Ecology Building Society

Contents

Society Information

Directors	Malcolm Lynch	*Chair*
	Janet Slade	
	David Black	
	Tony Taylor	Deputy Chair
	Steven Round	
	Mark Jones	
	Adam Clark	(appointed 12 December 2011)
	Paul Ellis	*Chief Executive*
	Pam Waring	*Secretary*
Registered office	7 Belton Road Silsden Keighley West Yorkshire BD20 0EE	
External auditors	KPMG Audit Plc St James Square Manchester M2 6DS	
Internal auditors	Deloitte LLP 1 City Square Leeds LS1 2AL	
Officers	George Haslem	*Chief Operating Officer*
	Jon Lee	*Business Development Manager*
	Richard Saville	*Technology Manager*
	John Ainley	*Compliance Manager*

Chair's Statement

It gives me great pleasure to present the Society's Annual Report and Accounts in this its 30th anniversary year, in which notably the Society has broken through the £100 million of assets barrier.

To achieve this growth in assets against a backdrop of the bank base rate remaining at 0.5% is very encouraging. Despite this low rate environment, we have nevertheless continued to give value to all our savers through the minimum return of not less than 1%. On the other hand, it has been a difficult year for some borrowers, despite the low interest rates. Some of our borrowers have not been immune from redundancy or diminished self-employed income. Measures which the Society can take to assist borrowers in difficult circumstances are contained in the Chief Executive's report.

I am delighted that in the recruitment of Adam Clark as a new non-executive director we have filled the space left by Pam Parkinson as an architect on the Board of your Society. Adam and his firm have a strong reputation in the field of green building and I am certain he will make a positive contribution to our discussions on the ecological quality of our mortgage book. The Chief Executive's Report discusses the strengthening of the staff team that has also been undertaken in 2011. The Board welcomes the continued recruitment of very high calibre personnel to the Society which will provide a firm foundation for its further development.

The Society needs to generate profits to provide capital to underpin further growth in lending, and thereby fulfil the aims of the Society. Our net profit was 24% higher than in 2010 and so remained a strong performance area. Profit has been dragged down since 2007 because of the Society's contribution to the Financial Services Compensation Scheme levy, which has been used to protect savers in those banks that had an imprudent financial model. It is likely that profits will continue to be depressed for some time to come until the crisis resolves. The Society is therefore reviewing its options regarding capital to see whether it can create a financial instrument in which members might wish to participate that satisfies the more stringent requirements for Mutual Society capital required by the European banking authorities. The purpose of such capital would be to permit the Society to do more green lending as a Mutual Society, including expanding our programme of community-based locally owned housing assets and affordable green homes.

It has been interesting to note the heightened prominence of the concept of mutuality as a component of the Big Society. The coalition Government has even appointed a Professor from the London School of Economics to promote mutuals in the Cabinet Office. Historically, both financial services mutuals and non-financial services mutuals have been the responsibility of HM Treasury. More and more commentators on the mutual sector are suggesting that it is time for mutuals to be considered as a mainstream way of doing business and therefore the responsibility of the Department of Business, Innovation and Skills rather than as an afterthought within HM Treasury. I hope this commentary is listened to by the Government so that the mutual sector is strengthened and encouraged to grow.

I wish to thank our members for their continued support and engagement with the Society evidenced through increased saving, borrowing and member contributions to our forward development by, amongst other things, comment on our lending policies and willingness to review our new website and also our other publications. We look forward to welcoming you to our 31st Annual General Meeting in April.

Malcolm Lynch

Malcolm Lynch
Chair

2 March 2012

Chief Executive's Review

Overview

A building society is only as good as its people, and so this year I would first of all like to draw members' attention to the improvements in and extension of the Ecology Team in 2011.

George Haslem arrived at the beginning of the year as Chief Operating Officer, with a focus on the efficient functioning of the operational side of the Society, including all aspects of the Society which members need to engage with. George has tremendous experience in the building society world to bring to bear in his role with us. **Anna Laycock** joined us from a social enterprise in Bradford as our Communications and Research Manager, and in 2011 led our initial venture into social media and the development of our new website. Anna has a masters degree in Global Ethics and previous roles have included spells at Divine Chocolate and Oxfam. We saw the retirement of much-loved George Wambold as Technology Manager, and the arrival of his very able successor **Richard Saville,** who amongst other initiatives has rebuilt our server farm and begun rewriting our internally-developed computer applications on a more modern software platform. Our new Finance Administrator is **Andrea Chatham,** who has hit the ground running and is working towards completing her accounting technician qualification. During the year the mortgage and savings teams were also strengthened by the recruitment of **Fiona Julian**, **Matthew Feeney** and **Andrew Wyatt**, who all have made good progress.

Some of this recruitment was due to a desire to increase our communications capabilities and to bolster service levels, but inevitably some is due to heightened compliance and regulation requirements. All of this adds up to a short term increase in cost but we will quickly see the benefits over the next couple of years. What it does demonstrate is the confidence your Board has in the future prospects of the Society, such that the Society is an organisation recruiting staff against a background of rising unemployment.

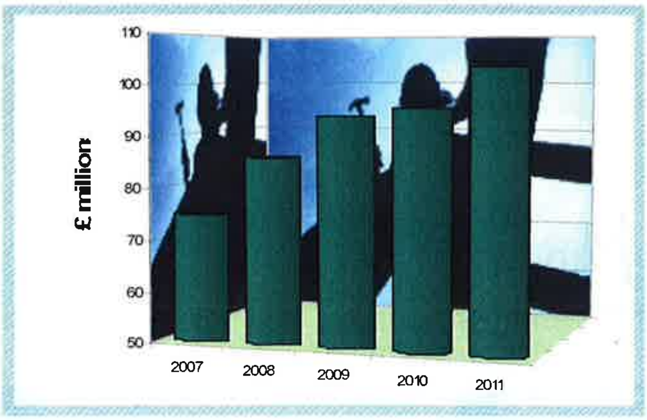
This confidence arises partly from a tangible increase in engagement with environmental concerns, paradoxically due to heightened concern about public policy in a number of areas fuelled by the financial crisis, but also from the solid financial performance that we have experienced during 2011, in particular:

- Growth significantly up on the planned low level experienced in 2010
- Record gross lending
- Inflows of savings double the expected levels
- Strong profitability.

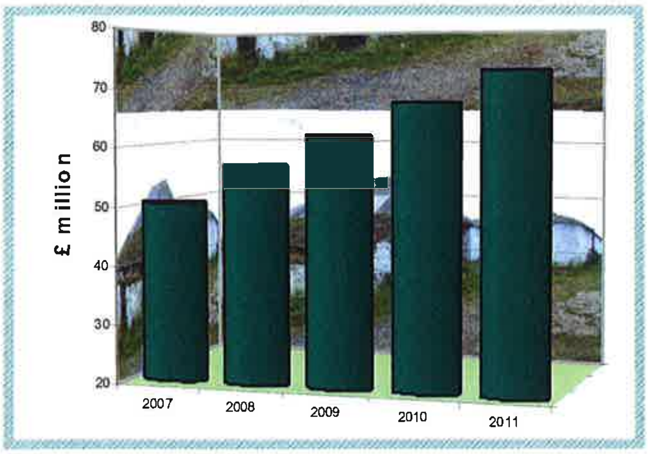
I comment on all of these areas in more detail below, along with the key performance indicators that the Board uses to measure the Society's financial progress, the service we provide to our members and our impact on the environment and community. Each of the sections below contains comment in ***green*** to indicate specific responses to environmental responsibility and good corporate governance.

Asset growth

Overall growth in assets was much higher at 8.1% than the 1.8% experienced in 2010. The Society believes in restricting the level of uncommitted funds held by the Society, at the expense of overall growth, as we do not feel it sits well with the mission of the Society to take in excessive funds that cannot be deployed with projects that meet our lending criteria. To do so would distort the market for ethical deposits, and reduce the social and environmental dividend obtained by our members. The strong lending performance during 2011 enabled the Society to take on board a much higher level of deposits from members without the liquidity ratio becoming too high.



Chief Executive's Review *continued*



Mortgage lending

Mortgage asset growth dropped slightly from the previous year, amounting to 7.6% (2010: 9.3%). Gross lending for the year was the highest on record at £18.3m (2010: £14.5m), with net lending of £8.9m (2010: £10.0m). We had expected to improve on our net lending figure of 2010, so this was the one area where we did not meet our expectations. This was due to an increased level of redemptions, which had been much lower than usual in the previous two years. The increase in redemptions seems to have been driven by a belief that base rates would rise during the year, which as the Executive expected, proved not to be the case. ***An increase in gross lending tends to be viewed as more important by Society management as it represents new lending and therefore more properties undergoing environmental transformation. Consequently, it is therefore a stronger indicator that the Society is fulfilling its primary purpose in promoting an environmentally informed lending programme. The increase in mortgage assets shows that the lending proposition of the Society continues to serve the needs of our borrowing community.***

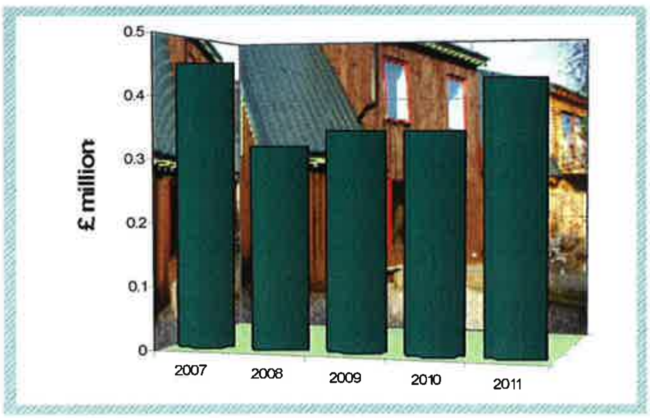
Total provisions against possible mortgage losses increased to £659,000 (2010: £577,000). The Society cannot expect to be immune from the effects of the downturn, but nevertheless arrears remained below the industry average. The Board has taken the view that although the priority of management is to minimise the incidence of loss, it is appropriate to account for the probability of such losses occurring. ***The Society will wherever possible exercise forbearance when borrowers are experiencing difficulty relating to the prevailing economic conditions. Where the risk to the borrower is not unduly increased, and gives the borrower breathing space to sort out their financial affairs, the Society will consider payment holidays, changes to payment schedules, interest-only arrangements and amendments to the term of the mortgage.*** Current mortgage loss provisions include some accounts where forbearance is being exercised, and where there is a possibility of a loss being incurred.

Profit and capital

The Society aims to generate sufficient profit from its activities to ensure that it has enough capital to underpin its future lending programme and other business assets. ***Since it has no equity shareholders, it does not need to generate excess profits to make dividend payments.***

Profit after tax

Net profit (surplus) for the year was 24% higher at £425,000 (2010: £343,000). This remains a strong performance despite an increase in administration costs and the FSCS levy. Net profit adds directly to the capital of the Society, and it is important to increase capital resources in line with increased demand for the services of the Society, thereby protecting members' funds from the effect of any future potential losses. Increased capital also increases our ability to lend in absolute terms and to consider lending on larger projects.



Members need to be aware that the profit levels are currently depressed by the ongoing need to contribute to the resolution arrangements for a number of failed financial institutions including the Bradford and Bingley, which will be the case for some years to come. In fact, we understand that the Treasury wishes to see the amount we pay substantially **increased** in the near future, and we are currently awaiting the outcome of the Treasury's deliberations.

Chief Executive's Review *continued*

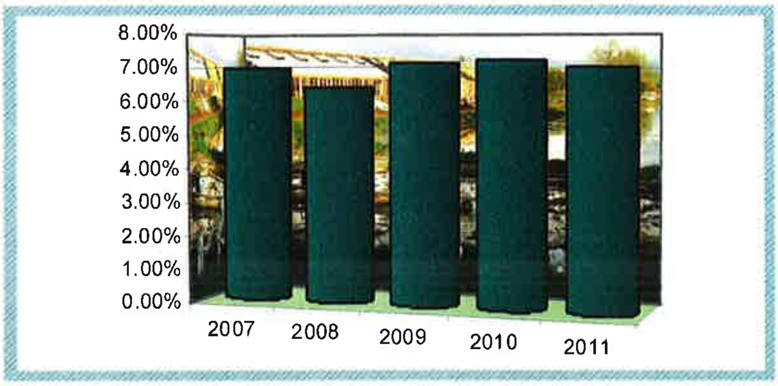
Management expenses ratio

The management expenses ratio increased significantly to 1.39% (2010: 1.21%). The main cause of this was the increase in resource and associated remuneration costs as mentioned in the introduction. Overall administration costs therefore grew by 21.85% in comparison to 7.68% in 2010.

This rise followed a further slight increase in 2009, however it is anticipated that the increase in costs during 2012 will be much lower, as the Society is unlikely to recruit so extensively.

Gross Capital Ratio

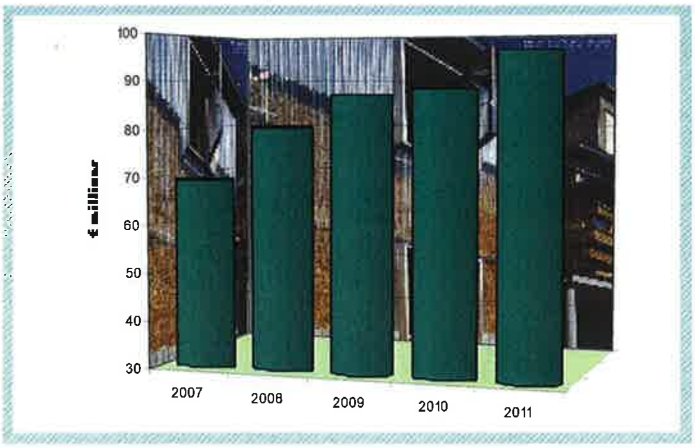
Changes in the solvency regime mean that for the present time, the Gross Capital Ratio provides a more comparable measure than the Solvency Ratio. The Gross Capital Ratio reduced slightly in 2011 to 7.03% (2010: 7.20%), due to the addition of fixed assets which represented necessary investment in the operational facilities of the Society.



Savings

Savings balances increased by 8.45% (2010: 1.59%), growing from £88.65m in 2010 to £96.14m by the end of 2011. This inflow was double that expected for the year, showing the continued strong interest in the lending programme of the Society. ***Throughout the year, the Society continued its longstanding commitment to never pay less than 1.00% interest to savers.***

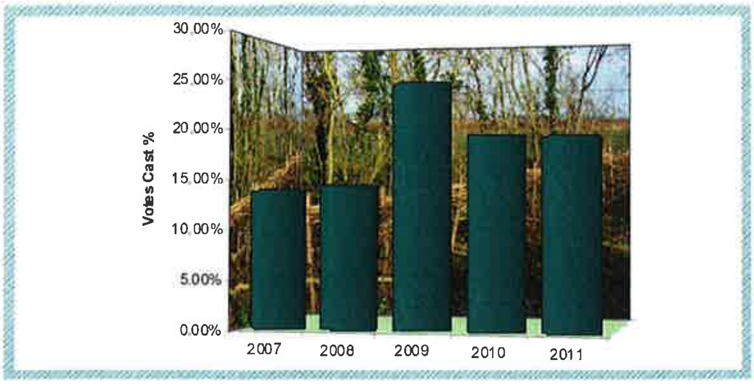
Increased lending meant that the proportion of liquid funds in the Society's assets increased only slightly to 30.03%, from 29.64% in 2010. ***The Society has always believed that holding more liquidity than is required for prudential reasons does not fit with the ethical deposit-taking model as it distorts interest rates in the market and means that a higher proportion of your deposit is not deployed to support social and environmental lending projects. Finally, it necessarily remained the case that in 2011 counterparties (banks and other building societies) were selected primarily for their financial safety rather than as a result of our established policy of examining their environmental and ethical track record – which we continue to monitor and record.***



Chief Executive's Review *continued*

Member relations

2011 was an unusual year for the Society in terms of member events, as we had a more conventional AGM back at the Head Office, before heading off to the Centre for Alternative Technology in June for our special 30th anniversary members' conference, attended by over 150 people. Members in attendance enjoyed a varied programme of tours, seminars, training sessions and a celebratory dinner and music on the Saturday evening. Much more information about the Conference is given in the special issue of the Newsletter produced after the conference, which is still available. Perhaps as a result of splitting the event, the proportion of members voting was slightly down from 19.30% in 2010 to 19.17%, and surprisingly the proportion of votes cast electronically reduced from 34.09% in 2010 to 31.65% in 2011. This year for the first time a short poll accompanied the electronic voting facility, and we intend to continue making use of this method of gathering members' opinions.



Our place in the community

The Society's commitment to change extends beyond the immediate impact of our mortgage lending. As a mutual, we look for the widest application of mutual governance in economy and society, an expanded democratic space and by extension the support and 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.

During 2011, this was reflected in our support of 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:

- ***New Economics Foundation programme at the Hay Festival 2011***
- ***Future Finance forum of the World Future Council***
- ***Roundhay Live Community Festival - Leeds***
- ***Making our Money Work for a Better World - Belfast***

The Ecology Building Society Charitable Foundation made grants to Balsall Heath is our Planet (West Midlands) and Monkton Wyld Court, a sustainable living education initiative based in Dorset.

In addition we are members of a number of organisations such as UK Social Investors Forum, Sustainable Building Association (AECB), Schumacher Society, Woodland Trust, Development Trusts Association, Northern Ireland Environment Link, Scottish Ecological Design Association and the Energy Efficiency Partnership for Homes. In 2011 we became full members of the Institute for Social Banking based in Bochum, Germany and began a programme of sending colleagues on the Summer School training courses that the Institute runs, thereby deepening our ties with other ethical financial institutions across the globe.

In 2011 we gifted time to a number of organisations including the International Association of Investors in the Social Economy (INAISE), Passivhaus Trust and HALE Project.

Our Earthsaver Bonds continued to generate donations for Practical Action, the leading international development charity, and the Centre for Alternative Technology. We maintain shareholdings in the Ethical Property Company, the Phone Co-op and Ecos Trust, and where possible we place funds with other Social Economy financial institutions such as Charity Bank.

Chief Executive's Review *continued*

The three main internal developments regarding our Environment Policy in 2011 were that:

- ***We conducted staff training on environmental awareness, including a visit to Hockerton Housing Project***
- ***We replaced paper towels with the latest hand dryer technology***
- ***We also obtained planning permission for our new solar water heating system at the HQ building.***

Our main commitments for 2012 are to:

- ***Improve procurement procedures***
- ***Conduct further staff training on carbon management***
- ***Review the performance of the HQ building in terms of energy efficiency and air-tightness, conducting any remedial work identified.***

We intend to further develop our programme of engagement in 2012, not least with volunteering activity in the communities local to our head office location.

Future development of the Society

Having recruited widely in 2011, we will be able to reap the benefits in 2012. A key part of our work will be promoting and elaborating on our four core values – sustainable lending, ethical savings, affordable housing and mutualism. We believe these values are core to a more sustainable economy and society, in which our financial system is democratic, transparent and socially useful, and everybody has access to a decent, low impact home in a resilient, cohesive community.

We expect to make good progress in increasing our profile, on the back of the sound principles on which we base our business activity. Many key public debates at the present time reflect the long-held views of the Society and its members, and we will be focussed on being part of that on-going conversation.

We will continue to improve our mortgage facilities and our services to members generally within the context of social and environmental lending. And we will continue to play our part in green and wider communities locally, nationally and increasingly, internationally.

On the financial front, another year of growth is expected – with the caveat that failure to solve the present Eurozone crisis will have wide ramifications. However, the Society is well placed to weather any turbulence. During the course of the year, a lot of focus will be on developing our capital plans and we will inform members of these when they take a more final shape.

Finally, we will do our utmost to justify the continued confidence of our members in the mission of the Society, without which we would not be able to make our continued impact on the environmental challenges that face us.

Paul Ellis
Chief Executive

2 March 2012

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 2011.

Business objectives of the Society

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 on 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.

Business review

The key performance indicators employed by the Society and the business review for 2011 are discussed within the Chief Executive's Review.

Charitable donations

During the year the Society made charitable donations amounting to £8,401 (2010: £9,118). No contributions were made for political purposes.

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 2011 is £1,214,000. 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. 7% of the energy used is generated by our photovoltaic cells, with the remainder supplied from renewable sources.

Directors and staff matters

The Society's policy is to not discriminate in any way regarding recruitment, career development and training opportunities. Further, the Society is mindful to 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. It is also unique in that it operates a 5:1 salary ratio, where the largest salary paid does not exceed five times the lowest full-time salary paid.

Mortgage arrears

At 31 December 2011 there were 5 cases where repayments were 12 months or more in arrears (2010: 2). The total amount outstanding on the accounts, before provisions, is £1,668,699. The total arrears on these cases amount to £137,771. At the year end there were five properties in possession (2010: 1). Specific Provisions of £515,694 have been made against the anticipated loss on sale of the properties.

Directors' Report *continued*

Capital

As at 31 December 2011, gross capital amounted to 7.03% of total share and borrowing liabilities, while free capital amounted to 5.66% of total share and borrowing liabilities.

Details of the Society's Basel II disclosures for Pillar 3 are available on the website.

Principal risks and uncertainties

The Society has a documented framework for the management of risk which is subject to continual re-evaluation. Management are responsible for the identification and management of risks facing the Society supported by the risk management function. Risk across the business is controlled as follows:

- 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 engagement in risk identification and day-to-day operation of the risk management framework
- The Asset and Liability Committee (ALCO) – instituted in 2011 - is primarily responsible for market, liquidity and credit risk (core lending and financial institutions)
- the Board Lending Committee is responsible for new lending initiatives and commercial lending
- business continuity aspects of operational risk are the responsibility of the Technology Manager.

The effectiveness of the Society's Risk Management Framework is monitored and reported on by Internal Audit. Oversight of Risk Management on behalf of the Board is performed by the Risk, Audit and Compliance Committee.

Credit risk

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. Credit risk arises primarily from mortgage lending to individuals, commercial lending to corporate bodies and lending of liquid assets to financial institutions.

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. Risk arising from lending to financial institutions is managed through restriction of lending primarily to institutions with an external rating of not less than A-.

Market risk

Market risk is the risk that the value of, or income arising from, assets and liabilities change principally 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 lending.

Liquidity risk

Liquidity risk is the risk that the Society will be unable to meet current and future financial commitments as they fall due. These commitments include deposits, advances and other borrowings. The approach to management of liquidity risk is described in note 21 to the accounts.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational losses can result from fraud, errors by employees, failure to comply with regulatory requirements, equipment failures or natural disasters.

Regulatory risk

The Society will need to replace existing capital instruments as they mature, and is therefore actively seeking new instruments which comply with the forthcoming Basel III capital regime.

Based on its share of protected deposits, the Society, in common with all regulated UK deposit-takers, pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. An agreement by the FSCS not to charge Compensation Cost Levy for three years is at an end and there exists the possibility that compensation for losses suffered could be levied in scheme year commencing 1 April 2012. The Management Expenses

Directors' Report *continued*

Levy is subject to negotiations between HMT and FSCS on the appropriate funding rate for future periods. Until negotiations are complete there exists the possibility that the rate may change.

Financial risk management objectives and policies

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 22.

Suppliers and creditor payment policy

All suppliers are requested to furnish the Society with a copy of their Environmental Policy, and the quality of the documents 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.

The number of trade creditor days as at 31 December 2011 was 41 days (2010:48 days).

Auditors

The auditors, KPMG Audit Plc, have expressed their willingness to continue in office and in accordance with Section 77 of the Building Societies Act 1986, a resolution for the reappointment of KPMG Audit Plc as auditors is to be proposed at the Annual General Meeting.

When the Society ran a tender process for this work in 2005, 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:

Malcolm Lynch	*Chair*	Pam Waring	*Secretary*
Paul Ellis	*Chief Executive*	Tony Taylor	*Deputy Chair*
David Black		Steven Round	
Janet Slade		Mark Jones	
Pamela Parkinson	(retired 30 April 2011)	Adam Clark	(appointed 12 December 2011)

David Black is to retire by rotation, and being eligible, offers himself for re-election at the AGM.

Mark Jones is to retire by rotation, and being eligible, offers himself for re-election. Due to increasing work commitments arising out of his new business Mark is seeking re-appointment for one year only.

Adam Clark was co-opted on to the Board in 2011 and in accordance with the provisions of Rule 25(4) is required to stand for election at the AGM.

The Board appoint directors who can offer specific skills and experience to the Society. Adam Clark has extensive knowledge of green building practice as a practitioner, serves on the AECB expert speaker panel and holds patents in energy savings technology.

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.

On behalf of the Board

Malcolm Lynch

Malcolm Lynch
Chair

2 March 2012

Directors' Report on Corporate Governance

Overview

The Society's regulator, the FSA, requires the Board to have regard to the UK Corporate Governance Code issued by the Financial Reporting Council in developing its policies and practices. Although this Code is designed primarily for Listed Companies and not for mutual organisations, such as Building Societies, the Society has adopted its provisions wherever it is appropriate to do so and where it has not done so an explanation is given.

The Board

The Board works with management to set the Society's strategic and policy direction acting in the best interest of its members. 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 responsibilities of Directors in relation to the preparation of the Society's accounts and the statement that the Society's business is a going concern are contained in the Directors' Responsibilities on page 17. The Board meets at least eleven 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. Meetings of all Board Committees are minuted and the minutes of each meeting are tabled for consideration at the next Board Meeting. The schedule of retained and delegated powers is reviewed regularly.

All Directors have access to the advice and services of the Secretary who is responsible for ensuring all Board procedures are complied with and advising the Board, through the Chair, on governance matters. The Board has access to independent professional advice, at the expense of the Society, to permit them to discharge their responsibilities as directors. The Society maintains appropriate liability insurance cover in respect of any legal action against its Directors and Officers.

Balance of and appointments to the Board and Independence

All Directors are 'approved persons' and must meet and maintain compliance with the standards of fitness and propriety set down by the Financial Services Authority and comply with the Code of Practice for Approved persons. The Board considers that all its Non-Executive Directors are independent and free of any relationship which could materially interfere with the exercise of their independent judgement. 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. It has determined that in order to provide both continuity and stability Non-Executive Directors will be required to stand for annual election after completing twelve years service.

The Board has considered the appointment of a Senior Independent Director but feel that the concept of such an appointment is of limited relevance to the Society as one of the main roles of this function is to provide a contact point for institutional members. Members who have concerns that they do not wish to discuss with either the Chair or the Executive may contact any member of the Board directly by addressing their correspondence to the individual Director and marking it Private and Confidential, alternatively all Directors attend the AGM and can be approached both before and after the formal meeting.

The Society's rules require that all directors are submitted for election at the Annual General Meeting (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 circulation of potential vacancies in the Society newsletter. The Committee reviews the skills, knowledge and experience of the candidate against the current requirements of the Board and

Directors' Report on Corporate Governance *continued*

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.

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 a Non- Executive Director appraises 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.

Risk Management and Internal control and Board committees

The Board is collectively responsible for determining strategies for risk management and control. Senior management have the tasks of designing, operating and monitoring risk management and 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.

Risk, Audit and Compliance committee (RAC)

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

The Committee has responsibility for ensuring that effective whistleblowing arrangements are in place. This enables any concerns about any matters whatsoever to be raised by employees in confidence.

The composition and effectiveness of the Committee are reviewed annually by the Board. An induction programme is provided for new RAC members. Membership of RAC is for a period of up to three years, extendable by no more than two additional three year periods. The committee met four times during 2011.

The Committee monitors the independence and effectiveness of Internal and External Audit.

Non-audit work undertaken by External Auditors would only be conducted by prior approval of the Risk, Audit and Compliance 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)

In October the Board formed ALCO a committee that has taken responsibility for monitoring and controlling 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

Directors' Report on Corporate Governance *continued*

adequate liquid financial resources to meets its liabilities as they fall due. The responsibilities of this committee were previously held by the full Board, with the creation of the ALCO forming part of the evolution of the Society's internal arrangements as it continues to grow.

The committee is chaired by the Chief Executive the other members being the Finance Director and two Non-Executive Directors

The committee meets at least nine times a year.

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 chaired by Steven Round. The committee met three times during 2011.

Board Lending Committee

The Committee examines non-standard risks and non-residential lending proposals. It also reviews potential changes to lending policy and limits. The Committee met three times during the year, and is chaired by David Black.

Nominations Committee

This committee is responsible for reviewing applications for the post of Non-Executive Director and making a recommendation to the full Board. The committee consists of the Chair, one Executive Director and one Non-Executive Director. The Committee met on four occasions in 2011.

The function and details of the **Remuneration Committee** are disclosed within the Directors' Remuneration Report on page 15.

Board and committee membership and attendance record

2011	Board	Risk and Audit	DSPC	Board Lending	Remuneration	Nominations	ALCO
Malcolm Lynch	11/11	■	02/02	■	■	04/04	■
Tony Taylor	11/11	04/04	02/02	■	01/01	04/04	02/02
Janet Slade	11/11	04/04	02/02	01/01	■	■	02/02
Pamela Parkinson	03/04	■	■	02/02	■	■	■
David Black	11/11	■	02/02	03/03	01/01	■	■
Mark Jones	11/11	01/01	02/02	03/03	01/01	■	■
Steven Round	10/11	03/03	02/02	■	■	■	■
Adam Clark	01/01	■	■	01/01	■	■	■
Paul Ellis	11/11	04/04	02/02	03/03	■	04/04	02/02
Pam Waring	11/11	04/04	02/02	■	■	■	02/02

The above contains occasional attendance at committee when directors acted as deputies for absent colleagues. The first figure represents the number of meetings attended, and the second the maximum number of possible attendances.

■ *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 FSA 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 fees of the Executive and Non-Executive Directors. In addition, it reviews general salary levels. The Committee is chaired by Mark Jones. The Committee meets as required but at least once a year.

Remuneration policy

Non-Executive Directors

Non-Executive Directors receive a fee for their services. Non-Executive Directors do not receive any pension, profit related pay or other taxable benefits. Additional fees are paid to the Chair, Deputy Chair and those Non-Executive Directors who are members of certain Board Committees in recognition of the additional duties and responsibilities associated with these positions. The contribution of each director is appraised annually.

Executive Directors

Remuneration of the Executive Directors comprises a number of elements: basic salary, profit related pay, 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 Committee considers external data from salary surveys of comparable institutions. The Society has a long established policy that no basic salary will exceed a maximum of five times the lowest full grade available.

Profit related pay

Executive Directors are included in the Society's Profit Related Pay scheme that distributes, on an annual basis, 5% of gross profit (2.5% over £300,000) based on basic salary to all qualifying employees in recognition of their contribution to the Society's profitability. An employee qualifies for the scheme after 12 months service.

Pension

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 that can be used by other staff members.

Ecology Building Society

Directors' Remuneration Report *continued*

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, Secretary, has a service contract entered into on 28 December 2001. Both contracts are terminable by either party giving six months notice.

Executive Directors' remuneration

In 2011 recruitment at senior manager level led to the pay scale of the Executive being revised. Whilst the Executive have been happy to accept lower than the market rate the Board decided that this was no longer appropriate.

2011	Salary £000	Profit Related Pay £000	Taxable Benefits £000	Contributions to pension scheme £000	Total £000
Paul Ellis (Chief Executive)	**70**	**2**	**2**	**6**	**80**
Pam Waring (Finance Director)	**62**	**1**	**1**	**5**	**69**
Totals	**132**	**3**	**3**	**11**	**149**
2010					
Paul Ellis (Chief Executive)	60	3	3	5	71
Pam Waring (Finance Director)	46	2	1	4	53
Totals	106	5	4	9	124

Non-Executive Directors' remuneration

	2011 Fees	2010 Fees
Malcolm Lynch	**13**	8
Tony Taylor	**10**	9
Janet Slade	**10**	8
David Black	**10**	7
Pamela Parkinson (Jan-Apr 2011)	**3**	9
Mark Jones	**10**	9
Steven Round	**8**	1
Adam Clark (Appointed December 2011)	**1**	-
Totals	**65**	51

On behalf of the board

Malcolm Lynch

Malcolm Lynch
Chair

2 March 2012

Statement of Directors' Responsibilities *in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the annual accounts*

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

The Building Societies Act 1986 ("the Act") requires the directors to prepare Society annual accounts for each financial year. Under that law they have elected to prepare the Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The society 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 these 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 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 of which should contain 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 the Financial Services 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 safeguarding 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.

Going concern

In common with many 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 should be able to operate at adequate levels of both liquidity and capital, for at least 12 months from the date of signing these accounts.

Malcolm Lynch
Chair

2 March 2012

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 31st December 2011 set out on pages 19-33. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 17, 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 (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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.

Jonathan Holt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Manchester

2 March 2012

Income and Expenditure Account

for the year ended 31 December 2011

	Note	2011 £000	2010 £000
Interest receivable and similar income	2	**3,705**	3,348
Interest payable and similar charges	3	**(1,648)**	(1,366)
Net interest receivable		**2,057**	1,982
Fees and commissions receivable		**12**	16
Fees and commissions payable		**(40)**	(32)
Other operating income		**66**	51
Total operating income		**2,095**	2,017
Administrative expenses	4	**(1,317)**	(1,080)
Depreciation and amortisation	13	**(71)**	(66)
Provisions for bad and doubtful debts	6	**(94)**	(407)
Provisions for contingent liabilities and commitments	21	**(54)**	(19)
Profit on ordinary activities before tax		**559**	445
Tax on profit on ordinary activities	8	**(134)**	(102)
Profit for the financial year		**425**	343

The notes on pages 22 to 33 form part of these accounts.

There were no recognised gains or losses other than those reflected in the above income and expenditure account (2010: £nil).

The profit for the year was derived wholly from continuing operations. 'Profit on ordinary activities before taxation' represents the FRS 3 caption 'Operating profit'.

Balance Sheet
as at 31 December 2011

	Note	2011 £000	2010 £000
Assets			
Liquid assets			
Cash in hand		-	-
Treasury bills	10b	**5,994**	5,494
Loans and advances to credit institutions	9	**17,793**	16,698
Debt securities	10a	**5,082**	4,085
Loans and advances to customers	11		
Loans fully secured on residential property		**63,467**	59,003
Other loans		**9,515**	8,840
Investments			
Other investments	12	**122**	122
Tangible fixed assets	13	**1,359**	1,295
Prepayments and accrued income		**120**	150
Total assets		**103,452**	95,687
Liabilities			
Shares	14	**90,175**	83,335
Amounts owed to other customers	15	**5,968**	5,313
Other liabilities	16	**364**	335
Accruals and deferred income	18	**33**	18
Provisions for liabilities – FSCS Levy	21	**105**	80
Provisions for liabilities - other	17	**47**	23
Subordinated liabilities	19	**1,246**	1,494
		97,938	90,598
Reserves			
General reserves	20	**5,514**	5,089
Total liabilities		**103,452**	95,687

The notes on pages 22 to 33 form part of these accounts.

These accounts were approved by the Board of directors on 2 March 2012 and were signed on its behalf by:

Malcolm Lynch
Chair

Paul C Ellis
Chief Executive

Pam Waring
Finance Director

Ecology Building Society

Cash Flow Statement

for the year ended 31 December 2011

	2011 £000	2010 £000
Net cash inflow from operating activities	**5,602**	5,586
Returns on investments and servicing of finance		
Interest paid on subordinated liabilities	**(54)**	(62)
Taxation	**(99)**	(132)
Capital expenditure and financial Investments		
Purchase of tangible fixed assets	**(135)**	(19)
Profit from the Sale of fixed assets	**3**	-
Purchase of treasury bills	**(13,998)**	(9,481)
Proceeds from sale of treasury bills	**13,498**	7,982
Purchase of debt securities	**(6,049)**	(3,532)
Proceeds from sale of debt securities	**5,052**	2,014
Purchase of investments	**-**	(13)
Financing:		
Repayment of subordinated debt	**(250)**	-
Increase in cash	**3,570**	2,343

	2011 £000	2010 £000
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**559**	445
Decrease/(Increase) in prepayments and accrued income	**5**	(133)
Increase in accruals and deferred income	**138**	49
Provisions for bad and doubtful debts	**82**	407
Increase/(Decrease) in Provision for FSCS levy	**25**	(8)
Depreciation	**71**	66
Interest on subordinated liabilities	**56**	64
Net cash inflow from trading activities	**936**	890
Movement in:		
Loans and advances to customers	**(5,221)**	(6,178)
Shares	**6,717**	1,109
Amounts owed to other customers	**655**	233
Loans and advances to credit institutions	**2,497**	9,500
Other liabilities	**18**	32
Net cash inflow from operating activities	**5,602**	5,586

Analysis of increase in cash	2011 £000	Flows £000	2010 £000
Loans and advances to credit institutions repayable on demand	**9,665**	3,570	6,095

Notes to the Accounts

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Society's accounts.

Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 ('the accounts regulations') and the Building Societies Act 1986.

Tangible fixed assets and depreciation

Fixed assets are capitalised and stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, on a straight-line basis as follows:

Freehold premises	-	50 years
Computer hardware and associated software	-	3 to 4 years
Equipment, fixtures and fittings	-	4 to 10 years
Motor vehicles	-	4 years
Plant and Machinery	-	10 years

Depreciation is not provided on freehold land in accordance with Financial Reporting Standard 15.

Government grants

Capital based government grants are included within accruals and deferred income on the balance sheet and credited to the profit and loss account on a straight line basis over the estimated useful economic lives of the assets to which they relate.

Leases

Operating lease rentals are charged to the profit and loss account on an accruals basis over the period of the lease.

Provisions and forbearance

Provisions are made to reduce the value of loans and advances to the amount, which the directors consider is likely ultimately to be received.

Throughout the year, and at the year end, individual assessments are made of all advances and loans on properties which are in possession, in arrears by three months or more, or where due to the borrower's personal and financial circumstances, forbearance has been exercised. Forbearance is exercised where a borrower has personal or financial circumstance that will affect his or her ability to make regular mortgage repayments as they fall due. The Society, wherever possible, arranges for a concession to be put in place in the form of a payment holiday, or repayment of interest only, for an agreed period of time. Consideration is also given to a borrower in arrears and appropriate arrangements are agreed to under, 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 continue to be monitored. Specific provision is made against those advances and loans which are considered to be impaired. The small size of the Society's mortgage book enables individual assessment of all forbearance cases. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date and realisation costs. A general provision is also made against advances which have not been specifically identified as impaired but which the Society's experience and the general economic climate would indicate that losses may ultimately be realised.

Loans and advances in the balance sheet are shown net of all provisions. The charge to the income and expenditure account comprises the movement in the provision, together with the losses written off in the year.

Interest income from all loans is credited to the income and expenditure account as it becomes receivable. Interest on loans which are regarded as impaired is transferred to a suspense account and is not credited to the extent that recovery is considered doubtful.

Notes to the Accounts *continued*

1 Accounting policies *continued*

Pensions

The Society operates a defined contribution scheme for its employees. A contribution of 8% of gross salary is paid into the Group Personal Pension Scheme for all employees after an initial service period of three months.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Liquid assets

Debt securities and Treasury Bills are intended for use on a continuing basis in the Society's activities and are classified as financial fixed assets and are stated at cost, adjusted to exclude accrued interest at the date of purchase. Premiums and discounts arising on the purchase of financial fixed assets are amortised over the period to the maturity date of the security. Any amounts so amortised are charged/credited to the income and expenditure account for the relevant financial year. Other liquid assets are stated at the lower of cost (including accrued interest) and net realisable value.

Subordinated liabilities

Premiums and costs incurred in the raising of subordinated liabilities are amortised in equal annual instalments over the relevant period to maturity.

Income recognition

Interest income and fees and commission are recognised on an accruals basis.

Mortgage incentives

Mortgage incentives, such as interest discounts, are charged against interest receivable in the year incurred.

Other investments

Investments are stated at the lower of cost and net realisable value.

2 Interest receivable and similar income

	2011 £000	2010 £000
On loans fully secured on residential property	**2,950**	2,633
On other loans	**428**	408
On debt securities:		
Interest	**124**	97
Amortisation of premiums	**(44)**	(12)
Profit on disposal	**23**	1
On treasury bills at fixed rate interest	**34**	22
On other liquid assets	**188**	197
Other interest receivable and similar income	**2**	2
	3,705	3,348

Notes to the Accounts *continued*

3 Interest payable and similar charges

	2011 £000	2010 £000
On shares held by individuals	**1,493**	1,239
On deposits and other borrowings		
Subordinated liabilities	**56**	64
Other	**99**	63
	1,648	1,366

4 Administrative expenses

	2011 £000	2010 £000
Staff costs		
Wages and salaries	**585**	447
Social security costs	**64**	46
Other pension costs	**48**	33
	697	526
Other administrative expenses	**620**	554
	1,317	1,080
Other administrative expenses include:		
Auditors (exclusive of VAT)		
Audit of the financial statements	**24**	23
Other services pursuant to legislation	**1**	1

5 Employees

The average number of employees (including executive directors) during the year was:

	2011	2010
Full time	**16**	14
Part time	**4**	3
	20	17

Notes to the Accounts *continued*

6 Provisions for bad and doubtful debts

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 1 January 2011			
General	40	25	65
Specific	435	77	512
	475	102	577
Income and Expenditure Account			
General	(13)	(15)	(28)
Specific	81	29	110
Net Charge	68	14	82
At 31 December 2011			
General	27	10	37
Specific	516	106	622
	543	**116**	**659**
The charge shown in the income and expenditure account is made up as follows:			
Movement in loss provision (above)			82
Losses in year			12
			94

A provision of £106,000 (2010: £56,000) is included in Specific Provisions made on a Loan fully secured on Land for a mortgage where forbearance has been exercised. There are no provisions for forbearance included in Specific Provision for Loans Fully Secured on Residential Property (2010: £250,000).

7 Remuneration of and transactions with directors

Total remuneration amounted to £214,000 (2010: £175,000). Full details are given in the Directors' Remuneration Report on pages 15 and 16.

Directors' loans and transactions

At 31 December 2011 there were four outstanding mortgage loans (2010:4), made in the ordinary course of the Society's business to directors and connected persons, amounting to £555,245 (2010: £577,456). The amount reported in last year's accounts was £509,826 which excluded loans prior to appointment as a Director.

A register of such loans, transactions or arrangements is maintained under Section 68 of the Building Societies Act 1986 and the statement of these details for the current financial year is available for inspection at the Society's registered office by prior arrangement with the Secretary.

Notes to the Accounts *continued*

8 Tax on profit on ordinary activities

	2011 £000	2010 £000
Analysis of charge in year at 26.5% (2010: 28%)		
Corporation tax on profits of the period	**111**	100
Adjustment in respect of previous periods	**(1)**	(5)
Total current tax	**110**	95
Deferred tax		
Origination and reversal of timing differences	**24**	7
Total deferred tax (note 16)	**24**	7
Tax on profit on ordinary activities	**134**	102
Factors affecting current tax charge in year		
Profit on ordinary activities before tax	**559**	445
Tax on profit on ordinary activities at 26.5% (2010:28%)	**148**	124
Accelerated capital allowances	**(19)**	7
Short term timing differences	**(7)**	(14)
Permanent items	**7**	4
Adjustment to tax charge in respect of previous periods	**(1)**	(5)
Small companies rate	**(18)**	(21)
Current tax charge for year	**110**	95

9 Loans and advances to credit institutions

Loans and advances to credit institutions are repayable from the balance sheet as follows:

	2011 £000	2010 £000
Accrued interest	**75**	53
Repayable on demand	**9,665**	6,095
In not more than 3 months	**6,003**	8,500
More than 3 months but not more than 1 year	**2,000**	2,000
More than 1 year but not more than 5 years	**50**	50
	17,793	16,698

Loans and advances to credit institutions contain no direct exposure to banks domiciled in the Euro zone as at the end of the year.

Notes to the Accounts *continued*

10 Debt securities and Treasury Bills

The directors consider the securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets rather than current assets. Movements during the year of transferable securities held as financial fixed assets are analysed as follows:

10(a) Debt securities

	2011 £000	2010 £000
Issued by public bodies (listed)	**3,077**	1,529
Issued by other borrowers (unlisted)	**2,005**	2,556
	5,082	4,085
Debt securities have remaining maturities as follows:		
Accrued interest	**22**	22
Repayable in not more than 1 year	**4,559**	3,026
Repayable in more than 1 year	**501**	1,037
	5,082	4,085
Transferable debt securities (excluding accrued interest) comprise:		
Listed	**1,520**	1,527
Unlisted	**3,540**	2,536
	-	-
	5,060	4,063
Market value of listed transferable debt securities	**3,057**	1,522
Included in debt securities are:		
Unamortised premiums	**24**	27

Movements during the year of debt securities held as financial fixed assets are as follows:

Cost (excluding accrued interest	**£'000**
At 1 January 2011	**4,063**
Additions and renewals	**6,049**
Disposals and maturities	**(5,052)**
At 31 December 2011	**5,060**

The Society holds one debt security amounting to £500,000 with the European Investment Bank. There is no other direct exposure to European debt.

10(b) Treasury Bills

Movements during the year of debt securities held as financial fixed assets are as follows:

Cost (excluding accrued interest	**£'000**
At 1 January 2011	**5,486**
Additions and renewals	**13,998**
Disposals and maturities	**(13,498)**
At 31 December 2011	**5,986**

Notes to the Accounts *continued*

11. Loans and advances to customers

	2011 £000	2010 £000
Loans fully secured on residential property	**63,467**	59,003
Loans fully secured on land	**9,505**	8,840
Other loans	**10**	-
	72,982	67,843

Loans fully secured on land include £55,617 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 1 October 1998 which are included in 'loans fully secured on residential property' but is necessary to comply with the requirements of the Building Societies Act 1997. The remaining maturity of loans and advances to customers as at the date of the balance sheet is as follows:

	2011 £000	2010 £000
Other loans and advances by residual maturity repayable:		
In not more than 3 months	**1,745**	2,315
In more than 3 months but not more than 1 year	**3,966**	3,283
In more than 1 year but not more than 5 years	**12,671**	12,698
In more than 5 years	**55,259**	50,124
	73,641	68,420
Less: provisions for bad and doubtful debts (note 6)	**(659)**	(577)
	72,982	67,843

There were 15 accounts (2010: 28) at the end of the year where forbearance is currently exercised equating to 1.7% (2010: 3.49) of mortgage accounts. The balance of these accounts amounted to £2.724m, (2010: £4.678m) or 3.7% (2010: 6.8%) of the mortgage book. With the exception of one account all Loan to Values were less than 70%. Provisions on forbearance cases are disclosed in Note 7.

12. Other investments

The Society holds shares in Mutual Vision Technologies Limited (MVT), which provides IT services to the Society. The Society has an interest bearing loan to MVT of £77,000 (2010: £77,000). The Society also owns 10,000 (2010: 10,000) ordinary shares of £1 in The Phone Co-op Ltd which provides the Society's telephone services. Interest paid by the Phone Co-op is by the issue of further ordinary shares. The Society holds 8,000 ordinary shares in The Ethical Property Company PLC at a purchase price of £9,600. In May 2007 the Society purchased 20,000 shares of £1 in Ecos Fund Limited, an Industrial and Provident Society. The shares held with Ecos Fund Limited were redistributed to Ecos Homes in November 2011. The Society's allocation of shares in Ecos Homes remains at 20,000.

	Shares £000	Loans £000	Total £000
As at 31 December 2010	45	77	122
Additions	-	-	-
Withdrawal	-	-	-
As at 31 December 2011	**45**	**77**	**122**

Notes to the Accounts *continued*

13. Tangible fixed assets

	Freehold Land & Buildings £000	Plant & Machinery £000	Fixtures, Fittings & Computer Equipment £000	Motor Vehicles £000	Total £000
Cost					
At beginning of year	1,355	126	332	41	1,854
Additions	36	-	77	22	135
Disposals	-	-	(8)	(20)	(28)
At end of year	1,391	126	401	43	1,961
Depreciation					
At beginning of year	154	87	285	33	559
Charge for year	23	12	26	10	71
Disposals	-	-	(8)	(20)	(28)
At end of year	177	99	303	23	602
Net book value					
At 31 December 2011	**1,214**	**27**	**98**	**20**	**1,359**
At 31 December 2010	1,201	39	47	8	1,295

Freehold land and buildings, which are included in the balance sheet at cost less deprecation, amounted to £1,214m at 31 December 2011 (2010: £1,201m). 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 was 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. Shares

	2011 £000	2010 £000
Held by individuals	**90,175**	83,335
Shares are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	**609**	486
Repayable on demand	**84,356**	79,255
In not more than 3 months	**1,771**	989
In more than 3 months but not more than 1 year	**3,439**	2,605
	90,175	83,335

Notes to the Accounts *continued*

15. Amounts owed to other customers

	2011 £000	2010 £000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
Repayable on demand	**5,718**	5,063
In more than 3 months but not more than 1 year	**250**	250
	5,968	5,313

16. Other liabilities

	2011 £000	2010 £000
Corporation tax	**111**	100
Income tax	**125**	105
Other creditors	**128**	130
	364	335

17. Provisions for liabilities – other

The amounts provided for deferred taxation are set out below:

	2011 £000	2010 £000
At 1 January	**23**	17
Origination and reversal of timing differences	**26**	7
Adjustment in respect of prior years	**1**	-
Effect of the changes in tax rates	**(3)**	(1)
Charge for the year		
At 31 December	**47**	23

Details of the amounts provided for deferred taxation at 26.5% (2010:28%) are set out below:

	2011 £000	2010 £000
Excess of capital allowances over depreciation	**58**	42
Other short term timing differences	**(11)**	(19)
	47	23

18. Accruals and deferred income

	2011 £000	2010 £000
Accruals	**30**	14
Government grants	**3**	4
	33	18

Notes to the Accounts *continued*

19. Subordinated liabilities

	2011 £000	2010 £000
a) Floating rate subordinated liabilities due 2011	**-**	250
b) Floating rate subordinated liabilities due 2016	**500**	500
c) Floating rate subordinated liabilities due 2019	**750**	750
	1,250	1,500
Less unamortised premiums and issue costs	**(4)**	(6)
	1,246	1,494

The Notes are repayable at the dates stated or earlier at the option of the Society with the prior consent of the Financial Services Authority. All Subordinated Liabilities are denominated in sterling. Interest payments made on the floating rate loans (a and c) are at a rate agreed with reference to LIBOR (London Interbank Offered Rate). Interest payments on the floating rate loan (b) are at a rate agreed based on the average SVR (Standard Variable Rate) of the top 5 Building Societies. 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. Of the Subordinated Liabilities held by the Society, £1.246m is classed as Tier 2 capital resources.

20. General reserves

	2011 £000	2010 £000
At beginning of year	**5,089**	4,746
Profit for the financial year	**425**	343
At end of year	**5,514**	5,089

21. Provisions for liabilities - FSCS levy

	2011 £000	2010 £000
Balance brought forward	**80**	88
Scheme year 2010/11 Levy paid in year	**(29)**	(27)
Charge for the year (see note 24)	**54**	19
Balance carried forward	**105**	80

Notes to the Accounts *continued*

22. Financial risk management

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, and these are summarised below.

Interest rate risk

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest is receivable on assets and interest payable on liabilities are next reset to market rates. The Society perceives this risk as being minimal.

Interest rate risk exposure

The following table summarises the repricing mismatches as at 31 December 2011. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

At 31 December 2011	3 months or less £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	Non-interest bearing £000	Total £000
Assets						
Liquid assets	**20,158**	**4,532**	**4,000**	**50**	**129**	**28,869**
Loans and advances to customers	**72,982**	-	-	-	-	**72,982**
Other assets	**10**	-	-	**112**	**1,479**	**1,601**
	93,150	**4,532**	**4,000**	**162**	**1,608**	**103,452**
Liabilities						
Shares and amounts owed to customers	**95,534**	-	-	-	**609**	**96,143**
Other liabilities	-	-	-	-	**549**	**549**
Subordinated liabilities	**746**	**500**	-	-	-	**1,246**
Reserves	-	-	-	-	**5,514**	**5,514**
	96,280	**500**	-	-	**6,672**	**103,452**
Interest rate sensitivity gap	**(3,130)**	**4,032**	**4,000**	**162**	**(5,064)**	-
Cumulative gap	**(3,130)**	**902**	**4,902**	**5,064**	-	-
At 31 December 2010						
Assets						
Liquid assets	19,588	2,495	3,500	586	108	26,277
Loans and advances to customers	67,843	-	-	-	-	67,843
Other assets	10	-	-	112	1,445	1,567
	87,441	2,495	3,500	698	1,553	95,687
Liabilities						
Shares and amounts owing to customers	88,162	-	-	-	486	88,648
Other liabilities	-	-	-	-	456	456
Subordinated liabilities	995	499	-	-	-	1,494
Reserves	-	-	-	-	5,089	5,089
	89,157	499	-	-	6,031	95,687
Interest rate sensitivity gap	(1,716)	1,996	3,500	698	(4,478)	-
Cumulative gap	(1,716)	280	3,780	4,478	-	-

Notes to the Accounts *continued*

22. Financial risk management *continued*

Other assets include fixed assets, investments and prepayments and accrued income. Other liabilities include accruals and deferred income.

Credit risk

All loan applications are assessed with reference to the Society's Lending Policy. Changes to Policy are approved by the Board and the approval of loan applications is mandated. The Board is responsible for approving treasury counterparties.

Liquidity risk

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. The Society's liquid assets are currently entirely composed of retail funds, without recourse to wholesale funding. As a prudent measure in light of the "credit crunch", the maturity profile of the Society's liquid assets has been shortened, and a wider range of counterparties among banks and building societies has been adopted.

23. Pensions

The amount charged during the year for individual pension schemes in respect of staff was £48,129 (2010: £32,761). Contributions owing to these schemes at 31 December 2011 amounted to £77 (2010: nil).

24. Guarantees and other financial commitments

Financial Services Compensation Scheme (FSCS) Levies

Based on its share of protected deposits, the Society, in common with all regulated UK deposit-takers, pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of recoveries it makes using the rights that have been assigned to it. In 2008 a claim was triggered against the FSCS by the transfer of Bradford and Bingley plc's retail deposit business to Abbey National Plc and similar issues with various Icelandic Banks, London Scottish Plc and the transfer of Dumfermline Building Society to the Nationwide Building Society in 2009.

The FSCS has met the claims by way of loans received from the HM Treasury on which it is liable to pay interest. The FSCS has, in turn, acquired the rights to the realisation of the assets of these institutions. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the institutions to fully repay the respective loans from HM Treasury.

The Society recognised in last year's result a provision for the FSCS management expenses levy of £80,000 covering the scheme year 2010/2011 and 2011/12. A payment of £29,000 for the scheme year 2010/2011 has been made in the year which, together with a further provision charge of £54,000 has resulted in a provision of £105,000 at 31 December 2011.

The Management Expenses Levy for Scheme Year 2011/2012 was calculated using the agreed funding rate of 12 months Libor + 30 basis points (bp). The Society is aware that negotiations are continuing between HMT and FSCS on the appropriate funding rate for the HMT loans for the period from 1 April 2012, on which the Management Expenses Levy for Scheme Year 2012/2013 will be based. Because this negotiation has not been finalised, the Society has calculated its provision for the Scheme Year 2012/2013 levy based on a funding rate of 12 month Libor + 100bp, which is the Society's best estimate based on the press announcements made by HM Treasury in September 2008, which stated that the loans would revert to 12 months Libor + 100bp at the end of the agreed three year period. However until negotiations are complete and the funding rate is finalised there exists the possibility that the levy Scheme for Year 2012/2013 will be based on a higher rate than 12 month Libor + 100bp, and the Society's liability will be consequently higher. In addition, an agreement by the FSCS not to charge Compensation Cost Levy for three years is also at an end and there exists the possibility that compensation for losses suffered could be levied in scheme year commencing 1 April 2012.

Ecology Building Society

Annual Business Statement

Year ended 31 December 2011

1 Statutory percentages

	Statutory limit	**At 31 December 2011 %**	At 31 December 2010 %
Lending limit	25.00	**13.36**	13.41
Funding limit	50.00	**6.21**	5.99

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

	2011 %	2010 %
Gross capital as a percentage of shares and borrowings	**7.03**	7.20
Free capital as a percentage of shares and borrowings	**5.66**	5.81
Liquid assets as a percentage of shares and borrowings	**30.03**	29.64
Profit after taxation as a percentage of mean total assets	**0.43**	0.36
Management expenses as a percentage of mean total assets	**1.39**	1.21

Gross capital represents the general reserves and subordinated liabilities as shown in the balance sheet.

Free capital represents the gross capital less tangible fixed assets plus general mortgage loss provision as shown in the balance sheet.

Shares and borrowings represent the total of shares and amounts owed to other customers, including accrued interest.

Liquid assets are taken from the items so named in the balance sheet.

The profit after taxation is the profit for the year as shown in the income and expenditure account.

Management expenses are the administrative expenses plus depreciation and amortisation for the year as shown in the income and expenditure account.

Mean total assets are the average of the 2011 and 2010 total assets.

Annual Business Statement *continued*

Year ended 31 December 2011

3 Information relating to directors and other officers at 31 December 2011

Name and Date of Birth	Occupation and Date of Appointment	Other Directorships
Janet Slade 7.3.52	Accountant 14.3.1997	Ecology Building Society Charitable Foundation Ltd
Malcolm John Lynch 29.4.55	Solicitor 24.7.1998	The Trust for Education Leeds Youth Opera
Paul Charles Ellis 10.9.57	Building Society Chief Executive 5.5.1984	Mutual Vision Technologies Ltd Passivhaus Trust INAISE (international Association of Investors in the Social Economy)
Pam Waring 12.6.56	Building Society Finance Director and Secretary 7.6.2000	
David Black 27.12.42	Housing Finance Consultant 15.6.2000	Greater Manchester Centre for Voluntary Organisations A D Solutions
Peter Anthony Taylor 27.7.51	Retired Building Society Executive 27.01.2006	The Forget Me Not Children's Hospice Ltd FMNT Trading Ltd Ecology Building Society Charitable Foundation Ltd
Mark Robert Jones 01.03.59	Engineer 01.03.2008	Ecology Building Society Charitable Foundation Ltd
Steven John Round 08.04.60	Management Consultant 09.12.2010	Strategic Intent Ltd The Big Issue Foundation
Adam Matthew Dudley Clark 25.08.62	Architect 12.12.2011	Halliday Clark Ltd Greenbox Living Ltd

Paul Ellis and Pam Waring both have service contracts, details of which can be found in the Directors' Remuneration Report on page 15.

Documents may be served on the above directors and should be marked 'private and confidential' c/o Financial Services Audit, KPMG Audit Plc, St James Square, Manchester, M2 6DS.

Officers

George Haslem
Chief Operating Officer

John Ainley
Compliance Manager

Jon Lee
Business Development Manager

Richard Saville
Technology Manager