of the economic scenarios being included as they relate to Covid-19; • performed sensitivity analyses of key assumptions to understand the materiality of the potential future scenarios; • compared current year actual results to forecasts to assess how accurate management are in their forecasting, understanding rationales for variances and challenging the feasibility of the updated business plan; • met with the PRA to discuss their supervision of the bank as well as reading key regulatory correspondence; and • discussed the capital forecasts with the Audit Committee and read Board and executive committee meeting minutes. Our conclusion with respect to going concern is set out below on page 137.

Key audit matter	How our audit addressed the key audit matter
Considerations relating to Covid-19 (Group and Bank) The Covid-19 pandemic is having a significant impact on the UK economy, financial markets and consequently the Group's key business. Management has undertaken an assessment of the impact of Covid-19 on the Group financial statements at 31 March 2020, focusing on the potential impact on the Group's significant accounting estimates. The areas where the impact has been most significant are as follows: • The Group's going concern assessment; • Impairment of loans and advances to customers; and • The related disclosures in the Annual Report. We focused on the impact of Covid-19 on the preparation of the Group financial statements as its impact is significant and widespread, both in terms of the impact on a range of the Group's accounting judgements and estimates, including but not limited to going concern and impairment, and in terms of related disclosures in the Annual Report.	We revisited our audit risk assessment originally presented to the Group in January 2020 and updated our planned audit responses in March 2020 to address the financial reporting and audit implications of the Covid-19 pandemic. We reviewed management's disclosures in relation to the impact of Covid-19 in the Annual Report, considering whether the disclosures were consistent with the Company's scenario planning and forecasts. We evaluated management's accounting estimates in light of Covid-19 and we have reported separate key audit matters in the following areas: • The assessment of going concern of the Group; and • Impairment of loans and advances to customers.

How we tailored the audit scope

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

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

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

Materiality

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

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

	Group financial statements	Bank financial statements
Overall materiality	£1.96 million (2019: £2.20 million).	£1.96 million (2019: £2.20 million).
How we determined it	1% of net assets.	1% of net assets.
Rationale for benchmark applied	Based on the life cycle of the group net assets is the primary measure of group growth and performance.	Based on the life cycle of the group net assets is the primary measure of group growth and performance.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1.90 million and £1.96 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £98,000 (Group audit) (2019: £110,000) and £98,000 (Company audit) (2019: £110,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 13 March 2014 to audit the financial statements for the year ended 31 July 2014 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 July 2014 to 31 March 2020.

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
26 June 2020

Atom