Ecology
Building Society

CAPITAL REQUIREMENTS DIRECTIVE

Pillar 3 Disclosures

For the year ended 31 December 2021

Building a greener society

Contents

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 set out in the Capital Requirements Directive IV (CRD IV), which is implemented in the PRA rulebook, and in the Capital Requirements Regulation (CRR) which is directly applicable, without implementation in national legislation. The capital requirements legislation sets out the rules that determine the amount of capital institutions must hold 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 net interest, after adjusting for other operating income and charges, 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 2021, 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's 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.

The Society continues to develop its disclosures to ensure that they are as clear and informative as possible. 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. There is a formal structure for identifying reporting, monitoring, and managing risks. This comprises, at its highest level, risk appetite statements which are set and approved by the Board and are supported by granular risk appetite measures across the principal risk categories. This is underpinned by a Risk Management Framework (RMF) which sets out the high-level policy, standards, roles, responsibilities, governance, and oversight for the management of all principal risks.

2.1.1 Board Declaration on Adequacy of Risk Management Arrangements

The three-year Corporate Plan is approved by the Board and is re-examined at each ALCO based on the most recent re-forecast. The capital position is closely monitored over the period of the plan and in the light of downside stress considerations. The Society's ICAAP provides reassurance as to the adequacy of capital in both forecast and stress conditions. The Board's Risk Management Framework defines risk appetites for each major category of risk and monitoring of key metrics is undertaken to observe these limits.

The Board can therefore confirm that, in its opinion, there is adequate capital to meet the current capital resources requirements and that this will continue over the period of the Corporate Plan.

2.1.2 Key metrics

The key metrics as at 31 December are stated in the following table:

Key Metrics	As at 31/12/2021 £000	As at 31/12/2020 £000
Available Capital		
Common Equity Tier 1 (CET1)	15,698	14,997
Tier 2	222	268
Total Regulatory Capital	**15,920**	**15,265**
Total Risk Weighted Assets (RWA)	**102,460**	**82,920**
Capital ratios (as a percentage of RWAs)		
Common Equity Tier 1 ratio (%)	15.3%	18.1%
Tier 1 ratio (%)	15.3%	18.1%
Total capital ratio (%)	15.5%	18.4%
Additional CET1 Buffer requirements as a % of RWAs		
Capital conservation buffer requirement	2.5%	2.5%
Countercyclical buffer requirement	0.0%	0.0%
Total CET1 specific buffer requirements	**2.5%**	**2.5%**
Leverage ratio		
Leverage ratio exposure measure £'000	277,513	240,559
Leverage ratio	**5.66%**	**6.23%**
Liquidity Coverage Ratio		
Total liquid buffer	48,869	50,474
Total net cash outflows	19,083	11,549
Liquidity coverage ratio	**256%**	**437%**
Net stable funding ratio	**181%**	**192%**

2.1.3 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

The Executive, Management, and colleague body of the Society. Their day-to-day responsibilities include identification and management of the risks facing the Society. The management of risk is a shared responsibility at all levels of the Society with the risk appetite expressed in terms which are readily understood throughout the business; the risk management framework and management information providing the mechanism to achieve that in practice.

Second Line of Defence

The Society's Risk & Compliance function. The Head of Risk and Compliance holds day-to-day responsibilities for risk oversight, monitoring that there is an appropriate risk management framework embedded in the Society by way of development of risk policy (including standards and limits) along with oversight of the mechanism for monitoring compliance with those policies' standards and limits. In addition, the CRO provides leadership in the development and implementation of risk management techniques in line with regulatory expectations and 'best practice'.

Third Line of Defence

The Society's internal auditors and other independent assurance providers, in addition, the Society is subject to external audit. They are responsible for risk assurance from undertaking independent assessments of the effectiveness of the Society's control framework. The scope and coverage of the internal audit activity is determined by the Risk, Audit, Compliance and Ethics committee (RACE) who commission and receive the reports from that activity.

Through its normal business operations, the Society is exposed to a number of risks, the most significant of which are strategic, credit, (including credit concentration risk), liquidity and funding, interest rate, capital, operational (including people risks, financial crime, technology, and regulatory change), ethics risk and risks from climate change. The Society has a formal structure for managing these risks including established risk limits, reporting lines, mandates, and other control procedures. A fuller description of each of these risks, the key themes for the Society, mitigating actions and emerging risks within the themes are all included in the Directors' Report on pages 38 to 44 of the 2021 Annual Report & Accounts.

2.1.4 Stress testing

The Society uses stress testing to give reassurance as to the resilience of the business model with regard to severe but plausible stresses of both capital and liquidity. The policy on stress testing and model risk seeks to ensure that the Society's stress testing is appropriate to the Board's risk appetite, proportionate and fit for purpose. Stress testing is included in the ICAAP, ILAAP, Recovery Plan and in periodic reports to ALCO as required.

2.2 Strategic risk

Strategic risk is the current and prospective impact on cash resources, earnings or capital arising from adverse business decisions, improper implementation of business decisions or lack of responsiveness to changes in the industry or the external environment. The Society manages this risk through its process of business, capital, and liquidity planning, including stress testing of adverse economic and interest rate scenarios.

2.3 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.

Managing the profile of the lending on new and existing customers, both residential and commercial, is key to the ongoing management of the Society's exposure to credit risk. This involves the continual optimisation of its strategies across all products, using both internal and external performance data, as well as ensuring the appropriate oversight of their performance. The risk of loss arising from mortgage and commercial lending has heightened during the year due to the Covid-19 pandemic. However, the Society manages this risk through a comprehensive analysis of both the creditworthiness of the borrower and the proposed security. The Society has placed funds with a wider range of carefully selected counterparties during the year to improve return and is therefore exposed to the potential risk a customer or counterparty may not be able to meet its obligations to the Society as they fall due.

An aspect of credit risk is Concentration Risk, which in the asset portfolio can arise from product type, geographical concentration and over exposure to single borrowers, investors, or counterparties. 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 within the UK.

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 new applications arise both through direct application and through trusted 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.

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

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.

2.4 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, can only do so at excessive cost, or is unable to meet regulatory prudential liquidity ratios. The Society's Board-approved liquidity policy is to maintain sufficient liquid resources to cover cash flow requirements and fluctuations in funding, to retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations as they become due.

The Society manages liquidity and funding risk through continuous monitoring of cashflow and funding requirements. The Society's Internal Liquidity Adequacy Assessment Process (ILAAP) reviews the Society's liquidity requirements and informs the policy for liquidity management.

The Society performs liquidity stress testing, based on a range of adverse scenarios, for ALCO, in the ILAAP and in the Recovery Plan. There are liquidity contingency measures included within the Society's Recovery Plan. Stressed liquidity profiles are reported to every ALCO meeting.

2.5 Interest rate risk

Interest rate risk is the risk of exposure 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 is exposed to interest rate risk through its Treasury deposits and its guaranteed floor rate on certain 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 24 in the Annual Report and Accounts.

2.6 Capital risk

Capital risk is the risk that the Society fails to assess and maintain the adequacy of its capital. Capital adequacy is assessed through the Internal Capital Adequacy Assessment Process (ICAAP). Scenario analysis and stress testing is performed on key business risks to assist the Board in assessing whether the Society could survive a severe economic downturn and other severe business shocks.

2.7 Operational risk

Operational risk is the risk of a loss arising from failed or inadequate internal processes, people, or systems, or from external events, including legal and financial crime risk.

The Society manages its operational risks through internal controls, and various risk mitigation techniques, such as insurance and business continuity planning. The development of Business Continuity Management, Cyber Resilience and Outsourcing frameworks are all ongoing and will continue to be enhanced during 2022. In respect of IT risks, a robust programme of independent security testing is undertaken to validate the Society's defences and to ensure that cyber controls evolve in line with the ever-changing threat landscape, in line with best practice.

An element of operational risk is compliance with legal and regulatory requirements. The Society's internal compliance function addresses the need to understand, interpret, implement, and comply with regulations. This is overseen by the RACE Committee and ensures that the Society has the resources to deal with the volume and complexity of regulatory change.

For operational risk capital requirements, the Society has adopted the Basic Indicator Approach (BIA) to operational risk which is expressed as a 15% 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.

2.8 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 Ethics risk

Ethics Risk is the risk of delivering poor or inappropriate outcomes for customers / members, giving rise to financial loss and reputational damage. Ethics risk incorporates the Society's oversight and management of conduct risk, including the FCA's Consumer Duty of Care.

The Society considers conduct risk to be a sub-set of wider ethical considerations and therefore maintains an overarching ethics risk framework, to ensure that good customer outcomes are embedded in the Society's culture.

2.10 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.

2.11 Climate change risk

Climate risk means a risk resulting from climate change and affecting natural and human systems and regions. It may lead to systemic changes in public policy as society moves to a low-carbon economy and the transition to net-zero emissions which may affect the ability of Ecology to deliver its services or affect the mortgage assets of the Society.

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. Our operations and lending seek to be part of the solution, ensuring housing is built to a high ecological standard and supporting renovation to reduce energy demand.

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:

Physical risk represents the physical consequences of climate change on natural and human systems, e.g., heatwaves, flooding, wildfires, and storms, which can cause damage to assets, changes in individuals' health and incomes, and business disruption, driving financial losses and impaired asset values.

Transitional risk 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 Society addresses both physical and transition risk through its lending policy and works with its borrowers to further understand the risks and to be able to adapt properties to be more resilient to climate change. The lending model is fully focussed on generating ecological benefit, in terms of saving energy or other scarce resources, or supporting sustainable communities. The Society's mortgages fund the purchase or construction of new homes and community buildings built to high standards of energy performance, and the renovation or conversion of existing buildings, to improve their energy efficiency and to bring them back into use.

The physical risks from climate change are assessed for new mortgage applications, taking account of the risk of flooding, subsidence, and coastal erosion to inform the potential impact on future property value. The Society does not lend on properties that would be unable to obtain insurance under standard conditions at the present time. A project to assess the future physical risks of climate change is underway through a new consultancy arrangement, and this will be embedded into the credit assessment process.

Climate risk impacts upon strategic, reputational, credit, financial and operational risks, and is therefore a key responsibility for all members of the Risk and Compliance Team, Mortgage Team, Community and Business Lending Team and Finance Team. Operating procedures incorporate assessment, management, and mitigation of climate risk. The Society established a dedicated Climate Risk Working Group in 2021.

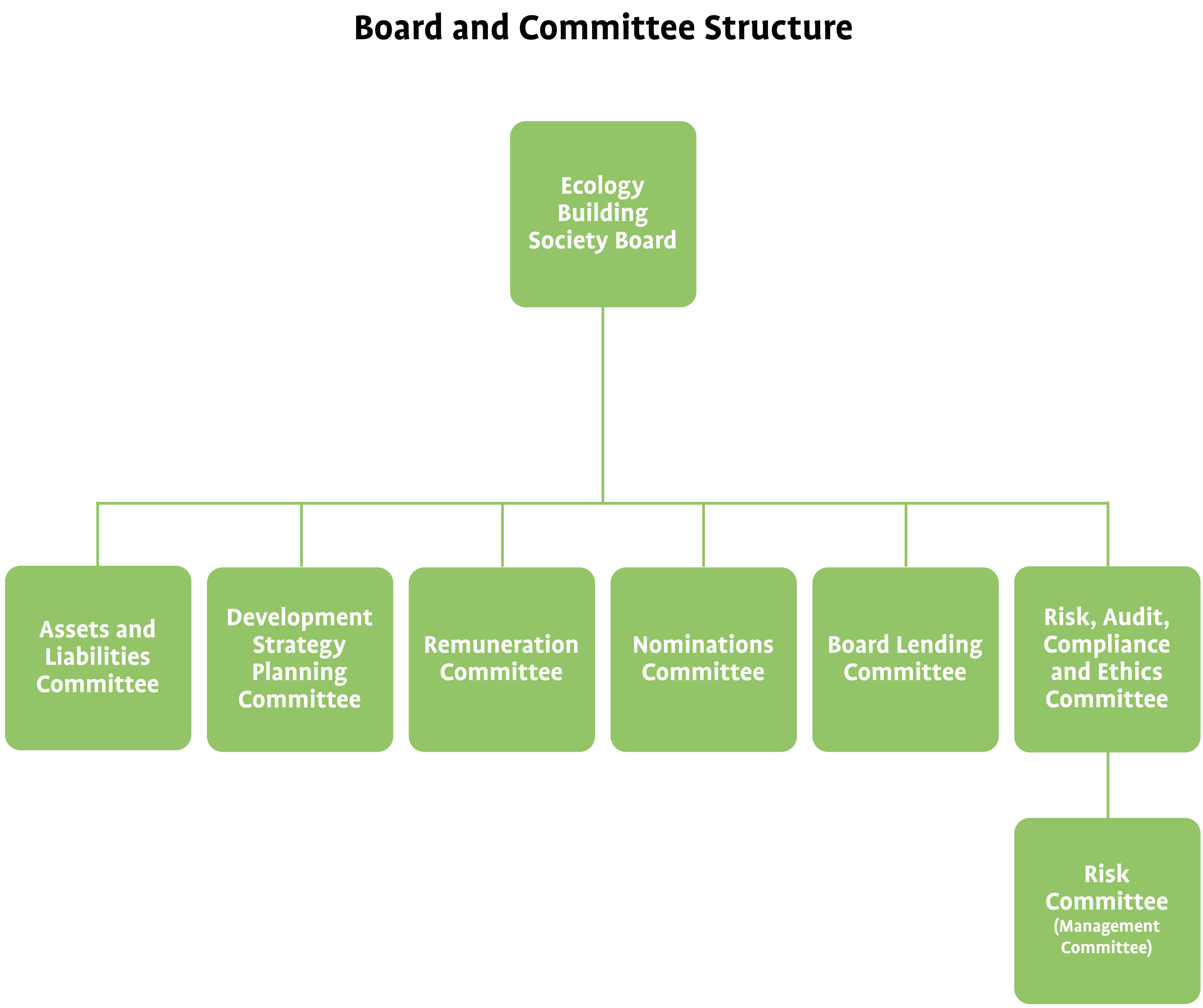
Our 2030 strategy, launched in November 2021 with the input of many members, sets out the Society's ambitions for a sustainable future.

The Strategic Report in the Annual Report and Accounts gives full and comprehensive details of the Society's various initiatives for both short term and longer-term action on climate change and to support its commitment to net zero by 2050 or sooner.

2.12 Risk Governance Structure

The Board is ultimately responsible for setting risk appetites, approving key risk policies, and establishing an effective risk management framework and systems of control.

The Board and Committee structure is illustrated below:



At 31 December 2021 the Board consisted of two executive directors and seven non-executive directors. Their relevant experience is noted in the Society's Annual Review for 31 December 2021. Details of their other directorship are given in the Annual Business Statement in the Annual Report and Accounts.

The functions, responsibilities and constitutions of the Board and the Board Committees is set out in the Corporate Governance Report in the Annual Report and Accounts.

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 2021, together with prior year comparatives.

Capital resources	As at 31/12/2021 £000	As at 31/12/2020 £000
Tier 1 Capital		
General reserves	12,907	12,214
Deduction (Intangible assets - IT software)	(100)	(108)
Core Capital Deferred Shares	3,000	3,000
Core Capital Deferred Shares issue costs	(109)	(109)
Total Tier 1 Capital	**15,698**	**14,997**
Tier 2 Capital		
Collective impairment allowance	222	268
Total Tier 2 Capital	**222**	**268**
Total capital resources	**15,920**	**15,265**
CET1 Ratio – regulatory minimum 4.5%	**15.3%**	**18.1%**
Total Capital Ratio – regulatory minimum 8%	**15.5%**	**18.4%**

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 the Capital Instruments main features template (as prescribed by EU Regulation 1423/2013) at Appendix A and in Note 26 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 2024. 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 2021:

	Assets £000	Risk Weighted Exposure £000	Pillar 1 capital £000
Treasury			
Central Government	50,230	-	-
Credit Institutions	9,551	2,661	213
Total Liquidity	**59,781**	**2,661**	**213**
Loans and advances to customers*			
Residential performing loans	225,667	69,786	5,583
Non-residential performing loans	22,134	19,090	1,527
Past due items**	195	195	16
Total Loans and advances to customers	**247,996**	**89,071**	**7,126**
Other Assets			
Fixed and other assets	2,054	2,109	168
Total Other Assets	**2,054**	**2,109**	**168**
Total Credit Risk Exposures	**309,831**	**93,841**	**7,507**
Operational Risk Capital Requirement		8,619	689
Total Pillar 1 Capital Requirement		**102,460**	**8,196**
Tier 1 Capital			**15,698**
Excess over Pillar 1 minimum			**7,502**

*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	**194,069**
Add back: Collective and Individual impairment provisions	527
Society accounting value of loans and advances to customers	**194,596**
Add: total commitments for residential and non-residential mortgages	53,490
Accounting adjustments, including Effective Interest Rate (EIR) adjustment	(90)
Society capital adequacy value of loans and advances to customers	**247,996**

The table below provides a geographical analysis of loan and advance exposures. The "Past Due" amounts relate to the total mortgage balances with arrears in excess of three months, not the amount of the arrears.

	Residential		Non-Residential		
Geographical area	**Performing £000**	**Past Due £000**	**Performing £000**	**Past Due £000**	**Total £000**
East Anglia	8,171	-	76	-	8,247
East Midlands	9,621	-	150	-	9,771
North	6,282	-	1,475	-	7,757
Northern Ireland	10,462	-	40	-	10,502
North West	8,173	-	54	-	8,227
London & South East	35,774	-	1,528	-	37,302
Scotland	51,616	-	434	-	52,050
South West	24,492	112	1,482	-	26,086
Wales	6,420	-	3,743	-	10,163
West Midlands	12,013	83	103	-	12,199
Yorkshire and Humberside	12,307	-	201	-	12,508
UK	**185,331**	**195**	**9,286**	**-**	**194,812**
Accounting adjustments in respect of impairment provisions and EIR					**(743)**
Society Loans and advances to customers per note 11, Annual Report and Accounts					**194,069**

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%) and will increase to 1% from 13 December 2022. The CCyB in respect of the Society's small exposure to an investment in Luxembourg is 0.50%.

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 2021 under the standardised approach:

Credit Ratings	<3 months £000	3 months to 1 year £000	>1 year £000	Total £000
A-	1,389	2,504	-	3,893
B-	2,645	-	-	2,645
Unrated	511	2,502	-	3,013
Central Government	47,230	3,000	-	50,230
Total	**51,775**	**8,006**	**-**	**59,781**

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 2021, 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 2021. Further detail about the credit quality and the loan-to-value ratio 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 2021, the average LTV of the residential mortgage portfolio remains low at 42.18%.

6. Operational Risk capital requirement

As outlined in Section 2.7 the Society has adopted the Basic Indicator Approach (BIA) for Operational Risk. 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	2019 £000	2020 £000	2021 £000	Average £000
Net interest income	4,466	4,323	5,171	
Net fee and other income	(15)	(74)	(82)	
Relevant Indicator	**4,451**	**4,249**	**5,089**	**4,597**
Operational Risk Capital Requirement				**689**
Risk weighted asset equivalent				**8,619**

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 for firms within the UK Leverage Framework Regime (with deposit levels above £50million) is 3.25%. Although below the threshold, the Society also observes 3.25% minimum leverage ratio as its risk appetite.

At 31 December 2021, the Society's leverage ratio is 5.66%. 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	256,254
Add back: Forward commitments, after applying conversion factors	21,359
Less: Intangible fixed assets	(100)
Leverage ratio exposure	**277,513**

Split of on-balance sheet exposures	**Total £000**
Secured by mortgage on immovable property	193,874
Exposures in default	195
Sovereign	50,230
Institution	9,551
Other exposures	2,404
Banking book exposures	**256,254**
Trading book exposures	-
Total on-balance sheet items	**256,254**

Leverage ratio common disclosure	**Total £000**
On-balance sheet items	256,254
Asset amounts deducted in determining Tier 1 capital	(100)
Total on-balance sheet exposures	256,154
Total off-balance sheet exposures	21,359
Total exposures	**277,513**
Tier 1 capital	**15,698**
Leverage ratio	**5.66%**

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 2021 was 256%.

Liquidity Coverage Ratio	31/03/2021 £000	30/06/2021 £000	30/09/2021 £000	31/12/2021 £000
Liquidity buffer: average over previous 12 months	51,850	52,954	53,720	53,601
Total net cash outflows in 30 days: average over previous 12 months	11,300	12,813	13,920	16,069
LCR on basis of average components	459%	413%	386%	334%

The Society also monitors its Net Stable Funding Ratio (NSFR) in accordance with regulatory guidance. The NSFR at 31 December 2021 was 181% (2020: 192%); 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 2021, the ratio was 6.7: 1 (2020: 6.6: 1).

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 2021.

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 2021, 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	480	7	**487**
Senior Managers	2	95	3	**98**
Non-Executive Directors	7	129	-	**129**

**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 28 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**

Appendix A: Capital Instrument main features

Capital Instruments main features template		
1	Issuer	Ecology Building Society
2	Unique identifier (e. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: GB00BMF63R48
3	Governing law(s) of the instrument	English
Regulatory treatment		
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	CCDS
8	Amount recognised in regulatory capital (as of most recent reporting date)	£3,000,000
9	Nominal amount of instrument	£3,000,000
9a	Issue price	£1
9b	Redemption price	£1
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	15 September 2020
12	Perpetual or dated	Perpetual
13	Original maturity date	No
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	Variable
18	Coupon rate and any related index	None
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary, or mandatory (in terms of timing)	Fully discretionary

Continued overleaf

Appendix A: Capital Instrument main features – *continued*

20b	Fully discretionary, partially discretionary, or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory, or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Non contractual statutory via bail-in or capital write-down
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	AT1
36	Non-compliant transitioned features	None
37	If yes, specify non-compliant features	

Appendix B: Own funds disclosure template

Own funds disclosure template		**£000**
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	2,891
2	Retained earnings	12,907
3	Common Equity Tier 1 (CET1) capital before regulatory adjustments	15,798
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	Intangible assets (net of related tax liability) (negative amount)	(100)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(100)
29	Common Equity Tier 1 (CET1) capital	15,698
Additional Tier 1 (AT1) capital: instruments		
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0
Additional Tier 1 (AT1) capital: regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0
44	Additional Tier 1 (AT1) capital	0
45	Tier 1 capital (T1 = CET1 + AT1)	15,698
Tier 2 (T2) capital: instruments and provisions		
50	Credit risk adjustments	222
51	Tier 2 (T2) capital before regulatory adjustments	222
Tier 2 (T2) capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 (T2) capital	0
58	Tier 2 (T2) capital	222
59	Total capital (TC = T1 + T2)	15,920
60	Total risk weighted assets	102,460
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.3%
62	Tier 1 (as a percentage of total risk exposure amount)	15.3%
63	Total capital (as a percentage of total risk exposure amount)	15.5%

Continued overleaf

Appendix B: Own funds disclosure template – *continued*

64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7.0%
65	Of which: capital conservation buffer requirement	2.5%
66	Of which: countercyclical buffer requirement	0.0%
67	Of which: systematic risk buffer requirement	0.0%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%
68	Common Equity Tier 1 available to meet buffers* (as a percentage of risk exposure amount) * The CET1 available to meet buffers is after allowing for a TCR of 9.15% (2020: 9.18%)	6.2%
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	222
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	1,281

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