Ecology Building Society

Contents

Society Information

Directors	Malcolm Lynch	*Chair*
	Steve Round	*Deputy Chair*
	Helen Ashley Taylor	
	Tim Morgan	
	Alison Vipond	
	Chris Newman	
	Andrew Gold	(appointed 30 May 2014)
	Paul Ellis	*Chief Executive*
	Pam Waring	*Secretary*
Registered office	7 Belton Road Silsden Keighley West Yorkshire BD20 0EE	
External auditors	KPMG LLP 1 The Embankment Neville Street Leeds LS1 4DW	
Internal auditors	Deloitte LLP 1 City Square Leeds LS1 2AL	
Solicitors	Addleshaw Goddard Sovereign House Sovereign Street Leeds LS1 1HQ	
Officers	George Haslem	*Chief Operating Officer*
	John Ainley	*Compliance and Risk Manager*
	Anna Laycock	*Ethics and External Affairs Manager*
	Jon Lee	*Business Development Manager*
	Richard Saville	*Technology Manager*
	Daniel Capstick	*Mortgage Manager*

Chair's Statement

Your Society has delivered a strong financial performance in 2014, notwithstanding the low interest rate environment, which creates difficult conditions for the Society to operate in and punishes savers for their prudence. Your Board and staff have navigated these waters steadily, seeking to hold interest rates for savers as high as possible whilst balancing this against the need to provide competitive rates for borrowers too.

The Society's approach to delivering value to savers has been to maximise prudent new lending and you will note in the Chief Executive's report the record lending figures we are again posting. While the annual accounts give a snapshot at the year end, the uncertainty caused by the introduction of new rules to assess affordability and a subdued first six months led to the Board challenging the divergence in the lending figures and the confidence of the Mortgage Manager and Executive in the likely outcome for the year. As has so often proved to be the case, the confidence of the Executive was not misplaced.

As I indicated last year, I shall be stepping down at the AGM in April, somewhat later than my original plan when I joined the Society in 1998. Our assets at that time were £24.6m, the Society had just taken additional space above Barclays Bank in Cross Hills and the Society had two female Non-Executive Directors. I am pleased to report that following my retirement the Board expects to have four female Directors out of a total of nine. Regrettably, such a ratio remains something of a rarity in the financial sector.

I had the good fortune, on my appointment, not only to benefit from the experience in building society practice of the then current Non-Executive Directors, but also to work with some of the founders of the Society who had the vision to promote ecological building through a building society. I think the Society has kept to this core mission demonstrating to other institutions what is possible.

The purpose of the Board is to ensure appropriate corporate governance – critical but supportive challenge to the Executive and staff of the Society. To do this it is important to understand the business of the Society and its products and consider whether they are of value to the members of the Society, or whether they only serve in making profits for the Society. Good products should do both. However, much of the financial services industry appears to have missed this completely, so it is somewhat galling to be subjected to the recent adverts from the failed banks trumpeting "fairer banking".

I can clearly recall the Board meeting at which the Chief Executive was challenged as to why we were no longer offering mortgage payment protection insurance at a time when it was becoming a common and profitable offering. The answer given was that there were no longer products in the market that offered our borrowers real value. So despite the loss of income the Board declined to follow the market trend, which proved to be the correct decision.

It has been important for the Society that its Directors have been prepared to swim against the tide, since it is clear that many of the problems our financial system encountered in recent years grew out of a herd mentality, partly fostered by the revolving doors between the many components of our financial services infrastructure.

One of my frustrations has always been in accepting the apparently slow pace at which the Society grew, but rapid expansion (based on products of dubious value and flawed strategy) was clearly the downfall of many other institutions. Slow change, like slow food, is definitely the way for the Society to move forward. If you are not only swimming against the current but trying to reverse it, can it be any other way?

At last year's AGM I introduced three new Non-Executive Directors, and this year we ask you to confirm Andrew Gold as a Non-Executive Director. Andrew has links to the early days of the Ecology in a previous role of undertaking internal audits for the Society. He is therefore well versed with the Society's philosophy, and adds a further set of eyes to examine the risks which the Society faces as a financial institution.

I would like to thank the Society's staff for their support to me as Chair over many years and their diligent and forward thinking work for the Society. I am sure it will continue, and as a continuing saver with the Society I look forward to supporting Ecology's work in building a greener society.

Malcolm Lynch
Chair

6 March 2015

Chief Executive's Review

Overview

It is very pleasing to report that in 2014 Ecology once again recorded excellent financial results, with a second consecutive year of record new lending and net lending, increased profitability and strong overall asset growth. In addition, we reached new record savings balances and were able to keep our cost base under control, despite the full cost of measures we had taken to increase our ability to meet new regulatory requirements in 2013 being reflected in the 2014 figures. Once again these figures were achieved without diluting our focus on environmental lending, without the benefit of artificial stimulants such as the Funding for Lending Scheme (FLS), and without the need of recourse to teaser rates and other features that would make our mortgage and savings products less than transparent.

Growth would have been higher had we not once again taken measures to ensure that inflows of savers deposits were at manageable levels. This included restricting some account types to existing members and adjusting some of our savings interest rates to bring them into line with a market which does not currently work for savers. We are clearly not yet in what might be described as a normally operating market, with many of the distortions arising from the impacts of the financial crisis continuing to play out, while the possibility of further shocks cannot be discounted. It is quite possible that the current interest rate environment will persist for some time, and our expectation is that base rates will not rise until well into 2016.

Nevertheless, we expect that current levels of growth will be maintained without compromising our mission. To ensure that we can meet our members' expectations and the increased complexity and demands on the organisation that come with this growth, we continued to increase our staff numbers in 2014. The Savings Team was joined by both **Janine Flint** and a new manager of the team in **Gillian Lancaster** (with Gillian Ingham moving to our expanded Business Support Team). We also took the opportunity afforded by the departure of Tori Halliday to her dream job in publishing to recruit a Marketing Manager in **Kauser Dad,** who has extensive experience of marketing gained in the financial services sector.

We continued to play a full part in the promotion of social economy finance internationally, and completed our first year as a full member of the **Global Alliance for Banking on Values,** contributing to its work on impact reporting, the development of a fund to provide capital to sustainable financial institutions, and a 24-hour event to raise awareness of values-based banking around the world. We will report more fully on these initiatives during the course of 2015.

A summary of the main key performance indicators (KPIs) used by the Board is provided below.

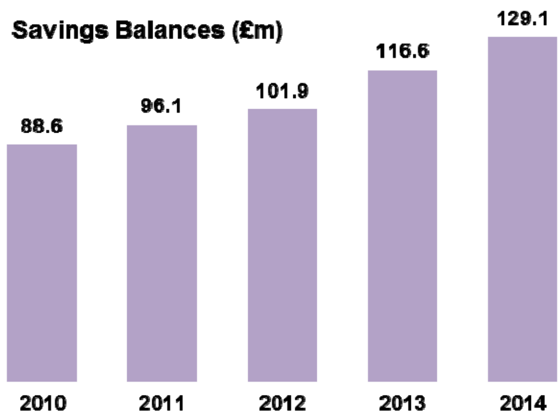
Key Performance Indicator	2014	2013	2012
Mortgage lending	£23.1m	£18.4m	£14.3m
Mortgage asset growth	9.91%	7.64%	5.97%
Savings balances	£129.1m	£116.6m	£101.9m
Liquid assets as a % of shares and borrowings	34.77%	34.27%	30.16%
Management expenses as a % of mean total assets	1.35%	1.36%	1.45%
Net profit	£0.576m	£0.402m	£0.459m
Profit after taxation as a % of mean total assets	0.44%	0.34%	0.43%
Tier 1 capital	£6.951m	£6.375m	£5.973m
Total assets	£138.0m	£124.8m	£109.7m
AGM – voting turnout	15.93%	18.18%	16.32%

More detailed commentary on these KPIs is given in the following sections, along with commentary on 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 highlight our commitment to environmental responsibility and good corporate governance.

Chief Executive's Review *continued*

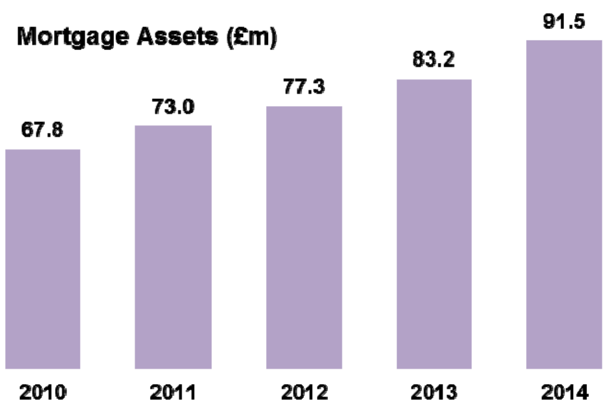
Savings and liquidity

Savings balances grew by 10.79% by the end of 2014, reaching £129.1m (up from £116.6m at the end of the previous year). We limited the increase in funds as far as possible to ensure that liquidity did not rise further and thereby reduce the impact on rates paid to savers. This meant further restrictions to availability of certain account types including ISAs. During 2014, we have been working on a new product range which was launched in March 2015 and is designed to allow access to our savings range for more new members. ***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.*** This is why we did not participate in the Funding for Lending Scheme, which would have allowed us to access a cheaper source of funds to lend on as mortgages. We always seek 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. At the year end, liquidity levels remained higher than we would ideally desire at 34.77% (2013: 34.27%).



Mortgage lending

Mortgage asset growth increased on the previous year reaching 9.91% (2013: 7.64%) supported by record net lending of £13.8m. We also established a new gross lending record of £23.1m. This increased level of lending first and foremost represents an increase in our environmental impact, but the ability to increase the lending volumes of the Society is also essential if we are to meet the needs of more potential savers. We were pleased to see a greater proportion of renovation cases, given our desire to make an impact regarding the energy efficiency of the existing housing stock. Historically, the major component of our lending was for renovation, but in recent years new-build in the form of design methodologies such as Passivhaus and higher energy ratings have formed the bulk of our residential lending. The increased lending was achieved despite the need to review our systems to account for the changes required by the Mortage Market Review. Our simple, transparent approach ensured that in reality there was very little disruption to our service. We were pleased that all of our underwriters obtained the relevant qualifications in good time, building on their many years of service and understanding of our lending approach, which enables them to provide an excellent service to exsisting and prospective borrowers.

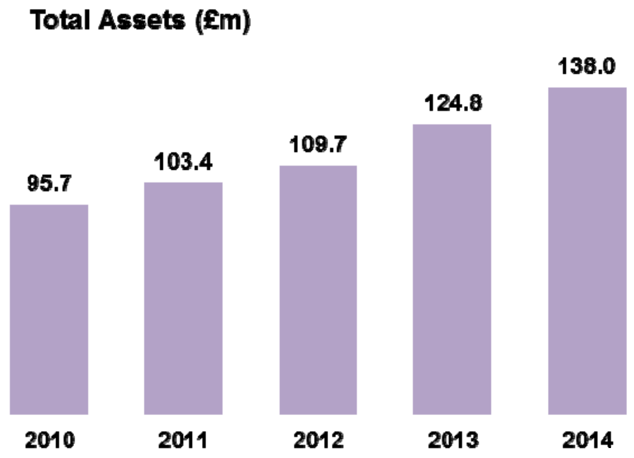


By the year-end over 27% of loans outstanding were benefitting from one of our C-Change discounts, which rewards work undertaken on the property to help combat climate change – showing that the rapid growth in mortgage lending was not at the expense of environmental quality. As these are awarded once the works are completed, when the mortgage book is growing quickly there tends to be a timelag before the impact of the discounts is reflected in the figures. The mortgage arrears position remained positive, with the number of cases reducing. At 31 December 2014 there were again no cases where repayments were 12 months or more in arrears (2013: 0). At the year-end there were no properties in possession (2013: 0). Total provisions against possible mortgage losses increased to £257,000 (2013: £248,000), which includes provisions for two cases which are not in arrears but where Society management are working with our borrowers to navigate difficult operating conditions. A provision is also held for a corporate borrower who is in voluntary liquidation. At the end of the year there were 14 cases where forbearance was being exercised (2013: 26).

Chief Executive's Review *continued*

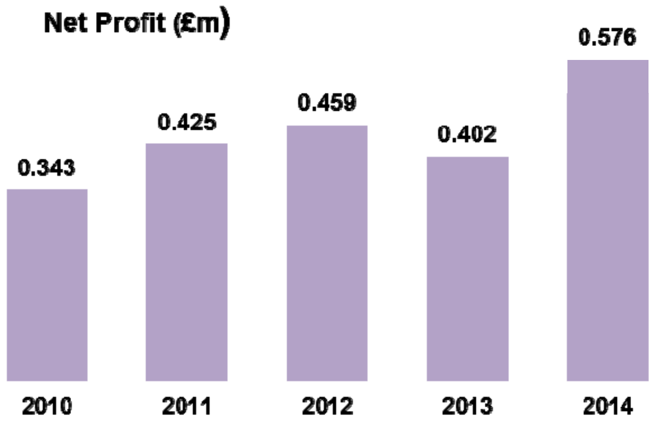
Asset growth

Total assets reached a new record level at the year-end of £138.0m, an increase of 10.61% (2013: 13.73%). The Society again took actions to contain the level of growth, including restrictions on account openings by new members so that we were not carrying excessive levels of unutilised funding, which represents a cost to the Society and does not contribute to its sustainable lending programme. While a certain level of spare unallocated funding is a strength in itself, typically building societies hold lower levels of excess liquidity than banks. ***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 social investors and supporting our borrowers to build, renovate or buy sustainable properties.*** Nevertheless, growth does allow us to take on the resources needed to promote our aims, provide good service levels to our members and customers, and meet our ever-growing compliance challenges with an ever higher degree of professionalism.

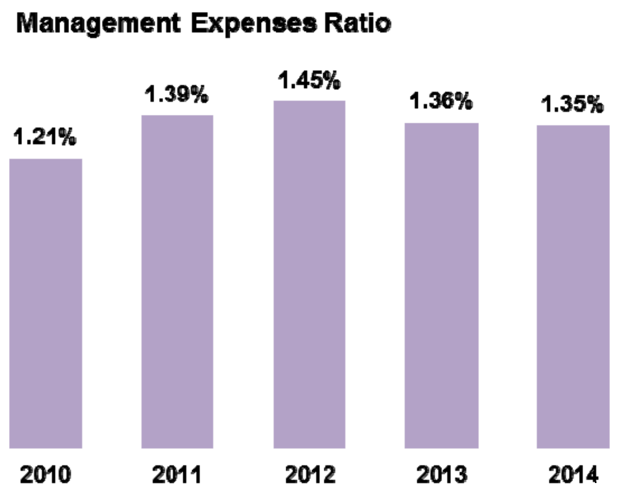


Profit and capital

Net profit for the year amounted to £576,000 and was 43.28% higher than 2013. This was added to the General Reserve which now totals £6.951m (2013: £6.375m). This profit belongs to our members and acts as a buffer against losses. 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. Because of the strong potential to grow our work further, we do intend to take on supplementary capital in the future. I am pleased to report that our regulators, the Financial Conduct Authority, have broadly accepted our view that it is appropriate for us to invite our members to contribute directly to the capital base of the Society, subject to due consideration of risk, in common with the members of other European financial mutuals. ***As a result, we are continuing to formulate our plans for an issue with both a retail element and the participation of institutions supportive of the development of values-based banking activity, particularly the role of the mutual sector.*** At the present time, this is unlikely to occur before 2016.



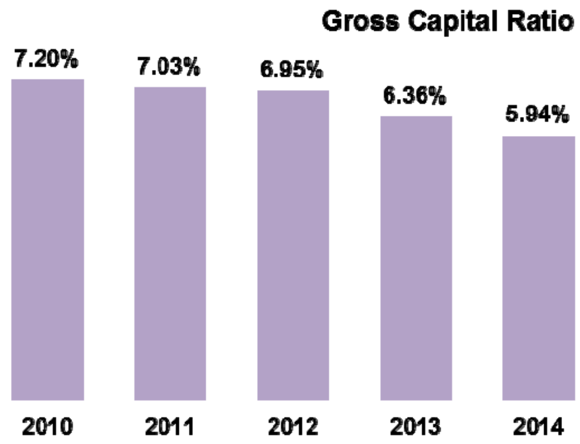
Costs rose during the year, reflecting the recruitment which took place the previous year, but were broadly in line with the growth in total assets, and with the increased profitability. This meant that the Management Expenses Ratio reduced slightly over the previous year to 1.35% (2013: 1.36%). ***Wherever possible we use the most sustainable and ethical option when purchasing goods and services. Sometimes this means that we have to pay a little more than for the less sustainable option. In 2014, this added 3.6% to our costs – without this the Management***



Expenses Ratio would have been 1.27%.

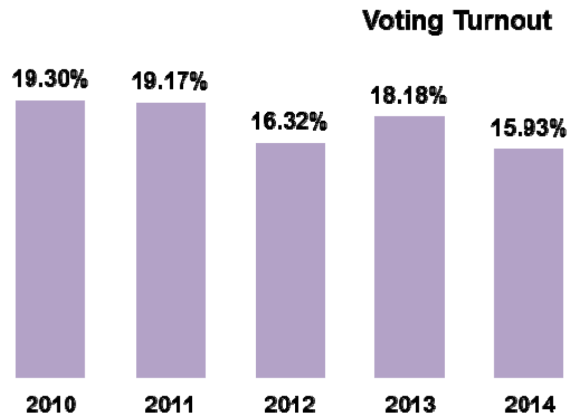
Chief Executive's Review *continued*

Despite the increased profitability, the continued growth in savings deposits with the Society and the reduction in value of old forms of capital such as subordinated debt means the Gross Capital Ratio has moved down to 5.94%. In common with other societies, it should be noted that we are obliged to make payments to the Financial Services Compensation Scheme (FSCS) as a result of the bank failures in 2008. The Society fully accepts the concept of collective insurance for depositors but believes that the share paid by small societies is disproportionate, and inevitably these payments have the effect of reducing profit (and therefore the contribution to reserves). In 2014 the amount of the levy was £87,744 which equated to 12.03% of the gross profit figure. To date the Society has paid £256,864 over to the FSCS.



Member relations

Our 2014 AGM was held at the Abbey Community Centre in Westminster, London. ***Once again we held a Members' Meet Up with the theme of Communities for Change. A range of speakers and workshops considered the role of financial communities and built communities in creating the shift to a more sustainable future economy and society.*** The turnout on the day was great and the whole event was lively, particularly the question and answer session with the Directors, and the Green Market running alongside the event. Voting turnout was, however, down at 15.93%, so going forward we will be looking at further ways in which we can encourage members to exercise their vote.



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
Locality	The nationwide network for development trusts and community enterprises
Passivhaus Trust	An independent, non-profit organisation that promotes the adoption of the Passivhaus standard
Schumacher Society	Non-profit organisation promoting human-scale development
Scottish Ecological Design Association (SEDA)	SEDA aims to promote design which enhances the quality of life of and does not harm planetary ecology
UK Sustainable Investment and Finance Association (UKSIF)	Membership network for sustainable and responsible financial services

Chief Executive's Review *continued*

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). Regarding specific GABV work streams, we were active in the impact reporting group which seeks to develop an impact reporting framework common to the member institutions to better articulate how we fulfil our mission, and the establishment of a fund to provide capital to aid the growth of financial organisations ascribing to the GABV core principles.

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:

LATCH (Leeds Action to Create Homes)	Sponsorship of event to celebrate 25 years of refurbishing derelict homes in Leeds
Birmingham Friends of the Earth	Installation of secondary glazing in a community centre and environmental education hub
Plunkett Foundation	Sponsorship of environmental category within the 2014 Rural Community Ownership Awards
Skelton Grange Environment Centre	Contribution towards new log cabin and garden within a nature reserve in Leeds
Sheffield Open Homes	Sponsorship of Open Homes programme to encourage local residents to retrofit their properties
Warwick and Leamington Beekeepers	Construction of an accessible composting toilet at a training apiary in Kenilworth

We also gifted time to a number of organisations including the International Association of Investors in the Social Economy (INAISE), Passivhaus Trust, the HALE Project (a health charity operating in West Yorkshire) 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.

The three main internal developments regarding our Environment Policy in 2014 were that:

- ***We were very proud to achieve a 'Green' accreditation under the Investors in the Environment scheme – the highest level it is possible to obtain***
- ***We installed an electric vehicle charging point in our HQ car park, providing a facility that can be used by members, visitors and staff***
- ***We continued to work with our permaculture gardener, with development including providing better access to the fruiting areas, preparation of further parts of the garden to support planting more edibles, and the provision of two new beds at the front of the building for growing herbs and edible flowers while providing a wildlife-friendly habitat.***

Our main commitments for 2015 are to:

- ***Overhaul our rainwater harvesting system, adding to its capabilities in order to improve our water management and consumption***
- ***Upgrade from a standard hybrid model to a plug-in version of the company car due for renewal in 2015, so that both our vehicles will be able to use our charging point***
- ***Begin planning an extension to our HQ building, which will be built to incorporate Passivhaus standards.***

Finally, a special mention should go to some of our staff members who organised successful charity events:

- **Christine Wakeling** - for her contributions to our Bring and Buy Sale for the Forget Me Not Children's Hospice
- **Hilary Smith** – for organising a collection to send a container of clothing to aid the survivors of the Philippines Typhoon
- **Karen Knowles** – for organising a World's Biggest Coffee Morning event in aid of Macmillan Cancer Support.

Chief Executive's Review *continued*

Future development of the Society

We are expecting another good year for lending in 2015, and despite the success to date of our mortgage products, we will be reviewing our offerings to take account of changes in the green building market. Of course, there are significant uncertainties around the world economy at present, due to both political and economic factors, but the drive to sustainability makes even more sense against that backdrop. Of significant interest is the reduction in the price of oil, which on the one hand damages the case for the development of the fracking industry, but potentially changes the dynamics in relation to the uptake of renewable energy technologies. In the long-term, energy efficiency makes economic and environmental sense and our loan offerings will continue to reinforce that message.

The various changes in our Ethics and Marketing functions which took place in 2014 meant that some of the work that we had hoped to undertake on surveying the views of our members was not completed, and so we intend to pick up the pace in this respect during 2015.

Our new savings products will be making their appearance before the end of March and we will introduce further enhancements to our online offering during the course of the year. The backbone of our Society is the excellent support and loyalty we experience from our savings members, so we want to ensure that the ability to interact with the Society is maximised. For this reason, the Board fully support the desire across the organisation to work towards a comprehensive digital strategy and a first class online offering. As we develop our digital strategy to ensure we are fit for an online future, we will not neglect our members who prefer to access our services by post and telephone. We always enjoy hearing from you however you choose to contact us.

It would appear that 2015 will be even more busy on the regulatory front as regulators continue to seek ways to plug the gaps in the system that have led to the failings in the financial sector. We are more than aware of these failings, but we make a general plea here that the implementation of such changes should be proportional to the size of the organisation, and the level of risk posed by that organisation – otherwise we run the danger of damaging innovation and diversity, leading to a perpetuation of the current financial landscape, with all the problems that entails. For our part we will continue to support positive change on the global level through both GABV and INAISE, as well as working with partners such as the Building Societies Association to encourage a proportional regulatory approach in the UK.

Finally, at the AGM our current Chair Malcolm Lynch steps down as a Director of the Society. Malcolm had intended stepping down earlier, but remained on the Board to help steer the Society through the financial crisis, and latterly to build a new Board ready for the next stage of our journey. As many of you know, Malcolm has a long history of commitment to social finance, and indeed created some of it – it has been a regular note of amusement at Board meetings that rather than ask Malcolm if he has any conflicts of interest to declare, we ask him to confirm when he doesn't have any! While Malcolm's time of service to the Society is drawing to an end, his continued passion and vision for positive social change makes it impossible that we will not continue to work together for our shared values. We wish Malcolm all the best for his future endeavours and will continue to encourage him not to take on too much unpaid work!

Paul Ellis
Chief Executive

6 March 2015

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 2014.

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 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.

Business review

The key performance indicators employed by the Society and the business review for 2014 are discussed within the Chief Executive's Review.

Charitable donations

During the year the Society made charitable donations amounting to £7,978 (2013: £11,529). 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 2014 is £1,159,000. 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. A second array of photovoltaic cells were installed in 2014, and as the technology has improved significantly, this has increased the energy generated to around 25% (2013: 9%) of our needs, with the remainder supplied from off-site renewable sources.

Capital

At 31 December 2014, the ratio of gross capital as a percentage of total share and deposit liabilities was 5.94% (2013: 6.37%) and free capital was 4.95% (2013: 5.29%).

Country-by-Country Reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 (CBCR) introduce reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD). The requirements aim to give increased transparency regarding the activities of institutions. The Society has published its interim reporting on its website, www.ecology.co.uk. Subsequent reporting will also be published on the Society's website, with effect from 31 December 2015, when reportable information on the Society's year ending 31 December 2015 will be presented.

Directors' Report *continued*

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
- oversight of Risk Management on behalf of the Board is performed by the Risk, Audit, Compliance and Ethics committee
- the Asset and Liability committee (ALCO) 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.

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.

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-.

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. 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 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.

Concentration risk 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 are a function of the relatively small size of the Society. This is controlled by close attention to the credit assessment process.

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 inappropriate customer outcomes. The Society recognises the key importance of this risk area and therefore operates an overarching ethics framework to provide assurance that conduct issues are appropriately addressed in the Society's culture.

Directors' Report *continued*

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 21.

Capital adequacy

The Board complies with the Basel II Capital Requirements Directive (CRD) 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 under CRD are available on the Society's website: www.ecology.co.uk.

The European Union's Capital Requirements Directive came into effect on 1 January 2014 and sets the transition path towards full implementation of the Basel III capital framework by 2019. Basel III has introduced a leverage ratio to supplement the risk weighted capital requirement. The Society is confident of meeting these requirements given the level of capital in comparison to the Balance Sheet and the relatively low risk weighting of its assets. To support future growth the Society is also looking to replace existing capital instruments as they mature, and is therefore actively seeking new instruments which comply with the Basel III capital regime.

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.

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 has adequate resources for the foreseeable future. For this reason the accounts continue to be prepared on a going concern basis.

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 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 2014 was 36 days (2013: 36 days). All invoices received are normally paid within 30 days.

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' Report *continued*

Directors

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

Malcolm Lynch	*Chair*	Pam Waring	*Secretary*
Paul Ellis	*Chief Executive*	Tony Taylor	*(Retired 26 April 2014)*
Steve Round	*Deputy Chair*	Tim Morgan	
Helen Ashley Taylor		Chris Newman	
Alison Vipond		Andrew Gold	*(appointed 30 May 2014)*

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

Andrew Gold was co-opted on to the Board in 2014 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. Andrew has significant experience in financial services and in-depth knowledge of the building society sector. Andrew's career background includes risk oversight, risk management and internal audit. Andrew was appointed the Society's Chief Risk Officer following the retirement of Tony Taylor.

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.

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. The ratio in 2014 was 4.4:1 (2013: 4.4:1)

The Directors would like to record their appreciation for the commitment of the management and staff during what has been a busy and challenging year for the Society.

Conclusion

In conclusion, the Directors consider that our Annual Report and Accounts, taken as a whole, is a fair and balanced statement of the Society's condition and prospects. The Directors believe that it provides the information necessary for members to assess the Society's performance, business model and strategy.

On behalf of the Board

Malcolm Lynch
Chair

6 March 2015

Corporate Governance Report

Overview

The Society does not comply with the UK Corporate Governance Code 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, including provisions effective from 1 October 2012.

The Board

The Board works with management to set the Society's strategic and policy direction acting in the best interest 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 are 'approved persons' as defined by the Society's regulators, the PRA and the FCA who must meet, and continue to maintain the 'fit and proper' requirements and comply with the Principles of Approved Persons and the Code of Practice. 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 for an 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 would revert to three years.

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 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 2014, 33% of Board members were female and this is expected to rise to 44% in 2015. In the last two rounds of recruitment, vacancies were 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.

Corporate Governance Report *continued*

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 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. The Board also assesses the effectiveness of its decision-making after each meeting.

Risk management, 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 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 four times during 2014.

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 and Risk Manager, 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 management, the committee determined that there were no risks of misstatement identified in the Society's financial statements.

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 Ethics Manager.

The committee monitors the independence and effectiveness of Internal and External Audit. At RACE meetings during the year the members 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 2014, and discussions with the audit director. It was concluded that the auditors were carrying out their duties objectively, effectively and independent of management and there was currently no reason to put external audit out to tender (having also duly considered the limited competition available). RACE noted that the last tender was undertaken in 2005. KPMG have been the Society's auditors for 20 years but operates an audit partner rotation policy. This information was discussed at the March 2015 Board meeting and the recommendation to the AGM to appoint KPMG LLP for another year was approved.

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.

Corporate Governance Report *continued*

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 meets at least six 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 currently chaired by Alison Vipond. The committee met three times during 2014.

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 is presently chaired by Chris Newman and met three times during 2014.

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 Helen Ashley Taylor and it met on two occasions in 2014.

The function and details of the **Remuneration committee** are disclosed within the Directors' Remuneration Report on page 17. The committee is currently chaired by Andrew Gold.

Board and committee membership and attendance record

Director	Board	Risk, Audit, Compliance and Ethics	DSPC	Board Lending	Remuneration	Nominations	ALCO
Malcolm Lynch	11/11	■	3/3	3/3	■	1/1	■
Tony Taylor	4/4	1/1	1/1	■	■	■	■
Steve Round	8/11	■	2/3	■	■	1/2	6/6
Helen Ashley Taylor	10/11	4/4	2/3	■	■	2/2	■
Andrew Gold	6/7	3/3	2/2	■	1/1	■	3/3
Tim Morgan	10/11	4/4	3/3	3/3	1/1	■	■
Chris Newman	11/11	3/3	3/3	3/3	■	■	■
Alison Vipond	11/11	■	3/3	■	1/1	■	■
Paul Ellis	11/11	4/4	3/3	3/3	■	2/2	6/6
Pam Waring	11/11	4/4	3/3	■	■	■	6/6

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. David Black remained on the ALCO committee as a consultant until March 2014 after he retired from the Board to provide the committee with the requisite skill set pending the appointment of a new Board member with relevant experience.

■ *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 meets at least once a year and reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages.

Remuneration policy

Non-Executive Directors

Non-Executive Directors receive a fee for their services. There are no bonus schemes for Non-Executive Directors and they do not quality 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 Director is appraised by the Chair annually.

Executive Directors

Remuneration of the Executive Directors comprises a number of elements: basic salary, performance 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 policy that no basic salary will exceed a maximum of five times the lowest full grade available.

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.

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

Potential future policy developments

During 2014 the Society engaged an experienced external firm to undertake a benchmarking exercise of salary levels and benefits against comparable organisations. This insightful report demonstrated that Ecology salaries tend to be lower than other comparable ethical and green organisations and similar sized building societies. The Remuneration committee has therefore concluded that the structure of executive remuneration should be reviewed in the near future, otherwise Ecology could face difficulties in retaining and attracting professionals with the necessary skills and experience.

When the Society instituted its 5:1 maximum salary ratio nearly 20 years ago, such practices were largely unknown in the UK. Since then it has become more common, at least among organisations which share similar values to the Society. The benchmarking report found Ecology’s ratio to be low, with comparable organisations at 7:1 or more. The Remuneration committee supports the use of a ratio, but would like to review it, to ensure it is fair and reasonable and to ensure Ecology will attract and retain high calibre leadership into the future. In light of this, we feel it is appropriate to consult with our membership as to where the Society’s ratio should now be set.

Non-Executive Directors’ remuneration

	2014 £000	2013 £000
Malcolm Lynch	14	14
Tony Taylor[1] (Jan – Apr 2014)	4	13
David Black (Jan – Apr 2013)	-	4
Mark Jones (Jan – Apr 2013)	-	3
Steve Round	10	9
Helen Ashley Taylor	9	9
Tim Morgan (Aug 2013 onwards)	10	5
Chris Newman (Sep 2013 onwards)	9	4
Alison Vipond (Sep 2013 onwards)	8	4
Andrew Gold[1] (May 2014 onwards)	10	-
Totals	74	65

[1] *Includes additional remuneration in relation to oversight of the Society’s Risk function.*

Directors' Remuneration Report *continued*

Executive Directors' remuneration

	Salary £000	Performance Related Pay £000	Taxable Benefits £000	Contributions to pension scheme £000	Total £000
2014					
Paul Ellis (Chief Executive)	74	3	2	6	85
Pam Waring (Finance Director)	66	3	1	5	75
Totals	140	6	2	11	160
2013					
Paul Ellis (Chief Executive)	73	3	2	6	84
Pam Waring (Finance Director)	64	3	1	5	73
Totals	137	6	3	11	157

On behalf of the board

Malcolm Lynch
Chair

6 March 2015

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, 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 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 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 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 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 the Prudential Regulatory 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.

Malcolm Lynch
Chair

6 March 2015

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 2014 set out on pages 22 to 36. 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 20, 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 2014 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.

Lawrence Pomeroy (Senior Statutory Auditor)
for and on behalf of KPMG LLP (Statutory Auditor)
Chartered Accountants
Leeds

6 March 2015

Income and Expenditure Account

for the year ended 31 December 2014

	Note	2014 £000	2013 £000
Interest receivable and similar income	2	**4,421**	4,075
Interest payable and similar charges	3	**(1,858)**	(1,872)
Net interest receivable		**2,563**	2,203
Fees and commissions receivable		**9**	9
Fees and commissions payable		**(64)**	(34)
Net profit on financial operations		**2,508**	2,178
Other operating income		**108**	71
Administrative expenses	4	**(1,692)**	(1,497)
Depreciation and amortisation	13	**(77)**	(74)
Provisions for bad and doubtful debts	6	**(9)**	(50)
Provisions for FSCS Levy	20	**(90)**	(91)
Amounts written off fixed asset investments	12	**-**	(20)
Profit on ordinary activities before tax		**748**	517
Tax on profit on ordinary activities	8	**(172)**	(115)
Profit on ordinary activities after tax		**576**	402

The notes on pages 25 to 36 form part of these accounts.

There were no recognised gains or losses other than those reflected in the above income and expenditure account (2013: £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 2014

	Note	2014 £000	2013 £000
Assets			
Liquid assets			
Cash in hand		**-**	-
Treasury bills	*10b*	**18,228**	12,491
Loans and advances to credit institutions	*9*	**23,156**	23,429
Debt securities	*10a*	**3,515**	4,022
Loans and advances to customers	*11*		
Loans fully secured on residential property		**82,166**	73,308
Other loans		**9,333**	9,942
Investments			
Other investments	*12*	**155**	155
Tangible fixed assets	*13*	**1,308**	1,284
Prepayments and accrued income		**187**	170
Total assets		**138,048**	124,801
Liabilities			
Shares	*14*	**121,526**	109,532
Amounts owed to other customers	*15*	**7,612**	7,026
Other liabilities	*16*	**476**	386
Accruals and deferred income	*18*	**51**	59
Provisions for liabilities – FSCS Levy	*20*	**140**	137
Provisions for liabilities - other	*17*	**44**	39
Subordinated liabilities	*19*	**1,248**	1,247
		131,097	118,426
Reserves			
General reserves	*22*	**6,951**	6,375
Total liabilities		**138,048**	124,801

The notes on pages 25 to 36 form part of these accounts.

These accounts were approved by the Board of Directors on 6 March 2015 and were signed on its behalf by:

Malcolm Lynch
Chair

Paul C Ellis
Chief Executive

Pam Waring
Finance Director

Cash Flow Statement

for the year ended 31 December 2014

	2014 £000	2013 £000
Net cash (outflow)/inflow from operating activities	**5,329**	7,444
Returns on investments and servicing of finance		
Interest paid on subordinated liabilities	**(56)**	(55)
Taxation	**(113)**	(145)
Capital expenditure and financial Investments		
Purchase of tangible fixed assets	**(138)**	(58)
Purchase of treasury bills	**(46,588)**	(38,521)
Proceeds from sale of treasury bills	**40,863**	34,024
Purchase of debt securities	**(4,005)**	(5,241)
Proceeds from sale of debt securities	**4,508**	5,235
(Decrease)/Increase in cash	**(200)**	2,683
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**748**	517
Increase in prepayments and accrued income	**(2)**	(8)
(Decrease)/Increase in accruals and deferred income	**(127)**	83
Increase in Provisions for bad and doubtful debts	**14**	52
Increase in Provision for FSCS levy	**3**	13
Loss on disposal of investment	**-**	20
Depreciation	**77**	74
Interest on subordinated liabilities	**57**	56
Net cash inflow from trading activities	**770**	807
Movement in:		
Loans and advances to customers	**(8,228)**	(5,963)
Shares	**12,113**	12,996
Amounts owed to other customers	**586**	1,568
Loans and advances to credit institutions	**50**	(2,000)
Other liabilities	**38**	36
Net cash inflow from operating activities	**5,329**	7,444

Analysis of decrease in cash	**2013 £000**	Flows £000	2014 £000
Loans and advances to credit institutions repayable on demand	**10,823**	(200)	**10,623**

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 UK 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.

The Accounts are currently prepared under UK GAAP but going forward the Financial Reporting Council (FRC) has replaced UK GAAP with FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, with effect from periods beginning on or after 1 January 2015. FRS 102 is based on International Reporting Standard for Small and Medium Sized Entities amended for use in the UK.

The financial statements for Ecology Building Society will be prepared under FRS 102 from 1 January 2015 and the financial impact of the adoption is not yet known.

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 5 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 FRS 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. 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.

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. 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 continues to be monitored. Specific provision is made against those advances and loans which are considered to be impaired, whether or not forbearance measures are in place. 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.

Notes to the Accounts *continued*

1 Accounting policies *continued*

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.

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 and charged to administrative expenses on an accrual basis.

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

	2014 £000	2013 £000
On loans fully secured on residential property	**3,689**	3,305
On other loans	**493**	509
On debt securities:		
Interest	**49**	67
Amortisation of premiums	**(3)**	(10)
Profit on disposal	**4**	19
On treasury bills at fixed rate interest	**64**	35
On other liquid assets	**123**	148
Other interest receivable and similar income	**2**	2
	4,421	4,075

Notes to the Accounts *continued*

3 Interest payable and similar charges

	2014 £000	2013 £000
On shares held by individuals	**1,723**	1,751
On deposits and other borrowings		
Subordinated liabilities	**57**	56
Other	**78**	65
	1,858	1,872

4 Administrative expenses

	2014 £000	2013 £000
Staff costs		
Wages and salaries	**743**	650
Social security costs	**81**	67
Other pension costs	**59**	49
	883	766
Other administrative expenses	**809**	731
	1,692	1,497
Other administrative expenses include:		
Auditors (exclusive of VAT)		
Audit of the financial statements	**26**	26
Other services pursuant to such legislation	**1**	1
Other assurance services	**6**	8

5 Employees

The average number of employees (including Executive Directors) during the year was:

	2014	2013
Full time	**21**	19
Part time	**1**	1
	22	20

Notes to the Accounts *continued*

6 Provisions for bad and doubtful debts

	Other Loans £000	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 1 January 2014				
General		19	6	25
Specific	35	-	188	223
	35	**19**	**194**	**248**
Income and Expenditure Account				
General	-	-	-	-
Specific		-	14	14
Adjustment for recoveries	(5)			(5)
Net Charge	(5)	-	14	9
At 31 December 2014				
General	-	19	6	25
Specific	30	-	202	232
	30	**19**	**208**	**257**

There are no specific provision required for mortgages where forbearance has been exercised (2013: £126,000).

7 Remuneration of and transactions with Directors

Total remuneration amounted to £234,000 (2013: £222,000). Full details are given in the Directors' Remuneration Report on pages 17 and 18.

Directors' loans and transactions

At 31 December 2014 there were three outstanding mortgage loans (2013: 3), made in the ordinary course of the Society's business to Directors and connected persons, amounting to £311,179 (2013: £463,366).

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 or at the Annual General Meeting.

Notes to the Accounts *continued*

8 Tax on profit on ordinary activities

	2014 £000	2013 £000
Analysis of charge in year at 21.49% (2013: 23.25%)		
Corporation tax on profits of the period	**167**	115
Adjustment in respect of previous periods	**-**	-
Total current tax	**167**	115
Deferred tax		
Origination and reversal of timing differences	**5**	-
Total deferred tax (note 17)	**5**	-
Tax on profit on ordinary activities	**172**	115
Factors affecting current tax charge in year		
Profit on ordinary activities before tax	**748**	517
Tax on profit on ordinary activities at 21.49% (2013:23.25%)	**161**	120
Accelerated capital allowances	**(1)**	(4)
Short term timing differences	**-**	(2)
Permanent items	**7**	11
Adjustment to tax charge in respect of previous periods		
Small companies rate	**-**	(10)
Current tax charge for year	**167**	115

Legislation reducing the main rate of corporation tax to 23% with effect from 1 April 2013 was substantively enacted in March 2013. Further reduction in the main rate of corporation tax from 23% to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015 were enacted within the Finance Act 2013 in July 2013. As these changes were substantively enacted by the balance sheet date the closing deferred tax asset has been provided for at 20%.

9 Loans and advances to credit institutions

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

	2014 £000	2013 £000
Accrued interest	**33**	56
Repayable on demand	**10,623**	10,823
In not more than 3 months	**7,000**	8,500
More than 3 months but not more than 1 year	**5,500**	4,050
More than 1 year but not more than 5 years	**-**	-
	23,156	23,429

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 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

	2014 £000	2013 £000
Issued by public bodies (listed)	**501**	1,002
Issued by other borrowers (unlisted)	**3,009**	3,014
	3,510	4,016
Debt securities have remaining maturities as follows:		
Accrued interest	**8**	12
Repayable in not more than 1 year	**2,000**	2,009
Repayable in more than 1 year	**1,507**	2,001
	3,515	4,022
Transferable debt securities (excluding accrued interest) comprise:		
Listed	**2,000**	2,009
Unlisted	**1,507**	2,001
	3,507	4,010
Market value of listed transferable debt securities	**1,518**	1,984
Included in debt securities are:		
Unamortised premiums	**7**	10

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

Cost (excluding accrued interest)	**£'000**
At 1 January 2014	**4,010**
Additions and renewals	**4,005**
Disposals and maturities	**(4,508)**
At 31 December 2014	**3,507**

10(b) Treasury Bills

Treasury bills have remaining maturities as follows:	**£'000**	£'000
Accrued interest	**17**	5
In not more than one year	**18,211**	12,486
	18,228	12,491

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

Cost (excluding accrued interest)	**£'000**
At 1 January 2014	**12,486**
Additions and renewals	**46,588**
Disposals and maturities	**(40,863)**
At 31 December 2014	**18,211**

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

Notes to the Accounts *continued*

11. Loans and advances to customers

	2014 £000	2013 £000
Loans fully secured on residential property	**82,166**	73,308
Loans fully secured on land	**9,303**	9,901
Other loans	**30**	41
	91,499	83,250

Loans fully secured on land include £13,614 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 that 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:

	2014 £000	2013 £000
Other loans and advances by residual maturity repayable:		
In not more than 3 months	**1,152**	802
In more than 3 months but not more than 1 year	**2,908**	2,920
In more than 1 year but not more than 5 years	**16,634**	14,755
In more than 5 years	**71,062**	65,021
	91,756	83,498
Less: provisions for bad and doubtful debts (note 6)	**(257)**	(248)
	91,499	83,250

There were 14 accounts (2013: 26) at the end of the year where forbearance is currently exercised equating to 1.47% (2013: 2.86%) of mortgage accounts. The balance of these accounts amounted to £1.280m, (2013: £3.590m) or 1.40% (2013: 4.15%) of the mortgage book. Provisions on forbearance cases are disclosed in Note 6.

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 £129,000 (2013: £129,000). The Society also owns 10,000 (2013: 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.

	Shares £000	Loans £000	Total £000
As at 31 December 2013	26	129	155
Additions	-	-	-
Withdrawal	-	-	-
Losses	-	-	-
As at 31 December 2014	**26**	**129**	**155**

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	1,391	154	424	48	2,017
Additions	54	10	74	-	138
Disposals	(40)	-	(43)	-	(83)
At end of year	1,405	164	455	48	2,072
Depreciation					
At beginning of year	225	127	365	16	733
Charge for year	24	7	34	12	77
Disposals	(3)	-	(43)	-	(46)
At end of year	246	134	356	28	764
Net book value					
At 31 December 2014	**1,159**	**30**	**99**	**20**	**1,308**
At 31 December 2013	1,166	27	59	32	1,284

Freehold land and buildings, which are included in the balance sheet at cost less deprecation, amounted to £1.159m at 31 December 2014 (2013: £1.166m). 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

	2014 £000	2013 £000
Held by individuals	**121,526**	109,532
Shares are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	**620**	739
Repayable on demand	**120,906**	105,696
In not more than 3 months	**-**	2,688
In more than 3 months but not more than 1 year	**-**	409
	121,526	109,532

Notes to the Accounts *continued*

15. Amounts owed to other customers

	2014 £000	2013 £000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
Repayable on demand	**7,612**	6,776
In more than 3 months but not more than 1 year	**-**	250
	7,612	7,026

16. Other liabilities

	2014 £000	2013 £000
Corporation tax	**167**	115
Income tax	**146**	136
Other creditors	**163**	135
	476	386

17. Provisions for liabilities – other

The amounts provided for deferred taxation are set out below:

	2014 £000	2013 £000
At 1 January	**39**	39
Origination and reversal of timing differences	**6**	6
Adjustment in respect of prior years	**-**	-
Effect of the changes in tax rates	**(1)**	(6)
Charge for the year	**-**	-
At 31 December	**44**	39

Details of the amounts provided for deferred taxation at 20% (2013: 20%) are set out below:

	2014 £000	2013 £000
Excess of capital allowances over depreciation	**44**	39
Other short term timing differences	**-**	-
	44	39

18. Accruals and deferred income

	2014 £000	2013 £000
Accruals	**51**	58
Government grants	**-**	1
	51	59

Notes to the Accounts *continued*

19. Subordinated liabilities

	2014 £000	2013 £000
a) Floating rate subordinated liabilities due 2016	**500**	500
b) Floating rate subordinated liabilities due 2019	**750**	750
	1,250	1,250
Less unamortised premiums and issue costs	**(2)**	(3)
	1,248	1,247

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 made on the floating rate loan (b) is at a rate agreed with reference to the Bank of England Base. Interest payments on the floating rate loan (a) is 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, £0.723m is permissible as Tier 2 capital resources.

20. Provisions for liabilities - FSCS

FSCS Levy	2014 £000	2013 £000
Balance brought forward	**137**	124
Scheme year 2013/14 Levy paid in year	**(87)**	(78)
Charge for the year	**90**	91
Balance carried forward	**140**	137

In common with all regulated UK deposit-takers, the Society 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. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford and Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dumfermline Building Society.

The FSCS meets these current claims by way of loans received from the HM Treasury. The terms of these loans were interest only for the first three years and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members, including Ecology Building Society, over this period.

The loans are repayable by FSCS on 31 March 2016, with the exception of Bradford and Bingley Plc which is due on 29 February 2024. The FSCS confirmed that it expects to receive the full repayment of the debt of £1.6bn owed to it by Bradford and Bingley Plc by the repayment date. The non-Bradford and Bingley loans will be repaid by a levy on deposit takers in three more or less equal instalments. The Society made the second payment of this compensation levy, £44,000, in September 2014.

The Society's FSCS provision reflects market participation up to the reporting date. £98,000 of the provision relates to the estimated management expenses levy for the scheme years 2014/15 and 2015/16. In addition to the management levy the Society has recognised a provision of £42,000 relating to the compensation scheme.

Ecology Building Society

Notes to the Accounts *continued*

21. 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 2014. 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 2014	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	**29,849**	**9,485**	**4,500**	**1,000**	**65**	**44,899**
Loans and advances to customers	**91,499**	**-**	**-**	**-**	**-**	**91,499**
Other assets	**10**	**-**	**-**	**145**	**1,495**	**1,650**
	121,358	**9,485**	**4,500**	**1,145**	**1,560**	**138,048**
Liabilities						
Shares and amounts owed to customers	**128,518**	**-**	**-**	**-**	**620**	**129,138**
Other liabilities	**-**	**-**	**-**	**-**	**711**	**711**
Subordinated liabilities	**748**	**500**	**-**	**-**	**-**	**1,248**
Reserves	**-**	**-**	**-**	**-**	**6,951**	**6,951**
	129,266	**500**	**-**	**-**	**8,282**	**138,048**
Interest rate sensitivity gap	**(7,908)**	**8,985**	**4,500**	**1,145**	**(6,722)**	**-**
Cumulative gap	**(7,908)**	**1,077**	**5,577**	**6,722**	**-**	**-**
At 31 December 2013						
Assets						
Liquid assets	26,328	10,041	2,500	1,000	73	39,942
Loans and advances to customers	83,250	-	-	-	-	83,250
Other assets	10	-	-	145	1,454	1,609
	109,588	10,041	2,500	1,145	1,527	124,801
Liabilities						
Shares and amounts owing to customers	115,819	-	-	-	739	116,558
Other liabilities	-	-	-	-	621	621
Subordinated liabilities	747	500	-	-	-	1,247
Reserves	-	-	-	-	6,375	6,375
	116,566	500	-	-	7,735	124,801
Interest rate sensitivity gap	(6,978)	9,541	2,500	1,145	(6,208)	-
Cumulative gap	(6,978)	2,563	5,063	6,208	-	-

Notes to the Accounts *continued*

21. 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. The Society completes an Individual Liquidity Systems Assessment (ILSA) each year and this assessment of liquidity systems and controls is reviewed in detail, and approved, by the Board.

22. General reserves

	2014 £000	2013 £000
At beginning of year	**6,375**	5,973
Profit for the financial year	**576**	402
At end of year	**6,951**	6,375

23. Pensions

The amount charged during the year for individual pension schemes in respect of staff was £58,556 (2013: £48,863). There were no contributions owing to these schemes at 31 December 2014 (2013: £nil).

Annual Business Statement

Year ended 31 December 2014

1 Statutory percentages

	Statutory limit	At 31 December 2014 %	At 31 December 2013 %
Lending limit	25.00	**10.76**	12.52
Funding limit	50.00	**5.89**	6.03

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

	2014 %	2013 %
Gross capital as a percentage of shares and borrowings	**5.94**	6.37
Free capital as a percentage of shares and borrowings	**4.95**	5.29
Liquid assets as a percentage of shares and borrowings	**34.77**	34.27
Profit after taxation as a percentage of mean total assets	**0.44**	0.34
Management expenses as a percentage of mean total assets	**1.35**	1.36

Gross capital represents the general reserves and subordinated liabilities. Of the subordinated liability shown on the balance sheet £0.723m is classed as Tier 2 capital.

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 2014 and 2013 total assets.

Annual Business Statement *continued*

Year ended 31 December 2014

3 Information relating to Directors at 31 December 2014

Name and Date of Birth	Occupation and Date of Board Appointment	Other Directorships
Malcolm John Lynch 29.04.1955	Solicitor 24.07.1998	The Trust for Education Leeds Youth Opera Unity EBT Limited
Paul Charles Ellis 10.09.1957	Building Society Chief Executive 05.05.1984	Mutual Vision Technologies Ltd 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
Steven John Round 08.04.1960	Managing Director 09.12.2010	Strategic Intent Ltd The Big Issue Foundation Change Account Ltd
Helen Ashley Taylor 13.12.1965	Accountant 23.05.2012	Ecology Building Society Charitable Foundation
Timothy David Morgan 08.12.1964	Finance Director and Company Secretary 28.08.2013	Shared Interest Society Ltd Gateshead Clinical Commissioning Group
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	Newton and Bywell Connects Ltd Ecology Building Society Charitable Foundation
Andrew John Gold 30.12.1969	Risk, Audit & Compliance Professional 30.05.2014	

Paul Ellis and Pam Waring both have service contracts, details of which can be found in the Directors' Remuneration Report on pages 17 to 19.

Documents may be served on the above Directors and should be marked 'private and confidential' c/o Financial Services Audit, KPMG LLP, 1 The Embankment, Neville Street, Leeds, LS1 4DW.