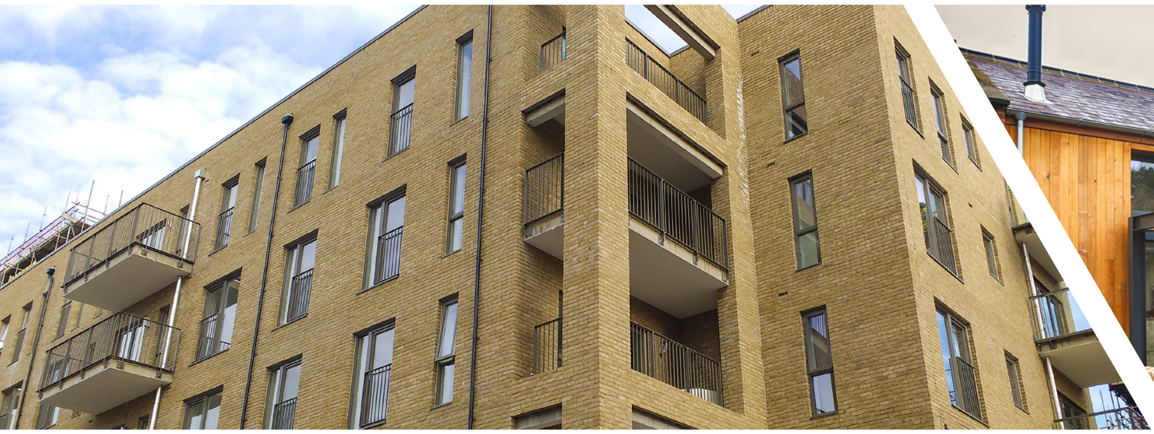
Ecology
Building Society



Annual Report & Accounts

31 December 2016

Contents

Society Information

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Chair's Statement

I am delighted to welcome you to my second Annual Report as the Chair of your Society.

We began 2016 with cautious optimism that the world was moving towards a low carbon future following the successful outcome of the COP21 Paris Climate Change conference. However the year brought a rapid shift in the global consensus with the growth of populism and anti-establishment sentiment following the UK referendum and the subsequent US election. In this changing and uncertain world I believe that the role of values driven financial services organisations, such as Ecology, has never been more important to provide a continuing progressive force for positive environmental and social change.

Against this uncertain geopolitical backdrop we have experienced an excellent year in pursuit of our environmental and social objectives while achieving another strong financial performance with more than £170m in total assets and further improved profitability. As a mutual, any surpluses we make can and should be used for the benefit of our members, those who save with us and borrow from us. Profitability enables us to continue investing to support the future growth of the Society, as we work towards our mission to build a greener society.

During the year the growth in our lending was constrained somewhat by uncertainty regarding future capital requirements which affected key aspects of our sustainable lending programme. I am delighted that this matter has now been resolved and we continue to plan for growth. In 2017 we will continue to develop a capital instrument to support more innovative lending, while maintaining our ecological commitments.

We continued to act as a disruptive innovator in the financial system, supporting a number of community-led housing projects that aim to increase the supply of affordable housing as well as lending on projects that have a positive environmental impact. I am especially proud that we have worked with the London Community Land Trust to provide pioneering mortgages for a scheme that ensures the homes are permanently affordable by linking the value of the property to average local incomes. As well as continuing to invest in energy efficiency through our sustainable lending we also made investments in renewable energy so that, as well as contributing to the long term reduction in energy demand, we are supporting the take up of clean energy sources.

As well as being your Chair, as part of my wider commitment to an inclusive financial system I helped found the Change Account, a simplified transactional account which aims to help people manage their money better. The success of the Change Account is underpinned by leading digital technologies and I am passionate about the role of digital in helping to transform access to finance. I am pleased therefore that the Board have asked me to conduct a review on a consultancy basis to identify achievable and affordable options for the Society to harness the power of new technologies. This will help build our capabilities and support our capacity to continue innovating and grow, while continuing to serve our members.

As we enter 2017 with renewed vigour and a continued commitment to demonstrating that long-term, socially useful finance can be sustainable in every sense of the word, on behalf of your Board and all our staff I would like to thank all our members for your continued support and engagement.

Steve Round
Chair
3 March 2017

Chief Executive's Review

During 2016, we continued to develop our capacity to support our mission of building a greener society, one aspect of which is ensuring financial sustainability. I am therefore pleased that we can once again report excellent financial results. We have maintained and improved our profitability with strong overall asset growth underpinned by record levels of savings balances. During the year, having grown strongly in 2014 and 2015, our lending was at more modest levels. However, within our lending mix, the proportion of renovation cases we financed rose which was particularly pleasing as we recognise that addressing the energy efficiency of our existing housing stock needs to be a priority alongside continuing to fund new homes with the highest energy ratings.

In the earlier part of 2016, we experienced very high levels of demand for our savings accounts and attracted record savings inflows. As the volume of savings was higher than needed to fund our lending activity, we took measures to limit the increase in funds by restricting applications for new accounts. The reduction in the Bank of England Base Rate to 0.25% added to the pressure on savings rates, which means that it remained difficult to balance the needs of savers with the need to ensure our mortgage rates are affordable.

In April, I was particularly pleased to welcome members to our AGM and Members' Meet-up at our offices in Silsden. We had so much interest from members wanting to attend the event that we had to bring in marquee to accommodate everybody. It was wonderful to see our members enjoying visiting our eco-built offices and our organic permaculture gardens as well as participating in lively and informative discussions about Ecology and our future. Later in the year it was also great to meet more members at our first ever regional Members' Meet-up which we held in Gateshead.

I would like to thank our staff for their continued support and commitment to maintaining the highest ethical standards for the operation of the Society. We hope you agree that we continue to deal with our customers and members in an open and transparent way while meeting the requirements of our environmental policy and our social commitments.

As an example of this, during the course of the year we identified an issue with the way we had applied historic home insurance premiums to some members' mortgage accounts which we felt on reflection conflicted with the information that we had provided to borrowers. Consequently, we will be returning the resultant interest so we will shortly be writing to both existing and former members who are affected with details of how we intend to remedy this and, if applicable, to compensate for any interest effectively overpaid. I would like to reassure all our members that we are confident that this was an isolated incident and we have reviewed our systems to ensure that this will not occur again.

In many ways, our lending, as highlighted in our newsletter and our website, speaks for itself and I know is what attracts most of our members to the Society. Nevertheless, we hope that our members keep a watchful eye on our financial performance and for that reason a summary of the main key performance indicators (KPIs) used by the Board along with more detailed commentary is given in the Strategic Report, along with commentary on the service we provide to our members, and our impact on the environment and community.

Sections containing commentary in ***green*** highlight our commitment to environmental responsibility and good corporate governance.

Future development of the Society

Following last year's referendum, it isn't yet clear how the UK's decision to leave the European Union will impact on many of our environmental regulations and protections, as well as whether the UK can maintain its recent leadership role in tackling climate change. So with our policy makers seemingly distracted by other matters and according a lower priority to environmental protections, it reinforces my belief that this void will need to be filled by individuals, community organisations and enlightened enterprises such as Ecology. Reducing our carbon emissions and addressing other environmental challenges remains a necessity for us all and we stand ready to play our part.

Historically, Ecology has made financial progress despite the general state of the economy and the wider political consensus. The global economy is appearing to remain resilient despite the ongoing political uncertainty caused by Brexit and the general drift to populist policies. Therefore, in 2017, we expect to be able to consolidate on the recent successive years of growth and will aim for modest increases in lending levels as we continue to focus our lending on projects which offer the greatest gains in terms of carbon reductions while supporting the real economy. Given our desire to make an impact on the energy efficiency of the existing housing stock, we will also have an increased emphasis on lending for renovation and retrofit.

As our Chair Steve Round notes, the recent positive outcome regarding the capital requirement for homes under construction allows us to be confident in making progress with our sustainable lending mission, and to continue investing time in planning to issue a new capital instrument which will help give us a firm foundation upon which to grow.

As a member owned organisation it is critical we take our members' views into account as the Society develops. In 2017 we will be taking Ecology on the road again, with our AGM and Members' Meet-up taking place in Bristol as well as trialing more regional Members' Meet-ups later in the year.

We recently launched our new improved Ecology website, with a refreshed 'look and feel' and improved accessibility for mobiles and tablets. This will help us reach a wider audience and support our growth. In order to ensure that we are making the most of the benefits that technology brings to both our members and the efficient operation of the Society, we will be reviewing our strategic approach to online and digital development during the course of the year. While many members have requested that they receive our communications by email, we remain committed to offering our members the choice to receive paper based communications.

Finally I would like to thank all our members for all your support throughout 2016 and we look forward to delivering another year of sustainable growth in 2017.

Paul Ellis
Chief Executive
3 March 2017

Strategic Report

As stated in the Memorandum adopted in 1998, the Society's principal purpose is making loans which are secured on residential property and are funded substantially by its members.

The advances shall be made in those cases which, in the opinion of the Board, are most likely to promote, encourage or support:

- ***the saving of non-renewable energy or other scarce resources***
- ***the growth of a sustainable housing stock***
- ***the development of building practices, ways of living or uses of land which have a low ecological impact***

The Memorandum also states that, in carrying out its business, the Society will promote ecological policies designed to protect or enhance the environment in accordance with the principles of sustainable development.

In relation to its lending activities, therefore, the Society requires any borrower applying for a loan to demonstrate that the purposes for which it is required are consistent with the ecological policies approved by the Board of Directors. This approach to lending is fully in keeping with the original objectives laid down by the Society when it was established in 1981.

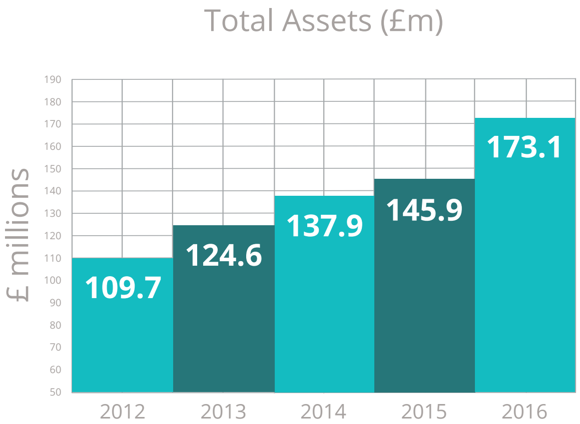
The Chief Executive's Review on pages 4 to 5 provides an overview of the Society's performance during 2016 which should be read in conjunction with this report. This section focuses on the key performance indicators which the Board reviews on a regular basis.

Key Performance Indicators

	2016	2015	2014
Total assets	**£173.1m**	£145.9m	£137.9m
Mortgage asset growth	**3.94%**	24.29%	9.92%
Mortgage lending	**£30.7m**	£42.1m	£23.1m
Savings balances	**£163.1m**	£134.7m	£129.1m
Liquid assets as a % of shares and borrowings	**31.77%**	21.83%	34.77%
Management expenses as a % of mean total assets	**1.45%**	1.46%	1.38%
Net profit	**£0.920m**	£0.881m	£0.566m
Profit after taxation as a % of mean total assets	**0.58%**	0.62%	0.43%
Core Tier 1 capital	**£8.594m**	£7.736m	£6.851m
AGM – voting turnout	**15.92%**	16.54%	15.93%

Asset growth

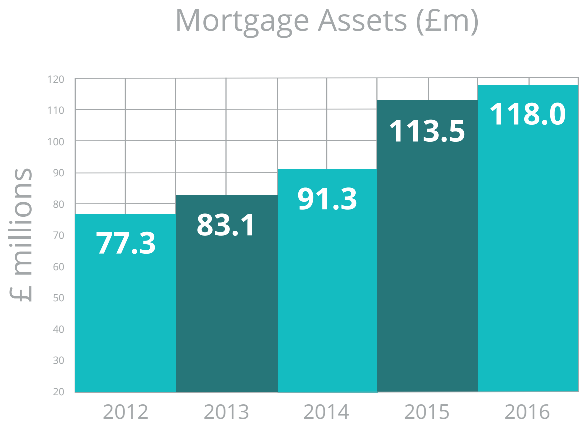
Following significant savings inflows Total Assets reached a new record level at the year-end of £173.1m, an increase of 18.59% (2015: 5.85%). An excessive level of unutilised funding represents a cost to the Society and does not contribute to its sustainable lending programme, so the Society again took actions to ensure that the level of growth would be sustainable. ***The Society does not pursue growth for its own sake, rather we view growth as a sign of our success in meeting the needs of our savers and supporting our borrowers to build, renovate or buy sustainable properties.***



Mortgages

Whilst we continued to wait for the result of the regulatory deliberations on adequate capital levels to support homes under construction, we focused our lending on those projects with the highest positive environmental impact. This resulted in modest mortgage asset growth of 3.94% (2015: 24.29%) with a reduction in levels of net lending to £12.9m (2015: £29.2m) and £30.7m Gross lending (2015: £42.1m). The greater part of our lending continued to be for new-build, aiming for higher energy efficiency ratings, and especially Passivhaus. We were also pleased to see an increase in the proportion of renovation cases, given our desire to make an impact regarding the energy efficiency of the existing housing stock. Following the Bank of England's decision to decrease the Base Rate in August 2016, we reduced our mortgage rates.

By the year-end, over 32% (2015: 26%) of loans outstanding were benefiting from one of our C-Change discounts, which reward work undertaken on the property to help combat climate change – showing that the rapid growth in 2014 – 2015 mortgage lending was not at the expense of environmental quality. As these are awarded once the works are completed, when the mortgage book is growing quickly as was the case in 2015, there tends to be a time lag before the impact of the discounts is reflected in the figures. The increase on the previous year reflects our focus, in recent years, on lending for projects such as self-build, which typically attract a C-Change discount.



At 31 December 2016, there were no cases, in possession, or 12 months or more in arrears (2015: nil). In certain circumstances the Society exercises forbearance to assist borrowers who are experiencing financial difficulty, for example, agreeing to interest only payments on a temporary basis. In each case an individual assessment is made to ensure that it is in the best interests of the borrower and the Society. At 31 December 2016, there were 16 cases (2015: 11) under forbearance with total balances of £2.690m (2015: £2.268m) and arrears totaling £204 (2015: £0).

Total provisions against possible mortgage losses increased to £662,000 (2015: £402,000), which includes two cases which are not in arrears but where Society management are working with our borrowers to navigate difficult operating conditions.

Savings and liquidity

Savings balances grew by 21.0% by the end of 2016, reaching £163.1m (up from £134.7m at the end of the previous year). In the earlier part of 2016 we attracted unprecedented levels of savings from new and existing members.

However the volume of savings became higher than was sustainable to support our lending so we took the decision to stop accepting applications for new savings accounts in order to limit the increase in funds as far as possible to ensure that liquidity did not rise further. At the year-end liquidity levels were at a significantly higher level of 31.77% (2015: 21.83%). ***We aim to restrict the amount of funding that is not lent out to ensure that the majority of savers' funds are creating value in the real economy. We see our role as providing a savings service for those who wish to invest in pursuit of social and environmental goals, preferring where possible to source our funds for lending direct from individuals and community groups supportive of our mission, rather than taking in wholesale money from other financial institutions.***

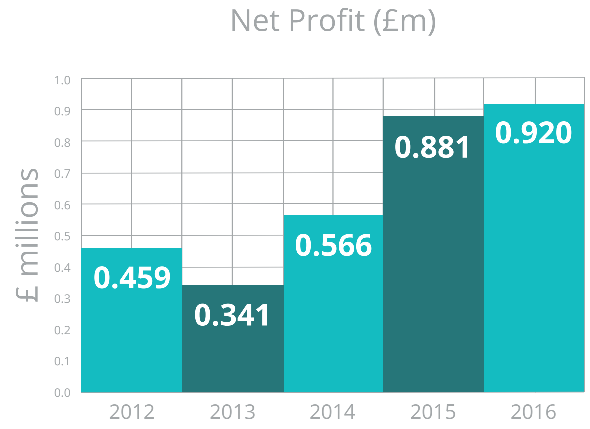
We have maintained our rates for as long as possible during a sustained period of unprecedented low interest rates and reductions in the market for similar accounts. Following the Bank of England's decision to cut the Base Rate in August 2016, which had the effect of reducing the interest we earned on our liquidity, we reduced the interest rates we pay on some of our savings accounts.

Management expenses

The cost base of the Society grew by 11.03% (2015: 14.98%) and the higher level of overall asset growth meant that the Management Expenses Ratio at 1.45% was slightly lower than the previous year (2015: 1.46%). ***Wherever possible, we use the most sustainable and ethical option when purchasing goods and services. In some cases we accept that we will pay more than for the less sustainable option. In 2016, this added 3.77% to our costs – without this the Management Expenses Ratio would have been 1.40%.***

Profit and Capital

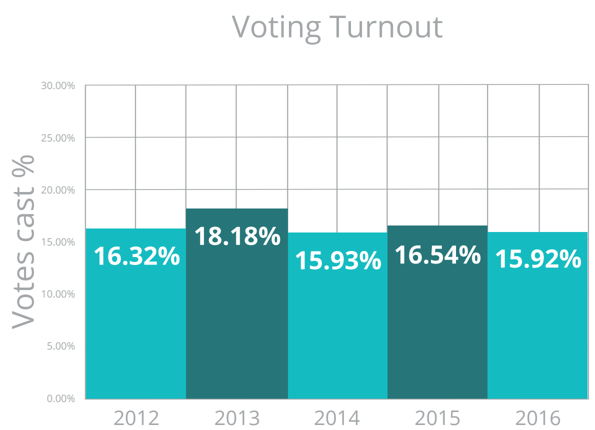
Net profit for the year amounting to £0.920m (2015: £0.881m) was added to the general reserves, which now total £8.680m (2015: £7.760m). This profit acts as a buffer against adverse market movements or changes in the economic conditions.



At 31 December 2016, the ratio of gross capital as a percentage of total share and deposit liabilities was 5.53% (2015:6.10%) and free capital was 4.76% (2015:5.21%).The decrease in the ratios is due to the increase in savings levels.

Member relations

Our 2016 AGM was held at the Ecology's office in Silsden. As well as providing an opportunity for members to visit our eco-built offices and tour our gardens, those attending heard how responsible tax is helping to create a fairer society from Richard Livings of the Fair Tax Mark. Members also heard how our sustainable lending has supported the Lancaster Cohousing project. We were disappointed with the voting turnout and so we are exploring other ways to increase member engagement, and in this vein we held our first Members' Meet-up in Gateshead, where members had an opportunity to hear about our progress and share their views on our work. We are planning to hold similar events during 2017.



Directors' Report

Introduction

The Directors have pleasure in presenting their Annual Report, together with the Annual Accounts and Annual Business Statement of the Society for the year ended 31 December 2016.

Business objectives

Information on the business objectives of the Society are detailed in the Strategic Report on pages 6 to 8.

Principal Risks and Uncertainties

The risks faced by the Society are similar to those involved in running any financial services business: competition, the cost of regulatory compliance and statutory requirements, business retention, pressure on margin and risks from changes in the wider economy.

The Society sets a risk appetite which helps to protect members' interests and reduce exposure to the principal risks and uncertainties facing the business.

The Society has developed a risk management framework that is designed to identify, assess, manage and mitigate risk and which is subject to continual re-evaluation.

Credit risk arises primarily from mortgage lending to individuals, commercial lending to corporate bodies and lending of liquid assets to other financial institutions (counterparties). The Society is exposed to the potential risk that a customer or counterparty will 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. The Society takes particular note of concentration risk arising from large exposures which results from the relatively small size of the Society. This is controlled by close attention to the credit assessment process.

Credit risk arising from mortgage and commercial lending is managed through a comprehensive analysis of both the creditworthiness of the borrower and the proposed security. Following completion, the performance of all mortgages and commercial loans are monitored closely and action is taken to manage the collection and recovery process.

Credit risk arising from Liquidity is managed by investing according to a Board approved policy and risk appetite. A significant majority of liquidity is invested with the Bank of England and in UK Government Treasury Bills. A limited amount of liquidity is held as short term deposits with approved banks and building society counterparties domiciled and authorised in the UK.

Financial risk encompasses interest rate risk and liquidity risk. **Interest rate risk** is the risk that income or expenditure arising from the Society's assets or liabilities varies as a result of changes in interest rates. The Society's exposure to interest rate risk is limited as it does not engage in fixed rate mortgage lending. **Liquidity risk** is the risk that the Society will be unable to meet current and future financial commitments as they fall due.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems or human error, failure to comply with regulatory requirements, key supplier failure or external events.

Regulatory and legal risk is the risk that the volume 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 UK and EU 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 Risk, Audit, Compliance and Ethics Committee.

Reputational risk - the unique nature of the Society gives rise to a specific form of reputational risk. The Society must ensure that it is apparent that it adheres closely to its stated key principles, particularly regarding the ecological basis for its lending programme, in order to continue to justify the trust placed in the Society by the members.

Conduct risk is the risk that the Society fails to treat its customers fairly and delivers poor customer outcomes. The Society considers conduct risk to be a sub-set of wider ethical considerations and therefore maintains an overarching Ethics Risk framework, which fully addresses all aspects of the Society's interactions with society and the environment while providing assurance that conduct issues are appropriately addressed in the Society's culture.

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 a lack of responsiveness to changes in the industry or the external environment. They represent all high level risks faced by the Society arising from external factors given the Society's business model and direction.

Strategic risk has arisen as a result of the United Kingdoms' referendum on leaving the European Union. The full impact of the UK's exit from the EU remains uncertain and there continue to be differing views regarding the effect it will have on the UK economy in the longer term. Potentially this could negatively affect other risks such as credit risk and interest rate risk which have been described above.

Financial risk management objectives and policies

The Society has a formal structure for managing financial risk. This risk is closely monitored and controlled by the Board, supported by the Risk Committee and Risk, Audit, Compliance and Ethics Committee. The Assets and Liabilities Committee actively measures and manages financial risks. The main financial risks arising from the Society's activities are interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks, of which further detail is provided in note 24.

Charitable donations

During the year, the Society made charitable donations amounting to £13,350 (2015: £10,939). No contributions were made to political parties or any Brexit campaign groups.

Land and buildings

The head office building was valued in 2007 at an open market value of £1,100,000. The carrying book value of the head office at the end of 2016 is £1,111,000. The Directors remain of the view that the value in use of the head office is in excess of the carrying value.

The head office building was developed to reflect the ecological business practices of the Society. Where possible recycled and reclaimed materials have been used and energy reduction techniques and practices utilised. The energy generated for the year is around 19% (2015: 26%) of our needs, with the remainder supplied from off-site renewable sources.

Profits and Capital

At 31 December 2016, the ratio of gross capital as a percentage of total share and deposit liabilities was 5.53% (2015:6.10%) and free capital was 4.76% (2015:5.21%).

In addition to measuring the size of capital resources relative to assets it is important to measure asset size relative to the risk of assets on the balance sheet. The Core Tier 1 Solvency ratio measures the ratio of Society Reserves against Risk Weighted Assets calculated under Capital Requirements Directive IV (CRD IV). In the case of the Society this is under the standardised approach to credit risk which uses standard risk weights and places no reliance on internally developed capital models. At the end of the year Core Tier 1 ratio stood at 16.98% (2015: 14.58%). The ratio has increased in the year by 2.40% on a like for like comparative basis as a result of the increase in the capital requirement relative to capital resources in comparison to 2015.

CRD IV also introduced the Leverage Ratio defined as Tier 1 Capital to the total exposure defined as total on and off balance sheet exposures less deduction from Tier 1 capital. The ratio reduced by 0.23% to 4.90% (2015: 5.13%) as a result of high total asset growth in the year.

The level of profit we are currently making is sufficient to ensure that we maintain the required level of capital to underpin our current growth based on existing capital requirements.

The Board complies with the Capital Requirements Regulation (CRR) which requires the Society to assess the adequacy of its capital through an 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.

Through the application of the ICAAP, the Board is satisfied that the Society holds sufficient capital to satisfy both the CRD's Pillar 1 requirements and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures required by the CRD are available on the Society's website: **www.ecology.co.uk**.

Staff

The Society's policy is to not discriminate in any way regarding recruitment, career development and training opportunities. Further, the Society consider diversity in its recruitment decisions while keeping business needs to the fore.

The Society is fortunate to have a staff team based around a number of long-serving, committed individuals. The Society has a commitment to fair remuneration practices. Please see the Remuneration report for further details and recent developments.

The Board recognises the important contribution made by management and staff to the success of the Society and wishes to thank them for their vital contribution in 2016.

Our place in the community

Our commitment to change extends beyond the immediate impact of our mortgage lending. As a mutual, we see a wider role for mutual governance in the economy and society, an expanded democratic space and the growth of sustainable, cohesive communities with the potential to exercise control over their own wealth and wellbeing. This is the basis of our giving of both time and money. The Society is a member of a number of organisations which share our wider values. Some are listed below:

AECB – the Association for Environment Conscious Building	A network of individuals and companies with a common aim of promoting sustainable building
Co-operatives UK	The national trade association working to promote, develop and unite co-operative enterprises
Good Homes Alliance	A network of developers, builders and other supporters whose aim is to transform the UK housing sector to ensure it creates and maintains Good Homes for all
Locality	The nationwide network for development trusts and community enterprises
National CLT (Community Land Trust) Network	The nationwide network for Community Land Trusts
National Custom and Self Build Association (NaCSBA)	The nationwide network working to promote custom and self build
Passivhaus Trust	An independent, non-profit organisation that promotes the adoption of the Passivhaus standard
Plunkett Foundation	A network set-up to promote and support co-operatives and social enterprises in rural communities in the UK and worldwide
Scottish Ecological Design Association (SEDA)	An association aiming to promote design which enhances the quality of life and does not harm planetary ecology
UK Cohousing Network	The nationwide network for cohousing
UK Permaculture Association	The national network to promote permaculture
UK Sustainable Investment and Finance Association (UKSIF)	A membership network for sustainable and responsible financial services

In international terms, we continued to support the global development of the social economy and sustainable banking sectors as active participants in the Global Alliance for Banking on Values (GABV), the Institute of Social Banking and the International Association of Investors in the Social Economy (INAISE).

Over the course of the year, we provided financial support to a wide variety of organisations and initiatives that contribute to sustainability at a local, national or international level, either directly through the Society or via our associated Charitable Foundation. These included:

Finance Innovation Lab	Sponsorship of the launch of the Finance Innovation Lab fellowship programme
Five Talents	Charitable donation to support microfinance in rural Kenya, Tanzania and Uganda
Leeds Community Homes	Sponsorship of the launch of the Leeds Community Homes community share offer
National CLT (Community Land Trust) Network	Sponsorship of National CLT Network conference
Passivhaus Trust	Sponsorship of the development of a Passivhaus ‘wiki’
Practical Action	Charitable donation to Practical Action
Scientists for Global Responsibility	Sponsorship of a schools Eco-home explainer competition for Science4Society week
SCATA Ltd (Stocksfield Community Association)	Sponsorship of a meeting of the North East Community Led Housing Network

We also gifted time to a number of organisations including the International Association of Investors in the Social Economy (INAISE), and Home-Start Craven (which supports families with children under 5).

We maintain shareholdings in social ventures such as the Ethical Property Company and the Phone Co-op and, where appropriate, we place funds with other social economy financial institutions such as Co-operative and Community Finance.

The main developments regarding our Environmental Policy in 2016 were that:

- We maintained our ‘Green’ accreditation again, under the Investors in the Environment scheme – the highest level it is possible to obtain

- We converted our office lighting to LED technology and introduced motion sensing light switches in key areas of our offices. This contributed to an 8% reduction in electricity consumption during the year

- Through improved management of the building’s heating system we reduced gas consumption by 15%

- We took a proactive approach to enhancing our recycling by increasing the range of recyclable items collected by our new waste contractor. This has led to a reduction in collections of non-recycled waste from weekly to fortnightly

The Society has an ongoing commitment to reduce our energy consumption by 2% year on year. As we have already implemented the most cost-effective energy efficiency measures this target becomes increasingly more challenging to achieve.

Our main commitments for 2017 include:

- As part of a wider review of our Information Technology (I.T.) infrastructure, we will explore options to reduce the amount of energy it consumes

- We will be changing to a greener gas supplier. While our gas usage is relatively low for the size of our organisation and offices, we want to ensure that we use renewable energy wherever possible. Our new supplier already provides some bio gas (gas derived from the breakdown of organic matter such as agricultural, food and sewage) and has recently made a significant investment in new bio gas generation technology

Supplier payment policy and practice

All suppliers are requested to furnish the Society with a copy of their Environmental Policy, and the quality of the policies received forms a part of the approval process.

The Society's policy concerning the payment of its trade creditors is as follows:

- the Society agrees the terms of payment at the start of trading with a new supplier
- All supplier payments are paid within the agreed terms of payment

As a result of receiving late invoices the number of trade creditor days as at 31 December 2016 was 44 days (2015: 34 days). All invoices received are normally paid within 30 days.

Tax Policy

The Society is committed to paying all the taxes that it owes in accordance with the spirit of all tax laws that apply to its operations. The Society adopted a Tax Compliance Policy Statement on 29 January 2016. A copy is available on our website at **www.ecology.co.uk/about/corporate**.

In 2015 the Society received the Fair Tax Mark, which confirms that, as a good corporate citizen, it actively welcomes paying its fair share of tax.

The disclosure made in these annual report and accounts comply with commitments made in that Policy Statement.

Going concern

In common with other deposit-taking financial institutions, the Society meets its day-to-day liquidity requirements through managing its retail funding sources, and is required to maintain a sufficient buffer over regulatory capital in order to continue to be authorised to carry on its business. The Society's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Society has adequate resources for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

Auditor

The Auditor, KPMG LLP, has expressed its willingness to continue in office and therefore a resolution for their reappointment will be proposed to the forthcoming Annual General Meeting of the Society.

When the Society last ran a tender process for this work, we undertook a close examination of the sustainability policies of the candidate firms, and found that KPMG's was by far the best.

Directors

The following persons were Directors of the Society during the year:

Paul Ellis Chief Executive
Andrew Gold
Tim Morgan
Chris Newman
Louise Power
Steve Round Chair from 25 April 2015
Alison Vipond Deputy Chair
Pam Waring Finance Director and Secretary

Tim Morgan, Chris Newman and Alison Vipond are to retire by rotation and, being eligible, offer themselves for re-election at the AGM.

The Directors who held office at the date of approval of the Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Post Balance Sheet Events

The Board considers that there have been no events since the end of the year that have a material effect on the financial position of the Society.

On behalf of the Board

Steve Round
Chair
3 March 2017

Corporate governance report

Overview

The Directors of the Society are committed to best practice in corporate governance. As a mutual organisation the Society is not required to fully comply with the UK Corporate Governance Code (September 2014) issued by the Financial Reporting Council, as it is not a listed company. The Society's regulators, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), require the Board to have regard to the Code in developing its policies and practices. The Board agrees with and has regard to the general principles of the Code.

The Board

The Board works with management to set the Society's strategic and policy direction, acting in the best interests of its members in respect of both their financial and ethical objectives. It ensures that adequate financial and human resources are in place and it reviews management performance.

The Board is responsible for the recruitment and employment terms and conditions of senior management.

The Board has a general duty to ensure the Society operates within the Society's Rules and relevant regulation and legislation, and that proper accounting records and effective systems of business control are established, maintained, documented and audited. The Board takes decisions on specific matters such as major capital expenditure, annual budgets, corporate objectives and environmental and ethical issues. The Board maintains a system of effective corporate governance and systems of control, ensuring accurate and comprehensive business information is produced with sound financial controls and risk management. The Board meets at least ten times a year.

The Board has a clearly defined schedule of retained powers and has delegated authority in other matters to a number of Board committees, each of which has Board approved terms of reference. The schedule of retained and delegated powers is reviewed regularly.

Board composition and independence

All Directors must meet the test of fitness and propriety as laid down by the Regulator to fulfil their role as Directors. The regulatory authorities have published arrangements via Strengthening Accountability in UK Banking for a new senior managers' and certification regime which came into effect in March 2016 and the Board has ensured adherence with this regulatory change. Because we do not have an equity shareholding model, we do not appoint a senior independent director, as this has little relevance to the small building society model. We have appointed Alison Vipond as the Member Advocacy Director to be the first line of communication for members and the Board. Our model of encouraging participation, particularly through AGMs, provides a better way of ensuring sensitivity to member concerns.

The Board has considered the recommendation within the Corporate Governance Code that Non-Executive Directors stand for annual election after serving a period of nine years. By exception, we allow annual election for a Director beyond the nine year period, to enable us to retain skills for further short periods should we, as a small Society requiring Directors to be drawn from our 'constituency', be unable to readily identify a candidate currently available in regard to a particular skill set. Where a Director who has served nine years is appointed Chair, the election period reverts to three years.

The Society's Rules require that all Directors are submitted for election at the AGM following their appointment to the Board. Where the appointment occurs in the period between the end of the Society's financial year and the AGM itself, they must seek election at the AGM in the following year. Directors are appointed for a three-year term. All Directors are required to seek re-election if they have not been elected at either of the two previous AGMs. Directors may submit themselves for re-election voluntarily.

The Nominations Committee reviews Board constitution, skills, performance, succession plans and makes recommendations for re-elections of Directors. It considers the appointment of new Non-Executive Directors following the publication of vacancies in the Society newsletter, the Society website, and on social media. The Committee reviews the skills, knowledge and experience of the candidate against the current requirements of the Board and Society. It evaluates the ability of Directors to commit the time required for their role prior to appointment. Its recommendations are submitted to the full Board for consideration.

Within prudential constraints, the Board aims at diversity in its membership aiming particularly at gender balance and diversity of age. During 2016, 3 out of 8 of Board members were female. All Board vacancies are communicated via Women on Boards.

Roles of the Chair and Chief Executive

The roles of Chair and Chief Executive are held by different individuals with a clear division of responsibilities. The Chair is responsible for leadership of the Board and ensuring the Board acts effectively. The Chief Executive has overall responsibility for managing the Society and implementing strategies agreed by the Board.

Information and professional development

All Directors are encouraged to attend industry events, seminars and training courses to maintain an up to date knowledge of the industry, regulatory framework and environmental issues. All Directors have had appropriate briefings on industry issues.

Performance evaluation

Each year Directors are subject to a formal appraisal at which their contribution to the Board's performance is assessed. The assessment includes training, development and attendance. The Chair and Deputy Chair carry out the Chief Executive's appraisal and the Deputy Chair and an Executive Director appraise the Chair. All other appraisals are undertaken by the Chair.

As required under the UK Corporate Governance Code, the Board undertakes an annual evaluation of its own performance and that of its committees. The Board also assesses the effectiveness of its decision-making after each meeting.

An assessment of the Board's performance against predetermined criteria is carried out each year with further comment where appropriate. Each evaluation is scored and the results collated by the Board Governance Officer. The Deputy Chair provides a summary of the results for the Board who note any action on improvements that can be made.

Risk management, internal control and Board Committees

The Chief Risk Officer, with the support of the Chief Executive, has overall responsibility for the elaboration of risk systems and mitigation measures, with management responsible for risk identification and day-to-day operation of the risk management framework.

The Board has overall responsibility for the Society's internal control system and for reporting its effectiveness to the members in the annual financial statements. Senior management have the tasks of designing, operating and monitoring internal control processes. The system of internal control is designed to enable the Society to achieve its corporate objectives within a managed risk profile. The Board has established committees to give more attention to key areas of the business than is possible within regular Board meetings. The full terms of reference for these committees are available on application to the Secretary.

The effectiveness of the Society's Risk Management Framework is monitored and reported on by Internal Audit.

Risk, Audit, Compliance and Ethics Committee (RACE)

The principal functions of the Committee are to support the Board in its responsibility for maintaining an appropriate system of internal control to safeguard the funds of both members and depositors and Society assets, including assessments of business risk. The Committee receives regular reports from both the External and Internal auditors. The Internal Audit function provides independent assurance of the effectiveness of the system of internal controls.

The composition and effectiveness of the Committee are reviewed annually by the Board. Membership of RACE is for a period of up to three years, extendable by no more than two additional three year periods. The Committee met five times during 2016.

The Board is satisfied that the Committee has appropriate recent and relevant financial experience to carry out its duties effectively. The Committee is chaired by Tim Morgan. At the invitation of the Chair of the Committee, the Chief Executive, Finance Director, Chief Risk Officer, Compliance Manager, Risk and Ethics Manager and representatives from both Internal and External Audit attend meetings.

RACE reviews the Annual Report and Accounts with the external auditors and executive management and, if appropriate, recommends approval of these at the next full Board meeting. After discussion with Senior Management, the Committee considered and confirmed that the key risks of mis-statement in the Society's financial statements relate to the following judgements:

- provision for loan loss impairment
- revenue recognition

These issues were discussed with the External Auditors through the audit process and at the conclusion of the audit process to confirm the Financial Statements for approval.

As the Society holds that the conduct of its business must result in tangible environmental and social benefits within the context of sustainable economic outcomes accompanied by social justice, it believes that any discussion of risk and internal control must be informed by the Society's understanding of ethics. Therefore the Committee also assesses adherence to our ethical standards, and receives reports from the Risk and Ethics Manager.

The Committee monitors the independence and effectiveness of Internal and External Audit. At RACE meetings during the year the members have discussed the effectiveness of the External Auditors using evidence from regular written reports including KPMG LLP's Statement of Independence presented to RACE in September 2016, and held discussions with the audit partner.

KPMG have been the Society's auditors for over 20 years but operate an audit partner rotation policy. It was concluded that, while the auditors were carrying out their duties objectively, effectively and independent of management, as the last tender was undertaken in 2005, it is the intention of the Board to conduct a tender process by 2020 at the latest. The Board recommendation at the AGM is to appoint KPMG LLP for another year.

Non-audit work undertaken by External Auditors would only be conducted by prior approval of the RACE Committee to ensure that the continued independence and objectivity of the Society's External Auditors would not at any time be compromised.

Assets and Liabilities Committee (ALCO)

The remit of the Committee is to monitor and control structural risks in the balance sheet, liquidity, treasury, funding, recommending policy development and monitoring implementation to ensure that Board defined risk limits are adhered to and that the Society has adequate liquid financial resources to meets its liabilities as they fall due.

The Committee is chaired by the Chief Executive with the other members being the Finance Director, Chief Operating Officer and two Non-Executive Directors. The Committee met six times during 2016.

Development and Strategy Planning Committee (DSPC)

The DSPC is responsible for formulating the future strategy of the Society. The Committee consists of the full Board and is currently chaired by Alison Vipond. The Committee met twice during 2016.

Board Lending Committee

The Committee examines credit risks, which include non-standard and non-residential lending proposals. It also reviews potential changes to lending policy and limits. The Committee comprises two Non-Executive Directors, two consultants who have relevant experience of the Society's lending sectors, and is attended by the Chief Executive, the Chief Operating Officer, and other staff members as appropriate. The Committee is chaired by Chris Newman and met three times during 2016.

Nominations Committee

This Committee is responsible for succession planning and for reviewing applications for the post of Non-Executive Director and making a recommendation to the full Board. The Committee is comprised of one Executive Director and two Non-Executive Directors. The Committee is currently chaired by Steve Round and it met on two occasions in 2016.

The function and details of the **Remuneration Committee** are disclosed within the Directors' Remuneration Report on page 18 to 20. The Committee is chaired by Andrew Gold.

Board and committee membership and attendance record

Director	Board	Risk, Audit, Compliance and Ethics	DSPC	Board Lending	Remuneration	Nominations	ALCO
Paul Ellis*	10/10	5/5	2/2	3/3	■	2/2	6/6
Andrew Gold*	10/10	5/5	2/2	■	4/4	■	6/6
Tim Morgan	10/10	5/5	2/2	3/3	4/4	■	■
Chris Newman	10/10	5/5	2/2	3/3	■	2/2	■
Louise Power	9/10	■	1/2	3/3	■	1/2	■
Steve Round	10/10	■	1/2	■	■	2/2	6/6
Alison Vipond	10/10	5/5	2/2	■	4/4	■	■
Pam Waring*	9/10	4/5	2/2	■	■	■	5/6

*Directors are invited attendees of RACE

All Non-Executive Directors are actively encouraged to attend committee meetings that they are not a member of as part of their ongoing training.

■ *Not a member of this committee*

Directors' remuneration report

Introduction

The purpose of this report is to inform members of the Society about the policy for the remuneration of Executive and Non-Executive Directors. It provides details of the elements of Directors' remuneration and explains the process for setting them.

The Society adheres to the FCA Remuneration Code which sets out the standards that building societies have to meet when setting pay and bonus awards for their staff. The Code requires disclosure of the fixed and variable remuneration of senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers whose professional activities have a material impact on the Society's risk profile. These disclosures are published annually in the Society's Pillar 3 Statement.

Role and composition of the Remuneration Committee

The Committee's responsibility is to determine the salaries and contractual arrangements of the Chair of the Board, the Executive Directors and Executive Management. It is also responsible for making recommendations to the Board on the level of remuneration for Non-Executive Directors. In addition, it reviews general salary levels.

The Committee is comprised of three Non-Executive Directors. The Chief Executive and Finance Director attend by invitation. The Chief Executive and Finance Director take no part in the discussion concerning their individual remuneration. The Committee held four meetings during 2016 at which all members of the Committee were in attendance. The Committee reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages. In 2016, a major focus for the Committee was oversight of the review of the Remuneration Policy. This included a review of remuneration best practice, supported by the input of an external consultancy, and was also informed by the new Senior Managers Regime.

Remuneration policy

Non-Executive Directors

Non-Executive Directors receive a fee for their services. There are no performance related pay schemes for Non-Executive Directors and they do not qualify for pension or other benefits. Additional fees are paid to the Chair, Deputy Chair and those Non-Executive Directors who are members of Board committees in recognition of the additional duties and responsibilities associated with these positions. Non-Executive Directors do not have service contracts but serve under letters of appointment. The contribution of each Non-Executive Director is appraised by the Chair annually.

Executive Directors

Remuneration of the Executive Directors comprises a number of elements: basic salary, performance related pay and contributions to the Society's Personal Pension Scheme and other benefits. The Chair appraises Executive Directors annually.

All fees earned by Executive Directors serving on external Boards are paid to the Society.

Basic salary

The Society's policy is for all employees (including Executive Directors) to be remunerated in relation to their expertise, experience, overall contribution and the general market place. The Society is committed to paying the Living Wage and has received accreditation for this from the Living Wage Foundation.

In our last report we informed members that we intended to review how we set Executive remuneration including our long standing commitment to a fair pay policy which states that no basic salary will exceed a maximum of five times the lowest full grade available. This reflected concerns that the level set for this limit could impact on the Society's ability to recruit staff with the appropriate skills and experience.

We committed to seek member's views on the updated policy through the Society's Ethics Panel. In September 2016 members of the Panel were asked to provide feedback on our commitment to fair pay policies, and to consider a proposal to increase the maximum pay limit.

The majority of respondents supported an increase to eight times or more. The Board consequently revised the maximum pay limit to a multiple of eight times the lowest full grade with effect from 1 January 2017. There was also strong support from most of the respondents for Ecology to publish details of the actual ratio between the highest and the lowest basic salary. For the first time therefore, we set this out in the table below.

	2016	2015
Ratio of highest basic salary to lowest full grade available	**4.99**	4.62

Performance related pay

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.

Pensions

The Society makes contributions equivalent to 8% of basic salary for each member of staff, including Executive Directors, to the Society's Group Personal Pension Plan after an initial service period of 3 months. A death in service scheme is operated which pays a lump sum of four times basic salary. These arrangements apply equally to all qualifying staff, with no enhanced arrangements for Executive Directors or senior management.

Benefits

Executive Directors can participate in the Society's staff mortgage scheme subject to a maximum of £33,000. The Chief Executive is also provided with a company car.

Contractual terms

None of the Society's Non-Executive Directors have service contracts. Paul Ellis, Chief Executive, has a service contract entered into on 1 December 1999 and Pam Waring, Finance Director, has a service contract entered into on 28 December 2001. Both contracts are terminable by either party giving six months' notice.

Non-Executive Directors’ remuneration

	2016 £000	2015 £000
Andrew Gold[1]	**19**	16
Malcolm Lynch (retired 25 April 2015)	**–**	5
Tim Morgan	**11**	11
Chris Newman	**11**	10
Steve Round	**16**	14
Helen Ashley Taylor (retired 27 June 2015)	**–**	5
Alison Vipond	**12**	10
Totals	**69**	71

[1] *Includes additional remuneration of £9,117 (2015: £6,171) in relation to assigned Senior Management Regime responsibilities for oversight of the risk function.*

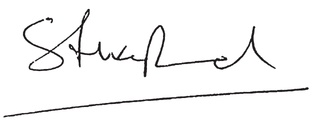
Under the terms of her employment Louise Power, a partner at Walker Morris LLP, is unable to be remunerated directly by the Society. Walker Morris is paid for her service as a Non-Executive as noted below:

	2016 £000	2015 £000
Louise Power (appointed 17 June 2015)	**8**	5
Totals	**8**	5

Executive Directors’ remuneration

	Salary £000	**Performance Related Pay £000**	**Taxable Benefits* £000**	**Contributions to pension scheme £000**	**Total £000**
2016					
Paul Ellis (Chief Executive)	**81**	**7**	**2**	**6**	**96**
Pam Waring (Finance Director)	**70**	**5**	**–**	**6**	**81**
Totals	**151**	**12**	**2**	**12**	**177**
2015					
Paul Ellis (Chief Executive)	80	3	2	6	91
Pam Waring (Finance Director)	70	3	–	5	78
Totals	**150**	**6**	**2**	**11**	**169**

On behalf of the board



Steve Round
Chair
3 March 2017

Statement of Directors' responsibilities

Statement of Directors' responsibilities in respect of the annual report, the annual business statement, the Directors' report and annual accounts

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

The Building Societies Act 1986 ("the Act") requires the Directors to prepare the Society's annual accounts for each financial year. Under that law they have elected to prepare the Society's annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

The Society's annual accounts are required by law to give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing the annual accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

In addition to the annual accounts the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

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

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

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

Steve Round
Chair
3 March 2017

Independent auditor's report to the members of Ecology Building Society

We have audited the annual accounts of Ecology Building Society for the year ended 31 December 2016 set out on pages 23 to 54. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 21, the Directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**.

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the society as at 31 December 2016 and of the income and expenditure of the Society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

John Ellacott (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Leeds
LS1 4DA

3 March 2017

Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Interest receivable and similar income	2	**5,828**	5,218
Interest payable and similar charges	3	**(2,086)**	(1,855)
Net interest income		**3,742**	3,363
Income from investments		**26**	12
Fees and commissions receivable		**8**	9
Fees and commissions payable		**(44)**	(38)
Other operating income		**18**	23
Net loss from other financial instruments at fair value through profit and loss		**2**	(5)
Total net income		**3,752**	3,364
Administrative expenses	4	**(2,217)**	(1,996)
Depreciation and amortisation	13,15	**(89)**	(81)
Operating profit before impairment losses and provisions		**1,446**	1,287
Impairment losses on loans and advances	12	**(260)**	(178)
Provisions for liabilities	22	**(68)**	(35)
Profit before tax		**1,118**	1,074
Tax expense	7	**(198)**	(193)
Profit for the financial year		**920**	881
Other comprehensive income		**–**	–
Total comprehensive income for the year		**920**	881

Profit for the financial year arises from continuing operations. The profit for the financial year is attributable to the members of the Society.

Further comments on the income and expenditure account line items are presented in the notes to the financial statements.

Statement of Financial Position

at 31 December 2016

	Notes	2016 £000	2015 £000
Assets			
Liquid assets			
Cash in hand and with the Bank of England	8	**36,192**	12,790
Treasury bills and similar securities	10	**8,496**	5,492
Loans and advances to credit institutions	9	**7,115**	11,460
Loans and advances to customers	11	**117,989**	113,512
Tangible fixed assets	13	**1,294**	1,283
Fixed asset investments	14	**1,609**	1,123
Intangible assets	15	**103**	33
Other debtors	16	**258**	236
Total assets		**173,056**	145,929
Liabilities			
Shares	17	**153,701**	127,433
Amounts owed to credit institutions	18	**–**	1,503
Amounts owed to other customers	19	**9,375**	7,309
Subordinated liabilities	23	**749**	1,248
Other liabilities	20	**336**	524
Accrual and deferred income		**110**	105
Deferred tax liability	21	**37**	7
Other provisions	22	**68**	40
Total liabilities		**164,376**	138,169
Reserves			
General reserves		**8,680**	7,760
Total reserves attributable to members of the Society		**8,680**	7,760
Total reserves and liabilities		**173,056**	145,929

These accounts were approved by the Board of Directors on 3 March 2017 and were signed on its behalf by:

Steve Round
Chair

Paul Ellis
Chief Executive

Pam Waring
Finance Director

Statement of Changes in Members' Interests

	General reserve 2016 £000	**Total 2016 £000**	General reserve 2015 £000	Total 2015 £000
Balance at 1 January	**7,760**	**7,760**	6,879	6,879
Total comprehensive income for the period				
Profit for the year	**920**	**920**	881	881
Other comprehensive income	**–**	**–**	–	–
Total comprehensive income for the period	**920**	**920**	881	881
Balance at 31 December	**8,680**	**8,680**	7,760	7,760

Cash Flow Statement

	Notes	2016 £000	2015 £000
Cash flows from operating activities			
Profit before tax		**1,118**	1,074
Adjustments for			
Depreciation and amortisation	13,15	**89**	81
(Profit)/Loss on disposal of tangible fixed assets		**–**	(6)
Impairment of fixed asset investment	14	**(2)**	6
Interest on subscribed capital	3	**57**	57
Provision for liabilities		**68**	35
Loans and advances written off in the year	12	**–**	78
Increase in impairment of loans and advances	12	**260**	100
Total		**1,590**	1,425
Changes in operating assets and liabilities			
Increase in prepayments, accrued income and other assets		**(22)**	(49)
Increase/(decrease) in accruals, deferred income and other liabilities		**5**	54
Increase in loans and advances to customers		**(4,737)**	(22,365)
Decrease/(increase) in loans and advances to credit institutions		**502**	4,010
Increase in shares		**26,268**	5,907
Increase in amounts owed to other credit institutions and other customers		**563**	1,200
(Decrease)/increase in amounts owed - Subordinated liabilities		**(499)**	–
(Decrease)/increase other liabilities		**(148)**	(4)
FSCS interest cost paid		**(40)**	(43)
Taxation paid		**(208)**	(161)
Net cash generated by operating activities		**23,274**	(10,026)
Cash flows from investing activities			
Disposal of debt securities		**–**	3,515
Purchase of treasury bills		**(17,003)**	(15,515)
Disposal of treasury bills	10	**14,000**	28,250
Purchase of fixed asset investments		**(486)**	(979)
Purchase of tangible fixed assets	13	**(88)**	(83)
Disposal of tangible fixed assets	13	**–**	6
Purchase of intangible assets	15	**(82)**	(6)
Net cash generated by/(used in) investing activities		**(3,659)**	15,188
Cash flows from financing activities			
Interest paid on subscribed capital		**(57)**	(57)
Net increase/(decrease) in cash and cash equivalents		**19,558**	5,105
Cash and cash equivalents at 01 January		**22,747**	17,642
Cash and cash equivalents at 31 December	8	**42,305**	22,747

Notes

(forming part of the Annual Accounts)

1. Accounting policies

Ecology Building Society (the "Society") has prepared these annual accounts on a going concern basis as outlined in the Director's Report on pages 9 to 13 and in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, The Financial Reporting Standard, applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

In common with other deposit-taking financial institutions, the Society meets its day-to-day liquidity requirements through managing its retail funding sources, and is required to maintain a sufficient buffer over regulatory capital in order to continue to be authorised to carry on its business. The Society's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Society has adequate resources for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

1.1 Measurement convention

The annual accounts are prepared on the historical cost basis except in the case of Financial Instruments which are measured in line with FRS 102 and treated as either basic or non-basic. Basic instruments are measured at amortised cost and non-basic are stated at their fair value. As per Note 14 certain non-basic financial instruments are carried at amortised cost less impairment, due to the absence of suitable inputs to fair value methodology.

1.2 Interest

Interest income and expense are recognised in profit or loss using the amortised cost effective interest method. The 'effective interest rate' (EIR) is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

The calculation of the effective interest rate includes transaction costs and fees and commissions paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the income statement and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

1.3 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.2).

Other fees and commission income – including account servicing fees and introducers commission on house insurance – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to introducer fees specific to the Society's revenue generating activities (excluding EIR already covered by 1.2).

1.4 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.5 Financial instruments

Recognition

The Society initially recognises loans and advances, deposits, and subordinated liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets/liabilities

The Society classifies its financial assets and liabilities into one of the following FRS 102 categories:

- *Basic*

Basic Financial Instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term. This includes all loans and advances and certain fixed asset investment as detailed in Note 14.

Basic Financial Instruments are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Interest income is recognised in profit or loss using the effective interest method (see 1.2). Dividend income is recognised in profit or loss when the Society becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

- *Non Basic*

The Society designates certain Fixed Asset Investments as non basic financial instruments. Non Basic instruments are financial assets or liabilities that do not meet the definition of a Basic Financial Instrument as per FRS 102 section 11.8 to 11.9. Non Basic Financial Instruments are measured at fair value, with fair value changes recognised immediately in profit or loss except in cases of Fixed Asset Investments where the Instrument is carried at amortised cost less impairment, due to the absence of suitable inputs to fair value methodology. Note 14 details the treatment of each Fixed Asset Investment.

Fair value measurement

'Fair value' is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

When available, the Society measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Society uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Society determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Derecognition

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in Other comprehensive income *(OCI)* is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Society is recognised as a separate asset or liability.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

During the year ending 31 December 2016 the Society has not transferred any financial assets to another party that did not qualify for derecognition.

Identification and measurement of impairment

At each reporting date, the Society assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

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

The Society considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

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

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support borrowers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- Interest only payments
- Payment holiday

Borrowers requesting a forbearance option will need to provide information to support the request. If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Typically the receipt of 6 months of qualifying payments is required.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to accrue. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

1.6 Cash and cash equivalents

For the purposes of the Statements of Cash Flows, cash and cash equivalents comprises cash in hand and unrestricted loans and advances to credit institutions. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

The Statements of Cash Flows have been prepared using the indirect method.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- buildings – 50 years
- plant and equipment – 10 years
- fixtures and fittings – 4 to 10 years
- motor vehicles – 4 years
- computer, hardware and associated software – 3 to 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

1.8 Intangible assets

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use.

The only intangible assets of the Society are software assets for which the useful life is set to 3 to 5 years on the basis of the license or renewal policy.

The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Intangible assets are tested for impairment in accordance with Section 27 of FRS 102 Impairment of Assets when there is an indication that an intangible asset may be impaired.

1.9 Impairment excluding financial assets and deferred tax assets

The carrying amounts of the Society's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.10 Provisions

A provision is recognised in the balance sheet when the Society has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.11 Assumptions and estimation uncertainties

Certain asset and liability amounts reported in the accounts are based on management estimates, judgements and assumptions. There is, therefore, a risk of changes to the carrying amounts for these assets and liabilities within the next financial year.

Impairment losses on loans and advances to customers

To assess impairment, the Society reviews its loan book at least twice yearly. In undertaking this assessment, the Society makes judgments on whether there is evidence that could indicate a material decrease in future cash flows arising from a particular loan portfolio. Estimates are applied on the basis of historical arrears and loss experience for assets with similar credit risk characteristics and objective evidence of impairment. The Society's Management also assesses the expected loss on loans and advances as a result of the potential movement in house prices and the likely discount on the sale of properties in possession, based on an understanding of the length of time to disposal. Therefore, the accuracy of provisions made will be affected by changes in these assumptions.

Financial instruments and deferred tax assets

Information about other assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2016 are set out in the following notes:

- Note 14 – determination of the fair value of financial instruments with significant unobservable inputs

- Note 21 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used

2. Interest receivable and similar income

	2016 £000	2015 £000
On loans fully secured on residential property	**5,183**	4,524
On other loans	**467**	481
On debt securities	**–**	20
On treasury bills at fixed rate interest	**37**	63
On other liquid assets	**139**	120
Profit on sale of liquid assets	**–**	8
Other interest receivable	**2**	2
	5,828	5,218

There was no interest income accrued on impaired loans two or more months in arrears (2015: £0)

3. Interest payable and similar charges

	2016 £000	2015 £000
On shares held by individuals	**1,940**	1,721
On deposits and other borrowings	**89**	77
On subordinated liabilities	**57**	57
	2,086	1,855

4. Administrative expenses

	2016 £000	2015 £000
Wages and salaries	**981**	860
Social security costs	**101**	92
Other pension costs	**100**	67
	1,182	1,019
Other administrative expenses	**1,035**	977
	2,217	1,996

The remuneration of the External Auditor, which is included within administrative costs above, is set out below (excluding VAT):

	2016 £000	2015 £000
Audit of these annual accounts*	**40**	54
Audit-related assurance services	**–**	–
Other assurance services	**–**	–
	40	54

*The fee for 2015 includes a 'one-off' charge for the audit of the transitional adjustments under FRS 102.

5. Employee numbers

The average number of persons employed by the Society (including directors) during the year, analysed by category, was as follows:

	2016	2015
Full time	**26**	23
Part time	**2**	2
	28	25

6. Directors' remuneration

Full details are given in the Directors' Remuneration Report. Total remuneration amounted to £246,000 (2015: £240,000).

In addition, payment of £8,000 (2015: £5,000) was made to Walker Morris LLP for the services of Louise Power (from 17 June 2015). Full details are given in the table within the Remuneration Report on pages 18 to 20.

7. Taxation

	2016 £000	2015 £000
Current tax		
Current tax on income for the period	**180**	218
Adjustments in respect of prior periods	**(12)**	(5)
Total current tax	**168**	213
Deferred tax see note 21		
Origination and reversal of timing differences	**25**	(19)
Adjustment in respect of previous periods	**10**	–
Change in tax rate	**(5)**	(1)
Total deferred tax	**30**	(20)
Tax expenses (income) relating to changes in accounting policies	**–**	–
	198	193

Analysis of current tax recognised in profit and loss

	2016 £000	2015 £000
Profit for the year	**920**	881
Total tax expense	**198**	193
Profit excluding taxation	**1,118**	1,074
Tax using the UK corporation tax rate of 20.00% (2015:20.25%)	**224**	217
Community Investment relief	**(25)**	(25)
Reduction in tax rate on deferred tax balances	**(5)**	(1)
Non-deductible expenses	**6**	7
Under / (over) provided in prior years	**(2)**	(5)
Total tax expense included in profit or loss	**198**	193

The effective tax rate for the twelve month period ended 31 December 2016 is 20.00%. This differs from the standard rate of corporation tax in the UK due to the impact of disallowable expenditure, deferred tax movement and adjustments for prior years.

Adjustments to tax changes in earlier years arise because the tax charge in the financial statements is estimated before the detailed corporation tax calculations are prepared. Additionally, HM Revenue & Customs may not agree with the tax return that was submitted for a year and the tax liability for a previous year may be adjusted as a result.

Some expenses incurred by the Society may be entirely appropriate charges for inclusion in its financial statements but are not allowed as a deduction against taxable income when calculating the Society's tax liability. The most significant example of this is accounting depreciation or losses incurred on assets that do not qualify for capital allowances (generally land and buildings). Other examples include some legal expenses and some repair costs.

8. Cash and cash equivalents

	2016 £000	2015 £000
Cash in hand and balances with the Bank of England	**36,192**	12,790
Loans and advances to credit institutions (see note 9)	**6,113**	9,957
Cash and cash equivalents per cash flow statements	**42,305**	22,747

9. Loans and advances to credit institutions

	2016 £000	2015 £000
Accrued interest	**4**	18
Repayable on demand	**5,611**	7,442
In not more than three months	**500**	2,500
In not more than one year	**1,000**	1,500
Total loans and advances to credit institutions	**7,115**	11,460
Total included within cash and cash equivalents	**6,113**	9,957

10. Treasury Bills

	2016 £000	2015 £000
Treasury bills	**8,496**	5,492
	8,496	5,492
Treasury bills have remaining maturity as follows:		
In more than one year	**8,496**	5,492
	8,496	5,492

Movements in debt securities during the year (excluding accrued interest) are summarised as follows:

	2016 £000	2015 £000
At 1 January 2016	**5,486**	21,718
Additions[1]	**17,003**	15,525
Disposals and maturities	**(14,000)**	(31,757)
At 31 December 2016	**8,489**	5,486

[1]No Treasury bills purchased in the year were acquired at a premium or a discount to their maturity values.

11. Loans and advances to customers

	2016 £000	2015 £000
Loans fully secured on residential property	**109,570**	104,475
Loans fully secured on land	**8,409**	9,017
Other loans	**10**	20
	117,989	113,512
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	**1,179**	1,101
In more than three months but not more than one year	**4,934**	4,853
In more than one year but not more than five years	**21,099**	19,931
In more than five years	**91,439**	88,029
	118,651	113,914
Less: allowance for impairment (note 12)	**662**	402
	117,989	113,512

The maturity analysis above is based on contractual maturity not expected redemption levels.

Loans fully secured on land includes £4,718 of loans which are fully secured on residential property and which were made to corporate bodies, such as Housing Co-operatives, prior to 1 October 1998, the date the Society adopted the powers of the Building Societies Act 1997. The classification of these assets is not consistent with the treatment of similar loans made after the 1 October 1998 that are included in "loans fully secured on residential property" but is necessary to comply with the requirements of the Building Societies Act 1997.

12. Allowance for impairment

	Loans fully secured on residential property £000	Other loans £000	Total £000
Provision for impairment on loans and advances At 1 January 2016			
Individual impairment	65	233	298
Collective impairment	98	6	104
	163	239	402
Amounts written off during the year, net of recoveries			
Individual impairment	–	–	–
Collective impairment	–	–	–
	–	–	–
Income statement			
Impairment losses on loans and advances			
Individual impairment	(9)	231	222
Collective impairment	46	(2)	44
Adjustments to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	–	(6)	(6)
Charge/(credit) for the year	37	223	260
At 31 December 2016			
Individual impairment	**56**	**458**	**514**
Collective impairment	**144**	**4**	**148**
	200	**462**	**662**

	Loans fully secured on residential property £000	Other loans £000	Total £000
Provision for impairment on loans and advances At 01 January 2015			
Individual impairment	–	242	242
Collective impairment	44	16	60
	44	258	302
Amounts written off during the year, net of recoveries			
Individual impairment	10	68	78
Collective impairment	–	–	–
	10	68	78
Income statement			
Impairment losses on loans and advances			
Individual impairment	65	(3)	62
Collective impairment	54	(10)	44
Adjustments to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	–	(6)	(6)
Charge/(credit) for the year	119	(19)	100
At 31 December 2015			
Individual impairment	65	233	298
Collective impairment	98	6	104
	163	239	402

13. Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures, Fittings & computer equipment £000	Motor vehicles £000	Total £000
Cost					
Balance at 1 January 2016	1,405	164	340	54	1,963
Additions	–	6	82	–	88
Disposals	–	–	(37)	–	(37)
Balance at 31 December 2016	1,405	170	385	54	2,014
Depreciation					
Balance at beginning of the year	270	140	256	14	680
Depreciation charge for the year	24	6	33	14	77
Disposals	–	–	(37)	–	(37)
Balance at 31 December 2016	294	146	252	28	720
Net book value At 1 January 2016	1,135	24	84	40	1,283
At 31 December 2016	**1,111**	**24**	**133**	**26**	**1,294**

Freehold land and buildings, which are included in the balance sheet at cost less depreciation, amounted to £1.111m at 31 December 2016 (2015: £1.135m). Following completion of the meeting room a valuation of the Head Office was carried out on 15 February 2007 by Wilman & Wilman. This valued the freehold land and buildings on an investment method basis at an open market value of £1.100m, which is lower than the carrying value in the accounts. However, the Directors consider the value in use of these premises to be in excess of the book value and no provision for diminution in value has been made.

The Society occupies 100% of the freehold land and buildings for its own purposes.

14. Fixed Asset Investments

	Loans £000	Other Investments £000	Total £000
Cost			
At 1 January 2016	1,071	62	1,133
Additions	500	7	507
Repayments	(23)	–	(23)
At 31 December 2016	1,548	69	1,617
Impairment			
At 1 January 2016	–	(10)	(10)
Impairment losses/gains	–	2	2
At 31 December 2016	–	(8)	(8)
Net book value **At 31 December 2016**	**1,548**	**61**	**1,609**
At 1 January 2016	1,071	52	1,123

The Society continues to invest directly in renewable energy as announced at the 2014 AGM, and to support other co-operative ventures. All loans are interest bearing and as at 31 December 2016 no loan is considered to be impaired.

Basic

Basic Financial Instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term. Further detail on the measurement of Basic Financial Instruments is noted in Note 1.5

At the beginning of the year the Society held existing loans of £629,000, made to Mutual Vision Technology and Co-operative and Community Finance Ltd (CCF) (2015: £629,000). CCF is the trading name for Industrial Common Ownership Finance Ltd (ICOF) and the organisation is a company limited by guarantee that qualifies for tax relief under the Community Investment Tax Relief (CITR) scheme.

The Society continues to hold loan debentures with Oakapple Berwickshire plc £228,750 (2015: £241,250) and Ecossol PV Ltd £190,421 (2015: £201,000), both solar projects.

During the year the Society invested in a loan debenture with Monnow Valley CHP Ltd for £250,000 to fund the purchase and build of a Combined Heat and Power installation.

Non-Basic

Non-Basic instruments are financial assets or liabilities that do not meet the definition of a Basic Financial Instrument as per FRS 102 section 11.8 to 11.9. Non-Basic Financial Instruments are measured at fair value, with fair value changes recognised immediately in profit or loss except in cases of certain Fixed Asset Investments where the Instrument is carried at amortised cost less impairment – see below, due to the absence of suitable inputs to a fair value methodology.

Held at Fair value

The Society holds 8,000 shares in The Ethical Property Company PLC which were Fair valued at £9,600 at the end of 2016 (2015: £6,800).

During 2015 the Society purchased shares in the GABV originated Sustainability-Finance-Real-Economies Fund (SFRE). SFRE exists to invest in the capital resources of emerging and established values-based finance institutions and is in the early stages of its operations. The Fair value of these shares as at the end of 2016 are recorded as £34,448 (2015: £25,162).

In December 2016 the Society invested in a loan debenture with Upper Pitforthie Windgen plc £250,000 to support the build of a wind turbine and at the year end the Fair Value is determined to be equal to cost.

Held at Cost less impairment

The Society holds 10,328 shares in Mutual Vision Technology Limited which provides IT services to the Society. The Society holds £11,841 (2015: £11,508) ordinary shares in the Phone Co-op Ltd, the provider of the Society's telephone services; this includes interest paid by the issue of further shares. These shares are not currently traded on an active market and are therefore held at cost less impairment.

15. Intangible assets

	Purchase Software £000	Total £000
Cost		
Balance at 01 January 2016	152	152
Other acquisitions externally purchased	82	82
Disposals	–	–
Balance at 31 December 2016	234	234
Amortisation		
Balance at 01 January 2016	119	119
Amortisation for the year	12	12
Disposals	–	–
Balance at 31 December 2016	131	131
Net book value At 01 January 2016	33	33
At 31 December 2016	**103**	**103**

16. Other debtors

	2016 £000	2015 £000
Prepayments	**246**	227
Accrued income	**12**	9
	258	236

Debtors include prepayments and accrued income of £2,000 (2015: £11,063) for the Society that are due after more than one year.

17. Shares

	2016 £000	2015 £000
Held by individuals	**153,701**	127,433
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Accrued Interest	**656**	635
On demand	**133,005**	122,950
In not more than three months	**20,040**	3,848
	153,701	127,433

18. Amounts owed to credit institutions

	2016 £000	2015 £000
Accrued Interest	**–**	3
With agreed maturity dates or periods of notice		
In not more than three months	**–**	1,000
In more than three months but not more than 1 year	**–**	500
	–	1,503

19. Amounts owed to other customers

	2016 £000	2015 £000
	9,375	7,309
Repayable on demand	**9,375**	7,309

20. Other liabilities

	2016 £000	2015 £000
Income tax	**–**	152
Corporation tax	**179**	219
Other creditors	**157**	153
	336	524

21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2016 £000	2015 £000	Liabilities 2016 £000	2015 £000	Net 2016 £000	2015 £000
Accelerated capital allowances	**–**	–	**67**	49	**67**	49
FRS 102 transitional adjustments	**(18)**	(21)	**–**	–	**(18)**	(21)
Other timing differences	**(12)**	(21)	**–**	–	**(12)**	(21)
Tax (assets) / liabilities	**(30)**	(42)	**67**	49	**37**	7

During the year beginning 1 January 2017, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by approximately £3,000. This is due to the reversal of a deferred tax asset recognised in relation to the FRS 102 transitional adjustments. The corporation tax impact of the EIR transitional adjustments is spread over ten years and so deferred tax has been recognised accordingly.

The accounting treatment of expenditure on fixed assets differs from the taxation treatment. For accounting purposes, an annual rate of depreciation is applied by the Society. For taxation purposes, the Society is able to claim capital allowances, a tax relief provided in law.

This difference between the rates of depreciation and capital allowances means that there is a difference between the taxable profit for accounting and taxation purposes and this year the Society was able to claim more tax relief than the accounting charge for depreciation.

22. Provisions

	Other Provisions £000	FSCS levy £000	Total £000
Balance at 01 January 2016	–	40	40
Paid in year	–	(40)	(40)
Charge for the year	43	25	68
Balance at 31 December 2016	**43**	**25**	**68**

At 31 December 2016 the Society has a provision of £25,175 comprising management expenses levies for the scheme year 2016/2017.

Other provisions represent the Society's best estimate of customer redress arising from the issue we identified during the year in the way we had applied historic home insurance premiums to some members' mortgage accounts. The Society believes that some of the documentation in regard to the treatment of insurance premiums may have been misleading.

23. Subordinated liabilities

	2016 £000	2015 £000
a) Floating rate subordinated liabilities due 2016	–	500
b) Floating rate subordinated liabilities due 2019	750	750
	750	1,250
Less unamortised premiums and issue costs	(1)	(2)
	749	1,248

The Notes are repayable at the dates stated or earlier at the option of the Society with the prior consent of the PRA. All subordinated liabilities are denominated in sterling. Interest payments on the floating rate loan (a) was at a rate agreed based on the average SVR (Standard Variable Rate) of the five largest building societies. Interest payments made on the floating rate loan (b) is at a rate agreed with reference to the Bank of England Base Rate. Premiums and discounts, commission and other costs incurred in the raising of subordinated liabilities are amortised in equal annual instalments over the relevant period to maturity. Note (a) was repaid in December 2016. Of the subordinated liabilities held by the Society, £0.374m is permissible as Tier 2 capital resources.

24. Financial instruments

The Society uses financial instruments to invest liquid asset balances and raise wholesale funding.

The Society does not run a trading book.

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. Note 1.5 'Financial instruments' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Society's assets by financial classification:

Carrying values by category 31 December 2016	Held at amortised cost £000	Held at Fair value £000	Total £000
Financial assets			
Cash in hand and balances with the Bank of England	36,192	–	36,192
Treasury Bills and similar securities	8,496	–	8,496
Loans and advances to credit institutions	7,115	–	7,115
Loans and advances to customers	117,989	–	117,989
Fixed asset investments	1,315	294	1,609
Total financial assets	**171,107**	**294**	**171,401**
Non-financial assets	1,655	–	1,655
Total assets	**172,762**	**294**	**173,056**
Financial liabilities			
Shares	153,701		153,701
Amounts owed to credit institutions	–		–
Amounts owed to other customers	9,375		9,375
Subordinated liabilities	749		749
Other liabilities	336		336
Total financial liabilities	**164,161**		**164,161**
Non-financial liabilities and Reserves	8,895		8,895
Total liabilities	**173,056**		**173,056**

24. Financial instruments (continued)

Carrying values by category 31 December 2015	Held at amortised cost £000	Held at Fair value	Total £000
Financial assets			
Cash in hand and balances with the Bank of England	12,790	–	12,790
Treasury Bills and similar securities	5,492	–	5,492
Loans and advances to credit institutions	11,460	–	11,460
Loans and advances to customers	113,512	–	113,512
Fixed asset investments	1,088	35	1,123
Total financial assets	**144,342**	**35**	**144,377**
Non-financial assets	1,552	–	1,552
Total assets	**145,894**	**35**	**145,929**
Financial liabilities			
Shares	127,433	–	127,433
Amounts owed to credit institutions	1,503	–	1,503
Amounts owed to other customers	7,309	–	7,309
Subordinated liabilities	1,248	–	1,248
Other liabilities	524	–	524
Total financial liabilities	**138,017**	**–**	**138,017**
Non-financial liabilities	7,912	–	7,912
Total liabilities	**145,929**	**–**	**145,929**

At 31 December 2016, the Society has loan commitments of £11.5m (2015: £24.3m) measured at cost less impairment.

Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1 The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Society's Level 1 portfolio mainly comprises financial fixed asset investments for which traded prices are readily available.

Level 2 These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets.

Level 3 These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models.

24. Financial instruments (continued)

The table below summarises the fair values of the Society's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Society to derive the financial instruments' fair value:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2016				
Financial assets				
Fair value through profit and loss	260	34	–	294
	260	34	–	294
Financial liabilities				
Fair value through profit and loss	–	–	–	–
	–	–	–	–
31 December 2015				
Financial assets				
Fair value through profit and loss	7	28	–	35
	7	28	–	35
Financial liabilities				
Fair value through profit and loss	–	–	–	–
	–	–	–	–

Credit risk is the risk that a borrower or counterparty of the Society will cause a financial loss for the Society by failing to discharge their contractual obligation.

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Society's exposure to credit risk. The Society maintains a cautious approach to credit risk and new lending. All loan applications are assessed with reference to the Society's Lending Policy.

Changes to the Policy are approved by the Board and the approval of loan applications is mandated. The Board is responsible for approving treasury counterparties.

Adverse changes in the credit quality of counterparties, deterioration in the wider economy, including rising unemployment, changes in interest rates, deterioration in household finances and any contraction in the UK property market leading to falling property values, could affect the recoverability and value of the Society's assets and impact its financial performance. An economic downturn and fall in house prices would affect the level of impairment losses.

Credit risk arising from mortgage and commercial lending is managed through a comprehensive analysis of both the creditworthiness of the borrower and the proposed security. Following completion the performance of all mortgages and commercial loans are monitored closely and action is taken to manage the collection and recovery process. The risk posed by counterparties is controlled by restricting the amount of lending to institutions without an external credit rating. This control also applies to counterparties with credit ratings below A-. ALCO, the Board Lending Committee and the Board provide oversight to the effectiveness of the Society's credit management and the controls in place ensure lending is within the Board approved credit risk appetite.

24. Financial instruments (continued)

The Society's maximum credit risk exposure is detailed in the table below:

	2016 £000	2015 £000
Cash with Bank of England	**36,192**	12,790
Loans and advances to credit institutions	**7,115**	11,460
Treasury Bills	**8,496**	5,492
Loans and advances to customers	**118,651**	113,914
Total statement of financial position exposure	**170,454**	143,656
Off balance sheet exposure – mortgage commitments	**11,529**	24,320
	181,983	167,976

The Society does not use credit derivatives, or similar instruments, to manage its credit risk.

24. Financial instruments (continued)

Credit quality analysis of loans and advances to customers

The table below sets out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets.

	2016 Loans fully secured on residential property £000	**Loans fully secured on land £000**	**Other loans £000**	2015 Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000
Neither past due nor impaired	**108,405**	**6,828**	**10**	103,115	7,656	20
Past due but not impaired						
1 – 2 months	**799**	**25**	**–**	1,275	214	–
2 – 3 months	**94**	**–**	**–**	101	–	–
Greater than 3 months	**131**	**–**	**–**	–	–	–
	1,024	**25**	**–**	1,376	214	–
Individually impaired						
Not past due	**141**	**1,556**	**–**	148	1,384	–
1 – 2 months	**–**	**–**	**–**	–	–	–
2 – 3 months	**–**	**–**	**–**	–	–	–
Greater than 3 months	**–**	**–**	**–**	–	–	–
Possession	**–**	**–**	**–**	–	–	–
	141	**1,556**	**–**	148	1,384	–
Allowance for impairment						
Individual	**56**	**458**	**–**	65	233	–
Collective	**144**	**4**	**–**	98	6	–
Total allowance for impairment	**200**	**462**	**–**	163	239	–

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession, or where fraud, negligence or the borrower has significant financial difficulties has been identified. Further consideration is given in accounting policy 1.5 to the accounts.

24.Financial instruments (continued)

Assets obtained by taking possession of collateral

Details of financial assets obtained during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year end are shown below.

	2016 £000	2015 £000
Property	–	–

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

	2016 £000	2015 £000
LTV ratio		
Less than or equal to 50%	**46,761**	47,511
Greater than 50% but less than or equal to 70%	**38,721**	34,641
Greater than 70% but less than or equal to 90%	**31,765**	29,647
Greater than 90% but less than or equal to 100%	**1,526**	2,204
Greater than 100%	–	–
	118,774	114,003

Forbearance

The Society exercises forbearance to assist borrowers who, due to personal and financial circumstances, are experiencing difficulty in meeting their contractual repayments. The Society, wherever possible, arranges for a concession to be put in place by way of a payment holiday, or repayment of interest only, for an agreed period of time. Consideration is also given to borrowers in arrears and appropriate arrangements are agreed to underpay, or overpay, the arrears within an agreed timeframe. Once the agreement has been successfully concluded the case is no longer considered to be impaired but continues to be monitored. An individual provision is made against those loans which are considered to be impaired.

The table below analyses residential mortgage balances with renegotiated terms at the year end:

	2016 £000	2015 £000
Payment holiday	**1,586**	959
Interest only	**1,101**	1,309
Arrears overpayment	**3**	–
Arrears underpayment	–	–
	2,690	2,268

There were a total of 16 accounts in forbearance at 31 December 2016 (2015: 11).

There were no individual impairment provisions required (2015: 0) in respect of these mortgages.

24. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Society's policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding to retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, and through control of the growth of the business. ALCO manages liquidity under delegated authority, within risk appetite limits established by the Board, and also monitors the composition of liquidity in line with approved policy.

The Society conducts regular stress tests to ensure that it has sufficient liquidity to meet its cash flow needs under adverse scenarios should they arise. The scenarios include Society specific and general market events.

Under the regulatory liquidity regime, introduced in 2010, the Society is required to hold highly liquid assets (buffer liquidity) such as treasury bills, gilts and Bank of England reserve account deposits. The Society completes an Individual Liquidity Adequacy Assessment Process (ILAAP) each year and reviews its assessment of liquidity systems and controls in detail. The ILAAP is approved by the Board.

There are two key measures that the Society considers fundamental in monitoring its liquidity position:

- buffer liquidity - which analyses daily the amount of high quality liquidity that it is necessary to hold
- liquidity stress tests – where as noted above the Society models how far its liquid asset holding would fall under a number of different scenarios

Maturity analysis for financial assets and financial liabilities

The tables below set out the carrying value of the Society's financial assets and financial liabilities. In practice, contractual maturities are not always reflected in actual experience. For example, loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example, shares) are likely to be repaid later than on the earliest date on which repayment can be required.

The following analysis shows gross contractual flows payable under financial liabilities. This includes interest accrued at current rates for the average period until maturity on the amounts outstanding at the financial position date.

31 December 2016	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Shares	133,661	20,106	–	–	–	153,767
Amounts owed to other customers	9,375	–	–	–	–	9,375
Trade payables	–	10	–	–	–	10
Subordinated liabilities	–	–	–	806	–	806
Total financial liabilities	**143,036**	**20,116**	**–**	**806**	**–**	**163,958**

24.Financial instruments (continued)

31 December 2015	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Shares	123,585	3,862	–	–	–	127,447
Amounts owed to credit institutions	–	1,000	504	–	–	1,504
Amounts owed to other customers	7,309	–	–	–	–	7,309
Trade payables	28	–	–	–	–	28
Subordinated liabilities	–	–	533	839	–	1,372
Total financial liabilities	130,922	4,862	1,037	839	–	137,660

Market risk

Market risk is the risk that the value of, or income arising from, the Society's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk, foreign currency risk and equity risk.

As the Society only deals with products in sterling it is not exposed to foreign currency risk. The Society's products are also only interest orientated products so are not exposed to other pricing risks. The level of equity risk is not material.

The Society monitors interest rate risk exposure 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 4% of capital. Results are reported to ALCO and the Board on a bi-monthly basis.

The following table provides an analysis of the Society's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

	200bp parallel increase £000	200bp parallel decrease £000
Sensitivity of reported equity to interest rate movements		
2016		
At 31 December		
Average for the period	**120**	**130**
Maximum for the period	**148**	**160**
Minimum for the period	**82**	**88**
2015		
At 31 December		
Average for the period	130	142
Maximum for the period	155	169
Minimum for the period	108	118

24.Financial instruments (continued)

Capital

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The formal ICAAP process (Internal Capital Adequacy Assessment Process) assists the Society with its management of capital. The Board monitors the Society's capital position on a monthly basis to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. The Society's actual and expected capital position is reviewed against stated risk appetite which aims to maintain capital at a specific level above its Internal Capital Guidance (ICG).

The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements which includes monitoring of:

- **Lending Decisions** – The Society maintains a comprehensive set of sectoral limits on an overall and 12-month rolling basis to manage credit risk appetite. Individual property valuations are monitored against House Price Index (HPI) data and updated quarterly

- **Concentration risk** - The design of lending products takes into account the overall mix of the loan portfolio to manage exposure to risks arising from the property market and other markets the Society is active in

- **Counterparty risk** - Wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria (including ethical considerations) and is subject to a range of limits that reflect the risk appetite of the Society

Stress tests are used as part of the process of managing capital requirements.

The Society's capital requirements are set and monitored by the Prudential Regulation Authority (PRA). During 2016 the Society has continued to comply with the EU Capital Requirements Regulation and Directive (Basel III) as amended by the PRA. Further details of the Society's approach to Risk Management are given in the Directors' Report under Principal Risks and Uncertainties.

Regulatory capital is analysed into two tiers:

- **Tier 1 capital** – which is currently comprised solely of retained earnings

- **Tier 2 capital** – which includes subordinated liabilities and collective provisions

The level of capital is matched against risk-weighted assets which are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets.

There were no reported breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year.

	Note	**2016 £000**	2015 £000
Tier 1 Capital			
General Reserve		**8,680**	7,760
Less intangibles	15	**(86)**	(27)
Total Tier 1 Capital		**8,594**	7,733
Tier 2 Capital			
Subordinated liabilities	23	**374**	548
Collective Provision	12	**148**	104
Total Tier 2 Capital		**522**	652
Total Regulatory Capital		**9,116**	8,385

25. Contingencies

There were no contingencies required as at the end of December 2016.

26. Related parties

Transactions with key management personnel

Key management personnel consists of the Executive Directors and Non-Executive Directors who are responsible for ensuring that the Society meets its strategic and operational objectives. In the normal course of business, key management personnel, and their close family members, transacted with the Society. The balances of transactions with key management personnel, and their close family members, are as follows:

	Number of key management personnel and their close family members 2016 £000	**Amounts in respect of key management personnel and their close family members 2016 £000**	Number of key management personnel and their close family members 2015 £000	Amounts in respect of key management personnel and their close family members 2015 £000
Loans and advances to customers	**2**	**264**	3	283
Deposits and share accounts	**10**	**99**	11	50

Directors' loans and transactions

At 31 December 2016 there were two outstanding mortgage loans (2015: 3), made in the ordinary course of the Society's business to Directors and connected persons, amounting to £263,919 (2015: £282,765).

A register is maintained by the Society containing details of transactions and agreements made between the Society and the Directors and their connected persons. A register of loans to Directors and connected persons is maintained under Section 68 of the Building Societies Act 1986 at the Society's head office. This is available for inspection during normal office hours for a period of 15 days prior to, and at, the Society's Annual General Meeting.

At the end of 2016 Steve Round, CEO of Saescada entered into a contract with the Society to review Digital Strategy at an agreed fee of £24,000 including VAT. The initial payment of £12,000, including VAT was advanced in December and is included as a Prepayment in Note 16. The review will be undertaken during early 2017.

During the year the Society donated £10,000 to the Ecology Building Society Charitable Foundation.

27. Subsequent events

There have been no material subsequent events between 31 December 2016 and the approval of this Annual Report and Accounts by the Board.

28. Country-by-country reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The purpose of these regulations is to provide clarity on the Society's income and the locations of its operations.

For the year ended 31 December 2016:

- The Society's principal activities are mortgage lender and provider of savings accounts
- The Society's turnover (defined as net interest receivable) was £3.742m (2015: £3.363m). Profit before tax £1.118m (2015: £1.074m) all of which arose from UK-based activity
- The average number of full time equivalent employees was 26 (2015: 23)
- Corporation tax of £0.207m (2015: £0.161m) was paid in the year and is within the UK tax jurisdiction
- No public subsidies were received in the year

Annual Business Statement

Year ended 31 December 2016

1 Statutory percentages

	Statutory limit %	**At 31 December 2016 %**	At 31 December 2015 %
Lending limit	25.00	**8.90**	9.22
Funding limit	50.00	**3.20**	6.47

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

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

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

2 Other percentages

	2016 %	2015 %
Gross capital as a percentage of shares and borrowings	**5.53**	6.10
Free capital as a percentage of shares and borrowings	**4.76**	5.21
Liquid assets as a percentage of shares and borrowings	**31.77**	21.83
Profit after taxation as a percentage of mean total assets	**0.58**	0.62
Management expenses as a percentage of mean total assets	**1.45**	1.46

Gross capital represents the general reserves and subordinated liabilities. Of the subordinated liability shown on the statement of financial position, £0.374m is classed as Tier 2 capital.

Free capital is the gross capital plus the collective impairment for losses on loans less tangible and intangible fixed assets.

Shares and borrowings are the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers including accrued interest.

Liquid assets are taken from the items so named in the statement of financial position.

The profit after taxation is the profit for the year as shown in the statement of comprehensive income

Management expenses are the administrative expenses plus depreciation and amortisation for the year as shown in the statement of comprehensive income.

Mean total assets are the average of the 2016 and 2015 total assets.

3 Information relating to Directors at 31 December 2016

Name and Date of Birth	Occupation and Date of Board Appointment	Other Directorships
Steven John Round 08.04.1960	Managing Director 09.12.2010	Strategic Intent Ltd The Big Issue Foundation Change Account Ltd Saescada Limited
Paul Charles Ellis 10.09.1957	Building Society Chief Executive 05.05.1984	INAISE (International Association of Investors in the Social Economy)
Pamela Waring 12.06.1956	Building Society Finance Director and Secretary 07.06.2000	Home-Start Craven
Timothy David Morgan 08.12.1964	Finance Director and Company Secretary 28.08.2013	Ecology Building Society Charitable Foundation Shared Interest Society Ltd Northern Dance
Christopher Jon Newman 06.09.1976	Commercial Director and Company Secretary 27.09.2013	Parity Projects Ltd
Alison Vipond 06.02.1973	Environmentalist & Researcher 27.09.2013	Ecology Building Society Charitable Foundation Electrozest Limited
Andrew John Gold 30.12.1969	Risk, Audit & Compliance Professional 30.05.2014	Airedale NHS Foundation Trust
Louise Power 20.04.1969	Solicitor 17.06.2015	Walker Morris LLP

Paul Ellis and Pam Waring both have service contracts, details of which can be found in the Directors' Remuneration Report on pages 18 to 20. There are no extended notice terms included in these contracts.

Documents may be served on the above Directors and should be marked 'private and confidential' c/o Financial Services Audit, KPMG LLP, 1 Sovereign Square, Leeds LS1 4DA

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