CAPITAL REQUIREMENTS DIRECTIVE

Pillar 3 Disclosures

For the year ended 31 December 2020

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1. Overview

1.1 Introduction

The Society operates under a supervisory framework enforced in the UK by the Prudential Regulation Authority (PRA). The global standards for capital adequacy set under the Basel Accords are transposed in European Union (EU) law into the Capital Requirements Directive (CRD), which largely continues to be observed under the terms of the Withdrawal agreement for the UK leaving the EU. 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 2: is an assessment of any 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 3: requires disclosure of key information on the Society's capital adequacy, risk exposures and risk management processes, as published in this document. Pillar 3 also provides details of the remuneration of certain colleagues 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 2020, 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 capital requirements regulations 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) and the Head of Risk and Compliance oversee 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 at least quarterly to the Board on the Committee's deliberations.

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.

2.1.1 Three Lines of Defence

Whilst the Board of Directors is ultimately accountable for the risk management framework, all colleagues 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.

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.

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 interest rate risk through its Treasury deposits and its guaranteed floor rate on savings accounts. The Society does not provide fixed-rate mortgages or savings products at the present time. Interest rate risk exposure is monitored against limits by determining the effect on the Society's current net notional value of assets and liabilities for a parallel shift in interest rates equivalent to 200 basis points (bps) or 2% for all maturities, in line with regulatory requirements. The results are measured against the risk appetite for market risk which is currently set at a maximum of 3% of reserves. The Society also monitors the value of the impact of a prescribed series of six interest rate shocks set out by the European Banking Authority. Results are reported to ALCO and the Board. More information is given in Note 25 in the Annual Report and Accounts.

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 strength 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.

The Society's lending model which requires energy efficiency improvements ensures that there is no dependence on re-mortgage business and a minority of new applications are introduced by intermediaries. 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 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.

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.

2.12 Covid19 risk

The Covid19 pandemic has brought unprecedented disruption to all aspects of life in the UK and across the world. The Society has maintained its support for sustainable building projects throughout the year despite lockdowns and the temporary closure of the housing market for part of the year. Colleagues rapidly transitioned to home working and the service to our members has continued throughout.

Stress scenarios relating to Covid-19 have been considered in ALCO reports throughout the year and in the ICAAP. The stress metrics include the effects of continued low (or negative) base rate and of potential increases in unemployment and affordability.

2.13 Climate change risk

The Society has long recognised the risks around climate change and its very ethos is to support green initiatives and take a leading role in the provision of ecological lending. We aim to be at the forefront of UK and world initiatives for global sustainability.

Regulatory recognition has been outlined in the PRA's Supervisory Statement 3/19 which identifies two primary channels driving the financial risks from climate change. Firstly, there are physical risks, e.g., from heatwaves, flooding, wildfires, and storms, which could impact the value of mortgage security as well as increasing costs of insurance. Secondly, there are transitional risks in the adjustment to a low carbon

economy. In these matters the Society is well placed, having since inception chosen strategies that promote its environmental mission.

The Strategic Report in the Annual Report & Accounts gives full details on the Society's commitment to reducing the emissions arising from its activities. For the first time, we have calculated the carbon emissions from our sustainable lending. We have used the new Global Greenhouse Gas Accounting and Reporting Standard launched in November 2020 by the Partnership for Carbon Accounting Financials (PCAF). The carbon accounts will underlie the setting of science-based targets up to 2030. The Report includes details of emissions from the Society's mortgaged residential properties, being the largest source, and those arising from business operations. The EPC data for our mortgaged properties is also disclosed and shows that 67% of Ecology properties achieve Energy Efficiency rating of A or B, well above the average rating of EPC D from the English Housing Survey 2019-20. Those properties that have lower EPC scores are generally in the process of renovation and will achieve a much higher energy rating by the time the works are complete.

The Strategic Report also gives details of the Society's various initiatives for both short term and longer term action on climate change.

3. Capital Resources

3.1 Regulatory Capital

The table below summarises the composition of the Society's regulatory capital for the Society as at 31 December 2020, together with prior year comparatives.

Capital resources	As at 31/12/2020 £000	As at 31/12/2019 £000
Tier 1 Capital		
General reserves	12,214	11,690
Deduction (Intangible assets - IT software)	(108)	(13)
Core Capital Deferred Shares	3,000	-
Core Capital Deferred Shares issue costs	(109)	-
Total Tier 1 Capital	14,997	11,677
Tier 2 Capital		
Collective impairment allowance	268	183
Total Tier 2 Capital	268	183
Total capital resources	15,265	11,860
CET1 Ratio – regulatory minimum 4.5%	18.1%	15.5%
Total Capital Ratio – regulatory minimum 8%	18.4%	15.8%

Common Equity Tier 1 capital

This comprises:

- the general reserves of the Society and represent the accumulated after-tax profits of the Society fewer intangible assets, plus,
- Core Capital Deferred Shares (CCDS) issued in September 2020. CCDS are a form of CET 1 capital, developed to enable the Society to raise capital from external investors. Distributions to the holders of CCDS are at the sole and absolute discretion (subject to applicable law and regulation) of the Board of Directors, save that the amount that can be paid to the holders of CCDS in any financial year is subject to the cap on Distributions under the Society's Rules. More information is given in Note 27 to the Annual Report and Accounts.

Tier 2 capital

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 levels of profits and capital are sufficient to underpin the Society's growth based on existing capital requirements.

3.2 Capital Requirements

3.2.1 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, to support the business's expected growth potential, concomitant with its risk appetite and its assessments of current and future material risks over the three-year period to 2023. The Society's Corporate Plan is reviewed at least annually by the Board, taking account of changes in the business and economic environment. 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.

3.2.2 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 in the CRD. 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 2020:

	Assets £000	Risk Weighted Exposure £000	Pillar 1 capital £000
Treasury			
Central Government	51,780	-	-
Credit Institutions	13,050	3,512	281
Total Liquidity	**64,830**	**3,512**	**281**
Loans and advances to customers*			
Residential performing loans	182,390	56,606	4,528
Non-residential performing loans	14,819	12,594	1,008
Past due items**	-	-	-
Total Loans and advances to customers	**197,209**	**69,200**	**5,536**
Other Assets			
Fixed and other assets	2,248	2,296	184
Total Other Assets	**2,248**	**2,296**	**184**
Total Credit Risk Exposures	**264,287**	**75,008**	**6,001**
Operational Risk Capital Requirement		7,912	633
Total Pillar 1 Capital Requirement		**82,920**	**6,634**
Tier 1 Capital			**14,997**
Excess over Pillar 1 minimum			**8,363**

*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	**158,689**
Add back: Collective and Individual impairment provisions	629
Society accounting value of loans and advances to customers	**159,318**
Add: total commitments for residential and non-residential mortgages	38,124
Accounting adjustments, including Effective Interest Rate (EIR) adjustment	(233)
Society capital adequacy value of loans and advances to customers	**197,209**

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

Geographical Area	Residential Performing (£'000)	Residential Past Due (£'000)	Non-Residential Performing (£'000)	Non-Residential Past Due (£'000)	Total
East Anglia	6,534		356		6,890
East Midlands	9,346		219		9,565
Greater London	5,705		579		6,284
North	5,405		1,547		6,952
Northern Ireland	4,880		10		4,890
North West	7,004		118		7,122
Outer Metropolitan Area	4,482		228		4,710
Outer South East	18,018		1,483		19,501
Scotland	42,660		461		43,121
South West	18,539		1,287		19,826
Wales	5,455		3,969		9,424
West Midlands	10,899		176		11,075
Yorkshire and Humberside	9,907		179		10,086
UK	**148,834**	**-**	**10,612**	**-**	**159,446**
Accounting adjustments in respect of impairment provisions and EIR					**(757)**
Society Loans and advances to customers per note 11, Annual Report and Accounts					**158,689**

3.2.3 Pillar 2 capital requirements

Pillar 2 capital requirements comprise those for Pillar 2A risks, which are those not fully covered by, or not addressed by, Pillar 1 and those for Pillar 2B, which represents buffers against risks which may arise over the planning horizon. These are fully assessed in the Society's ICAAP.

The Society's Total Capital Requirement (TCR) comprises capital required for Pillar 1 and Pillar 2A and is equivalent to 9.0% of Risk Weighted Assets, plus a static add-on of £151,000. The Society can comfortably meet this requirement with CET 1 capital. The PRA requires firms to meet Pillar 2A with at least 56.25% CET1 capital.

3.2.4 Capital buffers

In addition to the TCR, the Society is required to have regard to the following buffers:

- PRA buffer: A firm-specific buffer assigned by the PRA.
- Capital Conservation Buffer (CCB): set in the CRD and used to absorb losses in periods of economic and financial stress. The CCB is 2.5% of RWAs.

- Countercyclical Buffer (CCyB): Set by the Bank of England within a range of 0% to 2.5%. The CCyB is increased during periods of financial growth to build up buffers which may be used in economic downturns. The CCyB for the UK was set at 0% in March 2020 in response to the Covid19 pandemic (previously 1.0%). The CCyB in respect of the Society's small exposure to an investment in Luxembourg is at 0.25% of the relevant RWA, increasing to 0.50% in 2021.
- Systematic Risk Buffer: applies only for larger firms whose activities influence at a systemic level. This is set at 0% for firms with total assets under £175 billion.

4. 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 2020 under the standardised approach:

Credit Ratings	<3 months £000	3 months to 1 year £000	>1 year £000	Total £000
A-	2,379	3,007	-	5,386
B-	4,110	-	-	4,110
Unrated	551	3,003	-	3,554
Central Government	50,780	1,000	-	51,780
Total	**57,820**	**7,010**	**-**	**64,830**

5. Mortgage Credit Risk and mitigation

Mortgages are the Society's principal 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.

As at 31 December 2020, there were no cases in possession, or 12 months or more in arrears.

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 2020. Further detail about the credit quality and the loan-to-value ratio of the mortgage book is in Note 25.

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 2020, the average LTV of the residential mortgage portfolio remains low at 42.75%.

6. Operational Risk capital requirement

As outlined in Section 2.3 the Society has adopted the Basic Indicator Approach (BIA) for Operational Risk as permitted in CRD. 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	2018 £000	2019 £000	2020 £000	Average £000
Net interest income	3,900	4,466	4,323	4,230
Net fee and other income	56	(15)	(74)	(11)
Relevant Indicator	3,956	4,451	4,249	4,219
Operational Risk Capital Requirement				633
Risk weighted asset equivalent				7,912

7. Leverage ratio

The leverage ratio expresses Tier 1 capital as a percentage of total assets plus mortgage impairments and a proportion of mortgage pipeline commitments. This controls the overall level of growth that an institution can contemplate as a backstop to 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 not susceptible to any risks or inconsistencies associated with the calculation of risk-weighted assets.

The regulatory minimum leverage ratio under CRD is 3.25%.

At 31 December 2020, the Society's leverage ratio is 6.23%. 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	226,029
Add back: Forward commitments, after applying conversion factors	14,638
Less: Intangible fixed assets	(108)
Leverage ratio exposure	**240,559**

Split of on-balance sheet exposures	Total £'000
Secured by mortgage on immovable property	158,689
Exposures in default	-
Sovereign	50,780
Institution	14,050
Other exposures	2,510
Banking book exposures	**226,029**
Trading book exposures	**-**
Total on-balance sheet items	**226,029**

Leverage ratio common disclosure	Total £'000
On-balance sheet items	226,029
Asset amounts deducted in determining Tier 1 capital	(108)
Total on-balance sheet exposures	225,921
Total off-balance sheet exposures	14,638
Total exposures	**240,559**
Tier 1 capital	**14,997**
Leverage ratio	**6.23%**

8. Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) was introduced as part of the CRD 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 regulations, 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 2020 was 437%.

Liquidity Coverage Ratio	31/03/20 £000	30/06/20 £000	30/09/20 £000	31/12/20 £000
Liquidity buffer: average over previous 12 months	41,241	45,086	48,088	50,186
Total net cash outflows in 30 days: average over previous 12 months	11,180	11,049	11,029	10,883
LCR on basis of average components	369%	408%	436%	461%

The Society also monitors its Net Stable Funding Ratio (NSFR) in accordance with regulatory guidance. The NSFR at 31 December 2020 was 192% (2019: 187%); well in excess of the regulatory minimum of 100%.

9. Remuneration Code Disclosures

The Remuneration Code, as set out in the Regulator's Handbook SYSC 19D, requires information to be disclosed in respect of the Society's remuneration policy and practices for those colleagues 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 2020, the ratio was 6.58:1 (2019: 6.14:1). 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. Executive Directors' pay no longer includes a variable element based on the Society's annual profit performance to support the focus of a measure of their performance being over a medium to long term time horizon.

9.1 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 2020.

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. As at 31 December 2020, two of the 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 *	5	494	5	499
Senior Managers	2	109	2	111
Non-Executive Directors	7	131	-	131

**Of the five Executive members, the two Executive Directors do not receive any variable remuneration.*

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

10. Country-by country disclosures

The CRD 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 29 of the Annual Report and Accounts.

11. Contacts

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