

# Repaying your trust for 170 years

1856 - 2026



## Annual Report and Accounts 2025

For the year ended 31 December 2025

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# Strategic Report

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## 2025 Key Performance Indicators

The Board has identified key areas that significantly impact the performance of the Group and its success in achieving its strategic objectives. A summary of these key areas is shown below:

Mortgage Growth	Savings Growth	Asset Growth
Net lending (FSRP <sup>1</sup> )  £100.9m (£23.2m in 2024)	Net savings  £87.3m (£63.0m in 2024)	Total asset growth  9.6% (1.3% in 2024)
Profitability	Cost Efficiency	Margin
Profit before tax  £1.5m (£2.9m in 2024)	Cost income ratio  90.1% (85.7% in 2024)	Net interest margin  2.19% (2.15% in 2024)
Liquidity	Capital	Credit Quality
Liquidity % SDLs  12.6% (14.9% in 2024)	Total Capital Ratio  14.8% (16.2% in 2024)	3 month+ arrears  47 cases (36 in 2024)
Savings Rates	Member Satisfaction	Member Engagement
Return over market average rates <sup>2</sup>  0.33% (0.54% in 2024)	Net Promoter Score  +92.3 (+91.6 in 2024)	Members  92,022 (88,799 in 2024)
Broker Satisfaction	Colleague Turnover	
Net Promoter Score  +69 (+79 in 2024)	Annual Turnover  9% (17% in 2024)	

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.

<sup>1</sup> Fully secured on residential property

<sup>2</sup> CACI's CSDB, Stock, January to December 2025, latest data available

## Chair's Welcome

By Rachel Court

### Repaying your trust for 170 years



Welcome to our annual summary of performance in 2025.

In July 1856, in a backroom of Mrs. Johnson's Eating House in Church Row, Darlington, a small group of local tradesmen met, and as a result of those discussions, the Darlington Working Men's Equitable Permanent

Building Society was established. After several name changes and mergers, this became Darlington Building Society. The Society was formed to help local working people to save and buy homes.

The Society continues to encourage saving for the future and support home ownership – repaying the trust shown in the Society by our members for over 170 years:

- Trusting the Society to support more people to save and save more regularly.
- Trusting the Society to support more people to have a place to call home.
- Trusting the Society to empower colleagues to provide brilliant service and offer relevant and valued products and services; and
- Trusting the Society to enable fairer and more sustainable communities.

### 2025 performance highlights

I am delighted to be able to report another year of positive and balanced results in my first year as your Chair, particularly as this was achieved in a continuing volatile and uncertain external environment. We continue to build our financial strength with measured growth and sound profitability. Combined with continued progress and embedding of our strategic investment programme, this will underpin our success and sustainability for many years to come.

2025 was a year of milestones for Darlington Building Society:

- The 250th anniversary of the formation of the building society movement
- The 200th anniversary of the Stockton & Darlington Railway
- Record total assets exceeding £1bn
- Record gross lending of £234m
- Record net lending of £101m
- Record level of reserves at £57m
- Record member net promoter score at +92.3
- Provided over £1m to local good causes under our 5% pledge since 2017.

The Society has proven itself to be resilient over the last 170 years and I am confident that with solid foundations in place, it can continue to grow and prosper into the future. Our financial position remains robust and with the investment the Society has made over recent years now has the infrastructure to support its members and broker partners, delivered through both face-to-face and digital channels.

### Board Changes

Jack Cullen retired as Chair at the last AGM in 2025 and I would like to thank him for his 10 years of outstanding stewardship, leaving the Society in such robust health. John Sutherland also left the Board at the end of February 2025, and I would like to thank him for his strong contribution.

Our Chief Executive, Andrew Craddock, will be retiring from the Society at the forthcoming AGM after a transformative 7-year leadership. I would like to take this opportunity to thank him for the outstanding contribution he has made to the Society and wish him all the best for the future.

Alex Windle, subject to member approval, will be taking over as Chief Executive after the AGM. Alex was selected following a comprehensive recruitment process using the services of an external recruitment consultancy. He will be at the AGM to introduce himself and talk about his vision for the future. He joins us from the West Bromwich Building Society where he was Chief Customer Officer.

Duncan Asker joined the Society as a Non-executive Director in May 2025. Duncan has over 35 years' experience in retail financial services. He has held senior


roles at JP Morgan, Halifax, HBOS, Lloyds Banking Group and Yorkshire Building Society.

I would like to thank my Board colleagues, the senior management team and all our colleagues for their unfailing commitment and dedication to serving our members and for demonstrating such a strong member-focused culture. Our Society continues to be at the heart of the local community, and I would like to thank all members for your continued loyalty, trust and support.

## 2026 AGM

In my first year as Chair, it has been a pleasure to meet up with so many of you and to be able to report another strong performance. I look forward to meeting many more of you at the AGM.

Our AGM this year is at the ARC Theatre & Arts Centre in Stockton at lunchtime on Monday 27 April. The AGM is your opportunity to shape the future of the Society, so I would encourage you all to vote and attend, following the guidance in the attached notes. Members who attend will have access to look around the centre after the AGM and engage with some of our charity partners who will be showcasing their activities on the upper floor. In any event, I welcome members' questions or comments – please email these to [contact-us@darlington.co.uk](mailto:contact-us@darlington.co.uk). If you wish these to be answered at the AGM please ensure they are received before 17.00 on 23 April 2026, when the voting closes.



Rachel Court  
Chair  
17 March 2026

## Chief Executive's Review

By Andrew Craddock



Following several years of significant investment and a year of consolidation in 2024, the Society was able to leverage these investments during 2025 and increase the pace of growth, recording record levels of gross and net lending and seeing total assets move ahead of £1bn, a significant milestone in the history of the Society.

### Financial performance

Core Operating Profit Before Tax has increased from £3m in 2024 to £3.7m in 2025 as the Society has increased Net Interest Income, with increased volumes and stable margin, together with strong management of costs.

Statutory Profit Before Tax was £1.5m in 2025, lower than the £2.9m reported in 2024.

There are two key items that make up the difference between Statutory and Core Operating Profit Before Tax.

1. Hedging – in 2022, 2023 and 2024 our statutory profit before tax was increased by fair value gains in the Society's derivatives (hedging gains). These fair value movements resulted from derivatives that are designed to hedge the financial risk associated with fixed rate mortgage and savings products. But, as we highlighted last year, these gains were temporary in nature and will ultimately trend to zero. In 2025, we saw some of these historical gains unwind, which reduced our statutory profit.
2. DHL fair value adjustment - the Society holds, in its Darlington Homes Ltd subsidiary, properties available for private rent. The Society has decided to sell this subsidiary as it is not core to the mortgage and saving business of the Society and takes up significant management time. To achieve a sale in the prevailing market conditions, after a prolonged period of marketing, the value of the subsidiary has been reduced to the sale price and this adjustment reduces the Statutory profit before tax, but not the Core Operating PBT. There was a

similar fair value loss included in the 2024 performance.

The table below compares our Statutory PBT to our Core Operating PBT, which excludes hedging and the DHL fair value adjustment. This Core Operating PBT is monitored by the Board as an alternative performance measure and better reflects the true underlying performance of the business.

£m	2025	2024	2023	2022
Core operating PBT	3.7	3.0	3.0	2.3
Hedging Gains/(Losses)	(1.8)	0.4	0.8	2.7
DHL fair value adjustment	(0.4)	(0.5)	-	-
Statutory PBT	1.5	2.9	3.8	5.0

The improvement in core profitability is primarily due to Net Interest Income growing faster than costs. In 2025, Net Interest Income increased by £1.5m / 7% although costs only grew by £0.3m / 2%. Net Interest Income was positively impacted by increasing volumes and resilient mortgage margins, although negatively impacted by the falling interest rate environment and an intensely competitive savings market, which is expected to continue into 2026 and reduce our net interest margin. Cost growth was slower in 2025 compared to previous years benefiting from previous investments and a continuing strong cost optimisation culture.

### Financial Strength

Our total assets increased nearly 10% from £935m at the end of 2024 to £1,024m at the end of 2025. This places us 19th in the list of 42 building societies in the UK. Our overall level of reserves, or capital, increased to £57m at the end of 2025 from £55m at the end of 2024. Our total capital ratio (TCR) reduced as planned to 14.8% from 16.2%. This remains in excess of regulatory requirements and in line with plans agreed by the Board.

Our overall liquidity as a percentage of Shares, Deposits and Liabilities has reduced as planned to 12.6% at the end of 2025 from 14.9% at the end of 2024. Again, this remains in excess of regulatory requirements and in line with plans agreed by the Board. During the year we repaid the remaining balance of the Bank of England's Term Funding Scheme with incentives for SMEs (TFSME), although continue to access other Bank of England facilities in the normal course of business.

The quality of our lending remains robust with all new advances assessed on an individual basis by experienced

underwriters. The average indexed loan to value (LTV) for our core mortgage lending book was 57% in 2025, slightly higher than 55% in 2024. This was driven by the average weighted LTV for new lending in 2025 increasing to 70% from 65% in 2024, driven by our strategy to increase support for first time buyers, who in general have a lower deposit. This trend has also been seen across the market.

Our forbearance and arrears levels remain low by comparison to the rest of the market but have increased through 2025. Although the overall level of arrears remained stable over the last 12 months, the level of more serious arrears over three months has increased. This is due to some life events as well as borrowers' general living costs increasing with inflation and some experiencing 'rate shocks' as they come off relatively low fixed rate mortgage products onto higher interest rate products when their deals mature. We have invested more resource in providing support for members who are experiencing difficulties and I would urge anyone who is in this position to contact us as early as possible, so we can work together to achieve the best solution.

We remain a signatory to the Mortgage Charter which provides support options to homeowners, for example by temporarily switching to interest only or extending a mortgage term. Whilst these options already formed part of a range of forbearance and support options we offer, it does provide further reassurance to borrowers, and, in addition, confirms that there is no impact on a borrower's credit reference agency record.

	2025	2024
Arrears - 3 months+ (Value)	£7.7m	£4.5m
Arrears – 3 months + (Number)	47	36
Arrears – 12 months + (Number)	5	3
Properties repossessed in the year	3	2
Forbearance (Value)	£2.8m	£2.6m
Forbearance (Number)	31	31
Mortgage Charter (Number)	21	24
All mortgage arrears of over 2.5% of balance - UK Finance Market Average	0.92%	1.06%
All mortgage arrears of over 2.5% of balance – Darlington Building Society	0.65%	0.46%

## Our borrowers

Gross new lending in 2025 was £234m, a 58% increase on the £148m we achieved in 2024. As we leveraged the investments of previous years, our proposition gained traction in the market, and we developed deeper relationships with key intermediaries. Of the total gross lending, 40% supported first time buyers, 33% was for re-mortgages and 27% for house purchase. 39% of the gross lending was in standard residential, 29% specialist residential, 18% self-build, 6% BTL and 4% each for shared ownership and holiday let. Our residential mortgage book increased by £101m, a significant increase on the £23m achieved in 2024, increasing the core lending book by 13% to £896m from £792m in the previous year.

## Our savers

During 2025 our savings balances increased by £87m compared to an increase of £63m in 2024, as we balanced mortgage growth and savings growth to manage appropriate levels of liquidity. The growth was predominantly in fixed rate bonds and ISAs, although notice accounts, easy access and regular savings accounts also saw growth. Our retail savings book, including accrued interest, stood at £939m at the end of 2025, compared to £853m at the end of 2024.

Over the course of 2025 there were four reductions in Bank Base Rate, which impacted on the pricing available in the savings market. During 2025 we paid an average rate on our savings products of 3.37% against an average rate in the market of 3.04%, which equates to additional interest of more than £2.93m for our members compared to the market average. Over the last three years we have paid more than £12m additional interest to savers than if they had received the market average interest rate.

## Our members

Providing our members and mortgage intermediaries with outstanding service and experience is a critical element of our strategy, ensuring we build relationships to last. To monitor our service, we obtain feedback from members and brokers, and measure service levels, member outcomes and review complaints.

To obtain feedback from members and intermediaries we use the services of an independent organisation called 'Smart Money People', which also provides this service to many other building societies and banks,

enabling us to benchmark our service against our peers and competitors.

In 2025, our overall member satisfaction rating remained stable at 98.8%, which remains higher than the building societies' average score. Our Member Net Promoter Score (NPS) improved from +91.6 in 2024 to a record +92.3 in 2025, again better than the building societies' average score. Our mortgage broker NPS reduced from +79 in 2024 to +68.5 in 2025, predominantly due to underwriting service levels being longer than we would have liked, as higher volumes were experienced. We have invested in more resources and technology to improve service levels in 2026.

The overall number of complaints received increased from 257 in 2024 to 348 in 2025, although this remains low by comparison with the market. The Society takes complaints seriously and fully investigates and resolves each one, staying connected with the complainant throughout the process. The time taken to resolve complaints has reduced again in 2025. When the root cause of the complaints has been identified, we implement improvements to products, processes and training where appropriate.

Whilst an increasing number of complaints can be viewed as disappointing, we also view it positively, in that members are providing us with feedback on how we can improve and we have actively encouraged our colleagues to embrace complaints and learn from them. Areas where we have implemented improvements in 2025 to address issues raised in complaints include the savings maturity process, underwriting service levels, interest statements, product rationalisation and ISA processing.

Four complaints were escalated to the Financial Ombudsman Service (FOS) in 2025 compared to five in the previous year. Of these four, one was upheld by the FOS, compared to none in the previous year.

## Our people

At the end of December 2025, we had 186 colleagues compared to 187 at the end of December 2024. We welcomed 15 new starters during the year, a combination of experienced professionals and those starting out on their careers. This delivered colleague turnover of 9% in 2025, a reduction on the 17% experienced in 2024. We remain committed to the Real Living Wage Foundation and regularly benchmark all salaries and the benefits package to ensure they remain

competitive and fair for all colleagues. To improve how we assess colleague engagement, we are continuing with our transition away from Best Companies to Investors in People and hope to gain our first accreditation with them during 2026.

During 2025 we invested in our HR systems, replacing dated technology with modern and engaging people platforms. Our colleagues are engaging positively with the new platforms and voted them the most improved area in our 2025 engagement survey. These new platforms give the Society greater insight into our people analytics and support towards delivering our Investors in People accreditation, whilst giving us a greater understanding of our people trends.

We invested in an executive development programme for the society's executives during 2025, in collaboration with an external Executive Leadership Consultancy. Several other leadership programmes were delivered across all management levels internally by the Learning and Development team, from the aspiring leaders programme to a senior manager programme. We also continued with our Women's Development Network to support the growth of female leaders within the Society. We have several colleagues enrolled in apprenticeship programmes including CIPD people practice, finance and procurement recognised qualifications.

## Personal message

This will be my last report to you as Chief Executive as I will be retiring at the forthcoming AGM, after leading the Society for the last seven years. I have thoroughly enjoyed my time as your Chief Executive - it has been an immense privilege and honour to work with so many talented and dedicated colleagues, serving the community in such a special part of the country. I am really proud to have seen our Society grow, prosper and mature and am delighted to be leaving the Society in such robust health.

The last seven years have seen a transformation of the Society in many ways, including increasing the capability of the leadership team and colleagues, enhancing the culture and engagement of our people, investing in both physical and digital distribution channels, increasing the scale of the organisation, eliminating legacy risks and improving the financial strength of the Society, in addition to reaching the milestones detailed in Rachel's introduction.

It has been a source of enormous pride to be Chief Executive of Darlington Building Society during such a milestone year. To be Chief Executive during the 250th anniversary of the building society movement, and the 200th anniversary of the Stockton & Darlington Railway, as the first passenger railway, was truly special.

Being at the heart of the community is at our core, and I will treasure the memory of attending the railway bicentennial celebrations, knowing that Darlington Building Society had been a key sponsor in marking such an important and historic occasion.

It was also a joy to reach the £1m mark in grants given away to good causes in the community through the annual pledge to share 5% of profits. How fitting that the £11,000 grant taking us to the million should go to the homelessness charity, the 700 Club, which shares our values in giving local people a place to call home.

I have really enjoyed my time here in the North East and have come to love the region and its people and communities. I am a Governor and Chair of the Audit Committee at Darlington College and look forward to continuing my connection with the region through this role.

## Future outlook

At the time of finalising this report the conflict in the Middle East is continuing with the impact being felt around the world. In the UK, the most immediate impact is on increasing fuel and energy prices. But this could also feed through into higher inflation and unemployment, lower growth, business and household confidence, and into monetary policy with the path of interest rates continuing to be uncertain. Against this backdrop higher mortgage and deposit pricing is already being seen.

Prior to this conflict, we were already expecting a continuing challenging external environment including:

- Modest, subdued economic growth in the UK.
- Inflation cooling towards 2% target.
- Continued downward trend of interest rates, but with uncertainty over pace and bottom of the cycle.
- Stable house prices
- Weak business investment
- A weaker labour market, with moderately higher unemployment and slower wage growth.

The impact of the Middle East conflict on the UK economy and housing market remains dependent on the length and severity of the conflict, which remains uncertain. Given these uncertainties it is challenging to forecast future performance, but I can assure members that the Board and leadership team are carefully monitoring the position and steering a course through the challenging environment to ensure the future sustainability and viability of the Society for the next 170 years.

The Society has invested significantly in recent years and through this investment is now well positioned to compete in its chosen markets, increase market share and continue to support members by providing a safe home for their savings and support those wishing to purchase, refinance or build their own home. We have the financial strength, capability and systems to support continuing levels of high growth. The Board has therefore agreed an ambitious and challenging plan to build on the solid foundations in place.

This plan is based on our ambition to be a mortgage and savings provider for life, generation after generation, with a personal service for the moments that matter to our members.

We aim to:

- Be the best specialist lender for mortgage intermediaries
- Be the best regional savings provider
- Be an employer of choice, attracting, developing and retaining talent
- Be easy to deal with, offering a simple, value for money proposition, with outstanding service and experience, relevant for our members.

We are impactful, respected and known in our business communities and the local communities where we are based.

We are proud of who we are, embrace our heritage and celebrate our achievements.

Our strategy is based around five pillars:

1. Sustainability – grow scale and efficiency to increase member value and long-term sustainability. In the short-term we are expecting some margin compression in a falling interest rate environment, which will lead to

lower profitability in 2026, before recovering in 2027 and beyond.

2. Savings – support more members to save and save more regularly. Planned savings growth to fall slightly in 2026 before increasing in 2027.
3. Mortgages – support more members to have a place to call home. Planned mortgage growth in 2026/27 to remain broadly consistent with 2025.
4. Colleagues – empower colleagues to provide brilliant service and offer the best products and services.
5. Community – enable fairer and more sustainable communities.

These pillars are underpinned by our core values:

- Be Yourself
- Be Better
- Be trusted.

I would like to take this opportunity to thank all my colleagues and all our members for your ongoing support, loyalty and commitment. I am excited about the future for the Society and will be watching its progress towards fulfilling its ambitions and strategy. I wish my successor, Alex, the very best as he takes over the stewardship of the Society.

It has been a privilege to serve as the Chief Executive of such a proud and distinguished organisation and to continue to repay the trust members have shown in the Society for 170 years.



Andrew Craddock  
Chief Executive  
17 March 2026

## Giving Back to Our Communities

Darlington Building Society is committed to delivering a lasting and positive impact in the local communities it serves. In 2025, we reached a landmark £1 million in donations, directly benefitting those who need it most in our heartlands. We would like to thank Point North Community Foundation and WizeUp Financial Education for their support in achieving this feat.

## Supporting the next generation's financial futures

In 2025 the Society continued its partnership with WizeUp Financial Education to deliver much-needed money management lessons to children all around the region. The aim is to grow confidence with finances to secure a brighter financial future for the younger generation. In 2025 we more than doubled the number of students taught.

## Making our time count

All Darlington Building Society colleagues are given 2 days' paid volunteering leave to support a cause of their choosing, which helps us to really make a positive difference on the ground. From multi banks in Redcar to playing Santa's helpers in Darlington, every hour has helped to improve the lives of those in our operating area.

## Local 5 Donations

Our branches and head office partner with 43 local charities and good causes, fundraising throughout the year.

## Our 5% Pledge

Each year the Society donates 5% of its profit to local charities and good causes. In 2025 we hit the £1 million milestone which is something we are incredibly proud of, and would like to sincerely thank each and every member for making this monumental achievement possible.

## Some of our 2025 partnerships

### 1. Hoptown

Hoptown is a new railway museum and heritage site in our Darlington heartland. The region celebrated the bicentennial of passenger rail in 2025, which put Darlington firmly on the map back in 1825. Today the museum provides interactive spaces for railway enthusiasts and families alike to spend a day making

memories and reliving our region's proud industrial heritage. Members can enjoy a free VR ride as part of their exclusive benefits.

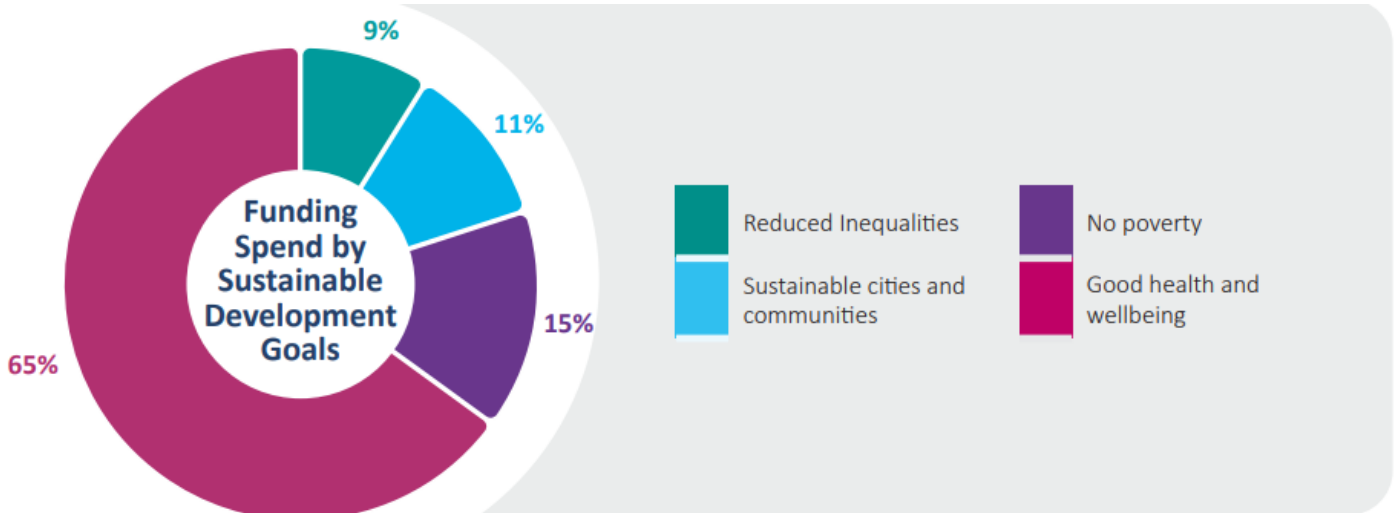
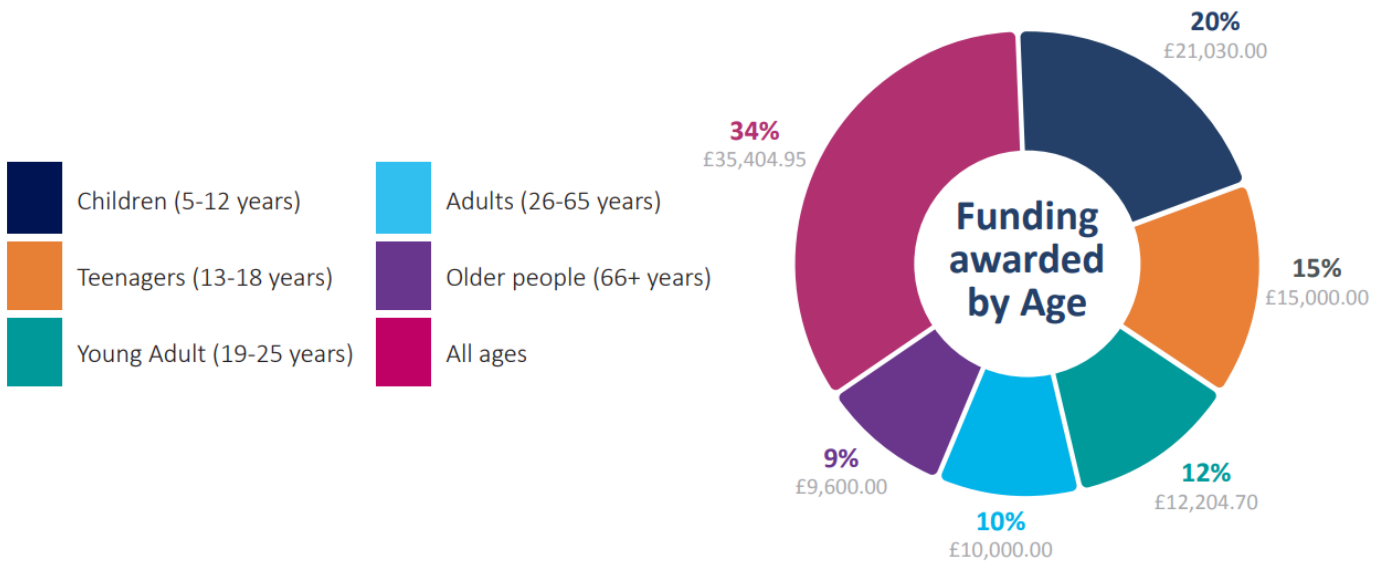
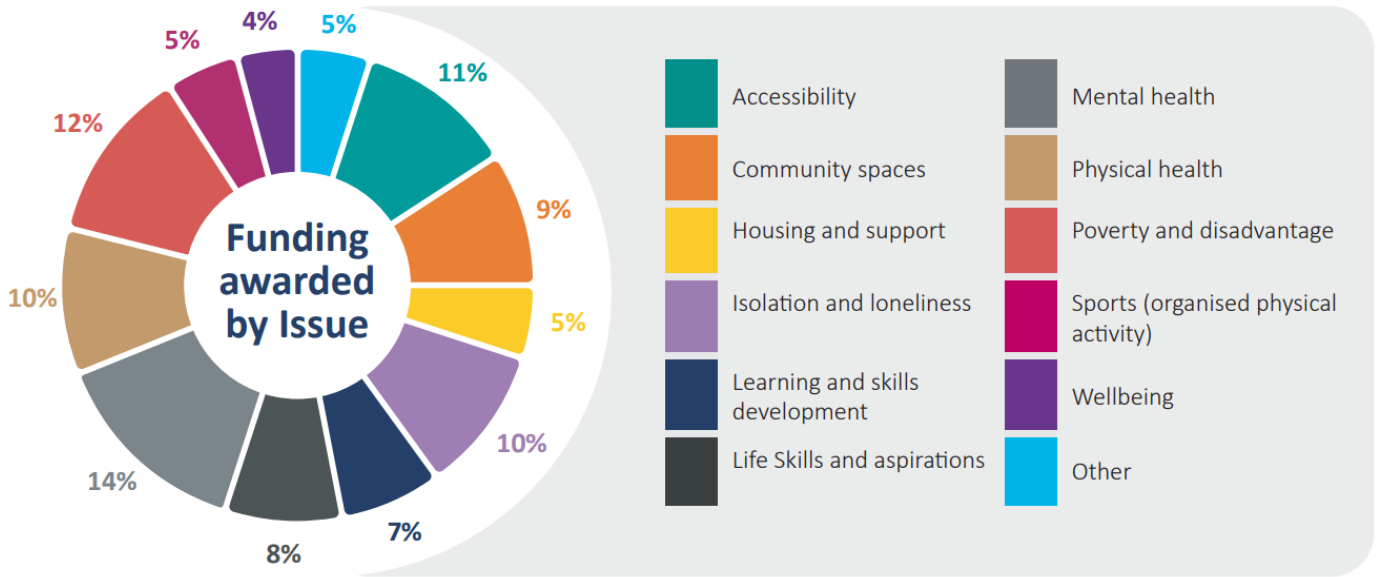
### 2. Darlington Operatic Society

Here at Darlington Building Society we understand the importance of access to the arts, which is why we have sponsored a number of productions in our town. In 2025 we sponsored *Come From Away*, a unique performance exploring the events of 9/11 from a remote town in Newfoundland, which housed passengers of grounded flights. Right now, members can enjoy 10% off tickets to the fantastic *Joseph and the Technicolor Dreamcoat* as part of their member benefits

### 3. North East Autism Society (NEAS)

By learning from the expertise of NEAS, Darlington Building Society achieved a Gold accreditation for the work carried out to make the Society a more inclusive place for neurodivergent members and colleagues.

## 2025 Funding Application Impacts



## Business Model and Purpose

Darlington Building Society is a mid-size regional building society based in the North East of England with a local footprint of nine branches and a national reach for both savings and mortgage members. The Society was established in 1856. We have a clear purpose which is largely unchanged since our inception and underpins everything we do, even if the way we deliver against our purpose for members has changed dramatically in that time.

### Our purpose

During 2025, we continued to embed and deliver against our purpose, ***“Improving the lives of our members and communities through supporting home ownership and encouraging saving”***. The Society uses this purpose statement to guide our activities, our decision making and to hold ourselves to account.

In understanding how it relates to the different aspects of our business, we break the Society’s statement into the following important parts:

- **Improving the lives** – when anyone comes into contact with Darlington Building Society, they should feel better off – whether that is because they have received excellent service, been supported with their financial needs, or taken a product that meets their needs.
- **Our members** – here we are referring to anyone with a mortgage or savings account with us.
- **Communities** – simply put this is the people in our region, whether that be our colleagues, charities and other organisations we support as well as our online community.
- **Through supporting home ownership** – as a building society, one of our primary goals is to enable people to purchase their own home.
- **Encouraging saving** – this is our other primary goal, to help people to save money for the things they want – over the short, medium and long-term.

### Our Business Model

Our business model is simple and focussed on delivering our purpose. We provide residential mortgages in the UK using our specialist underwriting capabilities to solve complex cases for our members and fund this through retail savings. As a mutual organisation owned by and run for our members the Society does not seek to maximise profits but instead is focussed on delivering value to members whilst optimising profit.

We lend to members across England, Scotland and Wales through a network of valued broker partners and directly to members through our expert mortgage advisors. We offer a wide range of mortgage products including standard residential mortgages, and specialist propositions such as self and custom build, buy to let, interest-only and shared ownership.

We fund our lending with members’ deposits. As at December 2025 our mortgage book was £897.0m (2024: £796.4m), £44.7m (2024: £58.0m) smaller than members’ deposits (savings) of £941.7m (2024: £854.4m), a loan to deposit ratio of 95% (2023: 93%). Our business model allows for a small amount of wholesale funding but this is not core to our funding model. The other key sources of funding are accumulated retained earnings and central bank funding provided under facilities such as Indexed Long-Term Repo (ILTR).

We hold high levels of liquidity to ensure that we always have sufficient, available funds to meet the needs of our depositors and other creditors. Consistent with our simple business model we have very restrictive investment limits and would only invest in the highest quality assets having assessed the creditworthiness of any counterparty and considering the yields available. As at the end of December 2025 the Society had £9.9m High Quality Liquid Asset (HQLA) investments (2024: nil), see debt securities note for details. All of our remaining liquidity was either held at the Bank of England or in the Group’s call accounts with UK based clearing banks so far as required to meet operational needs.

## Financial Review

### Overview

2025 was another positive year for the Society despite the backdrop of a volatile geopolitical and macroeconomic environment, as set out in the Chief Executive's Review on pages 4 to 8 of this report.

### Financial performance

	Group	
Summary of Income and Expenditure Accounts	2025	2024
	£'m	£'m
Net interest receivable	21.5	20.0
Fees, commissions, and other (expenses)/income	(0.3)	(0.2)
Change in fair value of investment properties	(0.4)	(0.5)
Fair value (losses)/gains	(1.8)	0.4
<b>Total income</b>	<b>19.0</b>	<b>19.7</b>
Total administrative expenses	(17.1)	(16.9)
Provisions for bad and doubtful debts (charge)/credit	(0.4)	0.1
<b>Profit before tax</b>	<b>1.5</b>	<b>2.9</b>
Tax charge	(0.4)	(0.7)
<b>Profit after tax</b>	<b>1.1</b>	<b>2.2</b>

Statutory profit before tax fell from £2.9m to £1.5m in 2025. Net interest receivable grew by £1.5m driven by record net lending and careful management of cost of funds as bank base rate fell. The Society's cost base grew by just £0.3m as the Society leveraged recent investments to keep the cost increase below inflation in 2025. Statutory profit has reduced as historical fair value gains on derivatives, which the Society uses to hedge fixed mortgages and savings, amortised through 2025 as expected.

### Core Operating Profit Before Tax

The Society's financial performance is monitored by the Board who review core operating profit, in addition to statutory profit. Core operating profit before tax is an alternative performance measure which excludes fair value gains/losses on hedging activities and investment property fair value changes in relation to the Society's subsidiary DHL.

In the annual report for the year ended 31 December 2024 the core operating profit before tax metric did not exclude the investment property fair value loss for DHL. However, as DHL is now held for sale (see assets held for sale section below) the exclusion of the investment property fair value change that relates to DHL is deemed to better reflect underlying performance. 2024 Core Operating Profit in the table below has been aligned, to exclude DHL fair value adjustments accordingly.

The Board considers core operating profit before tax to be a more appropriate measure of the underlying performance of the business.

	Group	
	2025	2024
	£'m	£'m
Statutory Profit Before Tax	1.5	2.9
Derivative fair value loss / (gains)	1.8	(0.4)
Investment properties fair value loss	0.4	0.5
<b>Core Operating Profit Before Tax</b>	<b>3.7</b>	<b>3.0</b>

In 2025, statutory profit before tax was £1.5m (2024: £2.9m) and core operating profit was £3.7m (2024: £3.0m). The key driver of the growth in the core operating profit was a £1.5m increase in net interest income driven by the Society's core mortgage and savings activities which more than offset a £0.3m increase in costs and a £0.5m higher provision charge.

### Net interest income

	2025	2024
	£'m	£'m
Net interest income	21.5	20.0
Mean total assets	979.7	929.1
	%	%
Net interest margin (NIM)	2.19%	2.15%

Net interest income is the Society's principal source of income and grew to £21.5m from £20.0m in 2024 off the back of record net lending and resilient mortgage margins. The Society's net interest margin remains strong and increased through 2025 despite the falling interest rate environment. That is due in part to a more efficient balance sheet as the Society has reduced

liquidity through higher mortgage lending into a buoyant specialist lending market.

The Society has continued to pay competitive rates for its savings products to attract the funding it needs to support net lending and repay TFSME in 2025. The Society expects cost of funds to increase in the short term and in turn Net interest margin (NIM) is expected to fall in 2026.

### Other income and charges

Other income and charges comprise fees and commissions payable and receivable, other operating income and expenditure and fair value gains on derivative financial instruments. The most significant of these areas in 2025 being a fair value loss of £1.8m (2024: £0.4m gain) in respect of the Society's derivative financial instruments.

Derivatives are used solely for risk management purposes and are a critical tool used in managing Interest Rate Risk in the Banking Book (IRRBB). The Society only purchases interest rate swaps to hedge fixed rate mortgage and savings products.

Whilst the Society's derivatives are all in economic hedges, fair value hedge accounting cannot be applied to the mortgage pipeline. As such, the Society is exposed to movements in fair value on swaps until a qualifying hedge accounting relationship can be designated. This is typically once the pipeline has completed which can be two or three months after entering into the swap.

After signposting last year that some of the Society's historical fair value gains would unwind in 2025 the Society has seen an increase in the fair value amortised in the income statement in 2025. There is now approximately £1.3m of those historical gains left to unwind and we expect that 2026 will be the final year where material amortisation is reported. As the swap markets have been more stable through 2025, the fair value changes observed in the period between purchase and designation have been smaller.

	2025 £'m	2024 £'m
Net gains from designated hedge accounting relationships	0.1	0.8
Amortisation of previous designations	(1.8)	(0.6)
Net (losses)/gains from derivative financial instruments whilst outside of designated hedge accounting relationships	(0.1)	0.2
<b>Net (loss)/gain from derivative financial instruments</b>	<b>(1.8)</b>	<b>0.4</b>

Gains from hedging relationships conducted during past periods of extreme interest rate volatility comprise effectively all of the net loss. The amortisation is driven by the maturity profile of the historic swaps and the prepayment of loans, the latter of which cannot be forecasted accurately in the same level of detail as it is applied in the fair value macro hedge.

### Administrative expenses

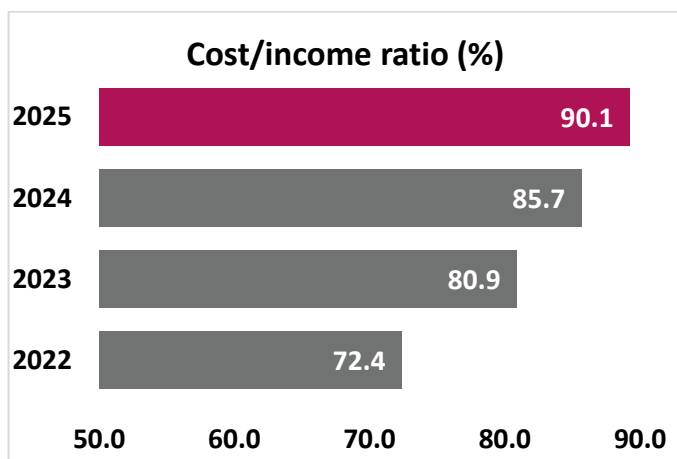
	2025 £'m	2024 £'m
Administrative expenses	16.6	16.3
Depreciation	0.5	0.6
<b>Total Administrative Expenses</b>	<b>17.1</b>	<b>16.9</b>

The Society saw a 1.6% increase in administrative costs in 2025, below headline inflation and cost of living uplifts applied to salaries. This means that cost growth over the last two years sits at 3.7%. Cost growth has slowed as the Society continues to leverage its recent investments in technology and people and was below expectation for 2025. As a result the Society's management expense ratio has fallen to 1.75% from 1.81% in 2024 and is 0.14% lower than two years ago as the Society has grown efficiently.

### Cost / income ratio

Total income reduced by £0.6m in 2025 driven by a net loss on derivative financial instruments of £1.8m (2024: £0.4m gain). Overall, the reductions to other income and increases to administrative expenses more than offset the increased net interest income. As such the

Society's cost / income ratio worsened 4.4% through 2025, finishing the year over 90% (2024: 85%).



Excluding the impact of the net loss on derivative financial instruments and investment properties fair value loss from total income, the cost / income ratio would have shown a 4.6% decrease to 80.8% compared to an adjusted 85.4% in 2024. The Society is targeting reductions in cost / income over the medium term as it looks to further leverage investments in technology to support balance sheet and NII growth ahead of costs.

### Provisions for bad and doubtful debts

The Society's loan loss provision has increased to £1.6m (2024: £1.2m). The increase is driven by a small number of specific provisions on the Society's residential mortgages and an increase in the collective provision driven by book growth and an increase in the weighted average loan to value (LTV) on new business. Overall provisions coverage remains strong. The Society's loan loss provision includes a core loan loss model component and a post model adjustment (PMA). The PMA captures risks at the balance sheet date that would not be captured within the core model.

The core modelled loan loss provision, which comprises £1.2m (2024: £1.0m) of the total provision, increased £0.2m in the year.

The post model adjustment (PMA) was reviewed throughout 2025 and again as at the balance sheet date. The review considers current levels of macro-economic uncertainty and key areas of emerging risk such as the final impacts of cost-of-living pressures supported by in-depth reviews of the whole mortgage book completed semi-annually. As a result of these reviews the post model adjustment was increased to £0.3m (2024: £0.2m) reflecting in particular the sensitivity of the

provision to higher LTVs and the low forecasts for house price index (HPI) growth.

### Other Comprehensive Income

	Group	
	2025	2024
	£'m	£'m
Summary of Comprehensive Income		
Profit after tax	1.1	2.2
Actuarial gain/(loss) in the pension plan, net of deferred tax	0.1	(0.5)
Loss on debt securities, net of deferred tax	-	-
<b>Total comprehensive income</b>	<b>1.2</b>	<b>1.7</b>

The Society has made additional contributions and seen a small actuarial gain in the value of its closed, legacy defined benefit pension plan through 2025. A contribution was made in 2025 as part of the triennial valuation process, following actuarial losses in each of the past three years. The scheme is now back in a net surplus, as calculated under Financial Reporting Standard 102 (FRS102). Return on scheme assets has improved as the Society works with the trustees to improve the investment yield to the level required to return the scheme to its target funding level. The scheme remains well-funded overall and is pursuing a very low risk investment strategy, consistent with the scheme's maturity profile.

### Financial position

	Group	
	2025	2024
	£'m	£'m
Summary of Balance Sheets		
Liquid assets	121.6	130.1
Loans and advances to customers	896.1	792.0
Fixed and other assets	6.7	12.9
<b>Total assets</b>	<b>1,024.4</b>	<b>935.0</b>
Shares	938.5	853.4
Amounts owed to others	23.8	21.9
Other liabilities	5.5	4.4
General reserves	56.6	55.3
<b>Total liabilities</b>	<b>1,024.4</b>	<b>935.0</b>

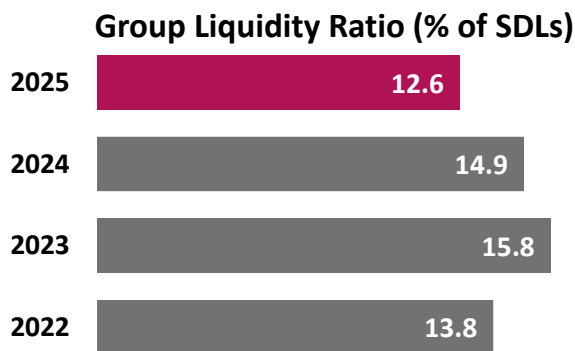
The Society's balance sheet grew nearly 10% to finish the year at £1,024.4m total assets (2024: £935.0m) with the mortgage book growing to £892.8m (2024: £796.4m) and an increase in funding from Shares, Deposits and Loans (SDLs) to £962.3m (2024: £875.3m). Liquid asset balances were reduced to £121.6m from £130.1m as the Society sought to reduce liquidity to more efficient levels and made the final repayment of TFSME.

The Society achieved record levels of growth in its mortgage book, with net lending on residential property of £100.9m (2024: £23.2m).

2025 saw the Society increase savings balances by £87.3m (2024: £63.0m) which funded mortgage book growth in the year and facilitated the final £10m repayment of TFSME funding in October 2025.

### Liquid assets

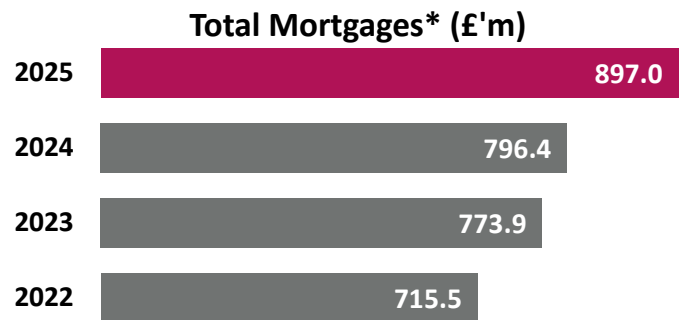
The Society's overall liquidity holdings remain high albeit they have reduced slightly to £121.6m (2024: £130.1m) as the liquidity ratio has reduced to 12.6%, closer to our target range. This is a result of the focus on improving liquidity efficiency, particularly as retail savings have become more expensive.



The Prudential Regulation Authority (PRA) monitors liquidity and funding risk through the UK Capital Requirements Regulation (CRR) framework via several common minimum requirements. The liquidity coverage ratio (LCR) is a liquidity based regulatory ratio that measures the quantity and quality of liquidity against the outflow risk arising from deposits and other liabilities based on standardised outflow levels. The Society's LCR at year end was 172% (2024: 248%) significantly above the regulatory minimum of 100%.

### Loans and advances to customers

The Society's loans and advances to customers comprises mainly residential mortgages, all of which are secured against property in the UK. The Society's residential mortgages include owner-occupied, buy to let, shared ownership and self / custom build. The Society's legacy commercial book continues to reduce with no additional lending on commercial exposures in 2025 (2024: nil).

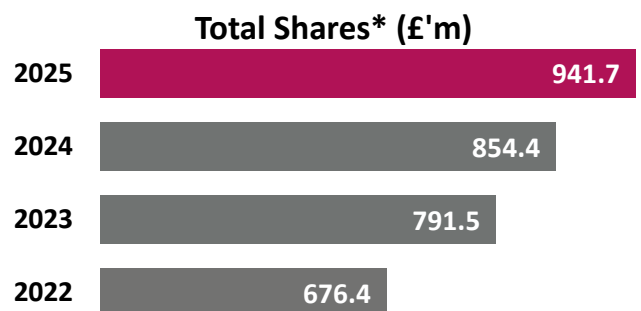


\*balances exclude hedge item fair value adjustments

The Society's residential mortgage book grew £100.9m in 2025 (2024: £23.2m). Net lending exceeded plan in 2025 and the Society expects to maintain a high level of growth in the future. This is consistent with our long-term growth plan as the Society looks to optimise its capital resources and make use of investment in technology that has improved the efficiency of the lending process.

### Shares and deposits

The Society grew its savings balances by £87.3m in 2025 (2024: £63.0m).



\*excluding hedge item fair value adjustments

The Society observed increased competition in the savings market in 2025, particularly in ISAs. This was fuelled by uncertainty around tax-free allowances for cash ISAs, like those offered by the Society. This has ultimately benefitted savings members in the year but

has increased the cost of funds to the Society. Interest on members' deposits is down £2.7m, 8% lower than 2024, driven by Bank Base Rate (BBR) reducing from 4.75% to 3.75%. Although the interest paid has reduced, the costs of funds are now more expensive compared to BBR than at the end of 2024 as the cost of new business increased. This will impact NIM in future periods.

## Capital

Unaudited – Society	2025 £'m	2024 £'m
Common equity tier 1 (CET1)	55.8	54.5
Total capital	57.1	55.4
Risk weighted exposure amount (RWEA)	386.3	342.6
Total leverage ratio exposure	940.8	829.2
Leverage ratio	5.9%	6.6%
Total Capital Requirement (TCR)	8.5%	8.2%
Total Capital ratio	14.8%	16.2%

Regulatory capital is comprised primarily of accumulated retained earnings. Capital is ultimately held to provide loss absorbing capacity for the protection of depositors and other creditors against unforeseen future losses. Capital disclosures included in this report are in line with the UK Capital Requirements Regulation (UK CRR).

The Society's regulatory total capital has increased through 2025 from £55.4m at the beginning of the year to £57.1m an increase of £1.7m. This growth is £0.5m higher than the Society's total comprehensive income reported in 2025. The main difference between total comprehensive income and regulatory capital increases is due to the treatment of the pension asset, which is deducted in full from CET1 so actuarial gains only increase regulatory capital to the extent they reduce the pension liability. The surplus on the funded pension scheme now stands at £0.3m (2024:£0.1m deficit). The other main difference arises from the treatment of collective provisions which are not deducted from regulatory capital but are deducted from retained earnings.

The Society's regulatory capital as a proportion of risk weighted exposure amounts (RWEAs) remained strong with the total capital ratio reducing to 14.8% (2024: 16.2%). This is lower than expected as hedge accounting unwinds were larger than forecast, however the Society

still expects that materially all of these historical gains will unwind by the end of 2026.

Consistent with the Society's ambition to drive greater efficiency from the balance sheet we would expect capital ratios to reduce to more efficient levels over 2026. Capital is however expected to remain comfortably above the regulatory minimum at all times.

The Society's total capital requirement and overall capital requirements (as % of RWEAs) increased in 2025 driven by mortgage book growth. The Financial Policy Committee (FPC) has not formally stated any intention to increase the Countercyclical Capital Buffer (CCyB) rate in 2026 and the UK retains one of the highest CCyB rates globally.

Leverage ratio, not a risk-sensitive capital metric, remains strong at 5.9% significantly in excess of regulatory expectations.

During 2025 the Society has determined that it is eligible for and should elect to become a Small Domestic Deposit Taker (SDDT) firm. This means that the Society does not have to adopt Basel 3.1 requirements but instead will apply the simpler and more proportionate SDDT framework. The SDDT regime has been designed specifically for UK based, domestically focussed financial institutions with simple business models like the Society's. The new regime will take effect from 1 January 2027 and the Society expects that its capital ratios will improve under the new framework. The improvement will be driven primarily by the more risk sensitive capital requirements which, under the new regime, will better reflect the low risk business activities undertaken by the Society.

## Assets held for sale

As shown in note 15, the Society has recognised a £0.4m reduction (2024: £0.5m) in value on the investment properties held by Darlington Homes Limited (DHL). These assets, which comprise materially all DHL's net assets, are now held for sale. The Society is looking to dispose of the assets as the associated business activities are not core to the Society's business and management time could be better spent on the Society's primary business. The valuation reflects an independent assessment of the portfolio and the carrying amount at which a sale is deemed highly probable in the next 12 months.

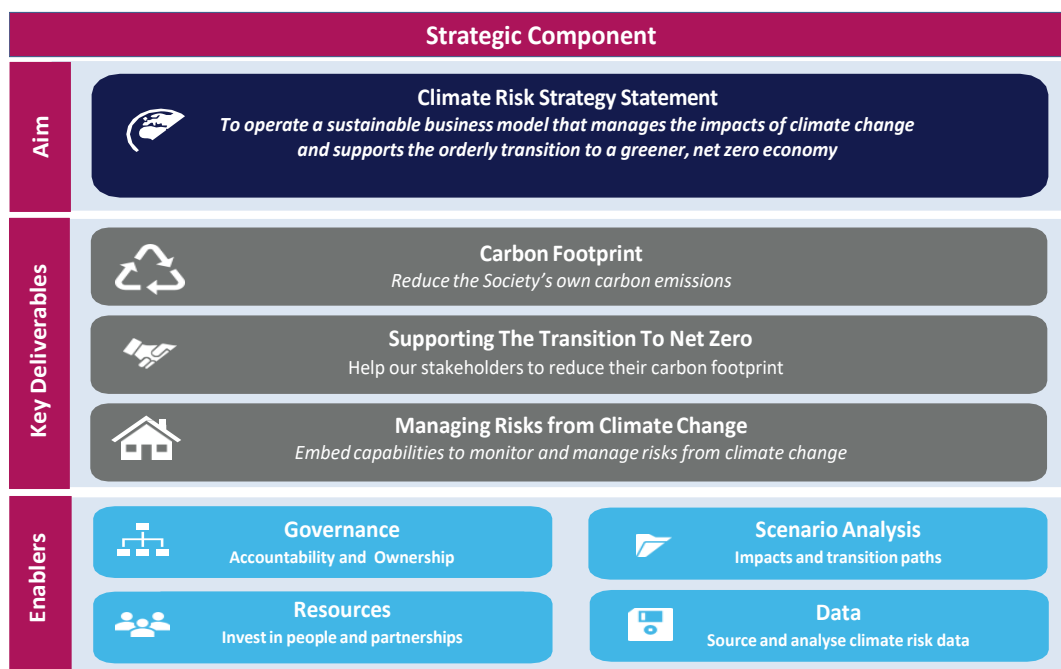
## Climate Change

The Society continues to recognise the financial risks of climate change and strives to assess these risks and respond in a manner that is proportionate to the nature and scale of our business, and in line with regulatory expectations. We also recognise that we have a role to play in contributing to the management of carbon emissions and reducing the environmental impact of our operations.

## Strategy

The Society’s agreed climate risk strategy is to operate a sustainable business model that manages the impacts of climate change and supports the orderly transition towards a greener net zero economy. We adopt four risk management enablers to support this strategy – Governance, Resources, Scenario Analysis and Data.

This report provides an update on progress against the ‘Key Deliverables’ in 2025.



## Progress on key deliverables

### **Reducing the Society’s own carbon emissions**

The Society reduced scope 1 and 2 emissions by 44.8%, or 43.6% on a full-time employee (FTE) headcount adjusted basis. Ten of our buildings are now supplied with renewable energy, with the final outstanding building scheduled to transition to renewable energy supplies in 2026.

Overall emissions (Scope 1, 2 and 3) as a flat total, decreased by 12.8% in 2025, with the adjusted FTE basis decreasing by 11.8%, driven predominately by the reduction of Scope 2 emissions.

The results below follow the market-based approach which applies to emission factors that correspond to energy contractual instruments. This approach is deemed to be a more accurate reflection of the Society’s underlying emissions.

Emissions (tCO2e)	2023	2024	2025
Gas	22.0	18.7	19.7
<b>Scope 2</b>			
Electricity	63.9	52.9	19.8
(attributable to the EV charging point)	0.90	0.90	0.90
Electricity not including EV Point	63.0	52.0	18.9
<b>Scope 3</b>			
Business Travel	23.1	27.3	18.0
Commuting	169.0	163.0	160.0
Homeworkers	29.9	29.2	35.6
Electricity (transmission & distribution losses)	4.2	4.3	4.8
Waste	0.0	0.2	0.1
Water Usage	0.4	0.5	0.5
Total Scope 3	226.6	224.5	219.0
Total Scope 1,2 and 3	313.0	297.0	257.6
Purchased Offsets	329.0	329.0	300.0
Net Carbon	-16.0	-32.0	-41.0
Emissions (tCO2e)	2023 (FTE)	2024 (FTE)	2025 (FTE)
Scope 1	0.11	0.10	0.11
Scope 2	0.32	0.29	0.11
Scope 3	1.14	1.22	1.20
Total	1.57	1.61	1.42

### ***Carbon Neutral Certified***

The Society has fully offset in 2025, our scope 1, 2 and 3 emissions under standards approved by the International Carbon Reduction and Offset Alliance (ICROA). Although our emissions originate in the UK, we offset our emissions through verified carbon offset projects based outside the UK.<sup>3</sup>

### ***Helping our stakeholders to reduce their carbon footprint***

We have enhanced our procurement and supplier management framework to gather Environmental, Social and Governance (ESG) insights across our key suppliers and partners, whilst remaining a founding member of the Darlington Employer Environment Partnership (DEEP) which brings together regional businesses to drive a collaborative approach to sustainability across our region.

### ***Managing the risks from Climate Change***

The Society defines Climate Risk as “The physical and transition risks arising from climate change, leading to financial loss and/ or reputational damage.”

Physical risks impact the Society’s assets, primarily secured charges held on mortgaged properties and the risks arising from weather events such as heatwaves, floods and storms which risk becoming more frequent and/or more severe due to climate change. Risks can include devaluation of mortgage properties, properties becoming uninsurable, or the Society’s premises being damaged leading to business disruption and repair costs.

<sup>3</sup> This includes providing funds to support the following: SELCO Solar Energy Access, India, VCS (100 tCO2e) Ecofiltro Clean Water and Cooking, Guatemala, Gold Standard VER (100 tCO2e) Orinoco River Basin REDD+, Colombia, VCS v3 (100 tCO2e).

Transition risk can arise from the process of adjustment towards a low-carbon economy, influenced by climate-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences, or evolving legal interpretations.

### Scenario Analysis

The Society works with a specialist third party to undertake climate risk scenario analysis. This is designed to provide a high-level understanding of physical and transition risks within the Society’s lending portfolio. The Society assesses physical risk by calculating the potential loss under the combination of economic stress and a high emissions scenario defined by the Intergovernmental Panel on Climate Change (IPCC), based on the projected change in global greenhouse gas concentration as measured by Representative Concentration Pathway (RCP) levels.

The scenario used for transition risk is derived from Energy Performance Certificate (EPC) ratings, and estimates the cost and valuation impacts of energy efficiency remediation. These scenarios overlap with the PRA’s Climate Biennial Exploratory Scenario (CBES) climate change scenarios, with a focus on ‘No Policy Action’ for measuring the impact of physical risks and the ‘Early and Late Policy Action’ scenarios for measuring transition risk, as highlighted in the table below.

Risk Type	Climate Change Scenarios			
Physical Risks	RCP 2.6	RCP 4.5	RCP 6.0	RCP 8.5
	Significant Global Reduction	All countries implement Paris accord	All signatories implement Paris accord	Business as Usual (No Policy Action)
	Increase in temp of 0.9°C – 2.3°C by 2100	Increase in temp of 1.7°C – 3.2°C by 2100	Increase in temp of 2.0°C – 3.7°C by 2100	Increase in temp of 3.2°C – 5.4°C by 2100
Transition Risks	Scenario assumes that homes improve to the highest EPC band feasible and estimates the cost of remediation to inform an expected loss calculation. (Early and Late Policy Action)		Not applicable – government objectives assumed not to be met.	

### Physical Risk assessment

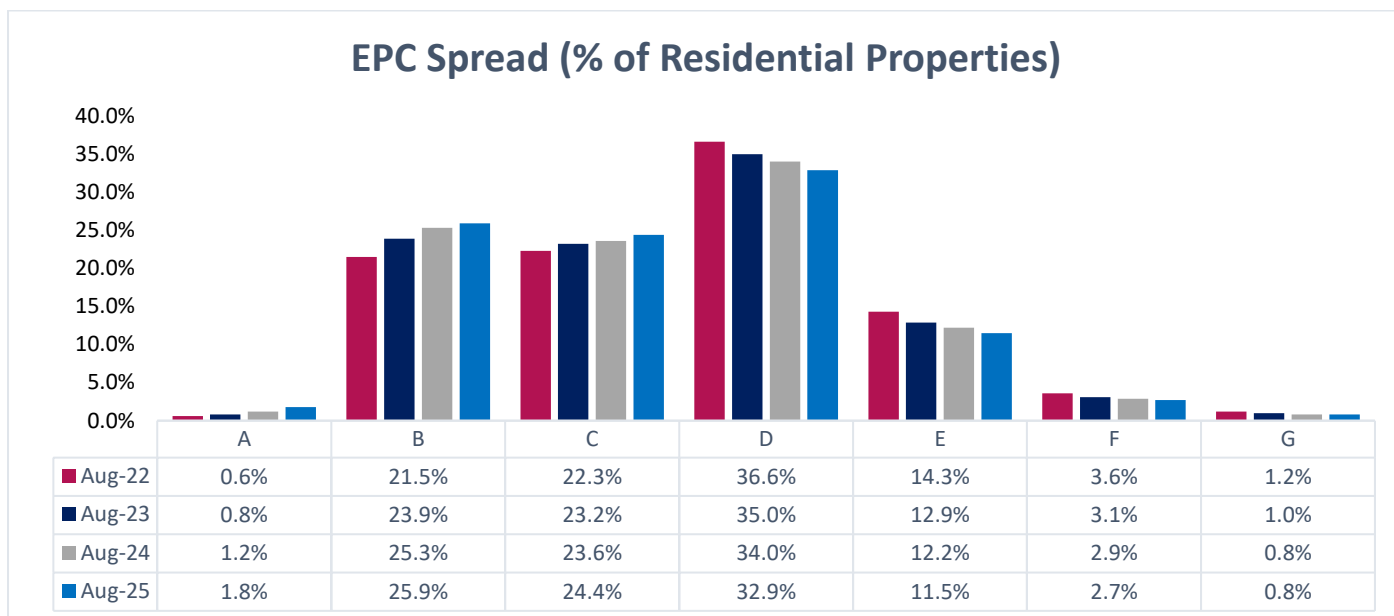
Physical risk has remained relatively stable, though 2025 saw a marginal increase in the impact amount for properties affected by flood. The Society nevertheless has limited exposure and is below the UK lender average.

Physical Risks	31-Aug-24		31-Aug-25		High Emissions Scenario (2060)	
	Properties	Loan Exposure (£m)	Properties	Loan Exposure (£m)	Properties	Impact (£m)
Flood	20	5.2	23	5.7	32	7.7
Subsidence	16	0.7	17	0.8	23	1.1
Coastal Erosion	4	-	4	-	4	0.1

### Transition Risk assessment

The average EPC of the Society’s mortgage book continues to improve and exceeds the average EPC across UK housing stock. It is important however that we remain minded of our purpose to support home ownership and that we do not inadvertently create unreasonable barriers to home ownership, or create a risk of mortgage prisoners due to EPC ratings. In this regard we continue to take account of government plans in informing our lending policy, whilst assessing suitable opportunities to support improvements in home energy efficiency.

A split of the Society’s secured mortgage book for 2025 by EPC rating is reported in the table below. The EPC profile continues to improve, with a 2% reduction in the proportion of mortgages at D – G when compared with the previous year assessment. 98.7% of residential properties have a potential EPC greater than an E.



80.7% of the Society’s residential lending portfolios have been matched to the EPC register. For properties in the Society’s mortgage book that do not have an EPC record, a current and potential EPC rating has been inferred by analysing neighbouring properties or using a modelled value provided by our partner, Landmark. Using this combined data, the Society calculates the potential impact of government policy requiring a rapid improvement in EPCs on the resale value of underlying mortgage collateral, and the potential losses this could generate for the Society. Taking into consideration the extremity of the scenario and timeline in which it unfolds, the impact of this scenario is not deemed material over the Society’s planning horizon but may represent a longer-term risk.

## Governance

The Society has established and embedded appropriate governance arrangements to identify and manage the risks and assess the opportunities associated with climate change.

The Board has overall responsibility for the Society’s climate change strategy and related systems of governance, risk management and internal control. The Board is assisted by the Board Risk & Compliance Committee in overseeing the effective operation of the climate risk framework and monitoring performance against risk appetite. The Audit Committee assists the Board in ensuring that the internal systems of control and external disclosures relating to climate change are appropriate.

The Executive Committee has responsibility for setting the Society’s ESG agenda. The Executive Committee also has sub-committees that support review and monitoring of the financial risks arising from climate change, notably the Risk Management Committee. A Climate Change Steering Group is established to oversee initiatives to reduce the Society’s carbon footprint and mitigate the financial risks arising from climate change, with updates reported to the Executive Risk Management Committee.

Responsibility for managing climate-related risk has been assigned to the Chief Risk Officer, as the appropriate Senior Management Function (SMF), under the PRA’s Senior Managers and Certification Regime. This includes ensuring that climate-related financial risks are integrated into risk management frameworks, that align with regulatory requirements and industry good practice.

## Risk Management

The Society has developed a Climate Risk Management Framework to ensure that climate risks and opportunities are appropriately identified, measured, managed, monitored, and reported.

The Society assesses climate change risks across its principal risks, as illustrated below. Typically, physical risks are expected to materialise over a long-term horizon (greater than five years), where transition risks may materialise over a medium-term horizon (less than five years), influenced by government policy. This assessment whilst kept under review and informed by relevant data is primarily based on judgement, recognising data limitations and the high degree of complexity and uncertainty around climate change.

Climate Risk							
Principal Risks	Strategic & Governance Risk	Credit Risk	Funding & Liquidity Risk	Market Risk	Capital Risk	Operational Risk	Conduct & Compliance Risk
		Reputational and stakeholder damage	Loss arising from physical or transitional risks	Ability to attract/retain funding due to climate impact	Losses from changes in member behaviour or price of securities	Deterioration in balance sheet assets	Losses arising from operational events – e.g. flooding or supplier disruption
Impact Assessment							
Physical Risk	Medium	Medium	Low	Low	Low	Medium	Low
Transitional Risk	Medium	Medium	Low	Low	Medium	Low	Medium

## Metrics and Targets

This report summarises the continued assessment of the risks of climate change and our contribution to a greener economy. We continue to work with relevant external partners to undertake scenario analysis and inform our strategy and proportionate risk management arrangements in respect of climate change.

The 2025 assessments concluded that physical risks to the Society’s mortgage assets remain broadly stable to the assessment in 2024, with continued improvement to the EPC profile of the Society’s mortgage book. The Society made further reductions to its scope 1 and 2 carbon emissions through continued transition of its estate to renewable energy and lower energy consumption facilities.

## Looking Ahead

The Society will continue to assess the risks of climate change and take appropriate action to manage the impacts on its business model, in a proportionate manner. This work will inform our thinking and planning for specific targets within the Society’s climate change strategy. We will also continue to work with our members, colleagues, communities, and suppliers to manage carbon emissions and contribute to a greener environment.

## Risk Management Report

### Introduction

Strong risk management remains integral to the Society's strategy, to preserving operational and business resilience, protecting members' interests, and maintaining regulatory compliance. This report provides an overview of the Society's risk management arrangements, together with a review of principal and emerging risks.

### Risk Management Framework

The Risk Management Framework (RMF) is a set of components that form the Society's approach to identify, assess and manage risk effectively to support the delivery of the strategic plan and objectives within Board approved risk appetites. The RMF is used to inform business management and decision making, at both strategic and operational levels and sets the tone for an effective risk culture where concerns about potential inappropriate or excessive risk taking are reported, without fear of reprisal. The Chief Risk Officer is responsible for the implementation and operation of the Risk Management Framework, which is subject to annual review by the Board Risk and Compliance Committee (BRCC) and approval by the Board.

The Society adopts a three lines of defence approach to risk management, providing clear separation between ownership and management of risks, processes and controls in first line business operations. Independent oversight of risk management and the suitability of controls is provided by the second line – Risk and Compliance function, with independent assurance of risk management provided by the internal audit function (currently outsourced to RSM).

### Risk Governance


To enable appropriate focus on risk matters, the Board has delegated oversight of risk management to the Board Risk & Compliance Committee (BRCC), which is Chaired by a Non-Executive Director, although ultimate responsibility for risk management continues to reside with the Board which receives regular reporting to support its oversight of risk. The BRCC oversees the management of the Society's risk profile through the assessment of management information and reporting covering the Society's principal risks and is responsible for reviewing and recommending to the Board the Society's risk appetite statements, capital adequacy assessment (ICAAP), liquidity adequacy assessment (ILAAP), Recovery Plan arrangements, and the Operational Resilience Self-Assessment. The BRCC is supported by the Executive Risk Management Committee, Change, IT & Resilience Committee, and Assets & Liabilities Committee.





### Stress Testing


Stress testing, for both internal and external shocks, is used to understand the potential impact of risks to the Society's business model and options to mitigate or manage them. Stress testing is a key part of the Society's corporate planning process and detailed capital and liquidity assessments. It enables the Board to be satisfied that the Society has sufficient capital and liquidity resources, even under a range of severe, but plausible, scenarios.


### Principal Risks and Profile

The RMF outlines five principal areas of risk, comprising: Strategy and Governance; Credit; Prudential; Operational; and Conduct and Compliance. Prudential Risk is further split into sub-risks covering Funding and Liquidity Risk, Market Risk and Capital Risk. Operational risk is broad by its nature and includes risks arising from change, third-party risk and financial crime risks. A review of principal risks, together with key mitigating controls and additional commentary covering performance in the year is set out in the table below, followed by a summary of top and emerging risks.

Principal Risk	Risk Mitigation	Risk Trend	2025 Performance and Actions
<p><b>Strategic Risk</b></p> <p>The risk of failing to deliver strategic objectives which can harm the resilience of the Society. This could result from a failure to respond to external influences such as market conditions, or an economic downturn.</p>	<ul style="list-style-type: none"> <li>● Continued monitoring of economic data and geo-political events, with risk analysis provided at BRCC and Board meetings.</li> <li>● Risk Appetite monitoring and management response to Early Warning Indicators.</li> <li>● Forecasting and monitoring of financial and business performance.</li> <li>● Stress testing undertaken on potential scenarios through the Corporate Plan.</li> <li>● Close monitoring of the competitive environment and the Society's product range to ensure it remains reflective of changing conditions and target markets.</li> </ul>		<ul style="list-style-type: none"> <li>● The external environment presented significant geo-political tensions, low domestic economic growth and volatile market rates. Despite this challenging backdrop, the Society achieved lending and funding growth, with careful management of costs and business mix to support net interest margin, operating profit and financial sustainability.</li> <li>● Capital and liquidity remain above regulatory requirements and were subject to detailed stress testing through the ICAAP and ILAAP.</li> <li>● Careful monitoring of the competitive landscape throughout 2025 informed product strategies and pricing.</li> </ul>
<p><b>Credit Risk</b></p> <p>The risk that a member, or counterparty may not be able to meet their obligations to the Society as they fall due, resulting in losses which reduce profit and erode capital.</p>	<ul style="list-style-type: none"> <li>● A Board approved Credit Risk appetite is in place and is carefully monitored with supporting Credit Risk metrics.</li> <li>● Board approved Responsible Lending Policy and Financial Support Policy, establish sound lending practices, member support and forbearance measures.</li> <li>● Each mortgage application is subject to manual underwriting and independent appraisal of collateral.</li> <li>● Mortgage Indemnity Insurance is in place for high LTV lending.</li> <li>● Provisioning methodologies that reflect lending risk characteristics and performance.</li> <li>● Deep-dive reviews of new lending and portfolio analytics to understand and manage credit risks.</li> <li>● Controlled wind-down of the Society's commercial lending portfolio.</li> <li>● A prudent approach to treasury counterparty exposures.</li> </ul>		<ul style="list-style-type: none"> <li>● The credit quality of the mortgage portfolio has remained broadly stable. The Society has observed an increase in the number of mortgage accounts which are 3 or more months in arrears, though these remain below the UK Finance average.</li> <li>● The lending policy has been kept under active review, with careful management of criteria.</li> <li>● Periodic review and adjustment of lending affordability assumptions (including stress rate), to reflect essential living costs and regulatory guidance.</li> <li>● Use of external credit performance data to support credit risk analytics, inform provisioning and early arrears contact strategies.</li> <li>● Proactive management of arrears and provision of forbearance to members experiencing payment difficulties.</li> <li>● Treasury counterparty credit risk remains extremely low with the majority of exposures with the Bank of England (BoE).</li> </ul>

<p><b>Funding and Liquidity Risk:</b></p> <p>The risk that the Society may not be able to meet its financial obligations as they become due or may do so only at a disproportionate or excessive cost.</p>	<ul style="list-style-type: none"> <li>● A Board approved Liquidity Risk appetite is in place and is supported through the Financial Risk Management Policy.</li> <li>● The key assumptions, risks, and controls (including robust stress testing) for the management of liquidity risk are outlined in the Individual Liquidity Assessment Process (ILAAP) and Recovery Plan documents which are approved by the Board.</li> <li>● The Asset and Liability Committee monitors the liquidity position and forecasts.</li> </ul>		<ul style="list-style-type: none"> <li>● Retained a strong liquidity portfolio, consisting of high-quality assets, predominately held in the BoE reserve account.</li> <li>● Maintenance of liquidity ratios well in excess of regulatory requirements.</li> <li>● Review of the ILAAP – approved by the Board, including revised stress testing and impact assessment of the increase to the Financial Services Compensation Scheme (FSCS) limit.</li> <li>● Maintenance and top-up of collateral prepositioned with the BoE to provide access to its liquidity facilities, as needed.</li> </ul>
<p><b>Market Risk:</b></p> <p>The risk that the income from, or value of the Society’s assets and liabilities may change when affected by fluctuations in market rates such as house price index, inflation, and interest rates.</p>	<ul style="list-style-type: none"> <li>● A Board approved Market Risk appetite is in place and is supported through the Financial Risk Management Policy and defined metrics.</li> <li>● The Asset and Liability Committee (ALCO) oversee the Society’s management of Market Risk including assumptions.</li> <li>● Non-administered rates are subject to hedging in line with approved limits which are regularly reviewed by the ALCO.</li> <li>● The Society does not actively trade; market risk is in respect of banking book assets only.</li> </ul>		<ul style="list-style-type: none"> <li>● Market risk exposures have been retained within acceptable ranges.</li> <li>● Policies, limits, and balance sheet strategies have been kept under review in the context of market uncertainty over the interest rate environment.</li> <li>● Monitoring of economic and hedge accounting considerations, in the context of volatile market pricing.</li> <li>● Review and execution of product and member strategies in response to BoE interest rate action.</li> </ul>
<p><b>Capital Risk:</b></p> <p>The risk of insufficient capital (both in quantum and quality) resources to absorb losses and support core business activity.</p>	<ul style="list-style-type: none"> <li>● A Board approved Capital Risk appetite is in place and is managed through the Financial Risk Management Policy.</li> <li>● The key assumptions, risks and controls around the management of capital risk are outlined in the Internal Capital Adequacy Assessment Process (ICAAP) and Recovery Plan documents which are approved by the Board.</li> </ul>		<ul style="list-style-type: none"> <li>● Capital ratios have operated in excess of regulatory minimum requirements.</li> <li>● Stress tests were undertaken as part of the Corporate Planning Process and the ICAAP (which was subject to scheduled PRA review), to understand potential vulnerabilities and management responses.</li> <li>● Continued assessment of the impact of regulatory proposals for the simplified capital regime for Small Domestic Deposit Takers.</li> </ul>
<p><b>Operational Risk:</b></p> <p>The risk that an exposure or loss may arise from inadequate, inappropriate, insufficient, or</p>	<ul style="list-style-type: none"> <li>● Whilst operational risk management practices are in place to mitigate the likelihood and impact of operational risk events, it is not possible to fully eradicate such events.</li> </ul>		<ul style="list-style-type: none"> <li>● Cyber remains a heightened risk, with increased high-profile attacks causing operational disruption to UK firms. The Society continues to review the security of its systems, monitoring of detection capability and response, including (but not limited to) an Internal Audit review.</li> </ul>

<p>otherwise failed or failing internal processes or systems, human error, or external events.</p>	<ul style="list-style-type: none"> <li>● A risk management system is accessible to all colleagues to support timely reporting of risk events. Risk event reporting is subject to oversight by the Risk and Compliance function, to ensure suitable root cause analysis, lessons learned and control review to reduce risk of recurrence.</li> <li>● The Risk and Compliance function also oversee scheduled reviews of risk profiles across business operations to identify, assess and monitor key risks and critical controls.</li> <li>● The Operational Resilience framework identifies the Society's Important Business Services and maps tolerances for operational disruption to these services, as well as critical dependencies for their delivery. Scenario exercises are used to test and learn from the Society's ability to recover from disruption to these services.</li> </ul>		<ul style="list-style-type: none"> <li>● The Board Risk &amp; Compliance Committee and Board have been briefed on risk events assessed as moderate or high and of management response and actions.</li> <li>● No impact tolerances have been breached for any of the Society's defined Important Business Services.</li> <li>● Operational risk profile has performed within appetite, with improved performance across risk reporting indicators.</li> <li>● One operational risk event was assessed as high due to an issue with calculation of interest.</li> <li>● The Operational Resilience Self-Assessment, and the Operational Risk Framework have been subject to review by the Board Risk &amp; Compliance Committee and approval by the Board.</li> </ul>
<p><b>Conduct &amp; Compliance Risk:</b></p> <p>The risk arising from failure to deliver good outcomes for our members, or comply with relevant conduct regulations.</p>	<ul style="list-style-type: none"> <li>● The Society promotes a positive risk culture, with a focus on preserving good outcomes for our members.</li> <li>● Where the Society, makes mistakes, root cause analysis and remediation is prioritised.</li> <li>● The Risk Management Committee receives reporting on key metrics and indicators of risks to the delivery of good member outcomes, and the Board receives an annual report outlining the delivery of good outcomes and any action plans to further reduce the risk of poor outcomes.</li> <li>● The Risk and Compliance function undertake a programme of independent Conduct Risk and Compliance monitoring reviews.</li> <li>● No Conduct related risk events were assessed as high impact, whilst moderate risk events have been reported to the Board Risk Committee to oversee the suitability of root cause analysis, control review and remediation</li> </ul>	<p>.</p> 	<ul style="list-style-type: none"> <li>● Outcomes-based testing and reporting is fully embedded and was subject to independent review by the Risk and Compliance function.</li> <li>● An Internal Audit review of the Society's measures for supporting Customers in Vulnerable Circumstances concluded Reasonable Assurance. Identified actions have been progressed and this remains an area of focus for continuous improvement.</li> <li>● Management Information and reporting on the delivery of Good Outcomes for members has been enhanced.</li> <li>● Improvements made to the framework design for managing Member Communications.</li> <li>● No Conduct related risk events were assessed as high impact, whilst moderate risk events have been reported to the Board Risk Committee to oversee the suitability of root cause analysis, control review and remediation.</li> <li>● The Consumer Duty Report was reviewed and attested to by the Board.</li> </ul>

<p><b>Pension Risk:</b></p> <p>The risk of financial deficit in the Defined Benefit Plan.</p>	<ul style="list-style-type: none"> <li>● The Independent Pension Trustees of the Society’s Defined Benefit Plan are responsible for managing the scheme and implementing an appropriate investment strategy. The trustee’s role is managed by an expert third party.</li> <li>● The Society, as sponsoring employer, is responsible for meeting the defined benefit pension obligation.</li> <li>● The Society’s Board reviews the performance of the pension scheme on a regular basis, supported by the pension working group who review the scheme’s performance in detail and provide summary reports to the Board.</li> <li>● The Society meets with the independent trustees to discuss performance and strategy when required. To support these meetings the Society engages independent pension specialists to provide independent expert advice to the Society on more technical matters including topics such as actuarial assumptions, hedging and investment strategy.</li> </ul>		<ul style="list-style-type: none"> <li>● The 30 September 2024 triennial valuation, which was completed in 2025, confirmed that the scheme was in a small net deficit on a technical provisions valuation basis.</li> <li>● The Society has agreed changes to the scheme’s investment strategy with the Trustees and expects investment performance to improve further in 2026 but having been implemented in the second half of 2025 return on assets improved only marginally in the year.</li> <li>● Having not made cash contributions to the scheme in recent years the Society did make a contribution in 2025 in light of the triennial valuation assessment and will make further contributions to cover scheme expenses until at least the next triennial review. The additional contribution and a small increase in the agreed target rate of return, which forms the investment strategy, are intended to ensure that the scheme returns to target funding levels by the next triennial review.</li> <li>● Although the scheme is in a small net deficit on a technical provisions basis, the scheme remains well funded, resilient to financial risks and market volatility and continues to follow a low-risk investment strategy consistent with the nature and maturity of the scheme.</li> </ul>
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## Risk Outlook

The Society's Risk Management Framework includes the monitoring and assessment of emerging risks that have the potential to impact the Society's operations, financial soundness and the delivery of strategic objectives.

### *Geopolitical and Macroeconomic Environment*

The economic environment remains challenging in the UK, with low growth, uncertainty over inflation and rising unemployment all having the potential to impact incomes, savings and mortgage affordability.

Market volatility has been a challenge and a number of drivers behind this, such as US trade tariffs, and conflicts in Ukraine remain prevalent into 2026. The emerging conflict across the Middle East has dominated markets throughout early 2026 and in the short term at least is expected to continue to drive volatility in financial markets.

Despite these challenges, the Society is well positioned, with strong capital and liquidity resources as it transitions to new/simplified regulatory requirements for Small Domestic Deposit Takers (SDDTs). Lending is targeted with a clear proposition, supported by sound underwriting practices and the overall credit profile remains within defined limits. The Society has observed an increase in mortgage accounts which are 3 months or more in arrears, and like the sector as a whole, the number of properties in possession increased in 2025, this being where all other plausible strategies and forbearance measures were exhausted. The Society continues to provide pro-active support to its members in financial difficulties, and remains a signatory to the Mortgage Charter which provides for temporary options such as switching to interest only, or extending the mortgage term with no impact to the borrower's credit file. Members who are experiencing financial difficulties which may impact their ability to meet their mortgage repayments are encouraged to contact the Society as early as possible.

### *Competition*

Despite reductions in the bank base rate, savings rates remained higher for longer in 2025 particularly through digital and online channels, whilst mortgage rates reduced, leading to compression on net interest margin.

The Society continues to monitor the market closely to ensure that its proposition is appropriately positioned and priced in targeted markets that align to the Society's strategic objectives. Member engagement continues to support product and service enhancements to ensure our products remain relevant to our members and the Society provides good outcomes for members via online savings (Darlingtononline), through our regional branches and via our panel of mortgage intermediaries.

### *Change Management, Operational Resilience and Cyber Risks*

The Society continues to make strong progress against its multi-year investment programme in technology, business change, and data management. Whilst this will continue to enhance member experience, resilience, and security, it is acknowledged that the change process can give rise to operational and execution risk.

In 2025, the Society completed a review of its Change Risk Management Framework, further enhancing future change controls and governance.

Cyber remains a key risk and a heightened threat to the continuity of business operations. The Society has committed to maintaining an annual Internal Audit Review of its detection, prevention and response capabilities, together with disaster recovery testing, penetration tests and severe and plausible exercises to inform the control posture.

### *Climate Change Risks*

The Society continues to evaluate its exposure to the physical and transitional risks of climate change, working with third parties to undertake an assessment of the physical risks to the Society's assets, as well as gathering insights on transition risk to inform its strategy for the provision of mortgage lending and retail savings. The outputs of climate scenario assessments are considered within the Society's ICAAP. In addition to the downstream financial risks of climate change, the Society also recognises it has a role to play in promoting environmental sustainability and is committed to continued assessment of its carbon emissions and taking appropriate opportunities to reduce these. More information on the Society's emissions reporting is set out in the Climate Change Section of the overall report.

# Corporate Governance Report

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## Welcome

Your Board is committed to applying good practice in corporate governance commensurate with our mutual status and our activities. This report explains to members our approach which is based on the UK Corporate Governance Code 2024 (UK Code).

Whilst the UK Code is applicable to listed companies, the Society's Board is committed to operating in line with good practice standards of corporate governance, for this reason, the Board chooses to have regard for the UK Code, in so far as possible and relevant to building societies.

### Board Leadership and Company Purpose

Your Board is committed to the principles of mutuality. The Board meets regularly to review performance and the delivery of outcomes set against long-term strategic and operational objectives. Details are included in the Corporate Plan. The Board has delegated powers for some responsibilities to Board and Executive Committees as detailed below. However, it retains matters reserved for the full Board as disclosed on our website at [www.darlington.co.uk](http://www.darlington.co.uk). In addition, the Board has general responsibilities to ensure that the Group:

- operates within its rules;
- complies with appropriate legislation and regulations;

- has proper accounting records which are established, maintained, documented and audited;
- has effective systems of control which are established, maintained, documented and audited; and
- takes decisions on specific matters such as major investment and capital purchases.

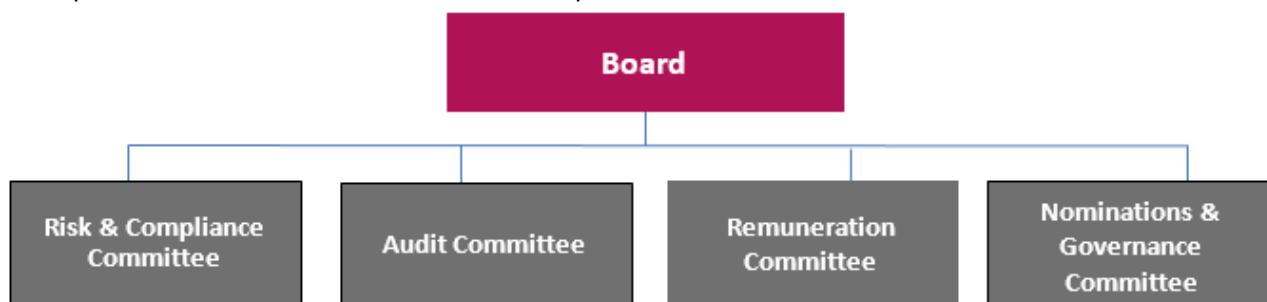
The Board also establishes and monitors the strategic objectives of the Group. Day to day operations are managed by the Society's Executive Team, such as mortgage applications within agreed mandate levels, funding within operating limits and Human Resources matters.

All Board Members have the benefit of appropriate liability insurance at the Society's expense. All Board Members have access to independent legal and other appropriate professional advice, if required.

The attendance of Directors at the scheduled Board and Board Committee meetings is set out below. Against each Director's name is shown the number of meetings at which the Director was present as a member and in brackets the number of such meetings that the Director was eligible to attend during the year.

Director	Board	Risk	Audit	Nominations	Remuneration
R Court (Appointed 28/04/25)	6(6)	-	-	2(2)	3(3)
J Cullen (Retired 28/04/25)	3(3)	-	-	2(2)	1(1)
A Craddock	9(9)	-	-	4(4)	-
K McIntyre	9(9)	-	4(4)	4(4)	4(4)
A Russell	9(9)	7(7)	4(4)	-	-
R Sinclair	9(9)	7(7)	3(3)	-	4(4)
P Barron	9(9)	7(7)	-	-	4(4)
D Asker (Appointed 01/05/25)	5(5)	3(3)	3(3)	-	-
J Sutherland (Resigned 28/02/25)	2(2)	1(1)	-	-	-
C Hunter	9(9)	-	-	-	-
S Forth	9(9)	-	-	-	-

The Board has established a number of sub committees as depicted below. More detailed reports from the Chairs of each respective Committee can be found in subsequent sections.



## Division of Responsibilities

The offices of Chair of the Board (Chair) and Chief Executive are distinct and held by different people. The role of each is set out in their letter of appointment or service agreement and job description. The Chair is responsible for leading the Board, setting its agenda and ensuring its effectiveness. The Chief Executive is responsible for managing the Group's business within the parameters set by the Board. To ensure a smooth relationship between the Board and the Executive, the Chair and Chief Executive maintain an ongoing dialogue throughout the year.

### *The Chair*

The Chair is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The job description of the Chair includes the following requirements:

- Leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda;
- To provide an environment to allow Directors to continually update their skills and knowledge and familiarity with relevant matters to enable them to fulfil their role on the Committee;
- Ensuring effective communication with members;
- Facilitating the effective contribution of Non-Executive Directors and ensuring constructive relations between Executive and Non-Executive Directors; and
- Acting on the results of Board performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, proposing new members be appointed to the Board or seeking the resignation of Directors.

In addition, the Chair will ensure that all new Directors are subject to an induction programme which is specific to their needs. This will include a development plan and an early introduction to appropriate building society regulations.

Each year the Chair carries out a performance review with all Directors. The review will identify any training and development needs and explore how these can be satisfied.

The Chair will hold a meeting each year, or more frequently if required, without the Executive Directors being present.

The Chair has a crucial role in ensuring that the needs and views of members are communicated to Directors and appropriately actioned.

### *Non-Executive Directors*

Non-Executive Directors are responsible for constructively challenging and helping to develop proposals on strategy in the production of a robust Corporate Plan, to scrutinise the performance of Management in meeting agreed goals and strategic objectives. They must also satisfy themselves on the integrity of financial information, and that the systems of risk management and internal control are suitably robust. Their role also includes determining appropriate levels of remuneration for Executive Directors and Executive succession planning.

The Vice Chair leads a process to appraise the Chair's performance annually with input from all Board members.

Where Directors have concerns which cannot be resolved about the running of the Society or a proposed action, they will ensure that their concerns are recorded in the Board minutes.

A specific meeting is held each year to consider and refine the strategy reflecting external environment and internal priorities and to agree future strategy. Strategies are documented in the Corporate Plan which is agreed by all Directors after comprehensive debate.

### *Senior Independent Director*

The Senior Independent Director must be independent of Management and free from any business or other relationship that could materially interfere with the exercise of their independent judgment. In the view of the Board, this means that the Senior Independent Director cannot be an Executive Director. Primarily the Senior Independent Director provides a sounding board for the Chair and serves as an intermediary for the other Directors, on a confidential basis, when necessary.

The Senior Independent Director is available to members for issues which have not been resolved by either the Chair or Chief Executive. As such, they will act to strengthen the relationship with our members by providing a complementary channel, alongside the Chair, Executives and other Non-Executive Directors, to reassure members that they are able to communicate effectively with the whole Board. The Senior Independent Director is responsible for ensuring that there is adequate succession planning in place for the replacement of the Chair. If the role of Chair becomes

vacant, and the Senior Independent Director is a candidate, they will vacate the role of Senior Independent Director during the recruitment period.

### *The composition of the Board*

At the 2025 year-end, the Board comprised three Executive and six Non-Executive Directors. All Non-Executive Directors are considered by the Board to be independent in character and judgement, in accordance with the UK Code, and free of any relationship or circumstance which is likely to affect, or could appear to affect, the Director’s judgement.

The Society is not aware of any material conflicts of interest with respect to the Chair, or any of its Board Directors.

### *Appointments to the Board*

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. The Terms of Reference of the Nominations & Governance Committee, which are on our website [www.darlington.co.uk](http://www.darlington.co.uk) state that the Chair of the Board will not act as Chair of the Nominations & Governance Committee when it meets to consider their successor. 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 Directorships 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 highly valued.

The gender diversity of the Society as at 31 December 2025, with 2024 comparatives parenthesised, is shown below.

	Female	Male
All Staff	66% (68%)	34% (32%)
Senior Management (Executive Committee)	25% (21%)	75% (79%)
Board	30% (22%)	70% (78%)

### *Commitment*

All letters of appointment contain a clause stating that any Director must be able to devote sufficient time and resource to fulfilling the duties of a Director of a financial services firm. All Directors are appraised during the year and this requirement is part of the appraisal process. Prior to appointment all new Non-Executive Directors are required to disclose their other commitments together with a broad indication of the time involved and they agree to notify the Board of any subsequent changes. Existing Executive service contracts require Executive Directors to disclose similar information.

## Our Board

### Board Members (not standing for re-election in 2025)

#### Andrew Craddock

Chief Executive

Andrew has had a distinguished 40-year career in financial services with senior roles in Barclays Bank and Allied Irish Bank, before becoming CEO of Buckinghamshire Building Society and then CEO of Darlington Building Society in 2018. He has led the transformation of the Society over the last 7 years increasing total assets by over 60% to reach the £1bn milestone in 2025, donating over £1m to local charities through its 5% pledge, and becoming Building Society of the Year.



Andrew has announced his intention to retire from the Society at the 2026 AGM, and looks forward to handing over the baton to Alex, leaving the Society in a strong, stable and resilient position.

Throughout his career he has also held various non-executive and trustee roles and is presently an independent governor and Chair of the Audit Committee at Darlington College, which has recently secured a £20m investment to build a new STEM learning Centre.

#### Committees:

- Executive Committee (Chair)
- Product and Pricing committee (Chair)
- Darlington Homes Limited (Chair)
- Nominations and Governance Committee
- Risk Management Committee
- Asset & Liability Committee
- Change, IT & resilience Committee

### Board Members (standing for (re-)election in 2025)

#### Rachel Court

Chair of the Board



Rachel has worked in the Building Society sector for the last 35 years, firstly as an Executive at Yorkshire Building Society, and then as Non-Executive Chair of Leek Building Society for 9 years before joining the Board of Darlington Building Society as Chair in April 2025. She has also held a number of other Non-Executive and Chair roles in the wider financial services sector as well as in the voluntary and public sectors. She brings a wide range of experience including Customer Service, Operations, Mortgage Lending, Intermediary Sales and Product Development as well as HR. As a long-standing Board Chair, she has substantial expertise in Governance, Risk Management and Regulatory engagement.

#### Committees:

- Nominations and Governance Committee (Chair)
- Remuneration Committee

#### Personal message for 2026:

“I’ve thoroughly enjoyed my first year as Chair of Darlington Building Society, getting to know the communities we serve, our fantastic people, and some of our long-standing members. After a successful year for the Society in 2025, I very much look forward to continuing our journey of sustainable growth, whilst we continue to provide the personal service and community support that our members love. As we say farewell to Andrew, our long-standing Chief Executive, and welcome Alex as our new CEO, I’m committed to leading your Board to provide continuity and stability, whilst embracing the next exciting chapter in the Society’s story of success.”

## Alex Windle

Chief Executive Designate

Alex joins the Society in April 2026 following a decade of leadership roles in the Building Society sector, most recently serving as Chief Customer Officer at West Brom Building Society, and Chief Transformation Officer at Cumberland Building Society. Before entering financial services, his background was in strategy, business management, customer experience and marketing. Alex has extensive experience of growing and developing businesses in the UK and internationally, in senior roles at BP, Vodafone and LG Electronics.



### Committees:

- Executive Committee (Chair)
- Product and Pricing committee (Chair)
- Darlington Homes Limited (Chair)
- Nominations and Governance Committee
- Risk Management Committee
- Asset & Liability Committee
- Change, IT & resilience Committee

### Personal message for 2026:

"I feel honoured to be joining an organisation that is so dedicated to its 170 year old purpose, its members and its colleagues, and on the back of such a successful year. Working with the team and the Board, I am committed to building on these strong foundations and ensuring we continue to provide exceptional service and support to our members and communities, whilst also developing the business to meet the needs of future customers and set the Society up to continue to flourish for years to come."

## Kate McIntyre

Vice Chair and Senior Independent Director



A chartered accountant by background, Kate trained and worked with PwC. She subsequently had a varied career, primarily in financial services, with senior roles at Skipton Building Society, First Direct, AXA healthcare, Lloyds Banking Group and Engage Mutual Assurance. In 2023, Kate was appointed Vice Chair of the Board. Kate is also a non-executive director and senior independent director at Cirencester Friendly Society.

### Committees:

- Remuneration Committee (Chair)
- Audit Committee
- Nominations and Governance Committee

### Personal message for 2026:

"In 2026, Darlington Building Society will celebrate its 170th birthday. It's truly heartening to reflect on the many thousands of members who have saved with us and those who have been helped to buy their home over that long period. The world has changed beyond all recognition in the last 170 years. I am proud to have been a small part of that successful journey, and look forward to working with our new CEO and all colleagues to ensure we remain relevant, robust and true to our roots for the next 170!"

## Angela Russell

Non-Executive Director

Angela retired as Deputy CEO and Finance Director of the Newcastle Building Society in 2018. She is a Chartered Accountant and qualified as a Certified Public Accountant and has over 35 years of experience in finance, audit and treasury in the UK and abroad. Angela has worked in a variety of positions in financial services covering Finance, Risk, Audit as well as Projects and Corporate Planning. She also worked for PricewaterhouseCoopers for 12 years in the UK and USA.



### Committees:

- Audit Committee (Chair)
- Board Risk and Compliance Committee

### Personal message for 2026:

"The Society achieved several key milestones in 2025 which I feel privileged to have been a part of as a Non-Executive Director and Chair of the Audit Committee. 2026 looks to be another year of both challenges and opportunities; the economic backdrop looks as challenging as ever, however, supporting our members, communities and colleagues will continue to be at the forefront of everything we do as a building society. I'm looking forward to working alongside our new Chief Executive to continue the focus on member service and engagement and optimising our digital footprint."

## Robert Sinclair

Non-Executive Director



Although now retired from full-time work, Robert remains a prominent figure in the mortgage world as a spokesperson for the importance of advice, choice and the use of intermediaries in the UK mortgage market. Robert stepped down as Chief Executive of the Association of Mortgage Intermediaries (AMI) in 2025 after a hugely successful 13 years at the helm, where he represented industry and consumer needs by influencing policy across political and regulatory. He is passionate about the benefits of mutuality.

### Committees:

- Board Risk and Compliance Committee (Chair)
- Remuneration Committee
- Audit Committee

### Personal message for 2026:

"As the Society transitions to a new Chief Executive, 2026 is a year of opportunity. Using our combined expertise to continue to grow our business for the benefit of all members will be one of my key priorities. As Risk Chair it is essential we do this in a sustainable way within the ever changing economic and technological environment. Having established strong foundations, we will operate to develop our teams performance significantly."

## *Peter Barron MBE*

Non-Executive Director

Born in Saltburn and raised in a steel community on Teesside, Peter has spent more than 40 years working in the North East as a journalist, broadcaster and author, rising to become the longest-serving editor of The Northern Echo. He now runs his own media business, supporting a range of clients across the region. In 2014 Peter received an MBE for services to journalism and North East life.



### *Committees:*

- Remuneration Committee
- Board Risk and Compliance Committee

### *Personal message for 2026:*

“My priority for 2026 is to play an active part in helping Darlington Building Society celebrate its 170th anniversary by building on its well-deserved reputation as a force for good in the local community, a trusted choice for members, and a progressive employer, while supporting the transition into an exciting new era under Alex Windle as he takes over as Chief Executive.”

## *Duncan Asker*

Non-Executive Director



Duncan joined the Society in May 2025. With over 35 years' experience in retail financial services, Duncan has a reputation for delivering value creating outcomes for members, customers and shareholders. His extensive knowledge across the Asset and Liability Management and Treasury areas have supported the development of plans that support long-term sustainability. Prior to his role at Darlington Building Society Duncan has held senior roles at JP Morgan, Halifax, HBOS, Lloyds Banking Group and, finally, Yorkshire Building Society where he held the role of Treasurer. Duncan is a member of the Chartered Institute of Management Accountants.

### *Committees:*

- Board Risk and Compliance Committee
- Audit Committee

### *Personal message for 2026:*

“In 2025 Darlington Building Society celebrated achieving £1 billion in assets whilst donating over £1 million to local charities. It commemorated the sector's 250th anniversary and the bicentennial anniversary of passenger rail, born right on our doorstep. In 2026 Darlington Building Society will be 170 years old, and under the stewardship of our new Chief Executive we will build on the successes of the past in a sustainable and measured way, so that our successors will have milestones of their own to celebrate for generations to come.”

## Christopher Hunter

Deputy Chief Executive

Chris has over 25 years of financial services experience, including Yorkshire Building Society and 15 years at Lloyds Banking Group before joining the Darlington Building Society Board as Chief Risk Officer in 2017. Appointed to Deputy Chief Executive in September 2022, Chris is responsible for Mortgage and Savings Product & Proposition, Mortgage Lending/Support, Operational Resilience and Central Customer Operations. Chris is also Chair at the 700 Club in Darlington and Treasurer of his local rugby club.



### Committees:

- Change, IT and Resilience Committee (Chair)
- Asset & Liability Committee
- Product & Pricing Committee
- Risk Management Committee
- Executive Committee
- Darlington Homes Limited Board

### Personal message for 2026:

“The Society continues to build on its strong foundations with a clear purpose and ambition, which is reflected in the 2025 performance. In 2026 the Society will continue to build on the success of 2025 and I will strive to provide the valued services for the benefit of our Mortgage and Savings members and keep the Society resilient.”



## Steven Forth

Chief Financial Officer

Steven joined the Board following his appointment as Chief Financial Officer in September 2022. As Chief Financial Officer Steven has a key strategic role on the board of Darlington Building Society, with a broad overview of the organisation. Steven is responsible for our Finance, Treasury and Data teams. Prior to joining the Society, Steven held roles at PricewaterhouseCoopers (PwC).

### Committees:

- Asset and Liability Committee (Chair)
- Change, IT & resilience Committee
- Product & Pricing Committee
- Risk Management Committee
- Executive Committee
- Darlington Homes Limited Board

### Personal message for 2026:

“Darlington Building Society remains a trusted partner for our members and communities. In the year ahead, my focus will be on optimising our investments and proposition to deliver maximum value to our members, communities, and ensuring the long-term resilience of the Society. We have an exciting journey ahead, and I’m committed to making the Society even better for our members to engage and do business with.”

## Our Executives

The members of the Society’s Executive Team at 31 December 2025 were: Andrew Craddock (Chief Executive), Christopher Hunter (Deputy Chief Executive), Steven Forth (Chief Financial Officer), Paul Edwards (Chief Risk Officer), Helen Easton (Chief People Officer), Louise Thorpe (Chief Customer Officer) and Jonathan Harwood (Chief Technology Officer).

## Other Information

**Head Office:** Sentinel House, Morton Road, Darlington, DL1 4PT ([www.darlington.co.uk](http://www.darlington.co.uk))

The Society is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority (Registration Number 205895). The Society is a member of the Building Societies’ Association and our Independent Auditors are PricewaterhouseCoopers LLP ("PwC")

## Directors' Report

The Directors have outlined the performance of the Group within the Strategic Report on pages 1 to 26.

### Directors

The members of the Board of Directors who served during the year were:

**Chair:** Rachel Court

**Vice Chair:** Kate McIntyre

**Directors:**

Andrew Craddock	Robert Sinclair
Christopher Hunter	Duncan Asker
Angela Russell	Peter Barron
	Steven Forth

None of the Directors holds any shares in, or debentures of, any subsidiary of the Society. All Directors are members of the Society and have a minimum £1,000 savings balance at the Society.

The Chair confirms that a formal performance evaluation has been undertaken for all Directors and their performance continues to be effective and they continue to demonstrate commitment to their roles.

A detailed Business Review, assessment of Principal Risks and Uncertainties, identification of Key Performance Indicators (KPIs) and future developments have been included in the Strategic Report on pages 1 to 26.

### Corporate Governance

The Board of Directors is responsible for ensuring the adequacy of the Group's Corporate Governance Framework, which is set out on pages 28 to 31.

### Independent Auditors

In line with good practice the Society regularly considers the appointment of the External Auditor. PricewaterhouseCoopers LLP ("PwC") were first appointed as independent auditors for the audit of the financial statements for the year ended 31<sup>st</sup> December 2021.

The Audit Committee confirms, on an annual basis, the suitability of PwC to complete the Group's external audit. This includes assessing their independence, expertise and capacity.

PwC have expressed their willingness to continue and in accordance with Section 77 of the Building Societies Act 1986, a resolution is therefore proposed at the Annual General Meeting for their re-appointment as auditors of the Group.

### Statement on Disclosure of Information to Auditors

Each of the Directors at the date of the approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Group's Independent Auditors are unaware; and
- The Director has taken all the steps that should be taken by a Director in order to be aware of any relevant audit information and to establish that the Group's independent auditors are aware of that information.

### Going Concern and Viability

The Directors have prepared forecasts of the Group's financial position covering at least a period ending 12 months from the date of approval of these financial statements. In doing so they have also considered the effects on the Society's business of operating under stressed but plausible operating conditions. This assessment has included consideration of macro-economic, sector and business risks. As a result, they are satisfied that the Society and the Group have adequate resources to continue in business for the foreseeable future. For this reason, the accounts continue to be prepared on a going concern basis.

In addition to the going concern statement above, the Directors, in line with the Corporate Governance Code (2024), have assessed whether both the Society and the Group will be able to continue to operate, and meet its liabilities, as they fall due over the long term. The Strategic Report on pages 1 to 27 sets out the detailed consideration of the Group's long term prospects.

The Group determines its viability over a three year horizon to 31 December 2028. The three year review period is considered to be the most appropriate timeframe for assessing viability for the following reasons:

- Increasing uncertainty, regarding the economic, competitive and regulatory environments beyond the three-year period, reduces the reliability of a longer term forecasts;
- A significant proportion of the Group's assets and liabilities will mature or reprice within three years;
- Key drivers of financial performance, such as net interest income and impairment losses, are heavily influenced by the level of market interest rates and other macro-economic conditions such as house prices and unemployment. These drivers are increasingly difficult to predict beyond a three year horizon.

### *Assessment of going concern and viability*

The following areas have been considered and assessed to ascertain the going concern and viability of the Group:

- Risk Assessment.
- Current and Forecast Group Performance.
- Results of Stress Testing of Key Areas.

### *Risk Assessment*

The Principal Risks faced by the Society and Group have been detailed within the Risk Management Report alongside the mitigation in place within the business for each risk. The Group ensures that the risks identified within the business, through the risk management framework, are incorporated within the corporate planning process to ensure the Group's strategy adequately addresses and considers each area of risk. The Risk Management Report also details emerging risks the Group has identified as well as detail on the Group's assessment of those risks.

### *Current and Forecast Performance*

The Group has detailed its 2025 results within the Strategic Report. This analysis shows the Group profitability before tax of £1.5m in 2025 (2024: £2.9m). The capital position remains strong with a total capital ratio of 14.8% (2024 16.2%),

The Society has also continued to demonstrate its ability to deliver strong growth in a challenging year with sustained higher living costs, including higher levels of interest rates. The Group produces a Corporate Plan annually which details the strategic direction of the business as well as its financial forecasts for the period. The Directors review the Group's Corporate Plan with particular focus on forecast capital, profitability, liquidity and other key financial metrics to assess viability.

The 2026 Corporate Plan shows that the Society and Group continue to expect to grow their capital reserves through the three year planning horizon with annual profits adding to accumulated retained earnings. The Group has also outlined in the Corporate Plan that the business model for the Society remains focused on mortgage lending within the UK as well as the provision of savings products primarily distributed through the Society's branch network in its local operating area as well as nationally through the Society's digital channel. The Corporate Plan builds on the investment in key systems and processes to deliver the Society's strategic objectives. The Board recognises the current challenges and risks in the mortgage lending market but concludes that the strength of the Society's current offering, the opportunities available to the Society and the aims and objectives of the Society adequately mitigate these risks.

## Stress Testing

The Group's Corporate Plan also includes a range of stress tests to assess the strength of the Group, its capacity to manage a stress scenario and the credibility and scope of a range of management actions it would be able to use in a stress scenario. These stresses include an assessment of the potential impacts of an acceleration of the falling rates projected in the market rate path, with a more severe stress inclusive of the impact of a broader economic downturn. These assessments cover the potential impact if assumptions made by the Group in relation to factors such as UK house prices are worse than expected.

Markets expect that interest rates may fall further in 2026. However, the risk to inflation posed by the ongoing conflict in the middle east has increased the markets' expectation of rates in the short term. The primary risk to the plan is that NIM tightens more than planned, particularly in light of recent increases to cost of funds. The stresses performed against the base Corporate Plan have therefore focussed on the risks associated with increased cost of funds. Stress testing has also been completed to determine the potential impact on capital as a result of a broader economic downturn, including falling house prices.

Further to this, when appropriate, the Group produces updates to the financial budget within the Corporate Plan to assess the impact of different outcomes in other potential shifts in customer behaviour and changes in the wider mortgage and savings market.

The Group also completes regular stress testing of its capital and liquidity. In line with regulatory guidance, these stress tests include 'severe but plausible' scenarios. Capital stress testing ensures that internally and regulatory determined capital requirements are resilient to stresses and includes the completion of the scenario stress testing outlined annually by the Prudential Regulatory Authority (PRA). Liquidity stress testing ensures that the quality and quantity of liquidity held by the Group is adequate to meet business as usual liquidity requirements as well as increased requirements that could be seen during a period of stress.

**Going Concern:** The Directors are satisfied that the Group has adequate resources to continue its operations and meet its liabilities as they fall due throughout the next 12 months and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements.

**Viability Statement:** Based on the assessments above, the Directors have a reasonable expectation that the Society and Group will be able to continue its operations, and to meet its liabilities as they fall due, over the next three years.

## Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts in accordance with applicable law and regulations.

The Building Societies Act ("the Act") requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under that legislation they elected to prepare the Group and Society Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)".

The Group and Society Annual Accounts are required by law to give a true and fair view of the state of the affairs of the Group and the Society as at the end of the financial year, of the income and expenditure of the Group and the Society for the financial year and of the cash flows of the Group and Society for the financial year. In preparing each of the Group and Society Annual Accounts, the Directors are required to:

- select appropriate accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the Annual Accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.


In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group. The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Approved by the Board of Directors and signed on its behalf

A handwritten signature in black ink, appearing to read 'RD Court', written in a cursive style.

Rachel Court  
Chair of the Board  
17 March 2026

## Nominations and Governance Committee Report

### Committee Members

Rachel Court, Chair – Non-Executive Director

Kate McIntyre, Senior Independent Director, Non-Executive Director

Andrew Craddock – CEO, Executive Director

### Other Attendees

Paul Edwards (Chief Risk Officer), acted as Secretary to the Committee and attended meetings in the role of Society Secretary. The Chief People Officer attends by invitation.

### Purpose of the Committee

The purpose of the Committee is to oversee the Society's Corporate Governance arrangements, equality, diversity and inclusion policy, and culture. The Committee leads the process for Board and Board Committee appointments and oversees the assessment of fitness and propriety for Senior Management Function (SMF) holders.

The committee is responsible for:

1. **Board composition and effectiveness** – ensuring that the Board and its Committees comprise the necessary balance of skills, experience, knowledge and diversity of thought leadership to lead the business and discharge their duties in an effective manner;
2. **Succession planning** – orderly planning for the succession of Board, Executive Directors and non-Board SMF roles;
3. **Governance** – ensuring the Society demonstrates effective Corporate Governance, with due regard to the UK Corporate Governance Code and any relevant standards applicable to mutual societies.
4. **Diversity** – reviewing the Society's Equality Diversity and Inclusion Policy and monitoring progress against it.

### Committee Governance

The Committee held four meetings during the year. A report was made to the Board following each meeting with full minutes distributed to all Board members.

The Committee undertook an assessment of its effectiveness. This assessment concluded that the Committee is effective, having carried out its responsibilities.

### Key Activities in 2025

#### *Board Appointments*

Overseeing the appointment of a new Non-Executive Director, Duncan Asker, and the appointment of a new Chief Executive Officer, Alex Windle to take over from Andrew Craddock who will retire at the conclusion of the Society's Annual General Meeting on the 27 April 2026.

The appointment of Duncan Asker as a Non-Executive Director followed a thorough recruitment process led by a specialist external recruitment consultant, Taylor Harrison; this agency has no connection with the Society or any individual directors. The recruitment focussed on key skills, knowledge and experience to complement the coverage of the Board, as identified through a review of the Board Skills Matrix, whilst taking account of the Society's areas of strategic focus.

The appointment of Alex Windle as Chief Executive Designate, concluded a robust recruitment search and hiring process, utilising a specialist search agency, Miles Advisory; this agency has no connection with the Society or any individual directors. The hiring process was led by the Chair, supported by the Senior Independent Director and the Chair of the Audit Committee, overseen by the Nominations and Governance Committee.

#### Board & Committee Composition

The Committee reviewed the composition of the Board, to ensure suitable coverage of Executive and Non-Executive Directors, who meet the requirements as set out by the Code and the Senior Managers and Certification Regime

("SMCR"). The Committee also monitors the composition of Board Committees. As part of this review, the current mix of directors' skills, experience, backgrounds and opinions were considered using a competency skills matrix. The review concluded that, in the main, there was a good level of diversity and coverage in respect of the Board's requirements. The primary focus is to ensure directors' skills complement each other and achieve an appropriate balance. This in turn ensures members' interests are protected and the business has appropriate leadership and direction to ensure the long-term sustainable success of the Society.

### *Succession Planning*

The Committee reviewed succession plans for the Board, Board sub-committees and the Society's Executive team, with consideration for the length of service of each Non-Executive Director and the potential impact on Board Committee membership of those directors who are nearing the end of their term of appointment. Non-Executive Directors are appointed for an initial three-year period and may be proposed for a second and third term, up to a maximum of nine years in total. These terms are subject to ongoing performance evaluations and to annual re-election by members of the Society at the Annual General Meeting.

Tenure at 31/12/25	Number of Non-Executive Directors	% of Non-Executive Directors
0-3 years	4	67%
4-6 years	2	33%
7-9 years	0	0%
>9 years	0	0%

### *Board and Committee Effectiveness*

During 2025, the Board and all Committees completed an annual evaluation of their performance and effectiveness, comprising of a questionnaire with the results discussed by the Committee and action plans agreed to address any issues or to enhance effectiveness. The Nominations Committee considers Board and Board sub-Committee reviews, noting that all were deemed to be effective, with minor enhancements recommended and actions agreed.

### *Governance*

In 2025, the Committee reviewed an assessment of compliance with the UK Corporate Governance Code, concluding the Society maintains compliance with the code, as far as is relevant for a building society.

The Committee reviewed the Society's Management Responsibilities Map (MRM) as part of the Senior Managers and Certification Regime (SMCR). The MRM allocates prescribed, overall and other responsibilities to individual SMF holders, together with the governance arrangements for oversight. Changes to the MRM in 2025, align to changes with the Chair of the Board, Chair of Nominations and Governance Committee, and Chair of Board Risk & Compliance Committee.

The Society's Corporate Governance Manual is reviewed by the Nominations & Governance Committee on an annual basis and recommends changes to the Board for approval. This manual sets out the Society's approach to the UK Corporate Governance Code. Updates made in 2025, reflect the appointment of Rachel Court as Chair and how the Society will comply with relevant updates to the Code which are effective from financial years beginning on or after 1 January 2025.

### *Diversity*

The Society remains committed to promoting equality, diversity and inclusion, recognising everyone's right to be treated equally, with dignity, respect and courtesy. The Committee reviewed the Society's Equality, Diversity and Inclusion Policy and arrangements in place to support the commitments set out within.

The Society is a member of the UK HM Treasury Women in Finance Charter, which includes setting targets for diversity in senior management roles and publishing progress against these targets and linking the pay of the Senior Executives team to delivery of these targets.

### *Conflicts of interest and Directors' independence*

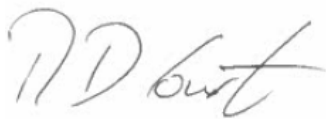
The independence of all Non-Executive Directors was assessed against the criteria set out in the UK Code, including their length of service. The Committee considered potential conflicts of interest by undertaking a review of all external appointments held by each Director, against the limitations on the number of appointments which can be held by an individual. The review concluded that all appointments remained appropriate, with no concerns arising regarding the ongoing independence of each Non-Executive Director or their ability to commit the necessary time to the Society.

### **Key Areas of Focus for 2026**

In the coming year, the Committee will continue to focus on ensuring the Society has a strong governance framework and structure, enabling sound decision making to drive good outcomes for our members and ensure the long-term sustainable future of the Society. This will include coverage of updates to the UK Code which are effective from 2026 and taking account of the regulatory review and consultation of the Senior Managers and Certification Regime.

The Committee will seek to ensure that the Board and its committees have a broad range of skills, experience, knowledge, and diversity of thought leadership, whilst appointments and succession plans are based on merit and objective criteria and promote diversity, inclusion and equal opportunity.

The Committee will continue to oversee the effectiveness of the Board and Board Committees, agreeing timely actions to address any emerging issues and to enhance their overall effectiveness.



Rachel Court  
Chair of the Nominations and Governance Committee  
17 March 2026

## Audit Committee Report

### Committee Members

Angela Russell, Chair – Non-Executive Director

Kate McIntyre – Non-Executive Director

Robert Sinclair – Non-Executive Director

Duncan Asker – Non-Executive Director

Attendance at meetings during 2025 is shown on page 29 and information on the skills, qualifications and experience of Directors can be found in the biographies in the Our Board section on page 32. The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties. At least one member of the Committee meets the requirements of the UK Corporate Governance Code to have recent and relevant financial experience.

Committee members are selected for appointment by recommendation of the Nominations and Governance Committee in consultation with the Chair of the Audit Committee.

### Purpose of the Committee

The Audit Committee is an essential part of the Society's governance framework to which the Board has delegated oversight of the Society's financial reporting, internal financial controls, internal audit, external audit and whistleblowing. This report provides an overview of the Committee's work and details how it has discharged its responsibilities during the year.

The responsibilities of the Committee are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees. The Terms of Reference for the Committee are reviewed on an annual basis.

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 judgements.
- 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.

### Committee meetings

The Committee meets formally at least four times each year coinciding with key dates in the financial reporting calendar and the requirement to approve key documents including the Internal Audit Plan.

Following each Committee meeting, the minutes of the meeting are distributed to the Board, and the Committee Chair provides an update to the Board on key matters discussed by the Committee.

Non-Executive Directors, the Chief Executive, the Chief Financial Officer, the Deputy Chief Executive and the Chief Risk Officer may attend meetings, by invitation. Other relevant senior managers are also invited to attend certain meetings to provide insight and enhance the Committee's awareness of key issues and developments. The outsourced Internal Auditor, RSM UK Risk Assurance Services LLP (RSM), and the External Auditor, PricewaterhouseCoopers LLP (PwC), are also invited to each meeting. Every year the Committee meets at least once with the External Auditor and the Internal Auditor, without Management present. The Chair of Audit Committee engages regularly with Internal and External Audit outside of Committee meetings.

## Key Areas Reviewed During 2025

The Committee met four times during the year and focused on the following matters:

### *Financial Reporting*

The primary role of the Committee in relation to financial reporting is to review and assess, with Management and the External Auditor, the integrity and appropriateness of the annual financial statements concentrating on, amongst other matters:

- The quality and acceptability of accounting policies and practices.
- The clarity of the disclosures and compliance with financial reporting standards and relevant governance reporting requirements.
- Advising the Board on whether the Annual Report and Accounts, when taken as a whole are fair, balanced and understandable and provide information sufficient for members to assess the Society's performance and strategy.
- The material areas in which significant judgements have been applied or where there has been discussion with the External Auditor.

To aid its review, the Committee considered reports from the Chief Financial Officer, Chief Risk Officer, Internal Audit, other Senior Management and the External Auditors on the outcomes of their audit work.

The primary areas of judgement considered by the Committee in relation to the 2025 year-end accounts were:

- Going concern and viability – areas considered include liquidity and funding requirements, capital adequacy, regulatory requirements and budgets and forecasts (including stressed scenarios and incorporating the current economic backdrop).
- Loan loss provisions – the review of judgements used to determine timing, recognition and valuation of loan loss provisions in line with FRS 102 and IAS 39. This included house prices, forced sale discounts, probabilities of loss given default and a review of wider economic factors impacting the Society's Post Model Adjustment (PMA) provision. Loan loss provisioning is an area where the Society applies judgement and relies on loss experience from its own book as well as external data to inform provisioning. The Committee approved an increase to the PMA of £0.1m. Further information on the Post Model Adjustment is given in Note 12.
- Retirement benefits – the Committee has discussed the assumptions used, reviewed the independent external advice regarding their suitability and is happy with the resultant net surplus for the scheme in 2025. Overall, the Committee is comfortable with the assumptions applied.
- Hedge accounting – review of policies applied to calculate the effectiveness of hedges and the impact on the Income and Expenditure Accounts and the Balance Sheet. Hedge accounting remains an area of high complexity and importance to the financial statements. Although volatility in market rate expectations has reduced in 2025 compared to 2024 the Society has, as expected, seen the amortisation of fair value gains from previous accounting periods. As such this remains an area of focus for the Audit Committee.
- Investment property – the Audit Committee has reviewed the valuations applied to the Group's investment property portfolios and discussed the key judgments applied. The Audit Committee discussed the detailed assumptions applied to the investment property portfolio of Darlington Homes Limited as part of the annual review and approved a £0.4m reduction to the fair value of that portfolio.
- Revenue recognition – review of the policy, covering the design, implementation and effectiveness of controls around the calculation of interest income and charges. There have been no changes to revenue recognition accounting policy in 2025
- Changes to FRS102 following the amendments issued by the Financial Reporting Council, following its periodic review in 2024. The Society is not early adopting any of the amendments but has completed an initial assessment of their impact and has included relevant disclosures in the accounting policy disclosures (note 1) as required by FRS102.

The Committee is satisfied that the 2025 Annual Report and Accounts when taken as a whole are fair, balanced and understandable and provide information sufficient for members to assess the Society's performance and strategy.

### *Internal Audit*

The Committee is responsible for monitoring Internal Audit activities and effectiveness and ensuring that sufficient resources are in place. To provide the scalability and flexibility of specialist resources required within internal audit, the Society continues to outsource this work to an external provider, RSM. This enables the Society to leverage the skills and expertise of specialists that have extensive resources. Internal Audit reports considered by Audit Committee in 2025 included:

- **Single Customer View (SCV)** – Reviewed the Society's approach to preparing the SCV file, compliance with depositor protection rules and data analytics to assess the compliance of data captured for new savings accounts.
- **Technology infrastructure** – Reviewed the framework governing the Society's technology infrastructure, focussing on evaluating IT and Cloud Strategies, the processes in place for configuration and asset management, the support and development structures relating to architecture and infrastructure, capacity and performance monitoring, and the design of resilience and scalability measures.
- **Vulnerable customers** - Assessed the effectiveness of the Society's framework for managing customers in vulnerable circumstances and its alignment with regulatory expectations. This review focussed on governance, risk management, staff training, and customer interactions.
- **Branch oversight** – Reviewed the Society's framework for oversight of the branch network, including consideration of the branch standard audits and how actions are tracked and managed. This review also considered the design of the branch standards audit framework and the branch Risk Control Self-Assessment (RCSA) process.
- **Mortgage underwriting and processing** – Reviewed the Society's mortgage underwriting and processing controls to assess adherence to the Society's Lending Policy. Data analytics testing was undertaken to provide wider coverage against a series of key Lending Policy requirements. The review also covered provision of mortgage advice, from the Society's internal mortgage advisors.
- **Internal capital adequacy assessment process (ICAAP)** - This was an advisory review of the Society's ICAAP document, including the format and content of the document as well as compliance with relevant regulatory requirements.
- **Operational Resilience** – Reviewed operational resilience - the Society's ability to prevent, adapt, respond to, recover from, and learn from operational disruptions – and the Society's compliance with the Regulators' (PRA and FCA) operational resilience requirements.
- **Cyber Risk Management (including Data Retention)** – Reviewed the Cyber Risk Management and Data Retention control framework. The objective of this review was to assess whether adequate cyber risk management and data retention arrangements are in place to safeguard DBS's critical systems, data, and services against cyber threats and operational disruptions.

Internal Audit findings and thematic issues identified were considered by the Committee, as well as Management's response and the tracking and completion of outstanding actions. The Committee also approved the fee for the programme of Internal Audit work for the year having reviewed the scope of the work programme in detail.

The Committee considers guidance from the Chartered Institute of Internal Auditors entitled 'Effective Internal Audit in the Financial Services Sector' when ensuring that the Internal Auditors and the Committee were fulfilling their obligations in a robust manner. The Audit Committee monitors a range of Key Performance Indicators covering key areas such as quality and efficiency through the year to monitor the Internal Audit function. The Chair of Audit Committee meets regularly with Internal Audit outside of the formal Audit Committee meetings.

The Society's policy is to tender its internal audit function at least every 10 years. RSM were appointed to provide the outsourced internal audit services for the Society beginning in 2024, therefore no review is required for this year end. A formal review of the effectiveness of Internal Audit is carried out on an annual basis and reported to the Audit Committee. The Audit Committee concluded in the last review that RSM is effective in their role as internal auditor.

## *System of Internal Controls*

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 operates in a dynamic business environment and, as a result, the risks it faces are continually changing. The internal control framework has been designed to ensure thorough and regular evaluation of the nature and extent of risk and the Society's ability to react accordingly. It is the role of Management to implement the Board's policies on risk and control. It is also recognised that all employees have responsibility for internal control as part of their accountability for achieving objectives. Staff training and induction is designed to ensure that staff are clear on their accountabilities in this area and are competent to operate and monitor the internal control framework. Induction training is also in place for new members of Audit Committee.

The Internal Audit function provides the annual internal audit opinion to the Audit Committee. The 2025 opinion concluded that, in respect of the work performed by the Internal Auditors, the Society was able to demonstrate an adequate and effective framework in respect of risk, governance and that the Society's internal controls have been effective. The Committee reviewed the overall control effectiveness through regular reporting from Management, the Society's Internal Auditor and the External Auditor. The Group Risk Framework is included within the Internal Audit risk universe. The Chief Risk Officer attends Audit Committee and there is overlap in the membership of the Audit and Board Risk and Compliance Committees to ensure there are no gaps in oversight between lines of defence.

The main internal control matters which were reviewed by the Committee in 2025 were:

- Results of internal audit reports as highlighted above including management responses.
- Control reports from the External Auditor in relation to the financial reporting process arising from the external audit. During the year, no material control weaknesses were highlighted.
- The status of issues raised in control reports which were tracked closely. During the year, the volume and age profile of issues raised remained within acceptable parameters.
- Written and verbal reports from the Chief Financial Officer and Chief Risk Officer on the operation of internal financial controls and the application of the overall control framework across the three lines of defence.
- Whistleblowing arrangements and policy. The Committee reviews the use of the confidential reporting channels in the Society.

The information received and considered by the Committee provided reasonable assurance during 2025 that there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate and effective internal financial control framework.

## *External Audit*

The effectiveness of the External Audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received from PwC a detailed audit plan, identifying their assessment of the key risks and their audit response.

The Committee ensures it holds at least one private meeting with the External Auditor on an annual basis without Management present. This provides the opportunity for open dialogue and feedback from the Committee and the Auditor. Matters typically discussed include the Auditor's assessment of business risks and Management's activity in relation to these risks, the transparency and openness of interactions with Management, confirmation that there has been no restriction in scope placed on them by Management, independence of their audit and how they have exercised professional scepticism. The Chair of the Audit Committee meets with PwC outside of the formal Audit Committee meetings.

The Committee approved the fees for the External Audit for 2025 after a review of the level and nature of the work to be performed and being satisfied that the fees were appropriate for the scope of the work required. A further safeguard to help avoid the objectivity and the independence of the External Auditor becoming compromised is that

the Committee has a formal policy governing the engagement of the External Auditor to provide non-audit services. The Committee reviewed the level of non-audit fees paid to the External Auditor throughout the year and was content that these fees have not impaired the objectivity and independence of PwC. In addition, the objectivity and independence are protected in the provision of non-audit services by individual terms of engagement for each assignment.

The Society's policy is to tender the External Audit at least every ten years and PwC is required to rotate the audit partner responsible for the Society's audit at least every five years, consistent with audit requirements for Public Interest Entity (PIE) audits. The last tender process was carried out in 2020 covering the 2021 External Audit when PwC were appointed. A formal review of the effectiveness of External Audit is carried out on an annual basis and the last review concluded that PwC was effective.

### *Audit Committee Effectiveness*

The Committee conducts an annual formal self-assessment review to monitor its effectiveness. The review uses anonymous questionnaires completed by Committee members and regular attendees at meetings. The review conducted and reported to Audit Committee in September 2025, concluded that the Committee had operated effectively and in accordance with its Terms of Reference.



Angela Russell  
Chair of the Audit Committee  
17 March 2026

## Board Risk and Compliance Committee Report

### Committee Membership

The Membership of the Committee as at 31<sup>st</sup> December 2025 comprised:

Robert Sinclair, Chair – Non-Executive Director

Angela Russell – Non-Executive Director

Peter Barron – Non-Executive Director

Duncan Asker – Non-Executive Director

### Other Attendees

Executive Directors and the Society's Chief Risk Officer attend the Committee and Internal Audit has an open invitation to attend.

The Chief Risk Officer provides a report at each meeting and is invited to provide an independent view on the Society's risk profile. Subject matter experts are invited to Committee meetings to present on risk management reports as per the approved schedule and in response to any emerging risks or regulatory change.

### Purpose of the Committee

The purpose of the Committee is to provide oversight on behalf of the Board and advise the Board on all high-level risk and compliance matters. This includes advising the Board on risk appetite, risk performance and culture, and overseeing an assessment of future risks and stresses to enable management to develop appropriate risk response strategies to protect the Society.

### Committee Governance

The Committee held seven meetings during the year. A report was made to Board following each meeting with full minutes distributed to all Board members.

The Committee undertook an assessment of its effectiveness. This assessment concluded that the Committee is effective, having carried out its responsibilities. The results were discussed by the Committee and the Board Nominations and Governance Committee.

### Chair's Statement

2025 was my first year as Chair of the Board Risk & Compliance Committee, having previously been a member of this Committee. Duncan Asker, a fellow Non-Executive Director, joined the Committee in May. Duncan's knowledge and experience, particularly in Prudential Risk adds to the shared knowledge and skills that make up the Committee. I would like to thank my fellow Committee members and the Society's Executives in attendance for their support and valued contribution throughout the year.

The Society has recognised the challenging landscape throughout 2025, with geo-political tensions, economic uncertainty, subdued domestic economic growth and rising unemployment. Annual house price growth slowed; however, the mortgage market remains resilient and the savings market extremely competitive. The Society responded to reductions in the Bank of England Base Rate to maintain good value products for its members, whilst targeted mortgage lending helped to manage our Net Interest Income.

Particular focus for the committee in 2025 was on the Society's Internal Capital Adequacy Assessment Plan (ICAAP), including feedback following a scheduled review by the PRA, together with the introduction of Solvent Exit Analysis. In addition, the committee provided oversight and recommendation to the Board on the Society's Internal Liquidity Adequacy Assessment Plan (ILAAP), the Recovery Plan, Operational Resilience Self-Assessment and Consumer Duty Board Attestation.

The committee placed appropriate focus on emerging risks or trends across the sector, including Cyber Risk impact analysis, following high profile attacks in the UK, and impact assessments against financial crime systems and controls following FCA enforcement notices issued to other firms in 2025.

Key activities covered by the Committee are summarised below.

- Review of the Risk Management Framework.
- Review, calibration and monitoring of Risk Appetite metrics, including revisions to quantitative metrics as part of the continued level of maturity.
- Review and approval of key policies, including but not limited to – Responsible Lending Policy and Financial Risk Management Policy.
- Review of the Money Laundering Reporting Officer’s Annual Report.
- Review of the Risk & Controls Self-Assessment, to oversee the risk profile across the Society and the effectiveness of key controls
- Review and recommendation to the Board for the Society’s:
  - o Operational Resilience and Third-Party Risk Management Self-Assessment;
  - o Consumer Duty Board Attestation
  - o Internal Capital Adequacy Assessment Plan (ICAAP);
  - o Internal Liquidity Adequacy Assessment Plan (ILAAP);
  - o Recovery Plan; and
  - o Solvent Exit Analysis
- Review of the internal Credit Risk profile review, including credit data insights from external credit reference agency, and monitoring of the arrears profile and the suitability of financial support arrangements in place.
- Review of the Society’s cyber security position, including an overview of the cyber landscape and threat analysis, areas of focus and progress for enhanced resilience assessed against the PRA’s CQUEST - covering Governance and Leadership, Identify, Protect, Detect, Respond, and Recover.
- Monitoring the regulatory horizon, including the simplified capital regime for Small Domestic Deposit Takers (SDDTs) and the implementation of Basel 3.1.
- Approval and oversight of the Society’s conduct risk and compliance arrangements, including the annual monitoring plan and assurance framework across the three lines of defence.
- Receiving reports from executive risk management committees. This enables review of how these committees are overseeing and managing the risks within their respective remit.

Looking ahead, the Committee will continue to oversee the management of risks associated with external economic uncertainty, and geo-political influences to market confidence. From a regulatory perspective the orderly transition to the simplified capital regime for SDDT firms will be a priority, whilst the retirement of the Building Societies Sourcebook enables more flexibility for lending and treasury activities, the effective governance and risk management of these activities remains of equal importance. Continuing to deliver good outcomes to our members and meeting the FCA’s expectations under the Consumer Duty regime is core to our purpose and strategic pillars, whilst preserving the trust of our members through resilient core business operations underpins our operational resilience framework.

Whilst inflationary pressures may be easing a little, albeit the conflict in the middle east poses a risk to inflation, cost of living pressures continue to place financial pressure on some borrowers, whilst also contributing to precautionary saving. The Society has observed an increase in mortgage arrears in 2025, whilst these remain below the industry average, the Board Risk & Compliance Committee has a key role in overseeing the effectiveness of financial support provided to borrowers who need to access this support, together with effective management of credit risks and provisions.

The Committee acknowledges the maturity of the Society Risk Management Framework and the effective risk management culture across the organisation, whilst recognising its responsibilities to provide effective oversight of the overall risk profile in supporting the Board to oversee the Strategic priorities for the near and medium term.



Robert Sinclair  
 Chair of the Board Risk & Compliance Committee  
 17 March 2026

## Remuneration Committee Report

### Committee Membership

Kate McIntyre – Chair, Non-Executive Director

Rachel Court - Non-Executive Director

Robert Sinclair – Non-Executive Director

Peter Barron – Non-Executive Director

### Other Attendees

The CEO, Andrew Craddock, and the Chief People Officer, Helen Easton, attend meetings of the Committee by invitation, but do not take part in any discussions regarding their own remuneration.

### Purpose of the Committee

The Committee is responsible for:

1. Ensuring that the remuneration policies, principles and practices for all colleagues support the long-term interests of the Society and comply with relevant regulatory rules and guidance.
2. Approving the Remuneration Policy, including pay, variable remuneration and other benefits for executive directors and Material Risk Takers. It also has oversight of reward for the general colleague population.

### Committee Governance

The Committee held four meetings during 2025. A report was made to the Board following each meeting with the full minutes distributed to all Board members. Attendance at meetings is shown on page 29 and information on the skills, qualifications and experience of directors can be found in the biographies on pages 32 to 36.

The Committee undertook an internal assessment of its effectiveness. This assessment concluded that the Committee is effective, having carried out its responsibilities. The results were discussed by the Committee and the Board Nominations and Governance Committee.

Our members will have an advisory vote on the 2025 Directors' Remuneration Report, and at least every three years on the Remuneration Policy. The directors' entitlement to remuneration is not conditional on the AGM vote. However, the Remuneration Committee will take account of the results of the vote and any other feedback received.

### Key Activities in 2025

#### *2025 fixed remuneration*

Taking into account national and regional statistics and benchmarking, including inflation and unemployment forecasts, together with the Society Corporate Plan, the need to recruit and retain good quality colleagues, together with recommendations from the Real Living Wage Foundation, the Committee discussed and agreed salary increases for all colleagues. An increase of 5% was agreed for the lowest two salary bands, to remain compliant with the Real Living Wage, and an increase of 2.5% agreed for all other salary bands, including the executive directors and the non-executive directors. The salary increase was implemented from April 2025. No changes were made to other benefits or the pension entitlement.

In addition to the 2.5% increase, four executives were awarded increases between 3.3% and 10.6% to bring their salaries in line with peer benchmarking and as part of development plans as they increased their knowledge, skills and experience.

The Chair and Vice Chair/SID received the 2.5% increase in line with the executives and other colleagues. The non-executive committee chairs received an increase of 10.5%, and the notified non-executive directors received an increase of 9.4%, to bring these fees in line with peer benchmarking.

## 2025 variable remuneration

As used in the previous year, a “gateway” of 3 measures was agreed to access the bonus scheme to ensure a minimum level of performance was achieved. The three measures were core profit before tax, capital and the absence of any material regulatory, conduct or risk appetite breaches. The scheme utilised core profit before tax, as this measure is considered to better reflect the performance of the Society, rather than statutory profit before tax (please see the CEO Review and Financial Review on pages 4 and 12 for further detail). The Committee assessed that the gateway was met.

The 2025 scheme metrics were then assessed. The scheme generated awards of between 9.75% and 15.75% of salary for executives, reflecting between 41% and 66% of the maximum 24% of salary award available in 2025.

Strategic Pillar	Performance Measures	Maximum (as a % of salary)	Pay Out %	Pay Out as % of maximum
Financial Resilience	Profit before tax, Mortgage growth, Savings Growth & Cost/Income Ratio	6%	4%	66%
Operational Resilience	Progress against implementation of strategic change programme	3%	1.5%	50%
Members & Brokers	Member & Broker NPS	1.5%	0.75%	50%
People	Colleague engagement, equality, diversity & inclusion	1.5%	1.5%	100%
Personal Performance	Progress against personal objectives	12%	2% - 8%	17% - 66%
		24%	9.75% - 15.75%	41% - 66%

## CEO reward package

As part of the recruitment process for the new CEO, the committee discussed and agreed the package to be offered to the incoming CEO, in line with the Remuneration Policy, and designed to enable the Society to attract suitably qualified, skilled and experienced candidates.

## Directors’ Remuneration Policy

The Remuneration Policy is designed to support members by:

- Being clearly linked to business objectives;
- Driving behaviour consistent with our purpose, culture, values and strategy; and
- Being structured to attract and retain appropriately skilled colleagues to support the Society’s long-term interests.

## Remuneration Principles

In delivering this policy, the following principles are observed:

- Objectives are clearly linked to our business strategy, values and the long-term interests and security of the Society and our members;
- Procedures and practices are consistent with, and promote, sound and effective risk management. They balance fixed and variable remuneration to create an acceptable relationship between risk and reward, whilst not encouraging risk taking that exceeds the level tolerated by the Society;
- Basic salary and total remuneration are set at a competitive level to attract, retain and motivate colleagues of the required calibre; and
- Remuneration arrangements meet regulatory requirements and good corporate governance practice.

## Policy Review

The Remuneration Policy is subject to an annual review of both its content and implementation and is recommended by the Remuneration Committee for approval by the Board. The Chief Risk Officer and the Board Risk & Compliance Committee also contribute to the policy review, to the design of any variable remuneration schemes and

independently review the assessment of any variable remuneration schemes including the potential need for any risk adjustment, to ensure that sufficient account is taken of risk considerations.

### *Components of remuneration*

**Base Salary:** This reflects the level of accountability and provides the ability to attract and retain executives through market competitive rates of pay. Once set, any future increases are linked to personal performance and market benchmarking to comparable roles in organisations of a comparable size and complexity to the Society. In addition, the Society reviews the salaries of all colleagues on an annual basis and an annual cost of living increase is awarded if appropriate to maintain salaries in line with inflation and market conditions.

**Benefits and pension:** These are designed to provide market competitive remuneration. These include:

- private medical insurance and annual health screening
- life assurance (death in service benefit)
- healthcare cash plan
- employee assistance programme
- one professional membership fee paid
- employee discounts platform
- one off payment of £100 on appointment to be utilised to open a savings account with the Society and become a member
- pension - executive directors may participate in the defined contribution pension plan or receive a cash allowance. All executives receive a contribution of 10% of base salary.

**Bonus:** An annual performance bonus is linked to the delivery of the annual business plan targets, including the achievement of strategic objectives and personal objectives. This rewards performance over a single financial year. Challenging performance objectives are aligned with our strategy, recognising short, medium and long-term goals. The performance of the executive directors is assessed against a scorecard of measures, to ensure significant reward cannot be achieved by the delivery of high performance in one area, to the detriment of another. The Chief Risk Officer and the Board Risk & Compliance Committee independently assess robust risk evaluation measures.

The service contract for all executive directors includes a contractual notice period of 6 months for both the Society and the director. The contracts also state that during the period of employment with the Society they may only carry out remunerated work for another organisation with the express written consent of the Board. During 2025, there were no sign-on payments made to any director.

The Society will invoke its disciplinary process for any misconduct concerns, and outcomes from the process will be used for deciding cases that could result in adjustments to in-year variable remuneration or in the use of clawback. The Remuneration Policy includes clawback of variable bonus payments up to a maximum of 3 years after payment. Clawback is defined as an arrangement under which an executive director has to return past variable remuneration which has already been paid. This is in addition to in-year variable pay adjustments and other disciplinary actions that can be taken. Clawback can be exercised at the discretion of the Remuneration Committee in appropriate circumstances. Malus allows the cancellation of unvested deferred variable pay awards. As the Society only operates an annual single year performance bonus scheme and no awards are deferred, malus is not applicable to the Society.

### *Policy for Non-Executive Directors*

Fees are paid to non-executive directors to reflect the level of responsibilities and time commitment required for Board and Board Committee meetings. Fees are reviewed annually with recommendations made to the Board by the executive directors. The Remuneration Committee reviews the Chair's fee, without the Chair in attendance. Non-executive directors who chair Committees receive additional fees for this responsibility. Fee levels are benchmarked against other financial organisations of a comparable size and complexity to the Society. Non-executive directors are not eligible for a bonus or pensions or any other benefits but may claim reasonable expenses incurred as part of their role.

## 2025 Remuneration summary for Executive Directors

A further breakdown of the remuneration is provided in note 7 of the accounts.

Executive Directors	2025 Total Remuneration	2024 Total Remuneration
D Bews (Resigned 28 June 2024)	£0	£93,088
A K Craddock	£329,506	£320,527
S Forth	£222,197	£207,403
C Hunter	£219,630	£220,054
<b>Total</b>	<b>£771,333</b>	<b>£841,072</b>

## 2025 remuneration summary for Non-Executive Directors

Non-Executive Directors	2025 Total Remuneration	2024 Total Remuneration
D Asker (Appointed 1 May 2025)	£21,983	£0
P Barron	£32,257	£30,231
R Court (Appointed 28 April 2025)	£39,277	£0
J Cullen (Retired 28 April 2025)	£18,854	£55,479
K McIntyre	£40,887	£39,612
A Russell	£38,324	£35,724
R Sinclair	£37,397	£30,231
J Sutherland (Resigned 28 Feb 2025)	£6,033	£35,724
<b>Total</b>	<b>£235,012</b>	<b>£227,001</b>

## 2025 Remuneration for Material Risk Takers (MRTs)

Material Risk Takers are senior managers who include executives, non-executives and other senior managers whose actions have a material impact on the risk profile of the Society.

The basic salary or fees of Material Risk Takers is determined to reflect the responsibilities of the role. Salaries are reviewed annually and increases awarded based on personal performance as for all colleagues. Material Risk Takers, other than non-executive directors, are eligible for an annual bonus scheme. In 2025 there were 21 Material Risk Takers during the year, the same as 2024.

Aggregate remuneration for Material Risk Takers is reported in the table below.

	No. of beneficiaries		Fixed pay		Current Year variable pay		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
Non-Executives	6	6	£235,012	£227,001	-	-	£235,012	£227,001
Executives	4	4	£686,808	£752,779	£84,525	£88,293	£771,333	£841,072
Other MRTs	11	11	£886,222	£845,832	£79,313	£51,408	£965,535	£897,240
Total	21	21	1,808,042	£1,825,612	£163,838	£139,701	£1,971,880	£1,965,313

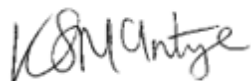
### *Relative importance of spend on pay*

The following table sets out the percentage change in profit and overall spend on remuneration in the year ending 31 December 2025, compared to the previous year.

	2025	2024	Percentage change
Statutory Profit before tax (£000s)	£1,480	£2,917	-49%
Core Profit before tax (£000s)	£3,649	£2,978	23%
Colleague remuneration costs (£000s)	£7,972	£7,836	2%
Average headcount	191	194	-1%

### **Key areas of focus for 2026**

Looking ahead into 2026, the Committee's focus will continue to ensure we have the right reward structures in place, to support our future priorities to attract and retain the talent we will need to deliver our objectives, in a particularly challenging and difficult market. Particular focus in 2026 will be on ensuring there is an appropriate alignment between reward policy and practices with promotion of a healthy culture, the requirements of the Consumer Duty, operational resilience, Environmental, Social and Governance practices and progress in equality, diversity and inclusion as well as achievement of the financial plan.



Kate McIntyre  
 Chair of the Remuneration Committee  
 17 March 2026

# Independent auditors' report to the members of Darlington Building Society

## Report on the audit of the annual accounts

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### Opinion

In our opinion, Darlington Building Society's Group annual accounts and Society annual accounts (the "annual accounts"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2025 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Annual Report and Accounts (the "Annual Report"), which comprise:

- the Group and Society Balance Sheets as at 31 December 2025;
- the Group and Society Income and Expenditure Accounts and Statements of Comprehensive Income, the Group and Society Cash Flow Statements, and the Group and Society Statements of Changes in Members' Interests for the year then ended; and
- the notes to the annual accounts, which include a description of the significant accounting policies.

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

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### Basis for opinion

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

### Independence

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

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

Other than those disclosed in Note 5, we have provided no non-audit services to the Society or its controlled undertakings in the period under audit.

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### Our audit approach

#### Overview

- Audit scope
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors. We performed audit
-

procedures over all material account balances and financial information of the Group and Society

Key audit matters	<ul style="list-style-type: none"> <li>● Provision for bad and doubtful debts (Group and Society).</li> <li>● Fair value hedge accounting (Group and Society).</li> <li>● Valuation of the funded defined benefit pension obligation (Group and Society).</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>● Overall Group materiality £565k (2024: £553k) Based on 1% of General reserve</li> <li>● Overall Society materiality £567k (2024: £525k) Based on 1% of General reserve</li> <li>● Performance materiality: £424k (2024: £415k) (Group) and £425k (2024: £393k) (Society)</li> </ul>

### *The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### *Key audit matters*

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

Valuation of the funded defined benefit pension obligation is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Provision for bad and doubtful debts (Group and Society)</i></p> <p>Determining provision for bad and doubtful debts is inherently judgemental and involves making various assumptions. This can give rise to increased estimation uncertainty.</p> <p>The collective provision is calculated using historical default and loss experience, modelled credit risk characteristics and expected cash flows that are based on collateral values. The assumptions used in the modelling, including probability of default and loss given default (including forced sale discounts), are subject to a high degree of estimation uncertainty judgement resulting from limited experience of loan losses being previously incurred and the risk of there being unobserved impairments within the collective mortgages.</p> <p>Our audit focused on the significant assumptions for which variations had the most material impact on the provision for bad and doubtful debts.</p>	<p>We challenged the conceptual soundness of the impairment provision methodology and used our experience to consider impairment indicators seen within the wider industry, and their applicability to the portfolio.</p> <p>We challenged the probability of default assumptions used within the model by considering the historical data, market data and the wider macro-economic environment. We have also considered the relevance and reliability of the information used by management in their model.</p> <p>We assessed the reasonableness of the forced sale discount assumptions and benchmarked them against industry data and historical data.</p> <p>We confirmed that the provision calculations were mathematically accurate and captured all mortgage</p>

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**Key audit matter****How our audit addressed the key audit matter**

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We consider probability of default and forced sale discount assumptions to be significant in determination of provision for mortgages within the collective model.

Refer to relevant disclosures in Note 12: Provisions for bad and doubtful debts and Note 1: Summary of significant accounting policies.

data through reconciliation of the model to the mortgage book.

We performed a stand back assessment of the collective provision to evaluate its appropriateness.

We tested the disclosures in respect of provisioning and confirmed that they were compliant with accounting standards.

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***Fair value hedge accounting (Group and Society)***

The operations of the Group expose them to a significant interest rate risk as a result of a mismatch between fixed and floating interest rate cash flows.

Management has sought to mitigate the risk of future movements in market interest rates affecting profitability through the use of derivative financial instruments in the form of interest rate derivatives.

Management designates these swaps under hedge accounting arrangements to reduce the effect of future movements in interest rates on amounts recorded in the financial statements.

Where a designated hedge accounting relationship is formed, accounting rules allow the Group's fixed rate mortgage book, and the deposit book, to be remeasured for fair value changes attributable to the hedged risk. In particular, management makes manual adjustments at the time of inception of the hedge relationships to correct for a system limitation.

We identified a significant audit risk related to these adjustments. Our identified risk specifically focused on inaccurate calculations of manual amortisation adjustments in the spreadsheet based calculations.

Refer to relevant disclosures in Note 24: Financial instruments and Note 1: Summary of significant accounting policies.

We obtained and reviewed the relevant hedge accounting documentation to evaluate and assess whether each hedge was compliant with the requirements of accounting standards.

In responding to our identified significant audit risk:

- We tested a sample of manual calculations for mathematical accuracy and performed logic and calculation tests to ensure manual calculations are appropriate;
- We assessed the completeness and accuracy of the data flowing into the spreadsheet and performed tests to ensure that data was being interpreted and categorised appropriately; and
- We tested the reconciliation of the hedging models and the amounts recorded in the general ledger to ensure that the balances recorded in the financial statements are accurate.

We performed the following additional testing over hedge accounting:

- We independently re-performed a sample of hedge effectiveness tests performed by management, considering both prospective and retrospective testing; and
- We re-performed the valuation of a sample of derivatives and underlying hedged items and tested the reconciliation between the hedging models and the amounts recorded in the general ledger.

We tested the disclosures in respect of hedge accounting and confirmed that they were compliant with accounting standards.

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***Valuation of the funded defined benefit pension obligation (Group and Society)***

We evaluated the independence, objectivity and competence of the third-party actuary engaged by

Key audit matter	How our audit addressed the key audit matter
<p>The Group and Society operate a funded defined benefit pension scheme.</p>	<p>management. We reviewed the actuary’s report and obtained an understanding of the methodology used and assumptions set in calculating the defined benefit obligation.</p>
<p>The valuation of the funded defined benefit obligation is dependent on a number of actuarial assumptions. Management uses an actuarial expert to determine the valuation of the defined benefit obligation. The valuation methodology uses a number of market-based inputs and other financial and demographic assumptions.</p>	<p>We assessed the appropriateness of the methodology used. We engaged our actuarial experts to understand the judgements made by management and the third-party actuary in determining the significant assumptions.</p>
<p>Changes in these assumptions can have a material impact on the valuation due to the long duration of the pension liabilities and as such the valuation is considered to be highly judgemental.</p>	<p>We independently assessed, using our actuarial experts, the reasonableness of the discount rate as the most significant assumption by comparing the assumption to our independently compiled acceptable ranges based on external market data.</p>
<p>We consider the discount rate to be the most significant assumption used in the valuation.</p>	<p>We evaluated and tested the disclosures made in the Annual Report in relation to the defined benefit pension obligation.</p>
<p>Refer to relevant disclosures in Note 25: Pensions – Retirement Benefits and Note 1: Summary of significant accounting policies.</p>	

### How we tailored the audit scope

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

All the Group’s activities take place in the United Kingdom. The principal activity of the Society is the provision of loans that are secured primarily on residential property, funded largely by saving products with its members.

The Group is formed of the Society, and a subsidiary company Darlington Homes Limited, which holds the Group’s investment properties. The accounting records and functions for all entities within the Group are located at the Society’s offices in Darlington.

Audit procedures were performed over all material account balances and financial information of the Society and the Group by a combined audit team from Leeds and Manchester.

### *The impact of climate risk on our audit*

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group’s and Society’s annual accounts, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group’s and Society’s annual accounts.

### *Materiality*

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

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

	Group annual accounts	Society annual accounts
Overall materiality	£565k (2024: £553k).	£567k (2024: £525k).
How we determined it	1% of General reserve	1% of General reserve
Rationale for benchmark applied	The Group's and Society's principal activity is to provide residential mortgage loans financed by personal savings products. The strategy is not one purely of profit maximisation. The soundness of the Group and Society is based on its regulatory capital, which is closely aligned to accounting reserves. As such we consider a benchmark based on this metric to be appropriate.	

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2024: 75%) of overall materiality, amounting to £424k (2024: £415k) for the Group annual accounts and £425k (2024: £393k) for the Society annual accounts.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £28k (Group audit) (2024: £26k) and £28k (Society audit) (2024: £25.5k) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

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

- understanding and evaluating management's going concern assessment, including consideration of the impact of current economic environment;
- performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance;
- understanding and evaluating management's forecasts and the stress testing of liquidity and regulatory capital performed by management;
- evaluating management's ability to accurately forecast financial performance by comparing budgeted financial information with historical actual results;
- reviewing regulatory correspondence and discussion with the Prudential Regulation Authority ("PRA") to understand their views of the Group and Society; and
- reading and evaluating the appropriateness of the disclosures made in the annual accounts in relation to going concern.

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

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

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

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

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## Reporting on other information

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

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

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Based on our work undertaken in the course of the audit, the Building Societies Act 1986 requires us also to report certain opinions and matters as described below.

### *Annual Business Statement and Directors' Report*

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

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 December 2025 is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In light of the knowledge and understanding of the Group and Society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Annual Business Statement and the Directors' Report.

### *Responsibilities for the annual accounts and the audit*

#### *Responsibilities of the directors for the annual accounts*

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

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

#### *Auditors' responsibilities for the audit of the annual accounts*

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and

are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

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

Based on our understanding of the Group and Society/industry, we identified that the principal risks of non-compliance with laws and regulations related to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) regulations, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation;
- Review of internal audit findings throughout the year, in so far as these related to the annual accounts;
- Review of correspondence with the PRA and FCA;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging estimates and judgements made by management in forming significant accounting estimates in particular those relevant to the key audit matters; and
- Identifying and testing journals entries, in particular journal entries posted with unusual account combinations indicating a higher level of risk.

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

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

A further description of our responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## **Other required reporting**

### **Building Societies Act 1986 exception reporting**

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society annual accounts are not in agreement with the accounting records; or

- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

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### **Appointment**

We were first appointed by the Society for the financial year ended 31 December 2021. Our uninterrupted engagement covers five financial years.

Natalia Golubeva (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

17 March 2026

# Annual Accounts

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## Income and Expenditure Accounts

for the year ended 31 December 2025:

Note	Group		Society		
	2025 £'000	2024 £'000	2025 £'000	2024 £'000	
Interest receivable and similar income	2	51,658	52,809	51,658	52,809
Interest payable and similar charges	3	(30,168)	(32,853)	(30,168)	(32,853)
Net interest income		21,490	19,956	21,490	19,956
Fees and commissions receivable		113	129	113	129
Fees and commissions payable		(382)	(321)	(382)	(321)
Pension finance expense	25	(114)	(88)	(114)	(88)
Changes in fair value of investment properties	15	(395)	(487)	-	-
Other operating income	4	80	68	15	13
Net (losses) / gains from derivative financial instruments	24	(1,774)	426	(1,774)	426
Total income		19,018	19,683	19,348	20,115
Administrative expenses	5	(16,607)	(16,253)	(16,544)	(16,210)
Depreciation	14	(521)	(605)	(521)	(605)
Total administrative expenses		(17,128)	(16,858)	(17,065)	(16,815)
Operating profit before provisions		1,890	2,825	2,283	3,300
Provisions for bad and doubtful debts	12	(410)	92	(410)	92
Intercompany loan impairment	13	-	-	(351)	(168)
Profit on ordinary activities before taxation		1,480	2,917	1,522	3,224
Tax on profit on ordinary activities	8	(391)	(744)	(391)	(743)
Profit for the financial year		1,089	2,173	1,131	2,481

The above results are wholly derived from continuing operations. The notes on pages 70 to 109 form part of these Accounts.

## Statements of Comprehensive Income

for the year ended 31 December 2025:

	Note	Group		Society	
		2025 £'000	2024 £'000	2025 £'000	2024 £'000
Profit for the financial year		<b>1,089</b>	2,173	<b>1,131</b>	2,481
<b><i>Items that may subsequently be reclassified to income and expenditure:</i></b>					
Loss on available for sale debt securities	10	<b>(7)</b>	-	<b>(7)</b>	-
Movement in deferred tax relating to debt securities	8	<b>2</b>	-	<b>2</b>	-
<b><i>Items that may not subsequently be reclassified to income and expenditure:</i></b>					
Actuarial gain / (loss) on defined benefit pension obligations	25	<b>164</b>	(595)	<b>164</b>	(595)
Movement in deferred tax relating to defined benefit pension obligations	8	<b>(34)</b>	149	<b>(34)</b>	149
Total comprehensive income for the financial year		<b>1,214</b>	1,727	<b>1,256</b>	2,035

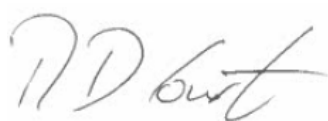
The notes on pages 70 to 109 form part of these Accounts.

## Balance Sheets

as at 31 December 2025:

		Group		Society	
	Note	2025 £'000	2024 £'000	2025 £'000	2024 £'000
<b>Assets</b>					
<b>Liquid assets</b>					
Cash in hand and balances with the Bank of England		<b>106,310</b>	126,964	<b>106,310</b>	126,964
Loans and advances to credit institutions	9	<b>5,336</b>	3,173	<b>5,183</b>	3,060
Debt securities	10	<b>9,947</b>	-	<b>9,947</b>	-
		<b>121,593</b>	130,137	<b>121,440</b>	130,024
<b>Loans and advances to customers</b>					
Loans fully secured on residential property		<b>892,826</b>	788,463	<b>892,826</b>	788,463
Other loans		<b>3,274</b>	3,496	<b>3,274</b>	3,496
	11	<b>896,100</b>	791,959	<b>896,100</b>	791,959
Derivative financial instruments	24	<b>2,206</b>	7,590	<b>2,206</b>	7,590
Investments in subsidiaries	13	-	-	<b>4,276</b>	4,627
Tangible fixed assets	14	<b>912</b>	1,346	<b>912</b>	1,346
Investment properties	15	<b>1,603</b>	1,981	<b>170</b>	153
Prepayments and accrued income	16	<b>1,716</b>	2,000	<b>1,714</b>	1,961
Pension asset	25	<b>310</b>	-	<b>310</b>	-
<b>Total assets</b>		<b>1,024,440</b>	935,013	<b>1,027,128</b>	937,660
<b>Liabilities</b>					
Shares	17	<b>938,531</b>	853,441	<b>938,531</b>	853,441
Amounts owed to credit institutions	18	<b>16,977</b>	15,373	<b>16,977</b>	15,373
Amounts owed to other customers	19	<b>6,793</b>	6,536	<b>9,393</b>	9,136
Derivative financial instruments	24	<b>3,137</b>	1,085	<b>3,137</b>	1,085
Other liabilities	20	<b>722</b>	1,229	<b>721</b>	1,229
Accruals and deferred income	21	<b>1,366</b>	1,497	<b>1,336</b>	1,467
Pension liability	25	<b>356</b>	508	<b>356</b>	508
		<b>967,882</b>	879,669	<b>970,451</b>	882,239
<b>Reserves</b>					
General reserve		<b>56,558</b>	55,344	<b>56,677</b>	55,421
<b>Total liabilities</b>		<b>1,024,440</b>	935,013	<b>1,027,128</b>	937,660

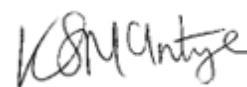
The notes on pages 70 to 109 form part of these Accounts. The Accounts on pages 65 to 109 were approved by the Board of Directors on 17 March 2026 and signed on its behalf by:



Rachel Court  
Chair



Andrew Craddock  
Chief Executive



Kate McIntyre  
Vice Chair

## Statements of Changes in Members' Interests

for the year ended 31 December 2025:

	Note	Group		Society	
		2025 £'000	2024 £'000	2025 £'000	2024 £'000
Balance as at 1 January		<b>55,344</b>	53,617	<b>55,421</b>	53,386
Profit for the financial year		<b>1,089</b>	2,173	<b>1,131</b>	2,481
Loss on available for sale debt securities	10	<b>(7)</b>	-	<b>(7)</b>	-
Movement in deferred tax relating to debt securities	8	<b>2</b>	-	<b>2</b>	-
Actuarial gain / (loss) on defined benefit pension obligations	25	<b>164</b>	(595)	<b>164</b>	(595)
Movement in deferred tax relating to defined benefit pension obligations	8	<b>(34)</b>	149	<b>(34)</b>	149
Total comprehensive income for the year		<b>1,214</b>	1,727	<b>1,256</b>	2,035
Balance as at 31 December		<b>56,558</b>	55,344	<b>56,677</b>	55,421

The notes on pages 70 to 109 form part of these Accounts.

## Cash Flow Statements

for the year ended 31 December 2025:

		Group		Society	
	Notes	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Profit on ordinary activities before taxation		1,480	2,917	1,522	3,224
Decrease / (increase) in prepayments and accrued income		283	(15)	247	(12)
(Decrease) / increase in accruals and deferred income		(985)	919	(940)	918
Net increase in loans and advances to customers		(104,551)	(21,521)	(104,551)	(21,520)
Increase / (decrease) in provisions	12	410	(122)	410	(122)
Changes in fair value of investment properties	15	395	487	-	-
Net increase in shares		86,003	59,096	86,003	59,096
Depreciation and amortisation	14	523	605	522	604
Contributions to final salary pension plan	25	(412)	(38)	(412)	(38)
Pension expense in respect of final salary pension	25	114	88	114	88
Intercompany loan impairment		-	-	351	168
Net increase / (decrease) in amounts owed to credit institutions and other customers		1,802	(49,117)	1,757	(49,117)
Net change in derivative financial instruments		7,436	849	7,436	849
Net (decrease) / increase in other liabilities		(64)	366	(65)	353
Interest receivable on debt securities		(8)	-	(8)	-
Amortisation of debt securities		(22)	-	(22)	-
Taxation paid		(867)	(829)	(867)	(821)
Net cash used in operating activities		(8,463)	(6,315)	(8,503)	(6,330)
Purchase of tangible fixed assets	14	(105)	(157)	(105)	(157)
Purchase of debt securities	10	(9,923)	-	(9,923)	-
Net cash used in investing activities		(10,028)	(157)	(10,028)	(157)
Net decrease in cash and cash equivalents		(18,491)	(6,472)	(18,531)	(6,487)
Cash and cash equivalents at the beginning of the year		130,137	136,609	130,024	136,511
Cash and cash equivalents at the end of the year		111,646	130,137	111,493	130,024
Cash in hand and balances with the Bank of England		106,310	126,964	106,310	126,964
Loans and advances to credit institutions repayable on demand	9	5,336	3,173	5,183	3,060
Cash and cash equivalents		111,646	130,137	111,493	130,024

The notes on pages 70 to 109 form part of these Accounts.

## Notes to the Accounts

### 1. Summary of significant accounting Policies

#### *General Information*

The Society is a Building Society incorporated in Darlington, UK under the Building Societies Act 1986 and the Building Societies Act 1997. The address of its registered office is Sentinel House, Morton Road, Darlington, DL1 4PT.

#### *Basis of Preparation*

The Accounts are prepared under the historical cost convention, as modified by the revaluation of investment properties and financial instruments held at fair value, and in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). The Group and Society have chosen to adopt the recognition and measurement provisions of IAS 39 in respect of financial instruments.

The Group and Society Annual Report and Accounts have been prepared in accordance with the applicable standards and the following principal accounting policies have been applied consistently throughout the current year and the prior year.

As noted in the Directors' Report, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore these Accounts are prepared on a going concern basis.

An analysis by geographical operation has not been provided as the Group's business is wholly based within the United Kingdom.

#### *Basis of Consolidation*

The Group Accounts include the results of the Society and its subsidiaries all of which have year ends of 31 December. Uniform accounting policies are adopted throughout the Group.

In the Society's Accounts, investments in subsidiaries are stated at cost less provision for any impairment. Income from investments is recognised in the Society's Income and Expenditure Account when dividends are declared.

#### *FRS102 Amendments*

The Financial Reporting Council has now issued amendments to FRS 102, including changes to lease accounting effective for accounting periods beginning on or after 1 January 2026. The impact of these changes, primarily recognising lease liabilities and right-of-use assets is expected to increase the balance sheet total assets and liabilities by a material amount but have a minimal impact on profit.

#### *Exemptions for Qualifying Entities Under FRS 102*

FRS 102 allows a qualifying entity certain disclosure exemptions. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. Darlington Building Society is a qualifying entity as its results are consolidated into its consolidated financial statements which are publicly available.

The group has taken exemption as provided in section 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. The group discloses transactions with related parties which are not wholly owned with the same group.

#### *Interest Income and Expense*

Interest receivable and payable for all interest bearing financial instruments is recognised in the Income and Expenditure Account within 'Interest receivable and similar income' and 'Interest payable and similar charges' using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability.

- a) **Properties in Possession** Interest charged to mortgage accounts relating to properties in possession continues to be recognised at the original effective interest and, as it is considered doubtful the balance will be recovered, is provided against.
- b) **Incentives to Borrowers** sales discounts reduce the effective interest rate at which interest receivable is recognised over the relevant discount period.

#### *Fees and Commissions*

Fees and commissions both receivable and payable are recognised as an adjustment to the effective interest rate and recorded in interest income/(payable) where the fees are an integral part of the effective interest rate of a

## NOTES TO THE ACCOUNTS (CONTINUED)

financial instrument. Fees and commissions receivable include mortgage reservation fees and valuation fees. Fees and commissions payable include mortgage introducer's fees, valuation fees payable and mortgage product incentives. Other fees are recognised on an accruals basis.

### *Other Operating Income/ (Charges)*

Other operating income/ (charges) are recognised in the year in which they are incurred on an accruals basis.

### *Taxation*

Corporation tax is charged on profits as adjusted for taxation purposes.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

### *Financial Instruments*

The Group and Society has chosen to adopt the recognition and measurement provisions of IAS 39 - Financial Instruments: Recognition and Measurement and disclosure requirements of sections 11 and 12 of FRS 102 in respect of financial instruments.

### *Financial Assets*

Financial assets or financial liabilities are initially recognised at cost, in the case of a financial asset or financial liability not at fair value through the Income and Expenditure Account, including transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the loans

and receivables, which are measured at amortised cost using the effective interest rate method.

Available for sale assets are non-derivative financial assets that are not classified into either of the two categories above. Available for sale assets are held at fair value with changes in fair value recognised in other comprehensive income. Any premium or discount arising from the purchase of an available for sale asset is amortised over the period to the maturity date of the security on an effective yield basis. Amortisation is charged or credited to the income and expenditure accounts.

Derivatives, including interest rate swaps are not basic financial instruments. All interest rate related contracts are classified at the balance sheet date as hedging contracts.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income and Expenditure Account together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If a hedge is terminated early, the realised gain or loss is amortised over the residual life of the underlying asset or liability. If the underlying asset or liability is then redeemed, the remaining unamortised amount is recognised in the Income and Expenditure account immediately.

The Group and Society enters into credit support agreements, which protect against counterparty default in respect to hedging instruments by means of collateral transactions. Collateral balances are included within 'liquid assets' or 'amounts owed to credit institutions' as appropriate and interest receivable or payable reflected on the Income and Expenditure Account within 'net interest receivable'.

### *Liquid Assets*

All liquid assets are stated at cost, adjusted, where applicable, for any premium or discount on purchase which is amortised over the period to maturity.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the

## NOTES TO THE ACCOUNTS (CONTINUED)

impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in Income and Expenditure Account.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in Income and Expenditure Account.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

### *Financial Liabilities*

Basic financial liabilities, including bank loans, loans from fellow Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities are recognised on the balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### *Hedge Accounting*

The Group and Society applies hedge accounting for transactions entered into to hedge Interest Rate Risk in the Banking Book (IRRBB). Interest rate swaps are classified at the balance sheet date as hedging contracts and are designated as fair value hedges of either fixed rate mortgage products or fixed rate savings products.

The Group and Society documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group and Society also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

The fair values of derivative instruments used for hedging purposes are disclosed in Note 24.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income and Expenditure Account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group applies fair value hedge accounting for hedging interest rate risk on fixed rate mortgages and fixed rate savings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate products is recognised in interest receivable or payable (i.e. the net interest income on the swap). The gain or loss relating to the ineffective portion is recognised in Income and Expenditure Account within 'net gains from derivative financial instruments'. Changes in the fair value of the hedge fixed rate mortgage or savings products attributable to interest rate risk are recognised in the Income and Expenditure Account.

For the purposes of the fair value liability hedge, the Group and Society includes fixed rate Individual Savings Accounts in the population of products eligible for inclusion in the hedge as permitted under the 'carve out' applied when IAS 39 was adopted for use in the United Kingdom.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the Income and Expenditure Account over the period to maturity.

## NOTES TO THE ACCOUNTS (CONTINUED)

### *Cash and Cash Equivalents*

Cash and cash equivalents includes Cash in hand and balances with the Bank of England and Loans and advances to credit institutions repayable within three months.

### *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 us that they are having financial problems the Society works with them using a variety of forbearance measures as described in Note 24.

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.

### *Tangible Fixed Assets and Depreciation*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to working condition for intended use.

The costs of additions and major alterations to office premises and equipment are capitalised. The costs of fixed assets are written off on a straight-line basis over their estimated useful lives as follows:

- Freehold buildings over their remaining economic life not exceeding fifty years
- Short leasehold premises over the remainder of the lease up to fifty years
- Plant and machinery over ten years
- Equipment, fixtures, fittings and vehicles over two to ten years.

No depreciation is provided on freehold land.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Income and Expenditure Account and included in 'Administrative Expenses'.

### *Investment Properties*

Investment properties are properties held for long-term rental yields and capital appreciation. Investment properties are measured initially at cost including related transaction costs and any directly attributable expenditure that meet the criteria for capitalisation. After initial recognition, investment properties are carried in the Balance Sheet at fair value with movements recorded

## NOTES TO THE ACCOUNTS (CONTINUED)

in the Income and Expenditure Account. Fair values of investment properties will be determined at least once every three years by an independent and external, RICS (Royal Institution of Chartered Surveyors) qualified valuer. Depreciation is not charged on investment properties. When not valued externally, Investment properties fair values are based upon Management Valuations. Fair value is based on active market data and prices with adjustments for differences in the nature, location or condition of properties made where appropriate.

### *Impairment of Non-Financial Assets*

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the Income and Expenditure Account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in Income and Expenditure Account.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the Income and Expenditure Account.

### *Operating Leases*

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. The cost of operating leases, are charged to the Income and Expenditure Account on a straight line basis over the duration of the lease. Lease incentives received to enter

into an operating lease are credited to the Income and Expenditure Account, to reduce the lease expense, on a straight-line basis over the period of the lease.

### *Software-as-a-service (SAAS)*

The use of cloud computing, often referred to as software-as-a-service, arrangements is increasingly common for modern software deployments and allows access to market leading technology across the Group's core functions. However, despite the fact that the Group has invested significant amounts of money in various long-term arrangements these contractual arrangements do not satisfy the control requirements of FRS102 (section 18) and therefore cannot be capitalised and reported as an intangible asset.

### *Provisions for Liabilities*

Provisions are made and recognised when the Group has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### *Employee Benefits*

The Group provides a range of benefits to employees, including defined benefit and defined contribution pension plans.

- a) **Short-term benefits** Short-term benefits are recognised as an expense in the period in which the service is received.
- b) **Defined Benefit Pension Plan** The Society has two defined benefit pension schemes both of which are closed to future accrual for all members. At each balance sheet date the defined benefit pension plan assets are measured at market value and the liabilities are measured using the projected unit valuation method. The resulting pension plan surplus or deficit is recognised immediately on the balance sheet to the extent that it is recoverable by the Group being the present value of available refunds and reductions in future contributions to the scheme. Any resulting actuarial gains and losses are recognised immediately in other comprehensive income.

The increase in the present value of the liabilities of the Group's defined benefit pension plan expected to arise from employee service in the period is charged to operating profit.

## NOTES TO THE ACCOUNTS (CONTINUED)

The cost of the defined benefit pension plan, recognised in the Income and Expenditure Account as employee costs, except where included in the cost of an asset, comprises:

- i) the increase in pension benefit liability arising from employee service during the period; and
- ii) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the Income and Expenditure Account as 'Pension finance expense'.

- c) **Defined Contribution Pension Scheme** This scheme was introduced from 1 April 2010 for all employees. This is a scheme into which the Society and the employee pay contributions. The employer contribution represents a fixed percentage of the employee gross salary. Contributions to the scheme made by the Society are charged to the Income and Expenditure Account as they fall due and are included within 'Administrative Expenses'.

### *Critical Judgements and Estimates in Applying the Accounting Policy*

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The Group has identified areas of judgment used in the preparation of the financial statements and has set these out below as well as how these judgements are applied to relevant accounting estimates:

- a) **Impairment losses on loans and advances to customers (Note 12).** The Group reviews its mortgage advances portfolio at least on a monthly basis to assess impairment. In determining whether an

impairment loss should be recorded, the Group is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics, external credit referencing data and expected cashflows. Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession. Any variation in the expected value of defaulted mortgaged properties or the likelihood of such an event occurring will change the loss calculated in the Society's provision model.

As at December 2025 the key assumption in relation to the impairment of loans and advances is the application of forced sale discount. A 5% reduction in the forced sale discount would see a £369k decrease in the Society's provision. A 1% increase in the probability of default applied to each property would see a £490k increase in the Society's mortgage provisions.

- b) **Employee benefits (Note 25)** The Group operates a defined benefit pension plan. Significant assumption (on areas such as future interest and inflation rates and mortality rates) have to be applied in estimating the value of the assets and liabilities of the plan, and hence of its net surplus/deficit. The Society has opted to recognise the pension surplus in its accounts in line with the requirements set out in IFRIC 14. The assumptions are outlined in Note 25 to the accounts. Of these assumptions, the main determinant of the liability is the discount rate. A 0.1% decrease in the discount rate has the effect of increasing the defined benefit obligation (liability) by 1.1%, £186k.

## 2. Interest Receivable and Similar Income

	Group and Society	
	2025 £'000	2024 £'000
On loans fully secured on residential property	42,599	39,706
On other loans	280	323
On balances with the Bank of England	4,899	6,134
<b>Interest receivable on financial instruments held at amortised cost</b>	<b>47,778</b>	<b>46,163</b>
Interest receivable on debt securities held at fair value through other comprehensive income	8	-
Net income on derivatives that hedge financial instruments and are held at fair value through profit and loss	3,872	6,646
<b>Total interest receivable and similar income</b>	<b>51,658</b>	<b>52,809</b>

## 3. Interest Payable and Similar Charges

	Group and Society	
	2025 £'000	2024 £'000
On shares held by individuals	29,429	31,449
On deposits and other borrowings	739	1,404
<b>Interest payable on financial instruments held at amortised cost</b>	<b>30,168</b>	<b>32,853</b>
<b>Total interest payable and similar charges</b>	<b>30,168</b>	<b>32,853</b>

## 4. Other Operating Income

Group other operating income largely relates to rents received.

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Other operating income	80	68	15	13

## 5. Administrative Expenses

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Staff costs				
Wages and salaries	7,972	7,836	7,972	7,836
Social security costs	952	800	952	800
Other pension costs for the defined contribution scheme (Note 25)	657	656	657	656
	<b>9,581</b>	<b>9,292</b>	<b>9,581</b>	<b>9,292</b>
Other administrative expenses	7,026	6,961	6,963	6,918
	<b>16,607</b>	<b>16,253</b>	<b>16,544</b>	<b>16,210</b>

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Other administrative expenses include:				
Remuneration of auditors (exclusive of value added tax)				
For audit work in respect of the audit of the Society and the consolidation	221	206	221	206
For audit work in respect of the audit of the subsidiaries	13	12	13	12
For other services	5	10	5	10
Operating lease charges on property	279	329	279	329

Remuneration of auditors in relation to 'other services' relates to work that is permitted by the Society's policy for non-audit services.

## 6. Employees

The average number of staff employed during the year, including Executive Directors was:

	Group and Society		Group and Society	
	Full Time		Part Time	
	2025 Number	2024 Number	2025 Number	2024 Number
Head office	115	113	15	14
Branches	36	38	25	29
	<b>151</b>	<b>151</b>	<b>40</b>	<b>43</b>

## 7. Remuneration of and Transactions with Directors

### a) Remuneration of Directors

Emoluments of the Society's Directors total £1,006,345 (2024: £1,068,073) and are detailed below:

	<b>2025</b>	2024
	<b>Fees</b>	Fees
	<b>£</b>	£
Non-Executive Directors		
D Asker (Appointed 01.05.25)	<b>21,983</b>	-
P Barron	<b>32,257</b>	30,231
R Court (Appointed 28.04.25)	<b>39,277</b>	-
J Cullen (Retired 28.04.25)	<b>18,854</b>	55,479
K McIntyre	<b>40,887</b>	39,612
A Russell	<b>38,324</b>	35,724
R Sinclair	<b>37,397</b>	30,231
J Sutherland (Resigned 28.04.25)	<b>6,033</b>	35,724
	<b>235,012</b>	227,001

<b>Executive Directors</b>	<b>Salaries and Other Short- Term Benefits</b>	<b>Bonus</b>	<b>Pension Contributions</b>	<b>Other Benefits</b>	<b>Total Remuneration Due</b>
<b>2025</b>	£	£	£	£	£
<b>A Craddock</b>	<b>288,235</b>	<b>38,275</b>	-	<b>2,996</b>	<b>329,506</b>
<b>C Hunter</b>	<b>182,283</b>	<b>17,882</b>	<b>18,228</b>	<b>1,237</b>	<b>219,630</b>
<b>S Forth</b>	<b>175,512</b>	<b>28,368</b>	<b>17,551</b>	<b>766</b>	<b>222,197</b>
	<b>646,030</b>	<b>84,525</b>	<b>35,779</b>	<b>4,999</b>	<b>771,333</b>
<b>2024</b>					
A Craddock	279,242	39,610	-	1,675	320,527
C Hunter	176,596	25,050	17,660	748	220,054
D Bews	84,148	-	8,415	525	93,088
S Forth	166,600	23,632	16,660	511	207,403
	706,586	88,292	42,735	3,459	841,072

#### Directors' Pension

The total pension contribution and benefits paid to Directors during the year were £35,779 (2024: £42,735) and £4,999 (2024: £3,459) respectively. There was no accrued pension to be paid to Directors at either the start or end of the financial period.

The defined benefit scheme operated by the Society closed on 31 March 2010 therefore there is no increase in accrued pension for the period. None (2024: None) of the Directors are members of this defined benefit scheme.

There is an obligation to previous Directors to receive pension benefits which were unfunded, the provision for which is included within the pension obligations in Section 28 of FRS 102 (Note 25). Pension payments to past Directors in respect of services as Directors total £39,731 (2024: £38,454).

### a) Remuneration of Directors (continued)

#### Directors' Loan and Transactions

At 31 December 2025, there were no mortgages in relation to house purchases on behalf of Directors or connected persons (2024: None).

There were no significant contracts between the Society and any Director of the Society during the year.

A register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the register, for the financial year ended 31 December 2025, will be available for inspection at the Head Office for a period of 15 days up to and including the Annual General Meeting.

### b) Key Management compensation

The compensation paid and payable to key management for employee services is shown below. Key management includes the Directors, Non-Executive Directors and senior management staff defined by the Society as the Executive Committee members.

	2025	2024
	Number	Number
At 31 December		
Executive Directors	3	3
Other Executive Members	4	4
Non-Executive Directors	6	6

	Fixed Pay £	Variable Pay £	Total £
2025	1,338,988	134,116	1,473,104
2024	1,397,824	121,629	1,519,453

## 8. Tax on Profit on Ordinary Activities

### a) Tax Expense Included in Income and Expenditure

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Current Tax:				
UK corporation Tax on Profits for the Year	399	885	399	885
Adjustment in Respect of Previous Years	(8)	(44)	(8)	(44)
Total current Tax	391	841	391	841
Deferred Tax:				
Origination and Reversal of Timing Differences	(1)	(137)	(1)	(138)
Adjustment in Respect of Previous Years	1	40	1	40
Effect of Changes in Tax Rate	-	-	-	-
Total Deferred Tax	-	(97)	-	(98)
Tax on Profit on Ordinary Activities	391	744	391	743

*b) Tax Expense Included in Other Comprehensive (Expense) / Income*

	<b>Group</b>		<b>Society</b>	
	<b>2025</b>	2024	<b>2025</b>	2024
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Deferred Tax:				
Origination and Reversal of Timing Differences	<b>32</b>	(149)	<b>32</b>	(149)
Total Tax Excluded in Other Comprehensive	<b>32</b>	(149)	<b>32</b>	(149)

*c) Reconciliation of Tax Charge*

The tax assessed for the year is equal to the standard rate of corporation tax in the UK of 25% (2024: 25%). The differences are explained below:

	<b>Group</b>		<b>Society</b>	
	2025	2024	2025	2024
	£'000	£'000	£'000	£'000
Profit on Ordinary Activities Before Taxation	1,480	2,917	1,522	3,224
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 25% (2024: 25%)	370	729	380	806
Effects of:				
Expenses not Deductible for Tax Purposes	24	57	105	57
Benefit of group relief	-	-	(89)	(116)
Effects of Other Tax Rates	2	(38)	-	-
Adjustment to Tax change in Respect of Previous Years	(5)	(4)	(5)	(4)
Total Tax	<b>391</b>	<b>744</b>	<b>391</b>	<b>743</b>

*d) Factors That May Affect the Future Tax Change*

The rate of corporation tax throughout the year was 25%. For the year ended 31 December 2025 deferred tax was provided at a rate of 25% being the rate substantively enacted at the balance sheet date.

*e) Deferred Tax*

The movement in the deferred taxation liability/(asset) above is as follows:

	<b>Group</b>		<b>Society</b>	
	<b>2025</b>	2024	<b>2025</b>	2024
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
At 1 January	<b>(61)</b>	186	<b>(61)</b>	186
Amount charged during year	<b>32</b>	(247)	<b>32</b>	(247)
At 31 December	<b>(29)</b>	(61)	<b>(29)</b>	(61)

The deferred taxation liability/(asset) within Group and Society is as follows:

	<b>Group</b>		<b>Society</b>	
	<b>2025</b>	2024	<b>2025</b>	2024
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Other timing differences	<b>(17)</b>	66	<b>(17)</b>	66
Deferred tax arising in relation to retirement benefit obligations (note 25)	<b>(12)</b>	(127)	<b>(12)</b>	(127)
	<b>(29)</b>	(61)	<b>(29)</b>	(61)

## 9. Loans and Advances to Credit Institutions

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Repayable on demand	5,336	3,173	5,183	3,060

## 10. Debt Securities

	Group and Society	
	2025 £'000	2024 £'000
Total fair value through other comprehensive income	5,018	-
Floating rate note	4,929	-
Treasury bills	9,947	-

Debt securities held are highly liquid assets which are used on a continuing basis in the Group's activities. The maturities are as follows:

	Group and Society	
	2025 £'000	2024 £'000
Maturity	4,929	-
In more than three months but not more than one year	5,018	-
In more than one year but not more than five years	9,947	-

The table below provides further detail on the movement of debt securities during the year.

	Group and Society	
	2025 £'000	2024 £'000
At 1 January	-	-
Additions	9,923	-
Amortisation	22	-
Accrued interest	9	-
Changes in fair value (via OCI)	(7)	-
At 31 December	9,947	-

## 11. Loans and Advances to Customers

	Group and Society	
	2025 £'000	2024 £'000
Loans fully secured on residential property	892,826	788,463
Loans fully secured on land	3,274	3,496
	896,100	791,959

## 11. Loans and Advances to Customers (continued)

The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:

	Group and Society	
	2025 £'000	2024 £'000
Loans and advances repayable on demand	548	324
Other loans and advances by residual maturity repayable:		
In not more than three months	6,288	5,951
In more than three months but not more than one year	20,310	17,858
In more than one year but not more than five years	126,839	111,805
In more than five years	743,756	657,252
	<b>897,741</b>	<b>793,190</b>
Less: Provisions for bad and doubtful debts (note 12)	(1,641)	(1,231)
	<b>896,100</b>	<b>791,959</b>

Further analysis of the loan book above can be found in note 24.

## 12. Provisions for Bad and Doubtful Debts

		Group and Society		
		Loans Fully Secured on Residential Property £'000	Loans Fully Secured on Land £'000	Total £'000
At 1 January 2025	Collective	907	-	907
	Specific	87	237	324
		<b>994</b>	<b>237</b>	<b>1,231</b>
Amounts written off during the year	Collective	-	-	-
	Specific	-	-	-
		-	-	-
Income and Expenditure Account				
Charge / (release) for the year	Collective	427	-	427
	Specific	82	(99)	(17)
		<b>509</b>	<b>(99)</b>	<b>410</b>
At 31 December 2025	Collective	1,334	-	1,334
	Specific	169	138	307
		<b>1,503</b>	<b>138</b>	<b>1,641</b>
Net charge to Income and Expenditure Account		509	(99)	410

The Group has incorporated a post model adjustment (PMA) of £0.3m into the 2025 loan loss provision amount (2024: £0.2m). This adjustment forms part of the residential collective provisions and captures risks in place at the balance sheet date that would not otherwise be captured by the core loan loss model.

## 12. Provisions for Bad and Doubtful Debts (continued)

		Group and Society		
		Loans Fully Secured on Residential Property £'000	Loans Fully Secured on Land £'000	Total £'000
At 1 January 2024	Collective	1,030	-	1,030
	Specific	8	315	323
		1,038	315	1,353
Amounts written off during the year	Collective	-	-	-
	Specific	-	(30)	(30)
		-	(30)	(30)
Income and Expenditure Account				
Charge / (release) for the year	Collective	(123)	-	(123)
	Specific	79	(48)	31
		(44)	(48)	(92)
At 31 December 2024	Collective	907	-	907
	Specific	87	237	324
		994	237	1,231
Net charge to Income and Expenditure Account		44	48	92

## 13. Investments in Subsidiaries

The Society has the following subsidiaries, all of which are wholly owned and operate in the United Kingdom and are registered in England and Wales. All companies are limited by shares and have a 31 December year end.

Registered in England and Wales	Registered number	Class of Shares Held	Interest	Principal Activity
Darlington Homes Limited	02748333	Ordinary	100%	Property Management
Darlington Investment Planning Limited	03230003	Ordinary	100%	Dormant
DBS Services No.3 Limited	03093231	Ordinary	100%	Dormant
Sentinel Homes Limited	02748328	Ordinary & Preference	100%	Dormant

### 13. Investments in Subsidiaries (continued)

<b>Society Only</b>	<b>£'000</b>
<b>Shares</b>	
Cost and Net Book Value	2,595
<b>At 1 January and 31 December 2025</b>	<b>2,595</b>
<b>Loans</b>	
<b>Cost</b>	
At 1 January 2025	5,395
<b>At 31 December 2025</b>	<b>5,395</b>
<b>Provision for Impairment</b>	
At 1 January 2025	(3,363)
Intercompany loan impairment	(351)
<b>At 31 December 2025</b>	<b>(3,714)</b>
Net Book Value	
At 1 January 2025	2,032
<b>At 31 December 2025</b>	<b>1,681</b>
<b>Net Book Amount 31 December 2025</b>	<b>4,276</b>
Net Book Amount 31 December 2024	4,627

All dormant subsidiary companies have taken advantage of the exemptions regarding not preparing and filing individual accounts as permitted in sections 394A and 448A of the Companies Act and have taken exemption from Companies Act audit requirements in line with section 479A. The registered office for all subsidiary companies is Sentinel House, Morton Road, Darlington, DL1 4PT. The loan outstanding to Darlington Homes Limited is for an undetermined period subject to not less than 365 days notice and any future requirements of the Society as to repayment of principal. The Society reserves the right to convert the loan in whole or part into shares at its absolute discretion. The loan is unsecured and does not accrue interest.

## 14. Tangible Fixed Assets

### Group and Society

	Land and Buildings		Plant and Machinery £'000	Equipment, Fixtures, Fittings and Vehicles £'000	Total £'000
	Freehold £'000	Short Leasehold £'000			
Cost					
At 1 January 2025	769	952	146	4,550	6,417
Additions	-	-	-	105	105
Disposals	-	-	-	(6)	(6)
Transfers to investment properties	(36)	-	-	-	(36)
<b>At 31 December 2025</b>	<b>733</b>	<b>952</b>	<b>146</b>	<b>4,649</b>	<b>6,480</b>
Accumulated depreciation					
At 1 January 2025	428	939	143	3,561	5,071
Charged in year	15	6	2	498	521
Disposals	-	-	-	(5)	(5)
Transfers to investment properties	(19)	-	-	-	(19)
<b>At 31 December 2025</b>	<b>424</b>	<b>945</b>	<b>145</b>	<b>4,054</b>	<b>5,568</b>
Net book value					
<b>At 31 December 2025</b>	<b>309</b>	<b>7</b>	<b>1</b>	<b>595</b>	<b>912</b>
At 31 December 2024	341	13	3	989	1,346

### Group and Society

	2025 £'000	2024 £'000
Net book value of land and buildings occupied by the Group/Society for its own activities:	<b>315</b>	334

## 15. Investment Properties

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
At 1 January	1,981	2,470	153	155
Transfers	17	(2)	17	(2)
Changes to fair value	(395)	(487)	-	-
<b>At 31 December</b>	<b>1,603</b>	<b>1,981</b>	<b>170</b>	<b>153</b>

The change in fair value of £395k (2024: £487k) relates to a decrease in Darlington Homes Limited investment property portfolio. The revised valuation reflects the independent external valuation for the portfolio based on the sales strategy approved by DHL Board in 2025.

## 16. Prepayments and Accrued Income

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Prepayments and accrued income	<b>1,716</b>	2,000	<b>1,714</b>	1,961

The Group's prepayment balances include balances relating to cloud computing arrangements of £0.6m (2024: £0.9m) entered into by the group primarily in relation to the provision of cloud native software and infrastructure.

## 17. Shares

	Group and Society	
	2025 £'000	2024 £'000
Held by individuals	<b>938,531</b>	853,441
Other shares	-	-
	<b>938,531</b>	853,441

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

	Group and Society	
	2025 £'000	2024 £'000
Accrued interest	<b>11,706</b>	12,619
Repayable on demand	<b>820,492</b>	719,002
In less than three months	<b>7,846</b>	47,854
In more than three months but not more than one year	<b>74,530</b>	62,730
In more than one year but not more than five years	<b>23,957</b>	11,236
	<b>938,531</b>	853,441

While a number of shares are held in accounts with fixed maturity dates, closures are allowed on ISA products with loss of interest under certain circumstances, in line with ISA regulations. As such those ISA products are classified as repayable on demand.

## 18. Amounts Owed to Credit Institutions

Amounts owed to other credit institutions are repayable from the balance sheet in the ordinary course of business as follows:

	Group and Society	
	2025	2024
	£'000	£'000
Accrued interest	276	172
Repayable on demand	201	201
In not more than three months	15,500	-
In more than three months but not more than one year	1,000	15,000
In more than one year but not more than five years	-	-
	<b>16,977</b>	<b>15,373</b>

## 19. Amounts Owed to Other Customers

Amounts owed to other customers are repayable from the balance sheet in the ordinary course of business as follows:

	Group		Society	
	2025	2024	2025	2024
	£'000	£'000	£'000	£'000
Accrued interest	61	106	61	106
Repayable on demand	5,732	6,430	5,732	6,430
In not more than three months:				
Due to subsidiaries	-	-	2,600	2,600
Other customers	1,000	-	1,000	-
In more than three months but not more than one year	-	-	-	-
	<b>6,793</b>	<b>6,536</b>	<b>9,393</b>	<b>9,136</b>

## 20. Other Liabilities

a) Other liabilities falling due within one year

	Group		Society	
	2025	2024	2025	2024
	£'000	£'000	£'000	£'000
Corporation tax	68	544	68	544
Social security and other taxation	207	183	207	183
Other creditors	447	502	446	502
	<b>722</b>	<b>1,229</b>	<b>721</b>	<b>1,229</b>

## 21. Accruals and Deferred Income

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Amounts due within one year	<b>1,366</b>	1,497	<b>1,336</b>	1,467

Accruals due within one year relates to expenditure for goods and services incurred in 2025 and expected to be settled within 12 months of the year end.

## 22. Guarantees and Other Financial Commitments

Capital commitments at 31 December, for which no provision has been made in the accounts were as follows:

	Group and Society	
	2025 £'000	2024 £'000
Contracted but not provided for	-	-

Future minimum lease payments under non-cancellable operating leases are as follows:

	Group and Society	
	2025 £'000	2024 £'000
Operating leases which expire		
In less than one year	215	245
In more than one year but not more than five years	221	396
In more than five years	-	-
	<b>436</b>	<b>641</b>

## 23. Related Party Transactions

The group has taken exemption as provided in section 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. The group discloses transactions with related parties which are not wholly owned with the same group. During 2025, transactions with Peter Barron Media Limited of £5,899 are disclosed as a related party of a Non Executive Director of the Group, (2024: £2,582).

See note 7 for disclosure of the Directors' remuneration and key management compensation.

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## 24. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity in another entity.

The Group is a retailer of financial instruments, mainly in the form of mortgages and savings and uses financial instruments to invest in liquid assets, raise wholesale funding and manage the risks arising from its operations. As a result of these activities the Group is exposed to a range of risks including liquidity, credit, and market risk. These risks are identified and discussed within the Risk Management Report.

The Group has a formal structure for managing risk, including formal risk appetite statements, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Asset and Liability Committee ('ALCO'), which is delegated responsibility for managing and controlling the balance sheet exposures of the Group. Detail of the areas discussed in ALCO meetings are provided to each Board Risk and Compliance Committee meeting.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices. Section 24.c sets out the Society's approach to derivatives and hedging activities in more detail.

### a) Group Financial Assets and Liabilities by Accounting Recognition and Measurement Criteria

The recognition and measurement of Financial Instruments is set out in the Group's Accounting Policies (note 1). The table below shows the assets and liabilities of the Group assigned to the categories by which they are recognised and measured.

The breakdown of the Group's financial assets and liabilities, shown below, is materially the same as the breakdown for the Society alone as material differences between the Group and Society balance sheets are within non-financial assets and non-financial liabilities.

24.a) Financial Instruments - Group Financial Assets and Liabilities by Accounting Recognition and Measurement Criteria (continued)

Group	Financial assets measured at fair value through profit or loss £'000	Financial assets measured at fair value through other comprehensive income £'000	Financial assets that are debt instruments measured at amortised cost £'000	Financial liabilities carried at amortised cost £'000	Loan Assets measured at amortised cost less impairment £'000	Financial liabilities measured at fair value through the profit or loss £'000	Total £'000
<b>At 31 December 2025</b>							
Assets							
Cash in hand and balances with the Bank of England	-	-	106,310	-	-	-	106,310
Loans and advances to credit institutions	-	-	5,336	-	-	-	5,336
Debt securities	-	9,947	-	-	-	-	9,947
Loans and advances to customers	-	-	-	-	897,012	(912)	896,100
Derivative Financial Instruments	2,206	-	-	-	-	-	2,206
<b>Total financial assets</b>	<b>2,206</b>	<b>9,947</b>	<b>111,646</b>	<b>-</b>	<b>897,012</b>	<b>(912)</b>	<b>1,019,899</b>
Non-financial assets							4,541
<b>Total Assets</b>							<b>1,024,440</b>
Liabilities							
Shares	-	-	-	941,747	-	(3,216)	938,531
Amounts owed to credit institutions	-	-	-	16,977	-	-	16,977
Amounts owed to other customers	-	-	-	6,793	-	-	6,793
Derivative Financial Instruments	-	-	-	-	-	3,137	3,137
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>965,517</b>	<b>-</b>	<b>(79)</b>	<b>965,438</b>
Other Non-financial liabilities							2,444
Reserves							56,558
<b>Total Liabilities</b>							<b>1,024,440</b>

24.a) Financial Instruments - Group Financial Assets and Liabilities by Accounting Recognition and Measurement Criteria (continued)

Group	Financial assets measured at fair value through profit or loss £'000	Financial assets that are debt instruments measured at amortised cost £'000	Financial liabilities carried at amortised cost £'000	Loan Assets measured at amortised cost less impairment £'000	Financial liabilities measured at fair value through the profit or loss £'000	Total £'000
At 31 December 2024						
<b>Assets</b>						
Cash in hand and balances with the Bank of England	-	126,964	-	-	-	126,964
Loans and advances to credit institutions	-	3,173	-	-	-	3,173
Loans and advances to customers	-	-	-	796,260	(4,301)	791,959
Derivative Financial Instruments	7,590	-	-	-	-	7,590
<b>Total financial assets</b>	<b>7,590</b>	<b>130,137</b>	<b>-</b>	<b>796,260</b>	<b>(4,301)</b>	<b>929,686</b>
Non-financial assets						5,327
<b>Total Assets</b>						<b>935,013</b>
<b>Liabilities</b>						
Shares	-	-	854,411	-	(970)	853,441
Amounts owed to credit institutions	-	-	15,373	-	-	15,373
Amounts owed to other customers	-	-	6,536	-	-	6,536
Derivative Financial Instruments	-	-	-	-	1,085	1,085
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>876,320</b>	<b>-</b>	<b>115</b>	<b>876,435</b>
Other Non-financial liabilities						3,234
Reserves						55,344
<b>Total Liabilities</b>						<b>935,013</b>

## b) Financial Instruments Recognised at Fair Value

As at 31 December the Group held debt securities which are publicly traded of £9.9m (2024: £nil). Readily available quoted prices have been used to value the securities and they are therefore regarded as having Level 1 fair values per the methodology below. The remainder of the Group's liquidity was held in cash, balances with the Bank of England or loans and advances to credit institutions. These balances are held at amortised cost and not subject to fair value assessment.

The nominal value of derivative financial instruments is disclosed on page 94 and the fair value of derivative financial assets and financial liabilities is disclosed in the Fair Value section below.

### Fair Value Methodology

Interest rate swaps are held on the balance sheet at fair value. Derivatives are measured using prices that are observable for the asset or liability either directly or indirectly (i.e. derived from prices). The valuation of the Groups' interest rate swaps is based on the expected future cash flows which are discounted using prevailing SONIA (Sterling Overnight Index Average) yield curves obtained from quoted interest rates of similar tenors (i.e. where the timings of cash flows and maturity match those of the instruments).

The measurement of the fair value of Financial Instruments can be categorised into different levels as outlined in FRS102, these are described below:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as price) or indirectly (i.e. derived from prices).
3. Inputs for the asset or liability that are not based on observable market data.

The Interest Rate Swaps held by the Group and related hedged items (fixed rate mortgage assets and fixed rate savings products) attributable to the hedged risk are the only financial instruments held by the Group at fair value through income and expenditure. Fair values for derivatives and hedged items are classified as Level 2, their fair value as at 31 December is shown below:

	<b>Group and Society</b>	
	<b>2025</b>	2024
	<b>£'000</b>	£'000
<b>Financial assets</b>		
Derivative financial assets	<b>2,206</b>	7,590
Fair value adjustment for hedged risk	<b>(912)</b>	(4,301)
<b>Financial liabilities</b>		
Derivative financial liabilities	<b>(3,137)</b>	(1,085)
Fair value adjustment for hedged risk	<b>3,216</b>	970

The investment assets, comprising of equities and bonds, within the Group's defined benefit pension plan (Note 25) have also been measured at fair valued and categorised under the prescribed fair value hierarchy, shown below:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 31 December 2025</b>	<b>1,270</b>	<b>13,261</b>	<b>2,466</b>	<b>16,997</b>
At 31 December 2024	7,157	5,690	4,390	17,237

## c) Derivative Financial Instruments and Hedge Accounting

### *Derivative Financial Instruments and Hedging*

Derivative financial instruments are contracts whose value is derived from one or more underlying price, rate or index, such as interest rates. Derivatives are only used by the Group in accordance with Section 9A of the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates. Accordingly, the Group uses such instruments for hedging purposes only and never in trading activity or for speculative purposes. The Group enters into derivatives contracts with high quality counterparties, requiring the posting of collateral under bilateral agreements.

The two main activities undertaken by the Group that give rise to interest rate risk managed through these instruments are fixed rate mortgage lending and fixed rate savings products. The Group manages both with a combination of natural hedging and interest rate swaps. This approach only hedges the interest rate risk associated with the lending and savings balances and therefore other key risks, including credit risk, are managed but not hedged by the Group.

The Group manages interest rate risk based on its risk appetite and board approved limits. These limits are focused on ensuring that the Society is economically hedged which protects the Group from market risk in the underlying assets or liabilities in the long-term. This policy can lead to timing differences in the designation of hedge accounting under IAS39 and the mitigation of market risk which can temporarily impact the Group Income and Expenditure Accounts.

### *Hedge Accounting*

FRS 102 Section 11 paragraph 2 provides an accounting policy choice for financial instruments. The Group has elected to apply IAS 39 - Financial Instruments: Recognition and Measurement to account for all its financial instruments.

The Group applies hedge accounting for two core activities, fixed rate mortgage lending and fixed rate savings products. The interest rate risk component is defined as the change in fair value of the fixed rate mortgages or fixed rate savings arising solely from changes in the benchmark (SONIA) rate of interest. The group applies fair value macro hedge accounting, in line with the accounting policy described in Note 1 to these accounts, for both the fixed mortgage and fixed savings portfolio hedges but does not currently use cash flow hedge accounting to account for the hedging activity in respect of pipeline risk.

The movements in the fair value of the Group's hedging instruments (derivatives) and hedged items (the underlying mortgages and savings balances) recognised in the income and expenditure accounts during the year are shown in the table below.

	<b>Group and Society</b>	
	<b>2025</b>	2024
	<b>£'000</b>	£'000
Losses on hedging instruments	<b>(7,410)</b>	(223)
Gains on hedged items attributable to the hedged risk	<b>5,636</b>	649
Net (losses)/gains from derivative financial instruments	<b>(1,774)</b>	426

For the Group's core activities the hedging of mortgage pipeline, which cannot be designated into a fair value macro hedge until the assets are advanced under IAS39, leads to a delay in the application of hedge accounting compared to the purchase of the associated hedging instrument. Where this timing difference covers periods of market volatility, the Group can see larger values in reported gains and / or losses in respect of derivative fair value changes even where there is an effective economic hedge.

## 24.c) Financial Instruments - Derivative Financial Instruments and Hedge Accounting (continued)

Ultimately any fair value gains resulting from the timing difference between hedge execution and hedge accounting designation will unwind as the associated derivatives and assets or liabilities mature or reprice. The Society has £1.4m of such gains as at 31 December (2024: £3.2m) and expects that these gains will unwind in the medium term, not more than five years – the maximum duration of any asset or liability hedge – which will affect statutory profit in future years. The net impact of hedge accounting activity is removed from the alternative performance measure “core operating profit before tax” for this reason.

### d) Market Risk

The principal market risk that the Group is exposed to is interest rate risk. The Group has no exposure to foreign currency, but the Group has a very small indirect exposure to the performance of the equities market through the Society's closed defined benefit scheme and is exposed to market risk through its obligations to that scheme. The performance and position of the defined benefit scheme is considered separately in note 25.

The table below, analyses the interest rate swaps by maturity and shows the nominal principal amount and replacement cost of the Group's derivative contracts. The nominal principal amount indicates the balance used in calculating net interest due on derivatives outstanding at the balance sheet date and does not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date this balance therefore reflects the Group's exposure should the counterparties default. This replacement cost does not consider £0.1m (2024: £3.9m) of collateral deposits held by the Group which would be used to offset any replacement costs in the event of a counterparty default.

Maturity analysis of Interest Rate Swaps:

<b>Group and Society</b>	<b>Nominal</b>	<b>Replacement</b>	Nominal	Replacement
	<b>Principal</b>	<b>Cost</b>	Principal	Cost
	<b>Amount</b>	<b>Cost</b>	Amount	Cost
	<b>2025</b>	<b>2025</b>	2024	2024
	<b>£'000</b>	<b>£'000</b>	£'000	£'000
Under one year	<b>241,100</b>	<b>514</b>	179,050	809
Between one and five years	<b>537,050</b>	<b>(1,433)</b>	435,750	5,656
Over five years	<b>7,500</b>	<b>(12)</b>	6,500	34
<b>Total</b>	<b>785,650</b>	<b>(931)</b>	621,300	6,499

The net interest income and market value of the Group's assets are exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits approved by the Board. After considering the swaps entered into by the Group, the interest rate risk exposure of the Group, allocating items to time bands by reference to the earlier of the next contractual interest re-pricing date and the maturity date, was as follows:

24.d) Financial Instruments – Market Risk (continued)

Group	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest Bearing	Total
At 31 December 2025	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Liquid assets	115,967	4,929	-	-	-	697	121,593
Loans and advances to customers	175,900	80,427	85,135	554,424	1,143	(929)	896,100
Derivative assets	-	-	-	-	-	2,206	2,206
Non-financial assets	-	-	-	-	-	4,541	4,541
<b>Total assets</b>	<b>291,867</b>	<b>85,356</b>	<b>85,135</b>	<b>554,424</b>	<b>1,143</b>	<b>6,515</b>	<b>1,024,440</b>
Liabilities							
Shares	640,396	59,983	105,343	124,480	-	8,329	938,531
Amounts owed to credit institutions	15,701	-	1,000	-	-	276	16,977
Amounts owed to other customers	6,732	-	-	-	-	61	6,793
Derivative liabilities	-	-	-	-	-	3,137	3,137
Other liabilities	-	-	-	-	-	2,444	2,444
Reserves	-	-	-	-	-	56,558	56,558
<b>Total liabilities</b>	<b>662,829</b>	<b>59,983</b>	<b>106,343</b>	<b>124,480</b>	<b>-</b>	<b>70,805</b>	<b>1,024,440</b>
Off balance sheet items	(487,650)	28,750	4,750	446,650	7,500	-	-
<b>Interest rate sensitivity Gap</b>	<b>116,687</b>	<b>(3,377)</b>	<b>(25,958)</b>	<b>(16,706)</b>	<b>(6,357)</b>	<b>(64,290)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>116,687</b>	<b>113,309</b>	<b>87,351</b>	<b>70,646</b>	<b>64,289</b>	<b>-</b>	<b>-</b>

24.d) Financial Instruments – Market Risk (continued)

Group	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest Bearing	Total
At 31 December 2024	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>							
Liquid assets	129,387	-	-	-	-	750	130,137
Loans and advances to customers	213,968	65,924	77,341	436,676	2,502	(4,452)	791,959
Derivative assets	-	-	-	-	-	7,590	7,590
Non-financial assets	-	-	-	-	-	5,327	5,327
<b>Total assets</b>	<b>343,355</b>	<b>65,924</b>	<b>77,341</b>	<b>436,676</b>	<b>2,502</b>	<b>9,215</b>	<b>935,013</b>
<b>Liabilities</b>							
Shares	617,177	52,946	109,798	61,872	-	11,648	853,441
Amounts owed to credit institutions	15,201	-	-	-	-	172	15,373
Amounts owed to other customers	6,430	-	-	-	-	106	6,536
Derivative liabilities	-	-	-	-	-	1,085	1,085
Other liabilities	-	-	-	-	-	3,234	3,234
Reserves	-	-	-	-	-	55,344	55,344
<b>Total liabilities</b>	<b>638,808</b>	<b>52,946</b>	<b>109,798</b>	<b>61,872</b>	<b>-</b>	<b>71,589</b>	<b>935,013</b>
Off balance sheet items	(346,800)	7,250	(11,700)	344,750	6,500	-	-
Interest rate sensitivity Gap	51,347	5,728	(20,757)	30,054	(3,998)	(62,374)	-
<b>Cumulative gap</b>	<b>51,347</b>	<b>57,075</b>	<b>36,318</b>	<b>66,372</b>	<b>62,374</b>	<b>-</b>	<b>-</b>

#### 24.d) Financial Instruments – Market Risk (continued)

The ALCO performs sensitivity analysis on a monthly basis to assess the interest rate risk faced by the Group over a 12 month period, on a constant balance sheet basis, assuming no management actions. A range of risks measured by ALCO are shown in the table below, this list is not exhaustive, the Group monitors larger and different types of yield curve shocks as part of its IRRBB risk management approach.

Group and Society	2025	2024	Comment
	£'000	£'000	
12 month net interest income sensitivities			
Increase in Bank Base Rate by 0.25%	231	112	Improvement in net interest income
Decrease in Bank Base Rate by 0.25%	(231)	(112)	Reduction in net interest income
Economic value sensitivities			
Increase in Bank Base Rate by 2.0%	534	(863)	Positive/(Negative) impact to value
Decrease in Bank Base Rate by 2.0%	(596)	934	(Negative)/Positive impact to value

#### e) Credit Risk

Credit risk is the risk that the Group experiences financial loss as a result of customers or counterparties not being able to meet their contractual obligations as they fall due. The Group monitors its credit risk through operating a credit governance framework in which two committees take responsibility for the key areas of credit risk. ALCO monitors the credit risk within the Group's liquid assets and derivatives and the Risk Management Committee monitors credit risk within the Groups loans and advances to customers (i.e. its mortgage book).

These committees both operate under delegated authorities from the Board and have detailed policy and risk appetite documents that are reviewed by the Board on an annual basis.

The Society enters into bilateral derivative agreements which include credit support annexes, which set out the margining requirements to protect against counterparty default in respect of hedging instruments. These balances are included within 'liquid assets' or 'amounts owed to credit institutions' as appropriate and interest receivable or payable reflected on the Income and Expenditure Account within 'net interest receivable'.

At 31 December 2025 the Group held cash balances of £0.1m (2023: £3.9m) in relation to credit support annexes (CSA) with derivative counterparties. These balances are encumbered under the terms of the CSA and therefore are not readily available for the Group's use in operating activities. As such these balances have been removed from Cash and Balances with the Bank of England and Loans and Advances to Credit Institutions as shown in the table below:

Group	Cash and Balances with the Bank of England		Loans and Advances to Credit Institutions	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Amount per financial statements	106,310	126,964	5,336	3,173
Encumbered CSA balances	(97)	3,939	-	-
Total holding including encumbered funds	106,213	130,903	5,336	3,173

The carrying amount of all classes of financial instruments represents the maximum exposure to credit risk. None of the financial assets are either past due or impaired.

## f) Liquid Assets and Derivatives

The ALCO is responsible for considering and approving counterparties for both investment and derivative transactions with limits applied to individual counterparties, groups and geographical regions to control the risk to which the Group is exposed. The Group policies limit investments to central banks and government (including supranational bonds and investments with the Bank of England), Banks and Building Societies.

Liquidity by Industry Sector:

	Group		Society	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Credit risk				
Cash resources	697	750	697	750
Central government	110,445	126,214	110,445	126,214
Credit institutions	10,451	3,173	10,298	3,060
<b>Total liquidity exposures</b>	<b>121,593</b>	<b>130,137</b>	<b>121,440</b>	<b>130,024</b>

ALCO monitor the exposure of the Group against these limits as well as relevant market and industry information to aid in the assessment of changes to the credit quality of counterparties including credit ratings and credit default swap rates. The Society's liquid assets are assigned a risk weight based on their credit quality step and maturity, as defined by the PRA, for the purposes of capital reporting. The breakdown of the Society's liquidity assets under that methodology is shown below:

### Credit Quality Step

2025	Group			
	Less than 3 months £'000	3 months to 1 year £'000	Over 1 year £'000	Total £'000
Cash Resource	697	-	-	697
Credit Quality Step 1	110,407	4,929	5,017	120,353
Credit Quality Step 2	543	-	-	543
<b>Total</b>	<b>111,647</b>	<b>4,929</b>	<b>5,017</b>	<b>121,593</b>

2024	Less than 3 months £'000	3 months to 1 year £'000	Over 1 year £'000	Total £'000
Cash Resource	750	-	-	750
Credit Quality Step 1	126,214	-	-	126,214
Credit Quality Step 2	3,173	-	-	3,173
<b>Total</b>	<b>130,137</b>	<b>-</b>	<b>-</b>	<b>130,137</b>

The Group's Treasury team and ALCO regularly assess the credit risk of the counterparties with which the Group has interest rate swaps in place with. The credit rating of these counterparties and the nominal value of swap relationships at each credit rating level are shown in the table below.

Derivative Credit Risk by Credit Quality Step:	CQS 1 £'000	CQS 2 £'000	Total £'000
<b>Nominal Value as at 31 December 2025</b>	<b>316,900</b>	<b>468,750</b>	<b>785,650</b>
Nominal Value as at 31 December 2024	350,100	271,200	621,300

## g) Loans and Advances to Customers

All mortgage loan applications are assessed with reference to the Society's credit risk appetite statement and lending policy, which includes assessing applications for potential money laundering and fraud risk. When deciding on an overall risk appetite that the Society wishes to adopt, both quantitative and qualitative considerations are taken into account, along with data on the current UK economic climate, current loan book and risk appetite for the Society. The Society's risk appetite statement must comply with all the prevailing regulatory policy and framework and is approved annually by the Board. The Society's lending book is monitored by the Risk Management Committee who receive comprehensive credit risk management information to ensure that it remains in line with the stated risk appetite of the Society. As the Society holds first charge, the Society's credit risk at the point of any default on payments is limited to the loan balance at that point.

For new customers the first level of the credit control framework is achieved via individual underwriting which assesses the affordability of potential customers prior to making loan offers. A second level is the lending policy rules which are applied to new applications to ensure that they meet the risk appetite of the Society. All mortgage applications are overseen by the Society's Underwriting Team who ensure that all lending criteria are applied and that all information submitted within the application is validated. All further advances to existing customers are also subject to affordability checks, lending policy rules and individual underwriting processes.

It is the Society's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data. Part of this assessment includes stress testing the affordability throughout the life of the mortgage using a higher rate of interest than the contracted rate. Loans and advances to residential, buy to let and commercial loan customers are shown in the table below:

	Group and Society	
	2025	2024
	£'000	£'000
Residential Loans	823,682	735,673
Buy to Let Loans	69,934	57,006
Commercial Loans	3,412	3,732
Total	897,028	796,411
Provisions for Bad and Doubtful Debts (note 12)	(1,641)	(1,231)
Effective Interest Asset	1,625	1,079
Fair Value of the Hedged Mortgage Asset	(912)	(4,300)
Loans and Advances to Customers (note 11)	896,100	791,959

The Society operates throughout England, Wales and Scotland.

## 24.g) Financial Instruments – Loans and Advances to Customers (continued)

### Geographical Analysis

Group and Society	Residential		BTL		Commercial		Total	
	£'000	%	£'000	%	£'000	%	£'000	%
<b>At 31 December 2025</b>								
Eastern	35,024	4.25%	5,095	7.29%	-	-	40,119	4.47%
East Midlands	45,100	5.48%	3,601	5.15%	-	-	48,701	5.43%
London	36,648	4.45%	9,329	13.34%	-	-	45,977	5.13%
North	129,823	15.76%	7,678	10.98%	2,563	75.13%	140,064	15.61%
North West	65,461	7.95%	4,073	5.82%	221	6.48%	69,755	7.78%
Outer Met (London)	58,976	7.16%	5,037	7.20%	-	-	64,013	7.14%
Outer South East	156,530	19.00%	9,515	13.60%	319	9.34%	166,364	18.55%
Scotland	56,619	6.87%	116	0.17%	-	-	56,735	6.32%
South West	74,107	9.00%	11,928	17.06%	-	-	86,035	9.59%
Wales	24,476	2.97%	2,232	3.19%	-	-	26,708	2.98%
West Midlands	58,125	7.06%	4,853	6.94%	-	-	62,978	7.02%
Yorkshire and Humberside	82,793	10.05%	6,477	9.26%	309	9.05%	89,579	9.99%
<b>Total</b>	<b>823,682</b>		<b>69,934</b>		<b>3,412</b>		<b>897,028</b>	

Group and Society	Residential		BTL		Commercial		Total	
	£'000	%	£'000	%	£'000	%	£'000	%
<b>At 31 December 2024</b>								
Eastern	30,850	4.19%	2,296	4.03%	-	-	33,146	4.16%
East Midlands	35,570	4.83%	1,764	3.10%	-	-	37,334	4.69%
London	36,375	4.94%	8,947	15.69%	-	-	45,322	5.69%
North	135,995	18.49%	6,876	12.06%	2,856	76.52%	145,727	18.30%
North West	55,550	7.55%	3,353	5.88%	230	6.17%	59,133	7.43%
Outer Met (London)	50,335	6.84%	3,367	5.91%	-	-	53,702	6.74%
Outer South East	138,186	18.78%	7,724	13.55%	335	8.98%	146,245	18.36%
Scotland	46,820	6.36%	116	0.20%	-	-	46,936	5.89%
South West	69,637	9.47%	13,623	23.90%	-	-	83,260	10.45%
Wales	21,162	2.88%	1,416	2.48%	-	-	22,578	2.83%
West Midlands	43,812	5.96%	2,773	4.86%	-	-	46,585	5.85%
Yorkshire and Humberside	71,381	9.7%	4,751	8.33%	311	8.32%	76,443	9.60%
<b>Total</b>	<b>735,673</b>		<b>57,006</b>		<b>3,732</b>		<b>796,411</b>	

### Loan to Value Analysis

The weighted average loan to value (LTV) of overall mortgage book is 57.37% (2024: 54.69%). Mortgage indemnity insurance acts as additional security for some, but not all, residential loans where the borrowing exceeds at least 80% of the value of the property at the point of application.

## Group and Society

### At 31 December 2025

0-30%  
30%-60%  
60%-80%  
80%-90%  
90%-100%  
>100%

### Balance Weighted Average LTV

### At 31 December 2024

0-30%  
30%-60%  
60%-80%  
80%-90%  
90%-100%  
>100%

### Balance Weighted Average LTV

	Residential	BTL	Commercial	Total
	%	%	%	%
	12.37%	6.02%	26.19%	11.93%
	40.01%	49.77%	45.40%	40.79%
	30.70%	42.54%	23.13%	31.59%
	10.05%	1.58%	-	9.35%
	6.86%	-	-	6.30%
	0.01%	0.09%	5.28%	0.04%
	<b>57.53%</b>	<b>55.99%</b>	<b>47.23%</b>	<b>57.37%</b>
	Residential	BTL	Commercial	Total
	%	%	%	%
	13.37%	6.76%	23.42%	12.94%
	44.45%	59.21%	50.14%	45.53%
	32.01%	33.61%	8.45%	32.01%
	8.03%	0.14%	13.10%	7.49%
	2.04%	0.17%	-	1.90%
	0.11%	0.11%	4.90%	0.13%
	<b>54.72%</b>	<b>53.17%</b>	<b>47.56%</b>	<b>54.69%</b>

The quality of the Society's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.78% (2024: 0.54%) of loans are three months or more in arrears and by value it is 0.86% (2024: 0.32%).

## Group and Society

### Arrears Analysis

Not impaired

Neither past due nor impaired

Past due up to 3 months but not impaired

Past due over 3 months but not impaired

### Impaired

Not past due

Past due up to 3 months

Past due 3 to 6 months

Past due 6 to 12 months

Past due over 12 months

Possessions

Totals

	2025	2025	2024	2024
	£'000	%	£'000	%
	882,452	98.4%	786,176	98.7%
	1,061	0.1%	4,093	0.5%
	-	-	-	0.0%
	2,742	0.3%	1,838	0.2%
	3,042	0.3%	1,208	0.2%
	6,098	0.7%	1,704	0.2%
	1,222	0.1%	1,036	0.2%
	411	0.0%	227	0.0%
	-	-	-	-
			129	0.0%
	<b>897,028</b>		<b>796,411</b>	

## Group and Society

Value of collateral held

Neither past due or impaired

Past due but not impaired

Impaired

Totals

	2025	2024
	Indexed	Indexed
	£'000	£'000
	2,155,524	2,009,647
	8,399	11,332
	24,567	9,698
	<b>2,188,490</b>	<b>2,030,677</b>

The collateral consists of residential and commercial property. Collateral values are adjusted and produced by an industry recognised publicly available house price index to derive the indexed valuation at 31 December. The Society uses the index to update the property values of its residential and buy-to-let portfolios on a quarterly basis.

Possession balances represent those loans where the Society has taken ownership of the underlying security pending its sale. As at 31 December 2025, £11.3m (2024: £8.3m) of loans and advances to customers were past due representing 1.0% (2024: 1.04%) of the total mortgage book.

### *Forbearance*

As a responsible lender the Society will always look for ways to support customers in financial difficulty. The Society has various forbearance options to support customers who may find themselves in financial difficulty. These include:

- Payment plans may be agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.
- Reduced payment concessions may be agreed to allow a customer to underpay for a specific period of time. The monthly underpaid amount accrues as arrears and agreement is reached at the end of the concession period regarding how the arrears will be repaid.
- The term of the mortgage may be extended in order to reduce payments to a level which is affordable to the customer based on their current financial circumstances and likely retirement date.
- Capitalisations may occur where arrears are added to the capital balance outstanding for the purposes of restructuring the loan.
- Temporary interest only concessions may be agreed to allow the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase. Interest only concessions are only offered following a full affordability assessment and for no longer than 12 months.

All forbearance arrangements are formally discussed with the customer and reviewed by qualified staff prior to any offer of a forbearance arrangement from the Society to the customer. The Financial Support Team continually monitor all accounts with forbearance in order to minimise credit risk. Possession of properties is considered as a last resort.

Regular reporting on the level and different types of forbearance activity is monitored by the Society's Risk Management Committee on a monthly basis. In addition, all forbearance arrangements are reviewed on a regular basis to assess the suitability of the arrangement for the customer and potential risk to the Society.

The total value of accounts in forbearance as at 31 December 2025 was £2.8m (2024: £2.5m). These figures do not include concessions provided under the Mortgage Charter, as the process for granting forbearance under the mortgage charter is different to the standard process. The key differences being that provided the member is up to date with payments on their account, the Society is obliged to grant the concession for a period of 6 months without a requirement to complete an affordability assessment, as set out in the mortgage charter. The separate disclosure in the Group's Annual Report and Accounts is consistent with the reporting of payment deferrals, a previous government initiative. The Mortgage Charter is discussed in more detail below. The table below details the number of forbearance cases:

	<b>Group and Society</b>	
	<b>2025</b>	2024
	<b>Accounts</b>	Accounts
Type of Forbearance		
Payment plans	<b>8</b>	10
Reduced payment concession	<b>1</b>	1
Mortgage term extensions	<b>16</b>	18
Capitalisations	<b>5</b>	1
Interest only concession	<b>1</b>	-
<b>Total</b>	<b>31</b>	<b>30</b>
Total loans and advances to customers (no. of accounts)	<b>5,923</b>	5,661
Percentage of total mortgage book (by value)	<b>0.3%</b>	0.3%

At 31 December 2025 a provision for bad and doubtful debts of £0.0m (2024: £0.0m) is held against accounts with an offer of forbearance.

### *Mortgage Charter*

The Society was one of the signatories to the Government's "Mortgage Charter" scheme when it was first announced in June 2023. The Society is pleased to remain a signatory to the voluntary initiative that reinforces much of the good practice the Society already offers through its member focussed approach to products and supporting members through financial difficulty. The scheme gives borrowers the ability to temporarily reduce their capital and interest payments by switching to interest only, or extending their mortgage term for 6 months without an affordability assessment, and without an adverse impact on their credit file. In some cases, more than one forbearance solution is offered under the charter, for example a customer may take interest only and term extension.

All forbearance arrangements, including those provided under the mortgage charter, are formally discussed with the member and agreed by the Financial Support Team. Regular monitoring of the level of forbearance activity, including mortgage charter concessions is reported to Risk Management Committee on a monthly basis.

The table below shows the details of customers who are on arrangements under the mortgage charter.

	<b>Group and Society</b>	
	<b>2025</b>	2024
	<b>Accounts</b>	Accounts
Mortgage Charter concessions		
Interest only concession	<b>21</b>	22
Mortgage term extensions	-	2
Interest only concession & mortgage term extension	-	-
<b>Total</b>	<b>21</b>	<b>24</b>
Total loans and advances to customers (no. of accounts)	<b>5,923</b>	5,661
Percentage of total mortgage book (by value)	<b>0.4%</b>	0.6%

## h) Liquidity Risk

Liquidity risk is the risk that the Group does not hold sufficient liquid resources (resources readily transferable to cash or cash equivalent) to meet its obligations as they fall due.

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business.

For each material category of financial liability a maturity analysis is provided in Notes 17 to 18, which represents the earliest time that the financial liability may mature, however, the creditor may be required to pay a penalty to receive these matured funds. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the Balance Sheet date to the contractual maturity date.

The undiscounted contractual maturities of the Groups financial liabilities are shown in the table below:

24.h) Financial Instruments – Liquidity Risk (continued)

Group	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
At 31 December 2025	£'000	£'000	£'000	£'000	£'000	£'000
<b>Liabilities</b>						
Shares	856,522	21,248	37,863	29,687	-	945,320
Amounts owed to credit institutions	15,708	149	1,034	-	-	16,891
Amounts owed to other customers	7,119	-	-	-	-	7,119
<b>Total Liabilities</b>	<b>879,349</b>	<b>21,397</b>	<b>38,897</b>	<b>29,687</b>	<b>-</b>	<b>969,330</b>
Group	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
At 31 December 2024	£'000	£'000	£'000	£'000	£'000	£'000
<b>Liabilities</b>						
Shares	778,572	24,297	41,212	13,319	-	857,400
Amounts owed to credit institutions	357	5,177	10,264	-	-	15,798
Amounts owed to other customers	6,862	-	-	-	-	6,862
<b>Total Liabilities</b>	<b>785,791</b>	<b>29,474</b>	<b>51,476</b>	<b>13,319</b>	<b>-</b>	<b>880,060</b>

The analysis of gross contractual cash flows differs from the maturity analysis above due to the inclusion of estimated future interest payments. The prior year disclosure has been updated to present this information on a consistent basis.

## i) Capital Management

As further described in the Risk Management Report on pages 22 to 27, the Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern. The capital management approach safeguards Group assets and ensures the resilience of the financial strength of the Group in order to protect members' funds, provide benefits to members and other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

The Group's common equity tier 1 capital is solely in the form of retained earnings within the General Reserve. Tier 2 capital is collective provisions, the Society has no other capital instruments. The Group measures capital adequacy against an Internal Capital Adequacy Assessment Process (ICAAP) and risk appetite statement as well as regulatory capital requirements. Key regulatory capital ratios are shown in the financial review section of the strategic report.

Capital positions are reported to management and the Board monthly and measured against the Group's Corporate Plan. The Group has maintained capital in excess of its capital requirements and risk appetite statement throughout the year.

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## 25. Pensions

### a) Overview

The Group operates a defined contribution pension plan for its employees. The cost of contributions to the defined contribution plan in the financial year amounts to £0.7m (2024: £0.7m). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

The Group operates two defined benefit pension plans: a funded defined benefit pension plan for its employees providing benefits based on final pensionable pay and an unfunded defined benefit pension plan which relates to an obligation to previous Directors to receive pension benefits both of which are closed to new employees.

The funded plan was closed to future accrual as at 31 March 2010. The plan funds are administered by Trustees and are independent of the Group's finances. Contributions are assessed by a qualified actuary on the basis of triennial valuations or interim valuations as deemed appropriate using a projected unit method.

The most recent valuation was carried out as at 30 September 2024. The valuation now shows a small deficit on a technical provisions funding basis and as such the Society made a £0.4m deficit repair contribution in 2025 and will make further contributions to cover scheme administrative expenses until the next valuation in September 2027.

The administration and trusteeship of the Plan, including actuarial, legal and investment activities, has been completed by The Pensions Trust to improve the governance, oversight and expertise available.

Section 28 of FRS 102 (Employee benefits) requires that the net assets or liabilities of defined benefit pension obligations are included on the balance sheet gross of the related deferred tax.

The Society is aware of the Virgin Media Ltd legal judgement of June 2023 which was appealed in July 2024. In 2024 the Society completed a review of historic scheme rules and the potential impact from the Virgin Media Ltd case. As at the date of signing, the Society has not identified any matters which indicate non-compliance with Section 37 of the Pension Schemes Act 1993 and as such no adjustment has been made to the valuation as at 31 December 2025.

### b) Retirement Benefits

The valuation for FRS 102 disclosures has been based on the results of the triennial actuarial valuation as at 30 September 2024 rolled forward and updated to 31 December 2024 by professionally qualified actuaries independent of the Society and Group to take account of the requirements of FRS 102 in order to assess the liabilities of the pension obligations at 31 December 2024. Plan assets are stated at their market value at 31 December 2025. The financial and other assumptions used to calculate pension liabilities under Section 28 of FRS 102 were:

## 25.b) Pensions – Retirement Benefits (continued)

### Group and Society

	2025 Projected unit	2024 Projected unit
Valuation method		
Discount rate	5.66%	5.52%
Inflation rate (RPI)	2.88%	3.19%
Increase to deferred benefits during deferment	2.44%	2.50%
Increases to pensions in payment	3.55%	3.67%
	98% of S4PXA with CMI_2024	98% of S4PXA with CMI_2023
Mortality	[1.5% males, 1.25% females]	[1.5% males, 1.25% females]

The mortality assumptions used were as follows:

### Group and Society

	2025	2024
Assumed life expectancy on retirement at age 65 are:		
Retiring today – Males	22.1	21.8
Retiring today – Females	24.2	24.1
Retiring in 20 years time – Males	23.7	23.4
Retiring in 20 years time – Females	25.6	25.5

The fair value of the funded defined benefit plan assets and the present value of the defined pension benefit obligations were:

### Group and Society

	2025 £'000	2024 £'000
Funded plan		
Equities	867	1
Bonds	7,036	9,313
Property	682	1,949
Cash	1,331	367
LDI	5,974	5,690
Liquid alternatives	1,169	-
Market value of plan assets at 31 December	17,059	17,320
Present value of funded obligations	(16,749)	(17,464)
Surplus /(deficit) in the funded plan	310	(144)

## 25.b) Pensions – Retirement Benefits (continued)

The present value of the unfunded defined pension benefit obligations was:

	<b>Group and Society</b>	
	<b>2025</b>	2024
	<b>£'000</b>	£'000
Present value of unfunded obligations and deficit in the unfunded plan	<b>(356)</b>	(364)
Net Pension surplus / (deficit) before deferred tax	<b>(46)</b>	(508)
The deferred tax liability arising in relation to retirement benefit obligations was:		
Related deferred tax asset / (liability)	<b>12</b>	127
Net pension (liability) / asset	<b>(34)</b>	(381)

The Society recognises an asset in relation to the surplus position of the funded plan on the basis that the Society's control over the utilisation of the surplus in the scheme satisfies the requirements set out in Section 28 of FRS102. The Society separately recognises the liability in relation to its obligations to the unfunded scheme calculated as of the year end.

The amount recognised in the Income and Expenditure accounts is as follows:

	<b>Group and Society</b>	
	<b>2025</b>	2024
	<b>£'000</b>	£'000
Pension finance expense:		
Interest income on plan assets	<b>930</b>	916
Interest on pension plan liabilities	<b>(949)</b>	(912)
Service cost - administrative cost	<b>(95)</b>	(92)
	<b>(114)</b>	(88)

	<b>Group and Society</b>	
	<b>2025</b>	2024
	<b>£'000</b>	£'000
Amount recognised in the Statement of Comprehensive Income (SOCI):		
Actuarial gain / (loss) on the liabilities	<b>388</b>	1,537
Return on assets, excluding interest income	<b>(224)</b>	(2,132)
Total remeasurement of the net defined benefit liability to be shown in SOCI	<b>164</b>	(595)

	<b>Group and Society</b>	
	<b>2025</b>	2024
	<b>£'000</b>	£'000
Changes in the present value of the defined pension benefit obligations (including unfunded obligations) are as follows:		
Opening defined benefit obligation at 1 January	<b>17,828</b>	19,654
Interest cost	<b>949</b>	912
Actuarial (gain) / loss	<b>(388)</b>	(1,537)
Benefits paid	<b>(1,276)</b>	(1,164)
Gain due to benefit change	<b>(8)</b>	(37)
Closing defined benefit obligation at 31 December	<b>17,105</b>	17,828

## 25.b) Pensions – Retirement Benefits (continued)

### Group and Society

	2025 £'000	2024 £'000
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets at 1 January	17,320	19,791
Interest income on plan assets	930	916
Return on assets, excluding interest income	(224)	(2,132)
Contributions by employer	412	38
Benefits paid	(1,276)	(1,164)
Service cost - administrative cost	(103)	(129)
Closing fair value of plan assets at 31 December	17,059	17,320

The plan assets do not include any of the Group's financial instruments nor is any property occupied by any Group entity.

### Group and Society

	2025 £'000	2024 £'000
The total cost recognised as an expense:		
Interest cost on defined benefit obligation	(949)	(912)
Service cost - administrative cost	(103)	(129)
	(1,052)	(1,041)

No amounts (2021: nil) have been capitalised in the cost of plan assets.

### Group and Society

	2025 £'000	2024 £'000
Return on plan assets		
Interest income on plan assets	930	916
Return on assets, excluding interest income	(224)	(2,132)
	706	(1,216)

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## Country-by-Country Report

### Disclosure requirements under CRD IV Country-by-Country Reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduce reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

Darlington Building Society (the Society) is the 19th largest building society in the UK. As a mutual organisation, the Society is owned and run for the benefit of its members with the safety of members' funds being paramount. In providing a safe haven for members' funds, the Society can fulfil its primary purpose of enabling home ownership through the provision of mortgages.

The consolidated financial statements of the Darlington Building Society Group (the Group) include the audited results of the Society and its subsidiaries. The consolidated entities, their principal activities and countries of incorporation are detailed in Note 13 to the Annual Report and Accounts for the years ended 31 December 2025. All of the consolidated entities were incorporated in the United Kingdom (UK).

The regulations under Article 89 of the CRD IV require the Society to disclose the following information about the source of the Society's income and the location of its operations:

- The Society operates only in the UK. The Society has one active, wholly owned subsidiary which was incorporated and operates only in the UK. The Society has no ultimate controlling party or parent. The principal activities of the Society are noted in the Business Model report on page 11.
- Average number of employees is disclosed in Note 6 to the accounts.
- Annual turnover is equivalent to total income and along with profit before tax is as disclosed in the Income and Expenditure Accounts account on page 65.
- Corporation Tax paid is noted in the Cash Flow Statements on page 69.
- There were no public subsidies received in the year.

# ***Independent auditors' report to the directors of Darlington Building Society***

## **Report on the audit of the country-by-country information**

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### **Opinion**

In our opinion, Darlington Building Society's country-by-country information for the year ended 31 December 2025 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2025 in the Country-by-Country Report.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

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

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### **Emphasis of matter - Basis of preparation**

In forming our opinion on the country-by-country information, which is not modified, we draw attention to Country-by-country Report which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

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### **Conclusions relating to going concern**

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

- understanding and evaluating management's going concern assessment, including consideration of the impact of current economic environment;
- performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance;
- understanding and evaluating management's forecasts and the stress testing of liquidity and regulatory capital performed by management;
- evaluating management's ability to accurately forecast financial performance by comparing budgeted financial information with historical actual results; and
- reviewing regulatory correspondence and discussion with the Prudential Regulation Authority ("PRA") to understand their views of the Group and Society.

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

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

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

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

### **Responsibilities for the country-by-country information and the audit**

#### ***Responsibilities of the directors for the country-by-country information***

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

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

### *Auditors' responsibilities for the audit of the country-by-country information*

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

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

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

Based on our understanding of the Society/industry, we identified that the principal risks of non-compliance with laws and regulations related to the the Financial Conduct Authority (FCA) regulations and the Prudential Regulation Authority (PRA) regulations, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates.

Audit procedures performed included:

- Enquiries of management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulations;
- Review of internal audit findings throughout the year, in so far as these related to the country-by-country information;
- Review of correspondence with the PRA and FCA;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging estimates and judgements made by management in forming significant accounting estimates; and
- Identifying and testing journals entries, in particular journal entries posted with unusual account combinations indicating a higher level of risk.

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

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinion, has been prepared for and only for the Society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

17 March 2026

## Annual Business Statement

### 1. Statutory Percentages

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

	2025 %	Statutory Limit %
Lending Limit	1.19	20.00
Funding Limit	2.47	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The above percentages have been prepared from the Group's consolidated accounts as set out in the Glossary of Terms on page 109.

### 2. Other Percentages

	2025 %	2024 %
As a Percentage of Shares and Borrowings:		
Gross Capital	5.88	6.32
Free Capital	5.92	6.27
Liquid Assets	12.7	14.9
Profit for the Financial Year as a Percentage of Mean Total Assets	0.11	0.23
Management Expenses as a Percentage of Mean Total Assets	1.75	1.81

The above percentages have been prepared from the Group's consolidated accounts as set out in the Glossary of Terms on page 109.

### 3. Information relating to the Directors and Officers as at 31 December 2025

Documents may be served on the Directors at Darlington Building Society, Sentinel House, Morton Road, Darlington, DL1 4PT.

#### Directors' Service Contracts

The Chief Executive is employed under a service agreement which commenced on 3 December 2018.

The Deputy Chief Executive is employed under a service agreement dated 4 September 2017.

The Chief Financial Officer is employed under a service agreement dated 1 September 2022.

The Society is obliged to provide 6 months' notice to Executive Directors.

Directors (Non-Executive)	Year of Birth	Date of Appointment	Other Directorships	Company/Organisation
R Court (Chair)	1966	28.04.2025	Non-Executive Director	Invesco Asset Management Limited
A Russell	1967	01.08.2019	Non-Executive Director	Newcastle University
K McIntyre	1962	01.08.2019	Non-Executive Director	Cirencester Friendly Society
R Sinclair	1956	01.09.2022	Executive Director	Association of Mortgage Intermediaries Limited
P Barron	1962	01.09.2022	Non-Executive Director	North East Autism Society (NEAS)
			Executive Director	Peter Barron Media Limited
D Asker	1965	01.05.2025	None	N/A
Directors (Executive)	Year of Birth	Date of Appointment	Other Directorships	Company/Organisation
A Craddock	1962	03.12.2018	Executive Director	Darlington Homes Limited Sentinel Homes Limited DBS Services No. 3 Limited Darlington Investment Planning Limited
			Non-Executive Director	Building Societies Association Pension Trustees Limited Pavilion Gardens (Aston Clinton) Management Company Ltd
C Hunter	1977	04.09.2017	Executive Director	Darlington Homes Limited Sentinel Homes Limited DBS Services No. 3 Limited Darlington Investment Planning Limited
			Non-Executive Director	700 Club Emley Moor RFL Community Interest Company
S Forth	1991	01.09.2022	Executive Director	Darlington Homes Limited

## Glossary of Terms

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions. Included are details of Alternative Performance Measures (APMs) used within the Annual Report and Accounts, with an explanation of how the APM is calculated and a reconciliation to the closest equivalent statutory measure, as defined or specified under FRS 102.

**Active Customers** - Active customers consist of all mortgage customers and savings customers who have either transacted on a savings account with the Society in the last 3 years, or hold a fixed term savings bond with the Society.

**Application to Offer** - Application to offer is a measure of the time taken between the receipt of a mortgage application form to a full offer being made. The Society measures the time from application to offer year on year using the results in December of each year.

**BBR** - Bank of England base rate, the interest rate set by the Bank of England as part of Monetary Policy.

**Basel III** - Committee on Banking Supervision, which defines the capital and liquidity rules for Banks and Building Societies. The framework has been embedded into UK law through the European Capital Requirements Directive IV (CRD IV).

**Basis Point** - One hundredth of a per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

**CCyB** – Countercyclical Capital Buffer.

**Colleague Survey Result** - The Colleague Survey result is a measure of employee satisfaction using the results from the Best Companies™ survey, which is available to all staff.

**Commercial lending** - Loans secured on commercial property.

**Community Impact Projects** - Community Impact Projects are projects supported by the Society.

**Contractual Maturity** - The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be repaid.

**Core Operating Profit** – An APM, the statutory profit before tax adjusted for net gains or losses on derivatives, including hedge accounting, and any other non-recurring items as set out in the Financial Review section to the Annual, Report and Accounts.

**Cost / Income Ratio** - An APM, the cost to income ratio is a measure of the efficiency of the Society by measuring costs in relation to income generation. It is calculated as management expenses (see below) divided by total income, as recorded in the Income and Expenditure Account. There is no equivalent statutory measure, but all elements of the calculation are statutory measures.

**Credit Quality Step** – The credit quality, an integer between 1 and 6, assigned to assets based on their credit risk as defined by the European Banking Authority for institutions on the Standardised Approach for credit risk .

**Credit Risk** - This is the risk that a customer or counterparty is unable to pay the interest or to repay the capital on a loan when required.

**CRR** - Regulation 575/2013 (“the CRR”) and related onshoring instruments as applied by the PRA, including any modifications made by Parliament, Treasury or relevant regulators.

**Debt Securities** - Assets held by the Group representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

**Derivative Financial Instruments** - A derivative financial instrument is a type of financial instrument (or an agreement between two parties) whose value is based on the underlying asset, index or reference rate to which it is linked. The Group uses derivative financial instruments to hedge its exposures to market risks, such as interest rate and currency risk.

**Effective Interest Rate Method (EIR)** - The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense to produce a level yield over the relevant period.

**EPC** – Energy performance certificate, a document that sets out the energy efficiency of a property using a standard methodology.

**ESG** - ESG is the acronym for Environmental, Social, and (Corporate) Governance, the three broad categories for covering socially responsible activities incorporated into the Society's values and concerns.

**Fair Value** - Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

**Free Capital and Free Capital Percentage** - Free capital is the general reserve plus collective loss provisions for bad and doubtful debts less tangible fixed assets. The free capital percentage is free capital as a percentage of shares and borrowings.

**FRS102** – Financial Reporting Standard 102, as issued by the Financial Reporting Council.

**Funding Limit** - The Funding Limit measures the proportion of shares and other borrowings not in the form of shares held by individuals.

**Gross Capital and Gross Capital Percentage** - Gross capital is the general reserve. The gross capital percentage is gross capital as a percentage of shares and borrowings.

**Gross Mortgage Lending** - This is an APM, and represents the total amount of new loans and advances to customers by the Society in the year. There is no equivalent statutory measure.

**Internal Capital Adequacy Assessment Process (ICAAP)** - The Group's own assessment of the levels of capital that it needs to hold in respect of regulatory capital requirements for risks it faces under a business-as-usual scenario and a number of stressed scenarios.

**Internal Liquidity Adequacy Assessment Process (ILAAP)** - The Group's own internal assessment of the level of liquidity that it needs to hold in respect of regulatory liquidity requirements in relation to a number of stressed scenarios.

**Lending Limit** - The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets comprise Group total assets plus provision for bad and doubtful debts less liquid assets and tangible fixed assets.

**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 CRR leverage ratio is defined by the PRA rulebook.

**LDI** – Liability Driven Investment, an investment in assets that can generate the cash to pay for liabilities.

**Liquid Assets and Liquid Assets Percentage** - Liquid assets are the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets. The liquid assets percentage is liquid assets as a percentage of shares and borrowings.

**Loan to Value Ratio (LTV)** - A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a regular basis to reflect changes in the house price index (HPI)).

**Market Risk** - The risk that movements in market risk factors, including interest rates and customer-driven factors will create losses or decrease portfolio values.

**Management Expenses and Management Expenses Ratio** - Management expenses are the aggregate of administrative expenses and depreciation. The management expenses ratio is the management expenses as a percentage of mean total assets. There is no equivalent statutory measure, although all elements of the calculation are statutory measures.

**Mean Total Assets** - Mean total assets are the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

**Member** - A person who has a share investment or a mortgage loan with the Society, this is distinct from the definition of a voting member in line with the Building Societies Act (1986) as set out in the Society's rules for membership.

**Net Interest Receivable** - The difference between interest received on assets and similar income and interest paid on liabilities and similar charges.

**Net Interest Margin** - An APM calculated as net interest income, divided by mean total assets. There is no equivalent statutory measure, although the APM is fully derived from statutory measures.

**Net Promoter Score** - The Net Promoter Score is a market research metric that is based on a single survey question asking respondents to rate the likelihood that they would recommend the Society to a friend or relative.

**Net Residential Lending** - This is an APM which represents the increase in the size of the residential mortgage book during the year (excluding commercial lending). It is calculated as gross residential lending, less redemptions, contractual repayments and other capital repayments. The closest statutory measure is the movement in loans fully secured on residential property in the Statement of Financial Position. The main reconciling items to the statutory measure are the movements in impairment losses and EIR adjustments.

**Notional Principal Amount** - The notional principal amount indicates the amount on which payment flows are derived at the Statement of Financial Position date and does not represent amounts at risk.

**Operational Risk** - The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

**Pipeline Risk** - The risk that interest rates change between the point of pricing (for the Society this is a mortgage or savings product) and the point at which an asset or liability is completed. Adverse movements in interest rates during this time can lead to realised value that is less than the expected value upon which the product was approved.

**Replacement Cost** - The amount the Society would need to replace derivative contracts that are favourable to the Society if the counterparty with whom the contract was held were unable to honour their obligation.

**Residential Loans** - Loans that are made to individuals rather than institutions and which are secured against residential property.

**Risk Appetite** - The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Group's members whilst achieving business objectives.

**Risk Weighted Exposure Amounts (RWEA)** - Calculated in accordance with CRR. Risk Weighted Exposures reflect the risk weighted value of the Society's balance sheet for the purpose of calculating its capital requirements.

**Return on Capital Employed** - An APM calculated as profit before tax as a percentage of prior year general reserves.

**Shares** - Money deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.

**Shares and Borrowings** - Shares and borrowings are the total of shares, amounts owed to credit institutions, and amounts owed to other customers.

**SDDT** – Small Domestic Deposit Takers regime. A new regulatory framework designed for financial institutions with average total assets less than £20bn and whose activities are based predominantly in the UK. SDDT is currently part-implemented for liquidity and disclosure, with the capital parts of the framework awaiting response to final consultation from the PRA.

**SONIA** – Sterling Overnight Index Average.

**Staff Turnover** - Staff turnover is a measure of staff attrition following voluntary resignations (including retirements).

**TFSME** - Term Funding Scheme with additional incentives for SMEs - Term Funding Scheme offered by the Bank of England for four-year funding at or very close to Bank Rate.

**Wholesale Funding** - The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue less balances deposited by offshore customers.