Ecology
Building Society

Annual Report & Accounts

31 December 2015

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Society Information

Directors
Steve Round *Chair*
Alison Vipond *Deputy Chair*
Tim Morgan
Chris Newman
Andrew Gold
Louise Power (Appointed 17 June 2015)
Paul Ellis *Chief Executive*
Pam Waring *Secretary*

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Cover image: The Den House, Ansty, Dorset – A timber framed detached certified Passivhaus.

Chair's Statement

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

In 2015, the Society has had another strong financial performance, achieving record levels of lending. I am proud of our record over the past year and I believe we have successfully achieved our priority of striking the right balance between maintaining our financial strength and generating sufficient profit to support our capital requirements. This will enable us to continue investing to support the Society's future growth, as we work towards our ecological mission.

As a mutually owned business, we need to deliver ongoing long-term benefit to both new and existing members. Despite the Bank of England base rate remaining at historic lows for longer than anticipated, which creates difficult operating conditions for the Society, we have sought to keep interest rates for savers as high as possible, balanced against the need to provide competitive rates for borrowers too.

The busy regulatory agenda shows no sign of abating and, in 2015, we continued to invest in developing our capacity to respond to this. In addition, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) believe that holding individuals to account is a key component of effective regulation. We are awaiting the final outcome of the new Senior Managers' Regime, which will encompass both the Board and certain staff members. It is therefore more important than ever that your Board, which exists to ensure appropriate corporate governance of the Society, has the right mix of skills and experience to scrutinise and provide critical challenge to the Executive and staff, as well as ensuring that Ecology's ethics and environmental mission remain at the heart of the Society.

This year we ask you to elect Louise Power as a Non-Executive Director following her appointment to the Board. Louise is a solicitor with over 20 years' experience in litigation, negotiation and mediation to resolve disputes relating to property and mortgage transactions. She also has a wide experience of working with the building society sector and is committed to sustainable living.

Our increased lending has supported more building projects than ever that respect the environment and sustainable, low impact communities. I am also pleased that, following member feedback, we have started to support small scale renewable projects including community owned energy, as well as our traditional mortgage lending. In 2015, we partnered with crowd funder, Abundance Investments, to make direct investments in solar photovoltaic projects, which have clear environmental and social benefits as well as aiming to produce sustainable financial returns.

I am passionate about the role Ecology can have to deliver real change to people's lives through the work we do to build a greener society. Our ethical approach and commitment to our mission sets us apart from mainstream financial services providers. It is imperative that, as we grow, we can meet an ever wider range of members needs and aspirations. I truly believe that Ecology is well placed to harness the power of our members to agitate against social injustice, as well as leading on innovative approaches to help create a more inclusive society, underpinned by sustainable development principles. In 2015, we received accreditation as a Living Wage employer and I am also particularly pleased that we are also the first building society to receive the Fair Tax Mark, which confirms that, as a good corporate citizen, we actively welcome paying our fair share of tax. In all of our work we remain very aware that our mandate to act comes only from our community of members, which forms the foundation of the culture of our Society.

I must thank my predecessor, Malcolm Lynch, for his tireless contribution over 17 years to your Society. Malcolm played a critical role in supporting the sustained growth of Ecology – when he joined in 1998 our assets were just £26.4m – and in 2015 total assets reached £145.9m. I had the privilege of serving, as a Director, under Malcolm since my appointment and I look forward to continuing to build on his hard work.

Finally, I would like to thank the Board and all of our staff for their continued commitment, hard work and attention to serving our members' needs, during a year of significant growth for the Society.

Steve Round
Chair
4 March 2016

Chief Executive's Review

Overview

I am pleased to report that Ecology has again recorded excellent financial results with a third consecutive year of record lending, significantly increased profitability and strong overall asset growth underpinned by record levels of savings balances. The growth in profitability was achieved despite further increases in our cost base, which reflect the need to continue to invest in our capacity to meet increasing regulatory requirements. Despite the record lending levels, there was no compromise in our commitment to focus on lending for environmental and social impact. We also maintained our adherence to high ethical standards for the operation of the Society through our environmental policy, our social commitments and the open and transparent way in which we deal with our customers and members.

During the year, we continued to take measures to ensure that the inflows of savers' deposits were maintained at levels which supported the increased demand for lending, but reduced our overall holding of excess liquidity. We launched our new savings accounts range in March and then increased the maximum balance on these accounts in December. However, with the extension of the Funding for Lending Scheme, which was unexpected, the current low interest rate environment shows no sign of abating, which means that it remains difficult to balance the needs of savers whilst ensuring our mortgages are competitive.

Having grown strongly in 2014 and 2015, to strengthen our foundations we are now pursuing a period of more modest growth. Consequently, as we continue to reinforce our mission to build a greener society, we have taken steps to focus our lending on projects which offer the greatest gains in terms of carbon reductions and environmental impact.

As an ethical financial services organisation, it is important that our values remain embedded in the Society's operations. I am therefore delighted that we have built on our longstanding commitment to a fair pay ratio to limit maximum salaries and have been awarded Living Wage Accreditation. We have also been awarded the Fair Tax Mark, which demonstrates our genuine commitment to be open and transparent about the Society's tax affairs and pay the right amount of corporation tax at the right time and in the right place.

We continued to play a full part in the promotion of social economy finance internationally, including contributing to the work of the **Global Alliance for Banking on Values**, while working to build the capacity of the **International Association of Investors in the Social Economy** as it expands its membership rapidly into South America and Africa.

A summary of the main key performance indicators (KPIs) used by the Board is provided below.
Please note that, as a result of changes to the UK accounting standards, we are required to change our financial reporting framework (from old UK GAAP to FRS 102) which has resulted in a number of restated KPIs for previous years. A detailed breakdown of the changes to the Statement of Comprehensive Income and Statement of Financial Position are also included in the Annual Report and Accounts.

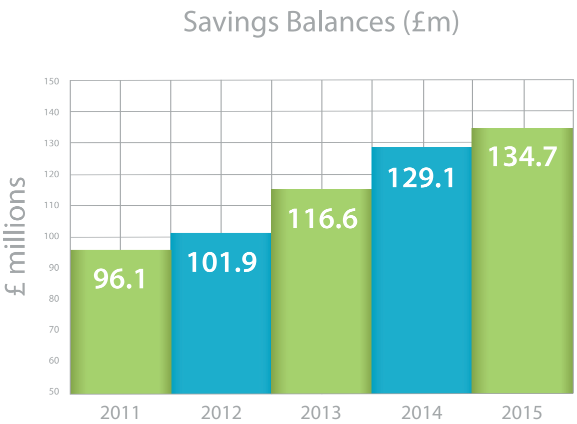
Key Performance Indicators

	2015	2014	2013
Mortgage lending	**£42.1m**	£23.1m	£18.4m
Mortgage asset growth	**24.29%**	9.92%	7.15%
Savings balances	**£134.7m**	£129.1m	£116.6m
Liquid assets as a % of shares and borrowings	**21.83%**	34.77%	34.27%
Management expenses as a % of mean total assets	**1.46%**	1.38%	1.34%
Net profit	**£0.881m**	£0.566m	£0.341m
Profit after taxation as a % of mean total assets	**0.62%**	0.43%	0.29%
Tier 1 capital	**£7.736m**	£6.851m	£6.313m
Total assets	**£145.9m**	£137.9m	£124.6m
AGM – voting turnout	**16.54%**	15.93%	18.18%

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.

The Society's annual accounts have been prepared for the first time under a new mandatory accounting framework. The Board have chosen to adopt FRS 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland) with an effective date of transition of 1 January 2014. This means that a number of 2014 comparative figures have been adjusted accordingly. Members will note that these new standards have also resulted in a number of new disclosures and changes to existing disclosures in the annual accounts.

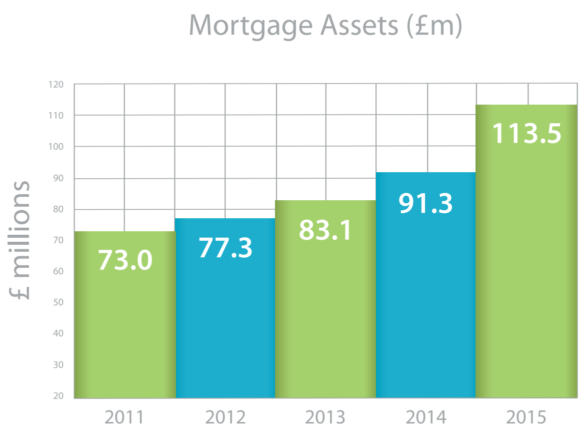
Savings and liquidity



Savings balances grew by 4.3% by the end of 2015, reaching £134.7m (up from £129.1m at the end of the previous year). During 2015, we launched a new product range which was designed to allow access to our savings range for new members, while limiting the increase in funds as far as possible to ensure that liquidity did not rise further from the high levels at the beginning of the year. This helped us ensure that there was no impact on the rates paid to savers. Despite the continued low interest rate environment, we were able to attract and accept more savings than originally anticipated to fund the increases in our sustainable lending, whilst continuing to reduce liquidity. By the end of 2015, we were able to loosen some of the restrictions on our savings account range to support the higher levels of lending. ***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 continued not to 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 and have made good progress to reduce this so that at the year end, liquidity levels were at a significantly lower level of 21.83% (2014: 34.77%).*** This also helps reduce costs and increase profitability so we can keep savings rates as high as possible.

Mortgage lending

Mortgage asset growth increased significantly on the previous year reaching 24.29% (2014: 9.92%) supported by record net lending of £29.2m. We also established a new gross lending record of £42.1m. This increased level of lending first and foremost represents an increase in our positive 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. New-build in the form of design methodologies, such as Passivhaus and higher energy efficiency ratings, formed the bulk of our residential lending in 2015 but we were also pleased to see a slight increase in the number of renovation cases, given our desire to make an impact regarding the energy efficiency of the existing housing stock. These figures are further boosted by the investments we have made in renewable projects during the course of 2015.

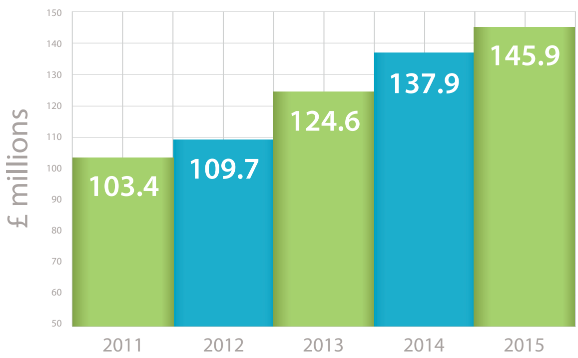


By the year-end, over 26% of loans outstanding were benefiting from one of our C-Change discounts, which rewards work undertaken on the property to help combat climate change – showing that the rapid growth in mortgage lending was not at the expense of environmental quality. Although this was a slight decrease on the previous year as these are awarded once the works are completed, when the mortgage book is growing quickly as was the case in 2015, there tends to be a 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 2015, there were again no cases where repayments were 12 months or more in arrears (2014: 0). At the year-end, there were no properties in possession (2014: 0). Total provisions against possible mortgage losses increased to £402,000 (2014: £302,000), which includes two cases which are not in arrears but where Society management are working with our borrowers to navigate difficult operating conditions. At the end of the year there were 11 cases where forbearance was being exercised (2014: 13).

Asset growth

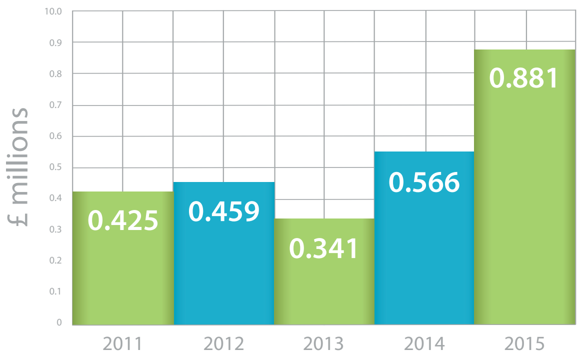
Total Assets (£m)



Total assets reached a new record level at the year-end of £145.9m, an increase of 5.85% (2014: 10.62%). The Society again took actions to ensure the level of growth was sustainable 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.

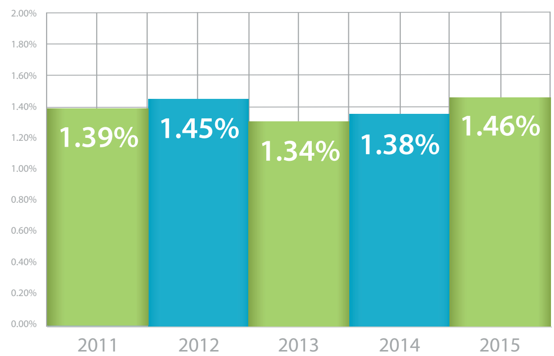
Profit and capital

Net Profit (£m)

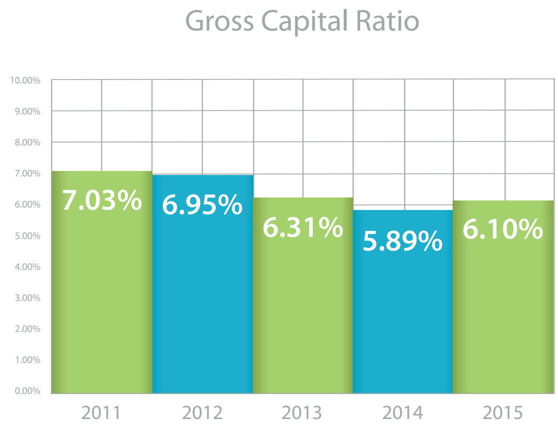


Net profit for the year amounted to £881,000 and was 55.48% higher than 2014. This was added to the General Reserve, which now totals £7.760m (2014: £6.879m). This profit belongs to our members and acts as a buffer against losses. The level of profit we are currently making is sufficient to ensure that we maintain the required level of capital to underpin our current growth based on existing capital requirements. Because of the strong potential to grow our work further, it remains our intention to take on supplementary capital in the future. While we continue planning to issue a new capital instrument, we are currently awaiting the outcome of ongoing regulatory deliberations on adequate capital levels before we can determine the extent of our capital raising ambitions. These deliberations directly affect lending sectors that are key to sustainable lending policies, such as energy-efficient new build, and so we are pressing for early clarification.

Management Expenses Ratio



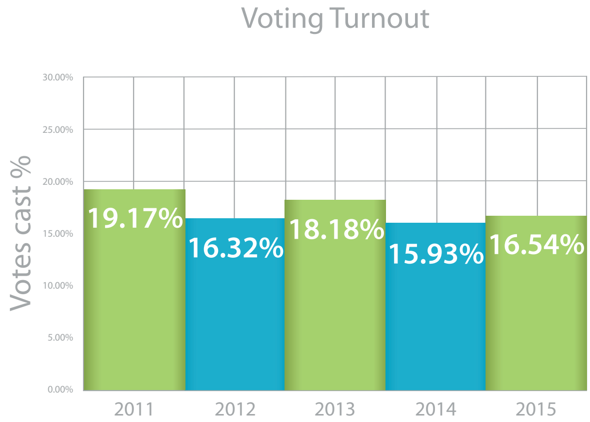
The cost base of the Society grew by 14.98% in 2015. While this was slightly lower than the 2014 level (15.97%), the lower level of overall asset growth meant that the Management Expenses Ratio increased over the previous year to 1.46% (2014: 1.38%). ***Wherever possible, we use the most sustainable and ethical option when purchasing goods and services. In some cases we accept that we will pay more than for the less sustainable option. In 2015, this added 3.06% to our costs – without this the Management Expenses Ratio would have been 1.42%.***



Despite the increased lending, the growth in profitability means that the Gross Capital Ratio has increased to 6.10%. 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 2015, the amount of the levy was £85,018 which equated to 7.92% of the gross profit figure. To date, the Society has paid £341,882 over to the FSCS.

Member relations

Our 2015 AGM was held at the ACC in Liverpool. ***Once again, we held a Members Meet Up with the theme of Remaking Money: Finance for People and Planet. A range of speakers and workshops focussed on who currently controls money, how it can be controlled more democratically in future and how individuals view money.*** 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 slightly up at 16.54%. Going forward, we will be looking at further ways in which we can encourage members to exercise their vote.

Staff changes

In order to support our continued growth we increased our staff numbers further in 2015. Our capacity to deal effectively with the day to day needs of our members and customers was strengthened by the arrival of Mary Hegarty and Kelly Stringer as mortgage underwriters and Stephanie Morton in Savings Administration, all of whom have already made important contributions to our work. The increasing workload in Compliance was reflected in the recruitment of two very experienced compliance professionals in the shape of Chris Rickerby as Conduct Risk and Ethics Manager and Joanne Maurizi as Compliance Manager. Both Joanne and Chris know the Society well from past assignments, which has allowed them to make an immediate impact on our operations. We were further strengthened in our ability to effectively control our business by the recruitment for the first time of an experienced data analyst in Steve Ford. In April, our Communications and Ethics Manager, Anna Laycock, moved on to pastures new, after having transformed our communications capabilities, but we are pleased that we will still be working with Anna in her new role in developing sustainable finance via the Finance Innovation Lab. We have been fortunate to recruit an able successor in Ian Rigarlsford who has recently joined us from The Co-operative Bank as our External Affairs Manager.

In December, our long-serving colleague Christine Wakeling left after 21 years to spend more time with her rare breeds – we wish her well. We also said goodbye to our Technology Manager Richard Saville, and in April 2016 we will be saying farewell to John Ainley, our current Compliance and Risk Manager, who has opted for a well-earned retirement.

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
National CLT (Community Land Trust) Network	The nationwide network for Community Land Trusts
Passivhaus Trust	An independent, non-profit organisation that promotes the adoption of the Passivhaus standard
Scottish Ecological Design Association (SEDA)	An association aiming to promote design which enhances the quality of life and does not harm planetary ecology
UK Cohousing Network	The nationwide network for cohousing
UK Sustainable Investment and Finance Association (UKSIF)	A membership network for sustainable and responsible financial services

In international terms, we continued to support the global development of the social economy and sustainable banking sectors as active participants in the Global Alliance for Banking on Values (GABV), the Institute of Social Banking and the International Association of Investors in the Social Economy (INAISE). We made our first investments in the GABV originated Sustainability-Finance-Real Economies Fund, which has now invested in the capital of two values-based banks based in Paraguay and Costa Rica.

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:

Bristol Green Doors	Sponsorship of a series of energy efficient ‘open home’ events
Human Nature Art Show	Sponsorship of art show in Leeds
MERCi (Bridge 5 Mill Centre for Sustainable Living)	Charitable donation to provide support for two gas boilers for heating and hot water
National CLT (Community Land Trust) Network	Sponsorship of National CLT Network conference
Passivhaus Trust	Sponsorship of Passivhaus Trust Award for Retrofit
Plunkett Foundation	Sponsorship of environmental category within the 2015 Rural Community Ownership Awards
Practical Action	Charitable donation to Practical Action Bangladesh appeal
UK Cohousing	Sponsorship of UK Cohousing conference

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

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

The main internal developments regarding our Environment Policy in 2015 were that:

- *We upgraded the company car due for renewal in 2015 from a standard hybrid model to a plug-in version, so that both our vehicles will be able to use our electric vehicle charging point as well as members and visitors.*

- *We overhauled our rainwater harvesting system in order to improve the efficiency of our water management and consumption.*

- *We have maintained our 'Green' accreditation under the Investors in the Environment scheme – the highest level it is possible to obtain.*

While an extension to our HQ building is still planned, this has been deferred as we are taking the opportunity to make changes to the internal layout of the building to accommodate more staff.

Our main commitments for 2016 are to:

- *Convert all of the lighting in our HQ building to LEDs, which we anticipate will result in a significant reduction in our energy use.*

- *Amend our Lending Policy to ensure that it takes account of climate change adaptation such as flood resilience.*

- *Further increase the level of staff awareness and understanding of our environmental and ecological approach by providing appropriate training.*

Future development of the Society

We anticipate that, in 2016, we will consolidate several successive years of significant growth and expect lower increases in lending levels as we focus our lending on projects which offer the greatest gains in terms of carbon reductions.

We gave a cautious welcome to the outcomes of the successful COP21 Paris Climate agreement, which commits the world to binding targets to keep global temperature increase well below 2 degrees. At long last, we believe the world could be on the path to a low carbon system. However, against that positive backdrop, the strength of the global economy remains uncertain due to continued political and economic factors. We are particularly concerned that the continued falls in the oil price, combined with the Government's decision to significantly reduce the level of subsidies, may have an impact on the take-up of renewable energy technologies. Therefore, the task for the Society in the present circumstances is to continue to invest both in energy efficiency and renewable energy so that we contribute to the long term reduction in energy demand while supporting the take up of clean energy sources.

As a member owned business, our members' views are critical to the continued development of the Society. Given further staffing changes, we were not in a position to survey members in 2015 and we will take this forward in 2016.

We have committed to reducing the number of paper-based communications with our members, which will help us reduce the use of our paper, save time and lower costs. We have also invested in enhancements to our online offering and this will continue during the course of the year. While we are committed to develop our digital strategy and provide a first class online offering, we know that some members continue to prefer to receive paper-based communications and we will continue offering this choice.

The high levels of regulatory change which have followed the financial crisis show no signs of easing and has contributed to our increasing costs. While we recognise that many of these changes are necessary to address past failings in the wider banking industry, we still believe that their implementation should be calibrated to the size of the organisation and the level of risk they pose. We will continue to support positive change to encourage a proportional regulatory approach by working through partners in the UK such as the Building Societies Association and internationally through both GABV and INAISE.

Paul Ellis
Chief Executive
4 March 2016

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 2015.

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 2015 are discussed within the Chief Executive's Review.

Charitable donations

During the year, the Society made charitable donations amounting to £10,939 (2014: £7,978). No contributions were made to political parties.

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 2015 is £1,135,000. The Directors remain of the view that the value in use of the head office is in excess of the carrying value.

The head office building was developed to reflect the ecological business practices of the Society. Where possible recycled and reclaimed materials have been used and energy reduction techniques and practices utilised. The energy generated for the year is around 26% (2014: 25%) of our needs, with the remainder supplied from off-site renewable sources.

Capital

At 31 December 2015, the ratio of gross capital as a percentage of total share and deposit liabilities was 6.10% (2014: 5.89%) and free capital was 5.21% (2014: 4.92%).

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. Key elements of the control of risk across the business are 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

- the Technology Manager addresses business continuity aspects of operational risk

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

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 24.

Capital adequacy

The European Union's Capital Requirements Regulation (CRR) came into effect on 1 January 2014 and sets the transition path towards full implementation of the Basel III capital framework by 2019. CRR and the associated Capital Requirements Directive (CRD) require 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**.

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.

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 2015 was 34 days (2014: 36 days). All invoices received are normally paid within 30 days.

Tax Policy

The Society adopted a Tax Compliance Policy Statement on 29 January 2016. A copy is available on our website at **www.ecology.co.uk/about/corporate**.

The disclosure made in these financial statements comply with commitments made in that Policy Statement.

Going concern

In common with other deposit-taking financial institutions, the Society meets its day-to-day liquidity requirements through managing its retail funding sources, and is required to maintain a sufficient buffer over regulatory capital in order to continue to be authorised to carry on its business. The Society's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Society has adequate resources for the foreseeable future. There is the possibility that, during 2016, the regulatory view of the risk weighting for homes under construction may be revised from 35% to 100%, which will significantly increase the levels of capital the Society must hold against its assets. The Board is confident that, should this occur, the Society is able to put in place measures to change the structure of its assets and continue to meet regulatory requirements. For these reasons, the accounts continue to be prepared on a going concern basis.

Auditor

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

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

Directors

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

Steve Round Chair from 25 April 2015
Alison Vipond Deputy Chair
Malcolm Lynch Chair (retired 25 April 2015)
Paul Ellis Chief Executive
Pam Waring Secretary
Helen Ashley Taylor (retired 27 June 2015)
Tim Morgan
Chris Newman
Andrew Gold
Louise Power (appointed 17 June 2015)

Paul Ellis and Pam Waring are to retire by rotation and, being eligible, offer themselves for re-election at the AGM.

Louise Power was co-opted on to the Board in 2015 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. Louise is a solicitor with over 20 years' experience in litigation, negotiation and mediation to resolve disputes relating to property and mortgage transactions, and is committed to sustainable living.

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.***

The Society has a commitment to fair remuneration practices and 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 2015 was 4.7:1 (2014: 4.4:1)

The Directors would like to record their appreciation for the commitment of the management and staff during what has been a year of significant growth 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

Steve Round
Chair
4 March 2016

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 2014.

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 Statement of Principle and the Code of Practice for Approved Persons. 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 reverts to three years.

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

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

Within prudential constraints, the Board aims at diversity in its membership aiming particularly at gender balance and diversity of age. During 2015, 38% of Board members were female. All Board vacancies are communicated via Women on Boards.

Roles of the Chair and Chief Executive

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

Information and professional development

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

Performance evaluation

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

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

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 2015.

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

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

- provision for bad and doubtful debts
- revenue recognition
- levies under the Financial Services Compensation Scheme

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

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

The Committee monitors the independence and effectiveness of Internal and External Audit. At RACE meetings during the year the members have discussed the effectiveness of the external auditors using evidence from regular written reports including KPMG LLP's Statement of Independence presented to RACE in September 2015, and held discussions with the audit partner. KPMG have been the Society's auditors for over 20 years but operate an audit partner rotation policy. It was concluded that, while the auditors were carrying out their duties objectively, effectively and independent of management, as the last tender was undertaken in 2005, it is the intention of the Board to conduct a tender process in 2017. This was discussed at the January 2016 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.

Assets and Liabilities Committee (ALCO)

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

The Committee is chaired by the Chief Executive with the other members being the Finance Director, Chief Operating Officer and two Non-Executive Directors. The Committee met five times during 2015.

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 2015.

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 comprises two Non-Executive Directors, two consultants who have relevant experience of the Society's lending sectors, and is attended by the Chief Executive, the Chief Operating Officer, and other staff members as appropriate. The Committee is chaired by Chris Newman and met four times during 2015.

Nominations Committee

This Committee is responsible for succession planning and for reviewing applications for the post of Non-Executive Director and making a recommendation to the full Board. The committee is comprised of one Executive Director and two Non-Executive Directors. The Committee is currently chaired by Steve Round and it met on two occasions in 2015.

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

Board and committee membership and attendance record

Director	Board	Risk, Audit, Compliance and Ethics	DSPC	Board Lending	Remuneration	Nominations	ALCO
Malcolm Lynch	2/3	■	1/1	0/1	■	■	■
Steve Round	9/10	■	3/3	■	■	2/2	4/5
Louise Power	9/9	■	1/2	■	■	■	■
Helen Ashley Taylor	3/5	1/2	0/2	■	■	1/1	■
Andrew Gold*	10/10	4/4	3/3	■	1/1	■	5/5
Tim Morgan	10/10	4/4	3/3	4/4	1/1	■	■
Chris Newman	10/10	4/4	3/3	4/4	■	1/1	■
Alison Vipond	10/10	2/2	3/3	■	1/1	■	■
Paul Ellis*	10/10	4/4	3/3	4/4	■	2/2	5/5
Pam Waring*	9/10	4/4	3/3	■	■	■	5/5

The above contains occasional attendance at committees 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.

*Directors are invited attendees of RACE

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

■ *Not a member of this committee*

Directors' remuneration report

Introduction

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

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

Role and composition of the Remuneration Committee

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

The Committee 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 qualify for pension or other benefits. Additional fees are paid to the Chair, Deputy Chair and those Non-Executive Directors who are members of Board committees in recognition of the additional duties and responsibilities associated with these positions. Non-Executive Directors do not have service contracts but serve under letters of appointment. The contribution of each Director is appraised by the Chair annually.

Executive Directors

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

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

Basic salary

The Society's policy is for all employees (including Executive Directors) to be remunerated in relation to their expertise, experience, overall contribution and the general market place. The 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.

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

In our last report, we informed members that we intended to review how we set executive remuneration, including the existing maximum salary ratio. Since then, we have widened our review to the whole of our remuneration setting policies, and we have engaged the services of a HR consultancy with experience in the co-operative and financial sectors to assist us in that review. Part of the background to that review is the need to take into account any potential changes that might arise as a result of the new Senior Managers Regime which is a joint initiative of the Financial Conduct Authority and Prudential Regulation Authority, and which is effective from March 2016.

The Board values all the feedback on our remuneration policy that it has already received from members, and remains committed to further seeking members' views on the updated policy via a consultation through our Ethics Panel and discussion at a subsequent AGM.

Non-Executive Directors' remuneration

	2015 £000	2014 £000
Steve Round	**14**	10
Tony Taylor[1] (January – April 2014)	**–**	4
Malcolm Lynch	**5**	14
Helen Ashley Taylor (retired 27 June 2015)	**5**	9
Tim Morgan	**11**	10
Chris Newman	**10**	9
Louise Power (appointed 17 June 2015)	**5**	–
Alison Vipond	**10**	8
Andrew Gold[1]	**16**	10
Totals	**76**	74

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

Executive Directors' remuneration

	Salary £000	**Performance Related Pay £000**	**Taxable Benefits* £000**	**Contributions to pension scheme £000**	**Total £000**
2015					
Paul Ellis (Chief Executive)	**80**	**3**	**2**	**6**	**91**
Pam Waring (Finance Director)	**70**	**3**	**–**	**5**	**78**
Totals	**150**	**6**	**2**	**11**	**169**
2014					
Paul Ellis (Chief Executive)	74	3	2	6	85
Pam Waring (Finance Director)	66	3	1	5	75
Totals	**140**	**6**	**3**	**11**	**160**

**Taxable benefits include the staff mortgage scheme. In 2015 the official interest rate for mortgage benefits was lower than the Society's interest rate and therefore this did not classify as a taxable benefit.*

On behalf of the board

Steve Round
Chair
4 March 2016

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

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

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

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

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

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

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

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

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

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

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

Steve Round
Chair
4 March 2016

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

We have audited the annual accounts of Ecology Building Society for the year ended 31 December 2015 set out on pages 22 to 56. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 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 2015 and of the income and expenditure of the Society for the year then ended; and

- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;

- the information given in the Directors' Report for the financial year for which the annual accounts are prepared is consistent with the accounting records and the annual accounts; and

- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept by the Society; or

- the annual accounts are not in agreement with the accounting records; or

- we have not received all the information and explanations and access to documents we require for our audit.

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

4 March 2016

Statement of Comprehensive Income

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Interest receivable and similar income	2	**5,218**	4,454
Interest payable and similar charges	3	**1,855**	(1,858)
Net interest income		**3,363**	2,596
Income from investments		12	–
Fees and commissions receivable		**9**	9
Fees and commissions payable		**(38)**	(32)
Other operating income		**23**	15
Net loss from other financial instruments at fair value through profit and loss		**(5)**	(1)
Total net income		**3,364**	2,587
Administrative expenses	4	**(1,996)**	(1,736)
Depreciation and amortisation	13,15	**(81)**	(77)
Operating profit before impairment losses and provisions		**1,287**	774
Impairment losses on loans and advances	12	**(178)**	11
Provisions for liabilities FSCS	22	**(35)**	(50)
Profit before tax		**1,074**	735
Tax expense	7	**(193)**	(169)
Profit for the financial year		**881**	566
Other comprehensive income		**–**	–
Total comprehensive income for the year		**881**	566

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

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

Statement of Financial Position

at 31 December 2015

	Notes	2015 £000	2014 £000
Assets			
Liquid assets			
Cash in hand and with the Bank of England	8	**12,790**	–
Treasury bills and similar securities	10	**5,492**	18,228
Loans and advances to credit institutions	9	**11,460**	23,156
Debt securities	10	**–**	3,515
Loans and advances to customers	11	**113,512**	91,324
Tangible fixed assets	13	**1,283**	1,269
Fixed asset investments	14	**1,123**	150
Intangible assets	15	**33**	39
Other debtors	16	**236**	187
Total assets		**145,929**	137,868
Liabilities			
Shares	17	**127,433**	121,526
Amounts owed to credit institutions	18	**1,503**	–
Amounts owed to other customers	19	**7,309**	7,612
Sub-ordinated liabilities	23	**1,248**	1,248
Other liabilities	20	**524**	476
Accrual and deferred income		**105**	51
Deferred tax liability	21	**7**	27
Provision for FSCS liability	22	**40**	49
Total liabilities		**138,169**	130,989
Reserves			
General reserves		**7,760**	6,879
Total reserves attributable to members of the Society		**7,760**	6,879
Total reserves and liabilities		**145,929**	137,868

These accounts were approved by the Board of Directors on 4 March 2016 and were signed on its behalf by:

Steve Round
Chair

Paul Ellis
Chief Executive

Pam Waring
Finance Director

Statement of Changes in Members' Interests

	General reserve 2015 £000	Total 2015 £000	General reserve 2014 £000	Total 2014 £000
Balance at 1 January	**6,879**	**6,879**	6,313	6,313
Total comprehensive income for the period				
Profit for the year	**881**	**881**	566	566
Other comprehensive income	**0**	**0**	0	0
Total comprehensive income for the period	**881**	**881**	566	566
Balance at 31 December	**7,760**	**7,760**	6,879	6,879

Cash Flow Statement

	Notes	2015 £000	2014 £000
Cash flows from operating activities			
Profit before tax		**1,074**	735
Adjustments for			
Depreciation and amortisation	13,15	**81**	77
(Profit)/ Loss on disposal of tangible fixed assets		**(6)**	37
Impairment of fixed asset investment	14	**6**	1
Interest on subscribed capital	3	**57**	57
Provision for liabilities		**35**	50
Loans and advances written off in the year	12	**78**	–
Increase in impairment of loans and advances	12	**100**	(11)
Total		**1,425**	946
Changes in operating assets and liabilities			
Increase in prepayments, accrued income and other assets		**(49)**	(17)
Increase/(decrease) in accruals, deferred income and other liabilities		**54**	(8)
Increase in loans and advances to customers		**(22,365)**	(8,230)
Decrease/(increase) in loans and advances to credit institutions		**4,010**	(1,459)
Increase in shares		**5,907**	11,994
Increase in amounts owed to other credit institutions and other customers		**1,200**	586
(Decrease)/increase other liabilities		**(4)**	38
FSCS interest cost paid		**(43)**	(44)
Taxation paid		**(161)**	(115)
Net cash generated by operating activities		**(10,026)**	3,691
Cash flows from investing activities			
Purchase of debt securities		**–**	(4,002)
Disposal of debt securities		**3,515**	4,508
Purchase of treasury bills		**(15,515)**	(46,600)
Disposal of treasury bills	10	**28,250**	40,863
Purchase of fixed asset investments		**(979)**	–
Purchase of tangible fixed assets	13	**(83)**	(102)
Disposal of tangible fixed assets	13	**6**	–
Purchase of intangible assets	15	**(6)**	(35)
Net cash generated by/(used in) investing activities		**15,188**	(5,368)
Cash flows from financing activities			
Interest paid on subscribed capital		**(57)**	(55)
Net increase/(decrease) in cash and cash equivalents		**5,105**	(1,732)
Cash and cash equivalents at 01 January		**17,642**	19,374
Cash and cash equivalents at 31 December	8	**22,747**	17,642

Notes

(forming part of the annual accounts)

1. Accounting policies

Ecology Building Society (the "Society") has prepared these annual accounts on a going concern basis as outlined in the Director's Report on pages 10 to 13 and in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, *The Financial Reporting Standard,* applicable in the UK and Republic of Ireland *("FRS 102")* as issued in August 2014. The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

In the transition to FRS 102 from old UK GAAP, the Society has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Society is provided in note 28.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemption has been taken in these annual accounts:

- Designation of previously recognised financial instruments – certain financial assets and liabilities were at the 1 January 2015 designated at fair value through profit or loss.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts. On first time adoption of FRS 102, the Society has not retrospectively changed its accounting under old UK GAAP for derecognition of financial assets and liabilities before the date of transition.

In common with other deposit-taking financial institutions, the Society meets its day-to-day liquidity requirements through managing its retail funding sources, and is required to maintain a sufficient buffer over regulatory capital in order to continue to be authorised to carry on its business. The Society's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Society has adequate resources for the foreseeable future. There is the possibility that during 2016, the regulatory view of the risk weighting for homes under construction may be revised from 35% to 100% which will significantly increase the levels of capital the Society must hold against its assets. The Board is confident that should this occur the Society is able to put in place measures to change the structure of its assets and continue to meet regulatory requirements. For these reasons, the accounts continue to be prepared on a going concern basis.

1.1 Measurement convention

The annual accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: Fixed Asset Investments measured in accordance with open market value.

1.2 Interest

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

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

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

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

1.3 Fees and commission

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

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

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

1.4 Taxation

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

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

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

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

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

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

1.5 Financial instruments

Recognition

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

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

Financial assets

The Society classifies its financial assets into one of the following categories:

- *Loans and receivables*

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method

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

- *At fair value through profit and loss*

The Society designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

Financial liabilities

The Society classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

Derecognition

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

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

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

During the year ending 31 December 2015 the Society has not transferred any financial assets to another party that did not qualify for derecognition.

Measurement

Amortised cost measurement

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

Fair value measurement

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

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

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

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

Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

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

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

- Interest only payments
- Payment holiday

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

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

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

1.6 Cash and cash equivalents

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

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

1.7 Tangible fixed assets

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

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

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

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

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

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

1.8 Intangible assets

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

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

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

Intangible assets are tested for impairment in accordance with Section 27 of FRS102 Impairment of Assets when there is an indication that an intangible asset may be impaired.

1.9 Impairment excluding financial assets and deferred tax assets

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

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

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

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

1.10 Provisions

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

1.11 Assumptions and estimation uncertainties

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

Impairment losses on loans and advances to customers

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

Financial instruments and deferred tax assets

Information about other assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 are set out in the following notes:

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

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

2. Interest receivable and similar income

	2015 £000	2014 £000
On loans fully secured on residential property	**4,524**	3,719
On other loans	**481**	496
On debt securities	**20**	46
On treasury bills at fixed rate interest	**63**	64
On other liquid assets	**120**	123
Profit on sale of liquid assets	**8**	4
On other interest receivable and similar income	**2**	2
	5,218	4,454

There was no interest income accrued on impaired loans two or more months in arrears (2014: 0)

3. Interest payable and similar charges

	2015 £000	2014 £000
On shares held by individuals	**1,721**	1,723
On deposits and other borrowings	**77**	78
On subordinated liabilities	**57**	57
	1,855	1,858

4. Administrative expenses

	2015 £000	2014 £000
Wages and salaries	**860**	743
Social security costs	**92**	81
Other pension costs	**67**	59
	1,019	883
Other administrative expenses	**977**	853
	1,996	1,736

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

	2015 £000	2014 £000
Audit of these annual accounts*	**54**	26
Audit-related assurance services	**–**	1
Other assurance services	**–**	6
	54	33

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

5. Employee numbers

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

	2015	2014
Full time	**23**	21
Part time	**2**	1
	25	22

6. Directors' remuneration

Total remuneration amounted to £245,000 (2014: £234,000). Full details are given in the Directors' Remuneration Report.

7. Taxation

	2015 £000	2014 £000
Current tax		
Current tax on income for the period	**218**	167
Adjustments in respect of prior periods	**(5)**	–
Total Current tax	**213**	167
Deferred tax see note 21		
Origination and reversal of timing differences	**(19)**	–
Change in tax rate	**(1)**	–
Total deferred tax	**(20)**	–
Tax expenses (income) relating to changes in accounting policies	–	2
	193	169

Analysis of current tax recognised in profit and loss

Legislation enacted in July 2013 reduced the main rate of corporation tax to 23% from 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015.

	2015 £000	2014 £000
Profit for the year	**881**	566
Total tax expense	**193**	169
Profit excluding taxation	**1,074**	735
Tax using the UK corporation tax rate of 20.25% (2014:21.49%)	**217**	158
Community Investment relief	**(25)**	–
Reduction in tax rate on deferred tax balances	**(1)**	–
Non-deductible expenses	**7**	11
Under / (over) provided in prior years	**(5)**	–
Total tax expense included in profit or loss	**193**	169

The effective tax rate for the twelve month period ended 31 December 2015 is 20.25%. This differs from the standard rate of corporation tax in the UK due to the impact of disallowable expenditure, deferred tax movement and adjustments for prior years.

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

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

8. Cash and cash equivalents

	2015 £000	2014 £000
Cash in hand and balances with the Bank of England	**12,790**	–
Loans and advances to credit institutions (see note 9)	**9,957**	17,642
Cash and cash equivalents per cash flow statements	**22,747**	17,642

9. Loans and advances to credit institutions

	2015 £000	2014 £000
Accrued Interest	**18**	33
Repayable on demand	**7,442**	10,623
In not more than three months	**2,500**	7,000
In not more than one year	**1,500**	5,500
Total loans and advances to credit institutions	**11,460**	23,156
Total included within cash and cash equivalents	**9,957**	17,642

10. Debt securities

	2015 £000	2014 £000
Gilts	**–**	1,012
Treasury bills	**5,492**	18,228
Certificates of deposit	**–**	2,002
Floating rate notes	**–**	501
	5,492	21,743
Debt securities have remaining maturities as follows:		
In not more than one year	**5,492**	20,230
In more than one year	**–**	1,513
	5,492	21,743
Transferable debt securities comprise:		
Listed on a recognised investment exchange	**–**	1,513
Unlisted	**5,492**	20,230
	5,492	21,743
Market value of listed transferable debt securities	**–**	1,518

10. Debt securities (continued)

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

	2015 £000	2014 £000
At 1 January 2015	**21,718**	16,496
Additions	**15,525**	50,593
Disposals and maturities	**(31,757)**	(45,371)
At 31 December 2015	**5,486**	21,718

11. Loans and advances to customers

	2015 £000	2014 £000
Loans fully secured on residential property	**104,475**	82,024
Loans fully secured on land	**9,017**	9,270
Other loans	**20**	30
	113,512	91,324
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	**1,101**	1,152
In more than three months but not more than one year	**4,853**	2,908
In more than one year but not more than five years	**19,931**	16,586
In more than five years	**88,029**	70,980
	113,914	91,626
Less: allowance for impairment (note 12)	**402**	302
	113,512	91,324

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

Loans fully secured on land includes £9,660 of loans which are fully secured on residential property and which were made to corporate bodies, such as Housing Co-operatives, prior to 1 October 1998, the date the Society adopted the powers of the Building Societies Act 1997. The classification of these assets is not consistent with the treatment of similar loans made after the 1 October 1998 that are included in "loans fully secured on residential property" but is necessary to comply with the requirements of the Building Societies Act 1997.

12. Allowance for impairment

	Loans fully secured on residential property £000	Other loans £000	Total £000
Provision for impairment on loans and advances At 1 January 2015			
Individual impairment	–	242	242
Collective impairment	44	16	60
	44	258	302
Amounts written off during the year, net of recoveries			
Individual impairment	10	68	78
Collective impairment	–	–	–
	10	68	78
Income statement			
Impairment losses on loans and advances			
Individual impairment	65	(3)	62
Collective impairment	54	(10)	44
Adjustments to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	–	(6)	(6)
Charge/(credit) for the year	119	(19)	100
At 31 December 2015			
Individual impairment	**65**	**233**	**298**
Collective impairment	**98**	**6**	**104**
	163	**239**	**402**

	Loans fully secured on residential property £000	Other loans £000	Total £000
Provision for impairment on loans and advances At 01 January 2014			
Individual impairment	–	227	227
Collective impairment	59	27	86
	59	254	313
Amounts written off during the year, net of recoveries			
Individual impairment	–	–	–
Collective impairment			
	–	–	–
Income statement			
Impairment losses on loans and advances			
Individual impairment	–	20	20
Collective impairment	(15)	(11)	(26)
Adjustments to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	–	(5)	(5)
Charge/(credit) for the year	(15)	4	(11)
At 31 December 2014			
Individual impairment	–	242	242
Collective impairment	44	16	60
	44	258	302

13. Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures, Fittings & computer equipment £000	Motor vehicles £000	Total £000
Cost					
Balance at 1 January 2015	1,405	164	309	48	1,926
Additions	–	–	55	28	83
Disposals	–	–	(24)	(22)	(46)
Balance at 31 December 2015	1,405	164	340	54	1,963
Depreciation					
Balance at beginning of the year	246	134	249	28	657
Depreciation charge for the year	24	6	31	8	69
Disposals	–	–	(24)	(22)	(46)
Balance at 31 December 2015	270	140	256	14	680
Net book value At 1 January 2015	1,159	30	60	20	1,269
At 31 December 2015	**1,135**	**24**	**84**	**40**	**1,283**

Freehold land and buildings, which are included in the balance sheet at cost less depreciation, amounted to £1.135m at 31 December 2015 (2014: £1.159m). Following completion of the meeting room a valuation of the Head Office was carried out on 15 February 2007 by Wilman & Wilman. This valued the freehold land and buildings on an investment method basis at an open market value of £1.100m, which is lower than the carrying value in the accounts. However, the Directors consider the value in use of these premises to be in excess of the book value and no provision for diminution in value has been made.

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

14. Fixed Asset Investments

	Loans £000	Other Investments £000	Total £000
Cost			
At 1 January 2015	129	26	155
Additions	951	36	987
Repayments	(9)	–	(9)
At 31 December 2015	1,071	62	1,133
Impairment			
At 1 January 2015	–	(5)	(5)
Impairment losses/gains	–	(5)	(5)
At 31 December 2015	–	(10)	(10)
Net book value			
At 31 December 2015	**1,071**	**52**	**1,123**
At 1 January 2015	129	21	150

At the beginning of the year the Society held an existing loan of £129,000 made to Mutual Vision Technology (2014: £129,000). During the year the Society provided loan debentures to Oakapple Berwickshire plc and Ecossol PV Ltd, both solar projects, and in addition made a loan to Co-operative and Community Finance Ltd. These investments were made as part of the Society's strategy to invest directly in renewable energy as announced at the 2014 AGM, and to support other co-operative ventures. All loans are interest bearing and as at 31 December 2015 no loan is considered to be impaired.

The Society holds 10,328 shares in Mutual Vision Technology Limited which provides IT services to the Society. The Society holds £11,508 (2014: £11,209) ordinary shares in the Phone Co-op Ltd, the provider of the Society's telephone services; this includes interest paid by the issue of further shares. These shares are not traded on an active market and are held at cost less impairment.

The Society holds 8,000 shares in The Ethical Property Company PLC which were valued at £6,800 at the end of 2015 (2014: £5,200).

During 2015 the Society purchased shares in the GABV originated Sustainability-Finance-Real-Economies Fund (SFRE) to the value of £35,082. SFRE exists to invest in the capital resources of emerging and established values-based finance institutions and is in the early stages of its operations, which is reflected in the Fair Value of these shares as at the end of 2015 which is recorded as £25,162.

Shares in The Ethical Property Company PLC and SFRE are held at Fair Value.

15. Intangible assets

	Purchase Software £000	Total £000
Cost		
Balance at 01 January 2015	146	146
Other acquisitions externally purchased	6	6
Disposals	–	–
Balance at 31 December 2015	152	152
Amortisation		
Balance at 01 January 2015	107	107
Amortisation for the year	12	12
Disposals	–	–
Balance at 31 December 2015	119	119
Net book value At 01 January 2015	39	39
At 31 December 2015	**33**	**33**

16. Other debtors

	2015 £000	2014 £000
Prepayments	**227**	182
Accrued income	**9**	5
	236	187

Debtors include prepayments and accrued income of £11,063 (2014: £11,812) for the Society that are due after more than one year.

17. Shares

	2015 £000	2014 £000
Held by individuals	**127,433**	121,526
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Accrued Interest	**635**	620
On demand	**122,950**	120,906
In not more than three months	**3,848**	–
	127,433	121,526

18. Amounts owed to credit institutions

	2015 £000	2014 £000
Accrued Interest	**3**	–
With agreed maturity dates or periods of notice		
In not more than three months	**1,000**	–
In more than three months but not more than 1 year	**500**	–
	1,503	–

19. Amounts owed to other customers

	2015 £000	2014 £000
	7,309	7,612
Repayable on demand	**7,309**	7,612

20. Other liabilities

	2015 £000	2014 £000
Income tax	**152**	146
Corporation tax	**219**	167
Other creditors	**153**	163
	524	476

21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2015 £000	2014 £000	Liabilities 2015 £000	2014 £000	Net 2015 £000	2014 £000
Accelerated capital allowances	**–**	–	**49**	51	**49**	51
FRS102 transitional adjustments	**(21)**	(10)	**–**	–	**(21)**	(10)
Other timing differences	**(21)**	(14)	**–**	–	**(21)**	(14)
Tax (assets) / liabilities	**(42)**	(24)	**49**	51	**7**	27

During the year beginning 1 January 2016, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by approximately £3k. This is due to the reversal of a deferred tax asset recognised in relation to the FRS102 transitional adjustments. The corporation tax impact of the EIR transitional adjustments is spread over ten years and so deferred tax has been recognised accordingly.

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

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

22. Provisions

	FSCS levy £000	Total £000
Balance at 01 January 2015	49	49
Paid in year	(44)	(44)
Release of over provision	–	–
Charge for the year	35	35
Balance at 31 December 2015	40	40

At 31 December 2015 the Society has a provision of £40,000 comprising management expenses levies for the scheme year 2015/2016.

23. Subordinated liabilities

	2015 £000	2014 £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)**	(2)
	1,248	1,248

The Notes are repayable at the dates stated or earlier at the option of the Society with the prior consent of the PRA. All subordinated liabilities are denominated in sterling. Interest payments on the floating rate loan (a) is at a rate agreed based on the average SVR (Standard Variable Rate) of the top 5 Building Societies. Interest payments made on the floating rate loan (b) is at a rate agreed with reference to the Bank of England Base Rate. Premiums and discounts, commission and other costs incurred in the raising of subordinated liabilities are amortised in equal annual instalments over the relevant period to maturity. Of the subordinated liabilities held by the Society, £0.548m is permissible as Tier 2 capital resources.

24. Financial instruments

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

The Society does not run a trading book.

Categories of financial assets and liabilities

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

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

24. Financial instruments (continued)

Carrying values by category 31 December 2014	Held at amortised cost £000	Held at Fair value	Total £000
Financial assets			
Treasury Bills and similar securities	18,228	–	18,228
Loans and advances to credit institutions	23,156	–	23,156
Debt securities	3,515	–	3,515
Loans and advances to customers	91,324	–	91,324
Fixed asset investments	145	5	150
Total financial assets	**136,368**	**5**	**136,373**
Non-financial assets	1,495	–	1,495
Total assets	**137,863**	**5**	**137,868**
Financial liabilities			
Shares	121,526	–	121,526
Amounts owed to other customers	7,612	–	7,612
Sub-ordinated liabilities	1,248	–	1,248
Other liabilities	476	–	476
Total financial liabilities	**130,862**	**–**	**130,862**
Non-financial liabilities	7,006	–	7,006
Total liabilities	**137,868**	**–**	**137,868**

At the 31 December 2015, the Society has loan commitments of £24.3m (2014: £21.2m) measured at cost less impairment.

Valuation of financial instruments carried at fair value

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

Valuation techniques

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

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

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

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

24. Financial instruments (continued)

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

	Level 1 £000	Level2 £000	Level 3 £000	Total £000
31 December 2015				
Financial assets				
Fair value through profit and loss	35	–	–	35
	35	–	–	35
Financial liabilities				
Fair value through profit and loss	–	–	–	–
	–	–	–	–
31 December 2014				
Financial assets				
Fair value through profit and loss	5	–	–	5
	5	–	–	5
Financial liabilities				
Fair value through profit and loss	–	–	–	–
	–	–	–	–

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

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Society's exposure to credit risk. The Society maintains a cautious approach to credit risk and new lending. All loan applications are assessed with reference to the Society's Lending Policy. Changes to the Policy are approved by the Board and the approval of loan applications is mandated. The Board is responsible for approving treasury counterparties.

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

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

24. Financial instruments (continued)

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

	2015 £000	2014 £000
Cash with Bank of England	12,790	–
Loans and advances to credit institutions	11,461	23,156
Debt securities	–	3,515
Treasury Bills	5,491	18,228
Loans and advances to customers	113,913	91,626
Total statement of financial position exposure	143,655	136,525
Off balance sheet exposure – mortgage commitments	24,320	21,150
	167,975	157,675

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

24. Financial instruments (continued)

Credit quality analysis of loans and advances to customers

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

	2015 Loans fully secured on residential property £000	**Loans fully secured on land £000**	**Other loans £000**	2014 Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000
Neither past due nor impaired	**103,115**	**7,656**	**20**	81,520	7,973	30
Past due but not impaired						
1 – 2 months	**1,275**	**214**	**–**	442	69	–
2 – 3 months	**101**	**–**	**–**	97	15	–
Greater than 3 months	**–**	**–**	**–**	9	–	–
	1,376	**214**	**–**	548	84	–
Individually impaired						
Not past due	**148**	**1,384**	**–**	–	1,314	–
1 -2 months	**–**	**–**	**–**	–	–	–
2 – 3 months	**–**	**–**	**–**	–	–	–
Greater than 3 months	**–**	**–**	**–**	–	–	–
Possession	**–**	**–**	**–**	–	157	–
	148	**1,384**	**–**	–	1,471	–
Allowance for impairment						
Individual	**65**	**233**	**–**	–	242	–
Collective	**98**	**6**	**–**	44	16	–
Total allowance for impairment	**163**	**239**	**–**	44	258	–

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

24. Financial instruments (continued)

Assets obtained by taking possession of collateral

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

	2015 £000	2014 £000
Property	**–**	157

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

	2015 £000	2014 £000
LTV ratio		
Less than or equal to 50%	**47,511**	45,189
Greater than 50% but less than or equal to 70%	**34,641**	31,622
Greater than 70% but less than or equal to 90%	**29,647**	13,790
Greater than 90% but less than or equal to 100%	**2,204**	1,096
Greater than 100%	–	–
	114,003	91,697

Forbearance

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

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

	2015 £000	2014 £000
Payment holiday	**959**	401
Interest only	**1,309**	823
Arrears overpayment	–	14
Arrears underpayment	**–**	44
	2,268	1,282

There were a total of 11 accounts in forbearance at 31 December 2015 (2014: 13)

There were no Individual impairment provisions required (2014: 0) in respect of these mortgages.

24. Financial instruments (continued)

Liquidity risk

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

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

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

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

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

Maturity analysis for financial assets and financial liabilities

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

31 December 2015 **Financial assets**	**On demand £000**	**Not more than three months £000**	**More than three months but not more than one year £000**	**More than one year but not more than five years £000**	**More than five years £000**	**Total £000**
Cash in hand and balances with the Bank of England	12,790	–	–	–	–	12,790
Loans and advances to credit institutions	7,445	2,512	1,503	–	–	11,460
Treasury bills	–	1,998	3,494	–	–	5,492
Debt securities	–	–	–	–	–	–
Fixed asset investments	12	–	–	500	611	1,123
Loans and advances to customers	–	1,101	4,853	19,633	87,925	113,512
Total financial assets	**20,247**	**5,611**	**9,850**	**20,133**	**88,536**	**144,377**
Financial liabilities						
Shares	123,585	3,848	–	–	–	127,433
Amounts owed to credit institutions	–	1,001	502	–	–	1,503
Amounts owed to other customers	7,309	–	–	–	–	7,309
Trade payables	–	28	–	–	–	28
Subordinated liabilities	–	–	500	748	–	1,248
Total financial liabilities	**130,894**	**4,877**	**1,002**	**748**	**–**	**137,521**

24. Financial instruments (continued)

31 December 2014	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial assets						
Cash in hand and with the Bank of England	–	–	–	–	–	–
Loans and advances to credit institutions	10,627	7,016	5,513	–	–	23,156
Treasury bills	11,740	6,488	–	–	–	18,228
Debt securities	–	–	2,002	1,513	–	3,515
Fixed asset investments	10	–	–	–	140	150
Loans and advances to customers	–	1,152	2,908	16,344	70,920	91,324
Total financial assets	22,377	14,656	10,423	17,857	71,060	136,373
Financial liabilities						
Shares	121,526	–	–	–	–	121,526
Amounts owed to credit institutions	–	–	–	–	–	–
Amounts owed to other customers	7,612	–	–	–	–	7,612
Trade payables	–	34	–	–	–	34
Subordinated liabilities	–	–	–	1,248	–	1,248
Total financial liabilities	129,138	34	–	1,248	–	130,420

The following analysis of gross contractual flows payable under financial liabilities, this differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity on the amounts outstanding at the financial position date.

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

24. Financial instruments (continued)

31 December 2014	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Shares	121,526	–	–	–	–	121,526
Amounts owed to credit institutions	–	–	–	–	–	–
Amounts owed to other customers	7,612	–	–	–	–	7,612
Trade payables	34	–	–	–	–	34
Subordinated liabilities	–	–	–	1,429	–	1,429
Total financial liabilities	129,172	–	–	1,429	–	130,601

Market risk

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

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

The Society monitors interest rate risk exposure against limits by determining the effect on the Society's current net notional value of assets and liabilities for a parallel shift in interest rates equivalent to 200 basis points (bp) or 2% for all maturities, in line with regulatory requirements. The results are measured against the risk appetite for market risk which is currently set at a maximum of 4% of capital. Results are reported to ALCO and the Board on a bi-monthly basis.

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

	200bp parallel increase £000	200bp parallel decrease £000
Sensitivity of reported equity to interest rate movements		
2015		
At 31 December		
Average for the period	**130**	**142**
Maximum for the period	**155**	**169**
Minimum for the period	**108**	**118**
2014		
At 31 December		
Average for the period	200	217
Maximum for the period	231	254
Minimum for the period	178	194

24. Financial instruments (continued)

Capital

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

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

- **Lending Decisions** – The Society maintains a comprehensive set of sectoral limits on an overall and 12-month rolling basis to manage credit risk appetite. Individual property valuations are monitored against House Price Index (HPI) data and updated quarterly.
- **Concentration risk** - The design of lending products takes into account the overall mix of the loan portfolio to manage exposure to risks arising from the property market and other markets the Society is active in
- **Counterparty risk** - Wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria (including ethical considerations) and is subject to a range of limits that reflect the risk appetite of the Society.

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

The Society's capital requirements are set and monitored by the Prudential Regulation Authority (PRA). During 2015 the Society has continued to comply with the EU Capital Requirements Regulation and Directive Directive (Basel III) as amended by the PRA. Further details of the Society's approach to Risk Management are given in the Directors' Report under *Principal Risks and Uncertainties.*

Regulatory capital is analysed into two tiers:

- **Tier 1 capital** – which is currently comprised solely of retained earnings
- **Tier 2 capital** – which includes subordinated liabilities and collective provisions

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

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

The Society's regulatory position as at 31 December 2015 under the standardised approach was as follows:

	Note	**2015** **£000**	2014 £000
Tier 1 Capital			
General Reserve		**7,760**	6,879
Less intangibles	15	**(27)**	(28)
Total Tier 1 Capital		**7,733**	6,851
Tier 2 Capital			
Sub-ordinated liabilities	23	**548**	723
Collective Provision	12	**104**	60
Total Tier 2 Capital		**652**	783
Total Regulatory Capital		**8,385**	7,634

25. Contingencies

There were no contingencies required as at the end of December 2015.

26. Related parties

Transactions with key management personnel

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

	Number of key management personnel and their close family members 2015 £000	**Amounts in respect of key management personnel and their close family members 2015 £000**	Number of key management personnel and their close family members 2014 £000	Amounts in respect of key management personnel and their close family members 2014 £000
Loans and advances to customers	**3**	**283**	3	311
Deposits and share accounts	**11**	**50**	11	76

Directors' loans and transactions

At the 31 December 2015 there were three outstanding mortgage loans (2014: 3), made in the ordinary course of the Society's business to Directors and connected persons, amounting to £282,765 (2014: £311,179).

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

27. Subsequent events

There have been no material subsequent events between 31 December 2015 and the approval of this Annual Report and Accounts by the Board.

28. Explanation of transition to FRS 102 from old UK GAAP

In preparing their FRS 102 balance sheet, the Society has adjusted amounts reported previously in annual accounts prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Society's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

		01 January 2014			**31 December 2014**		
	Note	UK GAAP £000	Effect of transition to FRS 102 £000	FRS 102 £000	**UK GAAP £000**	**Effect of transition to FRS 102 £000**	**FRS 102 £000**
Assets							
Liquid assets							
Cash in hand		–	–	–	**–**	**–**	**–**
Treasury Bills		12,491	–	12,491	**18,228**	**–**	**18,228**
Loans and advances to credit institutions		23,429	–	23,429	**23,156**	**–**	**23,156**
Debt securities		4,022	–	4,022	**3,515**	**–**	**3,515**
Loans and advances to customers							
Loans fully secured on residential property	1	73,308	(130)	73,178	**82,166**	**(142)**	**82,024**
Other loans	1	9,942	(37)	9,905	**9,333**	**(33)**	**9,300**
Investments							
Other Investments	2	155	(4)	151	**155**	**(5)**	**150**
Tangible fixed assets		1,284	–	1,284	**1,308**	**(39)**	**1,269**
Intangible assets		–	–	–	**–**	**39**	**39**
Prepayments and accrued income		170	–	170	**187**	**–**	**187**
Total assets		124,801	(171)	124,630	**138,048**	**(180)**	**137,868**
Liabilities							
Shares		109,532	–	109,532	**121,526**	**–**	**121,526**
Amounts owed to credit institutions		–	–	–	**–**	**–**	**–**
Amounts owed to other customers		7,026	–	7,026	**7,612**	**–**	**7,612**
Other liabilities		386	–	386	**476**	**–**	**476**
Accruals and deferred income		59	–	59	**51**	**–**	**51**
Deferred tax liability	3	39	(14)	25	**44**	**(17)**	**27**
Provisions for liabilities FSCS Levy	4	137	(95)	42	**140**	**(91)**	**49**
Subordinated liabilities		1,247	–	1,247	**1,248**	**–**	**1,248**
Total liabilities		118,426	(109)	118,317	**131,097**	**(108)**	**130,989**
Reserves							
General reserves		6,375	(62)	6,313	**6,951**	**(72)**	**6,879**
Total reserves attributable to members of the Society		6,375	(62)	6,313	**6,951**	**(72)**	**6,879**
Total reserves and liabilities		124,801	(171)	124,630	**138,048**	**(180)**	**137,868**

28. Explanation of transition to FRS 102 from old UK GAAP (continued)

Reconciliation of profit for the 31 December 2014

	Note	UK GAAP £000	Effect of transition to FRS 102 £000	FRS 102 £000
Interest receivable and similar income		4,421	33	4,454
Interest payable and similar charges		(1,858)	–	(1,858)
Net interest income		**2,563**	**33**	**2,596**
Income from investments				
Fee and commissions receivable		9	–	9
Fees and commissions payable		(64)	32	(32)
Other Income		108	(93)	15
Investment Impairment		–	(1)	(1)
Total net income		**2,616**	**(29)**	**2,587**
Administrative expenses		(1,692)	(44)	(1,736)
Depreciation and amortisation		(77)	–	(77)
Operating profit before impairment				
losses and provisions		847	(73)	774
Impairment losses on loans and advances				
Provisions for liabilities – FSCS levy		(90)	40	(50)
Provisions for bad and doubtful debts		(9)	20	11
Profit before tax		748	(13)	735
Tax expense		(172)	3	(169)
Profit for the financial year		**576**	**(10)**	**566**
Other comprehensive income		0	0	0
Total comprehensive income for the year		**576**	**(10)**	**566**

28. Explanation of transition to FRS 102 from old UK GAAP (continued)

Explanation of transition to FRS 102 from old UK GAAP

1. Loans fully secured on residential property and Other Loans

The reduction in the value of loans fully secured on residential property is as a result of re-modelling the impairment calculation and is also reduced by fees and commission income and expense that are deferred income.

A full review of the loan book has been undertaken and a provision has been made where there is a difference between the value of the loan and the present value of estimated cash flows discounted at the asset's original effective interest rate. Provisions made on individual cases, previously stated as Specific Provisions, have used the contractual interest rate as the effective interest rate. Collective Provisions, previously stated as General Provisions, have used the Society's average standard variable interest rate. The impairment loss is the difference between the Society's carrying amount and the best estimate that it could expect to receive if the asset was sold at the reporting date.

Under the new accounting standard fees and commission income and expense that are integral to the effective interest rate of a loan are amortised over the expected life of a mortgage. The loan book is reduced by the net balance of unamortised fees and income for prior periods.

2. Other Investments

The Society's Other Investments are all Fixed Asset Investments which were previously stated at cost. Under FRS 102, investments are measured at fair value provided that the investments are publicly traded or their fair value can otherwise be measured reliably. Changes in fair value are recognised in profit or loss and the investment on the Balance Sheet is reduced or increased as appropriate. Fixed Assets that are not publically traded are measured at cost less impairment.

3. Taxation adjustments

The application of the new standard increased loan provisions resulted in impairments on fixed asset investments and reduced net income from fees and commission and this reduced deferred tax. This was offset by release of provisions held for the FSCS levy as a result of the adoption of IFRIC21.

4. Provisions for liabilities for FSCS levy

Integral to the transition to the new standards the Society has adopted IFRIC 21 - Levies with effect from 1 January 2015. This standard is a new interpretation on accounting for Government imposed levies. The interpretation has caused the trigger date for the Society to recognise the liability for FSCS levy to change from 31 December to 1st April. IFRIC 21 is applied retrospectively and changes the carrying provision as at 1 January 2014.

29. Country-by-country reporting

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

For the year ended 31 December 2015:

- The Society's principal activities are mortgage lender and provider of savings accounts
- The Society's turnover (defined as net interest receivable) was £3.363m (2014:£2.596m) profit before tax £1.074m (2014: £0.735m) all of which arose from UK-based activity
- The average number of full time equivalent employees was 23 (2014: 21)
- Corporation tax of £0.161m (2014: £0.115m) was paid in the year and is within the UK tax jurisdiction
- No public subsidies were received in the year

Annual Business Statement

Year ended 31 December 2015

1 Statutory percentages

	Statutory limit	**At 31 December 2015 %**	At 31 December 2014 %
Lending limit	25.00	**9.22**	10.73
Funding limit	50.00	**6.47**	5.89

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

	2015 %	2014 %
Gross capital as a percentage of shares and borrowings	**6.10**	5.89
Free capital as a percentage of shares and borrowings	**5.21**	4.92
Liquid assets as a percentage of shares and borrowings	**21.83**	34.77
Profit after taxation as a percentage of mean total assets	**0.62**	0.43
Management expenses as a percentage of mean total assets	**1.46**	1.38

Gross capital represents the general reserves and subordinated liabilities. Of the subordinated liability shown on the statement of financial position £0.548m is classed as Tier 2 capital.

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

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

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

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

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

Mean total assets are the average of the 2015 and 2014 total assets.

3 Information relating to Directors at 31 December 2015

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

Paul Ellis and Pam Waring both have service contracts, details of which can be found in the Directors' Remuneration Report on pages 18 to 19. There are no extended Notice Terms included in these contracts.
Documents may be served on the above Directors and should be marked 'private and confidential' c/o Financial Services Audit, KPMG LLP, 1 Sovereign Square, Leeds LS1 4DA

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