Pillar 3
Disclosure Document

31 December 2018

Darlington Building Society

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DARLINGTON BUILDING SOCIETY

CAPITAL REQUIREMENTS DIRECTIVE

PILLAR 3 DISCLOSURE DOCUMENT AS AT 31st DECEMBER 2018

Contents

This Pillar 3 disclosure relates to the Darlington Building Society Group ("The Group") which includes the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) regulated entity, Darlington Building Society ("the Society") and its subsidiaries.

All balances are presented in £'000 unless stated otherwise.

DARLINGTON BUILDING SOCIETY Pillar 3 Disclosures as at 31st December 2018

1. Introduction

Background

The Society is a mutual organisation run for the benefit of its members. We seek to ensure that we protect members' savings by holding sufficient capital at all times. Our core capital predominantly comprises our General Reserves as shown in the Balance Sheet.

The Group includes a single active subsidiary Darlington Homes Limited (DHL) which owns and manages a number of commercial and residential properties. As described in Table 4 below, DHL is not in scope for regulatory consolidation and as such the following disclosures relate only to the Society as a regulated entity.

The Society operates under the CRD IV requirements "Basel III", a comprehensive set of reform measures developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector across the world. These measures aim to:

- improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- improve risk management and governance
- strengthen banks' transparency and disclosures.

The Society adopted the 'Standardised approach' for Credit risk and the 'Basic Indicator Approach' for Operational risk. These approaches are explained in more detail in Section 4 of this document.

Regulations

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

The Group's Pillar 3 disclosures at December 2018 comprise all information required under Pillar 3, both quantitative and qualitative. They are made in accordance with Part 8 of the Capital Requirements Regulation 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 specific additional requirements of the PRA and discretionary disclosures on our part.

The Group has calculated capital for prudential regulatory reporting purposes throughout 2018 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'), and in the PRA's Rulebook for the UK banking industry.

The Basel Committee's framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by 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.

2. Risk Management

Governance and Oversight

The Board is responsible for determining a framework for risk management and control. It approves all policies and Committee terms of reference.

Throughout 2018 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 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 Board 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 six times in 2018.

The Board Risk Committee reviews the risk culture of the Group, setting the tone in respect of risk management. The Committee is also responsible for ensuring the risk culture is fully embedded and supports at all times the Society's agreed risk appetite, covering the extent and categories of risk which the Board considers as acceptable. The Committee assumes responsibility for monitoring the Society's Risk Management Framework, 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 Committee met four times in 2018. The present committee members are all non-executive directors.

The Nominations 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 nine times in 2019=8.

The Remuneration Committee - This Committee considers the remuneration and contractual arrangements for the non-executive directors, executive directors and executive committee. The Committee met three times in 2018 and comprises all non-executive directors, with its Chief Executive in attendance.

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

The Executive are responsible for designing, operating and monitoring risk management and internal control processes. The Chief Executive also chairs the Executive Management Committees of the Asset and Liabilities Committee, the Credit Committee and the Operational and Conduct Risk Committee:

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 our risk appetite and our 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 Credit Committee - This Committee, which is an Executive Committee, considers the Credit Risk in the Society's residential and commercial lending. 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.

The Operational and Conduct Risk Committee - This Committee looks to identify, control and manage the Society's operational risks. It monitors the Society's conduct in treating customers fairly, properly and in accordance with our stated values and regulations.

Risk Management Framework

The Society has a formal mechanism for identifying and addressing risks throughout the business. This framework based upon the best practice 'three lines of defence' model, as follows:

The Society uses a risk assessment framework to assess the likelihood and impact of its key risks. This is regularly monitored and reviewed by the Executive. This process forms a base for the identification of risks for incorporation into the ICAAP under Pillar 2. Risks identified are cross referenced to the relevant section of the ICAAP to ensure all risks are supported by additional capital where appropriate.

The internal audit function which is outsourced to an external agent under specific terms of reference, provides independent and objective assurance that operational processes are appropriate and effectively applied.

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 these are detailed in the following table:

Risk Universe	Risk	Risk Mitigation
Credit Risk	The risk that a member, customer or counterparty may not be able to meet their obligations to the Society as they fall due.	• A Board approved Credit Risk appetite is in place and is managed through the Credit Risk and Responsible Lending Policy. • Underwriting assessments of applications. • Credit risk metrics are monitored regularly through the Credit Committee.
Prudential Risk	Liquidity Risk The risk that the Group may not be able to meet its financial obligations as they become due, or may do so only at a disproportionate or excessive cost.	• A Board approved Liquidity Risk appetite is in place and is managed through the Financial Risk Management Policy. • The key assumptions, risks and controls around the management of liquidity risk are outlined in the ILAAP document which is approved annually by the Board. • The Group operates a range of internal stress tests to ensure that sufficient liquidity is

		available at all times to address stress and business as usual requirements. • The Asset and Liability Committee monitors the liquidity position on a monthly basis.
	Market Risk 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 Board approved Risk appetite for Market Risk is in place and is managed through the Financial Risk Management Policy. The Group monitors Market Risk through a series of defined metrics. • The Asset and Liabilities Committee oversee the Group's management of Market Risk. • A dedicated Treasury function exists to manage this risk with Second line oversight from Risk and Compliance.
Operational Risk	The risk that an exposure or loss may arise from inadequate, inappropriate, insufficient or otherwise failed or failing internal processes or systems, human error or external events.	• A Board approved Operational Risk appetite is in place and is managed through the Risk Management Framework. • The Risk Management Framework sets out how colleagues are expected to identify, assess, monitor, manage and report their risk exposures. • Operational Loss Events are identified through a dedicated system. • The Operational and Conduct Risk Committee provides oversight across the Group's operational risk exposures. • There is a three lines of defense review in place which challenges compliance with the framework.
Conduct and Compliance Risk	The risk that we fail to treat customer's fairly or fail to comply with relevant conduct regulations.	• A Board approved Conduct Risk appetite is in place and is managed through the Risk Management Framework. • Key conduct risk metrics are in place through our conduct risk MI to manage and monitor the key conduct risks within the Society. • A dedicated second line Risk and Compliance function has been established to monitor compliance with regulations in the Society.

Strategic & Governance Risk	Pension Risk The risk of financial deficit in the defined benefit plan of the Society.	• The Pension Trustees of the Society's Defined Benefit Plan are responsible for managing this risk through determining and implementing an appropriate investment strategy.
	BREXIT The risk that the UK exiting the EU has a detrimental effect on the Society achieving its objectives.	• Continued monitoring of economic data and political events • Risk analysis provided to each Board meeting. • Stress testing undertaken on potential scenarios.

Full details regarding the financial risks and instruments used by the Group are given in the Annual Report and Accounts, Note 25, Financial Instruments.

3. Capital

Capital Resources

Total Society capital resources at 31st December 2018, amount to £44.4m. This is made up predominantly of Tier 1 capital: General Reserves (the accumulated profits of the Society). Tier 2 capital comprises the collective provision for bad and doubtful debts.

Table 1 Components of Tier 1 capital and Tier 2 capital as at 31st December 2018.

£'000	At 31 December 2018
TIER 1 CAPITAL	**43,909**
Retained earnings	43,909
TIER 2 CAPITAL	**510**
SA General credit risk adjustments	510
OWN FUNDS	**44,418**

Capital Forecasting and Planning

The Group adopts an iterative five-year strategic planning framework which is reviewed and approved by the Board annually to take account of current and changing economic conditions and the Group's future strategic objectives. The Group perform 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 core Business Plan.

The Group's Directors monitor performance of the Group against budget at monthly Board meetings. The Group completes quarterly re-budgeting when internal business decisions or external economic conditions lead to material change.

The Group Business Plan includes detailed consideration of the Society's activities and is integral to the Society's ICAAP in particular the Board's risk appetite for different business activities/risks and desired capital resource levels to support those activities. The ICAAP contains the capital plan for the next five years and 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.

Capital Risk Appetite

The Society annually reviews the risk appetite in relation to the capital it should hold and the levels of capital adequacy it will maintain. This assessment is based on the current and forecast capital requirements as well as building the Society's resilience to potential external capital shocks.

Capital Adequacy Assessment

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

The tables on the following pages outline:

- 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

The Society's capital adequacy assessment is reviewed periodically by our regulator, 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 an Individual Capital Guidance.

£'000	At 31 December 2018
Total Capital Requirement (TCR)	**44,418**
Individual Capital Guidance (ICG)	28,706
Excess capital over ICG	15,712
Other regulatory buffer requirements[1]	7,760
Excess capital over ICG and CRDIV buffers	7,952

[1]Other regulation, including CRDIV, requires the Society to hold further capital as part of the following regulatory buffers:

- Conservation Buffer
- Countercyclical Buffer
- PRA buffer

Leverage Ratio

The consolidated group leverage ratio has been calculated as at 31st December 2018 as 7.16%.

The leverage ratio is a measure of capital adequacy expressed as a percentage. 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. These changes took effect in October 2017.

Table 2: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

£'000	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items			
			Subject to the credit risk framework	Subject to the CCR 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	60,610	60,610	60,610			
Loans and advances to credit institutions	11,475	11,397	11,397			
Debt securities	17,306	17,306	17,306			
Loans and advances to customers	513,044	513,554	513,554			
Derivative financial instruments	498	498		498	498	
Other assets	8,861	11,337	11,337			
Total assets	611,794	614,702	614,204	498	498	
Liabilities						
Shares	509,375	509,375				509,375
Amounts owed to credit institutions	24,860	24,860				24,860
Amounts owed to other customers	30,959	33,559				33,559
Derivative financial instruments	339	339				339
Other liabilities	2,190	2,150				2,150
Reserves	44,071	44,418				44,418

Total liabilities	611,794	614,702	0	0	0	614,702

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 3: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	£'000	Total	Items subject to		
			Credit risk framework	CCR framework	Market risk framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**614,702**	**614,204**	**498**	**498**
4	Off-balance-sheet amounts and potential future exposure for counterparty risk	28,313	27,037	1,276	1,276
5	*Differences due to amounts not subject to regulatory capital requirements*	(7,695)	(7,695)		
10	**Exposure amounts considered for regulatory purposes**	**635,319**	**633,546**	**1,774**	**1,774**

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 4: 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	Neither consolidated nor deducted	Immaterial property development and sales company
Dormant subsidiaries	Fully consolidated	Neither consolidated nor deducted	Dormant subsidiary

Table 5: Overview of Risk Weighted Assets

		RWAs		Minimum capital requirements[1]
£'000		31 Dec 2018	31 Dec 2017	31 Dec 2018
1	**Credit risk (excluding CCR)**	**205,260**	**200,310**	**16,421**
2	Of which the standardised approach	2 05,260	200,310	16,421
19	**Market risk**	**623**	**319**	**50**
20	Of which the standardised approach	623	319	50
23	**Operational risk**	**18,656**	**17,955**	**1,492**
25	Of which standardised approach	18,656	17,955	1,492
29	**Total**	**224,539**	**218,584**	**17,963**

[1] *'Minimum capital requirements' here and in all tables where the term is used, represents the Pillar 1 capital charge at 8% of RWAs.*

Under the standardised approach for credit risk, the Society applies a risk weighted asset value 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 requirement 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 operational risk.

Table 6: Total and average net amount of exposures

£'000		Net value of exposures at the end of the period	Average net exposures over the period
16	Central governments or central banks	60,610	61,027
19	Multilateral development banks	2,437	2,850
21	Institutions	27,542	27,991
22	Corporates	680	564
24	Retail	6,143	6,334

26	Secured by mortgages on immovable property	532,270	518,928
28	Exposures in default	1,497	1,298
34	Other exposures	4,140	4,837
35	***Total standardised approach***	**635,319**	**626,878**
36	***Total***	***635,319***	***626,878***

Footnotes: *Item 21; Other Credit Institutions, Items 22 & 24; Balances in excess of 80% Loan to value, Item 26; Balances below 80% Loan to value*

Table 7: Geographical breakdown of exposures

		Net value							
£'000		Europe	United Kingdom	Netherlands	Australia	North America	USA	Canada	Total
7	Central governments or central banks	60,610	60,610						**60,610**
10	Multilateral development banks	2,437							**2,437**
12	Institutions	19,695	16,687	3,009	3,834	4,013	1	4,012	**27,542**
13	Corporates	680	680						**680**
14	Retail	6,143	6,143						**6,143**
15	Secured by mortgages on immovable property	532,270	532,270						**532,270**
16	Exposures in default	1,497	1,497						**1,497**
22	Other exposures	4,140	4,140						**4,140**
23	**Total standardised approach**	**627,473**	**622,027**	**3,009**	**3,834**	**4,013**	**1**	**4,012**	**635,319**
24	**Total**	**627,473**	**622,027**	**3,009**	**3,834**	**4,013**	**1**	**4,012**	**635,319**

Footnotes: *Item 12; Other Credit Institutions, Items 13 & 14; Balances in excess of 80% Loan to value, Item 15; Balances below 80% Loan to value*

The Groups 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 8: Concentration of exposures by industry or counterparty types

£'000		Agriculture, Forestry and Fishin	Wholesale and Retail Trac	Accommodation and Food Service Activities	Real Estate Activities	Professional Scientific and Technica Activities	Human Health Services and Socia Work Activities	Arts, Entertainment and Recreatio	Other Services	Fully secured on residential properl	Other	Total
7	Central Governments or Central Banks										60,610	60,610
10	Multilateral Development Banks										2,437	2,437
12	Institutions										27,542	27,542
13	Corporates			8	640				32			680
14	Retail									6,143		6,143
15	Secured by mortgages on immovable property	150	322	2,475	6,732	259	10	461	2,385	519,476		532,270
16	Exposures in default			188						1,309		1,497
22	Other exposures										4,140	4,140
23	**Total standardised approach**	**150**	**322**	**2,671**	**7,372**	**259**	**10**	**461**	**2,417**	**526,928**	**94,729**	**635,319**
24	**Total**	**150**	**322**	**2,671**	**7,372**	**259**	**10**	**461**	**2,417**	**526,928**	**94,729**	**635,319**

***Footnotes**: Item 12; Other Credit Institutions, Items 13 & 14; Balances in excess of 80% Loan to value, Item 15; Balances below 80% Loan to value*

Table 9: Maturity of exposures

		Net Exposure Value					
£'000		On Demand	< = 1 Year	> 1 Year < = 5 Years	> 5 Years	No Stated Maturity	Total
7	Central Governments or Central Banks	60,610					60,610
10	Multilateral Development Banks		2,437				2,437
12	Institutions	11,479	7,033	9,030			27,542
13	Corporates				680		680
14	Retail			51	6,092		6,143

15	Secured by mortgages on immovable property		3,078	26,768	502,424		532,270
16	Exposures in default		305	102	1,090		1,497
22	Other exposures					4,140	4,140
23	**Total standardised approach**	**72,089**	**12,853**	**35,952**	**510,285**	**4,140**	**635,319**
24	**Total**	**72,089**	**12,853**	**35,952**	**510,285**	**4,140**	**635,319**

Footnotes*: Item 12; Other Credit Institutions, Items 13 & 14; Balances in excess of 80% Loan to value, Item 15; Balances below 80% Loan to value*

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 10: Credit quality of exposures by exposure classes and instruments

£'000		Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures[1]	Non-defaulted exposures					(a+b-c-d)
16	Central governments or central banks		60,610					**60,610**
19	Multilateral development banks		2,437					**2,437**
21	Institutions		27,542					**27,542**
22	Corporates		856	176		1,602	-2	**680**
24	Retail		6,143					**6,143**
26	Secured by mortgages on immovable property		532,338	68			-17	**532,270**
28	Exposures in default		1,506	9			111	**1,497**
34	Other exposures		4,140					**4,140**
35	***Total standardised approach***	-	**635,572**	**253**	-	**1,602**	**92**	**635,319**
36	***Total***	-	**635,572**	**253**	-	**1,602**	**92**	**635,319**
37	Of which: Loans		540,843	253		1,602	92	**540,590**
38	Of which: Debt securities		17,306					**17,306**
39	Of which: Off balance-sheet exposures		1,276					**1,276**

1 - No accounts have defaulted - IE we have no PIP at year end

Footnotes*: Item 21; Other Credit Institutions, Items 22 & 24; Balances in excess of 80% Loan to value, Item 26; Balances below 80% Loan to value*

Table 11: Credit quality of exposures by industry or counterparty types

		a	b	c	d	e	f	g
		Gross carrying value of					Credit risk adjustment	Net values
£'000		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	charges of the period	(a+b-c-d)
1	Agriculture, forestry and fishing		150					**150**
7	Wholesale and retail trade		322					**322**
9	Accommodation and food service activities		2,671					**2,671**
11	Real estate activities		7,526	154		1,602	27	**7,372**
12	Professional, scientific and technical activities		281	22			12	**259**
16	Human health services and social work activities		10					**10**
17	Arts, entertainment and recreation		461					**461**
18	Other services		2,417					**2,417**
19	Fully secured on residential property		527,005	77			54	**526,928**
20	Central banks and credit institutions		94,729					**94,729**
21	***Total***	-	**635,572**	**253**	-	**1,602**	**92**	**635,319**

Table 12: Credit quality of exposures by geography

£'000		Gross carrying value of: Defaulted exposures	Gross carrying value of: Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
1	Europe		**627,725**	**253**		**1,602**	**92**	**627,473**
2	United Kingdom		622,280	253		1,602	92	**622,027**
3	Netherlands		3,009					**3,009**
4	Australia		**3,834**					**3,834**
8	North America		**4,013**					**4,013**
9	USA		1					**1**
10	Canada		4,012					**4,012**
11	***Total***	-	**635,572**	**253**	-	**1,602**	**92**	**635,319**

Table 13: Non-performing and forborne exposures

£'000		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
						Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
010	Debt securities	17,306												
020	Loans and advances	540,843	1,792	8,387	1,342			489	244		9	4		
030	Off-balance-sheet exposures	1,276												

Table 14: Changes in stock of general and specific credit risk adjustments

£'000		Accumulated specific credit risk adjustment	Accumulated general risk adjustment
1	**Opening Balance**	1,947	
2	Decreases due to amounts set aside for estimated loan losses during the period	(92)	
4	Decreases due to amounts taken against accumulated credit risk adjustments	(1,602)	
9	**Closing balance**	253	
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(4)	
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	(92)	

Table 15: Changes in stock of defaulted and impaired loans and debt securities

£'000		Gross carrying value defaulted exposures
1	**Opening balance**	-
2	Loans and debt securities that have defaulted or impaired since the last reporting period	-
6	**Closing balance**	-

Table 16: 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
1	Total loans	8,062	532,528	532,528		
2	Total debt securities	17,306				
3	**Total exposures**	**25,368**	**532,528**	**532,528**		
4	Of which defaulted					

Table 17: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
£'000	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	60,610		60,610		-	0%
4	Multilateral development banks	2,437		2,437		-	0%
6	Institutions	27,542		27,542		7,054	26%
7	Corporates	680		680		680	100%
8	Retail	4,387	1,756	4,387	1,756	3,554	58%
9	Secured by mortgages on immovable property	506,989	25,281	506,989	25,281	188,326	35%
10	Exposures in default	1,497		1,497		1,506	101%
16	Other items	4,140	-	4,140	-	4,140	100%
17	**Total**	**608,283**	**27,037**	**608,283**	**27,037**	**205,260**	**34%**

Table 18: Standardised approach

£'000	Exposure classes	Risk weight							Total	Of which unrated
		0%	20%	35%	50%	75%	100%	150%		
1	Central governments or central banks	60,610							**60,610**	
4	Multilateral development banks	2,437							**2,437**	
6	Institutions		22,390		5,152				**27,542**	-
7	Corporates						680		**680**	**680**
8	Retail					6,143			**6,143**	**6,143**
9	Secured by mortgages on immovable property			518,255			14,015		**532,270**	**532,270**
10	Exposures in default						1,480	18	**1,497**	**1,497**
16	Other items						4,140		**4,140**	**4,140**
17	**Total**	**63,047**	**22,390**	**518,255**	**5,152**	**6,143**	**20,315**	**18**	**635,319**	**544,730**

Table 19: Analysis of CCR exposure by approach

£'000		Notional	Replacement cost/current market value	Potential future credit exposure	Multiplier	EAD post CRM	RWAs
1	Mark to market		504	504		1,008	338
2	Original exposure	168,100				498	498
3	Standardised approach		772		1	772	259
11	**Total**					**2,278**	**1,095**

Table 20: CVA capital charge

£'000		Exposure value	RWAs
EU4	Based on the original exposure method	1,276	623
5	Total subject to the CVA capital charge	1,276	623

Table 21: Exposures to CCPs

£'000		EAD post CRM	RWAs
11	**Exposures to non-QCCPs (total)**		**623**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	1,276	623
13	(i) OTC derivatives	1,276	623

Table 22: CCR exposures by regulatory portfolio and risk

		Risk weight			Of which
£'000	Exposure classes	20%	50%	Total	unrated
6	Institutions	138	1,138	1,276	
11	Total	138	1,138	1,276	

Table 23: Composition of collateral for exposures to CCR

£'000	Collateral used in derivative transactions	
	Fair value of posted collateral	
	Segregated	Unsegregated
Cash - GBP		200
Total		**200**

Table 24: Market risk under the standardised approach

£'000		RWAs	Capital requirements
	Outright products	623	50
1	Interest rate risk (general and specific)	623	50
9	**Total**	**623**	**50**

4. Credit Risk-Mortgages

The Group regards as 'past due' any mortgage or loan account where more than three monthly repayments have not been made at the accounting date. Arrears of mortgage repayments are monitored closely by our financial support team and the Credit Committee. The Group has performed satisfactorily when compared with national arrears and possession statistics.

A residual maturity analysis of Loans and Advances to customers is provided in Note 11 of the Annual Report and Accounts 2018 which assumes that the loans and advances run for their full, contractual term.

5. Provisions

The Group accounting policy in relation to the provision for bad and doubtful debts is set out in full in the accounting policies (Note 1), to the Annual Report and Accounts 2018.

Full details of the movement on provisions for bad and doubtful debts are provided in Note 12 to the Annual Report and Accounts 2018.

For capital adequacy purposes, collective provisions are regarded as Tier 2 capital.

Specific provisions have been utilised to adjust downwards the value of residential risk weighted assets in the capital adequacy calculations.

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 Group 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 purposes. The minimum acceptable mutually inclusive credit ratings we adopt are short term F1 and long term A- as defined by Fitch IBCA, although treasury deposits are also made with unrated building societies.

Policy limits and counterparties are regularly reviewed by ALCO, with formal approval of these being made at Board level. The Group receives counterparty rating amendments from its Treasury advisors and limits are suspended if downgrades to counterparties take the institution below the levels stated. 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.

Note 25 of the Annual Report and Accounts shows the breakdown of liquid assets by maturity and Fitch IBCA rating at 31 December 2018

7. Basis Risk

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

- Management of the investment of capital and other non-interest bearing liabilities;
- Fixed rate, including;
    - Fixed rate mortgages and other lending;
    - Fixed rate investments through Treasury operations;
    - Fixed rate retail savings products offered to members;
    - Fixed rate wholesale funding taken through Treasury operations
- 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 and Bank Base rate as part of Treasury operations.
- 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 SWAP's or matched products. Hedging action is taken as appropriate to maintain an exposure within the Board approved Gap and sensitivity limits.

The Group balance sheet is reviewed on a monthly basis against Board limits measured a range of Interest Rate Risk sensitivities.

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 the table below:

Interest rate risk sensitivity analysis:

Group and Society	**12 month impact £,000**	
Possible Scenarios		
Increase in bank base rate by 0.25%	130	(Improvement in profit before tax)
Decrease in bank base rate by 0.25%	(225)	(Reduction in profit before tax)
Severe but Plausible Scenarios		
Increase in bank base rate by 2.0%	1,038	(Improvement in profit before tax)
Decrease in bank base rate to Zero	(150)	(Reduction in profit before tax)

A reduction of 0.10% in the discount rate would increase the pension deficit by approximately £0.5m.

Interest rate risk limits are an expression of the Board's risk appetite and are reviewed annually in line with the Financial Risk Management Policy.

8. Remuneration Policy and Practices

The Group'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 2018.

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 malice and clawback.

Aggregate information on the remuneration of the three executive directors and other five executives for the period ended 31 December 2018 is given in note 7 of the Annual Report and Accounts.

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.

This disclosure document is intended to provide the public with background information on the Group's approach to risk management. It also provides asset information and capital calculations under Pillar 1. The disclosures are published within 4 months of the Group's financial year end and are updated annually unless, in the opinion of the Directors, changes to the business/ strategic objectives requires an interim update. further explanation or clarification on the information given within this document can be sought through application, in writing, to the Finance Director at Darlington Building Society, Sentinel House, Morton Road, Darlington, DL1 4PT.