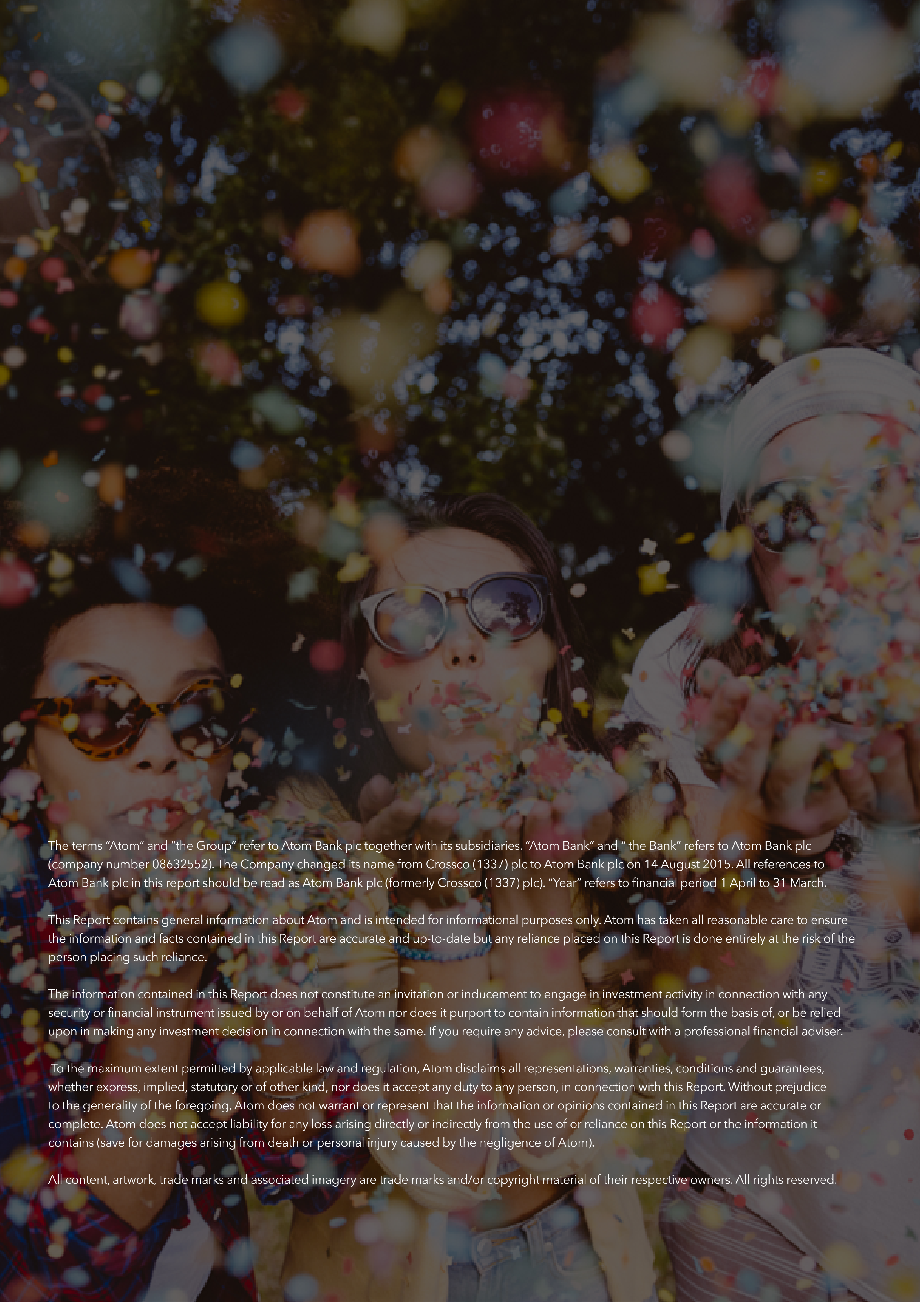
Atom bank

That's banking all shook up.

Pillar 3 Disclosures – 2016/17



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 Company changed its name from Crossco (1337) plc to Atom Bank plc on 14 August 2015. All references to Atom Bank plc in this report should be read as Atom Bank plc (formerly Crossco (1337) plc). "Year" refers to financial period 1 April to 31 March.

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1. Introduction

Atom is the first UK bank designed exclusively for mobile. We're redefining banking by putting the customer at the heart of everything we do and by making things straightforward, personal and accessible.

Our journey started in April 2014 in the beautiful North East city of Durham. Our founders, with the help of local business leaders and entrepreneurs, established a small team to bring Atom to life and to create the Bank's unique business model.

Our banking licence application was approved in June 2015 and the formal mobilisation phase began. Throughout the mobilisation period we continued to invest in our technology and our team and we continued to develop our key partnerships. We were delighted to welcome BBVA as a strategic investor alongside significant investment from Woodford and Toscafund.

In April 2016 we exited the mobilisation phase having had our licence restrictions removed and we released our mobile banking app. During April 2016, we successfully launched a fixed rate savings product, followed by a Business Banking Secured Loan (BBSL) product in June 2016 and a residential mortgage product in December 2016. By March 2017 year end, customers had deposited £538m of savings with Atom and loans and advances to customers totaled £99m.

This document is Atom's first Pillar 3 disclosure. It contains disclosures for the bank as at 31 March 2017.

2. Disclosure policy

Basis of preparation

The Capital Requirements Regulation (CRR) (EU Regulation No 575/2013) and the fourth Capital Requirements Directive (CRD) (EU Directive 2013/36) were implemented in the UK on 1 January 2014 and are collectively known as the CRD IV package (CRD IV). Atom's Pillar 3 disclosures comply with the requirements of CRD IV including any implementing and delegated legislation and any European Banking Authority (EBA) guidelines in force at 31 March 2017.

In accordance with Article 432 of the CRR, the Bank is permitted to exclude certain disclosures if they contain proprietary information or are non-material. Atom has not omitted any disclosures on that or any other basis.

As per Prudential Regulation Authority (PRA) policy statement PS7/13, the implementation of CRD IV is subject to transitional provisions. Full implementation is required by 1 January 2022 however,as the Bank is not affected by any of the remaining transitional provisions, these disclosures are made on a fully loaded basis.

Scope of consolidation

Atom has one wholly owned subsidiary, Atom EBT Limited, which is deemed de minimis for regulatory purposes. The Group is regulated as a solo entity and consequently these disclosures are prepared on a consolidated basis. There is no difference between the scope of the regulatory and statutory consolidation.

Frequency and location of disclosures

Atom's policy is to publish the Pillar 3 disclosures on the corporate website [**www.atombank.co.uk**].

Disclosures will be published on an annual basis on the same day as the annual report and accounts.

Verification

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

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3. Summary analysis

This section provides a summary analysis of the Bank's capital position, leverage and risk-weighted assets (RWA) as at 31 March 2017.

Table 1 – Capital and leverage ratios

	2017 £'000	2016 £'000
Common Equity Tier 1 (CET1)	43.9%	25.2%
Tier 1 ratio	43.9%	25.2%
Total capital ratio	44.1%	25.2%
Leverage ratio	10.9%	54.9%

The Bank's capital and leverage ratios significantly exceed the minimum requirements prescribed under CRD IV.

The movement in key ratios reflect the activities undertaken by the Bank as customer products were launched and in preparation for the planned growth of the residential and business lending propositions.

During the year Atom raised £112m (after issue costs) of ordinary share capital to support planned lending activity and to further build the Bank. The increase in share capital, partially offset by the reduction in retained earnings and the increase in RWAs, has driven the increase in the key capital ratios. Table 2 provides a reconciliation of balance sheet equity to available own funds.

The leverage ratio has decreased significantly during the period despite the increase in Tier 1 capital. This is due to the significant growth of the balance sheet, driven by the targeted inflow of retail funding. The components of the leverage ratio exposure measure are broken down in table 6 and in appendix 4.

3. Summary analysis (continued)

Table 2 – Own funds

Common Equity Tier 1	2017 £'000	2016 £'000
Paid up share capital and associated premium	167,318	54,997
Other reserves	7,999	3,501
Retained losses	(71,371)	(29,202)
Total equity per balance sheet	103,946	29,296
Regulatory capital adjustments		
Intangibles	(30,546)	(19,341)
Prudential valuation adjustments	(87)	-
Common Equity Tier 1	73,313	9,955
Additional Tier 1 securities	-	-
Total Tier 1 capital	**73,313**	**9,955**
Tier 2 capital		
General credit risk adjustments	295	-
Total Tier 2 capital	**295**	**-**
Total own funds	**73,608**	**9,955**

At 31 March 2017, total balance sheet equity amounted to £103.9m. Following the application of prudential filters for intangible assets and a prudent valuation adjustment, available CET1 resources were £73.3m. Tier 2 capital consisting entirely of general credit risk adjustments was £0.3m taking total own funds to £73.6m.

At the balance sheet date existing investors had also subscribed for a further £48m of ordinary share capital, £14m of which were issued in April 2017. The remaining £34m will be issued in two tranches during the financial year ending 31 March 2018.

3. Summary analysis (continued)

Table 3 – Summary of risk weighted assets

This table provides a summary of Atom's RWAs.

	2017 £'000	2016 £'000
Credit risk	76,974	2,677
Counterparty credit risk	201	-
Credit valuation adjustment	1,165	-
Credit risk - securitisation	41,904	-
Operational risk	46,644	36,864
Total RWA	**166,888**	**39,541**

All RWA's for credit and counterparty credit risk are calculated using the standardised approach. RWAs for operational risk are calculated using the basic indicator approach. Further information is provided in section 7.

4. Regulatory capital framework

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

Regulatory capital resources

Common Equity Tier 1

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

Additional Tier 1 (AT1) capital

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

Tier 2 capital

Tier 2 capital will typically consist of other subordinated debt that does not meet the eligibility criteria for inclusion as AT1 capital. Atom has not issued any Tier 2 securities.

Under Article 62 (c) of the CRR, eligible Tier 2 capital also includes general credit risk adjustments recognised against assets that are subject to the standardised approach for credit risk. The amount recognised in Tier 2 capital is limited to 1.25% of total standardised credit RWAs. Atom has recognised £0.3m of Tier 2 capital at 31 March 2017.

Capital requirements

Pillar 1 capital requirements

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

The minimum capital requirement is 8% of RWAs.

CRD IV allows a range of approaches that vary in sophistication to be used to determine RWA amounts. Atom currently uses the Standardised approach to determine risk weights for credit, counterparty credit, CVA and market risk exposures. The Basic Indicator Approach is used to determine operational RWAs. Further detail explaining the methodology for calculating RWAs is provided in section 7.

Pillar 2 capital requirements

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

Pillar 2A

Pillar 2A requirements are designed to capture the firm specific risks that are not addressed or not fully captured by the minimum capital requirements under Pillar 1. The PRA will inform banks of their Pillar 2A requirements by setting firm specific Individual Capital Guidance (ICG).

Atom's prescribed ICG is 9.6% of RWAs. This means that in order to meet its ICG, Atom must hold capital equal to 1.6% of RWAs in addition to the 8% minimum requirement under Pillar 1.

At least 56.25% of the Pillar 1 and Pillar 2A requirement must be met by holding CET1 capital.

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4. Regulatory capital framework (continued)

Pillar 2B

As a new entrant to the UK banking industry, Atom's Pillar 2B requirement has been assessed as being equal to its expected wind-down costs over a 12 month period.

Regulatory capital buffers

Countercyclical Capital Buffer (CCyB)

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

The CCyB rate for the UK is set by the Financial Policy Committee (FPC) of the Bank of England. The rate is currently set at 0% however the FPC have indicated that the rate will be reviewed in June 2017. Institutions have 12 months from the date of a rate increase announcement to meet the increased buffer requirement. By contrast any rate reductions are applied with immediate effect.

Sectoral capital requirements

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

Capital Conservation Buffer (CCB)

The CCB is a general buffer that is designed to build up a bank's capital buffers and therefore resilience, during non-stressed periods. From 1 January 2017 Atom has been required to hold a CCB of 1.25% of RWAs which will rise to 2.5% by 1 January 2019.

PRA buffer

All firms will be subject to a PRA buffer assessment as part of the SREP. This is the starting point for determining the PRA buffer requirement.

The PRA buffer takes into consideration the extent to which the CRD IV buffer captures the risks also captured by the PRA buffer assessment. Therefore the PRA buffer assessment will be reduced by the level of CRD IV buffers that are held for these risks, to arrive at a final PRA buffer.

4. Regulatory capital framework (continued)

Table 4 – Summary of capital requirements

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

Requirement or buffer	Calculation method	Quality of capital required to meet the requirement	Impact on Atom
Pillar 1	Fixed percentage of RWAs as prescribed in Article 92 of the CRR	4.5% of RWA met by CET1 capital 6% of RWAs met by T1 capital 8% of RWAs met by Total capital	The impact of the Pillar 1 capital requirements can be seen in the Pillar 1 section on page 24
Pillar 2A	Expressed as a percentage of RWAs	56.25% to be met by CET1 capital 75% to bet by T1 capital 100% to be met by Total capital	Atom 's Pillar 2A capital requirement is 1.6% of RWA's
Countercyclical buffer and sectoral capital requirements	Expressed as a percentage of RWAs	CET1 Capital	Currently no requirement
Systemic buffers	Expressed as a percentage of RWAs	CET1 Capital	Currently no requirement
Capital conservation buffer	Expressed as a percentage of RWAs	CET1 Capital	1.25% of RWAs rising to 2.5% from 1 Jan 2019
PRA Buffer (Pillar 2B)	Expressed as a percentage of RWAs	50% met by CET1 in 2017, rising to 100% by 2019	This buffer is set by the PRA and is confidential

Pillar 3

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

While retaining a non-prescriptive approach for most of its disclosure requirements, the CRR empowered the EBA to foster more consistency in the disclosure format. As a result, the European Commission's implementing and delegated regulations, as well as further EBA Guidelines have been issued since 2013 regarding the content and format of disclosures.

These Pillar 3 disclosures comply with the requirements of CRD IV, including implementing and delegated legislation and any European Banking Authority (EBA) guidelines in force at 31 March 2017.

Leverage ratio famework

Atom currently has no leverage ratio requirement. The EBA leverage ratio regime comes into force on 1 January 2018 at which point Atom will be expected to maintain a minimum leverage ratio of 3%.

4. Regulatory capital framework (continued)

Atom is not in scope of the UK Leverage Framework as its retail deposit levels are less than £50bn.

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

Minimum Requirements for Own Funds and Eligible liabilities

Minimum Requirements for Own funds and Eligible Liabilities (MREL) became applicable from 1 January 2016 and will be phased in fully by 1 January 2022.

Atom's MREL requirement is equal to its CRD IV requirement under Pillar 1 and Pillar 2A, therefore the Bank is currently unaffected by the implementation of the MREL rules. The Bank does, however, consider the implications of the MREL rules in its strategic planning process in order to ensure that it maintains sufficient MREL compliant liabilities should it trigger further MREL requirements.

5. Risk management

The effective management of risk sits at the heart of Atom's strategy and is integral to the effective functioning of a credible, sustainable and above all, authorised banking institution. The responsibility for identifying and managing the risks of the business rests with the business functions. The Board has ultimate responsibility for overseeing the Bank's strategy, risk appetite and control framework. The Board considers Atom has in place adequate risk management and controls with regard to the Bank's risk profile.

Key risks

Strategic risk – the risk that Atom fails to execute its business strategy as a result of poor decision taking, substandard execution of decisions, inadequate resource allocation or from a failure to effectively respond to changes in the external environment.

Retail credit risk – the current or prospective risk that a customer of the Bank (personal or commercial) defaults on their contractual obligations to Atom, or fails to perform its obligations in a timely manner.

Operational risk – the risk of loss, whether direct or indirect, to which Atom is exposed due to inadequate or failed internal processes or systems, human error or external events.

Regulatory risk – the risk of financial loss, reputational damage and/or regulatory censure arising from a) failing to comply with existing / future regulatory or legislative requirements, or b) changes to existing requirements that negatively impact the existing strategy / business model of the Bank.

Conduct risk – the risks arising from inappropriate behaviour by Atom in its relationship with customers, counterparties and markets.

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

Capital risk – the risk that Atom could have insufficient capital to withstand an extreme, but plausible, loss and thereby expose its depositors and others creditors to losses.

Liquidity risk – the risk that Atom could fail to meet its obligations as they fall due, including having the right type and quantity of funds, in the right place, at the right time and in the correct currency.

Wholesale credit risk – the current or prospective risk that a wholesale counterparty of the Bank defaults on its contractual obligations to Atom, or fails to perform its obligations in a timely manner.

Reputational risk – the risk of damage to Atom's reputation and brand directly as a result of the actions of the Bank itself, or indirectly due to the actions of employees, suppliers or other parties.

Risk strategy

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

For further information on Atom's Business Model and Strategy refer to the Strategic Report in the Annual Report.

5. Risk management (continued)

Atom's Enterprise Risk Management Framework

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

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

Risk culture

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

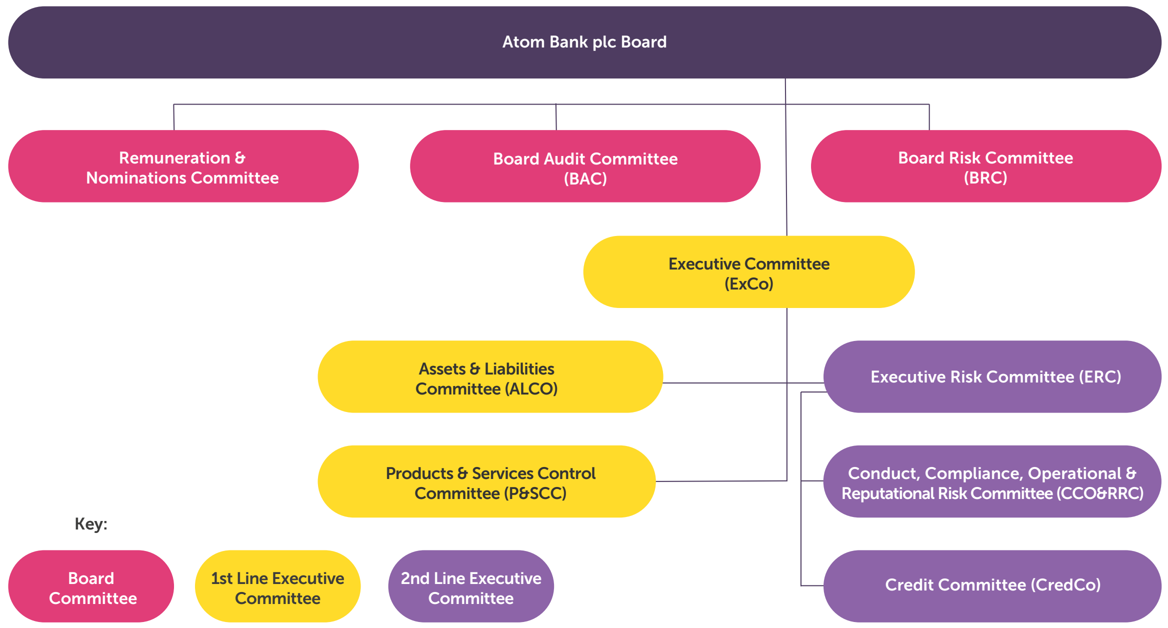
Atom's strong risk culture ensures that current and potential risks are a key consideration in all decisions and that risk management is embedded in all of our processes.

Risk governance and control

Atom's risk governance is the architecture within which risks are identified, assessed, managed, monitored and reported. The Board looks to senior management to ensure that the risk management framework and risk governance structure is applied in practice and operates robustly. The Board Risk Committee assists the Board in overseeing the effective design and operation of the risk management framework through the review of risk-related information.

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

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



5. Risk management (continued)

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

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

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

Credit Committee – a sub-committee of the Executive Risk Committee, tasked with scrutinising retail and Small Medium Enterprise (SME) credits, as well as wholesale credit risks.

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

Assets & Liabilities Committee (ALCO) – a sub-committee of the Executive Committee, tasked with monitoring the Bank's Solvency and Liquidity

Risk operating model

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

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

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

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

Monitoring and reporting

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

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

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

5. Risk management (continued)

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

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

Risk management orocesses

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

Risk identification

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

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

Risk measurement

Risk measurement quantifies the risks to the business and allows the selection of the appropriate means to manage the risk and enables appropriate resources to be dedicated to risk management.

Risk appetite

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

Atom's appetite is set well within a capacity for risk that includes boundaries surrounding regulatory minima for capital and liquidity, as well as critical conduct factors for Atom in terms of customer treatment.

Risk management

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

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

Risk Control Self-Assessment (RCSA)

The RCSA methodology is one of the key risk management processes used across Atom. All business areas are required to complete RCSA analysis,

5. Risk management (continued)

whereby senior management are expected to identify and assess the operational risks to which it is exposed. Management must demonstrably accept, avoid, transfer or mitigate each risk, and determine how each risk exposure should be monitored.

RCSA activity is supported by the second line of defence through the provision of tools, training and guidance, however each RCSA belongs to a specified 'risk entity'.

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

Key and Emerging Risk Register

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

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

Atom's Key and Emerging Risk Register is reviewed on a six-monthly basis, with input from the Executive team, and is reported to the BRC. Once agreed, this population of risks forms the basis for regulatory, investor and market disclosures of key risks during the period. These risks are also used during the scenario analysis process to review the vulnerability of Atom to extreme but plausible threats, and informs Atom's ICAAP and Internal Liquidity Adequacy Assessment Process (ILAAP) submissions.

For further information on the Key and Emerging Risks at the year end, please refer to page 26 in the Annual Report.

Stress testing and scenario analysis

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

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

Contingency planning and resilience

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

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

5. Risk management (continued)

The BCP addresses the following primary objectives:

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

The effective operation of Atom's BCP is supported by individual business-area continuity plans maintained and signed off by the relevant Executive.

Recovery and resolution planning

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

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

Compliance and customer outcome testing

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

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

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

6. Capital risk

Capital risk is the risk that the Bank has insufficient capital resources to meet its capital requirements and to absorb unexpected losses if they were to occur. Causes of insolvency could include lending origination volumes far exceeding expectations, suffering a high level of default on loans already made by the Bank, or by having large unexpected development/ operating costs for the business.

Capital is one of the key measures of the Bank and the Board sets capital risk appetite. Capital is actively managed with regulatory ratios being a key factor in Atom's planning processes and stress analysis.

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

Key capital risk mitigations

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

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

Atom refreshes its Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, which includes a 5 year forecast of the Bank's capital position. The ICAAP is used to inform the future capital strategy and is submitted to the PRA following Board scrutiny and approval.

The ICAAP assesses the Bank's Pillar 1 requirements using the Standardised/Basic Indicator approaches and determines additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. The Bank also holds Pillar 2B capital based upon wind-down costs and the regulatory defined capital conservation buffer and counter-cyclical buffer.

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

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

Key capital risk metrics

Atom's key solvency 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 the Bank's balance sheet in comparison with its capital base.

6. Capital risk (continued)

Capital metrics are produced monthly to assess the current and projected capital position. 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 2017, 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.

Table 5 – Movement in capital resources

The following table shows the movement in own funds during the year ending 31 March 2017

	CET1 £'000	Tier 2 £'000	Total Own Funds £'000
As at 1 Apr 2016	**9,955**	**-**	**9,955**
Loss for the period	(42,169)	-	(42,169)
Fair value reserve (debt instrument)	-	-	0
- Net change in fair value	317	-	317
- Net amount transferred to profit or loss	9	-	9
Issue of new ordinary shares	112,321	-	112,321
Issue of shares under employee share schemes	4,308	-	4,308
Increase in treasury shares	(136)	-	(136)
Movement in intangible assets	(11,205)	-	(11,205)
Prudential valuation adjustment	(87)	-	(87)
General credit risk adjustments	-	295	295
CET1 as at 31 March 2017	**73,313**	**295**	**73,608**
Total RWA	**-**	**-**	**166,888**
CET1 ratio	**-**	**-**	**43.9%**

During the year, Atom raised £112m (after issue costs) of ordinary share capital to support planned lending activity and to further develop the Bank's capabilities. At 31 March 2017 existing investors had subscribed for a further £48m of share capital, £14m of which was issued in April 2017 and the remaining £34m will be issued in two tranches during the financial year ending 31 March 2018.

In addition, the Bank has recently taken steps to diversify its capital sources, both in terms of the provider and in terms of the quality of capital, by entering into a facility with the British Business Bank. Under this facility Atom may issue up to £30m of qualifying Tier 2 long-dated subordinated debt in proportion to its CET1.

6. Capital risk (continued)

Table 6 – Breakdown of the leverage ratio

	2017 £'000	2016 £'000
Tier 1 capital resources	**73,313**	**9,955**
Exposure measure		
Total balance sheet assets	648,837	37,489
Regulatory exposure value for derivatives	402	-
Off balance sheet items	51,321	-
Other regulatory adjustments	(30,633)	(19,341)
Total leverage ratio exposure measure	**669,927**	**18,148**
Leverage ratio	**10.9%**	**54.9%**

7. Pillar 1 capital requirements

7.1 Overview

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

The Bank uses the Basic Indicator approach to calculate the capital requirement for operational risk and the standardised approach for all other Pillar 1 risk categories.

Table 7 - Summary of Pillar 1 requirements by risk category

	RWAs		Pillar 1 Requirement	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Credit risk	76,974	2,677	6,158	214
Counterparty credit risk	201	-	16	-
Credit valuation adjustment	1,165	-	93	-
Credit risk securitisation exposures	41,904	-	3,352	-
Total credit risk	**120,244**	**2,677**	**9,619**	**214**
Operational risk	46,644	36,864	3,731	2,949
Total RWA	**166,888**	**39,541**	**13,350**	**3,163**

The significant increase in RWAs was primarily due to the launch of BBSL and mortgage products and the purchase of a securitisation loan note.

7.2 Credit risk

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

Atom currently provide mortgages to individuals and secured loans to businesses in order to generate a return through interest income. Lending creates credit risk as borrowers might fail to pay the interest or the capital due. This is usually caused by adverse changes in the macro-economic environment or a change in an individual customer's behaviour and circumstances. As this is a material risk to the Bank, there is significant management focus on setting credit risk appetite and embedding appropriate risk mitigation. See page 54 of the Annual Report for further information on the management and mitigation of credit risk.

7. Pillar 1 capital requirements (continued)

Credit risk exposures

Table 8 – Year end and average exposures over the period split by exposure category

This table shows the total exposure value, RWAs and Pillar 1 requirement by exposure class and the average exposure value for each exposure class for the year ending 31 March 2017.

	Exposure Value £'000	Risk Weighted Assets £'000	Pillar 1 Requirement £'000	Average Exposure £'000
Secured on immovable property	110,771	60,976	4,878	32,558
Central governments and central banks	457,778	-	-	156,280
Multilateral development banks	6,693	-	-	2,657
Institutions	8,270	2,379	190	4,684
Covered bonds	15,932	1,593	127	6,044
Securitisation positions	50,057	41,904	3,352	11,106
Collective investment undertakings	9,040	1,808	145	5,618
Other	11,584	11,584	927	4,575
Total	**670,125**	**120,244**	**9,619**	**223,522**

7. Pillar 1 capital requirements (continued)

Table 9 – Summary of contractual residual maturity of exposures at 31 March 2017

	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Over 10 years £'000	No defined maturity £'000	Total £'000
Loans to individuals secured on immovable property	-	284	259	522	2,128	2,196	5,785	15,453	-	**26,627**
Loans to SME secured on immovable property	-	287	229	463	2,572	2,041	5,588	21,700	-	**32,880**
Secured on immovable property	**-**	**571**	**488**	**985**	**4,700**	**4,237**	**11,373**	**37,153**	**-**	**59,507**
Central governments and central banks	417,206	-	5,025	-	18,948	11,610	4,989	-	-	**457,778**
Multilateral development banks	-	-	-	-	159	6,534	-	-	-	**6,693**
Institutions	2,657	4,821	-	-	792	-	-	-	-	**8,270**
Covered bonds	-	4,773	-	3,806	7,352	-	-	-	-	**15,932**
Securitisation positions	-	-	-	-	-	39,865	-	10,192	-	**50,057**
Collective investment undertakings	-	-	-	-	-	-	-	-	9,040	**9,040**
Other									11,584	**11,584**
Total	**419,863**	**10,165**	**5,513**	**4,791**	**31,951**	**62,246**	**16,362**	**47,345**	**20,624**	**618,860**

The maturity analysis for exposures secured on immovable property does not include off-balance sheet commitments that are included in the regulatory exposure measure (following the application of a 50% credit conversion factor). At 31 March 2017 off-balance sheet commitments before the application of conversion factors totalled £102.3m, of which £41.6m were commitments to SMEs.

Accounting provisions

Under the standardised approach the exposure value is stated net of specific impairment provisions. General impairment provisions are not deducted from the exposure value, but instead form part of Tier 2 capital.

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

The guidance requires assets to be classified into the following three stages:

- **Stage 1:** instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and interest revenue is calculated on the gross carrying amount of the asset. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

7. Pillar 1 capital requirements (continued)

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

At 31 March 2017 stage 1 provisions stood at £0.3m. As stage 1 provisions are not related to specific deterioration in borrower credit quality, they have been classified as general credit risk adjustments for regulatory purposes. Please refer to pages 56 of the Annual Report for further information on the IFRS 9 provisions.

Wholesale credit risk

Wholesale credit risk arises from the portfolio of High Quality Liquid Assets (HQLA) and other financial assets that Atom's Treasury manage, and represents the risk that counterparties will fail to repay amounts when due. Atom has a low appetite for this form of risk and consequently exposures are restricted to high quality counterparties with a low risk of failure, and with limits, tenors and exposures set accordingly.

Treasury exposures and limits are focused in the main on UK institutions, with additional limits extended to a small number of highly rated banks in Europe and other developed economies such as USA, Australia and Canada.

All counterparty credit limits require Board approval, and are subject to an initial assessment of the creditworthiness of the counterparty, with the approved limit then being subject to at least an annual review. Counterparty credit limits are set in line with the Board approved Treasury and Financial Risk Management Policy which sets maximum limits relative to the Bank's capital base determined by their Atom Counterparty Risk Rating which takes into account internal analysis, external credit ratings, country of domicile and any other relevant factors. The Atom risk grades are calibrated so as to correspond broadly with externally available credit ratings.

In order to derive RWAs for wholesale exposures, counterparties are mapped to a specific credit grade using external credit rating agency information. Atom uses the credit ratings provided by Standard and Poor's, Moody's and Fitch to determine the credit quality step that is used to derive the corresponding RWAs. The following tables show the exposure values of wholesale treasury assets that use external credit ratings to derive RWAs.

Table 10 – Wholesale exposure values before credit risk mitigation by external credit ratings at 31 March 2017

	AAA to AA- £'000	BBB+ to BBB- £'000
Central governments and central banks	457,778	-
Multilateral development banks	6,693	-
Institutions	5,871	2,399
Covered bonds	15,932	-
Securitisation positions	10,192	-
Collective investment undertakings	9,040	-
Total	**505,506**	**2,399**

7. Pillar 1 capital requirements (continued)

Table 11 – Wholesale exposure values after credit risk mitigation by external ratings at 31 March 2017

	AAA to AA- £'000	BBB+ to BBB- £'000
Central governments and central banks	462,599	-
Multilateral development banks	6,693	-
Institutions	1,050	2,399
Covered bonds	15,932	-
Securitisation positions	10,192	-
Collective investment undertakings	9,040	-
Total	**505,506**	**2,399**

Atom has benefitted from a reduced risk weighting for a single debt instrument that is guaranteed by the UK Government. Following the application of the substitution approach, exposures to Institutions have reduced by £4.8m with a corresponding increase in exposures to Central Governments.

Credit risk exposures by geography and sector

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

Table 12 – Exposure value by geographic location at 31 March 2017

	UK £'000	Europe £'000	Total £'000
Secured on immovable property	110,771	-	110,771
Central governments and central banks	451,176	6,602	457,778
Multilateral development banks	159	6,534	6,693
Institutions	8,165	105	8,270
Covered bonds	15,932	-	15,932
Securitisation positions	50,057	-	50,057
Collective investment undertakings	9,040	-	9,040
Other	11,584	-	11,584
Total	**656,884**	**13,241**	**670,125**

Atom's exposures outside of the UK are all credit quality step 1. Consequently the non-UK exposures to Central Governments and Multilateral Development Banks attract a zero risk weight and the non-UK exposures to institutions are risk weighted at 20%.

7. Pillar 1 capital requirements (continued)

Table 13 – Exposures by sector

	Individuals £'000	Corporate SME £'000	Financial/ Sovereign £'000	Other £'000	Total £'000
Secured on immovable property	63,323	47,448	-	-	**110,771**
Central governments and central banks	-	-	457,778	-	**457,778**
Multilateral development banks	-	-	6,693	-	**6,693**
Institutions	-	-	8,270	-	**8,270**
Covered bonds	-	-	15,932	-	**15,932**
Securitisation positions	-	-	50,057	-	**50,057**
Collective investment undertakings	-	-	9,040	-	**9,040**
Other	-	-	-	11,584	**11,584**
Total	**63,323**	**47,448**	**547,770**	**11,584**	**670,125**

7.3 Credit risk - securitisation

Atom is a participant in the securitisation market, acting as an investor only. All of the Bank's securitisation positions are on balance sheet exposures arising from the purchase of the senior notes in each transaction.

The Bank has invested in several highly rated, marketable loan notes that are used to manage overall liquidity requirements. These notes are backed by residential mortgage assets. External credit assessments are used to determine the applicable risk weights which, in turn, are used to determine capital requirements.

In March 2017, Atom also purchased a loan note which funds a portfolio of unsecured loans to SMEs. Principal and interest payments of the £39.9m loan note is legally supported by a £49.8m pool of unsecured loans, which creates 20% first loss credit protection for Atom.

Atom receives information on the underlying assets on a monthly basis that it uses to monitor the credit quality of the underlying loans. The information is also used to determine the capital requirements for the investment.

In order to determine the risk weight of the unrated exposure, a concentration ratio based on the transactions structure, is applied to the average risk weight of the underlying asset pool. For this particular exposure the applicable risk weight determined using the method prescribed by the CRR is 100%.

7.4 Counterparty credit risk and CVA

Counterparty credit risk is the risk that a counterparty to a transaction defaults during the life of that transaction. Atom is exposed to counterparty credit risk through its use of derivative contracts to manage interest rate risk.

Atom's counterparty and wholesale credit risk exposure limits are set out in the Bank's Treasury & Financial Risks Management Policy. These limits are allocated in proportion to the total capital of the Bank. The calibration of these limits has been made in proportion to the credit quality of the wholesale credit such that no exposure to an entity can exceed 10% of Atom's total capital.

Atom has a Collateral Management Policy, which sets out the Bank's approach to managing its collateral. Currently, Atom is required to pledge initial margin and will pledge or receive variation margin depending on the value of the underlying derivitive contracts.

7. Pillar 1 capital requirements (continued)

Derivative exposures are measured using the mark-to-market method. Under this approach, the exposure value of each contract is the sum of its replacement cost and potential future credit exposure. The potential future credit exposure is a regulatory 'add on' that is derived by applying a standardised multiple to the contracts notional value.

Table 14 – Derivative exposures

	2017 £'000
Gross positive FV of derivative contracts	30
Collateral pledged	280
Gross derivative exposure	**310**
Negative FV of contracts available for netting	(154)
Potential future credit exposure	246
Net derivative exposure	**402**

Atom is also required to hold capital for CVA due to its exposure to derivatives. CVA is an adjustment to the fair value of a derivative contract reflecting the value of counterparty credit risk inherent in that contract. The standardised approach takes account of the external credit ratings of derivative counterparties and incorporates the derivative exposure value and effective maturity using the calculation prescribed by the CRR. Table 7 shows RWAs and the Pillar 1 requirement for CVA.

7.5 Operational risk

Operational risk is the risk of loss, whether direct or indirect, to which Atom is exposed due to inadequate or failed internal processes or systems, human error or external events.

Atom uses the basic indicator approach to determine Pillar 1 requirements for operational risk.

The basic indicator approach uses an average of the last three years operating income to determine the Pillar 1 requirement. The requirement is equal to 15% of the average operating income over the three year period.

As Atom does not have three years of trading history, it uses forward looking estimates to determine the requirement. This approach is permitted by CRD IV, provided that the forecasts are substituted with actual operating income as soon as possible. Table 7 shows RWAs and the Pillar 1 requirement for operational risk.

7.6 Market risk

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

Since Atom does not operate a Trading Book, its only market risk exposures that are subject to Pillar 1 requirements arise from its foreign exchange (FX) exposures. Atom has no appetite for FX risk but the Bank is compelled to accept a degree of risk that arises from the need to make payments to suppliers in certain currencies. As this exposure is less than the de minimis level prescribed by the CRR, the Bank does not have a Pillar 1 requirement.

7. Pillar 1 capital requirements (continued)

Atom's main source of market risk is interest rate risk. Treasury is responsible for managing this risk and does this through natural offsets of matching assets and liabilities where possible. Residual positions are hedged using interest rate swaps. IRRBB is assessed under Pillar 2A and the capital requirements imposed on Atom through the Bank's specific ICG will include an element for interest rate risk.

See page 73 of the Annual Report for further information on the management and mitigation of market risk.

Atom bank

8. Remuneration disclosures

This section provides details of the remuneration of Atom's Material Risk Takers (MRT) together with an explanation of remuneration policies, practice and governance. MRTs are those individuals whose actions have a material impact on the Bank's risk profile, based on criteria set by the EBA. During the year there were a total of 11 MRTs.

Approach to remuneration

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

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

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

Atom's overall principles for reward are:

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

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

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

8. Remuneration disclosures (continued)

Methods of remuneration

Basic pay

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

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

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

Underperforming individuals will not be awarded any basic pay increase.

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

Variable pay – Annual Performance Share Scheme (APSS)

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

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

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

The share option award will be calculated based on the current share price value.

To help retention and to align employees' long term performance with the interests of shareholders, the options are subject to the following vesting conditions:

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

Underperformers will not receive a performance share option award.

8. Remuneration disclosures (continued)

Long-term Incentive Share Option Scheme (LTIP)

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

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

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

Remuneration decision making process

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

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

Remco met twice during the year. The Committee members are:

- Jon Hogan (Chair)
- Patricia Jackson
- Laurel Powers-Freeling
- Teppo Paavola

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

Recruitment policies

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

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

8. Remuneration disclosures (continued)

Remuneration for material risk takers

The table below details the remuneration for MRTs during the year. Fixed remuneration includes base salary, allowances, benefits, and pension. Variable awards are all share options schemes and are subject to vesting conditions with value based on the fair value of the options awarded. APSS awards for the current financial year are not granted to employees until June 2017, however have been included in the table.

Table 15: Remuneration summary

	£'000s
Fixed	**5,742**
APPS	2,103
LTIP	114
JSOP	4,600
Variable	**6,817**
Total	**12,559**

The JSOP (Joint Share Option Plan) was awarded to certain founders of the Bank. It is a one off reward designed to retain individuals following an investment from one of the Bank's strategic investors.

No joining awards were made to MRT's during the year.

A severance award of £48k was made to one MRT during the year.

Table 16: Deferred remuneration – share option awards

Deferred remuneration is received by MRTs in the form of share option awards. No performance related adjustments were made to deferred remuneration.

	£'000
Not yet vested	3,219
Vested but unexercised	3,648
Total as at 1/4/16	**6,867**
Not yet vested	6,025
Vested but unexercised	6,429
Total as at 31/3/17	**12,454**

8. Remuneration disclosures (continued)

Table 17: Remuneration by band

	Number of MRTs
Less than €1,000,000	42
€1,000,001 to €1,500,000	1
€1,500,001 to €2,000,000	1
€3,000,001 to €3,500,000	1

Excluding the one off JSOP award no MRT's remuneration was greater than €1,000,000.

Appendix 1 – EBA own funds disclosure template

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

	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and related share premium	167,318
2	Retained earnings	(29,202)
3	Accumulated other comprehensive income (and other reserves)	8,135
6	**Common equity tier 1 before regulatory adjustments**	**146,251**
	Common Equity Tier 1 capital: regulatory adjustments	
7	Additional valuation adjustments	(87)
8	Intangible assets	(30,546)
16	Direct and indirect holdings of own CET1 instruments	(136)
25a	Losses for the current financial year	(42,169)
28	**Total regulatory adjustments to CET1**	**(72,938)**
29	**Common equity tier 1 CET1 capital**	**73,313**
45	**Tier 1 capital**	**73,313**
	Tier 2 capital and provisions	
50	General credit risk adjustments	295
51	**Tier 2 capital before regulatory adjustments**	**295**
58	**Tier 2 capital**	**295**
59	**Total capital**	**73,608**
60	**Total risk weighted assets**	**166,888**
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	43.93%
62	Tier 1 (as a percentage of total risk exposure amount)	43.93%
63	Total capital (as a percentage of total risk exposure amount)	44.11%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation buffer and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institiution buffer expressed as a percentage of total risk exposure amount)	5.75%
65	of which: capital conservation buffer requirement	1.25%
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	34.68%
	Applicable caps on the inclusion of provisions in Tier 2	
76	Credit risk adjustments included in T2 in respect of exposures subject to the standardised approach (prior to the application of the cap)	295
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	1,384

Appendix 2 – Key features of capital instruments

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

1	Issuer	Atom Bank plc
2	Unique identifier	N/A
3	Governing law(s) of the instrument	English
	Regulatory treatment	
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-)consolidated/solo & sub consolidated	Solo
7	Instrument types (types to be specified by each jurisdiction)	Share capital
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£167m
9	Nominal amount of instrument	£0.00001
9a	Issue price	Various
9b	Redemption price	N/A
10	Accounting classification	Equity
11	Original date of issuance	14 March 2014
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Option call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates if applicable	N/A
	Coupons/Dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or incentive to redeem	N/A
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion triggers	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify the instrument type convertible into	N/A
29	If convertible, specify the issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

Appendix 3 - Countercyclical capital buffer disclosures

The following tables disclose information relevant for the calculation of the countercyclical buffer as at 31 March 2017 in accordance with Regulation (EU) 2015/1555.

As at 31st March 2017	General credit exposures		Trading Book Exposures		Securitisation Exposures		Own Funds Requirements					
	Exposure value for standardised approach	Exposure value for IRB	Sum of long and short positions of trading book positions for the standardised approach	Value of trading book exposures for internal models	Exposure value for standardised approach	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: securitisation positions	Total	Own funds requirements weights	Countercyclical buffer rate
Breakdown by country:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
UK	147,327	-		-	50,057	-	6,077	-	3,352	**9,429**	100%	0%
Total	**147,327**	**-**		**-**	**50,057**	**-**	**6,077**	**-**	**3,352**	**9,429**	**100%**	**0%**

Amount of institution-specific countercyclical capital buffer	
Total risk exposure amount	£166.9m
Institution's specific countercyclical buffer rate	0%
Institution's specific countercyclical buffer requirement	-

Appendix 4 – Analysis of the leverage ratio

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

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

		£'000
1	Total assets per published financial statements	648,837
4	Adjustment for derivative financial instruments	402
6	Adjustments for off balance sheet items (conversion of credit equivalent amount for off-balance sheet items)	51,321
7	Other adjustments	(30,633)
8	**Leverage ratio total exposure amount**	**669,927**

LR Com: Leverage ratio common disclosure

		£'000
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets, but including collateral)	648,837
2	Asset amounts deducted in determining Tier 1 capital	(30,633)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**618,204**
	Derivative exposures	
4	Replacement cost associated with all derivative transactions (ie net of eligible cash variation margin)	310
5	Add-on amounts for PFE associated with all derivative transactions (mark-to-market method)	246
7	Deductions of receivables assets for cash variation margin provided in derivative transactions	(154)
11	**Total derivatives exposure**	**402**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	102,479
18	Adjustments for conversion to credit equivalent amounts	(51,158)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**51,321**
	Capital and total exposure measure	
20	Tier 1 capital	73,313
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16,19, EU-19a and EU-19b)	669,927
22	**Leverage ratio**	**10.94%**
	Choice on transitional arrangements and fiduciary items	
EU-23	Choice on transitional arrangements for the definition of capital	Fully loaded

Appendix 4 – Analysis of the leverage ratio (continued)

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

		£'000
EU - 1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	648,837
EU - 3	Banking book exposures:of which	648,837
EU - 4	Covered bonds	15,932
EU - 5	Exposures treated as sovereigns	462,599
EU - 6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	6,693
EU - 7	Institutions	2,657
EU - 8	Secured by mortgages on immovable property	59,613
EU - 12	Other exposures (eg equity, securitisations and other non-credit obligation assets)	101,343

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

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

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

The principal committee at which the Bank's leverage ratio is scrutinised and managed is the ALCO, which is a subcommittee of Exco and ERC. 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.

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

Significant growth in total balance sheet assets and therefore the leverage ratio exposure measure is primarily responsible for the movement in the leverage ratio during the period. Total balance sheet assets stood at £648.8m (2017) compared with £37.5m (2016). After considering all off balance sheet items, deductions for items deducted from Tier 1 and derivative exposures, the leverage ratio exposure measure was £669.9m (2017) compared with £18m (2016).

The impact of the increase in the leverage ratio exposure measure was partially offset by an increase in Tier 1 capital during the period. Tier 1 capital was £73.3m (2017) compared with £10m (2016).

Appendix 5 – Encumbered assets

The following tables provide information on Atom's encumbered assets at 31 March 2017 in accordance with EBA guidelines EBA/GL/2014/03. Template B has been excluded from the disclosure due to the fact that no collateral has been received and therefore there is no information to disclose.

A - Assets

		Carrying amount of encumbered assets £'000	Fair value of encumbered assets £'000	Carrying amount of unencumbered assets £'000	Fair value of unencumbered assets £'000
10	Assets of the reporting institution	280	-	648,557	-
40	Debt securities	-	-	127,114	127,114
120	Other assets	280	-	521,443	-

C - Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent £'000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £'000
010	Carrying amount of selected financial liabilities	124	280

D – Information on importance of encumbrance

Exposure values for encumbrance are presented as at 31 March 2017. Atom has chosen not to disclose median values for the previous 12 months as prescribed by the EBA guidelines, as it believes that in doing so, it would present a distorted and less reliable view of encumbrance. This is due to the transformation of the balance sheet over the period and the fact that assets were only encumbered in the third quarter following Atom's first derivative transaction.

Atom's only source of encumbrance are derivative transactions used to manage interest rate risk. Under the current collateral agreement with its sole derivative counterparty, Atom is required to pledge initial and variation margin.

The value of unencumbered assets in table A includes intangibles and fixed assets amounting to £31m. These assets would not be deemed to be available for encumbrance in the normal course of business.

Atom bank