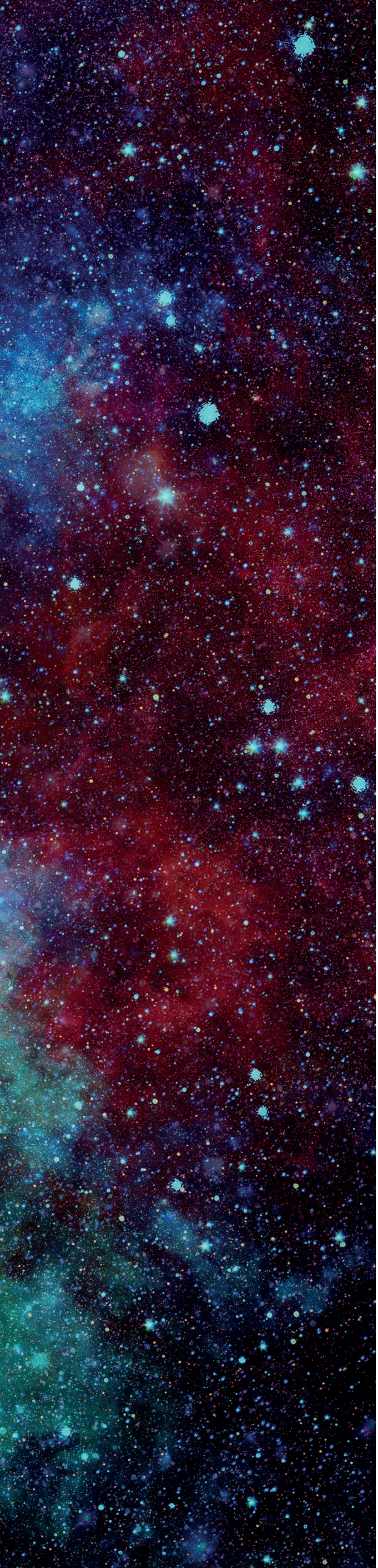
DIGITALISE-DISRUPT

PILLAR 3 DISCLOSURES
2017/18

Atom bank



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

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References to "the year", "2017/18" and "2018" refers to the financial year from 1 April 2017 to 31 March 2018. References to "2017" refers to the financial year 1 April 2016 to 31 March 2017

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1. Introduction

Hello, we're Atom bank. We're here to change banking and create a disruptive digital bank, keeping costs low and passing the value back to our customers. Atom was founded in 2014 and launched in 2016 offering customers savings, business loans and residential mortgages. The Atom App is at the heart of the bank, with a 24/7 support team on hand to help with any queries by phone, chat, email and social media, from our home in the City of Durham.

Atom has grown quickly, taking our total retail deposits to £1.4bn and loans to small businesses and homeowners to £1.2bn.

In the coming months and years we will continue to expand our range of products and services to provide a genuine alternative to the established banks here in the UK.

This document is Atom's annual Pillar 3 report for the period to 31 March 2018.

2. Disclosure Policy

Basis of preparation

The Capital Requirements Regulation (CRR) (EU Regulation No 575/2013) and the fourth Capital Requirements Directive (CRD) (EU Directive 2013/36) were implemented in the UK on 1 January 2014 and are collectively known as the CRD IV package (CRD IV). Atom's Pillar 3 disclosures comply with the requirements of CRD IV including any EU implementing and delegated legislation and any European Banking Authority (EBA) guidelines in force at 31 March 2018.

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

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

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

No further disclosures have been omitted on the basis provided by Article 432 or on any other basis.

In March 2017 the EBA published an opinion (EBA/OP/2017/02) on the regulatory treatment of credit risk adjustments following the introduction of IFRS 9. In this publication the EBA clarified that all credit provisions should be classified as specific credit risk adjustments regardless of the IFRS 9 provision stage. Consequently, during this period Atom have reclassified all stage 1 IFRS 9 provisions from general to specific credit risk adjustments.

As per 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.

3. Regulatory developments

In the European Union (EU), elements of the Basel Committee's Basel III reforms are still to be implemented. In 2016 the European Commission published the proposal to implement these changes through revisions to the CRR and the CRD (collectively referred to as 'CRR 2'). The key revisions affecting the Bank include changes to the counterparty credit risk framework and the introduction of binding leverage and net stable funding ratios. The CRR 2 changes are expected to be finalised in 2018 with the implementation date to be confirmed.

Additionally, in December 2017 the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision, endorsed the outstanding Basel III post-crisis regulatory reforms. The final package includes a number of revisions that will affect the Bank, including changes to the credit risk, credit valuation adjustment and operational risk frameworks and to the definition of the exposure measure used to calculate bank leverage. The Committee has confirmed that it expects the changes to be implemented by 1 January 2022.

In December 2017 EU Regulation 2017/2395 was published in the official journal of the EU with an effective date of 1 January 2018. The regulation introduces transitional provisions allowing banks to phase in the impact of IFRS 9 credit provisions on regulatory capital. Atom has notified the PRA of its intention to apply the transitional provisions from 1 April 2018, the start of its next accounting period.

In January 2018 the EBA published final guidelines (EBA/GL/2018/01) on disclosure requirements for IFRS 9 transitional provisions. Atom will adopt the disclosure requirements in its next accounting period to coincide with the application of those provisions.

4. Summary analysis

This section provides a summary analysis of the Bank's capital position, leverage and risk-weighted assets (RWA) at 31 March 2018.

Table a – Capital and Leverage Ratios

	2018	2017
CET1 ratio	17.5%	43.9%
T1 ratio	17.5%	43.9%
Total capital ratio	18.9%	44.1%
Leverage ratio	5.0%	10.9%

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

Despite an increase in capital resources during the period, the banks key capital ratios have fallen year on year due to the significant growth in customer lending and the corresponding increase in RWAs.

The growth in total balance sheet assets to £1.96bn (2017 £0.65bn) has driven the movement in the leverage ratio during the period. The impact of the increase in assets has been partially offset by the increase in Tier 1 capital resources in the year.

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

Table b – Own funds

Common Equity Tier 1	**2018 £'000**	**2017 £'000**
Paid up share capital and associated premium	246,664	167,318
Other reserves	11,877	7,999
Retained losses	(124,051)	(71,371)
Total equity per balance sheet	**134,490**	**103,946**
Regulatory capital adjustments		
Intangibles	(34,109)	(30,546)
Prudential valuation adjustments	(323)	(87)
Common Equity Tier 1	100,058	73,313
Additional Tier 1 securities	0	0
Total Tier 1 capital	**100,058**	**73,313**
Tier 2 capital		
Issued Tier 2 Capital Instruments	7,935	
General credit risk adjustments		295
Total Tier 2 capital	**7,935**	**295**
Total own funds	**107,993**	**73,608**

4. Summary analysis

Continued...

During the period Atom raised £79.3m (after issue costs) of ordinary share capital to support planned lending activity and to continue to develop the Bank's capabilities. Retained losses increased by £52.7m and other reserves increased by £3.9m resulting in a net increase in balance sheet equity of £30.5m (£74.6m 2017) to £134.5m. Following the application of prudential filters, available CET1 resources stood at £100.1m (£73.3m 2017).

The Bank also issued eligible Tier 2 subordinated debt instruments with a notional value of £8m during the period. The amount of eligible Tier 2 instruments recognised in regulatory capital at 31 March 2018 was £7.9m having considered associated issue costs that are amortised over the life of the instruments. Atom's Tier 2 instruments are held by the British Business Bank who have committed to purchase up to a maximum of £30m of Tier 2 capital, subject to the bank meeting certain performance criteria.

Article 62(C) of the CRR permits banks using the standardised approach to add general credit risk adjustments back to Tier 2 capital resources, subject to a cap of 1.25% of total standardised credit RWAs . Following the reclassification of IFRS 9 stage 1 provisions, Atom no longer recognises any general credit risk adjustments and consequently no Tier 2 capital resources are recognised due to credit provisioning. At 31 March 2017 £0.3m of IFRS 9 stage 1 provisions were recognised in Tier 2 capital.

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

Table c – Summary of risk weighted assets

	2018 £'000	2017 £'000
Credit risk	529,996	76,974
Counterparty credit risk	2,928	201
Credit valuation adjustment	3,529	1,165
Credit risk - Securitisation	23,427	41,904
Operational risk	12,686	46,644
Total RWA	**572,566**	**166,888**

All RWAs for credit and counterparty credit risk are calculated using the standardised approach and RWAs for operational risk are calculated using the basic indicator approach. Further information on RWAs is provided in section 9.

5 - Regulatory capital framework

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

Regulatory capital resources

Common Equity Tier 1

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

Additional Tier 1 Capital

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

Tier 2 Capital

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

Capital requirements

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

Pillar 1 capital requirements

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

The Pillar 1 capital requirement is 8% of RWAs.

CRD IV allows a range of approaches that vary in sophistication to be used to determine RWA amounts. Atom currently uses the Standardised Approach to determine risk weights for credit, counterparty credit, CVA and market risk exposures. The Basic Indicator Approach is used to determine operational risk RWAs. Further detail explaining the methodology for calculating RWAs is provided in section 9.

5 - Regulatory capital framework

Continued...

Pillar 2 Capital Requirements

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

Atom's prescribed TCR is 10% of RWAs with a fixed element of £2.5m. This means that in order to meet its TCR, Atom must hold capital equal to 2% of RWAs plus a further £2.5m in addition to the 8% minimum requirement under Pillar 1.

Pillar 2B

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

The PRA buffer takes into consideration the extent to which the CRD IV Combined Buffer (The Capital Conservation Buffer and any applicable systemic buffers) already captures the risks that are considered as part of the PRA buffer assessment.

If the PRA buffer assessment is greater than the CRD IV Combined Buffer requirement, the PRA buffer is binding and an additional buffer requirement is imposed.

Capital Conservation Buffer (CCB)

The CCB is a general buffer that is designed to build up a bank's available capital resources and therefore resilience, during non-stressed periods. From 1 January 2018 Atom has been required to hold a CCB of 1.875% of RWAs which will rise to 2.5% on 1 January 2019.

Countercyclical Capital Buffer (CCyB)

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

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

The UK CCyB rate is currently set at 1%. In June 2017 the FPC increased the buffer rate to 0.5% with a further 0.5% increase being announced in November 2017. Consequently Atom will be required to hold a CCyB buffer of 0.5% of RWAs from June 2018 rising to 1% in November 2018.

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

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.

5 - Regulatory capital framework

Continued...

Table d – Summary of capital requirements

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

Requirement or buffer	Calculation method	Quality of capital required to meet the requirement	Impact on Atom
Pillar 1	Fixed percentage of RWAs as prescribed in Article 92 of the CRR	4.5% of RWA met by CET1 capital 6% of RWAs met by T1 capital 8% of RWAs met by Total capital	The impact of the Pillar 1 capital requirements can be seen in section 9
Pillar 2A	Expressed as a percentage of RWAs	56% to be met by CET1 capital 75% to be met by T1 capital 100% to be met by Total capital	Atom 's Pillar 2A capital requirement is 2% of RWAs plus a fixed element of £2.5m
Countercyclical buffer and sectoral capital requirements	Expressed as a percentage of RWAs	CET1 Capital	Currently no requirement. 0.5% effective from June 2018 1% effective from November 2018
Systemic buffers	Expressed as a percentage of RWAs	CET1 Capital	Applicable only to global and other systemically important institutions
Capital conservation buffer	Expressed as a percentage of RWAs	CET1 Capital	1.875% of RWAs rising to 2.5% from 1 Jan 2019
PRA Buffer (Pillar 2B)	Expressed as a percentage of RWAs	75% met by CET1 in 2018, 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 2018.

Leverage ratio framework.

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

Proposed changes to the CRR and CRD including the implementation of a binding leverage ratio are working their way through the EU legislative process. It is anticipated that this process will be finalised during 2018 at which point the implementation date will be confirmed. The proposal introduces a minimum binding leverage ratio of 3%.

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

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

Minimum Requirements for Own Funds and Eligible liabilities

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

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

6. Risk management

A core objective for the Bank is the effective management of risk. The responsibility for identifying and managing the principal risks rests with the Board of Directors. The Board has ultimate responsibility for setting the Bank's strategy, risk appetite and control framework. The Board considers that, as at 31 March 2018, it had in place adequate systems and controls with regard to the Bank's risk profile and strategy.

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 a failure to respond effectively 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.

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

Regulatory Risk – 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 other 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 required currency.

Funding Risk – the risk that the bank fails to raise the required levels of funding to meet its planned lending.

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

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

Atom's Enterprise Risk Management Framework (ERMF)

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

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

Risk culture

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

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

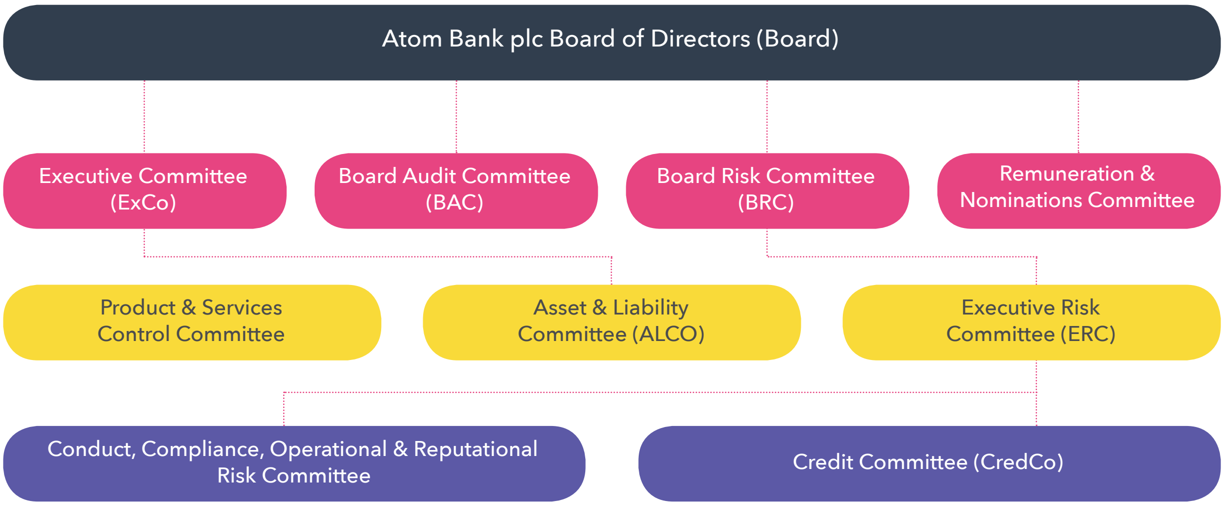
Risk governance and oversight

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

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

6. Risk management
Continued...

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



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

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

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

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

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

Assets & Liabilities Committee (ALCO) – a sub-committee of the ExCo, tasked with monitoring the bank's Capital and Liquidity.

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

Risk operating model

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

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

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

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

Monitoring and reporting

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

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

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

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

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

6. Risk management

Continued...

Risk management processes

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

Risk identification

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

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

Risk measurement

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

Risk appetite

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

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

Risk management

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

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

Risk Control Self-Assessment (RCSA)

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

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

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

Key and Emerging Risk Register (KERR)

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

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

Atom's KERR 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 they inform Atom's ICAAP and Internal Liquidity Adequacy Assessment Process (ILAAP) submissions.

For further information on the key and emerging risks at the year end, please refer to page 26 in the Annual Report.

Stress testing and scenario analysis

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

6. Risk management

Continued...

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

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).

The BCP addresses the following primary objectives:

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

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

Recovery and Resolution Planning

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

The Resolution Pack provides the relevant regulatory 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 it 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.

7. Capital risk

Capital risk is the risk that the Bank has insufficient capital resources both 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 written by the Bank; having a large unexpected development cost for the business; or having lending origination rates that far exceed expectations.

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

The principal committee at which the bank's capital is scrutinised and managed is the ALCO. Both ExCo and ERC review high level capital metrics. 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 were either expanding rapidly or were experiencing setbacks, it would require more capital than originally estimated. Atom continues to work with its existing equity investor base to secure investment for future growth.

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

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

The ICAAP considers a series of extreme, but plausible, stresses that might arise during a three-year time horizon within the Bank's business plan projection to assess the resilience of the capital position. The stress testing affects capital either by the depletion of capital, or by a failure to raise new capital, or by increasing the capital requirements as a consequence of changes in the firm's risk profile. With the exception of the reverse stress test, which is designed to highlight the vulnerabilities that would cause a bank to fail, Atom is able to demonstrate that it is able to withstand the Board-approved stress scenarios. In some cases, in part, this may be due to management actions being 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 the plan.

In order to avoid breaching a regulatory capital measure, an in-house 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.

Capital metrics are produced monthly to assess the current position compared to the latest forecast. A revised forecast is produced quarterly in business as usual and stressed conditions, showing the potential capital position in the event that further capital raises prove to be delayed or unsuccessful.

Key capital risk metrics

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

Table e – Movement in capital resources

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

	CET1 £'000	Tier 2 £'000	Total Own Funds £'000
As at 1 Apr 2017	**73,313**	**295**	**73,608**
Loss for the period	(52,680)	-	(52,680)
Fair value reserve (debt instrument)	(671)	-	(671)
Issue of new ordinary shares	79,346	-	79,346
Issue of shares under employee share schemes	4,894	-	4,894
Increase in treasury shares	(345)	-	(345)
Movement in intangible assets	(3,563)	-	(3,563)
Movement in prudential valuation adjustment	(236)	-	(236)
General credit risk adjustments	0	(295)	(295)
Issuance of Eligible Tier 2 Instruments	0	**7,935**	7,935
As at 31 March 2018	**100,058**	**7,935**	**107,993**
Total RWA	-	-	**572,566**
CET1 ratio	-	-	**17.5%**
Total Capital Ratio	-	-	**18.9%**

During the year, Atom raised £79.3m (after issue costs) of ordinary share capital and £7.9m of subordinated debt to support planned lending activity and to further develop the bank's capabilities. A further £153.3m (after issue costs) has been raised since the end of the financial year. £13.5m was issued in April 2018 and the remaining £139.8m was issued in May 2018.

7. Capital risk

Continued...

Table f – 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**	**0**	**9,955**
Loss for the period	(42,169)	-	(42,169)
Fair value reserve (debt instrument)	326	-	326
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)
Movement in prudential valuation adjustment	(87)	-	(87)
General credit risk adjustments	0	295	295
Issuance of Eligible Tier 2 Instruments	0	-	0
As at 31 March 2017	**73,313**	**295**	**73,608**
Total RWA	-	-	**166,888**
CET1 ratio	-	-	**43.9%**
Total Capital Ratio	-	-	**44.1%**

Table g – Breakdown of the leverage ratio

	2018 £'000	2017 £'000
Tier 1 capital resources	**100,058**	**73,313**
Exposure measure		
Total balance sheet assets	1,957,158	648,837
Regulatory exposure value for derivatives	5,856	402
Off balance sheet items	82,921	51,158
Other regulatory adjustments (Intangibles & Prudent Valuation Adjustment)	(42,438)	(30,470)
Total leverage ratio exposure measure	**2,003,497**	**669,927**
Leverage ratio	**5.0%**	**10.9%**

8. Funding and liquidity risk

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

Funding Risk is defined as the risk that the Bank fails to raise the required levels of funding at acceptable costs to meet its planned lending.

Atom defines its risk appetite for liquidity and funding risk through defining the minimum liquidity required to survive a variety of stress tests. This is determined by assessing the liquidity resources required to survive over the minimum horizon for each stress scenario. In addition, the Bank also expresses its risk appetite through limits set on certain balance sheet metrics, including measures of funding concentration.

The management of liquidity and funding risks is the responsibility of the Chief Financial Officer. The day-to-day management of liquidity and funding arrangements rests with a dedicated Treasury function. Treasury is supported by the broader Finance function and is overseen by Risk.

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

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

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

The Bank maintains liquidity resources and manages its balance sheet ratios within risk limits, in normal conditions, in order to have sufficient flexibility to react to stress scenarios. The liquidity resources include central bank reserves, high quality marketable debt securities and collateral at the Bank of England that it could use to access its facilities.

8. Funding and liquidity risk

Continued...

The quantity, quality, availability and location of its liquidity resources are defined by guidelines and limits so as to ensure that the Bank can mobilise these resources in a timely fashion. The requirements for the mix of liquidity resources are consistent with the stress scenarios that they seek to mitigate.

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

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

The Bank maintains a Liquidity Contingency Plan (LCP) to enable it to detect signs of liquidity or funding stresses early. The LCP enables Atom to react to such challenges promptly, listing a menu of options available to it to avoid or remedy stressed circumstances.

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

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

Table h – Liquidity coverage ratio

	2018 £'000	2017 £'000
Liquidity buffer	643,721	481,472
Net cash outflows	132,684	74,539
Liquidity coverage ratio	485.2%	645.9%

The Bank's LCR ratio is significantly higher than the minimum regulatory requirement. This is in part due to the prudent management of liquidity risk, however it is primarily due to the activities undertaken by the Bank to ensure funding is in place to support the planned lending activity.

9 . Pillar 1 capital requirements

9.1 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 i – Summary of Pillar 1 requirements by risk category

	RWAs		Capital Requirement	
	2018 £'000	2017 £'000	2017 £'000	2017 £'000
Credit risk	529,996	76,974	42,400	6,158
Counterparty credit risk	2,928	201	234	16
Credit risk securitisation exposures	23,427	41,904	1,874	3,352
Total credit risk	**556,351**	**119,079**	**44,508**	**9,526**
Credit valuation adjustment	3,529	1,165	282	93
Operational risk	12,686	46,644	1,015	3,731
Total RWA	**572,566**	**166,888**	**45,805**	**13,350**

The increase in credit risk RWAs was largely due to the significant growth in the residential lending and Business Banking Secured Lending (BBSL) portfolios in the period. Counterparty credit risk and CVA RWAs also increased due to the use of derivatives to manage interest rate risk on the lending and customer deposit products as well as FX risk on the Bank's Euro denominated deposits.

9.2 Credit Risk

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

Atom currently provides mortgages to individuals and secured loans to businesses in order to generate a return through interest income. Lending creates credit risk as borrowers might fail to pay the interest or the capital due. This is usually caused by adverse changes in macro-economic factors or a change in an individual customer's behaviour and circumstances. As this is a material risk to the Bank, there is significant management focus on setting credit risk appetite and embedding appropriate risk mitigation. See page 61 of the Annual Report for further information on the management and mitigation of credit risk.

Credit risk exposures

This table shows the total exposure value, RWAs and Pillar 1 requirement by exposure class at 31 March 2018 and the average exposure value for each exposure class over the period. The average exposure value is calculated using month end exposures for the 12 months to 31 March 2018.

	Exposure Value £'000	RWA £'000	Capital Requirement £'000	Average Exposure Value £'000
Secured on immovable property	1,281,619	517,314	41,385	831,972
Central governments and central banks	604,975	0	0	292,173
Multilateral development banks	45,621	0	0	53,032
Institutions	9,681	4,691	376	14,903
Covered bonds	20,893	2,089	167	15,366
Securitisation positions	31,878	23,427	1,874	42,183
Collective investment undertakings	0	0	0	1,295
Other	8,830	8,830	706	21,282
Total	**2,003,497**	**556,351**	**44,508**	**1,272,206**

Table k – Year end and average exposures over the period split by exposure category at March 2017

	Exposure Value £'000	RWA £'000	Capital Requirement £'000	Average Exposure Value £'000
Secured on immovable property	110,771	60,976	4,878	32,558
Central governments and central banks	457,778	0	0	156,280
Multilateral development banks	6,693	0	0	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**

9 . Pillar 1 capital requirements

Continued...

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

	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	0	8,338	10,586	21,437	83,978	82,794	205,515	647,705	66,016	1,126,369
Loans to SME secured on immovable property	0	1,092	1,150	3,544	20,618	103,765	7,214	962	16,905	155,250
Secured on immovable property	0	9,430	11,736	24,981	104,596	186,559	212,729	648,667	82,921	1,281,619
Central governments and central banks	360,522	149,790	65,869	6,480	17,367	4,897	0	0	50	604,975
Multilateral development banks	0	0	0	28,964	10,119	6,538	0	0	0	45,621
Institutions	3,824	0	0	0	5,857	0	0	0	0	9,681
Covered bonds	0	0	0	2,507	6,015	12,371	0	0	0	20,893
Securitisation positions	0	0	0	0	22,185	0	0	9,693	0	31,878
Collective investment undertakings	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	8,830	8,830
Total	**364,346**	**159,220**	**77,605**	**62,932**	**166,139**	**210,365**	**212,729**	**658,360**	**91,801**	**2,003,497**

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

Table m – 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	30,356	56,983
Loans to SME secured on immovable property	-	287	229	463	2,572	2,041	5,588	21,700	20,908	53,788
Secured on immovable property	**-**	**571**	**488**	**985**	**4,700**	**4,237**	**11,373**	**37,153**	**51,264**	**110,771**
Central governments and central banks	417,206	-	5,025	-	18,948	11,610	4,990	-	-	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	-	-	-	-	-	39,866	-	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**	**62,247**	**16,363**	**47,345**	**71,888**	**670,125**

At 31 March 2017, the residential mortgage pipeline stood at £60.7m and the BBSL mortgage pipeline was £41.8m. The exposure value is stated net of specific impairments and after the application of a 50% credit conversion factor. They are included in the 'no defined maturity' category in the table above.

Accounting provisions

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

9 . Pillar 1 capital requirements

Continued...

At 31 March 2018 provisions stood at £0.5m (2016 £0.3m). Please refer to pages 65 of the Annual Report for further information on the IFRS 9 provisions.

Wholesale credit risk

Wholesale credit risk arises from the portfolio of High Quality Liquid Assets (HQLA) and other financial exposures that Atom's Treasury manages. Wholesale credit risk is defined as the risk that counterparties will fail to repay amounts owed or perform obligations when due. Atom has a low appetite for this form of risk and, consequently, exposures are restricted to high quality issuers and counterparties with a low risk of failure. Exposure and tenor limits are set accordingly.
Treasury exposures and limits are focused, in the main, on the UK sovereign, UK institutions and UK RMBS issuers, with additional limits extended to a small number of highly rated banks in Europe and other developed economies.

Atom's Board has delegated its authority to the Credit Committee to approve individual counterparty credit limits within strict Board-defined risk appetite guidelines. These guidelines are based upon the tenor of exposure, whether or not the exposure is secured and, crucially, upon the internally-appraised credit worthiness of the counterparty.

The in-house credit worthiness assessments are conducted at the outset and typically reviewed annually with continuous monitoring inbetween. Counterparty credit limits are set in line with the Board-approved policy, which sets maximum limits relative to the Bank's total capital base. The magnitude of such limits is set according to the Atom Risk Grade that has been determined for the specific counterparty. The Atom Risk Grades take into account internal analysis, external credit ratings, country of domicile and many other relevant factors. The Atom Risk Grades are calibrated so as to correspond broadly with externally available credit ratings.

Credit ratings, where they are available, are also used to derive risk weights for wholesale exposures. Atom uses ratings published by Fitch, Moody's and Standard & Poor's, to determine risk weighted exposure amounts. Atom maps the ratings to the appropriate credit quality step using the method prescribed by Commission Implementing Regulation (EU) 2016/1799 and then applies the resultant risk weight to the exposure value to calculate the RWA value.

Table n – Wholesale exposure values before credit risk mitigation by external credit ratings at 31 March.

	2018 AAA to A- £'000	2018 BBB+ to B- £'000	2017 AAA to A- £'000	2017 BBB+ to B- £'000
Central governments and central banks	604,975	-	457,778	-
Multilateral development banks	45,621	-	6,693	-
Institutions	6,356	3,325	5,871	2,399
Covered bonds	20,893	-	15,932	-
Securitisation positions	31,878	-	10,192	-
Collective investment undertakings	0	-	9,040	-
Total	**709,723**	**3,325**	**505,506**	**2,399**

Credit risk exposures by geography and sector

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

Table o – Exposure value before credit risk mitigation by geographic location at 31 March 2018.

	UK £'000	Europe £'000	North America £'000	Total £'000
Secured on immovable property	1,281,619	-	-	1,281,619
Central governments and central banks	598,496	6,480	-	604,975
Multilateral development banks	15,343	20,159	10,119	45,621
Institutions	9,680	-	-	9,680
Covered bonds	20,893	-	-	20,893
Securitisation positions	31,878	-	-	31,878
Collective investment undertakings	-	-	-	0
Other	8,830	-	-	8,830
Total	**1,966,739**	**26,639**	**10,119**	**2,003,497**

At 31 March 2018 Atom had exposures to Multilateral Development Banks and Sovereigns that were located outside the UK. These exposures are subject to a 0% risk weight.

9 . Pillar 1 capital requirements

Continued...

Table p – Exposure value before credit risk mitigation by geographic location at 31 March 2017.

	UK £'000	Europe £'000	North America £'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**

At 31 March 2017 Atom had exposures to non-UK resident Multilateral Development Banks and Sovereigns that attract a 0% risk weight. In addition to those exposures, Atom has a small exposure to a credit institution located in Europe. The credit institution is a highly rated counterparty, exposures to which are risk weighted at 20%.

Table q – Exposures by sector at 31 March 2018.

	Individuals £'000	Secured Lending to Corporate SMEs £'000	Financial/ Sovereign £'000	Other £'000	Total £'000
Accommodation and food service activities	-	13,125	-	-	13,125
Administration and support service activities	-	241	-	-	241
Agriculture, forestry and fishing	-	1,401	-	-	1,401
Art, entertainment and recreation	-	2,092	-	-	2,092
Construction	-	2,487	-	-	2,487
Education	-	1,623	-	-	1,623
Financial	-	93	713,048	-	713,141
Human health services and social work activities	-	5,886	-	-	5,886
Manufacturing	-	1,644	-	-	1,644
Other	-	4,750	-	8,830	13,580
Professional, scientific and technical activities	-	3,560	-	-	3,560
Residential lending to individuals	1,126,370	-	-	-	1,126,370
Real estate activities	-	106,190	-	-	106,190
Transport and storage	-	300	-	-	300
Wholesale or retail trade	-	11,857	-	-	11,857
Total	**1,126,370**	**155,249**	**713,048**	**8,830**	**2,003,497**

Table r – Exposures by sector at 31 March 2017.

	Individuals £'000	Secured Lending to Corporate SMEs £'000	Financial/ Sovereign £'000	Other £'000	Total £'000
Accommodation and food service activities	-	2,258	-	-	2,258
Administration and support service activities	-	0	-	-	0
Agriculture, forestry and fishing	-	0	-	-	0
Art, entertainment and recreation	-	324	-	-	324
Construction	-	1,786	-	-	1,786
Education	-	0	-	-	0
Financial	-	0	547,770	-	547,770
Human health services and social work activities	-	2,062	-	-	2,062
Manufacturing	-	43	-	-	43
Other	-	647	-	11,584	12,232
Professional, scientific and technical activities	-	815	-	-	815
Residential lending to individuals	56,983	0	-	-	56,983
Real estate activities	-	43,340	-	-	43,340
Transport and storage	-	0	-	-	0
Wholesale or retail trade	-	2,514	-	-	2,514
Total	**56,983**	53,788	**547,770**	**11,584**	**670,125**

9.3 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 it uses to manage overall liquidity requirements. These notes are backed by residential mortgage assets.

In March 2017, Atom also purchased a loan note, which funds unsecured loans to SMEs. Principal and interest payments of the £39.9m loan note are legally supported by a £49.8m pool of unsecured loans, which creates 20% of first-loss credit protection for Atom. By 31 March 2018, this asset had repaid its principal balances in line with its expected repayment schedule, such that only £20.7m remained on Atom's balance sheet.

9 . Pillar 1 capital requirements

Continued...

9.4 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 and currency risk.

Atom's counterparty risk 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 unless specifically authorised by the Board.

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

Atom's approach to collateral management is included in the Treasury & Financial Risk Management policy, which sets out the Bank's approach to managing its collateral. Atom pledges or receive variation margin depending on the value of the underlying contracts.

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

Table s – Derivative exposures

	2018 £'000	2017 £'000
Gross positive FV of derivative contracts	10,786	30
Collateral pledged	-	280
Gross derivative exposure	**10,786**	**310**
Negative FV of contracts available for netting	(2,496)	(154)
Collateral received	(8,290)	-
Potential future credit exposure	5,856	246
Net derivative exposure	**5,856**	**402**

Atom is also required to hold capital for CVA due to the Bank's 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. Table i shows RWAs and the Pillar 1 requirement for CVA.

9.5 Operational Risk

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

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

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

9.6 Market risk

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

Since Atom does not operate a Trading Book, its only market risk exposures that are subject to Pillar 1 capital requirements arise from its foreign exchange (FX) exposures. Atom has 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.

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. Interest Rate Risk in the Banking Book (IRRBB) is assessed under Pillar 2A and the capital requirements imposed on Atom through the bank's specific TCR include an element for interest rate risk.

See page 86 of the Annual Report for further information on the management and mitigation of market risk.

10. Remuneration

This section provides details of the remuneration of Atom's Material Risk Takers (MRT) together with an explanation of remuneration policies, practice and governance. MRTs are those individuals whose actions have a material impact on the Bank's risk profile, based on criteria set by the EBA. During the year there were a total of 51 MRTs.

Approach to remuneration

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

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

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

Atom's overall principles for reward are:

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

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

- A strong, clear and open communication, ensuring effective feedback mechanisms both up and down the management structure.

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

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

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

10. Remuneration

Continued...

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.

Long-term Incentive Share Option Scheme

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

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

These awards will be calculated based on the award date share price, and can be exercised based on the price at the point of the award. 50% of these shares will vest for 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:

- Bridget Rosewell (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.

Remuneration for Material Risk Takers

The table below details the remuneration for MRTs during the year. Fixed remuneration includes base salary, allowances, benefits and pension. Variable awards are all share options schemes and are subject to vesting conditions. Value is the fair value of the options awarded. Annual performance share scheme (APSS) awards for the current financial year are not granted to employees until June 2018, however have been included in the table.

Table t – Summary of remuneration.

Number of MRTs	**Senior Management £'000**	**MRT's £'000**	**Total £'000**
Remuneration of MRTs			
Fixed	3,315	3,232	6,547
Variable	1,566	973	2,539
Total	**4,881**	**4,205**	**9,086**

A joining award of £30k was made to one MRT during the year.
Severance awards totalling £445k were made to MRTs during the year.

Appendix 1 – EBA own funds disclosure template

The following table shows the make-up of own funds of the Bank at 31 March 2018 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	246,664
2	Retained earnings	(71,371)
3	Accumulated other comprehensive income (and other reserves)	12,358
6	**Common equity tier 1 before regulatory adjustments**	**187,651**
	Common Equity Tier 1 capital: regulatory adjustments	
7	Additional valuation adjustments	(323)
8	Intangible assets	(34,109)
16	Direct and indirect holdings of own CET1 instruments	(481)
25a	Losses for the current financial year	(52,680)
28	**Total regulatory adjustments to CET1**	**(87,593)**
29	**Common equity tier 1 CET1 capital**	**100,058**
45	**Tier 1 capital**	**100,058**
	Tier 2 (T2) capital and provisions	
50	Capital instruments and the related share premium accounts	**7,935**
51	**Tier 2 (T2) capital before regulatory adjustments**	**7,935**
58	**Tier 2 (T2) capital**	**7,935**
59	**Total capital**	**107,993**
60	**Total risk weighted assets**	**572,566**
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	17.5%
62	Tier 1 (as a percentage of total risk exposure amount)	17.5%
63	Total capital (as a percentage of total risk exposure amount)	18.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation buffer and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	6.4%
65	of which: capital conservation buffer requirement	1.9%
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.4%

Appendix 2 – Key features of capital instruments

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

1	Issuer	Atom Bank plc	Atom Bank plc	Atom Bank plc
2	Unique identifier	N/A	N/A	N/A
3	Governing law(s) of the instrument	English	English	English
	Regulatory treatment			
4	Transitional CRR rules	CET1	T2	T2
5	Post-transitional CRR rules	CET1	T2	T2
6	Eligible at solo/(sub-)consolidated/solo & sub consolidated	Solo	Solo	Solo
7	Instrument types (types to be specified by each jurisdiction)	Share capital	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£247m	£4m	£4m
9	Nominal amount of instrument	£0.00001	£4m	£4m
9a	Issue price	Various	£4m	£4m
9b	Redemption price	N/A	£4m	£4m
10	Accounting classification	Equity	Subordinated debt	Subordinated debt
11	Original date of issuance	14 March 2014	22 August 2017	9 September 2017
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	N/A	22 August 2027	9 September 2027
14	Issuer call subject to prior supervisory approval	N/A	Yes	Yes
15	Option call date, contingent call dates and redemption amount	N/A	After 5 years, callable at Atom's discretion	After 5 years, callable at Atom's discretion
16	Subsequent call dates if applicable	N/A	N/A	N/A
	Coupons/Dividends			
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed
18	Coupon rate and any related index	N/A	10%	10%
19	Existence of a dividend stopper	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or incentive to redeem	N/A	N/A	N/A
22	Non-cumulative or cumulative	Non-cumulative	cumulative	cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify the instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify the issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	N/A	N/A
36	Non-compliant transitioned features	N/A	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A

Appendix 3 - Countercyclical capital buffer disclosures

The following tables disclose information relevant for the calculation of the countercyclical buffer at 31 March 2018 in accordance with Regulation (EU) 2015/1555.

As at 31st March 2018	General credit exposures		Trading Book Exposures		Securitisation Exposures		Own Funds Requirements					
Breakdown by country:	Exposure value for standardised approach £'000	Exposure value for IRB £'000	Sum of long and short positions of trading book positions for the standardised approach £'000	Value of trading book exposures for internal models £'000	Exposure value for standardised approach £'000	Exposure value for IRB £'000	Of which: General credit exposures £'000	Of which: Trading book exposures £'000	Of which: securitisation positions £'000	Total £'000	Own funds requirements weights £'000	Countercyclical buffer rate %
UK	1,311,328	-	-	-	31,878	-	42,258	-	1,874	44,132	100%	0%
Total	**1,311,328**	**-**	**-**	**-**	**31,878**	**-**	**42,258**	**-**	**1,874**	**44,132**	**100%**	**0%**

Amount of institution-specific countercyclical capital buffer	
Total Risk Exposure Amount	572,566
Institution's specific countercyclical buffer rate	0%
Institution's specific countercyclical buffer requirement	0

Appendix 4 – Analysis of the leverage ratio

The following tables disclose information on Atom's leverage ratio at 31 March 2018 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	1,957,158
4	Adjustment for derivative financial instruments	(2,152)
6	Adjustments for off balance sheet items (conversion of credit equivalent amount for off-balance sheet items)	82,921
7	Other adjustments	(34,430)
8	**Leverage ratio total exposure amount**	**2,003,497**

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)	1,949,150
2	Asset amounts deducted in determining Tier 1 capital	(34,430)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**1,914,720**
	Derivative exposures	
4	Replacement cost associated with all derivative transactions (ie net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivative transactions (mark-to-market method)	5,856
7	Deductions of receivables assets for cash variation margin provided in derivative transactions	0
11	**Total derivatives exposure**	**5,856**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	165,842
18	Adjustments for conversion to credit equivalent amounts	(82,921)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**82,921**
	Capital and total exposure measure	
20	Tier 1 capital	100,058
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16,19, EU-19a and EU-19b)	2,003,497
22	**Leverage ratio**	**4.99%**
	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)	1,914,720
EU - 2	Trading book exposures	0
EU - 3	Banking book exposures: of which	1,914,720
EU - 4	Covered Bonds	20,893
EU - 5	Exposures treated as sovereigns	604,975
EU - 6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	45,621
EU - 7	Institutions	3,824
EU - 8	Secured by mortgages on immovable property	1,198,697
EU - 9	Retail exposures	0
EU - 10	Corporates	0
EU - 11	Exposures in default	0
EU - 12	Other exposures (eg equity, securitisations and other non-credit obligation assets)	40,710

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

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

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

The principal committee at which the bank's leverage ratio is scrutinised and managed is the ALCO, which is a sub-committee of ExCo. Both ExCo and ERC review high level capital metrics, together with more details if there are any matters of concern. The Board and BRC also receive high level metrics and commentary on capital 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 £1,957m at 31 March 2018, compared with £649m at 31 March 2017. After considering all off-balance sheet items, deductions for items deducted from Tier 1 and derivative exposures, the leverage ratio exposure measure at 31 March 2018 was £2,004m, compared with £669m at 31 March 2017.

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 at 31 March 2018 was £100.1m, compared with £73.4m at 31 March 2017.

Appendix 5 – Encumbered assets

The following tables provide information on Atom's encumbered assets at 31 March 2018 in accordance with EBA guidelines EBA/GL/2014/03.

A - Assets

		Carrying amount of encumbered assets £'000 010	Fair value of encumbered assets £'000 040	Carrying amount of unencumbered assets £'000 060	Fair value of unencumbered assets £'000 090
010	**Assets of the reporting institution**	**634,245**	-	**1,322,913**	-
030	Equity instruments	-	-	-	-
040	Debt securities	-	-	343,118	343,118
120	Other assets	634,245	-	979,795	-

B- Collateral received

		Fair value of encumbered collateral received or own debt securities issued 010	Fair value of collateral received or own debt securities issued available for encumbrance 040
130	**Collateral received by the reporting institution**	-	10,140
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	10,140
240	**Own debt securities issued other than own covered bonds or ABSs**	-	-

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	355,240	634,245

Appendix 5 – Encumbered assets

Continued...

D – Information on importance of encumbrance

Exposure values for encumbrance are presented as at 31 March 2018. 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, with the significant increase in encumbered assets only occurring in the fourth quarter, following Atom's drawing under the Bank of England's Term Funding Scheme (TFS).

Atom's main source of encumbrance is through its participation in the Bank of England TFS scheme. The Bank is also obliged to place collateral with the Bank of England as a direct member of the Faster Payments Scheme.

Under the current collateral agreements with its two derivatives counterparties, Atom may be required to pledge variation margin, however the bank was in receipt of collateral under these agreements at 31 March 2018.

The value of unencumbered assets in table A includes intangibles and fixed assets amounting to £34.6m. These assets would not be deemed to be available for encumbrance in the normal course of business.

Appendix 6 – Analysis of directorships

The following table shows the number of directorships held by Atom Board members at 31 March 2018. As per CRD IV rules, multiple directorships within the same group are treated as a single role and directorships with bodies that do not predominantly pursue commercial objectives are excluded.

	Number of Directorships
Mark Mullen	1
David McCarthy	1
Bridget Rosewell	3
Patricia Jackson	3
Laurel Powers -Freeling	5
Teppo Paavola	1
Sait Ergun Ozen	1