Ecology
Building Society

Annual Report & Accounts

31 December 2020







Building a greener society

Contents

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Cover images, rows from top to bottom, left to right: A new home at Bunker Housing Co-op, Brighton, built with Ecology funding; Ecology-backed 'House at Wildcat Corner' – an energy efficient self-build in Scotland; gardener, Pippa, planting the living walls of Ecology's new meeting room; Ecology-backed 'House at Wildcat Corner'; Bunker Housing Co-op founder, Martyn Holmes; affordable homes at Broadhempston CLT, Devon, refinanced by Ecology; affordable homes being constructed by Mull and Iona Community Trust; residents outside their Ecology-backed Passivhaus-standard home in Closeburn, Dumfries and Galloway (credit: Tom Manley); Angle House, award winning (best SIP) low-energy self-build home financed by Ecology (credit: Agnese Sanvito).

Chair's statement

Tackling the climate and ecological emergency remains the defining challenge of the decade and it has never been more relevant and important for Ecology to provide a progressive force for positive environmental change. Your Society is well placed to be at the heart of efforts to deliver a truly sustainable and inclusive green recovery, determining the kind of planet we live on for generations to come.

While we are not immune from the effects of the pandemic and found ourselves navigating the uncharted waters of the lockdown and a closed housing market for part of the year, I am pleased to report that we maintained our support for sustainable building projects. This has resulted in a strong and resilient financial performance underpinned by a solid set of environmental lending throughout the year.

I was especially proud of the agile and rapid transition to home working for the majority of the Ecology team as well as their continued commitment to maintaining services to members.

A highlight of our calendar, our AGM is an opportunity for members to meet the Ecology team and hear how we're building a sustainable future. However, due to the social distancing requirements, the 2020 event was a very different, scaled-down meeting. I would like to thank all our members who took the opportunity to vote and submit questions to the Board.

The ongoing Covid-19 uncertainty and restrictions means that it will not be possible for members to attend the 2021 AGM in person. We anticipate members will be able to view a live stream and submit questions during the meeting.

During 2021 we will also be celebrating our 40-year anniversary. Throughout

our 40 years we have remained true to our ecological mission, demonstrating how finance can benefit people and planet, and I am immensely proud of our achievements leading the way on providing finance for energy efficient building projects and community housing solutions.

As we look forward to the future, the successful issue of the Core Capital Deferred Shares (CCDS) marks the beginning of an exciting and transformational era in the Society's history. The additional capital will enable us to invest in innovation, accelerating our lending and amplifying our voice so that we can play an even more significant role in the climate and ecological challenge that impacts us all.

I am thrilled that we were shortlisted for a prestigious Ashden Award for our commitment to sustainable buildings and that our support for energy efficient self-build and renovation was also recognised by Build-It magazine.

Later this year the delayed UK-hosted COP26 is due to set out the key steps required to deliver on the Paris Agreement and ensure the world's nations can meet the net-zero ambition required. Our members expect us to be a leading agitator, pressurising policy makers and other lenders to tackle the climate and ecological emergency, especially as we approach COP26.

Retrofitting 28 million homes in the UK is critical to achieve the target of net zero by 2050. We joined the call for a National Retrofit Strategy and participated in the work of the Green Finance Institute to develop innovative financial solutions. During the year we also joined the Bankers for NetZero Initiative which has been set up to find positive solutions for advancing progress to net zero, supporting our international efforts working with the Global Alliance for Banking on Values and the UNEP Finance Institute.

I'm proud that we are the first building society in the UK to report the carbon emissions arising from our lending. We continue to champion the sustainable built environment and welcomed the UK Government placing greener buildings at the heart of the economic recovery, as well as contributing to discussions on key initiatives requiring lenders to disclose details of the energy performance of their mortgage books. The outcome of these discussions is important in the run-up to COP26.

Whilst this year has brought unprecedented challenges to us all, this remains an exciting time for the Society as we accelerate our role in the sustainable recovery. The Board will continue to scrutinise and provide critical challenge to the Executive whilst upholding Ecology's ecological mission and focusing on members' needs.

On a personal note, it is with great sadness that we lost our CEO's wife, Hazel, after a long illness. Many of our members will have met Hazel over the past 36 years as she has attended many of our events and been an inspirational supporter of both Ecology and Paul; she will be missed by us all.

Finally, I would like to sincerely thank the Board and the Ecology team for their continued commitment and hard work throughout these uncertain times.

Steve Round
Chair
5 March 2021

Chief Executive's review

Throughout our 40-year history we have seen a growing awareness of the existential ecological crisis. Today, we are more determined than ever to achieve positive impact through our environment-conscious lending programme and to agitate for change in the financial system to serve the needs of people and planet.

This has undoubtedly been an extraordinary year, with deep and lasting impacts on society. The pandemic has caused a devastating global public health crisis, with wide-reaching social, cultural, economic, and political consequences. Our thoughts are with the many people who have been personally affected by the Covid-19 pandemic, particularly those members who have lost loved ones. We've all had to make substantial changes to our daily lives, and our focus has been on supporting our colleagues whilst continuing to serve our members. Like many lenders, we provided an opportunity for borrowers to defer mortgage payments and we saw many members take up this facility. I sincerely thank the Ecology team for quickly adapting to new approaches of working from home and within the office.

The far-reaching shocks experienced in 2020 highlight the importance of preparedness and cooperation in response to global threats. And, as we bore witness to record wildfires and polar ice loss, we were also reminded of how crucial green space and nature are to our wellbeing, reinforcing the need for urgent action to safeguard the future health of our planet.

As we emerge from the disruption of the pandemic, central banks and governments must fully target their emergency finance measures to support the transition to a green and fair economy and society.

The critical importance of the collective role of the financial sector to avert climate breakdown and ecological collapse was emphasised by former Bank of England Governor, Mark Carney, at the launch of the new private finance strategy for COP26 where he, along with David Attenborough, called on us all to 'ensure that every financial decision takes climate change into account', and to set targets and plans to reach net-zero emissions. Targets are essential, but it is critical that these translate into urgent large-scale action. The next decade must see global emissions cut in half if we are to stay within the realms of 'safe' global temperatures.

As the UK looks forward to hosting COP26 in Glasgow later this year, clear and consistent climate leadership is vital. The UK Government's Ten Point Plan in November, set out high-level ambitions for a green recovery, creating green jobs and supporting new technologies, which will help our energy supply, transport and heavy industries to decarbonise. The Government's plans to support greener homes need to go much further if our housing stock is to be on track to meet net-zero targets. As a priority, we need a national retrofit programme to bring all existing properties up to modern standards, simultaneously creating green jobs.

Ecology was the first building society to sign the United Nations Environment Programme Finance Initiative (UNEP FI) 'Principles for Responsible Banking'. By signing the Principles, we hold ourselves to account whilst also creating pressure for others to sign and align their banking activities with the Sustainable Development Goals and the Paris Agreement. Our first report under the UNEP FI framework illustrates the progress we are making.

We believe all financial institutions have a responsibility to report and reduce the 'financed emissions' arising from their lending. This year we have reported the carbon emissions arising from the residential properties in our mortgage book. We have used the new Partnership for Carbon Accounting Financials (PCAF) Reporting Standard and joined the PCAF UK group, where we are collaborating with partner banks to improve the accuracy of carbon accounting methods and will report on this at COP26.

In 2021 we mark the Society's 40-year anniversary, which provides a moment to reflect on what has been achieved during that time. There have been so many successes over the years: we broke the traditional rules of mortgage pricing with our C-Change discounts, which incentivise borrowers to improve the environmental performance of their home; our eco-build office in Silsden, West Yorkshire, was recognised as one of the 10 most sustainable 'bank' headquarters in Europe; as founding members of the Passivhaus Trust we helped drive the uptake of the Passivhaus low-energy standard in the UK; we were told by a leading commentator that our lending was instrumental in kick-starting the demand for green building projects in the UK; we were recognised for our climate leadership in the Finance for the Future awards; and Kevin McCloud even indicated that he wouldn't have had a television programme without Ecology!

Financial overview

The Society has demonstrated its resilience during these challenging times, achieving an increase in mortgage assets in 2020 of 9.43% to £158.69m against the backdrop of a wider economic slowdown and the effective closure of the property market during the first lockdown.

In response to the pandemic, the Bank of England's base rate fell to an unprecedented low level of 0.10%. The Society was faced with difficult interest rate decisions to ensure that the inflows of savers' deposits were maintained at levels which continue to support the demand for our lending whilst managing liquidity at a sustainable level.

Despite this, the inflow of funds has remained strong as rates continued to reduce across the market, and new members, who are attracted to our values, have joined. We ended the year with an increase in savings balances of 13.55% to £210.3m. The low interest rate environment is anticipated to continue for some time to come, which will be unwelcome news for our savers, and we need to remain cognisant of balancing the needs of savers whilst pursuing our mission through lending activity and ensuring our financial stability.

In September, the Society secured a £3m investment through the issue of Core Capital Deferred Shares (CCDS). This marked the beginning of a new era in our history, underpinning our growth prospects and strengthening our commitment to ethical saving and ecological lending whilst we continue to invest in innovation.

The strong inflow of funds alongside the CCDS investment contributed to liquidity levels ending the year at 30.82% of share and deposit liabilities. For comparison, excluding CCDS, liquidity would be 29.45% (2019: 26.67%).

Increased levels of savers' funds led to a 14.13% growth in assets to £226.0m, taking us over £200m for the first time.

I am also pleased to report that, whilst impacted by the low interest rate environment and higher impairment provisions, profits were above expectation at £0.524m, reflecting our focus on resilience and underpinned by a solid set of environmental lending. The profit further adds to our capital base, supporting the growth of our loan book.

Lending highlights

During the year we supported 230 sustainable properties and projects with £39.3m of new lending. Among these, we have supported five new community-led housing projects in London, South Wales, Lancashire, Leeds and Devon, creating energy efficient and affordable homes for local families.

Our colleagues

We are pleased to report that we have not furloughed any of our colleagues as a result of Covid-19, nor made any redundancies or pay cuts.

We are very fortunate to have a strong body of colleagues who are committed to the Society's social and environmental goals, and to providing a friendly, responsive service to our members. During the year we appointed Sarah Kemp to our Executive Team in the newly created role of Head of Risk and Compliance. This new role reflects the Society's continued investment in our capabilities to ensure we are well placed to respond to the changing needs of our members and the regulatory environment. Alison Vipond joined us as our Sustainability Lead, helping us to measure and manage our environmental and social impacts. Alison's appointment will ensure we set and deliver ambitious targets, in line with our mission.

Despite lockdowns, our Social and Charity Committee continued their fundraising efforts, enabling donations of £1,000 each to Mind Bradford and The Canal and River Trust.

Future developments

Macroeconomic uncertainty will undoubtedly continue for some time to come. However, the Society remains financially strong, resilient, and well placed to accelerate our programme of investment, strengthening our digital and operational capabilities.

This investment is expected to contribute to lower profits in 2021. However, it will help create the platform for a solid future for the Society, enabling us to meet the needs of our current and future members while doing more to achieve our ecological mission.

We are committed to delivering enhanced services to our members, with online savings applications a key priority for 2021.

Throughout our 40-year history, we have always supported innovation in sustainable building methods and materials. Construction is going through a period of rapid evolution, embracing digital technologies and off-site manufacture termed Modern Methods of Construction. In 2021 we will expand our range of mortgages to cover properties constructed using Modern Methods, which can reduce waste, construction time and emissions. We start the year with a record pipeline of sustainable lending prospects, supported by strong inflow of funds and membership growth generated by the increasing awareness of climate and ecological issues. We can look forward to 2021 with confidence.

I would like to thank all members for your support throughout the year. It is through your membership that we can create change, either through saving with us so your personal capital can create positive impact or borrowing from us to fund an ecological and social project. We are always grateful for your feedback as we act on your behalf, and value your continuing support to build a greener society.

Paul Ellis
Chief Executive
5 March 2021

Strategic report

Our purpose

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 2020 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

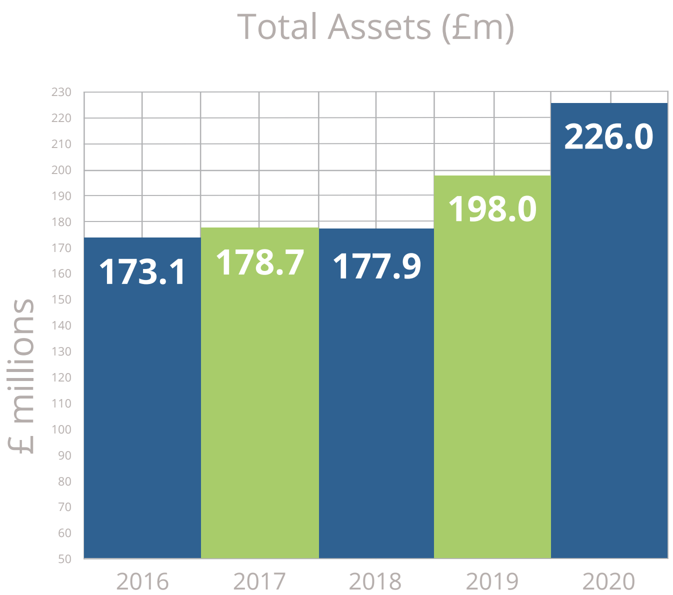
	2020	2019	2018
Total assets	**£226.0m**	£198.0m	£177.9m
Mortgage asset growth	**9.43%**	14.61%	10.59%
Mortgage lending	**£39.3m**	£43.5m	£38.4m
Savings balances	**£210.3m**	£185.3m	£166.0m
Liquid assets as a % of shares and borrowings	**30.82%**	26.67%	28.82%
Management expenses as a % of mean total assets	**1.57%**	1.69%	1.54%
Net profit	**£0.524m**	£1.073m	£1.022m
Profit after taxation as a % of mean total assets	**0.25%**	0.57%	0.57%
Core Tier 1 capital	**£14.997m**	£11.677m	£10.578m
AGM – voting turnout	**16.15%**	19.78%	15.62%

As outlined above the Society has achieved a resilient performance despite the ongoing backdrop of uncertainty during the year due to the Covid-19 pandemic, Brexit negotiations and potential contraction of UK growth.

Asset growth

During 2020 the Society's total assets increased by £28.0m to £226.0m (2019: £198.0m), 14.13% (2019: 11.35%), primarily driven by the strong increase in savings balances alongside the £3m CCDS issuance that are required to support future lending.

The Society views asset 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.

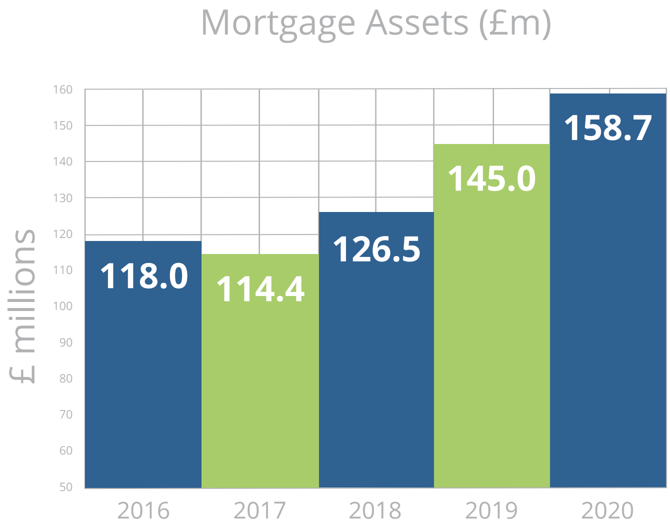


Mortgages

Against the backdrop of a wider economic slowdown and the effective closure of the property market during the first lockdown the Society has continued to build the pipeline of new mortgages generating solid growth in gross lending of £39.3m (2019: £43.5m). Redemption activity has remained stable with overall growth in mortgage assets which represents gross lending less redemptions, repayments, and effective interest rate adjustments of 9.43% (2019: 14.61%).

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. The Society launched an updated renovation and retrofit product in November 2020.

The proportion of loans benefiting from one of our C-Change mortgages, which reward work undertaken on the property to help combat climate change, has increased steadily to 40% (2019: 39%). A reduction to the interest rate is applied following confirmation of the energy rating achieved.



The Society continues to ensure that mortgage growth is delivered in a controlled and measured way. Our personalised approach to underwriting enables each case to be individually assessed to ensure we maintain a high-quality loan book.

Overall arrears levels remain low despite the difficulties some members have experienced since the onset of the pandemic. As at 31 December 2020, there were no cases in possession, or 12 months or more in arrears (2019: nil).

As a direct result of the pandemic the number of payment deferral requests through the Government's temporary payment holiday scheme increased significantly during the year. However, the substantial majority have subsequently returned to full contractual repayments.

As at 31 December 2020, there were 33 cases (2019: 15) under forbearance with total balances of £5.988m (2019: £2.451m) and arrears totalling £7.6k (2019: £0).

The Society continues to exercise forbearance measures to assist borrowers who are experiencing financial difficulty, 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. It is expected that the borrowers will resume normal payments once they are able to.

The Society's Risk, Audit, Compliance and Ethics Committee assesses the impact of forbearance and monitors whether there is a possibility of loss, in which case an impairment provision is made in accordance with the Society's policies. A total of 5 (2019: 4) individual impairment provisions were required in those cases where the Society's model indicated a potential shortfall compared to the outstanding balance resulting in an increase in the individual provision to £361k (2019: £348k). Of these, 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.

As outlined in accounting policy 1.5 the Society also maintains a provision for collective impairment, which assesses loan cases for potential loss. In determining the level of impairment provision, the Society has considered the statistical modelling of historical trends alongside a deterioration in economic conditions during the current financial period in relation to the ongoing impact of the pandemic. The total collective provision has increased to £268k (2019: £183k).

Savings and liquidity

Savings balances consist of shares, and amounts owed to other customers. The Society aims to attract a level of savings balances that supports demand for mortgage lending, prudent levels of liquidity and provides a fair return to members relative to its peers. In February 2020, the Society closed the 90-Day Notice account to all but existing members. Total savings balances held at the end of the year are £210.3m (2019: £185.3m) an increase of 13.55%.

In September 2020, the Society secured £3m of investment through the issuance of Core Capital Deferred Shares to accelerate our future growth prospects.

The strong inflow of funds alongside the CCDS investment contributed to liquidity ending the year at 30.82% of share and deposit liabilities. On a like-for-like comparison (excluding CCDS) liquidity was 29.45% (2019: 26.67%).

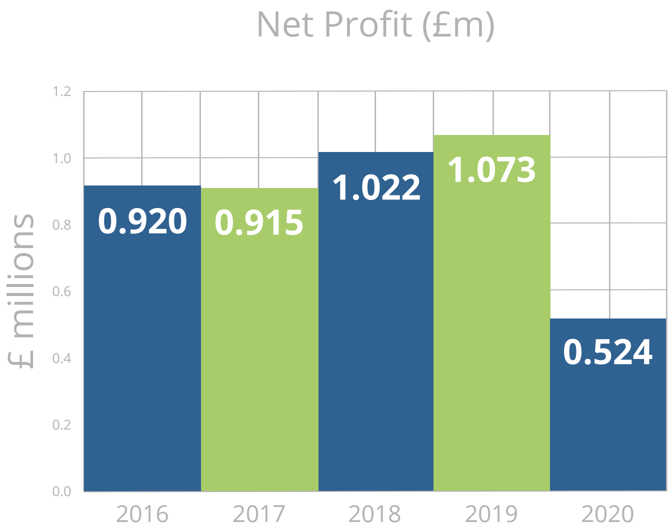
We aim to manage the amount of funding that is not lent out to ensure that the majority of savers' funds are creating value in the real economy. We see our role as providing a savings service for those who wish to invest in pursuit of social and environmental goals, preferring where possible to source 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 increase in the Society's cost base was lower than expected at 4.40% to £3.32m (2019: £3.18m) due to the timing of recruitment activity and the deferral of some expenditure because of the pandemic. This resulted in a favourable impact on the Costs to Mean Assets Ratio which reduced to 1.57% from 1.69% in 2019.

The Society plans to accelerate its investment in digital strategy, operational capacity, and capability in 2021 which will enable us to deliver on our objectives from a solid operational base.

Wherever possible, we use the most sustainable and ethical option when purchasing goods and services, in some cases resulting in us paying more than the less sustainable option.



Profit and capital

The Society seeks to make sufficient profits in order to invest and grow this business for the benefit of its current and future members.

Net profit for the year amounting to £0.524m (2019: £1.073m) was added to general reserves. In accordance with accounting policy 1.5 the Society has assessed whether there is objective evidence that investments not carried at fair value through profit or loss are impaired and has recognised an impairment provision of £180k (2019: £45k).

Considering the cumulative 0.65% fall in the Bank of England base rate to 0.10%, which reduced net interest income during the year, and the overall unprecedented social and economic environment that beset the UK during the year, the Board is satisfied with the level of profitability.

During 2020 the Society increased its capital resources by £3m with the issuance of Core Capital Deferred Shares (CCDS). This is a perpetual capital instrument with a discretionary distribution. Each CCDS investor holds a single vote, preserving the Society's mutual status.

The issuance of CCDS during the year further enhanced the Society's capital strength which now totals £15.11m (2019: £11.69m).

As at 31 December 2020, the ratio of gross capital as a percentage of total share and deposit liabilities was 7.18% (2019: 6.29%) and free capital was 6.65% (2019: 5.68%). The increase in the ratio is primarily driven by the CCDS issuance.

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

Through the ICAAP, the Board is satisfied that the Society holds sufficient capital to meet the CRD's Pillar 1 minimum capital requirements and to cover those risks that the Board has identified under Pillar 2. The Board approves the ICAAP on an annual basis, and it is reviewed by the Society's regulator in setting the Total Capital Requirement (TCR).

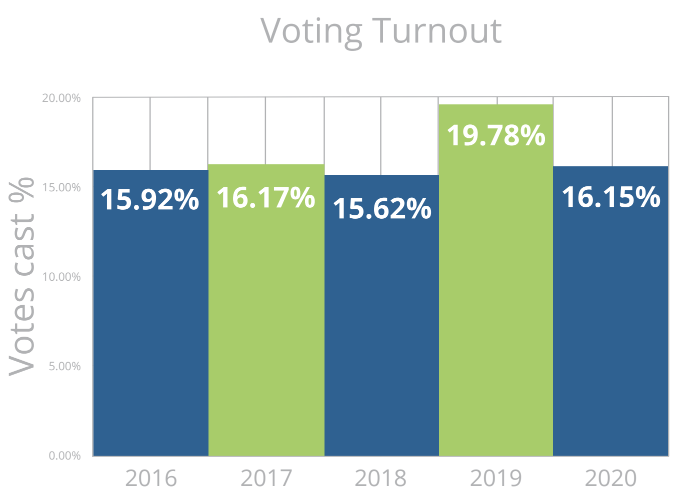
Further details of the Society's approach to risk management, including the Pillar 2A percentage and value, required by the Capital Requirements Directive can be found in the Pillar 3 disclosures available on the Society's website: **ecology.co.uk**.

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 CRD. As at 31 December 2020 the risk-weighted Core Tier 1 ratio was 18.09% (2019: 15.54%).

The leverage ratio expresses Tier 1 capital as a percentage of total assets plus mortgage impairments and a proportion of mortgage pipeline commitments. The leverage ratio increased by 0.68% to 6.23% (2019: 5.55%) as a result of the increase in capital resources during the year. Capital amounts and ratios remained comfortably above regulatory requirements throughout the year.

Member relations

Voting turnout at our 2020 AGM was 16.15%, with our AGM being a scaled-back affair due to the restrictions of the Covid-19 pandemic. Despite the challenges of the pandemic restrictions, voting turnout was significantly higher than the sector average of 7.2%.



Residents of Nith Valley Leaf Trust's affordable Passivhaus homes in Closeburn built with Ecology's support (credit: Tom Manley)

Our positive impact

Ecology's activities are guided by its mission to build a greener society, through enabling the transformative power of finance to benefit society and the environment. The need for positive impact has never been greater. Here, we provide a snapshot of our progress in 2020.

The journey to net zero

Net zero is achieved when there is a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere, either by technological or natural solutions. Many countries and organisations have committed to achieve net zero, most with a target date of 2050. However, the coming decade will be a critical time for action.

Given all financial institutions have a responsibility to reduce the emissions arising from their activities, including their loans and investments, we are a signatory of the GABV Climate Change Commitment and of the UNEP Finance Initiative Collective Commitment to Climate Action, supporting the transition to a net-zero economy by 2050.

Our operational emissions

Since 2012, we have reported the carbon footprint from our business operations

> ***"In accordance with the Paris Agreement, we commit to align our portfolios to reflect and finance the low-carbon, climate-resilient economy required to limit global warming to well below 2 degrees Celsius, striving for 1.5"***

and supply chains, and have offset all our operational emissions since our creation in 1981. Our energy-efficient office has electric vehicle charging points, solar thermal and photovoltaic panels, a sedum roof, rainwater harvesting and a mechanical ventilation with heat recovery system. In 2020, emissions decreased to 275 tonnes, partly due to the reduction in colleague commuting. The 2020 footprint includes 4.9 tonnes of carbon emissions arising from electricity and heating use by colleagues working from home.

Emissions arising from our lending

Ecology is the first building society to report our carbon accounts – the carbon emissions arising from our lending.

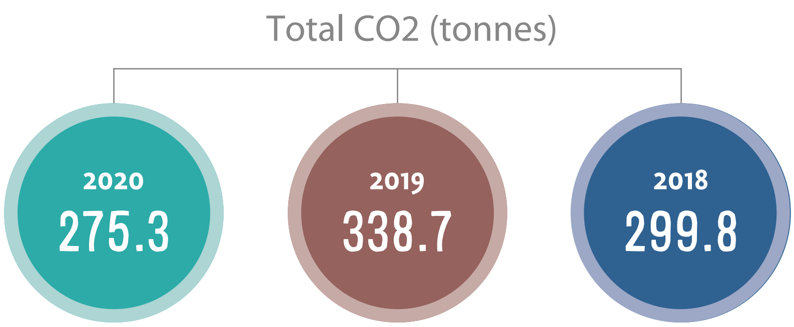
We have calculated the emissions from Ecology mortgaged properties arising from their heating and electricity use. In general, Ecology mortgages enable homes to achieve a much higher energy efficiency, and lower carbon emissions, than the UK average. However, if we are to play our part in achieving the goals of the Paris Agreement, we know that emissions must be further reduced in the coming decade. Guided by science-based methods, emission reductions will be achieved through combinations of high levels of energy efficiency through insulation, low-carbon heating, domestic renewables and potential natural solutions to absorb emissions.

We have used the new Global Greenhouse Gas Accounting and Reporting Standard launched in November 2020 by the Partnership for Carbon Accounting Financials (PCAF). Ecology became one of the first members of the PCAF UK group when it formed in October 2020.

PCAF
Partnership for Carbon Accounting Financials

Energy Performance Certificates (EPCs) are currently the best available information on property emissions, calculated using a property's fabric and heating system. At the end of 2020, 48% of Ecology mortgages secured on property had an EPC. Some properties do not have an EPC, either because their purchase pre-dates the requirement for one, or an EPC assessment has not yet been carried out since works were completed, or the property is still under construction. We have used known EPC data to estimate emissions for the properties where works are complete but their EPC is not yet available.

Carbon emissions arising from the Society's business operations and staff commuting



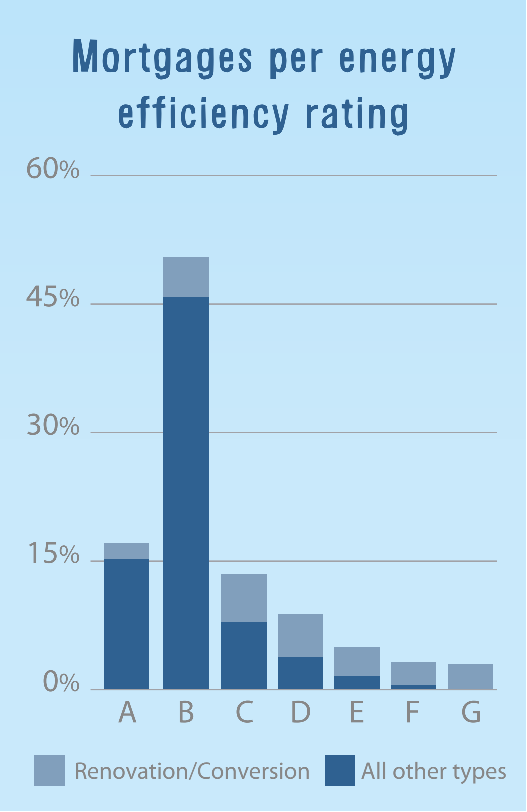
Annual emissions from mortgage portfolio

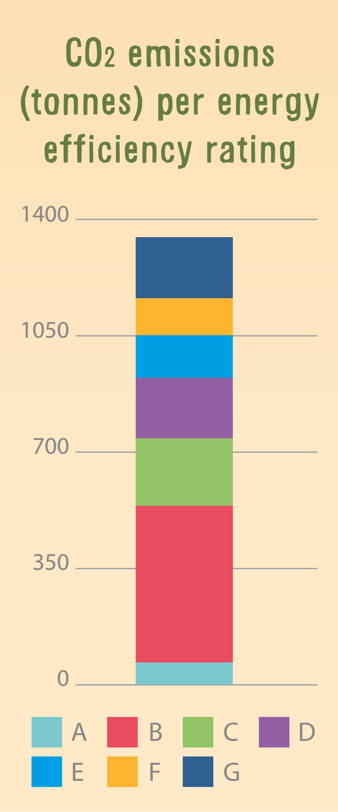
The annual emissions from the completed properties in our mortgage portfolio at the end of 2020 were 1785 tonnes. In line with recommendations of PCAF, we have calculated the emission intensity, the emissions from the mortgage properties per £ of lending. The average emission intensity of our mortgage portfolio is 0.015 kg CO_2 per £ of lending. We will continue to develop our carbon accounts, improving data quality and methods.

Our EPC data for 2020 show 67% of Ecology properties achieve an energy efficiency rating of A or B, well above the average rating of EPC D from the English Housing Survey 2019-20. Our EPC data show 10% of Ecology properties are rated E, F or G. These ratings reflect the fact that Ecology mortgages enable renovation of properties which start off in a deteriorated or derelict condition. When renovation works are completed, these properties will achieve a higher energy efficiency rating.

We are collaborating with PCAF UK to test and develop these carbon accounting methods in the run up to COP26. Our carbon accounts provide the basis for setting science-based targets to meet the goals of the Paris Agreement.

Properties with an EPC (48% of Ecology mortgages) Emission data quality score 3, based on PCAF Standard		
	Outstanding balance £000	**Attributed CO2 tonnes**
Self-build	43,481	384.5
Renovation and conversion	21,760	583.7
Other new build	13,850	238.1
Community housing	1,708	56.3
Commercial	1,059	88.6
Sub-total	*81,858*	*1,351.2*
Properties where works are completed but no EPC yet available (24% of Ecology mortgages) Emission data quality score 5, based on PCAF Standard		
Sub-total, all types	*33,910*	*433.9*
Total	**115,768**	**1,785**





The graphs show information on the EPC rating and carbon emissions for properties with an EPC available.

Principles for Responsible Banking

FINANCE
UNEP INITIATIVE

In September 2019, Ecology became the first building society to sign the first global sustainability framework for the banking industry: the United Nations Environment Programme Finance Initiative (UNEP FI) 'Principles for Responsible Banking'. Signatories commit to align their business strategy and practice with the Sustainable Development Goals and the goals of the Paris Climate Agreement. In line with UNEP's reporting requirements, we are publishing our first progress report, showing how we are implementing the principles.

Innovation in sustainable housing

The UK needs to retrofit a million homes a year with energy efficiency measures to reach the UK Government's goal of net-zero emissions by 2050. As well as providing sustainable lending for renovation projects, we continue to participate in policy initiatives to deliver mechanisms to deliver mass retrofit at scale, including joining calls for a national retrofit programme and participating in innovative financial solutions to inform national decarbonisation of housing in Wales. We are partnering on a collaborative innovation project to transform local supply chains for zero-carbon, affordable homes, using modern methods of construction (MMC). This involves standardised components which are fabricated offsite from sustainable materials and then transported and assembled on site. This approach will transform the way new homes are built, reducing costs, emissions and construction time.

Leading the field

The Society has achieved widespread recognition for its work in 2020. We were awarded 'Best Self-Build Lender' in the 2020 Build It Awards. The award recognises Ecology's role as a leading supporter of self- and custom-build in the UK for nearly 40 years. We also won 'Mortgage Provider of the Year' for the second year running at the Yorkshire Financial Awards, as well as being shortlisted for the 2020 Ashden Awards, which recognise the organisations playing their part in the global effort to tackle the climate crisis. We also came 'highly commended' at the latest What Mortgage Awards for our shared ownership mortgage. These 2020 awards, together with endorsements including the renewal of our Ethical Consumer Best Buy accreditation for our savings and mortgages, stand as a testament to Ecology's ongoing commitment to building a financial system that benefits people and planet.

Changing finance

We have added our voice to the call for financial institutions to set net-zero targets for no later than 2050 through our support of the Bankers for NetZero initiative.

Ecology also continues to participate in the work of the Green Finance Institute's Coalition for the Energy Efficiency of Buildings (CEEB), which is exploring new mechanisms to support the financing of energy efficient homes including the development of the Green Home Retrofit Finance Principles, which are designed to provide a recognisable standard for green retrofit projects. Ecology was one of the first lenders to sign up to the Principles.

Recognising that the transition to a low-carbon economy needs to be approached in a way that benefits everyone, Ecology participated in the advisory group for the London School of Economics' Grantham Institute's report on 'Banking on a Just Transition'. The report sets out a route map for banking providers to deliver a sustainable, fair and inclusive future and, since then, the Society has become a founder member of the Financing a Just Transition Alliance, which is implementing the findings of the report.

Paying responsibly

We make sure that we reward our colleagues fairly. Ecology is an accredited Living Wage employer. This means all Ecology staff members, including contractors who work on our premises, are paid a fair wage. We stipulate that no basic salary will exceed eight times the lowest full grade salary, with our actual ratio for 2020 standing at 6.58:1.

In 2016 we announced that Ecology had become the first UK building society to be awarded the Fair Tax Mark showing we take a responsible approach to paying our taxes. Our re-accreditation each year, demonstrates our genuine commitment to doing the right thing when it comes to taxes.

Sponsorship and charitable giving

We were pleased to sponsor the 10th anniversary event of the Passivhaus Trust, of which Ecology was a founding member.

Despite the social distancing restrictions, a number of colleagues continued to volunteer their own time to a range of community organisations including local foodbanks, a local health and wellbeing charity, various sports groups and a local community trust.

In addition we made £550 of donations to our charity partner, Trees for Cities, as a result of members' AGM voting.

Enabling people-powered housing

In 2020, Ecology supported five new community-led housing projects across the UK: in London, South Wales, Lancashire, Leeds, and Devon. Amongst these is Bradley Big Local CLT, a community land trust in Nelson which provided four affordable, EPC B rated new-build homes for local families this year. We also began supporting Chapeltown Cohousing (ChaCo), a Leeds-based housing co-operative and cohousing project, on the development of 29 affordable dwellings in one of the most deprived neighbourhoods in England. Broadhempston CLT in Devon refinanced to us on their project of six self-built eco-homes for local families. Ecology was also pleased to support Quaggy Mutual Home Ownership Society in London with its vision to create a shared, mutually owned home for its members, and Golem Housing Co-operative in South Wales, on the purchase and retrofit of its second property for affordable housing.

Climate and ecological emergency plan

In 2019 Ecology made a climate emergency declaration. Our climate and ecological emergency plan includes the actions we are taking to accelerate efforts to ensure that the planet does not exceed 1.5 degrees Celsius of heating and preserves and restores natural habitat. The actions are summarised here:

Our current and future members

- Ensure our savings and lending activities are fully focused on addressing the climate and ecological emergency.
- Deliver members' events, engaging experts and practitioners to share new knowledge.
- Support members to participate in our campaigning activities.
- Provide vegetarian or vegan catering at our members' events.

Our lending

- Ensure our mortgages continue to incentivise greater energy efficiency.
- Increase support for innovative sustainable construction techniques and low-impact materials.
- Connect borrowers with resources to increase knowledge of innovation in sustainable building and low-carbon heating.
- Invest in zero-carbon, renewable energy generation projects.
- Support adaptation to the physical impacts of climate change.
- Measure and report the 'financed emissions' from our loans and investments so they can be fully aligned with the Paris Climate Agreement.

Our activism

- Campaign for rapid, meaningful action to avert a climate and ecological catastrophe.
- Use our voice and influence to share and rapidly scale up impactful solutions.
- Continue to advocate for rapid and far-reaching positive change in the financial sector.

Our colleagues

- Coordinate, Green Team, activities for colleagues to engage and be inspired to reduce carbon emissions and protect nature.
- Promote sustainable modes of transport, including cycling and electric vehicles.
- Provide free electric vehicle charging at our office for colleagues and visitors.
- Support home working.

Our local community

- Participate in community tree-planting activities and other nature conservation activities.
- Support educational and cultural initiatives that build understanding and action to address the emergency.

Our premises

- Maintain the high environmental performance standards of our offices.
- Evaluate potential zero-carbon heating systems for our premises.
- Continue to offset all carbon emissions from business operations and travel.
- Expand our carbon offsetting schemes to include peatland restoration.
- Maintain our gardens and green roof using organic, permaculture principles.

Our supply chains

- Use suppliers (local where possible) with good environmental performance.
- Work proactively with our suppliers to reduce the carbon and ecological footprint of the supplies and services we use.

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 2020.

Business objectives

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

Principal risks and uncertainties

The risks faced by the Society are similar to those involved in running any financial services business: competition, the cost of regulatory compliance and statutory requirements, business retention, pressure on margin and risks from changes in the wider economy. The principal risks to which the Society is exposed, along with how they are controlled and the associated policies, are set out below. In addition, the Society is exposed to other material risks arising from matters of material significance that are either temporary in nature or not yet sufficiently developed to incorporate into the principal risks.

Other material risks

Covid-19 pandemic

The Covid-19 pandemic has had a significant impact on the economy with falling levels of GDP as governments around the world impose travel restrictions, quarantines and business closures.

Unemployment is likely to increase further in 2021 as Government schemes end, and the loss of income for those who are self-employed or employed in the sectors most affected by the restrictions may affect borrowers' capacity to make mortgage payments.

Other consequences such as the impact of suppliers and the potential loss of key staff have been considered. The lockdowns have also resulted in a greater use of technology and an increase in the associated cyber risks; however, there has been less travel which has led to reduced emissions and overall environmental benefits.

Brexit

As a UK organisation the Society has no direct exposure to the EU and therefore the overall impact from Brexit is minimal. However, the post-Brexit relationship with the EU has wider economic and operational implications, which are likely to affect growth and the public finances, with potential flow-through to the housing market.

The impact of both the pandemic and of Brexit has been given much consideration throughout the year and is described within the list of principal business risks below.

Through the process of business, capital, and liquidity planning, including stress testing of adverse economic and interest rate scenarios to date, the Directors are satisfied that the Society has more than sufficient capital and liquid resources and appropriate management control processes to allow it to withstand such impacts.

Principal risks

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 has placed funds with a wider range of carefully selected counterparties during the year to improve return and is therefore 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.

The risk of loss arising from mortgage and commercial lending has heightened during the year due to the Covid-19 pandemic. However, the Society manages this risk 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.

The Society's approach to liquidity risk is documented in its Internal Liquidity Adequacy Assessment Process (ILAAP).

Interest rate risk is the risk that 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. Once the scale of the Covid-19 pandemic became apparent the Bank Of England reduced the Base Rate to a historic low of 0.10%, which can impact a building society's net interest margin. The outlook for interest rates remains unclear with the risk of further reductions in rates in the event that the Gross Domestic Product growth is not as anticipated. Therefore, in preparing the Society's corporate plan the Directors have allowed for rates remaining low for an extended period and have also modelled the impact of rates going to zero or negative. The risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society as at 31 December 2020 is detailed in note 25.

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 prevailing regulatory requirements. The Society has an internal risk and compliance function to identify, monitor and implement controls for new and existing legislation. The Board monitors these risks and their potential increase through the Executive Risk Committee and the Risk, Audit, Compliance and Ethics Committee.

Reputational risk is the risk that 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.

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. It may lead to systemic changes in public policy as society moves to a low-carbon economy and the transition to net-zero emissions which may affect the ability of Ecology to deliver its services or affect the mortgage assets of the Society.

The Society's response to climate risk is to take a strategic approach because of its centrality to our concerns. Our operations and lending seek to be part of the solution, ensuring housing is built to a high ecological standard and supporting renovation to reduce energy demand.

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.

Future disclosure

The Prudential Regulatory Authority expects banks and building societies to have fully embedded their approaches to managing climate-related financial risks by the end of 2021.

In November 2020, the UK Chancellor announced the intention to make Task Force on Climate-related Financial Disclosures mandatory by 2025. The Task Force has established recommendations for disclosing clear, comparable, and consistent information on the financial impacts of climate-related risks and opportunities and how they affect an organisation's future financial position and strategy.

The Society is well placed to address the requirements and has started to prepare its disclosures and, alongside the underpinning operational and strategic activities, will continue throughout 2021.

There are two recognised categories of financial climate-related risks: physical risks and transition risk; we have taken the opportunity to expand on these below:

Physical risk represents the physical consequences of climate change on natural and human systems. Climate models predict that physical risks from climate change, notably flooding, over-heating and subsidence will increase. By how much, and where, will depend on how the world responds to the climate emergency. The physical impacts can cause damage to assets, changes in individuals' health and incomes, and business disruption, driving financial losses and impaired asset values. Affected properties may be subject to increased insurance premiums, may be inaccessible or unusable for periods of time and their value may decrease.

Transition risk is the risk associated with the process of adjustment towards a low-carbon economy, where greenhouse gas emissions are dramatically cut, and measures are taken to remove excess carbon from the atmosphere.

The Society addresses both physical and transition risk through its lending policy and works with its borrowers to further understand the risks and to be able to adapt properties to be more resilient to climate change.

During 2021 we will carry out a comprehensive assessment of our mortgage book, under a range of future climate change scenarios, to estimate how properties may be affected in the coming decades. Assessing future risks is still an area where the underpinning science is developing, and we will collaborate to improve those methods.

IT and information security risk is the risk the Society becomes victim of cybercrime or security breach of its IT and data systems. 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 defences 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.

Key person risk is the risk that the loss of a key member of staff could adversely affect the business. The Society relies on its directors and senior management for business direction and strategy. Given its small size, the loss of directors or members of the senior management team could adversely affect its ability to operate its business or compete effectively.

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 25.

Charitable donations

During the year, the Society made charitable donations amounting to £21,600 (2019: £11,114) including a donation to the Ecology Building Society Charitable Foundation. The Society matched the amount raised by colleagues, enabling donations to be made of £1,000 each to Mind Bradford and The Canal and River Trust. In 2020 the Society also made donations of £5,000 each to Manorlands Hospice and the Skipton food bank recognising the impact the pandemic had on those organisations and their roles in the community. 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 2020 was 47 days (2019: 50 days). Creditor days include an accrual of 101k 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 the 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 are required to consider whether the Society will continue as a going concern for a period of 12 months from date of approval of these financial statements. In making the assessment the Directors have reviewed the Society's corporate plan and considered risks that could impact on the Society's capital position, financial position, and liquidity over that period. The Directors have also prepared forecasts which considered the effect of operating under stressed but plausible events that would impact on the Society's business, financial position, capital, and liquidity. A range of sensitivities has also been applied to these forecasts, including stress scenarios relating to Covid-19, the outlook for interest rates and Brexit.

Furthermore, the Society is required to review annually its Internal Capital Adequacy Assessment Process (ICAAP) and its Internal Liquidity Adequacy Assessment Process (ILAAP) which include the requirement to stress test its capital and liquidity positions respectively over a range of severe but plausible scenarios. The stress tests model the impact of changes to various factors including residential house prices, borrowers' propensity to default, interest rates and circumstances that may give rise to funding outflows.

After considering all of this information, the Directors' knowledge and experience of the Society and the markets in which it operates, the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future and for a period of at least 12 months from the date of signing the financial statements.

Directors

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

Paul Ellis
Chief Executive

Amanda Chambers
Finance Director
Co-opted to the Board 28.02.20

Andrew Gold

Kerry Mashford
Co-opted to the Board 28.02.20

Tim Morgan

Chris Newman

Louise Pryor
Co-opted to the Board 28.02.20

Steve Round
Chair

Vince Smith

Alison Vipond
Resigned 28.02.2020

Pam Waring
Deputy CEO & Finance Director
Resigned 28.02.2020

Auditor

The Directors who held office at the date of approval of this Directors' report confirm that:

- So far as they are each aware, there is no relevant audit information of which the Society's auditor is unaware; and
- Each Director has taken all the steps that should be taken by a director in order to be aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

The Society's External Auditors BDO LLP, who were appointed at the 2020 AGM, have expressed their willingness to continue in office, and, in accordance with Section 77 of the Building Societies Act 1986, a resolution to this effect will be proposed at the 2021 AGM.

Directors

Vince Smith is to retire by rotation and, being eligible, will offer himself for re-election at the Society's AGM for a second term of office of three years.

Andrew Gold is also to retire by rotation and, being eligible, will offer himself for re-election at the Society's AGM for a third and final term of office of three years.

Steve Round is due to retire by rotation at the AGM after serving three terms of three years of office, six years of which have been as the Society Chair. Steve will offer himself for re-election at the Society's AGM for a final term of one year.

On behalf of the Board

Steve Round
Chair
05 March 2021

Angle House, an award-winning low-energy home in London, financed with an Ecology mortgage (credit: Agnese Sanvito)

Corporate governance report

Overview

The Board of Directors is responsible for the governance of the Society on behalf of its members and is 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 and 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 10 times during 2020.

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 2020.

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, Finance Director, Chief Risk Officer, Head of Risk & Compliance 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, an additional Non-Executive Director, the Chief Executive Officer, the Finance Director, who Chairs the Committee, and the Chief Operating Officer. At the invitation of the Chair of the Committee the Finance Manager attends meetings. The Committee met nine times during 2020.

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 Team attend the meetings. The Committee met three times during 2020.

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 a minimum 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 three occasions during 2020.

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 2020 the Committee met on three 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 three Non-Executive Directors, with the Committee being chaired by Andrew Gold, and is attended by the Chief Executive. During 2020 the Committee met on two occasions. The Directors' Remuneration Report is on pages 24-25.

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 seven 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.

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.

Within prudential constraints, the Board aims at diversity in its membership aiming particularly at gender diversity and diversity of age. At 31 December 2020, three out of nine (33%) 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. Steve Round has offered himself for re-election at the 2021 AGM for a period of one year, having served a term of nine years as a Director.

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 into 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

A 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.

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 carries 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 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*	8/10	■	2/3	1/3	■	3/3	7/9
Amanda Chambers*	8/8	■	3/3	■	■	■	9/9
Andrew Gold*	10/10	■	3/3	2/2	2/2	■	9/9
Kerry Mashford	8/8	■	3/3	2/2	■	■	■
Tim Morgan	9/10	5/5	3/3	1/1	2/2	2/2	■
Chris Newman	10/10	5/5	3/3	3/3	■	■	■
Louise Pryor	8/8	■	3/3	■	1/1	2/2	■
Steve Round	10/10	■	3/3	■	■	3/3	9/9
Alison Vipond	2/2	2/2	■	■	1/1	1/1	■
Pam Waring*	2/2	■	■	■	■	■	1/1
Vincent Smith	10/10	4/4	3/3	2/2	■	■	■

*Directors are invited attendees of RACE.

Alison Vipond and Pam Waring stood down as Directors on 28/02/2020.

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

Paul Ellis's attendance reflects a period of compassionate leave.

■ *Not a member of this committee*

Angle House, an Ecology-backed low-energy home built on a brownfield site in London (credit: Agnese Sanvito)

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, based 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 Finance Director, and the HR Manager attend meetings as required. The Chief Executive as well as the Finance Director take no part in the discussion concerning their individual remuneration. The Committee held two meetings during 2020 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**

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

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 pensions or other benefits.

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

Executive Directors

Remuneration of the Executive Directors comprises: 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.

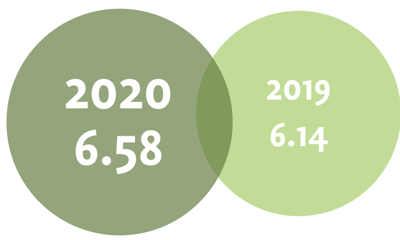
Basic salary

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

as at 31 December 2020



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 three 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.

Contractual terms

None of the Society's Non-Executive Directors have service contracts. Paul Ellis, Chief Executive, has a service contract entered into on 30 July 2018. The service contract with Amanda Chambers was entered into on 4 November 2019. All contracts are terminable by either party giving six months' notice.

Non-Executive Directors' remuneration

	2020 £000	2019 £000
Andrew Gold[1]	**27.3**	27
Kerry Mashford	**14.2**	–
Tim Morgan	**18.2**	18
Chris Newman	**15.8**	16
Louise Pryor	**14.2**	–
Steve Round	**22.5**	22
Vincent Smith	**15.4**	14
Alison Vipond	**3.5**	14
Totals	**131.1**	111

[1] *Includes additional remuneration of £12,662 (2019: £12,384) in relation to assigned senior management regime responsibilities for oversight of the risk function.*

Executive Directors' remuneration

2020	**Salary £000**	**Performance related pay £000**	**Taxable benefits £000**	**Contributions to pension scheme £000**	**Total £000**
Paul Ellis (Chief Executive)	**114**	**–**	**5**	**9**	**128**
Pam Waring (Deputy Chief Executive and Finance Director) (leave date 31.5.2020)	**43**	**–**	**–**	**3**	**46**
Amanda Chambers (Finance Director)	**98**	**–**	**–**	**7**	**105**
Totals	**255**	**–**	**5**	**19**	**279**
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**

Pam Waring resigned from the Board on 28.02.20 and was remunerated for the duration of her contractual notice period.

On behalf of the Board

Andrew Gold
Chair of the Remuneration Committee
5 March 2021

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
5 March 2021

Ecology financed eco-homes by Purehaus Ltd in Oakenshaw, Bradford

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Ecology Building Society (the 'Society') for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statements of Changes in Members' Interests, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion:

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Risk, Audit, Compliance and Ethics (RACE) Committee.

Independence
Following the recommendation of the RACE Committee, we were appointed by the Board of directors on 29 September 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 December 2020. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Assessing management's assessment of going concern including supporting financial forecasts
- Reviewing the ICAAP, ILAAP and regulatory capital and liquidity requirements
- Challenging management's assumptions and judgements made with regards to their base forecast and stress-tested forecast, including reverse stress test scenarios
- Assessing how management have factored in key external factors expected to impact the Society such as the Covid-19 pandemic, checking these had been appropriately considered as part of management's going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Key audit matters	**2020**
	Revenue recognition ("EIR") ✓ Impairment losses on loans and advances ✓
Materiality	£113,000 based on 0.75% of Tier 1 Capital

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Society's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Society's transactions and balances which were most likely to give risk to a material misstatement. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement. All audit work was undertaken by BDO LLP.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter		How we addressed the key audit matter in our audit
Revenue recognition ("EIR") *The Society's accounting policies are disclosed in Note 1.2, "Interest" and Note 1.11 "Assumptions and estimation uncertainties".*	The Society's mortgage interest income is recognised using an effective interest rate ("EIR") method. This method involves adjusting fee and interest income to ensure it complies with the EIR method. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is also required to determine the expected cash flows for Society's loans and advances within these models, in particular the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. This is performed by product type and past customer behaviour of when loans are repaid. Errors within the EIR models themselves or bias in key assumptions applied could result in the material misstatement of revenue together with the relevant disclosures required. Revenue recognition is therefore considered to be a significant risk area.	We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of the accounting framework. This included an assessment of the types of fees and costs being spread within the effective interest rate models versus the requirements of the applicable financial reporting standard. We tested the completeness and accuracy of data and key model inputs feeding into the EIR models by agreeing samples back to the source documents. This includes the data used in the historical behavioural life redemption profiles. The arithmetical accuracy and logic in the model was also tested. We reviewed the relevant interest income and effective interest rate disclosures made by management to ensure compliance with accounting standards and agreed the disclosures to supporting evidence. **Key observations:** We have not identified any indicators that the assumptions included in the EIR models are unreasonable in consideration of the Society's mortgage portfolio, historic behaviours and current economic and market conditions.

Key audit matter		How we addressed the key audit matter in our audit
Impairment losses on loans and advances *As disclosed in Note 12 and explained in Note 1.11 (Assumptions and estimation uncertainties), the Society holds £629k of impairment provisions at year-end (2019: £531K).*	The Society accounts for the impairment of loans and advances to customers using an incurred loss model. In accordance with the recognition and measurement criteria of applicable accounting standards, management has calculated two types of provisions. (i) A specific provision is calculated for loans where there is an observable loss event. (ii) A collective provision is recognised for loans which are impaired as at the year end date and, whilst not specifically identified as such, are known from experience to be present in any portfolio of loans. Estimating an appropriate loan loss provision requires significant management judgement in determining the value and timing of future cash flows. In particular, the assumptions related to the cash flows expected to be received from the sale of property, following repossession have the most significant impact on the calculation of the provision and this has therefore been identified as a key audit matter together with the relevant disclosures required.	We tested the operating effectiveness of the system control that identifies loans in arrears which are then flagged for investigation. We assessed the specific and collective provision methodology against the requirements of applicable accounting standards. Our testing on specific provisions included checking on a sample basis the collateral valuation on the loans to the external valuations obtained by management. We tested the forced sale discounts and cost to sell applied to the collateral valuations in order to determine current valuations based on past actual discounts where collateral was sold as well as to other industry information available. We also tested the population of loans to gain comfort that all loans that meet the criteria for a specific provision have been included for specific provisioning. For the collective provision we tested the appropriateness of the key assumptions within this model such as discount period, forced sale discounts and cost to sell and agreed inputs to external data sources where applicable. We tested the completeness and accuracy of key model inputs by agreeing them back on a sample basis to underlying source data. As part of our challenge on the key assumptions we also performed a benchmark comparison to other comparable building societies. We reconciled the loan balances in the models to test whether the relevant loan populations were being considered for impairment. We tested the appropriateness of management's capture of the impacts of COVID – 19 through assessing the rationale for changes to the assumptions applied. We obtained support for this where available or considered and challenged the basis of management's estimate. We reviewed the impairment disclosures made by management to check compliance with the requirements of applicable accounting standards and agreed the disclosures to supporting evidence. **Key observations:** We have not identified any indicators that the provision for loans and advances to customers is unreasonably estimated in consideration of the key assumptions and judgements made or that the related disclosures are not appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	2020
Materiality	£113,000
Basis for determining materiality	0.75% of Tier 1 Capital
Rationale for the benchmark applied	We determined that Tier 1 capital was the most appropriate benchmark considering the different stakeholders. Additionally, regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.
Performance materiality	£73,450 based on 65% of materiality
Basis for determining performance materiality	On the basis of our risk assessment together with our assessment of the Society's overall control environment, our judgment was that overall performance materiality for the Society should be 65% of materiality. A lower level of performance materiality is applied in particular considering this our first year auditing the Society.

Reporting threshold

We agreed with the RACE Committee that we would report all individual audit differences in excess of £5,000 to the RACE Committee and any other differences that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other Building Societies Act 1986 reporting

Based on the responsibilities described opposite and our work performed during the course of the audit, we are required by the Building Societies Act 1986 and ISAs (UK) to report on certain opinions and matters as described opposite.

Annual business statement and Directors' report	In our opinion, based on the work undertaken in the course of the audit: – The annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986; – The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with 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. In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion: – adequate accounting records have not been kept; or – the financial statements are not in agreement with the accounting records; or – we have not received all the information and explanations we require for our audit.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 29 for the financial year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates and considered the risk of acts by the Society which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pension legislation, tax legislation.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements.

Our tests included, but were not limited to:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- enquiring of management, internal audit and the RACE Committee;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority;

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments;

- we also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. As part of this discussion, we identified potential for fraud in accounting estimates such as the EIR and the loan loss provision.

- assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at:
www.frc.org.uk/auditorsresponsibilities
This description forms part of our auditor's report.

Use of our report

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.

Daniel Taylor (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
5 March 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of comprehensive income

for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Interest receivable and similar income	2	**6,376**	6,452
Interest payable and similar charges	3	**(2,053)**	(1,986)
Net interest		**4,323**	4,466
Income from investments		**56**	50
Fees and commissions receivable		**4**	8
Fees and commissions payable		**(139)**	(108)
Other operating income		**11**	32
Net (loss)/gain from other financial instruments at fair value through profit and loss	14	**(6)**	3
Total net income		**4,249**	4,451
Administrative expenses	4	**(3,229)**	(3,058)
Depreciation and amortisation	13,15	**(91)**	(119)
Operating profit before impairment losses and provisions		**929**	1,274
Movement in provisions for impairment on loans and advances	12	**(98)**	82
Impairment losses on investments	14	**(180)**	(45)
Provisions for liabilities	23	**(3)**	–
Profit before tax		**648**	1,311
Tax expense	7	**(124)**	(238)
Profit for the financial year		**524**	1,073
Other comprehensive income		**–**	–
Total comprehensive income for the year		**524**	1,073

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 2020

Assets	Notes	2020 £000	2019 £000
Liquid assets			
Cash in hand and with the Bank of England	8	**45,280**	39,531
Treasury bills and similar securities	10	**5,500**	5,495
Loans and advances to credit institutions	9	**12,548**	4,509
Debt securities	10	**1,502**	–
Loans and advances to customers	11	**158,689**	145,014
Tangible fixed assets	13	**1,248**	1,305
Investments	14	**922**	1,785
Intangible assets	15	**134**	15
Other debtors	16	**206**	384
Total assets		**226,029**	198,038
Liabilities			
Shares	17	**200,335**	175,321
Amounts owed to credit institutions	18	**–**	503
Amounts owed to other customers	19	**10,013**	9,931
Subordinated liabilities	24	**–**	–
Corporation tax payable	20	**110**	235
Other liabilities	21	**261**	174
Accruals		**146**	151
Deferred tax liability	22	**54**	31
Other provisions	23	**5**	2
Total liabilities		**210,924**	186,348
Reserves			
General reserves		**12,214**	11,690
Core Capital Deferred Shares	27	**2,891**	–
Total reserves attributable to members of the Society		**15,105**	11,690
Total reserves and liabilities		**226,029**	198,038

These accounts were approved by the Board of Directors on 5 March 2021 and were signed on its behalf by:

Steve Round
Chair

Paul Ellis
Chief Executive

Amanda Chambers
Finance Director

Statement of changes in members' interests

	General reserve 2020 £000	**Core Capital Deferred Shares 2020 £000**	**Total 2020 £000**	General reserve 2019 £000	Total 2019 £000
Balance at 1 January	**11,690**	**–**	**11,690**	10,617	10,617
Total comprehensive income for the period					
Profit for the year	**524**	**–**	**524**	1,073	1,073
Other comprehensive income	**–**	**–**	**–**	–	–
Total comprehensive income for the period	**524**	**–**	**524**	1,073	1,073
Core Capital Deferred Shares	**–**	**2,891**	**2,891**	–	–
Balance at 31 December	**12,214**	**2,891**	**15,105**	11,690	11,690

Cash flow statement

Cash flows from operating activities	Notes	2020 £000	2019 £000
Profit before tax		**648**	1,311
Adjustments for			
Depreciation and amortisation	13,15	**91**	119
Movement in investment fair value and impairment	14	**186**	42
Loss/(profit) on disposal of tangible assets value		**1**	(4)
Interest on subscribed capital	3	**–**	12
Provision for liabilities		**3**	4
Loans and advances written off in the year	12	**–**	1
Increase/(decrease) in impairment of loans and advances	12	**98**	(82)
Total		**1,027**	1,403
Changes in operating assets and liabilities			
Decrease/(increase) in prepayments, accrued income and other assets		**178**	(21)
Decrease in accrued interest treasury bills and debt securities		**13**	7
Increase in accruals, deferred income and other liabilities		**(5)**	13
Increase in loans and advances to customers		**(13,773)**	(18,408)
(Increase)/decrease in loans and advances to credit institutions		**(4,008)**	1,006
Increase in shares		**25,014**	18,692
(Decrease)/increase in amounts owed to other customers		**(421)**	1,107
Increase in other creditors		**87**	27
FSCS interest cost paid		**–**	(3)
Taxation refund prior years		**1**	–
Taxation paid		**(227)**	(210)
Net cash generated by operating activities		**7,886**	3,613
Cash flow from investing activities			
Purchase of debt securities	10	**(1,500)**	–
Disposal of debt securities	10	**–**	2,500
Purchase of treasury bills	10	**(11,987)**	(10,960)
Disposal of treasury bills	10	**11,967**	10,464
Purchase of investments	14	**(357)**	–
Repayment of investments	14	**1,034**	51
Purchase of tangible fixed assets	13	**(34)**	(199)
Purchase of intangible fixed assets	15	**(120)**	–
Disposal of tangible fixed assets	13	**–**	24
Net cash (utilised in)/generated by investing activities		**(997)**	1,880
Cash flows from financing activities			
Interest paid on subscribed capital	3	**–**	(12)
Decrease in amounts owed – Subordinated liabilities	24	**–**	(750)
Issue of Core Capital Deferred Share	27	**3,000**	–
Cost of Core Capital Deferred Share	27	**(109)**	–
Net cash generated/(utilised) by financing activities		**2,891**	(762)
Net increase in cash and cash equivalents		**9,780**	4,731
Cash and cash equivalents at 01 January		**43,540**	38,809
Cash and cash equivalents at 31 December	8	**53,320**	43,540

The Society has re-aligned its cash flow statement to ensure compliance with FRS 102.

The reconciliation of Net Debt is contained within Note 28.

1. Accounting policies

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

1.1. Basis of Preparation

Ecology Building Society (the "Society") has prepared these annual accounts:

- 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 March 2018. The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

- 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.

Going Concern

The financial statements have been prepared on the going concern basis as outlined in the Director's Report on pages 14 to 18. 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 Directors have prepared forecasts to consider the effect on the Society's business, financial position, capital, and liquidity of operating under stressed, but plausible, operating conditions for a period in excess of 12 months from the date of approval of these financial statements. A range of sensitivities has also been applied to these forecasts, including stress scenarios relating to Covid-19. The Covid-19 assessment focused on the Society's capital and liquidity position and operational resilience. The Directors assessed the likelihood of those scenarios occurring within the next 12 months were remote.

The resultant forecasts and projections showed that the Society will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. The Directors' Report on pages 14 to 18 contains details of the assessment undertaken by the Directors, including consideration of Covid-19. Accordingly, the accounts continue to be prepared on a going concern basis.

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.

Upon initial recognition, the classification of a financial instrument takes into account the contractual terms of the instrument including those relating to future variations. Re-assessment is only required subsequently when there has been a modification of relevant contractual terms.

Classification
The Society classifies its financial assets and liabilities under FRS102 into one of the following categories:

- Equity

The Society classifies all investments in non-derivative financial instruments that are the equity of the issuer (e.g. ordinary shares) as basic equity instruments.

Basic equity instruments are measured at fair value, with fair value changes recognised immediately in profit or loss.

- Debt

Basic
Basic debt instruments are financial assets where the contractual return is a fixed amount and/or a positive variable rate. This includes all loans and advances and certain investments (as detailed in Note 14).

Basic debt 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 classifies Investments as non-basic debt instruments where the contractual return is based upon the underlying performance of the entity and therefore not determined by a positive variable rate.

Non-Basic debt instruments are measured at fair value, with fair value changes recognised immediately in profit or loss.

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.

If a reliable measure of fair value is no longer available, the Society measures the asset at amortised cost less impairment until a reliable measure becomes available.

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 the consideration received (including any new asset obtained less any new liability assumed). 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 2020 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 deferral

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. Equity Instruments

Issued financial instruments are classified as equity instruments where the contractual arrangement with the holder does not result in the Society having a present obligation to deliver cash or to transfer any other value. Accordingly, the Society's Core Capital Deferred Shares are treated as equity instruments.

The proceeds of issuing equity instruments are recognised within equity, net of directly attributable costs and tax.

Distributions to holders of equity instruments are recognised directly in equity when they are paid as a deduction from the General Reserve.

1.11. Assumptions and estimation uncertainties

Certain asset and liability amounts reported in the accounts are based on management, 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 the Covid-19 pandemic and Brexit.

Effective interest rate (EIR) applied to loans and advances to customers
The amount related to the effective interest rate (EIR) included within the income statement is £88k (2019: £49k) with an EIR asset included in the Statement of financial position of £128k (2019: £156k). 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 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.

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, judgements and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2020 are set out in the following notes:

- Note 14 – determination of the fair value of financial instruments with significant unobservable inputs.
- Note 22 – 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

	2020	2019
	£000	£000
On loans fully secured on residential property	5,727	5,594
On other loans	508	533
On debt securities	2	20
On treasury bills at fixed rate interest	33	51
On other liquid assets	106	252
Other interest receivable	–	2
	6,376	6,452

The Society has refined its effective interest rate modelling in relation to the spread of application and broker commission fees to reflect the average life of the product type, which has resulted in an increase in income of £49k in the year, of which £38k relates to prior periods.

3. Interest payable and similar charges

	2020	2019
	£000	£000
On shares held by individuals	1,964	1,878
On deposits and other borrowings	89	96
On subordinated liabilities	–	12
	2,053	1,986

4. Administrative expenses

	2020	2019
	£000	£000
Wages and salaries	1,459	1,323
Social security costs	170	144
Other pension costs	153	133
	1,782	1,600
Other administrative expenses	1,447	1,458
	3,229	3,058

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

	2020	2019
	£000	£000
Audit of these annual accounts	84	85
	84	85

5. Employee numbers

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

	2020	2019
Full time	**33**	31
Part time	**4**	5
	37	36

6. Directors' remuneration

Full details are given in the Directors' Remuneration Report. Total remuneration amounted to £410.1k (2019: £343.0k). Full details are given in the table within the Remuneration Report on pages 24 to 25.

7. Taxation

	2020	2019
	£000	£000
Current tax		
Current tax on income for the period	**110**	235
Adjustments in respect of prior periods	**(10)**	–
Total current tax	**100**	235
Deferred tax see note 21		
Origination and reversal of timing differences	**20**	3
Adjustment in respect of previous periods	**–**	–
Change in tax rate	**4**	–
Total deferred tax	**24**	3
Tax expenses (income) relating to changes in accounting policies		–
	124	238

Analysis of current tax recognised in profit and loss

	2020	2019
	£000	£000
Profit for the year	**524**	1,073
Total tax expense	**124**	238
Profit excluding taxation	**648**	1,311
Tax using UK corporation tax rate of 19.00% (2019: 19.00%)	**123**	249
Community investment relief	**–**	(25)
Reduction in tax rate on deferred tax balances	**4**	–
Non-deductible expenses	**7**	14
Under / (over) provided in prior years	**(10)**	–
Total tax expense included in profit or loss	**124**	238

The effective tax rate for the 12-month period ended 31 December 2020 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

	2020	2019
	£000	£000
Cash in hand and balances with the Bank of England	**45,280**	39,531
Loans and advances to credit institutions (see note 9)	**8,040**	4,009
Cash and cash equivalents per cash flow statements	**53,320**	43,540

9. Loans and advances to credit institutions

	2020	2019
	£000	£000
Accrued interest	**8**	1
Repayable on demand	**7,040**	3,008
In not more than three months	**1,000**	1,000
In not more than one year	**4,500**	500
Total loans and advances to credit institutions	**12,548**	4,509
Total included within cash and cash equivalents	**8,040**	4,009

10. Debt securities

	2020	2019
	£000	£000
Treasury bills	5,500	5,495
Certificates of deposit	1,502	–
	7,002	5,495
Debt securities have remaining maturity as follows:		
In not more than one year	7,002	5,495
	7,002	5,495
Transferable debt securities comprise:		
Unlisted	7,002	5,495
	7,002	5,495

The Society has re-aligned its disclosure in relation to additions, disposals and maturities of debt securities to ensure compliance with FRS 102.

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

	2020	2019
	£000	£000
At 1 January	5,480	7,484
Additions	13,487	10,960
Disposals and maturities	(11,967)	(12,964)
At 31 December	7,000	5,480

11. Loans and advances to customers

	2020	2019
	£000	£000
Loans fully secured on residential properties	148,464	134,069
Loans fully secured on land	10,225	10,945
Other loans	–	–
	158,689	145,014
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	1,971	2,126
In more than three months but not more than one year	6,194	6,008
In more than one year but not more than five years	28,415	25,488
In more than five years	122,738	111,923
	159,318	145,545
Less: allowance for impairment (note 12)	(629)	(531)
	158,689	145,014

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

12. Allowance for impairment

	Loans fully secured on residential property £000	Other loans £000	Total £000
Provision for impairment on loans and advances At 1 January 2020			
Individual impairment	30	318	348
Collective impairment	176	7	183
	206	325	531
Amounts written off during the year, net of recoveries			
Individual impairment	–	–	–
Collective impairment	–	–	–
	–	–	–
Income statement			
Impairment losses on loans and advances			
Individual impairment	(12)	25	13
Collective impairment	71	14	85
Adjustments to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	–	–	–
Charge/(credit) for the year	59	39	98
At 31 December 2020			
Individual impairment	**18**	**343**	**361**
Collective impairment	**247**	**21**	**268**
	265	**364**	**629**

	Loans fully secured on residential property £000	Other loans £000	Total £000
Provision for impairment on loans and advances At 1 January 2019			
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)
	29	(111)	(82)
Charge/(credit) for the year			
At 31 December 2019			
Individual impairment	**30**	**318**	**348**
Collective impairment	**176**	**7**	**183**
	206	**325**	**531**

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 2020	1,466	171	432	55	2,124
Additions	1	13	20	–	34
Disposals	–	(3)	(11)	–	(14)
Balance at 31 December 2020	1,467	181	441	55	2,144
Depreciation					
Balance at beginning of the year	365	159	287	8	819
Depreciation charge for the year	28	4	44	14	90
Disposals	–	(2)	(11)	–	(13)
Balance at 31 December 2020	393	161	320	22	896
Net book value At 1 January 2020	1,101	12	145	47	1,305
At 31 December 2020	**1,074**	**20**	**121**	**33**	**1,248**

Items disposed of during the year were scrapped.

Freehold land and buildings, which are included in the balance sheet at cost less depreciation, amounted to £1.074m at 31 December 2020 (2019: £1.101m). Following the addition of the garden meeting room and window replacements, a valuation of the Head Office was carried out on 30 November 2020 by Wilman & Wilman. This valued the freehold land and buildings on an investment method basis at an open market value of £1.300m.

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

14. Investments

Equity	2020 opening carrying value £000	Additions £000	Repayment of capital £000	Movement in fair value £000	**2020 closing carrying value £000**
Basic	115	107	–	(6)	**216**

Debt Investments	2020 opening carrying value £000	Additions £000	Repayment of capital £000	Impairment £000	**2020 closing carrying value £000**
Basic	1,453	250	(1,019)	(180)	**504**
Non-Basic	217	–	(15)	–	**202**

The Society continues to invest directly in renewable energy, and to support other co-operative ventures. All loans are interest bearing. 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 and has recognised an impairment provision of £180k (2019: £45k).

In the prior year, the Society incorrectly classified equity investments in non-derivative financial instruments as non-basic financial instruments. Per FRS 102 s11 this has no effect on carrying value of these financial instruments, however the impact of the aforementioned reclassification resulted in £115k of equity investments being re-classified from Non-Basic to Basic as seen in the below table.

Reconciliation from 2019 closing carrying value to 2020 closing carrying value.

Equity Investments	**Non-Basic £000**	**Basic £000**
2019 closing carrying value	115	–
Reclassification from Non-Basic to Basic	(115)	115
Additions	–	107
Impairment	–	(6)
2020 closing carrying value	**–**	**216**

15. Intangible assets

Cost	Purchased software £000	Total £000
Balance at 01 January 2020	248	248
Additions	120	120
Balance at 31 December 2020	368	368
Amortisation		
Balance at 01 January 2020	233	233
Amortisation for the year	1	1
Balance at 31 December 2020	234	234
Net book value At 01 January 2020	15	15
At 31 December 2020	**134**	**134**

The additions during the year represents software development that is not yet available for use.

The software development is expected to come into use during 2022 and will be amortised over its useful life in accordance with the policy outlined in Note 1.8.

16. Other debtors

	2020 £000	2019 £000
Prepayments	**196**	363
Accrued income	**10**	21
	206	384

Debtors include prepayments and accrued income of £9,071 (2019: £3,897) for the Society that are due after more than one year.

17. Shares

	2020 £000	2019 £000
Held by individuals	**200,335**	175,321
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Accrued interest	**526**	541
On demand	**159,334**	142,109
In not more than three months	**40,475**	32,671
	200,335	175,321

18. Amounts owed to credit institutions

	2020 £000	2019 £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

	2020 £000	2019 £000
	10,013	9,931
Repayable on demand	**10,013**	9,931

20.Corporation tax payable

	2020 £000	2019 £000
Corporation tax falling due within one year	**110**	235

21. Other liabilities

	2020 £000	2019 £000
Other creditors	**261**	174

22. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2020 £000	2019 £000	**Liabilities 2020 £000**	2019 £000	**Net 2020 £000**	2019 £000
Accelerated capital allowances	**–**	–	**71**	50	**71**	50
FRS 102 transitional adjustments	**(10)**	(11)	**–**	–	**(10)**	(11)
Other timing differences	**(7)**	(8)	**–**	–	**(7)**	(8)
Tax (assets) / liabilities	**(17)**	(19)	**71**	50	**54**	31

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 10 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.

23. Provisions

	Other provisions £000	FSCS levy £000	Total £000
Balance at 01 January 2020	2	–	2
Paid in year	–	–	–
Charge for the year	–	3	3
Balance at 31 December 2020	**2**	**3**	**5**

24. Subordinated liabilities

	2020 £000	2019 £000
Floating rate subordinated liabilities due 2020	**–**	750
	–	750
Less unamortised premiums and issue costs	**–**	–
Repayment of subordinated liabilities	**–**	750
	–	–

The subordinated liability was repaid in June 2019 in accordance with the Terms and Conditions.

25. 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 Society has re-aligned its disclosure in relation to financial and non-financial assets and liabilities to ensure compliance with FRS 102. The tables below analyse the Society's assets by financial classification:

Carrying values by category 31 December 2020	Held at amortised cost £000	Held at fair value £000	Total £000
Financial assets			
Cash in hand and balances with the Bank of England	45,280	–	45,280
Treasury Bills and similar securities	5,500	–	5,500
Loans and advances to credit institutions	12,548	–	12,548
Debt securities	1,502	–	1,502
Loans and advances to customers	158,689	–	158,689
Fixed asset investments	504	418	922
Other debtors	10	–	10
Total financial assets	**224,033**	**418**	**224,451**
Non-financial assets	1,578	–	1,578
Total assets	**225,611**	**418**	**226,029**
Financial liabilities			
Shares	200,335	–	200,335
Amounts owed to credit institutions	–	–	–
Amounts owed to other customers	10,013	–	10,013
Subordinated liabilities	–	–	–
Other liabilities	215	–	215
Accruals	146	–	146
Other provisions	5	–	5
Total financial liabilities	**210,714**	**–**	**210,714**
Non-financial liabilities	210	–	210
Total liabilities	**210,924**	**–**	**210,924**
General reserves and other reserves	15,105	–	15,105
Total reserves and liabilities	**226,029**	**–**	**226,029**

25. Financial instruments (continued)

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
Other debtors	21	–	21
Total financial assets	**196,023**	**332**	**196,355**
Non-financial assets	1,683	–	1,683
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	130	–	130
Accruals	151	–	151
Other provisions	2	–	2
Total financial liabilities	**186,038**	**–**	**186,038**
Non-financial liabilities	310	–	310
Total liabilities	**186,348**	**–**	**186,348**
General reserves and other reserves	11,690	–	11,690
Total reserves and liabilities	**198,038**	**–**	**198,038**

At 31 December 2020, the Society has off balance sheet exposure – mortgage commitments of £38.1m (2019: £31.6m) 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.

25. Financial instruments (continued)

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2020				
Financial assets				
Fair value through profit and loss	8	96	314	418
	8	**96**	**314**	**418**
31 December 2019				
Financial assets				
Fair value through profit and loss	9	101	222	332
	9	101	222	332

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 is 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-. The 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.

25. Financial instruments (continued)

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

	2020 £000	2019 £000
Cash with Bank of England	**45,280**	39,531
Loans and advances to credit institutions	**12,548**	4,509
Debt securities	**1,502**	–
Treasury Bills	**5,500**	5,495
Loans and advances to customers	**159,318**	145,545
Total statement of financial position exposure	**224,148**	195,080
Off balance sheet exposure – mortgage commitments	**38,124**	31,568
	262,272	226,648

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

25. Financial instruments (continued)

Credit quality analysis of loans and advances to customers

The Society has re-aligned its credit quality analysis of loans and advances disclosure to ensure compliance with FRS 102.

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.

	2020 Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	2019 Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000
Neither past due nor impaired	**146,953**	**8,962**	**–**	133,500	9,492	–
Past due but not impaired						
1-2 months	**1,273**	**–**	**–**	450	236	–
2-3 months	**–**	**104**	**–**	129	7	–
Greater than 3 months	**–**	**–**	**–**	–	–	–
	1,273	**104**	**–**	579	243	–
Individually impaired						
Not past due	**255**	**1,523**	**–**	79	1,535	–
1-2 months	**248**	**–**	**–**	–	–	–
2-3 months	**–**	**–**	**–**	117	–	–
Greater than 3 months	**–**	**–**	**–**	–	–	–
	503	**1,523**	**–**	196	1,535	–
Total balances gross of provision	**148,729**	**10,589**	**–**	134,275	11,270	–
Allowance for impairment						
Individual	**(18)**	**(343)**	**–**	(30)	(318)	–
Collective	**(247)**	**(21)**	**–**	(176)	(7)	–
Total allowance for impairment	**(265)**	**(364)**	**–**	(206)	(325)	–
Total balances net of provisions	**148,464**	**10,225**	**–**	134,069	10,945	–

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.

25. 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 table represents the gross value of mortgage loans and therefore excludes any allowance for impairment and EIR.

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	**2020 £000**	2019 £000
Less than or equal to 50%	**59,604**	52,363
Greater than 50% but less than or equal to 70%	**54,423**	44,589
Greater than 70% but less than or equal to 90%	**45,241**	48,041
Greater than 90% but less than or equal to 100%	**178**	709
Greater than 100%	**–**	–
	159,446	145,702

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:

	2020 £000	2019 £000
Payment holiday	**3,174**	1,479
Interest only	**1,900**	810
Underpayment	**849**	162
Arrears overpayment	**65**	–
Arrears underpayment	**–**	–
	5,988	2,451

There were a total of 33 accounts in forbearance at 31 December 2020 (2019: 15).

25. 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 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

The tables below set out a maturity analysis for financial liabilities that shows the remaining contractual maturities. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity on the amounts outstanding at 31 December.

31 December 2020	**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	159,860	40,554	–	–	–	200,414
Amounts owed to other customers	10,013	–	–	–	–	10,013
Subordinated liabilities	–	–	–	–	–	–
Other liabilities	–	215	–	–	–	215
Accruals	–	146	–	–	–	146
Other provisions	–	5	–	–	–	5
Total financial liabilities	**169,873**	**40,920**	**–**	**–**	**–**	**210,793**

The Society has re-aligned its disclosure in relation to financial liabilities to ensure compliance with FRS 102.

25. Financial instruments (continued)

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
Amounts owed to credit institutions	–	503	–	–	–	503
Subordinated liabilities	–	–	–	–	–	–
Other liabilities	–	130	–	–	–	130
Accruals	–	151	–	–	–	151
Other provisions	–	2	–	–	–	2
Total financial liabilities	**152,581**	**33,573**	**–**	**–**	**–**	**186,154**

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. As disclosed in Note 14, the Society's equity risk exposure amounts to £216k. This level of equity risk is not considered significant to the Society.

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 3% of reserves. 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
2020		
At 31 December		
Average for the period	**127**	**133**
Maximum for the period	**185**	**190**
Minimum for the period	**70**	**74**
2019		
At 31 December		
Average for the period	109	113
Maximum for the period	141	147
Minimum for the period	80	85

25. 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 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 Total Capital Requirement (TCR).

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 2020 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 comprised of retained earnings and the Core Capital Deferred Shares issued during the year.

- **Tier 2 capital** – which includes 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	**2020 £000**	2019 £000
Tier 1 capital			
General reserve		**12,214**	11,690
Less intangibles		**(108)**	(13)
Core Capital Deferred Shares	27	**2,891**	–
Total Tier 1 capital		**14,997**	11,677
Tier 2 capital			
Subordinated liabilities	24	**–**	–
Collective provision	12	**268**	183
Total Tier 2 capital		**268**	183
Total Regulatory Capital		**15,265**	11,860

26. Related parties

Transactions with key management personnel

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

	Number of key management personnel and their close family members 2020	**Amounts in respect of key management personnel and their close family members 2020 £000**	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
Loans and advances to customers	**2**	**342**	2	356
Deposits and share accounts	**12**	**183**	12	295

Directors' loans and transactions

At 31 December 2020 there were two outstanding mortgage loans (2019: 2), made in the ordinary course of the Society's business to Directors and connected persons, amounting to £342,007 (2019: £355,817).

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.

27. Core capital deferred share

	Number of shares	Core Capital Deferred Shares £000	Core Capital Deferred Shares–issue costs £000	Share premium £000	Total £000
Balance at 1 January 2020	–	–	–	–	–
Balance as at 31 December	**3,000,000**	**3,000**	**(109)**	**–**	**2,891**

CCDS are a form of Common Equity Tier 1 (CET 1) capital, developed to enable the Society to raise capital from external investors.

CCDS are perpetual instruments which rank pari passu to each other and are junior to claims against the Society of all depositors and creditors. Each holder of CCDS has one vote, regardless of the number of shares held. In the event of a winding up or dissolution of the Society the extent to which each holder of CCDS may participate in the division of the remaining assets of the Society will be limited in proportion to their contribution to the Society's capital over time.

Distributions to the holders of CCDS are at the sole and absolute discretion (subject to applicable law and regulation) of the Board of Directors, save that the amount that can be paid to the holders of CCDS in any financial year is subject to the cap on Distributions under the Society's Rules.

28. Analysis of changes in net debt

	2019 £000	Cash flows £000	2020 £000
Cash and cash equivalents			
Cash and cash equivalents	43,540	9,780	53,320
Borrowings			
Debt due within 1 year	(503)	503	–
Total change in net debt	**43,037**	**10,283**	**53,320**

29. Country-by-country reporting

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

UK Activity for the year ended 31 December 2020:

- The Society's principal activities are mortgage lender and provider of savings accounts
- The Society's turnover (defined as net interest receivable) was £4.323m (2019: £4.466m). Profit before tax £0.648m (2019: £1.311m) all of which arose from UK-based activity
- Number of employees was 37 (2019: 36)
- Corporation tax of £0.227m (2019: £0.211m) 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 2020

1 Statutory percentages

	Statutory limit %	**At 31 December 2020** **%**	At 31 December 2019 %
Lending limit	25.00	**7.30**	9.10
Funding limit	50.00	**2.70**	3.27

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

	2020 **%**	2019 %
Gross capital as a percentage of shares and borrowings	**7.18**	6.29
Free capital as a percentage of shares and borrowings	**6.65**	5.68
Liquid assets as a percentage of shares and borrowings	**30.82**	26.67
Profit after taxation as a percentage of mean total assets	**0.25**	0.57
Management expenses as a percentage of mean total assets	**1.57**	1.69

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 2020 and 2019 total assets.

3 Information relating to Directors at 31 December 2020

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	Syncom (UK) Ltd Strategic Intent Ltd Saescada Limited Centenary Bank
Paul Charles Ellis 10.09.1957	Building Society Chief Executive 05.05.1984	Friends of Gledhow Valley Woods
Amanda Louise Chambers 18.12.1963	Finance Director 28.02.2020	Aurora Accountancy Ltd Elegant Edge Ltd
Kerry Jean Mashford 02.11.1959	Director / Consultant 28.02.2020	Active Building Centre Ltd South East Midlands Local Enterprise Partnership Interfacing Limited
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 27.09.2013	Parity Projects Ltd
Louise Margaret Pryor 20.04.1960	Actuary 28.02.2020	Callund Consulting Limited Louise Pryor and Company 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 Amanda Chambers both have service contracts, details of which can be found in the Directors' Remuneration Report on pages 24 to 25. There are no extended notice terms included in these contracts.

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