REGULATORY DISCLOSURES ON CAPITAL AND RISK

Pillar 3 disclosures for the year ended 31 December 2019

Table of Contents

1. Overview ... 3
1.1 Introduction ... 3
1.2 Scope of Application, Basis and Frequency of Disclosures ... 3
1.3 Changes to Disclosure Requirements ... 4
2. Risk Management Policy and Objectives ... 4
2.1 Background ... 4
2.1.1 Three Lines of Defence ... 5
2.2 Credit risk ... 5
2.3 Operational risk ... 6
2.4 Cyber risk ... 6
2.5 Liquidity and funding risk ... 7
2.6 Interest rate risk ... 7
2.7 Concentration risk ... 7
2.8 Business risk ... 7
2.9 Regulatory and legal risk ... 8
2.10 Conduct risk ... 8
2.11 Residual risk ... 8
Capital Resources ... 8
2.12 Regulatory Capital ... 8
2.13 Capital Requirements ... 9
2.13.1 Approach to assessment of adequacy of capital ... 9
2.13.2 Pillar 1 capital resource requirement ... 9
3. Counterparty Credit Risk ... 11
4. Mortgage Credit Risk and mitigation ... 12
5. Operational Risk capital requirement ... 12
6. Leverage ratio ... 13
7. Liquidity Coverage Ratio ... 14
8. Remuneration Code Disclosures ... 14
8.1 Remuneration Code Staff ... 15
9. Country-by country disclosures ... 15
10. Contacts ... 15

1. Overview

1.1 Introduction

The regulatory framework under which the Society operates is the European Union Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), which came into force on 1 January 2014. The CRD and CRR, commonly known as CRD IV, provide for consistent capital adequacy standards for banks and building societies and an associated supervisory framework across the European Union and are enforced in the UK by the Prudential Regulation Authority (PRA). The UK's membership of the European Union came to an end on 31 January 2020; and under the terms of the Withdrawal Agreement, the UK is now in a transition period, which is due to end on 31 December 2020. During this period, EU law continues to apply in the UK in the same way as it applied prior to the UK's exit. The capital requirements legislation sets out the rules that determine the amount of capital each institution must hold in order to provide security for members and depositors. It consists of three main elements, referred to as "Pillars":

- Pillar 1: sets out the minimum capital requirements, using a risk-based capital calculation focusing mainly on credit and operational risk. The Ecology uses the standardised approach to calculate Credit Risk which is expressed as 8% of the risk weighted exposure amounts for each applicable exposure class. Capital required to cover operational risk is assessed under the Basic Indicator Approach and calculated by reference to the net income of the Society averaged over the previous three years.
- Pillar 2a: is an internal assessment by management and the Board of additional capital resources required to cover the specific risks faced by the Society that are not covered by the minimum regulatory capital resource requirement set out under Pillar 1. This review is documented as the Society's Internal Capital Adequacy Assessment Process (ICAAP) and is then subject to the PRA's Supervisory Review and Evaluation Process (SREP).
- Pillar 2b: is made up of a PRA buffer, Capital Conservation Buffer (CCB) and Countercyclical Buffer (CCyB), which are maintained to ensure the Society should meet all its capital adequacy requirements even in periods of economic stress. The CCyB in place in the United Kingdom at 31 December 2019 is 1.0% of risk weighted assets. In December 2019, the FPC announced a further increase to CCyB, up to 2.0%, to take effect from 16 December 2020. The PRA is to consult on proposals to reduce minimum capital requirements in a way that leaves overall loss-absorbing capacity in the banking system broadly unchanged. For smaller societies with sufficient Pillar 2A capital, this would imply a reduction in Pillar 2A requirements to offset 100% of the increase to CCyB.
- Pillar 3: requires disclosure of key information on the Society's own funds, risk exposures and risk management processes, published in this document. The information provided here is in accordance with the rules and guidance contained in CRD IV. This document is also required to provide details concerning the remuneration of certain staff who have been assessed as being subject to the requirements of the Remuneration Code.

1.2 Scope of Application, Basis and Frequency of Disclosures

This document sets out the Pillar 3 Disclosures of the Ecology Building Society.

This disclosure document applies only to the Ecology Building Society (FRN 162090) and all values within it have been drawn from the Society's Annual Report and Accounts as at 31 December 2019, unless otherwise stated. The disclosures are issued on an annual basis, unless more frequent disclosure is deemed to be merited by the Board and published in conjunction with the Annual Report and Accounts.

The disclosures made are in accordance with Board Policy in relation to consideration of materiality, proprietary and confidentiality, have been reviewed by the Society's Board and are published on the Society Website (www.ecology.co.uk). The disclosures contained in this document are intended to provide background information on capital requirements and in that context the Society's approach to risk management; they are not subject to external audit and do not constitute a financial statement.

1.3 Changes to Disclosure Requirements

The Society continues to develop its disclosures to ensure that they are as clear and informative as possible. The disclosures required under CRD IV are included within this document or within the annual report and accounts as appropriate.

2. Risk Management Policy and Objectives

2.1 Background

The Board of Directors has overall responsibility for the Society's internal control system and for reporting its effectiveness to the members in the annual financial statements. The Board is also responsible for approving the Statement of Risk Appetite which is detailed in the Society's Risk Management Framework document and reviewed annually by the Risk, Audit, Compliance and Ethics Committee (RACE).

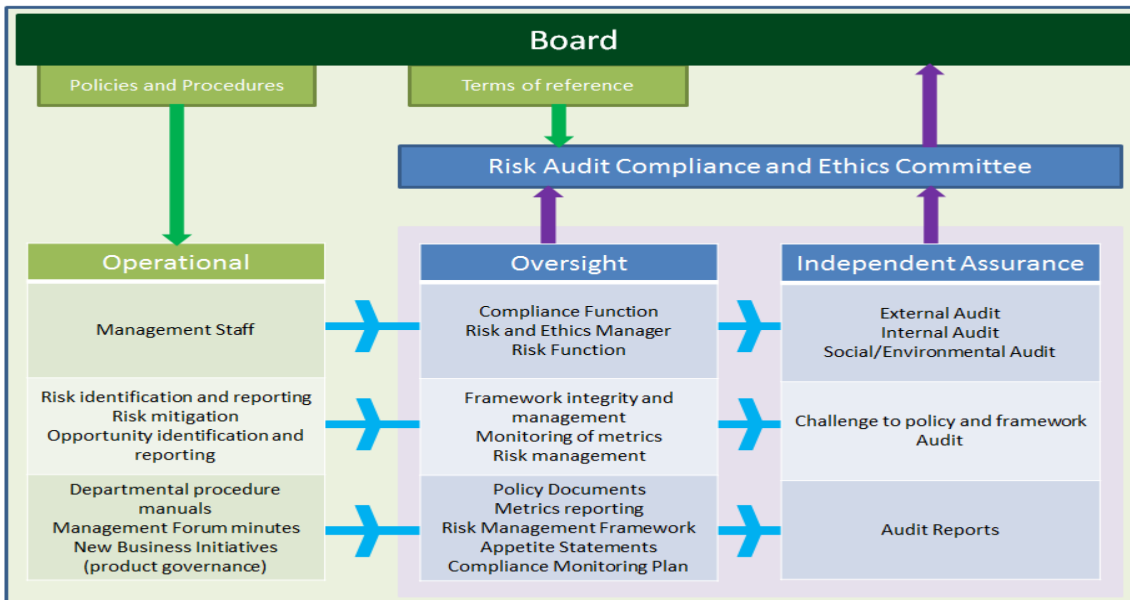
The Board is responsible for ensuring the Society maintains adequate financial resources, both in terms of capital and liquidity, through review and approval of both the Society's Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP).

The Board has ultimate responsibility for developing an appropriate risk and control framework, but has delegated powers to the Risk, Audit, Compliance and Ethics Committee (RACE) to advise the Board on the current risk exposures and future risks strategy.

The Chief Risk Officer (CRO) oversees the management and development of a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks that could interfere with the Society's objectives and goals. The CRO reports to RACE. On behalf of the Board, RACE considers and approves the Society's risk management framework, its risk appetite and its risk management policies for all risk categories. RACE also monitors key risk management information, adherence to the Society's ethical standards and reviews the Society's overall capital adequacy. The Chair of RACE reports back to the Board after each meeting of RACE, which usually take place quarterly.

The Board's Assets and Liabilities Committee (ALCO), comprising both Non-Executive and Executive Directors, is responsible for monitoring risks on both sides of the balance sheet. Specifically, ALCO is responsible for reviewing the Financial Risks Policy. It monitors and controls structural risks in the balance sheet, including liquidity, treasury, and funding levels and also recommends policy development. It monitors implementation of Policy to ensure that the Board's defined risk parameters are adhered to.

The diagram below shows the flow of risk management from operational through to the Board:



2.1.1 Three Lines of Defence

Whilst the Board of Directors is ultimately accountable for the risk management framework, all staff within the Society have responsibility for risk management.

The Board operates a three line of defence model as outlined below:

First Line of Defence

As the first line of defence the management team own and manage risks. This includes ensuring that the Society complies with policies, risk appetite and limits, stress testing, self-assessment and development of the risk register. The management team is responsible for identifying, assessing, controlling and mitigating risks by implementing corrective actions to address process and control deficiencies.

Second Line of Defence

The Society's Risk and Compliance functions comprise the second line of defence, developing the risk framework and undertaking risk monitoring, challenge and oversight, ensuring reporting is completed to the relevant Committee.

Third Line of Defence

Internal Audit (outsourced to Deloitte LLP) act as the third line of defence providing an independent challenge to the overall management of the risk framework. Providing assurance to both the Risk, Audit, Compliance and Ethics Committee and Board on the adequacy of both the first and second line of defence, Internal Audit ensures that risks are appropriately managed in accordance with policy and limits stated within the Board's stated risk appetite. Adherence to regulatory requirements is also assured through the monitoring of actions taken to resolve any risk control weaknesses or failings in the Society's strategy, operations and performance.

Through its normal business operations, the Society is exposed to a number of risks, the most significant of which are credit, liquidity and funding, concentration, interest rate, conduct, regulatory, cyber, legal and residual risk. The Society has a formal structure for managing these risks including established risk limits, reporting lines, mandates and other control procedures.

2.2 Credit risk

Credit risk is the most significant risk facing the Society. Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Society as and when they fall

due. The Board sets the risk appetite for both lending (residential, commercial and Investments) and treasury activities.

The lending policy of the Society is reviewed by the Board and sets out policy limits and underwriting procedures. The Society first of all determines if the borrowing request meets the Society's environmental lending criteria. Where these are met, for ordinary residential lending, the loan is assessed against the following: affordability, residency, residential history, credit history, employment history, nature of income and loan to value. In addition, confirmation of borrower identity and an assessment of the value of any security are undertaken prior to granting the loan. When considering applications, the primary focus is placed on the willingness and ability to repay.

The maximum mortgage loan available to individuals is based on the lower of the current value or purchase price of the property. No lending is undertaken based solely upon security provided by the value of the underlying assets and all mortgages are secured by way of a first legal charge against the property.

For commercial loans, third-party guarantees, supporting collateral and security, robust legal documentation, and financial covenants are also taken into account.

The Society has a small portfolio of Investments that enable it to invest directly in renewable energy and to support other co-operative ventures. All such investment activity requires approval by the Board.

The portfolio includes individual Social Investments of up to £500,000 with an original maximum maturity of five years. This type of investment typically features either a Government Guarantee or a Tax Credit.

In addition, the portfolio also includes renewable energy investments in the form of debentures featuring wind, solar, geothermal, tidal and biomass technologies. These are tradeable on a secondary market operated by Abundance Investment Ltd.

Counterparty and country limits for treasury activity are set out in the Financial Risks Policy which is reviewed by the Board. The Society first of all seeks to identify potential counterparties with the most defensible records on a range of ethical criteria. This element itself is a strong indicator of counterparty quality and is reviewed at least annually, via internal analysis. Note is taken of external credit ratings as produced by Fitch IBCA and Moody's, which provide triggers for disengagement.

2.3 Operational risk

Operational risk is the risk of a loss arising from failed or inadequate internal processes or systems, human error or other external factors.

The Society does not engage in any complex forms of funding or use off-balance sheet instruments and the Board is therefore content that no risk to the Society arises from these sources.

The Society manages its operational risks through internal controls, and various risk mitigation techniques, such as insurance and business continuity planning. The Society maintains a register of operational risks faced by the Society which are scored to reveal any potential implications for the level of capital held. The impact of these risks is re-evaluated on at least an annual basis and whenever a loss event occurs.

The Society has adopted the basic indicator approach (BIA) to operational risk which is expressed as a percentage of the average of the latest three years of the sum of net interest income and net non-interest income. There is no intention to move to a more advanced approach in the short to medium term.

2.4 Cyber risk

Cyber risk is a key area of operational risk and focus for the Society and development in this field is ongoing. Controls have been implemented to mitigate cyber related risks and regular internal and external penetration testing is carried out by third parties to identify areas for further improvement. The Society maintains strong links with information services such as CiSP and FS-ISAC, and holds the Government backed Cyber Essentials accreditation.

2.5 Liquidity and funding risk

Liquidity risk is the risk that the Society does not have sufficient financial resources available to meet its obligations as they fall due, or that the Society is unable to meet regulatory prudential liquidity ratios. It is Society policy to ensure that sufficient liquid assets are at all times available to meet the Society's obligations, after taking into account withdrawals of customer deposits, draw-down of customer facilities and growth in the balance sheet.

The Society manages liquidity and funding risk through continuous forecasting of cashflow requirements and assessment of its funding risk. The required amount, quality and type of liquid assets required to ensure obligations can be met at all times is maintained in accordance with the Financial Risks Policy.

The Society performs liquidity stress testing based on a range of adverse scenarios. There are liquidity contingency measures included within the Society's Recovery Plan, which are maintained in order to ensure that the Society has access to sufficient resources to meet obligations as they fall due if stress scenarios occur. Stressed liquidity profiles are reported to every ALCO meeting.

2.6 Interest rate risk

Interest rate risk is the risk that arises from mismatches between the re-pricing dates of the assets and liabilities on the Society's balance sheet. The Society is exposed to movements in interest rates reflecting the mismatch between dates on which interest receivable on assets and interest payable on liabilities are next reset or, if earlier the instruments maturities. The Society has a small tranche of mortgage and treasury assets linked to Base Rate and one liability with a fixed interest rate. The risk is managed by appropriate policies approved by the Board. The level of risk is minimal and is tracked through standard gap analysis techniques.

2.7 Concentration risk

Exposure to Concentration Risk is monitored on a daily basis. As a Society that lends on a national basis, including Northern Ireland, the Society is not subject to an undue level of geographic concentration risk.

The activities of the Society are of course highly concentrated in residential lending and funded primarily by retail investments. However, the Society argues firstly that this model has long-term resilience and secondly, the Society's deliberate focus on energy efficiency and environmental impacts of residential property ensures a high level of quality in the lending book and a higher degree of resilience than the mainstream market which will increase as energy prices rise.

The Society's lending model which requires energy efficiency improvements ensures that there is no dependence on either re-mortgage type business or introduced business. Internal limits and the nature of the product range ensure that there is no undue exposure to any property type or class of borrower, including more specialist books such as self-build and buy-to-let.

The Society takes particular note of concentration risk arising from large exposures which are a function of the relatively small size of the Society. This is controlled by close attention to the credit assessment process.

2.8 Business risk

Business risk arises from macroeconomic factors that may impact on the ability of the Society to carry out its business plan. Business Risk is managed through regular review and development of the Corporate Plan, management oversight and an embedded corporate governance process. The Society conducts stress and scenario analysis as part of its corporate planning process to identify potential mitigating actions that can be employed in the event of a downturn.

2.9 Regulatory and legal risk

The volumes and complexity of regulatory issues may reduce the Society's capital and ability to compete and grow, or result in fines, public censure or restitution costs because of failure to understand, interpret, implement and comply with EU and UK regulatory requirements. The Society has an internal compliance function to monitor compliance with existing legislation, the implementation of controls and the impact of new requirements. This is overseen by the RACE Committee.

2.10 Conduct risk

Conduct Risk is the risk of the Society's conduct resulting in poor outcomes for consumers; consumers being either members or potential members. The Board fully embraces the Financial Conduct Authority (FCA)'s Principle 6, namely, to ensure that the Society pays due regard to the interests of its members and treats them fairly at all times. These principles are firmly embedded within the Society's culture and maintained through staff and Director Induction, training and performance management.

Conduct Risk is monitored by the RACE committee and the Board, as part of the Society's Ethics framework. This framework goes beyond a risk mitigation perspective by also seeking to maximise opportunities to improve outcomes for the Society's full range of stakeholders. The Ethics (Conduct Risk) Policy is reviewed annually. The Ethics Manager reports on conduct to RACE committee and Board meeting.

2.11 Residual risk

The Society holds capital both to cover events that can be anticipated with a reasonable degree of certainty and to deal with market stresses. In addition, capital is held in excess of the minimum required by the PRA to cover events that are unforeseen.

Capital Resources

2.12 Regulatory Capital

The capital resources of the Society are calculated in accordance with the CRR. The assets of the Society, as shown in the Balance Sheet, were £198,038,000 at 31 December 2019. This figure is net of collective and individual provisions.

The table below summarises the composition of the Society's regulatory capital for the Society as at 31 December 2019, together with prior year comparatives:

Capital resources	As at 31/12/2019 £000	As at 31/12/2018 £000
Tier 1 Capital		
General reserves	11,690	10,617
Deduction (Intangible assets - IT software)	(13)	(39)
Total Tier 1 Capital	11,677	10,578
Tier 2 Capital		
Sub-ordinated liabilities	-	75
Collective impairment allowance	183	138
Total Tier 2 Capital	183	213
Total capital resources	11,860	10,791

Common Equity Tier 1 capital

These are the general reserves of the Society and represent the accumulated after-tax profits of the Society less intangible assets.

Tier 2 capital

The Society held an issue of subordinated debt which qualified as Tier 2 capital. This Note was repaid in June 2019 as per the terms and conditions.

General provisions of the Society represent part of the Society's free capital and are therefore included as Tier 2 capital.

Profit and Capital

Current profit levels are sufficient to underpin the Society's growth based on existing capital requirements. Because of the strong potential to grow further the Society has an intention to take on supplementary capital in the future.

2.13 Capital Requirements

2.13.1 Approach to assessment of adequacy of capital

The Society's planning process seeks to ensure that the Society will have enough capital to meet the base regulatory requirements under the CRR, to support the business's expected growth potential, concomitant with its risk appetite and its assessments of current and future material risks. The Society's Corporate Plan is reviewed at least annually by the Board, taking account of changes in the business and economic environment. The current Corporate Plan covers the five-year period to 2024. The Plan establishes strategic and business objectives and assesses future financial and non-financial resources required to meet these objectives.

The Society's Internal Capital Adequacy Assessment (ICAAP) ensures that the capital resources of the Society will support its Corporate Plan in both normal and stressed conditions. This ensures that the Society has sufficient capital to meet potential risk and the associated capital required. The ICAAP is submitted to the Board for approval with the necessary supporting stress testing. The Society's Board approves the ICAAP annually, using the level of individual capital guidance and capital planning buffer advised by the PRA. Having regard to total regulatory capital requirements, the Board sets an amount above this requirement that it will maintain.

The Society was subject to a formal SREP by the PRA in May 2019. The PRA issued Total Capital Requirements (TCR) confirming the percentage of the Pillar 1 capital to be held as 9.58% of Risk Weighted Assets plus a static add-on of £151,000.

2.13.2 Pillar 1 capital resource requirement

The Society allocates capital as set out in the table below to the assets of the Society on a risk weighted basis in line with the 'Standardised Approach' to Credit Risk as specified by the CRR. Additionally, the Society uses the 'Basic Indicator Approach' to evaluate the additional capital required to cover the Operational Risk associated with the Society's activities.

The table below details the Society's Pillar 1 capital requirement as at 31 December 2019:

	Assets £000	Risk Weighted Exposure £000	Pillar 1 capital £000
Treasury			
Central Government	46,027	-	-
Credit Institutions	3,508	701	56
Total Liquidity	**49,535**	**701**	**56**
Loans and advances to customers*			
Residential performing loans	167,841	**56,920**	**4,554**
Non-residential performing loans	9,080	**7,049**	**564**
Past due items**	-	**-**	**-**
Total Loans and advances to customers	**176,921**	**63,969**	**5,118**
Other Assets			
Fixed and other assets	3,318	2,968	237
Total Other Assets	**3,318**	**2,968**	**237**
Total Credit Risk Exposures	**229,774**	**67,638**	**5,411**
Operational Risk Capital Requirement			601
Total Pillar 1 Capital Requirement			**6,012**
Tier 1 Capital			**11,677**
Excess over Pillar 1 minimum			5,665

*Includes commitments ** Loans that are more than three months in arrears

Reconciliation of Society Loans and Advances to Customers	Total £000
Society Loans and advances to customers per note 11, Annual Report and Accounts	**145,014**
Add back: Collective and Individual impairment provisions	531
Society accounting value of loans and advances to customers	**145,545**
Add: total commitments for residential and non-residential mortgages	31,568
Accounting adjustments, including Effective Interest Rate (EIR) adjustment	(192)
Society capital adequacy value of loans and advances to customers	**176,921**

The table below provides a geographical analysis of loan and advance exposures:

	Residential		Non-Residential		Total
Geographical Area	Performing	Past Due	Performing	Past Due	
	£000	£000	£000	£000	£000
East Anglia	6,407		461		6,868
East Midlands	8,473		236		8,709
Greater London	5,646		827		6,473
North East	4,534		1,559		6,093
Northern Ireland	2,825		11		2,836
North West	6,337		129		6,466
Outer Metropolitan Area	5,499		240		5,739
Outer South East	15,058		1,575		16,633
Scotland	37,335		449		37,784
South West	17,472		1,494		18,966
Wales	5,937		4,006		9,943
West Midlands	10,088		190		10,278
Yorkshire and Humberside	8,808		105		8,913
UK	**134,419**		**11,283**		**145,701**
Accounting adjustments in respect of impairment provisions and EIR					**(687)**
Society Loans and advances to customers per note 11, Annual Report and Accounts					**145,014**

3. Counterparty Credit Risk

The Society's counterparty treasury credit risk management policy is designed to ensure that the Society can obtain the best possible return whilst operating within prudent limits in respect of counterparties.

In selecting counterparties and the limits to be applied to them, the Society makes reference to Credit Ratings supplied by ECAIs, balance sheet data, and a general assessment of the counterparty in terms of background information which includes an overall ethical assessment which is updated annually or more frequently as required. This assessment includes among other matters:

- examination of the counterparties' environmental, sustainable development, biodiversity and waste management policies
- consideration of the degree of reporting on climate change
- compliance with the health and safety, environmental and labour legislation of the jurisdictions the counterparty is active in
- significant sectoral and regional exposures.

Policy Limits and counterparties are reviewed by ALCO and are subject to formal approval by the Board. The Society receives counterparty grading updates from its treasury advisors and limits may be suspended following adverse downgrades.

The table below shows the breakdown of liquid assets by maturity and rating as at 31 December 2019 under the standardised approach.

Credit Ratings	<3 months £000	3 months to 1 year £000	>1 year £000	Total £000
BBB+ to BBB-	1,667	-	-	1,667
B+ and below	807	-	-	807
Unrated	1,034	-	-	1,034
Central Government	44,533	1,494	-	46,027
Total	**48,041**	**1,494**	**-**	**49,535**

4. Mortgage Credit Risk and mitigation

Mortgages are the Society's principle asset class. Throughout the year and at each year end, assessment is made of all advances where the account is in arrears. Where expected future cash flows from borrowers are lower than the current balance outstanding, the account is considered impaired.

Allowance for impairment is reviewed annually, or when there is a material change in circumstances that could lead to increased losses in the mortgage book, such as a change in national or local economic conditions, deterioration in house prices or the trend in arrears.

In determining provisioning requirements, individual assessments are made of all advances and loans on properties that are in arrears, in possession, in forbearance and where the balance is in excess of 5% capital. An individual provision is made against those advances and loans that are considered to be impaired and a loss is likely to occur should the property be taken into possession, with account taken of any discount which may be needed against the value of the property to agree a sale.

At the end of December 2019 there was one case that was reported to have arrears of 2 to 3 months and a further case in forbearance that the Society has considered to be impaired. There were no properties in repossession.

In addition, a collective provision is made to cover potential losses which might arise due to unknown factors based on general economic conditions and the Society's previous experience of impairment.

Full details on the movements in collective and individual provisions are provided in Note 12 in the Annual Report and Accounts 2019. Further detail about the credit quality and the Loan to value of the mortgage book is in Note 24.

A residual maturity analysis of loans and advances to customers is provided in Note 11 of the Annual Report and Accounts, disclosed on the basis that all loans are held for their agreed maturity.

Indexed valuations are applied to the mortgage portfolio on a quarterly basis. At the end of December 2019, the average LTV of the residential mortgage portfolio remains low at 42.93%.

5. Operational Risk capital requirement

The Society has adopted the Basic Indicator Approach for Operational Risk (CRR Article 315-316). Under the BIA, a Pillar 1 operational risk capital requirement ('ORCR') is calculated at 15% of the average over three years of the sum of the elements included in net interest income and net non-interest income, as shown in the following table:

Year ended 31 December	2017 £000	2018 £000	2019 £000	Average £000
Net interest income	3,597	3,900	4,466	3,987
Net fee and other income	34	56	(15)	25
Relevant Indicator	3,631	3,956	4,451	4,012
Operational Risk Capital Requirement				601
Risk weighted asset equivalent				7,523

6. Leverage ratio

CRD IV introduced a leverage ratio which measures the levels of Tier 1 capital against both on and off-balance sheet exposures. This controls the overall level of growth that an institution can contemplate as a backstop to those CRD IV capital ratios based on risk weightings. The leverage ratio does not distinguish between credit quality of loans and acts as a primary constraint to excessive lending in proportion to the capital base. It is therefore is not susceptible to any risks or inconsistencies associated with the calculation of risk-weighted assets.

From 1 January 2018 the regulatory minimum leverage ratio under CRD IV is 3.00%. In the UK, a higher ratio of 3.25% is required of larger firms with retail deposits in excess of £50billion.

At 31 December 2019 the Society's leverage ratio is 5.55%. The following tables show the calculation of the Leverage ratio:

Reconciliation of Leverage Ratio Exposure Measure to the Financial Statements	Total £000
Total assets per the Annual Report and Accounts	198,038
Add back: Forward commitments, after applying conversion factors	12,284
Less: Intangible fixed assets	(13)
Leverage ratio exposure	**210,309**

Split of on-balance sheet exposures	Total £000
Secured by mortgage on immovable property	145,014
Exposures in default	-
Sovereign	45,026
Institution	4,009
Other exposures	3,989
Banking book exposures	**198,038**
Trading book exposures	-
Total on-balance sheet items	**198,038**

Leverage ratio common disclosure	Total £000
On-balance sheet items	198,038
Asset amounts deducted in determining Tier 1 capital	(13)
Total on-balance sheet exposures	198,025
Total off-balance sheet exposures	12,284
Total exposures	210,309
Tier 1 capital	11,677
Leverage ratio	**5.55%**

7. Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) was introduced as part of the CRDIV framework with its aim to improve short-term resilience of the liquidity risk profile of firms by requiring a liquidity buffer of High-Quality Liquid Assets ('HQLA') to be held. The LCR measures available HQLA against stressed net cash outflows over a 30-day horizon. The measure, as defined in the CRR, must be greater than 100%.

The following table details the main components of Society's LCR, on an average basis at each quarter based on the average of the previous 12 monthly positions. The Society's actual LCR as at the reporting date of 31 December 2019 was 368%.

Liquidity Coverage Ratio	31/03/19 £000	30/06/19 £000	30/09/19 £000	31/12/19 £000
Liquidity buffer: average over previous 12 months	39,513	37,701	37,713	38,675
Total net cash outflows in 30 days: average over previous 12 months	7,961	9,281	10,352	10,801
LCR on basis of average components	496%	406%	364%	358%

8. Remuneration Code Disclosures

The Remuneration Code, as set out in the Regulator's Handbook SYSC19D, requires information to be disclosed in respect of the Society's remuneration policy and practices for those staff whose professional activities have a material impact on the Society's risk profile.

To minimise this risk the Board ensures that its remuneration policies are in line with its business strategy, risk appetite and long-term objectives, and that remuneration is set at a level that retains and attracts staff of the appropriate calibre.

The Remuneration Committee ensures that the Society's Remuneration Policy is consistent with the risk appetite of the Society, that it promotes sound and effective risk management and will not encourage any excessive risk taking. This will be done by ensuring that no members of staff receive rewards for the achievement of quantitative targets for the amount of business written.

The remuneration of non-executive, executive directors and other members of senior management is determined by the Remuneration Committee, which consists of three Non-Executive directors, details of whom are set out in the Annual Report and Accounts.

In setting remuneration, the Committee takes account of fees, salaries and other benefits provided to directors and to other senior management of comparable institutions that are similar in size and complexity. Non-executive directors are paid fees only.

The Society has an established policy that no basic salary will exceed eight times the lowest full grade salary. At the end of December 2019, the ratio was 6.14 (2018: 5.44). The increase in the ratio is a direct result of the Executive Directors buy out from the performance related pay scheme.

All employees including executive directors have previously been included in the Performance Related Pay Scheme after a qualifying period of six months. This is an annual scheme that provides non-pensionable rewards directly linked to the achievement of key performance objectives aimed at personal and professional development. The overall objective is to improve Society performance whilst maintaining the financial strength of the Society for the long-term benefit of its members. Effective from 1 April 2019 Executive Directors no longer participate in this scheme.

8.1 Remuneration Code Staff

Code staff are defined by the FCA as "staff that have a material impact on the firms risk profile; this includes staff that perform significant influence functions, Senior Managers and risk takers".

Information concerning the mandate of the Remuneration Committee and the decision-making process it uses in determining the remuneration policy for executive, and non-executive, directors is contained in the Society's Annual Report and Accounts 2019.

The Board has identified that the personnel whose professional activities have a material impact on the Society's risk profile are the members of the Executive team. Two of the four members of the Executive team, the Chief Executive and the Finance Director are executive directors. The above personnel are considered by the Society to be Remuneration Code staff under SYSC 19D of the PRA Handbook.

	Number	Fixed remuneration £000	Variable remuneration £000	Total remuneration £000
Executive	4	357	16	373
Senior Managers	3	144	6	150
Non-Executive Directors	7	116	0	116

Fees paid to Non-Executive Directors include those paid direct to Walker Morris LLP for the services of Louise Power, who retired during the year. On Louise's request, Walker Morris LLP kindly gifted the final remuneration to the Ecology Building Society Charitable Foundation.

Fixed Remuneration for the Executive Directors and Senior Managers includes pension contributions paid by the Society and the value of any taxable benefits.

9. Country-by country disclosures

CRD IV introduced a requirement for country-by-country reporting. The objective of this is to provide increased transparency regarding the source of the financial institution's income and the location of its operations. This information can be found in Note 27 of the Annual Report and Accounts.

10. Contacts

Should you have any questions please contact Amanda Chambers, Finance Director at amanda.chambers@ecology.co.uk