Atom bank

That's banking all shook up.

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A12 21/09/2017 #202
COMPANIES HOUSE

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Atom Bank plc
Northumbria House
Aykley Heads
Durham DH1 5TS

Company Number 08632552

The terms "Atom" and "the Group" refer to Atom Bank plc together with its subsidiaries. "Atom Bank" and " the Bank" refers to Atom Bank plc (company number 08632552). The Company changed its name from Crossco (1337) plc to Atom Bank plc on 14 August 2015. All references to Atom Bank plc in this report should be read as Atom Bank plc (formerly Crossco (1337) plc).

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

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

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References to "the year", "2016/17" and "2017" refers to the financial year from 1 April 2016 to 31 March 2017. References to "2016" refers to the financial year 1 April 2015 to 31 March 2016.

What's inside?

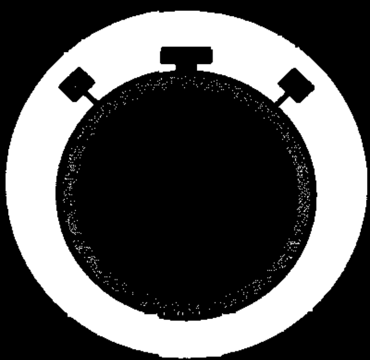
Atom at a glance

Who are we?

Hello. We're the UK's first bank built exclusively for mobile. We're redefining what a bank should be, making things straightforward, personal and great value. What's more, we're always available, because we'll be packing an entire bank into our app.

Founded in April of 2014, Atom's home is the city of Durham, in the North East of England. In June of 2015 our licence application was approved by our regulators and we started the formal mobilisation phase of our development. The restriction on our licence was removed in April 2016 and we exited from our mobilisation phase to launch the first version of our banking app.

In the last year we've launched Business Banking Secured Loans, Retail Mortgages and Fixed Rate Saving products.



10 mins

is the average **time** it takes to open a savings account.

£538m

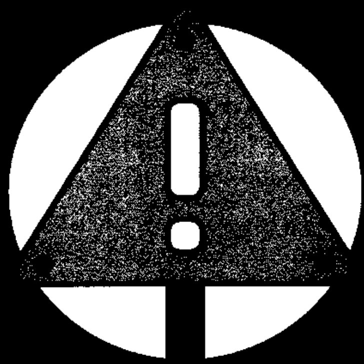
is the amount UK savers have **deposited** with Atom **as at year end.**

83,429

downloads of our app
in the last year.

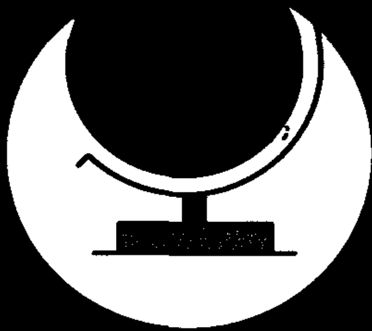
1,500

nips, tucks, tweaks and fixes have
been made to the app so far.



99 years old

is the **age** of our oldest customer.
Our youngest customer is **18**.

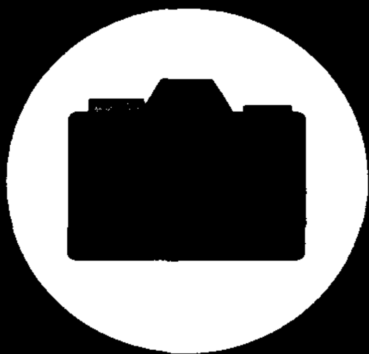


11,705 miles

is the **furthest distance** from Atom HQ in Durham that a globetrotter's **smile** has opened our app.

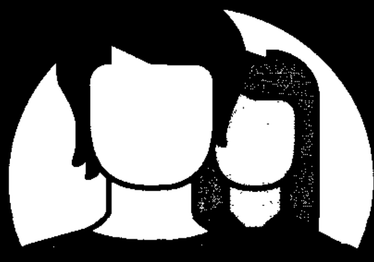
195,636

words spoken to our voice biometrics software.



95,750

selfies have been taken to securely log in to our app.

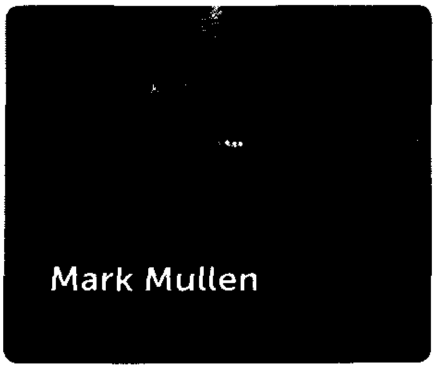


17,916

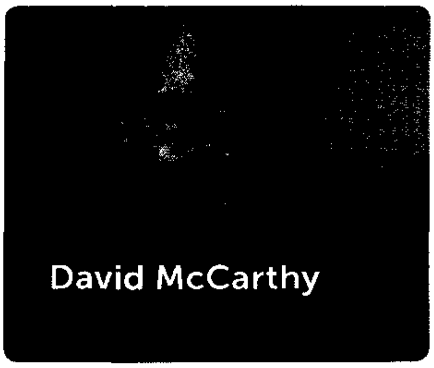
Savings customers have joined the Atom family so far.

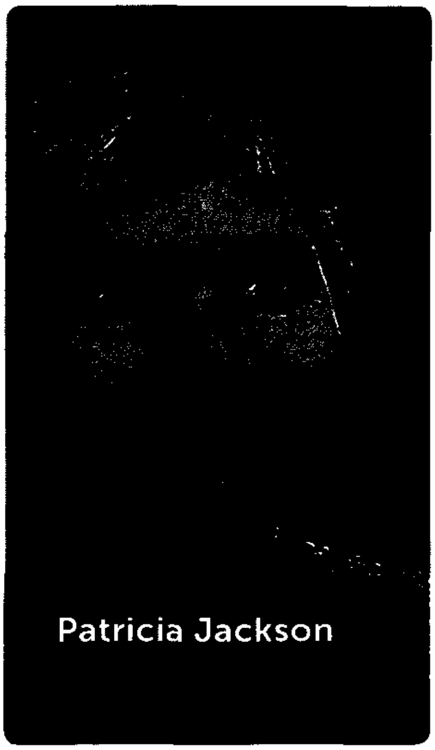
Our Board of Directors


Anthony Thomson


Mark Mullen

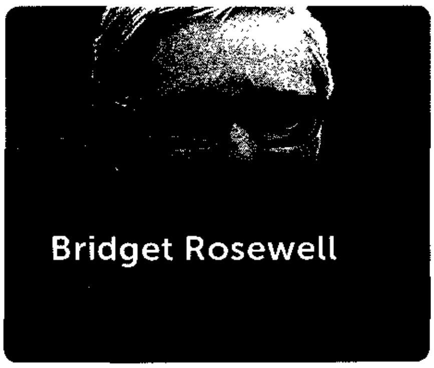

Jonathan Hogan


David McCarthy


Patricia Jackson

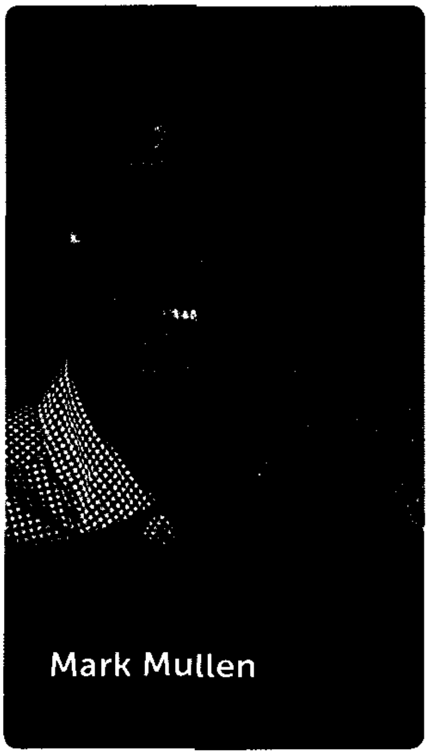

Laurel Powers-Freeling


Ergun Özen

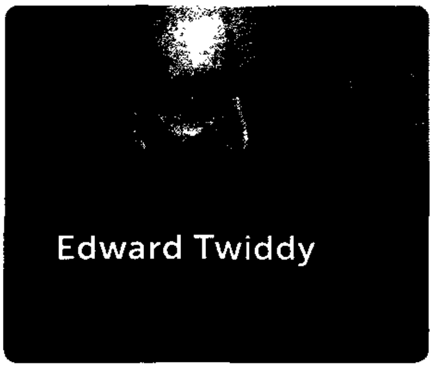

Bridget Rosewell

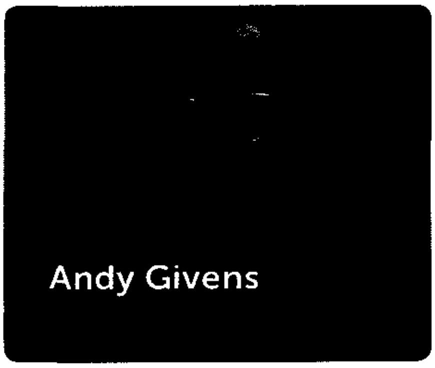

Teppo Paavola

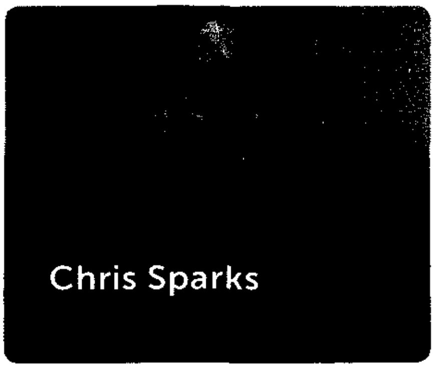
Our Executive Management Team

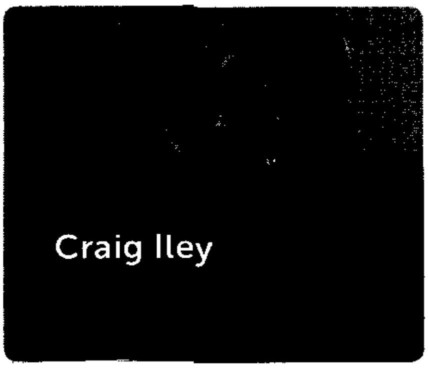

Mark Mullen

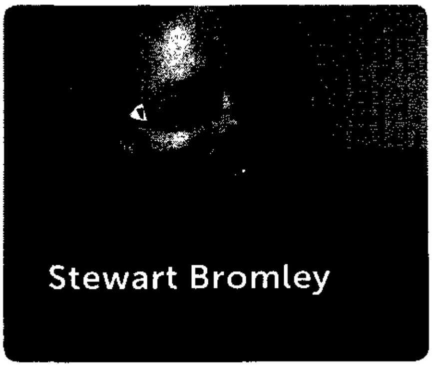

David McCarthy

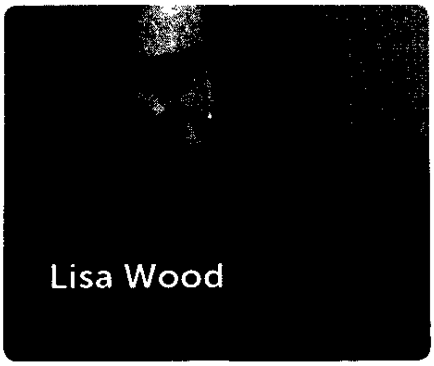

Edward Twiddy


Andy Givens

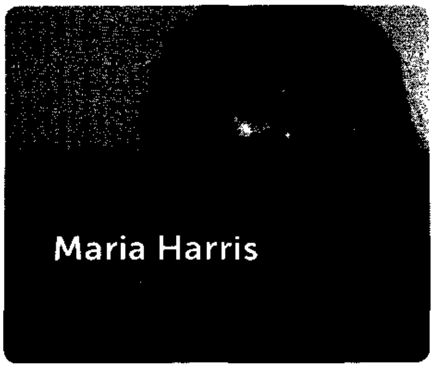

Chris Sparks


Craig Iley


Stewart Bromley


Lisa Wood


Rachael McLauchlan


Maria Harris

Chairman's statement

When the five co-founders of Atom Bank and I started working on the idea of a mobile bank in April 2014, we passionately believed that the future of banking was digital in general and mobile in particular.

Whilst there was considerable research to support our strategy, we – like many others – had no idea how quickly mobile banking would come to dominate.

Recent research by global bank BBVA (a shareholder in Atom Bank) revealed that the average customer spends 90 minutes a year in a branch and 45 hours on their mobile banking app.

Branch based banking is in serious decline – according to The British Banking Association's annual 'The Way we Bank Now' report, visits to bank branches fell 32% between 2011 and 2016 and the decline is continuing. Telephone banking is in decline and internet banking has, for the first time ever, declined – albeit slightly. All of the growth is in app-based banking. Between 2014 and 2015 banking app downloads had increased by 25% year on year and contactless payments rose 250% in just one year.

Customer growth and satisfaction

It's in the context of this transformation that the adoption of our savings and loan products by our customers over the past twelve months has been immensely encouraging. Whilst we are pleased with growth in our customer numbers we believe that a much more important measurement is their satisfaction with us.

We were delighted to be named as the most recommended bank in 2016 in research by BDRC Continental. Whilst it was a relatively small sample size (15,000) we feel that it is recognition of the regard our customers have for Atom and we will continue to focus our efforts on building a bank with the most satisfied customers in the UK.

Our people

As a new bank, we're free of many of the conduct and legacy issues that continue to impede bigger and longer established competitors, both here in the UK and around the world. But we're not complacent. Resting on our laurels is just not the Atom way. We're continuing to invest in our culture, our processes and future technology to make sure we stay that way.

We are committed to making sure our team act in the best interests of customers, in line with the letter and spirit of regulation at all times. Customers are always 'in the room' at Atom and we continually monitor our progress to make sure every single member of the Atom family lives and breathes our values and bring to life our culture.

Building the bank of the future

Atom was conceived to compete with the largest banks here in the UK and in time, perhaps further afield. Born digital, today Atom is focussed on becoming the most efficient lending bank in the industry. This requires the disciplined alignment of product, process, people and technology to deliver a fully automated and real-time banking experience for all of our stakeholders.

We are in the process of broadening our range of both wholesale and consumer liquidity sources and we are on schedule to implement our Faster Payment Service (FPS) by the end of the calendar year. In time relative parity in our costs of capital and of liquidity will expose our structural advantage over the established big banks – our low cost business model and associated technological capabilities.

We are also investing in those technology capabilities to ensure that we support an open, agile and low cost philosophy in the months ahead we aim to migrate our IT environments to a secure cloud, publish our APIs and all the while continue to mature our DevOps competences.

Building our capital strength

Growing the bank, growing our customer base and developing new products and services is capital intensive in the early years.

In the past twelve months we have raised an additional £113m of capital. As at time of signing, total capital raised is £185m, with a further £34m legally committed.

Those funds will continue to be used to further develop our products and services, fund the growth of our balance sheet and fund our planned losses as we move towards profitability. We are well on our way to becoming a profitable and self sustaining bank with much of the infrastructure to generate returns for shareholders now in place. I thank our investors for their continued advice and financial support.

The economic outlook

The past twelve months have been turbulent politically with Brexit continuing today as a major topic of debate in the UK. Whilst it is not for us to comment on the rights or wrongs of Brexit, it is important that we let you know we do not believe that Brexit will have a material financial impact upon Atom Bank. We are a UK bank with only a very small exposure to currencies other than Sterling.

The UK Banking market

The banking industry continues to face structural change with the impact of the financial crisis still washing through fully a decade after it all began. The ongoing consolidation of a number of banks illustrates the challenges of complexity in the sector and particularly in regard to legacy technology.

Regulators continue to enhance oversight and to enact legislation with the intention of avoiding a repeat of the crisis and increase competition in banking. Ring fencing, 'Basel IV', the Second Payments Services Directive (PSD2) and General Data Protection Regulation (GDPR) are examples of the multiple changes on the industry's horizon. All will have cost and business model implications.

We were not alone in feeling that the much anticipated Competition and Markets Authority (CMA) report into the market for personal and business current accounts, published in August of 2016, was a missed opportunity. Certainly we welcome the impetus added to the Open Banking agenda, but we remain convinced that the use of loss leading cash incentives to attract, and increasingly to retain, customers stifles competition.

Policies like these contribute to a lack of transparency, perpetuate cross subsidisation of revenues and heavily disadvantage customers who are less well off financially. We welcome the FCA's November 2016 commitment to investigate further.

We also welcome the Prudential Regulation Authority's recent Consultation Paper regarding the capital requirements of banks that apply the Standardised Approach to setting of their risk weights, and we have responded in full. We believe that when it comes to residential mortgage lending, more fundamental changes are required to create a truly level playing field between established banks and new entrants like Atom, although we are very proud of the success we have had over the past year in helping our customers buy their new home.

Our new board advisor

In April 2017, we announced the appointment of will.i.am as an advisor to our Board. will.i.am has enjoyed enormous success as a musician and producer – a seven time Grammy Award winner, a successful technologist, philanthropist and entrepreneur. He was an early stage equity investor in the incredibly successful headphone company Beats (acquired by Apple), and he has his own technology company i.am+, a leader in the area of Artificial Intelligence (AI).

He is a regular contributor and speaker at World Economic Forum Annual Meetings in Davos and created the i.am.angel Foundation in Los Angeles, which helps children from less privileged areas get a solid education by staying in school, graduating and then going on to obtain a university education. We look forward to learning from and working with him in the months ahead.

In conclusion

Our Board ensures structures are in place so we can adapt and flex as our business continues its rapid growth. I am fortunate to have board colleagues with strong and diverse experience, and I thank them for their continued guidance and support. As with last year I would like to finish by thanking all of my colleagues in the bank, ably led by Mark Mullen and his executive team, for their passion, commitment and hard work over the past twelve months. There is still much to be done but I am absolutely confident we have the team to deliver it.

Anthony Thomson
Founder and Chairman
3 July 2017

Chief Executive's review

I am privileged to lead a fast growing bank from our headquarters here in Durham City, a historic and scenic location in the North East of the UK, complete with World Heritage Site.

We're proud of what we've achieved since we established Atom in 2014, but we're also under no illusion that challenges remain. We are determined to offer our customers a genuine alternative to the established banks - and in the last year we've made significant progress towards achieving that goal. Put simply, we are here to make banking easier, more transparent and better value.

We obtained our banking licence in June 2015 and launched our first products in April 2016 with two market leading Fixed Saver accounts, along with Small Medium Enterprises (SME) lending via a panel of specialist business intermediaries. Just before Christmas we added our highly automated and competitive residential mortgages proposition.

We're on a journey to truly disrupt banking but disruption can take many forms. For Atom it means that we provide our customers with speed, ease, value and transparency.

Our customers

By the end of the financial year we had helped more than 17,000 UK consumers to save over £538m by offering them some of the best rates in the market on our Fixed Rate Saver accounts. Along the way we've made one or two appearances in best buy tables and throughout we have invested to continually improve our onboarding journeys on the way to delivering an innovative, intuitive and above all simple customer experience.

We soft launched residential mortgages in October, offering a broad range of lending via independent mortgage advisers and in March we introduced a leading offer on 5 year fixed rates. This will help us on our trajectory to reach over £200m of mortgage lending by the end of the first quarter of 2017/18.

We also focused our efforts on helping small and medium sized businesses grow. There's no shortage of appetite here with more than £300m lending applications received. Including mortgage lending, we closed the year with assets of just under £100m.

Capabilities

Throughout 2017 we continued to develop our capabilities and delivered a series of enhancements to our banking app and to our customer support functions. We're pleased with our customer numbers and reviews, which we capture using Reevoo (9.1 out of 10 from 798 customer reviews as of April) and UserZoom. We have some work to do to improve our various App Store ratings, but we have a clear runway of app enhancements to drive these improvements.

Strategy

We remain committed to our strategy of building a low cost business model and using it to offer customers simple, transparent and innovative products and services.

Already we're well positioned to drive growth as a balance sheet based lender and deposit taker and will add greater velocity still in the months ahead. That's our focus in the months ahead but as the year progresses we'll turn more of our attention towards the next phase of our strategic development.

Open Banking has the potential to transform the banking sector. We want Atom to be at the forefront of these developments and we're getting ourselves in the position to do just that. With no legacy revenues, technologies or policies to defend, we can look to offer customers a real-time, mobile view of their individual banking ecosystems.

Our team

We're making significant progress building our team and we continue to invest in ensuring that our working culture and environment help make Atom an attractive place to grow and pursue a fulfilling career. We provide all of our employees with specialist training, personal development and support and we include a programme of subsidies to encourage the pursuit of professional qualifications. We have an active graduate and internship programme and we provide all our team members with the time and money to facilitate self learning or charitable enterprise.

If diversity and inclusion are focus areas in banking then it's an even greater challenge in technology. We're proud that Maria Harris, our Director of Mortgages, has just won the 2017 Women in Finance Charter 'Banker of the Year' award.

We're committed to gender pay parity and to gender balance in senior roles. To date we have made excellent progress towards both objectives but undoubtedly we have more to achieve in this regard.

Risk

At its heart, banking is a risk business. We must take risk to earn revenue, principally through lending to customers. However this must be managed in a clearly defined and well controlled manner. We have been successful in recruiting a strong risk team right from our Board through to our three lines of defence. During the year this has enabled us to make significant progress in embedding our Enterprise Risk Management Framework and developing our business-wide risk culture.

We have also embraced the Senior Managers' Regime and understand the important role it has to play in restoring trust and establishing good conduct within the banking profession.

We have robust operational risk and disaster recovery procedures in place and we are continually developing our technological capabilities and resilience towards potential cyber attacks.

Our home and the community

The expansion in our team has necessitated bigger - if not grander - accommodation so we have moved to the Rivergreen Centre, just up the road from where we were.

The Rivergreen Centre was built to BREEAM Excellent standards for environmental sustainability and will provide us with room for - modest - expansion, together with opportunities to improve both our productivity and our efficiency.

We remain grateful to Durham County Council for their fantastic support in making Durham an attractive place to call home.

We also continue to develop our partnership with Durham University, in particular with their excellent Mathematics faculty. We're looking to broaden this relationship further in 2017/18 and to build more connections with universities and educational institutions throughout the North East of England.

The Future

Next year our focus will be on growth, on efficiency and on optimisation, but all the while we will be investing to ensure that we are well placed to anticipate and to take full advantage of the opportunities Open Banking promises. We will act carefully and sustainably and throughout, do so in a way that respects the integrity and security of our customers' data.

Thank you

The challenges we have faced together have strengthened our resolve and our will to succeed. As I write this I know that we're older, wiser and more determined than ever to achieve our vision. We're a strong and unified team led by a supportive Chairman and board and I am ably inspired and assisted by my executive leaders and by the broader Atom family. Our people are a source of tremendous strength and energy and I thank them for their sustaining enthusiasm and genuine care.

We've also been supported by our steadfast investors and by their belief and commitment to our vision and our team.

To everyone who has helped us get to where we are today, thank you.

The Strategic Report from page 4 to 31 was approved by the Board and signed on its behalf by:

Mark Mullen
Chief Executive Officer
5 July 2017

Business model and strategy

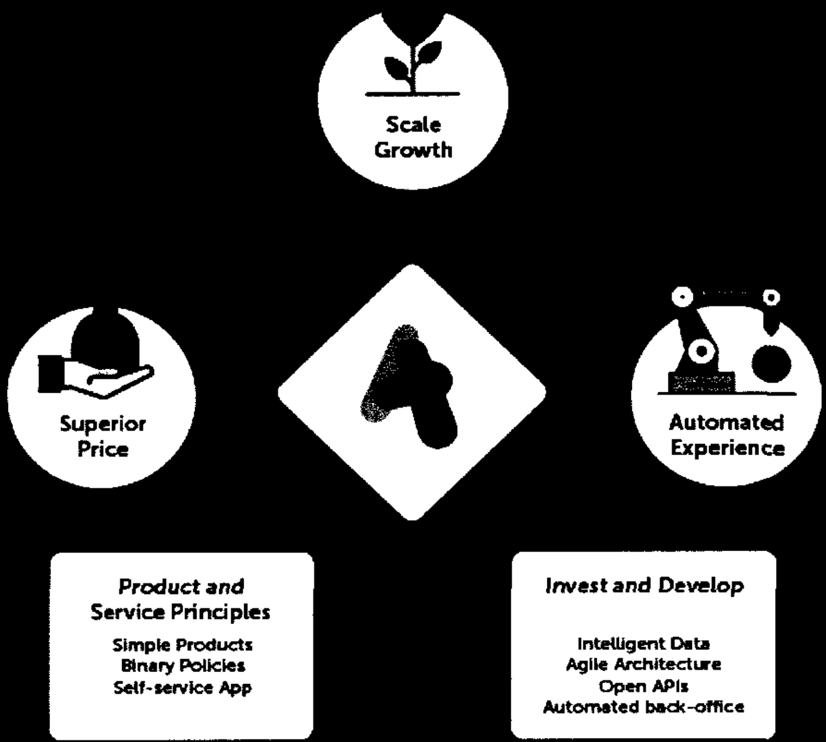
We want to...

Change banking for good. For the better, for everyone.

We'll do it by making it much less expensive, more transparent and far easier to use.

If we do this, we will grow our business, make money for our investors and provide a bright future for our employees - the people who made it all possible in the first place.

Our innovative business model creates the opportunity to get there...



Our business model is founded on investment and development of technology with clear and simple product and service principles. This low cost and agile infrastructure allows us to offer good value products to customers with a great user experience. Products can be scaled quickly, resulting in delivering returns to investors.

Disrupt banking today - transform it tomorrow

Our strategy was conceived to exploit the countless inefficiencies that permeate banking both here in the UK, and further afield. We embrace the idea that money is a valuable commodity and we work to remove the many cost-generating frictions that erode its value.

At Atom, technology acts as a strategic enabler. It informs and facilitates the automation of our customer journeys and our back-office banking processes. Creating a truly digital bank requires more discipline and more capability than a willingness to eschew branches or an ability to develop apps. We are careful in choosing which products we manufacture - the fewer, the simpler and the more transparent the better. We are clear in our policies - an automated 'yes' or 'no' saves both time and money for everybody. Our operations are centralised and we are headquartered in Durham where premises costs are lower than would be the case elsewhere.

And our strategic priorities will enable us to successfully execute our business model...

Strategy

At Atom, we have always viewed disruption as something that can be driven from within the general confines of the existing banking model but also by challenging the conventions of the model itself. There is significant value, stability and sustainability to be generated by optimising the existing model. The first phase of our strategy, already well on the way to be implemented, focuses energy in this domain.

Today we are leveraging our assets to grow our balance sheet by gathering deposits directly from savers using our app and using that liquidity to lend to small and medium businesses and residential mortgage customers. We have work still to complete and more capabilities to build before we will be able to call this work finished, but we are well along the road and already, we are greatly encouraged at what can be achieved and by the potential remaining.

The second phase seeks to more fundamentally transform the established banking model. Open Banking promises further technological transformation by enabling new competitors to leverage a combination of APIs and machine learning to analyse customer transactional data. In doing so, they will be able to offer customers greater insight and personalised help with financial planning. Here in the UK, the Open Banking Implementation Group is supervising the development of technology standards and service standards that will mandate the UK's biggest banks to make their customer data both available and usable in a standard and secure way.

The customer will need to provide sanction for this to work but, if successful, it has the potential to herald a new way for these customers to interact with their money and it breaks one of the strangleholds that the biggest banks hold on customers today – the availability of historic customer transactional data.

The majority of the technologies required to enable Open Banking exist today, however there remains a great deal of work to complete and so we predict a phased implementation of regulatory and technological standards in 2018 and beyond. We are preparing our business in readiness for this transformation by investing in enabling capabilities and technologies. These include the migration of our services to the cloud, the re-engineering of our middleware and the inclusion of direct access to Faster Payments as a core capability. We plan to complete all of these preparatory initiatives by the end of this calendar year.

If the potential advantages and applications of Open Banking are many, the same cannot be said of the revenue models. This is the 'undiscovered country' of banking and routes to monetisation remain unclear. Consequently, we will move forward with this part of strategy both carefully and deliberately, learning as we go and adapting quickly to emerging opportunities.

From the outset we have described the Atom strategy as a hybrid – disrupting the established way of banking and transforming the way we bank tomorrow. We remain committed to this strategy. We see enormous potential in both but we understand the importance of focus. Already we have a vibrant and fast growing business and we have only just begun the journey.

During 2017 we're proud to say we've delivered against our strategy...

Our business performance

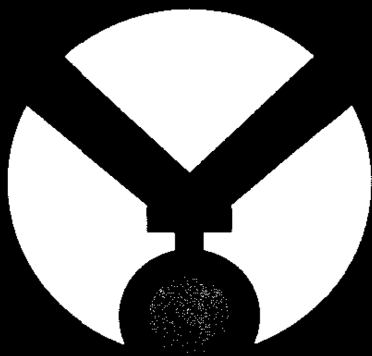
2017 was a hugely significant year for Atom as we continued our journey from a fintech start-up to a fully operational bank. This journey will continue over the next few years as we scale up the balance sheet and develop our future products. During the summer of 2016 we launched our fixed rate savings and business banking secured loan (BBSL) products. Then, although slightly later than planned, our retail mortgage proposition went live in December 2016. To support product go-live we increased the number of employees to 281 (2016: 158) by the year end.

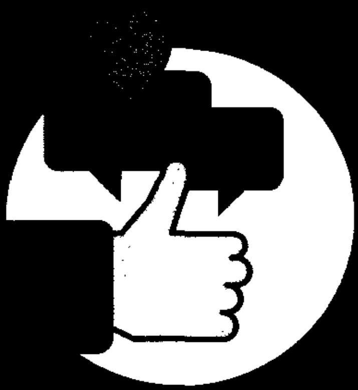
Customers have loved our end to end expereience, rating us 9.1/10 on Reevoo. Where they need support on the self service app, our contact centre has responded quickly.

As the graphic shows, the Bank continues to grow, develop and achieve at pace.

Competitive rates

Since full market launch we have continually featured in the **Best Buy tables**.

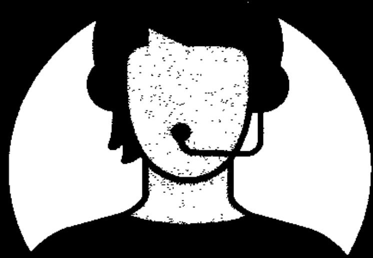




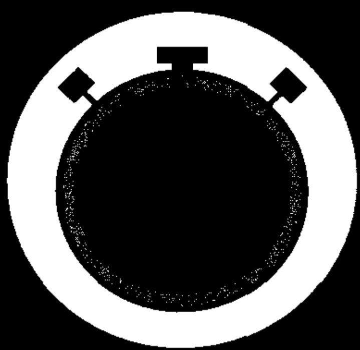
App Store ratings

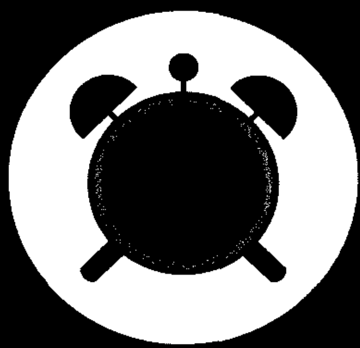
Apple and Android ratings of 2.5 and 2.7 respectively. We are working hard on app improvements to improve this score.

Call Centre of the Year



Call Centre of the Year Award for our customer support centre in Durham.





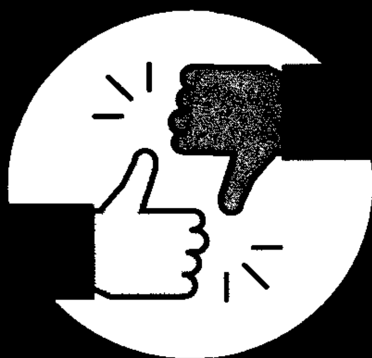
<20 Seconds

79% of customer calls and app chats were answered within 20 seconds.

87%

of our customers had their query **answered first time**.

Customer complaints



2.7 customer complaints per 1,000 customers.

Best New Savings Provider

We were named **Best New Savings Provider** at the **Moneynet Awards**.

Reevoo feedback

Our customers, via impartial Reevo feedback, have given us **9.1/10 for our overall service.**

Growing panel of intermediaries

1,547 mortgage and **58** BBSL intermediaries added to our panel.

Number one

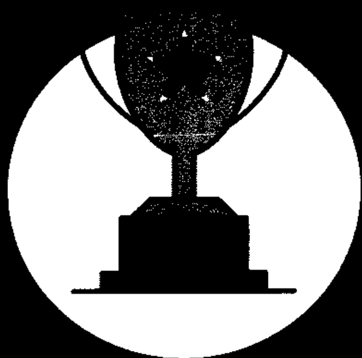
Techworld listed us as **number one** challenger bank in the UK.

Disrupter

Mobile Banking Disrupter at the TFG Excellence Awards. Listed in the **European Fintech 100.**

Top 10

Number **6** in **KPMG's Fintech Global 100** list. The only bank or UK company to be included in the **top ten.**



Financial review

During the year, total assets grew to £649m (2016: £37m), including;

£99m of loans and advances as we started to lend to businesses (£33m) and mortgage customers (£27m). An additional £40m was lent to purchase a loan note backed by unsecured business banking loans.

£507m held as cash and high quality liquid assets. This high level of liquidity was largely funded by a hugely successful Fixed Rate Saver campaign in March driving total deposits to £538m. Post year end we've used these funds to rapidly grow our customer lending with Mortgages and BBSL lending increasing to £98m and £42m respectively by May 2017.

We have also continued to invest in the IT infrastructure of the Bank with intangible assets growing to £30m (2016: £19m).

Following two successful capital raises totalling £113m during the year, we are strongly capitalised with a Tier I capital ratio of 44%. We have also signed a sub-debt facility with the British Business Bank which, subject to growing our lending to SMEs, allows us to draw down up to £30m of debt funding. This facility is eligible for Tier II capital.

During 2017 there was a loss of £42m (FY16: £23m). The loss was driven by staff and operating costs as we continued to build products for launch and scaled-up teams to run a fully operational bank.

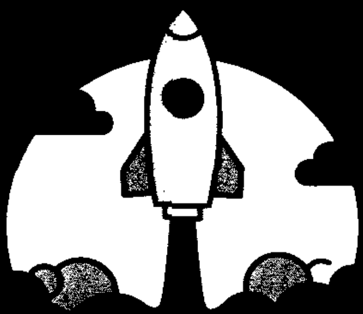
Negative net interest income of £1m was primarily generated by the interest expense of deposits which went live in advance of our lending products.

Fixed Rate Saver deposits

We're highly liquid. Our Fixed Rate Saver campaign in March brought in **£538m** of deposits by the year end.

Customer lending

We have used these funds to lend £99m to customers by year end.

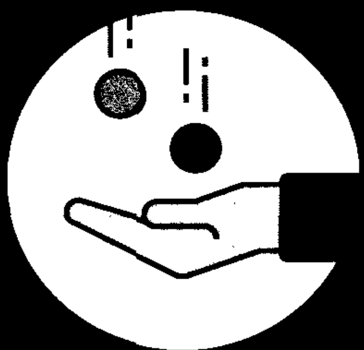


Capital raises

We had two successful capital raises totalling **£113m** during the year. We're strongly capitalised with a Tier I Capital Ratio of 44%.

Lending increased

Post-year end we have rapidly grown our customer lending with residential Mortgage lending increasing to **£98m** and BBSL increasing to **£42m** by May 2017.



Tier II capital

We've signed a sub-debt facility with the British Business Bank. Subject to growing our lending to SMEs. This allows us to draw down up to **£30m** of debt funding. This facility is eligible for Tier II Capital.

Our business model and strategy create risks...

Material risks

Running a bank can be a complex affair. As a result the risks our business faces are carefully monitored and managed. The material risks our business model creates are as follows:

Strategic activity	Related risk
Running a start-up bank in a competitive market place.	**Strategic risk.** The business could fail if management take poor strategic decisions, if decisions are poorly executed, or the strategy does not effectively respond to changes in the market.
Building a strong lending balance sheet.	**Credit risk.** There is a risk that customers we have lent money to default on their contractual obligations to Atom.
Customer lending, deposits and Treasury financial instruments legally commit Atom to *exposures ultimately dependent on external* market prices.	**Market risk.** Changes in market prices, for example interest rates, creates the risk of financial *loss through a reduction in earnings or change in* the value of assets/liabilities.
A fully operational digital bank has a large number of complex processes.	**Operational risk.** Operational failure such as inadequate or failed internal processes or systems, human error or external events, creates a risk of direct or indirect financial loss.
Banking is a highly regulated industry.	**Regulatory risk.** Failure to comply with regulatory or legislative requirements could result in financial loss and reputational damage. Furthermore, changes to regulatory rules could negatively impact Atom's strategy and business model.
In order to accept customer deposits and lend to customers, banks are required to hold minimum levels of high quality capital.	**Capital risk.** The risk that Atom could have insufficient capital to withstand an extreme, but plausible loss, and thereby expose its depositors and other creditors to losses.

Strategic activity	Related risk
Originating loans and accepting deposits means significant movement and transfer of cash.	**Liquidity risk.** Having insufficient cash could result in Atom failing to meet its obligations as they fall due.
Retail financial products such as loans and deposits can have a significant impact on customers' lives and banks have a role to play in our wider society.	**Conduct risk.** Inappropriate behaviour by Atom in its relationship with customers, counterparties and markets can result in reputational and financial loss.
Liquid assets are placed with high quality counterparties to manage liquidity requirements.	**Wholesale credit risk.** The risk that a wholesale counterparty defaults on its contractual obligations to Atom.
Building a strong brand with customers, the regulator and counterparties.	**Reputational risk.** Damage to Atom's reputation and brand as a result of the actions of the Bank itself, or indirectly via actions of employees, suppliers or other parties.

Key and emerging risks

As a rapidly growing business, operating in an industry facing structural change, successful delivery of our strategy also requires regular monitoring of key emerging risks. The following chart summarises our current view of these risks with an assessment of impact severity and time horizon:

Current 0-3 months

- ● Supplier risk
- ○ Automation backlog
- ○ Social media risk
- ○ Key person risk

Mid-Term 3-9 months

- ● Access to capital
- ○ Operational resilience
- ○ Cost management
- ○ Economic / geopolitical climate
- ○ Programme governance
- ● Information security / cyber crime

Horizon 9+ months

- ○ Regulatory risk
- ○ Credit risk
- ○ New product launch delay
- ● Financial crime / fraud
- ○ Competition

Key

- ● High impact – Significant impact on Atom's business plan delivery
- ○ Moderate impact – Moderate impact on Atom's business plan delivery
- ○ Low impact – Minor / No impact on Atom's business plan delivery

High impact risks

Supplier risk. In order to minimise the cost of operations and building infrastructure, many of our key functions are outsourced to third party contractors. If they fail to deliver in a timely and accurate manner, Atom's banking activities could be severely compromised.

To mitigate this risk we have a control framework for selection, contracting and management of outsourcing and other supplier arrangements. This includes appropriate monitoring and reporting, business continuity and disaster recovery arrangements.

Access to capital. Our growth plans mean we raise additional capital. Unstable economic or political conditions and negative investor sentiment may impact our ability to do so. Atom has a good track record of capital raising activity and takes a very proactive approach to ensure we have sufficient capital.

Information security / Cyber crime. As a digital bank it is imperative that appropriate controls are functioning to protect customer data from loss or exploitation to avoid significant brand damage. As well as the due diligence, design and testing that is going into building network and systems security, Atom operates perimeter controls to detect and prevent attempts to compromise systems.

Financial crime / fraud. Any successful attack perpetrated against Atom has the potential to cause significant financial loss, harm our reputation and result in legal and regulatory action. Atom is deploying strong controls to monitor and authorise customer access, transactions and payments and will enhance these as we move towards transactional accounts.

We've created a strong team and organisational structure to ensure the business is appropriately managing these risks...

Governance

Atom's Board of Directors is responsible for the overall governance of the Bank. Good corporate governance underpins the integrity of Atom and the wider community in which it operates. The success of the Bank is predicated on a framework of effective systems of internal control, risk management and compliance, in accordance with regulatory requirements.

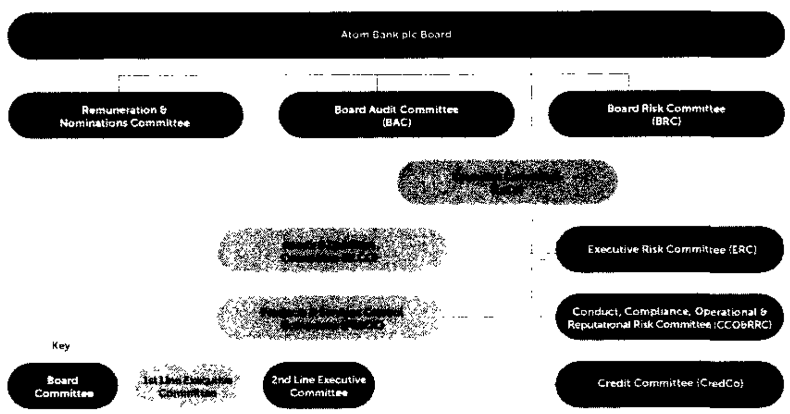
Effective governance is not achieved by one single committee, structure or forum, but rather a governance framework. This is underpinned by structure, oversight responsibilities, talent, culture and infrastructure. The effective governance structure for Atom comprises the following:

- A Board comprising of 2 Executives and 7 Non Executive Directors (the Board)
- An overarching Executive Committee
- Board committees for audit, risk and a combined remuneration and nominations committee
- Executive business oversight committees
- Senior Management apportionment of responsibilities
- A "Three Lines of Defence" operating model with independent reporting lines
- Transparent conversations with regulators

The primary role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct. This is chaired by Bridget Rosewell with three further Non Executive Directors appointed as members with at least one member designated as the financial expert as defined by applicable legislation and regulation.

The objective of the Risk Committee is to ensure the Bank's risk culture is appropriately designed by anticipating changes in business, economic, political and social conditions. The Risk Committee is responsible for reviewing risk appetite and performance and the effectiveness of the risk management framework. It is chaired by Patricia Jackson with three further Non Executive Directors appointed as members.

The Remuneration and Nominations Committee's core role is to lead the appointments process for nominations to the Board and to assist the Chairman in keeping the composition of the Board under review. It will also approve the strategy for personal remuneration of the Board and senior management. It is chaired by Jon Hogan with two further Non Executive Directors appointed as members.



Within this governance structure, we have a highly effective risk management framework and team…

Risk management

Effective risk management is a core part of Atom's strategy and is integral to being an authorised and credible bank. Our focus has been on implementing an effective risk management framework and strong risk management culture, with responsibilities clearly embedded within the business.

Risk management framework

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

The ERMF is designed to ensure a holistic and consistent approach to the aggregation and management of all risks, which is integrated into business management and decision making.

The ERMF has been established to:

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

Risk governance and oversight

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

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

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

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

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

Risk appetite

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

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

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

Our people

Atom is unique and so are our people. Our team is carefully selected for their character, skills, passion for the customer and commitment to what we are doing.

We're getting bigger

We're growing fast. Since the launch of our first savings product in April 2016 the team has grown from 158 to 281. This growth has ensured we can be even more customer focused and innovative. Our recruitment processes are built on our values which ensure we attract and recruit those who match closest to our vision and passion for our customers. The growth is significant in our Customer Operations teams however there are also other areas of the business that have grown to support our proposition and product development.

We're qualified and professional

Within the last year we have integrated the Senior Manager and Certification Regimes into all aspects of identified roles ensuring our teams and individuals understand the importance of the roles they hold as well as the importance in maintaining their continued professional standards and development. We sponsored a number of technical and professional qualifications over the last year as well as providing personal development which contributes to development of the 'whole' individual making our team. Some of our team members have learned upholstery, how to drive, cake making and ballet to name a few of the skills and experiences that ensure our team continues to be diverse and unique.

We're inclusive and diverse

Respect for individuality is part of our Atom DNA. We value diversity and this year became one of the first signatories of the HM Treasury Women in Finance charter along with other financial institutions. We've focused very much on diversity in general, including broadening our targeted recruitment activities in finance, technology and many other areas to ensure we encourage applications from diverse groups.

We're part of our community

We continue to strengthen our relationships and partnerships within our community. We have strong links with our local school and have further developed and strengthened the relationships we have with our regional universities. Our regional university partnerships have ensured that our intern programme has gone from strength to strength, with a total of 43 interns having now participated in the programme.

We also have collaborated with local universities to ensure that we are at the forefront of developments in data science and analytics with the aim of enhancing customer experience and driving business performance.

Our values

Our values are integral to everything we do. They are an important part of our recruitment processes, the development we provide and encourage our teams as well as our broader employee value proposition.

Respectful
- We care. We take ownership. We stand by our commitments and will see them through
- We act responsibly within our communities and for our environment

Pioneering
- We are prepared to transform our industry for the better. Our customers expect evolution
- We have freedom to explore and invent

Sharing
- We seek out partnerships with our customers, our people and our suppliers
- We are a united team
- We collaborate internally and externally

Courageous
- We are authentic. We have integrity
- We stand up for what is right and take the initiative

Energetic
- We want to set the pace, one that anticipates and pre-empts
- We are here for the long term, but live in the moment

Joyful
- We believe passionately in what we are doing. We have pride in who we are
- Banking can and will be fun
- We enjoy every day like it is our first

Directors' report

Directors' report

The Directors present their report and financial statements for the year ended 31 March 2017. Atom Bank plc is a public limited company, incorporated and domiciled in England and Wales, having its registered office in England and is authorised by the PRA and is regulated by the FCA and PRA.

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

Results

The statements of comprehensive income and the statements of financial position can be found on page 38 and 39 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

Jonathan D Hagan
Patricia D Jackson
David J McCarthy
Mark T Mullen
Ergun Özen
Teppo Paavola
Laurel C Powers Freeling
Bridget C Rosewell
Anthony W Thomson (Chairman)

Auditors

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

- So far as he/she is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- He/she has 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 reappoint 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 2017 as the Company maintains Directors' & Officers' Liability Insurance which gives appropriate cover for legal action brought against its Directors.

Approved by the Board and signed on its behalf by:

Mark Mullen
Chief Executive Officer
3 July 2017

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic report, Directors' report and the Financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Bank and Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

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

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

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

They are also responsible for safeguarding the assets of the Bank and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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

Edward Twiddy
Company Secretary
3 July 2017

Financial statements

Contents

Statements of comprehensive income
Year ended 31 March 2017

For the year ended 31 March	Notes	Group and Bank 2017 £'000	Bank 2016 £'000
Interest income	2	725	46
Interest expense	2	(1,601)	
Net interest (expense)/income		(876)	46
Fee and commission income		383	
Fee and commission expense		(539)	(28)
Net fee and commission expense		(156)	(28)
Other income		2	
Total (expense)/income		**(1,030)**	**18**
Credit impairment charges and other provisions	3	(305)	
Net operating (expense)/income		**(1,335)**	**18**
Staff costs	4	(19,321)	(11,580)
Administrative and general expenses	6	(18,139)	(11,769)
Operating expenses		**(37,460)**	**(23,349)**
Operating loss		**(38,795)**	**(23,331)**
Amortisation and depreciation	7	(3,417)	(604)
Loss before taxation		**(42,212)**	**(23,935)**
Taxation	8	43	1,420
Loss after taxation		**(42,169)**	**(22,515)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments):			
Net gain in fair value		317	
Net amount transferred to profit or loss		9	
Other comprehensive income, net of tax		**326**	
Total comprehensive expense attributable to equity holders of the parent		**(41,843)**	**(22,515)**

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

The Group represents the consolidated results of the Bank, the Atom Employee Benefits Trust and Atom EBT Limited.

Statements of financial position
As at 31 March 2017

	Notes	Group 2017 £'000	Bank 2017 £'000	Bank 2016 £'000
As at 31 March				
Assets				
Cash and balances at central banks	16	419,765	419,765	240
Debt instruments at fair value through other comprehensive income	16	87,249	87,249	13,559
Loans and advances to customers	16	99,209	99,209	
Other assets	30	11,346	11,482	2,445
Property, plant and equipment	29	722	722	484
Intangible assets	28	30,546	30,546	19,341
Current tax assets	8	-		1,420
Total assets		**648,837**	**648,973**	**37,489**
Liabilities				
Customer Deposits	17	538,060	538,060	10
Derivatives held for hedging purposes	23	124	124	
Provisions	10	132	132	
Other liabilities	31	6,575	6,575	8,183
Total liabilities		**544,891**	**544,891**	**8,193**
Equity				
Share capital and share premium	25	167,318	167,318	54,997
Other reserves	26	7,999	8,135	3,501
Retained earnings		(71,371)	(71,371)	(29,202)
Total equity		**103,946**	**104,082**	**29,296**
Total liabilities and equity		**648,837**	**648,973**	**37,489**

The notes and information on pages 42 and 89 form part of these financial statements. Unless explicitly stated notes are for both the Group and Bank. The financial statements from pages 36 to 89 were approved by the Board of Directors and signed on its behalf by:

Mark Mullen
Chief Executive Officer
3 July 2017

David McCarthy
Chief Financial Officer
3 July 2017

Statements of changes in equity
Year ended 31 March 2017

	Share capital and share premium £'000	Fair value reserve £'000	Share based payment reserve £'000	Other reserves and treasury shares £'000	Retained Earnings £'000	Total £'000
Group and Bank balance as at 1 April 2016	**54,997**	**-**	**3,501**	**-**	**(29,202)**	**29,296**
Loss for the year	-				(42,169)	**(42,169)**
Fair value reserve (debt instruments) net of tax						
Net gain on fair value	-	317	-	-	.	**317**
Net amount transferred to profit or loss		9		-		**9**
Total comprehensive income/(expense)	**-**	**326**	**-**	**-**	**(42,169)**	**(41,843)**
Issue of new ordinary shares, net of transaction costs	112,321	-	-		-	**112,321**
Employee share schemes – value of employee services	-		4,308		-	**4,308**
Bank balance as at 31 March 2017	**167,318**	**326**	**7,809**	**-**	**(71,371)**	**104,082**
Purchase of treasury shares	**-**	**-**	**-**	**(136)**	**-**	**(136)**
Group balance as at 31 March 2017	**167,318**	**326**	**7,809**	**(136)**	**(71,371)**	**103,946**
Group and Bank balance as at 1 April 2015	**15,607**	**-**	**103**	**-**	**(6,687)**	**9,023**
Total comprehensive (expense)		-			(22,515)	**(22,515)**
Issue of new ordinary shares, net of transaction costs	39,440		(103)			**39,337**
Employee share schemes – value of employee services			3,501			**3,501**
Redemption of preference shares	(50)					**(50)**
Group and Bank balance as at 31 March 2016	**54,997**	**-**	**3,501**	**-**	**(29,202)**	**29,296**

Cash flow statements

Year Ended 31 March 2017

For the year ended 31 March	Group 2017 £'000	Bank 2017 £'000	Bank 2016 £'000
Cash flows from operating activities			
Loss for the year	(42,169)	(42,169)	(22,515)
Adjustments for non-cash items			
Depreciation and amortisation	3,417	3,417	604
Intangible assets adjustments and impairments	-		2,295
Share option scheme reserves	4,308	4,308	3,501
Other non cash movements	763	763	-
Changes in operating assets and liabilities			
Net (increase) in loans and advances to customers	(99,514)	(99,514)	
Net increase in customer deposits	538,050	538,050	10
Net (increase) in other assets	(8,901)	(9,037)	(202)
Net decrease/(increase) in tax asset	1,420	1,420	(806)
Net (decrease)/increase in other liabilities	(1,608)	(1,608)	5,115
Net increase in derivative financial instruments for hedging purposes	124	124	
Net cash inflow/(outflow) in operating activities	**395,890**	**395,754**	**(11,998)**
Cash flows from investing activities			
Acquisition of intangible assets	(14,356)	(14,356)	(18,425)
Acquisition of property, plant and equipment	(504)	(504)	(247)
Acquisition of debt securities at FVOCI	(71,650)	(71,650)	(6,559)
Net cash (outflow) from investing activities	**(86,510)**	**(86,510)**	**(25,231)**
Proceeds from the issuance of ordinary shares net of expenses	112,321	112,321	39,337
Redemption of preference shares		-	(50)
Purchase of treasury shares	(136)	-	
Net cash inflow from financing activities	**112,185**	**112,321**	**39,287**
Net increase in cash and cash equivalents	421,565	421,565	2,058
Cash and cash equivalents at the beginning of year	7,240	7,240	5,182
Cash and cash equivalents at the end of year	**428,805**	**428,805**	**7,240**
Cash and cash equivalents comprise:			
Cash and balances at central banks	419,765	419,765	240
Debt securities at FVOCI with original maturities less than three months	9,040	9,040	7,000
	428,805	**428,805**	**7,240**

Accounting for cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, 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.

1. Summary of significant accounting policies

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

a. Reporting entity

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

b. Basis of preparation

The consolidated and individual financial statements have been prepared and approved by the Board of Directors in accordance with the Companies Act 2006 and with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). They are stated in thousands of pounds Sterling (£'000 or £k), the functional and presentational currency of Atom.

IFRS 9 Financial Instruments as issued by the IASB in July 2014 has been early adopted during the year. The only impact on the opening balance sheet related to investments and financial instruments held under IAS 39 as available for sale assets. Under IFRS 9 these have been classified as Fair Value through Other Comprehensive Income (FVOCI). As a result the following balances have been reclassified in comparatives:

£'000	AFS cash and cash equivalents	AFS financial instruments	Debt instruments at FVOCI
As published	**7,000**	**6,559**	**-**
Reclassified	**-**	**-**	**13,559**

The adoption of IFRS 9 has had no other impact on comparatives.

The amounts expected to be recovered or settled for assets and liabilities in the financial statements are due no more than 12 months after the reporting period unless specifically stated.

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

c. Going concern

These consolidated and individual financial statements have been prepared on a going concern basis as the Directors expect Atom and the Bank will have the resources to continue in business for the foreseeable future, being 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 longer term strategy of the business.

Furthermore, Atom's forecasts and projections [illegible] a range of stressed scenarios show that it will be able to [illegible]

[illegible] liquidity and capital for the foreseeable future and there is sufficient capital to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority (PRA).

d. Consolidation

Atom controls an entity when it is exposed to, or has rights to, variable returns from the entity and has the ability to affect those returns through its power over the entity. Such authority generally but not exclusively accompanies a shareholding of more than half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases. Intercompany transactions and balances are eliminated on consolidation.

e. 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 the Bank 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, FVOCI or Fair Value through P&L (FVTPL).

An investment in a debt instrument is only 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.

An investment in a debt instrument is only measured at FVOCI if both of the following conditions are met:

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

A debt instrument that is not measured at amortised cost or at FVOCI is measured at FVTPL. Equity instruments are [illegible] 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 when the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, and with them substantially all the risks and rewards of ownership are 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.

1. Summary of significant accounting policies (continued)

f. Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates actual results reported in future periods may be based upon amounts which differ from those estimates. Critical accounting judgements for share based payments and credit impairment charges are included on pages 50 and 59 respectively.

g. Future accounting developments

At the date of authorisation of these financial statements, certain standards and interpretations were in issue but not yet effective and have not been applied in these financial statements. Whilst a number is not expected to be material the impact of the following standards are currently being reviewed:

- IFRS 15 Revenue from Contracts with Customer (effective date for periods beginning on or after 1 January 2018) may have an impact on revenue recognition.
- IFRS 16 *Leases* (effective date for periods beginning on or after 1 January 2019) requires lessees to recognise both a right of use and lease liability on the balance sheet. On adoption Atom is likely to incur an increase in both assets and liabilities.

Performance

The notes in this section seek to explain Atom's Profit and Loss performance during the year. We seek to make profit by earning interest on loans originated to customers and on financial investments we hold. This income is reduced by the interest paid to customers on their deposits which funds our lending. We also incur the costs of running a digital bank, with our primary expenditure on employees and technology infrastructure.

2. Net Interest Income

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 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	2017 £'000	2016 £'000
Cash and cash equivalents	250	23
Debt instruments at FVOCI	279	23
Loans and advances to customers	196	
Total interest income	**725**	**46**
Interest expense		
Derivative liabilities held for hedging purposes	(6)	
Customer deposits	(1,595)	
Total interest expense	**(1,601)**	
Net interest (expense)/income	**(876)**	**46**

The net interest expense of £876k was driven by the £1,595k interest expense on customer deposits [illegible] April 2016. This was offset in part by £279k of interest [illegible] £250k on cash [illegible] at the Bank of England. A [illegible] £196k of [illegible] 2016 [illegible] Mortgages [illegible] December 2016.

3. Credit impairment charges and other provisions

Accounting for credit impairment charges and other provisions

Please see Note 10 - Loans and advances to customers and impairment allowances for the accounting policy. The table below summarises the charge for the year in the income statement.

	2017 £'000	2016 £'000
Net impairment on financial assets		
New impairment allowances for:		
BBSL	(156)	
Mortgages	(7)	
Impairment charges on loans and advances to customers	(163)	
Provision charges on loan commitments for:		
BBSL	(114)	
Mortgages	(18)	
Provision charges on loan commitments	(132)	
Credit impairment charge on debt instruments at FVOCI	(10)	
Credit impairment charges and other provisions	(305)	

The £305k (2016: nil) charge reflects the recognition of impairment provisions under IFRS 9 Financial Instruments. All exposures are classified and provided for as Stage 1 Performing assets as there has been no significant deterioration in credit risk since origination. The charge is primarily driven by recognition of £270k on BBSL on balance sheet loans (£156k) and off balance sheet commitments (£114k), which results in provision coverage against the exposure of 0.4%.

4. 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 5 Share based payment arrangements for the accounting policy.

Staff costs	2017 £'000	2016 £'000
Wages and salaries	**12,014**	6,701
Social security contributions	**1,408**	801
Contributions to defined contribution plans	**1,094**	577
Equity settled share based payments	**4,308**	3,501
Cash settled share based payments	**497**	
Total staff costs	**19,321**	**11,580**

The increase in staff costs to £19,321k (2016: £11,580k) reflects the additional employees required to support the operational running of Atom. Equity settled share based payment costs increased as a result of granting the Joint Share Ownership Plan (JSOP) during the year. Please see note 5 for further details.

Average monthly number of employees during the year	2017	2016
Executive	**8**	7
Business and customer operations	**108**	[illegible]
Administration	**59**	45
Technology	**41**	[illegible]
Total	**216**	**94**

5. Share based payment arrangements

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

In line with IFRS 2 Share Based Payments, the cost of the employee services received in respect of the share options granted is recognised in the income statement over the period that employees provide services. This is generally the period in which the award is granted or notified and the vesting date of the options.

The overall cost of the award is calculated using the number of options expected to vest and the fair value of options at the date of grant. For equity settled options the fair value is set at the grant date and recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. For cash settled options the fair value is updated at each reporting date, with the cash settlement built up in other liabilities over the vesting period.

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

As at 31 March 2017 the Bank had the following share based payment arrangements

Scheme	Overview	Contractual life of options	Method of settlement
Build the bank share scheme	A one off scheme designed to reward staff involved in the earliest stages in the development of Atom	10 years	Equity/Cash
Annual performance share scheme (APSS) - 2015/ 2016/2017	Annual performance award. APSS17 includes a HMRC approved Company Share Option Plan	10 years	Equity/Cash
Long term incentive scheme (LTIP)	[illegible] number of senior staff	10 years	Equity/Cash
Joint share ownership plan (JSOP)	[illegible] Atom's founders	10 years	Equity

5. Share based payment arrangements (continued)

Method of settlement

In August 2016 Atom completed its first share option liquidity window. This window allowed eligible employees with vested options to sell shares up to a maximum value of £5,000 to the Atom Employee Benefits Trust (EBT). In the current year the Executive Committee confirmed the intention to offer this facility annually. As a result employees now have the option to settle in cash or equity. For schemes in place before this date this facility has been considered to be a modification to the award and as such the cash component has been measured and transferred from reserves to liabilities. There is no difference to the fair value of the award. The proportion of options expected to cash settle has been estimated using a Monte Carlo simulation utilising data from the August 2016 liquidity window.

Employee Benefit Trust

To facilitate liquidity from the share options that have been awarded to employees an employee benefit trust (EBT) was set up to purchase shares acquired as a result of exercised share options. A subsidiary of Atom Bank plc, Atom EBT Limited, was incorporated as a wholly owned subsidiary with a share capital investment of £1, and acts as sole trustee of the EBT. The Bank provided a loan of £136k to the EBT to fund the purchase of 136k shares from employees during the August liquidity window. As the Bank is exposed to the returns of the EBT it has been fully consolidated. The Board has made a commitment to the EBT to fund share purchases in future liquidity windows. This commitment is capped annually by limiting the maximum amount of shares that can be purchased by the EBT.

Option valuation

For schemes issued in 2017 the cash and equity components are valued separately. At grant date the value of the debt and equity components of the Atom options are the same.

In thousands of options	BTB	APSS	LTIP	JSOP
Outstanding as at 1 April 16	**4,000,000**	**3,536,497**	**528,334**	**-**
Forfeited during the period	(12,000)	(18,563)		-
Exercised during the period	(53,000)	(331,813)		
Granted during the period		2,782,325	99,250	4,000,000
Outstanding as at 31 March 17	**3,935,000**	**5,968,446**	**627,584**	**4,000,000**
Exercisable as at 31 March 17	3,935,000	1,544,324	-	2,000,000
Weighted average exercise price (pence)	75	0.001	92	0.001
Weighted average remaining contractual life	9 years	9 years	8 years	10 years
Fair value of share awards issued in 2017 (pence)	N/A	115	35	115

5. Share based payment arrangements (continued)

In thousands of options	BTB	APSS	LTIP
Outstanding as at 1 April 15		1,207,972	525,334
Forfeited during the period		(481)	
Exercised during the period			
Granted during the period	4,000,000	2,329,006	
Outstanding as at 31 March 16	4,000,000	3,536,497	525,334
Exercisable as at 31 March 16	5,000	404,709	
Weighted average exercise price (pence)	75	0.001	90
Weighted average remaining contractual life	10 years	10 years	9 years
Fair value of share awards issued in 2016 (pence)	46	100	33

The fair value of share award issued in 2017 was estimated on the grant date using the Black Scholes Merton formula based on the following inputs.

Weighted average Share price	115p
Exercise price – LTIP	100p
Exercise price – APSS17 and JSOP	0.001p
Expected volatility	27%
Expected life	3
Risk free interest rate	0.23%

The expected share price volatility used was based on the historical volatility of listed peers, over a period equivalent to the expected life of the option.

Critical accounting estimate

The calculation of the share based payment charge and balance sheet position involves judgement, in particular the estimate of numbers of options that will cash settle. Sensitivity analysis shows an additional £763k would be classified as cash settled and transferred to liabilities should all employees utilise the full £5,000 limit over the expected life.

6. Administrative and general expenses

	2017 £'000	2016 £'000
Administrative expenses	3,138	2,170
IT costs	9,858	5,535
Marketing	2,178	1,918
Legal and professional	1,591	1,221
Office and premises	1,374	925
Total administrative and general expenses	**18,139**	**11,769**

The increase in administrative and general expenses to £18,139k reflects the Bank becoming fully operational during the year. IT costs of £9,858k include the running costs of customer savings and lending platforms, customer contact systems, and IT infrastructure supporting back office functions. The prior year included a write down of various software components that previously had been capitalised.

Marketing costs of £2,178k (2016: £1,918k) include investment in social media channels, direct customer sourcing and intermediary marketing.

Auditors' remuneration for the audit of the financial statements was £160k (2016: £37k). Additional remuneration for the auditors' assurance services was £21k (2016: £nil) and tax advisory was £55k (2016: £11k).

7. Amortisation and depreciation

Accounting for amortisation and depreciation

Accounting policies relating to amortisation are set out in notes 28 and 29 respectively.

	2017 £'000	2016 £'000
Amortisation of intangible assets	3,152	484
Depreciation of property plant and equipment	265	120
Total amortisation and depreciation	**3,417**	**604**

The £3,417k (2016: £604k) charge primarily relates to amortisation of the app and related IT infrastructure following the launch of savings and lending products.

8. 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, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of 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.

	2017 £'000	2016 £'000
Loss on ordinary activities before tax	42,212	23,935
Standard rate of corporation tax	20%	20%
Expected tax credit	**8,442**	**4,787**
Expenses not deductible	(12)	
Adjustments in respect of prior periods	44	
Research and development tax credits	(2)	1,420
Other temporary differences	(8,429)	(4,787)
Total tax credits	**43**	**1,420**

No corporation tax liabilities are payable nor receivable from HMRC for the year (2016: Nil). The total tax credit of £43k (2016: £1,420k) is an adjustment in respect of prior periods in relation to research and development tax credits due from HMRC.

The Directors have concluded that it is not appropriate to recognise a deferred tax asset at the balance sheet date as the majority of accumulated losses will be available to offset against future taxable profits and the Bank is not expected to make a profit in the foreseeable future. Were it to have been recognised, the deferred tax asset would have an estimated value of £10.8m (2016: £4.6m), being £63.5m (2016: £25.6m) of trading losses carried forward taxed at the expected rate of 17% (2016: 18%). These and other temporary differences may be recognised in the future as taxable profits arise.

Lending and credit risk

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

9. Managing credit risk

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

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

Retail Credit Risk Management

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

The Board defines overall credit risk limits within the context of Atom's prudent risk appetite, namely to originate a high quality residential mortgage and secured commercial lending portfolio.

The Board achieves this by setting and monitoring lending policy and ensuring appropriate controls are in place to maintain the quality of lending including reviewing comprehensive management information that includes credit portfolio and financial accounting metrics, and by undertaking benchmarking against comparative data.

Early warning indicators, credit performance trends and key risk indicators are monitored with recommendations discussed at Credit Committee, ERC and BRC for approval and subsequent implementation.

Retail Credit Risk Mitigation

Atom uses a range of approaches to mitigate credit risk including risk and control self assessment, setting of credit policy, use of [illegible] underwriting mandates, credit underwriting processes, obtaining collateral, credit risk performance monitoring, stress testing and credit risk [illegible].

The Credit Risk function sets the credit risk policy that is consistent with its specified risk appetite for each type of lending, with [illegible] criteria reviewed at least annually. Credit decisions are supported by underwriting mandates which define the responsibilities of underwriters [illegible] the Bank [illegible] to ensure accuracy and consistency of assessment.

The Board [illegible] authority [illegible] the Bank's Risk Appetite Framework [illegible] responsibility [illegible] the Credit Risk function [illegible] sample of cases.

9. Managing credit risk (continued)

In order to assess the quality of new lending, Atom utilises a combination of statistical modelling, credit scores, risk grades and assessment of applications against lending policy criteria embedded within the firm's decision system. This approach allows for consistent lending decisions, and helps determine when manual intervention is required by skilled underwriters.

The sole collateral type for secured loans and advances to customers is a first charge over residential or commercial real estate. Property offered as collateral 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.

Maximum loan to value ratio depends upon loan size and the collateral stress band associated with the type of security property. Collateral will be valued by an independent, qualified surveyor, allocated by the Bank's master valuer and subject to performance and checks, or by objective automated valuation models where sufficient recent comparable evidence is available to derive an accurate valuation. Collateral valuation is reviewed and updated on a regular basis. Lending decisions are predominantly based on an obligor's ability to repay from regular sources of income (personal customers) or from normal business operations rather than reliance on the disposal of any security provided.

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 incremental 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 specific stress scenarios to ensure that Atom remains within its retail credit risk appetite.

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

Collections and recovery activity is overseen by the Credit Committee. The Committee is responsible for establishing the collections policy with the objective of treating customers fairly, and for subsequently monitoring arrears performance and compliance with policy and regulation.

10. Loans and advances to customers and impairment allowances

Accounting for lending and credit risk

i) Classification and Measurement

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

- 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. There have been no historic sales and there are no current plans to sell the assets for fair value gains; and
- The contractual terms of the loans give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The loans are vanilla retail lending products with no features that give rise to significant other cash flows.

The Structured Loan Note (see page 59 for details) is considered to be a contractually linked instrument under IFRS 9. This is because the payment on the note is contractually linked to payments received on a pool of other instruments.

The classification criteria for contractually linked instruments are determined using a "look through" approach. This approach looks at the terms of the instrument itself, as well as through to the pool of underlying instruments and considers both the characteristics of those underlying instruments and the exposure to credit risk relative to the pool of underlying instruments.

The Structured Loan Note is held at amortised cost as the note itself gives rise to cash flows that are SPPI and the underlying pool only contains loans that have contractual cash flows that are SPPI on the principal outstanding.

Impairment

IFRS 9 requires recognition of expected credit losses based on unbiased forward looking information and is applicable to all financial assets at amortised cost, debt financial assets at FVOCI and loan commitments. The guidance requires assets to be classified into the following three stages:

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

The above model requires a number of key supporting policies and methodologies:

- **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 an individual loan level by multiplying probability of default (PD), loss given default (LGD) and the exposure at default (EAD).

10. Loans and advances to customers and impairment allowances (continued)

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

- **Determining a significant increase in credit risk since initial recognition**

  The impairment model utilises both relative and absolute criteria to identify increases in credit risk:
  - Mortgages absolute: 30 days past due or recent unsatisfied CCJ / default on the customer's credit file (i.e. including credit events with other organisations).
  - Mortgages relative: a two fold increase in origination PD with a minimum 0.5% increase.
  - BBSL absolute: 30 days past due.
  - BBSL relative: moved to watchlist. Numerous quantitative and qualitative watchlist factors are monitored including changes in bureau behavioural score, formal credit actions (e.g. winding up orders, CCJs meeting of creditors), adverse changes in financial performance, and significant changes in Directors. Current and forecast adverse changes in the customer's geography and sector are also considered.

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

- **Forecast economic data**

  IFRS 9 requires ECL to reflect a range of possible outcomes and to consider future economic conditions. To achieve this the model uses three economic forecasts: base, upside and downside scenarios. All of the scenarios have been sourced from an independent economic consultancy. The upside and downside scenarios are calculated from a range of economic variables that are stressed around the base case. An algorithm is then applied to select an upper and lower scenario that each have a 30% weighting.

  Statistical analysis has been performed to identify the macro economic variables that are significant to ECL. The changes in the variables are then applied to PD, LGD and EAD with the weighted average of the three scenarios used to calculate the ECL.

- **Definition of default and credit impaired assets**

  Both Mortgage and BBSL accounts are classified as in default if any of the following criteria has been met. 90 days past due; entered forbearance; security has been taken into possession; or the customer is bankrupt.

Write off policy

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

10. Loans and advances to customers and impairment allowances (continued)

The following table summarises lending as at the year end by IFRS 9 impairment stage and the related provision.

As at 31 March 2017:	BBSL £'000	Residential Mortgages £'000	Structured Loan Note £'000	Total loans and *advances to* customers £'000
Gross carrying amount:				
Stage 1: 12 month expected loss	32,880	26,627	39,865	99,372
Stage 2: Lifetime – loans not credit impaired				
Stage 3: Lifetime – credit impaired loans	-			
Total gross carrying amount	**32,880**	**26,627**	**39,865**	**99,372**
Less impairment allowance:				
Stage 1: 12 month expected loss	(156)	(7)		(163)
Stage 2: Lifetime – loans not credit impaired			-	
Stage 3: Lifetime – credit impaired loans				
Provision for on balance sheet impairment losses	**(156)**	**(7)**	**-**	**(163)**
Net balance sheet carrying value	**32,724**	**26,620**	**39,865**	**99,209**
Loan commitments				
Gross commitments	41,604	60,712		102,316
12 month expected loss provision	**(114)**	**(18)**	**-**	**(132)**
Total credit impairment provision	**(270)**	**(25)**	**-**	**(295)**

All lending and related provisions were originated during the year and are classified in stage 1. There have been no write offs, recoveries or changes to the impairment model during the year. No loans have been subject to modification.

BBSL

[illegible] started to offer secured loans to SMEs in April 2016. At the year end 67 loans totalling £32.9m had been originated with an average age of 42 days. All loans are classified as stage 1 as there has been no material increase in credit risk since origination. The provision of £156k results in a coverage ratio of 0.5%.

Loans totalling £41.6m were committed to 132 customers. A provision of £114k was held against this exposure resulting in a total BBSL provision of £270k.

Mortgages

Fixed rate mortgage products were [illegible] launched in December 2016 [illegible]. 112 mortgages totalling £26.6m had been originated with an average age of 37 days. All loans are classified as stage 1 as there has been no significant increase in credit risk since origination. The year end provision of £7k results in a [illegible] of 0.03%.

10. Loans and advances to customers and impairment allowances (continued)

Mortgages of £60.7m were also committed to 279 customers reflecting the ramp up of product distribution in March 2017. A provision of £18k was held against this exposure resulting in a total mortgage provision of £25k.

Structured Loan Note

In March 2017 Atom purchased a loan note which funds unsecured loans to SMEs. Principal and interest payments of the £39.9m loan note are [illegible] supported by a £49.8m pool of unsecured receivables, which creates 20% first loss credit protection for Atom. There has been no significant deterioration in credit risk since origination. No loss provision has been recognised as the first loss feature results in a probability of default that [illegible] insignificant provision.

Critical accounting estimate

The calculation of the credit impairment provision is subject to a level of judgement, in particular the weighting of economic scenarios used to calculate forecast losses. Sensitivity analysis shows that calculating the provision based solely on the downside scenario only increases the charge by £16k. This immaterial impact is due to all accounts being currently held at stage 1. For this reason, no further disclosures have been provided.

11. Collateral held and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of a first charge over residential or commercial real estate.

Credit risk disclosures report assets gross of collateral and therefore disclose the maximum loss exposure. The value of collateral is reassessed if evidence of financial distress of the borrower has been observed.

As at 31 March 2017	Gross carrying amount for: £'000	Impairment Allowance on: £'000
Loans and advances to customers		
BBSL		
LTV ratio		
LTV <= 50%	11,048	68
50% < LTV <= 60%	8,976	37
60% < LTV <= 70%	11,834	48
70% < LTV <= 75%	1,022	3
Total BBSL	**32,880**	**156**
Residential Mortgages		
LTV ratio		
LTV <= 60%	15,466	
60% < LTV <= 65%	247	
65% < LTV <= 70%	2,490	
70% < LTV <= 75%	4,455	1
75% < LTV <= 80%	639	-
80% < LTV <= 85%	617	1
85% < LTV <= 90%	2,568	4
90% < LTV <= 95%	145	1
Total Residential Mortgages	**26,627**	**7**

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

12. Credit quality

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

BBSL

As at 31 March 2017 Gross carrying amount for:	Gross carrying amount £'000	Impairment allowance £'000	Gross loan commitment £'000	Provision for loan commitments £'000
Very low risk	1,898	1	5,561	3
Low risk	14,261	38	14,857	24
Medium risk	15,411	107	18,069	69
Higher risk	1,310	10	3,117	18
Total	**32,880**	**156**	**41,604**	**114**

The portfolio is currently predominantly in Low and Medium risk grades. This is driven by a weighting in lending to investment property lending which is typically graded in these risk bands. Monitoring of customer profile and payment behaviour has not resulted in any customers being transferred to watch list and no loan accounts are currently in the collections and recovery process.

Mortgages

As at 31 March 2017 Gross carrying amount for:	Gross carrying amount £'000	Impairment allowance £'000	Gross loan commitment £'000	Provision for loan commitments £'000
Very low risk	17,792	4	33,955	8
Low risk	6,430	2	20,588	5
Medium risk	1,207	1	4,073	2
Medium high risk	772		1,235	
Higher risk	426	-	861	3
Total	**26,627**	**7**	**60,712**	**18**

The portfolio is currently predominantly in the Very Low risk band which is a reflection of lending to lower risk customers [illegible] history. There are currently no loan accounts [illegible] arrangements [illegible].

12. Credit quality (continued)

As at 31 March 2017	Gross carrying amount £'000	Impairment allowance £'000	Gross loan commitment £'000	Provision for loan commitments £'000
BBSL by loan size				
<= £250k	4,297	18	8,269	24
£250k <= £500k	6,956	37	13,664	46
£500k <= £1m	8,062	32	14,685	34
£1m <= £2m	13,565	69	2,946	9
£2m >		-	2,040	1
Total BBSL	**32,880**	**156**	**41,604**	**114**

As at 31 March 2017	Gross carrying amount £'000	Impairment allowance £'000	Gross loan commitment £'000	Provision for loan commitments £'000
Mortgages by loan size				
<= £250k	12,715	6	28,741	12
£250k <= £500k	10,882	1	24,643	5
£500k <= £1m	3,030	-	7,328	1
Total Mortgages	**26,627**	**7**	**60,712**	**18**

13. Credit concentrations

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

As at 31 March 2017 BBSL by geography:	Gross carrying amount £'000	Impairment allowance £'000	Gross loan commitment £'000	Provision for loan commitments £'000
Greater London	4,765	26	10,016	20
Midlands	4,933	25	8,349	23
North	18,201	80	16,147	56
Scotland			2,156	5
South	4,981	25	4,571	9
Wales		-	365	1
Total BBSL	**32,880**	**156**	**41,604**	**114**
Mortgages by geography				
Greater London	9,026	1	24,547	4
Midlands	1,508	1	5,576	2
North	5,831	2	10,959	5
Northern Ireland	130		285	-
Scotland	1,168		3,481	1
South	7,873	2	15,459	6
Wales	1,091	1	405	
Total Mortgages	**26,627**	**7**	**60,712**	**18**

Atom has a natural concentration in the UK market as it only finances residential and commercial properties within the UK. Once the balance sheet is fully up to scale the geographic distribution is expected to broadly match the industry average.

Funding and liquid assets

Funding is raised from customers depositing money in their fixed savings accounts. These funds are then used to lend to customers. To ensure the Bank has sufficient cash to repay customers when required, we are required to hold a minimum level of liquid assets. Atom's Treasury team manage the level of liquid assets and funding to ensure we meet the demands of customers, creditors and regulators.

14. Managing liquidity risk

One of the principal risks faced by Atom is Liquidity Risk. This is the risk that the Bank could fail to meet its obligations as they fall due, including having the right type and quantity of funds in the right place, at the right time and in the correct currency.

Liquidity risk is managed by the Treasury department and is monitored by the second line Financial Risk team. Reporting and management of the liquidity is monitored by ALCO which meets on a monthly basis.

Key liquidity risk mitigations

The key liquidity risk mitigations used by Atom are the holding of a High Quality Liquid Assets (HQLA) portfolio which can be sold at any time to provide liquidity for the Bank. Atom uses a forward looking projection of cashflows (both inflows and outflows) which are stressed to determine whether there will be sufficient liquidity to cope with unexpected liquidity challenges. Atom adheres to all regulatory liquidity requirements but also considers additional more severe stress scenarios. It then ensures that a number of liquidity mitigations are put in place to be certain that the bank has access to ample liquidity at all times. Intra day, daily and overnight liquidity positions are assessed.

Key liquidity metrics

The key metrics used to monitor liquidity risk are the Liquidity Coverage Ratio (LCR) and three in-house stress measures that comprise the Bank's Overall Liquidity Adequacy Requirement (OLAR). These three stresses comprise:

- a 90 day slow burn persistent stress
- a 30 day stress that represents an in-house variant of the LCR stress
- a 14 day bank run stress

All three stress tests are modelled using the LCR framework and are performed daily so as to ensure robust control of the Bank's liquidity.

Although not yet a regulatory requirement the Net Stable Funding Ratio (NSFR) is monitored on a daily basis. All the stress tests are performed not only on the bank's current positions but also on the monthly projected positions for the next six months.

At year end, Atom was significantly in excess of all liquidity targets due to the significant deposits received following a successful Fixed Saver campaign in March 2017.

15. Wholesale credit risk management

Wholesale credit risk arises from the portfolios of HQLA and other financial assets Treasury manages, and represents the risk that counterparties may fail to repay amounts owed when due. Atom has a low appetite for this form of risk and consequently exposures are restricted to good quality counterparties with a low risk of failure. Limits for this and exposures are set accordingly.

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

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

16. Assets held for liquidity management

Accounting fordebt instruments held at fair value through other comprehensive income (FVOCI)

Classification and measurement

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

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

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

Cash and cash equivalents are carried at amortised cost.

Impairment

Financial assets held at FVOCI are within the scope of the IFRS 9 impairment policy described on page 56. 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 has 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. To apply the exception there needs to be evidence that the instrument is of low risk. Atom has applied the exemption to all of the FVOCI assets held at year end, as they meet the definition of investment grade per the internal credit risk policy.

	2017 £'000	2016 £'000
Cash and balances at central banks	**419,765**	**240**
Money Market Funds	9,040	7,000
UK Gilts	33,970	6,559
Covered Bonds	20,752	
Residential Mortgage Backed Securities (RMBS)	10,192	
Multilateral Development Bank and Government Sponsored Debt	13,295	
Total debt instruments at FVOCI	**87,249**	**13,559**
Financial assets held for liquidity management	**507,014**	**13,799**

The £507.0m of liquid assets held at the year end reflects the significant inflow of customer deposits in March 2017 following [illegible] of market leading savings [illegible] rates. This funding was raised to support [illegible] growth in the mortgage portfolio.

A 12 month ECL [illegible] impairment provision of £[illegible]k (2016: [illegible]) [illegible] £87.2m [illegible]. All [illegible] AAA or AA [illegible] rating agencies.

17. 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.

	2017 £'000	2016 £'000
1 Year Fixed deposit	357,718	6
2 Year Fixed deposit	136,817	4
3 Year Fixed deposit	23,742	
5 Year Fixed deposit	19,909	
Valuation adjustments	(126)	
Total	**538,060**	**10**

Atom started taking customer deposits in July 2016, with £538.1m received by financial year end. There was a significant increase in 1 and 2 year deposits in March 2017 following the release of market leading interest rates.

Valuation adjustments reflect the IFRS 9 macro hedge adjustment as described in note 23.

18. Contractual maturity of financial assets and liabilities

The table below presents the contractual residual maturities of the financial assets and liabilities on the balance sheet.

As at 31 March 2017	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Over 10 years £'000	Total £'000
Assets									
Cash and balances at central banks	419,765		-		-	-		-	**419,765**
Debt instruments at FVOCI	9,040	9,628	5,099	3,844	26,377	18,103	4,985	10,173	**87,249**
Loans and advances to customers	-	577	487	982	4,687	4,226	51,205	37,045	**99,209**
Total financial assets	**428,805**	**10,205**	**5,586**	**4,826**	**31,064**	**22,329**	**56,190**	**47,218**	**606,223**
Liabilities									
Customer deposits		534	20,859	336,823	159,962	19,882			**538,060**
Derivatives held for hedging purposes			13	40	71				**124**
Other financial liabilities	-	3,831			-				**3,831**
Total financial liabilities	**-**	**4,365**	**20,872**	**336,863**	**160,033**	**19,882**	**-**	**-**	**542,015**
Off-balance sheet commitments									**-**
Loan commitments given	**-**	**102,316**	**-**	**-**	**-**	**-**	**-**	**-**	**102,316**

As at 31 March 2016	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 cash equivalents	240								240
Debt instruments at FVOCI	7,000	3,497	3,062						13,559
Total financial assets	**7,240**	**3,497**	**3,062**	**-**	**-**	**-**	**-**	**-**	**13,799**
Liabilities									
Customer deposits				6	4				10
Other financial liabilities		5,322							5,322
Total financial liabilities	**-**	**5,322**	**-**	**6**	**4**	**0**	**0**	**0**	**5,332**

19. Contractual maturity of financial liabilities on an undiscounted basis

Contractual maturities for financial liabilities form an important source of information for the management of liquidity risk. The table below analyses 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 table below do not agree directly with the balances in the consolidated balance sheet as the table incorporates all cash flows on an undiscounted basis related to both principal as well as those associated with 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 2017	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Over 10 years £'000	Total £'000
Customer Deposits		1,339	21,768	344,071	164,501	20,869	-		552,548
Other financial liabilities		3,558	-				-	-	3,558
Total non-derivative financial liabilities	-	**4,897**	**21,768**	**344,071**	**164,501**	**20,869**	-	-	**556,106**
Gross settled derivatives outflows	-		15	543	504	-			1,062
Gross settled derivatives inflows	-		(9)	(606)	(734)		-		(1,349)
Total financial liabilities	-	**4,897**	**21,774**	**344,008**	**164,271**	**20,869**	-	-	**555,819**
Off balance sheet commitments		-	-		-	-		-	
Loan commitments given		102,316		-	-		-		102,316
Total off balance sheet commitments	-	**102,316**	-	-	-	-	-	-	**102,316**

As at 31 March 2016	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
Customer Deposits				6	4				10
Other financial liabilities		5,322				-			5,322
Total financial liabilities	-	**5,322**	-	**6**	**4**	-	-	-	**5,332**

20. 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 Bank to classify its 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 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Debt instruments at FVOCI				
Money market funds	-	**9,040**	-	9,040
UK gilts	**33,970**	-	-	33,970
Covered bonds	**20,752**	-	-	20,752
RMBS	**10,192**	-	-	10,192
Multilateral development bank and government sponsored debt	**13,295**	-	-	13,295
Liabilities				
Derivatives held for hedging purposes	-	**(124)**	-	(124)
Total	**78,209**	**8,916**	-	**87,125**

20. Accounting for financial assets and liabilities - fair values (continued)

As at 31 March 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Debt instruments at FVOCI				
Money market funds		7,000		7,000
UK gilts	6,559			6,559
Total	**6,559**	**7,000**	**-**	**13,559**

UK Gilts, Covered Bonds, Multilateral Development Banks and Government Sponsored Debt and RMBS are valued using quoted market prices and are therefore classified as Level 1 assets.

Money market funds are classified as level 2 as the unit price is dependent the observable prices of the underlying fund investment.

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.

21. Amortised cost assets: fair value

As at 31 March 2017	Carrying value £'000	Level 3 £'000
Assets		
Loans and advances to customers		
BSSL	32,724	32,724
Residential Mortgages	26,620	26,620
Structured Loan Note	39,865	39,865
Liabilities		
Customer Deposits	(538,060)	(542,717)

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

- The fair value of BSSL is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk. At the year end carrying value is equated to fair value as loans are variable and there were no significant changes in credit risk since origination.
- [illegible] currently provides mortgages with a fixed rate for a limited period after which the loan reverts to a standard variable rate. The fair value is estimated by reference to the market rate for similar loans of maturity equal to the remaining fixed interest rate period. As the average age of recognised mortgages was 12 days there were no significant changes in interest rate or credit risk since origination and as such the carrying value is equated to fair value.
- The Structured Loan Note was originated during the last week of March 2017. As a result carrying value has been assumed to equal fair value.

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

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

22. Market risk management

As a result of the assets and liabilities held, the Bank is exposed to market risk. This means losses could be incurred as a consequence of movements in market prices. These losses could impact on earnings and the value of assets, liabilities or reserves.

The only form of market risk exposure faced during the year was Interest Rate Risk in the Banking Book (IRRBB) and Basis Risk. All fixed rate cashflows, whether assets or deposits, have been hedged back to the Sterling OverNight Index Average (SONIA) by means of interest rate swaps. The SONIA rate is an overnight 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 the basis between SONIA and the Bank of England's Base Rate are minimal.

Key interest rate risk mitigations

Atom actively manages fixed rate exposures to a floating basis by means of interest rate swaps. Wherever possible, Atom uses micro hedges, which means the interest rate risk on an asset is matched against a liability of a similar tenor.

The Bank operates a structural hedge in which fixed rate exposures are held until maturity to counterbalance the Bank's equity.

Exposure to interest rate risk

Interest rate risk exposure is measured by calculating both positive and negative instantaneous shocks to interest rates on:

- Capital at Risk (CaR) is considered for assets and liabilities on each interest rate risk repricing periods, expressed as the net present value of the negative impact of a sensitivity test on Atom's capital position.
- Earnings at Risk (EaR) is considered for assets and liabilities on the forecast balance sheet over a 12 month period, measuring the adverse change to net interest income from a movement in interest rates.

Both CaR and EaR are controlled by Board defined risk appetite limits and supporting metrics.

The regulatory 'PV200' measure is a key metric that Atom calculates for the purposes of measuring its interest rate risk. The PV200 test assesses the change in the net present value of the Bank's net cashflows if market interest rates were to experience a parallel shift, both upwards and downwards, of 200 basis points. Since this is an improbably large market shift in the current interest rate environment, own in-house interest rate risk sensitivity assessments are also made. These comprise a 'PV100' (which is the same as the regulatory PV200, but using 100 basis points shifts) and also a measure of Net Interest Income (NII) sensitivity. The latter measures the change in NII over a 1 year time horizon in response to a 100 basis point shift in interest rates.

Basis risk positions are measured by netting off balance sheet positions with their corresponding derivative hedge positions and evaluating the magnitude of basis exposure gaps.

Net Interest Income sensitivity

Sensitivity analysis of NII is performed on the Bank's consolidated balance sheet. As at 31 March 2017, the projected change in NII over the next year due to an immediate parallel shift in all relevant interest rates would be an increase/decrease of £0.5m from a 100bps change in rates. The measure assumes all interest rates, for all currencies and maturities, move at the same time.

23. Derivatives

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. To date we have only entered into interest rate swap derivatives to manage our interest rate exposure.

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

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

Hedge accounting

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

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

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

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

The Bank holds a portfolio of fixed [illegible] deposits and [illegible] exposed to changes in fair value due to [illegible] market interest rates. The risk exposure is managed by entering into pay floating/receive fixed interest rate swaps.

The interest rate risk is [illegible] the change in fair value of the fixed rate deposits arising [illegible] changes in SONIA, the benchmark rate. [illegible]

[illegible]

23. Derivatives (continued)

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 in the hedged item and the hedging instrument will generally offset each other with changes in the floating benchmark over the life of the hedge relationship.

Ineffectiveness is expected due to:

- the mismatch in the maturities of the hedged item and hedging instrument (at most 15 days)
- the mismatch in interest accrual on the certain deposits that make up the Hedged item that accrue on a monthly basis compared with the hedging instrument that has an annual accrual. These sources of ineffectiveness are expected to be immaterial in value and have no material impact on the underlying economic relationship.

There were no other sources of ineffectiveness in these hedge relationships. The hedge ratio is expected to be 100% of the customer term deposits matched to 100% of the interest rate swaps assigned.

Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in Other Income.

The following table sets out the maturity profile:

As at 31 March 2017	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	Total £'000
Nominal value of derivatives held for hedging purposes		15,000	291,100	123,200	429,300

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

As at 31 March 2017	Nominal amount of the hedging instrument £'000	Carrying Amount (asset/(liability) £'000	Line item in the statements of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for 2017 (income/(charge)) £'000
Derivative liabilities: Interest Rate Swap	429,300	(124)	Derivative liabilities held for hedging purposes	(124)

23. Derivatives (continued)

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

As at 31 March 2017	Nominal amount of the hedging item £'000	Accumulated amount of fair value adjustments on the hedged item (asset/(liability) £'000	Line item in the statements of financial position where the hedging item is included	Changes in fair value used for calculating hedge ineffectiveness for 2017 (income/(charge) £'000
Fixed Rate Deposits	429,300	126	Customer Deposits	126

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 following table shows the impact of netting arrangements on derivative financial instruments reported net on the balance sheet.

As at 31 March 2017	Gross Amounts £'000	Amounts offset £'000	Net amounts reported on the balance sheet £'000	Cash collateral placed £'000	Net £'000
Derivative Financial Assets	132	(132)			
Derivative Financial Liabilities	(256)	132	(124)	280	156

The netting applies to [illegible] 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.

Capital

In order to protect customers as a regulated bank we are required to hold a minimal level of capital. To date this has been achieved through equity issuances to our investors. This also provides the investment to build and grow the Bank during our "start-up" phase. This section provides information on our share capital, retained earnings and other equity balances. It also provides a description of how we ensure sufficient capital is maintained in order to meet our regulatory requirements.

24. Managing capital risk

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

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

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

Key capital risk mitigations

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

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

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

The ICAAP assesses the Bank's Pillar 1 requirements using the Standardised and Basic Indicator approaches for respectively credit risk and operational risk capital, and determines additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. The Bank also holds Pillar 2B capital based on [illegible] the regulatory defined capital conservation buffer and countercyclical buffer.

A series of [illegible] stresses and scenarios [illegible] the business plan [illegible]

24. Managing capital risk (continued)

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

Key capital risk metrics

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

Capital metrics are monitored monthly to assess the current and projected position. Since base case projections are based upon future capital raises, an additional stressed projection is also produced which shows the potential capital shortfall in the event capital raises were to prove impossible.

During 2017 the Bank complied in full with all its externally imposed capital requirements. Note 27 provides information on capital and reserves per the IFRS balance sheet, with a reconciliation to the regulatory definition of capital.

25. Share capital and share 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) £'000	Share premium £'000	Preference shares £'000	Total share capital and share premium £'000
As at 1 April 2016	**74,573,229**	**1**	**54,996**	**-**	**54,997**
Issued during the year	108,679,008	1	112,864	-	112,865
Expenses of issue of shares		-	(544)		(544)
Issued to staff under share incentive plans	384,813		-		
As at 31 March 2017	**183,637,050**	**2**	**167,316**	**-**	**167,318**

	Number of shares	Ordinary shares (£0.00001 each) £'000	Share premium £'000	Preference shares £'000	Total share capital and share premium £'000
As at 1 April 2015	**27,135,090**	**-**	**15,557**	**50**	**15,607**
Issued during the year	47,438,139	1	41,873		41,874
Expenses of issue of shares			(2,434)		(2,434)
Redemption of preference shares		-		(50)	(50)
As at 31 March 2016	**74,573,229**	**1**	**54,996**	**-**	**54,997**

Ordinary shares have full voting rights attached save that irrespective of the number of shares held by funds managed by Woodford Investment Management Limited it will hold a maximum of 12.5% of the voting rights in the Company.

During the year 109m ordinary shares of £0.00001 were issued for £112.8m. At the balance sheet date existing investors had also subscribed for a further £48m of ordinary share capital, £14m of which were issued in April 2017. The remaining £34m will be issued in two tranches during the financial year ending 31 March 2018.

26. Other reserves

Other reserves of £8.0m (2016: £3.5m) primarily relates to equity settled share based payments of £7.8m (2016: £3.5m). See note 5 for further information.

	Group 2017 £'000	Bank 2017 £'000	Bank 2016 £'000
Fair value reserve	326	326	
Share based payment reserve	7,809	7,809	3,501
Other reserves and treasury shares	(136)		
Total other reserves	**7,999**	**8,135**	**3,501**

The balance also includes £0.3m (2016: nil) of fair value adjustments on assets held at FVOCI and treasury shares of £0.1m (2016: nil) relating to the EBT (see note 5 for further information).

27. Regulatory capital

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

	2017 (unaudited) £'000	2016 (unaudited) £'000
Shareholders equity per the statement of financial position	**103,946**	**29.296**
Regulatory deductions		
Intangible assets	(30,546)	(19,341)
Prudential valuation adjustment	(87)	
Common Equity Tier 1 (CET1) capital	**73,313**	**9,955**
Regulatory credit risk adjustments	295	
Total capital	**73,608**	**9,955**
Risk weighted assets	**157,394**	-
Common Equity Tier (CET1) ratio	**43.9%**	**25.2%**
Total capital ratio	**44.1%**	**25.2%**

The Bank continues to hold significant capital in excess of minimum requirements in advance of the growth of the lending book expected in 2018

Other notes

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

28. 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.
- IT Infrastructure: 5 years
- App Development: 7 years

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

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 Atom is expected to benefit.

28. Intangible assets (continued)

	Banking license £'000	IT infrastructure and software £'000	App £'000	Total £'000
Cost				
As at 1 April 2016	**887**	**12,889**	**6,050**	**19,826**
Additions		10,391	3,966	14,357
As at 31 March 2017	**887**	**23,280**	**10,016**	**34,183**
Accumulated amortisation and impairment				
As at 1 April 2016	**-**	**485**	**-**	**485**
Amortisation charge		**2,288**	**864**	**3,152**
As at 31 March 2017	**-**	**2,773**	**864**	**3,637**
Net book value				
As at 31 March 2017	**887**	**20,507**	**9,152**	**30,546**
Cost				
As at 1 April 2015	**990**	**1,266**	**1,440**	**3,696**
Adjustments	(111)	(12)		(123)
Additions	8	13,807	4,610	18,425
Write off		(2,172)		(2,172)
As at 31 March 2016	**887**	**12,889**	**6,050**	**19,826**
Accumulated amortisation and impairment				
As at 1 April 2015	**-**	**1**	**-**	**1**
Amortisation charge		886		886
Impairment Charge		(402)		(402)
As at 31 March 2016	**-**	**485**	**-**	**485**
Net book value				
As at 31 March 2016	**887**	**12,404**	**6,050**	**19,341**

During 2016, certain costs totalling £2,172k incurred in software development that had previously been capitalised have been written off. This followed a review by the Board of the various software components which concluded that components would not be used as alternative internally developed solutions would replace them.

29. Plant, property and equipment

Accounting for plant, property 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 25 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.

	Fixtures and Fittings £'000	Office and IT Equipment £'000	Total £'000
Cost			
As at 1 April 2016	**239**	**410**	**649**
Additions	150	353	503
As at 31 March 2017	**389**	**763**	**1,152**
Accumulated amortisation and impairment			
As at 1 April 2016	**28**	**137**	**165**
Depreciation charge	68	197	265
As at 31 March 2017	**96**	**334**	**430**
Net book value	**293**	**429**	**722**

	Fixtures and Fittings £'000	Office and IT Equipment £'000	Total £'000
Cost			
As at 1 April 2015	**159**	**243**	**402**
Additions	80	167	247
As at 31 March 2016	**239**	**410**	**649**
Accumulated amortisation and impairment			
As at 1 April 2015	**5**	**40**	**45**
Depreciation Charge	23	97	120
As at 31 March 2016	**28**	**137**	**165**
Net book value	**211**	**273**	**484**

30. Other assets

	Group 2017 £'000	Bank 2017 £'000	Bank 2016 £'000
Cash collateral	280	280	
Accrued income	48	48	
Settlement and clearing accounts	8,245	8,245	
Prepayments	2,723	2,723	2,445
R&D tax asset	50	50	
Loan to EBT		136	
Total other assets	**11,346**	**11,482**	**2,445**

Other assets include £8,245k of settlement and clearing accounts, the majority of which relates to mortgage loans where cash is being held in escrow before completion.

31. Other liabilities

	2017 £'000	2016 £'000
Accounts payable and sundry creditors	3,558	5,322
Accrued expenses	2,520	2,861
Cash settled share based payment liability	497	
Total other liabilities	**6,575**	**8,183**

32. Operating leases

Accounting for operating leases
Atom applies IAS 17 Leases, for operating leases. An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor.

Where Atom is the lessee rentals payable are recognised as an expense in the income statement on a straight line basis over the lease.

The Bank leases office premises and office equipment. With such operating lease arrangements, the asset is kept on the lessor's balance sheet and Atom reports the future minimum lease payments as an expense over the lease term. Some of these operating lease arrangements have renewal options and rent escalation clauses, although the effect of these is not material. No arrangements have been entered into for contingent rental payments.

	2017 £'000	2016 £'000
Not more than one year	191	165
Over one year but not more than five years	14	53
Total operating leases	**205**	**218**

Post year end, the Bank has entered into a commitment to sign a lease agreement for full occupation of the Rivergreen Centre subject to certain conditions being met by the lessor. The annual rent of the lease will be £650,000 per annum for a period of 10 years.

33. Related party transactions

Atom's related parties consist of key management personnel.

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

Executive committee	2017 £'000	2016 £'000
Wages and salaries	1,390	1,036
Share based payments	819	937
Pension costs	143	107
Total	**2,352**	**2,080**

Key management personnel are defined as those on the Executive Committee, excluding any Directors, for whom amounts have been separately disclosed below.

Directors emoluments	2017 £'000	2016 £'000
Wages and salaries	1,095	1,132
Share based payments	2,207	346
Pension costs	56	50
Total	**3,358**	**1,528**

Highest paid director	2017 £'000	2016 £'000
Wages and salaries	303	269
Share based payments	1,267	161
Pension Costs	23	20
Total	**1,593**	**450**

There were 2 directors (2016: 2) who accrued retirement benefits under the defined contribution scheme. No directors exercised share options during the year (2016: nil).

Share based payment costs increased as a result of grants in the Joint Share Ownership Plan (JSOP) during the year. Please see note [illegible] for further details.

Other than disclosed in these financial statements, there are no further related party transactions.

34. Investments in subsidiary undertakings

The following entities were consolidated by the Bank during the year:

Name	Relationship
Atom EBT Limited	Wholly owned subsidiary
Atom Bank Employee Benefit Trust	Employee Trust

Both entities are registered in England and Wales at the same address as Atom Bank plc, the ultimate parent.

Independent auditors' report to the members of Atom Bank plc

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's and the parent company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report (the "Annual Report"), comprise:

- the Group and Bank Statements of Financial Position as at 31 March 2017;
- the Group and Bank Statements of Comprehensive Income for the year then ended;
- the Group and Bank Cash Flow Statements for the year then ended;
- the Group and Bank Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law. In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the parent company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Atom Bank plc

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
5 July 201

Atom bank