Ecology
Building Society

Annual Report & Accounts

31 December 2019

Building a greener society

Contents

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Chair's statement

While it's too late to stop climate change having any impact – the effects are already being felt across the globe and here in the UK – I believe it has never been more relevant and important for Ecology to provide a continuing progressive force for positive environmental and social change.

We begin a new decade with renewed hope that the recent increase in public awareness of climate change, especially among young people, is putting pressure on the world's governments, public institutions and businesses to take the urgent and meaningful collective action required if we are to avoid the catastrophic ecological and human impacts of the climate crisis.

Against this backdrop I am pleased to report that we have been able to support even more sustainable building projects in 2019 which has helped to deliver another strong financial performance with a second successive year of record profit and increases in our environmental lending. Our success demonstrates the demand for inspiring alternatives and increased recognition that finance can be used to support the transition to a low carbon economy.

Our contribution to building a greener society goes beyond our sustainable lending and we've long campaigned to change finance so it serves people and planet. During the year we saw millions of people across the globe unite to call for climate justice and I was pleased that Ecology took part and following this we declared a climate emergency.

Your Society continues to take a leading role in the provision of environmental finance. I am especially thrilled that our longstanding commitment to sustainability and ecological lending was recognised twice in the prestigious Finance for the Future awards and, in September, we were the first building society to become a founding signatory of the United Nations Principles for Responsible Banking, demonstrating our support for concerted efforts to build a sustainable future.

Innovative financial solutions to retrofitting the UK's 28 million homes will be critical if we are to deliver on the 2050 net zero target. I'm therefore delighted we're playing our part in the development of new mechanisms to fund retrofit, sharing our experience with a wide range of partners and initiatives including the European Energy Efficiency Mortgage scheme, the UK's Green Finance Institute and the UK Green Building Council as well as continuing discussions with the Department for Business, Energy and Industrial Strategy. The Society is also playing a leading role in the Building Societies Association's Green Finance Taskforce, challenging the sector to deliver solutions and tackle climate change. The outcome of these discussions will be important in the run-up to the UK hosting COP26 later this year.

During the year we said goodbye to Louise Power from the Board. Alison Vipond has announced that she will be stepping down in early 2020. Pam Waring, Deputy Chief Executive and Finance Director has announced that she will be retiring after 34 years' service. I would like to thank them all for their contribution to the Society.

I am also very pleased to welcome two new non-executive directors, Kerry Mashford and Louise Pryor, who bring new skills and experience to the Board, as well as the appointment of our new Finance Director, Amanda Chambers. These appointments will help ensure that the Board can continue to scrutinise and provide critical challenge to the management team while upholding Ecology's ethics and ecological mission.

It only remains for me to thank the Board and the Ecology team for their continued commitment and hard work in pursuit of our environmental mission. There can be no doubt that this is an exciting time for Ecology as we continue to grow our sustainable lending and provide the challenge to ensure that finance serves people and planet.

Steve Round
Chair
28 February 2020

Chief Executive's review

Ecology has been pursuing its environment-conscious lending programme since 1981. This has been informed by an awareness of a gathering ecological crisis fuelled by an economic system that has placed growth and profit before people and planet, fostering over-consumption while disregarding the destruction of natural capital. Our response has been to promote lending that reduces the environmental footprint of our housing by design, and otherwise avoids waste and maintains ecosystems.

Our efforts and those of our members, along with other values-based financial pioneers, have assiduously chipped away at this task, creating exemplar projects and examples of best practice, while engaging with government to encourage the policy base that would make larger scale efforts feasible. Despite some gains, that policy base has failed to emerge and with it, the fundamental re-orientation of financial and economic systems that would drive the necessary levels of action.

However, in 2019, there seems to have been a fundamental shift in consciousness, as the majority come to recognise that we can no longer postpone action. There is a growing realisation that the climate crisis is but one manifestation of our consumer-driven economy as we simultaneously witness an accelerating loss of biodiversity, rapidly diminishing soil fertility and poisoning of eco-systems.

We are now hearing noises about new policy approaches, without much substance emerging, along with announcements that contradict the warm words. The reality is that while their tactics might be dismissed as naïve, it is the school strikes led by young

campaigners such as Greta Thunberg, that has forced politicians to begin to take these issues seriously. Governments sometimes need dragging along to enact change. Whereas advocates for women's suffrage were initially derided, by 2003 the suffragettes were commemorated by a 50p coin. I am confident that in time the current non-violent protests will be recognised for changing the narrative.

As protestors filled the streets, the UK Government made a legally binding commitment to reach net-zero emissions. While a significant step, we believe that the current target of 2050 will be too late, and the timetable must be accelerated if we are to keep global heating below 1.5 degrees. If we are to get to net zero by 2050, let alone 2030, we will very soon have to mobilise for the renovation and retrofit of our existing housing stock at a rate of nearly 100 homes every hour.

Ecology is ready to play its part and will continue to expand its own lending potential regardless of the prevailing policy environment. If we are to contribute to the solution, we need to continue as a sound and resilient financial institution. So, I am pleased to report that 2019 evidenced another set of pleasing financial results with strong growth and profitability. New lending increased by 13.18% with mortgage assets increasing by 14.61%.

The strength of our lending has enabled us to further reduce liquidity to 26.67%, while allowing for the re-introduction of our 90-day notice and ISA accounts so opening the door to new investing members. Consequently, we reversed the slight reduction in overall assets experienced in 2019 recording 11.35% growth with our assets reaching £198.04m. The inflow of funds towards the end of the year was particularly strong and while our savings rates have gradually become more competitive as rates have declined across the market, our new members are telling us that it is our values that are particularly attractive.

We are also able to report a second successive year of record profits at £1.073m, which adds to our capital base, thereby underpinning our ability to grow the loan book. In June 2019 the Society repaid £750k of subordinated debt as it no longer contributed to capital resources. The repayment was made in accordance with the Terms and Conditions of the note on its maturity.

A sound and resilient financial institution also needs a solid operational base. Much work has been done by colleagues during the year to review and update procedures as well as renew systems in order to improve our services to members and reduce our environmental impact.

A summary of the main key financial performance indicators (KPIs) used by the Board, along with more detailed commentary, 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.

Lending highlights

In 2019 we continued to be a leading lender for community-led housing solutions, helping to create genuinely affordable and sustainable quality homes for local people. Our new loans included our first self-build housing co-operative and Scotland's first community-led Passivhaus project.

During the year we supported a record 308 sustainable properties and projects. In addition to the strong lending performance, we also ended the year with a healthy pipeline of new projects, which bodes well for lending activity in 2020.

Society matters

In April I was pleased to welcome members to our AGM and Members' Meet-up at our eco-offices in Silsden. The event's lively discussions showed how members expect us to be agitating and campaigning for climate action.

This resulted in our climate emergency declaration and we will be providing an annual progress update to members on our climate emergency plan. I was also pleased that we joined the four million people who participated in the Global Strike for Climate that month to help raise awareness and demonstrate the scale of public desire for urgent action.

We've been pioneering sustainable finance in the UK for nearly 40 years, helping to reduce emissions from buildings and homes and have long recognised that the financial services sector must enable the transition to a low-carbon economy. Given this I was especially proud that we were recognised twice in the Finance for the Future awards, founded by the Institute for the Chartered Accountants for England and Wales (ICAEW) and the Prince's Accounting for Sustainability Project. These prestigious global awards aim to highlight the role of finance in helping to embed sustainability in business decision making. Our success shows that the time is now for a financial system that benefits people and planet.

Ecology is immensely fortunate to have a strong body of colleagues who support our environmental and social goals and contribute to the wider life of the Society. 2019 saw the creation of a colleague-led Social and Charity Committee which has been assiduously raising funds for the chosen charities of Mind and the Canal and River Trust. A variety of events have taken place including a bake-off where some recipes included produce from the Society's own raised beds. The beds themselves are managed and tended by our Gardening Committee.

Huge thanks go to all colleagues who have participated and contributed. These efforts complement the donations we make to our charity partner, Trees for Cities, as a result of members' AGM voting.

Our influence

An example of our extended influence is our commitment to the UN Principles for Responsible Banking, which we have joined as a founding signatory. We were the first building society to sign-up to this framework which will drive the financial sector to make tangible progress in supporting the transition to a low-carbon economy.

In 2019 we also continued to engage in potentially exciting green finance policy initiatives, with the aim of developing innovative financial solutions to tackle, for example, retrofitting the UK's existing housing stock. It seems there is a plethora of such initiatives demonstrating the enthusiasm and desire by policy makers for positive change, although progress to date appears elusive.

Personnel matters

During the year Pam Waring, Deputy Chief Executive and Finance Director announced that she will be retiring in early 2020. Pam initially joined us as a temporary savings administrator, which turned into a 34-year career. Pam's achievements are too numerous to list but add up to an outstanding contribution to Ecology's development. I know Pam has always taken great satisfaction in our progress and our thanks go to Pam for her unstinting service, along with our warm wishes for success with whatever she does next. On a personal note I would like to thank Pam for her unwavering support to me over many years.

Following Pam's decision to step down we have appointed Amanda Chambers as Finance Director. Amanda brings a wealth of financial services experience which will be a major asset to the Society. Denise Davies, who joined in 2018 as the Society's HR Manager is taking on Pam's board secretary responsibilities and joins the Society's Executive team, bolstering our governance function, helping us to respond to the ongoing challenges of the regulatory environment.

Outlook for 2020

We are expecting that growth in the wider economy will be subdued due to continuing uncertainty regarding future relations with the European Union and with international tensions over trade. The Society is prepared for any spillover to our trading conditions, which we would anticipate will be limited.

We will be continuing with our programme of investment to strengthen our digital and operational capabilities and this is expected to contribute to lower profits than in 2019. However, this will help create the conditions for a solid future for the Society and we look forward to 2020 with a great deal of confidence.

As noted, we start the year with a strong pipeline of sustainable lending prospects which we anticipate will allow us to continue accepting the strong inflows of funds generated by the heightened awareness of climate issues, driving the growth of our membership.

The Society is nothing without its members and we particularly appreciate the positive feedback colleagues have received from you. We look forward to your continued commitment to building a greener society in the year ahead.

Paul Ellis
Chief Executive
28 February 2020

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, 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 2019 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.

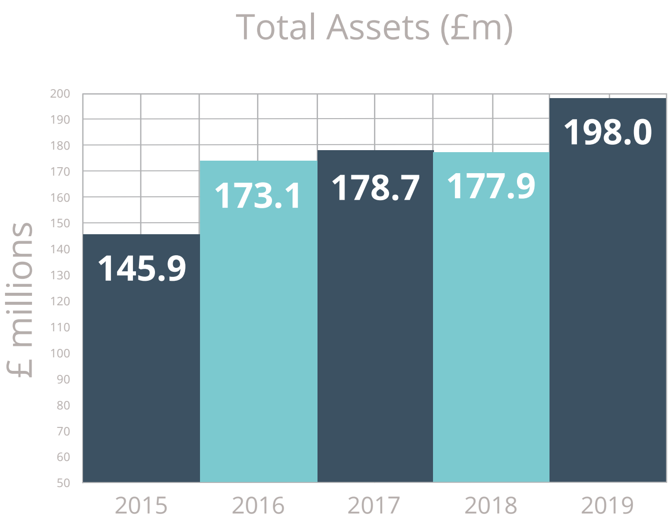
Key Performance Indicators

	2019	2018	2017
Total assets	**£198.0m**	£177.9m	£178.7m
Mortgage asset growth	**14.61%**	10.59%	-3.03%
Mortgage lending	**£43.5m**	£38.4m	£28.2m
Savings balances	**£185.3m**	£166.0m	£167.8m
Liquid assets as a % of shares and borrowings	**26.67%**	28.82%	36.14%
Management expenses as a % of mean total assets	**1.69%**	1.54%	1.42%
Net profit	**£1.073m**	£1.022m	£0.915m
Profit after taxation as a % of mean total assets	**0.57%**	0.57%	0.52%
Core Tier 1 capital	**£11.677m**	£10.578m	£9.539m
AGM – voting turnout	**19.78%**	15.62%	16.17%

Asset growth

During 2019 the Society's total assets increased by £20.2m to £198.0m (2018: £177.9m), in percentage terms 11.35% (2018: -0.45%) primarily driven by the increase in savings balances that are required to support future lending.

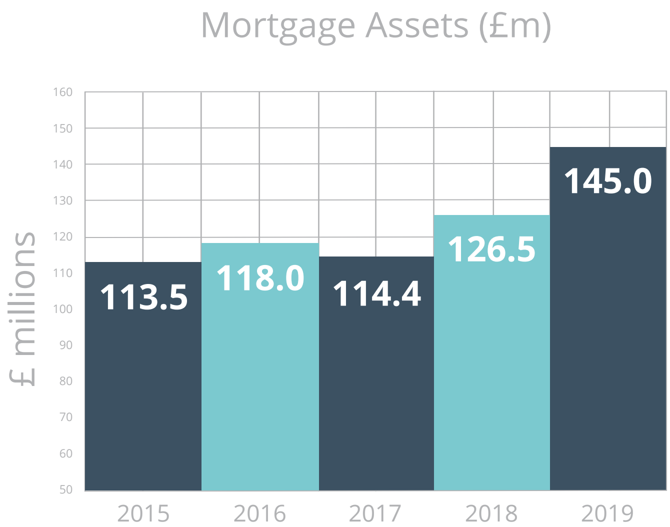
The Society does not pursue growth for its own sake, rather we view growth as a sign of our success in meeting the needs of our savers and supporting our borrowers to build, renovate or buy sustainable properties.



Mortgages

The actions taken in previous years to rebuild the pipeline of new mortgages continue to have a positive impact on gross lending, which at the end of 2019 is recorded as £43.5m (2018: £38.4m). The interest rates offered by the Society enable it to provide support for more projects which deliver a positive environmental and social benefit and provide good value for borrowers seeking to build or renovate sustainable and energy efficient properties. Redemption activity has remained subdued. The overall effect is an increase in mortgage assets of 14.61% (2018: 10.59%) which reflects gross lending less redemptions, repayments and effective interest rate adjustments.

By the year-end, 39% (2018: 38%) of loans outstanding were benefiting from one of our C-Change mortgages, which reward work undertaken on the property to help combat climate change. A reduction to the interest rate is applied following confirmation of the energy rating achieved.



At 31 December 2019, there were no cases in possession, or 12 months or more in arrears (2018: 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 2019, there were 15 cases (2018: 15) under forbearance with total balances of £2.451m (2018: £3.958m) and arrears totaling £0 (2018: £516).

Provisions against possible mortgage losses reduced to £531,000 (2018: £613,000). Provisions continue to be held for two cases which are not in arrears but where the Society is working with our borrowers to navigate difficult operating conditions.

Savings and liquidity

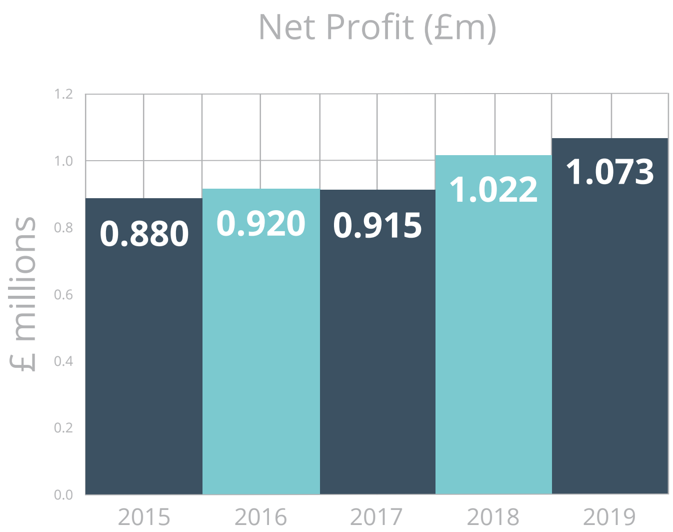
Savings balances consist of shares and amounts owed to other customers. To meet the growing demand for our mortgage products the Society re-introduced the 90-day and Cash ISA accounts to new members in April and June respectively. The strong mortgage lending activity balanced by managed positive savings inflows reduced liquidity levels to 26.67% (2018: 28.82%). Total savings balances held at the end of the year are £185.3m (2018: £166.0m) an increase of 11.63%.

We aim to continue to manage 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.

Management expenses

The Society's cost base increased by 16.03% to £3.18m (2018: £2.74m) as we continue to invest in our digital strategy, cyber security, operational efficiency and increased resource levels which will enable us to deliver on our objectives from a solid operational base. This investment has resulted in an adverse impact of the Costs to Mean Assets Ratio which increased to 1.69% from 1.54% in 2018. This also drove the adverse effect on the management expenses ratio.

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 2019, this added 3.44% to our costs – without this the management expenses ratio would have been 1.64%.



Profit and capital

Net profit for the year amounting to £1.07m (2018: £1.02m) was added to general reserves, which now total £11.69m (2018: £10.62m). Reserves act as a buffer against adverse market movements or deteriorating economic conditions.

At 31 December 2019, the ratio of gross capital as a percentage of total share and deposit liabilities was 6.29% (2018: 6.44%) and free capital was 5.68% (2018: 5.77%). The decrease in the ratio is due to the increase in savings balances.

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.

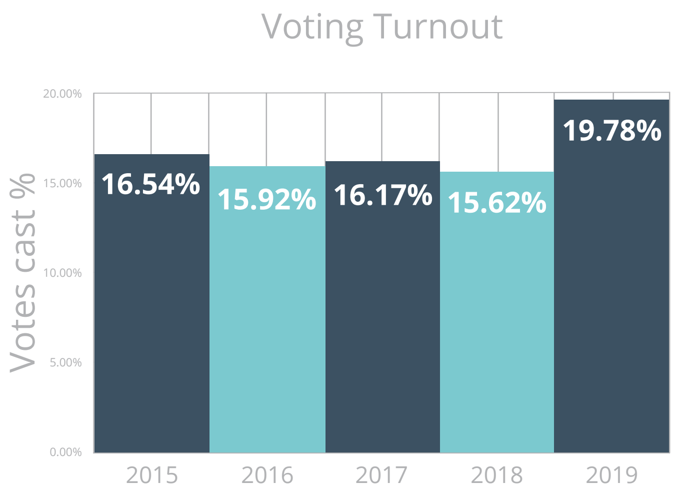
Having undertaken the ICAAP, the Board is satisfied that the Society holds sufficient capital to satisfy both the CRR's Pillar 1 requirements and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures, including the Pillar 2A percentage and figure, required by the 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 17.26% (2018: 17.46%).

The leverage ratio decreased by 0.10% to 5.55% (2018: 5.65%) as a result of the 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

Voting turnout increased substantially at our 2019 AGM and Members' Meet-up, which was held at our offices in Silsden giving members the chance of visiting our eco-built offices and our organic permaculture gardens. Members took part in discussions about the climate crisis and their expectation of the Society as an agitator and campaigner for climate action.




YOUTH
STRIKE

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. But how well did we do in delivering upon this in 2019? Here, we give a snapshot of Ecology's recent impacts, from the projects that we've supported to our own carbon footprint, 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.

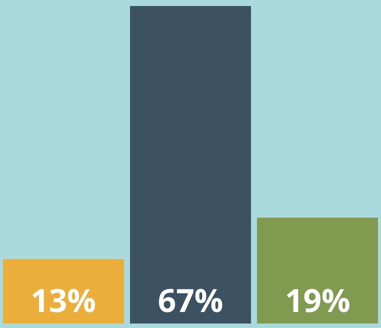
Energy-efficient buildings mean reduced demand for natural resources and lower bills. The majority of Ecology-backed projects are achieving their target energy rating and – with almost 78.7% (2018: 77.5%) achieving EPC B or above – are well ahead of the England average, which the 2017-18 English Housing Survey states as EPC D. In line with our commitment to a net-zero emissions future, we want to help an even greater proportion of our borrowers to achieve their energy-efficiency goals.

In 2019 we helped support open homes events in Cambridge and Manchester organised by Cambridge Carbon Footprint and Carbon Co-op respectively.

Location	Attendees	Number of open homes visited
Open Eco Homes (Cambridge)	319	11
Green Open Homes (Manchester)	110*	9
Total	**429**	**20**

**Estimated number of attendees provided by Carbon Co-op*

Completed Ecology mortgages: energy rating achievements



13% of properties exceeded their expected energy rating

67% of properties achieved their expected energy rating

19% of properties are yet to achieve or did not achieve their expected energy rating

Percentages rounded to nearest whole number and calculated from the total number of projects that received an energy rating

Changing retrofit policy

We think that retrofitting the UK's existing housing stock needs to be a national infrastructure priority to achieve energy efficiency improvements at scale. As well as providing sustainable lending for individual renovation projects we're participating in a number of policy initiatives which aim to develop new mechanisms to deliver mass retrofit at the scale required. Ecology is participating in:

- A Europe-wide programme to deliver a 'Renovation Framework' to enable local authorities and national governments to better measure the outcomes and co-benefits of home retrofit
- A project to co-create a proposal for a long-term city-led home retrofit programme with UKGBC (Green Building Council)
- Three regional Department for Business Energy Innovation and Skills (BEIS) supply chain pilots exploring different retrofit delivery models
- A coalition for energy efficiency being led by the Green Finance Institute, which was jointly set-up by HM Treasury and the City of London Corporation.

Managing our carbon footprint and resource use

We want to shrink 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 has an electric vehicle charging point, photovoltaic (PV) panels, a sedum roof and a mechanical ventilation with heat recovery system.

Total CO_2e (tonnes)

2018	2017
284	277

Grams of CO_2 per £ of total assets (carbon intensity)

2018	2017
1.6	1.6

Our latest carbon footprint analysis has been based on recalculated figures to reflect that our electricity supplier, Ecotricity, uses only renewable sources. Data for 2018 – the most recently available – shows our overall carbon emissions have increased to 284 tonnes (2017 [recalculated]: 277 tonnes) with the largest contributors being services and staff commuting. However, the grams of CO_2 generated per £ of total assets, a measure of the carbon intensity of our activities, has remained the same between 2017 to 2018.

> *We have recently invested in a new meeting room constructed from a re-purposed shipping container and completed to high energy-efficiency standards.*

As in previous years, the increasing total emissions have been mirrored by increased numbers of staff, who contribute to emissions through commuting and use of facilities, and business travel. We have recently invested in a new meeting room constructed from a re-purposed shipping container and completed to high energy-efficiency standards. The unit has been designed by a Yorkshire-based community interest company dedicated to the provision of affordable, sustainable spaces for living and working.

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. In 2019, we completed a three-year funding project to support a UK-based treeplanting programme focussed on carbon capture and flood mitigation.

We continued to reduce the amount of paper that we used for the AGM mailing, this year by 5.7% (2018: 19.86%), with a total of 1,191 members opting to receive their packs by email in 2019 (2018: 541). By selecting this option, members have helped us to reduce the weight of paper that we send for the AGM by more than 30% over the last three years.

Leading the field

In recognition of Ecology's innovative approach and sustainable values, the Society received the Building Sustainable Financial Products award at the 2019 Finance for the Future awards, founded by the Institute of Chartered Accountants in England and Wales (ICAEW) and the Prince's Accounting for Sustainability Project (A4S). Additionally, Ecology received special recognition for outstanding climate leadership. We were also winners of the Best Self Build Lender category at the Mortgage Finance Gazette awards. These 2019 awards, along with endorsements including Good With Money's 'Good Egg' mark, stand as testament to Ecology's ongoing commitment to building a financial system that benefits people and planet.

Changing finance

Ecology became the first building society to sign the United Nations Principles for Responsible Banking – a coalition of 130 banking providers worldwide, representing over USD 47 trillion in assets – in committing to taking on a crucial role in helping to achieve a sustainable future. We believe this framework has the potential to drive systemic change to ensure that the purpose of banking extends beyond profit to creating positive environmental and social benefits.

The Society continues to participate in the European Energy Efficient Mortgage Pilot scheme, which is developing new criteria for green mortgages, and is also contributing towards a Green Finance Taskforce initiative by the Building Societies Association to support others working in the sector. Towards the end of the year we signed up to join the Green Finance Institute's Coalition on the Energy Efficiency of Buildings (CEEB), which aims to develop the market for financing net-zero carbon and climate-resilient buildings in the UK.

Paying responsibly

We make sure that we reward our people fairly. As an accredited Living Wage employer, all Ecology staff members 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, with our actual ratio for 2019 standing at 6.14.

Our responsible approach to pay doesn't end with our employees – it extends to how we pay our taxes. In 2016 we announced that Ecology had become the first UK building society to be awarded the Fair Tax Mark; our re-accreditation in 2019 demonstrates our genuine commitment to doing the right thing when it comes to taxes.

Charitable giving

Ecology colleagues contributed an average of nearly one day each from their working days and their own time to a range of community organisations. These included local foodbanks, Girlguiding UK, a local health and wellbeing charity, a family support organisation and various sports groups.

In addition we made £2.28K of donations to our charity partner, Trees for Cities, as a result of members' AGM voting and opting to receive AGM packs by email.

Sponsorship

Ecology backed a variety of industry events during the year, including a parliamentary reception for NaCSBA (National Custom and Self-build Association) and the Right to Build Taskforce, the Rural Housing Scotland Conference, and Passivhaus Trust's zero-carbon campaign. As part of our partnership with the National Community Land Trust Network, we also supported the National CLT Awards for the second year running.

We're proud to have connections with:

The Society gave a total of nearly £20k in sponsorship to events and programmes supporting our mission to build a greener society.

Enabling people-powered housing

Ecology continues to champion community-led housing projects that promote social well-being, economic resilience and environmental sustainability.

Ecology supported five housing co-operatives with new facilities, located in Leeds, Oxford, Brighton, Manchester and mid-Wales. These include Bunker Housing Co-operative in Brighton, our first self-build housing co-operative project, which is providing affordable and secure homes to low-income families.

We have undertaken mortgages to two new mutually owned community housing projects in North Wales and London.

Ecology is also supporting a cohousing group in Sheffield to convert a listed farm and outbuildings as part of a new housing community, as well as a community-led venture in Hastings focussed on developing a local 'ecosystem' of affordable spaces where local residents can live, work and thrive.

We were also pleased to begin supporting community land trust projects in Lancashire and Scotland to create affordable new homes, including Scotland's first community-led Passivhaus project in Dumfries and Galloway.

Declaring a Climate Emergency

In September Ecology took part in the launch of Business Declares, a network of businesses joining the hundreds of local authorities publicly declaring a Climate Emergency. In October, we published our own declaration.

Our Declaration:

Since 1981 Ecology Building Society has had a total focus on combatting climate change via our lending and activism. However, despite our efforts and those of other sustainable businesses, nowhere near enough progress has been made. In consequence, and with the UK having lost 40 years in which to take effective measures, we formally acknowledge that we now all face a Climate and Ecological Emergency, and declare our commitment to work even harder in accelerating a just and fair transition to a net-zero emissions future.

We are developing a Climate Emergency Plan and will be reporting on our progress against this on an annual basis.

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 assesses members on a set of key metrics designed to guide the development of a values-based approach to finance. These include a **'triple bottom line'** perspective and support of the **real economy**:

Triple Bottom Line

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

In 2019 we reported that 67.5% (2018: 62.7%) of our lending brought about benefits to the environment or supported social developments. The remaining 32.5% (2018: 37.3%) represents mortgage cases that have taken over two years to achieve their objective and so the benefits are yet to be realised. Through GABV, we have also committed to measuring the carbon impact of our lending, which will form part of our 2020 impact reporting.

Real Economy

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

In 2019 74.5% (2018: 64.5%) of our lending and investment supported the real economy. The remaining 25.5% 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, the world came together and agreed to adopt a set of goals that would end poverty, protect the planet and ensure prosperity for all.

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. Ecology's declaration of a climate emergency in October 2019 further confirms our commitment to the goals.

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 2019.

Business objectives

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

Principal risks and uncertainties

The risks faced by the Society are similar to those involved in running any financial services business: competition, the cost of regulatory compliance and statutory requirements, business retention, pressure on margin and risks from changes in the wider economy. The 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, particularly as to the terms of the UK's exit from the European Union, 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 likely to affect growth and the public finances, with potential flow-through to the housing market.

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 79.80% 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 47.07%, 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 2019 will, the Board anticipates, help to protect the Society from the potential shocks of Brexit.

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 Adequacy Assessment Process (ILAAP).

Interest rate risk – The Society is exposed to movements in interest rates reflecting the mismatch between dates on which interest receivable on assets and interest payable on liabilities are next reset or, if earlier, the instruments' maturities. The Society has a small tranche of mortgage and treasury assets linked to Base Rate and one liability with a fixed interest rate. The risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society as at 31 December 2019 is detailed in note 24.

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 good customer outcomes are embedded in the Society's culture.

Certified Passivhaus homes in Ilford, supported by Ecology

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.

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. During 2019, Board Committee terms of reference were 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.

A robust programme of independent security testing is undertaken to validate the Society's defenses and to ensure that cyber controls evolve in line with the ever-changing threat landscape. The Society maintains strong links with information services such as CiSP and FS-ISAC and holds the Government backed Cyber Essentials accreditation.

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 £11,114 (2018: £10,977) including a donation to the Ecology Building Society Charitable Foundation. 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.

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 2019 was 50 days (2018: 52 days). Creditor days include an accrual of £95k which primarily relates to the provision of internal and external audit services.

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 has adopted a Tax Compliance Policy Statement which is reviewed regularly by RACE and Board.

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

During the year a tender exercise for the provision of external audit services was completed. Following this process, the RACE and Board are recommending the appointment of BDO LLP to replace KPMG LLP as auditors of the Society and in accordance with Section 77 of the Building Societies Act 1986, a resolution to this effect will be proposed at the AGM.

Directors

Chris Newman and Tim Morgan are to retire by rotation and, being eligible, will offer themselves for re-election at the Society's AGM.

Alison Vipond was due to retire by rotation at the AGM. However, due to other commitments, she is stepping down from the Board in February 2020 and will not be standing for re-election at the Society's AGM.

Kerry Mashford and Louise Pryor are to be co-opted to the Board in February 2020 and being eligible, will seek election to the Board at the Society's AGM.

Amanda Chambers is to be co-opted to the Board in February 2020, succeeding Pam Waring as Finance Director and, being eligible, will seek election to the Board at the Society's AGM.

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

Post balance sheet events

As at 1st January 2020 the Society has entered into a new Shareholder agreement regarding its equity stake in IT services provider Mutual Vision Technology (MVT) which has resulted in the £107K loan outstanding to MVT at 31 December 2019 (see Note 24) being converted to Equity shares. The Society now holds 14,657 A ordinary shares at £112k (previously 10,328 Ordinary shares at £5k).

On behalf of the Board

Steve Round
Chair
28 February 2020

Directors

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

Paul Ellis
Chief Executive

Andrew Gold

Tim Morgan

Chris Newman

Louise Power
(resigned 27 April 2019)

Steve Round
Chair

Vincent Smith

Alison Vipond
Deputy Chair

Pam Waring
Deputy Chief Executive and Finance Director

Corporate governance report

Overview

The Board of Directors are responsible for the governance of the Society on behalf of its members and are committed to best practice in corporate governance. The Society's approach to corporate governance is underpinned by the principles of the UK Corporate Governance Code July 2018 (the Code) published by the Financial Reporting Council. Although the Code does not directly apply to mutual organisations, the Board has paid due regard to the principles of the Code.

The Role of the Board & Committees

Board

The Society recognises that an effective Board is fundamental to the long-term success of the Society. The Board works with the executive team 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.

The Board directs the business of the Society paying particular attention to strategy, risk, ethics and the environmental impact. The Board considers a strong system of governance is essential in ensuring the Society runs smoothly. The Board reviews the business performance and ensures that the necessary systems, procedures, controls and resources are in place for the management of risk and to safeguard members interests. At least once per year, the Non-Executive Directors meet without the Executives present to discuss the performance of the Executive Team.

There are specific matters reserved for Board decision making complemented by specialist Board sub-Committees with delegated powers. The Board met nine times during 2019.

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
- review assessments of business risk
- provide oversight and monitor the performance of external and internal auditors

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 2019.

The Board is satisfied that the Committee has appropriate recent and relevant financial experience to carry out its duties effectively. The Committee comprises of three Non-Executive Directors and 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.

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 comprises of the Society Chair, the Chief Executive Officer, the Chief Operating Officer, the Deputy Chief Executive and Finance Director, who Chairs the Committee, and two Non-Executive Directors. At the invitation of the Chair of the Committee the Finance Manager attends meetings. The Committee met six times during 2019.

Development and Strategy Planning Committee (DSPC)

The DSP Committee is responsible for formulating the future strategy of the Society. The Committee consists of the full Board and is chaired by Vince Smith. At the invitation of the Chair, members of the Executive Leadership team attend the meetings. The Committee met three times during 2019.

Board Lending Committee (BLC)

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 of 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 colleagues as appropriate. The Committee, chaired by Chris Newman, met on four occasions during 2019.

Nominations Committee

The Committee is responsible for succession planning for both Non-Executive and Executive roles. It considers the balance of skills, knowledge and experience of the Board, when dealing with Board appointments. This Committee leads on Director recruitment, reviewing applications and carrying out a robust selection process and makes recommendations to the full Board for any Directorships. The Committee is comprised of one Executive Director and two Non-Executive Directors and is chaired by Steve Round. During 2019 the Committee met on six occasions.

Remuneration Committee

This Committee recommends for approval by the Board the appropriate remuneration, benefits and contracts of the Directors and Senior Managers of the Society. The Committee membership comprises of three Non-Executive Directors with the Committee being chaired by Andrew Gold. During 2019 the Committee met on five occasions. The Directors' Remuneration Report is on pages 22-24.

Division of responsibilities

The roles of Chair and Chief Executive are held by different individuals with a clear division of responsibilities.

Chair

The Chair is responsible for leadership of the Board and ensuring the Board acts effectively. The Chair sets the culture and direction of the Board, facilitating and encouraging effective contribution, challenge and communication between Board members. The Chair ensures constructive relationships are maintained between the Non-Executive and Executive Directors.

CEO

The Chief Executive has overall responsibility for managing the Society on a day to day basis. The CEO is accountable to the Board for the financial and operational performance of the Society and for the formulation of a Corporate Plan to achieve the strategic objectives set by the Board.

NED

The Society's Non-Executive Directors are recruited from a wide range of backgrounds to bring the necessary skills and experience to the Board in order to monitor and challenge the performance of the Society.

Composition of the Board

The Board and its Committees require the appropriate balance of skills, experience, independence and knowledge of the Society to enable them to discharge their respective duties and responsibilities effectively.

The Board comprises of six Non-Executive Directors and two Executive Directors. All Non-Executive Directors, with the exception of Andrew Gold, are considered by the Board to be independent. This reflects the fact that Andrew is remunerated by the Society for his role as Chief Risk Officer. All Directors must meet the test of fitness and propriety as laid down by the regulators to fulfil their role as Directors. As 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. During 2019 Alison Vipond was the Member Advocacy Director being the first line of communication for members and the Board. Our model of encouraging participation, particularly through AGMs, provides an effective way of ensuring sensitivity to member concerns.

Appointments to the Board

The Nomination Committee leads the process for Director appointments. Particular attention is given to the skills and experience required under the succession plan and Board skills matrix. Each Director appointed must obtain the required regulatory approvals and meet the fitness and propriety standards required in order to fulfil their role.

The Board considers equality and diversity on the Board although has adopted the principle that appointments should be made on merit. Vacancies are advertised widely to ensure opportunities are accessible to under-represented groups.

During the year the Nominations Committee obtained professional support from Warren Partners Executive Search in conducting a formal and rigorous recruitment and selection process for the Finance Director Designate position. Amanda Chambers was appointed to this position and will stand for election to the Board replacing Pam Waring who is due to retire from the Board in 2020.

Within prudential constraints, the Board aims at diversity in its membership aiming particularly at gender balance and diversity of age. At 31 December 2019, 2 out of 8 Board members were female. All Board vacancies are communicated via Women on Boards.

Re-election

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 next possible AGM unless exceptional circumstances prevent them from doing so. 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.

Commitment

When considering the effectiveness of the Directors, the Board takes in to account other demands on Directors time. Directors are required to declare any significant commitments with an indication of the time involved. This applies to existing and prospective Non-Executive Directors.

Development

During the year a new tool to assess the Directors skills, knowledge and experience was developed by the HR Manager and a Director skills matrix created. This informs development activity and recruitment focus. 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.

Information and support

The Chair ensures that the Board and sub-committee members receive sufficient information to enable them to discharge their duties. The Executive Management ensures that information is delivered in accordance with Board requests. Board members have access to the advice of the Company Secretary, who is responsible for advising the Board on all governance matters.

The Society's secretary appointment and removal is a matter for the Board as a whole. During the year Denise Davies was appointed by the Board to the position of Company Secretary, replacing Pam Waring who stepped down from the role. This was an internal appointment.

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.

Board and committee membership and attendance record

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

*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 Chair, Chief Executive, the Deputy Chief Executive and Finance Director, and the HR Manager attend meetings as required. 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 five meetings during 2019 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.

> ***"The Society is committed to paying the Living Wage and has received accreditation for this from the Living Wage Foundation."***

Executive Directors

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

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

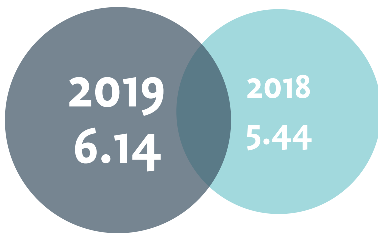
Basic salary

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

The Society falls outside of the mandatory requirements to disclose the ratio of the CEO's pay to the average pay of all employees. However, 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.

Ratio of highest basic salary to lowest full grade available

The increase in the ratio is a direct result of the Executive Directors buy out from the performance related pay scheme.



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. Effective from 1 April 2019 Executive Directors no longer participate in this scheme.

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.

The Society meets the requirement of the July 2018 Corporate Governance Code in that the pension contribution rates for the Executive Directors are aligned to those available to all colleagues.

Benefits

Prior to 2012 Executive Directors could participate in the Society's staff mortgage scheme subject to a maximum of £33,000. The scheme was closed to new applications in February 2012. The Chief Executive is also provided with a hybrid company car.

Ecology-backed 'Volcano House' built on a brownfield site in Shoreditch, London

Contractual terms

None of the Society's Non-Executive Directors have service contracts. Paul Ellis, Chief Executive, and Pam Waring, Deputy Chief Executive and Finance Director, have a service contract entered into on 30 July 2018. The service contract with Amanda Chambers was entered into in November 2019. All contracts are terminable by either party giving six months' notice. Pam Waring gave notice to terminate her contract with effect from 31 May 2020.

Non-Executive Directors’ remuneration

	2019 £000	2018 £000
Andrew Gold[1]	**27**	25
Tim Morgan	**18**	17
Chris Newman	**16**	15
Steve Round	**22**	20
Vincent Smith	**14**	13
Alison Vipond	**14**	13
Totals	**111**	103

[1] *Includes additional remuneration of £12,384 (2018: £11,488) 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 was paid for her service as a Non-Executive as noted below. On Louise’s request Walker Morris LLP kindly gifted the final remuneration to the Ecology Building Society Charitable Foundation.

	2019 £000	2018 £000
Louise Power	**5**	13
Totals	**5**	13

Executive Directors’ remuneration

	Salary £000	Performance related pay £000	Taxable benefits £000	Contributions to pension scheme £000	Total £000
2019					
Paul Ellis (Chief Executive)	**105**	**5**	**4**	**9**	**123**
Pam Waring (Deputy Chief Executive and Finance Director)	**97**	**5**	**–**	**7**	**109**
Totals	**202**	**10**	**4**	**16**	**232**
2018					
Paul Ellis (Chief Executive)	92	**	3	7	102
Pam Waring (Finance Director)	86*	3	–	7	96
Totals	**178**	**3**	**3**	**14**	**198**

* reflects increased responsibilities of new role

** waived due to remunerated leave of absence

On behalf of the Board

Steve Round

Chair

28 February 2020

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
28 February 2020

1. Our opinion is unmodified

We have audited the financial statements of Ecology Building Society ("the Society") for the year ended 31 December 2019 which comprise the Income Statement (including Statement of Comprehensive Income), Statement of Financial Position, Statement of Changes in Members' Interests, Cash Flow Statement 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 2019 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 the 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 ('RACE').

We were first appointed as auditor by the Society in 1994. The period of total uninterrupted engagement is for the 25 financial years ended 31 December 2019. 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 as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: including 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 financial statements 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.

	Key audit matter	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Risk vs 2018: ◀▶* *Refer to page 14 (Director's Report – principal risks)*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in impairment of loans, 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 Society's future prospects and performance. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, 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 impairment of loans and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on impairment of loans, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under impairment of loans, we found the resulting estimates and related disclosures of impairment of loans 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 an entity and this is particularly the case in relation to Brexit.

	Key audit matter	Our response
Impairment of loans *Risk vs 2018: ◄►* *(Impairment provision £531,000; 2018: £613,000)* *Refer to page 18 (Corporate governance report – RACE section), page 41 and 42 (accounting policy) and page 47 (financial disclosures).*	**Subjective estimate:** Individual impairments cover loans specifically identified as impaired, and a collective impairment covers all other loans where impairments are 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 been subject to forbearance 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 forced sale discount, probability of default, time to sale and sales costs, which the provision is sensitive to. Loans that have been individually considered are excluded from the collective population. The effect of these matters is that, as part of our risk assessment, we determined that impairment of loans has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our audit procedures included: **Benchmarking:** We compared the key assumptions used in the model with externally available data. The key assumptions used in the model are probability of default, forced sale discount, including selling costs, and time to sale. **Our sector experience:** We challenged the key impairment assumptions used in the model, using our knowledge of recent impairment experience in this industry. **Historical comparison:** We assessed the reasonableness of key judgemental assumptions used in the collective and individual models, being the probability of default, forced sale discount, time to sale and sales costs. **Sensitivity analysis:** We assessed the collective model and specific individual impairments for their sensitivities to changes in the key assumptions of probability of default, forced sales discount including selling costs and time to sale by performing stress testing to help us assess the reasonableness of the assumptions. **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 impairment of loans to be acceptable (2018: result acceptable).

	Key audit matter	Our response
Valuation of non-basic financial instruments *Risk vs 2018:* ◄► *(Asset valuation £332,000, 2018: £353,000)* *Refer to page 18 (Corporate governance report – RACE section), page 42 (accounting policy) and page 49 (financial disclosures).*	**Subjective estimate:** The Society holds a number of investments that are classified as '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. Due to the judgement involved in the directors determining the investments' values in the absence of a reliable market price, there is estimation uncertainty with regard to the investments measured at fair value.	Our procedures included: **Methodology choice:** In the context of observed industry best practice, we have challenged the appropriateness of the valuation basis selected. **Our valuations experience:** We have challenged management on key judgements affecting the investee company valuations, such as the relevance of recent market activity, where it can be observed. We have compared key underlying financial data inputs to external sources. In certain case we have engaged our valuations specialists to provide an alternative valuation. **Comparing valuations:** Where a recent transaction has been used to value a holding, we have obtained an understanding of the circumstances surrounding the transaction and its comparability to the Society's investments. We have therefore assessed the suitability of it as an input into a valuation. **Assessing transparency:** We have 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 (2018: acceptable).

We continue to perform procedures over effective interest rate accounting. However, following an evaluation of the significance of the estimate relating to the behavioural lives in comparison to materiality, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year.

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 £109,000 (2018: £61,500), determined with reference to a benchmark of net assets (2018: profit before tax from continuing operations) of which it represents 0.9% (2018: 5%).

We have changed the selected benchmark for calculating materiality to net assets from profit before tax. This reflects the fact that the Society does not seek to maximise profits as its primary objective, and that net assets more closely reflects regulatory capital which is a key area of focus for the regulator.

We agreed to report to RACE any corrected or uncorrected identified misstatements exceeding £5,400 (2018: £3,000), 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 financial statements ("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 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 concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

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 financial statements. Our opinion on the financial statements 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 financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements 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 financial statements; 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 financial statements are not in agreement with the accounting records and returns; 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 the financial statements including being satisfied that they 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 financial statements 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 financial statements.

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 financial statements from our general commercial and sector experience through discussion with the directors and other management (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence and discussed with the directors and other management 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 annual accounts varies considerably.

Firstly, the Society is subject to laws and regulations that directly affect the annual accounts 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 other management 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.

Alain de Braekeleer (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

28 February 2020

Statement of comprehensive income

for the year ended 31 December 2019

	Notes	**2019 £000**	2018 £000
Interest receivable and similar income	2	**6,452**	5,756
Interest payable and similar charges	3	**(1,986)**	(1,856)
Net interest income		**4,466**	3,900
Income from investments		**50**	65
Fees and commissions receivable		**8**	8
Fees and commissions payable		**(108)**	(47)
Other operating income		**32**	27
Net gain from other financial instruments at fair value through profit and loss	14	**3**	3
Total net income		**4,451**	3,956
Administrative expenses	4	**(3,058)**	(2,620)
Depreciation and amortisation	13,15	**(119)**	(118)
Operating profit before impairment losses and provisions		**1,274**	1,218
Movement in Provisions for Impairment on loans and advances	12	**82**	11
Impairment losses on Investments	14	**(45)**	–
Provisions for liabilities	22	**–**	4
Profit before tax		**1,311**	1,233
Tax expense	7	**(238)**	(211)
Profit for the financial year		**1,073**	1,022
Other comprehensive income		**–**	–
Total comprehensive income for the year		**1,073**	1,022

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 2019

Assets	Notes	2019 £000	2018 £000
Liquid assets			
Cash in hand and with the Bank of England	8	**39,531**	32,981
Treasury bills and similar securities	10	**5,495**	4,997
Loans and advances to credit institutions	9	**4,509**	7,334
Debt securities	10	**–**	2,510
Loans and advances to customers	11	**145,014**	126,525
Tangible fixed assets	13	**1,305**	1,214
Investments	14	**1,785**	1,878
Intangible assets	15	**15**	46
Other debtors	16	**384**	366
Total assets		**198,038**	177,851
Liabilities			
Shares	17	**175,321**	156,629
Amounts owed to credit institutions	18	**503**	–
Amounts owed to other customers	19	**9,931**	9,327
Subordinated liabilities	23	**–**	750
Other liabilities	20	**409**	358
Accruals		**151**	137
Deferred tax liability	21	**31**	28
Other provisions	22	**2**	5
Total liabilities		**186,348**	167,234
Reserves			
General reserves		**11,690**	10,617
Total reserves attributable to members of the Society		**11,690**	10,617
Total reserves and liabilities		**198,038**	177,851

These accounts were approved by the Board of Directors on 28 February 2020 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 2019 £000	**Total 2019 £000**	General reserve 2018 £000	Total 2018 £000
Balance at 1 January	**10,617**	**10,617**	9,595	9,595
Total comprehensive income for the period				
Profit for the year	**1,073**	**1,073**	1,022	1,022
Other comprehensive income	**–**	**–**	–	–
Total comprehensive income for the period	**1,073**	**1,073**	1,022	1,022
Balance at 31 December	**11,690**	**11,690**	10,617	10,617

Cash flow statement

Cash flows from operating activities	Notes	2019 £000	2018 £000
Profit before tax		**1,311**	1,233
Adjustments for			
Depreciation and amortisation	13,15	**119**	118
Movement in investment fair value	14	**42**	(3)
(Profit)/Loss on disposal of tangible fixed assets value		**(4)**	–
Interest on subscribed capital	3	**12**	21
Provision for liabilities		**4**	(4)
Loans and advances written off in the year	12	**1**	–
Reduction in impairment of loans and advances	12	**(82)**	(11)
Total		**1,403**	1,354
Changes in operating assets and liabilities			
Increase in prepayments, accrued income and other assets		**(22)**	(95)
Increase in accruals, deferred income and other liabilities		**13**	–
Increase in loans and advances to customers		**(18,408)**	(12,102)
Decrease in loans and advances to credit institutions		**1,006**	1,501
Increase/(decrease) in shares		**18,692**	(974)
Increase/(decrease) in amounts owed to other customers		**1,107**	(844)
(Decrease)/increase in amounts owed – Subordinated liabilities		**(750)**	1
Increase/(decrease) in other creditors		**27**	(6)
FSCS interest cost paid		**(3)**	(7)
Other provision paid		**–**	(2)
Taxation paid		**(210)**	(208)
Net cash generated by operating activities		**(2,855)**	(11,382)
Cash flows from investing activities			
Purchase of debt securities	10	**–**	(3,528)
Disposal of debt securities	10	**2,510**	4,538
Purchase of treasury bills	10	**(10,998)**	(8,999)
Disposal of treasury bills	10	**10,500**	8,000
Purchase of investments	14	**–**	(118)
Repayment of investments	14	**51**	303
Purchase of tangible fixed assets	13	**(199)**	(71)
Purchase of intangible assets	15	**–**	(14)
Disposal on tangible fixed assets	13	**24**	–
Net cash generated by investing activities		**1,888**	111
Cash flows from financing activities			
Interest paid on subscribed capital	3	**(12)**	(21)
Net (decrease)/increase in cash and cash equivalents		**4,731**	(11,292)
Cash and cash equivalents at 01 January		**38,809**	50,101
Cash and cash equivalents at 31 December	8	**43,540**	38,809

(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 (sections 11 and 12) 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 fair 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 2019 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

The determination of impairment provisions for mortgages is inherently uncertain requiring significant judgement and estimation. In undertaking this assessment, the Society makes judgments on whether there is evidence that could indicate the probability of default, timing of recoveries and the amount of loss incurred on a particular loan portfolio. The Society is fortunate to have low arrears and possession experience, and, due to the size and nature of the book, is able to utilise its specific knowledge of individual cases and arrears management when assessing the assumptions to use. For example:

- the expected loss on loans and advances, as a result of the potential movement in house prices
- the probability of default
- the likely discount on the sale of properties in possession and
- the length of time to disposal.

Whilst the Society acknowledges that it could purchase statistics to provide data on which to model its provisioning it considers that due to the uniqueness of its loan book it is more appropriate to use its own losses and arrears experience. The Directors believe that the time to sale period and forced sale discount used in previous years addresses the risk of an impact on the economy as a result of Brexit and the size of the provisions will be affected if these assumptions are changed; if the forced sale discount on the residential book were to increase by 6% the provision would increase by £143k.

Effective interest rate applied to loans and advances to customers (EIR)
Amounts related to the effective interest (EIR) included within the income statement is £49k (2018: £45k) with an EIR asset included in the Statement of financial position of £156k (2018: £143k). The most significant component of the application of the EIR method in the measurement of mortgages and the recognition of mortgage fees is the determination of the expected life of the Society's mortgages, which forms the basis over of the period over which fee income is spread. Estimates of expected life are based on the Society's mortgage redemption experience over the previous five-year period and are reviewed on a quarterly basis to ensure they remain appropriate. Any changes to the average life will create an adjustment to the loan balance in the Statement of financial position with a corresponding adjustment to interest receivable in the income statement. A 1-year increase in the average life profile would result in a decrease in the value of the loans and advances to customers in the Statement of financial position of approximately £235k.

Investments – Basic
In accordance with accounting policy 1.5, at each reporting date the Society assesses whether there is evidence that financial assets not carried at fair value through profit or loss are impaired. The determination of an impairment provision requires judgement and estimation. In undertaking this assessment, the Society makes judgments on whether an impairment indicator exists, and the extent of any impairment recognised based on available performance data and its knowledge of the individual investments.

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 2019 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

	2019	2018
	£000	£000
On loans fully secured on residential property	5,594	4,930
On other loans	533	487
On debt securities	20	46
On treasury bills at fixed rate interest	51	27
On other liquid assets	252	263
Profit on sale of liquid assets	–	1
Other interest receivable	2	2
	6,452	5,756

There was no interest income accrued on impaired loans two or more months in arrears (2018: £0)

3. Interest payable and similar charges

	2019	2018
	£000	£000
On shares held by individuals	1,878	1,733
On deposits and other borrowings	96	102
On subordinated liabilities	12	21
	1,986	1,856

4. Administrative expenses

	2019	2018
	£000	£000
Wages and salaries	1,323	1,137
Social security costs	144	126
Other pension costs	133	106
	1,600	1,369
Other administrative expenses	1,458	1,251
	3,058	2,620

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

	2019	2018
	£000	£000
Audit of these annual accounts	85	55
	85	55

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:

	2019	2018
Full time	**31**	26
Part time	**5**	5
	36	31

6. Directors' remuneration

Full details are given in the Directors' Remuneration Report. Total remuneration amounted to **£343,000** (2018: £301,000). In addition, payment of £4,897 (2018: £12,918) 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

	2019	2018
	£000	£000
Current tax		
Current tax on income for the period	**235**	212
Adjustments in respect of prior periods	**–**	–
Total current tax	**235**	212
Deferred tax see note 21		
Origination and reversal of timing differences	**3**	(1)
Adjustment in respect of previous periods	**–**	–
Change in tax rate	**–**	–
Total deferred tax	**3**	(1)
Tax expenses (income) relating to changes in accounting policies	**–**	–
	238	211

Analysis of current tax recognised in profit and loss

	2019	2018
	£000	£000
Profit for the year	**1,073**	1,022
Total tax expense	**238**	211
Profit excluding taxation	**1,311**	1,233
Tax using the UK corporation tax rate of 19.00% (2018: 19%)	**249**	234
Community investment relief	**(25)**	(25)
Reduction in tax rate on deferred tax balances	**–**	–
Non-deductible expenses	**14**	2
Under / (over) provided in prior years	**–**	–
Total tax expense included in profit or loss	**238**	211

The effective tax rate for the twelve month period ended 31 December 2019 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

	2019	2018
	£000	£000
Cash in hand and balances with the Bank of England	**39,531**	32,981
Loans and advances to credit institutions (see note 9)	**4,009**	5,828
Cash and cash equivalents per cash flow statements	**43,540**	38,809

9. Loans and advances to credit institutions

	2019	2018
	£000	£000
Accrued interest	**1**	19
Repayable on demand	**3,008**	2,815
In not more than three months	**1,000**	3,000
In not more than one year	**500**	1,500
Total loans and advances to credit institutions	**4,509**	7,334
Total included within cash and cash equivalents	**4,009**	5,828

10. Debt securities

	2019 £000	2018 £000
Treasury bills	**5,495**	4,997
Certificates of deposit	**–**	2,510
	5,495	7,507
Debt securities have remaining maturity as follows:		
In not more than one year	**5,495**	7,507
	5,495	7,507
Transferable debt securities comprise:		
Unlisted	**5,495**	7,507
	5,495	7,507

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

	2019 £000	2018 £000
At 1 January	**7,484**	7,503
Additions[1]	**10,996**	12,519
Disposals and maturities	**(13,000)**	(12,538)
At 31 December	**5,480**	7,484

[1]All treasury bills were purchased at a discount.

11. Loans and advances to customers

	2019 £000	2018 £000
Loans fully secured on residential property	**134,069**	117,998
Loans fully secured on land	**10,945**	8,527
Other loans	**–**	–
	145,014	126,525
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	**2,126**	1,467
In more than three months but not more than one year	**6,008**	3,887
In more than one year but not more than five years	**25,488**	24,892
In more than five years	**111,923**	96,892
	145,545	127,138
Less: allowance for impairment (note 12)	**(531)**	(613)
	145,014	126,525

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 2019	Loans fully secured on residential property £000	Other loans £000	Total £000
Individual impairment	42	433	475
Collective impairment	135	3	138
	177	436	613
Amounts written off during the year, net of recoveries			
Individual impairment	–	1	1
Collective impairment	–	–	–
	–	1	1
Income statement			
Impairment losses on loans and advances			
Individual impairment	(12)	(109)	(121)
Collective impairment	41	4	45
Adjustments to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	–	(6)	(6)
Charge/(credit) for the year	29	(111)	(82)
At 31 December 2019			
Individual impairment	**30**	**318**	**348**
Collective impairment	**176**	**7**	**183**
	206	**325**	**531**

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)
	2	(13)	(11)
Charge/(credit) for the year			
At 31 December 2018			
Individual impairment	**42**	**433**	**475**
Collective impairment	**135**	**3**	**138**
	177	**436**	**613**

13. Tangible fixed assets

Cost	Land and buildings £000	Plant and machinery £000	Fixtures, fittings & computer equipment £000	Motor vehicles £000	Total £000
Balance at 1 January 2019	1,405	171	441	53	2,070
Additions	68	–	76	55	199
Disposals	(7)	–	(85)	(53)	(145)
Balance at 31 December 2019	1,466	171	432	55	2,124
Depreciation					
Balance at beginning of the year	343	155	311	47	856
Depreciation charge for the year	24	4	50	10	88
Disposals	(2)	–	(74)	(49)	(125)
Balance at 31 December 2019	365	159	287	8	819
Net book value At 1 January 2019	1,062	16	130	6	1,214
At 31 December 2019	**1,101**	**12**	**145**	**47**	**1,305**

Freehold land and buildings, which are included in the balance sheet at cost less depreciation, amounted to £1.101m at 31 December 2019 (2018: £1.062m). 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	**2019 opening carrying value £000**	Additions £000	Repayment of capital £000	Impairment £000	2019 closing carrying value £000
Ecossol PV	164	–	(14)	–	150
Oakapple Berwickshire	204	–	(13)	–	191
Monnow Valley CHP	300	–	–	(45)	255
Atlantis Ocean Energy	250	–	–	–	250
Co-operative and Community Finance	500	–	–	–	500
MVT	107	–	–	–	107
Total	**1,525**	**–**	**(27)**	**(45)**	**1,453**

Investments - Non-basic	**2019 opening carrying value £000**	Additions £000	Repayment of capital £000	Movement in Fair Value £000	2019 closing carrying value £000
Upper Pitforthie Windgen*	231	–	(14)	–	217
Ethical Properties	9	–	–	–	9
The Midcounties Co-operative	10	–	(10)	–	–
MVT	5	–	–	–	5
SFRE	98	–	–	3	101
Total	**353**	**–**	**(24)**	**3**	**332**

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. As at 31 December 2019 one 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. In addition the Society holds 8,000 ordinary shares with Ethical Properties.

Monnow Valley – In accordance with accounting policy 1.5, at each reporting date the Society assesses whether there is evidence that financial assets not carried at fair value through profit or loss are impaired. The Society has assessed the available performance data and as a result of the operational difficulties currently being encountered by the organisation in respect of delays in accreditation and payments from agencies the Society has recognised an impairment provision of £45k.

* It is our policy to hold non-basic investments at fair value but in the case of Upper Pitforthie Windgen 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 2019	248	248
Additions	–	–
Balance at 31 December 2019	248	248
Amortisation		
Balance at 01 January 2019	202	202
Amortisation for the year	31	31
Balance at 31 December 2019	233	233
Net book value At 01 January 2019	46	46
At 31 December 2019	**15**	**15**

16. Other debtors

	2019 £000	2018 £000
Prepayments	**363**	351
Accrued income	**21**	15
	384	366

Debtors include prepayments and accrued income of £3,897 (2018: £6,999) for the Society that are due after more than one year.

17. Shares

	2019 £000	2018 £000
Held by individuals	**175,321**	156,629
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Accrued interest	**541**	507
On demand	**142,109**	138,242
In not more than three months	**32,671**	17,880
	175,321	156,629

18. Amounts owed to credit institutions

	2019 £000	2018 £000
Accrued interest	**3**	–
With agreed maturity dates or periods of notice		
In not more than three months	**500**	–
	503	–

19. Amounts owed to other customers

	2019 £000	2018 £000
	9,931	9,327
Repayable on demand	**9,931**	9,327

20. Other liabilities

	2019 £000	2018 £000
Corporation tax	**235**	211
Other creditors	**174**	147
	409	358

21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2019 £000	2018 £000	Liabilities 2019 £000	2018 £000	Net 2019 £000	2018 £000
Accelerated capital allowances	**–**	–	**50**	50	**50**	50
FRS 102 transitional adjustments	**(11)**	(13)	**–**	–	**(11)**	(13)
Other timing differences	**(8)**	(9)	**–**	–	**(8)**	(9)
Tax (assets) / liabilities	**(19)**	(22)	**–**	50	**31**	28

Reductions in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) were substantively enacted on 6 September respectively. This will reduce the Society's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2019 have been calculated on these rates.

During the year beginning 1 January 2020, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by approximately £3,000. This is due to the reversal of a deferred tax asset recognised in relation to the FRS 102 transitional adjustments. The corporation tax impact of the EIR transitional adjustments is spread over ten years and so deferred tax has been recognised accordingly.

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

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

22. Provisions

	Other provisions £000	FSCS levy £000	Total £000
Balance at 01 January 2019	2	3	5
Paid in year	–	(3)	(3)
Charge for the year	–	–	–
Balance at 31 December 2019	**2**	**–**	**2**

23. Subordinated liabilities

		2019 £000	2018 £000
Floating rate subordinated liabilities due 2019		**750**	750
		750	750
Less unamortised premiums and issue costs		**–**	–
Repayment of subordinated liabilities		**750**	–
		–	750

The subordinated liability is denominated in sterling. Interest payments made on the floating rate loan were 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. The Note was repaid in June 2019 in accordance with the Terms and Conditions.

24. Financial instruments

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

The Society does not run a trading book.

Categories of financial assets and liabilities

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

Carrying values by category 31 December 2019	Held at amortised cost £000	Held at fair value £000	Total £000
Financial assets			
Cash in hand and balances with the Bank of England	39,531	–	39,531
Treasury Bills and similar securities	5,495	–	5,495
Loans and advances to credit institutions	4,509	–	4,509
Debt Securities	–	–	–
Loans and advances to customers	145,014	–	145,014
Fixed asset investments	1,453	332	1,785
Total financial assets	**196,002**	**332**	**196,334**
Non-financial assets	1,704	–	1,704
Total assets	**197,706**	**332**	**198,038**
Financial liabilities			
Shares	175,321	–	175,321
Amounts owed to credit institutions	503	–	503
Amounts owed to other customers	9,931	–	9,931
Subordinated liabilities	–	–	–
Other liabilities	409	–	409
Total financial liabilities	**186,164**	**–**	**186,164**
Non-financial liabilities and Reserves	11,874	–	11,874
Total liabilities	**198,038**	**–**	**198,038**

24.Financial instruments (continued)

Carrying values by category 31 December 2018	Held at amortised cost £000	Held at Fair value	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**

At 31 December 2019, the Society has off balance sheet exposure – mortgage commitments of £31.6m (2018: £24.5m) 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 comprises one financial fixed asset investment for which traded prices are readily available.

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

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

24.Financial instruments (continued)

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

31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Fair value through profit and loss	9	101	222	332
	9	**101**	**222**	**332**
31 December 2018				
Financial assets				
Fair value through profit and loss	9	98	246	353
	9	98	246	353

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 lending activity 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.

24.Financial instruments (continued)

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

	2019 £000	2018 £000
Cash with Bank of England	**39,531**	32,981
Loans and advances to credit institutions	**4,509**	7,334
Debt securities	**–**	2,510
Treasury Bills	**5,495**	4,997
Loans and advances to customers	**145,545**	127,138
Total statement of financial position exposure	**195,080**	174,960
Off balance sheet exposure – mortgage commitments	**31,568**	24,528
	226,648	199,488

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

24. Financial instruments (continued)

Credit quality analysis of loans and advances to customers

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

	2019 Loans fully secured on residential property £000	**Loans fully secured on land £000**	**Other loans £000**	2018 Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000
Neither past due nor impaired	**133,294**	**9,167**	**–**	117,189	6,961	10
Past due but not impaired						
1 – 2 months	**450**	**236**	**–**	681	–	–
2 – 3 months	**129**	**7**	**–**	–	22	–
Greater than 3 months	**–**	**–**	**–**	–	–	–
	579	**243**	**–**	681	22	–
Individually impaired						
Not past due	**79**	**1,535**	**–**	128	1,544	–
1 – 2 months	**–**	**–**	**–**	–	–	–
2 – 3 months	**117**	**–**	**–**	–	–	–
Greater than 3 months	**–**	**–**	**–**	–	–	–
	196	**1,535**	**–**	128	1,544	–
Allowance for impairment						
Individual	**30**	**318**	**–**	42	433	–
Collective	**176**	**7**	**–**	135	3	–
Total allowance for impairment	**206**	**325**	**–**	177	436	–

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

24.Financial instruments (continued)

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	**2019 £000**	2018 £000
Less than or equal to 50%	**52,363**	47,838
Greater than 50% but less than or equal to 70%	**44,589**	39,338
Greater than 70% but less than or equal to 90%	**48,041**	39,276
Greater than 90% but less than or equal to 100%	**709**	823
Greater than 100%	**–**	–
	145,702	127,275

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:

	2019 £000	2018 £000
Payment holiday	**1,479**	1,976
Interest only	**810**	1,473
Underpayment	**162**	375
Arrears overpayment	**–**	134
Arrears underpayment	**–**	–
	2,451	3,958

There were a total of 15 accounts in forbearance at 31 December 2019 (2018 :15).

24.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 2019	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	142,650	32,787	–	–	–	175,437
Amounts owed to other customers	9,931	–	–	–	–	9,931
Subordinated liabilities	–	–	–	–	–	–
Total financial liabilities	**152,581**	**32,787**	**–**	**–**	**–**	**185,368**

24.Financial instruments (continued)

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

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
2019		
At 31 December		
Average for the period	**109**	**113**
Maximum for the period	**141**	**147**
Minimum for the period	**80**	**85**
2018		
At 31 December		
Average for the period	158	167
Maximum for the period	205	219
Minimum for the period	135	137

24. Financial instruments (continued)

Capital

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

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

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

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

The Society's capital requirements are set and monitored by the Prudential Regulation Authority (PRA). During 2019 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	**2019 £000**	2018 £000
Tier 1 Capital			
General reserve		**11,690**	10,617
Less intangibles		**(13)**	(39)
Total Tier 1 Capital		**11,677**	10,578
Tier 2 Capital			
Subordinated liabilities	23	**–**	750
Collective provision	12	**183**	138
Total Tier 2 Capital		**183**	213
Total Regulatory Capital		**11,860**	10,791

25. 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 2019	**Amounts in respect of key management personnel and their close family members 2019 £000**	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
Loans and advances to customers	**2**	**356**	2	366
Deposits and share accounts	**12**	**295**	12	219

Directors' loans and transactions

At 31 December 2019 there were two outstanding mortgage loans (2018: 2), made in the ordinary course of the Society's business to Directors and connected persons, amounting to £355,817 (2018: £366,246).

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 31 December the loan outstanding to Mutual Vision Technology (MVT), the provider of the Society's IT services, is £107,178. Interest on the loan amounted to £1,876 (2018: £1,800). In addition fees of £3,229 (2018: £3,135) were paid to the Society in relation to the services of P.C. Ellis as a director.

26. Subsequent events

As at 1st January 2020 the Society has entered into a new Shareholder agreement regarding its equity stake in IT services provider Mutual Vision Technology (MVT) which has resulted in the £107K loan outstanding to MVT at 31 December 2019 (see Note 24) being converted to Equity shares. The Society now holds 14,657 A ordinary shares at £112k (previously 10,328 ordinary shares at £5k).

27. 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.

UK Activity for the year ended 31 December 2019:

- The Society's principal activities are mortgage lender and provider of savings accounts
- The Society's turnover (defined as net interest receivable) was £4.466m (2018: £3.900m). Profit before tax £1.311m (2018: £1.233m) all of which arose from UK-based activity
- Number of employees was 36 (2018: 31)
- Corporation tax of £0.211m (2018: £0.208m) 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 2019

1 Statutory percentages

	Statutory limit %	**At 31 December 2019 %**	At 31 December 2018 %
Lending limit	25.00	**9.10**	8.65
Funding limit	50.00	**3.27**	3.21

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

	2019 %	2018 %
Gross capital as a percentage of shares and borrowings	**6.29**	6.44
Free capital as a percentage of shares and borrowings	**5.68**	5.77
Liquid assets as a percentage of shares and borrowings	**26.67**	28.82
Profit after taxation as a percentage of mean total assets	**0.57**	0.57
Management expenses as a percentage of mean total assets	**1.69**	1.54

Gross capital represents the total reserves and is shown as General Reserves in the Statement of financial position.

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 2019 and 2018 total assets.

3 **Information relating to Directors at 31 December 2019**

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
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.

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