Atom

ANNUAL REPORT
2022/23

Atom Bank plc
Individual Financial Statements

Registered office

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

The terms "Atom" and "the Bank" refer to Atom bank plc (company number 08632552).

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

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

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

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

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

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

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

References to "the year" and "FY23" refers to the financial year from 1 April 2022 to 31 March 2023. References to "FY22" refers to the financial year 1 April 2021 to 31 March 2022.. References to "2023" shall mean the calendar year from 1 January 2023 to 31 December 2023. References to "2022" shall mean the calendar year from 1 January 2022 to 31 December 2022.

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Our vision is to change banking for good, and we'll do that by being...

Faster

5 days

mortgage speed to offer

99% of savings accounts

opened fully digitally

Easier

4.9

iOS rating

4.8

Android rating

Better Value

4.8 Trustpilot

Trust Score

Top 5 Savings Rates

Atom's FRS products ranked top-5 by Moneyfacts for 47 weeks in FY23

Loans under management

£3.4bn

+4% vs FY22

Savings balance

£6.6bn

+105% vs FY22

Customer numbers

224k

+82% vs FY22

Revenue growth vs cost growth

56%

FY22: 203%

Underlying Operating profit

£4.2m

+£6.2m vs FY22

Our Employees

465

-2% vs FY22

Carbon emission per employee

1.49 tCO_2

Same as FY22

CHAIRMAN'S STATEMENT

Atom has reacted quickly and delivered record performance during a period of social, political and economic volatility

This year ends with worrisome echoes of the Global Financial Crisis in the form of US bank failures and an escalating cost of living crisis. In the last twelve months the Bank of England base rate has risen from 0.75% to 4.25% at the year end and it's forecast to rise further in an effort to tame persistently high inflation.

In spite of these challenges, it's been a year of some more notable firsts for Atom:

- It's the first time we have reported an annual operating profit;
- The first time we have achieved the triple crown of 5-star ratings on both the iOS and Android App Stores and also on Trustpilot;
- The first time we have exceeded 200k customers;
- And the first time that we have exceeded £6bn in customer deposits.

This was also the sixth year in a row that we've won the What Mortgage – Best Online Mortgage Provider award.

Bridget Rosewell CBE
Chairman

We remain absolutely convinced of the power of our strategy. Interest income has always delivered the lion's share of bank revenues and within that, lending to homeowners and business owners provides the stable foundation upon which the entire sector is based. In a higher interest rate environment - one that's likely to endure for some time – the outlook for lending institutions, particularly those who have a strong track record of credit management is positive.

In the face of significant rises in the cost of living we are working hard to support our customers. Unlike some of the largest banks in the land we are passing on the benefits of interest rate rises – not for us the age-old game of 'lead and lag". We're also using our data to identify customers whom we feel might be in danger of struggling to meet repayments and we're proactively offering them assistance in the form of personal 'income and outgoings' reviews and budgeting.

We have prudently increased our provisions against bad and doubtful debts by £13m to £17m at the year end. The underlying performance of our portfolios remains strong - with minimal levels of arrears and defaults.

We're taking care of our people and we're fully committed to their welfare. We converted our highly successful 4-day flexible working week trial into permanent contract changes for all of our colleagues. Atom employee engagement is 81% and we enjoy historically low levels of absence due to sickness.

Atom has been collaborating with Durham University since 2014 when we initiated a project to build a digital version of the bank even before we were granted a banking licence. As a World Top 100 university, Durham has been a wonderful source of inspiration, challenge and talent for our firm and in September we formalised our relationship by signing a 5-Year Memorandum of Understanding focused on talent, our environment, risk management and on boosting regional economic growth.

Add engaged customers and employees to strategic clarity and we can look ahead with confidence. We will continue to invest in operational efficiency, in automation and in sustainable earnings growth.

We will also continue to strike a careful balance between positive customer outcomes and profitability. We will prioritse investment in our resilience and our governance.

On the subject of governance, we have recently completed our Board Effectiveness Review and in so doing evidenced improvements in performance and engagement across all of our committees. I am delighted to welcome longstanding investor Johnny de la Hey of Toscafund to the Board as a full time member. Laurence Hollingworth takes on the role of Customer Champion and is leading our Customer Duty sub-committee as we prepare for the implementation of the FCA's latest flagship initiative and Cheryl Millington takes on the role of Employee Champion.

We continue to benefit from strong management, led by Mark Mullen and have welcomed Andrew Marshall as CFO, following the departure of David McCarthy, who was there from the beginning.

As my term of independence expires, in keeping with the Governance Code I will be stepping down as Chairman in September. Having completed a very thorough selection process under the supervision of David Roper, the Chair of our Audit Committee and Senior Independent Director, I am delighted to welcome Lee Rochford as our incoming Chairman (subject to Regulatory Approvals). Lee brings with him a wealth of sector experience and of course a new perspective. He has already joined the Board as an independent Non-Executive Director and in this way he can build familiarity with the firm in the months between now and when I leave.

With the leadership and support of both BBVA and Toscafund, we added a further £30m of equity capital to the balance sheet in the last year. We are not quite done with capital raising, however, and will use future capital raises to accelerate balance sheet growth and delivery of our strategy.

We ended the year with very healthy liquidity and capital surpluses, and generated capital during the second half of the year. We have established a new holding company above the bank in preparation for a future IPO. All in all, we are very well positioned to take advantage of the opportunities ahead.

As I reflect upon my 9 years with Atom I feel very proud that we have achieved many of the things that we set out to achieve when we started this project. Since we began our journey we have employed more than 1,000 people in high quality jobs here in the North East, a region desperately in need of investment. We remain headquartered in the beautiful city of Durham. We have built ties with our local council, our world class regional universities and with numerous local and regional businesses. We have created a profitable and growing bank with an excellent customer reputation. Of course there is always more to do. Ahead lie many challenges but I believe that Atom Bank has the talent and the resources to succeed.

Back in 2014 when we founded this company, the UK needed more and better competition. This remains the case today and that's exactly why Atom exists. It's also why companies like Atom are critically important to our economy.

Bridget Rosewell

Bridget Rosewell CBE
Chairman
14 July 2023

CHIEF EXECUTIVE'S REVIEW

The 2023 financial year proved to be the most successful 12 months in the history of Atom.

We generated our first full year operating profit, grew the franchise strongly, controlled our costs in the face of inflationary challenges, managed our risks effectively, improved our customer experience (having already set a very high bar), increased our brand recognition, pioneered the implementation of a 4-day working week (and in doing so re-energised employee engagement) and raised new equity.

Mark Mullen

Chief Executive Officer

Net Interest Income

£75m

FY22: £43m

Cost: Assets under Management Ratio

0.86%

FY22: 1.07%

Customer numbers

224k

FY22: 123k

Trustpilot trust rating

4.8

FY22: 4.8

The financial headlines start with our Interest Income for the year of £75m (FY22: £43m) which continues to grow strongly. We delivered a modest overall increase in our loans under management which topped £3.4bn (FY22: £3.3bn) but we enjoyed an altogether more impressive result on deposits which increased to £6.6bn (FY22: £3.2bn). Our customer Net Interest Margin was broadly stable year-on-year at 2.82% (FY22: 2.71%). In the face of significant economic headwinds and uncertainties arising from the war in Ukraine we delivered a prudent increase in our provisions by increasing expected credit loss charges by £13m, up from a charge of £1m the previous year. Our revenue growth vs cost growth (jaws) was 56% reflecting our strong discipline and cost control.

If it added up to what looks like a modest underlying Operating Profit of £4m (FY22: £5m Loss), then the momentum that we have created carries forward and so I am confident that we will eclipse these numbers by a very considerable multiple in the months ahead.

We remain focussed on developing our business model efficiency as our core strategic differentiator. If our cost: asset ratio of 0.86% (FY22: 1.07%) is already creditable for a young bank, then at full maturity it will become a game changer – exposing the operational cost and inefficiency of legacy models. Costs and efficiency matter to customers; for example, our mortgage application-to-offer time of less than 5 days during the final quarter compares to an average of 23 days for the industry in general.

We have increased the number of customers we serve to 224k, up from 123k in FY22. We don't simply offer our customers better rates – although we can always hold our heads up high when it comes to the value and the transparent pricing of our products – we also offer them a 5-star banking experience. Beyond our various external measures such as App Store ratings and Trustpilot, we consistently deliver customer Net Promoter Scores (NPS) in the high 80's.

As an accredited Recovery Loan Scheme (RLS) lender with an impeccable fraud prevention track record, we also manage close on £1bn of SME loans and have won the Credit Strategy SME support award for our efforts in helping to support small businesses.

We have an highly experienced, skilled and engaged team. We have invested in them and supported them throughout the year, introducing our 4-day working week, developing our Coaching & Leadership Pathways and developing our Talent Management programme. By the end of the year we had 465 employees, down slightly from 473 the previous year and we achieved an overall Employee Engagement Score of 81% (FY22: 81%). We will continue to recruit high quality colleagues but focus on ensuring that technology carries the full burden of scale. Increasingly we are concentrating our recruitment efforts on specialist roles in the service of our strategic programmes or on resilience and succession management.

Employee Engagement Score

81%

FY22: 81%

After what proved to be a very short retirement, we welcomed Chris Sparks back to the Bank to resume his role as our Chief Risk Officer. We also welcomed Andy Sturrock as our new Chief Technology Officer and Andrew Marshall has taken over as our Chief Financial Officer. We completed and implemented a review and consolidation of our senior leadership structures which resulted a small number of redundancies since when we have continued to challenge ourselves to ensure that we achieve the right balance between efficiency and risk management. We ended the year with a "Green" Risk Culture Rating – a composite measure which assesses how well we manage risk events, audit actions and credit risk.

We are constantly vigilant in the face of increasingly sophisticated cyber security threats and we are investing in our operational resilience and in the identification and calibration of our Important Business Services (IBS).

Carbon emissions per FTE

1.49 tCO_2

FY22: 1.49 tCO_2

Our carbon emissions for the year were 1.49 tonnes per FTE, the same as for 2022. This is impressive when one considers that in the period more of our employees returned to office working, following Covid lockdowns the previous year.

Looking ahead our priorities really are quite clear. The external environment will continue to be volatile and inflation looks like it will remain high. We will stay alert to the risks these conditions present.

For example, already we have established an highly successful pre-delinquency customer contact process. Rising rates might be good for savers but they create more stress and uncertainty for borrowers. We are no longer 'only' building a bank – we are trading a business.

We will invest significantly behind our ESG agenda. We have a target to become a carbon positive institution by 2035 and we have exciting plans to help us get there. We've just completed an end-to-end governance review and we are developing out engagement model and plans with local educational institutions at every level.

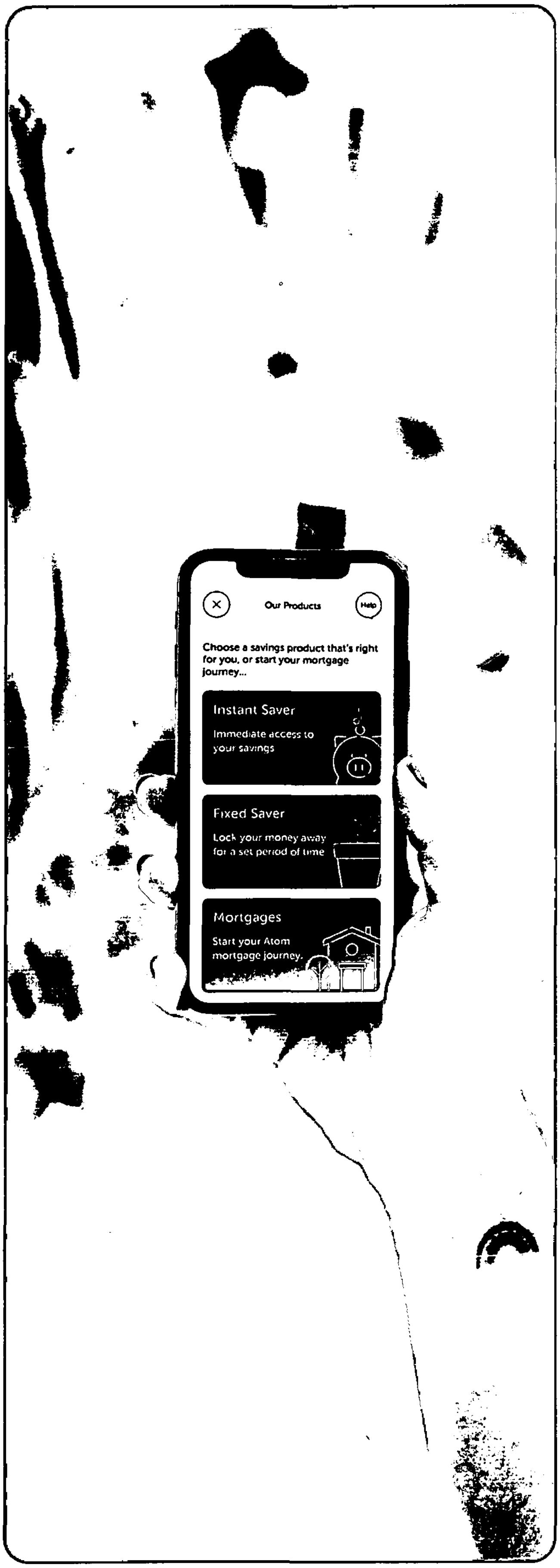
We are investing millions of pounds in our Internal Ratings Based (IRB) programme. We have greatly enlarged our IRB teams, invested in our data management/control and renewed our long-established credit and loss forecasting models.

In the coming year we will enhance our Customer Value Proposition (CVP) by continuing to automate our processes, expanding our savings range and developing our in-App mortgage customer retention and acquisition capabilities. We are also investing in our business banking offer to increase our lending capacity and to provide customers with greater speed and certainty.

I am often asked by journalists about our plans to IPO and more than once found myself hostage to my own words. In such turbulent times I think it's best to tell you that first and foremost we are working to ensure that we have a business that is a credible candidate for IPO. One that can offer shareholders long term value and sustainability and not just survive the transition from private to public ownership, but thrive thereafter.

Every year I have the same list of people to thank but it is important that I use these pages to do so because Atom is the product of team endeavour. I am wonderfully supported by my board colleagues and in particular by Bridget Rosewell, our outgoing Chairman. I am also delighted to welcome Lee Rochford to the Board and I look forward to working with him to build our vision for Atom. I am also greatly helped by my leadership team and by the wider Atom family. I am grateful to our patient investors. Finally, I am and will always be indebted to our customers.

Mark Mullen
Chief Executive Officer
14 July 2023



BUSINESS MODEL AND STRATEGY

Our mission is to make the experience of borrowing and saving simpler, faster and better value than anyone else. Atom is focused on serving the needs of people who want to own their own homes or build their own businesses.

Marcus Mitchell

Director of Strategy

Our mission

Securing a mortgage is a bureaucratic, slow and uncertain process with numerous touchpoints, where many borrowers are forced into an advised process that they neither want nor need.

SME borrowers face a process which is even slower with greater bureaucracy and more uncertainty. Neither market has yet seen the widespread innovation and digitisation that has disrupted the market for many other retail financial service products.

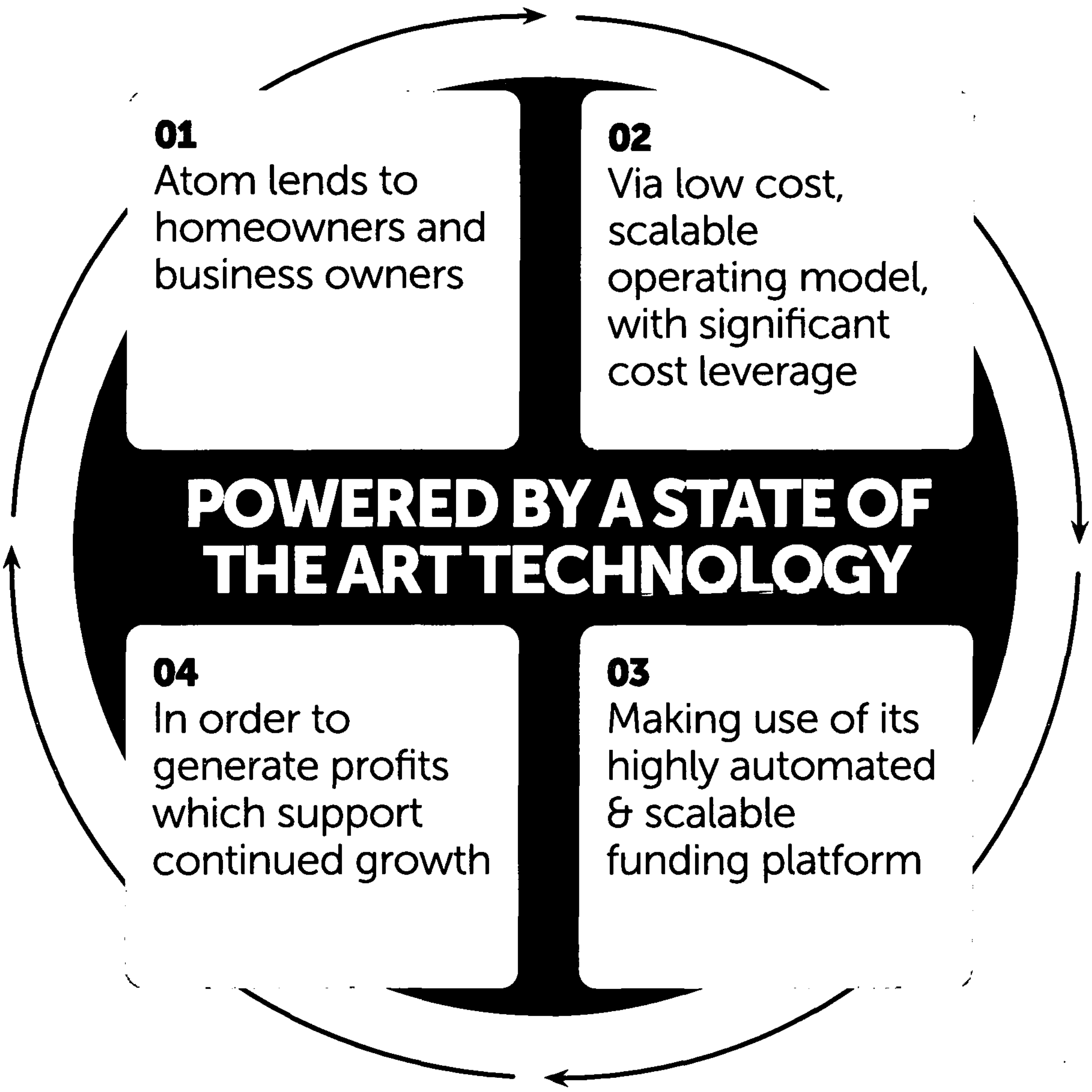
In the deposit market, household savings rates increased as the Bank of England increased the central bank base rate. The extent to which increases in base rate were passed on to savers by the large high street banks came under scrutiny from the media and politicians. Bank base rate increased by 3.50%, whereas the average quoted rates on instant access savings accounts only increased by 1.33%. Larger banks have justified this with a variety of reasons.

At its heart, these banks are complicated, inefficient and expensive to run and customers are paying for these costs through lower interest rates, whether they use the services or not.

The costs of structurally unprofitable infrastructure borne by the mainstream banking model are recovered through higher mortgage rates and lower savings rates, punishing the financially unsophisticated customer.

By designing a 'built for digital' business and developing both intermediated and direct, non-advised sales channels Atom can offer customers a materially faster and easier way of accessing better value products.

By focusing on the biggest lending and deposit markets, Atom is able to offer a better deal for customers on those products that matter most. The cloud-native digital banking platform Atom uses is highly automated and scalable.



Retail Deposits

Better value for savers

During FY23, household savings balances have grown by £61bn (+3%) to £1,955bn (Source Building Society Association). As interest rates began to rise in the Autumn of 2022, UK consumers began to switch from current accounts and instant access products into higher rate fixed term products. Total balances in fixed term products increased by £68bn /+46% in the year to March 2023.

There has been much scrutiny from the media and politicians on the treatment of savings customers from the UK largest banks. In particular, the degree to which increases in the base rate are being passed on to savers has attracted much attention.

As part of Atom's mission to offer better value, it has offered a range of competitively priced instant access and fixed term savings products throughout the year. Atom's FRS products ranked top-5 by Moneyfacts for 47 weeks in 2022, while the IAS spent 25 weeks there.

As a result there has been significant growth in Atoms savings balances, which increased by £3.4bn in the year to £6.6bn.

The account opening process is fast and easy. Accounts can be opened and funded entirely in-app and 99% of new savings customers don't need to use any of Atom's support channels (voice, chat, email) in the account opening process.

There have been 29 app improvements and updates during the year, to continue to make the account servicing process as fast and easy as possible. Following customer feedback, native biometrics were added as a way to log in to the app, in addition to the existing voice ID and facial recognition methods, providing customers even more convenience and choice in how they access the Atom app.

Improvements were made to the processes for funding accounts and to access a tax statement to make these faster, and easier to use. A 9-month fixed rate savings product was launched for the first time in response to customer feedback.

IOS app store ratings have increased to 4.9 (FY22: 4.7) and Android play store ratings have remained high, at 4.8.

£6.6bn savings balances

FY22: £3.2bn

✓ Set up in minutes
✓ Anytime* withdrawals

FSCS Protected

Customer centric change

Atom's award winning voice of the customer program has helped to deliver customer centric change this year, one of which was device-native log in capability.

Customers feedback was that Atom's own face ID, voice and passcode methods, worked most of the time and provided an adequate and trustworthy security proposition. In some cases, customers found these to be unreliable when logging in and frustrating to use, and they resulted in calls to the contact centre to resolve. In response to this, a feature was introduced so that existing customers could activate fingerprint (Android) and face ID (iOS) log in capabilities.

As a result, negative customer sentiment regarding log in has reduced, comments relating to this functionality disappeared and the number of contact centre calls in relation to log in failures reduced over night.

*For instant access products

Lending

Homeowners

The UK residential mortgage market was £1,676bn at December 2022, 3.9% higher than the previous year. It is an oligopolistic market where the biggest 6 banks have over 70% market share. Most new mortgages are originated via intermediary brokers.

Atom's mortgage balances grew from £1.5bn to £2.1bn during FY23. The market was disrupted during the autumn of 2022 as lenders and borrowers adapted to the fall out of the UK Government's 'mini budget'. This impacted new mortgage completions in the final quarter of the financial year. However, as the market stabilised, application volumes increased and Atom had a pipeline of offers of £0.4bn at the year end.

Atom's mortgage strategy remains focused on automating and digitising the sales process, making the account opening process as fast and easy as possible for customers. On average, binding mortgage offers were made within 5 days of application in the final quarter. The industry average in 2022 was 23 days. Atom remains committed to offering customers a direct execution-only sales journey. The first phase of this has already been launched to customers.

Small and Medium sized Enterprises (SMEs)

SMEs are the lifeblood of the UK economy and access to lending is crucial to allow them to grow and develop their businesses.

Atom offers hassle free secured and unsecured lending products through a trusted broker network and partnership agreements. Both fixed and variable rate secured loans are offered, and Atom is an accredited recovery loan scheme (RLS) lender,

Balances remained at £0.9bn during the year, with new lending of £232m offsetting loan repayments. Several updates to the broker portal were introduced during the year, alongside a decision in principle stage to the sale journey to provide more certainly to potential borrowers at an earlier stage in the process.

In July, Atom was admitted as a full member of the Lending Standards Board for business lending, testimony to its commitment towards responsible lending and acting in the best interest of its customers.

£2.1bn residential mortgage balances

FY22: £1.5bn

5 days

Mortgage speed to offer (vs market average of 23 days)

FY22: 14 days

Best Online Lender 2022

£0.9bn SME lending balances

FY22: £0.9bn

Accredited RLS Lender

British Business Bank backed Recovery Loan Scheme

Best Support for SMEs

Credit Strategy Lending Awards

Operating Model

At the core of our strategy and business model is the ability to scale the business at a considerably greater speed than the increases in costs required to support the growth. This makes use of Atom's digital model and scalable technology platform. This operational leverage is tracked by measuring the ratio of costs to assets. The cost: assets under management (AUM) ratio has decreased to 0.86% (FY22: 1.07%) as a result of balance sheet growth and tight cost control.

The drivers of operational leverage are:

1. The head office and control functions of the Bank are established and mature and do not need to scale as the customer base grows.

2. Atom does not have a large network of branches, operational centres or contact centres, instead the business operates out of a single office in Durham in the North East of England. All Atom employees are offered hybrid flexible working with a four-day working week.

3. Savings origination is highly automated. 99% of customers open and fund accounts without needing to use customer support channels.

4. Mortgage origination is highly automated. 95% of applications are automatic accept/decline decisions.

5. Atom offers products that are simple to manage and/or do not involve frequent customer contact. Once purchased, Atom's suite of products involve minimal post-purchase contact.

6. Savings maturity and retention is a self-service, in-app process.

7. Where customers do contact Atom, the underlying cause is able to be tracked and this is used to prioritise app and product enhancements.

At the end of the year, there were 46 colleagues in Atom's main customer facing support teams compared to 48 at the end of March 2022. The back office banking services team reduced from 31 to 28.

Customer numbers increased by 101,000 in the same period.

74% growth in income

82% growth in customers

0.86% cost: AUM ratio
FY22: 1.07%

45% revenue: cost jaws
FY22: 203%

Technology infrastructure

As the UK's first App-based bank, founded in 2014, Atom helped to launch a whole new category of banking. Fast forward to today, and app-based banking is now the norm, and customer expectations have moved on. Today, the expectation is not only that all financial products are digitally native and provide a frictionless customer journey, but also that the customer experience, new products and services are improved in daily and weekly cycles. Atom makes changes safely and rapidly in response to customer needs and to enhance capability.

Atom's technology is state of the art, it provides real time data and uses AI and machine learning to provide intelligent forecasting and speed up decision making.

High levels of automation

Atom's key strength is processing speed. During the year, enhancements have been made to the use of Automated Valuation Models (AVMs) for property valuations which are now integrated into the mortgage decision engine. This allows Atom to use the AVM to validate the purchase price while maintaining risk appetite.

Atom's underwriting process operates an automated operating model – where successful, offers can be made to customers in seconds.

Manual intervention and physical internal inspection by a RICS surveyor is still required in some cases, and the average time to offer was 5 days during the final quarter.

Scalable technology

Atom's cloud native, real time banking platform can be scaled up or down on demand to meet business needs, with only a limited impact on costs. Smart contracts and test environments are quick to create, meaning new products can be launched in a much quicker time than a traditional bank could achieve, and with limited customer impact or service downtime.

Resilient

To offer a truly customer-centric banking experience, high levels of availability, reliability and responsiveness are required. At Atom, capabilities, processes, behaviours and systems are embedded which allows the business to continue to carry out its mission in the face of disruption regardless of its source.

Craig Topham

Mortgage Advice Bureau

"Speed to offer makes a massive difference"

"I sent through an application to Atom while on the phone to the client and it came back in minutes, which gave them huge peace of mind.

Atom's platform is great, it doesn't ask irrelevant questions that waste time and you are kept in the loop throughout. For me as a broker, I don't have to worry about things going wrong or replacing the case when I work with Atom. Having the quick offer gives me the confidence that the case is pretty much boxed off and I can move onto other clients."

Performance against strategic priorities

Atom tracks performance against a series of key performance indices (KPI's) and objectives. These align to our vision and strategy.

Objectives are set at the start of each year and are reported frequently to all people through Up'n'Atom meetings, to the Board, and as part of quarterly investor updates.

Customer Numbers

Customer numbers are tracked as part of the measurement of business growth.

During the year Atom priced both fixed rate and instant access savings accounts competitively. As a result, the Bank welcomed 101k new customers and increased total deposit balances by £3.4bn to £6.6bn.

224k FY22: 123k

Loans Under Management

£3.4bn FY22: £3.3bn

The rate of new lending slowed through the middle of the year due to volatility in market rates. As a result, actual loan book growth was slower than planned, with £3.4bn of loans under management at year end.

Underlying Operating Profit

£4m FY22: £5m loss

Operating profit was recorded for the full year for the first time this year. A product of increased income and continued tight cost control.

Costs: Assets under Management Ratio

0.86% FY22: 1.07%

Atom was targeting a reduction from FY22 and a ratio below 1% which was achieved due to rapid balance sheet growth.

Proof of the scalable, automated business Atom has created is maintaining a low cost:asset ratio – the balance sheet, and income, will grow more rapidly than costs.

Speed & Efficiency

The loan origination process is a key focus area for Automation and improvement.

The average time between application and offer (for residential mortgages) or approval in principle for Business Banking Secured Lending (BBSL) is monitored to track progress made against this. The FY23 target was to reduce the quarterly average mortgage application to offer time to within 5 days, and the quarterly average BBSL application to approval in principle to under 10 days.

Mortgage speed: application to offer

5 days

FY22: 12 days

BBSL Application to Approval in Principle

9 days

New Metric

Trustpilot

4.8

FY22: 4.8

Focusing on the customer experience and making regular enhancements to the customer journey within the Atom app has resulted in a strong and consistent Trustpilot rating throughout the year.

Risk Culture Rating

The Risk culture rating is the result of six separate risk metrics at the foundation of banking.

These include Credit Risk, Financial Crime, Completion of internal risk and control procedures, and the time taken to address and close any internal audit or risk findings.

GREEN

81% Employee Engagement

FY22: 81%

Employee engagement is measured via all people surveys at least twice per year. Feedback and themes from the survey are used to develop the employee value proposition to ensure Atom remains a great place to work.

Carbon emissions per FTE

1.49 tCO_2

FY22: 1.49 tCO_2

FY23 represents the baseline measurement for carbon emissions and Atom's target is to reduce this each subsequent year. The FY22 result was artificially low, as fewer commuting journeys took place due to Covid lockdowns.

FINANCIAL REVIEW

For the first time, Atom reported a full year underlying operating profit of £4m (FY22: £5m loss), following a year of strong and profitable balance sheet growth.

The balance sheet grew to £7.8bn (FY22: £4.6bn) due to new lending at improved spreads and significant deposit inflows at efficient rates which drove a 74% increase in Net Interest Income (NII) to £75m. That, combined with ongoing strong management of operating costs has seen monthly profit to sustainable levels with a return on tangible equity (ROTE) of 11.2% delivered in the second half of FY23.

Andrew Marshall

Chief Finance Officer

Customer Net Interest Margin

2.82%

FY22: 2.73%

Underlying Operating Profit

£4m

FY22: £5m loss

Statutory profit before other charge

£6m

FY22: £2m loss

Statutory Loss after tax

£(6)m

FY22: £(12)m

Return on tangible equity (H2 FY23)

11.2%

Loans under management (LUM)

£3.4bn

FY22: £3.3bn

Cost: AUM

0.86%

FY22: 1.07%

NII & NIM

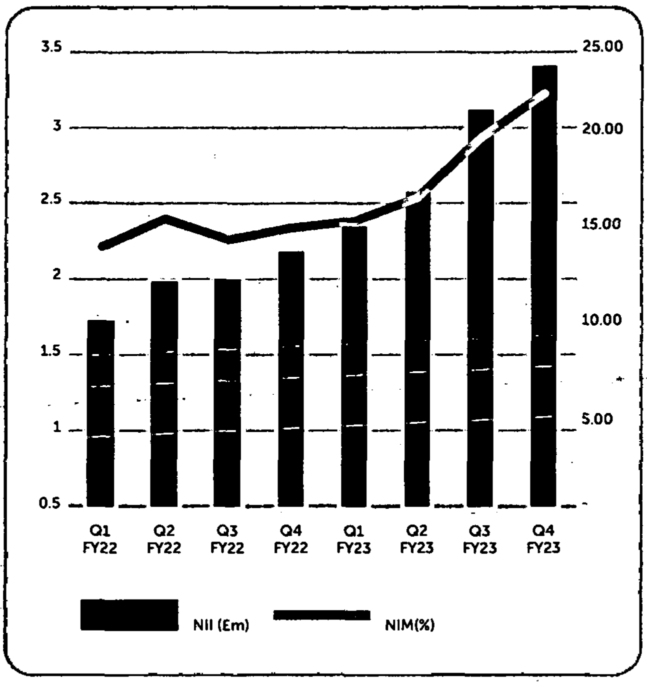
NII increased to £75m (FY22: £43m) due to balance sheet growth and improving spreads against a backdrop of a rapidly rising base rates.

- Interest income substantially increased to £209m (FY22: £77m). Interest earned on loans grew by 88% to £132m as a result of a 24% increase in the lending book to £3bn. Margins were strengthened via a focus on higher yielding secured and unsecured business lending and broadening the mix of mortgage LTVs.

- Interest earned on cash and liquid assets increased to £69m (FY22: £6m) as the level of cash held increased to £4.2bn (FY22: £1.5bn) due to deposit inflows, and the rate of interest earned improved as the base rate increased from 0.75% to 4.25%.

- Interest expense increased from £34m to £133m due to the higher interest rates paid to savings customers, and the significant increase in customer deposits which grew to £6.6bn (FY22: £3.2bn).

Customer Net Interest Margin (NIM), calculated, calculated as NII divided by average total loans for the period over which it was generated, remained high, at 2.82% (FY22: 2.71%). Yield on lending assets has improved, though the result is lower than the prior year due to the comparatively lower yield on cash.



Credit Impairment Charges

Credit impairment charges increased in the year to £13m (FY22: £1m) as provision coverage rates on the balance sheet increased to reflect deteriorating economic forecasts. The base forecast used in the expected credit loss (ECL) models assume double digit inflation will continue through FY24, and base rate will rise to 4.5%. This adds to the pressures facing households. Real personal disposable income is projected to decline and consumer spending to contract. In response to this, Atom has increased the ECL provisions held across all loan portfolios.

The biggest increase is seen within unsecured business lending, where the mix of the loan book has shifted as more loans have been originated outside of the RLS scheme, and therefore do not attract a government guarantee, and as a result of the portfolio maturing.

	FY23		FY22	
	Provision charge	**Coverage Rate***	**Provision charge**	**Coverage Rate***
Residential Lending	£2m	0.15%	£1m	0.08%
Secured Business Lending	£1m	0.47%	(£2m)	£0.47%
Unsecured Business lending	£10m	2.58%	£2m	1.31%
Total	£13m	0.47%	£1m	0.36%

*year end balance sheet provision coverage rate

Despite this more challenging and volatile economic background, actual levels of arrears and forbearance remain low, at 0.2% (FY22: 0.2%) for residential mortgages and 2.1% (FY22: 2.2%) for BBSL. 63% of the BBSL book is subject to government guarantee under the CBILS or RLS schemes, though Atom has not yet made any guarantee claims under either scheme.

As the unsecured business loan book has matured, a natural and expected increase in the level of loans in arrears or forbearance measures has occurred. At the end of the year 3.0% (FY22: 1.5%) of the loan book is in arrears or subject to forbearance measures.

Staff and Admin expenses

Staff and Admin expenses

£59m

(FY22: £50m)

Total operating costs of £59m increased by just 18% yet supported revenue growth of 74%.

Staff costs increased by £5m to £31m as average headcount increased to 452 (FY22:424). Despite a 82% increase in customer numbers to 224k, headcount within customer operations increased by just 2.

As part of the employee value proposition, cost of living increases were awarded to all people at the beginning of the year, and some employees received a further bonus and salary uplift as Atom adopted the real living wage as a minimum salary. This is crucial in ensuring the Bank can continue to attract and retain key talent and is one of the contributing factor to the high employee engagement score of 81% (FY22: 81%).

Administration costs increased by £4m to £28m. Half of the increase is due to higher servicing fees paid to originating partners, reflecting the growth in customer volumes in the period and *inflationary pressures from suppliers. In a year where inflation* has exceeded 10% and the balance sheet has almost doubled the result demonstrates the low cost scalable capability of the Atom platform.

Underlying Operating Profit

Income growth, net of costs and impairment charges has resulted in a full year underlying operating profit of £4m (FY22: £5m loss). with statutory profit before other charges of of £6m (FY22: £2m loss).

Performance during the second half of the year was particularly strong, contribution underlying operating profits of £12m and resulting in a return on tangible equity (ROTE) of 11.2% for the second half of the year.

Statutory profit before other charges

£6m

(FY22: £2m loss)

Reconciliation between statutory and underlying results

Adjustments take place between underlying and statutory results as a result of fair value movements on derivatives, used to hedge the bank's interest rate risk. This gain of £2m (FY22: £3m) is excluded from underlying results as it cannot be forecast, and will net to nil over the life of the derivatives.

	FY23			FY22		
	Underlying	Adj	Statutory	Underlying	Adj	Statutory
Net interest income	75.3	-	75.3	43.7	(0.4)	43.3
Credit impairment charges	(12.8)	-	(12.8)	(1.1)	-	(1.1)
Other income	0.9	2.2	3.1	2.8	3.0	5.8
Staff and administrative expenses	(59.1)	-	(59.1)	(50.2)	-	(50.2)
Operating profit (before other charges)	4.3	2.2	6.5	(4.8)	2.6	(2.2)
Other charges	(14.3)	(2.2)	(16.5)	(12.5)	(2.6)	(15.1)
Loss before tax	(10.0)	-	(10.0)	(17.3)	-	(17.3)
Tax credit	4.4	-	4.4	5.4	-	5.4
Loss after tax	(5.6)	-	(5.6)	(11.9)	-	(11.9)

Tax & Other Charges

A £4m credit (FY22: £5m credit) was recognised as the deferred tax asset was increased to £10m reflecting increasing certainty of generating profit to utilise historical taxable losses.

Other charges, made up of amortisation, depreciation and equity settled share based payments were stable at £17m (FY22: £15m) .

Statutory losses after taxation narrowed further, to £6m (FY22: £12m), with profits generated in the final two quarters of the financial year.

Capital

Since reaching run rate operating profit, Atom has the ability to maintain stable regulatory capital ratios. Existing cornerstone investors added £30m of equity capital during the period to support the growth of lending and execution of the strategy.

Atom's capital ratios were maintained in excess of regulatory minimum and management buffers throughout the year.

CET 1

19.0%

(FY22: 20.8%)

TCR

19.5%

(FY22: 21.6%)

Balance Sheet Growth

Total assets have grown to £7.8bn (FY22: £4.6bn), as a result of doubling the deposit book during the year, alongside strong growth in lending origination.

Deposits & other funding

Atom's fixed rate and instant access savings accounts are fast and simple to open, and offer better value for customers having paid above market average interest rates throughout the year.

Customer deposit balances doubled to £6.6bn. As base rate has increased in the year Atom has continued offer competitive rates on the fixed rate saver product, with balances increasing by 155% to £4.9bn. The IAS product also grew a further 28% and now totals £1.7bn.

The increased deposit balances have resulted in a higher cash surplus, and as a result year end liquidity coverage ratio (LCR) of 887% (FY22: 449%) was significantly in excess of regulatory minimums.

Mortgages

Lending to mortgage customers is at the heart of Atom's strategy, with the portfolio growing 40% to £2.1bn. Like many lenders Atom slowed lending following the "mini-budget" in September which created significant volatility in interest rate yields. This reduced planned growth, however following signs of greater rate stability origination was recommenced with a focus on building a strong pipeline for the start of FY24.

The residential mortgage portfolio has diversified, and now includes £55m of near prime loans offered to customers that might otherwise have faced challenges securing a mortgage, and £211m of buy to let lending, originated via a partnership agreement launched at the end of last year.

Atom continues to service £0.5bn (£0.9bn FY22) of mortgages off balance sheet in securitisation vehicles.

Mortgages

£2.1bn

(FY22: £1.5bn)

Business Loans

Lending to SMEs is a core part of Atom's strategy, with balances remaining stable at £0.9m (FY22: £0.9m).

The BBSL portfolio is self originated and remained stable at £0.5bn. New lending of £124m during the year was completed under the Recovery Loan Scheme.

Unsecured business lending, originated and serviced through a partnership agreement has also remained stable at £0.4bn (FY22: £0.4bn). Unsecured lending generates higher yield, albeit naturally results in higher rates of credit losses. As this portfolio has matured, a further £10m was charged this year for expected credit losses. The majority of Atom's unsecured portfolio is subject to government guarantee via the CBILS and RLS schemes and continues to perform in line with expectations.

Business Loans

£0.9bn

(FY22: £0.9bn)

ENVIRONMENTAL, SOCIAL & GOVERNANCE

Atom's commitment to changing banking for good, for the better, for everyone extends to its commitments and actions on environmental sustainability, community and the impact that the Bank can have as a responsible lender. These choices are at the heart of doing good business.

Edward Twiddy

Director of ESG

Sustainability

Climate change, driven by increasing use of fossil fuels, is an existential issue for communities around the world today and represents one of the most significant threats to economic and social wellbeing. Atom is committed to minimising its environmental impact and operating as sustainably as possible. Atom has pledged to become a carbon positive bank by 2035, because it does not believe that zero is sufficient and will take actions to actively take carbon out of the atmosphere.

Atom's strategy for addressing the challenge of decarbonising the business follows a 4 step model which applies to everything that we do. These 4 steps are Measure, Reduce, Substitute and then Invest.

01
Measure our impact and progress

02
Reduce our emissions

03
Substitute for eco-friendly alternatives

04
Invest in green opportunities

Only once the measurement basis is right can the challenges be appropriately addressed; therefore time is spent annually to review the business model to identify the source and amount of fossil carbon use. From that position Atom can then look for efficiencies and alternative suppliers or technologies which will reduce total emissions. Once all of these actions have taken place, then Atom will invest in projects and with partners to reverse and ultimately negate its impact.

The decisions made and the choices taken now will determine whether the company fulfils this commitment. Atom's digital, cloud-native business model is intrinsically more efficient and less impactful on the environment than traditional banking models, but in addition to this, its chosen suppliers and premises mean that emission are low and getting lower.

The offices, in Durham and in London are almost entirely carbon neutral. The Durham offices use zero carbon electricity, rely on biofuels and solar panels for heating, and rain water for plumbing. This means that for FY23 total scope 1 (direct) and 2 (required indirect) emissions for Atom were 15 tonnes of CO_2 equivalent (FY22: 89 tCO_2e).

Including scope 3 (optional indirect) emissions derived from Atom's own activity and its supply chain, total emissions were 673 tCO_2e (FY22: 633 tCO_2e). Scope 3 emissions are included based on best practices and data available at the time. During FY23 an update was applied to the calculation methodology to incorporate the impact of cloud computing. The 2022 metrics have been revised to include this information to allow for a fair and accurate comparison.

Carbon emissions per FTE

1.49tCO_2

(FY22: 1.49tCO_2)

This is the first full year that the benefit of switching to zero carbon electricity suppliers has been seen, reducing scope 2 emissions by 55 tonnes. This has offset some of the expected increase in scope 3 emissions due to the return of daily commuting and more business related travel, which were lower in 2022 due to covid and periods of lockdown.

This year Atom has successfully recycled all unused IT equipment and removed single use plastic from the business wherever possible.

During FY23 Atom made a further commitment by becoming the first UK bank to sign up to the UN's Climate Neutral Now pledge. Alongside the targets set for annual reduction to hit the self-imposed 2035 target, this provides an opportunity to engage across the sector and more broadly on the future role of business in solving the climate challenge. FY23 will be the benchmark year for this commitment, reflecting the first full year of post-covid operations and working practices.

CLIMATE NEUTRAL NOW

People & Community

Within Atom

Atom's people are integral to the success of the business, so making Atom a great place to work, such that talented people remain in the business is core to its success.

Our culture and values:

01
We treat people with respect

02
We are inclusive and accepting

03
We conserve the environment

04
We tell the truth

05
And we do it all with energy and enthusiasm

81%
Employee engagement score
(FY22: 81%)

465
Head count
(FY22: 473)

Retention and Reward

This year, Atom made its four-day working week trial permanent, to ensure the team has the best work-life balance possible, and subsequently became a silver accredited four-day week employer. That, combined with a flexible working approach means people have flexibility in when, and where they work.

The feedback and response to this has been extremely positive with no impact on running the business, or on performance, and employee engagement has remained high, at 81%.

As well as providing flexibility, Atom is committed to retaining and developing local talent. The Leadership and Coaching framework has successfully supported development through internal progressions, and is currently supporting 117 colleagues. A further 17 are undertaking professional qualifications or training using Apprenticeship schemes.

Diversity and Inclusion

Diversity and Inclusivity is taken seriously by Atom, from the customers who use the bank, to those that join the Atom team, every effort is made to make the business a fair and welcoming environment. Atom celebrates diversity through awareness events, such as Neurodiversity month. The whole month of March was dedicated to celebrating and learning about neurodiversity which included setting up a forum to help people shape the neurodiversity story going forward. Atom believes there is always more that can be done to make people feel more included and comfortable in the workplace.

Financial Services and Technology continue to experience systemic diversity issues, especially gender. Atom signed up to the Women in Finance Charter, designed to get firms to commit to implementing HM Treasury's industry recommendations and is on track to meet the agreed charter targets by 2025. Atom's mean gender pay gap reduced 3.5% this year, to 27.6%. More can be read about this at https://www.atombank.co.uk/gender-pay-gap/

Support when times are tough

Atom is committed to rewarding people fairly and supporting its people. Through the year financial wellbeing has been a growing concern, and in response Atom introduced the Real Living Wage to support financial wellbeing and the rise in cost of living and inflation. In addition, all eligible employees were awarded cost of living related salary increases at the start of the year, while further support was offered in the form of additional bonus payments to certain employees during the winter.

Aside from financial initiatives, Atom hosted The Money Charity who delivered a fantastic Financial Wellbeing webinar to the business, which received resounding positive feedback from all attendees.

30 Atom people are fully trained Mental Health First Aiders, on hand to provide support to our people. Through the internal Health and Wellness Hub Atom focuses on a specific topic each month which is driven by national wellness events and topics Atom employees are passionate about. At the end of 2022, Atom was awarded the Better Health at Work Continuing Excellence Award for our Health and Wellbeing programme and we are now well on the way to achieving our Maintaining Excellence Award.

Better Health
at Work Award

Atom & The Community

Atom is an active member of the local community, supporting projects and organisations that help develop and drive positive change. As a rapidly growing firm with a strong enthusiasm to employ talented and motivated people Atom is highly engaged with the schools, colleges and universities in our area. Whether in the creation of the Durham Mathematics School or through partnerships with secondary schools in the region, colleagues continue to dedicate their time and expertise to building awareness and creating opportunities for experience and ultimately employment in the North East of England.

In September, Atom signed a five-year memorandum of understanding (MoU) with Durham University, an agreement that will reinforce the strong partnership built with the university. Atom is focusing on 4 areas – people, environment, economy and commercial innovation. Atom continues to welcome undergraduate and postgraduate students into the bank on placements and internships, and the partnership with both the school of mathematics and computer sciences has widened to support more young people.

Atom welcomed Year 12 students as part of the EY Foundation Smart Futures Chartered Banker Institute Internship scheme, giving students from low income households the chance to get experience and insight into a career in banking. One of these students was awarded the top place on the scheme for their work over the internship.

The commitment to create a better future has always extended beyond Atom and beyond the North East, and following the earthquakes that caused mass devastation across Türkiye and Syria, Atom made a £50,000 donation to the relief efforts, shared with the United Nations Children's Fund (UNICEF), the International Rescue Committee (IRC) and the UN Refugee Agency (UNHCR via UK for UNHCR). These are the same agencies through which Atom supported the people of Ukraine.

Atom People forum

Atom is open and transparent in its communications in which regular monthly updates on the progress of the business are provided to the entire team, including quarterly Up and Atom meetings in which organisation and individual achievements are celebrated.

Atom's People Forum is an active group meeting every 3 months with 12 members representing all areas of the business. The Forum is facilitated by the People Experience team with members working with employees gathering feedback, suggestions and questions which have helped shape some the people initiatives, policies, and processes throughout the year. The People Forum provided feedback on the implementation of Atom's 4-day week ensuring that employees' views were heard, with suggestions and ideas integrated into the final recommendations to the Executive team and Board.

Board of Directors

Mark Mullen

Executive Director and Chief Executive Officer

Andrew Marshall

Executive Director and Chief Financial Officer (appointed 1 November 2022)

Bridget Rosewell

Chairman

David Roper

Senior Independent Non-Executive Director and Chair of Board Audit Committee

Cheryl Millington

Non-Executive Director and Chair of Board Nominations and Remuneration Committee

Christine Coe

Non-Executive Director and Chair of Board Risk Committee

Ergun Ozen

BBVA Appointed Non-Executive Director

Laurence Hollingworth

Non-Executive Director

Gonzalo Romera Lobo

BBVA Appointed Non-Executive Director

Alicia Pertusa Santos

BBVA Appointed Non-Executive Director

Johnny de la Hey

Toscafund Appointed Non-Executive Director (appointed 30 November 2022)

Lee Rochford

Non-Executive Director (appointed 23 May 2023)

Executive Management Team

Mark Mullen

Executive Director and Chief Executive Officer

Andrew Marshall

Executive Director and Chief Financial Officer (appointed 1 November 2022)

Helen Wilson

Chief Operating Officer

Chris Sparks

Chief Risk Officer (reappointed 1 April 2023)

Laura Farnworth

General Counsel and Company Secretary

Anne-Marie Lister

Chief People Officer

Chris Storey

Chief Commercial Officer

Andrew Sturrock

Chief Technology Officer (appointed 11 April 2022)

Governance

Atom has created an organisational structure and team culture to ensure that the business is appropriately governed and manages its risks.

Good corporate governance underpins the integrity of Atom and the wider community in which it operates. The success of the Bank is predicated on a framework of effective systems of internal control, risk management and compliance with regulatory requirements. Effective governance is not achieved by one single committee or forum but rather a robust framework that is set out in the Atom Governance Manual. This is underpinned by structure, oversight responsibilities, talent, culture, and infrastructure.

The governance structure for Atom comprises the following:

A Board of Executive and Non-Executive Directors:
Atom's Board of Directors is responsible for the overall governance of the Bank, determining strategic aims, objectives and policies and monitoring progress against these objectives.

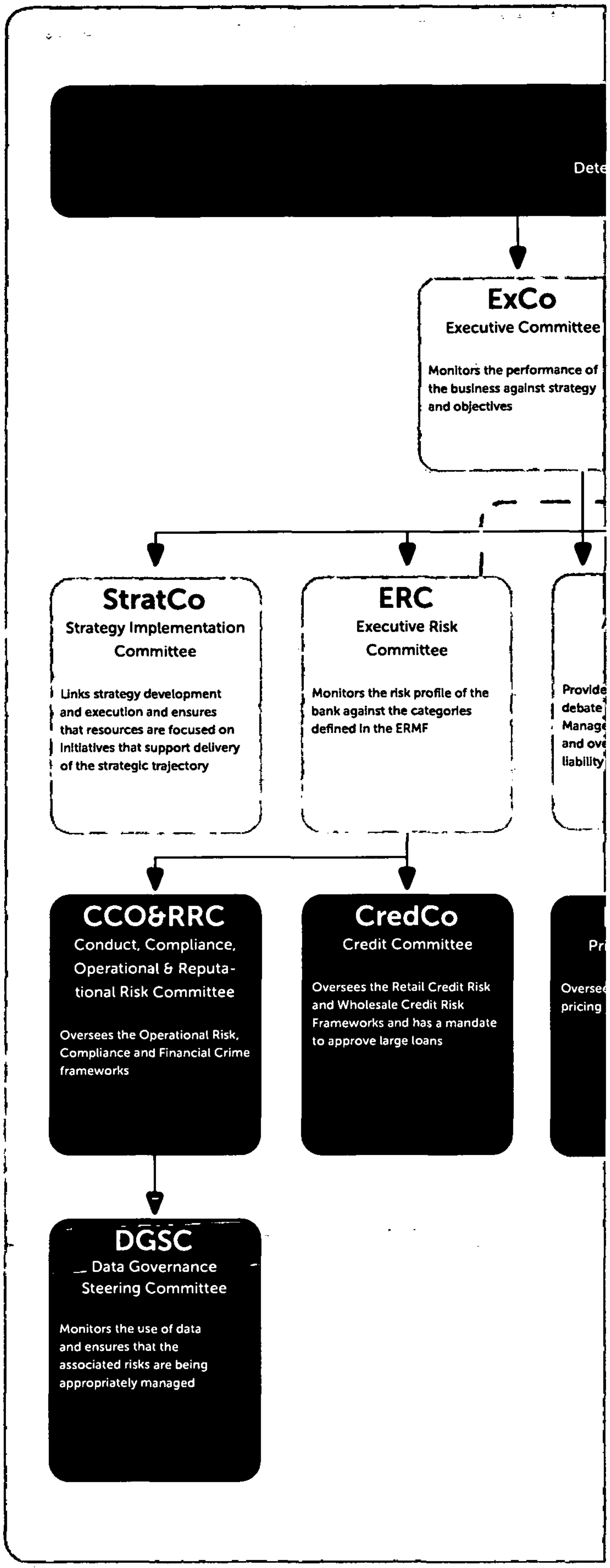
Board Risk Committee (BRC):
The BRC oversees Atom's risk framework and monitors the risk profile of the Bank. BRC is responsible for ensuring that the Bank's risk culture is appropriately designed by anticipating changes in business, economic, political and social conditions. The BRC is responsible for reviewing risk appetite and performance and the effectiveness of the enterprise risk management framework.

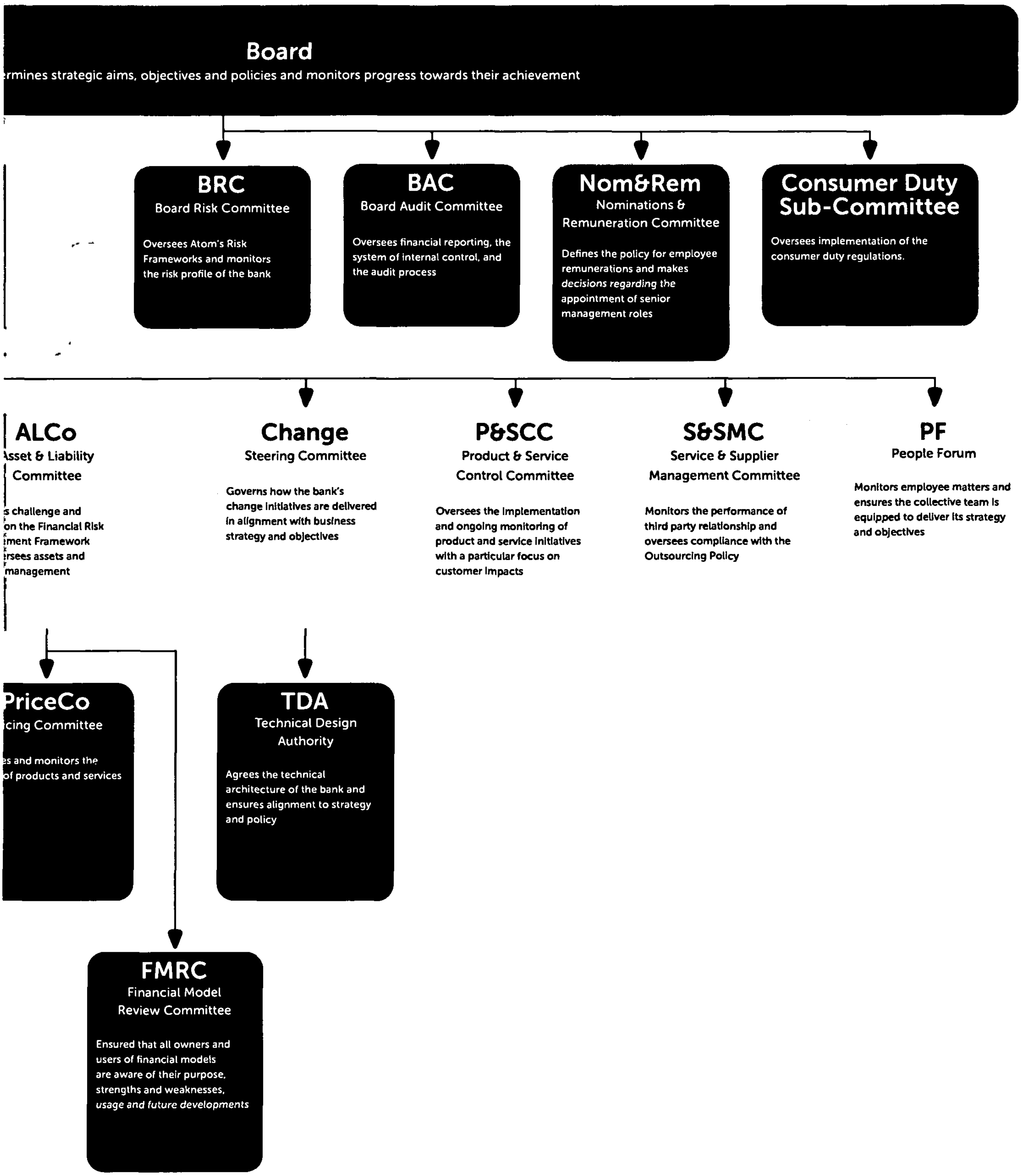
Board Audit Committee (BAC):
The primary role of the BAC is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, systems of internal control, the internal audit process, and the processes for monitoring compliance with all applicable laws and regulations.

Board Nominations and Remuneration Committee (Nom and Rem):
The Nom and Rem Committee leads the process for Board and executive appointments and establishing plans to ensure an orderly succession for Board and executive positions. The Nom and Rem Committee also sets and monitors the policy for remuneration of executive directors and senior management and assesses the performance of the business for awarding performance related pay awards.

Consumer Duty Sub-Committee:
The Consumer Duty Board Sub-committee oversees the implementation of Consumer Duty within Atom, including reviewing implementation progress against plan and ensuring that Atom can demonstrate that Consumer Duty is properly embedded within Atom and that Atom is delivering good outcomes for customers.

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




Board
rmines strategic aims, objectives and policies and monitors progress towards their achievement
BRC
Board Risk Committee
Oversees Atom's Risk Frameworks and monitors the risk profile of the bank
BAC
Board Audit Committee
Oversees financial reporting, the system of internal control, and the audit process
Nom&Rem
Nominations & Remuneration Committee
Defines the policy for employee remunerations and makes decisions regarding the appointment of senior management roles
Consumer Duty Sub-Committee
Oversees implementation of the consumer duty regulations.
ALCo
sset & Liability Committee
s challenge and on the Financial Risk ment Framework rsees assets and management
Change
Steering Committee
Governs how the bank's change initiatives are delivered in alignment with business strategy and objectives
P&SCC
Product & Service Control Committee
Oversees the implementation and ongoing monitoring of product and service initiatives with a particular focus on customer impacts
S&SMC
Service & Supplier Management Committee
Monitors the performance of third party relationship and oversees compliance with the Outsourcing Policy
PF
People Forum
Monitors employee matters and ensures the collective team is equipped to deliver its strategy and objectives
PriceCo
cing Committee
s and monitors the of products and services
TDA
Technical Design Authority
Agrees the technical architecture of the bank and ensures alignment to strategy and policy
FMRC
Financial Model Review Committee
Ensured that all owners and users of financial models are aware of their purpose, strengths and weaknesses, usage and future developments

RISK

Atom defines "risk" as any unexpected future event that could damage Atom's ability to achieve its strategic, financial and overall business objectives.

The management of risk is embedded across Atom's governance structure, with clearly defined accountabilities and responsibilities, and supported by a strong risk culture. There is continuous close and careful management of the risk profile, with Board support for the ongoing development and enhancement of the risk management capability across Atom.

Chris Sparks

Chief Risk Officer

Enterprise Risk Management Framework (ERMF)

Atom has an ERMF at the heart of its risk operations, outlining arrangements for the identification, assessment, management, monitoring and reporting of key risks.

Risk Strategy

Atom's risk strategy is to facilitate the creation of a reputable, responsible and sustainable bank which makes the experience of borrowing and saving simpler, faster and better value for money. Sustainable growth is underpinned by pricing appropriately for risk, protecting and enhancing Atom's reputation, and controlling financial and non-financial risk.

Risk Governance & Escalation

Atom's risk governance encompasses risk identification, assessment, management, monitoring, and reporting. The Board is responsible for ensuring the risk management framework and structure are robust. The BRC reviews risk-related information and delegates some responsibilities to executive committees.

Atom's risk appetite, which outlines acceptable risks and is aligned with principal risks, is regularly reviewed and approved by the Board. This rigour guides strategic and operational decision-making, taking into account potential impacts on the balance sheet, sustainability, customers, employees, reputation, regulators, and stakeholders.

Risk Operating Model

Atom complies with the FCA & PRA Senior Managers and Certification Regime (SMCR), whereby the most senior individuals, performing key roles, are accountable for all regulated activity and decisions. These individuals are subject to PRA or FCA approval with bank policies and procedures in place to support ongoing compliance with the regime.

Effective risk management is supported by a three lines of defence model, establishing clear roles and responsibilities for risk and control management across Atom.

01

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.

02

Second Line of Defence

Independent from the first line, oversees the application of the ERMF, challenging the information presented by the first line and monitoring and reporting on risks and controls to the relevant committees, ensuring that the first line continues to operate within the risk appetite and tolerances that have been set.

03

Third Line of Defence

Provides independent assurance over the adequacy of first and second line activities in relation to all aspects of the business, including the effectiveness of risk management practices and internal controls, and their alignment to regulatory expectations and industry standards.

Risk Management Processes

Atom has a number of key processes in place to support delivery of its risk objectives.

These processes are reflected within its risk policies and associated standards and procedural/ guidance documentation, to ensure consistency in the management of risks within risk appetite, across the Bank.

Risk identification, measurement and management

Embedded practices, across all Principal Risks, to ensure key risks are continually identified, assessed, monitored and reported, through established risks tools and systems.

Stress testing & scenario analysis

Regular testing is conducted as part of the financial planning process for both capital and liquidity, and non-financial Principal Risks, to explore how negative events or scenarios may impact Atom's capital and liquidity position, as well as earnings. Where appropriate, such efforts may result in strengthening controls. Scenario analysis and planning also includes planning for and carrying out simulated events to test Atom's resilience, crisis management and disaster recovery capabilities.

Capital & liquidity management

Atom takes a prudent approach to managing its capital and liquidity risk. Conservative risk appetites are applied within a rigorous control environment, summarised through the ICAAP and ILAAP, respectively.

Recovery planning

Response to adverse conditions that have the potential to cause a breach of internal and regulatory threshold. The Recovery Plan identifies and calibrates indicators to detect potential or actual stresses. It presents and evaluates options showing how Atom would return to within risk appetite, from a range of severe but plausible financial stresses caused by idiosyncratic problems, market-wide stress, or both.

Risk assurance

Provision of insight, oversight and challenge to help ensure Risk Appetite, policies, processes and regulations are complied with; governance and control arrangements are in place and suitably followed; and risks are being appropriately identified, managed and mitigated in response to evolving threats and risks.

Monitoring and Reporting

Robust processes and controls ensure there is regular assessment, monitoring and reporting across the Principal Risk themes, to confirm the risk profile and drive any necessary mitigation or remediation actions.

Risk Culture

Atom's strong risk culture is embedded across the Bank, working to ensure all employees actively consider risk management as part of their everyday activities, and evidenced through a suite of metrics regularly reported to leadership and Board.

The Risk function are actively engaged by the business to help manage and reduce adverse exposures to its risk and control profile, for both existing and new initiatives.

Risk appetite

Atom's risk appetite defines the type and level of risks that Atom 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 Atom's Principal Risks and sub-risk types. 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 Atom, e.g. potential impact on elements such as the balance sheet, sustainability, customers, employees, reputation, regulators and stakeholders.

Key and Emerging Risks

Atom maintains a register of its key and emerging risks which are informed by its senior leaders and assessed alongside Atom's Principal Risks.

This activity forms an integral cornerstone of business planning activities, ensuring that strategies and activities are appropriately focused on addressing the identified concerns and ensuring the right risk arrangements are applied to minimise their exposure. Current risks include:

Access to Capital

Capital raising enables Atom to grow to scale. Atom works with existing and prospective investors to access capital. Challenging conditions in the capital markets generally, sector or name-specific concerns might pose risks to executing strategy and business plans. Recent Bank failures in the US may increase the execution risk and cost of future capital raises.

Economic / Geopolitical Climate

There is a challenging macroeconomic environment of high inflation and rapidly increasing interest rates. Effects from the Russian invasion of Ukraine in terms of both the price and availability of core essentials might continue for a prolonged period. Further exacerbation in this climate is seen through elements of Brexit arrangements in relation to trade agreements and access to labour force. The variable lags of monetary policy transmission in today's world are more uncertain and might lead to excessive monetary tightening and a rapid deceleration in economic activity resulting in a deteriorating credit outlook.

Credit Risk

Credit risk outlook is worsening as high inflation and rising interest rates begin to put pressure on business and household income levels, increasing the risk that customers will be unable to maintain loan repayments. Atom have a robust approach to verifying sustainable serviceability which mitigates against this risk, and stress testing confirms resilience to income pressure in the portfolio. However, Atom continues to monitor early warning indicators closely to ensure Atom is positioned to respond to any future increase in arrears levels.

Regulatory Risk

Regulatory Risk remains steady across an increasing scale of regulatory deliverables, including the introduction of Consumer Duty in 2023. There are significant number of regulatory initiatives in train, including the UK implementation of the finalised Basel 3.1 standards and the PRA's "Strong and Simple" initiative that have the potential to have a material impact on the UK banking industry. Atom is actively engaged with key regulatory consultations. Programmes of work are underway to increase knowledge and understanding of regulatory change as well as achieve required compliance by planned regulatory implementation dates.

Information Security/ Cyber Crime

Cyber remains a key threat with ever increasing sophistication in attacks requiring focus and mitigation. Due diligence, design, scenario and control testing contribute to building network and systems security, in addition to operating perimeter controls to detect and prevent attempts to compromise systems.

Climate Change

Atom has an established governance framework to ensure that the risks associated with climate change are deliberated at senior levels within the business. Atom's Board sets the overarching approach to managing climate change risk with periodic reports provided as part of the wider review of the business' risk profile. Expectations of firms' responses to climate change also continues to increase from customers, regulators and investors which adds the potential for reputational risks.

People Risk

People Risk continues to be actively monitored against themes of employee attraction, retention and key person dependencies. The implementation and accreditation of the 4-day working week has yielded tangible benefits for Atom, including recruitment, retention and employee wellbeing.

Technology & Change Execution

As a digital, fast-paced bank, the effective delivery of the change and technology agenda remains paramount for Atom's growth phase and sustainability, as Atom scales operations and customer offerings.

Operational Resilience and Third-Party Risk Management

The interlinkage between operational resilience and outsourcing and third-party risk management is fundamental to Atom's success. Frameworks and upskilling within the Bank support the execution of improved resiliency arrangements and that of material third-parties.

Principal Risks

Principal Risks represent the most pertinent risks to Atom's operations:

Risk	Key Mitigation	Trend	
Business / Strategic Risk The risk that Atom fails to execute its business strategy as a result of poor decision taking, substandard execution of decisions, inadequate resource allocation or from a failure to effectively respond to changes in the business/ market environment.	• Alignment between strategic business planning activity and risk appetite. • Experienced Board and Executive leadership team supported by an established corporate governance framework. • Regular validation and review of business plan delivery.		**No change** This risk remains a priority for Atom but suitable controls exist to manage this risk.
Market Risk The risk of loss arising from potential adverse changes in the value or earnings profile of Atom's assets and liabilities from fluctuation in market variables including, but not limited to, interest rates, credit spreads and foreign exchange.	• Defined risk appetite, policies and procedures are in place to control market risks. • Exposures are mitigated through the use of natural offsets and derivatives. • Daily monitoring and management of market risk positions.		**Increased** Market volatility has increased significantly in FY23 and is expected to remain volatile in FY24. Atom has low tolerance for market risk and has implemented effective controls for measuring and managing the market risk inherent in the balance sheet.
Capital Adequacy Risk The risk that Atom could have insufficient quantity or quality of capital to deliver its base case business strategy or withstand a severe but plausible stress.	• At least annual assessment of capital requirements using the Internal Capital Adequacy Assessment Process (ICAAP). • Forward-looking capital adequacy is monitored to ensure resource consumption is effectively managed. • Maintaining an up-to-date Recovery and Capital Contingency Plan appropriate triggers and management actions in place. • Periodic capital raises from investors and progression to break-even.		**Reduced** Atom's positive operating income has reduced capital adequacy risks. Reaching operating profitability means Atom has more flexibility in deploying its capital and greater optionality to navigate future potential stress events.
Liquidity and Funding Risk The risk that Atom fails to have liquidity resources in quantity and quality to meet its obligations as they fall due and fails to maintain a stable and diverse funding profile, to support its assets and future growth at an acceptable cost in normal and stressed market conditions.	• Defined risk appetite, policies and procedures in place, including a Liquidity Contingency Plan. • Maintaining adequate high quality liquid assets to meet expected and unexpected outflows. • Maintaining and planning for access to liquidity facilities, including at the central bank. • Daily measurement and frequent forecasting of actual and stressed liquidity position. • At least annual assessment of liquidity and funding risks, stress tests and mitigants using the Internal Liquidity Adequacy Assessment Process (ILAAP).		**Reduced** The increase in interest rates has led to an improving retail funding landscape, thus reducing liquidity and funding risks for Atom, as evidenced by the increase in Liquidity Coverage Ratio (LCR) which has significantly exceeded regulatory minimum all year.
Operational Risk Inadequate or failed internal processes or systems, human error or external events, create a risk of direct or indirect financial loss and reputational damage.	• Policies, procedures and framework in place, supported by a suite of Operational Risk tools cover people, technology, security and third-party relationships. • Key risks and controls are identified for all areas of the business as part of the Risk and Control Self-Assessment (RCSA) process, ensuring risks are measured with appropriate mitigation in place. • Business continuity and IT disaster recovery and resilience plans are refreshed and tested regularly, ensuring Atom's Important Business Services are able to operate comfortably within stated Impact Tolerances.		**Reduced** Enhanced risk maturity and culture are embedded through strengthening of operational processes and controls.

Risk	Key Mitigation	Trend	
Credit Risk The current or prospective risk that a customer of the bank (consumer, commercial and wholesale) defaults on their contractual obligations to Atom or fails to perform their obligations in a timely manner. Atom defines counterparty risk as the risk that a financial counterparty to a transaction could default.	• Defined risk appetite and limits are set out within the Retail Credit Risk Framework and Concentration Risk Policy. • Robust lending policies ensure that the credit quality within the diverse lending portfolios remain within risk limits and that we act as a responsible lender. • Collections policies ensure sustainable forbearance solutions to deliver fair customer outcomes whilst we rehabilitate accounts in financial difficulties. • Detailed due diligence performed on lending and collections policies of lending partners to ensure that they align to risk appetite. • Dedicated Credit Committee monitors credit metrics for all lending on a monthly basis. • Stress and scenario testing is performed regularly to ensure the portfolio is resilient to market wide and idiosyncratic events. • Defined wholesale risk appetite and limits focusing exclusively on high quality credits. • Daily collateralisation of derivative and repurchase transactions exposures.		**Increased** Retail credit: current economic conditions, particularly high inflation and increased interest rates, increases the risk of default. Although there has been no significant increase in delinquency so far, actions are in place to enhance monitoring, including pre-delinquency campaigns, stressed affordability reviews and creation of additional watch lists. Wholesale credit: in light of the US and global banking vulnerabilities, Management have increased vigilance to ensure downside risks are minimised, while allowing for the necessary connectivity to the financial infrastructure to support the business.
Regulatory Risk The risk of financial loss, reputational damage and/or regulatory censure arising from failing to comply with existing/ future regulatory or legislative requirements including those in relation to Data Protection.	• Policies and procedures ensure compliance with applicable regulations. • Mandatory compliance training is provided to all staff. A compliance monitoring plan regularly tests process adherence. • Atom is committed to an open and collaborative relationship with the regulators. Day to day interaction is managed by the second line and includes regular meetings with senior management as well as business updates.		**No change** Programmes of work are underway to ensure compliance with regulatory expectations such as Consumer Duty. Atom is also actively engaged with regulatory consultations, including on the PRA's consultation on the implementation in the UK of the finalised Basel 3.1 standards
Conduct Risk The risks arising from inappropriate behaviour by Atom in its relationship with customers, counterparties and markets.	• Conduct Risk Policy sets the framework for the fair treatment of customers and the appropriate conduct of employees in line with the FCA's Conduct Rules. • Customer outcome focussed policies and procedures are in place covering product approval, change management, complaint handling, financial hardship and vulnerable customers. • Customer outcome measures are reported and reviewed by key governance committees.		**No change**
Model Risk The potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.	• Defined risk appetite, policies and procedures are in place to control model risks. • Policies, supporting standards and procedures exist to maintain a framework in line with good industry practice. • Metrics and status on model validation is reported to and reviewed at governance committees, including any remediation plan, where relevant. • Model validation and performance monitoring.		**No change**
Environmental Risk The risk that Atom contributes to or is impacted by physical or transitional risks arising from climate change or changes to the environment.	• Established governance framework to ensure climate change risks are deliberated at senior levels within the business. • Carbon emission reporting with reduction targets. • Physical & Transitional risk assessments and scenario modelling undertaken. • Climate considerations included in lending policies. • Director of ESG appointed.		**No change** Immediate risks are being mitigated by controls. Risks are likely to increase over time due to increased regulation and market changes.

s.172 STATEMENT

The role of the Board at Atom is to promote the long-term sustainable success of the company. It does this by making Atom's vision, to change banking for good, for the better for everyone, central to how and why decisions are made.

The Directors work closely with the ExCo when making key business decisions, to ensure that execution of Atom's strategy delivers as intended for its key stakeholders. Balancing the needs and expectations of various stakeholders is a core objective of the Board.

Atom considers its key stakeholders to be our customers, our shareholders, our people, our regulators and our suppliers.

Bridget Rosewell CBE

Chairman

01: Customers

The Bank is reliant on new and existing customers to borrow from Atom in order to own their own home or grow their business or to help them to save.

Making these transactions faster and easier is integral to Atom's operations and so receiving and acting upon customer feedback is key to strategic decision making.

Atom gathers customer feedback across several channels which is shared at a number of forums, including ExCo. Several new features were added to the Atom App during the year in direct response to customer feedback, including native biometrics to speed up customer log-in, please see page 14 for more information.

Atom also supports its customers through tough times by providing proactive customer contact and support for those in, or with the potential to experience, financial difficulties. Atom has a dedicated Financial Care team, trained to complete a full assessment of a customer's circumstances. A range of forbearance solutions are offered that can be tailored to a customer's individual circumstances. These could include agreeing reduced payments, extending a mortgage term, temporarily changing the loan repayment type or agreeing a payment plan so that arrears can be repaid. The effectiveness of the solution agreed with customers is then closely monitored, with over 90% adhered to.

In response to the cost-of-living crisis Atom has evolved its predelinquency offering to customers who may have been identified as financially vulnerable, based on a combination of internal affordability and external credit reference agency data. Contact campaigns aimed at this cohort of customers achieved a customer engagement rate of c.70%. The effectiveness of Atom's financial difficulties support can also be observed by the minimal increase in accounts in arrears across FY23 despite the challenging economic environment.

Over the last year Atom has also reviewed its Savings and Mortgages products in line with the requirements of the Consumer Duty regulations to go live on 31 July 2023. This includes the four outcome areas involving products and services, price and value, consumer understanding and consumer support, ensuring that the Bank will be able to deliver upon the requirements to act in good faith, avoiding foreseeable harm and helping customers achieve their financial objectives. Atom's existing culture, putting customers at the heart of how it designs products and services and providing fair value and support to those consumers during their time with the bank, will be critical in ensuring strong outcomes going forwards.

02: Shareholders

Atom has a range of shareholders, from employees and individual "angel" investors, to hedge funds and a global financial services group.

The two largest shareholders have exercised their right to appoint directors to the Board, providing them with input into the Board decision-making process and governance. One other significant shareholder is entitled to appoint an observer to Board meetings.

The Board is focused on maximising returns for investors over the long term through successful execution of the Bank's strategy. In doing this, consideration is given to the differing needs of the various shareholder groups, including the ability to liquidate their holdings. Advice on future capital market transactions to achieve this is taken from external experts, with the current macro-economic volatility and related impact on private and public markets a particular focus during FY23.

Regular open communications take place between the CEO, CFO and Chairman and Atom's shareholders in the form of quarterly performance updates, and at the Annual General Meeting. Outside of these formal interactions, more informal communication is maintained via members of the Board and Executive Committee.

Atom Holdco Limited

The Board approved proposals to introduce a non-trading holding company in order to provide Atom with increased flexibility to the corporate structure in contemplation of future corporate finance activity, including a potential IPO or M&A trade. This transaction took place by way of a scheme of arrangement, whereby each shareholder received one share in Atom Holdco Limited in exchange for each share held in Atom Bank plc. The trading activities and business of Atom Bank plc have not changed.

A scheme of arrangement is a formal procedure under the Companies Act and required the approval of the shareholders of Atom Bank plc, in addition to the Court and customary regulatory approvals.

Holders of share options in Atom Bank plc were informed of the proposals to insert a holding company, and exchange agreements were entered into where required in relation to such options. The Board were updated and appraised at each stage of the process and were provided with documents for review and approval prior to circulation to shareholders.

With a view to ensuring retained losses by Atom Bank plc did not preclude any future dividends that might be paid, Atom Bank plc's share premium account was reduced to £50,000 at the same time.

03: People

The team of 465 Atom people are critical to its operation and to delivering an excellent experience for customers and all other stakeholders. The Board has always recognised that retaining talent, as well as providing opportunities for career growth and development, is key to maintaining a diverse, innovative team that strives for success.

The Board and the Nom and Rem Committee are regularly updated on employee engagement and the employee value proposition. Feedback and overall engagement is monitored via formal surveys and informal "pulse" questionnaires, as well as through Atom's People Forum (see page 29).

The Nom and Rem Committee considers the impact of cost of living as part of the employee value proposition each year and recommends cost of living related salary increases for all employees. In addition, and in response to the increased cost of living, the Nom and Rem Committee supported the decision to increase salaries of the lowest paid employees and apprentices to £19,271 in line with the real living wage. Two one-off cost of living bonus payments were made to qualifying employees in November and December 2022.

04: Regulators

As a bank, Atom is regulated by the PRA and FCA. Maintaining open and transparent relationships with these regulators is key to ensuring ongoing compliance with regulatory requirements. Regular scheduled interaction takes place between members of the Board and ExCo and the PRA supervisory team, who also receive all Board and BRC papers.

Alongside the regular schedule of interactions, both the PRA and FCA are kept up to date with developments as and when they arise. Key areas of focus have been strategic developments and enhancements to support Atom's Advanced – Internal Ratings Based (A-IRB) application and the embedding of practices to support implementation of Consumer Duty regulation.

Atom has a framework and internal arrangements in place to ensure ongoing compliance with the requirements of the Senior Managers and Certification Regime ('SM&CR'). This includes clearly identified Senior Management Functions ('SMFs'), aligned to the key business activities and responsibilities clearly apportioned. The governance structure in place supports both the SMFs and Certified individuals to discharge their responsibilities.

05: Suppliers

Supplier relationships are critical to the efficient running of the business. Atom applies a risk-based and proportionate approach to supplier relationship management, whereby suppliers that provide critical services are subject to heightened levels of governance and control procedures. Supplier governance is overseen by the Service and Supplier Management Committee, with oversight by the ERC and BRC to ensure compliance with regulatory requirements. Material new engagements must be approved by the Board, who also review the contractual uplifts required as part of the regulatory framework.

Supplier management is formally documented within the Procurement and Third-party Management policies approved by the BRC. These policies aim to ensure that Atom has conducted appropriate due diligence and risk assessments and that there are operational plans in place for all life cycle stages to ensure a seamless delivery of service to customers.

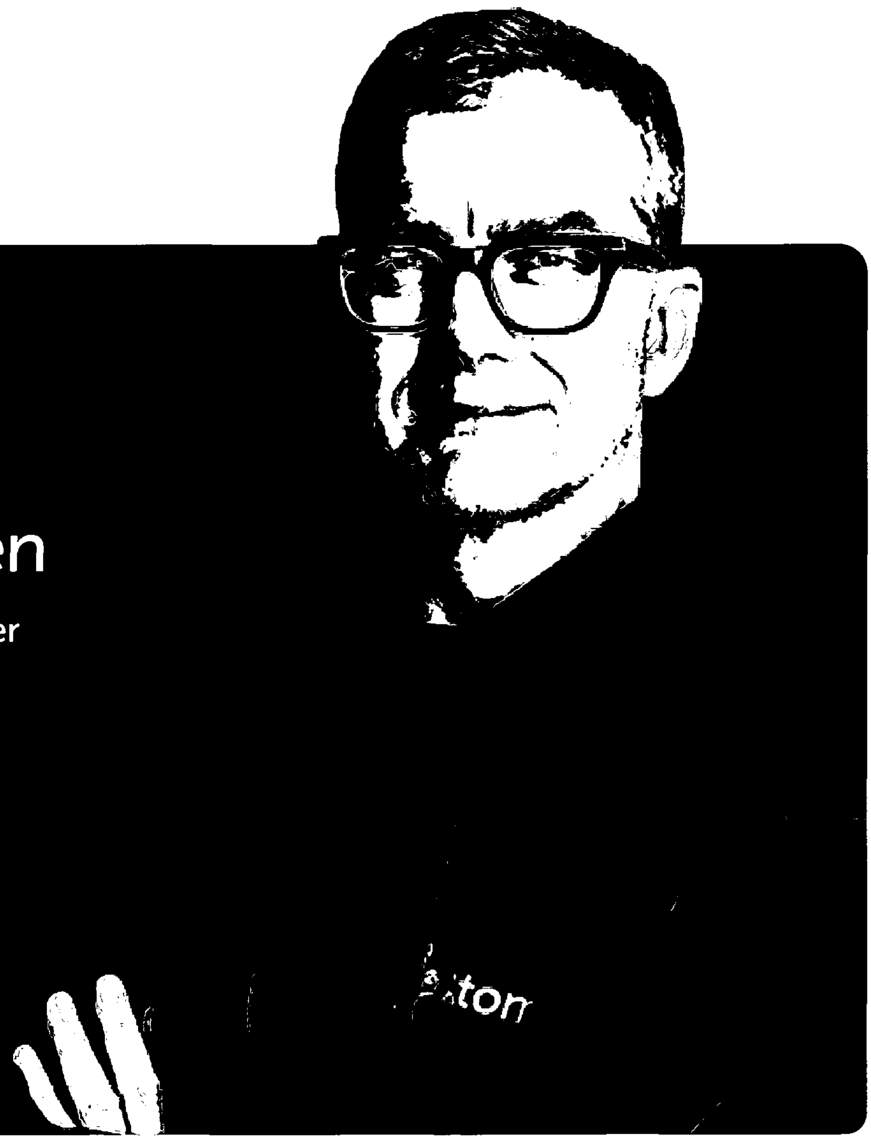
Where Atom relies on suppliers, a strategy of protection and restoration is adopted. The primary objective is the prevention of the loss of service, achieved through ensuring there are robust, fault tolerant systems with the appropriate levels of monitoring in place. In the event of a loss of service, the focus is the restoration of Important Business Services as quickly as possible. Operational resilience is key to delivering the high levels of availability, reliability and responsiveness expected of a truly customer-focused, digital organisation.

DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31 March 2023.

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

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



Mark Mullen

Chief Executive Officer

Results

The statements of comprehensive income and the statements of financial position can be found on page 52 and 53 respectively.

The directors do not propose to pay a dividend.

Directors

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

- Bridget Rosewell CBE
- Mark Mullen
- David McCarthy, resigned 31 October 2022
- Andrew Marshall, appointed 1 November 2022
- David Roper
- Cheryl Millington
- Ergun Özen
- Gonzalo Romera Lobo
- Alicia Pertusa Santos
- Laurence Hollingworth,
- Christine Coe
- John de la Hay, appointed 30 November 2022
- Lee Rochford, appointed 23 May 2023

Independent Auditors

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

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

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

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

Indemnity insurance

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during FY23, and remains in place, as Atom maintains Directors' & Officers' Liability Insurance which gives appropriate cover for legal action brought against its Directors.

The Board has approved the Strategic and Directors' Reports, and are being signed on its behalf by

Mark Mullen
Chief Executive Officer
14 July 2023

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Under that law, the Directors have prepared the financial statements in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRS) and with IFRS as adopted by the United Kingdom (UK).

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period.

Laura Farnworth
General Counsel and Company Secretary

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the United Kingdom have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. At a minimum, this is 12 months from the date of approval of these financial statements.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, *including the current financial position, capital resources and* expected future cash flows. Following a full year of underlying operating profit in FY23, the Bank's base case forecast assumes that this profitability will continue and Atom will be sufficiently income generative such that capital will not be required to fund ongoing losses. As a result any future capital transactions will be undertaken to accelerate lending growth and execution of the long term strategy.

A combination of stressed financial forecast scenarios have been considered as part of this assessment, including the failure to raise capital, significant increased variability in credit losses given the higher inflation environment, and a significant increase in the volume and rate of deposit outflows. In these scenarios, Atom can continue to trade for the foreseeable future, maintaining a surplus to regulatory minimum capital and liquidity.

Based on this assessment the Board is satisfied that the business can continue to operate for the foreseeable future and the going concern basis is appropriate.

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

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

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

Laura F

Laura Farnworth
General Counsel and Company Secretary
14 July 2023

FINANCIAL STATEMENTS OF ATOM BANK PLC

CONTENTS

Statement of comprehensive income

For the year ended 31 March 2023	Note	2023 £'000	2022 £'000
Interest income		208,467	76,836
Interest expense		(133,218)	(33,566)
Net interest income	2	**75,249**	**43,270**
Gain on disposal of assets held at amortised cost		-	1,749
Other income	3	3,083	4,099
Credit impairment charges	4	(12,768)	(1,100)
Net operating income		**65,564**	**48,018**
Staff costs	5	(31,347)	(25,882)
Administrative and general expenses	7	(27,781)	(24,300)
Staff and administrative expense		**(59,128)**	**(50,182)**
Profit/(loss) before other charges		**6,436**	**(2,164)**
Amortisation and depreciation	8	(11,273)	(10,531)
Equity-settled share-based payments	5	(5,233)	(4,585)
Other charges		**(16,506)**	**(15,116)**
Loss before taxation		**(10,070)**	**(17,280)**
Taxation	9	4,447	5,353
Loss after taxation		**(5,623)**	**(11,927)**

Other comprehensive income/(expense), net of tax

Items that are or may be reclassified subsequently to profit or loss		
Movement in fair value reserve (debt instruments classified as fair value through other comprehensive income)		
- Net gain/(loss) in fair value	117	(388)
- Net amount transferred to profit or loss	(9)	51
Movement in cash flow hedge reserve		
- Net gains from changes in fair value	5,163	-
Other comprehensive income/(expense), net of tax	**5,271**	**(337)**
Total comprehensive expense attributable to equity holders of the parent	**(352)**	**(12,264)**

The result for the year is derived entirely from continuing activities.

Statement of financial position

As at 31 March 2023	Note	2023 £'000	2022 £'000
Assets			
Cash and balances at central banks	17	4,177,488	1,453,596
Debt instruments at fair value through other comprehensive income	17	323,978	297,334
Debt Instruments held at amortised cost	17	150,273	295,103
Derivatives held for hedging purposes	26	76,882	36,021
Loans and advances to customers	10	2,958,769	2,384,066
Other assets	33	63,182	46,845
Property, plant and equipment	34	3,180	4,068
Intangible assets	35	37,829	36,129
Deferred tax asset	36	9,800	5,353
Total assets		**7,801,381**	**4,558,515**
Liabilities			
Customer deposits	20	6,551,325	3,229,796
Borrowings from central banks	21	681,403	675,749
Deemed loan	21	186,864	343,856
Subordinated liabilities	21	8,201	8,192
Derivatives held for hedging purposes	26	-	108
Provisions	37	425	310
Other liabilities	38	88,532	49,410
Total liabilities		**7,516,750**	**4,307,421**
Equity			
Share capital and share premium	30	29,305	566,378
Other reserves	31	37,379	26,875
Accumulated gains / (losses)		217,947	(342,159)
Total equity		**284,631**	**251,094**
Total liabilities and equity		**7,801,381**	**4,558,515**

The notes and information on pages 56 to 137 form part of these financial statements. The financial statements from pages 50 to 137 were approved by the Board of Directors on 14 July 2023 and signed on its behalf by:

Mark Mullen
Chief Executive Officer
14 July 2023

Andrew Marshall
Chief Financial Officer
14 July 2023

Statement of changes in equity

	Share capital and share premium	Share based payment reserve	Fair value reserve	Cash flow hedge reserve	Accumulated gains / (losses)	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2021	**448,935**	**22,351**	**276**	**-**	**(330,232)**	**141,330**
Loss for the year	-	-	-	-	(11,927)	(11,927)
Fair value reserve (debt instruments), net of tax						
- Net loss in fair value	-	-	(388)	-	-	(388)
- Net amount transferred to profit or loss	-	-	51	-	-	51
Total comprehensive expense	**-**	**-**	**(337)**	**-**	**(11,927)**	**(12,264)**
Issue of new ordinary chasres, net of transaction costs	117,443	-	-	-	-	117,443
Share schemes – value of employee services	-	4,585	-	-	-	4,585
Balance as at 31 March 2022	**566,378**	**26,936**	**(61)**	**-**	**(342,159)**	**251,094**
Loss for the year	-	-	-	-	(5,623)	(5,623)
Fair value reserve (debt instruments), net of tax						
- Net gain in fair value	-	-	117	-	-	117
- Hedge adjustment	-	-	-	5,163	-	5,163
- Net amount transferred to profit or loss	-	-	(9)	-	-	(9)
Total comprehensive income/(expense)	**-**	**-**	**108**	**5,163**	**(5,623)**	**(352)**
Issue of new ordinary shares, net of transaction costs	28,656	-	-	-	-	28,656
Share premium reduction	(565,729)	-	-	-	565,729	-
Share schemes – value of employee services	-	5,233	-	-	-	5,233
Balance as at 31 March 2023	**29,305**	**32,169**	**47**	**5,163**	**217,947**	**284,631**

NOTES TO THE FINANCIAL STATEMENTS

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

1. Summary of significant accounting policies

a. Reporting entity

These financial statements are prepared for Atom Bank plc. Atom Bank plc ("the Bank") is a public limited company limited by shares and is incorporated and registered in the United Kingdom.

b. Basis of preparation

The Bank's ultimate parent undertaking, Atom Holdco Limited, includes this company in its consolidated financial statements. The consolidated financial statements of Atom Holdco Limited are prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and are available to the public and may be obtained from https://www.atombank.co.uk/investor-information/.

The Bank is therefore exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Bank as an individual undertaking and not about its group.

The Bank is a qualifying entity as defined by Financial Reporting Standard 101, 'Reduced disclosure framework' (FRS101) and therefore has adopted the reduced disclosure framework of FRS 101 in these financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

In these financial statements, the Bank has applied the following exemptions from the requirements of IFRS available under FRS101 in respect of the following disclosures:

- Paragraphs 45(b) and 46 to 52 of IFRS 2 Share based payments
- The requirements in paragraph 38 in IAS 1 Presentation of Financial statements to present comparative information in respect of:
    - Paragraph 73(e) of IAS 16 Property, plant and equipment, and
    - Paragraph 118(e) of IAS 38, Intangible Assets
- The following paragraphs of IAS 1 Presentation of financial statements:
    - 10(d) (statement of cash flows);
    - 16 (statement of compliance with all IFRS); and
    - 111 (statement of cash flows information)
    - IAS 7 Statement of cash flows
- Paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors (new and revised standards that have been issued but not yet effective)
- Paragraph 17 of IAS 24 Related party disclosures (Key management personnel compensation)
- The requirements in IAS 24 Related party disclosures, to disclose related party transactions entered into between two or more members of a group.

c. Going concern

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, capital resources, cash flows and the strategy of the business. Further information is included within the Directors' responsibilities statement on page 55.

d. Presentation of financial statements

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

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

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

e. Cash and Cash Equivalents

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

f. Operating Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports and components which are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Chief Operating Decision Maker of the Bank is the Board of Directors. The Board considers the results of the Bank as a whole when assessing the performance of the Bank and allocating resources. Accordingly, the Bank is considered to be a single operating segment. The Bank operates solely within the UK and, as such, no geographical analysis is required. The Bank is not reliant on any single customer.

g. Financial assets and liabilities

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

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

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

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

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

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

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

A debt instrument that is not measured at amortised cost or at FVOCI is measured at FVTPL. Derivatives are normally measured at FVTPL.

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

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

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

h. Foreign currency translation

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

i. Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and revenues and expenses during the period. Due to the inherent uncertainty in making estimates, actual results may differ from those on which management's estimates or judgements are made. upon amounts which differ from those estimates.

Critical accounting estimates and judgements are disclosed within the note to which they relate:

- Expected credit losses for loans and advances to customers, note 11, contains both estimation uncertainty and significant judgements.
- Deferred tax, note 36. The recognition of a deferred tax asset requires the application of judgement and contains estimation uncertainty in determining its valuation.

There have been no changes to the Bank's accounting policies during the year. The Bank has not provided disclosures in respect of new and amended standards and interpretations that became effective for FY23, as none of these issued had impact on Atom's financial statements.

The IASB has issued a number of other minor amendments to IFRSs that are not mandatory for the current reporting year and have not been early adopted. None of these amendments are expected to have a material impact on the Bank.

PERFORMANCE

The notes in this section seek to explain the Bank's Profit and Loss performance during the year. Atom seeks to make profit by earning interest on loans originated to customers and on financial instruments we hold. This income is reduced by the interest paid to customers on their deposits and on wholesale funding facilities which fund lending. Atom also incurs expected credit loss charges, predominantly on loans and advances to customers, and on the cost of running a digital bank, predominantly employee expenses and the costs of maintaining the technology infrastructure.

2. Net Interest Income

Accounting for interest income and expense

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

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

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

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

	2023 £'000	2022 £'000
Interest income		
Loans and advances to customers	132,087	70,282
Other assets held at amortised cost	68,931	6,081
Assets held at fair value through other comprehensive income	7,449	473
Total interest income	**208,467**	**76,836**
Interest expense		
Customer deposits	(106,908)	(25,309)
Other liabilities held at amortised cost	(26,310)	(8,257)
Total interest expense	**(133,218)**	**(33,566)**
Net interest income	**75,249**	**43,270**

Net interest income increased by £32.0m to £75.2m. The improvement is due to balance sheet growth and improving spreads against a backdrop of a rapidly rising interest rate environment.

Interest income increased to £208m (FY22: £77m) due to growth in the residential mortgages, Business Banking secured lending (BBSL) and Business Banking Unsecured Lending (BBUL) loan portfolios, at improved spreads. Interest earned on cash and liquid assets increased as the level of cash held increased to £4.2bn (FY22: £1.5bn) and the rate of interest earned increased in line with Bank of England base rate.

Interest expense increased to £133m (FY22: £34m) due to the higher interest rates paid to savings customers, and the significant increase in customer deposits, which grew to £6.6bn (FY22: £3.2bn)

3. Other income

Accounting for other income

The significant items within other income are due to gains and losses on derivative financial instruments at fair value through profit and loss and those designated within hedge relationships. Please see Note 26 – Derivatives for further information.

Other income	2023 £'000	2022 £'000
Net fee and commission income	454	695
Ineffectiveness arising from fair value hedges (note 26)	2,548	3,426
Derivatives in economic but not accounting hedges	2	10
Other income/(expense)	79	(32)
Total	**3,083**	**4,099**

Hedge ineffectiveness arises when the fair value movement in the hedge instrument, the derivative, does not perfectly correlate to the fair value movement in the associated hedge item, the associated loans or deposits.

4. Credit impairment charges

Accounting for credit impairment charges

Refer to Note 11 - Amounts arising from expected credit losses for the accounting policy. The below table summarises the charge for the year in the income statement.

Net impairment on financial assets	2023 £'000	2022 £'000
Movement in impairment provisions for:		
Mortgages	2,360	681
BBSL	199	(1,597)
BBUL	10,150	1,868
Impairment charges on loans and advances to customers	**12,709**	**952**
Movement in impairment charges on loan commitments for:		
Mortgages	2	140
BBSL	89	(23)
Provision charges on loan commitments	**91**	**117**
Credit impairment (credit)/charge on debt instruments at amortised cost	(9)	51
Credit impairment (credit) on debt instruments at fair value through other comprehensive income	(23)	(20)
Credit impairment charges and other provisions	**12,768**	**1,100**

The £12.8m (FY22: £1.1m) charge reflects the recognition of impairment provisions under IFRS 9 Financial Instruments. The charge for the year is due to loan book growth and increased coverage rates during the year. Further information on the change in expected credit loss provision is disclosed in note 11.

5. Staff costs

Accounting for staff costs

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

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

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

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

	2023	**2022**
Staff costs	**£'000**	**£'000**
Wages and salaries	24,663	20,591
Social security costs	3,991	3,083
Contributions to defined contribution plans	2,693	2,208
Total staff costs	**31,347**	**25,882**
Equity-settled share-based payments	5,233	4,585

Wages and salaries of £24.7m (FY22: £20.6m) are reported net of £2.6m (FY22: £2.4m) of staff time capitalised, and net of £0.2m (FY22: £0.2m) Banking Competition Remedies (BCR) funding released to the income statement to match eligible expenditure.

The increased cost is partly due to an increase in headcount of 28, to an average of 452, and partly as a result of cost of living related salary uplifts paid to all employees at the beginning of the year.

Average monthly number of employees during the year	**2023**	**2022**
Executive	11	11
Business and customer operations	245	243
Administration	77	60
Technology	119	110
Total	**452**	**424**

6. Share based payment arrangements

Accounting for share based payments

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

Following the group reorganisation, all outstanding share options previously issued by Atom Bank plc were cancelled and replaced with identical share options issued by Atom Holdco Limited. All subsequent share options are issued to Atom employees by Atom Holdco Limited.

In line with IFRS 2 Share Based Payments, the value of the employee services received in exchange for share options granted is recognised as a staff cost in the income statement of the employer, Atom Bank, over the period that employees became unconditionally entitled to the awards (the vesting period). This is generally the period between the date the award is granted or notified and the vesting date of the options. All awards granted under current schemes are conditional on employee service and do not contain non-market or market performance conditions.

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

All options are equity settled, and the fair value is calculated at the grant date using Black Scholes Merton valuation models, and is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The potential liability to pay Employers National Insurance Contributions on employee share options is recognised as a liability accrued in line with the vesting of the related share options.

As at 31 March 2023 the Bank had the following share-based payment arrangements:

Scheme	Overview	Weighted average exercise price (pence)	Weighted average remaining contractual life
Build the Bank share scheme (BTB)	A one off scheme designed to reward staff involved in the earliest stages in the development of Atom	35	4 Years
Annual performance share scheme (APSS) – 2015 to 2023	Annual performance award. APSS17 to 23 includes a HMRC approved Company Share Option Plan	0.001	8 Years
Long term incentive scheme (LTIP)	A retention scheme put in place for a limited number of senior staff	66	3 Years
Joint share ownership plan (JSOP)	This is an executive scheme implemented for a number of Atom's founders	0.001	5 Years

All schemes are equity settled, and the options have a 10 year contractual life.

Under the APSS 8,222,331 (FY22: 8,753,084) share options were granted. A further 291,666 (FY22: £nil) share options were granted under the LTIP.

As the consolidated financial statements of Atom Holdco Limited include the equivalent disclosures, Atom has taken the exemption under FRS101 available in respect of certain disclosures required by IFRS2 Share Based Payments.

7. Administrative and general expenses

	2023	2022
	£'000	£'000
Administrative expenses	627	527
Loan servicing expense	6,461	4,994
IT costs	15,590	13,482
Marketing	661	832
Legal and professional	3,036	3,275
Office and premises	1,406	1,190
Total administrative and general expenses	**27,781**	**24,300**

Administrative and general expenses are recorded net of £0.2m (FY22: £0.4m) of Banking Competition Remedies (BCR) funding held within other liabilities which was released to the income statement to match eligible expenditure.

Loan servicing expenses of £6.5m (FY22: £5.0m) are paid to third parties in instances where this service is outsourced. The increased charge is due to growth in lending through partnership agreements.

IT costs of £15.6m (FY22: £13.5m) includes the running costs of customer savings and lending platforms, customer contact systems, and IT infrastructure supporting back-office functions. This has increased as a result of scaling the technology as the balance sheet and customer numbers have grown

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

	2023	2022
	£'000	£'000
Audit fees for the Bank statutory audit	333	298
Other non-audit services	18	62
Total auditors remuneration	**351**	**360**

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

Accounting for amortisation and depreciation

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

	2023 £'000	2022 £'000
Amortisation of intangible assets	10,260	9,467
Depreciation of property, plant and equipment	1,013	1,064
Total amortisation and depreciation	**11,273**	**10,531**

9. Taxation

Accounting for taxation

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

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

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

	2023	2022
	£'000	£'000
Current tax		
Current year	-	-
Deferred tax (note 36)		
Current year	3,380	4,068
Effect of change in tax rate	1,067	1,285
Tax credit for the year	**4,447**	**5,353**

	2023	2022
	£'000	£'000
Loss on ordinary activities before taxation	10,070	17,280
Standard rate of corporation tax	19%	19%
Expected tax credit	**1,913**	**3,283**
Items not taxable	63	78
Effect of changes in tax rates	1,067	1,285
Other temporary differences	1,404	707
Total tax credit	**4,447**	**5,353**

In the Spring Budget the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. This new law was deemed substantively enacted on 24 May 2021 and the deferred tax balances at the year end have been calculated based on this rate.

No corporation tax liabilities are payable or receivable from HMRC for the year (FY22: Nil).

LENDING AND CREDIT RISK

This section provides information on Atom's lending and the provisions held for credit impairment. As a retail bank Atom uses the funds deposited to lend to customers. Atom currently provides secured and unsecured loans to small and medium enterprises and mortgages to individuals and professional landlords. As the principal risk of lending, disclosure is also provided on how Atom manages and mitigates credit risk.

10. Loans and advances to customers

The following table summarises lending by IFRS 9 impairment stage and the related provision:

At 31 March 2023:	BBSL £'000	Mortgages £'000	BBUL £'000	Total loans and advances to customers £'000
Gross carrying amount:				
Stage 1: 12 month expected loss	437,003	2,029,132	353,450	2,819,585
Stage 2: Lifetime - loans not credit impaired	61,659	108,377	25,501	195,537
Stage 3: Lifetime - credit impaired loans	13,169	10,972	10,476	34,617
Total gross carrying amount	**511,831**	**2,148,481**	**389,427**	**3,049,739**
Fair value adjustment*	**-**	**(81,030)**	**-**	**(81,030)**
Effective interest rate adjustment	**-**	**6,277**	**121**	**6,398**
Total gross carrying amount including valuation adjustments	**511,831**	**2,073,728**	**389,548**	**2,975,107**
Less expected credit loss provision:				
Stage 1: 12 month expected loss	(932)	(1,879)	(3,172)	(5,983)
Stage 2: Lifetime - loans not credit impaired	(770)	(1,473)	(4,142)	(6,385)
Stage 3: Lifetime - credit impaired loans	(976)	(266)	(2,728)	(3,970)
Provision for on balance sheet impairment losses	**(2,678)**	**(3,618)**	**(10,042)**	**(16,338)**
Net balance sheet carrying value	**509,153**	**2,070,110**	**379,506**	**2,958,769**
Loan commitments				
Gross commitments	75,928	445,506	-	521,434
12 month expected loss provision	(104)	(171)	-	(275)
Total credit impairment provision	**(2,782)**	**(3,789)**	**(10,042)**	**(16,613)**
Total coverage ratio	**0.47%**	**0.15%**	**2.58%**	**0.48%**

*The fair value adjustment arises as a result of fair value hedge accounting as disclosed in note 26. That, and the effective interest adjustment have not been allocated across IFRS 7 credit risk disclosures.

10. Loans and advances to customers (continued)

At 31 March 2022:	BBSL £'000	Mortgages £'000	BBUL £'000	Total loans and advances to customers £'000
Gross carrying amount:				
Stage 1: 12 month expected loss	361,619	1,242,221	367,076	1,970,916
Stage 2: Lifetime - loans not credit impaired	123,745	239,252	65,045	428,042
Stage 3: Lifetime - credit impaired loans	11,941	5,649	7,344	24,934
Total gross carrying amount	**497,305**	**1,487,122**	**439,465**	**2,423,892**
Fair value adjustment*	**-**	**(36,881)**	**-**	**(36,881)**
Effective interest rate adjustment	**-**	**6,284**	**258**	**6,542**
Total gross carrying amount including valuation adjustments	**497,305**	**1,456,525**	**439,723**	**2,393,553**
Less expected credit loss provision:				
Stage 1: 12 month expected loss	(307)	(358)	(2,107)	(2,772)
Stage 2: Lifetime - loans not credit impaired	(1,331)	(771)	(1,779)	(3,881)
Stage 3: Lifetime - credit impaired loans	(841)	(128)	(1,865)	(2,834)
Provision for on balance sheet impairment losses	**(2,479)**	**(1,257)**	**(5,751)**	**(9,487)**
Net balance sheet carrying value	**494,826**	**1,455,268**	**433,972**	**2,384,066**
Loan commitments				
Gross commitments	33,443	251,801	-	285,244
12 month expected loss provision	(15)	(169)	-	(184)
Total credit impairment provision	**(2,494)**	**(1,426)**	**(5,751)**	**(9,671)**
Total coverage ratio	**0.47%**	**0.08%**	**1.31%**	**0.36%**

Mortgages

Fixed rate mortgage products are offered to customers via brokers. The portfolio is predominantly owner-occupied, however does include £212m (FY22: £12m) of buy to let lending to professional landlords. During FY23 the portfolio grew by £0.6bn to £2.1bn with greater focus on higher margined LTV products.

The provision of £3.6m (FY22: £1.3m) results in a coverage ratio of 0.15% (FY22: 0.08%). Low levels of delinquency continue to be experienced, with 94% (FY22: 84%) of total mortgage value classified as Stage 1. The proportion of the portfolio in arrears or forbearance remains at 0.2% (FY22: 0.2%).

Mortgages of £446m (FY22: £252m) were also committed, but not completed, to 2,282 (FY22: 1,328) customers. A provision of £171k (FY22: £169k) was held against this potential exposure, resulting in a total mortgage provision of £3.8m (FY22: £1.4m).

The valuation adjustment of £(81m) (FY22: £(36.9m)) reflects the IAS 39 macro hedge adjustment as described in note 26.

There have been an insignificant number of mortgages subject to modification.

BBSL

Atom offers secured loans to SMEs, with the loan book growing by £14m to £509m during the year. Atom was accredited to the UK Government's Recovery Loan Scheme (RLS) which followed the Coronavirus Business Interruption Loan Scheme (CBILS), and £124m of new lending under the RLS scheme was completed this year . Lending under the RLS scheme is subject to an 80% or 70% guarantee from the government, depending on whether the loan originated before or after 1 January 2022, respectively. Lending *under the CBIL scheme is subject to an 80% guarantee from the* Government.

The provision coverage rate has remained static at 0.47% due to the higher proportion of the loan book attracting these government guarantee, offset by an increase in the provision for the remainder portfolio. £199m (FY22: £228m) of the book balance was originated under the CBIL scheme, with a further £135m (FY22: 46m) under the RLS.

Levels of arrears and forbearance remain low, having increased to just 2.1% (FY22: 2.2%) of the outstanding balance. There have been an insignificant level of BBSL accounts subject to modification.

Loans totalling £76m (FY22: £33m) were committed, but not completed, to 105 (FY22: 36) customers. A provision of £104k (FY22: £15k) was held against this exposure, resulting in a total BBSL provision of £2.8m (FY22: £2.5m).

BBUL

Unsecured loans are offered to SMEs in conjunction with a third-party origination partner. The loan book has matured and begun to pay down in the year, and as a result the total balance has reduced to £380m (FY22: 434m). Loans were initially originated under the Government backed CBILS and RLS schemes, and during the second half of FY22 and in the current year, unsecured loans were originated to customers without a government guarantee.

The overall maturing of the loan book, and the increase in the proportion of loans without a government guarantee, that attract a higher provision coverage rate, has led to a natural and expected increase in provisioning. These changes, as well as macroeconomic factors have led to an increase in the provision coverage rate of 1.27% to 2.58%.

The proportion of the loan book attracting a government guarantee at period end was 77% (FY22: 94%) with £165m (FY22: £262m) attracting the CBILS guarantee, and £133m (FY22: £152m) attracting a RLS guarantee.

11. Managing credit risk

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

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

Retail Credit Risk Management

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

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

Exposure to credit risk is managed by first line operations throughout the underwriting process, and ongoing exposure is monitored by the Credit Risk function and is overseen by Credit Committee. Credit Committee's activities and decisions are overseen by both ERC and BRC.

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

Retail Credit Risk Mitigation

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

The Credit Risk function sets a credit risk policy that is consistent with its specified risk appetite for each type of lending. All such policies are reviewed at least annually. Credit policies are supported by lending manuals which define the responsibilities of underwriters and provide a rule set for credit decisions. For residential mortgages, policy criteria are embedded in the Bank's credit decision system to ensure accuracy and consistency of decisioning. Where asset origination is achieved via partnership, the Credit Risk function performs detailed due diligence of the "outsourced" processes to ensure lending is in line with risk appetite.

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

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

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

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

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

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

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

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

Accounting for lending and credit risk

i) Classification and Measurement

Under IFRS 9 loans are recognised at fair value upon legal completion. Subsequently all products are classified and measured at amortised cost because:

- As core products to Atom's retail bank strategy the business objective of the lending is to hold the asset to collect contractual cash flows to maturity; and
- the contractual terms of the loans give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The loans are vanilla retail lending products with no features that give rise to significant other cash flows.

ii) Impairment

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

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

Assessment of IFRS 9 impairments requires a number of supporting models and policies.

11. Managing Credit risk (continued)

ECL model

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

- PD represents the likelihood of a customer defaulting on their loan. The 12-month PD is either taken from a behavioural or application scorecard. This is then extrapolated using historic industry data to calculate the lifetime PD.
- EAD is based on the amount expected to be owed at the point of default, with the key assumption being customer paydown and level of arrears.
- LGD estimates the amount of loss on a defaulted exposure at the point of default, as a percentage of the defaulted exposure (EAD), with key drivers to that estimate being probability of possession given default (PPD) and forced sale discount (FSD).

The ECL model is subject to model monitoring, with changes made to improve performance or address identified limitations. Changes made during this period focused on improving the sensitivity of the LGD modelled outcome to the different economic scenarios. This change increased the calibration of FSD and PPD for residential mortgages and BBSL in downside 1 and 2 scenarios. The BBUL downturn parameter assumed a 100% loss given default post any government guarantee.

Determining a significant increase in credit risk since initial recognition

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

- Mortgages absolute: 30 days past due or unsatisfied CCJ / default on the customer's credit file since inception date (i.e. including credit events with other organisations).
- Mortgages relative: a six times increase in lifetime probability of default (PD) since origination since origination alongside absolute thresholds for the lifetime PD (0.5%). To prevent loans with an insignificant PD increase and overall de-minimus risk being transferred, a lower threshold risk score before the relevant increase would trigger SICR was added this year.
- BBSL and BBUL absolute: 30 days past due.
- BBSL and BBUL relative: moved to watchlist. Numerous quantitative and qualitative watchlist factors are monitored including changes in bureau score, formal credit actions (e.g. winding up orders, CCJs, meeting of creditors), adverse changes in financial performance, and changes in directors. Current and forecast adverse changes in the customer's geographical location and sector are also considered.

Stage transition criteria are initially set using industry level data and are subsequently validated on an annual basis using a combination of internally available data, purchased data and industry level benchmarking.

Forecast economic data

IFRS 9 requires ECL to reflect a range of possible outcomes and considering a range of future economic scenarios. Atom utilises an independent economic consultancy to calculate its base and alternative scenarios on a quarterly basis. The Bank makes use of four separate narrative driven scenario, with a higher level of variability and range between these economic scenarios than use of one scenario with statistically generated alternatives would.

The base economic scenario assumes inflation will continue to run at a double digit rate through FY24 and Bank Rate will rise to a peak of 4.5%. This will add to the pressure facing household finances. Real personal disposable incomes are projected to decline and consumer spending to contract. This results in an expected mild recession in the UK in the second half of 2023, with GDP returning to pre-pandemic levels by the end of 2024.

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

The following table shows the weightings applied to each economic scenario in the model:

	2023				2022			
	Upside	Base	Downside 1	Downside 2	Upside	Base	Downside 1	Downside 2
Scenario weighting	15%	50%	25%	10%	30%	40%	25%	5%

The current year probability weighting has been adjusted to increase the probability allocated to the base and downside 2 scenario, while reducing the probability applied to the upside scenario. This has increased the modelled provision while replacing some of the post model adjustments included in FY22 and better reflects the higher levels of uncertainty being observed in macro economic variables and trends.

The following table presents key variables from the forecasts used in FY23 by year:

	FY24 %	FY25 %	FY26 %	FY27 %	FY28 %
Upside					
BoE Interest rate[1]	3.7	2.9	2.8	2.8	2.8
House price index[2]	0.4	2.6	4.6	4.8	4.1
Commercial real estate index[2]	0.3	1.9	3.0	1.8	0.8
Unemployment rate[3]	4.0	4.0	4.0	4.0	4.0
Base					
BoE Interest rate[1]	4.4	3.9	3.5	3.3	3.3
House price index[2]	(3.9)	0.9	4.6	4.9	4.1
Commercial real estate index[2]	(4.8)	1.6	2.9	1.4	0.8
Unemployment rate[3]	4.3	4.8	4.9	4.8	4.6
Downside 1					
BoE Interest rate[1]	5.5	5.4	4.5	4.0	3.8
House price index[2]	(7.3)	(1.5)	4.5	4.9	4.1
Commercial real estate index[2]	(12.8)	1.8	6.5	1.5	0.8
Unemployment rate[3]	5.1	6.2	6.2	5.8	5.4
Downside 2					
BoE Interest rate[1]	6.8	6.8	6.3	5.0	4.3
House price index[2]	(11.2)	(4.3)	3.4	5.0	4.2
Commercial real estate index[2]	(21.8)	(0.9)	13.2	5.4	0.8
Unemployment rate[3]	6.5	7.9	7.9	7.3	6.8

[1]BoE interest rate is the rate for the final quarter each year.
[2]HPI and CREI are the Q4 v Q4 year on year movement.
[3]Unemployment rate is the average rate for the year.

11. Managing Credit risk (continued)

Definition of default and credit impaired assets

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

Forbearance and modifications to loans

The terms of a loan may be renegotiated with a customer in order to maximise recoveries. This could include extended payment arrangements, or the modification or deferral of payments. For loan modifications, quantitative and qualitative evaluation takes place to assess whether or not the new terms are substantially different to the old terms.

If the new terms are not substantially different to the original terms, the modification in contractual cash flows does not result in derecognition. The gain or loss on modification of the contractual cash flow associated with the recognition of the revised gross carrying amount is recognised in the income statement.

When the new terms are substantially different to the original terms, the original asset is derecognised, and a new asset is recognised with a new EIR. At the date of recognition of the new asset, an assessment is made as to whether the asset was credit impaired on recognition. The difference between the carrying amount derecognised and that recognised is included in the income statement as a gain or loss on derecognition.

Write off policy

A loan is written off, either partially or in full, against the related provision when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised directly in the income statement. There have been 188 (FY22: 38) BBUL loans that defaulted and were subsequently written off during the year.

Post Model Adjustments (PMAs)

Interest rate rises and a higher cost of living is expected to have a larger effect on certain customers than is necessarily reflected in the observable customer data available at year end which drives model outputs. To recognise this higher risk, a watchlist is maintained of certain customers identified as most susceptible to income stress. This watchlist acts as a model input, identifying those customers who are most likely to have experienced a significant increase in credit risk, and effectively moving these loans into Stage 2 and results in an increased expected credit loss provision.

For BBUL loans with a RLS or CBILS guarantee, this was determined to be those customers with the highest risk grade, with shareholder funds less than zero, and where the loans are within specific sectors identified as more susceptible to inflationary pressures, such as Transport & Logistics, Automotive and Leisure & Hospitality.

For BBUL loans without a RLS or CBILS guarantee, this was determined to be those customers with the highest risk grade and with shareholder funds less than zero.

The modelled stage 2 provision coverage rate for these watchlist loans was lower than for loans in stage 2 for other reasons, such as arrears or forbearance measures. Judgement was used to incorporate a PMA to increase the provision coverage rate for these loans to be more in line with management's expectations. For loans with a RLS or CBILS guarantee, the PMA increased provisions by £0.6m. For loans without any government guarantee, the PMA increased provisions by £0.9m.

Critical accounting judgements

- **Significant increase in credit risk (SICR):** Considerable judgement is required in determining the point at which a SICR has occurred, as this is the point at which a lifetime ECL is recorded in place of a 12-month ECL. A series of quantitative and qualitative indicators are used to determine whether or not a SICR has occurred, as outlined above.

- **Definition of default:** The PD of an exposure, both over a 12-month period and over its lifetime, is a key input to the measurement of the expected credit loss allowance. Default under Stage 3 has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted described above

- **Post Model Adjustments:** These management judgements increase the ECL provision where it is considered that the modelled output does not fully reflect market expectations or the most up to date customer behaviour and is described in more detail, and quantified, above.

Sources of estimation uncertainty

The calculation of Atom's impairment provision is sensitive to changes in the chosen probability weighting of each of the four economic scenarios. To illustrate the impairment models sensitivity to the macroeconomic scenarios, the table below summarises by how much the total provision would change, if a weighting of 100% was applied to each scenario in turn.

At 31 March 2023	Upside £'000	Base £'000	Downside 1 £'000	Downside 2 £'000
BBSL	(1.2)	(0.9)	1.0	3.7
Mortgages	(2.7)	(2.1)	1.4	11.0
BBUL	(0.3)	(0.1)	0.2	0.6
Total	**(4.2)**	**(3.1)**	**2.6**	**15.3**

12. Collateral held and other credit enhancements

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

The below tables show the total provision categorised against the LTV ratio for residential mortgages and BBSL. In both the current and prior year no loan commitments are in stage 2 or stage 3.

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2023	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross loan commitment	Provision against loan commitments
Mortgages by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 60%	301,395	52	31,001	153	4,055	48	41,422	4
60% < LTV <= 65%	101,528	42	13,120	109	1,950	31	13,412	2
65% < LTV <= 70%	137,516	92	11,079	178	1,076	22	28,464	9
70% < LTV <= 75%	298,349	201	16,484	221	688	16	40,663	13
75% < LTV <= 80%	520,826	455	16,892	302	1,602	74	79,939	33
80% < LTV <= 85%	296,473	415	12,996	360	933	51	59,083	25
85% < LTV <= 90%	235,608	382	4,782	136	668	24	157,285	67
90% < LTV <= 95%	134,292	229	2,023	14	-	-	25,238	18
95% < LTV <= 100%	3,145	11	-	-	-	-	-	-
Total Mortgages	**2,029,132**	**1,879**	**108,377**	**1,473**	**10,972**	**266**	**445,506**	**171**

No loans were originated at an LTV >95%, though the addition of fees can result in the total outstanding balance exceeding 95% of the collateral value.

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2022	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross loan commitment	Provision against loan commitments
Mortgages by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 60%	331,678	15	69,479	138	1,043	8	10,541	6
60% < LTV <= 65%	90,507	14	17,077	59	728	15	4,564	3
65% < LTV <= 70%	108,340	21	24,667	96	2,750	44	4,216	2
70% < LTV <= 75%	77,017	29	18,375	68	626	13	10,016	6
75% < LTV <= 80%	129,675	47	20,055	79	-	-	41,863	21
80% < LTV <= 85%	295,909	148	58,696	216	502	48	38,274	27
85% < LTV <= 90%	168,847	73	24,450	96	-	-	100,034	72
90% < LTV <= 95%	40,248	11	6,453	19	-	-	42,293	32
Total Mortgages	**1,242,221**	**358**	**239,252**	**771**	**5,649**	**128**	**251,801**	**169**

As at 31 March 2023	Stage 1 Gross carrying amount	Stage 1 ECL Provision	Stage 2 Gross carrying amount	Stage 2 ECL Provision	Stage 3 Gross carrying amount	Stage 3 ECL Provision	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 50%	96,815	69	10,591	31	678	22	28,242	32
50% < LTV <= 60%	69,685	126	10,194	63	1,288	90	16,340	25
60% < LTV <= 70%	129,203	340	19,533	305	4,578	379	25,264	34
70% < LTV <= 80%	108,749	315	20,954	369	6,625	485	4,418	10
80% < LTV <= 90%	32,551	82	387	2	-	-	1,664	3
Total BBSL	**437,003**	**932**	**61,659**	**770**	**13,169**	**976**	**75,928**	**104**

As at 31 March 2022	Stage 1 Gross carrying amount	Stage 1 ECL Provision	Stage 2 Gross carrying amount	Stage 2 ECL Provision	Stage 3 Gross carrying amount	Stage 3 ECL Provision	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 50%	115,957	43	44,057	388	1,863	93	8,312	3
50% < LTV <= 60%	124,963	99	51,899	578	3,439	362	7,108	2
60% < LTV <= 70%	107,694	151	26,124	345	6,227	292	16,506	9
70% < LTV <= 80%	13,005	14	1,665	20	412	94	1,517	1
Total BBSL	**361,619**	**307**	**123,745**	**1,331**	**11,941**	**841**	**33,443**	**15**

There have been no significant changes in the value of collateral held as a result of deterioration in the quality of the collateral held or due to changes in collateral policies.

13. Credit quality

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

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2023	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross loan commitment**	**Provision against loan commitments**
Mortgages by behavioural PD	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Very low risk	987,183	292	1,789	1	-	-	383,450	101
Low risk	492,051	258	3,719	12	-	-	38,839	32
Medium low risk	279,546	284	9,825	35	-	-	19,177	27
Medium risk	269,436	1,044	93,044	1,425	-	-	3,548	11
Higher risk	916	1	-	-	10,972	266	492	-
Total Mortgages	**2,029,132**	**1,879**	**108,377**	**1,473**	**10,972**	**266**	**445,506**	**171**

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2022	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross loan commitment**	**Provision against loan commitments**
Mortgages by behavioural PD	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Very low risk	702,085	55	53,616	121	-	-	216,130	134
Low risk	291,661	61	54,503	117	-	-	25,982	22
Medium low risk	134,850	59	44,698	114	-	-	7,612	8
Medium risk	113,625	183	86,435	419	-	-	2,077	5
Higher risk	-	-	-	-	5,649	128	-	-
Total Mortgages	**1,242,221**	**358**	**239,252**	**771**	**5,649**	**128**	**251,801**	**169**

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

As at 31 March 2023	Stage 1 Gross carrying amount	Stage 1 ECL Provision	Stage 2 Gross carrying amount	Stage 2 ECL Provision	Stage 3 Gross carrying amount	Stage 3 ECL Provision	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by origination PD	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Very low risk	116,768	88	1,254	45	-	-	18,930	26
Low risk	177,889	313	3,132	158	-	-	29,943	36
Medium risk	135,799	441	54,513	499	-	-	25,186	36
Medium high risk	6,547	90	2,760	68	13,169	976	1,869	6
Total BBSL	**437,003**	**932**	**61,659**	**770**	**13,169**	**976**	**75,928**	**104**

As at 31 March 2022	Stage 1 Gross carrying amount	Stage 1 ECL Provision	Stage 2 Gross carrying amount	Stage 2 ECL Provision	Stage 3 Gross carrying amount	Stage 3 ECL Provision	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by origination PD	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Very low risk	114,615	36	190	2	-	-	10,244	2
Low risk	125,508	93	49,321	499	-	-	7,978	2
Medium risk	121,171	174	60,238	619	-	-	14,031	10
Medium high risk	325	4	13,996	211	11,941	841	1,190	1
Total BBSL	**361,619**	**307**	**123,745**	**1,331**	**11,941**	**841**	**33,443**	**15**

The BBSL portfolio is currently predominantly in Low and Medium risk grades.

13. Credit quality (continued)

As at 31 March 2023	Stage 1		Stage 2		Stage 3	
	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision
BBUL by origination PD	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Low risk	46,200	438	347	43	507	100
Medium risk	124,550	1,459	7,534	1,749	2,150	918
Medium high risk	123,376	831	4,194	711	3,783	864
Higher Risk	59,324	444	13,426	1,639	4,036	846
Total BBUL	**353,450**	**3,172**	**25,501**	**4,142**	**10,476**	**2,728**

As at 31 March 2022	Stage 1		Stage 2		Stage 3	
	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision
BBUL by origination PD	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Low risk	48,816	241	-	-	241	38
Medium risk	114,173	543	918	44	906	243
Medium high risk	169,219	1,052	3,023	210	3,965	959
Higher Risk	34,868	271	61,104	1,525	2,232	625
Total BBUL	**367,076**	**2,107**	**65,045**	**1,779**	**7,344**	**1,865**

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

	2023			2022		
	Gross carrying amount	Proportion of loan portfolio	ECL Provision	Gross carrying amount	Proportion of loan portfolio	ECL Provision
Residential mortgages	**£'000**	**%**	**£'000**	**£'000**	**%**	**£'000**
Forbearance measures (not in arrears)	1,185	0.1%	4	281	0.0%	5
Arrears	1,670	0.1%	88	1,114	0.1%	9
Arrears and Forbearance	1,823	0.1%	122	1,067	0.1%	52
Total	**4,678**	**0.3%**	**214**	**2,462**	**0.2%**	**66**

	2023			2022		
	Gross carrying amount	Proportion of loan portfolio	ECL Provision	Gross carrying amount	Proportion of loan portfolio	ECL Provision
BBSL	**£'000**	**%**	**£'000**	**£'000**	**%**	**£'000**
Forbearance measures (not in arrears)	1,028	0.2%	126	-	-	-
Arrears	2,720	0.5%	202	4,818	1.0%	410
Arrears and Forbearance	6,755	1.3%	373	5,875	1.2%	211
Total	**10,503**	**2.0%**	**701**	**10,693**	**2.2%**	**621**

	2023			2022		
	Gross carrying amount	Proportion of loan portfolio	ECL Provision	Gross carrying amount	Proportion of loan portfolio	ECL Provision
BBUL	**£'000**	**%**	**£'000**	**£'000**	**%**	**£'000**
Forbearance measures (not in arrears)	2,964	0.8%	260	1,925	0.4%	11
Arrears	8,744	2.2%	2,237	4,795	1.1%	434
Arrears and Forbearance	93	0.0%	13	-	-	-
Total	**11,801**	**3.0%**	**2,510**	**6,720**	**1.5%**	**445**

13. Credit quality (continued)

The table below provides information on the portfolio by loan size.

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2023	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross loan commitment**	**Provision against loan commitments**
Mortgages by loan size	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loan <= £250k	1,238,384	1,298	79,768	1,287	7,390	201	241,472	106
£250k < Loan <= £500k	685,940	541	25,295	167	2,803	65	179,793	57
£500k < Loan <= £1m	93,591	34	3,314	19	779	-	22,241	7
£1m < Loan <= £2m	11,217	6	-	-	-	-	2,000	1
Total Mortgages	**2,029,132**	**1,879**	**108,377**	**1,473**	**10,972**	**266**	**445,506**	**171**

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2022	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross loan commitment**	**Provision against loan commitments**
Mortgages by loan size	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loan <= £250k	828,827	283	162,081	540	4,387	114	154,834	109
£250k < Loan <= £500k	355,898	72	63,259	188	1,262	14	84,883	53
£500k < Loan <= £1m	46,085	2	13,912	43	-	-	12,084	7
£1m < Loan <= £2m	11,411	1	-	-	-	-	-	-
Total Mortgages	**1,242,221**	**358**	**239,252**	**771**	**5,649**	**128**	**251,801**	**169**

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2023	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross loan commitment**	**Provision against loan commitments**
BBSL by loan size	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loan <= £250k	32,264	114	5,652	94	1,012	98	2,396	3
£250k < Loan <= £500k	91,925	257	9,490	118	3,076	294	12,287	20
£500k < Loan <= £1m	145,337	300	20,608	251	2,852	320	23,854	34
£1m < Loan <= £2m	105,011	149	14,857	230	1,329	51	19,908	23
Loan > £2m	62,466	112	11,052	77	4,900	213	17,483	24
Total BBSL	**437,003**	**932**	**61,659**	**770**	**13,169**	**976**	**75,928**	**104**

As at 31 March 2022	Stage 1 Gross carrying amount	Stage 1 ECL Provision	Stage 2 Gross carrying amount	Stage 2 ECL Provision	Stage 3 Gross carrying amount	Stage 3 ECL Provision	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by loan size	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan <= £250k	28,468	34	18,431	215	746	64	429	-
£250k < Loan <= £500k	70,411	71	34,378	374	1,635	199	4,326	3
£500k < Loan <= £1m	117,087	98	48,987	543	4,663	413	8,246	5
£1m < Loan <= £2m	90,061	56	8,166	74	-	-	14,101	6
Loan > £2m	55,592	48	13,783	125	4,897	165	6,341	1
Total BBSL	**361,619**	**307**	**123,745**	**1,331**	**11,941**	**841**	**33,443**	**15**

As at 31 March 2023	Stage 1 Gross carrying amount	Stage 1 ECL Provision	Stage 2 Gross carrying amount	Stage 2 ECL Provision	Stage 3 Gross carrying amount	Stage 3 ECL Provision
BBUL by loan size	£'000	£'000	£'000	£'000	£'000	£'000
Loan <= £100k	124,380	1,221	11,107	1,839	4,402	1,201
£100k < Loan <= £250k	210,083	1,586	13,647	2,014	5,812	1,300
£250k < Loan <= £500k	18,987	365	747	289	262	227
£500k < Loan <= £1m	-	-	-	-	-	-
Total BBUL	**353,450**	**3,172**	**25,501**	**4,142**	**10,476**	**2,728**

As at 31 March 2022	Stage 1 Gross carrying amount	Stage 1 ECL Provision	Stage 2 Gross carrying amount	Stage 2 ECL Provision	Stage 3 Gross carrying amount	Stage 3 ECL Provision
BBUL by loan size	£'000	£'000	£'000	£'000	£'000	£'000
Loan <= £100k	82,548	563	15,002	430	886	301
£100k < Loan <= £250k	239,340	1,138	46,742	1,232	3,127	701
£250k < Loan <= £500k	43,631	380	3,301	117	3,331	863
£500k < Loan <= £1m	1,557	26	-	-	-	-
Total BBUL	**367,076**	**2,107**	**65,045**	**1,779**	**7,344**	**1,865**

14. Credit concentrations

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

The table below provides information on the portfolio segmented by geographic distribution.

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2023	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross loan commitment	Provision against loan commitments
Mortgages by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	358,663	287	9,912	88	2,552	51	93,891	35
Midlands	375,358	235	18,587	142	2,539	42	88,796	27
North	567,407	680	36,862	726	2,499	67	111,076	54
South	379,759	239	17,577	74	1,180	32	99,668	30
Scotland	225,899	279	13,747	220	1,108	28	31,005	13
Wales	68,489	73	6,180	94	847	40	12,831	6
Northern Ireland	53,557	86	5,512	129	247	6	8,239	6
Total Mortgages	**2,029,132**	**1,879**	**108,377**	**1,473**	**10,972**	**266**	**445,506**	**171**

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2022	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross loan commitment	Provision against loan commitments
Mortgages by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	185,164	35	31,725	81	406	34	41,676	24
Midlands	222,757	37	41,824	112	2,058	23	46,596	29
North	366,539	146	75,309	310	1,454	46	78,866	59
South	233,998	31	43,804	103	595	6	50,808	31
Scotland	143,552	67	30,101	103	697	12	16,718	12
Wales	47,151	17	8,364	31	338	5	12,507	10
Northern Ireland	43,060	25	8,125	31	101	2	4,630	4
Total Mortgages	**1,242,221**	**358**	**239,252**	**771**	**5,649**	**128**	**251,801**	**169**

As at 31 March 2023	Stage 1 Gross carrying amount	Stage 1 ECL Provision	Stage 2 Gross carrying amount	Stage 2 ECL Provision	Stage 3 Gross carrying amount	Stage 3 ECL Provision	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	75,781	128	11,193	54	7,321	312	7,301	11
Midlands	72,333	165	9,455	79	1,898	122	18,344	25
North	146,215	286	16,431	282	625	43	12,638	19
South	90,296	228	8,591	199	460	84	27,624	32
Scotland	34,353	68	10,850	119	1,909	267	1,174	-
Wales	8,180	27	3,747	13	741	85	7,223	14
Northern Ireland	9,845	30	1,392	24	215	63	1,624	3
Total BBSL	**437,003**	**932**	**61,659**	**770**	**13,169**	**976**	**75,928**	**104**

As at 31 March 2022	Stage 1 Gross carrying amount	Stage 1 ECL Provision	Stage 2 Gross carrying amount	Stage 2 ECL Provision	Stage 3 Gross carrying amount	Stage 3 ECL Provision	Stage 1 Gross loan commitment	Stage 1 Provision against loan commitments
BBSL by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	68,000	41	20,109	192	6,280	229	6,998	2
Midlands	52,899	49	29,761	307	1,373	113	9,159	4
North	120,981	89	33,583	352	927	31	5,112	3
South	67,924	68	20,744	226	1,762	201	10,028	3
Scotland	34,726	43	13,523	190	143	2	1,643	3
Wales	10,508	8	1,647	21	726	44	503	-
Northern Ireland	6,581	9	4,378	43	730	221	-	-
Total BBSL	**361,619**	**307**	**123,745**	**1,331**	**11,941**	**841**	**33,443**	**15**

14. Credit concentrations (continued)

As at 31 March 2023	Stage 1		Stage 2		Stage 3	
	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision
BBUL by UK region	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Greater London	50,975	438	3,538	555	1,479	337
Midlands	53,522	485	4,053	807	1,238	391
North	72,588	648	5,985	939	2,774	848
South	141,612	1,290	8,950	1,372	3,797	920
Scotland	16,925	155	1,594	255	763	148
Wales	10,528	95	940	134	137	27
Northern Ireland	7,300	61	441	80	288	57
Total BBUL	**353,450**	**3,172**	**25,501**	**4,142**	**10,476**	**2,728**

As at 31 March 2022	Stage 1		Stage 2		Stage 3	
	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision
BBUL by UK region	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Greater London	53,215	316	10,630	245	850	173
Midlands	54,353	295	9,634	279	1,061	312
North	79,817	453	12,749	348	1,031	308
South	144,564	818	24,162	645	3,616	908
Scotland	16,500	98	4,112	123	338	79
Wales	10,173	73	2,524	89	448	85
Northern Ireland	8,454	54	1,234	50	-	-
Total BBUL	**367,076**	**2,107**	**65,045**	**1,779**	**7,344**	**1,865**

Atom has a natural concentration in the UK market, as it only lends on residential and commercial properties within the UK, and the Bank's exposure by region is broadly reflective of UK lending.

The tables below provide information on the BBSL and BBUL portfolio, segmented by the business sector.

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2023	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross loan commitment**	**Provision against loan commitments**
BBSL by sector	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accommodation & Food Services	22,040	30	16,834	197	3,096	304	6,298	9
Human Health & Social Work	62,667	143	1,158	39	-	-	9,428	13
Manufacturing	9,732	4	4,829	25	378	3	2,234	3
Property & Real Estate	289,017	684	35,084	480	8,766	569	49,350	67
Wholesale & Retail Trade	28,441	44	312	9	163	12	4,270	6
Other	25,106	27	3,442	20	766	88	4,348	6
Total BBSL	**437,003**	**932**	**61,659**	**770**	**13,169**	**976**	**75,928**	**104**

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2022	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross carrying amount**	**ECL Provision**	**Gross loan commitment**	**Provision against loan commitments**
BBSL by sector	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accommodation & Food Services	32,316	26	8,950	97	1,696	195	2,886	1
Human Health & Social Work	44,723	37	7,764	88	-	-	3,508	1
Manufacturing	13,860	7	1,849	19	65	4	1,054	1
Property & Real Estate	219,160	207	96,085	1,036	9,072	532	21,863	10
Wholesale & Retail Trade	27,069	15	5,368	54	920	72	2,234	1
Other	24,491	15	3,729	37	188	38	1,898	1
Total BBSL	**361,619**	**307**	**123,745**	**1,331**	**11,941**	**841**	**33,443**	**15**

14. *Credit concentrations (continued)*

As at 31 March 2023	Stage 1		Stage 2		Stage 3	
	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision
BBUL by sector	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accommodation & Food Services	11,416	64	1,381	151	576	127
Human Health & Social Work	19,928	176	969	335	370	82
Manufacturing	51,386	364	3,880	529	2,372	593
Property & Real Estate	74,409	659	3,766	650	2,060	441
Transport, Storage & communications	36,203	338	3,925	506	841	232
Wholesale & Retail Trade	82,435	833	6,863	1,070	2,119	753
Professional Services	52,148	485	3,512	709	1,302	262
Other	25,525	253	1,205	192	836	238
Total BBUL	**353,450**	**3,172**	**25,501**	**4,142**	**10,476**	**2,728**

As at 31 March 2022	Stage 1		Stage 2		Stage 3	
	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision
BBUL by sector	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accommodation & Food Services	14,075	82	4,390	72	500	156
Human Health & Social Work	21,127	121	2,762	43	678	125
Manufacturing	59,452	302	10,495	341	471	180
Property & Real Estate	76,311	425	14,279	420	2,817	649
Transport, Storage & communications	36,180	179	5,676	164	390	135
Wholesale & Retail Trade	81,628	549	17,057	426	1,432	335
Professional Services	54,382	310	6,227	200	505	128
Other	23,921	139	4,159	113	551	157
Total BBUL	**367,076**	**2,107**	**65,045**	**1,779**	**7,344**	**1,865**

15. Impairment provision movement table

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

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision
Residential mortgages	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2021	**926,067**	**157**	**47,197**	**223**	**3,289**	**197**	**976,553**	**577**
Increase due to originations	759,799	374	-	-	-	-	759,799	374
Decrease due to repayment or derecognition	(187,943)	(23)	(11,614)	(21)	(1,597)	(91)	(201,154)	(135)
Change in credit risk	(44,373)	(270)	(2,391)	(176)	(113)	(174)	(46,877)	(620)
Model changes	-	420	-	185	-	(5)	-	600
Transfers between stages	(74,274)	(201)	69,281	89	3,794	194	(1,199)	82
Post model adjustments	(137,055)	(99)	136,779	471	276	7	-	379
At 31 March 2022	**1,242,221**	**358**	**239,252**	**771**	**5,649**	**128**	**1,487,122**	**1,257**
Increase due to originations	1,109,503	569	-	-	-	-	1,109,503	569
Decrease due to repayment or derecognition	(270,646)	(64)	(118,302)	(217)	(1,676)	(59)	(390,624)	(340)
Change in credit risk	(47,056)	1,048	(6,059)	449	(195)	(18)	(53,310)	1,479
Transfers between stages	(4,890)	(32)	(6,514)	470	7,194	215	(4,210)	653
At 31 March 2023	**2,029,132**	**1,879**	**108,377**	**1,473**	**10,972**	**266**	**2,148,481**	**3,618**

Increases in the provision are due to loan book growth, and by changes in credit risk driven by changes in the underlying economic forecasts.

15. Impairment provision movement table (continued)

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision
BBSL	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2021	**310,824**	**1,842**	**37,800**	**1,245**	**3,354**	**989**	**351,978**	**4,076**
Increase due to originations	198,668	131	-	-	-	-	198,668	131
Decrease due to repayment or derecognition	(36,526)	(105)	(6,726)	(99)	(2,176)	(669)	(45,428)	(873)
Change in credit risk	(6,302)	(1,387)	(1,239)	(851)	(101)	(966)	(7,642)	(3,204)
Transfers between stages	(6,760)	(13)	(2,986)	(62)	9,475	1,215	(271)	1,140
Post model adjustments	(98,285)	(161)	96,896	1,098	1,389	272	-	1,209
At 31 March 2022	**361,619**	**307**	**123,745**	**1,331**	**11,941**	**841**	**497,305**	**2,479**
Increase due to originations	126,790	211	-	-	-	-	126,790	211
Decrease due to repayment or derecognition	(51,875)	(55)	(26,481)	(91)	(6,136)	(470)	(84,492)	(616)
Change in credit risk	(20,109)	553	(6,086)	(765)	(425)	(110)	(26,620)	(322)
Transfers between stages	20,578	(84)	(29,519)	295	7,789	715	(1,152)	926
At 31 March 2023	**437,003**	**932**	**61,659**	**770**	**13,169**	**976**	**511,831**	**2,678**

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision
BBUL	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2021	**277,017**	**3,878**	**32,992**	**1,178**	**149**	**30**	**310,158**	**5,086**
Increase due to originations	238,006	2,023	-	-	-	-	238,006	2,023
Decrease due to repayment or derecognition	(60,519)	(488)	(6,139)	(84)	(5,998)	(1,213)	(72,656)	(1,785)
Change in credit risk	(33,163)	(2,914)	(2,418)	(725)	-	557	(35,581)	(3,082)
Transfers between stages	(18,436)	(70)	4,781	251	13,193	2,491	(462)	2,672
Post model adjustments	(35,829)	(322)	35,829	1,159	-	-	-	837
At 31 March 2022	**367,076**	**2,107**	**65,045**	**1,779**	**7,344**	**1,865**	**439,465**	**5,751**
Increase due to originations	107,974	2,137	-	-	-	-	107,974	2,137
Decrease due to repayment or derecognition	(29,108)	(212)	(1,854)	(42)	(22,716)	(5,230)	(53,678)	(5,484)
Change in credit risk	(99,821)	(736)	(5,602)	473	(7)	302	(105,430)	39
Transfers between stages	7,329	(124)	(37,303)	358	25,855	5,791	(4,119)	6,025
Post model adjustments	-	-	5,215	1,574	-	-	5,215	1,574
At 31 March 2023	**353,450**	**3,172**	**25,501**	**4,142**	**10,476**	**2,728**	**389,427**	**10,042**

LIQUIDITY AND FUNDING RISK

Atom's balance sheet is primarily funded by retail customer deposits, supplemented with wholesale funding. The *Treasury team manages the funding mix and liquid asset buffer to ensure the demands of customers, creditors and* regulators are met at all times.

16. Managing liquidity and funding risk

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

Funding Risk the risk that Atom fails to maintain a stable and diverse funding profile, to support its assets and future growth at an acceptable cost in normal and stressed market conditions. Funding risks typically stem from concentration of funding sources or from an overreliance upon any particular type or source of funding.

Management

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

Executive level oversight and governance are provided by ALCO which reviews performance and forecasts monthly. The Board sets risk appetite and its Risk Committee reviews and approves the Bank's policy for liquidity and funding risk on recommendation from the ERC.

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

Key Liquidity and Funding Risk Mitigations

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

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

Measurement

Liquidity and funding risk is measured through stress tests and balance sheet ratios.

Atom uses a stressed forward looking cash flow profile (both inflows and outflows) to determine the minimum level of liquidity resources necessary to cope with expected and unexpected liquidity challenges. In addition to assessing compliance with all regulatory liquidity requirements, Atom also measures the adequacy of liquidity resources against net outflows in a range of internally designed stress scenarios.

The internal scenarios express the Bank's liquidity risk appetite. They range in their nature, severity and minimum survival horizons.

- Liquidity Coverage Ratio (LCR) is a 30-day regulatory stress metric assessing a bank's HQLAs against its net stressed outflows. Regulation defines in detail the definitions of the numerator and denominator of the ratio, as well as the weighting applied to each component of the calculation.

The in-house stresses comprise:

- a 90-day "persistent" stress is designed to test the resources available to fund the lending pipeline during a period of stress in retail deposit markets.
- a 60-day "market-wide" stress which considers closure of wholesale markets and the impact thereof on increased competition for retail funding.
- a 45-day "acute" stress that considers a deposit outflow stress with greater severity and time horizon than the LCR.
- a 14-day extreme "bank run" stress assessing the adequacy of the most readily available liquidity resources to meet deposit withdrawals.

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

Funding risk is measured through a variety of metrics:

- the Net Stable Funding Ratio (NSFR)
- the Asset Encumbrance ratio
- the Loan to Deposit ratio

Monitoring

All liquidity and funding metrics are monitored daily to ensure robust control of the Bank's position. In addition, all key measures are forecast over a six-month time horizon at least monthly.

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

At year end, and throughout the year, Atom held significant surplus liquidity over the minimum requirements. The liquidity coverage ratio was 887%* (FY22: 449%) as a result of strong deposit inflows and high levels of cash and other HQLA held at the year end.

*LCR is a regulatory metric not required by IFRS and as a result, is unaudited.

17. Encumbered assets

Some of the Bank's assets are used to support secured funding with the Bank of England and through securitisation issuance. Assets that have been set aside for such purposes are classified as encumbered and cannot be used for other purposes.

Unencumbered assets not pre-positioned with central banks are reported on as follows:

- Where assets are in highly liquid or securities form, immediately available to monetise, e.g. through sale or repo, they are categorised as readily realisable;
- Other realisable assets include all such unencumbered assets that could be turned into eligible form for funding with the central bank or with private counterparties in the short to medium term.

	Encumbered with counterparties other than central banks	Prepositioned and encumbered assets held with central banks	Unencumbered assets not pre positioned with central banks			
			Readily realisable	Other realisable assets	Cannot be used	Total
As at 31 March 2023	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances at central banks	-	23,719	4,153,769	-	-	4,177,488
Derivatives held for hedging purposes	-	-	-	-	76,882	76,882
Debt instruments at fair value through other comprehensive income	-	272,129	51,849	-	-	323,978
Debt Securities held at *amortised cost*	-	125,394	24,879	-	-	150,273
Loans and advances to customers	194,392	707,832	46,078	1,988,585	21,882	2,958,769
Other assets	50,547	-	-	-	63,444	113,991
Total assets	**244,939**	**1,129,074**	**4,276,575**	**1,988,585**	**162,208**	**7,801,381**

As at 31 March 2022	Encumbered with counterparties other than central banks	Prepositioned and encumbered assets held with central banks	Unencumbered assets not pre positioned with central banks: Readily realisable	Other realisable assets	Cannot be used	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	-	12,814	1,440,782	-	-	1,453,596
Derivatives held for hedging purposes	-	-	-	-	36,021	36,021
Debt instruments at fair value through other comprehensive income	-	244,454	52,880	-	-	297,334
Debt Securities held at amortised cost	-	249,289	45,814	-	-	295,103
Loans and advances to customers	359,361	491,683	109,516	1,407,613	15,893	2,384,066
Other assets	32,930	-	-	-	59,465	92,395
Total assets	**392,291**	**998,240**	**1,648,992**	**1,407,613**	**111,379**	**4,558,515**

The Bank's asset encumbrance of £1,213m (FY22: 1,277m) is predominantly through its participation in the Bank of England's TFSME scheme and its securitisation issuance via Elvet Mortgages 2021-1 plc (Elvet 2021-1), and Elvet Mortgages 2018-1 plc (Elvet 2018-1) for FY22, which was called and fully redeemed during FY23. Mortgages and other liquid securities have been used to provide the required collateral.

WHOLESALE CREDIT RISK

Wholesale credit risk is the 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.

18. Wholesale credit risk management

Wholesale credit risk arises from the portfolio of HQLA and other financial instruments, which the Treasury department manages. It represents the risk that counterparties and issuers fail to meet their obligations when they become due. Atom has a very limited appetite for this form of risk and consequently exposures are restricted to very high quality issuers and counterparties with a low risk of failure.

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

The wholesale credit limit framework is set out in the Board approved policy.

19. Assets held for liquidity management

Accounting for debt instruments

Classification and measurement

The majority of assets held to manage liquidity risk are held at fair value through other comprehensive income (FVOCI) as:

- The objective of holding these assets is to maximise interest return, whilst having a sufficient mix of high quality assets to convert into cash in a time of stress.

- The assets are vanilla debt instruments with return based upon the cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Certain assets are held at amortised cost, when:

- The objective of Treasury in holding these assets is to collect contractual cash flows, which are solely payments of principal and interest.

- The assets are held to maximise an interest return, whilst maintaining encumbrance and liquidity targets, the assets will not be sold to manage short term liquidity.

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

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

Impairment

Financial assets held at FVOCI or amortised cost are within the scope of the IFRS 9 impairment policy described within note 10. IFRS 9 permits an exemption that it may be assumed that an instrument's credit risk has not increased significantly since initial recognition if it is determined to have a low credit risk at the reporting date. Such low risk instruments are categorised as stage 1, with the provision based upon a 12 month probability of default.

The Bank has applied this exemption to all of the below instruments as they meet the definition of investment grade per the internal credit risk policy, which is evidence that the instrument is of low risk.

	2023 £'000	2022 £'000
Cash and balances at central banks	4,177,488	1,453,596
UK Gilts	142,297	191,363
Covered Bonds	142,784	70,051
Multilateral Development Bank and Government Sponsored Debt	38,897	35,920
Total debt instruments at FVOCI	**323,978**	**297,334**
Debt instruments at amortised cost	**150,273**	**295,103**
Financial assets held for liquidity management	**4,651,739**	**2,046,033**

The £324m (FY22: £297m) of debt instruments held at FVOCI predominately represents high quality assets to meet ongoing regulatory requirements.

The £150m (FY22: £295m) portfolio of debt instruments at amortised cost contains retained notes from the Elvet securitisations (see note 22). The balance has reduced due to Elvet 2018-1 securitisation coming to maturity and principal repayments during the year.

12-month ECL credit impairment provision of £90k (FY22: £122k) is held against the £150m (FY22: £295m) amortised cost assets and £324m (FY22: £297m) fair value through other comprehensive income asset. £18k (FY22: £41k) against the amortised costs assets and £72k (FY22: £81k) against the fair value through other comprehensive income assets. All positions are AAA or AA rated by major rating agencies.

20. Customer deposits

Accounting for customer deposits

Customer deposit liabilities are measured at amortised cost in accordance with IFRS 9. Deposits are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method.

The amortised cost is adjusted for transaction costs that are incurred in raising the deposit, which is then recognised in interest expense using the effective interest rate method.

	2023	2022
	£'000	£'000
Sterling denominated fixed term deposits	4,845,619	1,896,711
Sterling denominated instant access deposits	1,705,706	1,333,085
Total	**6,551,325**	**3,229,796**

Atom continued to fund lending predominantly through customer deposits, which increased by £3.3bn to £6.6bn. Additional fixed rate saving product variants and continuing competitive interest rates have facilitated continued growth in fixed rate deposits. Throughout the year Atom's instant access saver and fixed rate saver products offered market leading rates, during a period where spreads were favourable. This resulted in significant deposit inflows at low cost, which can be used to fund future lending and earn income from cash deposits.

The £4.8bn of Sterling denominated fixed term deposits includes a valuation adjustment asset of £9.7m (FY22: £7.2m Asset), which reflects the IFRS 9 micro hedge adjustment as described in note 26.

21. Wholesale Funding

Accounting for wholesale borrowings

Wholesale borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate method.

	2023	2022
	£'000	£'000
Borrowings from central banks	681,403	675,749
Deemed Loan	186,864	343,856
Subordinated liabilities – debt instruments	8,201	8,192
Total	**876,468**	**1,027,797**

Borrowings from central banks of £681m (FY22: £676m) relate to drawdowns from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

The Deemed Loan, of £187m (FY22: £111m) represents notes issued through Atom's residential mortgage backed securitisation programme, as disclosed in Note 22. The reduction in the deemed loan is due to full repayment of the Elvet Mortgages 2018-1 plc notes in October 2022 and principal repayments of Elvet Mortgages 2021-1 plc notes.

Subordinated liabilities represent two £4m fixed-rate callable subordinated Tier 2 notes maturing in 2027. The notes pay interest at a rate of 10% per annum, payable semi-annually in arrears.

22. Securitisation

Accounting for securitisations

Atom securitises certain loans and advances to customers as a means to source funding and for capital management purposes. Securitised advances are legally transferred at their principal value to special purpose entities, which fund the purchase of these assets through the issuance of RMBS to investors.

Atom performs an assessment to determine whether, for accounting purposes, it controls the special purpose entity in accordance with the basis of consolidation accounting policy. In performing this assessment, factors such as the purpose and design of the entity, its practical ability to direct the relevant activities of the entity, the nature of the relationship between the parent and the entity, and the size of its exposure to the variability of returns are considered. Where the parent controls the entity, either through direct or indirect control, the special purpose entity is treated as a subsidiary and is fully consolidated.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; or in derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained by the transfer. Full derecognition only occurs when the Bank transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest risk, as well as transferring the contractual right to receive cash flows from the financial assets. If full derecognition occurs, the transferred loans are treated as sales and a gain or loss on derecognition is recognised in the statement of profit and loss.

Certain debt securities issued by structured entities may be retained by Atom. Where retained debt securities are issued by consolidated special purpose entities, they are eliminated in full on consolidation. Where retained debt securities are issued by unconsolidated structured entities, they are recognised as debt securities held at amortised cost in the statement of financial position. Retained debt securities may be used as collateral against amounts drawn under the Bank of England's funding schemes, or in repurchase agreements.

Securitisation that does not result in derecognition

Mortgage loans originated by Atom Bank were assigned at their principal value to Elvet mortgages 2018-1 plc, and Elvet mortgages 2021-plc, bankruptcy-remote structured entities funded through the issue of RMBS to third party debt investors. Atom is entitled to any residual income generated after the debt obligations and senior expenses of the program have been met. The securitised debt holders have no recourse other than the principal and interest generated from the securitised mortgage loans.

The transactions do not qualify for derecognition and the structured entity is treated as a subsidiary of Atom and is fully consolidated in the Atom Holdco Ltd group. The associated securitised mortgage loans continue to be recognised in Atom's Statement of Financial Position.

During the year all outstanding Elvet 18-1 notes were fully redeemed at par and notes were derecognised due to redemption. At year end only Elvet 21-1 notes remain.

Atom continues to service the mortgage loans in return for a servicing fee.

The carrying amount of the securitised loans and associated debt securities in issue are follows:

	2023 £'000	2022 £'000
Securitised mortgage loans, included in loans and advances to customers	241,115	505,896
Debt securities in issue retained by the Bank	54,251	162,040

The Elvet 2021-plc, A notes have a coupon rate of rate of SONIA + 0.37% and a call date of 22 October 2026.

Atom has an obligation to repurchase mortgage exposures in certain instances e.g. loans which have been subject to a product switch, further advance or where there has been an unremedied breach of representations and warranties.

Securitisation that results in derecognition

Atom transferred certain residential mortgage loans to unconsolidated structured entities; Elvet Mortgages 2019-1 plc, and Elvet Mortgages 2020-1 plc. These transactions resulted in full derecognition of loans from Atom's statement of financial position because substantially all of the risks and rewards associated with those mortgages have been transferred to the note holders.

For both transactions certain debt securities were retained by the bank, along with a 5% interest in the transaction which entitles Atom to 5% of all available receipts generated by the mortgage loans in the entity in line with the regulatory requirements.

	2023	2022
	£'000	£'000
Carrying amount of Atom's investment in debt securities issued:		
- Elvet 2019-1 plc	105,542	156,696
- Elvet 2020-1 plc	44,732	138,407

The carrying amount of the investment represents Atom's maximum exposure to loss from its interest in the structured entity. Atom continues to service the mortgage loans in return for a servicing fee, and recognised income of £0.7m during the year (FY22: £0.8m). Atom has an obligation to repurchase mortgage exposures if certain loans no longer meet the programme criteria or representations and warranties.

23. Contractual maturity of financial assets and liabilities

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

As at 31 March 2023	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	Total £'000
Assets									
Cash and balances at central banks	4,177,488	-	-	-	-	-	-	-	4,177,488
Loans and advances to customers	23,267	60,685	49,998	91,014	398,021	630,403	276,019	1,429,362	2,958,769
Debt instruments at FVOCI	-	119,681	49,502	44,102	27,346	83,347	-	-	323,978
Debt instruments at amortised costs	-	6,494	2,155	3,673	137,951	-	-	-	150,273
Derivatives held for hedging purposes	-	(367)	3,880	16,219	46,522	11,995	(1,367)	-	76,882
Total financial assets	**4,200,755**	**186,493**	**105,535**	**155,008**	**609,840**	**725,745**	**274,652**	**1,429,362**	**7,687,390**
Liabilities									
Customer deposits	(1,737,366)	(928,073)	(843,833)	(2,341,837)	(595,374)	(104,842)	-	-	(6,551,325)
Borrowings from central banks	-	(6,403)	-	-	(675,000)	-	-	-	(681,403)
Deemed loan	-	(9,496)	(1,251)	(2,295)	(9,098)	(164,724)	-	-	(186,864)
Subordinated liabilities	-	(201)	-	-	-	-	(8,000)	-	(8,201)
Derivatives held for hedging purposes	-	-	-	-	-	-	-	-	
Total financial liabilities	**(1,737,366)**	**(944,173)**	**(845,084)**	**(2,344,132)**	**(1,279,472)**	**(269,566)**	**(8,000)**	**-**	**(7,427,793)**
Off-balance sheet commitments									
Loan commitments given	-	38,083	483,351	-	-	-	-	-	521,434

As at 31 March 2022	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	Total £'000
Assets									
Cash and balances at central banks	1,453,596	-	-	-	-	-	-	-	1,453,596
Loans and advances to customers	5,452	65,385	52,227	109,006	410,447	331,645	417,240	992,664	2,384,066
Debt instruments at FVOCI	-	74,704	96,824	39,127	63,800	22,879	-	-	297,334
Debt instruments at amortised costs	-	12,903	3,708	7,177	271,315	-	-	-	295,103
Derivatives held for hedging purposes	-	(1,220)	(705)	6,012	24,572	7,362	-	-	36,021
Total financial assets	**1,459,048**	**151,772**	**152,054**	**161,322**	**770,134**	**361,886**	**417,240**	**992,664**	**4,466,120**
Liabilities									
Customer deposits	(1,396,837)	(495,415)	(455,541)	(464,118)	(394,958)	(22,927)	-	-	(3,229,796)
Borrowings from central banks	-	(749)	-	-	(336,000)	(339,000)	-	-	(675,749)
Deemed loan	-	(9,107)	(2,643)	(59,634)	(15,900)	(256,572)	-	-	(343,856)
Subordinated liabilities	-	(192)	-	-	-	-	(8,000)	-	(8,192)
Derivatives held for hedging purposes	-	(408)	(64)	157	207	-	-	-	(108)
Total financial liabilities	**(1,396,837)**	**(505,871)**	**(458,248)**	**(523,595)**	**(746,651)**	**(618,499)**	**(8,000)**	**-**	**(4,257,701)**
Off-balance sheet commitments									
Loan commitments given	-	80,262	204,982	-	-	-	-	-	285,244

24. Contractual maturity of non-derivative financial liabilities on an undiscounted basis

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

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

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

As at 31 March 2023	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	Total £'000
Customer deposits	1,737,366	977,023	869,471	2,419,136	623,415	112,742	-	6,739,153
Deposits from banks	-	7,152	7,231	14,383	702,849	-	-	731,615
Deemed loan	-	9,794	1,549	2,891	11,495	165,620	-	191,349
Subordinated liabilities	-	200	200	400	1,600	9,400	-	11,800
Total non-derivative financial liabilities	**1,737,366**	**994,169**	**878,451**	**2,436,810**	**1,339,359**	**287,762**	**-**	**7,673,917**
Off-balance sheet commitments								
Loan commitments given	-	38,083	483,351	-	-	-	-	521,434

As at 31 March 2022	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	Total £'000
Customer deposits	1,396,764	510,986	462,690	473,725	402,525	23,534	-	3,270,224
Deposits from banks	-	1,262	1,276	2,524	344,863	340,130	-	690,055
Deemed loan	-	9,264	2,806	59,879	16,512	256,800	-	345,261
Subordinated liabilities	-	200	200	400	1,600	1,600	8,600	12,600
Total non-derivative financial liabilities	**1,396,764**	**521,712**	**466,972**	**536,528**	**765,500**	**622,064**	**8,600**	**4,318,140**
Off-balance sheet commitments								
Loan commitments given	-	80,262	204,982	-	-	-	-	285,244

MARKET RISK

Atom offers fixed and variable rate loans to borrowers and funds those with a mix of fixed rate term deposits, instant access deposits and variable rate wholesale funding. As a result, Atom is exposed to market risk. Atom's Treasury team manages market risk exposures within the limited risk appetite set by the Board.

25. Market risk management

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

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

Management

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

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

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

Key interest rate and market risk mitigations

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

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

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

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

Measurement

Atom uses two primary methods to quantify interest rate risk exposure, Economic Value (EV) and Net Interest Income (NII). EV sensitivity measures the change in net present value of the Bank's asset, liability and derivative positions in response to an interest rate shock. NII sensitivity measures the change in net interest income over a 12 month time horizon following a change in interest rates. Each of these measures is stress tested in a variety of interest rate scenarios, using both parallel and non-parallel yield curve shifts. For NII, the Bank also monitors exposure to negative rates under a variety of scenarios of passing on such rates to assets and liabilities.

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

EV and NII sensitivity

Sensitivity analysis of EV and NII is performed on the balance sheet using the core scenarios of immediate upward and downward parallel shifts in all relevant interest rates. The interest rate shock applied to EV is an increase or decrease of 200 bps. The sensitivity measurement for NII considers the impact of an increase or decrease of 100 bps.

	2023 £'m	2022 £'m
EV: impact of increase in rates	0.1	0.1
EV: impact of decrease in rates	(0.2)	(0.1)
NII: impact of increase in rates	0.03	0.17
NII: impact of decrease in rates	(0.03)	(0.17)

26. Derivatives held for hedging purposes

Accounting for derivatives and hedging
Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. During the period Atom has entered into derivatives to manage exposure to interest rate and foreign currency risk.

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

Notional amounts of the contracts are not recorded on the balance sheet but is disclosed as part of this note.

Hedge accounting
Atom elects to apply hedge accounting for the majority of its risk management activity that uses derivatives to achieve greater alignment in the timing of recognition gains and losses on hedged items and hedging instruments, and to reduce income statement volatility.

IFRS 9 hedge accounting applies to all hedge relationships with the exception of fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities (commonly referred as 'fair value macro hedges'). This exception arises because the IASB has a separate project to address the accounting for macro hedges. Atom makes the accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 until the macro hedging project is finalised. This accounting policy choice will apply to all fair value macro hedge accounting and cannot be made on a hedge by hedge basis.

The method of recognising the fair value gain or loss on a derivative depends on whether it is designated as a hedging instrument, and the nature of the item being hedged. Certain derivatives are designated as a hedge of the fair value of recognised assets or liabilities, a fair value hedge, with others designated as a hedge of highly probable future cash flows attributable to a recognised asset or liability, or highly probable forecast transaction, a cash flow hedge.

Fair value hedge
Micro hedge accounting relationships were designated for derivatives used to hedge the interest risk on the fixed rate customer deposit and macro relationships for fixed rate loan products. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in the fair value of the hedged item is made as an adjustment to the carrying value of the hedged asset or liability.

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

Cash flow hedge
Hedge accounting relationships were designated for derivatives used to hedge the fixed rate loan pipeline before loans are recorded on balance sheet. To align with Atoms strategy to minimise volatility through the profit and loss arising from derivatives, cash flow hedging is used. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised within a fair value hedge reserve, a separate component of equity. Any remaining gain or loss on the hedging instrument is recognised in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

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

Derivatives held for trading
Atom does not have a policy for trading derivatives. Any derivatives that do not meet the hedging criteria, or for which hedge accounting is not applied, are classified as held for trading. Changes in value are immediately recognised in the income statement.

The following table sets out the derivative instruments held:

	2023			2022		
	Notional contract amount	Asset carrying value	Liability carrying value	Notional contract amount	Asset carrying value	Liability carrying value
Settled on a net basis	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fair value hedges						
Interest rate swaps	5,124,200	71,480	-	3,274,700	36,017	(108)
Cash flow hedges						
Interest rate swaps	125,000	5,396	-	-	-	-
Total derivatives designated as hedging instruments	**5,249,200**	**76,876**	**-**	**3,274,700**	**36,017**	**(108)**
Derivatives in economic and not accounting hedges						
FX forward	3,290	6	-	1,332	4	-
Total derivatives held for hedging purposes	**5,252,490**	**76,882**	**-**	**3,276,032**	**36,021**	**(108)**

Fair value hedges

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

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

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

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

Cash flow hedges

The Bank has applied micro cash flow hedge accounting for the first time this year to a portion of its floating rate financial liabilities. These liabilities are designated in the hedge relationship alongside interest rate swaps that have been transacted to economically hedge fixed rate loans and advances to customers. The hedged cash flows are a group of highly probable forecast transactions that are exposed to changes in value due to movements in market interest rates.

The hedged item is designated as the gross liability position allocated to time buckets based on projected repricing and interest profiles. The Bank aims to maintain a position where the principal amount of the hedged items is greater than or equal to the notional amount of the corresponding interest rate swaps used as the hedging instruments.

26. Derivatives held for hedging purposes (continued)

Hedge ineffectiveness

Ineffectiveness is expected due to:

- the mismatch in the maturities of the hedged item and hedging instrument.
- Differences in timing of cash flows of hedged items and hedging instruments.
- Differences between forecast and actual prepayment rate, in particular for portfolio fair value hedges of Atom's fixed rate loans.

These sources of ineffectiveness are expected to be immaterial in value and have no material impact on the underlying economic relationship.

	Nominal amount of the hedging instrument	Carrying Amount (asset/(liability))	Changes in fair value used for calculating hedge ineffectiveness (income/(charge))
	£'000	£'000	£'000
As at 31 March 2023			
Fair value hedges			
Derivatives held to hedge fixed rate deposits	3,561,500	(6,706)	(1,208)
Derivatives held to hedge fixed rate loans and advances to customers	1,562,700	78,186	49,593
Cash flow hedges			
Derivatives held to hedge floating rate liabilities	125,000	5,396	5,163
As at 31 March 2022			
Fair value hedges			
Derivatives held to hedge fixed rate deposits	1,488,000	(7,755)	(7,842)
Derivatives held to hedge fixed rate loans and advances to customers	1,786,700	43,664	44,176

For all derivatives, the derivative balances are presented within derivatives held for hedging purposes. Changes in fair value of fair value hedging instruments are recognised in the income statement in other income. Changes in the fair value of cash flow hedging instruments are recognised in other comprehensive income.

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

	Nominal amount of the hedging item	Accumulated amount of fair value adjustments on the hedged item (asset/(liability))	Line item in the statements of financial position where the hedging item is included	Changes in fair value used for calculating hedge ineffectiveness (income/(charge))
	£'000	£'000	£'000	£'000
As at 31 March 2023				
Fair value hedges				
Fixed rate deposits	3,561,500	9,657	Customer deposits	2,508
Fixed rate loans and advances to customers	1,562,700	(81,030)	Loans and advances to customers	(48,777)
As at 31 March 2022				
Fair value hedges				
Fixed rate deposits	1,488,000	7,177	Customer deposits	7,498
Fixed rate loans and advances to customers	1,786,700	(36,881)	Loans and advances to customers	(42,661)

For Cash flow hedge relationships, the change in fair value of the hedged item in the year used for ineffectiveness measurement is £5.2m (FY22: £nil) all of which is a continuing hedge accumulated within the cash flow hedge reserve, in equity.

26. Derivatives held for hedging purposes (continued)

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

As at 31 March 2023	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 no more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Nominal value of derivatives held for hedging purposes							
Derivatives held to hedge fixed rate deposits	670,000	601,500	1,995,000	295,000	-	-	3,561,500
Derivatives held to hedge fixed rate loans and advances to customers	20,000	31,000	59,000	469,700	680,000	303,000	1,562,700
Derivatives held to hedge floating rate liabilities	-	-	-	-	125,000	-	125,000
Total	**690,000**	**632,500**	**2,054,000**	**764,700**	**805,000**	**303,000**	**5,249,200**

As at 31 March 2022	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 no more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Nominal value of derivatives held for hedging purposes							
Derivatives held to hedge fixed rate deposits	529,000	446,000	317,000	190,000	6,000	-	1,488,000
Derivatives held to hedge fixed rate loans and advances to customers	255,000	59,000	267,500	895,200	310,000	-	1,786,700
Total	**784,000**	**505,000**	**584,500**	**1,085,200**	**316,000**	**-**	**3,274,700**

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

Settled on a net basis	Not more than 3 months £'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 no more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
As at 31 March 2023							
Assets	(283)	3,880	18,366	48,891	13,392	(1,602)	82,644
As at 31 March 2022							
Assets	(1,262)	(681)	6,108	25,799	8,021	-	37,985
Liabilities	(354)	(56)	136	184	-	-	(90)

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

Offsetting

In accordance with IAS 32 Financial Instruments: Presentation, Atom reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set-off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The netting applied covers agreements with the same counterparties whereby all outstanding transactions can be offset and close-out netting applied if an event of default or other predetermined events occur. The following table shows the impact of netting arrangements on derivative financial instruments reported net on the balance sheet:

	Gross Amounts £'000	Amounts offset £'000	Net amounts reported on the balance sheet £'000	Related amounts not offset: Cash collateral placed £'000	Net amount £'000
As at 31 March 2023					
Derivative Financial Assets	91,118	(14,236)	76,882	42,151	119,033
Derivative Financial Liabilities	(14,236)	14,236	-	-	-
As at 31 March 2022					
Derivative Financial Assets	44,185	(8,164)	36,021	11,871	47,892
Derivative Financial Liabilities	(8,272)	8,164	(108)	130	22

27. Accounting for financial assets and liabilities - fair values

Accounting for fair values

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

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

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

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

As at 31 March 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Debt instruments at FVOCI				
UK Gilts	142,297	-	-	142,297
Covered Bonds	142,784	-	-	142,784
Multilateral Development Bank and Government Sponsored Debt	38,897	-	-	38,897
Derivatives held for hedging purposes				
Interest rate	-	76,876	-	76,876
Fx Forwards	-	6	-	6
Total	**323,978**	**76,882**	**-**	**400,860**

As at 31 March 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Debt instruments at FVOCI				
UK Gilts	191,363	-	-	191,363
Covered Bonds	70,051	-	-	70,051
Multilateral Development Bank and Government Sponsored Debt	35,920	-	-	35,920
Derivatives held for hedging purposes				
Interest rate	-	36,017	-	36,017
Fx Forwards	-	4	-	4
Total	**297,334**	**36,021**	-	**333,355**
Liabilities				
Derivatives held for hedging purposes				
Interest rate	-	(108)	-	(108)
Total	-	**(108)**	-	**(108)**

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

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

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

As at 31 March 2023	Carrying value £'000	Level 3 Fair Value £'000
Assets		
Loans and advances to customers		
BBSL	509,153	495,593
Mortgages	2,070,110	2,071,389
BBUL	379,506	351,747
Debt Instruments held at amortised cost	150,273	150,658
Liabilities		
Customer Deposits	6,551,325	6,534,567
Borrowings from central banks	681,403	681,403
Deemed loan	186,864	188,058
Subordinated liabilities	8,201	7,496

As at 31 March 2022	Carrying value £'000	Level 3 Fair Value £'000
Assets		
Loans and advances to customers		
BBSL	494,826	489,741
Mortgages	1,455,268	1,442,613
BBUL	433,972	433,751
Debt Instruments held at amortised cost	295,103	295,926
Liabilities		
Customer deposits	3,229,796	3,224,388
Borrowings from central banks	675,749	675,749
Deemed loan	343,856	340,866
Subordinated liabilities	8,192	8,357

The fair value of loans and advances to customers, and customer deposits, for the purpose of this disclosure, is derived from discounting expected cash flows in a way that reflects the current market price for lending to issuers of similar credit quality.

The Mortgage and fixed rate customer deposits are reported net of fair value hedge accounting adjustments, so there is no material difference between the carrying value and fair value. The BBSL book is predominantly linked to bank rate, so the fair value and carrying value are similar, while the BBUL fair value is lower than carrying value, as a result of the higher interest rate environment.

The fair values of debt instruments at amortised cost issue are based on quoted prices where available, as well as the fair value of the underlying asset portfolio.

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

CAPITAL

As a regulated bank Atom is required to hold a minimal level of capital to protect its customers. To date this has been predominantly achieved through equity issuances to investors. This section provides information on Atom's share capital, retained earnings and other equity balances. It also provides a description of how Atom ensures sufficient capital is maintained in order to meet regulatory requirements.

29. Managing capital adequacy risk

Capital adequacy risk is the risk that the Bank could have insufficient quantity or quality of capital to deliver its base case business strategy or withstand a severe but plausible stress. The Bank's capital position could be eroded by facing a high level of defaults on loans, having a large operational loss, or a significant and sustained rise in the cost of funding.

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.

Key capital risk mitigations

Capital is one of the key measures of the Bank. The Board sets 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. Atom sets itself a management Early Warning Indicator (EWI) as a threshold to prompt discussion and take mitigating action if needed.

Although Atom is now capital generative on a run rate basis, Atom continues to work with existing and new equity investors to provide additional capital to accelerate growth and execute the long-term strategy.

Atom 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 stress test annually, which includes a five-year forecast of the Bank's capital position under baseline and stressed conditions. The ICAAP document, among other analyses, informs the future capital strategy and is submitted to the PRA following Board scrutiny and approval. It assesses the Bank's Pillar 1 requirements and proposes additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. Atom also holds Pillar 2B capital based on the PRA's guidance, considering wind-down costs and the regulatory defined capital conservation buffer and countercyclical buffer.

Key capital risk metrics

Atom's key capital metrics are the current and projected ratio and pound surplus of capital resources over capital requirements. The Leverage Ratio is also monitored against regulatory expectations, so as to ensure that it does not fall below that level 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 at least quarterly in business as usual and stressed conditions, showing the potential capital position if further capital raises prove to be delayed or unsuccessful. Atom 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.

During 2023, the Bank complied in full with all of its regulatory capital requirements. Further information is available within the Pillar 3 document, available from https://www.atombank.co.uk/investor-information/. The following tables provide information on capital and reserves per the IFRS balance sheet with a reconciliation to the regulatory definition of capital.

30.Share capital and premium

Accounting policy for share capital

Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. Ordinary shares are classified as equity.

	Number of shares	Ordinary shares (£0.00001 each)	Share premium	Total share capital and share premium
		£'000	£'000	£'000
As at 1 April 2022	**612,846,725**	**6**	**566,372**	**566,378**
Share premium reduction	-	-	(565,729)	(565,729)
Issued during the year	43,025,515	1	30,051	30,052
Expense of issue of shares	-	-	(1,396)	(1,396)
As at 31 March 2023	**655,872,240**	**7**	**29,298**	**29,305**

	Number of shares	Ordinary shares (£0.00001 each)	Share premium	Total share capital and share premium
		£'000	£'000	£'000
As at 1 April 2021	**433,320,028**	**4**	**448,931**	**448,935**
Issued during the year	179,427,452	2	118,931	118,933
Expense of issue of shares	-	-	(1,490)	(1,490)
Issued to staff under share incentive plans	99,245	-	-	-
As at 31 March 2022	**612,846,725**	**6**	**566,372**	**566,378**

A Reduction in share premium took place immediately preceding the group reorganisation and introduction of Atom Holdco Limited, as explained in note 1 (b). This reduced share premium by £566m with a corresponding adjustment to retained earnings.

During the year, 43,025,515 ordinary, fully paid up shares were issued. These shares have full voting rights, dividend, and capital distribution rights.

31. Other reserves

Other reserves of £37.4m (FY22: £26.9) primarily relate to equity settled share-based payments of £32.2m (FY22: £26.9m). See note 6 for further information.

	2023	2022
	£'000	**£'000**
Fair value reserve	47	(61)
Cash flow hedge reserve (note 26)	5,163	-
Share based payment reserve	32,169	26,936
Total other reserves	**37,379**	**26,875**

32. Regulatory capital (unaudited)

The following table presents a reconciliation for the Bank between equity on the IFRS balance sheet and prudential capital. Atom's capital position is calculated for prudential regulatory reporting purposes for year ended 31 March 2023 using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented by the European Union in the CRR and CRD and by the PRA rulebook for the UK banking industry. The approach taken complies with CRR II and the UK Leverage Ratio Framework which took effect from 1 January 2022. Full details of the regulatory capital and leverage frameworks are provided in Atom's Pillar 3 Report.

	2023 £'000	2022 £'000
Shareholders' equity per the statement of financial position	284,631	251,094
Regulatory adjustments		
Intangible assets	(37,829)	(36,129)
Deferred tax assets that rely on future profitability	(9,800)	(5,353)
IFRS9 transitional adjustment	9,704	7,850
Prudential valuation adjustment	(330)	(304)
Fair value reserves related to gains or losses on cash flow hedges	(5,163)	-
Common Equity Tier 1 (CET1) capital	**241,213**	**217,158**
Eligible Tier 2 instruments	7,205	7,993
Tier 2 capital	**7,205**	**7,993**
Total capital	**248,418**	**225,151**
Risk weighted assets (RWAs)	**1,271,669**	**1,043,001**
Common Equity Tier (CET1) ratio	**19.0%**	**20.8%**
Total capital ratio	**19.5%**	**21.6%**
Leverage ratio	**6.5%**	**6.6%**

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

Comment Equity Tier 1 capital increased to £241m (FY22: £217m) as a result of £30m of equity capital raised during the year. Tier 2 capital consists of other subordinated debt that does not meet the eligibility criteria for inclusion as Tier 1 capital.

CET1 and total capital ratios of 19.0% (FY22: 20.8%) and 19.5% (FY22: 21.6%) reduced as a result of an overall increase in risk weighted assets and loan book growth. Statutory losses have reduced to £6m (FY22: £9m), and with capital generated during the second half of FY23.

OTHER

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

33. Other assets

	2023 £'000	2022 £'000
Cash collateral	42,151	12,001
Settlement and clearing accounts	8,017	15,393
Prepayments and other	6,567	11,660
Accrued income	4,363	397
Cash advanced to third parties	578	5,722
Receivables from group companies	1,506	1,672
Total other assets	**63,182**	**46,845**

Cash Collateral represents margin calls made on derivative contracts. The movement in the year is driven by the underlying terms of derivative contracts held with counterparties.

Other assets include £8.0m (FY22: £15.4m) of settlement and clearing accounts, the majority of which relates to mortgage loans where cash is being held in escrow before completion.

Accrued income represents interest receivable on cash balances

34. Property, plant and equipment

Accounting for property plant and equipment

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

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

- Fixtures and fittings: 5 years
- Office and IT equipment: 3 years
- Impairment of property, plant and equipment

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

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

Right of use Assets

Where items of property, plant or equipment are leased by the Bank, a right of use asset is recognised representing the right to use the underlying asset. The asset is depreciated in accordance with the property, plant and equipment accounting policy with a useful economic life aligned to the lease term. Further information on leases is disclosed in note 39.

	Fixtures and Fittings £'000	Office and IT Equipment £'000	Right-of-use Assets £'000	Total £'000
Cost				
As at 31 March 2021	480	1,569	5,775	7,824
Additions	1	190	76	267
Disposals	(2)	(18)	(13)	(33)
As at 31 March 2022	**479**	**1,741**	**5,838**	**8,058**
Additions	6	119	-	125
Disposals	(29)	(248)	-	(277)
As at 31 March 2023	**456**	**1,612**	**5,838**	**7,906**
Accumulated depreciation and impairment				
As at 31 March 2021	330	1,164	1,465	2,959
Depreciation charge	62	264	738	1,064
Eliminated on disposal	(2)	(18)	(13)	(33)
As at 31 March 2022	**390**	**1,410**	**2,190**	**3,990**
Depreciation charge	44	237	732	1,013
Eliminated on disposal	(29)	(248)	-	(277)
As at 31 March 2023	**405**	**1,399**	**2,922**	**4,726**
Net book value				
At 31 March 2023	**51**	**213**	**2,916**	**3,180**
At 31 March 2022	**89**	**331**	**3,648**	**4,068**

35. Intangible assets

Accounting for intangible assets

Intangible assets with finite useful lives that are acquired or built are carried at cost less accumulated amortisation and impairment losses. Intangible assets with indefinite useful lives that are acquired or built are carried at cost less accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life for each class of intangible asset is as follows:

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

- Core Banking Software: up to 10 years

Software

Software includes both purchased items and internally developed systems. Purchased intangible assets and costs directly associated with the development of software, including directly attributable staff costs, are capitalised as intangible assets where there is an identifiable asset which we control and which will generate future economic benefits in accordance with IAS 38.

Impairment Review

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

Research and development expenditure

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

	Banking License	Software	Total
	£'000	£'000	£'000
Cost			
As at 31 March 2021	887	66,293	67,180
Additions	-	9,707	9,707
As at 31 March 2022	**887**	**76,000**	**76,887**
Additions	-	11,960	11,960
As at 31 March 2023	**887**	**87,960**	**88,847**
Accumulated amortisation and impairment			
As at 31 March 2021	-	31,291	31,291
Amortisation charge	-	9,467	9,467
As at 31 March 2022	**-**	**40,758**	**40,758**
Amortisation charge	-	10,260	10,260
As at 31 March 2023	**-**	**51,018**	**51,018**
Net Book Value			
As at 31 March 2023	**887**	**36,942**	**37,829**
As at 31 March 2022	**887**	**35,242**	**36,129**

36. Deferred tax

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

Critical accounting judgement

Atom has recognised a deferred tax asset in respect of future taxable profits. This asset has been limited to £9.8m in respect of historical tax losses that are expected to be used to reduce future tax charges based on a five-year financial forecast.

The forecast used to calculate this deferred tax asset is based on the recently approved five year strategic business plan, moderated to reflect recent actual performance over the previous six months. Assumptions and growth dependent on future events, such as future capital inflows and resulting higher growth, or the launch of new products and services, have been excluded from the forecast used to calculate and recognise the deferred tax asset due to the higher level of uncertainty associated with these events.

The base forecast is inherently sensitive to the assumptions which underpin it, including macroeconomic conditions (such as forecast spreads and interest rates, future tax rates, expectations of credit losses and any potential climate related risks) and is dependent on the Bank's ability to successfully execute its strategy. As such, the expected utilisation of the deferred tax asset may vary significantly. A range of alternative possible forecast scenarios have been considered which result in a broad range of outcomes. If the strategic business plan was used, with no reduction in growth, the full deferred tax asset, of £78.1m, would be recognised. Conversely, if future performance is equal to that of the past 2 years, then no deferred tax asset should be recognised.

The five year forecast period used to calculate the deferred tax asset is a significant judgement. The reliability of forecasts is inherently more uncertain the further into the future they extend. Five years is the period over which management has experience in forecasting and monitoring performance.

The table below shows the movement in net deferred tax assets.

	2023	2022
	£'000	£'000
At 1 April	5,353	-
Recognised in the income statement	4,447	5,353
At 31 March	9,800	5,353

Atom has recognised a deferred tax asset in relation to tax losses carried forward of £10.0m (FY22: £5.6m), and a deferred tax liability in relation to tangible fixed assets of £0.2m (FY22: £0.2m).

Atom has an unrecognised deferred tax asset value of £75m (FY22: £80m) which is expected to be fully utilised by the end of FY28, subject to performance in line with the business plan. This asset comprises £68m (FY22: £73m) of trading losses, £6m (FY22: £6m) of deferred share scheme deductions and £1m (FY22: £1m) of other short term timing differences. All these amounts are carried forward taxed at the expected rate of 25% (FY22: 25%). Notwithstanding the period over which Atom's deferred tax assets are expected to crystallise, the trading losses and other tax attributes do not expire over time, and all relate to United Kingdom corporation tax.

37. Provisions

	IFRS 9	Other	Total
	£'000	£'000	£'000
At 31 March 2021	**67**	**130**	**197**
Amounts utilised	-	(4)	(4)
Charged to the income statement	117	-	117
At 31 March 2022	**184**	**126**	**310**
Amounts utilised	-	(126)	(126)
Charged to the income statement	91	150	241
At 31 March 2023	**275**	**150**	**425**

The IFRS 9 provision represents expected credit losses on loan commitments, in line with the credit risk policies disclosed in note 11

Other represents management's best estimate of the cost to settle onerous contracts, or expenses due at the end of contracts not expected to be renewed.

38.Other liabilities

	2023	2022
	£'000	£'000
Accounts payable and sundry creditors	1,906	3,686
Accrued expenses	5,615	4,651
Payroll creditors	4,312	2,569
Cash collateral	68,330	28,900
Lease liability	2,959	3,691
Grants	5,410	5,913
Total other liabilities	**88,532**	**49,410**

Collateral represents margin calls made on derivative contracts. The movement in the year is driven by the fair value movements of the associated derivatives.

Atom was awarded £10m from pool C of the Capability and Innovation Fund administered by Banking Competition Remedies (BCR) in 2020. £0.5m (FY22: £1.6m) of the funding was released during the year, recorded net of the costs for which it was intended to compensate.

39. Leases

Accounting for leases

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

Atom leases office premises and equipment. Atom applies the exemptions available for short term leases and those for which the underlying asset is of low value.

The below table sets out a maturity analysis of undiscounted lease liabilities, showing the lease payments to be paid after the reporting date.

	2023	2022
	£'000	£'000
Not more than one year	808	808
Over one year but not more than five years	2,340	3,148
Total undiscounted lease liabilities as at 31 March	**3,148**	**3,956**

40. Investment in subsidiaries

Atom HoldCo Limited is the ultimate parent company, which prepares consolidated financial statements.

The following entities are accounted for as an investment in subsidiary, as a result of either direct or indirect control of the entity. All subsidiaries are 100% controlled and operate and are incorporated in the UK.

Company Name	Holding	Registered address
Direct holdings		
Atom EBT Limited	100% Ordinary shares	The Rivergreen Centre, Aykley Heads, Durham, DH1 5TS
Associated undertakings		
Atom Bank Employee Benefit Trust	Employee trust	The Rivergreen Centre, Aykley Heads, Durham, DH1 5TS
Special Purpose vehicles		
Elvet Mortgages 2018-1 plc	Issue of securitised notes	8th Floor 100 Bishopsgate, London, United Kingdom, EC2N 4AG
Elvet Mortgages 2021-1 plc	Issue of securitised notes	8th Floor 100 Bishopsgate, London, United Kingdom, EC2N 4AG

In the course of its business, Atom transacts with structured entities which have been designed to finance the purchase of assets through securitisation and therefore raise finance from external investors by enabling them to invest in specified financial assets.

At 31 March 2023 Atom has two consolidated structured entities, Elvet Mortgages 2018-1 plc and Elvet Mortgages 2021-1 plc, which are included above.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ATOM BANK PLC

Report on the audit of the financial statements

Opinion

In our opinion, Atom Bank Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: statement of financial position as at 31 March 2023; statement of comprehensive income and statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 7, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Context
We conducted all our work across the company using one engagement team.

Overview
Audit scope
- We performed audit procedures over all material account balances and financial information of the company due to their significance to the company's financial performance.

Key audit matters
- Risk of material misstatement in the ECL accounting estimate due to inappropriate economic assumptions and associated scenario weightings, and the risk of inappropriate post-model adjustments being recorded
- Risk of material misstatement in the identification and evaluation of the sources of ineffectiveness in the cash flow hedge relationships
- Risk of material misstatement in the recognition of the deferred tax asset for the current year

Materiality
- Overall materiality: £2,689,000 (FY22: £2,495,000) based on 1% of Net Assets.
- Performance materiality: £2,017,000 (FY22: £1,871,000).

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

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

This is not a complete list of all risks identified by our audit.

Risk of material misstatement in the identification and evaluation of the sources of ineffectiveness in the cash flow hedge relationships and Risk of material misstatement in the recognition of the deferred tax asset for the current year are new key audit matters this year. IT infrastructure and software may be impaired or recognition criteria for newly capitalised IT software may not have been met, which was a key audit matter last year, is no longer included because of the significant headroom observed for the intangible asset cash generating unit which has reduced the risk of material misstatement due to impairment to a normal risk. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of material misstatement in the ECL accounting estimate due to inappropriate economic assumptions and associated scenario weightings, and the risk of inappropriate post-model adjustments being recorded In order to meet the requirements of IFRS 9, the company has developed impairment models that are reliant on expert judgement and economic assumptions provided by third parties. We considered the significant risk assumptions to be: The key economic variables and scenarios used in the model, particularly the severity and likelihood of the base and downturn economic scenarios that form part of the forward looking modelling of default rates (all portfolios), house price values (Residential Mortgages) and commercial real estate values (Business Banking Secured Lending) and their impact on ECL; and the post model adjustments made to account for areas of credit risk not captured within the base modelling solution (all portfolios). Increased severity in macroeconomic forecasts and an increase in the downside scenario weights have been used to further increase the provisions and ensure risks under a worsening economic outlook are captured. There is increased uncertainty as to the future economic outlook, particularly surrounding UK house prices, unemployment and wider affordability concerns, which increases the estimation uncertainty in the ECL. Post model adjustments (PMAs) have been also recorded to reflect the impact of the current economic uncertainty on the ECL provision as at the balance sheet date. The relevant disclosure of the related accounting policies and critical estimates and judgements are disclosed in Note 10 of the financial statements.	With the support of our credit risk modelling specialists, we performed the following procedures: We understood and critically assessed the appropriateness of the ECL accounting policy and model methodologies used by management. We tested the appropriateness of the models used by management by: • independently replicating the modelling of key assumptions and their application in the determination of ECL for the Business Banking Unsecured Lending (BBUL) portfolio; and • Review of the appropriateness of the underlying model codes used by management in their model for the remaining portfolios; Business Banking Secured Lending (BBSL), Buy-to-Let (BtL) and Residential Mortgages (RM). We assessed the reasonableness and likelihood of the forward looking economic assumptions and weightings assigned to the scenarios. The severity and magnitude of the scenarios were compared to external forecasts and data from historical economic downturns. We assessed their reasonableness against known or likely economic, political and other relevant events. We identified that the assumptions adopted and assigned weightings to the scenarios were reasonable. We tested whether the economic scenarios used were appropriately severe so as to capture nonlinear effects in credit losses which may arise in economic downturns and were weighted appropriately given the current economic environment (all portfolios). We tested the appropriateness of the post model adjustments made by management, including testing the underlying assumptions used in these adjustments and consideration of completeness of adjustments made through review of ECL coverage and comparison with wider industry levels (all portfolios). We tested the ECL disclosures made by management to assess compliance with accounting standards. Based on the evidence obtained, we found that the application of forward-looking economic assumptions, weightings and the appropriateness and completeness of the post model adjustments as they relate to the ECL provision to be reasonable.

Key audit matter	How our audit addressed the key audit matter
Risk of material misstatement in the identification and evaluation of the sources of ineffectiveness in the cash flow hedge relationships The company enters into derivative contracts in order to manage and economically hedge risks such as interest rate and foreign exchange rate risk. These arrangements create accounting mismatches which are addressed through designating instruments into including cash flow hedge accounting relationships. During the year a new cash flow hedge relationship has been designated, hedging the variable cash flows from floating rate liabilities, including the Residential Mortgage-Backed Securities ('RMBS') cash flows, with interest rate swaps. This is the first year management has implemented a cash flow hedge relationship with the hedge balance being material. We therefore focussed on this area as hedge accounting rules are inherently complex and require management judgement in their application, giving rise to an increased risk of error in application. Our risk assessment has identified an increased risk of material misstatement to reflect the material impact, complexity, subjectivity of management judgement and inherent risk of error in implementing a cash flow hedge for the first time. The relevant disclosures and accounting policies used by management are disclosed in Note 26 of the financial statements.	With the support of our technical accounting specialists, we performed the following procedures: We understood the nature of the cash flow hedge accounting relationship designated by management in the context of the risk management strategies that they are associated with. We evaluated the economic relationship of the hedge to assess if it is compliant with the IFRS 9 requirements. We obtained and evaluated the hedge accounting documentation to assess whether the hedge was compliant with IFRS 9 and tested that the hedge documentation was in place at the inception of the hedge. We reviewed the sources of ineffectiveness analysis and calculations performed by management. We critically evaluated the completeness and impact of these sources of ineffectiveness on the cash flow hedge relationship to identify if any material sources of ineffectiveness were present. This included testing management's quantitative analysis of the effectiveness of the hedge relationship. We tested that the hedge accounting entries were appropriately recorded in the financial statements in line with IFRS 9. Based on the evidence obtained, we determined the recognition and application of cash flow hedge accounting to be appropriate.
Risk of material misstatement in the recognition of the deferred tax asset for the current year The company recognised a deferred tax asset for the first time in the prior year, based on the expected utilisation of losses over an assessed period of time. During the year, the deferred tax asset has increased from £5.4m to £9.8m as a result of the revised assumptions and judgements. Management has calculated a deferred tax asset based on probable future profits expected to be earned over an assessed forecast period. The key assumptions are the time period over which the asset is recognised and the forecast taxable profits. Our risk assessment has identified an increased risk of material misstatement to reflect the increase in the size of the deferred tax asset recognised, and the judgements made by management in determining the key assumptions. The relevant disclosures and accounting policies used by management are disclosed in Note 36 of the financial statements	With the support of our tax specialists, we performed the following procedures: We obtained and evaluated management's scenario analysis supporting the recognition of the deferred tax asset based on the expected utilisation of losses. We reviewed and challenged the key judgements to assess compliance with the IAS 12 requirements, by reviewing management's forecasts and underlying assumptions, and the application of relevant tax rules that apply to banks. We obtained and evaluated the deferred tax asset calculations to assess the mathematical and mechanical accuracy and completeness of the underlying workings. We reviewed the disclosures made by management to ensure compliance with accounting standards and agreed the disclosures and sensitivity analysis to supporting evidence. Based on the evidence obtained, we determined the recognition and calculation of the deferred tax asset to be appropriate.

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

A complete statutory audit of Atom Bank plc has been performed with audit procedures over all of the material balances of the company.

The impact of climate risk on our audit
As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

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

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

Overall materiality	£2,689,000 (FY22: £2,495,000).
How we determined it	1% of Net Assets
Rationale for benchmark applied	Based on the life cycle of the entity, net assets is the primary measure of company growth and performance.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (FY22: 75%) of overall materiality, amounting to £2,017,000 (FY22: £1,871,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £134,000 (FY22: £124,700) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the company operates;
- Assessed management's forecasted budgets and corresponding capital and liquidity positions over different scenarios;
- Challenged the key assumptions in management's forecast, including forecasts over profit, loan book and liquidity positions in comparison to historically realised performance;
- Compared current year actual results to previous forecasts to assess how accurate management are in their forecasting, understanding rationales for variances and challenging the feasibility of the updated business plans;
- Met with the PRA to discuss their supervision of the company as well as reading key regulatory correspondence; and
- Evaluated the appropriateness of the relevant disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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

- review of correspondence with and reports to the regulators;
- dentification and testing of journal entries which contained unusual account combinations back to corroborating evidence;
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the related key audit matters above; and
- review of the financial statement disclosures to underlying supporting documentation.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 13 March 2014 to audit the financial statements for the year ended 31 March 2014 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 March 2014 to 31 March 2023.

D Brydon

Daniel Brydon (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

14 July 2023

Atom