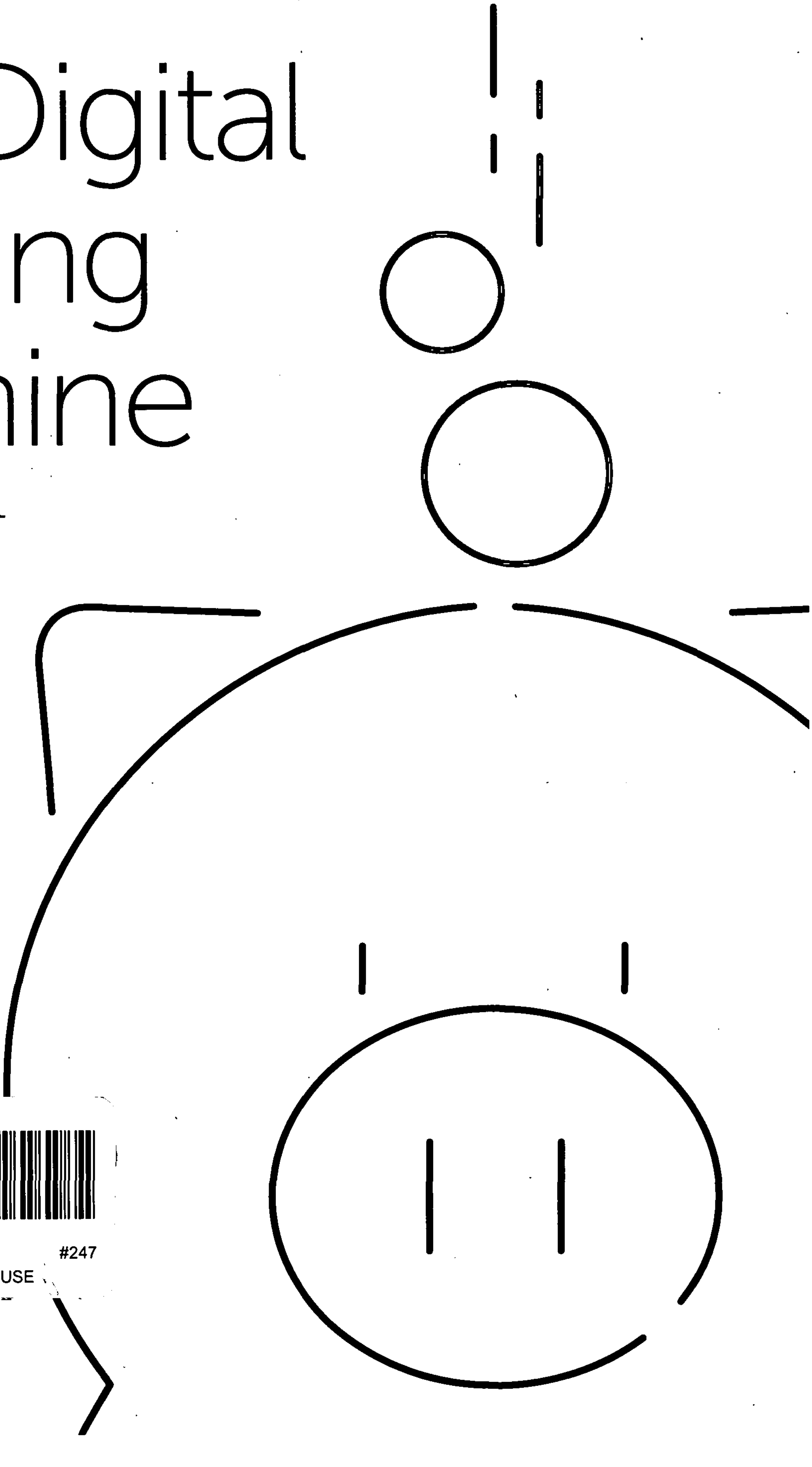
Atom

The Digital Banking Machine

Annual Report 2021



Registered office

Atom bank plc, The Rivergreen Centre, Aykley Heads, Durham, DH1 5TS

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

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

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

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

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

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

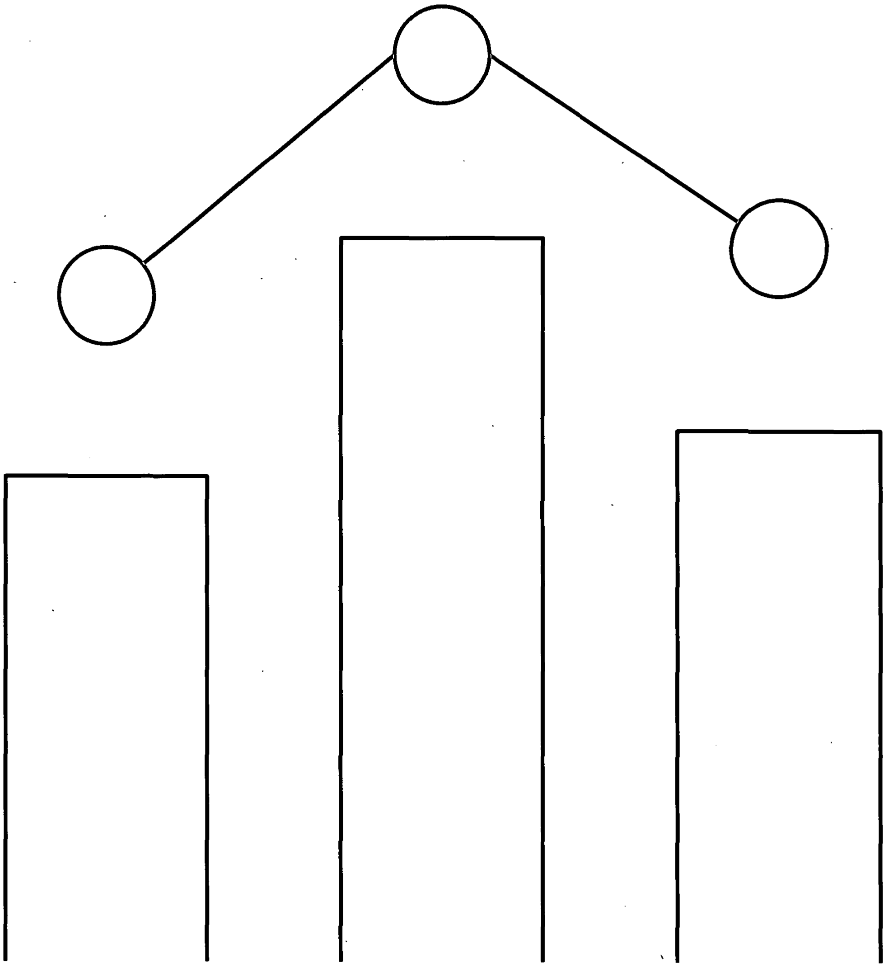
Forward-looking statements involve known and unknown risks and uncertainties because they relate to events, and depend on circumstances, that may or may not occur in the future and that may be beyond Atom's control. Forward-looking statements reflect the current views of Atom with respect to prospective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

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

References to "the year" and "2021" refers to the financial year from 1 April 2020 to 31 March 2021. References to "2020" refers to the financial year 1 April 2019 to 31 March 2020 and references to "2022" refers to the financial year 1 April 2021 to 31 March 2022.

What's inside

Strategic report



Our board of directors

Bridget Rosewell
Chairman

Mark Mullen
Chief Executive Officer

David McCarthy
Chief Finance Officer

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

Patricia Jackson
Chair of Risk Committee

Cheryl Millington
Non-Executive Director

Ergun Özen
Non-Executive Director

Gonzalo Romera Lobo
Non-Executive Director

Alicia Pertusa Santos
Non-Executive Director
(Appointed 14 May 2020)

Our Executive Management team

Mark Mullen
Chief Executive Officer

David McCarthy
Chief Finance Officer

Edward Twiddy
Chief Customer Officer

Stewart Bromley
Chief Technology Officer

Rachel McLauchlan
Chief Audit Executive

Chris Sparks
Chief Risk Officer

Laura Farnworth
General Counsel and Company Secretary

Marcus Mitchell
Director of Strategy

Chairman's statement

Bridget Rosewell, CBE

Chairman

Welcome to Atom

I'm immensely proud of the progress that Atom has made over the past twelve months and of the team (and teamwork) that has made it possible. We have laid the foundations to deliver our vision of changing banking for good; for the better; for everyone.

There are some particular milestones to which I would like to draw attention. The launch of our Instant Access Saver happened in September on our new platform and now has almost £1bn of deposits. We transferred our operations to the new banking platform without incident or accident. We have more than trebled our lending to businesses, partly through our accreditation to the government's Coronavirus Interruption Loan Scheme, (CBILS) and we are now accredited to take part in the recently launched Recovery Loan Scheme (RLS). As a result this has helped transform the balance sheet, and built strong momentum towards capital neutrality and breakeven during this calendar year.

These operational achievements have happened against the background of the most extraordinary year of my career. For most of the year our offices have been partially shut, our people have been working from home and planning for the future felt close to impossible. 20% falls in GDP almost became acceptable, in a context where previously a fall of 1% could trigger warnings.

A year later, we are beginning to wonder whether the new normal may ever exist, and indeed how like the old normal it might be. The economy is picking up and we are now watching for signs of inflation rather than signs of collapse. Truly we have lived through a period where the call 'Don't Panic' needed to be observed. Of course, it is not over yet. Some of our people want to get back to the office, some want to stay at home, and there may be further lockdowns to come.

Whatever happens, the bank will continue to focus on helping and serving people who want their own homes and want to build their businesses. To do this, we have created a digital banking machine to compete at the heart of the largest revenue pools in UK banking; providing us with the opportunity for rapid earnings growth and sustainable returns of 2-3 times higher than legacy banks. An important step towards this is reaching breakeven. We exit 2021 with strong momentum and expect to pass through breakeven on a monthly run rate during financial year 2022.

Capital and Our Shareholders

I am enormously grateful for the continued support of our investors, both large and small. In April 2021 we completed a capital raise of £40m, led by Toscafund and BBVA. This will be used to fund operations and grow our business lending proposition and net interest income so that future capital needs are focused on building assets rather than supporting operations.

Our largest investors have Board or observer rights and the benefit of associated information rights and so are engaged in key decision making. We hold regular informal catch-ups with major investors and issue quarterly updates, including commentary on financial performance, for all shareholders. Whilst the pandemic has impacted our ability to hold shareholder events in person, we recently held our first hybrid general meeting through the Lumi platform and are looking to continue using this mode of meeting given the benefits that it offers to those shareholders who cannot attend meetings in person.

Capital continued to be eroded by losses this year, however we expect to reach regulatory capital neutrality in the first half of 2022. Our current levels of capital can therefore support the Bank for at least a further 12 months as the going concern statement attests, and much work has been done to stress the robustness of this conclusion. Of course, to meet our ambition for growth and scale capability, we will be looking to add new capital in due course and are working with our advisers and shareholders to achieve this. We believe the significant progress made during this year will create a strong investment case in private and public markets in the coming years.

Our Board and Governance

I count myself fortunate in having a Board which is fully engaged, and willing to make active contributions to our debates. It is pleasing to report that the external Board Effectiveness review completed this year confirmed that view. Change is also inevitable as time passes and responsibilities change. Two of our earliest board members have moved on or are about to. Laurel Powers-Freeling, Senior Independent Director (SID), stepped down during the year, and I hope to appoint a replacement in the very near future. David Roper has taken over as SID and has been a great support. Patricia Jackson plans to step down after 7 years and a search for her replacement as Chair of the Risk Committee has started. Both have made significant contributions and were there when we were getting our banking license and creating the systems to allow us to open the doors. I will miss them and their counsel.

I hope that I can maintain gender balance in new appointments, though that is not easy in financial services. There have been two new female appointments to the Executive Committee and building that pipeline is so important to the future across the sector.

Over the coming year the Board will continue to focus on both immediate and strategic issues. The changing attitudes of customers and how they engage with us in the future will sit alongside our thinking about business resilience, cyber security and sustainability.

Our People, Our Community

Business starts and ends with people. I referred right at the beginning to the efforts of the team to deliver massive change through a pandemic. We don't know how the world will change again in the future and the order of the day must be 'flexibility'. However, humans generally prefer stability and to know where things stand. We are very proud of our culture where 'you can bring yourself to work' without fear and must maintain this while recruiting people at a distance and allowing different choices for different people.

Even when we are all at home – and I've been making it to the office as frequently as I've been allowed or it's possible – we are still a North East business. We support a series of initiatives to encourage diversity, such as Tech Mums, the Institute of Coding, Stemmetts, and the Tech Talent Charter. We're in our fourth year of Partnership with the Prince's Trust and also engage with other tech initiatives for the young such as Coder Dojos.

We offer internships and host some Incubators in our building but also support Durham activities from rowing to cricket, from books to poetry and families.

The Year Ahead

We are nearing the end of a critical period for the Bank. Completion of our technology replatform has facilitated the launch of new products and developments in the customer experience. Customer engagement and trust has remained strong throughout; and the Bank has made progress towards capital neutrality and profitability. The core of our digital banking machine is in place.

By this time next year, I hope to be reporting on how these foundations have further widened our offer to savers and borrowers, grown our customer footprint and brand, secured additional capital to fuel our rapid growth potential and are moving closer to our target level of sustainable returns. Recent history would suggest progress won't be linear, however I take great comfort from the flexibility within the Bank we have built and the fortitude and experience of our team to deliver.

Bridget Rosewell, CBE
Chairman

Chief Executive's review

Mark Mullen

Chief Executive Officer

Introduction

When I wrote my commentary for last year's report and accounts I little thought that a year on we would still be living in a form of lockdown. But here we are, albeit today perhaps looking more optimistically towards a post Covid-19 world. In these last twelve eventful months we have radically changed our operating model and at the same time driven a transformation both in our technology and in our finances. Many of the seeds for this transformation were sown back in 2018 and in 2019 but it's still taken enormous determination on the part of the Atom team to make it happen. The core of a new type of bank - the Atom digital banking machine - is now in place.

Business model and strategy

We believe that the established banking model is broken. It underperforms for all of its stakeholders - it disappoints customers, it antagonises regulators, it frustrates investors and it unnerves employees. By contrast, the Atom banking machine is self-served, digitally native, centralised and regionally head-quartered. Our strategy is to out-perform the existing banking construct both in terms of customer engagement and in terms of cost advantage and efficiency. This model is no longer theoretical, it is built and it is live.

Our customer experience credentials are already proven. We don't treat our customers as products – we know the difference between the two. They are not here to be 'flogged to'. We have outstanding ratings on Trustpilot, on the iOS and Android App Stores and we have impressive NPS metrics. Where we need to employ people to support our customers we have built an award winning team of knowledgeable and efficient colleagues.

Exceptional efficiency is part of our commitment to delivering the best possible experience to our customers but it also fuels the disruptive power of becoming the lowest cost producer and challenging the legacy banking model.

Here in the UK, banking revenues are driven by lending and costs are driven by transactions. In 2020, UK banks generated £45bn in revenues of which 77% came from interest income with only 13% coming from the fees and commissions associated with current accounts and credit cards. Generating those fees brings a major cost disadvantage - banks without current accounts are almost 25% more efficient than banks with, on a cost: income ratio basis.

That's why we're in no hurry to offer transactional banking products. We have the technology, we have the data management infrastructure and we have the payment scheme memberships but right now the economics simply don't appeal. We don't like the idea that our borrowers and savers will end up subsidising someone's free lunch. This happens too often in banking - it's symptomatic of a model in perpetual crisis.

Directing the energy and resources of our digital banking machine towards serving the needs of home and business owners allows us to leverage the full potential of the fintech revolution. Lending is the very heart and soul – and pocket book – of banking. We're here to disrupt that.

Our focus on efficiency and simplicity translates into a low-cost model which allows us to be competitive in the larger mainstream lending markets. Ultimately this will deliver attractive returns for investors which, alongside the potential for long-term growth, makes for a compelling investment case to current and future investors.

Trading

We have made strong progress in the development of our finances. For the full year we report underlying Net Interest Margin (NIM) of 54 basis points but we achieved 114 basis points in March and it's growing strongly still.

This momentum is important as we move from our current underlying operating loss of £36m (2020: £46m) and statutory loss before tax of £62m (2020: £66m) towards monthly break even during 2022.

We have achieved this improvement by bringing together a number of initiatives. On the funding side we diversified our savings range by introducing our instant access saver, we completed our largest securitisation transaction to date (£0.8bn of mortgages), and we managed our liquidity surplus carefully.

On the asset side, a strong focus on business lending saw balances grow from £240m to £662m. We delivered ahead of plan on our non-CBILS business secured lending before obtaining accreditation as a CBILS lender by the British Business Bank. We also partnered with Funding Circle to service CBILS backed unsecured SME loans, a relationship that we are pleased to develop into the future. After a short period of Covid-19 interruption, we returned strongly to residential mortgage lending where spreads have made a dramatic and for now, sustained recovery from the lows of 2019.

Facts & Figures

Closing Net Interest Income **114bps** 2020: 10bps	Total lending assets under management (AUM) **£2.7bn** 2020: £2.4bn
Underlying Operating Loss **£36m** 2020: £46m	Statutory loss before other charges **£49m** 2020: £57m
Trust Score **4.6/5** ★ Trustpilot	Cost: AUM ratio **1.72%** 2020: 1.65%

Trading (cont)

As a result we have transformed the income earning potential of our balance sheet and enter 2022 with a growth trajectory that should take us beyond 200 basis points. To ensure the sustainability of this performance we continue to invest in our products and capabilities.

We have just been accredited for the Government's Recovery Loan Scheme (RLS) and later this year we will implement our automated commercial loan underwriting platform, our near-prime mortgage offer and our execution-only mortgage beta. We have also continued to invest in our Advanced - Internal Ratings Based (IRB) capital treatment programme, now entering into its third year. With regard to savings, 2022 will see the launch of our Business Saver product and also an expansion of capabilities to help customers connect their savings with their ambitions and personal objectives.

While we continue to be loss making, the dynamics of the business have been transformed and we have developed strong momentum towards reaching breakeven on a monthly run rate during 2022.

Technology transformation

We have successfully completed commissioning our new banking technology stack. Running in Google's Cloud Platform (GCP), we have partnered with Thought Machine to deliver Vault, a cloud-native and smart contract based banking core and immediately put it to good use in launching our new Instant Access Saver. It's proved to be very popular with our customers and we are now fast approaching £1bn of savings balances. We have also successfully decommissioned our old stack and migrated all savings accounts and balances to our new platform – happily without incident!

We have also made some important improvements to our banking Apps, enhancing both their speed and usability and we now enjoy consistently positive reviews in both App Stores. In the months ahead our focus will be directed toward process automation and efficiency.

Our customers, our colleagues

More than ever we are convinced that our digital banking machine works for customers. When it comes to Trustpilot ratings we continue to be one of the highest ranked UK banks by providing fast, easy, transparent and good value customer experiences. As we cross into a new year our Trustpilot rating stands at 4.6, our Net Promoter Score at +76 and our App Store ratings average 4.5 across both iOS and Android. We also continue to win industry recognition and last year we topped the annual Dun & Bradstreet's Accelerate50 list for the first time.

It has been a challenging year for our people as we had to all but shut down our headquarters, and adapt to remote working. Last March, we took the difficult decision not to award employee bonuses and we did not offer any cost of living increases.

In spite of this we have continued to invest in our team through the development of career pathways so our people can shape their futures and personally grow in their roles. Throughout the pandemic we ensured our people and their families were supported, providing bespoke training and guidance in remote working and health and wellbeing, and increasing Mental Health First Aid support. In common with businesses everywhere we are developing a new Employee Value Proposition to accommodate the 'new normal' that is post Covid-19 flexible working.

Looking to the future

We leave 2021 with real momentum and intend to accelerate it during 2022.

Customers come first at Atom. Utilising our new technology capabilities we have an exciting roadmap, driven by the "voice of our customer" for our products and app features. We have plans to expand our proposition and to develop our brand by introducing direct to market lending products and a range of enhancements to our savings offer. We remain steadfast in our ambition to build the most efficient and engaging experience in banking.

We're also working hard to re-invent our employee work experience. We can take the best of home working and excise the 'muted' worst. At the same time we can reimagine the role of our headquarters and cut down further on our carbon footprint.

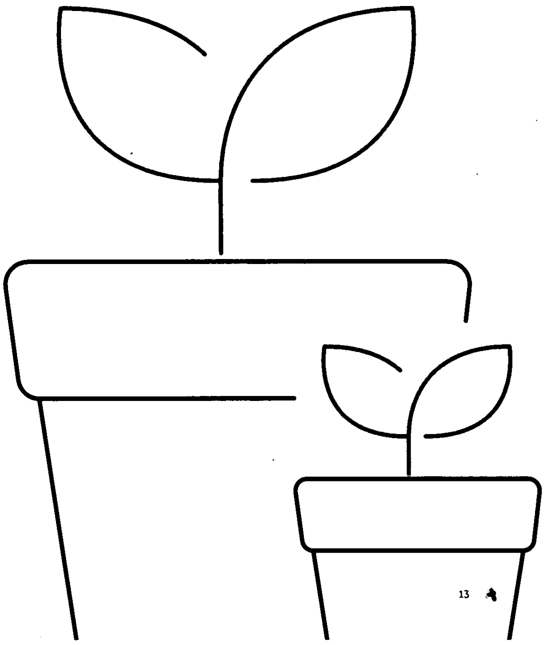
We will continue to prioritise revenue growth and cost discipline in our drive to breakeven and profitability, something that is now well within our grasp.

Thank you

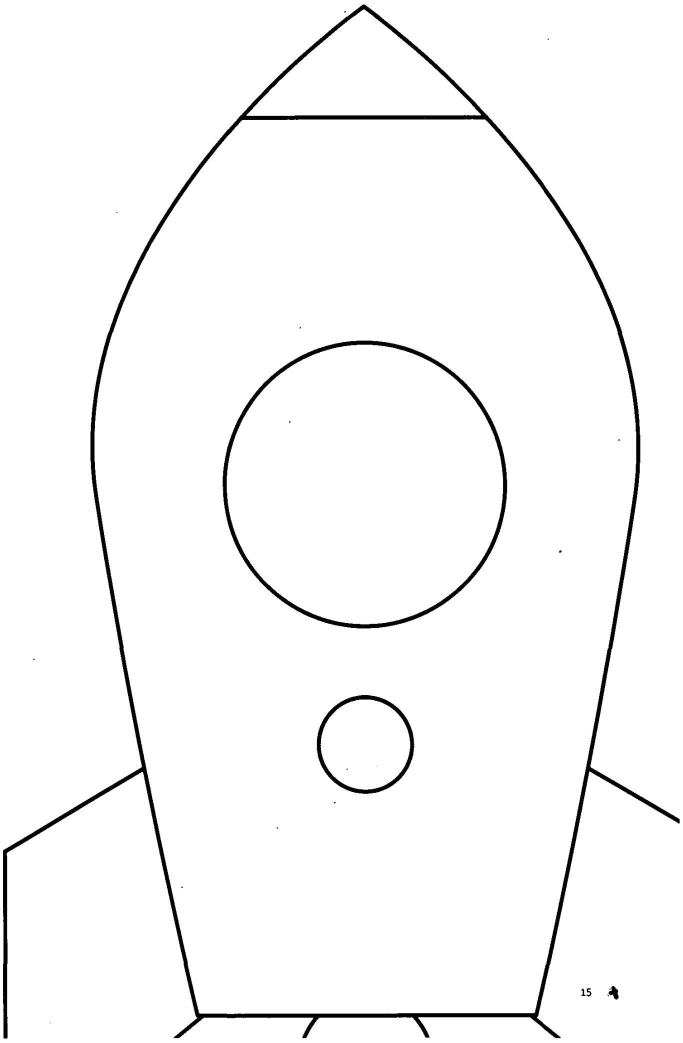
I am writing this at my desk in our headquarters in Durham. Lockdown rules permitting, we will start welcoming colleagues back to this building in greater numbers in the coming months. Whatever the many benefits of flexibility, it will be wonderful to see friends and colleagues back together after such a long hiatus. More than ever, I am indebted to my immediate team and to the wider Atom family. That we will emerge from this crisis stronger than ever is a testament to their wisdom and dedication.

Thanks also to our shareholders for their continued faith and encouragement and as always, to our customers without whose patronage nothing worthwhile is possible. These last months have been tragic and stressful. I know that I speak for the entire Atom family when I extend my sympathy to those who have lost loved ones to Covid-19 and my best wishes for a brighter future to everyone here in the UK and beyond.

Mark Mullen
Chief Executive Officer



Business model and strategy



Who we are

Our Vision

To change banking for good. For the better. For everyone.

We believe banking is an incredibly valuable industry for society as a whole. It allows people to buy their own home, start and grow their own business, keep their money safe and much more besides. But banks aren't working as well as they could, particularly for customers and investors. In founding Atom, we were motivated by an ambition to create a new type of bank.

We believe there is an opportunity to provide a better customer experience and better value products for customers than offered by legacy banks, whilst providing better returns for shareholders.

Our Focus

We help people who want to own their own homes and build their own businesses.

Over £30bn is spent running UK banks and building societies, yet remarkably the myth of 'free' banking still remains. Borrowers and savers are paying for much of the banking infrastructure that supports products they don't own or will never use. At Atom, we believe this creates an opportunity to disrupt the status quo.

By ruthlessly focusing on the biggest lending and deposit markets, we are able to offer a better deal for customers on the products that matter most to them and in turn, provide sustainable returns to our investors.

Our Advantage

We are aiming to be 3x more efficient, on a cost: asset ratio basis, and 4x more trusted than the legacy banks.

We are building a bank that is focused on combining an exceptional customer experience with exceptional cost efficiency. We design our customer interactions to be fast, simple, transparent and fair, cementing our reputation as one of the UK's most trusted banks.

High levels of automation and self-service are at the heart of our low-cost and scalable operating model as well as our customer experience, driving speed and giving greater control to our customers.

Our Customers

We have a globally recognised, award winning voice of the customer program.

Through this we are able to monitor a number of points where our customers come into contact with Atom and receive feedback on their experience along the customer journey.

We gather customer feedback across a number of channels: in app, via our website, and from interactions with our contact centre. Through partnerships with Trustpilot and Reevoo, and through app Store reviews, we can understand what customers are saying about their experience once they have purchased a product.

All of this feedback is used, with the help of AI, to understand and identify key themes which are used to identify any changes or improvements we need to make. That same information is then used to help prioritise those changes and then set about implementing them to make the things that really matter to customers better.

When it comes to new products, services and proposition designs we are able to go to customers directly, enabling us to further understand what they want and how best to deliver against those underserved needs, from a user centred perspective.

iOS 4.7
8,670k ratings*

Android 4.4
1,502k ratings*

Combined App Store = 4.5

NPS

Combined retail: (savings and mortgages)**
+76

Business:
+88

Trustpilot

Trust Score 4.6/5

Reevoo

Savings:
9.1/10

Mortgages:
8.8/10

*App Scores and ratings for financial year 2021.
**NPS for calendar year 2021 to date.

Our business model

We have developed a digital banking machine - One that is capable of rapid growth and massive scale whilst delivering an exceptional customer experience and generating sustainable and superior returns for our investors.

We are customer focussed

We are building a reputation for exceptional customer experiences. We design our customer interactions to be fast, simple, transparent and fair.

We have a highly automated and scalable funding model.

As a licensed UK bank we are able to access large and stable sources of funding from the UK deposit market. Today we offer Atom branded Instant Access and Fixed Term/Rate products to personal customers which gives access to a £1.1Tr market. The entire account opening and funding process is completed via the Atom app and is highly automated, meaning the funding model is highly scalable.

We complement our deposit funding by accessing various sources of wholesale funding. To date we have completed 3 securitisation deals under our Elvet programme, securitising £1.8Bn of mortgage assets. In addition, we are a participant in the Term Funding Scheme (TFS) and Term Funding Scheme with additional incentives for SMEs (TFSME).

We are focused on the largest mainstream lending markets

Our funding is used to lend to our target audience of homeowners and business owners, a market of £1.7Tr with annual new business flows in excess of £500Bn. We currently offer a range of Atom branded fixed rate term residential mortgages and secured commercial loans and intend to expand our range of products in the next financial year.

We currently access these lending markets by leveraging the distribution breadth of brokers and intermediaries. We also partnered with a non-bank lender to access specific market segments where we can see opportunities for attractive returns of capital.

We have a very experienced board and management team, with a deep core of banking experience. Alongside our well-established risk management and governance model, we are able to make capital allocation decisions nimbly, flexibly and safely.

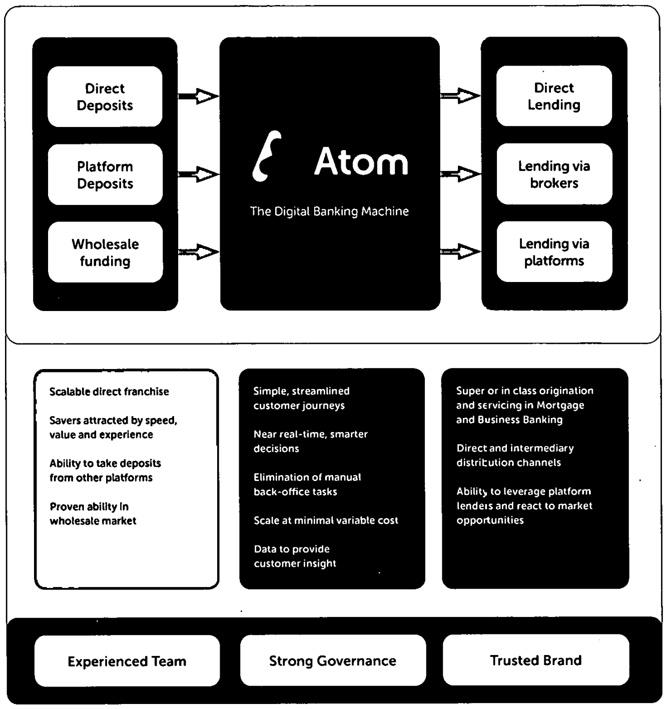
We are powered by modern, cloud native, digital systems and architecture

We've created an automated and highly-scalable technology platform to enable us to react quickly to market conditions and deliver straightforward products and services. Our technology platform provides a product agnostic, cloud native technology stack, capable of supporting a wide range of borrowing, savings and payments products.

We have a highly efficient and scalable operating model

Our operating model is built around the principle of customer self-service, automation and a small and centralised support model. This not only keeps operating costs low but also provides customers with the fast, simple and transparent experiences that drive trust and engagement. Furthermore, the inherent capacity within this model and the ability to scale the business at very low marginal costs is a key driver of shareholder value creation.

The digital banking machine



Our Strategy

We have developed a digital banking machine that is capable of rapid growth and massive scale, whilst delivering an exceptional customer experience and generating sustainable and superior returns for our investors. We have made excellent progress against our strategic objectives in 2021. Building on the successful implementation of our cloud-native technology platform, we launched our instant access saver and strengthened our App Store ratings across iOS and Android.

We completed our largest securitisation transaction to date and delivered impressive growth in our business and mortgage lending.

This generated strong growth in our Net Interest Margin (NIM). Alongside continued discipline with regard to cost management our current trajectory sees us achieving break even in the coming year.

Next year we plan to further expand our product range and to implement a range of initiatives to further enhance our automated origination and servicing capabilities. Building on our reputation for exceptional customer experience, we are developing tools to support a non-advised mortgage sales journey.

Our Strategy

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How we track progress

We measure cost growth compared to growth in revenues, to determine that the business improving its cost efficiency.

As a lending focussed business, we measure trends in our cost : lending assets under management ratio to monitor that cost efficiencies are materialising as the business scales its lending. This measure also provides a useful external benchmark to other banks and building societies.

We measure growth in operational headcount to monitor that the benefits of automation and self-service are being captured.

Progress in 2021:

- Operating costs grew by 18% compared to net interest income growth of 548%. A positive jaws ratio of 529%.
- Our cost: lending assets under management ratio was 1.7% this year. We expect further improvements during the next financial year with the scaling of the balance sheet.
- Operational headcount increased by only 13 during the year.

Our Strategy

We are customer focused

We are earning a reputation for exceptional customer experiences.

We design our customer interactions to be fast, simple, transparent and fair.

How we track progress

Ratings on the App Store and the Google Play store provide feedback on customer perceptions of the design and usability of the Atom app.

We have targets for monitoring the performance of our customer interactions in our contact centre. Primary measures include service levels and first contact resolution.

Existing customers rate their experiences on Trustpilot which provides a broader insight into customer's views on their experiences of Atom.

We conduct research surveys to establish a Net Promoter Score and compare this to published Net Promotor scores of other banks and building societies.

Progress in 2021:

- A regular programme of app updates saw improvements to speed and usability. Our app was rated 4.7* on iOS and 4.4* on Android as at 31 March 2021.
- Despite a rapid switch to remote working at the start of the financial year due to the coronavirus pandemic, we were able to maintain high contact centre service levels throughout the year.
- Rated 4.6 stars by customers on Trustpilot - the UK's highest rated bank as at 31 March 2021.
- Combined retail NPS score of +76, and business of +88 are significantly above the industry average.

Our Strategy

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How we track progress

During the year we migrated to our new banking platform, which will result in annualised cost of savings of >£2m as well as providing the foundations for rapid scale. Going forward we will benchmark the performance of our technology estate.

We monitor the growth in our deposit balances, which provide the foundations to support our lending activities.

We monitor the growth in our lending balances to demonstrate that we deploying our funding into interest earning loans and advances to generate revenues.

We monitor the growth in our net interest margin to evidence that we are improving the returns on our lending activity.

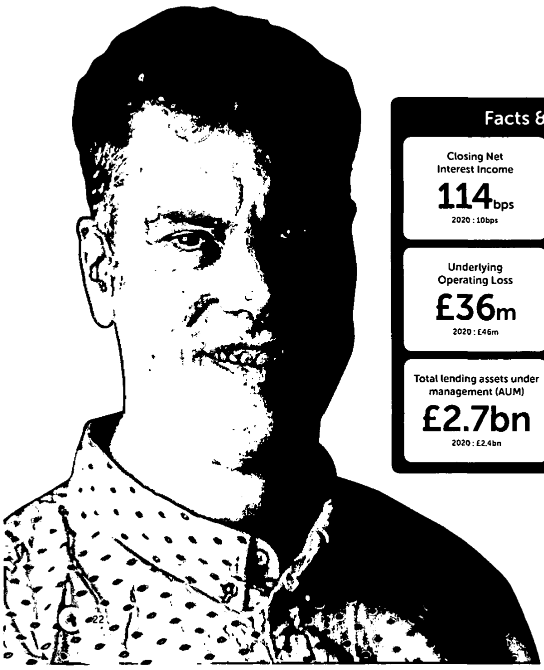
Progress in 2021:

- Launched instant access saver, with balances of £673m.
- Loans & advances to SMEs of £662m was 176% higher than 2020
- Closing underlying net interest margin of 1.14% in March 2021 was 1.04% higher than March 2020.

Financial review

David McCarthy

Chief Finance Officer



Facts & Figures

Closing Net Interest Income	Underlying Net Interest Margin
114bps	54bps
2020 : 10bps	2020 : 8bps

Underlying Operating Loss	Statutory Loss before other charges
£36m	£49m
2020 : £46m	2020 : £57m

Total lending assets under management (AUM)	Cost: AUM ratio
£2.7bn	1.72%
2020 : £2.4bn	2020 : 1.65%

The financial review provides a summary of our results and performance for the year.

Underlying performance measures, adjusted to isolate one-off or non-recurring items, are used by management and investors alongside statutory results to enable better year-on-year comparison and show business trends.

Net interest income has increased rapidly during the year, as the loan book has grown and cost of funds reduced. Run rate NIM for the final month was 114bps. This momentum is set to continue and transform financial performance in the future. This has driven a £10m improvement in underlying operating loss and a £8m improvement in loss before other charges to £49m

Statutory loss before tax for the year was £62m (2020: £66m), an improvement of £4m year on year. The difference between these two measures is principally explained by amortisation, depreciation and one-off items.

Net Interest Income (NII)

Underlying* **£15.2m** (2020: £2.3m)

Statutory **£12.0m** (2020: 0.5m)

NII has grown strongly throughout the year with run-rate at the end of the year considerably higher than at the start. The primary reasons for our NII growth are:

- Lending to business customers has increased 176% to £662m (2020: £240m), including higher yielding unsecured lending of £310m (2020: £0m).
- The launch of the Instant Access Savings (IAS) product, offered attractive interest rates to customers while reducing interest expenses relative to alternative sources of funds.
- Interest income contribution from the residential mortgage portfolio decreased following the derecognition of £0.8bn of loans as part of a deconsolidation securitisation transaction. This has been offset by NII from retained AAA rated notes.
- The yield on new mortgage lending has improved, particularly after the re-launch of lending to all customers for up to 90% LTV lending. This followed a period off-sale to new customers between March and October 2020, during which the Covid-19 pandemic prevented property valuations and loan completions taking place.
- Liquidity was managed within regulatory minimums effectively during the year but to a more optimised level. This has reduced the drag in NII associated with funding 'surplus' liquid assets.
- The Bank of England offered 4-year secured funding to banks via their TFSME. The scheme offered funding at a lower interest rates than available through retail deposits. Atom has drawn down on £336m of TFSME funds by the end of the financial year and expects to draw further amounts in the following financial year.
- Statutory NIM includes a charge of £3.2m (2020: £1.8m) due to volatility on derivative valuations. This charge is due to historic changes in market rates outside of our control and a result is excluded from underlying metrics. The fair value movement will unwind over the life of the relevant hedge item.

*A reconciliation between underlying and statutory is provided on page 24

Net Interest Margin (NIM)

Closing **114bps** (2020: 10bps)

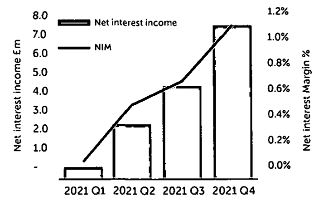
Underlying **54bps** (2020:8bps)

Statutory **42bps** (2020: 2bps)

NIM is calculated as NII divided by average total assets for the period over which it was generated.

Atom made strong and rapid progress in improving NIM during the year, closing at 114bps (March 2021 annualised).
That represents an improvement of 104bps when compared with the exit position for the previous financial year.

The chart shows the considerable momentum of NII and NIM development that Atom achieved during the financial year.



NIM improvement during the year resulted from net interest income growth, with total average assets remaining flat.

Credit impairment charge

£3.6m (2020: £5.8m)

Credit impairment charges of £3.6m (2020: £5.8m) have increased the provision held for expected credit losses to £10m (2020: £7m) as a result of business lending growth. The underlying quality of loan books remains strong with minimal signs of distress. However, post model adjustments (PMA) to reflect the continued economic uncertainty arising from the ongoing Covid pandemic continue to be held. These will remain under close review as the UK economy starts to recover and government support is removed.

Non-performing loans: proportion of book in arrears or forbearance	2021	2020
Residential	0.2%	0.0%
BBSL	0.8%	2.0%
BBUL	0.0%	-

The charge to the P&L for credit impairments has reduced to 0.13% (2021: 0.21%), following initial recognition of the Covid-19 PMAs in 2020.

Calculated as credit impairment charges divided by the average lending assets to which the charge relates over the period.

Atom was accredited as a lender under the CBILS during May 2020. £85m of secured business loans were advanced under the scheme plus a further £310m of unsecured CBILS loans in partnership with a non-bank originator. The partial government guarantee against credit losses associated with this scheme was also a driver behind the reduction in the charge to the P&L for credit impairments to 0.13% (2020: 0.21%).

Staff and admin expenses

£47m (2020: £40m)

The business model is built around the ability to scale lending and deposits without similarly scaling operating expenses or head count. Costs have increased by £7m in the year for the following reasons:

- During the implementation of our new banking platform, and migration of customers, expenses increased while both systems operated in parallel for several months. This increased costs by £1.8m.
- The opportunity to accelerate interest income via a partnership with a third party to originate and service unsecured business lending increased costs payable to third parties by £1.7m. This was comfortably covered by the associated income net of impairment charges.
- Staff costs in 2020 included a credit as a result of the Covid outbreak and associated decision to not pay staff bonuses and cancel the employee share buy back scheme. This has driven a year-on-year variance of £3.5m.

Year on year performance	
Income vs cost growth 'jaws' *Jaws is taken by deducting the rate of staff and administrative expense growth, 18%, from the rate of underlying net interest income growth, 548%, for the year.*	+529%
Assets under management *The metric includes assets that the Bank continues to service and maintain, but which are not recognised on the balance sheet.*	+13%
Retail deposits	+16%
Customers	+19%

Underlying Operating Loss

£36m (2020: £46m)

The underlying operating loss has reduced by £10m year-on-year. This results from strong underlying net interest income growth of £14m and an improvement in other income and credit impairment charges of £3m, offset by increases in staff and administrative expenses of £7m.

Adjustments between underlying and statutory results take place for the following items, because these transactions are not regarded as part of the underlying trading P&L:

For the year ended 31 March	2021	2020
Reconciliation between statutory and underlying	£m	£m
Loss before other charges	(49)	(57)
less: loss on sale of securitised mortgages	10	9
volatility from hedge accounting	3	2
Underlying operating loss	(36)	(46)

- A loss of £10m recorded on completion of a deconsolidation securitisation transaction. Completed in July, this transaction released £764m of loans from the balance sheet and reduced the capital requirement allowing these resources to be redeployed to support assets with higher yield characteristics.
- A charge of £3.2m (2020: £1.8m) within net interest income arose due to volatility on derivative valuations. This charge is due to historic changes in market rates outside of our control and a result is excluded from underlying metrics. The fair value movement will unwind over the life of the relevant hedge item.

Loans and advances to customers

£1.6bn (2020: £2.0bn)

New lending growth was offset by the derecognition of £764m of mortgage balances as part of a securitisation transaction completed in July resulting in a £0.4m reduction in loans and advances to customers. Total assets were held broadly flat year on year at £2.8bn (2020: £2.8bn).

AUM (lending assets under management, which include all assets that have been derecognised on securitisation) increased to £2.7bn (2020: £2.4bn).

Mortgages £1.0bn (2020: £1.7bn)

Lending to new customers was halted from March to October 2020 as a result of the ongoing Covid-19 pandemic: Early lockdown restrictions prevented property valuations and viewings, effectively closing the residential lending markets. Since then, there has been strong demand, with £288m advanced during the second half of the year.

In line with government guidance customers were offered payment 'deferrals' of up to 3 months. The vast majority of these customers have since recommenced regular repayments, and with no significant arrears or defaults during the year. The provision coverage rate for mortgages was little changed on the prior year at 0.05% (2020: 0.07%).

Business Banking Secured Lending (BBSL): £352m (2020: £240m)

The BBSL book grew 47% to £353m with £85m of lending protected by the CBIL scheme. As a result of the government guarantee supporting these loans, the provision coverage rate fell to 1.0% (2020: 2.1%). Underlying credit performance remains robust with less than 1% (2020: 2%) of loans in arrears or forbearance. No claims have been made against the government guarantee for loans in default.

Business Banking Unsecured Lending £310m (2020: £nil)

A partnership was agreed with a non-bank lender to originate and service unsecured business CBILS loans, to support SMEs further during the Covid-19 pandemic. £310m of loans were originated and held on the Atom balance sheet.

The unsecured loan portfolio tends to have higher credit risk characteristics than secured lending, as reflected by the 1.6% provision coverage ratio. Provisions recognised incorporates the government guarantee on 80% of the exposure. During the year, two claims have been made under the CBILS scheme for defaulted loans, with recoveries made in full.

Liquidity and funding - Cash and High Quality Liquid Assets (HQLA)

£495m (2020: £545m)

Atom held liquid asset resources to meet regulatory requirements. The Liquidity Coverage Ratio (LCR) at year end was 209% (2020: 764%). This continues to represent a prudent ratio but was tighter than last year as Atom reduced excess liquidity.

The source of the Bank's funding has changed during the year in order to optimise liquidity, utilising Instant Access deposits, at lower interest rates than the existing fixed rate savings products, and TFSME scheme funding. At year end these two lower cost funding sources contributed 36% of total liabilities.

Capital - Common Equity Tier 1 (CET1)

A second deconsolidation securitisation transaction was completed in July 2020. Derecognising £764m of residential mortgages previously recorded on the balance sheet reduced Risk Weighted Assets, and in turn regulatory capital requirements. Consequently, whilst an upfront loss was recognised, the capital deployed was released and made available for redeployment to support more profitable assets. Overall the securitisation and redeployment of the capital were value-adding in a market where capital was expensive to source.

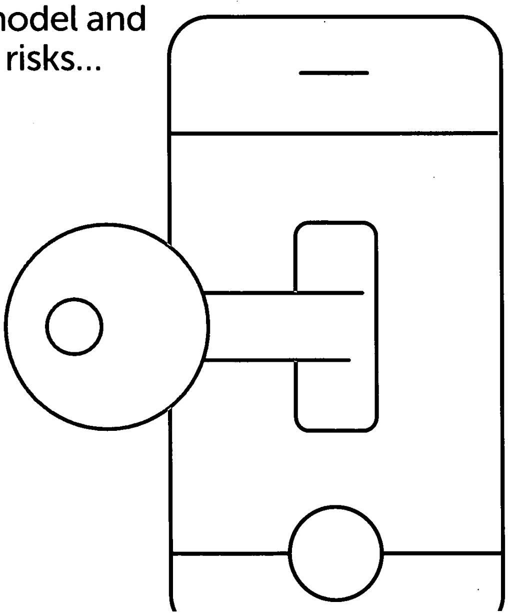
Capital ratios at year-end were as follows:

Common Equity Tier 1 (CET1)	15.3%	(2020: 18.6%)
Total capital ratio	16.4%	(2020: 19.5%)
Tier 1 leverage ratio	3.9%	(2020: 6.0%)

£40m of equity capital was raised after the year end, in April 2021, which has been used to continue to fund operating losses, to expand our business position and to grow the bank. Until Atom is generating operating profit and generating capital, the Bank remains reliant on further capital injections in order to execute the business plan and strategy.

Risk and governance

Our business model and strategy create risks...



Principal risks

Building and running a bank is a complex challenge. As a result, the risks our business faces are carefully monitored and managed. Atom's Enterprise Risk Management Framework (ERMF) includes the following 12 Risk Universe categories:

Strategic activity	Related risk	Key Mitigation
In order to accept deposits and lend to customers, banks are required to hold minimum levels of capital	**Capital Adequacy Risk.** The risk that Atom has insufficient quantity or quality of capital to support its operations	• At least annual assessment of capital requirements using the Internal Capital Adequacy Assessment Process (ICAAP) • Forward-looking capital adequacy is monitored to ensure resource consumption is effectively managed. • Periodic capital raises from investors and progression to break-even.
Running a growing bank in a competitive market place.	**Strategic risk.** The business could fail if management make poor strategic decisions, if decisions are not well executed, or if the strategy does not effectively respond to changes in the external environment.	• Alignment between strategic business planning activity and risk appetite. • Experienced Board and Executive leadership team supported by an established corporate governance framework. • Regular validation and review of business plan delivery.
Building a strong lending balance sheet.	**Retail Credit Risk.** There is a risk that customers to whom we have loaned money will default on their contractual obligations to Atom giving rise to financial losses.	• Defined risk appetite and limits are set out within the Retail Credit Risk Framework and Concentration Risk Policy. • Robust lending policies ensure that the credit quality within the diverse lending portfolios remain within risk limits and that we act as a responsible lender. • Collections policies ensure sustainable forbearance solutions to deliver fair customer outcomes whilst we rehabilitate accounts in financial difficulties. • Dedicated Credit Committee monitors credit metrics on a monthly basis. • Stress and scenario testing is performed regularly to ensure the portfolio is resilient to market wide and idiosyncratic events. • Policies in place to ensure that we deliver good customer outcomes for vulnerable customers.
A bank maintains liquid assets and relies on counterparties to manage its market risks.	**Wholesale Credit Risk.** The risk that a wholesale counterparty defaults on its contractual obligations to Atom giving rise to financial losses.	• Defined risk appetite and limits focusing exclusively on high quality credits. • Robust assessment framework for wholesale credit names. • Daily collateralisation of derivative and repurchase transactions exposures. • Daily monitoring of early warning indicators for potential deterioration of credit quality.
Liquidity is fundamental to a bank's credibility with customers and regulators.	**Liquidity and Funding Risk.** This is the risk that the Bank could fail to meet its obligations as they fall due.	• Maintaining and planning for access to additional liquidity facilities. • Daily measurement and frequent forecasting of liquidity position. • At least annual assessment of liquidity and funding requirements using the Internal Liquidity Adequacy Assessment Process (ILAAP).
Serving customers through lending and deposit taking exposes a bank to changes in market prices	**Market Risk.** Changes in market prices, for example interest rates, create the risk of financial loss through a reduction in earnings or change in the value of assets or liabilities.	• Defined risk appetite and limits are set out within the Risk Appetite Statement. • Exposures are mitigated through the use of natural offsets and derivatives.

Strategic activity	Related risk	Key Mitigation
Serving customers through lending and deposit taking exposes a bank to changes in market prices.	**Market Risk.** Changes in market prices, for example interest rates, create the risk of financial loss through a reduction in earnings or change in the value of assets or liabilities.	• Defined risk appetite and limits are set out within the Risk Appetite Statement. • Exposures are mitigated through the use of natural offsets and derivatives. • Daily monitoring and management of market risk positions.
A fully operational digital bank has a large number of complex processes and must be resilient to potential disruption.	**Operational Risk.** Inadequate or failed internal processes or systems, human error or external events, create a risk of direct or indirect financial loss and reputational damage. Operational Risk includes operational resilience.	• Policies and procedures covering our people, technology, security and third party relationships. • Key risks and controls are identified for all areas of the business as part of the Risk and Control Self Assessment (RCSA) process. • Business continuity and IT disaster recovery plans are refreshed and tested regularly. • Dedicated Operational Resilience Programme.
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.	• Robust Anti-Money Laundering (AML) systems and controls in place to onboard customers. • Policies and procedures ensure compliance with applicable regulations. • Mandatory training is provided to all staff Compliance Monitoring Plan regularly tests process adherence.
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 or markets can result in reputational and financial loss.	• Conduct Risk Policy sets the framework for the fair treatment of customers and the appropriate conduct of employees in line with the FCA's Conduct Rules. • Customer outcome focussed policies and procedures are in place covering product approval, change management, complaint handling, financial hardship and vulnerable customers. • Customer outcome measures are reviewed at key governance committees.
Building a strong brand with customers, the regulator and counterparties.	**Reputational Risk.** Damage to reputation and brand as a result of the actions of Atom itself, or indirectly via actions of employees, suppliers or other parties.	• Effective systems and controls in place to ensure high levels of customer service and compliance. • Use of customer feedback to inform our change agenda. • Monitor events with the potential to cause reputational damage.
Planning for the future using scenario analysis, together with financial, risk, statistical and economic models.	**Model Risk.** The risk that Atom makes sub-optimal decisions and/or suffers loss as a result of poorly specified, incorrectly implemented or inappropriately applied models.	• Model Governance Policy ensures a consistent approach to the development, validation, implementation and ongoing monitoring of models. • Model performance and review status is monitored at least monthly. • Independent Model Validation is performed by a specialist third party for high materiality risk models.
Collecting and using data in a secure and compliant manner to support the bank and its customers.	**Data Protection Risk.** Inappropriate collection, storage, security or use of personal data results in a breach of data protection regulation.	• Policies and procedures ensure compliance with all relevant data protection regulations. • Compliance Monitoring Plan provides assurance regarding data protection activities. • Atom's Record of Processing documents all data artefacts that exist within the business.

Atom also considers the impact of Climate Change Risk within the other risk universe categories.

Key and emerging risks

Atom maintains a register of its key and emerging risks. We monitor the key elements of our Risk Universe on an ongoing basis. This is integral to our approach to risk management and forms a cornerstone of our business planning activities, ensuring that strategies and activities are appropriately focussed on addressing these concerns.

The current risks are as follows:

Access to Capital

Capital raising is an integral part of Atom's strategy and we are working with existing and prospective investors to ensure that future raises are managed effectively and completed in a timely manner. We monitor capital consumption regularly and track against the forecast usage in the business plan to ensure we stay comfortably above regulatory minima.

Economic and Geopolitical Climate

The Covid-19 pandemic generated a sudden and unprecedented downturn in the economy. Concerns remain about the level of disruption that the wider economy, and financial services in particular, might experience including potential shocks that could lead to pressures on funding and a deterioration in Atom's credit risk outlook. This includes the impact on customers across both our Retail and Business Banking portfolio as government support schemes offered through the pandemic come to an end.

Credit Risk

The Covid-19 pandemic and the consequent slowdown of economic activity resulted in a sharp macroeconomic downturn. As restrictions are removed there are early signs of an equally strong recovery. In particular, the housing market is performing much more strongly than many forecasts issued during 2020 predicted. Several macroeconomic outcomes remain possible, with different severity and duration, and a number of these are likely to result in an increase in defaults. As government support schemes across both the residential and business banking portfolio come to an end, the impact upon our customers will continue to be closely monitored and assessed.

For those cases that fall into possession, any reverse in recent market performance that results in lower property prices will likely result in greater financial losses. This macroeconomic scenario has been incorporated into our latest stress testing and credit provisioning models to mitigate the possibility of this outcome.

Operational and Cyber Resilience

Effective operational risk management results in increased resilience to failures, however, Atom recognises that it cannot prevent all eventualities from occurring and that it must take steps to ensure failures are quickly identified and that adequate procedures exist to restore service as quickly as possible while minimising disruption to customers.

As a digital bank it is imperative that we have appropriate cyber security controls to protect customer data from loss or exploitation and in doing so avoid significant brand damage. As well as the due diligence, design and testing that contributes to building network and systems security, Atom operates perimeter controls to detect and prevent attempts to compromise systems.

Climate Change

Climate change risks manifest across multiple risk types such as credit, market, operational and conduct risk. For example, increased defaults may accrue due to the reduced profitability of certain industries and through higher unemployment levels resulting from transition risks. Whilst actual or increased potential for physical property damage may adversely affect both residential and commercial real estate prices thereby elevating levels of impairments and write-offs. In addition, the Bank's operational resilience may be impacted by damage to our own premises or via impacted travel links.

Atom has established a governance framework to ensure that the risks associated with climate change are deliberated at senior levels within the business. Our Board sets the overarching approach to managing climate change risk with periodic reports provided as part of the wider review of the business' risk profile.

Governance

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

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.

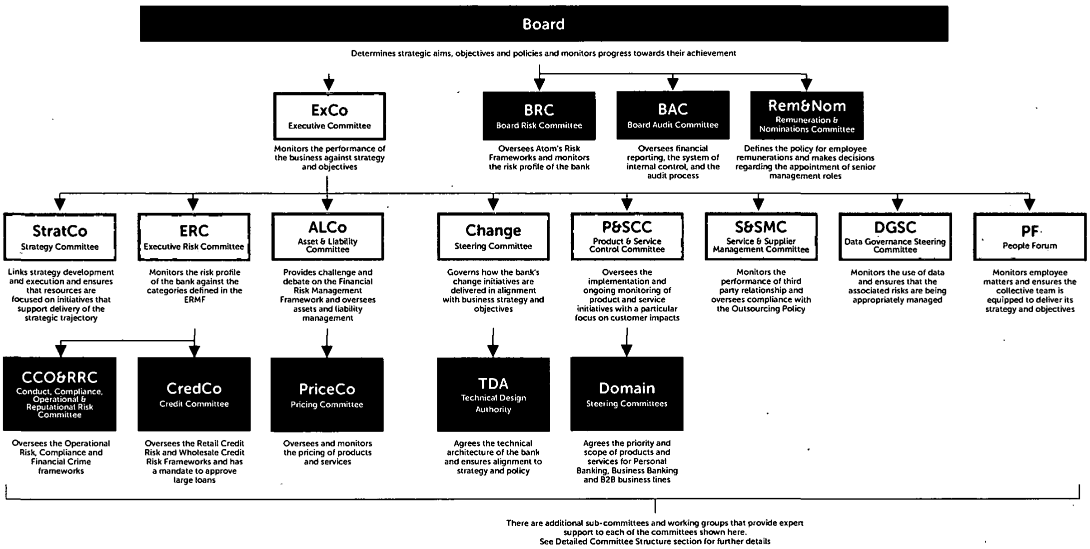
The success of the Bank is predicated on a framework of effective systems of internal control, risk management and compliance with regulatory requirements.

Effective governance is not achieved by one single committee or forum but rather a robust framework that is set out in the Atom Governance Manual. This is underpinned by structure, oversight responsibilities, talent, culture and infrastructure.

The governance structure for Atom comprises the following:

- A Board of Executive and Non-Executive Directors.
- An Executive Committee reporting to the Board.
- 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.
- Regular and transparent interaction with regulators.

Atom's Committees



Board Risk Committee

The BRC ensures the Bank's risk culture is appropriately designed by anticipating changes in business, economic, political and social conditions. The BRC is responsible for reviewing risk appetite and performance and the effectiveness of the risk management framework.

Board Audit Committee

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

Board Remuneration and Nominations Committee

The Board Remuneration and Nominations Committee's core role is to lead the appointment process for nominations to the Board and to assist the Chairman in keeping the composition of the Board under review. It also approves the strategy for personal remuneration of the Board and senior management.

Executive Committee

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

Enterprise Risk Management Framework

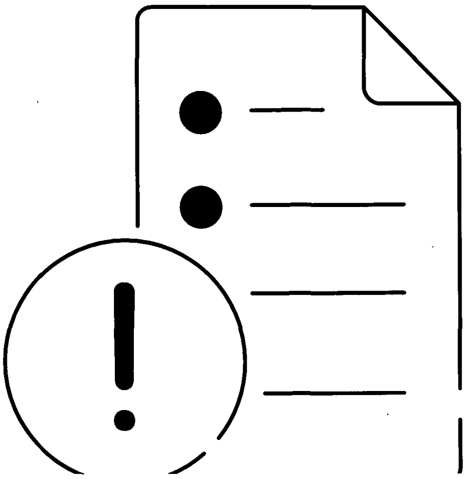
Within this governance structure, we have an effective risk management framework and team

Atom's Enterprise Risk Management Framework (ERMF) outlines our approach to risk management, and how the key risk types to which 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 objectives of the ERMF are to:

- Facilitate the delivery of Atom's risk strategy.
- Establish standards for the consistent identification, measurement, management, monitoring and reporting of risk exposures.
- Define the categories of risk to which the Bank is exposed.
- Provide an overview of Atom's key risk management frameworks and processes.
- Define the "three lines of defence" operating 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 to 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 BRC 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, which is 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, which provides independent assurance over the adequacy of first and second line activities in relation to all aspects of the business, including the effectiveness of risk management practices and internal controls.

Risk appetite

Atom's Board approved risk appetite defines the type and level of risks that the Bank is prepared to accept in pursuit of its business plan. The risk appetite is expressed in the form of a series of 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 above 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 end exposures please read our Pillar 3 Disclosures report, which is available at www.atombank.co.uk

Anti-bribery and corruption

We have created clear lines of accountability in relation to the prevention of anti-bribery and corruption, and it is embedded within the principles of our three lines of defence model. We have an Anti-bribery and Corruption Policy, owned by the second line financial crime team, which sets out our approach in relation to anti-bribery and corruption covering our customers, suppliers, and people. All of our people must complete our anti-bribery and corruption training modules at onboarding and refreshed on an annual basis.

Regulatory interaction

We are authorised by the PRA and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). We also work closely with a number of other financial and non-financial regulatory bodies, for example: Bank of England, Financial Ombudsman, Information Commissioner's Office (ICO).

We're committed to an open and collaborative relationship with our regulators. Our day to day interaction with our regulators is managed by our second line risk function and includes regular meetings with our management team as well as business updates, involvement in thematic reviews, and responding to regulatory consultation papers.

During the year, and as a result of the impact of Covid-19, the frequency of updates provided to the regulator has increased. During this period we have provided regular updates on our business, regular operational and financial metrics as part of the PRA management information template and also reporting on our involvement in the government schemes as a result of the pandemic.

Our People and environment

Anne-Marie Lister

Chief People Officer

Talent of the future - junior hires and apprenticeships

There are 423 people in the Atom family. This year we developed and hired 26 junior roles across all functions in the organisation. Atom remains committed to creating diversity, sustainable employment, and opportunity for everyone including those at the beginning of their career or who have made a career change.

The number of Apprentices has increased to 17 (2020: 6) and Atom remains committed to supporting the ongoing development of the wider team in the use of the Apprenticeship Levy.

Learning and development is provided to all people through the Atom Academy with specific 'Fundamentals' modules across a range of business skills for those who are newer to the world of work or banking.

Creating careers

It is important that opportunities are provided for all Atom people and that a career pathway is offered for those who would like to progress in their own development and ensure that as the organisation grows, that the skills and expertise in the business do too. In the last year Atom expanded the career pathways available within the Operations function and have introduced them into the Technology function specifically within engineering teams to structure skills development, progression, leadership and ultimately to help people shape their careers in their chosen field.

Health and well-being

The health and well-being of people and their families has never been more important. Throughout the pandemic and in support of the challenges posed by restrictions and remote working, Atom created various online support points with information, tools and techniques and advice that assists with health and well-being and which the team can access at any time of the day or night.

This included online self-isolation and home-working hubs, Atom active wellness information, mindfulness and meditation sessions as well as additional development that people could access in stress awareness and management, Health and Safety and First Aid at home.

Atom provides Mental Health First Aid (MHFA) support, including refresher training and support groups for MHFA and those who are working with and supporting employees with their immediate mental health needs.

Diversity and inclusion

Atom is a truly inclusive employer. The team is made up of talented individuals from a wide range of backgrounds and experiences. Whilst there are internal policies which outline the approach to equal opportunities and supporting those who may be disadvantaged, people are not segregated into defining groups. Instead, Atom has created an environment which is inclusive for all.

Work continues to address systemic diversity issues in the financial services and technology industries, however it has been difficult to source female talent in new technologies, particularly at senior levels. As a result women at Atom were paid almost 27.5% less than men this year (28% in the prior year). The investments made in training and promoting staff internally will take time to redress this pay gap.

Atom's societal activities focus on grassroots science, technology, engineering and mathematics (STEM) education and providing opportunities for young people through our partnership with the Prince's Trust.

Atom works closely with our regional universities and colleges to boost inclusion and career pathways in engineering, technology and the physical sciences for protected and under-represented groups across the UK.

Atom supports the Women in Finance Charter and Tech Talent Charter as well as a number of initiatives in the North East such as Tech Mums Club, Stemettes and TechUP to encourage diversity. Links are maintained with local universities and the Prince's Trust, which are aimed at encouraging diversity in STEM and providing opportunity for those who may never have imagined a career in Fintech is possible. You can read the full gender pay gap report at: *www.atombank.co.uk/gender-pay-gap*

Communication

Atom's culture of openness and transparency is facilitated by whole company Up 'n' Atom events in which information on the status and progress of the business is communicated as well as a being a celebration of our high achieving and hard-working team through peer nominations.

Our company newsletter, Inside Atom, is a monthly round up of key business projects and those who have worked on them to drive them to success and Instagram helps us communicate the lighter side of working at Atom with a focus on our family members.

The People Forum are a self-nominated group who work closely with the People Experience team in the development and people initiatives, testing out ideas and helping further share information and collect feedback from their teams ensuring that initiatives are fit for purpose and engaging.

Within the year we ran 2 People Surveys which covered all aspects of working at Atom, how people felt about a range of topics and what engaged them in their work and our business. The follow up of the survey included in depth analysis sessions with our Executive Team and Directors as well as updates to the Board. Focus groups took place in which senior members of the team met with smaller groups of employees to understand what was driving the results and how we could work together to continue doing the things we are good at, and generate ideas for any improvements that we wanted to make.

Our environment

Atom is focussed on effectively managing its carbon footprint by reducing absolute carbon emissions. The Bank has continued to invest in the energy efficiency of operations, sensitising direct procurement and management of outdoor space, and by consideration of the environmental impact associated with our lending policies.

Atom purchases all power for its headquarters, in Durham, from zero carbon suppliers, and some years ago decided to occupy a building with solar and biofuel heating and hot water systems. As a result of these investments, the use of fossil sources of carbon has been cut to a single back up system which is used only in the event of failure of the two biofuel boilers.

Atom consumed 203 megawatt hours (MwH) of energy during the year (2020: 358 MwH) as a business, or 47 tCO2e (2020: 92 tCO2e), a measure of greenhouse gas emissions. Emissions per FTE have reduced to 0.12 tCO2e per FTE equivalent during the year (2020: 0.26 tCO2e per FTE) because Atom employees have been working from home if they were able to safely do so *throughout the year.*

In addition to the continued sensitive maintenance of the grounds around the headquarters to support biodiversity, procurement of many raw ingredients for the café are from local, sustainable and organic farm gate suppliers. Travel to the workplace remains a source of pollution and Atom supplies free charging for electric vehicles on site, whilst promoting flexible remote working.

Our Values

Our values are integral to everything we do. They are an important part of our recruitment process, they frame our approach to personal development and performance, and are an integral part of our broader employee value proposition.

Be the Customer

- We are the customer
- We understand and we care
- We are open, honest and fair
- We listen and we act

Lead the way

- We are true to ourselves
- We do the right thing
- We appreciate individuality
- We stand up for what is right
- We are who we are,
- and we are proud of it

Always Up

- We are energetic and positive
- We are creative and ambitious
- We act with pace

Family

- We are in this together
- We engender alliance
- We engage, We connect
- We are fun
- We believe, We commit
- We are one

Directors' report

The Directors present their report and financial statements for the year ended 31 March 2021.

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 44 and 45 respectively. The directors do not propose to pay a dividend.

Directors

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

- Bridget C Rosewell CBE
- Mark T Mullen
- David J McCarthy
- Laurel C Powers-Freeling - resigned 12 September 2020
- Patricia D Jackson
- David Roper
- Cheryl Millington
- Ergun Özen
- Gonzalo Romera
- Alicia Pertusa Santos - appointed 14 May 2020

Auditors

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

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

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

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

Indemnity insurance

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during 2021 as the Company maintains Directors' & Officers' Liability Insurance which gives appropriate cover for legal action brought against its Directors.

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

Mark Mullen
Chief Executive Officer
30 June 2021

Section 172(1) statement

The directors have acted in a way that they consider, in good faith, to be most likely to promote the success of Atom for the benefit of its members as a whole, and in doing so had regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Bank's employees;
- the need to foster the Bank's business relationships with suppliers, customers and others;
- the impact of the Bank's operations on the community and the environment;
- the desirability of the Bank maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Bank

The Board engages directly with certain stakeholder groups when it determines that a decision would impact them significantly. It also meets regularly to review strategy, financial and operational performance as well as areas such as key risks and compliance. The information provided and discussed provides the ExCo with an overview of engagement with stakeholders, and other relevant factors, which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006. More information on how the board operates and the way it makes decisions is included on page 30 of our governance report.

Our Business model and strategy section (on page 17) explains how we consider our **customers** when making decisions, and why they are a key stakeholder

We consider **our people** to be key stakeholders. How they are considered when making decisions is explained in the Our People and and environment section (page 35)

How **Investors** are updated and considered when making key decisions is explained within our CEO and Chairman statements (pages 9 and 11)

The Risk and governance section of the annual report explains how our **Regulators** are involved and considered when making decisions, and why they are a key stakeholder for the Bank. (page 33)

Directors' responsibilities statement

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

Under that law, the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (Group) and international accounting standards in conformity with the requirements of the Companies Act 2006 (Bank). 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 consolidated and individual financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Group and the Bank has the resources to continue in business for the foreseeable future, which as a minimum is 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 financial position, capital resources and expected future cash flows. The base case forecast assumes Atom will enter into a number of capital transactions during the year, the first of which was completed in April. These transactions will fund asset growth and operating losses. The Bank forecasts that it will be generating income such that capital will not be required to fund operating losses during the second half of the year and will begin to generate operating profits towards the end of the year.

Projections under a range of stressed financial forecast scenarios have been considered, including the failure to raise sufficient capital on a timely basis, and significant increased variability in credit losses given the ongoing uncertainty associated with the Covid-19 pandemic. Were this to happen a series of actions can be taken by the Board including reduced or delayed asset growth and cost saving measures to reduce capital outflows and extend the period of compliance with minimum regulatory requirements. Based on this assessment and the actions available, the Board is satisfied that the business can continue for the foreseeable future.

Looking beyond the 12 month assessment period, further capital raises will be required to execute the Board's three-year plan to fund balance sheet growth, develop capabilities and generate trading profits.

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's 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:

Laura Farnworth

Company Secretary
30 June 2021

Financial Statements

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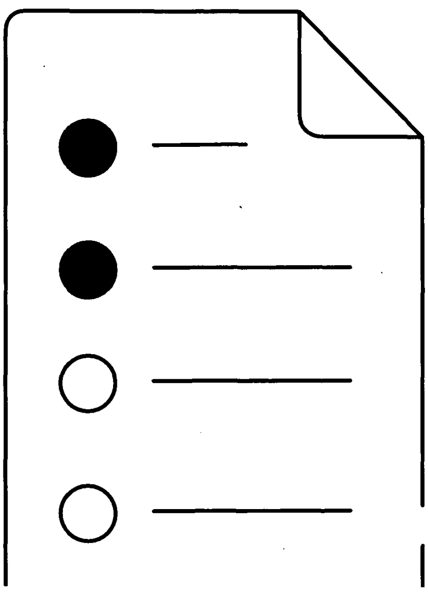


Primary statements

Notes to the Financial Statements

Performance

Lending and credit risk

Funding and liquid assets

Wholesale credit risk

Market risk

Capital

Other notes

Independent auditors' report to the members of Atom Bank plc

Statements of comprehensive income

For the year ended 31 March	Note	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Interest income		42,297	42,262	46,512	46,363
Interest expense		(30,314)	(30,199)	(45,973)	(45,135)
Net interest income	2	**11,983**	**12,063**	**539**	**1,228**
Net fee and commission expense		(782)	(1,072)	(2,440)	(775)
Loss on disposal of assets held at amortised cost	22	(9,241)	(9,241)	(9,074)	(9,074)
Other income/(expense)	3	188	188	(131)	(131)
Credit impairment charges and other provisions	4	(3,652)	(3,652)	(5,781)	(5,781)
Net operating (expense)/income		**(1,504)**	**(1,714)**	**(16,887)**	**(14,533)**
Staff costs	5	(24,183)	(24,183)	(20,554)	(20,554)
Administrative and general expenses	7	(23,103)	(22,946)	(19,371)	(19,210)
Staff and administrative expense		**(47,286)**	**(47,129)**	**(39,925)**	**(39,764)**
Loss before other charges		**(48,790)**	**(48,843)**	**(56,812)**	**(54,297)**
Amortisation, depreciation and intangible impairment	8	(10,443)	(10,443)	(7,156)	(7,156)
Platform transformation costs	36	(596)	(596)	(300)	(300)
Equity-settled share-based payments	5	(2,497)	(2,497)	(2,192)	(2,192)
Other charges		**(13,536)**	**(13,536)**	**(9,648)**	**(9,648)**
Loss before and after taxation	9	**(62,326)**	**(62,379)**	**(66,460)**	**(63,945)**

Other comprehensive income / (expense)				
Items that are or may be reclassified subsequently to profit or loss				
Movement in fair value reserve (debt instruments classified as fair value through other comprehensive income)				
- Net gain/(loss) in fair value	725	725	(305)	(305)
- Net amount transferred to profit or loss	(16)	(16)	129	129
Other comprehensive income/ (expense), net of tax	709	709	(176)	(176)
Total comprehensive expense attributable to equity holders of the parent	(61,617)	(61,670)	(66,636)	(64,121)

The result for the year is derived entirely from continuing activities.
The Group represents the consolidated results of the Bank and its subsidiaries.

Statements of financial position

As at 31 March	Note	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Assets					
Cash and balances at central banks	18	344,184	316,826	368,268	269,915
Debt instruments at fair value through other comprehensive income	18	151,052	151,052	176,733	176,733
Debt Instruments held at amortised cost	18	649,503	649,503	223,311	223,311
Derivatives held for hedging purposes (Asset)	26	4,058	4,058	736	736
Loans and advances to customers	11	1,638,851	1,638,851	1,970,818	1,970,818
Other assets	33	24,625	26,077	19,350	21,634
Property, plant and equipment	34	4,865	4,865	5,638	5,638
Intangible assets	35	35,889	35,889	36,646	36,646
Total assets		**2,853,027**	**2,827,121**	**2,801,500**	**2,705,431**
Liabilities					
Customer deposits	20	2,154,419	2,154,419	1,864,812	1,864,812
Borrowings from central banks	21	378,093	378,093	355,481	355,481
Deemed Loan	21	-	110,700	-	233,091
Debt securities in issue	21	141,357	-	333,789	-
Subordinated liabilities	21	8,180	8,180	8,166	8,166
Derivatives held for hedging purposes (Liability)	26	4,422	4,422	15,113	15,113
Provisions	36	197	197	2,752	2,752
Other liabilities	37	29,336	29,780	25,244	25,513
Total liabilities		**2,716,004**	**2,685,791**	**2,605,357**	**2,504,928**
Equity					
Share capital and share premium	30	448,935	448,935	448,935	448,935
Other reserves	31	21,164	22,627	17,958	19,421
Accumulated losses		(333,076)	(330,232)	(270,750)	(267,853)
Total equity		**137,023**	**141,330**	**196,143**	**200,503**
Total liabilities and equity		**2,853,027**	**2,827,121**	**2,801,500**	**2,705,431**

The notes and information on pages 50 to 131 form part of these financial statements. Unless explicitly stated notes are for both the Group and Bank. The financial statements from pages 42 to 131 were approved by the Board of Directors on xxx and signed on its behalf by:

Mark Mullen
Chief Executive Officer
30 June 2021

David McCarthy
Chief Financial Officer
30 June 2021

Company number 08632552

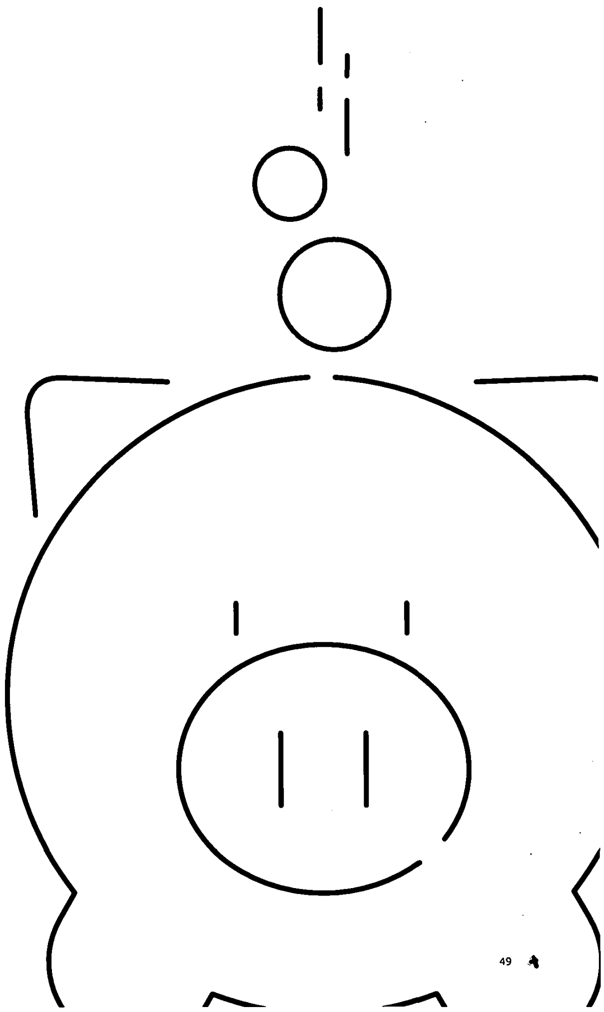
Statement of changes in equity

	Share Capital and share premium	Fair value reserve	Share based payment reserve	Other reserves and treasury shares	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Group balance as at 1 April 2019	**399,207**	**(257)**	**17,662**	**(886)**	**(204,290)**	**211,436**
Loss for the year	-	-	-	-	(66,460)	(66,460)
Fair value reserve (debt instrument) net of tax						
- Net gain in fair value	-	(305)	-	-	-	(305)
- Net amount transferred to profit or loss	-	129	-	-	-	129
Total comprehensive income/(expense)	**-**	**(176)**	**-**	**-**	**(66,460)**	**(66,636)**
Issue of new ordinary shares, net of transaction costs	49,728	-	-	-	-	49,728
Share schemes - value of employee services	-	-	2,192	-	-	2,192
Purchase of treasury shares	-	-	-	(577)	-	(577)
Group balance as at 31 March 2020	**448,935**	**(433)**	**19,854**	**(1,463)**	**(270,750)**	**196,143**
Loss for the year	-	-	-	-	(62,326)	(62,326)
Fair value reserve (debt instrument) net of tax						
- Net gain in fair value	-	725	-	-	-	725
- Net amount transferred to profit or loss	-	(16)	-	-	-	(16)
Total comprehensive income/(expense)	**-**	**709**	**-**	**-**	**(62,326)**	**(61,617)**
Share schemes - value of employee services	-	-	2,497	-	-	2,497
Group balance as at 31 March 2021	**448,935**	**276**	**22,351**	**(1,463)**	**(333,076)**	**137,023**

	Share Capital and share premium	Fair value reserve	Share based payment reserve	Other reserves and treasury shares	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Bank balance as at 1 April 2019	**399,207**	**(257)**	**17,662**	**-**	**(203,908)**	**212,704**
Loss for the year	-	-	-	-	(63,945)	(63,945)
Fair value reserve (debt instrument) net of tax						
- Net gain in fair value	-	(305)	-	-	-	(305)
- Net amount transferred to profit or loss	-	129	-	-	-	129
Total comprehensive income/(expense)	**-**	**(176)**	**-**	**-**	**(63,945)**	**(64,121)**
Issue of new ordinary shares	49,728	-	-	-	-	49,728
Share schemes - value of employee services	-	-	2,192	-	-	2,192
Bank balance as at 31 March 2020	**448,935**	**(433)**	**19,854**	**-**	**(267,853)**	**200,503**
Loss for the year	-	-	-	-	(62,379)	(62,379)
Fair value reserve (debt instrument) net of tax						
- Net gain in fair value	-	725	-	-	-	725
- Net amount transferred to profit or loss	-	(16)	-	-	-	(16)
Total comprehensive income/(expense)	**-**	**709**	**-**	**-**	**(62,379)**	**(61,670)**
Share schemes - value of employee services	-	-	2,497	-	-	2,497
Bank balance as at 31 March 2021	**448,935**	**276**	**22,351**	**-**	**(330,232)**	**141,330**

Cash flow statements

For the year ended 31 March	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Cash Flows from operating activities				
Loss for the year	(62,326)	(62,379)	(66,460)	(63,945)
Adjustments for non cash items				
Depreciation and amortisation	10,442	10,442	7,156	7,156
Impairment of intangible assets	-	-	-	-
Share option scheme reserves	2,497	2,497	2,192	2,192
Other non cash movements	1,306	1,307	(1,201)	(1,201)
Changes in operating assets and liabilities				
Loans and advances to customers	331,967	331,967	429,043	429,043
Customer deposits	289,607	289,607	93,691	93,691
Borrowing from central banks	22,612	22,612	44	44
Deemed loan	-	(122,391)	-	(131,113)
Debt securities in issue	(192,432)	-	(57,460)	-
Debt securities held at amortised cost	(426,192)	(426,192)	(223,311)	(223,311)
Repurchase agreements	-	-	(34,851)	(34,851)
Other assets	(5,275)	(4,443)	(2,465)	(3,703)
Other liabilities and provisions	1,653	1,828	6,661	7,063
Derivatives held for hedging purposes	(14,013)	(14,013)	5,749	5,749
Net cash (outflow)/inflow in operating activities	**(40,154)**	**30,842**	**158,788**	**86,814**
Cash flows from investing activities				
Acquisition of intangible assets	(8,641)	(8,641)	(13,105)	(13,105)
Acquisition of property, plant and equipment	(271)	(271)	(297)	(297)
Net maturity/(acquisition) of debt securities at FVOCI	25,681	25,681	(77,661)	(77,661)
Net cash (outflow)/inflow from investing activities	**16,769**	**16,769**	**(91,063)**	**(91,063)**
Proceeds from the issuance of ordinary shares, net of expenses	-	-	49,728	49,728
Purchase of treasury shares	-	-	(577)	-
Payment of Principal portion of lease liabilities	(699)	(699)	(717)	(717)
Net cash infrlow from financing activities	**(699)**	**(699)**	**48,434**	**49,011**
Net (decrease)/increase in cash and balances at central banks	**(24,084)**	**46,912**	**116,159**	**44,762**
Cash and balances at central banks at the beginning of year	368,268	269,915	252,109	225,153
Cash and balances at central banks at the end of year	**344,184**	**316,827**	**368,268**	**269,915**



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", "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 financial statements have been prepared in accordance with *International Financial Reporting Standards (IFRSs) as adopted by* the European Union (consolidated) and international accounting standards in conformity with the requirements of the Companies Act 2006 (individual). They are stated in pounds Sterling (£), the functional and presentational currency of Atom, and are rounded to the nearest thousand (£'000) unless otherwise stated.

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

c. Going concern

The consolidated and individual financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Group and the Bank has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, capital resources, cash flows and the strategy of the business. Further information is included within the Directors' responsibilities statement on page 41.

d. Consolidation

Atom controls an entity when it has power over the relevant activities of the entity, 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 ability, generally but not exclusively, accompanies a shareholding of more than half of the voting rights. The assessment of control is based on all facts and circumstances. Controlled entities are fully consolidated from the date on which control is transferred to the Bank and are deconsolidated from the date that control ceases. Inter-company transactions and balances are eliminated in full upon consolidation.

The consolidated financial statements have been prepared using uniform accounting policies and for the same accounting period as that of Atom Bank plc.

e. Presentation of financial statements

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria are met.

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

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

f. Cash and Cash Equivalents

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

g. Operating Segments

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

h. Financial assets and liabilities

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

(i) Recognition

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

(ii) Classification and measurement

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

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

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

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

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

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

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

(iii) Derecognition

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

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

i. Foreign currency translation

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

j. 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 or estimates are disclosed within the note to which they relate; credit impairment charges in note 11, and intangible assets for amortisation useful economic life (UEL) in note 35.

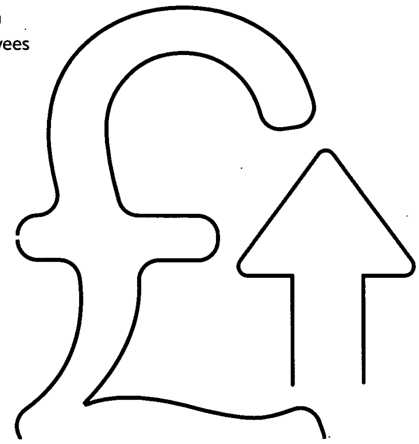
k. Changes to accounting policies and future accounting developments

There have been no changes to our accounting policies during the year. At the year-end there are no standards that were in issue but not yet effective, that would have a material impact on the Bank and Group.

Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7 will be effective for the accounting period commencing 1 April 2021. These amendments are not expected to have any impact, as Atom has no significant LIBOR exposures.

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 instruments we hold.
This income is reduced by the interest paid to customers on their deposits and on wholesale funding facilities which fund 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 / (expense)

Accounting for interest income and expense

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

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

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

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

	Group	Bank	Group	Bank
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Interest and similar income				
Loans and advances to customers	35,413	35,413	42,884	42,884
Other assets held at amortised cost	6,275	6,240	2,777	2,628
Assets held at fair value through other comprehensive income	477	477	986	986
Total interest income	**42,165**	**42,130**	**46,647**	**46,498**
Other similar interest	132	132	(135)	(135)
Total interest and similar income	**42,297**	**42,262**	**46,512**	**46,363**
Interest and similar expense				
Customer deposits	(26,049)	(26,049)	(35,533)	(35,533)
Other liabilities held at amortised cost	(4,263)	(4,148)	(10,429)	(9,591)
Total interest expense	**(30,312)**	**(30,197)**	**(45,962)**	**(45,124)**
Other similar interest	(2)	(2)	(11)	(11)
Total interest and similar expense	**(30,314)**	**(30,199)**	**(45,973)**	**(45,135)**
Net interest income/(expense)	**11,983**	**12,063**	**539**	**1,228**

Net interest income improved by £11.4m to £12.0m for the Group and £10.9m to £12.1m for the Bank. This includes a £3.2m charge (2020: £1.8m charge) due to volatility experienced on derivatives used to hedge the fixed rate mortgage portfolio. The improvement was driven by increased interest income from secured and unsecured business lending growth and stronger front book pricing. Interest expense was reduced due to the launch of an instant access savings product and subsequent lower customer deposit rates, and, and more efficient liquidity management.

Interest income and expense are both lower than prior year due to movement in rates, as interest is recorded net of hedge accounting adjustments for fixed rate lending and deposits. Refer to note 26.

3. Other income / (expense) cont

Accounting for other income / (expense)

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

Other income / (expense)	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Hedge ineffectiveness	(168)	(168)	(703)	(703)
Net income from mortgage hedging derivatives pre-designation	453	453	224	224
Derivatives in economic but not accounting hedges	(119)	(119)	271	271
Other Income	22	22	77	77
Total	**188**	**188**	**(131)**	**(131)**

4. Credit impairment charges

Accounting for credit impairment charges

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

Net impairment on financial assets	2021 £'000	2020 £'000
Movement in impairment provisions for:		
Mortgages	(217)	406
BBSL	(1,054)	5,120
BBUL	5,120	0
Impairment charges on loans and advances to customers	**3,849**	**5,526**
Provision charges on loan commitments for:		
Mortgages	3	(49)
BBSL	(244)	272
Provision charges on loan commitments	**(241)**	**223**
Credit impairment charge on debt instruments at amortised cost	4	6
Credit impairment charge on debt instruments at FVOCI	40	26
Credit impairment charges and other provisions	**3,652**	**5,781**

The £3.7m (2020: £5.8m) charge reflects the recognition of impairment provisions under IFRS 9 Financial Instruments. The charge for the year is predominantly due to growth in business lending. *Further information on the change in expected credit loss provision is disclosed in note 11.*

5. Staff costs

Accounting for staff costs

The Bank applies IAS 19 Employee benefits in its accounting for most of the components of staff costs. All employees in the Group are employed by the Bank.osts.

Short-term employee benefits

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

Defined contribution plans

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

Share based payments

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

Staff Costs	Group and Bank 2021 £'000	Group and Bank 2020 £'000
Wages and salaries	17,844	18,440
Social security costs	2,343	2,067
Contributions to defined contribution plans	1,939	1,658
Cash bonus and cash-settled share-based payments	2,057	(1,611)
Total staff costs	**24,183**	**20,554**
Equity-settled share-based payments	2,497	2,192

Wages and salaries of £17.8m (2020: £18.4m) are reported net of £2.4m (2020: £nil) of staff time capitalised, and net of £356k (2020: £nil) BCR funding released to the income statement to match eligible expenditure. The underlying increase of £2.2m is due to increased headcount for the year.

Cash bonus and cash-settled share based payments increased to £2.1m (2020: credit of £1.6m). The £3.7m variance relates the decision to make no bonus awards in 2020 following the Covid-19 outbreak, and to remove the option for employees to sell share options to the EBT.

Average monthly number of employees during the year	Group and Bank 2021	Group and Bank 2020
Executive	9	8
Business and customer operations	234	199
Administration	59	52
Technology	101	98
Total	**402**	**357**

The increase in average number of employees is due to the timing of new joiners during the prior year, where there was an increase of 50. During 2021 there was a further increase of 13, resulting in 423 (2020: 410) employees at year end.

6. Share based payment arrangements

Accounting for share based payments

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

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

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

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. The potential liability to pay Employers National Insurance Contributions on employee share options is recognised as a liability accrued in line with the vesting of the related share options.

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 Bank'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 2021 the Bank had the following share-based payment arrangements:

Scheme	Overview	Contractual life of options	Method of settlement
Build the Bank share scheme (BTB)	A one off scheme designed to reward staff involved in the earliest stages in the development of Atom.	10 years	Equity
Annual performance share scheme (APSS) – 2015 to 2021	Annual performance award. APSS17 to 21 includes a HMRC approved Company Share Option Plan	10 years	Equity
Long term incentive scheme (LTIP)	A retention scheme put in place for a limited number of senior staff.	10 years	Equity
Joint share ownership plan (JSOP)	This is an executive scheme implemented for a number of Atom's founders	10 years	Equity

Method of settlement

Following a modification to existing schemes in March 2020, all share options are equity settled only and there are no cash settlement alternatives.

Employee Benefit Trust

The Group acts as sole trustee to the EBT, which was set up to facilitate liquidity from the share options during previous liquidity events. Shares purchased by the EBT were not cancelled but have been retained in issue and represent a deduction from equity attributable to owners of the Parent. The EBT has been fully consolidated as the Group is exposed to its returns. No shares were purchased by the EBT during the year (2020: 470,975), and the loan advanced to the EBT remains at £1,463k (2020: £1,463k).

	BTB	APSS	LTIP	JSOP
Outstanding as at 1 April 20	**3,943,000**	**10,079,966**	**489,723**	**3,800,000**
Forfeited during the period	-	(43,488)	-	-
Exercised during the period	-	(63,000)	-	-
Granted during the period	-	2,298,624	-	-
Outstanding as at 31 March 21	**3,943,000**	**12,272,102**	**489,723**	**3,800,000**
Exercisable as at 31 March 21	3,943,000	9,069,235	489,723	3,800,000
Weighted average exercise price (pence)	35	0.001	66	0.001
Weighted average remaining contractual life	5 years	6 years	4 years	6 years
Fair value of share awards issued in 2021 (pence)	N/A	0.60	N/A	N/A

	BTB	APSS	LTIP	JSOP
Outstanding as at 1 April 19	3,947,000	11,396,048	521,667	3,800,000
Forfeited during the period	-	(186,395)	(31,944)	-
Exercised during the period	(4,000)	(1,129,687)	-	-
Outstanding as at 31 March 20	**3,943,000**	**10,079,966**	**489,723**	**3,800,000**
Exercisable as at 31 March 20	3,943,000	7,809,052	250,833	3,800,000
Weighted average exercise price (pence)	75	0.00	95	0.00
Weighted average remaining contractual life	6 years	7 years	5 years	7 years

The fair value of share awards issued in 2021 was estimated on the grant date using the Black Scholes Merton formula, and using the following inputs:

6. Share based payment arrangements cont.

Weighted average share price	60p
Exercise Price	0.001p
Expected volatility	38.51%
Expected life	2 years
Risk-free interest rate	0.10%

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.

Modifications to existing schemes

The exercise price of certain share options in the LTIP and BTB schemes were reduced during the year, to ensure that the options continue to act as reward and retention mechanisms as intended. The options have fully vested, and the life and number of options granted remains unchanged.

The incremental fair value measured at the modification date has been recognised as a credit to equity with the fair value immediately before and after the modification calculated using Black Scholes Merton formula, with the following inputs:

Weighted average share price	60p
Modified exercise price	0.001p (BTB), 60p (LTIP)
Expected volatility	38.51%
Expected life	2 years
Risk-free interest rate	0.10%

A charge of £1.2m was recorded as a debit to equity as a result of these modifications.

Share options issued for services provided

Atom engaged with a third party in 2018 to provide certain services where remuneration is partly paid in share options. All of the 3,550,000 options are fully vested and have an exercise price of £1.15 per share. The options have a contractual life of ten years and are equity settled. The fair value of the options when issued was 22p.

7. Administrative and general expenses

	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Administrative Expenses	929	929	1,219	1,493
Loan servicing expense	1,745	1,745	-	-
IT Costs	15,905	15,905	13,662	13,662
Marketing	720	720	1,574	1,574
Legal and Professional	2,831	2,674	2,141	1,706
Office and Premises	973	973	775	775
	23,103	22,946	19,371	19,210

Administrative and general expenses are recorded net of £770k (2020: £175k) of BCR funding held within other liabilities which was released to the income statement to match eligible expenditure.

IT costs of £15.9m (2020: £13.7m) includes the running costs of customer savings and lending platforms, customer contact systems, and IT infrastructure supporting back office functions. Costs increased due to operating two banking platforms in parallel as the bank migrated to the new Thought Machine platform.

Loan servicing expenses relate to fees paid to the non-bank originator of unsecured CBILS loans.

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

	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Audit Fees for the Group and Bank statutory audit	262	262	194	194
Fees payable for other services:				
Audit of Group Subsidiaries	44	-	42	-
Total audit and audit related assurance services	306	262	236	194
Other non-audit services	65	65	70	70
Total Auditors remuneration	371	327	306	264

Financial Statements

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

Accounting for amortisation and depreciation

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

	2021 £'000	2020 £'000
Amortisation of intangible assets	9,398	6,179
Depreciation of property plant and equipment	1,045	977
Total amortisation, depreciation and impairment	10,442	7,156

Amortisation of intangible assets was higher in 2021 as the build of new banking infrastructure was completed and became available for use.

9. Taxation

Accounting for taxation

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

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

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

	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Loss on ordinary activities before taxation	62,326	62,379	66,460	63,945
Standard rate of corporation tax	19%	19%	19%	19%
Expected tax credit	11,842	11,852	12,627	12,150
Items not taxable	182	7	(447)	30
Other temporary differences	(12,024)	(11,859)	(12,180)	(12,180)
Total tax credits	-	-	-	-

No corporation tax liabilities are payable or receivable from HMRC for the year (2020: Nil).

The Directors have concluded that it is not yet appropriate to recognise a deferred tax asset on the balance sheet. The majority of accumulated losses will be available to offset against future taxable profits, and the deferred tax asset will be recognised when it becomes probable that the Bank is expected to make a profit in the immediate future. The Board expects that this will occur in the next financial year, on successful execution of the current strategy as the Bank moves towards break even.

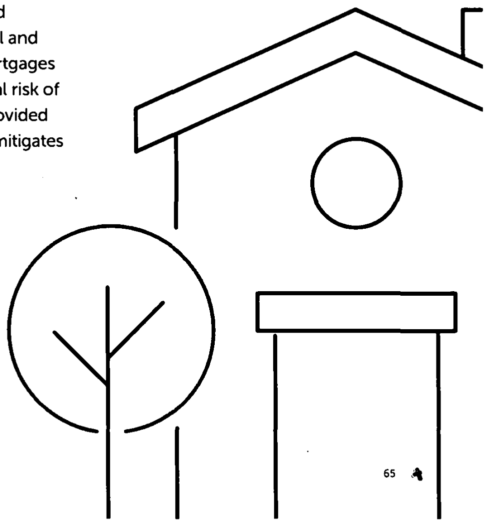
Were it to have been recognised, the deferred tax asset would have an estimated value of £62m (2020: £50m), being £302m (2020: £245m) of trading losses, £2m (2020: £19m) of deferred share scheme deductions and £1m (2020: £1m) of deferred interest deductions. Accelerated relief and untaxed amounts in relation to non-current assets of £2m (2020: £4m) is also not recognised. All these amounts are carried forward taxed at the expected rate of 19% (2020: 19%).

Following the UK budget of 2021, the chancellor announced an increase in the corporation tax rate from 19% to 25% from 2023. Should this rate have been substantively enacted at 31 March, the deferred tax asset would have increased by £19m.

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.

We currently provide secured and unsecured loans to small and medium enterprises and mortgages to individuals. As the principal risk of lending, disclosure is also provided on how Atom manages and mitigates credit risk.



10. Managing credit risk

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

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

The outbreak of the Covid-19 pandemic and resulting impact on the lives of people and businesses is having a profound impact on the management of credit risk. Throughout the crisis, the Bank has looked to support existing and new customers:

- In line with regulatory guidelines, offered payment deferrals to existing customers.
- Joined CBILS in April 2020 to provide secured loans to new and existing business customers. CBILS attaches a partial (80%) government guarantee to loans made under it.
- Entered a partnership to offer SMEs unsecured loans under the CBIL scheme.
- Once lockdown restrictions facilitated the completion process, re-entered the mortgage market and were one of the first banks to offer higher LTV products.

This activity was facilitated by detailed consideration of the impact the pandemic could have on the credit risk being underwritten. Given the unusual circumstances and hence range of potential outcomes, prudent assumptions were used in the forecasting process and assessments taken through governance. These were also applied when monitoring existing risk in the back book and provided a sound background when assessing the IFRS 9 credit provisions.

Retail Credit Risk Management

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

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

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

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

Retail Credit Risk Mitigation

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

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

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

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

All lending decisions are predominantly based on an obligor's ability to repay rather than reliance on the disposal of any security provided. For every loan application a detailed affordability assessment based on provable income or business earnings and a stressed interest rate is conducted to establish the maximum loan size available. In view of the importance of affordability, Atom introduced a number of temporary policy changes in response to Covid-19; for example, specific rules on the treatment of furlough income.

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

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

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

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

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

Atom uses an IRB-type suite of probability of default (PD), exposure at default (EAD) and loss given default (LGD) models to assess the ongoing risk of loss for all mortgage loans. This information is utilised to support portfolio management, including post contract variation and collections activity.

11. Loans and advances to customers and expected credit losses

Accounting for lending and credit risk

i) Classification and Measurement

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

- As core products to Atom's retail bank strategy the business objective of the lending is to hold the asset to collect contractual cash flows to maturity. Any sales via securitisation are to manage short term capital or liquidity requirements as the Bank progresses to scale and profitability. The Bank's strategy remains unchanged, with loans originated to generate economic value via interest rather than 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 raise to significant other cash flows.

ii) Impairment

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

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

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

ECL model

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

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

Determining a significant increase in credit risk since initial recognition

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

- Mortgages absolute: 30 days past due or unsatisfied CCJ / default on the customer's credit file since inception date (i.e. including credit events with other organisations).
- Mortgages relative: a two-fold increase in probability of default (PD) since origination with a minimum 0.5% increase.
- BBSL and BBUL absolute: 30 days past due.
- BBSL and BBUL relative: moved to watchlist. Numerous quantitative and qualitative watchlist factors are monitored including changes in bureau score, formal credit actions (e.g. winding up orders, CCJs, meeting of creditors), adverse changes in financial performance, and changes in directors. Current and forecast adverse changes in the customer's geographical location and sector are also considered.

Due to a lack of historic trading data the stage transition criteria were originally set using industry level data. These are now validated on an annual basis using a combination of internally available data, purchased data and industry level benchmarking.

Forecast economic data

IFRS 9 requires ECL to reflect a range of possible outcomes and considering a range of future economic scenarios. The Bank utilises an independent economic consultancy to calculate its base and alternative scenarios on a quarterly basis. Three alternative scenarios are calculated from a range of economic variables that are stressed around the base case.

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

While all forecasts of economic data involve judgement, the impact of the Covid-19 pandemic has added increased uncertainty and volatility of outcome. In particular the effect of government restrictions, large scale government interventions, and changes in the behaviour of individuals are likely to have a prolonged impact on economic performance. The base case scenario includes the following key assumptions:

- The government's schedule for easing national lockdown announced in February 2021 goes ahead as planned.
- The unemployment rate is expected to peak at 7.5%, with the furlough scheme extension having the effect of delaying the peak into the third quarter of the calendar year 2021.
- Bank Rate remains at extremely low levels for the foreseeable future.
- Credit conditions tighten, but a full-blown "credit crunch" is avoided.
- The hit to the labour market and investment results in long-term scarring to the economy.

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

	2021				2020			
	Upside	Base	Downside 1	Downside 2	Upside	Base	Downside 1	Downside 2
Scenario weighting	10%	25%	50%	15%	40%	25%	30%	5%

The current year weights reflect the greater uncertainty created by the Covid-19 pandemic. Due to the immediacy of the 2020 year end to the start of the outbreak, this uncertainty was reflected via a separate post model adjustment.

11. Loans and advances to customers and expected credit losses cont.

The following table presents the forecasts used in 2021 by year:

	2021	2022	2023	2024	2025
Upside					
BoE Interest rate	(0.2%)	(0.3%)	(0.3%)	(0.3%)	(0.2%)
House price index	113.7	116.8	123.3	129.9	136.4
Commercial real estate index	95.5	99.4	102.1	104.1	104.7
Unemployment rate	6.1%	5.5%	4.4%	3.8%	3.6%
Base					
BoE Interest rate	0.1%	0.1%	0.1%	0.1%	0.2%
House price index	112.9	114.2	118.6	123.3	128.2
Commercial real estate index	89.7	95.2	97.1	98.6	99.2
Unemployment rate	6.6%	6.1%	5.0%	4.5%	4.3%
Downside 1					
BoE Interest rate	0.3%	0.5%	0.7%	1.1%	1.2%
House price index	112.5	112.9	116.0	119.5	123.1
Commercial real estate index	86.1	90.5	92.2	93.3	93.8
Unemployment rate	6.8%	6.5%	5.6%	5.1%	5.0%
Downside 2					
BoE Interest rate	0.6%	1.2%	1.6%	1.7%	1.8%
House price index	109.8	107.6	106.9	106.9	106.5
Commercial real estate index	45.0	46.1	51.8	61.4	70.9
Unemployment rate	7.7%	7.6%	6.9%	6.6%	6.7%

Definition of default and credit impaired assets

Atom's default definition is aligned to EBA guidelines and utilises a wide range of criteria. 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.

Forbearance and modifications to loan

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

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

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

As part of the response to Covid-19, payment deferrals were granted to customers, for a period of up to 3 months at a time. These are not considered to result in a substantial difference to the original terms, and the present value of the revised expected cash flows are not materially different to the original cash flows; therefore these have not been treated as modifications. In total 750 Mortgage customers and 234 BBSL customers took Covid-19 payment deferrals. By the year end, almost all had returned to normal payments terms with only 37 remaining / moving into forbearance.

Write off policy

A loan is written off, either partially or in full, against the related provision when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised directly in the income statement. There have been an insignificant number of write offs during the period.

Covid-19 post model adjustments

Due to the continued uncertainty the Covid-19 pandemic is having on the global and UK economies, and the ongoing government support available which might be masking underlying customer behaviour, the following PMAs have been recognised to estimate the impact on the IFRS 9 impairment.

LGD assumptions
Given the increased uncertainty on the impact of the pandemic on residential and commercial property, which was not deemed to be fully reflected in the downside scenarios, downturn parameters were used for forced sale discount (FSD) and the probability of possession given default (PPD). This increased the applied range of FSD to 20-49% and PPD to 16-64% and as a result increased the year end provision by £4.6m.

Identification of higher risk customers
Covid-19 and resulting economic impacts have had a larger effect on certain sectors and businesses. To recognise this higher risk a PMA based on reclassifying customers in higher risk grades (7 and 8 for BBSL, or B and C for BBUL) within sectors considered to be significantly impacted by the pandemic (hospitality, retail, care homes) is held. This increased the year end provision by £0.4m.

Mortgage customers in medium risk grades (5 and 6) with a higher LTV (over 85%/75%) were also reclassified into stage 2 resulting in a PMA of £0.1m (2020: £0.2m).

The following table summarises lending for the Group and Bank as at the year end by IFRS 9 impairment stage and the related provision:

	BBSL	Mortgages	BBUL	Total loans and advances to customers
At 31 March 2021:	£'000	£'000	£'000	£'000
Gross carrying amount:				
Stage 1: 12 month expected loss	310,824	926,067	277,017	1,513,908
Stage 2: Lifetime - loans not credit impaired	37,800	47,197	32,992	117,989
Stage 3: Lifetime - credit impaired loans	3,354	3,289	149	6,792
Total gross carrying amount	351,978	976,553	310,158	1,638,689
Fair value adjustment*	-	6,172	-	6,172
Effective interest rate adjustment	-	3,610	119	3,729
Total gross carrying amount including valuation adjustments	351,978	986,335	310,277	1,648,590
Less expected credit loss provision:				
Stage 1: 12 month expected loss	(1,842)	(157)	(3,878)	(5,877)
Stage 2: Lifetime - loans not credit impaired	(1,245)	(223)	(1,178)	(2,646)
Stage 3: Lifetime - credit impaired loans	(989)	(197)	(30)	(1,216)
Provision for on balance sheet impairment losses	(4,076)	(577)	(5,086)	(9,739)
Net balance sheet carrying value	347,902	985,758	305,191	1,638,851
Loan commitments				
Gross Commitments	74,998	118,697	-	193,695
12 month expected loss provision	(38)	(29)	-	(67)
Total credit impairment provision	(4,114)	(606)	(5,086)	(9,806)
Total coverage ratio	0.96%	0.05%	1.64%	0.53%

*The fair value and effective interest adjustment have not been allocated across IFRS 7 credit risk disclosures as the impact is not deemed to be significant.

Mortgages

Fixed rate mortgage products are offered to customerst via brokers. The portfolio reduced by £0.7bn to £1.0bn, predominantly due to the sale of £0.8bn of mortgages following completion of a securitisation transaction (see note 22). This was offset by new originations of £336.0m as the Bank returned to lending once Covid-19 restrictions were eased at the end of summer 2020.

The year end provision of £0.6m (2020: £1.2m) results in a coverage ratio of 0.05% (2020: 0.07%). Low levels of credit deterioration continue to be experienced, with 95% (2020: 93%) of total mortgage value classified as Stage 1, and only 0.2% in arrears or forbearance (2020: 0.0%).

Mortgages of £119m (2020: £49m) were also committed to 661 (2020: 283) customers. A provision of £29k (2020: £26k) was held against this exposure, resulting in a total mortgage provision of £0.6m (2020: £1.2m).

The valuation adjustment of £6.2m (2020: £21.2m) reflects the IAS 39 macro hedge adjustment as described in note 26. There have been an insignificant number of mortgages subject to modification.

BBSL

Atom offers secured loans to SMEs. Following acceptance to the scheme in April 2020, £85m of CBILS loans were originated. This increased gross balances by 47% to £352m.

The provision for these loans reduced to £4.1m (2020: £5.5m) following a slight easing of model overlays, and the impact of the 80% CBILS guarantee. Underlying credit performance remains strong with 88% of loans classified within Stage 1; the majority of loans in Stage 2 is due to the exposures being held within Covid-19 sector watchlists. Levels of arrears and forbearance remain minimal at 0.8% (2020: 2.0%).

Loans totalling £75m (2020: £40m) were committed to 117 (2020: 79) customers. A provision of £38k (2020: £282K) was held against this exposure, resulting in a total BBSL provision of £4.1m (2020: £5.7m).

With the exception of the Covid-19 payment deferrals noted above, there have been an insignificant level of BBSL accounts subject to modification.

	BBSL	Mortgages	BBUL	Total loans and advances to customers
At 31 March 2020:	£'000	£'000	£'000	£'000
Gross carrying amount:				
Stage 1: 12 month expected loss	184,268	1,598,033	-	1,782,301
Stage 2: Lifetime – loans not credit impaired	53,385	110,639	-	164,024
Stage 3: Lifetime – credit impaired loans	2,300	2,703	-	5,003
Total gross carrying amount	239,953	1,711,375	-	1,951,328
Fair value adjustment*	-	21,254	-	21,254
Effective interest rate adjustment*	-	4,913	-	4,913
Total gross carrying amount including valuation adjustments	239,953	1,737,542	-	1,977,495
Less impairment expected credit loss provision				
Stage 1: 12 month expected loss	(1,467)	(424)	-	(1,891)
Stage 2: Lifetime – loans not credit impaired	(3,060)	(589)	-	(3,649)
Stage 3: Lifetime – credit impaired loans	(943)	(194)	-	(1,137)
Provision for on balance sheet impairment losses	(5,470)	(1,207)	-	(6,677)
Net balance sheet carrying value	234,483	1,736,335	-	1,970,818
Loan commitments				
Gross commitments	39,730	48,643	-	88,373
12 month expected loss provision	*(282)*	*(26)*	-	*(308)*
Total credit impairment provision	(5,752)	(1,233)	-	(6,985)
Total coverage ratio	2.06%	0.07%	-	0.34%

BBUL

Unsecured loans are offered to SMEs in conjunction with a third party origination partner. All loans have been originated under the CBIL scheme with an 80% guarantee provided by the government. No capital repayments are due during the first 12 months of the loans. Furthermore, during this period customer's interest and fee payments are met by the Government via a Business Interruption Payment (BIP). Forecasts of credit performance and the IFRS 9 provision have incorporated this feature and as a result probability of default is reduced during this period. However, it does increase as the customer moves towards their first payment in month 13.

During the year £310m of BBUL loans were originated to 1,821 customers. The year end provision of £5.1m reflects the 80% government guarantee and results in a coverage ratio of 1.6%.

Critical accounting estimate

The measurement of the expected credit loss provision is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour, in particular the number and relative weighting of economic scenarios used to calculate forecast losses. The outbreak of Covid-19 and the unprecedented impact it is having on the global economy has significantly increased the level of uncertainty and range of plausible outcomes.

To illustrate the impairment models sensitivity to the macroeconomic scenarios, if a weighting of 100% was applied to the Downside 2 scenario the total provision would be increased by £4.0m (residential by £0.2m, BBSL by £3.3m and BBUL by £0.5m). If a weighting of *100% was applied to the Base scenario, the total provision would* be reduced by £1.1m (residential by £0.2m, BBSL by £0.8m, BBUL by £0.1m).

12. 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.

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

	stage 1		stage 2		stage 3		stage 1	
As at 31 March 2021	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross loan commitment	Provision against loan commitments
Mortgages by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 60%	301,766	5	13,683	10	910	11	7,203	-
60% < LTV <= 65%	74,433	5	5,111	13	63	3	1,325	-
65% < LTV <= 70%	89,208	7	4,296	31	126	6	2,130	-
70% < LTV <= 75%	116,773	12	5,603	17	597	63	6,324	1
75% < LTV <= 80%	150,811	25	7,031	47	1,052	64	5,524	-
80% < LTV <= 85%	90,801	27	7,117	86	417	43	16,294	4
85% < LTV <= 90%	96,564	70	4,228	19	124	7	78,514	24
90% < LTV <= 95%	5,711	6	128	-	-	-	1,383	-
Total Mortgages	926,067	157	47,197	223	3,289	197	118,697	29

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2020	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross loan commitment	Provision against loan commitments
Mortgages by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 60%	467,176	12	23,169	22	355	3	2,674	-
60% < LTV <= 65%	116,133	9	6,035	9	105	5	855	-
65% < LTV <= 70%	141,219	17	4,889	10	212	4	1,164	-
70% < LTV <= 75%	124,362	23	7,153	26	66	4	3,923	-
75% < LTV <= 80%	148,901	40	11,417	49	173	16	2,625	1
80% < LTV <= 85%	222,367	95	15,980	133	838	80	3,959	1
85% < LTV <= 90%	283,132	167	28,368	240	761	68	17,528	15
90% < LTV <= 95%	94,743	61	13,628	100	193	14	15,915	9
Total Mortgages	1,598,033	424	110,639	589	2,703	194	48,643	26

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2021	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross loan commitment	Provision against loan commitments
BBSL by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 50%	76,311	283	7,366	119	1,188	135	32,332	8
50% < LTV <= 60%	101,932	702	15,403	430	1,380	569	23,713	11
60% < LTV <= 70%	95,235	700	13,834	656	363	118	11,571	6
70% < LTV <= 80%	37,346	157	1,197	40	423	167	7,382	13
Total BBSL	310,824	1,842	37,800	1,245	3,354	989	74,998	38

	Stage 1		Stage 2		Stage 3		Stage 1	
As at 31 March 2020	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross carrying amount	ECL Provision	Gross loan commitment	Provision against loan commitments
BBSL by current LTV ratio	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LTV <= 50%	57,353	260	12,203	586	346	335	9,343	43
50% < LTV <= 60%	65,130	610	20,891	1,218	1,954	608	7,198	57
60% < LTV <= 70%	51,403	497	17,199	1,088	-	-	15,706	152
70% < LTV <= 80%	10,382	100	3,092	168	-	-	7,483	30
Total BBSL	184,268	1,467	53,385	3,060	2,300	943	39,730	282

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

Lending under the CBIL scheme is subject to an 80% guarantee from the government. At year end this included £85m of secured BBSL loans and all £310m of unsecured BBUL loans.

13. Credit quality

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

As at 31 March 2021	stage 1 Gross carrying amount	stage 1 ECL Provision	stage 2 Gross carrying amount	stage 2 ECL Provision	stage 3 Gross carrying amount	stage 3 ECL Provision	stage 1 Gross loan commitment	stage 1 Provision against loan commitments
Mortgages by behavioural PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	629,153	22	1,065	-	-	-	106,529	25
Low risk	152,560	18	5,254	4	-	-	5,810	2
Medium low risk	75,831	22	15,822	23	-	-	2,825	1
Medium risk	68,523	95	25,056	196	-	-	3,533	1
Higher risk	-	-	-	-	3,289	197	-	-
Total Mortgages	926,067	157	47,197	223	3,289	197	118,697	29

As at 31 March 2020	stage 1 Gross carrying amount	stage 1 ECL Provision	stage 2 Gross carrying amount	stage 2 ECL Provision	stage 3 Gross carrying amount	stage 3 ECL Provision	stage 1 Gross loan commitment	stage 1 Provision against loan commitments
Mortgages by behavioural PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	1,108,697	85	1,662	1	-	-	42,265	21
Low risk	284,995	75	11,260	14	-	-	3,932	3
Medium low risk	118,086	67	34,047	70	-	-	1,466	2
Medium risk	86,255	197	63,670	504	-	-	980	-
Higher risk	-	-	-	-	2,703	194	-	-
Total Mortgages	1,598,033	424	110,639	589	2,703	194	48,643	26

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

As at 31 March 2021	stage 1 Gross carrying amount	stage 1 ECL Provision	stage 2 Gross carrying amount	stage 2 ECL Provision	stage 3 Gross carrying amount	stage 3 ECL Provision	stage 1 Gross loan commitment	stage 1 Provision against loan commitments
BBSL by origination PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	80,185	169	4,437	392	-	-	16,253	10
Low risk	116,839	520	3,166	185	-	-	22,958	10
Medium risk	103,363	896	22,857	480	-	-	34,557	17
Medium High risk	10,437	257	7,340	188	3,354	989	1,230	1
Total BBSL	310,824	1,842	37,800	1,245	3,354	989	74,998	38

As at 31 March 2020	stage 1 Gross carrying amount	stage 1 ECL Provision	stage 2 Gross carrying amount	stage 2 ECL Provision	stage 3 Gross carrying amount	stage 3 ECL Provision	stage 1 Gross loan commitment	stage 1 Provision against loan commitments
BBSL by origination PD	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Very low risk	43,496	134	5,396	466	-	-	18,948	57
Low risk	76,271	463	11,263	370	-	-	5,292	30
Medium risk	60,077	765	26,828	1,544	-	-	12,499	142
Medium High risk	4,424	105	9,898	680	2,300	943	2,991	53
Total BBSL	184,268	1,467	53,385	3,060	2,300	943	39,730	282

The BBSL portfolio is currently predominantly in Low and Medium risk grades. Monitoring of customer profile and payment behaviour through monthly credit bureau updates has resulted in 10 customers being transferred to the watch list, with a further four having entered the collections and recovery process. In addition to the standard watch list a Covid-19 specific watch list has been created based on business sectors considered to be at higher risk as a result of the pandemic. An additional 96 customers have been transferred to this watch list.

As at 31 March 2021	stage 1 Gross carrying amount	stage 1 ECL Provision	stage 2 Gross carrying amount	stage 2 ECL Provision	stage 3 Gross carrying amount	stage 3 ECL Provision
BBUL by origination PD	£'000	£'000	£'000	£'000	£'000	£'000
Low risk	48,628	562	-	-	-	-
Medium risk	116,565	1,290	-	-	149	30
Medium High Risk	72,226	1,302	21,170	752	-	-
Higher Risk	39,598	724	11,822	426	-	-
Total BBUL	**277,017**	**3,878**	**32,992**	**1,178**	**149**	**30**

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

In response to the Covid-19 pandemic, payment deferrals were offered to customers for a period of up to six months. At the year end there were 14 (£2.9m) mortgage customers and 13 (£9.5m) BBSL customers who remained on a payment deferral. As payment deferrals are available to all customers impacted by Covid-19, and in line with regulatory guidance these interim measures are not considered to be forbearance and are not included in the disclosures below:

	2021 Gross carrying amount	2021 Proportion of loan portfolio	2021 ECL Provision	2020 Gross carrying amount	2020 Proportion of loan portfolio	2020 ECL Provision
Residential mortgages	£'000	%	£'000	%	£'000	%
Forbearance measures (not in arrears)	117	0.0%	9	-	0.0%	-
Arrears	925	0.1%	108	338	0.0%	31
Arrears and Forbearance	469	0.0%	43	260	0.0%	43
Total	**1,511**	**0.2%**	**160**	**598**	**0.0%**	**74**

	2021 Gross carrying amount	2021 Proportion of loan portfolio	2021 ECL Provision	2020 Gross carrying amount	2020 Proportion of loan portfolio	2020 ECL Provision
BBSL	£'000	%	£'000	%	£'000	%
Forbearance measures (not in arrears)	423	0.1%	167	-	0.0%	-
Arrears	2,516	0.7%	453	3,799	1.6%	1,094
Arrears and Forbearance	-	0.0%	-	883	0.4%	97
Total	**2,939**	**0.8%**	**620**	**4,682**	**2.0%**	**1,191**

No BBUL loans were in arrears or forbearance measures at year end.

The table below provides information on the portfolio for the Group and Bank segmented by loan size.

As at 31 March 2021	stage 1 Gross carrying amount for:	stage 1 ECL Provision	stage 2 Gross carrying amount for:	stage 2 ECL Provision	stage 3 Gross carrying amount for:	stage 3 ECL Provision	stage 1 Gross loan commitment:	stage 1 Provision for loan commitments
Mortgages by loan size	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan <=250K	610,975	122	32,695	184	2,535	183	76,061	24
£250k < Loan <= £500k	253,612	32	12,248	33	754	14	37,716	5
£500k < Loan <= £1m	50,108	2	1,125	6	-	-	3,251	-
£1m < Loan <= £2m	11,372	1	1,129	-	-	-	1,669	-
Total Mortgages	**926,067**	**157**	**47,197**	**223**	**3,289**	**197**	**118,697**	**29**

As at 31 March 2020	stage 1 Gross carrying amount for:	stage 1 ECL Provision	stage 2 Gross carrying amount for:	stage 2 ECL Provision	stage 3 Gross carrying amount for:	stage 3 ECL Provision	stage 1 Gross loan commitment:	stage 1 Provision for loan commitments
Mortgages by loan size	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan <=250K	973,885	333	72,829	438	2,703	194	34,533	22
£250k < Loan <= £500k	492,052	77	29,158	123	-	-	10,783	4
£500k < Loan <= £1m	122,627	13	5,911	26	-	-	3,327	-
£1m < Loan <= £2m	9,469	1	2,741	2	-	-	-	-
Total Mortgages	**1,598,033**	**424**	**110,639**	**589**	**2,703**	**194**	**48,643**	**26**

As at 31 March 2021	stage 1		stage 2		stage 3		stage 1	
	Gross carrying amount for:	ECL Provision	Gross carrying amount for:	ECL Provision	Gross carrying amount for:	ECL Provision	Gross loan commitment:	Provision for loan commitments
BBSL by loan size	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan <=250K	37,460	300	6,302	206	435	128	4,303	4
£250k < Loan <= £500k	79,022	545	11,064	278	756	226	16,797	14
£500k < Loan <= £1m	117,215	686	17,291	401	2,163	635	19,988	10
£1m < Loan <= £2m	54,703	193	1,168	38	-	-	20,321	6
Loan > £2m	22,424	118	1,975	322	-	-	13,589	4
Total BBSL	310,824	1,842	37,800	1,245	3,354	989	74,998	38

As at 31 March 2020	stage 1		stage 2		stage 3		stage 1	
	Gross carrying amount for:	ECL Provision	Gross carrying amount for:	ECL Provision	Gross carrying amount for:	ECL Provision	Gross loan commitment:	Provision for loan commitments
BBSL by loan size	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan <=250K	22,560	198	10,153	783	146	29	4,725	47
£250k < Loan <= £500k	46,815	442	18,693	1,027	-	-	8,839	61
£500k < Loan <= £1m	72,123	602	21,234	1,090	1,501	529	14,071	94
£1m < Loan <= £2m	28,671	158	3,305	160	653	385	9,342	68
Loan > £2m	14,099	67	-	-	-	-	2,753	12
Total BBSL	184,268	1,467	53,385	3,060	2,300	943	39,730	282

As at 31 March 2021	stage 1		stage 2		stage 3	
	Gross carrying amount for:	ECL Provision	Gross carrying amount for:	ECL Provision	Gross carrying amount for:	ECL Provision
BBUL by loan size	£'000	£'000	£'000	£'000	£'000	£'000
Loan <=100K	22,801	319	2,956	104	-	-
£100k < Loan <= £250k	141,127	1,910	20,676	744	149	30
£250k < Loan <= £500k	113,089	1,649	9,360	330	-	-
Total BBUL	277,017	3,878	32,992	1,178	149	30

14. Credit concentrations

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

The table below provides information on the portfolio for the Group and Bank segmented by geographic distribution.

As at 31 March 2021	stage 1		stage 2		stage 3		stage 1	
	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross loan commitment:	Provision for loan commitments
Mortgages by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	151,824	11	7,240	13	607	16	17,144	2
Midlands	161,494	14	7,413	62	810	33	23,748	4
North	253,453	60	11,845	83	1,024	73	38,337	15
South	200,568	12	9,950	18	118	2	25,489	4
Scotland	92,237	36	6,705	30	378	44	3,424	1
Wales	32,455	13	1,710	5	352	29	6,292	2
Northern Ireland	34,036	11	2,334	12	-	-	4,263	1
Total Mortgages	926,067	157	47,197	223	3,289	197	118,697	29

As at 31 March 2020	stage 1		stage 2		stage 3		stage 1	
	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross loan commitment:	Provision for loan commitments
Mortgages by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	324,730	43	16,048	53	173	16	4,430	-
Midlands	268,286	60	17,842	66	950	44	10,925	4
North	390,698	158	28,156	205	561	50	15,450	13
South	379,852	51	25,124	78	582	43	9,725	3
Scotland	159,286	71	16,802	117	157	12	4,863	3
Wales	43,652	25	2,787	17	280	29	1,891	1
Northern Ireland	31,529	16	3,880	53	-	-	1,359	2
Total Mortgages	1,598,033	424	110,639	589	2,703	194	48,643	26

As at 31 March 2021	stage 1		stage 2		stage 3		stage 1	
	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross loan commitment:	Provision for loan commitments
BBSL by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	51,539	213	3,117	118	573	176	10,704	7
Midlands	61,692	377	7,785	196	855	76	11,539	10
North	92,024	514	6,707	149	975	437	32,823	15
South	51,883	350	12,262	577	756	226	8,573	4
Scotland	30,821	235	4,709	120	-	-	9,630	2
Wales	11,081	74	1,881	60	195	74	1,609	-
Northern Ireland	11,784	79	1,339	25	-	-	120	-
Total BBSL	**310,824**	**1,842**	**37,800**	**1,245**	**3,354**	**989**	**74,998**	**38**

As at 31 March 2020	stage 1		stage 2		stage 3		stage 1	
	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross loan commitment:	Provision for loan commitments
BBSL by UK region	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	28,210	210	5,071	436	-	-	3,085	11
Midlands	38,846	312	12,373	657	-	-	6,467	43
North	60,896	481	11,364	649	1,647	558	13,269	81
South	27,657	228	10,930	540	-	-	9,643	86
Scotland	15,746	110	9,759	506	653	385	5,205	47
Wales	4,843	58	1,441	182	-	-	1,327	6
Northern Ireland	8,070	68	2,447	90	-	-	734	8
Total BBSL	**184,268**	**1,467**	**53,385**	**3,060**	**2,300**	**943**	**39,730**	**282**

Atom has a natural concentration in the UK market, as it only lends on residential and commercial properties within the UK, and the Bank's exposure by region is broadly reflective of UK lending. BBSL stage 2 provisions for Scotland and N.Ireland are heightened due to greater exposure to business sectors more impacted by the Covid-19 pandemic.

The table below provides information on the BBSL portfolio for the Group and Bank, segmented by the business sector.

As at 31 March 2021	stage 1		stage 2		stage 3	
	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:
BBUL by UK region	£'000	£'000	£'000	£'000	£'000	£'000
Greater London	39,853	569	7,137	250	-	-
Midlands	45,398	642	4,474	160	-	-
North	61,263	851	7,579	271	-	-
South	106,185	1,475	10,493	376	149	30
Scotland	12,336	178	2,040	76	-	-
Wales	6,793	89	777	27	-	-
Northern Ireland	5,189	74	492	18	-	-
Total BBUL	**277,017**	**3,878**	**32,992**	**1,178**	**149**	**30**

As at 31 March 2021	stage 1		stage 2		stage 3		stage 1	
	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross loan commitment:	Provision for loan commitments
BBSL by sector	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Accommodation & Food Services	29,962	115	8,574	571	1,492	609	6,035	6
Human Health & Social Work	35,286	114	3,023	35	-	-	4,335	1
Manufacturing	12,237	38	-	-	71	10	3,930	2
Property & Real Estate	183,825	1,413	22,693	541	1,596	296	45,679	21
Transport, Storage & communications	5,699	8	-	-	-	-	-	-
Wholesale & Retail Trade	23,174	66	2,896	96	-	-	3,558	3
Construction	5,681	40	-	-	-	-	-	-
Other	14,960	48	614	2	195	74	11,461	5
Total BBSL	**310,824**	**1,842**	**37,800**	**1,245**	**3,354**	**989**	**74,998**	**38**

As at 31 March 2020	stage 1		stage 2		stage 3		stage 1	
	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross loan commitment:	Provision for loan commitments
BBSL by sector	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Accommodation & Food Services	4,579	22	11,032	567	713	124	2,806	19
Human Health & Social Work	11,521	46	3,743	123	-	-	10,242	55
Manufacturing	3,093	23	-	-	76	9	1,413	4
Property & Real Estate	140,131	1,263	33,152	1,884	858	426	19,865	172
Transport, Storage & communications	3,297	10	-	-	-	-	250	-
Wholesale & Retail Trade	9,707	32	5,012	384	-	-	2,204	11
Construction	2,604	14	-	-	653	384	1,887	16
Other	9,336	57	446	102	-	-	1,063	5
Total BBSL	**184,268**	**1,467**	**53,385**	**3,060**	**2,300**	**943**	**39,730**	**282**

As at 31 March 2021	stage 1		stage 2		stage 3	
	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:	Gross carrying amount for:	ECL Provision:
BBUL by sector	£'000	£'000	£'000	£'000	£'000	£'000
Accommodation & Food Services	5,349	59	8,411	296	-	-
Human Health & Social Work	9,800	108	7,330	266	-	-
Manufacturing	51,379	720	-	-	-	-
Property & Real Estate	63,508	935	-	-	-	-
Transport, Storage & communications	32,581	471	-	-	-	-
Wholesale & Retail Trade	47,883	632	17,251	616	149	30
Construction	-	-	-	-	-	-
Other	66,517	953	-	-	-	-
Total BBUL	**277,017**	**3,878**	**32,992**	**1,178**	**149**	**30**

15. Impairment allowance movement table

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

	Stage 1		Stage 2		Stage 3		Total	
	Gross Carrying amount for:	ECL Provision:	Gross Carrying amount for:	ECL Provision:	Gross Carrying amount for:	ECL Provision:	Gross Carrying amount for:	ECL Provision:
Resi Mortgages	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2019	**2,145,404**	**695**	**46,989**	**233**	**1,766**	**78**	**2,194,159**	**1,006**
Increase due to originations	322,693	223	-	-	-	-	322,693	223
Decrease due to repayments or derecognition	(736,081)	(211)	(15,504)	(66)	(1,005)	(46)	(752,590)	(323)
Change in credit risk	(85,148)	(296)	(1,404)	(168)	(115)	-	(86,667)	(464)
Model changes	(43,493)	(421)	43,493	(79)	-	(36)	-	(536)
Transfers between stages	(5,342)	49	2,379	108	2,057	44	(906)	201
Increase due to Covid-19	0	385	34686	561	0	154	34686	1100
At 31 March 2020	**1,598,033**	**424**	**110,639**	**589**	**2,703**	**194**	**1,711,375**	**1,207**
Increase due to originations	354,554	143	5,311	6	284	32	360,149	181
Decrease due to repayments or derecognition	(999,986)	(195)	(57,215)	(284)	(1,144)	(52)	(1,058,345)	(531)
Change in credit risk	(34,379)	(211)	(703)	22	(72)	(42)	(35,154)	(231)
Model changes	(640)	1	-	-	-	-	(640)	1
Transfers between stages	8,485	(5)	(10,835)	(110)	1,518	65	(832)	(50)
At 31 March 2021	**926,067**	**157**	**47,197**	**223**	**3,289**	**197**	**976,553**	**577**

A reduction in the residential mortgage provision due to repayments and derecognition of mortgages has been offset by increased new lending.

	Stage 1		Stage 2		Stage 3		Total	
	Gross Carrying amount for:	ECL Provision:	Gross Carrying amount for:	ECL Provision:	Gross Carrying amount for:	ECL Provision:	Gross Carrying amount for:	ECL Provision:
BBSL	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2019	**175,664**	**154**	**4,090**	**46**	**2,772**	**150**	**182,526**	**350**
Increase due to originations	136,584	119	-	-	-	-	136,584	119
Decrease due to repayments	(75,772)	(55)	(462)	(2)	-	-	(76,234)	(57)
Change in credit risk	(11,152)	87	(523)	(2)	(568)	24	(12,243)	109
Model changes	(41,677)	31	41,677	72	-	30	-	133
Transfers between stages	621	0	-749	7	96	10	(32)	16
Increase due to Covid-19	-	1,131	9,352	2,940	-	729	9,352	4,800
At 31 March 2020	**184,268**	**1,467**	**53,385**	**3,060**	**2,300**	**943**	**239,953**	**5,470**
Increase due to originations	*137,763*	1,221	-	-	-	-	137,763	1,221
Decrease due to repayments	(14,892)	(104)	(2,670)	(52)	(1,481)	(537)	(19,043)	(693)
Change in credit risk	(5,420)	(938)	(1,059)	(1,414)	(167)	307	(6,646)	(2,045)
Model changes	-	-	-	-	-	(306)	-	(306)
Transfers between stages	9,105	196	(11,856)	(349)	2,702	582	(49)	429
At 31 March 2021	**310,824**	**1,842**	**37,800**	**1,245**	**3,354**	**989**	**351,978**	**4,076**

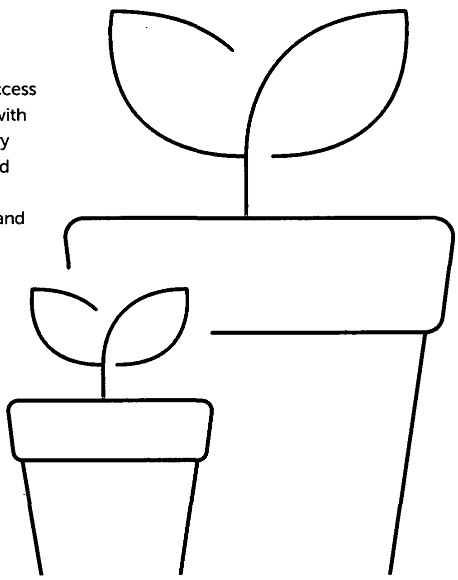
BBSL provision increases were primarily driven by new lending during the year. Transfers between stages occurred due to deterioration in credit risk as a result of monitoring of customer profile and payment behavior.

	Stage 1		Stage 2		Stage 3		Total	
	Gross Carrying amount for:	ECL Provision:	Gross Carrying amount for:	ECL Provision:	Gross Carrying amount for:	ECL Provision:	Gross Carrying amount for:	ECL Provision:
BBUL	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2020	-	-	-	-	-	-	-	-
Increase due to originations	312,271	4,375	-	-	-	-	312,271	4,375
Decrease due to repayments	(2,113)	(34)	-	-	-	-	(2,113)	(34)
Change in credit risk	(149)	-	-	-	149	-	-	-
Model changes	-	-	-	-	-	-	-	-
Transfers between stages	-	(2)	-	-	-	30	-	28
Changes as a result of PMA	(32,992)	(461)	32,992	1,178	-	-	-	717
At 31 March 2021	**277,017**	**3,878**	**32,992**	**1,178**	**149**	**30**	**310,158**	**5,086**

There have been no material movements between stages for BBUL lending, all of which was originated during the year.

Funding and liquid assets

Atom's balance sheet is primarily funded by customers depositing money in their fixed and instant access savings accounts, supplemented with wholesale funding. Atom's Treasury team manages the funding mix and liquid asset buffer to ensure the demands of customers, creditors and regulators are met at all times.



16. Managing liquidity and funding risk

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

Funding Risk represents the risk that the Bank fails to raise the required levels of funding to meet its planned new lending or refinance its existing sources of funding at an acceptable cost. Funding risks typically stem from concentration of funding sources or from an overreliance upon any particular type or source of funding.

Management

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

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

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

Key Liquidity and Funding Risk Mitigations

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

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

The launch of the instant access savings account significantly improved the Bank's funding risk profile, through the diversification of its sources of retail funding.

Measurement

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

Atom uses a stressed forward looking cash flow profile (both inflows and outflows) to determine the minimum level of liquidity resources necessary to cope with expected and unexpected liquidity challenges. In addition to assessing compliance with all regulatory liquidity requirements, Atom also measures the adequacy of liquidity resources against net outflows in a range of internally designed stress scenarios. The internal scenarios express the Bank's liquidity risk appetite. They range in their nature, severity and minimum survival horizons.

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

The in-house stresses comprise:

- a 90-day slow-burn scenario assessing the Bank's ability to fund its lending pipeline while experiencing greater than normal deposit outflows ("persistent" stress).
- *a 60-day "market-wide" stress which considers closure of* wholesale markets and the impact thereof on increased competition for retail funding.
- a 45-day "acute" stress that considers a deposit outflow stress with greater severity and time horizon than the LCR.
- a 14-day extreme "bank run" stress assessing the adequacy of the most readily available liquidity resources to meet deposit withdrawals.

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

Funding risk is measured through a variety of metrics:

- the Net Stable Funding Ratio (NSFR) is monitored ahead of it becoming a regulatory minimum as part of CRR II.
- the Asset Encumbrance ratio.
- the value of readily available funding sources using unencumbered collateral.
- the Loan to Deposit ratio.

Monitoring

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

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

At year end Atom held significant surplus liquidity over the minimum requirements. Additional disclosures are included within the Pillar 3 Disclosures Report, which is available at https://www.atombank.co.uk/investor-information.

17. Encumbered assets

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

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

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

The previous year's figures have been revised to align to this.

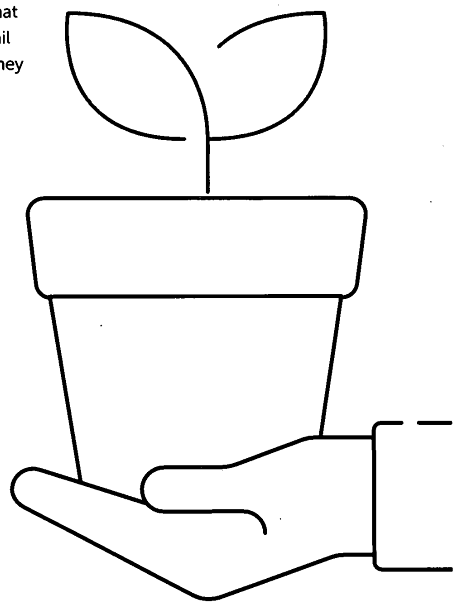
Bank 31 March 2021	Encumbered with counterparties other than central banks	Prepositioned and encumbered assets held with central banks	Unencumbered assets not pre positioned with central banks			
			Readily realisable	Other realisable assets	Cannot be used	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	-	9,351	307,475	-	-	316,826
Derivatives held for hedging purposes	-	-	-	-	4,058	4,058
Debt instruments at fair value through other comprehensive income	-	146,850	4,202	-	-	151,052
Debt Securities held at amortised cost	-	549,738	99,765	-	-	649,503
Loans and advances to customers	131,636	245,429	61,055	1,199,453	1,278	1,638,851
Other assets	4,834	-	-	-	61,998	66,832
Total assets	**136,470**	**951,368**	**472,497**	**1,199,453**	**67,334**	**2,827,122**

Bank 31 March 2020	Encumbered with counterparties other than central banks	Prepositioned and encumbered assets held with central banks	Unencumbered assets not pre positioned with central banks			
			Readily realisable	Other realisable assets	Cannot be used	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	-	18,135	251,780	-	-	269,915
Derivatives held for hedging purposes	-	-	-	-	736	736
Debt instruments at fair value through other comprehensive income	-	174,314	2,419	-	-	176,733
Debt Securities held at amortised cost	-	199,504	23,807	-	-	223,311
Loans and advances to customers	265,888	725,928	60,182	918,175	645	1,970,818
Other assets	11,395	-	-	-	52,523	63,918
Total assets	277,283	1,117,881	338,188	918,175	53,904	2,705,431

Atom's main sources of asset encumbrance of £638m (2020: £696m) are through its participation in the Bank of England's TFS and TFSME schemes and its securitisation issuance via Elvet Mortgages 2018-1 plc. Mortgages and other liquid securities have been used to provide the required collateral.

Wholesale credit Risk

Wholesale credit risk is the risk that these counterparties or issuers fail to meet their obligations when they become due.



18. Wholesale credit risk management

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

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

The wholesale credit limit framework is set out in the Board approved policy. Maximum limits are determined by the Atom Risk Grade, which takes into account internal analysis of a counterparty's creditworthiness and the Bank's limited appetite for large, concentrated exposures.

19. Assets held for liquidity management

Accounting for debt instruments

Classification and measurement

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

- The objective of holding these assets is to maximise interest return, whilst having a sufficient mix of high quality assets to convert into cash in a time of stress.
- The assets are vanilla debt instruments with return based upon the cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Certain assets are held at amortised cost, when:

- The objective of Treasury in holding these assets is to collect contractual cash flows, which are solely payments of principal and interest.
- The assets are held to maximise an interest return, whilst maintaining encumbrance and liquidity targets, the assets will not be sold to manage short term liquidity.

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

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

Impairment

Financial assets held at FVOCI or amortised cost are within the scope of the IFRS 9 impairment policy described on page 68. IFRS 9 permits an exemption that it may be assumed that an instrument's credit risk has not increased significantly since initial recognition if it is determined to have a low credit risk at the reporting date. Such low risk instruments are categorised as stage 1, with the provision based upon a 12 month probability of default. Atom has applied this exemption to all of the below instruments as they meet the definition of investment grade per the internal credit risk policy, which is evidence that the instrument is of low risk.

	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Cash and balances at central banks	344,184	316,826	368,268	269,915
UK Gilts & T Bills	65,036	65,036	103,717	103,717
Covered Bonds	79,513	79,513	54,584	54,584
Residential Mortgage Backed Securities	-	-	1,807	1,807
Multilateral development Bank and Government Sponsored Debt	6,503	6,503	16,625	16,625
Total debt securities at FVOCI	**151,052**	**151,052**	**176,733**	**176,733**
RMBS	649,503	649,503	223,311	223,311
Debt Instruments held at amortised cost	**649,503**	**649,503**	**223,311**	**223,311**
Financial assets held for liquidity management	**1,144,739**	**1,117,381**	**768,312**	**669,958**

The £151m (2020: £177m) of debt instruments held at FVOCI predominately represents high quality assets to meet ongoing regulatory requirements. The reduction reflects work to optimise the portfolio in order to enhance NIM.

The £649m (2020: £223m) portfolio of debt instruments at amortised cost contains retained notes from the Elvet securitisations (see note 22). An additional £449m of notes were retained from the Elvet 2020-1 transaction that completed in July 2020.

A 12 month ECL credit impairment provision of £91k is held against the £800m (2020: £400m) of debt securities, £61k (2020 £21k) against the Amortised costs assets and £30k (2020 £26k) against the fair value through other comprehensive income assets. All positions are AAA or AA rated by major rating agencies.

20. Customer deposits

Accounting for customer deposits

Customer deposit liabilities are measured at amortised cost in accordance with IFRS 9. Deposits are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is adjusted for transaction costs that are incurred in raising the deposit, which is then recognised in interest expense using the effective interest rate method.

	Group and Bank 2021 £'000	Group and Bank 2020 £'000
Sterling fixed rate deposits	1,481,809	1,864,146
Sterling instant access deposits	672,610	-
Euro Deposits	-	666
Total	2,154,419	1,864,812

Atom continued to fund lending predominantly through customer deposits, which increased by £298.6m to £2.15bn. Instant access deposit accounts were launched in October 2020 and are now a significant source of funding for the Bank, allowing it to diversify its retail funding sources.

The £1.5bn of Sterling denominated fixed term deposits includes a valuation adjustment liability of £321k (2020: £3,965k liability), which reflects the IFRS 9 micro hedge adjustment as described in note 26.

21. Wholesale Funding

Accounting for wholesale borrowings

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

	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Borrowings from central banks	378,093	378,093	355,481	355,481
Deemed Loan	-	110,700	-	233,091
Debt securities in issue	141,357	-	333,789	-
Subordinated liabilities	8,180	8,180	8,166	8,166
Total	527,630	496,973	697,436	596,738

Secured loans of £378m (2020: £355m) relate to drawdowns from the Bank of England's Term Funding Scheme and the Term Funding Scheme with additional incentives for SMEs.

Subordinated liabilities represent two £4m fixed-rate callable subordinated Tier 2 notes maturing in 2027. The notes pay interest at a rate of 10% per annum, payable semi-annually in arrears. The Bank has the option to redeem these notes in 2023, subject to PRA approval.

Debt securities in issue of £141m (2020: £334m) represents the Group's residential mortgage backed securitisation, as disclosed in Note 22. Within the Bank, a deemed loan of £111m (2020: £233m) relates to the same transaction. The source of difference between the Group and Bank is predominantly cash held within Elvet Mortgages 2018-1 plc at year end.

22. Securitisation

Accounting for securitisations

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

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

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

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

Securitisation that does not result in derecognition

In October 2018, mortgage loans originated by the Bank were assigned at their principal value to Elvet Mortgages 2018-1 plc, a bankruptcy-remote structured entity, funded through the issue of RMBS to third-party debt investors. The Bank is entitled to any residual income generated by the Elvet 2018-1 entity after the debt obligations and senior expenses of the programme have been met.
The securitised debt holders have no recourse to the Bank other than the principal and interest generated from the securitised mortgage loans. The Bank continues to service the mortgage loans in return for a servicing fee.

The mortgage loans assigned to a structured entity in this way do not qualify for derecognition and are not treated as sales by the Bank. The structured entity is treated as a subsidiary of the Group and is fully consolidated.

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

	Group	Bank	Group	Bank
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Securitised mortgage loans, included in loans and advances to customers	239,858	-	383,332	-
Debt securities in issue, of which:				
Held by external investors	141,357	-	333,789	-
Retained by the Group (eliminated on consolidation)	-	129,157	-	150,241

The Class A notes have a coupon rate of SONIA + 0.762% and a call date of 22 October 2022.

Securitisation that results in derecognition

In July 2020, Atom transferred certain residential mortgage loans to a newly established unconsolidated structured entity, Elvet Mortgages 2020-1 plc. The transaction resulted in full derecognition of loans from Atom Bank's statement of financial position because substantially all of the risks and rewards associated with those mortgages have been transferred to the note holders.

Before derecognition the loan portfolio had a carrying amount of £764m. A net loss of £10m was recorded on derecognition of this portfolio in the statement of comprehensive income.

The securitisation is financed through the simultaneous issue of mortgage backed debt securities by the structured entity. Certain of these debt securities were retained by the Bank along with a 5% interest in the transaction which entitles the Bank to 5% of all available receipts generated by the mortgage loans in the entity in line with the regulatory requirements. At 31 March 2021 the carrying amount of the Group's investment in debt securities issued by Elvet 2020-1 plc is £448m. The amount represents the Group's maximum exposure to loss from its interest in the structured entity.

This transaction followed a similar structure to a transaction in 2019 which resulted in the derecognition of £488m of residential mortgage loans into Elvet Mortgages 2019-1 plc. At 31 March 2021 the carrying amount of the Group's investment in debt securities issued by this entity was £202m (2020: £223m). The amount represents the Group's maximum exposure to loss from its interest in the structured entity.

The Bank continues to service the mortgage loans in return for a servicing fee, and recognised income of £0.8m during the year (2020: £0.1m). The Bank has an obligation to repurchase mortgage exposures if certain loans no longer meet the programme criteria or representations and warranties.

23. Contractual maturity of financial assets and liabilities

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

Group	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Over 10 years	Total
As at 31st March 2021	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets									
Cash and balances at central banks	344,184	-	-	-	-	-	-	-	344,184
Loans and advances to customers	-	23,267	18,986	70,548	338,460	302,008	272,082	613,500	1,638,851
Debt instruments at FVOCI	-	10,705	59,996	-	66,473	13,878	-	-	151,052
Debt Instruments held at amortised cost	-	20,558	7,081	14,192	54,674	552,998	-	-	649,503
Derivatives held for hedging purposes	-	(144)	10	644	1,483	2,065	-	-	4,058
Total Financial Assets	344,184	54,386	86,073	85,384	461,090	870,949	272,082	613,500	2,787,648
Liabilities									
Customer Deposits	(735,991)	(454,082)	(258,242)	(491,847)	(208,008)	(6,249)	-	-	(2,154,419)
Deposits from banks	-	(93)	-	(42,000)	-	(336,000)	-	-	(378,093)
Debt securities in issue	-	(11,607)	(1,737)	(3,435)	(124,578)	-	-	-	(141,357)
Subordinated liabilities	-	(180)	-	-	-	-	(8,000)	-	(8,180)
Derivatives held for hedging purposes	-	(1,089)	(94)	(602)	(2,637)	-	-	-	(4,422)
Total Financial Liabilities	(735,991)	(467,051)	(260,073)	(537,884)	(335,223)	(342,249)	(8,000)	-	(2,686,471)
Loan Commitments Given	-	152,985	40,710	-	-	-	-	-	193,695

Group	On demand	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years but not more than 10 years	Over 10 years	Total
As at 31 March 2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets									
Cash and balances at central banks	368,268	-	-	-	-	-	-	-	368,268
Loans and advances to customers	-	21,385	20,127	45,297	223,674	232,363	332,268	1,095,704	1,970,818
Debt instruments at FVOCI	-	6,010	93,599	15,180	44,828	15,310	-	1,806	176,733
Debt instruments at amortised costs	-	3,176	2,238	4,706	19,202	193,989	-	-	223,311
Derivatives held for hedging purposes	-	11	(14)	1,205	(285)	(181)	-	-	736
Total financial assets	368,268	30,582	115,950	66,388	287,419	441,481	332,268	1,097,510	2,739,866
Liabilities									
Customer deposits	(32,190)	(327,339)	(393,931)	(606,683)	(469,980)	(34,689)	-	-	(1,864,812)
Deposits from banks	-	(481)	-	-	-	(355,000)	-	-	(355,481)
Debt securities in issue	-	(13,440)	(35,272)	(47,590)	(237,487)	-	-	-	(333,789)
Subordinated liabilities	-	(166)	-	-	-	-	(8,000)	-	(8,166)
Derivatives held for hedging purposes	-	(996)	(853)	(1,047)	(9,956)	(2,259)	-	-	(15,111)
Total financial liabilities	(32,190)	(342,422)	(430,056)	(655,320)	(717,423)	(391,948)	(8,000)		(2,577,359)
Loan commitments given	-	28,160	60,212	-	-	-	-	-	88,372

23. Contractual maturity of financial assets and liabilities cont.

Bank AS at 31 March 2021	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	316,826	-	-	-	-	-	-	-	316,826
Loans and advances to customers	-	23,267	18,986	70,548	338,460	302,008	272,082	613,500	1,638,851
Debt instruments at FVOCI	-	10,705	59,996	-	66,473	13,878	-	-	151,052
Debt Instruments held at amortised cost	-	20,558	7,081	14,192	54,674	552,998	-	-	649,503
Derivatives held for hedging purposes	-	(144)	10	644	1,483	2,065			4,058
Total Financial Assets	316,826	54,386	86,073	85,384	461,090	870,949	272,082	613,500	2,760,290
Liabilities									
Customer Deposits	(735,991)	(454,082)	(258,242)	(491,847)	(208,008)	(6,249)	-	-	(2,154,419)
Deposits from banks	-	(93)	-	(42,000)	-	(336,000)	-	-	(378,093)
Deemed Loan (Bank Only)	-	(6,461)	(987)	(1,951)	(101,301)	-	-	-	(110,700)
Subordinated liabilities	-	(180)	-	-	-	-	(8,000)	-	(8,180)
Derivatives held for hedging purposes	-	(1,089)	(94)	(602)	(2,637)	-	-	-	(4,422)
Total Financial Liabilities	(735,991)	(461,905)	(259,323)	(536,400)	(311,946)	(342,249)	(8,000)	-	(2,655,814)
Loan Commitments Given	-	152,985	40,710	-	-	-	-	-	193,695

Bank As at 31 March 2020	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	269,914	-	-	-	-	-	-	-	269,914
Loans and advances to customers	-	21,385	20,127	45,297	223,674	232,363	332,268	1,095,704	1,970,818
Debt instruments at FVOCI	-	6,010	93,599	15,180	44,828	15,310	-	1,806	176,733
Debt instruments at amortised costs	-	3,176	2,238	4,706	19,202	193,989	-	-	223,311
Derivatives held for hedging purposes	-	11	(14)	1,205	(285)	(181)	-	-	736
Total financial assets	269,914	30,582	115,950	66,388	287,419	441,481	332,268	1,097,510	2,641,512
Liabilities									
Customer deposits	(32,190)	(327,339)	(393,931)	(606,683)	(469,980)	(34,689)	-	-	(1,864,812)
Deposits from banks	-	(481)	-	-	-	(355,000)	-	-	(355,481)
Deemed Loan	-	(9,384)	(24,631)	(33,233)	(165,841)	-	-	-	(233,089)
Subordinated liabilities	-	(166)	-	-	-	-	(8,000)	-	(8,166)
Derivatives held for hedging purposes	-	(996)	(853)	(1,047)	(9,956)	(2,259)	-	-	(15,111)
Total financial liabilities	(32,190)	(338,366)	(419,415)	(640,963)	(645,777)	(391,948)	(8,000)	-	(2,476,659)
Loan commitments given	-	28,160	60,212	-	-	-	-	-	88,372

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

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

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

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

Group As at 31 March 2021	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Customer Deposits	735,734	475,920	260,354	497,257	210,879	6,318	-	2,186,462
Deposits from banks	-	95	95	42,188	673	336,672	-	379,723
Debt securities in issue	-	11,996	2,099	4,159	125,605	-	-	143,859
Subordinated liabilities	-	202	202	399	1,602	1,600	9,200	13,205
Total non-derivative financial liabilities	**735,734**	**488,213**	**262,750**	**544,003**	**338,759**	**344,590**	**9,200**	**2,723,249**
Off-balance sheet commitments								
Loan commitments given	-	152,985	40,710	-	-	-	-	193,695

Bank As at 31 March 2021	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Customer Deposits	735,734	475,920	260,354	497,257	210,879	6,318	-	2,186,462
Deposits from banks	-	95	95	42,188	673	336,672	-	379,723
Deemed loan	-	6,521	1,048	2,077	101,423	-	-	111,069
Subordinated liabilities	-	202	202	399	1,602	1,600	9,200	13,205
Total non-derivative financial liabilities	**735,734**	**482,738**	**261,699**	**541,921**	**314,577**	**344,590**	**9,200**	**2,690,459**
Off-balance sheet commitments								
Loan commitments given	-	152,985	40,710	-	-	-	-	193,695

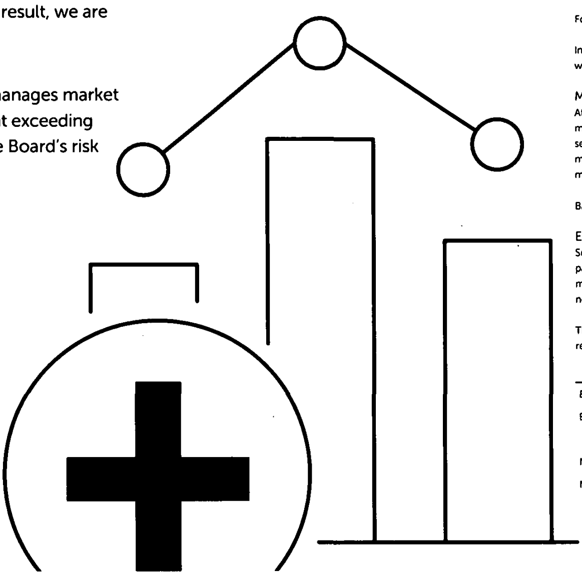
Group As at 31 March 2020	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Customer Deposits	32,075	347,851	398,067	618,026	477,436	35,349	-	1,908,804
Deposits from banks	-	89	89	177	355,305	-	-	355,660
Debt securities in issue	-	13,692	36,324	49,384	241,731	-	-	341,131
Subordinated liabilities	-	199	204	397	1,600	1,602	10,800	14,802
Total non-derivative financial liabilities	**32,075**	**361,831**	**434,684**	**667,984**	**1,076,072**	**36,951**	**10,800**	**2,620,397**
Off-balance sheet commitments								
Loan commitments given	-	28,160	60,212	-	-	-	-	88,372

Bank As at 31 March 2020	On demand £'000	Not more than 3 months £'000	Over 3 months but not more than 6 months £'000	Over 6 months but not more than 1 year £'000	Over 1 year but not more than 3 years £'000	Over 3 years but not more than 5 years £'000	Over 5 years but not more than 10 years £'000	Total £'000
Customer Deposits	32,075	347,851	398,067	618,026	477,436	35,349	-	1,908,804
Deposits from banks	-	89	89	177	355,305	-	-	355,660
Deemed loan	-	15,386	40,817	55,493	271,636	-	-	383,332
Subordinated liabilities	-	199	204	397	1,600	1,602	10,800	14,802
Total non-derivative financial liabilities	**32,075**	**363,525**	**439,177**	**674,093**	**1,105,977**	**36,951**	**10,800**	**2,662,598**
Off-balance sheet commitments								
Loan commitments given	-	28,160	60,212	-	-	-	-	88,372

Market Risk

Atom offers fixed and variable rate loans to borrowers and funds those with a mix of mainly fixed rate deposits, instant access deposits and variable rate wholesale funding. As a result, we are exposed to market risk.

Atom's Treasury team manages market risk exposures to prevent exceeding the limited exposure the Board's risk appetite permits.



25. Market risk management

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

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

Management

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

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

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

Key interest rate and market risk mitigations

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

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

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

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

Interest Rate Benchmark Reform will not materially impact the Group, as the only exposure to LIBOR was £7m of debt instruments maturing within 3 months of the year end.

Measurement

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

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

EV and NII sensitivity

Sensitivity analysis of EV and NII is performed on the Group balance sheet using the core scenarios of immediate upward and downard parallel shifts in all relevant interest rates. The interest rate shock applied to EV is an increase or decrease of 200 bps. The sensitivity measurement for NII considers the impact of an increase or decrease of 25 bps. This allows for a realistic assessment, particularly in a negative shift in rates, given the near zero interest rate environment.

The projected change in response to the aforementioned changes in interest rates was as follows. The comparative figures for NII have been revised to provide a consistent metric.

	2021 £'m	2020 £'m
EV: impact of increase in rates	(0.7)	0.5
EV: Impact of decrease in rates	0.8	(0.6)
NII: impact of increase in rates	0.10	0.09
NII: impact of decrease in rates	(0.10)	(0.09)

26. Derivatives held for hedging purposes

Accounting for derivatives and hedging

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. During the period Atom has entered into derivatives to hedge against interest rate and foreign currency 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 with the scope exception.

Micro hedge accounting relationships were designated for derivatives used to hedge the interest risk on the fixed rate customer deposit and macro relationships for fixed rate loan products. Hedge accounting allows financial instruments, 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 attributable to the hedged risk and the hedging instrument are recognised directly in the income statement

The following table sets out the derivative instruments the Group and Bank hold:

	2021			2020		
	Notional contract amount	Asset carrying value	Liability carrying value	Notional contract amount	Asset carrying value	Liability carrying value
Settled on a net basis	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Derivatives in accounting hedge relationships						
Interest rate	2,192,200	4,058	(4,416)	3,209,985	666	(15,152)
Derivatives in economic and not accounting hedges						
Cross currency swaps	-	-	-	657	2	-
FX forward	173	-	(6)	827		(44)
Interest Rate	-	-	-	215,000	68	83
Total derivatives held for hedging purposes	2,192,373	4,058	(4,422)	3,426,469	736	(15,113)

Interest rate swaps

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

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

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

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

Ineffectiveness is expected due to:

- the mismatch in the maturities of the hedged item and hedging instrument.
- for micro deposit hedge relationships, the mismatch in interest accrual period on the certain deposits that make up the hedged item that accrue on a monthly basis, compared to 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.
- for fixed rate loan macro hedge relationships, an assumption is made on the quantum of early repayments during the fixed term period. Variances to this assumption generate ineffectiveness.

There were no other sources of ineffectiveness in these hedge relationships. During the year hedge ineffectiveness charges of £168k (2020: £703k) were recognised within Other income.

With regard to the fixed rate loan macro hedge relationships, as Atom is exposed to interest rate risk from the point of making a customer a binding offer, interest rate swaps are generally entered into at the point of full mortgage application or loan commitment. However, IAS 39 only permits an accounting hedge relationship to be designated when the hedged item (the loan) is recognised on balance sheet. As a result during this period, a £453k (2020: £224k) fair value gain in the swaps was not offset within the income statement.

Fair value gains on derivatives held in qualifying fair value hedging relationships, hedging gain or loss on the hedged items, and gain or losses on financial instruments at fair value through profit or loss are included in Other Income.

	Nominal amount of the hedging instrument	Carrying Amount (asset/(liability))	Line item in the statements of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness (income/(charge))
	£'000	£'000	£'000	£'000
As at 31 March 2021				
Derivatives held to hedge fixed rate deposits	1,124,500	722	Derivatives held for hedging purposes	(3,737)
Derivatives held to hedge fixed rate loans and advances to customers	1,067,700	(1,080)	Derivatives held for hedging purposes	3,041
As at 31 March 2020				
Derivatives held to hedge fixed rate deposits	1,402,500	3,917	Derivatives held for hedging purposes	3,356
Derivatives held to hedge fixed rate loans and advances to customers	1,807,485	(18,403)	Derivatives held for hedging purposes	(17,737)

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

	Nominal amount of the hedging item	Accumulated amount of fair value adjustments on the hedged item (asset/(liability))	Line item in the statements of financial position where the hedging item is included	Changes in fair value used for calculating hedge ineffectiveness (income/(charge))
	£'000	£'000	£'000	£'000
As at 31 March 2021				
Fixed rate deposits	1,124,500	(321)	Customer deposits	3,644
Fixed rate loans and advances to customers	1,067,700	6,172	Loans and advances to customers	(2,894)
As at 31 March 2020				
Fixed rate deposits	1,402,500	(3,965)	Customer deposits	(3,416)
Fixed rate loans and advances to customers	1,807,485	21,254	Loans and advances to customers	17,094

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

	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but no more than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2021						
Nominal value of derivatives held for hedging purposes						
Derivatives held to hedge fixed rate deposits	401,500	167,000	392,000	164,000	-	1,124,500
Derivatives held to hedge fixed rate loans and advances to customers	27,500	16,000	92,000	752,000	180,200	1,067,700
Total	**429,000**	**183,000**	**484,000**	**916,000**	**180,200**	**2,192,200**
As at 31 March 2020						
Nominal value of derivatives held for hedging purposes						
Derivatives held for to hedge fixed rate deposits	286,100	335,900	508,500	272,000	-	1,402,500
Derivatives held to hedge fixed rate loans and advances to customers	127,000	88,000	70,000	700,500	821,985	1,807,485
Total	**413,100**	**423,900**	**578,500**	**972,500**	**821,985**	**3,209,985**

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

Settled on a net basis	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 3 years	Over 3 years but no more than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2021						
Assets	(139)	10	621	1,435	2,021	3,948
Liabilities	(1,087)	(93)	(601)	(2,634)	-	(4,415)
As at 31 March 2020						
Assets	11	(13)	1,166	(277)	(175)	712
Liabilities	(1,005)	(854)	(1,052)	(10,114)	(2,305)	(15,330)

Offsetting

In accordance with IAS 32 Financial Instruments: Presentation, Atom reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set-off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The netting applied covers agreements with the same counterparties whereby all outstanding transactions can be offset and close-out netting applied if an event of default or other predetermined events occur.
The following table shows the impact of netting arrangements on derivative financial instruments reported net on the balance sheet:

	Gross Amounts	Amounts offset	Net amounts reported on the balance sheet	Related amounts not offset: Cash collateral placed	Net amount
	£'000	£'000	£'000	£'000	£'000
As at 31 March 2021					
Derivative Financial Assets	5,490	(1,432)	4,058	1,204	5,262
Derivative Financial Liabilities	(5,854)	1,432	(4,422)	(1,040)	(5,462)
As at 31 March 2020					
Derivative Financial Assets	4,070	(3,334)	736	475	1,211
Derivative Financial Liabilities	(18,447)	3,334	(15,113)	8,450	(6,663)

27. Accounting for financial assets and liabilities - fair values

Accounting for fair values

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

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

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

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

Bank and Group	Level 1	Level 2	Level 3	Total
As at 31 March 2021	**£'000**	**£'000**	**£'000**	**£'000**
Assets				
Debt instruments at FVOCI				
UK Gilts	65,036	-	-	65,036
Covered Bonds	79,513	-	-	79,513
Multilateral Development Bank and Government Sponsored Debt	6,503	-	-	6,503
Derivatives held for hedging purposes				
Interest rate	-	4,058	-	4,058
Total	**151,052**	**4,058**	**-**	**155,110**
Liabilities				
Derivatives held for hedging purposes				
Interest rate	-	(4,416)	-	(4,416)
FX forward	-	(6)	-	(6)
Total	**-**	**(4,422)**	**-**	**(4,422)**

Bank and Group As at 31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Debt instruments at FVOCI				
UK Gilts	103,717	-	-	103,717
Covered Bonds	54,584	-	-	54,584
RMBS	-	1,807	-	1,807
Multilateral Development Bank and Government Sponsored Debt	16,625	-	-	16,625
Derivatives held for hedging purposes				
Interest rate	-	734	-	734
Cross currency swaps	-	2	-	2
Total	174,926	2,543	-	177,469
Liabilities				
Derivatives held for hedging purposes				
Interest rate	-	(15,069)	-	(15,069)
FX forward	-	(44)	-	(44)
Total	-	(15,113)	-	(15,113)

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

The RMBS notes are classified as level 2 as quoted market prices are not readily available, and valuation techniques based on observable market data are used.

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

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

	Group		Bank	
As at 31 March 2021	Carrying value £'000	Level 3 Fair Value £'000	Carrying value £'000	Level 3 Fair Value £'000
Assets				
Loans and advances to customers:				
BBSL	347,902	346,528	347,902	346,528
BBUL	305,191	305,290	305,191	305,290
Mortgages	985,758	983,213	985,758	983,213
Debt Instruments held at amortised cost	649,503	651,106	649,503	651,106
Liabilities				
Customer Deposits	2,154,419	2,148,288	2,154,419	2,148,288
Deposits from banks	378,093	378,093	378,093	378,093
Deemed Loan	-	-	110,700	110,414
Debt securities in issue	141,357	141,837	-	-
Subordinated debt	8,180	9,274	8,180	9,274

	Group		Bank	
	Carrying value	Level 3 Fair Value	Carrying value	Level 3 Fair Value
As at 31 March 2020	£'000	£'000	£'000	£'000
Assets				
Loans and advances to customers:				
BBSL	234,483	232,128	234,483	232,128
Mortgages	1,736,335	1,714,641	1,736,335	1,714,641
Debt Instruments held at amortised cost	223,311	223,691	223,311	223,043
Liabilities				
Customer Deposits	1,864,812	1,832,907	1,864,812	1,832,907
Deposits from banks	355,481	355,481	355,481	355,481
Deemed Loan	-	-	233,091	230,177
Debt securities in issue	333,789	331,456	-	-
Subordinated debt	8,166	8,678	8,166	8,678

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 BBSL and BBUL is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk.
- Atom 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.
- Fair values of other debt securities in issue are based on quoted prices where available

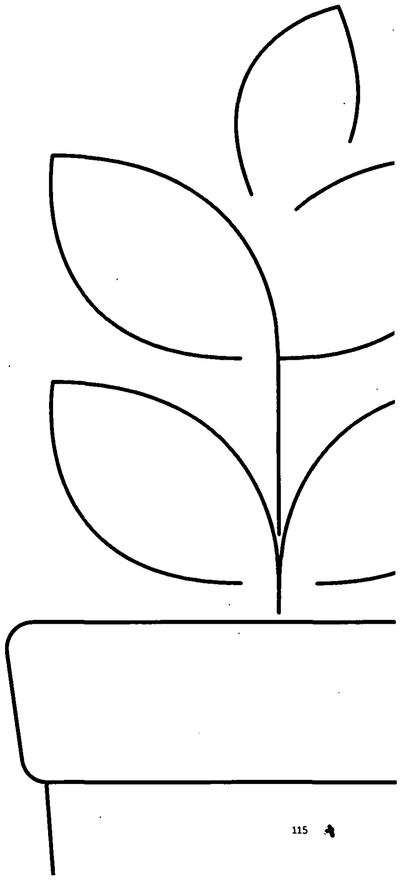
The fair value of deposits from customers are estimated using discounted cash flows applying either market rates or current rates for deposits of similar remaining maturities

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

Capital

As a regulated bank, to protect customers we are required to hold a minimal level of capital. To date this has been predominantly achieved through equity issuances to our investors. This has also provided the investment to build and grow the Bank through the period of early stage losses.

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 regulatory requirements.



29. Managing capital adequacy risk

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

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

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

Key capital risk mitigations

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

Capital risk is particularly important for a growing bank to support lending and investment into new capabilities, as such Atom will require more capital from time to time. Atom is currently loss making and continues to work with existing and new equity investors to secure new capital issuance for future growth, execute the current strategy and move towards profitability.

The Bank also has Tier 2 notes in issuance, which can be used to meet regulatory capital requirements in proportion to its Tier 1 common equity.

Atom refreshes its ICAAP Document on an annual basis, which includes a three-year forecast of the Group's capital position under baseline and a variety of stressed scenarios. The ICAAP document is used to inform the future capital strategy and is submitted to the PRA following Board scrutiny and approval. It assesses the Bank's Pillar 1 requirements using the Standardised/ Basic Indicator approaches and proposes additional Pillar 2A capital to be held for those risks not captured or not fully captured by Pillar 1 capital. The Group also holds Pillar 2B capital based on the PRA's guidance, considering wind-down costs and the regulatory defined capital conservation buffer and countercyclical buffer.

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

Key capital risk metrics

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

Capital metrics are produced monthly and they assess the current and projected capital up to 12 months forward. Since baseline projections are based upon future capital raises, an additional, stressed projection is also produced, which shows the potential capital position in the event capital raises were to be delayed.

During 2021, the Bank complied in full with all of its regulatory capital requirements. The following tables provide information on capital and reserves per the IFRS balance sheet with a reconciliation to the regulatory definition of capital.

30. Share capital and premium

Accounting policy for share capital

Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. Ordinary shares are classified as equity. The below tables apply for the Group and Bank:

	Number of shares	Ordinary shares (£0.00001 each)	Share premium	Total share capital and share premium
		£'000	£'000	£'000
As at 1 April 2020	**433,257,028**	**4**	**448,931**	**448,935**
Issued to staff under share incentive plans	63,000	-	-	-
As at 31 March 2021	**433,320,028**	**4**	**448,931**	**448,935**

	Number of shares	Ordinary shares (£0.00001 each)	Share premium	Total share capital and share premium
		£'000	£'000	£'000
As at 1 April 2019	**391,952,523**	**4**	**399,203**	**399,207**
Issued during the year	40,827,913	-	50,014	50,014
Expenses of issue of shares	-	-	(286)	(286)
Issued to staff under share incentive plans	476,592	-	-	-
As at 31 March 2020	**433,257,028**	**4**	**448,931**	**448,935**

Ordinary shares have full voting rights, dividend and capital distribution rights.

31. Other reserves

Other reserves of £21.2m (2020: £18.0m) primarily relate to equity settled share based payments of £22.4m (2020: £19.9m). See note 6 for further information.

	Group	Bank	Group	Bank
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Fair value reserve	276	276	(433)	(433)
Share based payment reserve	22,351	22,351	19,854	19,854
Other reserves and treasury shares	(1,463)	-	(1,463)	-
Total other reserves	21,164	22,627	17,958	19,421

The balance also includes £0.3m (2020: £(0.4)m) of fair value adjustments on assets held at fair value through other comprehensive income and treasury shares of £(1.5)m (2020: £(1.5)m) relating to the EBT (see note 39 for further information).

32. Regulatory capital (unaudited)

The following table presents a reconciliation for the Bank between equity on the IFRS balance sheet and prudential capital. Atom's capital position is calculated for prudential regulatory reporting purposes for year ended 31 March 2021 using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented by the European Union in the CRR and CRD and by the PRA rulebook for the UK banking industry. Atom's approach complies with the new CRD V approaches adopted on 28 December 2020 which are expected to remain in place post the end of the Brexit transition period. Full details of the regulatory capital and leverage frameworks are provided in Atom's Pillar 3 Report.

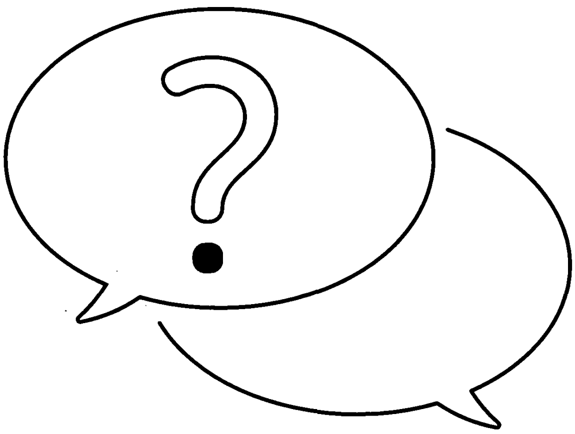
	2021	2020
	£'000	£'000
Shareholders' equity per the statement of financial position	141,330	200,503
Regulatory adjustments		
Intangible assets	(35,889)	(36,646)
IFRS9 transitional adjustment	8,729	4,969
Prudential valuation adjustment	(158)	(181)
Common Equity Tier 1 (CET1) capital	114,012	168,645
Eligible Tier 2 instruments	7,978	7,964
Tier 2 capital	7,978	7,964
Total capital	121,990	176,609
Risk weighted assets (RWAs)	743,296	907,158
Common Equity Tier (CET1) ratio	15.3%	18.6%
Total capital ratio	16.4%	19.5%
Leverage ratio	3.9%	6.0%

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

CET1 and total capital ratios of 15.3% (2020: 18.6%) and 16.4% (2020: 19.5%) respectively fell predominantly due to losses of £62.4m, although this was partially offset by the derecognition of £764m residential mortgages in the Elvet 2020-1 transaction, which resulted in a net reduction in risk weighted assets of £193.9m. The fall in tier one capital has driven the reduction in the leverage ratio during the period.

Other

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



33. Other assets

	Group 2021 £'000	Bank 2021 £'000	Group 2020 £'000	Bank 2020 £'000
Cash Collateral	4,834	4,834	10,695	10,695
Settlement and clearing accounts	7,158	7,158	2,312	2,312
Prepayments and other	12,633	12,622	6,343	5,893
Loan to Group companies (note 39)	-	1,463	-	2,734
Total other assets	**24,625**	**26,077**	**19,350**	**21,634**

Other assets include £7.2m (2020: £2.3m) of settlement and clearing accounts, the majority of which relates to mortgage loans where cash is being held in escrow before completion. Collateral represents margin calls made on derivative contracts.

The increase in prepayments is due to the prepayment of a five year software license during the year.

34. Property, plant and equipment

Property, plant and equipment

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

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

- Fixtures and fittings: 5 years
- Office and IT equipment: 3 years

Impairment of property, plant and equipment

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

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

Right of use assets

Where items of property, plant or equipment are leased by the Bank, a right of use asset is recognised representing the right to use the underlying asset. The asset is depreciated in accordance with our property, plant and equipment accounting policy with a useful economic life aligned to the lease term. Further information on leases is disclosed in note 38.

Financial Statements

Group and Bank	Fixtures and Fittings £'000	Office and IT Equipment £'000	Right-of-use Assets £'000	Total £'000
Cost				
As at 1 April 2019	462	1,038	5,756	7,256
Additions	18	260	19	297
As at 31 March 2020	480	1,298	5,775	7,553
Additions	-	271	-	271
As at 31 March 2021	480	1,569	5,775	7,824
Accumulated depreciation and impairment				
As at 1 April 2019	194	744	-	938
Depreciation charge	68	177	732	977
As at 31 March 2020	262	921	732	1,915
Depreciation charge	68	243	733	1,045
As at 31 March 2021	330	1,164	1,465	2,959
Net book value				
At 31 March 2021	150	405	4,310	4,865
At 31 March 2020	218	377	5,043	5,638

35. Intangible assets

Accounting for intangible assets

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

- Banking Licence: the banking licence is assumed to have an indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate benefits for the business. Costs relating to obtaining this asset are held at cost and are not being amortised.
- Core Banking Software: up to 10 years

Software

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

Impairment Review

At each balance sheet date, 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.

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 Atom is expected to benefit.

Group and Bank	Banking License £'000	Software £'000	Total £'000
Cost			
As at 1 April 2019	887	60,647	61,534
Additions	-	13,105	13,105
As at 31 March 2020	**887**	**73,752**	**74,639**
Additions	-	8,641	8,641
Disposals	-	(16,100)	(16,100)
As at 31 March 2021	**887**	**66,293**	**67,180**
Accumulated amortisation and impairment			
As at 1 April 2019	-	31,814	31,814
Amortisation charge	-	6,179	6,179
As at 31 March 2020	**-**	**37,993**	**37,993**
Amortisation charge	-	9,398	9,398
Disposals	-	(16,100)	(16,100)
As at 31 March 2021	**-**	**31,291**	**31,291**
Net Book Value			
As at 31 March 2021	**887**	**35,002**	**35,889**
As at 31 March 2020	**887**	**35,759**	**36,646**

£16.1m of software assets with nil net book value were disposed of during the year. The assets, associated with the decommissioned banking platform and App, had been fully amortised or impaired during previous years, and were no longer in use.

36. Provisions

Group and Bank	IFRS 9	Platform Transformation Provision	Total
	£'000	£'000	£'000
At 1 April 2019	85	3,500	3,585
Amounts utilised	-	(1,356)	(1,356)
Charged to the income statement	223	300	523
At 31 March 2020	308	2,444	2,752
Amounts utilised	-	(2,910)	(2,910)
Charged or released to the income statement	(241)	596	355
At 31 March 2021	67	130	197

The IFRS 9 provision represents expected credit losses on loan commitments, in line with our credit risk policies disclosed in note 10

The platform transformation provision, recognised in 2019, related to the decommissioning of IT infrastructure and transition to cloud hosting. This project has been substantially completed and the provision utilised during the year other than £130k representing the residual value of associated onerous contracts.

37. Other liabilities

	Group 2021	Bank 2021	Group 2020	Bank 2020
	£'000	£'000	£'000	£'000
Accounts payable and sundry creditors	3,781	3,777	3,008	2,906
Accrued expenses	5,562	5,562	4,315	4,312
Cash settled share based payment liability	3,360	3,360	1,304	1,304
Cash collateral	4,763	4,763	1,770	1,770
Lease liability	4,341	4,341	5,040	5,040
BCR fund	7,529	7,529	9,807	9,807
Intercompany loan payable	-	448	-	374
Total other liabilities	29,336	29,780	25,244	25,513

Collateral represents margin calls made on derivative contracts.

The Bank was awarded £10m from pool C of the Capability and Innovation Fund administered by Banking Competition Remedies (BCR) in 2020. £2.3m (2020: £0.2m) of the funding was released during the year, recorded net of the costs for which it was intended to compensate.

38. Leases

Accounting for leases

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

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

The Bank leases office premises and equipment

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

	2021 £'000	2020 £'000
Not more than one year	792	855
Over one year but not more than five years	3,122	3,133
Later the 5 years	780	1,560
Total undiscounted lease liabilities as at 31 March	**4,694**	**5,548**

39. Related party transactions

Atom enters into transactions with related parties in the normal course of business, as detailed below:

(i) Key management personnel

Key management personnel are the Board and ExCo, which are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. The compensation paid or payable to key management personnel is shown in the tables below. Remuneration paid to Directors has been separately disclosed.

Executive Committee (excluding directors)	2021 £'000	2020 £'000
Wages and salaries	1,722	1,390
Compensation for loss of office	145	-
Share based payments	375	423
Pension costs	115	34
Total	**2,339**	**1,847**

Directors emoluments	2021 £'000	2020 £'000
Wages and salaries	1,338	1,354
Share based payments	200	194
Pension costs	23	-
Total	**1,561**	**1,548**

Highest paid director	2021 £'000	2020 £'000
Wages and salaries	456	414
Share based payments	107	109
Pension costs	12	-
Total	**575**	**523**

Two directors (2020: nil) accrued retirement benefits under the defined contribution scheme. No directors exercised share options during the year (2020: nil).

(ii) investment in subsidiaries

Atom Bank plc is the ultimate parent company. The following entities are accounted for as subsidiary companies of the Bank, as a result of either direct or indirect control of the entity. Control under IFRS 10 is when the Group is exposed to or has rights to variable returns from its involvement in the entity and has the ability to affect those returns. All subsidiaries are 100% controlled and operate and are incorporated in the UK.

Company Name	Nature of entity	Registered address
Direct holdings		
Atom EBT Limited	100% Ordinary shares	The Rivergreen Centre, Aykley Heads, Durham, DH1 5TS
Associated undertakings		
Atom Bank Employee Benefit Trust	Employee trust	The Rivergreen Centre, Aykley Heads, Durham, DH1 5TS
Special Purpose vehicles		
Elvet Mortgages 2018-1 plc	Issue of securitised notes	5th Floor, 100 Wood Street, London EC2V 2EX
Prebends Warehouse 2019-1 Ltd	Issue of securitised notes	5th Floor, 100 Wood Street, London EC2V 2EX

In the course of its business, the Bank transacts with structured entities which have been designed to finance the purchase of assets through securitisation and therefore raise finance from external investors by enabling them to invest in specified financial assets. At 31 March 2021 Atom has two consolidated structured entities, Elvet Mortgages 2018-1 plc and Prebends Warehouse 2019-1 Ltd, which are included above.

(iii) Transactions with subsidiaries

Amounts due to and from controlled entities of the Bank other related parties are as follows:

	Bank 2021 £'000	Bank 2020 £'000
Other assets		
Amounts due from EBT	1,463	1,463
Amounts due from Prebends Warehouse 2019-1 Ltd	-	1,271
Deemed Loan		
Amounts due to Elvet Mortgages 2018-1 plc	110,700	233,091
Other Liabilities		
Amounts due to Elvet Mortgages 2018-1 plc	448	374

No ECL credit impairment provision (2020: none) is held against intercompany receivables at year end.

40. Subsequent events

Following the year end, the Bank completed an issuance of 66,666,667 shares, for a net £39m.

Independent auditors' report to the members of Atom Bank Plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2021 and of the group's and company's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the group and bank statements of financial position as at 31 March 2021; the group and bank statements of comprehensive income, the group and bank cash flow statements, and the group and bank statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

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

Independence

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

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

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

Our audit approach

Overview

Audit scope:

- We conducted all our work across the group using one engagement team.
- We performed audit procedures over all material account balances and financial information of the Bank due to its significance to the Group's financial performance.
- We performed audit procedures over specific account balances and financial information in one other Group undertaking that materially contributed to the Group's financial performance and/or position.

Key audit matters:

- Risk of inappropriate judgements and estimates relating to staging, future economic assumptions and post model adjustments applied to the expected credit loss (ECL) allowance on loans and advances to customers in the residential, BBSL and BBUL portfolios (Group and Bank)
- IT infrastructure and software may be impaired or recognition criteria for newly capitalised IT software may not have been met (Group and Bank)
- Assessment of the use of the going concern assumption (Group and Bank)
- Considerations relating to Covid-19 (Group and Bank)

Materiality:

- Overall group materiality: £1,400,000 (2020: £1,960,000) based on 1% of Net Assets.
- Overall company materiality: £1,400,000 (2020: £1,960,000) based on 1% of Net Assets.
- Performance materiality: £1,050,000 (Group) and £1,050,000 (Bank).

The scope of our audit

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

Key audit matters

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

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

Risk of fraud in revenue recognition – EIR (Group and Bank) , which was a key audit matter last year, is no longer included because of the fact that we do not consider the risk arising from EIR adjustments to pose a significant audit risk as the output of the EIR adjustments are not materially sensitive to changes to the underlying assumptions. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of inappropriate judgements and estimates relating to staging, future economic assumptions and post model adjustments applied to the expected credit loss (ECL) allowance on loans and advances to customers in the residential, BBSL and BBUL portfolios (Group and Bank) See note 11 of the financial statements for the disclosure of the related accounting policies and critical estimates and judgements. In order to meet the requirements of IFRS 9, the Bank has developed impairment models that are reliant on expert judgement and industry assumptions provided by third parties in the absence of internal historical data. This includes a new model which was created during the year for the Business Banking Unsecured Lending ('BBUL') portfolio. Post model adjustments (PMAs) have been recorded to reflect the impact of Covid-19 on the ECL as at the balance sheet date focussing on the uncertain macroeconomic forecasts and payment holidays. Given the ongoing impact of Covid-19 in the current year, there is increased uncertainty as to the future economic outlook, particularly UK house prices and unemployment, which increases the estimation uncertainty in the ECL. *We considered the significant risk assumptions to be:* • The key economic variables and scenarios used in the model, particularly the severity and likelihood of the base and downturn economic scenarios that form part of the forward looking modelling of default rates (all portfolios), house price values (residential) and commercial real estate values (BBSL) and their impact on ECL; • The post model adjustments made to account for areas of credit risk not captured within the base modelling solution (all portfolios), including those introduced as a result of the lack of data available over which to base the staging of the Coronavirus Business Interruption Loan Scheme ('CBILS') loans (BBSL and BBUL).	We understood management's process and tested key controls around the determination of ECL, including controls relating to: • Appropriateness of modelling methodologies and monitoring of model performance; and • model review, validation and approval of changes to the model. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes. We performed the following procedures to address the areas of judgement and estimates used in the calculation of ECL: • *We obtained an updated understanding of management's process* of determining the expected credit loss (residential and BBSL); • We assessed the underlying methodology of the new BBUL portfolio ECL model, including the suitability of the adjustment made to the PD methodology to reflect the 12 month Business Interruption Payment; • We tested the design and implementation of key controls over the selection, review and approval of assumptions used in determining the ECL, and over model performance monitoring, including periodic model review and approval of model changes (all portfolios); • We compared the forward-looking economic assumptions to independent forecasters. The severity and magnitude of the scenarios were compared to external forecasts and data from historical economic downturns, and the sensitivities of the scenarios were considered (all portfolios); • We tested whether the economic scenarios used were appropriately severe so as to capture nonlinear effects in credit losses which may arise in economic downturns and weighted appropriately given the current economic environment under Covid-19 (all portfolios); and • We tested the appropriateness of the post model adjustments made by management, including testing the underlying assumptions used in these adjustments and consideration of completeness of adjustments made through review of ECL coverage and comparison with wider industry levels (all portfolios). Based on the procedures performed and the evidence obtained, we found management's judgements used in the determination of ECL to be reasonable.

Key audit matter	How our audit addressed the key audit matter
IT infrastructure and software may be impaired or recognition criteria for newly capitalised IT software may not have been met (Group and Bank) See note 35 of the financial statements for the disclosure of the related accounting policies. At 31 March 2021, the Bank's total net book value of intangible assets was £35.9m (2020: £36.6m) The Bank is committed to developing a new banking platform and other back office functions, and capitalised £8.6m in the year in relation to IT infrastructure and software.	We checked the Bank's capitalisation policy to confirm it met the requirements of IAS 38. As part of our detailed work we: • Substantively tested a selection of costs to confirm that these meet the criteria of IAS 38 for capitalisation as intangible assets; • Reviewed how the Bank expects these assets to generate future economic benefits through a review of the business plan; • Assessed whether existing assets continue to be used by the business or demonstrate any indicators of impairment; • Tested the amounts capitalised on a sample basis to assess that they can be reliably measured and meet capitalisation policy, and, tested a selection of costs expensed to confit they should not have been capitalised; and • Performed an assessment of the management's impairment review, including the discounted cash flows to support the recoverability Based on the procedures performed and evidence obtained, we found management's conclusions to be appropriate.
Assessment of the use of the going concern assumption (Group and Bank) Atom continues to seek additional capital to support its growth plans and its base case forecast assumes that the group will enter into a number of capital transactions during the 12 months from the date of approval of the financial statements to cover trading losses and fund asset growth. If capital raises in the future are unsuccessful, management would be required to implement actions to maintain capital levels above regulatory requirements and thresholds. We considered this to be a key audit matter because whilst the directors plan assumes that they will be able to raise the necessary capital successfully, there is uncertainty as to the timing and extent of the capital transactions and any mitigating actions the Group may need to take in such scenarios. Managements disclosures with regards to the use of the going concern assumption are included within the Directors' responsibilities statement on page 41.	We obtained and evaluated management's going concern assessment, which included their forecast of capital and liquidity levels under different future scenarios. We held a number of meetings with key management personnel to update our understanding of their future plans and strategy and how capital would be impacted by those plans. Details of the procedures performed by us, and our conclusion with respect to going concern is set out below in the section titled 'Conclusions relating to going concern'.

Key audit matter	How our audit addressed the key audit matter
Considerations relating to Covid-19 (Group and Bank) The Covid-19 pandemic has disrupted financial markets and normal patterns of human behaviour during the year. This is translating into adverse impacts on the UK economy and uncertainty in the UK housing market. In response, the UK Government and the financial services regulators have applied measures to support borrowers and firms alike throughout the period. We considered the impact of Covid-19 to be an area of greater risk due to the potential for it to have pervasive implications on the Group and Bank. The directors' disclosures explaining how the pandemic has given rise to risks within the Bank are included in the chief executive and financial reviews. Disclosures relating to the appropriateness of the use of the going concern basis of preparation and the considerations made by the directors' when drawing this conclusion are given in note 1. The directors have specifically considered the impact on the financial statements as it gives rise to greater levels of uncertainty in the following areas: The going concern assessment of the Bank, and the Group and Bank's longer-term financial sustainability; and The allowance for impairment of loans and advances to customers (considered within the key audit matters above).	In assessing the Directors' consideration of the impact of Covid-19 on the financial statements, we have undertaken the following audit procedures: • We discussed the impact of Covid-19 on the Group and Bank's financial statements and operations with the Audit Committee during the year; • We critically assessed the directors' conclusions on their going concern assessment and their consideration of the impact of Covid-19 on the financial statements; • We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts; • We challenged the year end value of impairment recognised on the Group's loans and advances to customers given the potential impact of the pandemic on customer behaviour, and audited the appropriateness of the assumptions used within their forecasting, as explained by the above key audit matters; • We considered the appropriateness of the disclosures made by the directors as it relates to the potential impact of Covid-19 on the Group. As a result of these procedures, we concluded that the impact of Covid-19 has been appropriately evaluated and reflected in the preparation of the financial statements.

How we tailored the audit scope

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

The consolidated financial statements include the securitisation related SPV, Elvet Mortgages 2018-1 Plc. Certain SPV balances were scoped in for audit on a line by line basis based on their proportion of the consolidated financial statement line item to ensure adequate overall audit coverage for each line item. 100% of net interest income, profit before tax and total assets were subject to audit. All of the audit work was completed by the Group engagement team.

Materiality

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

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

	Financial statements - Group and Bank
Overall materiality	£1,400,000 (2020: £1,960,000).
How we determined it	1% of Net Assets
Rationale for benchmark applied	Based on the life cycle of the group net assets is the primary measure of group growth and performance.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1,300,000 and £1,400,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,050,000 for the group financial statements and £1,050,000 for the Bank financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £70,000 (group audit) (2020: £98,000) and £70,000 (Bank audit) (2020: £98,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- assessed management's capital forecasting model, and tested the mathematical accuracy of the calculations of future capital levels under management's different scenarios;
- challenged the key assumptions in management's forecast, including how management actions in relation to loan book growth impacted on the capital position of the bank and the severity of the economic scenarios being included as they relate to Covid-19;
- compared current year actual results to previous forecasts to assess how accurate management are in their forecasting, understanding rationales for variances and challenging the feasibility of the updated business plan;
- met with the PRA to discuss their supervision of the bank as well as reading key regulatory correspondence; and
- discussed the capital forecasts with the Audit Committee and read Board and executive committee meeting minutes.

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statementss

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

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 13 March 2014 to audit the financial statements for the year ended 31 March 2014 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 March 2014 to 31 March 2021.

D Brydon

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
30 June 2021

Independent auditors' report

Atom