Pillar 3 Report

2021/22

Atom

Registered office

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

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

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

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

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

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

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

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

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

References to "the year" and "FY22" refers to the financial year from 1 April 2021 to 31 March 2022. References to "FY21" refers to the financial year 1 April 2020 to 31 March 2021. References to "2022" shall mean the calendar year from 1 January 2022 to 31 December 2022. References to "2021" shall mean the calendar year from 1 January 2021 to 31 December 2021.

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1. Introduction

Our Vision

Founded in 2014, we are here to build the world's most compelling bank, one that will change banking for good, for the better, for everyone.

Our Mission

We want to make the experience of borrowing and saving simpler, faster, and better value than anyone else.

Our Strategy

Our objective is to become the fastest growing lender in the UK. We focus on serving the needs of people who want to own their own homes or build their own businesses. Our advantage is that we will engineer the lowest unit costs in the industry and invest the savings in innovation, in growth and in shareholder returns.

Our Values

We treat people with respect. We are inclusive and accepting. We conserve the environment. We tell the truth. And we do it all with energy and enthusiasm.

2. Executive Summary

This report

This report presents the Pillar 3 disclosures of Atom Bank plc for the year ended 31 March 2022.

The Basel Framework is structured around three pillars. Pillar 1 sets out the minimum capital requirement that firms are required to meet for credit, market and operational risk, Pillar 2 concerns the supervisory review process and Pillar 3 promotes market discipline through the disclosure of key information around capital, risk management and remuneration. This report contains qualitative and quantitative information as required under the capital requirements regulation (CRR) prescribed within the Disclosure (CRR) Part of the PRA Rulebook, thereby providing transparency and further information on the capital and risk profile of the Bank. The report should be read in conjunction with the 2022 Atom Bank Annual Report.

The Disclosure (CRR) Part of the PRA Rulebook contains prescribed templates which have been adopted to present quantitative disclosures within this document. Where certain rows or columns within prescribed templates are not relevant to the Bank, these have been omitted.

Basis of preparation

Atom's capital position is calculated for prudential regulatory reporting purposes for year ended 31 March 2022 using the Basel III framework of the Basel Committee on Banking Supervision (BCBS). This was originally implemented by the European Union in the CRR and the Capital Requirements Directive (CRD IV).

The CRD V and CRR II rules were originally drafted when the UK was a member of the EU. The UK left the EU on 31 January 2020 but remained subject to EU law during the transition period which ended on 31 December 2020. Elements of the CRR were implemented in the UK on 28 December 2020 by PRA policy statement PS29/20. The UK version of the CRR II for implementation on 1 January 2022 was implemented by PRA policy statement 22/21 taking effect from 1 January 2022 and is contained within the PRA Rulebook (CRR) Instrument 2021 and the PRA Rulebook (CRR) Leverage Instrument 2021.

Therefore, any reference to EU regulations and directives should be read as a reference to the UK version, as onshored into UK law under the EU (Withdrawal) Act 2018, as amended by PRA Rulebook (CRR) Instrument 2021 and PRA Rulebook (CRR) Leverage Instrument 2021.

Atom's Pillar 3 disclosures comply with the new CRR II approaches which came into effect from 1 January 2022.

Atom has assessed itself against the disclosure requirements of the CRR II and determined that it is classified under Article 433b of the Disclosure (CRR) Part of the PRA Rulebook as a small and non-complex institution. This reduces the scope of the required Pillar 3 disclosures, and the document has been prepared accordingly to include applicable PRA templates and requirements effective 1 January 2022.

The frequency and scope of disclosure will be reviewed at least annually given changes in the business or revised requirements issued by the PRA.

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.

2. Executive Summary cont

Scope of consolidation

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

During October 2018, the Bank completed its inaugural securitisation of residential mortgages via a special purpose vehicle called Elvet Mortgages 2018-1 Plc. The mortgages assigned to Elvet Mortgages 2018-1 do not qualify for derecognition and were not treated as a sale by the Bank, as the Bank remains exposed to the majority of the risks and rewards of the mortgages and associated credit risk. A further similar securitisation transaction took place in October 2021, via Elvet Mortgages 2021-1 Plc.

The securitised mortgages backing Elvet 2018-1 and Elvet 2021-1 are retained on the Bank's balance sheet and are assigned to the "secured by mortgages on immovable property" class when calculating Atom's capital requirement. Both vehicles are consolidated under IFRS accounting rules, but because they do not meet the CRR definition of a subsidiary, Atom continues to be regulated as a solo entity with disclosures prepared on this basis.

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

Frequency and location of disclosures

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

Verification

Atom has a formal Board approved Pillar 3 Disclosure Policy, which details its approach to ensuring compliance with the Disclosure (CRR) Part of the PRA Rulebook. Atom's policy is to comply with all the requirements of derogation for small and non-complex institutions as per article 433b of the PRA Rulebook. In accordance with Article 433b, which details the disclosures for small and non-complex institutions, Atom has derogated from the requirement to publish key metrics on a semi-annual basis because it has not issued securities that are admitted to trading on regulated markets, and therefore meets the definition of a non-listed institution.

Disclosures are unaudited but all disclosures are subject to internal verification comprising first and second line oversight as appropriate. The Board must attest that, to the best of their knowledge, the disclosures within this document comply fully with the requirements of the Disclosure (CRR) Part of the PRA Rulebook (CRR) Instrument 2021 and have been prepared in accordance with our policies and internal control processes. The Pillar 3 document was reviewed by the Board Audit Committee and approved alongside the Annual Report and Accounts on 1 July 2022 and signed on its behalf by:

David McCarthy
Executive Director
and Chief Financial Officer

1st July 2022

David Roper
Senior Independent Non Executive Director
and Chair of Board Audit Committee

1st July 2022

Regulatory developments

The regulatory framework in the UK continues to evolve.

As outlined above, the UK version of the CRR II came into force on 1 January 2022 alongside the UK Leverage Framework. Under CRR II, the revised standardised approach for counterparty credit risk (SA-CCR) was the main methodology change for the Bank. This did not have a material impact on exposure values. Some elements of the CRR II were implemented on an accelerated timeframe in 2020 as part of the CRR II "Quick Fix". Of those accelerated elements Atom adopted the revised SME supporting factor along with the amendments to IFRS9 transitional relief implemented in response to the Covid-19 pandemic.

The revised definition of a Large Exposure under CRR II tightened the capital definition to exclude Tier 2 capital; this has minimal impact on Atom given its capital structure and predominance of Tier 1.

Atom is not in scope of the UK Leverage Framework, which applies to institutions with retail deposits greater than £50 billion or £10 billion non-UK assets. However, the Bank monitors leverage on both a current and forecast basis to ensure that the minimum threshold of 3.25% required by the new framework is met. This aligns to the PRA supervisory expectation, rather than a requirement, for small deposit takers such as Atom. The minimum threshold within the Leverage Framework was recalibrated due to claims on central banks being excluded from the total exposure measure. Atom has revised its leverage ratio exposure measure to align with this treatment and monitors the leverage ratio on that basis.

On 3 December 2021, the Bank of England published a Statement of Policy reviewing its approach to setting a minimum requirement for own funds and eligible liabilities (MREL), taking effect 1 January 2022. Atom's MREL requirement is equal to its CRD V requirement under Pillar 1 and Pillar 2A. Consequently, the Bank does not need to hold any MREL compliant instruments in addition to those needed to satisfy its CRD V requirement. The policy statement confirmed changes to the total asset thresholds, enabling a stepped glide-path approach for institutions growing into MREL.

Climate change continues to be a risk and Atom is monitoring proposals on Environmental, Social and Governance (ESG) disclosures, with any new requirements incorporated into future Pillar 3 documents. Please see the 2022 Atom Bank Annual Report for further information.

On 27 October 2021, the European Commission announced a delay to the implementation of the Basel 3.1 standards to 2025. The UK followed this by confirming an open-ended delay post March 2023. On 21 March 2022, the PRA confirmed its intention to consult on a proposal that these changes will become effective on 1 January 2025, with the Consultation Paper on Basel 3.1 implementation expected in the fourth quarter of 2022.

3. Risk management objectives & policies

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 2022, it had in place adequate systems and controls regarding the Bank's risk profile and strategy.

Principal risks

Strategic Risk	The business could fail if management make poor strategic decisions, if decisions are not well executed, or if the strategy does not effectively respond to changes in the external environment.
Capital Adequacy Risk	The risk that Atom has insufficient quantity or quality of capital to support its operations.
Retail Credit Risk	There is a risk that customers to whom we have loaned money will default on their contractual obligations to Atom giving rise to financial losses.
Operational Risk	Inadequate or failed internal processes or systems, human error, or external events, create a risk of direct or indirect financial loss and reputational damage.
Regulatory Risk	Failure to comply with regulatory or legislative requirements could result in financial loss and reputational damage. Furthermore, changes to regulatory rules could negatively impact Atom's strategy and business model.
Conduct Risk	Inappropriate behaviour by Atom in its relationship with customers, counterparties or markets can result in reputational and financial loss.
Financial Crime	The risk that Atom or its customers are exploited through money laundering, terrorist financing, internal fraud, external fraud, and bribery and corruption.
Reputational Risk	Damage to reputation and brand as a result of the actions of Atom itself, or indirectly via actions of employees, suppliers, or other parties.
Market Risk	Changes in market prices, for example interest rates, create the risk of financial loss through a reduction in earnings or change in the value of assets or liabilities.
Liquidity and Funding Risk	This is the risk that the Bank could fail to meet its obligations as they fall due.
Wholesale Credit Risk	The risk that a wholesale counterparty defaults on its contractual obligations to Atom giving rise to financial losses.
Model Risk	The risk that Atom makes sub-optimal decisions and/ or suffers loss as a result of poorly specified, incorrectly implemented or inappropriately applied models.
Data Protection Risk	Inappropriate collection, storage, security, or use of personal data results in a breach of data protection regulation.

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

Atom's Enterprise Risk Management Framework (ERMF)

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

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

Risk strategy

Atom's risk strategy is to facilitate the creation of a reputable, responsible, and sustainable bank which provides a range of products and services to both personal and business customers. A centralised, self-service and technologically enabled operational model is used to deliver better prices, faster processes, and greater transparency for customers. Sustainable growth is underpinned by appropriately pricing for risk, protecting and enhancing the Bank's reputation and controlling accepted credit and operational risks.

For further information on Atom's business model and strategy refer to the 2022 Annual Report.

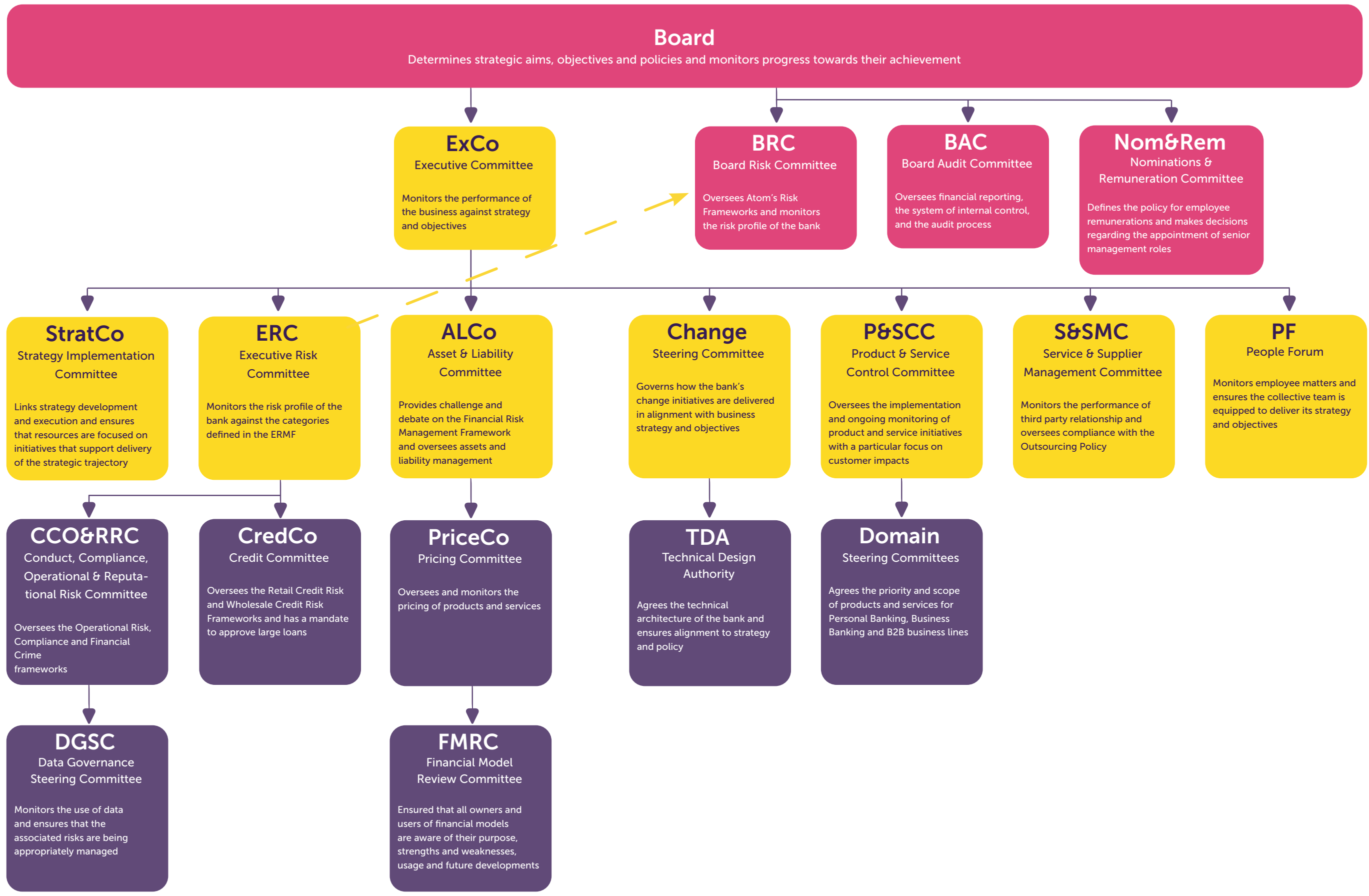
3. Risk management objectives & policies cont

Risk governance and escalation

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

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

The diagram below illustrates Atom's current governance structure.



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

Board Risk Committee (BRC)	ensures the Bank's risk culture is appropriately designed by anticipating changes in business, economic, political, and social conditions. The BRC is responsible for reviewing risk appetite and performance and the effectiveness of the risk management framework.
Executive Risk Committee (ERC)	a sub-committee of the ExCo, dedicated to scrutinising risk matters, especially those destined for review and approval by the BRC. ERC will closely monitor Atom's risk profile against risk appetite limits and ensure any breaches or early warnings are escalated to the Board.
Credit Committee (CredCo)	a sub-committee of the ERC, tasked with scrutinising retail and Small & Medium sized Enterprise (SME) exposures, as well as wholesale credit risks.
Conduct, Compliance, Operational & Reputational Risk Committee	a sub-committee of the ERC, tasked with control and oversight regarding operational risk, operational resilience, regulatory compliance, conduct risk and financial crime matters.
Assets & Liabilities Committee (ALCo)	a sub-committee of the ExCo, tasked with monitoring and managing the Bank's capital and liquidity and funding and market risk.

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

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, the business, is responsible for identifying, assessing, managing and monitoring 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 coordinates recommendations on risk appetite to the Board. The second line provides insight, oversight and challenge to the application of the risk management frameworks and ensures that the business operates within the risk appetite, limits and tolerances that have been set by the Board.

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

Risk appetite

Atom's risk appetite defines the type and level of risks that the Bank is prepared to accept in pursuit of its business plan. The risk appetite is expressed in the form of a series of qualitative statements and quantitative metrics, aligned to our Principal Risks and sub risk types within the Risk Universe. Atom's risk appetite is subject to regular review and approval by the Board.

Atom's risk appetite is an active part of strategic and operational decision making that allows consideration of the material risks to the Bank, e.g. potential impact on elements such as the balance sheet, sustainability, customers, employees, reputation, regulators and stakeholders.

Monitoring and reporting

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

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

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

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

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

Risk management processes

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

Risk identification

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

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

Risk 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 RCSAs, in which senior management identify and assess the operational risks to which the business function is exposed. Management must demonstrably accept, avoid, transfer, or mitigate each risk, and determine how each risk exposure should be monitored.

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

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

Risk measurement

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

Key and Emerging Risk Register (K&ERR)

Atom's key risks are current, emerged risks that have arisen across any of its risk categories and which have the potential to have a material impact on the Bank's financial position, reputation or on the sustainability of the business model, and which may form and crystallise within a year.

Emerging risks are are those with potentially significant, but uncertain, outcomes, which may form and crystallise beyond a one-year horizon, and which could have a material impact on Atom's ability to achieve its long-term strategy.

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

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

3. Risk management objectives & policies cont

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 (regulatory and in-house stress scenarios). Stress testing enables an informed understanding and appreciation of Atom's capacity and resilience to withstand shocks of varying severity.

Additionally, stress testing is a key tool in assisting the business in strategic and capital planning and is critical in assessing the capital and liquidity requirements for the Bank's ICAAP and ILAAP.

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

Operational resilience and contingency planning

Atom has continued to develop its operational resilience framework during FY22.. This augments the existing approaches to business continuity planning, IT disaster recovery, cyber security, and crisis management planning, and aligns them with regulatory expectations regarding the identification of Important Business Services and Atom's associated impact tolerances for disruption. As part of this development, Atom has documented it's self-assessment as set out in the policy statement SS1/21 Operational Resilience: Impact Tolerances for Important Business Services and PS21/3 Building Operational Resilience

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

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

The BCP addresses the following primary objectives:

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

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

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

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

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

Recovery and resolution planning

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

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

Compliance and customer outcome testing

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

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

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

Risk culture

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

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

4. Capital management and capital adequacy risk

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

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

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

Key capital adequacy risk mitigants

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

Capital risk is particularly important for a growing bank to support lending and investment into new capabilities as such Atom will require more capital from time to timeDuring the financial year, Atom made significant progress towards generating regulatory capital, with three consecutive quarters of break-even operating profit.   Atom continues to work with existing and new equity investors to provide additional capital to accelerate growth, however the Bank's base case forecast assumes that it will be sufficiently income generative such that capital will not be required to fund ongoing losses during the year.

The Bank also has Tier 2 notes in issuance, which can be used to meet regulatory capital requirements in proportion to its Tier 1 common equity. Atom may explore opportunities, subject to market conditions, to raise Tier 2 capital in the near term to further strengthen its capital base.

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

The ICAAP assesses the Bank's Pillar 1 requirements using the Standardised/ Basic Indicator approaches and proposes additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. The Bank also holds Pillar 2B capital based on the PRA's guidance, considering the PRA Buffer as determined by capital depletion under stress and the regulatory defined capital conservation buffer and countercyclical buffer.

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

Key capital adequacy risk metrics

Atom's key capital metric is the current and projected surplus of capital resources over capital requirements. The Leverage Ratio is also monitored against the 3.25% minimum specified within the UK Leverage Framework, to ensure that it remains above throughout the planning horizon.

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

5. Key Metrics

The following table presents Atom's key metrics as prescribed by Table UK KM1 as at 31 March.

Table UK KM1 - Key metrics		2022 £'000	2021 £'000
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	217,158	114,012
2	Tier 1 capital	217,158	114,012
3	Total capital	225,151	121,990
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	1,043,001	743,296
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	20.8%	15.3%
6	Tier 1 ratio (%)	20.8%	15.3%
7	Total capital ratio (%)	21.6%	16.4%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	1.5%	1.5%
UK 7b	Additional AT1 SREP requirements (%)	0.9%	0.9%
UK 7c	Additional T2 SREP requirements (%)	1.1%	1.1%
UK 7d	Total SREP own funds requirements (%)	9.5%	9.5%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	0.0%	0.0%
11	Combined buffer requirement (%)	2.5%	2.5%
UK 11a	Overall capital requirements (%)	12.0%	12.0%
12	CET1 available after meeting the total SREP own funds requirements (%)	12.5%	5.9%
	Leverage ratio		
13	Leverage ratio total exposure measure	3,313,171	2,914,267
14	Leverage ratio (%)	6.6%	3.9%
	Liquidity Coverage Ratio (LCR)		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	971,602	415,697
UK 16a	Cash outflows - Total weighted value	335,102	206,486
UK 16b	Cash inflows - Total weighted value	24,619	21,455
16	Total net cash outflows (adjusted value)	310,483	185,032
17	Liquidity coverage ratio (%)	316.7%	241.8%
	Net Stable Funding Ratio (NSFR)		
18	Total available stable funding	3,492,177	2,536,566
19	Total required stable funding	2,248,265	2,029,057
20	NSFR ratio (%)	154.9%	125.0%

Throughout FY22, the Bank continued to maintain key metric ratios that exceeded its minimum requirements under the regulatory frameworks. Further detail on the individual elements is provided below.

5. Key Metrics cont

Available own funds

Common Equity Tier 1 capital

Common Equity Tier 1 (CET1) capital is the strongest form of regulatory capital. It 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, deferred tax assets which rely on future profitability and prudent valuation adjustments, offset by transitional IFRS9 relief. Atom has no Additional Tier 1 securities in issue and therefore the Bank's Tier 1 capital is wholly comprised of CET1.

The intangible assets deduction relates predominantly to software, with annual movements representing capitalisation net of amortisation. As the Bank moves towards profitability, a deferred tax asset was recognised for the first time this year.. As this did not arise from temporary differences, the full amount of £5.4m is deducted from CET1 in accordance with Article 36.

The prudent valuation adjustment required by the CRR is calculated at 0.1% of assets held at fair value, applying the simplified approach.

Following the implementation of IFRS9, transitional relief arrangements were included in the CRR (Article 473a) to smooth the impact on capital of new ECL technology. Further relief was introduced alongside the CRR II "Quick Fix" to smooth the economic impact of the Covid-19 pandemic, and the Bank includes both elements in the calculation.

The CET1/Tier 1 capital ratio is the CET1/Tier 1 capital expressed as a percentage of the total risk exposure amount, and is reported above on a transitional basis. Without the application of IFRS9 transitional relief, the CET1 ratio reduces to 20.1%, and the total capital ratio to 20.8%.

Tier 2 capital

Tier 2 capital typically consists of other subordinated debt that does not meet the eligibility criteria for inclusion as AT1 capital. On 31 March 2022, Atom had eligible Tier 2 capital instruments with a notional value of £8m in issuance. Atom's Tier 2 instruments are held by the British Business Bank. The total capital ratio (TCR) includes Tier 2 within capital resources, expressed as a percentage of the total risk exposure amount.

A breakdown of Atom's regulatory own funds at 31 March is as follows:

Table UK KM1 - Key metrics		2022 £'000	2021 £'000
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	566,378	448,935
	of which: ordinary share capital	566,378	448,935
2	Retained earnings	-330,232	-267,853
3	Accumulated other comprehensive income (and other reserves)	26,875	22,627
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	263,021	203,709
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments	-304	-158
8	Intangible assets	-36,129	-35,889
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	-5,353	0
UK-25a	Losses for the current financial year	-11,927	-62,379
27a	Other regulatory adjustments to CET1 capital (IFRS 9 transitional adjustments)	7,850	8,729
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-45,863	-89,697
29	Common Equity Tier 1 (CET1) capital	217,158	114,012
45	Tier 1 (T1) capital	217,158	114,012
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	7,993	7,978
58	Tier 2 (T2) capital	7,993	7,978
59	Total capital (TC = T1 + T2)	225,151	121,990

During the year, capital of £39m after issue costs was received from investors in April 2021, with a further £78m raised in March 2022.

As capital resources represent the numerator in the key metrics ratios shown above, the capital raised in the year is the prime driver of the increase in the CET1 ratio and TCR, despite a concurrent increase in the capital requirement.

Although losses in the year continued to deplete capital resources, statutory losses have fallen from £62m in FY21 to £12m in FY22 due to the growth in net interest margin. Please see the Statement of Comprehensive Income in the Financial Statements for further analysis of the movement in losses in the financial year.

The slight increase in additional value adjustments reflects the higher portfolio of treasury assets held on balance sheet as high-quality liquid assets.

Aside from intangibles, the other significant deduction from capital resources represents the CET1 deduction for the deferred tax asset.

5. Key Metrics cont

Risk-weighted exposure amounts

Pillar 1 capital requirements

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

CRD V allows a range of approaches that vary in sophistication to be used to determine RWA amounts. Atom currently uses the standardised approach to determine risk weights for credit risk, the original exposure method for counterparty credit risk and the standardised method for CVA risk. Atom has no Pillar 1 market risk exposures. The Basic Indicator Approach is used to determine operational risk RWAs.

The following table shows the overall Pillar 1 minimum capital requirements and risk weighted assets for the Bank under the Standardised Approach at 31 March, as prescribed by Table UK OV1.

Table UK OV1 – Overview of risk weighted exposure amounts		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		2022 £'000	2021 £'000	2022 £'000
1	Credit risk (excluding CCR)	**951,043**	**658,405**	**76,083**
2	Of which the standardised approach	951,043	658,405	76,083
6	Counterparty credit risk - CCR	**13,238**	**3,677**	**1,059**
7	Of which the standardised approach	0	0	0
UK 8a	Of which exposures to a CCP	0	0	0
UK 8b	Of which credit valuation adjustment - CVA	4,621	560	370
9	Of which other CCR	8,617	3,117	689
16	Securitisation exposures in the non-trading book (after the cap)	**40,725**	**81,214**	**3,258**
19	Of which SEC-SA approach	40,725	81,214	3,258
23	Operational risk	**37,995**	**0**	**3,040**
UK 23a	Of which basic indicator approach	37,995	0	3,040
29	**Total**	**1,043,001**	**743,296**	**83,440**

Growth in Atom's loan book has been the main driver of the increase in capital requirement, with increases in both residential lending and SME lending contributing to higher risk weighted assets.

The Bank holds senior notes in Elvet 2019-1 and Elvet 2020-1, along with the Vertical Risk Retention notes. All positions are risk weighted under the securitisation framework; Atom currently holds no other securitisation positions as an investor. The movement in the year reflects sales of the senior notes, along with the note paydowns.

Atom's derivative positions are entered into entirely for hedging purposes. During the year, the Bank changed methodology so that the capital requirement for counterparty credit risk is now calculated using the Original Exposure Method (OEM), as prescribed under the new standardised approach for counterparty credit risk. The exposure value for margined positions is predominantly comprised of the add-on for potential future exposure; this exposure is then risk weighted under the standardised approach.

Atom is also required to hold capital for a Credit Valuation Adjustment (CVA) risk due to the Bank's exposure to derivatives. CVA risk represents the market value of counterparty credit risk inherent in derivative contracts. Centrally cleared swap transactions are not subject to the CVA capital charge. The additional requirement in the financial year reflects yield curve movements, along with additional trades.

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 at 15% of the average. Atom is now generating positive operating income leading to recognition of a capital requirement.

Standardised approach - credit risk exposure and credit risk mitigation (CRM) effects.

The tables below show the total exposure value and RWAs by exposure class at 31 March. Exposures are net of credit risk adjustments, and the tables do not include exposures for counterparty credit risk.

Credit conversion (CCF) is a factor defined by regulation to determine the likelihood of an off-balance sheet exposure, such as a commitment to lend, turning into lending i.e., an on-balance sheet exposure. Within the retail class and immovable property class, the recognition of guarantees on Covid-19 government lending schemes drives the reduction of pre-CRM exposure to post-CRM exposure. Higher exposures to central governments and central banks post-CRM reflects the recognition of guarantees on Covid-19 government lending schemes. RWA density is RWAs expressed as a percentage of exposures post-CCF and CRM.

Table UK CR4 – standardised approach – credit risk exposure and credit risk mitigation (CRM) effects 2022

		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
Exposure class		£'000	£'000	£'000	£'000	£'000	%
1	Central governments or central banks	1,641,302	-	2,182,865	16,272	-	0%
4	Multilateral development banks	35,884	-	35,884	-	-	0%
6	Institutions	72,546	-	72,546	-	14,553	20%
8	Retail	512,257	121,997	193,313	98,668	181,660	62%
9	Secured by mortgages on immovable property	1,862,826	280,044	1,649,180	78,619	720,637	42%
10	Exposures in default	18,456	-	9,484	-	11,604	122%
12	Covered bonds	69,980	5,000	69,980	5,000	7,498	10%
16	Other items	15,091	-	15,091	-	15,091	100%
17	**TOTAL**	**4,228,342**	**407,041**	**4,228,343**	**198,559**	**951,043**	**21%**

Table UK CR4 – standardised approach – credit risk exposure and credit risk mitigation (CRM) effects 2021

		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
Exposure class		£'000	£'000	£'000	£'000	£'000	%
1	Central governments or central banks	378,639	-	689,594	47,137	-	0%
4	Multilateral development banks	37,403	-	37,403	-	-	0%
6	Institutions	38,956	-	38,956	-	7,791	20%
8	Retail	335,103	52,325	92,023	10,465	63,407	62%
9	Secured by mortgages on immovable property	1,309,943	180,222	1,242,186	23,307	562,178	44%
10	Exposures in default	3,906	-	3,787	-	4,026	106%
12	Covered bonds	48,530	-	48,530	-	4,853	10%
16	Other items	16,151	-	16,151	-	16,151	100%
17	**TOTAL**	**2,168,631**	**232,547**	**2,168,630**	**80,909**	**658,406**	**29%**

5. Key Metrics cont

Standardised approach – exposures by asset class

The tables below present a breakdown of post CRM and post CCF exposures by asset class, excluding any contribution for counterparty credit risk. Atom uses ratings published by Fitch Ratings and Standard & Poor's, to determine risk weighted exposure amounts under the Standardised Approach for wholesale exposures within the institution and covered bond asset classes. Atom maps the ratings to the appropriate credit quality step using the method prescribed by the Regulations and then applies the resultant risk weight to the exposure value to calculate the risk weighted asset value. All other exposures are unrated.

Table UK CR5 – breakdown of exposures under the standardised approach by asset class and risk weight. 2022

		Risk weight								Total	Of which unrated
		0%	10%	20%	35%	50%	75%	100%	150%		
		a	d	e	f	g	i	j	k	p	q
	Exposure class	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	Central governments or central banks	2,199,136								**2,199,136**	2,199,136
4	Multilateral development banks	35,884								**35,884**	35,884
6	Institutions	-	-	72,401	-	145				**72,546**	0
8	Retail exposures	-	-	-	-	-	291,981			**291,981**	291,981
9	Exposures secured by mortgages on immovable property	-	-	-	1,449,120	-	-	278,680		**1,727,800**	1,727,800
10	Exposures in default	-	-	-	-	-	-	5,244	4,240	**9,484**	9,484
12	Covered bonds	-	74,980	-	-	-	-	-	-	**74,980**	0
16	Other items	-	-	-	-	-	-	15,091	-	**15,091**	15,091
17	**TOTAL**	**2,235,020**	**74,980**	**72,401**	**1,449,120**	**145**	**291,981**	**299,015**	**4,240**	**4,426,902**	**4,279,376**

Table UK CR5 – breakdown of exposures under the standardised approach by asset class and risk weight. 2021

		Risk weight								Total	Of which unrated
		0%	10%	20%	35%	50%	75%	100%	150%		
		a	d	e	f	g	i	j	k	p	q
	Exposure class	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	Central governments or central banks	736,732								**736,732**	736,732
4	Multilateral development banks	37,403								**37,403**	37,403
6	Institutions	-	-	38,956	-	-				**38,956**	0
8	Retail exposures	-	-	-	-	-	102,488			**102,488**	102,488
9	Exposures secured by mortgages on immovable property	-	-	-	978,301	-	-	287,191		**1,265,492**	1,265,492
10	Exposures in default	-	-	-	-	-	-	3,310	477	**3,787**	3,787
12	Covered bonds	-	48,530	-	-	-	-	-	-	**48,530**	0
16	Other items	-	-	-	-	-	-	16,151	-	**16,151**	16,151
17	**TOTAL**	**774,135**	**48,530**	**38,956**	**978,301**	-	**102,488**	**306,652**	**477**	**2,249,539**	**2,162,053**

Additional own funds requirements under the Regulatory Capital Framework

Pillar 2 capital requirements

The Pillar 2 requirements play a significant 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 ICAAP. Following the SREP, Atom has been advised of its additional capital requirements under Pillar 2A and Pillar 2B.

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

Atom's prescribed TCR is 9.53% of RWAs. This means that in order to meet its TCR, Atom must hold capital equal to 1.53% of RWAs in addition to the 8% minimum requirement under Pillar 1. The PRA requires firms to meet Pillar 2A with at least 56.25% CET1 capital and no more than 25% Tier 2 capital. As Atom has no AT1 capital, the Tier 1 capital requirement must be met with CET1.

All firms are subject to a PRA buffer assessment as part of the SREP. A bank's ICAAP is the starting point for determining the Pillar 2B buffer requirement. For certain firms, in scope of the Supervisory Statement 3/21, the PRA also considers their Solvent Wind Down Plan (SWDP). The PRA reviews banks' wind down cost and stressed capital projections and set the total buffer requirement considering the principles and methodologies set out in the Supervisory Statement.

The PRA buffer[1] is an amount of capital firms should maintain in addition to their TCR and the combined buffer. The PRA buffer absorbs losses that may arise under a severe stress scenario, while avoiding duplication with the combined buffers.

[1] The PRA's methodologies for setting Pillar 2 capital (Statement of Policy published July 2021).

5. Key Metrics cont

Combined buffer requirements

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

Atom is required to maintain a Countercyclical Capital Buffer 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 buffer aims to provide the banking sector with additional capital to protect it in an economic downturn. The CCyB rate for the UK is set by the Financial Policy Committee (FPC) of the Bank of England. Institutions have 12 months from the date of a rate increase announcement to meet the increased buffer requirement. In contrast any rate reductions are applied with immediate effect. In times of economic stress, the CCyB can be reduced to maintain the flow of credit through that period; in response to the Covid pandemic, the FPC reduced the CCyB to 0% in March 2020. On 13 December 2021, the FPC announced an increase to the UK CCyB rate to 1%, taking effect on 13 December 2022.

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

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

Requirement or buffer	Calculation method	Quality of capital required to meet the requirement	Impact on Atom
Pillar 1	Fixed percentage of RWAs as prescribed in Article 92 of the CRR	4.5% of RWAs met by CET1 capital 6% of RWAs met by Tier 1 capital 8% of RWAs met by Total capital	The impact of the Pillar 1 capital requirements can be seen in Table OV1.
Pillar 2A	Expressed as a percentage of RWAs	56.25% to be met by CET1 capital 75% to be met by Tier 1 capital 100% to be met by Total capital	Atom's Pillar 2A capital requirement is 1.53% of RWAs
Countercyclical buffer (Pillar 2B)	Expressed as a percentage of RWAs	CET1 Capital	0% effective from 11 March 2020, increasing to 1% from 13 December 2022
Systemic buffers (Pillar 2B)	Expressed as a percentage of RWAs	CET1 Capital	Applicable only to global and other systemically important institutions
Capital conservation buffer (Pillar 2B)	Expressed as a percentage of RWAs	CET1 Capital	2.5% effective from 1 January 2019
PRA Buffer (Pillar 2B)	Expressed as a percentage of RWAs, a fixed amount or a combination thereof	CET1 Capital	The buffer is set by the PRA and is confidential. The Pillar 2B buffer is the greater of either the PRA buffer or the total of the Countercyclical buffer and Capital conservation buffer.

Leverage ratio

In the UK, the FPC has powers of direction over leverage ratio requirements for banks. The leverage ratio is defined as the ratio of Tier 1 capital, which for Atom is determined on a transitional basis, to the total leverage ratio exposure measure. The leverage ratio exposure measure applies an equal weighting to all assets and therefore provides a complementary capital framework which is not exposed to the inherent errors and uncertainties in measuring risk by assigning risk weights. The UK Leverage Framework also confirmed the exclusion of qualifying central bank claims from the exposure measure as set out in the FPC's 2015 Policy Statement; this ensured that the framework did not act as a barrier to the effective implementation of monetary policy measures or a disincentive for institutions to use central bank liquidity facilities.

The movement in the leverage ratio exposure measure includes both the growth in the balance sheet and the impact of new framework exclusion of central bank claims. The total exposure measure including claims on central banks is £4.75m, with the equivalent leverage ratio on that basis 4.6%.

Consistent with the CET1 ratio and TCR, leverage ratios are monitored and reported on a transitional basis. Using a fully phased-in definition of tier 1 capital reduces the leverage ratio to 6.3% from 6.6% on a transitional basis.

Liquidity risk metrics - liquidity coverage ratio (LCR) and net stable funding ratio (NSFR)

The LCR metrics reported in the key metrics table above are calculated on an average basis and therefore differ to the metrics reporting in the Annual Report which show the position at year end. The Bank's LCR was maintained comfortably above minimum regulatory requirements throughout the year, increasing from 208.5% at 31 March 2021 to 448.9% at 31 March 2022. The Bank's total liquidity buffer, which comprises predominantly central bank reserves, has increased between March 2021 and March 2022 as a result of retail saving inflows, additional drawings of TFSME funds from the Bank of England and capital raised from investors prior to year-end. Growth of Instant Access retail savings drove the majority of the increase in total weighted value of cash outflows. The prior year weighted value cash inflows included the £39m capital raise from investors that was received in April 2021.

The NSFR is calculated under the new CRR II regulations, which requires a minimum NSFR of 100%. These are also reported on an average basis.

6. 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 and contained within the Remuneration Part of the PRA Rulebook. During the year there were an average of 53 MRTs.

Approach to remuneration

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

- Fixed Pay – An individual's salary reflects the core skills and experience they bring to their role, in relationship to the market. In addition, a competitive package of benefits is provided which helps attract and retain talented people. This incudes access to a pension scheme, healthcare and life assurance, and a range of other company-funded benefits.
- Variable Pay – Employees receive an annual bonus, calculated based on Atom's success in delivering against it's strategy and a series of business objectives. This award is generally given as equity in the company and awarded through share options via the Annual Performance Share Scheme. In addition, Long term incentive rewards are used to incentivise longer-term commitments from highly valuable Atom resources. Long-term incentive rewards are given as equity in the Company and is awarded through share options via the Long-Term Incentive Plan.

Atom's overall principles for reward are:

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

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

- Strong clear and open communication, ensuring effective feedback mechanisms both up and down the management structure.
- A robust performance process.
- A clear and effective controls framework.
- Monitoring and review of Atom's policies and processes.
- Independent entry and exit interviews.
- Efficient reward management systems, including up-to-date external benchmarking.
- Comprehensive, accurate and timely management information.
- Access to the Board for all members of the team and an effective whistleblowing policy.

Methods of remuneration

Basic pay

Market data, to compare pay for roles within Atom to that of comparative companies, is regularly reviewed. This data includes Market Median and range information. All Grade Bands (1 – 4) are compared to national and regional benchmark data using Financial Services and Technology pay data where applicable to roles. Alongside salary, an individuals basic pay provides access to a range of benefits to ensure that the total reward package remains competitive. This includes access to a defined contribution pension scheme, healthcare and life assurance benefits and a range of other company-funded benefits.

Cost of Living

Assuming the business is progressing satisfactorily, each year an assessment of whether to make cost-of-living changes is conducted. Atom re-verifies its roles against the benchmark data provided by the National Office of Statistics and any other relevant market data. Any proposed cost-of-living adjustment takes into consideration the affordability within the business. Cost-of-living proposals must be pre-approved by the ExCo and then given full approval by the Remuneration and Nomination Committee. Annual cost of living adjustments are not guaranteed. In FY22 a cost-of-living increase was given to those employees who met the criteria.

Variable pay – Annual Performance Share Scheme (APSS)

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

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

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

Variable pay awards are linked to the overall performance of the firm.. The share option award is calculated based on the current share price value. Share options within the Annual Performance Share Scheme are exercisable at 0.001p.

In FY22, all eligible employees received 80% of their contractual bonus entitlement as equity settled share options .

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

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

Prior to finalising overall variable award, an assessment of MRTs took place ensuring satisfactory performance as aligned to their objectives and responsibilities. This initial assessment was carried out by ExCo with full and final approval by the Remuneration and Nomination Committee, who held the discretion to amend the awards as they found appropriate. All variable remuneration awards made to MRTs are subject to malus and clawback provisions, the application of which is at the discretion of the Remuneration and Nomination Committee

The Remuneration & Nomination Committee approved the overall award allocation, and specifically the Grade Band 1 and MRT allocation.

Should an individual be assessed as underperforming in their role their bonus may be reduced or withheld.

6. Remuneration cont

Long-term Incentive (LTI) Share Option Scheme

Long-Term Incentives are discretionary. Executives can nominate people from their teams each year for an LTI award. Awards vary by grade:

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

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

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

Remuneration decision making process

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

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

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

- Bridget Rosewell (Chairman)*
- Cheryl Millington (Chairman)*
- David Roper
- Laurence Hollingworth
- Gonzalo Romera

*The holder of the chairman role for the Remuneration and Nomination Committee changed part way through the financial year. Cheryl Millington took over the role as Chair of the Committeel in October 2021.

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

Recruitment policies

Atom always aims to recruit the person who is most suited to the particular job. Recruitment is solely based on the applicant's abilities and individual merit as measured against the criteria for the job. Qualifications, experience, and skills are 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. Subsequent recruitment activities, including the enhanced vetting and referencing processes, ensure that senior individuals are appointed who are competent, capable and understand their accountabilities as a Senior Manager in the Bank.

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

Remuneration for Material Risk Takers

The tables below detail 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.

The design of our reward and remuneration policy and practices are created and developed in accordance with the risk profile of the bank. The details of the variable and fixed reward for our MRTs and other identified individuals is taken to the Remuneration and Nomination Committee on annual basis for their oversight and scrutiny. A key aim of our policies is to align remuneration principles with a view to ensuring that policies and practices promote, and are consistent with, effective risk management.

At Atom, fixed reward forms a large proportion of the total reward package, and we offer our people the ability to earn a fair and modest element of bonus pay. The reward and benefits on offer for employees at Atom do not only comprise of monetary elements. It is a comprehensive package and includes a wide range of benefits which are appealing to our people and future colleagues. For our identified individuals the actual of annual variable remuneration this year was between 0% - 39%.

Table UK REM1 below shows the amount and type of fixed and variable remuneration awarded to the Management Body (MB), senior management and other identified staff for the financial year ended 31 March 2022.

Table UK REM1 -Remuneration awarded for the financial year

			a MB Supervisory function	b MB Management function	c Other senior management	d Other identified staff
1	Fixed remuneration	Number of identified staff (average)	7	9	3	34
2		Total fixed remuneration (£)	1,362,898	2,459,562	518,402	4,011,651
3		Of which: cash-based (£)	1,362,898	2,459,562	518,402	4,011,651
9	Variable remuneration	Number of identified staff (average)	1	8	3	34
10		Total variable remuneration (£)	49,528	768,869	153,254	813,322
UK-13a		Of which: shares or equivalent ownership interests (£)	49,528	768,869	153,254	813,322
UK-14a		Of which: deferred (£)	14,861	378,516	64,745	221,411
17	**Total remuneration (2 + 10) (£)**		**1,412,426**	**3,228,431**	**671,657**	**4,824,973**

6. Remuneration cont

Table REM3 below analyses deferred remuneration awarded for previous financial years by staff category and remuneration type, showing the amounts vesting and paid out during the year ended 31 March 2022 and amounts which will vest in future periods.

Table UK REM3 - Deferred remuneration

		a	b	c	d	e	f	UK - g	UK - h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
		£	£	£	£	£	£	£	£
1	**MB Supervisory function**	**2,778**	**1,667**	**1,111**	-	-	-	**93,837**	-
2	Cash-based	-						93,837	
3	Shares or equivalent ownership interests	2,778	1,667	1,111					
7	**MB Management function**	**115,335**	**71,933**	**43,402**	-	-	-	**353,309**	-
8	Cash-based	-						353,309	
9	Shares or equivalent ownership interests	115,335	71,933	43,402					
13	**Other senior management**	**12,443**	**7,466**	**4,977**	-	-	-	**39,037**	-
14	Cash-based	-						39,037	
15	Shares or equivalent ownership interests	12,443	7,466	4,977					
19	**Other identified staff**	**56,256**	**36,379**	**19,877**	-	-	-	**231,402**	-
20	Cash-based	-						231,402	
21	Shares or equivalent ownership interests	56,256	36,379	19,877					
25	**Total amount**	**186,812**	**117,445**	**69,367**	-	-	-	**717,585**	-

During FY22, there were no special payments made to staff whose professional activities have a material impact on Atom's risk profile, and no staff earned remuneration of €1million or more.

Table REM5 below shows management body remuneration by function, and other identified staff remuneration by business area.

Table UK REM5 - Information on remuneration of staff whose professional activities have a material impact on Atom's risk profile (identified staff)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB	MB	Total MB		Retail banking	Asset	Corporate functions		All other	Total
1	**Total number of identified staff**										53
2	Of which: members of the MB	7	9	**16**							
3	Of which: other senior management				-	18	-	5	7	7	
4	Of which: other identified staff										
5	**Total remuneration of identified staff (£)**	**1,412,426**	**3,228,431**	**4,640,857**	-	**1,885,420**	-	**1,115,781**	**1,101,680**	**1,393,747**	
6	Of which: variable remuneration (£)	49,528	768,869	**818,397**	-	284,863	-	257,328	163,255	261,130	
7	Of which: fixed remuneration (£)	1,362,898	2,459,562	**3,822,460**	-	1,600,557	-	858,453	938,425	1,132,617	

Atom