Ecology
Building Society

Annual Report & Accounts

31 December 2018

Building a greener society

Contents

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Chair's statement

Ecology is different. As a mutual we're powered by our members and since we began in 1981, we have sought to offer an inspiring alternative for people who believe in the positive potential of a transparent financial system which benefits people and planet.

In 2018, your Society delivered another strong financial performance with record levels of profit and an increase of over 36% in our sustainable lending. This growth in lending shows that we have been able to support even more building projects that both respect the environment, and support sustainable communities. I am immensely proud of our record over the last year.

I was particularly pleased to welcome members to our AGM and Members' Meet-up in Birmingham where we discussed our plans to invest in our digital capability and how different building approaches and materials can help us address the housing crisis while tackling climate change.

At the AGM we also shared the results of our latest Member Survey and I'd like to say a big thank you to all members who completed the survey. This gives us a valuable insight into what members think about the work that Ecology is doing. It was positive and reassuring that 96% of members told us that their top two reasons for choosing Ecology are our ethical approach and knowing that their money is being used for positive environmental and social impact.

Perhaps unsurprisingly, members consider climate change to be one of the three most pressing sustainability issues facing the world today as well as low-impact living and social inequality. In October 2018 the UN Intergovernmental Panel on Climate Change (IPCC)

published their 'Special Report on 1.5C Global Warming', which issued a stark warning about the ecological and human consequences if we fail to limit global warming to a maximum of 1.5C above pre-industrial levels. The publication of the report shows how we all need to take actions to help reduce our carbon emissions and Ecology's activist role and sustainable lending has never been more important. The Society is well placed to support members to take actions to reduce their own carbon footprint and is exploring ways to help them offset their emissions.

Buildings contribute over 27% of the UK's carbon emissions and Ecology has been helping people to make their homes more energy-efficient for nearly 40 years, thereby reducing the impact of climate change. We are now participating in the Europe-wide Energy Efficient Mortgages (EEM) Pilot Scheme, reflecting Ecology's role as an agitator and campaigner for positive change. The Society is also sharing its experience with policy makers in the UK and continuing to lobby for incentives to spur people to make their homes energy-efficient. We would like to see other lenders engage in initiatives like EEM and become agents for positive change.

Ecology has also been recognised as a long-standing pioneer and supporter of community-led housing helping to create genuinely affordable, quality homes for local people. During 2018 our support for scaling-up community housing continued to grow. As part of this commitment the Society has entered into a three-year partnership with the National CLT (Community Land Trust) Network. In September, we brought together community housing experts to discuss how the sector can offer a sustainable fix to the housing affordability crisis at the launch screening of a new documentary film. Ecology also helped fund the launch of a new tool-kit to help local authorities and housing associations develop people-powered housing solutions.

It is imperative that, as we grow, we can meet an even bigger range of members' needs and the increased lending levels during the year enabled Ecology to start welcoming more members to the Society through making new savings account applications available once more. The positive response to this move shows that there is a significant latent demand for our ethical savings service.

During the year we launched an improved online account service and the Society continues to invest in digital ways of working. This is enabling Ecology to adapt to the opportunities and challenges of the digital era, supporting our mission while continuing to offer members the best possible service.

This is an exciting time for the Society and throughout the Board will continue to scrutinise and provide critical challenge to the Executive while upholding Ecology's ethics and ecological mission and a focus on members' needs.

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

Steve Round
Chair
4 March 2019

Chief Executive's review

Ecology's sole reason for being is its mission to build a greener society. That shapes everything we do.

As with any business, however, there are a number of factors that the Board and management of the Ecology have to consider in seeking to prudently manage the growth and evolution of the Society. In financial terms, these include mortgage and savings rates, lending volumes, savings inflow, profitability, capital, liquidity and the overall level of assets. Further, in building an operation to support sustainable lending and engage in the real economy via triple bottom line assets, another dimension is added when balancing these competing variables.

Financial developments

In the past 12 months, we have prioritised lending, reduction in liquidity, and protecting the capital base by maintaining profitability. As a result, we are first and foremost pleased to report a 36.0% increase in new lending and a 10.5% increase in total mortgage assets. At the same time, we have effected a significant reduction in liquidity to 28.8%, and record net profit of £1.022m.

The reduction in our liquidity has resulted in a small reduction in total assets to £178.851m. This reflects one of the strengths of the building society model – that overall assets can be contracted, usually resulting in improved capital ratios.

The positive growth to our mortgage book is a result of the healthy 'pipeline' of potential lending opportunities which was built up during the previous year, a reduction in the impact of the redemptions experienced during 2017, and a consistently strong level of enquiries regarding new projects across the year. So we finish the year with a very strong lending pipeline, creating

a platform for further growth in 2019. This significant increase in lending was achieved with no reduction in quality and no compromise in our commitment to focus on lending for environmental and social impact.

> *"Ecology has pioneered sustainable finance in the UK via our mortgage lending and we have long recognised that the financial sector must enable the transition to a low-carbon economy and thereby contribute to tackling the challenge of climate change."*

During the year, along with a careful reduction in savings balances, the increased lending contributed to lowering our liquidity levels. As a result, from October we were able to make our Easy Access account available again. This enabled new accounts to be opened, so serving the demand from new members who share our aims and objectives and wish to support our sustainable lending. The Society is well placed for future growth in savings balances as the demand for our lending increases.

The removal of central bank support provided by schemes such as Funding for Lending earlier in the year increases competition for savings deposits. However, so far, we have remained in a low interest rate environment. We keep all rates under constant review so that we can balance the needs of both savers and borrowers. Following the Bank of England base rate change in August, we increased the interest rate on some of our savings accounts to recognise the ongoing loyalty of our saving members, while we left mortgage rates unchanged in order to support lending on more projects which have a positive environmental and social impact.

A summary of the main key financial performance indicators (KPIs) used by the Board, along with a more detailed commentary on our progress, is given in the Strategic Report (pages 6-8) as well as a summary of how our operations impact on the environment and the wider community.

Developing sustainable finance

I am proud that, since we were established, Ecology has pioneered sustainable finance in the UK via our mortgage lending and we have long recognised that the financial sector must enable the transition to a low-carbon economy and thereby contribute to tackling the challenge of climate change. In 2018, we saw some potentially exciting developments as policy makers looked anew at green finance products such as green mortgages. Having proved that incentivising energy-efficiency through mortgage pricing works, we were asked by Government to feed into policy deliberations by sharing details of our unique C-Change mortgages, the rates of which are based on a property's climate impact. We have seen such interest on previous occasions, so we wait to see if present initiatives bear fruit.

I am also delighted that Ecology is participating in the European Energy Efficient Mortgages Initiative which commenced in 2018. This project seeks to develop a recognised model for mortgage financing which encourages borrowers to incorporate energy efficiency measures into renovating their existing property or to buy a more energy efficient home, thus enabling more lenders to get involved. Our mortgages already align with the criteria for an 'energy-efficient mortgage' and so we are strongly involved with pilot initiatives to test the criteria. We are pleased to be a contributor and to be sharing our learning, because the need to step up action on combatting climate change is ever more pressing, and a task bigger than any one institution.

We continue to have an exciting and prominent role in helping to support the development of community-led housing, which can help create genuinely affordable, quality homes for local people. We remain one of the leading lenders for community housing solutions and expect our role to grow further. Our decision last year to increase the maximum mortgage term for housing co-operatives to 40 years has resulted in increased lending to this form of mutual housing provision. In addition the launch of the Government's Community Housing Fund is helping to kick-start more projects so that they are ready to benefit from Ecology's lending. In September, I was especially proud to join a panel of housing experts at the launch of a documentary film on community-led housing, which was supported by Ecology. The panel discussion highlighted how the sector can boost the availability of affordable and sustainable housing solutions.

Developing your society

While the profit we make belongs to our members and adds to our capital to support our future growth, it is also important to continue to invest in systems, processes and overall capabilities to ensure we can respond to the changing needs of our current and future members while meeting the ongoing challenges of the regulatory environment.

During 2018, our focus on building modern digital solutions became central to our development programme. This programme aims to make our operations more efficient, reduce our impact on the environment and improve our services to members. Among the highlights was the launch of an improved online service offering savers and borrowers a more convenient way to manage their accounts online. In April, the Society commenced working in partnership with ClearBank which will enable us to transform our back office processes, helping to deliver benefits to members such as speeding up transaction processing.

Ensuring we always do the right thing includes investing in making the Society a good place to work and, in 2018, we welcomed our new HR Manager. We also bolstered our compliance function in time to respond to the increased data protection requirements resulting from the implementation of GDPR, and welcomed new recruits to our Savings and Governance teams.

I would like to thank the whole Ecology staff team for their continued support and commitment to our members while upholding our high ethical standards. I am continually impressed by the dedication displayed by colleagues, the enthusiasm for our mission, and the mutual support provided to each other. I would also like to thank members who have provided feedback on the way we interact with you – it is gratefully received and shared amongst colleagues!

Outlook for 2019

We are well placed for further growth in 2019 with a strong pipeline of potential lending opportunities underpinned by continued investment in our capabilities and capacity. We expect to be able to make more of our range of savings accounts available to new and existing members.

We constantly monitor political developments and the economic environment. Inevitably, we keep a watchful eye on the potential for disruption arising from the UK's planned exit from the EU in March 2019, and are prepared for the changes in business conditions this might entail.

Following this year's launch of our new online service, we will be continuing to prioritise the development of our online and digital capabilities. This investment will be critical to ensure that the Society can take advantage of modern and effective digital ways of working. It will provide the Society with a long-term platform for the development of new products and services for members as well as continue to build our resilience. At the same time, this will mean that we will need to recruit to ensure we have the relevant skills in 2019 to help effect this transformation.

We will continue to develop our partnerships to support the growth of the community-led housing sector, which we anticipate will form a greater proportion of our lending in 2019. We also anticipate that the positive signs of interest in our sustainable lending model by policy makers and other lenders will provide opportunities for us to grow our environmental and social lending further.

Finally, I would like to thank members for your continued support and we look forward to delivering another year of sustainable growth in 2019.

Paul Ellis
Chief Executive
4 March 2019

Strategic report

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

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

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

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

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

The Chief Executive's Review on pages 4 to 5 provides an overview of the Society's performance during 2018 which should be read in conjunction with this report.

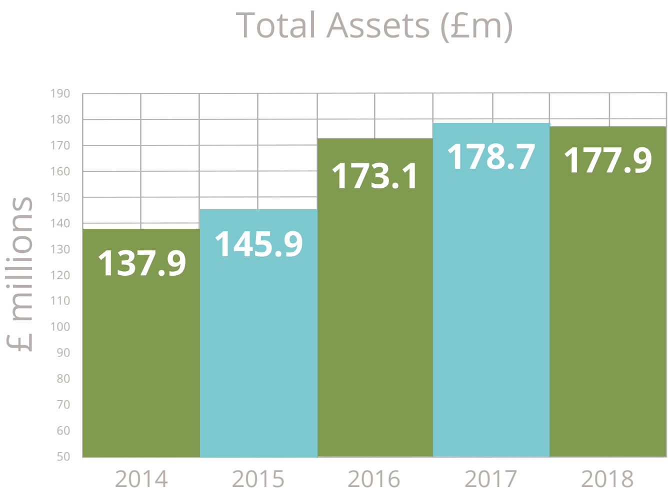
The Board uses a number of Key Performance Indicators (KPIs) to measure the performance and position of the Society on a regular basis. This section provides more detail on these KPIs and the table below provides the actual position as at the end of the current and preceding two years.

Key Performance Indicators

	2018	2017	2016
Total assets	**£177.9m**	£178.7m	£173.1m
Mortgage asset growth	**10.59%**	-3.03%	3.94%
Mortgage lending	**£38.4m**	£28.2m	£30.7m
Savings balances	**£166.0m**	£167.8m	£163.1m
Liquid assets as a % of shares and borrowings	**28.82%**	36.14%	31.77%
Management expenses as a % of mean total assets	**1.54%**	1.42%	1.45%
Net profit	**£1.022m**	£0.915m	£0.920m
Profit after taxation as a % of mean total assets	**0.57%**	0.52%	0.58%
Core Tier 1 capital	**£10.578m**	£9.539m	£8.594m
AGM – voting turnout	**15.62%**	16.17%	15.92%

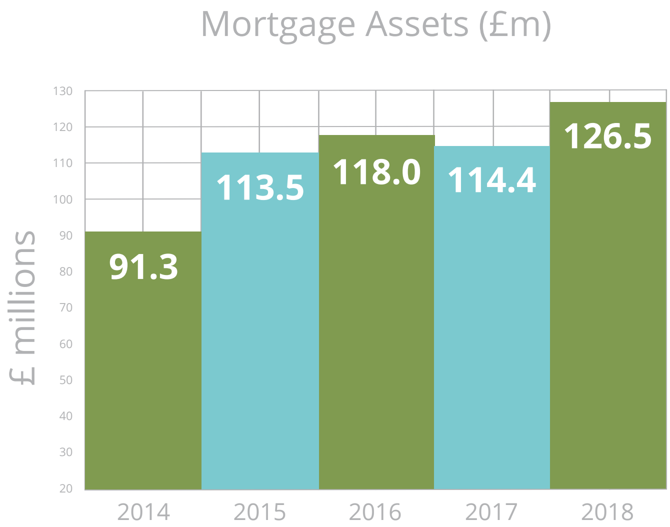
Asset growth

During 2018 the Society has continued to actively manage savings inflow and as a result total assets reduced marginally by £0.8m to £177.9m (2017: £178.7m), in percentage terms -0.45% (2017: 3.2%). An excessive level of unutilised funding represents a cost to the Society and does not contribute to its sustainable lending programme. The Society does not pursue growth for its own sake, rather we view growth as a sign of our success in meeting the needs of our savers and supporting our borrowers to build, renovate or buy sustainable properties.



Mortgages

The actions taken to rebuild the pipeline of new mortgages during the previous two years have had a positive impact on gross lending, which at the end of 2018 is recorded as £38.4m (2017: £28.2m). Interest rates available in the wider market continue to be attractive to borrowers who have completed their build or renovated their property. However, the differential between the interest rate offered by Ecology and the market has narrowed and, as a result, redemption activity has fallen. The movement in mortgage assets reflects gross lending less redemptions, repayments and effective interest rate adjustments. The overall effect is an increase in mortgage assets of 10.59% (2017: -3.03%). Having considered the Bank Base Rate increase in August, the Society continued to hold mortgage interest rates at the previous level. This action was taken to enable ongoing support for more projects delivering a positive environmental or social benefit.



By the year-end, 38% (2017: 42%) of loans outstanding were benefiting from one of our C-Change mortgages, which reward work undertaken on the property to help combat climate change. The slight dip in the percentage reflects the high level of new advances that have not yet completed their project. A reduction to the interest rate is applied following confirmation of the energy rating achieved.

At 31 December 2018, there were no cases in possession, or 12 months or more in arrears (2017: nil). In certain circumstances the Society exercises forbearance to assist borrowers who are experiencing financial difficulty, for example, agreeing to interest only payments on a temporary basis. In each case an individual assessment is made to ensure that it is in the best interests of the borrower and the Society. At 31 December 2018, there were 15 cases (2017: 14) under forbearance with total balances of £3.958m (2017: £2.945m) and arrears totaling £516 (2017: £5,336).

Provisions against possible mortgage losses reduced to £613,000 (2017: £624,000). Provisions held continue to include two cases which are not in arrears but where the Society is working with our borrowers to navigate difficult operating conditions.

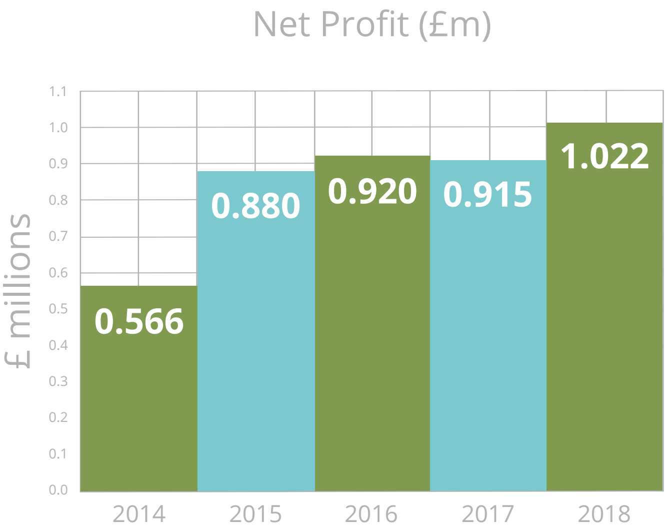
Savings and liquidity

Savings balances consist of shares and amounts owed to other customers. At the end of 2018 the continuing management of inflow resulted in a moderate reduction of -1.08% in the total savings deposited with the Society. Total savings balances held at the end of the year are £166.0m (2017: £167.8m). The gradual reduction of liquidity levels during the year provided capacity to re-open the Easy Access account in October. To meet growing demand for our mortgage products it is anticipated that further savings accounts will be made available during 2019. At the year-end the results of active management of inflow was a moderate reduction in liquidity levels to 28.82% (2017: 36.14%). We aim to restrict the amount of funding that is not lent out to ensure that the majority of savers' funds are creating value in the real economy. We see our role as providing a savings service for those who wish to invest in pursuit of social and environmental goals, preferring where possible to source our funds for lending direct from individuals and community groups supportive of our mission, rather than taking in wholesale money from other financial institutions.

In August the Bank of England raised the Bank Base Rate to 0.75% and following this decision the Society was pleased to be able to increase the interest rate on a number of our savings products. Interest rates will remain under review during 2019.

Management expenses

The cost base of the Society grew by 9.56% (2017: 8.37%). There was an adverse effect on the management expenses ratio which increased to 1.54% from 1.42% in 2017 due to the slightly elevated increase in the cost base against a moderate reduction in total assets. 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 2018, this added 3.14% to our costs – without this the management expenses ratio would have been 1.49%.**



Profit and capital

Net profit for the year amounting to £1.022m (2017: £0.915m) was added to general reserves, which now total £10.617m (2017: £9.595m). Reserves act as a buffer against adverse market movements or deteriorating economic conditions.

At 31 December 2018, the ratio of gross capital as a percentage of total share and deposit liabilities was 6.44% (2017: 5.85%) and free capital was 5.77% (2017: 5.16%). The slight reduction in savings levels, together with strong profit has had a positive effect on the capital ratios.

The Board complies with the Capital Requirements Regulation (CRR) which requires the Society to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process (ICAAP). Scenario analysis and stress testing is performed on key business risks to assist the Board in assessing whether the Society could survive a severe economic downturn and other severe business shocks.

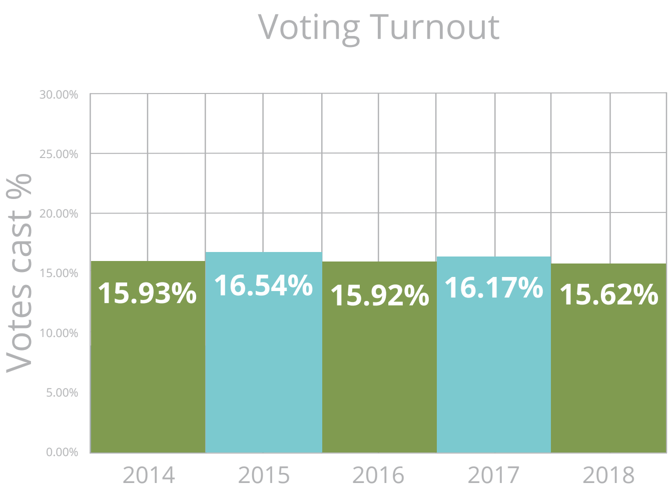
Having undertaken the ICAAP, the Board is satisfied that the Society holds sufficient capital to satisfy both the CRR's Pillar 1 requirements and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures, including the Pillar 2A percentage and figure, required by the CRR are available on the Society's website: **ecology.co.uk**.

The Society must maintain sufficient capital to cover its risk weighted assets, which is measured by the Core Tier 1 solvency ratio. This is determined by the standardised approach to credit risk set out in the CRR. At the end of the year Core Tier 1 ratio stood at 17.46% (2017: 18.05%).

The leverage ratio increased by 0.46% to 5.65% (2017: 5.14%) as a result of there being no increase in total asset growth in the year. The leverage ratio expresses Tier 1 Capital as a percentage of total assets plus mortgage impairments and a proportion of mortgage pipeline commitments.

Member relations

In 2018, our AGM and Members' Meet-up was held at The Priory Rooms in Birmingham. Members heard about our plans to invest in our digital capability and how different materials and building approaches can help us address the housing crisis while tackling climate change. We also shared the key findings from our latest Members' Survey, which showed that members strongly agree with what Ecology stands for – our policies, values and memorandum. Voting turnout reduced slightly on the previous year. Going forward, we will be looking at further ways we can encourage members to exercise their vote.



Inside 'The Hen House', which was supported by Ecology (Credit: Dug Wilders Photography)

Our positive impact

Ecology exists to support projects and people that are delivering benefit for society and the environment. In short, we want to build a greener society through enabling the positive power of finance. Here, we give a snapshot of Ecology's recent impacts, from the carbon footprint of our business operations, to ways that we're supporting sustainable development in the UK and further afield, looking at where we're getting it right and where we can improve.

Supporting energy efficiency

We want to help as many people as possible to improve the energy performance of their properties. We do this through our loans and by supporting initiatives to make advice and expertise available to householders.

Energy-efficient buildings mean reduced demand for natural resources and lower bills for residents. The majority of Ecology-backed projects are achieving their target energy rating and – with almost 78% (2017: 77%) achieving EPC B or above – are well ahead of the England average, which the 2017-18 *English Housing Survey* states as EPC D. Looking ahead, we want to help an even greater proportion of our borrowers to achieve their energy-efficiency goals.

In 2018 we helped support open homes events in Cambridge and Manchester organised by Cambridge Carbon Footprint and Carbon Co-op respectively. These events enabled 364 people to visit 18 open homes in the two locations.

We also supported the Carbon Co-op's 'Warmer Homes, Take Control' programme in North West England. The sessions, which commenced in 2017 and continued throughout 2018, give expert advice on transforming draughty old properties into efficient low-carbon homes of the future. In 2018 our support helped Carbon Co-op deliver 16 sessions with 81 attendees benefiting from the training.

Backing renewable energy

Sustainable investing isn't just something we encourage others to do – we ensure our own investments are contributing to the world in a positive way.

We have invested in a variety of sustainable energy projects via the Abundance platform, including:

- a scheme to install solar photovoltaic (PV) systems on social houses in Berwickshire
- the construction of a single Enercon E48 wind turbine in Aberdeenshire
- the development of a tidal stream energy system off the north-east coast of Scotland
- the first UK geothermal power plant in Cornwall, which will deliver commercial-scale electricity generation using the heat naturally generated by the region's granite bedrock.

Funding community enterprise

We have also invested in other organisations and funds that support our mission, including a £500,000 loan to Co-operative and Community Finance (CCF), which supports enterprises in disadvantaged communities. Ecology's loans have supported projects such as Manchester Veg Box People; Retrofit Works, which retrofits homes in London and the South East; Sustainable Enterprise Strategies, which provides business support and training for co-operatives in North East England; and the renovation of The Spotted Cow, a community-owned village pub in Derbyshire.

Homes renovated by Granby 4 Streets Community Land Trust (CLT) in Liverpool. Ecology has provided mortgages for some of the CLT's low-cost affordable homes

Shrinking our carbon footprint

We want to reduce the amount of carbon associated with our operations. We aim to do this through improving resource efficiency, increasing recycling, encouraging employees to use sustainable means of transport, and producing our own renewable energy. Ecology's office incorporates a variety of carbon reduction measures, including an electric vehicle charging point, PV panels, a sedum roof and a mechanical ventilation heat recovery system (MVHR). We measure our carbon footprint and in 2017 (the most recently available figures) this increased to 13.3g CO_2 per £ of new lending (2016: 11.2g CO_2 per £ of new lending).

We are continuing to explore ways that we can reduce the carbon output of our activity, both by minimising emissions in the first instance and, as a secondary measure, supporting carefully selected offsetting schemes.

Reducing our paper use

We're always looking at ways of reducing our paper use, including the amount of paper used at our head office as well as the paper we send to members in mailings. For example, in 2018 we reduced the amount of paper used for the AGM mailing by a further 6.6% (2017: 9.1%) as more members chose to receive their AGM packs by email.

Paying responsibly

We make sure that we reward people fairly. As an accredited Living Wage employer, all Ecology staff are paid a fair wage – a policy that extends to contractors working on our premises. We also stipulate that no basic salary will exceed eight times the lowest full grade salary.

"In 2018 we reduced the amount of paper used for the AGM mailing by a further 6.6% (2017: 9.1%) as more members chose to receive their AGM packs by email."

Our responsible approach to pay doesn't end with our employees – it extends to how we pay our taxes. In 2016 Ecology became the first UK building society to be awarded the Fair Tax Mark. This independent accreditation demonstrates our genuine commitment to be open and transparent about our tax affairs, and to do the right thing when it comes to paying taxes.

Commercial sponsorship

Ecology also attended and sponsored a variety of industry events including the Right to Build Expos, which provide support for self-build and custom-build, in Fareham and Leeds, and the Passivhaus Trust awards and their zero carbon campaign. During 2018, we gave a total of £13,988 in sponsorship to events and programmes supporting our mission to build a greener society.

Enabling people-powered housing

Ecology champions community-led housing projects that promote social well-being, economic resilience and environmental sustainability. During 2018 Ecology started offering mortgages of up to 40 years (previously 30 years) for community-led housing providers including co-ops, which helps keep rents manageable for their members. Partly as a result of this change, Ecology is now backing housing co-ops in Brighton, Bristol, Glasgow and Machynlleth.

We've also supported a scheme in Headingley, Leeds which is renovating empty and dilapidated homes as well as continuing to provide mortgages for the London Community Land Trust's affordable housing scheme at St Clements, Tower Hamlets. Ecology is also providing mortgages for residents of Granby 4 Streets Community Land Trust's low-cost affordable homes in Toxteth, Liverpool.

Granby 4 Streets Community Land Trust (CLT) in Liverpool

Building networks

Ecology doesn't stand alone. We're part of a global community of organisations striving for a greener society. We carefully consider our relationship with these networks so that we can understand how we are helping to strengthen them as well as how they are adding value to our own operations.

Investors in the Environment (iiE)

Since August 2014, Ecology has been a member of iiE – a national environmental accreditation scheme designed to help organisations reduce their impact on the environment. In the last four years, we've secured the highest achievement, the Green Award. This reflects Ecology's work in minimising our negative impact on the environment, not only through our lending, but through our own actions.

We're proud to have connections with:

Global Alliance for Banking on Values (GABV)

We're a member of GABV – an independent network of banks using finance to deliver sustainable development. GABV members assess their impact using a set of key metrics designed to guide the development of a values-based approach to finance. These include a **triple bottom line approach** and support of the **real economy**:

Triple Bottom Line

The GABV principles require that a triple bottom line approach of people, planet and prosperity should be at the heart of the business.

In 2018, 62.7% (2017: 63.4%) of our lending has brought about benefits to the environment or supported social developments. The remaining 37.3% (36.6%) represents mortgage cases that have taken over two years to achieve their objective and so the benefits are yet to be realised.

Real Economy

GABV emphasises that business should be grounded in communities, serving the real economy.

In 2018 64.5% (2017: 69.2%) of our lending and investment supported the real economy. The remaining 35.5% is invested in the financial economy to ensure we meet certain regulatory requirements; these investments include liquidity deposits held with other banks and building societies, and mortgage-backed securities for low income housing.

Upholding the Sustainable Development Goals (SDGs)

In September 2015, countries from all over the world came together and agreed to adopt a set of goals that would end poverty, protect the planet and ensure prosperity for all. Achieving these goals requires that governments, the private sector, civil society and individuals all do their part.

The mission of Ecology is aligned with many of the SDGs and we continue to consider how our work can support them. Being a partner of organisations like UK Stakeholders for Sustainable Development (UKSSD), which is working to facilitate delivery of the SDGs in the UK, helps us to consolidate our efforts toward supporting the goals and to ensure we're part of the global conversation around their success.

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 2018.

Business objectives

Information on the business objectives of the Society are detailed in the Strategic Report on pages 6 to 9.

Principal risks and uncertainties

The risks faced by the Society are similar to those involved in running any financial services business: competition, the cost of regulatory compliance and statutory requirements, business retention, pressure on margin and risks from changes in the wider economy. The principal risks to which the Society is exposed, along with how they are controlled and the associated policies, are set out below.

In addition to these, an uncertain economic and political environment, compounded by the possible implications of Brexit, pose potential risk to the Society. Although as a UK organisation the Society has no direct exposure to the EU, the uncertainty of the future relationship between the UK and Europe has wider economic and operational implications, which are summarised below.

The shape of a 'no-deal' Brexit is difficult to define. The Board considers likely potential outcomes to include inflation (due to an expected sterling collapse), recession leading to unemployment, and reduced mortgage affordability, together with significant reductions in house prices.

The Bank of England's 2018 anchor scenario presents a suite of severe downside assumptions based on a worst case no-deal Brexit. The Society has forecast the impact of these assumptions as part of the ICAAP process. While higher impairment charges and reduced mortgage volumes would affect the Society, the presence of sufficient capital buffers mean that the business would be well positioned to withstand a worst-case Brexit scenario.

In terms of the Society's asset base, a potential risk posed by Brexit is counterparty default or liquidity shortfalls, due to inability to sell investments on a timely basis. However, because 68.97% of the Society's liquid assets are invested with the Bank of England, this risk is minimised. In terms of the mortgage portfolio, the average loan to value is currently 45.56%, which will help ensure the Society is protected in the event of a severe house price collapse following Brexit.

In conclusion, the combination of the Society's balance sheet, the increase in capital and strong liquidity levels in 2018 will, the Board anticipates, help to protect the Society from the potential shocks of Brexit.

Brexit's possible impact on operational resilience has been reviewed in terms of its potential to threaten critical third-party suppliers. The Society is a shareholder in its primary IT provider, Mutual Vision (MV). MV is a UK based company with a primarily UK customer base. All key infrastructure is based in the UK.

The Society does not foresee an issue with resourcing following Brexit, given current staff are all permanent UK residents.

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

A range of severe stress tests are performed regularly to ensure that risk levels remain within the Society's agreed risk appetites.

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

Credit risk 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 obligations. It 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. The Board Lending Committee considers credit policy issues and credit risk in general whilst the Assets and Liabilities Committee is responsible for monitoring treasury counterparty risk. The Board monitors the arrears profile and approves changes to counterparties, treasury and lending policies.

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.

An aspect of credit risk is **concentration risk**, which in the asset portfolio can arise from product type, geographical concentration and over exposure to single borrowers, investors or counterparties. The Society takes particular note of concentration risk arising from large exposures which results from the relatively small size of the Society.

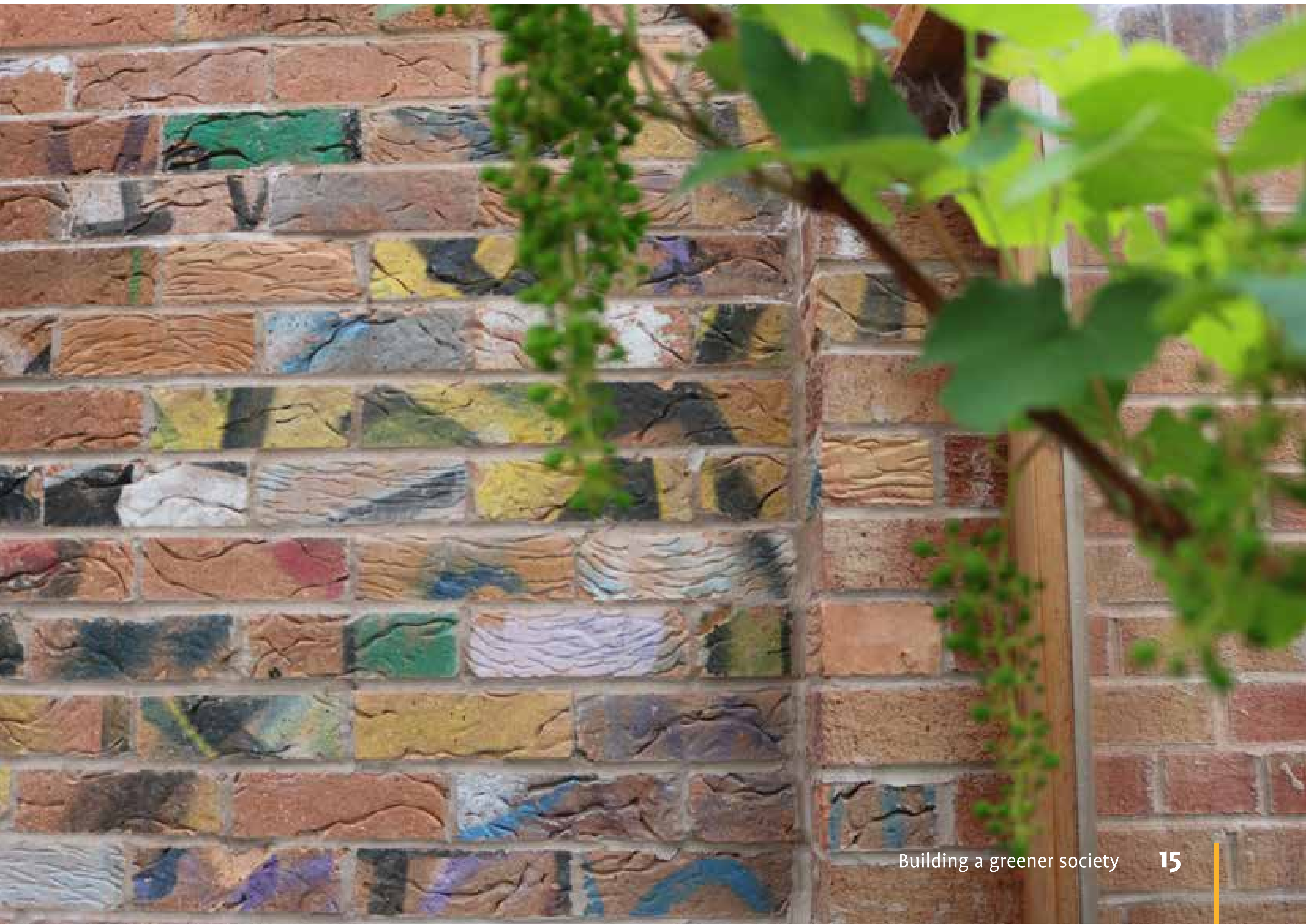
The Board sets limits for maximum exposure to both borrowers and treasury counterparties.

Liquidity risk is the risk that the Society will be unable to meet current and future financial commitments as they fall due or can only do so at excessive cost. The Society's Board-approved liquidity policy is to maintain sufficient liquid resources to cover cash flow requirements and fluctuations in funding, to retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations as they become due. This is managed by investing according to a Board-approved policy and risk appetite. A significant majority of liquidity is invested with the Bank of England and in UK Government Treasury Bills. A limited amount of liquidity is held as short term deposits with approved banks and building society counterparties domiciled and authorised in the UK. The Society's approach to liquidity risk is documented in its Internal Liquidity Assessment Process (ILAAP).

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.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems or human error, failure to comply with regulatory requirements, key supplier failure or external events. The Society mitigates this risk through having a robust and effective internal control framework, including the Society's compliance function and internal audit, which are overseen by the Risk, Audit, Compliance and Ethics Committee.

Regulatory and legal risk is the risk of limitation on business, 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 identify, monitor and implement controls for new and existing legislation. The Board monitors these risks and their potential increase through the Risk Committee and 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 interactions with society and the environment while providing assurance that conduct issues are embedded in the Society's culture.

Strategic risk is the current and prospective impact on cash resources; earnings or capital arising from adverse business decisions; improper implementation of business decisions or a lack of responsiveness to changes in the industry or the external environment. They represent all high level risks faced by the Society arising from external factors given the Society's business model and direction.

The result of the impact of the UK's referendum on leaving the European Union is a source of strategic risk considerations.

Climate risk means a risk resulting from climate change and affecting natural and human systems and regions. Climate risk is likely to manifest itself as physical events such as extreme weather conditions, it may lead to systemic changes in public policy as society moves to a low-carbon economy, and it may affect the ability of the Ecology to deliver its services, or affect the mortgage assets of the Society.

The Society considers climate risk to be a key component of overall strategic risk, and is considered by the full Board. In addition, Board Committee terms of reference are to be adapted where appropriate to take account of explicit climate risk considerations.

The Society's response to climate risk is to take a strategic approach because of its centrality to our concerns. This means that our fundamental approach is to be pro-active in combatting climate change directly through our policies and then to consider the threats societal failure to address climate change poses to our business model. This approach seeks to limit the likely incidence of loss from the outset by determining if the asset contributes to climate change mitigation and is climate-resilient. Our responses to climate change serve to drive our funding, the development of our sustainable lending programme, the development of our savings and lending products, and all our actions can be seen to be aimed at adaptation or mitigation.

IT and information security

The Society continues to invest in its technology infrastructure so that it can maintain and develop services that meet the emergent needs and expectations of its members and the financial services market in which the Society operates.

Whilst there is a strong focus on the development of customer interfaces and services, the Society is also fully cognisant of external threats, in particular cybercrime attacks designed to deny access to systems and compromise or misuse data and assets held on Society systems. The Society has dedicated first and second line security functions with specific responsibilities to protect the Society and members' assets.

Independent exercises are undertaken to test the Society's defenses and to ensure that cyber controls evolve in line with the ever- changing threat landscape. A recent independent external security assessment showed the Society to be at the top of the range for financial services institutions due to the controls and behaviors employed.

Financial risk management objectives and policies

The Society has a formal structure for managing financial risk. This risk is closely monitored and controlled by the Board, supported by the Risk Committee and the Risk, Audit, Compliance and Ethics Committee (RACE). The Assets and Liabilities Committee actively measures and manages financial risks. The main financial risks arising from the Society's activities are interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks, of which further detail is provided in note 23.

Charitable donations

During the year, the Society made charitable donations amounting to £10,977 (2017: £11,765). No contributions were made to political parties.

Land and buildings

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 16.2% (2017: 18.4%) of our needs, with the remainder supplied from off-site renewable sources.

Supplier payment policy and practice

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

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

- 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 2018 was 52 days (2017: 53 days)

Tax policy

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

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

The disclosure made in these annual report and accounts complies with commitments made in that policy statement.

Management and staff

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

A comprehensive programme of staff training and development has continued during the year enabling staff to continue to develop relevant skills and knowledge, ensuring that we maintain an excellent level of service to our members.

The Society has a commitment to fair remuneration practices.

The Directors would like to record their appreciation of the loyalty and commitment of management and wider staff team. Their support and contribution in a challenging environment is the backbone of the continuing success of the Society.

Going concern

The Directors have prepared forecasts of the Society's financial position, capital position and liquidity position for the period ending twelve months from the date of approval of these financial statements. In doing so they have also considered the effect of operating under stressed but plausible events that would impact on the Society's business and have concluded that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

Auditor

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

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

Louise Power is to retire by rotation but due to other commitments has decided not to stand for election at the AGM. The Board would like to take this opportunity of recording their appreciation for the contributions she has made to the decision making process over the last four years.

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

Post balance sheet events

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

On behalf of the Board

Steve Round
Chair
4 March 2019

Directors

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

Paul Ellis
Chief Executive

Andrew Gold

Tim Morgan

Chris Newman

Louise Power

Steve Round
Chair from
25 April 2015

Vincent Smith

Alison Vipond
Deputy Chair

Pam Waring
Deputy Chief Executive, Finance Director and Secretary

Corporate governance report

Overview

The Board is responsible for the governance of the Society on behalf of its members. The Board is committed to good practice in corporate governance, and has regard to the principles of the UK Corporate Governance Code (April 2016) issued by the Financial Reporting Council. The Code is addressed to listed companies, but the Board agrees with and supports its general principles and follows those elements that are considered to be appropriate and proportionate to Ecology. In addition the Society adheres to the supervisory approach, 'Strengthening Accountability in UK Banking', a senior manager certification regime which came into effect in March 2016.

The Board

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

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

The Board has a general duty to ensure the Society operates within the Society's Rules, 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 nine times a year and by teleconference if there is a business requirement to do so.

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

Board composition and independence

All Directors must meet the test of fitness and propriety as laid down by the regulator to fulfil their role as Directors. Because we do not have an equity shareholding model, we do not appoint a senior independent director, as this has little relevance to the small building society model. We have appointed Alison Vipond as the Member Advocacy Director to be the first line of communication for members and the Board. Our model of encouraging participation, particularly through AGMs, provides a better way of ensuring sensitivity to member concerns.

The Board has considered the recommendation within the Corporate Governance Code that Non-Executive Directors stand for annual election after serving a period of nine years. By exception, we allow annual election for a Director beyond the nine-year period, to enable us to retain skills for further short periods should we, as a small Society requiring Directors to be drawn from our 'constituency', be unable to readily identify an available candidate 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 to provide stability.

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 2018, 3 out of 9 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.

Professional development

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

Performance evaluation

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

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

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

Risk management, internal control and Board committees

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

The Board has overall responsibility for the Society's internal control system and for reporting its effectiveness to the members in the annual financial statements. Senior management has the task of designing, operating and monitoring internal control processes.

The system of internal control is designed to enable the Society to achieve its corporate objectives within a managed risk profile. The Board has established committees to give more attention to key areas of the business than is possible within regular Board meetings. The full terms of reference for these committees are available on the Society's website.

The effectiveness of the Society's risk management framework is monitored and reported on by internal audit.

Risk, Audit, Compliance and Ethics Committee (RACE)

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

The composition and effectiveness of the Committee are reviewed annually by the Board. Membership of RACE is for a period of up to three years, extendable by no more than two additional three year periods. The Committee met five times during 2018.

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, Deputy Chief Executive and Finance Director, Chief Risk Officer, Compliance Manager, Risk and Ethics Manager and representatives from both internal and external audit attend meetings.

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

- provision for loan loss impairment
- recognition of interest on an effective interest rate basis
- valuation of non-basic financial instruments

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

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

The Committee monitors the independence and effectiveness of internal and external audit. At RACE meetings during the year the members have discussed the effectiveness of the external auditors using evidence from regular written reports including KPMG LLP's Statement of Independence presented to RACE in September 2018, and held discussions with the audit director. KPMG have been the Society's auditors for over 20 years but operate an audit partner rotation policy that restricts them to leading a maximum of five successive year-end audits for any client. In addition, following the year ending 31 December 2020 at the latest, a mandatory audit firm rotation will be required. The Board is satisfied that KPMG continues to carry out their duties objectively, effectively and independent of management and will recommend at the AGM to appoint KPMG for another year.

The Society has an approved Policy that sets out the circumstances where external audit may be used for non-audit services.

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 Deputy Chief Executive and Finance Director with the other members being the Chief Executive, Chief Operating Officer and two Non-Executive Directors. The Committee met six times during 2018.

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 Chris Newman. The Committee met three times during 2018.

Board Lending Committee

The Committee examines credit risks, which include non-standard and non-residential lending proposals. It also reviews potential changes to lending policy and limits. The Committee comprises two Non-Executive Directors, two consultants who have relevant experience of the Society's lending sectors, and is attended by the Chief Executive, the Chief Operating Officer, and other staff members as appropriate. The Committee, chaired jointly by Chris Newman and Louise Power, met four times during 2018.

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 three occasions in 2018.

The function and details of the **Remuneration Committee** are disclosed within the Directors' Remuneration Report on pages 22-24. The Committee is chaired by Andrew Gold.

Ecology is supporting Claydon Court, a sustainable office complex near Ipswich, Suffolk. Representatives of the tenants pictured left to right: Karen Gordon (Strident), Rosie Barrack (Waddington Brown), Lucinda Sharp (Onwards Upwards) and Scott Stallan

Board and committee membership and attendance record

Director	Board	Risk, Audit, Compliance and Ethics	DSPC	Board Lending	Remuneration	Nominations	ALCO
Paul Ellis*	8/11	■	3/3	4/4	■	1/3	4/6
Andrew Gold*	10/11	■	3/3	■	2/2	■	6/6
Tim Morgan	11/11	5/5	3/3	3/4	2/2	■	■
Chris Newman	10/11	5/5	3/3	3/4	■	■	■
Louise Power	9/11	■	3/3	4/4	■	2/3	■
Steve Round	11/11	■	2/3	■	■	3/3	6/6
Alison Vipond	10/11	5/5	3/3	■	2/2	3/3	■
Pam Waring*	11/11	■	3/3	■	■	2/3	6/6
Vincent Smith	10/11	3/3	3/3	■	■	■	■

*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 in to 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, on information provided by the Executive Directors. In addition, it reviews general salary levels.

The Committee is comprised of three Non-Executive Directors. At the invitation of the Chair of the Committee the Chief Executive, the Deputy Chief Executive and Finance Director and the HR Manager attend meetings. The Chief Executive as well as the Deputy Chief Executive and Finance Director take no part in the discussion concerning their individual remuneration. The Committee held two meetings during 2018 at which all members of the Committee were in attendance. The Committee reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages.

In line with good governance expectations no Director is involved in setting their own salary.

The terms of reference for the Remuneration committee are available on the Society's website at **ecology.co.uk**

Remuneration policy

Non-Executive Directors

Non-Executive Directors receive a fee for their services that reflects the time commitment for their duties. There are no performance related pay schemes for Non-Executive Directors and they do not qualify for pension or other benefits.

Non-Executive Directors do not have service contracts but serve under letters of appointment. The contribution of each Non-Executive Director is appraised by the Chair annually.

Executive Directors

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

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

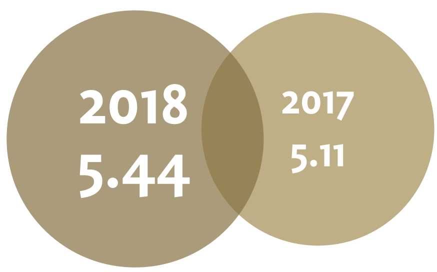
> “*The Society has a long-established fair pay policy which limits the ratio between the highest and the lowest basic salary.*”

Basic salary

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

The Society has a long-established fair pay policy which limits the ratio between the highest and the lowest basic salary. Following consultation with the Society's Ethics Panel this was set at a multiple of eight times the lowest full grade with effect from January 2017. The Society continues to monitor good practice in remuneration disclosures and, as such, is awaiting the outcome of the Government's deliberations on potential legislation to support the revised UK Corporate Governance Code recommendation of disclosing the ratio of the CEO's pay to the average pay of all employees.

Ratio of highest basic salary to 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. In 2018 the Society introduced a salary sacrifice option permitting staff to increase personal pension contributions by taking a reduction of up to 12% of basic salary. 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, Deputy Chief Executive and Finance Director, has a service contract entered into on 28 December 2001. Both contracts are terminable by either party giving six months' notice.

'The Hen House', Sheffield (Credit: Dug Wilders Photography)

Non-Executive Directors' remuneration

	2018 £000	2017 £000
Andrew Gold[1]	**25**	22
Tim Morgan	**17**	14
Chris Newman	**15**	14
Steve Round	**20**	17
Vincent Smith (appointed 3 November 2017)	**13**	2
Alison Vipond	**13**	12
Totals	**103**	81

[1] *Includes additional remuneration of £11,488 (2017: £10,461) in relation to assigned senior management regime responsibilities for oversight of the risk function.*

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

	2018 £000	2017 £000
Louise Power	**13**	12
Totals	**13**	12

Executive Directors' remuneration

	Salary £000	Performance related pay £000	Taxable benefits £000	Contributions to pension scheme £000	Total £000
2018					
Paul Ellis (Chief Executive)	**92**	**–****	**3**	**7**	**102**
Pam Waring (Deputy Chief Executive and Finance Director)	**86***	**3**	**–**	**7**	**96**
Totals	**178**	**3**	**3**	**14**	**198**
2017					
Paul Ellis (Chief Executive)	84	4	2	7	97
Pam Waring (Finance Director)	73	4	–	6	83
Totals	**157**	**8**	**2**	**13**	**180**

* reflects increased responsibilities of new role

** waived due to remunerated leave of absence

On behalf of the Board

Steve Round
Chair
4 March 2019

Statement of Directors' responsibilities

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

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

The Building Societies Act 1986 ("the Act") requires the directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the 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 annual accounts are required by law to give a true and fair view of the state of affairs of the society as at the end of the financial year and of the income and expenditure of the society for the financial year.

In preparing these annual accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they intend to liquidate the Society, cease operations, or have no realistic alternative but to do so

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

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

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

The directors are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and 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 2019

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

1. Our opinion is unmodified

We have audited the annual accounts of Ecology Building Society ('the Society') for the year ended 31 December 2018 which comprise the Income Statement (including Statement of Comprehensive Income), Statement of Financial Position, Cash Flow Statement, Statement of Change in Members' Interests, and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the society as at 31 December 2018 and of the income and expenditure of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland;* and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion:

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Risk, Audit, Compliance and Ethics Committee.

We were first appointed as auditor by the members in 1994. The period of total uninterrupted engagement is for the 24 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: financial statements as a whole	£61,500 (2017: 50,000) 5.0% (2017: 4.5%) of profit before tax from continuing operations
Coverage	5.0% (2017: 4.5%) of profit before tax

Risks of material misstatement		**vs 2017**
New risk	Brexit	**New**
Recurring risks	Impairment of loans	↔
	Valuation of non-basic financial instruments	↔
	Effective interest rate income recognition	↔

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to Britain exiting the European Union on our audit *Refer to page 14 (Directors' Report - principal risks).*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in the impairment of loans and advances to customers and the effective interest rate income recognition sections below, and related disclosures and the appropriateness of the going concern basis of preparation of the annual accounts (see below). All of these depend on assessments of the future economic environment and the business' future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Society's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing the impairment of loans and advances to customers, the effective interest rate income recognition and other areas that depend on forecasts. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on impairment of loans and advances to customers, and the effective interest rate income recognition revenue recognition, we considered all of the Brexit related disclosures together, including those in the directors' report, comparing the overall picture against our understanding of the risks. **Our results** As reported under impairment of loans and advances to customers and the effective interest rate income recognition, we found the resulting estimates and related disclosures on impairment, effective interest rate income recognition and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Impairment of loans *Impairment provision £613,000; 2017: £624,000)* *Refer to page 19 (Corporate governance report – RACE section), page 40 (accounting policy) and page 46 (financial disclosures).*	**Subjective estimate:** Impairments cover loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified. The directors judge individual impairments by reference to loans that have reached one or more months in arrears, or forborne without a payment shortfall with LTV greater than 50% (70% for large exposures); as well as commercial cases on review that have financial/governance issues. The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, the professional judgement of the directors. In particular, judgement is required on the key assumptions of time to sale and forced sale discounts against collateral (including selling costs), which the provision is sensitive to. Loans that have been individually considered are excluded from the collective population.	Our procedures included: **Benchmarking assumptions:** We compared the key assumptions used in the model with externally available data. The key assumptions used in the model are forced sales discounts, including selling costs, and time to sale. **Our sector experience:** We challenged the key impairment assumptions used in the model, including time to sale and forced sale discounts using our knowledge of recent impairment experience in this industry. **Sensitivity analysis:** We assessed the collective models and individual impairments for their sensitivity to changes in the key assumptions by performing stress testing to help us assess the reasonableness of the assumptions. **Historical comparison:** We assessed the key assumptions used in the collective and individual models, time to sale and forced sale discounts, against the Society's limited historical experience. **Assessing transparency:** We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the provision. **Our results** We found the resulting estimate of the loan portfolio impairment provision impairment of loans and advances to customers to be acceptable (2017: result acceptable).

	The risk	Our response
Valuation of non-basic financial instruments *Asset valuation £353,000 (2017: £539,000)* *Refer to page 19 (RACE Report), page 38 (accounting policy) and page 48 (financial disclosures).*	**Subjective estimate:** The Society holds a number of fixed asset investments that are considered 'non basic' under FRS102. These are required to be held at fair value. A number of these investments are either not traded on an active market, or are traded on a limited market at significantly lower volumes than the Society's investment. This makes it difficult to calculate the fair value. In these cases the Society is at risk of becoming the 'price setter' were it to quickly dispose of its investments. Due to the judgement involved by the directors determining the investments' value in the absence of a market price, there is estimation uncertainty with regard to the fixed asset investment measured at fair value.	Our procedures included: **Methodology choice:** In the context of observed industry best practice, we challenged the appropriateness of the valuation basis selected.. **Our valuations experience:** Challenging management on key judgements affecting the valuations, such as the relevance of recent market activity, where it can be observed. We compared key underlying financial data inputs to external sources. In certain cases we have engaged valuations specialists to provide an alternative valuation using observable market data. **Comparing valuations:** Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and its relevance to the Society's investments; and therefore we considered its suitability as an input into the valuations used by the Society. **Assessing transparency:** We considered the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of non-basic investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions. **Our results** We found the valuation of the non-basic investments to be acceptable (2017: result acceptable).

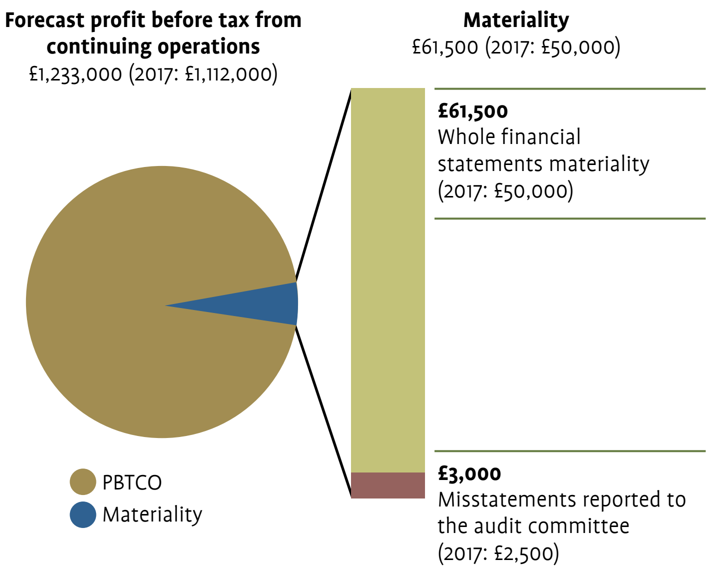
	The risk	Our response
Effective interest rate income recognition *EIR income £45,000 (2017: £55,000); year end EIR liability £143,000 (2017: £129,000)* *Refer to page 19 (Corporate governance report – RACE section) and page 41 (financial disclosures).*	**Subjective estimate:** Using an Excel model, fees earned and incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected cash flows over the expected lives of the loans. The Directors apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This is informed by product mix and past customer behaviour of when loans are repaid.	Our procedures included: **Our sector experience:** We assessed the key assumptions behind the expected customer lives and profiles of significant loan products against our own knowledge of industry experience and trends. **Historical comparison:** We assessed the reasonableness of the model's expected repayment profiles assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance. **Assessing transparency:** We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the fee income recognised. **Our results** We found the resulting estimate of effective interest rate income recognition to be acceptable (2017: result acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the annual accounts as a whole was set at £61,500 (2017: £50,000), determined with reference to a benchmark profit before tax from continuing operations (PBTCO) of £1.2 million (2017: £1.1 million), of which it represents 5% (2017: 4.5%).

We agreed to report to the RACE any corrected or uncorrected identified misstatements exceeding £3,000 (2017: £2,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Society was undertaken to the materiality level specified above and was performed at the Society's head office in Silsden.



4. We have nothing to report on going concern

The directors have prepared the annual accounts on the going concern basis as they do not intend to liquidate the Society or to cease its operations, and as they have concluded that the Society's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the annual accounts ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Society will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Society's business model, including the impact of Brexit, and analysed how those risks might affect the Society's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the annual accounts on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Society's use of that basis for a period of at least twelve months from the date of approval of the annual accounts.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information..

Annual Business Statement and Directors' Report

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 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.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 25, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience, through discussion with the directors (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Society is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related building society legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Society is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Society's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of building society legislation recognising the financial and regulated nature of the Society's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

David Allen (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

4 March 2019

Statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Interest receivable and similar income	2	**5,756**	5,473
Interest payable and similar charges	3	**(1,856)**	(1,876)
Net interest income		**3,900**	3,597
Income from investments		**65**	45
Fees and commissions receivable		**8**	8
Fees and commissions payable		**(47)**	(41)
Other operating income		**27**	30
Net gain/(loss) from other financial instruments at fair value through profit and loss		**3**	(8)
Total net income		**3,956**	3,631
Administrative expenses	4	**(2,620)**	(2,378)
Depreciation and amortisation	13,15	**(118)**	(121)
Operating profit before impairment losses and provisions		**1,218**	1,132
Impairment losses on loans and advances	12	**11**	20
Provisions for liabilities	21	**4**	(40)
Profit before tax		**1,233**	1,112
Tax expense	7	**(211)**	(197)
Profit for the financial year		**1,022**	915
Other comprehensive income		**–**	–
Total comprehensive income for the year		**1,022**	915

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 2018

	Notes	2018 £000	2017 £000
Assets			
Liquid assets			
Cash in hand and with the Bank of England	8	**32,981**	41,614
Treasury bills and similar securities	10	**4,997**	3,998
Loans and advances to credit institutions	9	**7,334**	11,494
Debt securities	10	**2,510**	3,520
Loans and advances to customers	11	**126,525**	114,412
Tangible fixed assets	13	**1,214**	1,225
Investments	14	**1,878**	2,060
Intangible assets	15	**46**	68
Other debtors	16	**366**	271
Total assets		**177,851**	178,662
Liabilities			
Shares	17	**156,629**	157,603
Amounts owed to other customers	18	**9,327**	10,171
Subordinated liabilities	22	**750**	749
Other liabilities	19	**358**	360
Accruals		**137**	137
Deferred tax liability	20	**28**	29
Other provisions	21	**5**	18
Total liabilities		**167,234**	169,067
Reserves			
General reserves		**10,617**	9,595
Total reserves attributable to members of the Society		**10,617**	9,595
Total reserves and liabilities		**177,851**	178,662

These accounts were approved by the Board of Directors on 4 March 2019 and were signed on its behalf by:

Steve Round
Chair

Paul Ellis
Chief Executive

Pam Waring
Deputy Chief Executive and Finance Director

Statement of changes in members' interests

	General reserve 2018 £000	**Total 2018 £000**	General reserve 2017 £000	Total 2017 £000
Balance at 1 January	**9,595**	**9,595**	8,680	8,680
Total comprehensive income for the period				
Profit for the year	**1,022**	**1,022**	915	915
Other comprehensive income	**–**	**–**	–	–
Total comprehensive income for the period	**1,022**	**1,022**	915	915
Balance at 31 December	**10,617**	**10,617**	9,595	9,595

Cash flow statement

Cash flows from operating activities	Notes	2018 £000	2017 £000
Profit before tax		**1,233**	1,112
Adjustments for			
Depreciation and amortisation	13,15	**118**	121
Movement in investment fair value	14	**(3)**	8
Interest on subscribed capital	3	**21**	23
Provision for liabilities		**(4)**	40
Loans and advances written off in the year	12	**–**	18
Reduction in impairment of loans and advances	12	**(11)**	(38)
Total		**1,354**	1,284
Changes in operating assets and liabilities			
Increase in prepayments, accrued income and other assets		**(95)**	(13)
Increase in accruals, deferred income and other liabilities		**–**	28
(Increase)/decrease in loans and advances to customers		**(12,102)**	3,597
Decrease/(Increase) in loans and advances to credit institutions		**1,501**	(2,006)
(Decrease)/increase in shares		**(974)**	3,902
(Decrease)/increase in amounts owed to other customers		**(844)**	796
Increase in amounts owed – Subordinated liabilities		**1**	–
(Decrease) in other creditors		**(6)**	(4)
FSCS interest cost paid		**(7)**	(24)
Other provision paid		**(2)**	(66)
Taxation paid		**(208)**	(178)
Net cash generated by operating activities		**(11,382)**	7,316
Cash flows from investing activities			
Purchase of debt securities	10	**(3,528)**	(6,552)
Disposal of debt securities	10	**4,538**	3,033
Purchase of treasury bills	10	**(8,999)**	(5,532)
Disposal of treasury bills	10	**8,000**	10,030
Purchase of investments	14	**(118)**	(490)
Repayment of investments	14	**303**	31
Purchase of tangible fixed assets	13	**(71)**	(17)
Purchase of intangible assets	15	**(14)**	–
Net cash generated by investing activities		**111**	503
Cash flows from financing activities			
Interest paid on subscribed capital	3	**(21)**	(23)
Net (decrease)/increase in cash and cash equivalents		**(11,292)**	7,796
Cash and cash equivalents at 01 January		**50,101**	42,305
Cash and cash equivalents at 31 December	8	**38,809**	50,101

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 14 to 17 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 September 2015. The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

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

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

1.1. Measurement convention

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

1.2. Interest

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

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

Interest income and expense presented in the income statement and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

1.3. Fees and commission

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

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

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

1.4. Taxation

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

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

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

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

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

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

1.5. Financial instruments

Recognition

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

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

Financial assets/liabilities

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

- *Basic*

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

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

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Interest income is recognised in profit or loss using the effective interest method (see 1.2). Dividend income is recognised in profit or loss when the Society becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

- *Non Basic*

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

Fair value measurement

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

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

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

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

Derecognition

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

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

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

During the year ending 31 December 2018 the Society has not transferred any financial assets to another party that did not qualify for derecognition.

Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

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

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

- Interest only payments
- Payment holiday

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

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

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

Interest on the impaired assets continues to accrue. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

1.6. Cash and cash equivalents

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

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

1.7. Tangible fixed assets

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

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

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

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

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

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

1.8. Intangible assets

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

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

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

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

1.9. Provisions

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

1.10. 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.

Effective interest rate (EIR)
The effective interest rate applied to the mortgage book affects the carrying value of those assets. One of the key components of the Effective Interest Rate is the expected mortgage life. In determining the expected life of mortgage assets, the Society uses historical redemption data as well as management judgement. The expected life of mortgage assets is assessed for reasonableness at least annually.

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 2018 are set out in the following notes:

- Note 14 – determination of the fair value of financial instruments with significant unobservable inputs
- Note 20 – 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

	2018 £000	2017 £000
On loans fully secured on residential property	**4,930**	4,808
On other loans	**487**	472
On debt securities	**46**	17
On treasury bills at fixed rate interest	**27**	14
On other liquid assets	**263**	159
Profit on sale of liquid assets	**1**	1
Other interest receivable	**2**	2
	5,756	5,473

There was no interest income accrued on impaired loans two or more months in arrears (2017: £0)

3. Interest payable and similar charges

	2018 £000	2017 £000
On shares held by individuals	**1,733**	1,746
On deposits and other borrowings	**102**	107
On subordinated liabilities	**21**	23
	1,856	1,876

4. Administrative expenses

	2018 £000	2017 £000
Wages and salaries	**1,137**	994
Social security costs	**126**	110
Other pension costs	**106**	78
	1,369	1,182
Other administrative expenses	**1,251**	1,196
	2,620	2,378

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

	2018 £000	2017 £000
Audit of these annual accounts	**55**	49
	55	49

The increase in external audit fees has largely been driven by the additional audit requirements in relation to system migration.

5. Employee numbers

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

	2018	2017
Full time	**26**	25
Part time	**5**	3
	31	28

6. Directors' remuneration

Full details are given in the Directors' Remuneration Report. Total remuneration amounted to £301,000 (2017: £261,000). In addition, payment of £12,918 (2017: £11,769) has been made to Walker Morris LLP for the services of Louise Power. Full details are given in the table within the Remuneration Report on pages 22-24.

7. Taxation

	2018 £000	2017 £000
Current tax		
Current tax on income for the period	**212**	207
Adjustments in respect of prior periods	**–**	(1)
Total current tax	**212**	206
Deferred tax see note 20		
Origination and reversal of timing differences	**(1)**	(11)
Adjustment in respect of previous periods	**–**	1
Change in tax rate	**–**	1
Total deferred tax	**(1)**	(9)
Tax expenses (income) relating to changes in accounting policies	**–**	–
	211	197

Analysis of current tax recognised in profit and loss

	2018 £000	2017 £000
Profit for the year	**1,022**	915
Total tax expense	**211**	197
Profit excluding taxation	**1,233**	1,112
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	**234**	214
Community investment relief	**(25)**	(25)
Reduction in tax rate on deferred tax balances	**–**	1
Non-deductible expenses	**2**	7
Under / (over) provided in prior years	**–**	–
Total tax expense included in profit or loss	**211**	197

The effective tax rate for the twelve month period ended 31 December 2018 is 19.00%.

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

	2018	2017
	£000	£000
Cash in hand and balances with the Bank of England	**32,981**	41,614
Loans and advances to credit institutions (see note 9)	**5,828**	8,487
Cash and cash equivalents per cash flow statements	**38,809**	50,101

9. Loans and advances to credit institutions

	2018	2017
	£000	£000
Accrued interest	**19**	18
Repayable on demand	**2,815**	6,976
In not more than three months	**3,000**	1,500
In not more than one year	**1,500**	3,000
Total loans and advances to credit institutions	**7,334**	11,494
Total included within cash and cash equivalents	**5,828**	8,487

10. Debt securities

	2018	2017
	£000	£000
Gilts	–	2,017
Treasury bills	4,997	3,998
Certificates of deposit	2,510	1,503
	7,507	7,518
Debt securities have remaining maturity as follows:		
In not more than one year	7,507	7,518
	7,507	7,518
Transferable debt securities comprise:		
Listed on a recognized investment exchange	–	2,017
Unlisted	7,507	5,501
	7,507	7,518
Market value of listed transferable debt securities	–	2,011

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

	2018	2017
	£000	£000
At 1 January	7,503	8,489
Additions[1]	12,519	12,077
Disposals and maturities	(12,538)	(13,063)
At 31 December	7,484	7,503

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

11. Loans and advances to customers

	2018	2017
	£000	£000
Loans fully secured on residential property	117,998	105,817
Loans fully secured on land	8,527	8,585
Other loans	–	10
	126,525	114,412
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	1,467	1,638
In more than three months but not more than one year	3,887	3,451
In more than one year but not more than five years	24,892	20,959
In more than five years	96,892	88,988
	127,138	115,036
Less: allowance for impairment (note 12)	613	624
	126,525	114,412

The maturity analysis above is based on contractual maturity adjusted for EIR but not for expected redemption levels.

12. Allowance for impairment

Provision for impairment on loans and advances At 1 January 2018	Loans fully secured on residential property £000	Other loans £000	Total £000
Individual impairment	49	447	496
Collective impairment	126	2	128
	175	449	624
Amounts written off during the year, net of recoveries			
Individual impairment	–	–	–
Collective impairment	–	–	–
Income statement			
Impairment losses on loans and advances			
Individual impairment	(7)	(7)	(14)
Collective impairment	9	1	10
Adjustments to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	–	(7)	(7)
Charge/(credit) for the year	2	(13)	(11)
At 31 December 2018			
Individual impairment	**42**	**433**	**475**
Collective impairment	**135**	**3**	**138**
	177	**436**	**613**

Provision for impairment on loans and advances At 01 January 2017	Loans fully secured on residential property £000	Other loans £000	Total £000
Individual impairment	56	458	514
Collective impairment	144	4	148
	200	462	662
Amounts written off during the year, net of recoveries			
Individual impairment	18	–	18
Collective impairment	–	–	–
	18	–	18
Income statement			
Impairment losses on loans and advances			
Individual impairment	(7)	(5)	(12)
Collective impairment	(18)	(2)	(20)
Adjustments to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	–	(6)	(6)
	(25)	(13)	(38)
Charge/(credit) for the year	(7)	(13)	(20)
At 31 December 2017			
Individual impairment	49	447	496
Collective impairment	126	2	128
	175	449	624

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 2018	1,405	171	378	53	2,007
Additions	–	–	71	–	71
Disposals	–	–	(8)	–	(8)
Balance at 31 December 2018	1,405	171	441	53	2,070
Depreciation					
Balance at beginning of the year	319	151	272	40	782
Depreciation charge for the year	24	4	47	7	82
Disposals	–	–	(8)	–	(8)
Balance at 31 December 2018	343	155	311	47	856
Net book value At 1 January 2018	1,086	20	106	13	1,225
At 31 December 2018	**1,062**	**16**	**130**	**6**	**1,214**

Freehold land and buildings, which are included in the balance sheet at cost less depreciation, amounted to £1.062m at 31 December 2018 (2017: £1.086m). 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.

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

14. Investments

Investments - Basic	2018 opening carrying value £000	Additions £000	Repayment of capital £000	Impairment £000	2018 closing carrying value £000
Ecossol PV	176	–	(12)	–	164
Oakapple Berwickshire	216	–	(12)	–	204
Monnow Valley CHP	250	50	–	–	300
Atlantis Ocean Energy	250	–	–	–	250
Co-operative and Community Finance	500	–	–	–	500
MVT	129	–	(22)	–	107
Total	**1,521**	**50**	**(46)**	**–**	**1,525**

Investments - Non-basic	2018 opening carrying value £000	Additions £000	Repayment of capital £000	Movement in Fair Value £000	2018 closing carrying value £000
Upper Pitforthie Windgen*	246	–	(15)	–	231
United Downs Geothermal*	240	–	(240)	–	–
Ethical Properties	7	–	–	2	9
The Midcounties Co-operative	12	–	(2)	–	10
MVT	5	–	–	–	5
SFRE	29	68	–	1	98
Total	**539**	**68**	**(257)**	**3**	**353**

The Society continues to invest directly in renewable energy as announced at the 2014 AGM, and to support other co-operative ventures. All loans are interest bearing and as at 31 December 2018 no loan is considered to be impaired.

The Society holds 2,669,59 Class B shares in the GABV originated Sustainability-Finance-Real Economies Fund (SFRE). This fund exists to invest in the capital resources of emerging and established values-based finance institutions. The Society holds 10,328 ordinary shares in Mutual Vision Technology Limited which provides IT services to the Society. Following the transfer of engagement shares previously held with the Phone Co-op are now held within the Midcounties Co-operative. Including interest, which is paid by the issue of further shares, the current holding of shares in the Midcounties Co-operative is £10,314. In addition the Society holds 8,000 ordinary shares with Ethical Properties.

* It is our policy to hold non-basic investments at fair value but in the case of Upper Pitforthie Windgen and United Downs Geothermal we consider the fair value to be equivalent to the carrying value.

15. Intangible assets

Cost	Purchased software £000	Total £000
Balance at 01 January 2018	234	234
Additions	14	14
Balance at 31 December 2018	248	248
Amortisation		
Balance at 01 January 2018	166	166
Amortisation for the year	36	36
Balance at 31 December 2018	202	202
Net book value At 01 January 2018	68	68
At 31 December 2018	**46**	**46**

16. Other debtors

	2018 £000	2017 £000
Prepayments	**351**	257
Accrued income	**15**	14
	366	271

Debtors include prepayments and accrued income of £6,999 (2017:£5,192) for the Society that are due after more than one year.

17. Shares

	2018 £000	2017 £000
Held by individuals	**156,629**	157,603
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Accrued interest	**507**	497
On demand	**138,242**	137,781
In not more than three months	**17,880**	19,325
	156,629	157,603

18. Amounts owed to other customers

	2018 £000	2017 £000
	9,327	10,171
Repayable on demand	**9,327**	10,171

19. Other liabilities

	2018 £000	2017 £000
Corporation tax	**211**	207
Other creditors	**147**	153
	358	360

20. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £000	2017 £000	Liabilities 2018 £000	2017 £000	Net 2018 £000	2017 £000
Accelerated capital allowances	**–**	–	**50**	54	**50**	54
FRS 102 transitional adjustments	**(13)**	(15)	**–**	–	**(13)**	(15)
Other timing differences	**(9)**	(10)	**–**	–	**(9)**	(10)
Tax (assets) / liabilities	**(22)**	(25)	**50**	54	**28**	29

During the year beginning 1 January 2019, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by approximately £3,000. This is due to the reversal of a deferred tax asset recognised in relation to the FRS 102 transitional adjustments. The corporation tax impact of the EIR transitional adjustments is spread over ten years and so deferred tax has been recognised accordingly.

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

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

21. Provisions

	Other provisions £000	FSCS levy £000	Total £000
Balance at 01 January 2018	4	14	18
Paid in year	(2)	(7)	(9)
Charge for the year	–	(4)	(4)
Balance at 31 December 2018	**2**	**3**	**5**

At 31 December 2018 the Society has a provision of £3,059 comprising management expenses levies for the Financial Services Compensation Scheme year 2018/2019. This is expected to be paid in April 2019.

22. Subordinated liabilities

	2018 £000	2017 £000
Floating rate subordinated liabilities due 2019	**750**	750
	750	750
Less unamortised premiums and issue costs	**–**	(1)
	750	749

The Note is repayable at the date stated or earlier at the option of the Society with the prior consent of the PRA. The subordinated liability is denominated in sterling. Interest payments made on the floating rate loan 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 have been amortised in equal annual instalments over the relevant period to maturity. Of the subordinated liability held by the Society £0.075m is permissible as Tier 2 capital resources.

23. 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 2018	Held at amortised cost £000	Held at fair value £000	Total £000
Financial assets			
Cash in hand and balances with the Bank of England	32,981	–	32,981
Treasury Bills and similar securities	4,997	–	4,997
Loans and advances to credit institutions	7,334	–	7,334
Debt Securities	2,510	–	2,510
Loans and advances to customers	126,525	–	126,525
Fixed asset investments	1,525	353	1,878
Total financial assets	**175,872**	**353**	**176,225**
Non-financial assets	1,626	–	1,626
Total assets	**177,498**	**353**	**177,851**
Financial liabilities			
Shares	156,629	–	156,629
Amounts owed to credit institutions	–	–	–
Amounts owed to other customers	9,327	–	9,327
Subordinated liabilities	750	–	750
Other liabilities	358	–	358
Total financial liabilities	**167,064**	**–**	**167,064**
Non-financial liabilities and Reserves	10,787	–	10,787
Total liabilities	**177,851**	**–**	**177,851**

23. Financial instruments (continued)

Carrying values by category 31 December 2017	Held at amortised cost £000	Held at Fair value	Total £000
Financial assets			
Cash in hand and balances with the Bank of England	41,614	–	41,614
Treasury Bills and similar securities	3,998	–	3,998
Loans and advances to credit institutions	11,494	–	11,494
Debt Securities	3,520	–	3,520
Loans and advances to customers	114,412	–	114,412
Fixed asset investments	1,522	538	2,060
Total financial assets	**176,560**	**538**	**177,098**
Non-financial assets	1,564	–	1,564
Total assets	**178,124**	**538**	**178,662**
Financial liabilities			
Shares	157,603	–	157,603
Amounts owed to credit institutions	–	–	–
Amounts owed to other customers	10,171	–	10,171
Subordinated liabilities	749	–	749
Other liabilities	360	–	360
Total financial liabilities	**168,883**	**–**	**168,883**
Non-financial liabilities and Reserves	9,779	–	9,779
Total liabilities	**178,662**	**–**	**178,662**

At 31 December 2018, the Society has off balance sheet exposure – mortgage commitments of £24.5m (2017: £19.0m) 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.

23. 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:

31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Fair value through profit and loss	9	98	246	353
	9	98	246	353
31 December 2017				
Financial assets				
Fair value through profit and loss	7	28	503	538
	7	28	503	538

Credit risk

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

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

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

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

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

The risk posed by counterparties is controlled by restricting the amount of lending to institutions without an external credit rating. This control also applies to counterparties with credit ratings below A-. Assets and Liabilities Committee (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.

23. Financial instruments (continued)

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

	2018 **£000**	2017 £000
Cash with Bank of England	**32,981**	41,614
Loans and advances to credit institutions	**7,334**	11,494
Debt securities	**2,510**	3,520
Treasury Bills	**4,997**	3,998
Loans and advances to customers	**127,138**	115,036
Total statement of financial position exposure	**174,960**	175,662
Off balance sheet exposure – mortgage commitments	**24,528**	18,992
	199,488	194,654

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

23. Financial instruments (continued)

Credit quality analysis of loans and advances to customers

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

	2018 Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	2017 Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000
Neither past due nor impaired	**117,189**	**6,961**	**10**	105,042	7,025	10
Past due but not impaired						
1 – 2 months	**681**	**–**	**–**	543	–	–
2 – 3 months	**–**	**22**	**–**	1	–	–
Greater than 3 months	**–**	**–**	**–**	96	9	–
	681	**22**	**–**	640	9	–
Individually impaired						
Not past due	**128**	**1,544**	**–**	135	1,551	–
1 – 2 months	**–**	**–**	**–**	–	–	–
2 – 3 months	**–**	**–**	**–**	–	–	–
Greater than 3 months	**–**	**–**	**–**	–	–	–
	128	**1,544**	**–**	135	1,551	–
Allowance for impairment						
Individual	**42**	**433**	**–**	49	447	–
Collective	**135**	**3**	**–**	126	2	–
Total allowance for impairment	**177**	**436**	**–**	175	449	–

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.

23. Financial instruments (continued)

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.

LTV ratio	**2018 £000**	2017 £000
Less than or equal to 50%	**47,838**	43,921
Greater than 50% but less than or equal to 70%	**39,338**	35,707
Greater than 70% but less than or equal to 90%	**39,276**	33,661
Greater than 90% but less than or equal to 100%	**823**	1,863
Greater than 100%	**–**	–
	127,275	115,152

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. When a borrower enters into a forbearance arrangement regular monitoring of the account is undertaken and consideration is given to the ongoing potential risk to the Society and the suitability of the arrangement for the borrower. An individual provision is made against any loan that is considered to be impaired. Once the agreement has been successfully concluded the case is no longer considered to be impaired but continues to be monitored.

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

	2018 £000	2017 £000
Payment holiday	**1,976**	1,162
Interest only	**1,473**	1,687
Underpayment	**375**	–
Arrears overpayment	**134**	–
Arrears underpayment	**–**	96
	3,958	2,945

There were a total of 15 accounts in forbearance at 31 December 2018 (2017:14).

There was one individual impairment provision required where the loan is not in arrears but is considered to be impaired (2017: 1).

23. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Society will not have sufficient financial resources available to meet its obligations as they fall due under normal business conditions or a stressed environment. The Society's Liquidity Policy requires that a significant amount of its assets are carried in the form of on-call and other readily available assets in order to:

- Meet day-to-day business needs
- Meet any unexpected funding stress scenario
- Ensure maturity mismatches are provided for

Balance sheet and liquidity limits (including counterparty limits) are set to support this risk appetite within the Society's Financial Risk Policy.

Monitoring of liquidity is performed daily. Compliance with policy is reported to every ALCO and monthly to the Board.

The Society's Liquidity Policy is designed to ensure that the Society has sufficient liquid resources to withstand a range of scenarios. A series of liquidity stresses have been developed as part of the Society's Individual Liquidity Adequacy Assessment (ILAAP). They include scenarios that fulfil the specific requirements of the Prudential Regulation Authority (PRA), the Society specific, market-wide and a combination of both scenarios. The stress tests are performed periodically and reported to ALCO to confirm that the liquidity policy remains appropriate.

The Society's liquid resources comprise of high quality liquid assets, including a Bank of England Reserve Accounts, term deposit accounts, or in debt securities and treasury bills that are capable of being sold at short notice to meet unexpected adverse cash flows.

Maturity analysis for financial assets and financial liabilities

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

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

31 December 2018	**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	138,749	17,944	–	–	–	156,693
Amounts owed to other customers	9,327	–	–	–	–	9,327
Subordinated liabilities	–	–	761	–	–	761
Total financial liabilities	**148,076**	**17,944**	**761**	**–**	**–**	**166,781**

23. Financial instruments (continued)

31 December 2017	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	138,278	19,389	–	–	–	157,667
Amounts owed to other customers	10,171	–	–	–	–	10,171
Subordinated liabilities	–	–	–	783	–	783
Total financial liabilities	148,449	19,389	–	783	–	168,621

Market risk

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

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

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

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

Sensitivity of reported equity to interest rate movements	200bp parallel increase £000	200bp parallel decrease £000
2018		
At 31 December		
Average for the period	**158**	**167**
Maximum for the period	**205**	**219**
Minimum for the period	**135**	**137**
2017		
At 31 December		
Average for the period	154	165
Maximum for the period	206	217
Minimum for the period	109	116

23. 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 2018 the Society has continued to comply with the EU Capital Requirements Regulation and Directive (Basel III) as amended by the PRA. Further details of the Society's approach to Risk Management are given in the Directors' Report under Principal Risks and Uncertainties.

Regulatory capital is analysed into two tiers:

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

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

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

	Note	**2018 £000**	2017 £000
Tier 1 Capital			
General reserve		**10,617**	9,595
Less intangibles		**(39)**	(56)
Total Tier 1 Capital		**10,578**	9,539
Tier 2 Capital			
Subordinated liabilities	22	**75**	224
Collective provision	12	**138**	128
Total Tier 2 Capital		**213**	352
Total Regulatory Capital		**10,791**	9,891

24.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 2018	**Amounts in respect of key management personnel and their close family members 2018 £000**	Number of key management personnel and their close family members 2017	Amounts in respect of key management personnel and their close family members 2017 £000
Loans and advances to customers	**2**	**366**	2	249
Deposits and share accounts	**12**	**219**	13	145

Directors' loans and transactions

At 31 December 2018 there were two outstanding mortgage loans (2017: 2), made in the ordinary course of the Society's business to Directors and connected persons, amounting to £366,246 (2017: £248,938).

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

Other related party transactions

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

At the beginning of the year the Society held an existing loan of £129,000 made to Mutual Vision Technology (MVT), the provider of the Society's IT services. In April MVT repaid £21,807 and at 31 December 2018 the loan outstanding amounted to £107,000. Interest on the loan amounting to £1,800 (2017:£1,935) and fees of £3,135 (2017: 3,044) in relation to the services of P.C. Ellis as a director.

25. Subsequent events

There have been no material subsequent events between 31 December 2018 and the approval of this Annual Report and Accounts by the Board.

26. 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 2018:

- The Society's principal activities are mortgage lender and provider of savings accounts
- The Society's turnover (defined as net interest receivable) was £3.900m (2017: £3.597m). Profit before tax £1.233m (2017: £1.112m) all of which arose from UK-based activity
- Number of employees was 31 (2017: 28)
- Corporation tax of £0.208m (2017: £0.178m) 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 2018

1 Statutory percentages

	Statutory limit %	**At 31 December 2018 %**	At 31 December 2017 %
Lending limit	25.00	**8.65**	9.68
Funding limit	50.00	**3.21**	3.50

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

	2018 %	2017 %
Gross capital as a percentage of shares and borrowings	**6.44**	5.85
Free capital as a percentage of shares and borrowings	**5.77**	5.16
Liquid assets as a percentage of shares and borrowings	**28.82**	36.14
Profit after taxation as a percentage of mean total assets	**0.57**	0.52
Management expenses as a percentage of mean total assets	**1.54**	1.42

Gross capital represents the general reserves and subordinated liabilities. Of the subordinated liability shown on the statement of financial position, £0.075m 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 2018 and 2017 total assets.

3 Information relating to Directors at 31 December 2018

Name and date of birth	Occupation and date of appointment to the Board	Other directorships
Steven John Round 08.04.1960	Managing Director 09.12.2010	Strategic Intent Ltd 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) Mutual Vision Technologies Ltd Friends of Gledhow Valley Woods
Pamela Waring 12.06.1956	Building Society Deputy Chief Executive and Finance Director 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 and Researcher 27.09.2013	Ecology Building Society Charitable Foundation Electrozest Limited
Andrew John Gold 30.12.1969	Director and Risk, Audit and Compliance Professional 30.05.2014	Airedale NHS Foundation Trust
Louise Power 20.04.1969	Solicitor 17.06.2015	Walker Morris LLP
Vincent Smith 29.09.1959	Retired Corporate Treasurer 03.11.2017	None

Paul Ellis and Pam Waring both have service contracts, details of which can be found in the Directors' Remuneration Report on pages 22-24. 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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