Pillar 3
Disclosure document

As at 31 December 2020

Darlington
Building Society

01325 366366 | darlington.co.uk

1. Introduction

1.1 Background

The Society is a mutual organisation run for the benefit of its Members. The Society seeks to protect Members' savings by holding sufficient capital at all times. The Society's Tier 1 core capital exclusively comprises of General Reserves as shown in the Balance Sheet. Tier 2 capital is limited to a small addition for general credit risk adjustments (i.e. collective provisions). The Society's core capital is therefore predominantly 'retained profit': profit earned that the Society holds in reserve (rather than investing into the business or paying back to Members). This capital reserve allows the Society to weather challenging economic conditions, unexpected credit losses, and other adverse events by absorbing the losses with its own capital, protecting its Members' savings.

The Society is required, at all times, to maintain overall financial resources, including capital and liquidity, to ensure there is no significant risk that its liabilities cannot be met as they fall due. This Pillar 3 document provides an insight into the risk inherent to the Society's business and balance sheet, and the substantial quantity and quality of capital held to support this risk as at 31 December 2020.

The following disclosures relate primarily to the Society, as the only regulated entity within the Group. The Society has one wholly-owned active subsidiary, Darlington Homes Limited (DHL), which owns and manages a number of commercial and residential properties. During 2020, the requirements to consolidate subsidiary entities under the Capital Requirements Regulations were revised. See Section Regulatory - scope of consolidation below for further detail.

1.2 Regulation – regulatory environment

Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision (BCBS) in response to the financial crisis of 2007-2009.

The Capital Requirements Directive IV (CRD IV) (applicable from 1 January 2014) is an EU legislative package that contains prudential rules for banks, building societies, and investment firms. CRD IV implemented the Basel III agreement in the EU with particular requirements around the quality and quantity of capital, a basis for new liquidity and leverage requirements, rules for counterparty risk, and capital buffers.

CRD IV is made up of the Capital Requirements Directive (2013/36/EU) (CRD) and the Capital Requirements Regulation (575/2013) (CRR). The CRD must be implemented through national law while the CRR applies 'automatically' to firms across the EU.

Basel III aimed to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks' transparency and disclosures (including particularly the requirement to publish annual Pillar 3 disclosure documents).

Changes to the Basel III measures (Basel IV) were issued by the BCBS in 2016-17. The Capital Requirements Directive V (CRD V) and the Capital Requirements Regulation 2 (CRR 2) are amendments to the CRD and CRR respectively, intended to 'continue the EU's implementation of Basel standards'. CRD V and CRR 2 do not implement all of the BCBS' outstanding recommendations. Notably, long standing proposals to materially overhaul the calculation of credit risk weighted assets and counterparty credit risk weighted assets are not part of the CRD V and CRR 2 legislation.

CRD V was published in the (EU) Official Journal on 7 June 2019 and transposed into UK law on 28 December 2020. Most of CRD V's requirements apply from 29 December 2020.

CRD V aims to address issues in relation to the provisions of the CRD that have 'proved not to be sufficiently clear and have therefore been subject to divergent interpretations or that have been found to be overly burdensome for certain institutions'. It also introduces amendments required following adoption of other relevant EU acts, and to 'better align the current regulatory framework to international developments'.

The PRA is the regulatory body responsible for implementing CRD within the UK. These rules include requirements for the Society to disclose key information about risk and are referred to as "Pillar 3" requirements.

CRR 2 was published in the (EU) Official Journal on 7 June 2019. Most of CRR 2's requirements apply from 28 June 2021 although changes applicable during 2020 are reflected in this document where relevant to the Society. The parts of CRR 2 that applied prior to the end of the EU Transition Period on 31 December 2020 apply to the Society automatically.

1.3 Regulatory – scope of consolidation

The Society is the only regulated entity in the Group. As a financial institution, the requirements of the CRR apply directly to the Society on an individual basis. While the Society is the parent entity of a number of subsidiary entities, it is not a parent institution for the purposes of the CRR/ CRR 2 as none of its subsidiaries are financial institutions.

The Society's subsidiary entities are as follows:

Subsidiary company	Registered number	Class of shares held	Society shareholding	Principal activity
Darlington Homes Limited	02748333	Ordinary	100%	Property management
Darlington Estate Agents Limited	03331762	Ordinary	100%	Dormant
Darlington Investment Planning Limited	03230003	Ordinary	100%	Dormant
Darlington Mortgage Services Limited	02972124	Ordinary	100%	Dormant
DBS Services (No 3) Limited	03093231	Ordinary	100%	Dormant
Sentinel Homes Limited	02748328	Ordinary and preference	100%	Dormant

Darlington Homes Limited is the Society's only non-dormant subsidiary. Darlington Homes Limited has no individual regulatory capital or liquidity requirement (and is historically profitable and cash generative). There is no current or foreseen material practical or legal impediment to the prompt transfer of cash, or accumulated reserves (by way of dividend) from Darlington Homes Limited to the Society. Long standing intercompany loans by the Society to Darlington Homes Limited supported Darlington Homes Limited's purchase of investment property. The loans are unsecured and have no formal repayment schedule and are not expected to be available for 'prompt' repayment in times of stress or otherwise. At 31 December 2020 Darlington Homes Limited's net reserves were immaterial.

None of the Society's subsidiary companies are considered to provide ancillary services to the Society for the purposes of the CRR/ CRR2.

CRR 2 requires firms to use the equity method to value subsidiaries that are not banks or investment firms, financial institutions, or ancillary services undertakings, or their participations in such entities.

The equity method records initial investments at historical cost, with adjustments made to the value based on percentage ownership in net income, loss, and dividend payments. This differs slightly from the Society's accounting method of recognising investments in its subsidiary entities which are presented at historic cost less impairment.

The equity method of 'consolidation' for CRR 2 purposes is different to the consolidation required of Groups of institutions. It is a method of valuing an investment in unregulated subsidiaries and not a method of consolidating said subsidiaries on and off balance sheet exposures into the scope of a regulatory consolidation group.

The Society has applied the equity method of consolidation in valuing its investment in non-dormant subsidiaries throughout this document.

1.4 Regulation – Society application

The Society adopts the 'Standardised Approach' for Credit risk and the 'Basic Indicator Approach' for Operational risk. These approaches are explained in more detail in Section 3 of this document.

The Society's Pillar 3 Disclosures at December 2020 comprise all information required under Pillar 3, both quantitative and qualitative. They are made in accordance with Part 8 of the Capital Requirements Regulation (CRR) within CRD IV and the European Banking Authority's ('EBA') final standards on revised Pillar 3 Disclosures issued in December 2016. These disclosures are supplemented by subsequent amendments to disclosure requirements, specific additional requirements of the PRA and discretionary disclosures made by the Society.

Significant changes to the Pillar 3 Disclosure requirements are expected in 2021 as parts of CRR 2 become applicable (and as UK regulators and supervisors conclude on comparable disclosure requirements applicable in the UK).

The Society has calculated capital for prudential regulatory reporting purposes throughout 2020 using the Basel III framework of the Basel Committee ('Basel') as implemented by the European Union (EU) in the amended Capital Requirements Directive and Regulation (CRD IV/V), and in line with the PRA's Rulebook for the UK banking industry.

The Basel Committee's framework is structured around three 'pillars':

- Pillar 1 minimum capital requirements;
- Pillar 2 supervisory review process; and
- Pillar 3 market discipline.

The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

These disclosures are prepared on an annual basis, or more frequently where applicable to any revised reporting frameworks (see Regulation- regulatory environment above).

These disclosures are not subject to external audit. These disclosures were reviewed and approved by the Society's Audit Committee on 23rd February 2021 and ratified by the Society's Board on 12th March 2021.

2. Risk Management

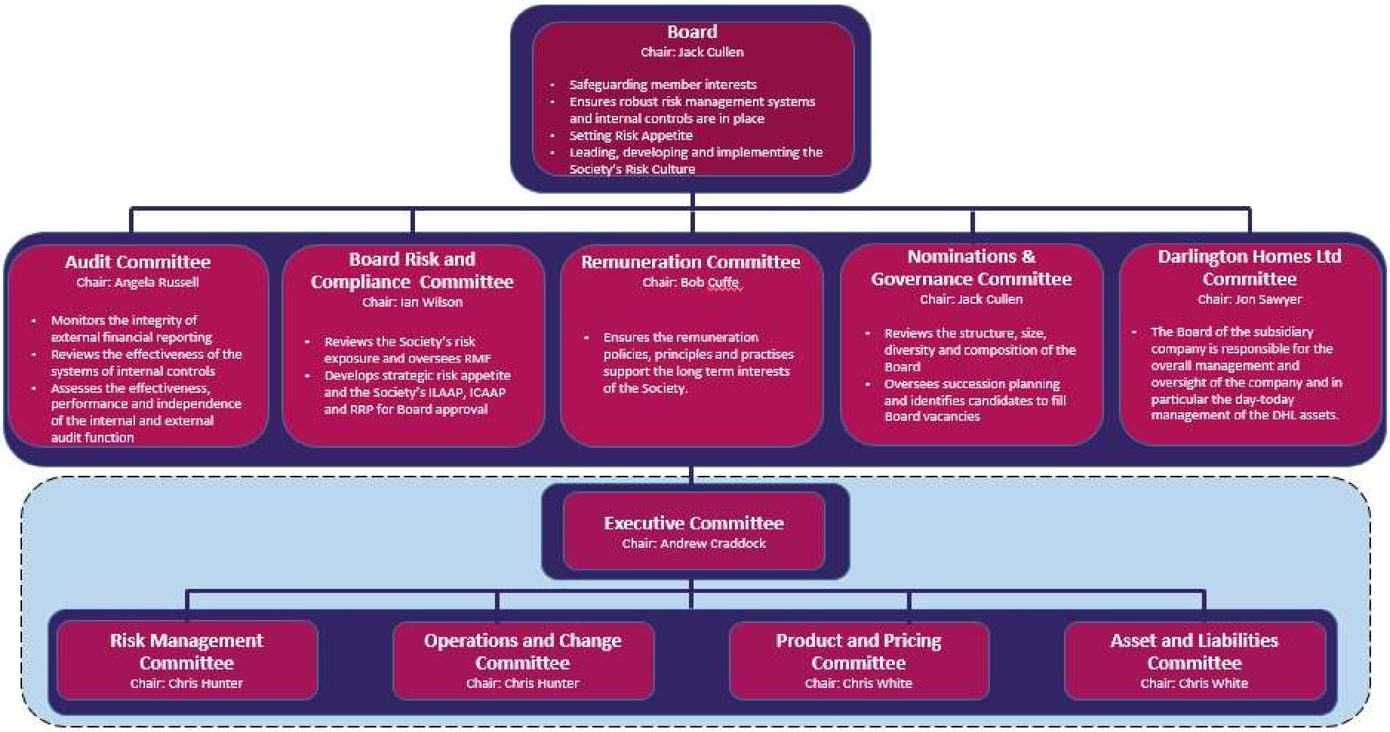
2.1 Governance and Oversight

The Board is the main decision-making body of the Society (and Group). The Board provides leadership within a framework of prudent and effective controls to enable the effective assessment and management of risk.

The Board determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and is responsible for ensuring maintenance of sound risk management and internal control systems.

The Board are responsible for approval of the Society's Risk Appetite Statements (RAS), and the Risk Management Framework (RMF), on the recommendation of the Board Risk and Compliance Committee ('Risk Committee' in the governance structure below).

Throughout 2020 the Board had four sub-committees to deal with specific issues. The Board determines the responsibilities and composition of these Committees, which are authorised to make decisions within agreed parameters and/or make recommendations to the full Board as appropriate.



The Board Risk and Compliance Committee

This Committee ensures that the Society meets its regulatory and legal obligations with regard to all areas of the business relating to risk as specified in our Risk Appetite Statement. This includes areas of business conduct to ensure that at all times the Society's objectives are met by delivering business in a clear, transparent and fair manner, whether that is by the Society itself or by a third party acting on its behalf. Members of senior management appear in front of the Risk Committee to be challenged on how they manage and mitigate risks in their business areas. In considering the risks, the Committee will understand the Group's strategies and tactics, along with the key success factors used to measure its performance. The Committee met 7 times in 2020.

The Risk Committee has delegated responsibility to advise on all high level risk matters and to provide proper consideration and assessment of future risks, compliance with regulations and assessment of financial stresses to enable management to develop appropriate strategies to protect the Society.

The Risk Committee oversees how the Society embeds the principles of good risk management into the Society's culture, and day to day operations and compliance with the Society's agreed risk appetite. The Committee assumes responsibility for monitoring the Society's RMF, which embraces risk principles, policies, methodologies, systems, processes, procedures and people.

The Audit Committee

This Committee discharges its duties by considering matters relating to internal and external audit arrangements and financial reporting.

The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- The integrity of the financial statements, any formal announcements relating to financial performance and significant financial reporting judgments. This includes the Society's annual Pillar 3 disclosures.
- The effectiveness of the system of internal financial control.
- The effectiveness of the internal and external audit processes, including objectivity and independence.
- The appointment, re-appointment and removal of the External Auditors.
- The policy on the use of External Auditors for non-audit work.

The effectiveness of whistleblowing procedures.The Committee met 5 times in 2020. The present Committee members are all non-executive directors.

The Nominations and Governance Committee

This Committee considers the structure, size and composition of the Board and makes recommendations to the Board regarding any proposed changes. The Committee is also responsible for reviewing succession planning for members of the Board and executive. The Committee will nominate candidates to fill Board vacancies and will consider nominations made by members. The Committee met 7 times in 2020.

The Remuneration Committee

This Committee considers the remuneration and contractual arrangements for the non-executive directors, executive directors and executive Committee. The Committee met 4 times in 2020 and comprises all non-executive directors, with the Chief Executive in attendance.

Terms of Reference for the four sub-committees are published on the Society's website at www.darlington.co.uk

The Executive are responsible for designing, operating and monitoring risk management and internal control processes. The key executive management Committees are the Assets and Liabilities Committee, chaired by the Finance Director and the Risk Management Committee chaired by the Chief Risk Officer:

The Executive Committee

The purpose of the Executive Committee is to manage the day-to-day activities of the Society and Group through developing and implementing strategy, operational plans and budgets. The Executive Committee is the most senior Management committee with the remaining 4 management committees reporting into it.

The Committee meets at least once a month through the year and is chaired by the Chief Executive. An Executive Director chairs the committee in the Chief Executives absence.

The Assets and Liabilities Committee

This Committee controls the methods for managing credit risk of counterparties, basis risk, settlement risk, funding risk, interest rate risk and structural risk in the balance sheet. The Committee implements appropriate limits and monitors relevant exposures. A Financial Risk Management Policy is maintained which sets out the Society's risk appetite and approach to liquidity, funding and structural balance sheet management. The Committee meets at least once a month. This is an executive Committee, however, non-executive directors attend at their discretion.

The Risk Management Committee

This Committee, which is an Executive Committee, is responsible for management oversight of the Society's operational risk and credit risk exposures. Credit risk arises from the Society's residential and commercial lending activities. Operational risks include the Society's conduct in treating customers fairly, properly and in accordance with our stated values and regulations. Risks to the Society are considered which are impacting now and in the future. The Committee uses the Board agreed risk appetite to guide decisions.

2.2 Risk Management Framework

The Board understand that risks arise naturally as a consequence of decisions taken in order to achieve the Society's business objectives but endeavours, through positive mitigation strategies, to manage these in a manner that optimises returns whilst protecting Members' and customers' interests and the Society's long term capital position.

The Society's RMF is designed to promote the Society's ability to achieve its strategic objectives in a way that minimises its exposure to its major risks. The RMF establishes a consistent and structured approach to risk management, influencing the development and effective implementation of the Society's Strategy and Objectives.

The RMF is a set of components (and the formal document) that defines the Society's arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the Society.

The Society's Chief Risk Officer (CRO) is the operational owner of the RMF and is responsible for the effective implementation, review and maintenance of the Society's approach to risk management and advising of any material changes to Executive Management, the BRCC and the Board, as appropriate. The CRO is also responsible for periodic assessments of risk maturity in relation to the Society's RMF Vision and desired target state.

2.3 Risk culture and risk assurance

Embedding of a robust risk culture and an understanding by all staff of their role in the detection and prevention of risk is key to a successful RMF. Implementation of the Society's RMF is the responsibility of all employees and the Society is committed to the involvement of all staff in the process of risk identification, escalation, analysis, control and monitoring.

The RMF is supported by the underlying values and culture of the Society. The Society adopts the three lines of defence model with regards to risk management and compliance:

First line of defence

The business and its functions. It is the responsibility of line management to take ownership and correctly assess risks relating to their area of operation on a bi-annual basis.

The first line of defence operate within and report against a framework of approved risk management policies.

The first line of defence is directly responsible for taking and managing risk in a controlled environment.

Second line of defence

The Risk and Compliance department. It is the responsibility of Risk and Compliance to advise, assist and support the business in achieving the corporate strategy in an appropriately risk managed and regulatory compliant manner. Risk and Compliance act to independently monitor, review and challenge the risk culture and environment implemented by the first line of defence.

The second line of defence is directly responsible for embedding the RMF, overseeing its integrity and reviewing the effectiveness of first line controls.

The Board Risk and Compliance Committee operate as a second line of defence committee.

Third line of defence

Internal audit, outsourced to KPMG. It is the responsibility of internal audit to provide independent assurance on the design, adequacy and effectiveness of the Society's system of internal controls.

The third line of defence is directly responsible for providing independent assurance across the first and second lines of defence.

Audit Committee operate as part of the Society's third line of defence with responsibility for monitoring and oversight of internal audit's direction.

2.4 Principal Business Risks

The principal business and financial risks to which the Group is exposed are credit, market, liquidity, operational, pension, conduct, strategic and regulatory:

Credit risk

Credit risk is the risk that Member, customer, or counterparty may not be able to meet their obligations to the Society as they fall due.

The Society manages its credit risk across three core categories:

Residential mortgages

The Society's residential lending is all collateralised: the Society retains primary legal charge over the mortgaged property and, in the event of borrower default, has the contractual ability to recover its investment through sale of the property collateral. This significantly mitigates the Society's credit risk exposure to its borrower Members.

The Society regards as 'impaired' any mortgage or loan account where more than three monthly repayments have not been made at the accounting date or where there is objective evidence that the loan account is impaired. An account is 'past due' where one or more monthly repayment has not been made. Arrears of mortgage repayments are monitored closely by the Society's financial support team and the Risk Management Committee. The Society has performed satisfactorily when compared with national arrears and possession statistics.

The Society manages its residential mortgage exposures in line with its Board approved risk appetite statement. The Society monitors its concentrated exposures across a wide range of metrics, including type of lending (owner occupied, buy to let, specialist, etc.), loan to income and loan to value, retirement status, and geographic location. Tranches of new mortgage lending are managed to these metrics to promote a balance sheet structure that reflects the Society's strategic risk appetite.

Return on Capital Employed benchmarks are set to ensure that the return on proposed mortgage tranche's suitably reflect the risk inherent in the lending.

The Society's mortgage lending is prudently and manually underwritten and supported by a rigorous formal Retail Credit Risk and Responsible Service Excellence Lending Policy.

The Society's Risk and Credit Departments monitor and manage the Society's residential mortgage performance, with detailed arrears, forbearance and possessions MI reported to the Risk Management Committee on a monthly basis, including borrower watch lists and arrears trends.

Commercial mortgages

The Society's commercial lending is all collateralised, in the same manner as residential lending disclosed above.

The Society's commercial portfolio is a closed book and is in active wind down. The Society's Commercial Manager manages its relationship with commercial borrowers on an individual basis. Commercial loan performance is reported to the Risk Management Committee on a monthly basis including detailed watch list MI. The Society periodically engages third party valuation specialists to assist in the assessment of commercial property valuations, with the level of commercial provisioning supported by detailed internal models. The commercial portfolio is now small (total balances c. £10.7m).

Treasury

The Society's treasury portfolio (investments in non-cash liquid assets) is managed by the Society's Treasury Department and monitored by the Assets and Liabilities Committee. The Society's Board approved Treasury Policy and Financial Risk Management Policy set out the type and concentration of counterparties that the Society is prepared to invest in.

The Society's Treasury Activities are managed in line with the Building Societies Sourcebook and the regulator's Supervisory Statement on societies' treasury and lending activities under which the Society is a 'matched approach' building society.
As a matched approach building society, the Society's liquidity investments are limited to non-complex Stirling instruments. The Society's investments are typically in the form of T-Bills, Floating Rate Note, Medium Term Notes and Certificates of Deposit with highly rated financial institutions, including supranational counterparties.

The Society deems that it is not exposed to wrong way risk, the risk that exposures to a counterparty are negatively correlated to the creditworthiness of that counterparty, as a result of any of its activities.

For further information, see Sections 4-6 of this document.

Prudential risk

Funding and Liquidity risk

Liquidity risk is the risk that the Society has insufficient funds to meet its obligations as they fall due or is able to do so only at excessive cost.

The Society's business model is to take funding from retail savings Members to fund its mortgage lending. The nature of building societies is to lend for longer terms and fund with shorter term savings accounts. This leads to a maturity mismatch between assets and liabilities.

The Society manages its liquidity in line with its Board approved liquidity risk appetite and Financial Risk Management Policy. These set out detailed limits for liquidity and funding levels and concentrations and include minimum on and off balance sheet liquidity levels, minimum funding diversification levels, and structural limits on key funding sources.

The Society completes an annual assessment of its key liquidity risks and consequent liquidity requirements (through the Internal Liquidity Adequacy Assessment Process (ILAAP)) which is approved by the Board and subject to periodic supervisory review. This includes a range of severe but plausible stress tests to inform the degree of liquidity the Society should hold 'now' to ensure it has suitable liquidity to cover unexpected stressed outflows.

The Society maintains access to the Bank of England's Stirling Monetary Framework (SMF) to provide access to diversified sources of central bank funding and liquidity. The SMF provides access to business as usual and stressed liquidity and the Society maintains collateral pools, pre-positioned with the Bank of England, to ensure access to contingency funding can be secured in times of unexpected stress.

The Assets and Liability Committee monitors the Society's liquidity position on a monthly basis.

Market Risk

Market risk is the risk that the income from, or value of the Group's assets and liabilities may change when affected by fluctuations in market rates such as house price index, inflation and interest rates. A dedicated Treasury function exists to manage this risk with Second line oversight from Risk and Compliance.

As a building society, the Society cannot trade in financial instruments. Its exposure to market risk is therefore concentrated towards interest rate risk.

The Society manages interest rate risk in line with its Board approved Market Risk appetite and Financial Risk Management Policy limits.

The Society Assets and Liabilities Committee monitors its exposure to basis and gap risk across a range of stressed scenarios, including the European Banking Authority's 6 prescribed interest rate shocks. Exposure to interest rate risk is managed to internal (and supervisory) limits to minimise the maximum impact of pre-determined interest rate movements.

The Society manages (or hedges) its interest rate exposures through the use of interest rate swaps: derivative financial instruments that convert the Society's fixed interest rate return on fixed rate mortgages into a variable rate of return that better matches the Society's administered/ variable rate funding.
The Society also employs natural hedging techniques where possible: matching fixed rate mortgages to fixed rate retail liabilities, reducing its reliance on interest rate swaps with third parties. For further information see Section 7 of this document.

The Society has no direct exposure to foreign currencies or equities but may be indirectly impacted by changes in these through its (closed) defined benefit pension plan.

Full detail regarding the financial instruments used by the Group in the mitigation of market risk are given in the Annual Report and Accounts, Note 24, Financial Instruments, available on the Society's website at www.darlington.co.uk

Operational Risk

Operational risk is the risk that an exposure or loss may arise from inadequate or failed internal processes, people and systems, or from external events (including a failure in outsourced activities).

The Society maintains a Board approved operational risk appetite, through the wider risk management framework and overseen by a dedicated Operational Risk department. The policy and framework set out how colleagues are expected to identify, assess, monitor, manage, and report their risk exposures. Operational loss events are identified and reported to the Risk Management Committee on a monthly basis.

This enables timely identification and rectification of incidents and near misses, supported by root cause analysis and detailed 'lessons learned' exercises to combat and address the underlying causes of operational risk.

Through 2020 each Department in the Society has completed a detailed risks and controls self-assessment (RCSA): a formally documented identification of their key operational risks and mitigating controls. The RCSA process promotes engagement within first line departments embedding ownership and management of risk within the Departments contributing to said risks. RCSAs were supported by standardised templates and scoring systems to present senior management with a consistent view of the Society's key operational risks. This allowed for a consistent treatment of risk: ranging from acceptance of adequately controlled risks to structured enhancement of operational controls where the Society's risk appetite and exposure were not aligned.

Conduct and compliance risk

Conduct and compliance risk is the risk that the Society fails to treat customers fairly, meet expected customer outcomes, or fails to comply with legal or regulatory obligations.

The Society maintains a Board approved conduct risk appetite, through the wider risk management framework and managed by a dedicated Risk and Compliance department.

Risk and Compliance work closely with first line departments to support the development of new products and promotions. The Society maintains an active training program, supporting customer-facing staff through their customer interactions. Treating customers fairly and vulnerable customer policies set out the Society's expectations when working with all customers and all staff complete annual fraud prevention, data protection, anti-money laundering and anti-bribery training.

The Risk Management Committee manage 'horizon scanning' of key legislative and regulatory change, supported by the Risk and Compliance department. Progress is fed back to the Risk Management Committee and Operations and Change Committee where appropriate.

Strategic and Governance risk

The risk that the Society is unable to deliver its strategic objectives

The Society sets out its strategic objectives in its Corporate Plan: a Board approved document setting clear targets across a 5 year planning horizon. The strategy is centred on five pillars:

1. People – ensuring we have the appropriate leadership, capability and capacity to deliver on our plans, supporting our people with health & wellbeing, learning and development, fair reward and agile working practices, whilst also embedding consistent and effective performance management throughout the Society
2. Members – delivering an outstanding member and broker experience with consistently high service standards, through the branch network, central support teams, financial advice function, intermediary team and digital channels, ensuring those in vulnerable circumstances are appropriately identified and cared for. We will improve and expand our member product proposition through all of our channels
3. Community – supporting and positively engaging with our local and regional community through volunteering, financial awareness and education, careers advice, and grant funding through our pledge to donate 5% of our profits annually to local good causes, all aligned to our ESG commitments, moving towards becoming a more sustainable Society
4. Simplicity – removing complexity, driving efficiency and resilience by investing in the future to ensure we remain competitive
5. Financial resilience – optimise profitability to remain a sustainable and viable business, by delivering our segmental lending proposition with the appropriate reward for risk undertaken, predominantly funded by strong retail savings. Financial resilience is assisted by an agile and dynamic product development and management capability, and supplemented by access to the Stirling Monetary Framework.

The Board monitor a wide range of key financial and non-financial metrics when measuring progress against the Corporate Plan.

The People, Simplicity, and Financial Resilience Pillars are considered to be the most relevant for the purpose of Pillar 3 disclosures:

The People pillar is supported by frequent staff surveys, and engagement sessions. The Society is an active participant in the Banking Standards Board's culture and Best Companies surveys. For the Best Companies survey we were delighted to see a completion rate of 92% and an increase in scores across all workplace factors resulting in our highest rating since we started participating in 2016. The Society is now rated as a 2-star company with Best Companies describing the Society as "well led and well managed with outstanding levels of engagement". On our Banking Board Culture survey, significant improvements on questions relating to leadership, member focus, reliability and responsiveness were seen. It was also pleasing to see that the vast majority of our people are proud of how the Society has helped its members during the Covid-19 pandemic. The Society's Human Resources/ People Excellence department also support the Society's quarterly and annual appraisal processes: structured opportunities for staff and line management to discuss performance, reward, and opportunities for personal growth.

The Simplicity pillar is most notably supported through a range of 2020 and planned 2021 strategic projects with particular focus on outsourcing the Society's IT infrastructure to the Cloud, and replacing its mortgage sales and origination platform.

The Financial resilience pillar is supported through a wide range of financial reporting to Board and Executive Committees, providing quantified assessment of performance vs. the Society's Corporate Plan.

Pension risk

Pension fund obligation risk is the risk that the value of the Scheme's assets, together with any agreed employer contributions, will be insufficient to cover the projected obligations of the Scheme over time.

The Independent Trustees of the Society's Defined Benefit Plan are responsible for managing the scene and determining and implementing an appropriate investment strategy. The trustees are supported by independent experts, TPT Retirement Solutions a leading provider of UK Pensions services.

The Scheme has sat in a net surplus position for some years with a well hedged liability driven investment strategy mitigating the risk of adverse scheme movements. The scheme was closed to future accrual as at 31 March 2010.

The Scheme has comparatively limited exposure to equities and proved resilient to the volatile equity markets weathered during 2020.
The Society accounts for its Defined Benefit Plan under Financial Reporting Standard 102. Valuations are sensitive to a number of key variables, including projections of mortality, inflation and long term yield curves. For further information, including detailed calculation of the 31 December 2020 net surplus, see note 25 to the 2020 Annual Report and Accounts, available on the Society's website at www.darlington.co.uk

Economic uncertainty

Economic uncertainty is the risk that an economic downturn or prolonged uncertainty has a detrimental effect on the Society achieving its objectives. Through the emergence of COVID-19, economic uncertainty has become the base economic environment through much of 2020. The Society's capital holdings are designed to allow it to weather economic stress, and through 2020, the Society has demonstrated its financial resilience to be robust and appropriate.

For further information, see the Chief Executive's review to the 2020 Annual Report and Accounts, available on the Society's website at www.darlington.co.uk

2.5 Key performance indicators

The following key performance indicators are an extract of the Society's key performance indicators, as presented in the 2020 Annual Report and Accounts:

Area	Measure	Metric	2020	2019
Business Performance	Core Mortgage Growth	Net lending secured by residential property	£35m	£40m
	Core Retail Funds Growth	Increase in Retail Funding	£19m	£52m
	Growth	Increase in Total Assets	5.8%	8.8%
	Cost Efficiency	ManEx (%) & Cost/Income (%)	1.38 & 88.2	1.43 & 82.2
Financial	Margin	Net Interest Margin (%)	1.51	1.69
	Profitability	Profit After Tax (£'000)	636	1,415
	Capital	ROCE (% of Prior Year Reserves)	1.61	4.02
		Common Equity Tier 1 Ratio	17.1%	18.1%
	Credit	Loans past due more than 3 months (£,000)	1,666	1,020
	Liquidity	Liquidity % of Shares and Borrowings	17.1%	17.1%
Members	Customer Satisfaction	Net Promoter Score (%)	85.0	87.6
	Member Engagement	Active Customers	50,410	52,406
	Local Impact	Community Impact Projects	90	12
People	Staff Engagement	Staff Survey Result (score out of 900)	713.2	653.2
	Staff Turnover	Annual Staff Turnover %	11.9	21.5

NB: Key Performance Indicators of the Group required by statute are given in the Annual Report and Accounts' Annual Business Statement. Further analysis of the Group and Society performance is given on the following pages. A glossary of the terms used in the table above, and throughout the Annual Report and Accounts, can be found at the end of the document.

2.6 Evaluation

The Board recognises the importance of sound systems of internal control in the achievement of its objectives and the safeguarding of Members' and Society assets. Internal control also facilitates the effectiveness and efficiency of operations, helps to ensure the reliability of internal and external reporting and assists in compliance with applicable laws and regulations.

The Society concludes that its risk management arrangements and risk management systems are adequate with regard to the Society's profile and strategy.

For further detail see the Risk Management Report, Strategic Report, Directors' Report and Audit Committee Report presented in the 2020 Annual Report and Accounts, available on the Society's website at www.darlington.co.uk

3. Capital

3.1 Capital Forecasting and Planning

The Group adopts an iterative five-year corporate planning framework which includes detailed consideration of the Society as a standalone entity. The Corporate Plan is reviewed and approved by the Board at least annually to take account of current and changing economic conditions and the Group's future strategic objectives, including the strategic objectives of the Society. The Society performs a comprehensive range of stresses to identify the potential impacts and risks to the business if economic conditions or business performance differ from the assumptions within the Corporate Plan.

The Society's Directors monitor performance against budget at monthly Board meetings. The Group and Society complete quarterly re-budgeting when internal business decisions and/or external economic conditions lead to a material change in the Group and Society's ability to meet the agreed Corporate Plan.

The Corporate Plan includes detailed consideration of the Society's available capital including assessment of projected capital resource, capital requirement and resultant capital headroom vs. the Board's approved risk appetite across the five year horizon.

The Society's ICAAP considers the viability of the Corporate Plan for the next five years under a range of severe but plausible stresses (including those informed by regulatory benchmark stresses/ benchmark stressed macro-economic environments). An ICAAP like stress is modelled as part of the Corporate Planning process to demonstrate the expected viability (or ability of the Society to return to a viable position) in the event of a severely stressed environment impacting the Corporate Plan's horizon.

The Board ensures that adequate capital resources are retained to support the corporate goals contained within the plan.

The capital plan details the capital resources requirement (effectively, the minimum capital required) in each year using the standardised approach for credit risk and the basic indicator approach for operational risk together with additional capital provision determined by the Board to be appropriate to cover additional risks not covered under the standard capital calculations.

3.2 Capital Risk Appetite

The Society's 'risk appetite' describes the maximum amount of risk that the Society is prepared to assume.

The Society's capital risk appetite sets out the amount and quality of capital it expects to hold at any point in time, including across its forward planning horizon. The risk appetite is calibrated as part of the Society's ICAAP and Recovery Plan processes, and is therefore informed by the speed that the Society expects its capital resources may deteriorate during a range of severe but plausible stresses.

The capital risk appetite is supported by an early warning indicator framework: a range of financial and non-financial metrics monitored by the Society on a monthly basis that act as emerging signs of capital stress.

The Society monitors both regulatory and business indicators. Regulatory (mandatory) indicators are prescribed in guidance issued by the EBA/PRA which are relevant to the Society's business model and actively used in its risk management processes. Business indicators are other indicators which have been identified by senior management as having specific relevance and sensitivity to the emergence of stress with regard to the Society's Business Plan.

The Society's capital early warning indicators are designed to maximise the chance that the Society is alerted to oncoming stress with sufficient notice to implement and realise the benefit of any necessary 'recovery options'.

3.3 Capital Adequacy Assessment

The Society assesses whether the capital it holds is sufficient based on the risks within the Society's financial position (i.e. balance sheet). This exercise is completed through the methodology outlined in the Capital Requirements Directive (CRDIV).

The tables on the following pages outline:

- Capital available in excess of total capital requirements;
- Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories;
- Main sources of differences between regulatory exposure amounts and carrying values in financial statements;
- Differences in the scopes of consolidation – entity by entity;
- Overview of Risk Weighted Assets;
- Total and average net amount of exposures;
- Geographical breakdown of exposures;
- Concentration of exposures by industry or counterparty types;
- Maturity of exposures;
- Credit quality of exposures by exposure classes and instruments;
- Credit quality of exposures by industry or counterparty types;
- Credit quality of exposures by geography;
- Ageing of past-due exposures;
- Non-performing and forborne exposures
- Changes in stock of general and specific credit risk adjustments;
- Changes in stock of defaulted and impaired loans and debt securities;
- Credit risk mitigation techniques – overview;
- Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects;
- Standardised approach;
- Analysis of Counterparty Credit Risk (CCR) exposure by approach;
- Credit Valuation Adjustment (CVA) capital charge;
- Exposures to Central Counterparties (CCPs);
- CCR exposures by regulatory portfolio and risk;
- Composition of collateral for exposures to CCR;
- Market risk under the standardised approach;
- Derivative exposures net of posted collateral and in line with Master Netting Agreements; and
- Asset encumbrance, assets and source of encumbrance.

3.4 Capital requirements

The Society's capital adequacy assessment is reviewed periodically by the Prudential Regulatory Authority (PRA). In line with all financial institutions they regulate, the PRA provide an independent assessment of the capital requirements of the Society. This is communicated to the Society as a Total Capital Requirement.

The Society's total capital requirement is made up of three primary parts:

Part 1: Minimum capital requirements applicable to all financial institutions (Pillar 1)

Credit risk

Under the standardised approach for credit risk, the Society cuts its balance sheet assets into a small number of predetermined regulatory categories (exposures to central governments or central banks, multilateral development banks, institutions, corporates, retail, secured by mortgages on immovable property, and 'other').

Each category attracts a regulatory 'risk weighting' (or a range of risk weightings) reflecting the 'generic' risk assumed to be inherent to the underlying assets. This is typically calibrated by reference to credit rating (liquidity exposures), loan to value (mortgage exposures) or is 'static' (a 100% risk weighting for tangible fixed asset exposures, for example).

Balance sheet exposure multiplied by risk weightings produce risk weighted assets. Under Pillar 1, the Society holds a minimum capital requirement for credit risk equal to 8% of its risk weighted assets.

The Society also holds capital against committed, but undrawn lending, primarily in the form of mortgage commitments. Commitments receive risk weighting based both on the lending's anticipated loan to value (as for on balance sheet mortgages) but also benefit from a conversion factor, reducing the initial exposure value to 50% (lowmedium risk lending) of the commitment under the CRR.

Market risk

Market risk is not a material factor in the Society's calculation of its capital requirements.

With no trading book, no investments in commodities, no direct investment in equities and no operations outside of the UK, the Society's market risk under the CRR is broadly limited to credit valuation adjustments applied to its derivative portfolio, calculated under the CRR's 'standardised method'.

The Society is exposed to interest rate and basis risk through potential disparity of its underlying repricing structure or basis risk on its assets and liabilities.

See Section 7 for further detail.

The Society's defined benefit pension schemes do not fall under the scope of the CRR's market risk consideration, with any pension surplus deducted instead from Common Equity Tier 1 (reserves).

Operational risk

Under the basic indicator approach for operational risk, the Society calculates its average net income[1] over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk. (The basic indicator approach produces a Pillar 1 requirement. For comparability in the table below, this Pillar 1 requirement has been multiplied by 12.5x to provide a proxy – risk weighted asset.)

Part 2: Additional capital requirements to address risks not adequately capitalised by Pillar 1 (Pillar 2A)

The Pillar 1 calculations outlined above (and detailed more rigorously in the capital tables throughout this Pillar 3 document) calculate the capital requirements for the Society under a standard, formulaic approach that does not identify risks that are specific to Darlington Building Society.

Under Pillar 2A the Society considers any individual or idiosyncratic risks faced by the business and any additional capital it should hold in relation to these risks.

Pillar 2A is set by the PRA and combines with Pillar 1 to produce the Society's 'total capital requirement'. The Society must hold sufficient capital at all times to meet its Total Capital Requirement.

[1] Shorthand here for net interest income plus net commission, net profit or loss on financial operations and other income.

Part 3: Additional buffer requirements

In addition to its Pillar 1 and Pillar 2A capital requirements, the Society is required to hold additional 'buffer' capital as follows:

Capital Conservation buffer (CCB)

The capital conservation buffer (CCB) is a buffer held by all financial institutions to allow them to absorb losses without breaching minimum capital requirements. The buffer is designed to ensure that a degree of excess capital is built up and retained, rather than used to support additional growth or further activities, during periods of nonstress which can be drawn down on if losses are incurred in the future. The CCB is set at 2.5% of a financial institution's risk weighted assets.

Countercyclical Buffer (CCyB)

The countercyclical buffer (CCYB) is a buffer that can be varied over time. The primary objective of the CCYB is to ensure that the banking system is able to withstand stress without restricting essential services, such as the supply of credit, to the real economy. In times of stress, the buffer may be lowered to reduce capital requirements across the financial sector, 'freeing' up capital to support continued lending. In times of plenty, the buffer may be increased, to promote the build-up and retention of capital. The Society has no material relevant exposures outside of the UK and consequently is subject to the UK's published countercyclical buffer, currently set at 0%.

PRA Buffer

The Society's regulator may set additional buffer capital requirements at their discretion.

The CCB, CCyB and PRA Buffers combine with the Society's Total Capital Requirement to produce the Society's Overall Capital Requirement. Unlike Pillar 2 capital requirements, buffer capital is designed to be available for use during times of stress. At 31 December 2020, the Society held significant capital headroom to its Overall Capital Requirement, despite the severely stressed current economic conditions.

3.2 Capital resources

Available capital resource

At 31 December 2020 the Society held total capital resources of £44.2m.

This is made up predominantly of Common Equity Tier 1 (CET 1) capital in the form of General Reserves (the accumulated profits of the Society), net of regulatory adjustments.

Sundry Tier 2 capital comprises the collective provision for impairment in relation to bad and doubtful debts, added back to total capital for regulatory purposes as the provision meets the definition of 'general credit adjustments' (broadly provisions considered to be freely available to meet losses as they materialise).

Table 1 Components of Common Equity Tier 1, Tier 1 capital and Tier 2 capital as at 31st December 2020

£'000	At 31 December 2020
Common Equity Tier 1 (CET1)	
General reserve	46,548
Regulatory adjustments:	
Pension scheme asset adjustment	(2,382)
Intangible assets	(528)
Total CET1 and Tier 1 capital	43,638

Tier 2 Capital	
Collective provisions for impairment	579
Total available capital	44,217

The Society does not adjust regulatory capital in respect of prudent value adjustments / additional value adjustments in accordance with Article 34 of CRR because they are trivial in size.

The pension scheme asset adjustment is quoted net of any associated deferred tax liability.

Intangible asset deductions reflect computer software purchased by the Society that is not yet available for use.

The Society has no additional Tier 1 capital instruments, hence CET1 and Tier 1 capital amounts are the same.

Table 2 – Capital available in excess of total and overall capital requirements

£'000	At 31 December 2020
Total available capital	44,217
Total Capital Requirement (TCR)	28,073
Excess capital over TCR	16,144
Other regulatory buffer requirements	7,785
Overall Capital Requirement (OCR)	35,858
Excess capital over TCR and CRDIV buffers	8,359

The Society holds significant excess capital vs. its total capital requirement. This surplus capital supports the Society's long-term growth aspirations as mortgage growth consumes capital in its early years before the mortgages generate sufficient net interest margin to cover their capital cost.

Capital flows

The table below outlines the flow of regulatory capital and movements in deductions to regulatory capital throughout 2020.

Table 3 – 2020 Regulatory Capital Flows

£'000	At 31 December 2020
Common Equity Tier 1 (CET1)	
General reserve 1 Jan 2020	45,743
Regulatory adjustments:	
Pension scheme asset adjustment	(1,887)
Intangible assets	-
Total CET1 and Tier 1 capital 1 Jan 2020	43,856
Movements in relation to 2020:	

Total comprehensive income 2020	805
(Increase)/ decrease in pension scheme asset adjustment	(495)
(Increase)/ decrease in intangible assets	(528)
Total CET1 and Tier 1 capital 31 Dec 2020	43,638
Tier 2 Capital	
Collective provisions for impairment 1 Jan 2020	554
Total Tier 2 Capital 1 Jan 2020	554
Movements in relation to 2020:	
Collective provision for impairment charge in the year	25
Total Tier 2 capital 31 Dec 2020	579
Total available capital	44,217

CET 1 has fallen since the previous year, driven by the following key movements: The year's profitable result, despite challenging economic conditions, contributed positively to the Society's CET 1 in 2020. This was offset by improvements in the value of the Society's pension scheme (included in other comprehensive income) which aresubsequently deducted from CET 1. Pension improvements were driven by the Society's liability driven growth strategy and well hedged exposures: with the Society moving away from equity based growth in previous years, protecting the scheme's value during a year of unprecedented volatility in the equity markets. Investments made in intangible assets during 2020 that were not available for use at 31 December 2020 are also deducted from CET 1.

A general increase in the Society's collective provision, which suppresses the year's profit (and is reflected in the total comprehensive income 2020 line) , is 'added back' as Tier 2 capital as the cost of the provision is not attributable to any specific assets and is considered to be freely available to meet losses as they fall due. For further detail on the Society's 2020 provisioning see the 2020 Annual Report and accounts available at www.darlington.co.uk

Leverage Ratio

The Leverage ratio is a measure of capital adequacy, representing the Society's Tier 1 capital as a proportion of total relevant non-risk weighted assets.

The PRA published its final rules on the exclusion of claims on central banks from the UK leverage ratio framework and the recalibration of the minimum leverage ratio from 3% to 3.25% of tier 1 capital in 2019.

At 31 December 2020 the Society's leverage ratio (excluding claims on central banks) was 6.1%, significantly above the minimum requirement. There is no difference between the Society's point in time or end point leverage ratio as none of the leverage ratio transitional provisions apply to the Society's position.

As the Society is a 'standardised approach' firm, it does not expect to be constrained by the leverage ratio. Standardised approach firms apply the CRR's 'standard' risk weightings to their exposures whereas 'internal ratings basis' firms apply a range of institution specific weightings: typically much lower than the standardised weighting. This can increase the key capital ratios of an internal ratings basis firm when compared to a standardised approach firm as similar asset bases can drive very different risk weighted asset totals. The leverage ratio does not consider risk weighted assets, with its denominator primarily driven by total assets, producing a more comparable measure of capital strength across financial institutions.

Table 4: Leverage ratio

£'000	At 31 December 2020
Tier 1 capital	43,638
Total leverage adjusted Balance Sheet	702,152
Weighted mortgage commitments	10,238
Derivative risk	1,067
Total leverage exposures	713,457
Leverage ratio %	6.1%

Movement in the Society's leverage ratio is driven by balance sheet growth: with increased mortgage assets outpacing growth in Tier 1 capital, reducing the Society's leverage ratio year-on-year.

Table 5: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Carrying values as reported in published Society financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
£'000			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation risk framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction to capital
Assets							
Cash and balances at central banks	75,089	75,089	75,089				
Loans and advances to credit institutions	14,212	14,212	14,212				
Debt securities	21,486	21,486	21,486				
Loans and advances to customers	583,839	584,418	584,418				
Derivative financial instruments	11	11		11		11	
Available-for-sale financial investments	-	-					
Investments in subsidiaries	7,605	5,010	5,010				
Other assets	5,131	5,131	2,221				
Total assets	707,373	705,357	702,436	11	-	11	
Liabilities							
Shares	580,112	580,112					580,112
Amounts owed to credit institutions	58,852	58,852					58,852
Amounts owed to other customers	16,718	14,123					14,123

Derivative financial instruments	2,846	2,846					2,846
Other liabilities	2,297	2,297					2,297
Reserves	46,548	47,127					47,127
Total liabilities	707,373	705,357	-	-	-	-	705,357

There is little difference between the accounting carrying value of the Society's assets, and the value of the assets within the scope of regulatory consolidation and its credit risk framework. Differences are limited to:

1) Collective provisions are added back to both loans and advances to customers, and to reserves as the provisions are freely available to meet losses as they arise and considered 'general' under the Capital Requirements Regulation.
2) The value of derivative financial instruments. As the Society's interest rate swaps are cash collateralised, (or out of the money and 'paid for' via cash collateral pledged to third parties), the carrying value of the derivatives for regulatory purposes is reduced. The uncollateralised part of derivative financial instrument assets falls under both the counterparty credit risk and market risk parts of the CRR, to reflect the credit risk and potential future exposure risk inherent to these instruments.
3) The value of the Society's investment in Darlington Homes Limited. For accounting purposes, the investment is held at historic cost less accumulated impairment. For regulatory purposes, the investment is held at its value under the equity method of consolidation (broadly historic cost less accumulated impairment plus the Society's share of the profits). This difference presents itself in 'investment in subsidiaries'.
4) The value of the Society's investment in its dormant subsidiary entities. For accounting purposes, these investments are held at historic cost less accumulated impairment. For regulatory credit risk purposes, the investments are not consolidated. This difference presents itself in 'investment in subsidiaries'.
5) Where the Society has deducted pension assets and intangible assets from its CET 1, it is not required to risk weight the deducted balances under the credit risk framework (as this would double count the risk). This difference presents itself in 'other assets'.

Under the CRR the Society must also reflect risks arising from certain off-balance sheet exposures: most significantly commitments made by the Society to lend to mortgage borrowers that have not yet drawn down on this commitment at 31 December 2020.

Table 6: Main sources of differences between regulatory exposure amounts and carrying values in financial statements.

	Total	Items subject to		
£'000		Credit risk framework	CCR framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	705,357	702,436	11	11
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	705,357	-	-	-
Total net amount under the regulatory scope of consolidation	-	702,436	11	11
Off-balance-sheet amounts and potential future exposure for counterparty risk	52,257	51,190	1,067	1,067

Differences due to amounts not subject to regulatory capital requirements	-	-		
Exposure amounts considered for regulatory purposes	757,614	753,625	1,078	1,078

The amounts shown in the column 'Carrying values under scope of regulatory consolidation' equal the sum of the amounts shown in the remaining columns of this table when adjustment is made to reflect that for the line items 'Derivatives financial instruments', the assets included are subject to regulatory capital charges for both CCR and market risk.

Table 7: Differences in the scopes of consolidation – entity by entity

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity
Darlington Building Society	Fully consolidated	Full consolidation	Credit institution
Darlington Homes Limited	Fully consolidated	Equity method	Property development and sales company
Dormant subsidiaries	Fully consolidated	Not consolidated	Dormant subsidiary

Table 8: Overview of Risk Weighted Assets

	RWAs		Minimum capital requirements
£'000	31 Dec 2020	31 Dec 2019	31 Dec 2020
Credit risk (excluding CCR)	234,857	213,930	18,789
Of which the standardised approach	234,857	213,930	18,789
Market risk	374	377	30
Of which under the mark to market risk approach	374	377	30
Operational risk	20,023	19,466	1,602
Of which basic indicator approach	20,023	19,466	1,602
Total	255,255	233,773	20,420

'Minimum Capital Requirements' here and in all tables where the term is used, represents the Pillar 1 capital charge at 8% of RWAs.
The Society's risk weighted assets are dominated by those derived under the standardised approach to calculating credit risk: reflecting the risk inherent to assets held by the Society (including both on-balance sheet items (liquidity, mortgages, other assets), and off balance sheet commitments to lend mortgages in the future.

Under the standardised approach for credit risk, the Society applies a risk weighted asset to each of its exposure classes as set out in the PRA handbook BIPRU Section 3 and provides 8% of that risk weighted asset value as the minimum capital requirements for credit risk.

Under the basic indicator approach for operational risk, The Society calculates its average total income over the previous three years and provides 15% of that average total income as the minimum capital requirement for operation risk.

Table 9: Total and average net amount of exposures

£'000	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	75,034	72,938
Multilateral development banks	12,067	7,240
Institutions	24,752	21,371
Corporates	5,705	5,855
Retail	7,083	7,159
Secured by mortgages on immovable property	626,088	584,932
Exposures in default	1,836	1,352
Other exposures	5,049	2,896
Total standardised approach	757,614	702,724
Total	757,614	702,724

The Society's increased exposures under the standardised approach to credit risk are primarily driven by strong net mortgage lending achieved through 2020.

Note: the Society's corporate and retail lending reflect parts of mortgages secured against immovable property that are considered to be 'unsecured' by the Capital Requirements Regulation (the part of any exposure above 80% loan to value for residential mortgages).

Table 10: Geographical Breakdown of Exposures

	Net value							
£'000	Europe	United Kingdom	Netherlands	Australia	North America	USA	Canada	Total
Central governments or central banks	75,034	75,034						75,034
Multilateral development banks	12,067							12,067
Institutions	24,660	24,660	-	-	92	92	-	24,752
Corporates	5,705	5,705						5,705
Retail	7,083	7,083						7,083
Secured by mortgages on immovable property	626,088	626,088						626,088
Exposures in default	1,836	1,836						1,836
Other exposures	5,049	5,049						5,049
Total standardised approach	757,522	745,455	-	-	92	92	-	757,614

Total	757,522	745,455	-	-	92	92	-	757,614

The Group's primary activity is mortgage lending exclusively within the UK. The Annual Report and Accounts include a breakdown of the geographical mortgage loan exposures within the UK. The Group's ICAAP includes an assessment of the geographic concentration risk within the UK and the Society holds additional capital where required in relation to this risk.

Table 11: Concentration of Exposures by Industry or Counterparty Types

£000	Agriculture, Forestryand Fishing	Wholesaleand RetailTrade	Accommodation andFoodService Activities	RealEstate Activities	Professional Scientificand Technical Activities	Arts, Entertainment andRecreation	OtherServices	Fullysecuredon residential property	Other	Total
Central Governments or Central Banks									75,034	75,034
Multilateral Development Banks									12,067	12,067
Institutions									24,752	24,752
Corporates			13	5,663			28			5,705
Retail								7,083		7,083
Secured by mortgages on immovable property	150	261	2,444	4,380	219	357	1,841	616,437		626,088
Exposures in default								1,836		1,836
Other exposures									5,049	5,049
Total standardised approach	150	261	2,458	10,043	219	357	1,869	625,356	116,902	757,614
Total	150	261	2,458	10,043	219	357	1,869	625,356	116,902	757,614

The Society's most concentrated exposures are to mortgages fully secured against residential and commercial property. Corporate exposures include a £5.1m intercompany loan between the Society and Darlington Homes Limited. Commercial mortgage exposures are allocated to columns based on the principal activity of the borrowing entity.

Table 12: Maturity of Exposures

	Net Exposure Value					
£'000	On Demand	< = 1 Year	> 1 Year < = 5 Years	> 5 Years	No Stated Maturity	Total
Central Governments or Central Banks	75,034					75,034
Multilateral Development Banks		5,052	7,016			12,067
Institutions	12,244	9,418	3,090			24,752
Corporates	-	-	5,100	605		5,705

Retail	-	-	3	7,080		7,083
Secured by mortgages on immovable property	-	2,850	20,725	602,513		626,088
Exposures in default	-	-	-	1,836	-	1,836
Other exposures					5,049	5,049
Total standardised approach	87,278	17,320	35,934	612,033	5,049	757,614
Total	87,278	17,320	35,934	612,033	5,049	757,614

The table above presents the contractual maturity date of 31 December 2020 balances as a whole and does not reflect interest expected to accumulate on balances between 31 December 2020 and the ultimate date of maturity.

When the amount is repaid in instalments, the exposure has been allocated in the maturity bucket corresponding to the last instalment. This is in accordance with the Final Report on the Guidelines On Disclosure Requirements Under Part Eight Of Regulation (EU) No 575/2013.

Table 13: Credit Quality of Exposures by Exposure Classes and Instruments

	Gross carrying value of		Specific credit risk adjustment	Credit risk adjustment charges of the period	Net values
£'000	Defaulted exposures[1]	Non-defaulted exposures			
Central governments or central banks		75,034			75,034
Multilateral development banks		12,067			12,067
Institutions		24,752			24,752
Corporates		5,930	225	62	5,705
Retail		7,083			7,083
Secured by mortgages on immovable property		626,270	182	114	626,088
Exposures in default		1,844	8	(1)	1,836
Other exposures		5,049			5,049
Total standardised approach	-	758,029	415	176	757,614
Total	-	758,029	415	176	757,614
Of which: Loans		641,127	415	176	640,712
Of which: Debt securities		21,486			21,486
Of which: Off balance-sheet exposures		1,067			1,067

The table above considers the Society's assessment of the credit quality of its non-defaulted exposures and the associated provisions attributable to each category of exposure. Collective provisions of £555,000 are not reflected in the table above (or in tables 13 and 14 below) as by their nature collective provisions are not attributable to individual exposures and are considered to be freely available to cover losses as they materialise regardless of the ultimate source of loss. Practically, collective provisions should be read as attributable to the Society's mortgage book.

Table 14: Credit Quality of certain Exposures by Industry or Counterparty Types (excluding defaulted and other exposures types)

£'000	Gross carrying value of		Specific credit risk adjustment	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures			
Agriculture, forestry and fishing		150			150
Wholesale and retail trade		261			261
Accommodation and food service activities		2,511	54	54	2,458
Real estate activities		10,190	147	2	10,043
Professional, scientific and technical activities		219			219
Arts, entertainment and recreation		357			357
Other services		1,893	24	7	1,869
Fully secured on residential property		623,702	182	114	623,520
Central banks and credit institutions		111,853			111,853
Total		751,136	431	176	750,729

The Society does not consider credit risk to be unduly concentrated against any particular industry. Provisions held against commercial mortgages as a whole are disproportionately larger than provisions held against residential mortgages. The Society has not been an active lender in the commercial mortgage market for several years, with the commercial book in wind-down.

Table 15: Credit Quality of Exposures by Geography

£'000	Gross carrying value of		Specific credit risk adjustment	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures			
Europe		757,937	415	176	757,522

United Kingdom	1,844	744,026	415	176	745,455
Netherlands		-			-
Australia		-			-
North America		92			92
USA		92			92
Canada		-			-
Total		758,029	415	176	757,614

The Society’s credit exposures relevant for the calculation of the countercyclical capital buffer (CCyB) are all in the UK (or attract a 0% risk weighting where not in the UK) and as such the ‘institutions specific CCyB’ is 0%, consistent with the UK CCyB.

Table 16: Non-Performing and Forborne Exposures

	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On nonperforming exposures	Of which forborne exposures
£'000					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
Debt securities	21,486												
Loans and advances	641,127	3,074	2,101	2,927			906	431	0	8	3		
Off-balance-sheet exposures	1,067												

Table 17: Changes in Stock of Specific Credit Risk Adjustments

£'000	Accumulated specific credit risk adjustment	Accumulated general risk adjustment
Opening Balance	239	544
Increases due to amounts set aside for estimated loan losses during the period	176	25
Closing balance	415	579

Table 18: Changes in Stock of Defaulted and Impaired Debt Securities

None of the Society's debt securities are considered to have defaulted, or to be impaired at either 31 December 2019 or 31 December 2020.

Table 19: Credit Risk Mitigation Techniques - Overview

£'000	Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	14,624	626,088	626,088		
Total debt securities	21,486				
Total exposures	36,110	626,088	626,088		
Of which defaulted					

The Society's only eligible credit risk mitigation for the purposes of the Capital Requirements Regulation is the holding of first legal charge over mortgaged property.

Table 20: Standardised Approach – Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects

Exposure classes £'000	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density		
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density	RWA exposure (at 8%)
Central governments or central banks	75,034		75,034		-	0%	-
Multilateral development banks	12,067		12,067		-	0%	-
Institutions	24,752		24,752		8,096	33%	648
Corporates	5,705		5,705		5,705	100%	456
Retail	2,398	4,685	2,398	937	2,501	75%	200
Secured by mortgages on immovable property	579,583	46,505	579,583	9,301	210,555	36%	16,844
Exposures in default	1,836		1,836		1,846	101%	148
Other items	5,049	-	5,049	-	6,154	122%	492
Total	706,424	51,190	706,424	10,238	234,857	33%	18,789

Commitments for mortgage lending (off balance sheet retail and secured by mortgages on immovable property exposures) are subject to a conversion factor of 20% under the Capital Requirements Regulation. This reflects the medium/low risk nature of undrawn mortgage commitments.

Table 21: Standardised Approach

Exposure classes £'000	Risk weight							Total	Of which unrated
	0%	20%	35%	50%	75%	100%	150%		
Central governments or central banks	75,034							75,034	
Multilateral development banks	12,067							12,067	
Institutions		14,267		10,485				24,752	-
Corporates						5,705		5,705	5,705
Retail					7,083			7,083	7,083
Secured by mortgages on immovable property			616,928			9,160		626,088	626,088
Exposures in default						1,815	21	1,836	1,836
Other items						5,049		5,049	5,049
Total	87,101	14,267	616,928	10,485	7,083	21,729	21	757,614	645,761

Note, commitments for mortgage lending included in the retail 75% risk weighting and secured by mortgages on immovable property 35% risk weighting categories above are presented gross of their 20% conversion factor for consistency with earlier tables. The above table therefore reflects the contractual exposure value. Other items are presented under the 100% risk weighting reflecting the most common risk weighting applicable under the standardised approach. In practise, the Society's other items includes assets that do not map to any singular category above, including residual pension assets whose risk weighting is calculated as the blended risk weighting applicable to its underlying assets.

Risk weightings for institutions and multilaterals reflect the credit rating of the counterparty at 31 December 2020. The Society considers credit ratings provided by Moodys and Fitch (i.e. Moodys and Fitch act as the Society's external credit assessment institutions (ECAI) for the purposes of the Capital Requirements Regulation).

Table 22: Analysis of CCR Exposure by Approach and CVA charge

The Society's derivative assets at 31 December 2020 are wholly immaterial at £11,000. The Society's practice to cash collateralise derivative assets and liabilities significantly mitigates the credit and counterparty credit risk requirements of the capital requirements regulation. Cash collateral is an eligible credit risk mitigation technique under the Capital Requirements Regulation.

£'000	Exposure value	RWAs
Based on the original exposure method	1,067	374
Total subject to the CVA capital charge	1,067	374

The Society is not required to centrally clear its derivative transactions and all of its derivative transactions and consequent exposures are with and to non-qualifying central counterparties.

Table 23: CCR Exposure by Regulatory Portfolio and Risk

Exposure classes £'000	Risk weight		Total	Of which unrated
	20%	50%		
Institutions	0	1,067	1,067	
Total	0	1,067	1,067	

Risk weightings for financial counterparties reflect the credit rating of the counterparty at 31 December 2020. The Society considers credit ratings provided by Moodys and Fitch (i.e. Moodys and Fitch act as the Society's external credit assessment institutions (ECAI) for the purposes of the Capital Requirements Regulation).

Table 24: Composition of Collateral for Exposures to CCR

	Collateral used in derivative transactions	
	Fair value of posted collateral	
£'000	Segregated	Unsegregated
Cash - GBP		3,090
Total		3,090

The Society has posted £3,090,000 cash collateral to derivative counterparties to protect them from their exposure to the Society where derivative transactions, from the Society's perspective, are out of the money.

Table 25: Market Risk under the Standardised Approach

£'000	RWAs	Capital requirements
Outright products	374	30
Interest rate risk (general and specific)	374	30
Total	377	30

Table 26: Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure.

£'000	Fair value presented in the Society's Balance Sheet	Collateral pledged not subject to offset for the purpose of financial reporting disclosure	Net collateralised position	Net position under Master Netting Agreements not subject to offset for the purposes of financial reporting disclosures
Financial assets				
Interest rate swaps	11	-	11	13
Financial liabilities				
Interest rate swaps	2,846	(3,090)	(244)	3,023

Table 27: Asset encumbrance - COREP Template F32.01, assets of the reporting institution

£'000	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	47,581		606,215	
Equity instruments	-		-	
Debt securities	-	-	24,478	24,478
of which: issued by financial corporations	-	-	21,478	21,478
of which: issued by non-financial corporations	-	-	-	-
Other assets	47,581		581,738	

Figures above reflect the median values of the Society's previous four quarterly end of period positions.

Table 28: Sources of encumbrance - COREP Template F32.04

£'000	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	20,896	47,436

Figures above reflect the median values of the Society's previous four quarterly end of period positions.

An asset is encumbered when it is pledged, or is subject to any form of agreement to secure or collateralise a transaction from which it cannot be freely withdrawn. The Society's asset encumbrance typically arises from cash pledged as collateral against derivative transactions and from other assets pledged as collateral to facilitate the Society's participation in the Bank of England's Stirling Monetary Framework.

Secured funding provides the Society with a diversified funding capability but does not make up a large portion of the Society's total funding.

4. Credit Risk - Mortgages

A residual maturity analysis of Loans and Advances to Customers is provided in Note 11 of the Annual Report and Accounts 2020 which assumes that the loans and advances run for their full, contractual term.

5. Provisions

Provisions for Bad and Doubtful Debts

Provisions are made to reduce the value of 'loans and advances to customers' to the amount which the Directors consider to be recoverable on an incurred loss basis.

Throughout the year and at the year end, individual assessments are made of loans and advances that fall into one of the following categories:

- they are in possession,
- they are in arrears by three months or more, ☐ or other qualitative factors for commercial loans.

Within each category above, specific provisions are made against those loans and advances which, in the opinion of the Directors, are impaired.

The market value of securities held at the balance sheet date is estimated by indexation of the latest known property valuation. In considering the property's valuation and any required specific provision, account is taken of any legal, estate agent and other disposal costs that would be required to achieve a sale. The Directors recognise that not all loans and advances in arrears will result in possession and apply a probability of default to reflect this when calculating the specific provision for accounts which they believe are impaired.

Collective Provision

A further, collective provision is made against those loans and advances which have not been specifically identified under one of the criteria above as being impaired but demonstrate objective evidence to suggest a financial asset or group of financial assets has an increased likelihood of becoming separately impaired. The Group measures the amount of impairment loss by applying loss factors based on third party probability of default data, loss emergence periods, the effect of movements in house prices and any adjustment for the expected forced sales value.

When a borrower tells the Society that they are having financial problems the Society works with them using a variety of forbearance measures as described in Note 24 to the Annual Report and accounts. Forbearance is included in the loan loss provision similar to other debt, whereby debt which is more than three months in arrears is treated as individually impaired. Debt which is less than three months is included in the calculation of the collective impairment provision.

Loans and advances to customers in the Balance Sheet are shown net of provisions. The charge or credit in the Income and Expenditure Account represents losses written off during the year (net of recoveries), together with the movement in provisions.

Full details of the movement on provisions for bad and doubtful debts are provided in Note 12 to the Annual Report and Accounts 2020. For capital adequacy purposes, collective provisions are regarded as Tier 2 capital. Specific provisions have been utilised to adjust downwards the net exposure value of residential risk weighted assets for the purposes of capital adequacy calculations.

Post Model Adjustment

The Group has incorporated a post model adjustment of £0.3m into the 2020 loan loss provision amount. The post model adjustment captures risks that, in the opinion of management, would not otherwise be adequately captured by the core loan loss model. This is the first time the Group has made use of such an adjustment but it was deemed necessary in light of the fast changing and uncertain macroeconomic environment. The post model assessment considers risks arising from both Brexit and the ongoing Covid-19 pandemic, including the potential impact of the actions taken by the UK government which are stimulating activity in the housing market and delaying the widely expected increase in levels of arrears and forbearance following any future growth in unemployment.

The adjustment considers two key areas, the impact of lower house prices and higher levels of default. In considering house prices fluctuations the adjustment looks at regional variations to house prices based on the concentrations in the Group's mortgage book as well as the national housing market. The assessment of levels of default focusses on the Society's exposure to borrowers employed in sectors that have been most heavily impacted by the Covid-19 pandemic and the potential impact on loan loss if the Society were to see an increase in levels of default across these borrowers consistent with the current collective assessments, for example where a Member has a history of arrears.

6. Credit Risk - Treasury

The purpose of the Liquidity credit risk appetite, as outlined in the Financial Risk Management Policy (FRMP), is to ensure that the Society balances the return achieved on assets against the risk of loss in respect of counterparty default within limits set out in that document for both the amount invested and the counterparty rating. Investments in banks and building societies are held purely for liquidity management purposes. The minimum acceptable mutually inclusive credit ratings are set out in the Society's FRMP based on publically available external credit agency information from Fitch IBCA. Treasury deposits may also be made with unrated building societies.

Policy limits and counterparties are regularly reviewed by ALCO, with formal approval of these being made at Board. The Society receives counterparty rating amendments from its Treasury advisors and limits are suspended if downgrades to counterparty take the institution below the levels stated in the FRMP. In these circumstances ALCO will decide if present exposures held with the counterparty are to be realised or held to maturity. These decisions are reported to the Board. The Board may approve a counterparty with a rating below the minimum set where a market assessment is such that we believe the strength of the counterparty to be sufficiently robust to withstand the investment.

The Society deems that it is not exposed to wrong way risk, the risk that exposures to a counterparty are negatively correlated to the creditworthiness of that counterparty, as a result of any of its activities.

The Society does not hold an external credit rating and as such does not consider the impact of downgrade events.

Note 24 of the Annual Report and Accounts shows the breakdown of liquid assets by maturity and credit quality as at 31 December 20120, categorised into Credit Quality Steps as defined by the European Banking Authority (EBA) for the purposes of capital reporting .

7. Market Risk

7.1 Background

When market interest rates change, the Society's response will not impact its assets and liabilities at the same time. The Society can only re-price its fixed rate mortgage assets to reflect movements in market rates at the end of their fixed term (and can similarly re-price fixed rate bonds and fixed rate ISAs only at their product maturities). By contrast, administered rate funding and administered rate mortgages can be re-priced at the Society's discretion, where supported by the wider market. This introduces a timing mismatch between the re-pricing date, and amount, of certain assets and liabilities, which can lead to short term volatility in the income statement (basis risk) and mismatches in the underlying value of the Society's assets and liabilities (fair value risk or gap risk).

The Society makes use of interest rate swaps to manage its interest rate risk.

As a building society, the Society is not permitted to trade in financial instruments. The Society therefore holds interest rate swaps for risk mitigation purposes only.

7.2 Basis risk

This is the risk that the interest receivable or payable on the Society's assets and liabilities are linked to differing underlying re-pricing structures or bases of interest rate. The main activities undertaken by the Society that give rise to basis risk are as follows:

- Management of the investment of capital and other non-interest bearing liabilities;
- Management of fixed rate exposures including;

  o Fixed rate mortgages and other lending; o Fixed rate investments

  through Treasury operations; o Fixed rate retail savings products

  offered to members; and o Fixed rate wholesale funding taken

  through Treasury operations.

- Management of tracker mortgages and other lending and tracker retail investments offered to Members (against Bank of England Base Rate);
- Purchase of financial instruments linked to basis metrics such as LIBOR, SONIA and Bank Base rate as part of Treasury operations; and
- Management of administered mortgages and other lending and administered retail investments offered to Members, where the Society sets the interest rate receivable and payable.

Basis risk is managed on a continuous basis within limits set by Board and monitored by ALCO, using a combination of on and off balance sheet instruments, specifically interest rate swaps (hedging) or matched products (natural hedging).

Hedging action (natural or through interest rate swaps) is taken as appropriate to maintain the Society's compliance with its Board approved basis risk sensitivity limits.

The ALCO performs sensitivity analysis on a monthly basis to assess the interest rate risk faced by the Group over a 12 month period, if no management actions were undertaken. A range of risks measured by ALCO are shown in below:

Society	12 Month Impact £'000	Comment
Possible Scenarios		
Increase in Bank Base Rate by 0.25%	89	Improvement in profit before tax
Decrease in Bank Base Rate by 0.25%	(32)	Reduction in profit before tax

Severe but Plausible Scenarios		
Increase in Bank Base Rate by 2.0%	684	Improvement in profit before tax
Decrease in Bank Base Rate to Zero	(25)	Reduction in profit before tax

The reduction in Bank Base Rate to 0.1% has reduced the relative severity of previously downside 'severe but plausible' scenarios, particularly a stress that decreases bank rate to zero. The Society continue to monitor a range of parallel interest rate shocks, including those that would reduce Bank base Rate to below 0.0%.

7.3 Fair value 'gap' risk

This is the risk that the value of the Society's assets and liabilities will change asymmetrically when market interest rates change. While the Society, as a building society, is not permitted to trade in financial instruments, the relative value of its assets and liabilities during interest rate driven fair value stresses remains an important metric of financial resilience. The drivers of fair value risk are aligned with the basis risk drivers above. Changes to the underlying credit risk of an asset the Society has invested in (or to the Society's liabilities when its own credit risk changes) can also drive changes in fair value.

Fair value gap risk is managed on a continuous basis within limits set by Board and monitored by ALCO, using a combination of on and off balance sheet instruments, specifically interest rate swaps (hedging) or matched products (natural hedging).

Hedging action is taken as appropriate to maintain the Society's compliance with its Board approved interest rate risk sensitivity limits.

7.4 Prepayment

When assessing interest rate risk exposures relating to fixed-rate assets and liabilities the Society also needs to assess the likely rate of prepayment (early repayment/ 'over-payment' of assets compared to their contractual repayment schedule).

The Assets and Liabilities Committee periodically review and approve the Society's prepayment assumptions, which are also reflected in the Society's hedging activities. Prepayment assumption blend historical analysis with subject matter expert judgement around the potential change in future borrower behaviour driven by the Society's view towards forwards interest rates, and changes in its administered rates.

The Society's pre-payable mortgage assets typically include early redemption charges, compensating the Society for earlier than expected repayment. This mitigates the risk that the Society underestimates the prepayment of assets. The risk of overestimated prepayment is mitigated by the additional interest income that the additional holdings of assets brings.

7.5 Derivatives (Interest rate swaps)

The Society takes out derivative (interest rate swap) contracts to actively mitigate its interest rate risk. The Society uses derivatives in accordance with the Building Societies Act 1986. This means that such instruments are not used in trading activity or for speculative purposes and, accordingly, they are used exclusively to reduce the risk of loss arising from changes in interest rates.

The Society's interest rate swaps are agreed under industry standard ISDA Master Agreements, and the Society and its swap counterparties agree to mitigate credit risk arising from derivative exposures by cash collateralising the market value of derivatives (the Society pledges cash to its counterparties where its derivative exposures are 'out of the money' and receives cash from its counterparties where its derivative exposures are 'in the money').

This significantly reduces the credit risk associated with derivative exposures, and reduces the Society's derivative collateral requirements accordingly.

The Society does not hold an external credit rating and cash collateralisation of its exposures to and with counterparties (including both initial and variation margin collateral) means there would be no expected impact to the cash collateral postings required at 31 December 2020 in the event of a perceived decrease in the Society's credit worthiness.

7.6 Other market risk

The Group has no direct exposure to other forms of market risk.

The Group has indirect exposure to equity risk as a result of investments in equity assets in its defined benefit pension scheme.

8. Remuneration Policy and Practices

The Society's objective in setting the remuneration policy is to ensure that remuneration is set at a level to retain and attract individuals of the calibre necessary to operate an organisation such as Darlington Building Society whilst being in line with effective risk management and business strategy practices.

The remuneration of the executive directors and other members of the executive are determined by the Remuneration Committee. The Terms of Reference of this Committee are set out on our website, www.darlington.co.uk .

In setting remuneration, the Committee takes account of the remuneration and benefits package payable to executive directors and other executives carrying similar responsibilities in organisations comparable to the Darlington Building Society.

It is determined that the executive Committee which comprises of the executive directors being; the Chief Executive, the Finance Director and the Chief Risk Officer and five further executives are designated as subject to the Remuneration Code as set out in SYSC 19D.

Further information on the mandate of the Remuneration Committee and its decision making process in determining the remuneration policy for the executive directors and other members of the executive team is contained in the Report on Directors Remuneration within the Annual Report and Accounts for the year ended 31 December 2020.

For all of the Executives fixed remuneration includes pension contributions made by the Society on behalf of the employees and the value of taxable benefits. Variable remuneration relates to Bonus payments which are at the sole discretion of the Remuneration Committee and are not guaranteed, subject to malus and claw back.

Aggregate information on the remuneration of the three executive directors and other five executives for the period ended 31 December 2020 is shown in the table below. Staff involved in the Treasury function are not incentivised or awarded Bonuses based on the performance of the Treasury portfolio and no targets are set for return on assets to ensure the security of liquid assets is paramount at all times.

Category ('000s unless otherwise noted)	Number	Salary	Bonus	Pension Contribution	Other Benefits	Total Remuneration
Key Management compensation	14	1,045	2	47	3	1,144
Other Staff in Certification Regime	15	581	3	46	0	630
Total	29	1,626	5	93	3	1,774

During the year there were no severance or sign-on payments made to any director.

9. Other Pillar 3 reporting requirements

The Society is required to report a small range of additional information as part of its Pillar 3 disclosures. The following information includes extracts of information taken from the 2020 Annual Report and Accounts, presented here for completeness.

9.1 Number of directorships held by members of the management body

Name	Date of Birth	Date of Appointment	Occupation	Other Directorships
Directors (Non-Executive)				
J Cullen (Chairman)	08.09.1954	01.01.2015	Director	None
R Cuffe	08.06.1960	18.04.2013	Director	Joint industry Currency for Regional Media Research (Jicreg) Thirteen Housing Group (appointed 01/11/20)

J Sawyer	11.10.1976	01.03.2018	Director	Grimm & Company Limited Darlington Homes Limited Jon Sawyer Consultancy Ltd MC Solid Wall Structures T/A MMC Fasttrack
I Wilson	16.04.1964	01.10.2017	Director	IDW Associates Limited (Company Closed September 2020)
			Non-Executive Director	The Mortgage Lender Limited Redwood Bank Fintech Solutions APS (appointed Sept 2020) Revolut Ltd (appointed Feb 2020) Revolut NewCo UK (appointed Sept 2020)
A Russell	18.03.1967	01.08.2019	Non-Executive Director	Newcastle University Northern Homes and Estates Limited The Percy Hedley Foundation William Leech (Investments) Limited William Leech Foundation Limited
K McIntyre	25.10.1962	01.08.2019	Non-Executive Director	Brathay Trust (resigned Dec 2020) Brathay Services Limited (resigned Dec 2020) Cirencester Friendly Society Tadcaster Swimming Pool Trust
J Williams	19.03.1986	01.08.2019	Director	Just Williams Limited Advance Northumberland – Rural Business Growth Service (voluntary) (appointed Sept 2020)
Directors (Executive)				
A Craddock	31.12.1962	03.12.2018	Chief Executive	Building Societies Association Pension Trustees Limited Darlington Homes Limited (appointed 26.3.19) Director of Pavilion Gardens (Aston Clinton) Management Company Ltd
C Hunter	30.03.1977	04.09.2017	Chief Operating Officer	700 Club Darlington Homes Limited Darlington Mortgage Services Limited Sentinel Homes Limited (appointed 1.1.18) DBS Services No. 3 Limited Darlington Investment Planning Darlington Estate Agents Limited Emley Moor RFL Community Interest Company
C B White	21.12.1978	01.01.2015	Finance Director	Darlington Homes Limited Darlington Mortgage Services Limited Sentinel Homes Limited DBS Services No. 3 Limited Darlington Investment Planning Darlington Estate Agents Limited

The Society's other officers are N Barker, Director of People and Culture, D Ditchburn, Chief Customer Officer, S Horley, Credit Director, and D Bews, Chief Risk Officer. None of the Society's other officers hold other Directorships.

9.2 Recruitment and diversity policy

The Society's policy for the selection of members of its management body, and their actual knowledge, skills and expertise summarises as follows:

On an annual basis the Nominations & Governance Committee reviews the balance of skills, experience, independence and knowledge on the Board against the requirements of the Group.

Following an evaluation of the role and capabilities required for a particular appointment new appointees to the Board are made on merit and against objective criteria and with due regard for the benefits of diversity on the Board. In the light of this evaluation the Nominations & Governance Committee will prepare a description of the role and capabilities required for a particular appointment. Candidates for Non-Executive Directorship are identified in a variety of ways, including inviting applications from Members, press advertisements and utilising specialist HR Search organisations.

Eligible Members of the Society have the right under the Society's Rules to nominate candidates for election to the Board. All Directors must meet the tests of fitness and propriety laid down by the Regulator. The Regulator reserves the right to interview candidates before an appointment is confirmed.

The Society concentrates upon qualitative rather than quantitative areas with the desire to recruit and retain a diverse workforce. Darlington Building Society aims to be an inclusive organisation, where diversity, equality and respect are more highly valued than numerical targets for diversity.

The gender diversity of the Society as at 31 December 2020, with comparatives parenthesised, is shown below:

	Female	Male
All Staff	72% (73%)	28% (27%)
Senior Management	29% (33%)	71% (67%)
Board	30% (30%)	70% (70%)

For further information see the Nomination and Governance Committee Report to the 2020 Annual Report and accounts available on the Society's website at www.darlington.co.uk