Pillar 3

Disclosure Document

for the year ended 31 March 2019

Agenda Item 8b

Board – 18 July 2019

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Disclaimer

The Pillar 3 disclosures have been prepared purely to comply with the Capital Requirements Directive, in seeking to explain the basis on which the Society has prepared and disclosed certain capital requirements and information about the management of certain risks. They do not constitute any form of Financial Statement and must not be relied upon in making any judgement on the Society. There is no requirement for the disclosures to be externally audited.

Pillar 3 Board Disclosure Policy

This document sets out the Board's policy on the Pillar 3 disclosure requirements of the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) Pillar 3, as relevant to the size and complexity of the Society. The Society has adopted the standardised approach to credit risk and the basic indicator approach to operational risk.

This policy is approved by the Board and is subject to annual review to ensure that the disclosures, verification and frequency remain appropriate.

Disclosures

The CRD requires the Society to make the following disclosures:

- Scope of application of the directive requirements;
- Risk management objectives and policies;
- Capital resources;
- Credit risk;
- Standardised credit risk exposures classes;
- Operational risk;
- Interest rate risk.

No disclosures have been omitted as either being proprietary or confidential.

1. Introduction

On 1 January 2014, the Capital Requirements Regulation (CRR) and the Capital Requirements Directive came into force and are together referred to as CRDIV or Basel 3. The Capital Requirements Directive has within its basic structure 3 'Pillars', being: -

Pillar 1: Minimum capital requirements;

Pillar 2: Assessment of capital requirements by the Society through the Internal Capital Adequacy Assessment Process (ICAAP) and the Prudential Regulation Authority (PRA) through the Supervisory Review and Evaluation Process (SREP);

Pillar 3: Designed to promote market discipline through the disclosure of key information about risk exposures and the management of those risks.

For small societies such as the Dudley, the Pillar 1 assessment is based on a formulaic risk based capital calculation focusing particularly on credit and operational risks to determine the Capital Resources Requirement.

The Board of Dudley Building Society has also undertaken a bottom-up assessment of all of the risks facing the Society and has established extra capital to be held under Pillar 2. As part of this, the Society has undertaken stress tests to determine whether it could maintain capital adequacy in a severe economic downturn.

Dudley Building Society's primary aim is to ensure that we protect our members' savings by having sufficient capital even during a significant economic downturn.

This policy document deals with the requirements for Pillar 3 (disclosure) and the information provided here is in accordance with the Capital Requirements Directive.

The Disclosures relate to Dudley Building Society (PRA Number 161294), and all information relates to the Society's assets as at 31 March 2019.

These disclosures have been reviewed by the Society's Asset and Liability Committee and its Board.

This document is published on the Society's website (www.dudleybuildingsociety.co.uk).

2. Risk Management Policies and Objectives

Dudley Building Society is a traditional Building Society, developing and retailing financial products, principally in the form of mortgages and savings. These products give rise to a financial asset or liability and are termed financial instruments. As well as mortgages and savings, the Society also uses wholesale financial instruments to invest liquid asset balances and to raise wholesale funding and to manage the interest rate risks arising from its operations.

The Society manages all the risks that arise from its operations, which are credit risk, interest rate risk, liquidity risk and operational risk by:

(i) Using forecasting and stress test models to help guide its business models;

(ii) Producing key risk information and indicators to measure and monitor performance;

(iii) Using management and Board Committees to monitor and control specific risks.

Credit Risk

Credit risk refers to the potential risk that arises from customers (or counterparties) failing to meet their obligations as they fall due. Credit risk arises primarily from loans to our retail mortgage customers, historic loans to our commercial mortgage customers and from our liquid asset investments.

The Credit Committee is responsible for reviewing the Society's Credit Risk Policy and monitoring the exposures in accordance with this policy, including exposures to individual counterparties and sector concentration. The Committee recommends the Credit Risk Policy for approval by the full Society Board.

The Assets and Liabilities Committee (ALCO) is responsible for managing Treasury activity and recommends limits on Treasury counterparties, country exposures and types of financial instruments for approval by the Society Board within regulatory guidelines.

Interest Rate Risk

Interest Rate risk is the risk that the value of, or income arising from, the Society's assets and liabilities varies as a result of changes in interest rates.

Interest rate risk arises from imperfect matching of different interest rate features, repricing dates and maturities of mortgages, savings and wholesale products. The Society manages this exposure on a continuing basis, within limits set by ALCO using a combination of financial instruments. The sensitivity to changes in interest rates impacts the following activities:

1. Management of the investment of reserves and other net non-interest bearing liabilities;
2. Fixed rate funding;
3. Fixed rate mortgage and treasury lending.

Interest rate swaps are used, where appropriate, to manage the above risks. In addition, swaps are used to manage risks arising from a net exposure to an interest rate basis type e.g. SONIA or LIBOR. The Society also monitors prepayment levels on fixed rate mortgages and aims to set the Early Repayment Charge consistent with the interest rate risk exposure.

The Society uses a parallel shift in interest rates of 2% to assess interest rate shock and to establish its risk appetite.

Sensitivity of reserves to +200bps interest rate movement	£000
As at 31 March 2018	226
Average for the period	174

Liquidity Risk

The Society's Liquidity Policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations. This is achieved through maintaining a adequate level and quality of liquid assets, through wholesale funding and through management control of the growth of the business.

The Society maintains assets in liquid form in such proportion and composition (as determined by ALCO) as will at all times enable it to meet its liabilities as they arise (including any unexpected adverse cash flow).

Operational Risk

Operational risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other external factors. The risk is managed by the departmental Managers of the Society – the 'Risk Owners' - who have responsibility for putting in place appropriate controls for their business area. A monthly report to the Board sets out key risk metrics.

In order to ensure we have sufficient capital to cover these operational risks, the Society also maintains a range of insurance policies to cover eventualities such as business interruption, loss of computer systems, crime etc.

To monitor its operational risks, the Society records all its risks and quantifies these through risk likelihood and impact, together with a reduction in impact from application of the controls assigned to each risk. This allows us to establish a residual risk remaining after operation of controls for each business area within the Society.

Strategic & Business Risk

Strategic & Business Risk is the risk that the Society may not be able to achieve its Corporate Plan or its desired strategy due to adverse circumstances outside of the Society's control.

This is a risk that every business faces. However, the Society looks to mitigate this risk by having a diverse range of products, so that its income source is not reliant on one product or one area of its business.

Concentration Risk

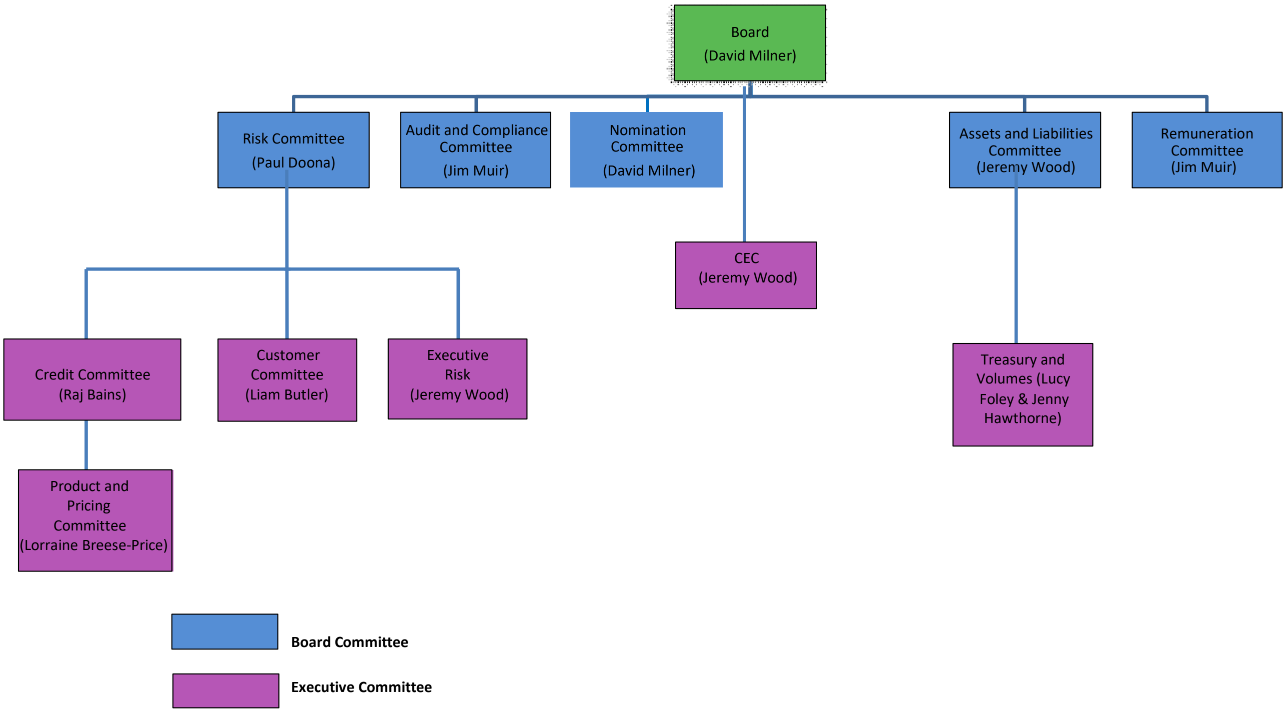
Credit risk may be increased if there is a concentration of exposure within the same category, which may include geographic location, product type, sector or counterparty type.

For Dudley, this particularly includes a geographic concentration of mortgage lending in the West Midlands. This exposure has been a reducing one over the last 5 years due to the Society changing to an intermediary based model which has resulted in more balanced national exposures.

Concentration risk is mitigated where possible by limits set on areas of business, and individual counterparty limits.

3. Main Board and Committee Structure

The Society's Management structure is set by the Society's Board of Directors, including via the establishment of a number of Committees which may include both Executive and Non-Executive Directors to oversee the various sections of the Society's business. The principal Committees from a Risk Management viewpoint are the Audit and Compliance Committee, the Assets and Liabilities Committee, the Credit Committee, the Customer Committee and the Risk Committee, details of which are included below:-



Audit & Compliance Committee

Composition: 3 Non-Executive Directors.

Main Functions: The purpose of the Committee is to ensure that the interests of the members are protected in relation to financial reporting and internal controls.

The Committee will review, and challenge where necessary, the actions and judgements of management, in relation to the Society's Annual Accounts. The Committee liaises with the Society's external auditors concerning the nature and scope of their work and reviews any changes in accounting policy and practice.

Frequency: The Committee meets not less than 4 times a year.

Assets & Liabilities Committee

Composition: 2 Executive Directors with 3 Non-Executive Directors.

Main Functions: To oversee the Society's assets and liabilities in accordance with the interest rate, liquidity and funding risk appetite statements and to ensure compliance with regulatory limits.

Frequency: The Committee meets 10 times a year.

Credit Committee

Composition: 2 Executive Directors ad Senior Management Team.

Main Functions:

a) Support the Board in achieving its objectives and responsibilities of the Society's exposure to and control of credit risk; and
b) Manage the implementation of the Society's lending strategy, policies and product development ensuring that proper consideration is given to credit risk control and regulatory requirements of lending; including responsible lending requirements.

Frequency: The Committee meets on a monthly basis.

Customer Committee

Composition: 1 Executive Directors and the Senior Management Team

Main Functions:

The Committee will oversee:-

1. The approach for ensuring that the Society operates a framework that is adequately focused on the delivery of fair customer outcomes now and into the future.

2. The Society's awareness of and compliance with regulatory requirements in respect of customer conduct, in particular as escalated from the Regulatory Review Group including ensuring the Society's operates within the approved Conduct Risk Appetite.

Frequency: The Committee meets on a monthly basis.

Risk Committee

Composition: All Non–Executive Directors of the Society.

Main Functions:

The main functions of the Risk Committee are:

a) Provide oversight in relation to:
    i) risks facing the Society; and
    ii) the Society's risk management framework, systems and controls; risk strategy; and risk appetites.
b) Report to the Board on all matters concerning risk.

Frequency: The Committee meets on a monthly basis.

4. Capital Resources

The Capital Resources of the Society principally relate to the reserves of the organisation, which are classified as Tier 1. The Society has a small amount of Tier 2 capital, being the level of collective impairment provisions maintained in the Society's Balance Sheet. At 31 March 2019, the Society's capital comprised:

Table 1: Regulatory Capital	**Capital Resources £000**
Common Equity Tier 1 Capital (CET1)	
General Reserves	23,773
Available for Sale Reserve	(37)
Less Intangible Assets	(837)
Total Tier 1 Capital	**22,899**
Tier 2 Capital	
Collective Impairment Provisions	758
Total Tier 2 Capital	**758**
Total Capital	**23,657**

Intangible assets are computer software and system development costs after amortisation.

The Society's capital resources are the same under the CRDIV transition arrangements as on the full end point definitions.

Table 2: Reconciliation of Regulatory Capital	**Amount £000**
Total Reserves in the Statement of Financial Position	
General Reserves	23,773
Available for Sale Reserve	(37)
Total Reserves	**23,736**
Less Intangible Assets	(837)
Collective impairment Provisions	758
Regulatory Capital	**23,657**

5. Leverage Ratio

CRD IV introduces a non-risk based leverage ratio to supplement the risk-based capital requirements. The ratio is tier 1 capital as a proportion of on and off balance sheet exposures. The CRD IV requirement is for the minimum leverage ratio to be 3%. The Society's leverage ratio is the same under both transitional and full implementation of CRD IV.

Table 3: Leverage Ratio	Notes	31 March 2019 £000	31 March 2018 £000
Total Tier 1 capital		22,899	21,812
Capital measure	1	**22,899**	**21,812**
Total balance sheet assets	2	438,390	396,349
Secured on real estate - commitments	3	6,109	4,928
Derivatives	4	730	1,114
Exposure measure		**445,229**	**402,391**
Leverage ratio	5	**4.87%**	**5.14%**
Average leverage ratio	6	**5.06%**	**4.97%**

Notes

1. The capital measure for the leverage ratio is the total tier 1 capital reported in Table 1.
2. Total balance sheet assets those reported in the Statement of Financial Position within the Annual Report and Accounts, gross of the collective provision, less intangible assets and derivative financial instruments assets.
3. Commitments are after applying a 20% risk weighting in accordance with the amended CRD IV.
4. The accounting value of derivatives has been converted into an exposure measure.
5. The leverage ratio stated is based on quarterly regulatory submissions, which exclude unaudited profit from the capital measure.
6. Average leverage ratio is based on quarterly regulatory submissions, which exclude unaudited profit from the capital measure.

The greater asset exposure growth compared with the increase in Tier 1 Capital caused the leverage ratio to reduce from 5.14% to 4.87% as at 31 March 2019. The leverage ratio of the Society is well above the 3% regulatory minimum and it is forecast to remain so within the Corporate Plan.

The risk of excessive leverage is managed through the corporate planning process using the leverage ratio and is monitored by ALCO.

6. Capital Resources integrated into Business Strategy

Dudley Building Society aims to maintain sufficient capital resources to allow it to make advances and provide other financial services. In order to grow this capital, the Society needs to generate and retain profits that will add to the general reserves, the principal source of capital.

Strategy and Planning

The Strategic Plan and Annual Corporate Plan process establishes risk appetites for the various areas of business which the Society conducts.

The Society ensures it has sufficient financial and non-financial resource to meet the Strategic Plan objectives.

Capital Adequacy Assessment Process

In addition to the Strategic Plan and Corporate Plan the Society has an Internal Capital Adequacy Assessment Process (ICAAP), which focuses on ensuring capital resources of the Society are sufficient to support its plans both in normal operating and stressed conditions.

This process involves reviewing all business areas with estimates for capital allocation across the Strategic Plan period. The Board sets the economic scenarios to be used in calculating capital requirements, with input from the results of the Society stress models.

Finally the Board approves the capital assessment taking into account any areas where they may feel the models and internal assessments do not adequately capture the full risk exposure and holding extra capital, where appropriate.

Lending & Business Decisions

The Society translates its overall risk appetite for credit risk into individual lending limits controlling the exposures to be taken on by the Society. The performance against these limits is monitored monthly and reviewed at least annually.

Pricing

Product pricing models provide guidance as to the appropriate rate required to meet target level of return on all mortgages offered.

7. Risk Weighted Exposure Amounts & Operational Risk Capital

The assets of the Society are allocated risk based exposure amounts in line with the "Standardised Approach" under the Capital Requirements Directive. In addition, an evaluation of capital required to cover Operational Risk is calculated under the "Basic Indicator Approach" and determined by reference to the net income of the Society averaged over the last 3 years.

Table 4: Risk Weighted Exposures & Operational Risk Capital	Asset £000	Risk Weighted Asset £000	Capital Requirement £000
Treasury Assets:			
Central Government and Central Banks	66,958	-	-
Regional Governments and Local Authorities	-	-	-
Institutions	9,180	1,836	147
Total Treasury Assets	**76,138**	**1,836**	**147**
Loans and Advances to Customers:			
Secured on land - performing	1,325	1,325	106
Secured on residential property - performing	356,374	125,697	10,056
Past due items	2,614	2,614	209
Total Loans & Advances to Customers	**360,313**	**129,636**	**10,371**
Other Assets	**1,940**	**1,940**	**155**
Credit Risk Exposure excluding off-balance sheet	**438,390**	**133,412**	**10,673**
Off Balance Sheet:			
Institutions – Derivatives	730	365	29
Secured on Real Estate - Commitments	6,109	2,184	175
Total Off Balance Sheet	**6,839**	**2,549**	**204**
Total Credit Risk	**445,229**	**135,961**	**10,877**
Operational Risk		**14,497**	**1,160**
Credit Valuation Adjustment (CVA)		**405**	**32**
Total Pillar 1 Capital Resource Requirement		**150,863**	**12,069**
Capital Resources (Table 1)			**23,657**
Capital in Excess of Pillar 1 Requirements			**11,588**

Other assets include tangible fixed assets and exclude intangible fixed assets. Loans and advances to customers are net of individual impairment provisions of £0.494m.

The Society does not use credit risk mitigation techniques other than taking a first legal charge on property offered as security for a mortgage.

The total credit risk exposure of £469,668 reconciles to the Annual Report and Accounts as follows:

Table 5: Reconciliation of Credit Risk Exposure to the Annual Report & Accounts	£000
Total Credit Risk (Table 3)	**445,229**
Less Total Off Balance Sheet (Table 3)	(6,839)
Less Collective Impairment Provision	(758)
Add Intangible Fixed Assets	837
Add Fair Value Adjustment for Hedged Risk	73
Total Assets as at 31 March 2019	**438,542**

The credit risk exposures in each asset class as at 31 March 2019 and the average exposures held in each class during the financial year are detailed below:

Table 6: Total and Average Credit Risk Exposures	Total Assets £000	Average Assets 000
Treasury Assets:		
Central Government and Central Banks	66,958	73,317
Regional Governments and Local Authorities	-	-
Institutions	9,180	10,619
Total Treasury Assets	**76,138**	**83,936**
Loans and Advances to Customers:		
Secured on land - performing	1,325	1,578
Secured on residential property - performing	356,374	332,808
Past due items	2,614	2,389
Total Loans & Advances to Customers	**360,313**	**336,775**
Other Assets	**1,940**	**1,950**
Credit Risk Exposure excluding off-balance sheet	**438,390**	**422,661**
Off Balance Sheet:		
Institutions – Derivatives	730	932
Secured on Real Estate - Commitments	6,109	6,957
Total Off Balance Sheet	**6,839**	**7,889**
Total Credit Risk	**445,229**	**430,550**

The residual maturity on a contractual basis of credit risk exposures is shown as at 31 March 2019:

Table 7: Residual maturity of credit risk	Up to 3 months £000	4 - 12 months £000	1 -5 years £000	Over 5 years £000	Total £000
Residential mortgages	2,361	3,091	23,871	328,907	358,230
Other secured lending	300	23	296	706	1,325
Total retail credit risk exposures	**2,661**	**3,114**	**24,167**	**329,613**	**359,555**
Central banks and sovereigns	52,030	-	-	-	52,030
Financial institutions	11,104	1,995	11,009	-	24,108
Total treasury risk credit exposures	**63,134**	**1,995**	**11,009**	**0**	**76,138**
Total credit risk exposures	**65,795**	**5,109**	**35,176**	**329,613**	**435,693**

Counterparty Credit Risk

The purpose of the Society's Treasury Credit Risk Management Policy is to ensure that the Society can obtain the best possible return whilst operating within prudent limits in respect of counterparties.

The methodology for establishing counterparty limits involves consideration of the background rating information. The minimum rating required (for Banks) under Fitch ratings are:

- Short term facilities up to and including one year in maturity: bank to whom lending is made to have a short term credit rating of at least F2;
- Facilities over one year and up to and including 5 years in maturity: bank to whom lending is made to have a long term credit rating of at least BBB-.

Replacement values of outstanding hedging instruments are calculated and counterparty limits are adjusted to reflect any off balance sheet exposure.

Counterparty limits are set based on the Fitch rating. New counterparties can only be added provided the appropriate Fitch ratings are in place, and are subject to Board approval. Country limits are also set in order to minimise exposure to any one part of the world, except for the UK.

8. "Past Due" (Loans > 3 months in arrears) Exposures by Geographical Region

A loan is past due when it is 3 months or more in arrears. An analysis of the Society Mortgage Assets, by region of the UK and highlighting arrears in excess of 90 days, is noted below:

Table 8: Geographical Region	Individual Impairment Provision £000	Past Due* £000	Performing £000	Total £000
East Anglia	(7)	-	5,073	5,066
East Midlands	(99)	118	23,766	23,785
Greater London	(40)	1,062	69,007	70,029
North	-	-	8,163	8,163
North West	(34)	183	21,425	21,574
South East	(63)	-	92,023	91,960
South West	(46)	66	27,845	27,865
Wales	-	244	10,488	10,733
West Midlands	(198)	1,015	83,780	84,597
Yorkshire & Humberside	(7)	-	16,549	16,543
Total	**(494)**	**2,689**	**358,118**	**360,313**

* Past due amounts relate to the overall mortgage balances, not the amount in arrears and include properties in possession.

NB. In evaluating the above table, no breakdown of the mortgage assets into type is considered appropriate in view of the Society's mortgage assets being principally residential.

9. Identification and Measurement of Impairment

A financial asset or group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The provision made on each mortgage account represents the amount required to reduce the outstanding balance of the asset to its expected realisable value, by using industry recognised house price indices, and adjusting for costs of realisation, other recoveries and the probability of possession.

Collective impairment provisions are made where it is considered that there is impairment in the value of assets at the year-end that is not already covered by individual impairment provisions.

In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The collective impairment provisions made at the year-end represent the Directors' assessment of the potential losses which, although not yet specifically identified as relating to payment arrears, are known from experience to exist in the Society's loan portfolio.

These provisions have been deducted from the appropriate asset values shown in the balance sheet. Further details of the level of mortgage provisions can be found in the 2019 Annual Report and Accounts of the Society.

10. Breakdown of Treasury Assets under the Standardised Approach

The Society's treasury management process uses Fitch ratings in the assessment of exposures to counterparties, or a Moody's rating in the absence of a Fitch rating. The table below is a summary by standardised credit risk exposure class and credit quality step of the Society's Treasury Assets at 31 March 2019. The External Credit Assessment Institution (ECAI) ratings used in the table are based on Fitch Ratings. The highest credit quality step is step 1.

Table 9

Credit Quality Step	ECAI Long-Term Rating	Banks £000	Building Societies £000	Central Government £000	Local Authorities £000	Total £000
1	AAA to AA-	-	-	66,958	-	66,958
2	A+ to A-	5,622	2,015	-	-	7,637
3	BBB+ to BBB-	-	-	-	-	-
4	BB+ to BB-	-	-	-	-	-
5	B+ to B-	1,543	-	-	-	1,543
6	CCC+ & below	-	-	-	-	-
Unrated	-	-	-	-	-	-
Total		**7,164**	**2,015**	**66,958**	**0**	**76,138**

The geographical distribution of the above exposures is the United Kingdom. Central government exposure includes central bank exposure. There are no exposures to any unrated counterparties.

The residual maturity of the Society's Treasury Assets at 31 March 2019 is analysed below: -

Table 10

Credit Quality Step	Repayable on demand £000	In not more than three months £000	In more than three months, but not more than one year £000	Total £000
1	52,030	1,924	13,004	66,958
2	5,622	2,015	-	7,637
3	-	-	-	-
4	-	-	-	-
5	1,543	-	-	1,543
6	-	-	-	-
Unrated	-	-	-	-
Total	**59,195**	**3,939**	**13,004**	**76,138**

11. Asset Encumbrance

A breakdown of the median encumbered and unencumbered assets for the quarters ending in the financial year ended 31 March 2019 is given in Tables 11 and 12.

Table 11: Assets of the reporting institution	**Carrying amount of encumbered assets £000**	**Fair value of encumbered assets £000**	**Carrying amount of unencumbered assets £000**	**Fair value of unencumbered assets £000**
Loans on Demand	-	-	78,236	-
Debt securities	499	499	4,475	4,475
Loans & Advances (Mortgage Loans)	48,934		288,275	
Other assets	-		3,457	

Table 11 includes on and off balance sheet encumbered assets.

Table 12: Encumbered assets/collateral received and associated liabilities	**Matching liabilities, contingent liabilities or securities lent £000**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £000**
Carrying amount of selected financial liabilities	33,500	48,934

Tables 11 and 12 are based upon the templates A and C prescribed in EBA Guideline EBA/GL/2014/03 on disclosure of encumbered and unencumbered assets.

The Prudential Regulation Authority waived disclosure of the EBA Asset Encumbrance Disclosure Template B (Collateral Received) requirements subject to a firm meeting certain criteria. The Society meets this criteria and so template B information is not disclosed.

The Society has mortgage assets encumbered with the Bank of England Asset Purchase Facility Fund Limited to secure amounts drawn down under the Term Funding Scheme (TFS). At 31 March 2019, £60.3m (2018:£52.5m) of mortgage assets held by the Society were pledged to the Bank of England as collateral under TFS.

12. Countercyclical Capital Buffer

The countercyclical buffer is an additional requirement introduced by CRD IV, calculated by applying a weighted average of country countercyclical buffer rates based on the geographical distribution of relevant exposures to the overall capital requirements of the Society. The following templates disclose information relevant for the calculation of the countercyclical buffer as at 31 March 2019 in accordance with Regulation (EU) 2015/1555 on a consolidated basis and in particular exclude exposures to sovereigns.

Table 13: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Geographical Breakdown	Exposure Value £000	Risk weighted assets £000	Countercyclical capital buffer rate	Countercyclical buffer amount £000
UK	445,229	135,961	3.5%	4,759
Total	445,229	135,961	3.5%	4,759

Note: from June 2018 the Bank of England increased the countercyclical buffer from 0.0% to 0.5%. A further increase was also effective from the 1 November 2018 with the buffer rate increasing to 1.0%.

13. Remuneration

The Society has a remuneration policy that aligns to the FCA Regulations Remuneration Code. The detail required for the purposes of this Pillar 3 document is disclosed in our Annual Report and Accounts which is also published on the Society's website. The details are located in the Annual Report and Accounts within the Directors' Remuneration Report and Note 7. Note 7 of the Annual Report and Accounts gives a breakdown of the Directors' remuneration in the financial year; it should be noted that all Director Remuneration is fixed.

Additional elements that need to be reported in this document are in relation to material risk takers within the Society. Outside of the Society Directors, 12 additional material risk takers have been identified. A breakdown of their fixed and variable remuneration is set out in table 14 below:

Table 14	March 2019 £000
Fixed remuneration	816
Variable remuneration	25
Total	**841**

14. Conclusion

This disclosure document is intended to provide background information on the Society's approach to risk management as related to maintaining and preserving the capital position of the Society. It also provides asset information and capital calculations under Pillar 1.

In the event that a user of this document has comments or requires further information, then they are requested to contact Peter Beddows, Finance Director at peter.beddows@dudleybuildingsociety.co.uk