Ecology
Building Society

Annual Report & Accounts

31 December 2021





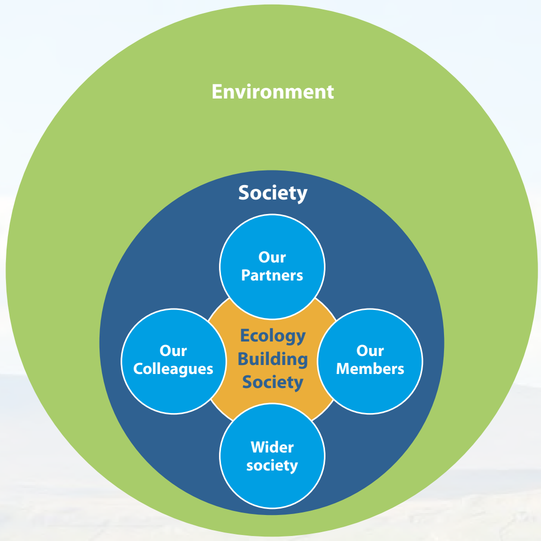

Building a greener society

Our Purpose

Our Vision
"A fair society in a sustainable world"

Our Mission
"A member organisation dedicated to improving the environment and society by enabling sustainable building and communities"

Values
Fairness, Openness, Responsibility, Co-operation and Activism



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Chair's statement

When Ecology began four decades ago, did our founders envision the global challenges amidst which we would celebrate our 40th anniversary? Some may well have; they certainly recognised that the financial system was, in many respects, failing to serve the needs of people and planet.

As is the case today, many of the era's environmental and social ills may have appeared insurmountable. Thankfully, our founders – non-conformist in outlook and practical in approach – weren't the types to take a back seat. Instead, they joined forces to help build a more sustainable future and here we are, four decades later, with thousands of sustainable properties and projects standing as testament to their optimism.

We had hoped our 40th anniversary AGM would be a convivial, celebratory affair, but for the second year running it was a scaled-back virtual event. This time, we converted our strawbale meeting room into a makeshift studio, enabling us to broadcast live and respond to members' questions. We are greatly looking forward to our 2022 event, when we hope to welcome members to London's Mildmay Club where our loan is funding essential repairs and a partial conversion to help secure the future of this iconic venue, which has been at the heart of the Stoke Newington community for over a century.

The team have continued to be steadfast in their commitment to maintaining the highest standards of service. Their efforts, alongside Ecology's tenacity in pushing for change, were recognised via a series of accolades during 2021, including being named 'Best Ethical Financial Provider' and 'Treating Customers Fairly Champion' at the British Bank Awards following members' voting and overwhelmingly positive feedback. We also enjoyed wins at the MoneyAge Awards and Yorkshire Post Awards. I am particularly pleased that Paul Ellis' lifetime contribution to

the sector was rightly recognised in the Mortgage Finance Gazette Awards.

Such recognition is always welcome, but it's the extent to which we're achieving our mission that is the true yardstick of our performance. Despite some disruptions to the building materials supply chain, the year has borne a multitude of innovative, sustainable projects, including affordable rural homes, inner-city regeneration initiatives and energy-saving renovations. Our willingness to look beyond a tick-box approach and to adapt to the needs of our borrowers has made all this possible.

We looked forward to seeing action following international commitments at COP26. We know our members expect us to be a leading voice in pushing for change, so we were there in Glasgow, spreading the word about sustainable finance and keeping a keen eye on negotiations. Certainly, there were some disappointments in the detail (or lack thereof) behind the bold statements, but the momentum and ambition at the event were undeniable. Leaders cannot hide from the reality that the eyes of the world are upon them.

At Ecology, we've never been short of motivation to play our part in building a better future. But we know that this alone isn't enough – we also need a cohesive plan to set out our ambitions for a sustainable future. *Our 2030 Strategy,* which we launched in November with the input of many members, defines the vision we are working towards and how we will get there, as well as reinforcing our role as an agitator to respond to the climate and ecological crisis. Our role is to boldly advocate, innovate and demonstrate new ideas so others may follow. I'd like to offer my thanks to all who contributed. We are now focusing on delivering the ambitions we've set out.

As we look ahead, we also mark the end of an era. Paul Ellis will be stepping down as CEO in 2022. Paul has been a constant presence since Ecology first began and has served as our Chief Executive for the last 26 years, making him the longest serving CEO in the building society sector. He has steered the Society with unswerving commitment, overseeing an increase in assets from £18m to £256m at the end of 2021 and empowering us to have the courage to do things differently. I would like to extend my heartfelt thanks to Paul for his extraordinary contributions to the Society, as well as to the wider areas of green finance and sustainable building.

I would also like to express my gratitude to all who have helped in the preparations for the handover to Ecology's next Chief Executive, who we look forward to welcoming to help lead the next chapter in the life of the Society.

In 2022, I will be departing from my role as Chair of the Board after an incredibly rewarding seven years. I will pass the baton on to Chair designate Louise Pryor, an existing Ecology Director, who brings over 30 years' risk and actuarial experience to the role. Louise currently serves as Chair of the London Climate Change Partnership, President of the Institute and Faculty of Actuaries, and is a Fellow of the Institute of Environmental Management and Assessment.

Finally, my thanks go to the Board, the Ecology team and all our members for enabling us to achieve another remarkably successful year as we continue to play a leading role in building a greener society and I look forward to being an actively engaged member of the Society in the future.

Steve Round
Chair
4 March 2022

Chief Executive's review

We have never taken the numbers on our balance sheet to be the sole marker of Ecology's success. Rather, it is the impact in the real world that these numbers point to that represents our true value. Looking back to when we began in 1981, there is so much to demonstrate this – from the community-led projects and low-energy homes that we've supported, to our influence in the world of finance as we've striven for a more equitable financial system that acts in service to people and planet.

It was with this in mind that we brought members together in autumn 2021 to help us in defining our 2030 strategy – our 40th anniversary serving as a fitting point at which to pause and reflect on all we have achieved and what remains to be done. Of course, the answer to the latter is 'a lot'; there is so much for us to do if we're to emerge from this pivotal decade at a place where we can look to the future with optimism at its potential. To get there, Ecology needs a clear roadmap, underpinned by a shared understanding of the key areas in which we will focus our efforts, and, as a mutual organisation, it is vital that this reflects our members' values. So, I was delighted that more than 750 members took part in our virtual member consultation, which will serve as an essential guide over the remainder of this decade to ensure we remain on track in our ecological mission.

The year brought welcome recognition of the vital role that housing and finance have to play in achieving the Government's Net Zero Strategy. The Heat and Buildings Strategy published in October rightly emphasised the importance of low-carbon energy,

pointing to heat pumps as an essential technology in decarbonising our homes' heating. At Ecology, we believe that the installation of these technologies must go hand-in-hand with good levels of insulation and ventilation, to create low-carbon, healthy homes. Overall, this was a missed opportunity to deliver what we need to make our homes fit for the future – a co-ordinated national retrofit programme addressing the fragmented energy-efficiency supply chain and skills shortages.

October also saw the release of the Government's Green Finance Roadmap. We hope that its focus on sustainability reporting standards will reduce the capacity for greenwash within finance and, in due course, result in the further growth of green mortgages to help reach the Government's goal of net zero emissions by 2050. I'm proud to report that – as usual – Ecology is well ahead of the curve on this and, in 2021, became the first building society to publish the carbon footprint of its residential lending, calculated in accordance with standards developed by the Partnership for Carbon Accounting Financials (PCAF), of which we are a founding member of the UK group.

Much of 2021 was occupied with COP26, whether in anticipation or in post-event analysis. Bold statements and soundbites ricocheted enthusiastically from podiums, but was meaningful progress made towards setting the world on a more sustainable trajectory? Certainly, there were some positive outcomes; we witnessed a reignition of determination and momentum to a degree that has been lacking since the Paris Agreement in 2015, with the major Co_2 emitters – China and the US – committing to collaborate on climate issues. However, details were thin on the ground as to how this will be achieved and, with dismay, we saw the final text of the Glasgow Climate Pact watered down so that phasing 'out' coal became phasing 'down'.

It's hard to witness some of our top leaders and policymakers failing to grasp the urgency with which we need to act at this critical time. I firmly believe that the only way we can respond (and preserve our sanity) is to take positive, practical actions within our own homes, communities and workplaces. Our borrowers who are insulating their homes to make them more energy efficient or are collaborating on a new community-led initiative; our savers who are choosing to invest their money in support of environmentally and socially oriented projects; our colleagues who turn up each day to answer the emails and the phone calls – these might sound insignificant in isolation, but together form a groundswell of action that represents real progress.

In the face of increasingly volatile energy prices and hikes in the overall cost of living, many of these actions also make sense – indeed, they are crucial – if households are to be able to afford to heat and power their homes. Our mortgages are continuing to support people in this by enabling them to retrofit existing properties, as well as to build energy-efficient new homes. I'm thrilled that our impact in this space has once again been formally acknowledged this year in the form of multiple industry awards – welcome recognition of the outstanding work of the whole Ecology team.

Financial overview

The Society has once again demonstrated resilience against a backdrop of economic and societal uncertainty. The property market remained open and active throughout 2021, buoyant demand being fuelled by the stamp duty tax break and homeowners' shifting priorities. I am pleased to report a record level of lending at £69.4m, a 76.84% increase on 2020, bringing an increase of our total mortgage assets to £194.1m. This lending has been enabled by our savers' deposits and our capital resources, which were bolstered in 2020 following the issuance of £3m in Core Capital Deferred Shares (CCDS).

In response to the economic shocks of COVID-19, the Bank of England's base rate has remained subdued. Following almost two years at a historically low rate, the base rate nudged upwards from 0.10% to 0.25% in December 2021, and further in February 2022, in response to high inflation – the predominant driver of which has been the increasing price of fuel and energy. We acknowledge the unfolding events in Ukraine with its tragic consequences for the people of that country, and whilst we do not have any exposure outside of the UK there is some uncertainty as to how this may impact the wider UK economy.

We have continued to monitor our own interest rates closely to ensure that we are balancing the needs of both our savers and borrowers. Our inflow of savings funds has remained strong, with savers favouring Ecology on the merits of our mission-led approach and being reassured by our fair and transparent stance on rates and we were pleased to be able to re-open our popular 90-day Notice account. During the year, we also took the necessary action to restrict the inflow of new funds to our historic guaranteed accounts, ending the year with a savings balance of £239.5m, an increase of 13.84%. The steadying inflow of funds has contributed to a reduction in our liquidity rates to 24.96% (2020: 30.82%).

Buoyed by this strong inflow and continued unprecedented demand for our mortgages, we end the year at a 13.37% increase in our total assets, which now stand at £256.3m, taking us over the £250m mark for the first time in Ecology's history. Our profits have also performed well, coming in at £1.019m despite the ongoing low interest rate environment and wider economic uncertainty. This stands us in excellent stead for expanding our loan book in 2022, supporting as many sustainable projects as we can.

Lending highlights

During the year we supported 371 new sustainable properties and projects with a record £69.4m of new lending. Highlights have included a major new loan to Bristol CoHousing, residents moving into Ecology-backed affordable homes renovated by the Peninsula Trust in Cornwall, and helping to pioneer the application of the co-operative housing model to student housing, in partnership with Brighton and Hove Community Land Trust. We're also providing a mortgage to Whitby Wildlife Sanctuary, which has enabled significant improvements to their facilities, including the construction of a 60-foot-long aviary for convalescing owls.

Looking ahead

Bank of England base rates show signs of a gradual ticking upwards from the ultra-low level we saw at the height of the COVID crisis. Ecology's robust performance during a period of such disruption stands as testament to the unfailing support of our members, the dedication of our team, and the true value of our long-term mission, which gives us clear purpose and direction as we navigate uncertain times.

As we grow, it is essential that we invest wisely in our Society, focusing on strengthening our capacity and capability. We've made significant progress on this, including the recent launch of our online savings applications, enhancements to our mortgage range for retrofits, and the introduction of stronger energy-efficiency standards for our new build mortgages. While we must certainly celebrate these successes, it is essential that we maintain momentum so that we continue to meet the needs of all our members.

In 2021, I announced that I will soon be stepping down, so this is my final opportunity as CEO to update you on our progress. I have been involved with the Society since it first opened its doors in 1981 and, in the 40 years since, have had the good fortune to work for an organisation whose principles I passionately support and to demonstrate how balance sheet dynamics can be constructed to pursue the provision of sustainable finance. Nothing would have been possible without our members, our friends in the green building community and the steadfast dedication of the Ecology team; some of my most precious memories from Ecology reflect those times we have come together, each with our own story to tell but united in our hopes for humanity and the planet. I depart well-assured that I will be leaving Ecology in the very capable hands of those who are determined to build on the Society's legacy as a leading example of the transformative power of ethical finance.

All that remains is for me to extend my sincere thanks to our members, colleagues and supporters. This is your Society and you make it possible for us to turn our vision into a reality as we continue to work towards a better future for all.

Paul Ellis
Chief Executive
4 March 2022

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 2021 and 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

	2021	2020	2019
Total assets	**£256.3m**	£226.0m	£198.0m
Mortgage asset growth	**22.30%**	9.43%	14.61%
Mortgage lending	**£69.4m**	£39.3m	£43.5m
Savings balances	**£239.5m**	£210.3m	£185.3m
Liquid assets as a % of shares and borrowings	**24.96%**	30.82%	26.67%
Management expenses as a % of mean total assets	**1.59%**	1.57%	1.69%
Net profit	**£1.019m**	£0.524m	£1.073m
Profit after taxation as a % of mean total assets	**0.42%**	0.25%	0.57%
Core Tier 1 capital	**£15.698m**	£14.997m	£11.677m
AGM – voting turnout	**16.94%**	16.15%	19.78%

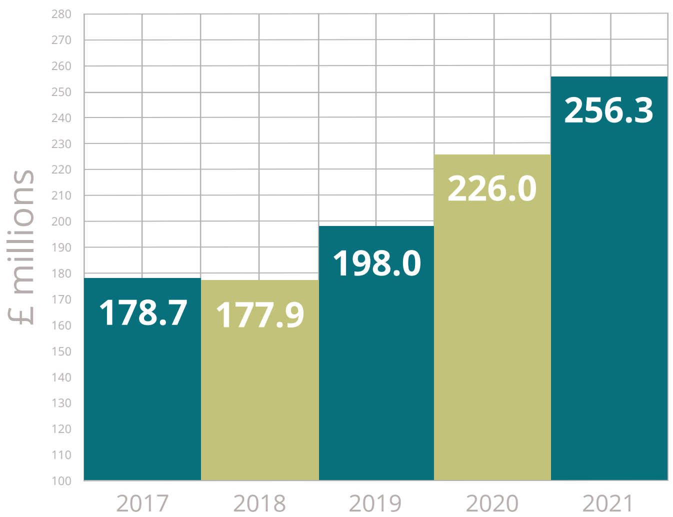
As outlined above, the Society has achieved a strong performance against a backdrop of economic and societal uncertainty during the year resulting from the COVID-19 pandemic and the UK transition from the EU.

Asset growth

During 2021, the Society's total assets increased by £30.2m (13.37%) to £256.3m (2020: £226.0m), reflecting a record lending performance, supported by a strong increase in savings balances alongside the £3m CCDS issuance in 2020.

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.

Total Assets (£m)

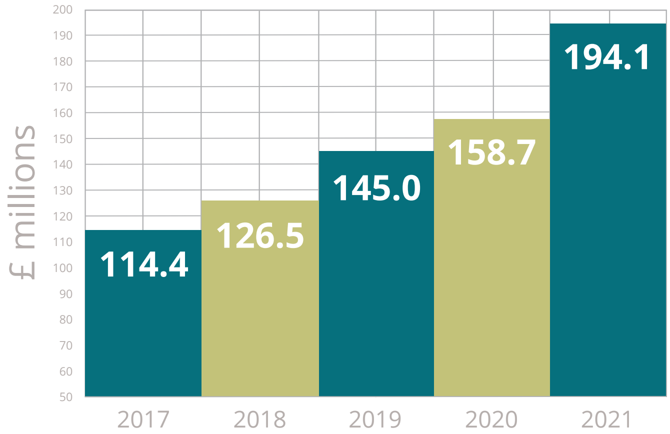


Mortgages

Lending application volumes were exceptional in the first quarter of 2021, partly due to the release of latent demand from the three lockdown periods during 2020, borrowers seeking to take advantage of the stamp duty incentive and the changing needs of homeowners. This surge in activity drove a record level of gross lending at £69.4m (2020: £39.3m). This new lending contributed to overall growth in mortgage assets of 22.30% (2020: 9.43%).

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 has continued to support renovation projects through the redesigned retrofit mortgage launched in November 2020.

Mortgage Assets (£m)



The proportion of loans benefiting from one of our C-Change mortgages, which reward work undertaken on the property to help combat climate change by offering a reduction to the interest rate applied following confirmation of the energy rating achieved, remained relatively stable at 37% (2020: 40%) with building sector supply chain issues impacting project completion times.

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

Overall arrears levels remain low despite the difficulties some members have experienced since the onset of the pandemic. As at 31 December 2021, there were no cases in possession, or 12 months or more in arrears (2020: nil).

As at 31 December 2021, there were 10 cases (2020: 33) under forbearance with total balances of £2.504m (2020: £5.988m) and arrears totalling £6.6k (2020: £7.6k).

The Society continues to exercise forbearance measures to assist borrowers who are experiencing financial difficulty in a number of ways. In each case an individual assessment is made to ensure that it is in the best interests of the borrower and the Society.

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 3 (2020: 5) individual impairment provisions were required in those cases where the Society's model indicated a potential shortfall compared to the outstanding balance resulting in a decrease in the individual provision to £305k (2020: £361k).

All 3 cases were not in arrears but the Society is working with our borrowers to navigate difficult circumstances.

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 the impact of a deterioration in economic conditions during the current financial period in relation to the ongoing impact of the pandemic. The total collective provision has decreased to £222k (2020: £268k), reflecting the improvement in house price indices during the year.

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.

During the year, the Society took the necessary action to restrict the inflow of new funds to our historic guaranteed accounts and in October 2021 re-opened the popular 90-Day Notice account to all applicants. Total savings balances held at the end of the year are £239.5m (2020: £210.3m).

The steadying of inflow alongside the exceptional levels of lending activity delivered a reduction in liquidity, ending the year at 24.96% (2020: 30.82%)of share and deposit liabilities.

We aim to manage the amount of funding that is not lent out to ensure that our savers' funds are creating value in the real economy. We see our role as providing a savings service for those who wish to invest in pursuit of social and environmental goals, preferring where possible to source our funds for lending direct from individuals and community groups supportive of our mission, rather than taking in wholesale money from other financial institutions.

Management expenses

The Society's on-going investment in digital strategy and operational capability drove an increase in cost base to £3.84m (2020: £3.32m) resulting in a Costs to Mean Assets Ratio of 1.59% (2020: 1.57%).

The Society plans to continue this investment in 2022 alongside additional marketing and communications activity, which will enable us to deliver on *Our 2030 Strategy* from a solid operational base.

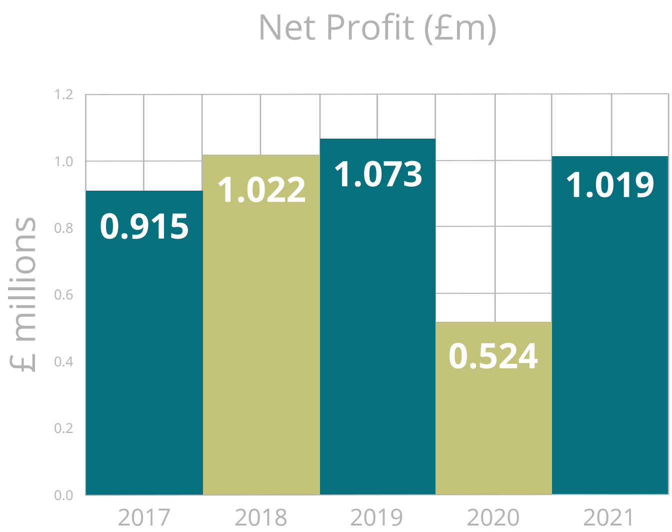
Wherever possible, we use the most sustainable and ethical option when purchasing goods and services, in some cases resulting in us paying more than for the less sustainable option.

Profit and capital

Net profit for the year of £1.019m (2020: £0.524m) was added to reserves, reflecting the exceptional lending performance. In accordance with accounting policy 1.5, a restructuring of one of the Society's investments in renewable energy has resulted in the conversion of the original debt investment into equity shares and amounts owed to the Society under a Company Voluntary Agreement (CVA) with the change in valuation being reflected in the Statement of Comprehensive Income. The impairment provision held against this asset has been released with no impact on the Society's financial performance for the year.

The Society continues to assess whether there is evidence that investments not carried at fair value through profit and loss are impaired and has recognised an impairment provision of £35k (2020:£180k).

Against a backdrop of the ultra-low Bank of England base rate of 0.10% for the majority of 2021 combined with the continued economic and social uncertainty surrounding the pandemic, the Board is delighted with the level of profitability as this enables the Society to continue to invest and grow for the benefit of its current and future members.



The Society's capital strength has been maintained with total reserves as at 31 December of £15.80m (2020: £15.11m).

As at 31 December 2021, the ratio of gross capital as a percentage of total share and deposit liabilities was 6.60% (2020: 7.18%) and free capital was 6.14% (2020: 6.65%).

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).

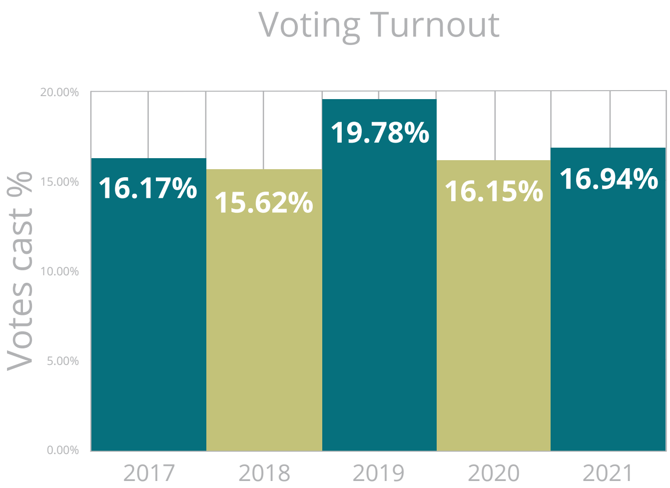
Further details of the Society's approach to risk management, including the Pillar 2A percentage and value, required by the Capital Requirements Directive, can be found in the Pillar 3 disclosures available on the Society's website: **ecology.co.uk**.

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 2021, the risk-weighted Core Tier 1 ratio was 15.4% (2020: 18.09%), the reduction being driven by the exceptional lending performance.

The leverage ratio expresses Tier 1 capital as a percentage of total assets plus mortgage impairments and a proportion of mortgage pipeline commitments. The Society's capital resources, alongside savers' deposits, supported the record lending performance during the year resulting in a 0.57% reduction in the leverage ratio to 5.66% (2020: 6.23%). Capital amounts and ratios remained comfortably above regulatory requirements throughout the year.

Member relations

Voting turnout at our 2021 AGM was 16.94%, with our AGM being a scaled-back virtual event due to COVID-19 restrictions. Despite these challenges, voting turnout was significantly higher than the sector average of 7.4%.



We invited members to take part in a consultation to help develop *Our 2030 Strategy*. More than 750 members took part, pushing us to be ambitious and innovative by sharing valuable and diverse insights and ideas to shape our vision and strategy for the remainder of the decade ahead.

Members' voting and positive feedback resulted in the Society being named 'Best Ethical Financial Provider' and 'Treating Customers Fairly Champion' in the Smart Money People British Bank Awards 2021.

"Ecology provided us with a mortgage when no one else would. It was a risky project but one true to Ecology's principles and a zero carbon future. Ecology look at the big picture and support those of us working for a better, greener future."

Helen, Borrower

"We are delighted to have our mortgage with Ecology. We know that our money is doing good in the community and that social responsibility and ethics are taken very seriously. Without Ecology, many socially responsible eco-housing projects across the UK would not have been possible. Their newsletter is very positive and inspiring...."

Christine, Borrower

"Supports my principles. Great ethical organisations with which to save. Knowing my money is invested in projects, such as housing, that make a difference is important to me."

Rosemary, Saver

"We have invested with the Ecology Building Society for decades particularly because of their ethical and sustainable work. We need more banking companies with this ethos."

Shiona, Saver

Examples of member feedback published on the Smart Money People review site which helped Ecology win two British Bank Awards.

Charlotte and Alex's sustainable timber-framed self-build, Brighton

Climate-related disclosures

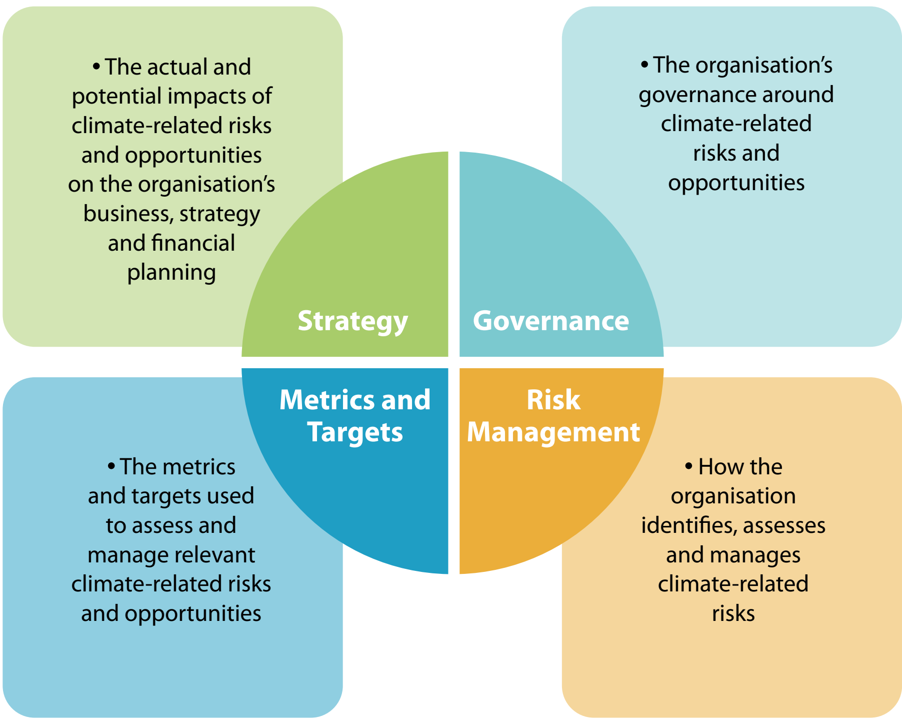
Introduction

Human activity is causing climate change, posing risks to all individuals, businesses, governments and economies. Addressing the climate emergency is central to Ecology's mission and strategy, to enable sustainable building practices and communities. Our lending policy is focused on supporting the construction of properties built to a high ecological standard, the renovation of existing properties to reduce energy demand, and sustainable economic activity. Our investments support renewable energy and co-operative community initiatives.

During 2021, we have increased our activity and capability to respond to the climate crisis. For example, we have:

- Co-developed and launched *Our 2030 Strategy* setting out our priorities for this pivotal decade to urgently address the climate and ecological emergency, including adapting to the inevitable impacts of a changing climate
- Committed to achieve net zero in our business operations by 2030 and net zero in our lending by 2050 or sooner
- Raised the minimum energy efficiency eligibility requirements for our self-build mortgage product
- Substantially increased our lending for renovation projects (126% increase in number of mortgaged renovation properties)
- Co-led activities within PCAF UK to improve the measurement of emissions from lending on residential property
- Committed to the UN-convened Net-Zero Banking Alliance as a founding signatory, building momentum for all financial institutions to align their lending and investments with net zero
- Supported thought leadership at COP26, in partnership with Architects Climate Action Network (ACAN), UK Green Building Council (UKGBC) and Glasgow Financial Alliance for Net-Zero (GFANZ)

Overview on climate-related disclosures guidance TCFD



Our climate-related disclosures provide more detail on our approach to climate change, including understanding and mitigating climate-related financial risks – the risks that may materialise in the future as a result of decisions taken today.

Our climate-related disclosures covering Strategy, Governance, Risk Management, and Metrics and Targets will continue to evolve, in line with the guidance of the Task Force on Climate-related Financial Disclosures (TCFD). Table 1 summarises our activity on climate-related risks and opportunities during 2021 and our planned activities from 2022.

Table 1 Summary of our activity on climate-related risks and opportunities

Achieved in 2021	Planned activity – from 2022 onwards
Strategy	
Launched *Our 2030 Strategy* focusing on the climate and ecological emergency Committed to net zero in our business operations by 2030 and net zero in our lending by 2050 or sooner Enhanced our impact-led mortgage products Used our voice and example to advocate for a national retrofit programme and high energy performance standards for new homes Joined alliances to help the financial sector respond to climate change Demonstrated commitment to continuing environmental improvement in our business operations	Publish our initial net zero plan and targets Enhance annual stress tests taking account of future climate change scenarios Enhance our impact-led products Increase activity to equip our members with knowledge to support their transition to net zero and increase resilience to climate change Accelerate the use of our collective voice to agitate for positive change to address the climate emergency
Governance	
Climate risk governance established, with senior management and Board level engagement CEO assumed responsibility for embedding climate change risk Knowledge share sessions held with Board, Executive, Senior Management Team and first line of defence (Mortgage Team and Community and Business Lending Team)	Further develop the Board and Board Committees' schedule for oversight on climate-related risks and opportunities
Risk Management	
Climate change ambition articulated in line with *Our 2030 Strategy* and vision Climate risk integrated across all risk categories in Risk Management Framework Continued evolution of our Risk Management Framework to identify and incorporate material climate risk causes and exposure Enhanced our capabilities to assess potential future physical impacts on our mortgage portfolio under a range of climate change scenarios Assessed climate-related risks of our existing mortgage book under a range of future climate change scenarios Incorporated climate risk into operational resilience processes	Building on current annual climate risk assessment, implement dynamic management information on climate-related risks With new capabilities to screen future physical risks, continue to review and evolve credit risk appetites in light of ongoing assessment of climate risks Ensure key suppliers and counterparties are developing climate change resilience plans and their path to net zero
Metrics and Targets	
Measured the carbon footprint of our business operations, commuting, working from home and supply chains Enhanced our property-level physical and transition risk data Assessed physical risks (flooding, subsidence and coastal erosion) under future climate change scenarios. Using intermediate climate change scenarios, models show that in the 2050s, only a small proportion of the mortgage portfolio would be considered at high risk of flooding or subsidence and no properties would be considered at risk of coastal erosion Measured the emission intensity ($kgCO_2/m^2$) and financed emission intensity ($kgCO2$/£ of lending) of our mortgage portfolio using the Global GHG Accounting and Reporting Standard for the Financial Industry Started research to identify 2030 targets for our mortgage portfolio, to be aligned with achieving net zero lending in 2050	Work with partners to define science-based targets for our mortgage portfolios of new and retrofitted properties as interim targets to achieve by 2030 on the path to net zero Continue to develop metrics to assess physical climate risks, including engaging with research and innovation in data and modelling tools.

Background

Human-driven climate change

Humans are the dominant force driving climate change on our planet. Our consumption of fossil fuels to power our economies is destroying our natural ecosystems. Modern society is increasing the amount of carbon dioxide and other greenhouse gases in the atmosphere while simultaneously limiting the capacity for nature to absorb and store carbon. Levels of carbon dioxide are higher than at any time in at least the last two million years, trapping heat and destabilising the long-term weather patterns we depend on.

The physical impacts of climate change are increasingly apparent, with extreme weather events leading to heatwaves, droughts, flooding, storms, hurricanes and wildfires, and the melting of glacial ice. Climate models predict that such physical impacts will increase. By how much, and where, will depend on how the world responds to the existential threat of climate change.

Climate-related risks

A range of physical and economic risks may materialise in the future as a result of climate change, affecting individuals, businesses, governments and economies. The magnitude and nature of these risks will be determined by actions taken today. It is therefore essential that information on future risks is used to inform decisions in the present, to help reduce emissions and to adapt to future climate change impacts. Financial institutions are exposed to climate-related risks and opportunities through their lending and other financial intermediary activities as well as through their own operations.

There are two main categories of climate-related risk – physical risk and transition risk.

Physical risks

The physical risks of climate change arise from the increasing severity and frequency of extreme weather events, such as flooding, coastal erosion and storms, and from sea level rise. These impacts can cause damage to assets, changes in individuals' health and incomes, and business disruption, driving financial losses and impaired asset values. For example, properties at future risk of flooding as a result of more intense rainfall may be subject to increased insurance premiums, may be inaccessible or unusable for periods of time and their value may decrease.

Transition risks

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 implemented to remove excess carbon from the atmosphere. The response of governments, industries and consumers to climate change will result in societal and economic changes. Many of these changes are unpredictable, giving rise to a large number of risks, such as abrupt changes in the cost of energy and raw materials, higher fuel bills, changes in customer preferences, disruption to business models, job losses in particular sectors and regulatory changes to drive down emissions.

A rapid whole economy transition

The international community recognises the threat of climate change and many world leaders have signed the Paris Agreement, which aims to limit heating to well below 2°C and pursue efforts to limit it to 1.5°C. The average global temperature is already 1.2°C above pre-industrial times. To limit warming to 1.5°C, global emissions of greenhouse gases need to be reduced rapidly in coming years, with a 45% reduction by 2030, and emissions reaching net zero by 2050. Many governments and businesses have committed to reaching net zero, however, there is a still a substantial gap between promises and action. The independent Climate Action Tracker predicts heating of 2.1°C based on current policies, commitments and pledges, including those made at the COP26 in Glasgow in November.

A rapid whole economy transition is needed, with major progress this decade, phasing out fossil fuels and dramatically scaling up clean, renewable energy infrastructure. The pace and scale will be unprecedented. All businesses, including financial institutions, must be part of the solution – helping to reduce emissions and adapt to climate change. Addressing climate change therefore creates opportunities for businesses to respond with new products and services. Enormous financial resources are needed to address climate change, both to reduce emissions and to promote adaptation to the impacts that are already occurring. This will require both public and private finance. Financial institutions can help to drive the transition by ensuring lending, investments and business strategies support the net zero economy and build resilience.

Strategy

Tackling the climate and ecological emergency

For the planet to remain safe and liveable, widespread economic, societal and policy change is needed, and this decade is the critical window of opportunity for action. Ecology's role is to be part of the solution to climate change. We have committed to net zero in our business operations by 2030 and net zero in our lending by 2050 or sooner.

Net zero is achieved when greenhouse gas emissions are reduced as much as possible and the remaining amount is removed from the atmosphere by technological or natural solutions.

When Ecology was created in 1981, the founders were motivated by concerns over environmental degradation and consumerism. Forty years on, climate change, ecological collapse, deepening social inequalities and a global pandemic are the defining issues. In 2021, our members, colleagues, Board and key partners co-developed *Our 2030 Strategy*, setting out our vision for 2030 and how we will address the climate and ecological emergency in this pivotal decade.

Unlike traditional businesses that aim to maximise shareholder value while identifying some examples of doing good, our priority is to create holistic system value, maximising positive economic, social and environmental impact on the social system we are part of, while taking action to mitigate the negatives. Our 2030 strategy focuses on enabling people and the environment to benefit from homes with good ecological performance, sustainable communities, and a fair and sustainable economy. We take a collaborative approach, working with and for the benefits of our members, colleagues, partners and wider society.

System Value – We seek to create holistic value for society and the environment

Ecology's work is focused on six strategic Ecology outcomes, which all seek to mitigate climate change:

- **Our lending funds ecological buildings that are better for people and the environment**
- **Our lending and business activities promote responsible management of resources and materials**
- **Our lending creates community-led housing and sustainable communities**
- **Our lending increases innovation in sustainable design, retrofit, construction and materials**
- **Our inclusive community of members creates positive impact**
- **Our activities catalyse change in the financial system for a fair and sustainable future**

We will achieve these outcomes through:

Impact-led products and services

Providing impact led products and services designed to reduce carbon emissions, increase resilience and support the transition to a low-carbon economy.

Collaboration and knowledge share

Enabling collaboration and knowledge share to help our members and their communities to make their homes more energy efficient, to live sustainably and to adapt to climate change.

Agitation for change

Agitating for change in wider society to address the climate emergency, including thought leadership and taking action on ecological homes and sustainable finance.

Our business model

As a building society, Ecology is owned by, accountable to, and run for the benefit of our members. Ecology's principal purpose, enshrined in our Memorandum, is making loans which are secured on residential property that are funded substantially by our members, promoting ecological policies designed to protect or enhance the environment in accordance with the principles of sustainable development.

The Society has a relatively simple business model of ethical savings, mortgages for sustainable buildings and development finance for small-scale developments, and a small number of investments in renewable energy and co-operative finance. The Society exists to fulfil its mission of mediating the flow of finance from savers who wish to achieve positive environmental and social impact, to borrowers who wish to build or renovate energy-efficient properties and community-oriented buildings. In 2021, our new lending increased by 76% and the number of savings accounts increased by 16%.

Buildings are a source of carbon dioxide emissions as a result of the fossil fuels used to heat and power them. To reduce these operational emissions, we must reduce the demand for energy by increasing insulation (a fabric-first approach) and move from fossil fuel-based heating sources to low-carbon heating technologies, such as heat pumps and heat networks.

Carbon emissions also arise from the fossil fuel energy used in a building's construction and maintenance, both of which are components of a building's embodied carbon. Current building regulations do not take account of embodied carbon, something we are campaigning for. By supporting renovation and conversion projects, we recognise and value the embodied carbon already invested in existing buildings. Our lending supports responsible use of materials that have a low embodied carbon footprint and can be re-purposed at the end of a building's life, including reclaimed and recycled materials, and bio-based materials such as timber and natural fibres.

Our lending

All Ecology mortgages are fully focused on generating an ecological benefit, in terms of saving energy or other scarce resources, or supporting sustainable communities. Our mortgages fund the purchase or construction of new homes and community buildings built to high standards of energy performance, and the renovation or conversion of existing buildings, to improve their energy efficiency and therefore reduce emissions to minimise exposure to the transition risk of higher fuel bills.

We reward energy efficiency through our C-Change discounts applied to the mortgage interest rate. We use data from Energy Performance Certificates and verified standards such as Passivhaus and AECB Standards. Higher energy performance achieves a greater C-Change discount.

Energy Performance Certificates (EPCs)

Score	Energy rating	Current	Potential
92+	A		105 | A
81-91	B	88 | B	
69-80	C		
55-68	D		
39-54	E		
21-38	F		
1-20	G		

EPCs were originally introduced to summarise the energy efficiency of a dwelling and to recommend measures to increase efficiency and reduce running costs. EPCs are currently the mostly widely available source of information on a home's energy performance and operational carbon emissions. The EPC provides emissions from regulated energy use (for space heating, lighting and water heating) calculated using the Standard Assessment Procedure (SAP) model, based on a property's size, fabric, heating system, lighting and renewable technologies. The greater the energy efficiency, the greater the SAP points score. The EPC provides both the current score and the potential score that could be achieved through further recommended improvements. The EPC provides an Energy Efficiency Rating, from A (very efficient) to G (inefficient), based on ranges of SAP points. For example, a property with a SAP score of between 81 and 91 points has an Energy Efficiency rating of B. The EPC also provides an estimate of annual operational carbon emissions from the property's regulated energy use for space and water heating and lighting.

Construction

We support the construction of new homes and community buildings that meet our ecological criteria. We specify an entry-level energy efficiency standard for new homes, which we increased from 85 to 88 SAP points in 2021. We welcome non-standard construction types and materials. Through our bespoke approach to lending, we proactively support new building techniques, provided they meet our sustainability criteria, including the offsite manufacture of components, kits and modules that are then transported and erected on site.

Retrofit

Retrofit refers to upgrading existing properties to improve their energy efficiency (e.g. through improving insulation) and reducing carbon emissions (e.g. through upgrading heating systems). Currently, about 15% of the UK's total carbon emissions comes directly from homes, mostly from boilers burning natural gas for hot water and space heating. 80% of the houses that will exist in 2050 are the houses that people are currently living in, and they will need to be retrofitted to meet the UK's target for net zero by 2050.

Retrofit of existing properties is an important part of our lending. We take care to make our lending products suitable for 'hard to treat' properties, recognising the value in retaining existing buildings rather than demolishing them. We favour lending on properties that start off with poor standards of energy efficiency (recognising their high demand for heating emits more carbon dioxide and the occupier would be particularly exposed should fuel prices rise) on the basis that our mortgage lending is used to fund improvements to the property that will improve its energy efficiency and reduce fuel use. Mortgage payments are released in stages as property improvements are made. We take a bespoke approach to assessing the planned improvements, considering any constraints posed by the nature of the property. In general, planned improvements lead to the property's energy performance increasing two steps or more in the property's Energy Efficiency Rating.

We recognise that the overall carbon footprint of our mortgage book will increase as we increase our lending on retrofit projects, due to the fact that these properties have relatively high emissions before retrofit improvements are completed. We expect the carbon footprint of our mortgage portfolio to fluctuate, reflecting the status of renovation properties in our mortgage portfolio. As retrofit works are carried out, properties will transition from poor to good energy efficiency. More properties in need of retrofit will be added to our portfolio. We are currently working on methods to measure the improvements in terms of avoided carbon emissions due to our retrofit lending.

Net zero

We have committed to achieve net zero in the financed emissions arising from our lending by 2050 or sooner. We will also increase our support for low-impact materials and construction methods, as well as adaptation and resilience to the physical impacts of climate change, such as over heating.

Our net zero commitment

We have committed to achieve net zero in our lending by 2050 or sooner, taking a fabric first approach to improve properties' energy efficiency, and supporting heating technologies that are compatible with net zero. We're currently working on establishing carbon emission intensity targets (kg of CO_2 emitted per square metre of property floor area) for our mortgage portfolios of new and existing properties to achieve by 2030 as interim targets on the path to net zero.

Extract from Our 2030 Strategy published in November 2021

Assessing the physical risks at mortgage application stage

When evaluating new mortgage applications, we take account of the risk of flooding, subsidence and coastal erosion to inform the potential impact on future property values. We do not lend on properties that would be unable to obtain insurance under standard conditions at the present time. We are embedding an assessment of future physical risks of climate change, obtained through a new consultancy arrangement, into our credit assessment process. Further information is provided on page 26.

We recognise the growing global risk of overheating in homes, especially in some flats, resulting from heat waves and poor ventilation. At present, considerable academic research is being undertaken to quantify the risk of overheating. Building regulations are also evolving to recognise the importance of adequate ventilation. Although the nature of our lending (to achieve high ecological standards) would generally mitigate overheating under present weather conditions, climate models indicate a greater prevalence of heat waves in the coming years. We will continue to follow these developments to incorporate them into our approach.

Our members

Engagement with our members, including in our member consultation in summer 2021, consistently shows that addressing the climate emergency is a top priority and a major motivation for their membership of the Society. We share case studies of our lending to inform and inspire our existing and future members. Commencing in 2022, we will increase our activity to equip our members with knowledge to make their homes and communities more sustainable and resilient, creating more opportunities for the sharing of knowledge.

Agitation for change

Ecology exists to serve our members and deliver on our ecological mission, guided by our values of Fairness, Openness, Responsibility, Co-operation and Activism. Since our inception, Ecology has been part of the environmental movement seeking ways to build a fair and sustainable society. In our activist role, we agitate for change in the broader societal system, by advocating and innovating to create new ideas, incubating ideas into genuinely impactful solutions, and demonstrating solutions that others may adopt, helping to scale up system change.

Our role in creating system change

Our agitation for change activities support our strategic Ecology outcomes. Examples of our activities in 2021 include:

- Co-chairing the UK Residential Working Group of PCAF UK, and publishing a report at COP26 to share best practice on measuring emissions from mortgaged properties
- Active participation in the Department for Business, Energy & Industrial Strategy (BEIS) consultation and workshops on how to improve the energy efficiency of homes in the UK through lenders' actions
- Membership of the Bankers for Net-Zero working group on policy recommendations for retrofit which were published in *The Retrofit Revolution* report
- Founding signatory of the Net-Zero Banking Alliance, which co-developed Guidelines for Climate Change Target Setting for Banks and joined COP26 Race to Zero
- As a member of Green Finance Institute's Coalition for Energy Efficiency in Building, we supported a range of policy recommendations (e.g. energy efficiency stamp-duty land tax) and helped to pioneer the Green Home Finance Principles
- Partnering with ACAN to support advocacy on home retrofit and the recognition of embodied carbon at COP26
- Partnering with the UK GBC to support the Built Environment Virtual Pavillion which showcased innovation under the theme of 'Build Better Now' at COP26

Our investments

We have a small number of investments in renewable energy and co-operative and community finance. Our investment decisions are made in full alignment with our mission and values. We do not seek to maximise profit through an extractive model but rather to maximise the creation of environmental and social value while generating a fair economic return. We recognise that as well as enabling individual projects, our investments can help to demonstrate support for new areas, which in turn attracts other investors. This was a key factor, together with the voice of our members, in making our investments in small-scale renewable energy projects.

Our business operations

We know that as we work on our ecological mission of helping others to live more sustainably, we must lead by example. Our *Sustainability at Ecology Plan* focuses on six areas to drive continual environmental improvement: carbon, people and culture, infrastructure, resources and waste, travel and nature. We have reported our annual operational carbon footprint since 2012 and we offset emissions through tree-planting schemes certified by the Woodland Carbon Code.

We are a member of Investors in the Environment (iiE), which carries out an annual green audit of our business operations. In 2021, we were awarded the iiE Overall Outstanding Achiever (SME) Award. In 2021, we partnered with social enterprise Giki to provide colleagues with a personalised programme to understand how to reduce their carbon footprints and protect the environment together.

Identifying climate-related financial risks

Our lending is fully focused on reducing the carbon footprint of homes and community buildings, which will help to smooth the transition to a low-carbon economy. However, climate change poses a wide range of risks that may materialise in the short (1-5 years), medium (5-15 years) and long (15+ years) terms, and it is imperative that we continue to assess and manage these risks as part of our business strategy.

Climate risk is a cross-cutting risk that impacts on all the Society's five risk categories: strategic, credit, ethics, financial and operational. More information on how climate change could impact these strategic risks is provided in Table 2. The demonstration and understanding of climate change is woven into our purpose and it is essential we consider all climate-related risks, whether financial or not, as material to our business model and strategy. Table 2 also highlights the aspects of our 2030 strategy which are designed to respond to and mitigate these risks.

Responding to strategic risks and opportunities

Climate change creates opportunities as well as risks. Ecology has been an advocate for sustainable lending throughout our 40 year history, but we recognise that much more needs to be done. Life on earth is experiencing a planetary emergency. There is a limited window for action before the remaining carbon budget is used up and global temperatures reach catastrophic levels. Humanity must dramatically reduce our use of fossil fuels and move to clean, renewable energy, while adapting to the impacts of climate change that are already happening. The need to respond urgently to the climate emergency presents Ecology with its greatest strategic risk and its greatest strategic opportunity, requiring us to be innovative, agile and responsive in a changing environment.

Continuing to fulfil our mission

We are an ethical financial institution, adhering to our ecological mission and our values of fairness, openness, responsibility, co-operation and activism. Our mission to build a greener society matters to our members (97% of members who responded to our member consultation in 2021 stated that Ecology's mission was important to them).

A significant reputational risk would arise if Ecology failed to live up to its mission. We mitigate this risk by thoroughly embedding our mission in all our actions and by *our 2030 strategy* being fully focused on continuing to fulfil our mission in this coming decade. A key part of this is the journey to achieve net zero in our business operations and lending.

We believe that all financial institutions have a critical role to play in setting the expectation on net zero (through setting interim targets to define the path to net zero for the emissions arising from their loans and investments) and providing lending products that stimulate the low-carbon transition. Our lending products and services will continue to evolve to support the journey to net zero and to ensure that we are at the forefront of the financial sector.

We are currently working to establish the science-based targets that our mortgage lending should achieve by 2030 (interim targets). 'Science-based' means the targets are aligned with achieving net zero by 2050 and the Paris Climate Agreement of limiting global temperature rise. We are currently working on interim targets for new and existing properties, to be achieved through combinations of high levels of energy efficiency (through insulation), low-carbon heating, domestic renewables and potentially natural solutions to absorb a property's unavoidable emissions. There are a number of dependencies, such as availability of materials, suppliers, policy frameworks, technology and infrastructure. We will collaborate to facilitate removing barriers as much as possible. One dependency will be the appetite of borrowers to build or renovate their homes to a high standard of energy efficiency and to adopt low-carbon heating. Our mortgage products require properties to achieve environmental performance standards, and also reward increased energy efficiency by reducing the interest rate for good energy performance. Our strategy is focused on equipping borrowers with the inspiration and knowledge they need, as well as innovative products, to carry out their project.

The wider financial sector is beginning to recognise that achieving net zero is an enormous (but achievable) challenge, requiring concerted effort across society. The UK Government must act to accelerate investment in national renewable energy infrastructure to facilitate a rapid move away from fossil fuels. It must also support skills and supply chains for retrofit and construction and provide appropriate regulations and incentives to improve building standards for new and existing properties. We are urging policymakers to set out clear long-term policy frameworks, so that the sector can confidently invest in green innovation and infrastructure.

The green and sustainable mortgage market

For four decades, our mortgage lending has been fully focused on supporting sustainable buildings and we have continually made the case for greener homes. We welcome the fact that at long last there is a growing general awareness of the need to tackle carbon emissions from domestic properties and to make our homes fit for the future. This awakening has spurred an increase in the number of other lenders developing 'green' mortgage products, together with new disclosure requirements encouraging other lenders to engage with sustainability in a way that they have not previously done. However, although green intentions and disclosures are always welcome, what is needed is rapid translation into meaningful impact.

We expect the mortgage market to evolve rapidly in order to promote energy efficiency, a development we have long been campaigning for, to enable improved energy performance for all properties. Although this could be seen to pose a risk to Ecology in terms of increased competition, the growing green finance market creates considerable opportunities, which we are responding to in implementing our 2030 strategy.

We describe Ecology mortgages as 'sustainable mortgages' rather than green mortgages. Our balance sheet is in its entirety mobilised to provide lending for environmental and social gain, with funding from our savers seeking impact and aligned to our lending policy, with each mortgage transaction aiming at a positive outcome for the planet.

Our offer has therefore always been different from the mainstream lenders, and this will continue even as mainstream lenders pivot in response to climate risks, regulatory requirements and customer preferences. We will continue to evolve and adapt to meet the needs of our current and future members while demonstrating authenticity and coherence across all our activities, in line with our ecological mission and values. We will continue our main business channels of residential self-build, conversion and renovation, community housing and small-scale development finance for the construction and renovation of homes, work-spaces and community spaces. We recognise the enormous scope for innovation in renovation and construction and supporting these approaches, in line with our 2030 strategy, will open up new lending opportunities. Our tailored approach of considering each project individually to understand its environmental and social merit, engaging with our borrowers and innovators at an early stage, staying engaged through the project, and being open to considering unusual and innovative projects, will stand us in good stead to support the new forms of ecological housing. We will work closely with our borrowers, partners, supply chains (designers, energy assessors and manufacturers), policy makers and other financial institutions, to pave the way for high performance, cost-effective, energy-efficient housing that is fit for the future.

Ecology is unique among UK lenders in being fully focused on its mission to support sustainable buildings and communities. This commitment to mission has meant that, despite our relatively small size, we can use our credibility and reputation to be a vocal advocate for improvements to housing standards and national infrastructure and for adaptation to climate change. We will use our voice to stand out, to reach potential borrowers, and to continue our agitation for change to address environmental and social challenges.

The potential impacts of climate change on Ecology

The nature of climate change and society's response to it means we need to identify and respond to a range of possible climate-related risks and opportunities. Table 2 on page 20 illustrates examples of how climate change may affect Ecology's five risk categories, their expected time horizons and the potential impact on Ecology (the business and our members). The table also indicates the priorities set out in our 2030 strategy which will enable Ecology to mitigate the risks and take opportunities to address climate change.

Table 2 Climate-related risks:
The potential impacts of climate change that may affect Ecology and our strategic response

Climate-related risk category	Examples of the potential impact caused by climate change	Time horizon [Note 1]	Potential climate risk indicator [Note 2]	*Our 2030 Strategy* response [Note 3]
Strategic risk				
Transition	*Mission and business model - growth in green finance market* Increased competition from other green finance providers on savings and lending products may affect our financial performance Growing amount of greenwash in the financial sector labelling products as 'green' causes confusion for the public New market entrants provide range of attractive alternative green financing options Introduction of minimum energy standards for private-owner-occupied property drives lenders to accelerate innovation in green mortgage products Enhanced building regulations for energy efficiency drives other lenders to accelerate innovation in green mortgage products	Short-medium	High	Impact-led products and services Collaboration and knowledge share Agitation for change [Note 4]
	Reputation Commitments to achieve net zero in lending or business operations may be hindered by inadequate government policies and regulation failing to improve building regulations and renewable energy provision or by fragmented supply chains that cannot meet demand for net zero homes	Short-medium	High	
	Policy and regulation Failure of government to invest in national energy infrastructure to transition fully from fossil fuels to clean, renewable energy means properties will be unable to achieve net zero emissions Failure of government to incentivise renovation and construction of net zero ready properties (through improved building regulations and appropriate incentives) affects demand for energy-efficient homes Political attention being diverted or derailed resulting in a loss of momentum on net zero policy and investment	Short-medium	High	
	Economy Changes in macroeconomic environment, such as increased taxation to fund necessary renewable energy infrastructure and introduction of carbon pricing, may affect confidence of new borrowers Increased cost of raw materials as economy shifts away from fossil fuels increases construction and renovation costs for mortgage borrowers, as well as fragmentation in the supply chain Failure of policies to enable a smooth transition to curtail climate change impacts may cause an economic downturn and job losses, limiting new deposits or mortgage applications	Medium	High	

Strategic risk continued				
Physical	Increased severity and frequency of extreme weather events causing flooding, coastal erosion, subsidence and overheating, and damage to local and national infrastructure, causes economic impacts and interest rate changes impacting members' behaviour in relation to savings and mortgages Changes in precipitation patterns and extreme variability in weather patterns affects food production, fresh water availability, living environment, heating and cooling demand, and local infrastructure, disrupting and diverting our activities away from delivering our strategy Rising temperatures affect living conditions, working conditions and local infrastructure, disrupting and diverting our activity away from delivering our strategy Rising sea levels affect coastal land use and increase subsidence, erosion and floods, reducing activity to build or renovate property	Medium-long	Medium	**Collaboration and knowledge share**
Credit risk				
Transition	The creditworthiness of borrowers may be affected leading to default, for example due to abrupt and unexpected shifts in energy costs, increased cost of living and changes in job market The value of properties that do not meet energy standards may diminish The value of properties with existing (fossil fuel) technology may diminish Meeting new building regulations for new or retrofit property may prove challenging for borrowers' budgets A failed transition will lead to contraction of the economy, affecting borrower confidence, reducing demand for new mortgage lending Increased cost of raw materials may deter the retrofit or construction of new homes, including reduction in self-build projects	Medium	High	**Impact-led products and services** **Collaboration and knowledge share** **Agitation for change**
Physical	Current or future physical climate risks may give rise to: – Diminished value of mortgaged property – Increased insurance costs – Increased demand for products for property adaptation (e.g. flood defence, cooling) Disruption of supply chains affects construction and retrofit activity	Medium	Medium-high	**Agitation for change**

Ethics risk				
Transition	Members may be disproportionately impacted if transition to a low-carbon economy is not fair and just The drive to address climate-related risk could threaten our adherence to mission causing an imbalance in our lending away from wider societal benefit and failure to agitate for positive societal change A failure to embed a culture aligned with our core values could result in poor outcomes for members and an inability to achieve our mission, e.g.: – The best interests of our members are not recognised within our decision-making process or policies and procedures – Our product design and innovation does not respond effectively to meet the needs of our members as climate change evolves – The benefits and risks of our products are not clearly articulated to our members to enable them to make informed decisions	Medium	Medium	Impact-led products and services Collaboration and knowledge share Agitation for change
Physical	Members may be disproportionately impacted by the physical impacts of climate change depending on the location, energy efficiency and climate resilience of their homes Members need information to understand how their property may be affected under future climate risk scenarios to make informed decisions Members require help to build their resilience and adapt their homes and communities to climate change	Medium-long	Medium	Impact-led products and services Collaboration and knowledge share Agitation for change
Financial risk				
Transition and physical	The potential financial impacts of the risks associated with climate change may result in a material change in capital requirements or capital holding Decrease in savings balances may arise due to: – economic distress of existing and future members – loss in confidence in Ecology as a result of reputational damage on approach to addressing climate change Widespread market repricing in response to climate-related policy and regulation Value or net income from assets and liabilities may be affected by interest rate movements in response to economic impacts of climate change Increased financial impacts may arise from: – Increases in taxation, including carbon tax – Increase in business costs to demonstrate compliance – Increase in costs from suppliers in order to achieve our net zero commitments – Increase in competition from other lenders providing green finance products	Medium-long	Medium	Impact-led products and services Collaboration and knowledge share Agitation for change

Operational risk				
Transition	Costs associated with reporting in order to demonstrate our sustainability credentials and differentiate our offer against a growing tide of greenwash may increase Enhanced emissions-reporting obligations Increased costs associated with regulatory changes Increased costs to respond to climate risks may divert investments to other areas of operational infrastructure and strategic change Increased demand for talent from other green finance providers may affect our ability to recruit and retain high calibre colleagues with the necessary skills and experience and who are aligned to our mission and values Increased costs for appropriate and relevant training for all colleagues Increased costs or lack of availability of suitable suppliers aligned to our mission	Short-medium	Medium	**Impact-led products and services** **Collaboration and knowledge share**
Physical	Physical impacts such as flooding or storm damage may result in: – Damage to office or loss of systems or key data – Colleagues unable to access key systems and data – Failure of third parties to deliver goods and services – Increased member communication activity in response to physical event	Medium - long	Medium	**Agitation for change**

Note 1 *Time horizon – short - (1-5 years), medium - (5-15 years) and long-term - (15+ years)*

Note 2 *The potential climate risk indicator illustrates the magnitude of impact on Ecology as a business, or on Ecology's members, where high indicates substantial disruption and/or financial impact.*

Note 3 *Areas of our 2030 strategy that address climate risks and opportunities. See Strategy section for a description of our 2030 strategy priorities.*

Note 4 *See risk management section for more detailed discussion on key strategic risks and how we propose to mitigate them.*

Our approach to scenario analysis

By assessing different scenarios, we are able to explore the resilience and vulnerability of our business model and strategy against a range of outcomes.

Transition risk

Ecology was not asked to participate in the Bank of England Climate Biennial Exploratory Scenario in 2021, due to our relatively simply business model. However, the stress testing we carry out to inform our regulatory requirements (ILAAP and ICAAP) provides reassurance of Ecology's resilience to potential downturns in the economy, employment changes and property values, which map onto potential transition risks. This is an area for further work in 2022. We will continue to evolve our scenario testing, informed by the Bank of England's three scenarios of early policy action, late policy action and no policy action and by further regulatory guidance.

Physical risk

During 2021, we commissioned third-party consultants with expertise in physical climate risk to carry out an analysis of our mortgage book under a range of future climate change scenarios. The physical risks tested were flooding, subsidence and coastal erosion. For properties in Northern Ireland, the analysis only included flooding but we are looking to include subsidence and coastal erosion in due course. Given climate change impacts take time to materialise, the models assess the physical risks over several decades. The models also take account of planned interventions, such as flood defences and shoreline management plans.

To enable some commonality and benchmarking of scenario assessment, the Intergovernmental Panel on Climate Change (IPCC) has developed a set of representative concentration pathways (RCPs) for a range of future emissions of greenhouse gases at the global level. The Met Office and other agencies have modelled future UK climate using the RCP scenarios.

We have assessed the future flood and coastal erosion risks under three RCPs;

- RCP2.6 is representative of a scenario that aims to keep global heating below 2°C, and requires emissions to be reduced in line with the Paris Climate Agreement, with net zero being achieved in 2050
- RCP6.0 is described as a medium intermediate scenario with some constraints on emissions, but with emissions not achieving net zero until 2100
- RCP8.5 is a business as usual scenario, with emissions continuing to rise, leading to very dangerous global heating in coming decades

In general, we have selected RCP6.0 to inform our risk management approach. Although we are hopeful that the Paris Climate Agreement will succeed in limiting global temperature rise, we cannot rule out future climate disruption. For subsidence risk, the model currently only covers RCP8.5, the worst case scenario. Physical risks take time to materialise and get worse over time. We have selected the 2050s as the time frame for our assessment of physical risks, given the typical mortgage term is up to 30 years. You can read more about the results of our physical risk assessment in the section on Metrics and Targets.

Governance

The chart outlines how governance on climate risk operates at Board, Board Committee and Executive and Management levels.

Board	• Has overall accountability for climate-related risks and opportunities • Ensures climate change is embedded within strategy • Monitors and oversees associated risks and opportunities
RACE	• Risk, Audit, Compliance and Ethics Committee (RACE) • Delegated authority from Board to challenge climate change management • Responsible for Risk Management Framework and ensuring climate risk is identified, monitored and reported
Executive	• Chief Executive Officer has delegated accountability* • Everyday management of activity relating to climate change, reporting to Risk Committee, Assets and Liability Committee and Board Lending Committee • Implements and reports on climate change strategy
Climate Risk Working Group	• Established in 2021 • Embeds approach to climate change, including provision of data and horizon scanning on research and innovation

* To transfer to Chief Risk Officer in 2022

Board and Board Committees
As well as RACE, the Board has ALCO as an advisory body overseeing financial risks and BLC as an advisory body for credit risk management. The Society's Development Strategy Planning (DSP) Committee assists the Board in identifying and addressing strategic risks in the development of the Corporate Plan. All committees have oversight of climate risk in their terms of reference.

Given the unique mission of the Society, the Board skills matrix has always required environmental awareness to be a critical skill that must be demonstrated by the Board. The Board skills matrix has been clarified so that environmental awareness includes fundamental understanding of climate change and the associated physical and transition risks. Three of the Non-Executive Directors have specific skills on climate risk and the built environment. The Board receives a regular horizon scanning report on the state of the global climate crisis and the response of policymakers, businesses and civil society, enabling Directors to consider the evolving external landscape on business decisions and strategy. The Board has an annual knowledge update session provided by the Sustainability Policy and Innovation Lead, to ensure all members have command of the subject, including the science of climate change, current and future impacts, risks, adaptation and potential low-carbon future scenarios, so that they are able to debate and make decisions in a way that is comprehensively informed. Addressing climate change was at the heart of five Board sessions to co-develop *Our 2030 Strategy* in 2021. Director Louise Pryor, an expert in climate risk, also led a Board session on a strategic review of climate risk. In addition, Board members regularly attend externally provided seminars, including on regulatory requirements.

The Board ensures that the Management Team takes full account of climate risk in its decision making and assesses the materiality of climate-related risks over the short, medium and longer term, and opportunities on an ongoing basis. The Board ensures that the organisation's actions and responses are proportionate to the materiality of climate risks.

Executive and Management Teams
The Chief Executive Officer (CEO) is responsible for ensuring that climate risk is embedded across the Society. The CEO is supported by the Sustainability Policy and Innovation Lead, who has responsibility for keeping abreast of external developments and opportunities relating to science, policy and innovation, where Ecology can drive forward on its environmental and social mission. The Chief Operating Officer (COO), Finance Director, Chief Risk Officer (CRO), Head of Risk and Compliance and the Governance Manager all have specific objectives relating to climate risk and resilience. The COO and Finance Director are responsible for ensuring the Board is provided with appropriate high-quality relevant management information, to enable Board members to assess climate risks, materiality and opportunities. The Finance Director is the executive sponsor overseeing climate-related disclosures.

Climate risk includes strategic, reputational, credit, financial and operational risks, and is therefore a key responsibility for all members of the Risk and Compliance Team, Mortgage Team, Community and Business Lending Team and Finance Team. Operating procedures incorporate assessment, management and mitigation of climate risk. Knowledge share sessions to understand climate change, net zero, the transition to a low-carbon economy and managing our personal footprint have been held with all colleagues and the Board. Climate risk training sessions have been held with the Board, Executive, Senior Managers, the Mortgage Team and Community and Business Lending Team. Risk roles and responsibilities are summarised in Table 3.

Risk Management

Addressing climate risk is integral to our business purpose and strategy. Rather than treating it as a separate risk, it is integrated into our five risk categories, within our Risk Management Framework. The Risk Committee first carried out a comprehensive review of climate-related risks for each risk category in 2019 and identified relevant physical and transition risks. The Risk Management Framework has continued to evolve since then, with the most recent review as part of the annual review of risks in 2021, and ongoing work by the Climate Risk Working Group. Identified risks and their causes are captured in the Society's Risk Management Database and are categorised according to likelihood and consequence at both an inherent and residual level.

The Risk Committee also reviews and recommends the Society's risk appetite, for approval by RACE and the Board. Risk appetite is defined as a statement of how much risk the Society is willing to accept, tolerate or be exposed to at any point in time in pursuit of its strategic objectives. Our risk appetite provides clear guidance on the limits of risk exposure that are acceptable and in line with the Society's Board-approved strategy. Climate risk is integrated in the risk appetite for each risk category in the Risk Management Framework.

Given the centrality of climate change to our business strategy and our public commitment to achieve net zero emissions, we also state a specific ambition regarding climate change:

Our climate change ambition statement

Addressing the climate emergency is central to our mission and strategy. We will achieve net zero in our business operations by 2030, and in our lending by 2050, or sooner. We will do this through provision of impact-led products and services, the sharing of knowledge, and agitation for wider system change. In all our activities, we seek to minimise the impact of physical and transition climate risks on the Society, our members and wider society.

Table 3 Risk roles and responsibilities

Lines of defence	Roles and responsibilities (as at 31 December 2021)
1st line	Identification, assessment, management and monitoring of climate change risks
	Reporting of climate risk management information
	CEO has Senior Management Function responsibility on climate risk
	Implementation of climate risk stress-testing scenarios
	Creation and reporting of scenario metrics
	Third parties – including for quantitative modelling for future physical risks under a range of climate change scenarios
2nd line	Risk and Compliance function have oversight and challenge
	Chief Risk Officer and Head of Risk and Compliance oversight
	Horizon scanning for regulatory and reporting developments
	Risk Committee and RACE
3rd line	Internal Audit (outsourced function) provides independent assurance on activity and effectiveness of Society's control framework

Management of climate-related risks

As a risk that is embedded in all our five risk categories, climate risk is managed as part of the Society's risk management controls and procedures. In addition, specific controls that merit particular mention given their centrality to our mission and purpose are described below.

Strategic risk – business model and reputation

Climate-related risks have long been a consideration in our management of our strategic risk, in terms of business model, economy, reputation and the fulfilment of our ecological mission. During 2021, strategic risk was a key consideration to inform the development of *our 2030 strategy,* led by the CEO and Sustainability Policy and Innovation Lead. The strategy sets out how we will address the climate and ecological emergency, while continuing to differentiate ourselves from our competitors and continue to be commercially successful. Horizon scanning is important to inform strategic risk management. In addition to scanning competitors' positioning and products, we have enhanced our activities to engage in public policy discourse and development and to carry out research and thought leadership, in order to assist with product development and the offer to our members.

Credit risk

At mortgage application stage, an assessment is made of:

- **Physical risk** of flooding, subsidence and coastal erosion under present conditions.

We have recently licensed a third-party service which models future physical risks under a range of climate change scenarios. We are embedding this model within our credit assessment process.

- **Transition risk** in terms of the energy efficiency of the property.

For self-build properties, the assessment is based on the designed energy performance (the minimum entry level standard was increased from 85 to 88 SAP points in 2021). For existing properties, the assessment is based on the improvements that will be made to the property, including the installation of appropriate energy-saving measures.

During 2021, we carried out an assessment of the whole loan book under a range of future climate change scenarios from the present day to the year 2080. We have selected the 2050s as the period to report our assessment, given the typical mortgage term is up to 30 years. The assessment showed the exposure to high physical climate risk (flooding, coastal erosion and subsidence) was relatively low, demonstrating that our lending policy to date has been robust in avoiding lending on properties at risk from future physical impacts of climate change. In terms of transition risk, although other lenders may be concerned about the number of F and G rated properties on their loan books, Ecology proactively lends on such properties in order to improve their energy performance. All Ecology mortgages for retrofit properties are targeted at improving their energy efficiency rating and so cutting energy bills, as well as cutting carbon emissions. We monitor the status of works and update the EPC rating as the project is completed. The EPC ratings of our mortgage portfolio are therefore very dynamic, as properties start off with poor performance and improve, and as we continue to issue new lending on properties at the start of their retrofit journey.

Metrics and Targets

We use a range of metrics to demonstrate the impact of Ecology on climate change (carbon emissions) and the potential future impact of climate change on Ecology (physical and transition risk assessments).

Carbon emissions from our business operations

We have reported the carbon footprint of our business operations since 2012. Emissions in 2021 were 276.8 tonnes CO_2. This is a 15% increase on our emissions in 2020 (241 tonnes, updated to reflect best available data) which had decreased considerably from the previous year due to the pandemic (338.7 tonnes in 2019). In 2021, our business activity has increased substantially, with new mortgage lending increasing by 77% and the number of savings accounts increasing by 16%.

In 2020, the pandemic led to an increase in working from home, leading to a substantial reduction in commuting emissions and business travel. We adapted our measurement of the carbon footprint to include emissions from colleagues working from home as well as commuting, which continued into 2021. As pandemic restrictions were lifted, we have implemented a hybrid working policy. We acknowledge that at present we are unable to eradicate our dependence on fossil fuel use, especially from our suppliers, commuting and business travel. We therefore have a policy to use accredited carbon offset schemes, which plant trees to absorb the amount of carbon equivalent to our total carbon footprint as presented in Table 4. Nevertheless, we do not seek to rely on offsets, and are working to reduce our actual emissions.

Our day-to-day business activities, as well as projects and new initiatives, are targeted at ultimately minimising our use of fossil fuels and hence carbon emissions. For example, technology for heating buildings is now developing at a rapid rate and we are currently reviewing low-carbon heating options for our offices. We generate around a third of our electricity through onsite solar energy generation and purchase the rest through a green tariff with Ecotricity. We have a sustainable travel plan to encourage and enable colleagues and visitors to make more active, healthy and environmentally friendly decisions for travel and transport, including eliminating unnecessary travel.

Carbon emissions arising from the Society's business operations, commuting and supply chains

Total CO_2 (tonnes)

2021
276.8

2020
241.0

2019
338.7

CO_2 emissions normalised by the number of colleagues (tonnes/FTE)

7.1

6.5

9.4

Table 4 Emissions arising from Ecology's business operations, commuting and supply chains in 2021

Scope 1	Emissions (tCO_2e)
Gas use at Ecology offices [Note 1]	6.9
Scope 2 (net)	
Electricity use at Ecology offices [Note 2]	0
Scope 3 [Note 3]	
Business services (e.g. information technology)	160.9
Depreciation, maintenance and other utilities	44.7
Office consumables	12.1
Gas and electricity (scope 3)	2.4
Food and catering	1.2
Business travel and accommodation	7.2
Commuting	31.0
Homeworking emissions	10.4
Total	**276.8**

Note 1: *Technology for heating buildings is now developing at a rapid rate. We are currently reviewing low-carbon heating options for our offices.*

Note 2: *Solar PV and solar thermal technology on our Silsden office generates around 30% of our annual electricity use. We purchase the rest on a green tariff from Ecotricity.*

Note 3: *Scope 3 (excluding lending) is a large category covering business travel, commuting, working from home and purchased goods and services as well as the upstream emissions to produce them. The emissions associated with our lending are assessed in the next section.*

Carbon emissions from our mortgage lending

In 2021, we were the first building society to report our carbon accounts, which show the financed emissions arising from our mortgage lending. Previously, we had reported the average energy efficiency rating from the EPCs for properties in our portfolio. We use the new Global Greenhouse Gas Accounting and Reporting Standard for the Finance Industry (the PCAF Global Standard) developed by PCAF. Ecology became one of the first members of the PCAF UK Group when it formed in October 2020 and during 2021 co-chaired the group's Residential Lending Working Group to share and improve best practice on measuring and reporting carbon emissions from residential property, culminating in a report launched during COP26.

The PCAF Global Standard states that emissions arising from all energy use consumed by the buildings occupants should be reported.

There are two elements to carbon emissions from a residential property:

- Regulated emissions from fossil fuels used to provide energy for space and water heating, and lighting (taken from the EPC, where available)
- Unregulated emissions from fossil fuels used to provide energy for other uses, such as appliances and chargers

While combining regulated and unregulated emissions gives a complete picture of the emissions, some UK financial institutions have chosen to report only financed regulated emissions, as they are directly influenced by the mortgaged aspects, i.e. the fabric, heating technology and lighting of the property. We have reported both:

- Financed total emissions (regulated and unregulated) in line with the PCAF Global Standard
- Financed regulated emissions for consistency with our peers

Table 5 Financed emissions for our mortgage portfolio at the end of 2021

Table 5 Scope 3 – Mortgages: Financed emissions					
Emissions from properties with an EPC (47% of Ecology mortgages) Emission data quality score 3, based on PCAF Global Standard [Note 1]					
	Outstanding Balance (£000)	**Financed regulated CO_2 emissions (tonnes)** [Notes 2,4]	**Financed total CO_2 emissions (tonnes)** [Notes 3,4]	**Financed emission intensity based on regulated emissions only (kg CO_2/£000)** [Note 5]	**Financed emission intensity based on total emissions (kg CO_2/£000)** [Note 6]
Self, custom and new build (where construction is complete)	56,444	375	510	6.6	9.0
Renovations and conversion (includes all properties where works are complete or ongoing [Note 7]	34,385	749	824	21.8	24.0
Sub total	90,829	1,124	1,334	12.4 (weighted)	14.7 (weighted)
Emissions from properties that are completed but do not have an EPC (24% of Ecology mortgages) Emission data quality score 5, based on PCAF Global Standard [Note 8]					
Sub total, all types	41,840	439	541		
Emissions from all new properties where construction works are complete, and all renovation and conversion properties where works are complete or ongoing (76% of Ecology mortgages). Weighted emission data quality score 4.4, based on PCAF Global Standard					
Total	132,669	1,563	1,875		

Note 1: *The PCAF Global Standard gives guidance on defining data quality with a score of 1 assigned to highest quality data where emissions are based on actual fuel consumption through to score 5 for lower quality data where emissions are estimated. We rate carbon emissions from EPCs as data quality score 3, as they are estimated using the SAP model based on details about the property's form, fabric and technology.*

Note 2: *Regulated emissions (for space and water heating and lighting) come from the EPC for each property where it is available. A recognised limitation of EPCs is that the carbon emissions are not automatically updated to reflect the changing carbon intensity of the grid. We are working on how to address this.*

Note 3: *For total emissions, emissions for each property include the regulated emissions from the EPC and an estimate of emissions from other (unregulated) energy use. Property-specific information on unregulated energy use is not available, therefore we applied an average to all properties, calculated from the typical consumption value from Ofgem and the Government's most recent greenhouse gas conversion factors. Unregulated energy changes each year, partly due to occupant behaviour (for example the move to electric cars will result in more charging at the property) and partly due to the carbon intensity of the national electricity supply, which is gradually decreasing.*

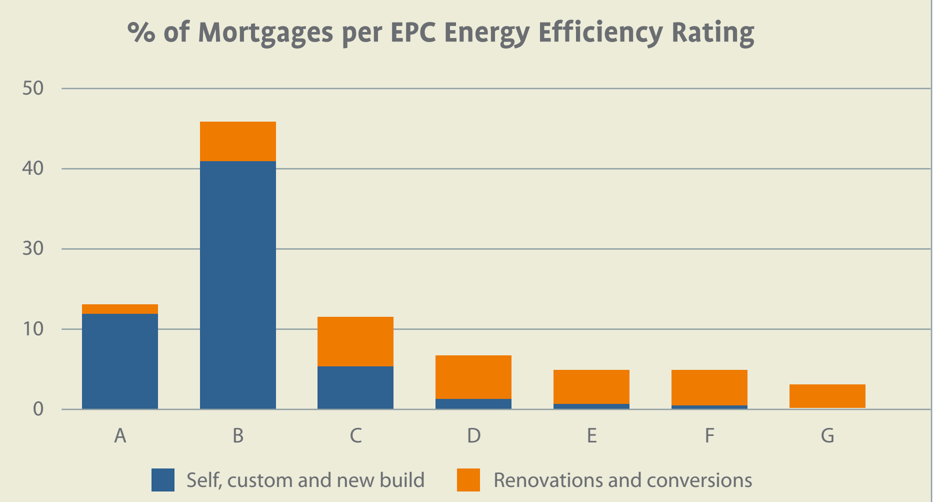
Note 4: *Financed emissions are calculated by multiplying the property emissions by the ratio of loan to value. The PCAF Global Standard recommends using the valuation at origination. However, the majority of Ecology mortgages involve the release of funds as the property is built or renovated and its valuation increases, in which case the loan to value ratio for each property was calculated based on the latest physical valuation, rather than the valuation at origination.*

Note 5: *Financed emission intensity based on regulated energy is a measure of carbon emissions from annual regulated energy use at all properties with an EPC, per thousand pounds of lending.*

Note 6: *Financed emission intensity based on total (regulated and unregulated) energy is a measure of carbon emissions from total energy use at all properties with an EPC, per thousand pounds of lending.*

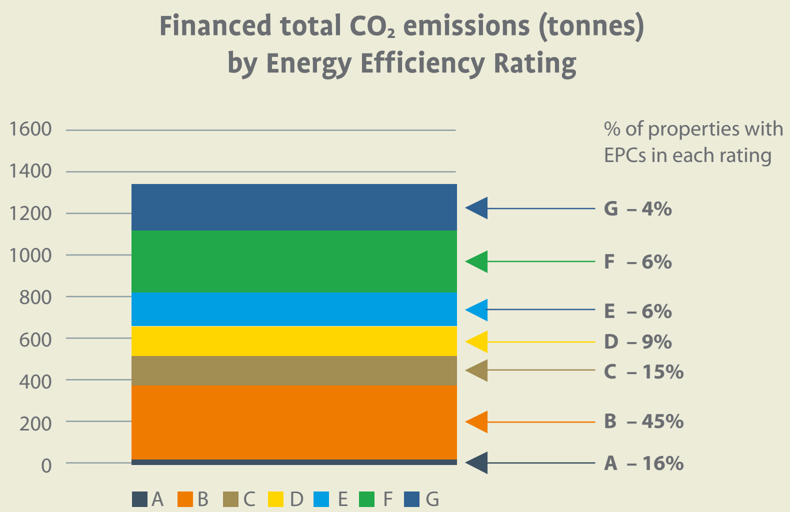
Note 7: *Where a property is still undergoing works (renovation or conversion) or where works are complete but a new EPC assessment has not yet been carried out, the carbon emissions are taken from the pre-works EPC.*

Note 8: *A proportion of properties do not have an EPC, either because their purchase pre-dates the requirement for one or because an EPC assessment has not yet been carried out since works have been completed. We have used known EPC data to estimate emissions for properties where works are complete but their EPC is not yet available.*



The graph shows information on EPC ratings and carbon emissions for the properties with an EPC available.

The spread of ratings reflects the fact that Ecology mortgages enable renovation of some properties that start off in a deteriorated or derelict condition. At any given time, our portfolio is made of up properties that have been built or renovated to a good standard and properties with ratings in the lower EPC bands where Ecology is supporting their improvement through our renovation lending. When renovation works are completed, these properties will achieve a higher energy efficiency rating. We are currently working to identify methods to measure the improvement in terms of carbon emissions that have been avoided as a result of renovation.



The graph shows information on EPC ratings and carbon emissions for the properties with an EPC available.

In 2021, for properties where there is an EPC available, 61% of Ecology properties achieved an energy efficiency rating of A or B but only contributed 29% of the carbon emissions. At the lower end, 16% of Ecology properties are rated E, F or G but contribute 51% of the carbon emissions. This demonstrates the significant difference in carbon emissions between properties with higher and lower energy efficiency ratings, which underpins our commitment to target our renovation lending at improving poorer performing properties.

Based on all the EPCs currently available for properties in our mortgage portfolio, the average SAP score was 75, equivalent to an energy efficiency rating of C. SAP points are calculated in the Standard Assessment Procedure model to work out a property's energy efficiency.

Properties that are undergoing renovation and conversion generally achieve a lower energy rating (and higher emissions) after completion of the works than a new build property, reflecting the challenges in retrofitting an existing property compared with building in energy performance from the outset.

We have recalculated the emissions for 2020 using our latest refined methodology and updated information on the unregulated emissions in 2020. In 2020, financed total emissions were 1899 tonnes and financed regulated emissions were 1603 tonnes. Between 2021 and 2020, our financed regulated emissions decreased by 3% (2021: 1563 tonnes; 2020: 1603 tonnes). This was despite an increase in the number of mortgaged properties in our portfolio. Measuring the financed emissions intensity in $kgCO_2$ per £1000 of lending, permits a comparison by normalising for the amount of lending in a given year. In 2020, the financed regulated emission intensity was 14.7 $kgCO_2$/£000 and in 2021 this decreased to 12.4 $kgCO_2$/£000.

The financed emissions and spread of energy ratings across our mortgage book is dynamic, reflecting the balance of new and existing properties and the transition of poorly performing properties undergoing retrofit to reduce their emissions. We seek to continue to increase our lending on renovation and conversion, which is predicated on environmental improvements being made to the property.

Financed regulated emission intensity in 2020
14.7 kg CO_2 / £000

Financed regulated emission intensity in 2021
12.4 kg CO_2 / £000

Physical carbon intensity

We have calculated the physical carbon intensity of the properties in our mortgage portfolio, in terms of carbon emissions per square metre of floor area, where the floor area is taken from the EPC. The average physical carbon intensity based on regulated emissions across all mortgaged properties was 23.6 $kgCO_2/m^2$ compared with 25.3 $kgCO_2/m^2$ in 2020.

Transition risk assessment

As well as emitting high amounts of carbon dioxide, properties that have poor levels of insulation are at greater risk of higher fuel bills when energy prices increase. Properties that have an energy efficiency rating in the lowest bands (F or G) would be considered at greater transition risk than higher rated properties. Although we have a number of properties that begin with an F or G rating, the nature of our mortgage lending is targeted at improving the energy efficiency rating of these properties, and so mitigating the risk of higher fuel bills.

Physical risk assessment

We have used market-leading consultants in climate risk to assess the exposure of our mortgage book at the end of 2021 to the physical risks of flooding, subsidence and coastal erosion.

Although we are hopeful that the Paris Climate Agreement will succeed in limiting global temperature rise, we cannot rule out future climate disruption. Therefore, we have selected the more pessimistic RCP6.0 scenario for our assessment, rather than the more optimistic Paris-aligned scenario RCP2.6. For subsidence risk, the climate risk model currently only covers RCP8.5 – the worst case scenario. Physical risks take time to materialise and get worse over time. We have chosen to report on the results for the 2050s, given the typical mortgage term is up to 30 years. Our assessment will evolve over time to take account of property-specific and local adaptation mitigation.

Flooding

Under the medium emission scenario (RCP6.0), in the 2050s, taking account of current and planned flood defences, 9.1% of Ecology mortgaged properties in the UK may be at high risk of flooding (impacted by one in 30 year flood events or by less frequent but more severe flood events, such as one in 75 years). From this assessment, we conclude exposure of Ecology's mortgage portfolio to future flood risk is low.

Coastal erosion

Under the medium emission scenario (RCP6.0), taking into account planned shoreline management plans, we assessed the potential for coastal erosion to affect Ecology mortgaged properties in Great Britain. Zero properties in the analysis were at risk from coastal erosion in the 2050s. The climate model for coastal erosion does not yet include Northern Ireland. In 2021, 8% of Ecology's mortgaged properties were in Northern Ireland.

Subsidence
Under the worst case, high emissions scenario (RCP8.5), in the 2050s, 4% of Ecology mortgaged properties in Great Britain could experience an increase of 10% or more in their subsidence risk. We do not yet have data to be able to assess subsidence risk for properties in Northern Ireland. Given RCP8.5 is a worst case scenario, we conclude the exposure of our mortgage book to future subsidence risk as a result of climate change is very low.

Targets
We have committed to achieve net zero by 2050 for our lending and by 2030 for our business operations. Building on *our 2030 strategy* published in November 2021, we are currently working on our net zero plan, which will include carbon emission intensity targets to achieve by 2030, as interim milestones on the journey to net zero by 2050.

Future work

Strategy
Our 2030 Strategy is focused on addressing climate change, both in terms of our impact on climate change and the impact of climate change on our members. We will continue to develop our products and services to ensure we help our current and future members to make their homes more energy efficient and to be resilient to the climate impacts that are already on the horizon. We are increasing our activity to facilitate the sharing of knowledge and impactful solutions between members and experts, on ecological construction, renovation, adapting homes to climate change, community projects, green energy and sustainable living. In line with our strategic priority to agitate for change, we will continue to advocate for policy and regulatory change to facilitate financing the transition to a low-carbon economy in a socially just and equitable way. We are also working collaboratively with national and international alliances of financial institutions to develop targets, standards and frameworks to embed sustainable development and net zero into the finance system.

Governance
We will continue to embed our approach to climate risk, particularly using the detailed assessments of physical climate risks under a range of scenarios to inform our lending policy and underwriting processes. We are developing future climate scenarios to ensure we adequately address climate risk in our capital and liquidity.

Risk Management
We are continuing to improve our assessment of physical and transition risks. We are working with our third-party consultants to extend the assessment of subsidence and coastal erosion risks to include Northern Ireland. We will continue to refine our risk appetite, moving from a more qualitative to quantitative approach.

We will build on current annual climate risk assessment towards more dynamic management information on climate-related risks and work with suppliers and counterparties to ensure they are developing climate change resilience plans and their path to net zero.

Metrics and Targets
We will continue to co-chair PCAF UK, helping to improve the quality and availability of data to measure the emissions from residential property. As described above, we are currently working to establish the science-based targets that our mortgage lending should achieve by 2030. We will publish these interim targets during 2022 as part of our Net-Zero Banking Alliance commitment. We will work with our partners, including Passivhaus Trust and UK GBC, to ensure our target setting is informed by the best available information.

We are undertaking further work to develop how we assess physical climate risks, including engaging with research and innovation in data and modelling tools. We recognise that overheating is a future climate risk for properties in the UK; however there is a lack of widely available data for lenders to be able to assess it. We are working to assess new research in this area to inform potential models and metrics, so that lenders can start to assess this important risk.

Our positive impact

Achieving positive impacts for people and the environment underpins everything we do. Ecology's activities are guided by our mission to build a greener society, through enabling the positive power of finance.

Here, we provide an overview of Ecology's activities to create positive impact in 2021.

2021 was the fifth hottest year on record as the world continues to see a rise in greenhouse gas emissions. In August, the Intergovernmental Panel on Climate Change delivered its stark warning that human activity is driving dangerous climate change with potentially irreversible effects. We witnessed extreme weather events around the world, including droughts and raging wildfires, damaging winter storms and catastrophic floods. The 26th UN Conference of Parties on Climate change (COP26) eventually took place in November, after nearly two years of the global pandemic. David Attenborough emphasised how humanity is already destabilising the planet and world leaders have a responsibility to younger generations who will endure the worsening consequences of climate change and ecological breakdown.

Our climate-related disclosures

This year, our report contains a new section, 'Climate-related disclosures' on page 11 to 32. It brings all climate-related information together in one place, presenting the carbon footprint of our business operations and lending, and describing how we are making a difference on climate change. Our climate-related disclosures also describe the climate change impacts that could impact Ecology in the short, medium and long term, and what we are doing to manage the risks, as well as taking opportunities to tackle climate change.

Engaging our members

Ecology is owned by and run for the benefit of our members. Since our inception, we have been fully committed to ethical finance, enabling our members to harness money to create good environmental and social outcomes as well as fair financial returns.

In 2021, we invited members to take part in our consultation to help develop *Our 2030 Strategy*. We were delighted that more than 750 members took part. We particularly wish to thank members for sharing their valuable and diverse insights and ideas to shape our vision and strategy for 2030, and for pushing us to be ambitious and innovative.

Members were asked to choose areas that were most important to them. The top four issues identified were 'addressing climate change', 'protecting nature', 'reducing inequalities' and 'low-impact living'.

As a member-led organisation, it is very important for us to share the strategy and our thinking behind it, and to hear direct feedback from our members. We were delighted that members joined us at our launch event held online in December, and posed an excellent range of questions. Our members' questions and feedback really help to guide us and keep us accountable.

Sustainable homes

In June, we increased the entry criteria for our range of sustainable mortgages for self- and custom-build in a drive to encourage and accelerate the construction of energy-efficient homes to help meet the UK's netzero ambitions. The minimum energy rating level was raised from 85 to 88 SAP points, meaning the building needs to achieve a higher level of energy efficiency when completed. By increasing the minimum requirements, we're continuing to lead the way in supporting construction of the most energy-efficient buildings, which is critical if we are to tackle the climate and ecological crisis.

In November, we added the Association for Environment Conscious Building (AECB)'s Retrofit Standard to the range of C-Change discount qualifying standards. Retrofitted properties that achieve this standard qualify for 0.75% discount on our Renovation Mortgage rate. The Retrofit Standard is designed to prioritise the retrofitting of existing buildings at scale to achieve 2050 net zero targets.

As a member of Bankers for NetZero, an initiative to investigate how banks can best support key sectors of the UK economy in transition to net zero, we contributed to the *Retrofit Revolution* report published in March. This sets out what is needed for policy and regulation to enable retrofitting to happen rapidly at scale. At COP26, we joined in events with Architects Climate Action Network (ACAN) and the UK GBC on the urgent need for retrofit, the recognition of embodied carbon (the emissions associated with materials and construction) and achieving net zero in the built environment.

Enabling people-powered housing

In 2021, Ecology supported 16 new community-led housing projects across the UK – in Scotland, Bristol, Cornwall, Brighton and Liverpool. Amongst these are two projects with the Peninsular Trust – a community land trust in Millbrook, Cornwall, which is retrofitting three former coastguard cottages and two flats for affordable rent, as well as a community hub and small business offices. We also provided mortgages for six affordable rented homes with the Turner award winning Granby4Streets CLT in Toxteth, Liverpool, and also supported Brighton and Hove Community Land Trust to retrofit a home for affordable rent to a student housing co-op (SEASALT) with eight resident members.

In Bristol, we supported CoHousing Bristol on the renovation of living space for a tenant housing co-op and new build units for eight families, and one Mutual Home Ownership Society (MHOS).

In Scotland, we supported the Mull and Iona Community Trust to build four affordable homes for families on the Isle of Mull as well as the retrofit of a former school house for affordable rent. Ecology also worked with a self-build co-operative in Rothiemurchus, near Aviemore, to create four new homes under the Rural Housing Burden scheme. In order to continue to increase our social impact, we aim to grow our new lending in community-led projects by 100% by 2025.

Changing finance

We seek to catalyse change in the financial system for a fair and sustainable future. One of the ways we do this is by contributing our voice and expertise to national and international alliances to harness the flow of finance to create benefits for people and the environment.

Ecology is a member of the Global Alliance for Banking on Values (GABV), a group of 66 member financial institutions around the world, committed to making the banking system more transparent and supporting positive economic, social and environmental change. During 2021, we worked with the GABV to develop the way financial institutions measure the social impact of their lending. We also took part in the GABV's Banking on Values Day, a global campaign to transform finance to create a fairer economy.

Ecology was the first building society to sign the United Nations Environment Programme Finance Initiative (UNEP FI) 'Principles for Responsible Banking' framework in 2019, a movement that is growing and now has over 250 member banks. Signatories commit to align their business strategy and practice with the Sustainable Development Goals and the goals of the Paris Climate Agreement. We published our first progress report on how we are implementing the principles in 2021. Our most recent progress report is now available on our website **ecology.co.uk**. In tandem with co-developing *Our 2030 Strategy*, we have identified the areas where Ecology can make a difference and are currently working on collecting data to evidence our impact which we will report on during 2022.

Ecology's work contributes to the Sustainable Development Goals

The financial sector has a critical role to play in steering financial flows towards activities that decarbonise our economy.

During 2021, we co-chaired the UK Residential Lending Group, a group of leading financial institutions working to improve the measurement of carbon emissions from mortgage property, within PCAF UK. Our aims for co-chairing the group are to build knowledge and capability for mortgage lenders to measure and report the carbon emissions of their loan books, as well as to review new research and innovation to improve the data and methods used to calculate emissions. The first report of the group was published in November, to coincide with the focus on finance at COP26. Mark Carney, leading the COP26 Private Finance Hub, recognised the efforts of the group. He said, "*PCAF's work to standardise the approach to measuring financed emissions in this sector is vital to ensure that every financial decision takes climate change into account.*" Looking ahead, we will work to build knowledge and capacity for mortgage lenders to establish net zero targets and plans for mortgage lending.

Leading the field

The Society continues to receive accolades for our sustainable lending model and commitment to maintaining the highest standards of service. During 2021 we were nominated as finalists in an unprecedented six categories of the British Bank Awards and following members' voting and positive feedback we were named 'Best Ethical Financial Provider' and 'Treating Customers Fairly Champion'. Our pioneering approach to ethical finance was also recognised in the MoneyAge Awards and Savings Champion Awards and we also received the Yorkshire Post's Excellence award for Environmental Sustainability. Investors in the Environment (iiE), which audit our environmental performance, also named Ecology as the 'Overall Outstanding Achiever (SME)' in their annual awards in addition to us continuing to receive their Green Award, the highest possible, for our commitment to sustainability.

Ecology's role as a leading supporter of self- and custom-build was recognised by Mortgage Finance Gazette, which also recognised the outstanding contribution made by Paul Ellis in the Lifetime Achievement category. Paul was also the recipient of the first ever Passivhaus Pioneer award by the Passivhaus Trust which stands testament to his far-sighted involvement in helping to establish the Passivhaus standard in the UK as well as to his long-standing commitment to support the sustainable building movement and the growth of green finance. Paul also received life membership of the Passivhaus Trust and the AECB.

In addition, the Society was once again recognised with a Good Egg award by ethical finance website, Good with Money.

We were delighted to be invited by the Institute of Chartered Accountants in England and Wales (ICAEW) to be on the judging panel for the prestigious Finance for the Future awards, having received two awards in 2019.

Responsible business

Ecology is a responsible business, committed to addressing the climate and ecological emergency, through everything that we do. We are guided by our climate and ecological emergency plan, published last year. The infographic on page 36 provides an overview of our activity this year.

In 2021, we partnered with social enterprise Giki, which stands for Get Informed, Know your Impact, to bring their sustainability programme to Ecology colleagues. The Giki Zero online platform enables colleagues to work out their carbon footprint, build their knowledge on sustainable living and identify steps to take to reduce their carbon footprint.

Investors in the Environment (iiE), helping us to improve the environmental performance of our business operations. We measure our energy and resource use and implement initiatives under six action areas – Carbon, People and Culture, Infrastructure, Resources and Waste, Travel and Nature. We shared our approach to improving the environmental performance of our business at industry events hosted by the Building Societies Association, Business Green and the National Credit Union Foundation.

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 2021 standing at 6.7:1.

We were re-accredited with the Fair Tax Mark, demonstrating our commitment to doing the right thing when it comes to taxes.

Sponsorship and charitable giving

We were pleased to support the Good Homes Alliance conference series, which explored the policy, planning, design and building performance considerations for net zero building. Ecology also made a donation to support the work of London Energy Transformation Initiative (LETI) which brings together built environment professionals to put the UK on the path to a zero carbon future.

During COP26 we co-sponsored the UKGBC's virtual pavilion and partnered with ACAN to sponsor their presence in Glasgow. We also supported the International Passive House Association's programme of visits during the summit.

Colleagues continued to volunteer their own time to a range of community organisations including local foodbanks, various sports groups and a local community trust.

In addition, we made £650 of donations to our charity partner, Trees for Cities, as a result of members' AGM voting.

Ecology Building Society colleagues raising funds for Sue Ryder in the Summer Solstice charity run, Bolton Abbey, North Yorkshire

Our progress in 2021

Our members

Powered by more than **12,000 members**

1,529 (16.9%) eligible members voted in our 2021 AGM – more than two thirds voted online

Over **750** members participated in our member consultation

96% of members trust us to create positive environmental and social impact

Our premises

Initiated evaluation of low-carbon heating options

100% renewable electricity, 39% of which is generated onsite

Maintained Investors in Environment Green Award (highest category)

Our local community

Litter picking with Plastic Free Silsden

Team took part in charity run, raising funds for Sue Ryder Manorlands Hospice

£650 raised for Trees for Cities as a result of members' AGM voting

Our activism

Launched Our 2030 Strategy co-developed with members

Founding signatory of Net-Zero Banking Alliance

Co-chaired PCAF* UK and reported during COP26

Contributed to UK Government policy deliberations and Bankers for NetZero report on retrofits

Participated in events in Glasgow during COP26

Our colleagues

Introduced 'Giki Zero' colleague sustainability programme

Launched electric vehicle leasing scheme

Complimentary onsite electric vehicle charging

Investors in Environment Overall Outstanding Achiever (SME) Award

Our supply chains

Review underway of environmental performance of our suppliers

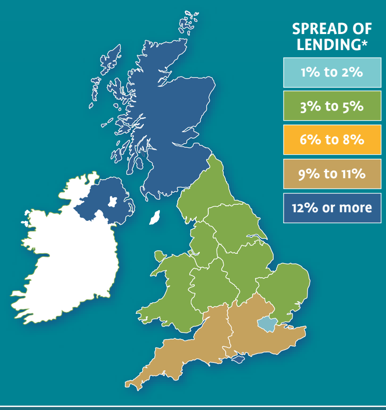
Our lending

77% increase in new lending to **£69.4 million** across **371** sustainable properties and projects

142% increase in new lending for renovations and conversions

New loans include:

- **39** conversions
- **52** renovations
- **246** new builds, including self and custom builds
- **5** shared ownership properties
- **6** housing co-operatives
- **5** community land trusts
- **4** woodlands
- **1** community gain project



Our carbon emissions

276.8 tonnes: total carbon footprint of our business of which **21%** comes from office heating, business travel, commuting and working from home

1,563 tonnes: financed emissions** from our mortgage lending

12.4 $kgCO_2$/£000 average financed emission** intensity and

23.6 $kgCO_2/m^2$ average physical emission intensity of our lending

We are working on our net zero plan and targets for business operations and lending, and will report on these during 2022

* PCAF UK: Partnership for Carbon Accounting Financials UK

** Based on carbon emissions from regulated energy use for space and water heating, and lighting

Your Board of Directors

Steve Round
Non-Executive Director and Chair

Steve is an entrepreneur who believes passionately that we can use financial services to create a fairer society. Having worked with a range of major financial institutions as well as start-ups both in the UK and Internationally Steve launched the first cloud-based banking platform in the UK – the change account in 2015 – giving individuals who were homeless and financially excluded access to a first-class bank product.

He founded SaaScada which offers both existing and new banks Internationally 'banking as a service' delivering a cloud-based banking solution. He is a director at FinComEo – which provides a unique ecosystem of finance to benefit farmers in Africa and Centenary Bank in Uganda a member of the Global Alliance Banking on Values.

He was previously Chair of The Big Issue Foundation and director at Unity Trust Bank.

Andrew Gold
Non-Executive Director

Andrew is a qualified chartered accountant and also holds a treasury qualification. He has spent most of his career working in retail financial services, primarily building societies. He had his first direct involvement with the Society in 1996 and was appointed to the Board in 2014.

In addition, Andrew is the Chair of the Airedale NHS Foundation Trust.

Chris Newman
Non-Executive Director

Chris' concerns about climate change, energy resources and fuel poverty brought him to the sustainable building sector. As a director of Parity Projects, which develops retrofit investment strategies for housing providers and private individuals, he brings expert knowledge in improving homes' energy efficiency.

He has previously worked as a consultant at a large accountancy firm and in internal audit and compliance for an investment bank.

Paul Ellis
Chief Executive

Paul has been involved in the Society since 1981. He joined the Board in 1984 and has been Chief Executive since 1995.

He has a long-held commitment to environmental and social issues, and is active in a number of community environmental initiatives. He has also served on the board of the International Association of Investors in the Social Economy (INAISE), the Association for Environment Conscious Building (AECB); and the Passivhaus Trust, which the Society helped to establish.

Kerry Mashford OBE
Non-Executive Director

Kerry is a Chartered mechanical engineer and has worked for many years in sustainable manufacturing and construction, energy transition and the circular economy. She initiated and led Innovate UK's Building Performance Evaluation programme and is a member of its Transforming Construction advisory group.

Kerry recently led and co-authored BS 40101, a new British Standard on Building Performance Evaluation of buildings in-use. She is a non-executive director of the Active Building Centre Ltd and chairs the energy strategy group of Worcestershire LEP. She was awarded an OBE in 2017 and is currently planning her next self-build home.

Louise Pryor
Non-Executive Director and Chair designate

Louise is a climate change actuary and risk specialist with 30 years of experience in actuarial consulting, software development and academia.

Louise is President of the Institute and Faculty of Actuaries, and Chair of the London Climate Change Partnership.

Amanda Chambers
Finance Director

Amanda joined the Society in 2019 and was appointed to the Board in February 2020. She is a chartered management accountant with over 20 years of experience in financial services, having held senior roles in both mutual and plc businesses.

As a keen hiker, Amanda is embracing life in the Yorkshire Dales, while her passion for music sees her performing in amateur community musical theatre shows and playing the piano.

Tim Morgan
Non-Executive Director

Tim is a Chartered Accountant and Secretary who has worked in the social impact sector for the last 27 years. He is also Finance Director and Secretary of the fair trade lender Shared Interest, a financial mutual with a social purpose.

Tim has worked with a number of leading fair trade organisations such as Traidcraft and Cafedirect, and was previously a director in the NHS.

Vince Smith
Non-Executive Director

Vince joined the Board in 2017 after a 29 year career in corporate treasury, where he held senior roles in FTSE 100 and 250 companies, including in the building materials, construction and services sectors.

He holds an environmental degree and is a volunteer for nature conservation organisations, serving as a trustee of Staffordshire Wildlife Trust for 21 years, including eight as Chair.

We would all like to express our gratitude to Steve Round as he departs his role as Chair. Since joining the Board in 2010, Steve has brought his immense experience and passion to help the Society drive forward on its ecological mission. We have appreciated our working together, and Steve will be missed as we continue our journey.

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 2021.

The Directors' report should be read in conjunction with the Chair's statement, The Chief Executive's review and the Strategic report.

Information presented in other sections

Certain information required to be included in a Directors' report can be found in other sections of the Annual Report and Accounts as described below. All the information provided in these sections is deemed to form part of this report:

- Information on the business objectives and activities of the Society is detailed in the Strategic report on pages 6 to 9
- Directors' interests are detailed within the Corporate Governance report on page 48
- Free Capital and Gross Capital percentages are included within the Annual Business Statement on page 92
- Information regarding mortgage arrears is included within the Strategic report on pages 6 to 9

Risk management objectives and policies

Responsibility for risk management resides at all levels within the Society and is supported by Board and Executive Management. A three lines of defence model is deployed on the following basis:

- 1st line – the Executive, Management and colleague body of the Society. Their day-to-day responsibilities include the identification and management of the risks facing the Society. The management of risk is a shared responsibility at all levels of the Society with the risk appetite expressed in terms which are readily understood throughout the business; the risk management framework and management information provide the mechanism to achieve that in practice
- 2nd line – the Society's Risk and Compliance function. The Head of Risk and Compliance holds day-to-day responsibility for risk oversight, monitoring whether there is an appropriate risk management framework embedded in the Society by way of the development of risk policy (including standards and limits) along with oversight of the mechanism for monitoring compliance with those policies standards and limits. In addition, the CRO provides leadership in the development and implementation of risk management techniques in line with regulatory expectations and 'best practice'
- 3rd line – the Society's internal auditors and other independent assurance providers. The scope and coverage of the internal audit activity is determined by RACE who commission and receive the reports from that activity. In addition we are subject to external audit from auditors who are responsible for risk assurance and who undertake independent assessments of the effectiveness of the Society's control framework

COVID-19 update

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

To adapt to the unprecedented nature of the circumstances during 2021, the Society continued to respond rapidly to fast moving external changes. We did this whilst maintaining the fundamental principles and approach to risk management and adapting and operating in an agile manner with the objective of keeping our members and colleagues safe.

With the continuation of the vaccine and booster programme, the UK has shown encouraging signs of recovery and the impacts on the economy have been positive. The UK has not seen increases in unemployment rather the converse occurring with record numbers of job vacancies which has created challenges for the Society and the financial services sector in terms of recruiting and retaining the right colleagues and people. With planned increases in resource within the Society during 2022, these pressures will continue to be assessed. The Society continues to develop processes and procedures which are designed to mitigate the potential of loss of key staff.

Supply chain issues have been experienced throughout 2021 which have had an impact on the self-build sector of the Society's lending portfolio. However these are expected to decrease through 2022 as the pandemic continues to ease.

The pandemic has seen the introduction of a hybrid working model within the Society, which will decrease travel, reduce the Society's carbon footprint and have beneficial consequences for the environment.

The Society will assess the severity and duration of the pandemic over 2022 and where required further plans will be developed to assess risk factors both internally and externally such as the regulatory environment, the macro-economic outlook and the credit risk portfolio.

UK transition from the EU (formerly Brexit)

As a UK organisation, the Society has no direct exposure to the EU and therefore the overall impact from the UK's transition from the EU has been minimal. The post-Brexit relationship with the EU and any potential impacts will continue to be monitored by the Society.

Risk management overview

The Board oversees and approves the Society's Risk Management Framework (RMF) and is supported by the RACE committee. RACE's purpose is to review the Society's principal risk categories and risk appetite, report its conclusions to the Board for approval and oversee the implementation of the RMF, whilst anticipating changes in business conditions.

There is a formal structure for identifying, reporting, monitoring and managing risks. This comprises, at its highest level, risk appetite statements, which are set and approved by the Board and are supported by granular risk appetite measures across the principal risk categories. This is underpinned by an RMF which sets out the high level policy, roles, responsibilities, governance and oversight for the management of risk.

Material risks and issues, whether realised or emerging, are described along the lines of principal risks within the principal risk categories section below.

Risk management strategy and appetite

The Board has primary responsibility for identifying the key business risks faced and approving the risk management strategy through the setting of risk appetite, which defines the type and amount of risk the Society is prepared to take both qualitatively and quantitatively in pursuit of its strategic objectives. In addition, the Board approves key regulatory submissions, including the ILAAP and the ICAAP.

Risk appetite is translated into specific measures, which are tracked, monitored and reported to the Executive Risk Committee and RACE. The risk appetite framework has been designed to create clear links to the strategic planning process whereby appropriate metrics and limits for each risk category are established, calibrated and reported.

Risk culture

A critical supporting factor of the RMF is the Society's risk culture, which is a shared set of values and behaviours that defines how all colleagues approach the management of risk. This culture begins at the top of the Society with the Board and Executive team and colleagues are provided relevant training and opportunities throughout the year in relation to risk management.

Principal risk categories

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, reputational risk for not meeting the Society's vision, 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 which are either temporary in nature or not yet sufficiently developed to incorporate into the principal risks.

Strategic risk

Definition:

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, including the management of Ethics and Climate risks, arising from external factors given the Society's business model and direction.

Key themes:

The macroeconomic environment – the impact of both the pandemic and the UK's transition from the EU has been given much consideration throughout 2021. The Society has noted the recent increase in inflation (Retail Price Index – RPI) with expectations for this to peak at 7% during early 2022. Whilst the impacts are still to materialise, the Society anticipated increases in the Bank of England interest rates and these have been factored into corporate planning assumptions. The Society has also noted ongoing pressures in the UK's standard of living with sharp rises in both fuel and food prices which could have an impact on members' ability to repay mortgages in a timely manner and may mean that members face financial vulnerability and decreased disposable saving income. The Society will continue to assess members' needs throughout this period and ensure any vulnerabilities are appropriately managed.

Mitigating actions:

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 the Society has sufficient capital and liquid resources and appropriate management control processes to allow it to withstand such impacts.

Emerging risks:
The Society is exposed to the potential for growing entries into the market in which we operate. Following COP26 and the requirements from the PRA in relation to climate risk, more incumbent organisations are reviewing their propositions in the market and as a result the Society may experience increased market competition, which will need to be factored into decision making and aligned to the Society's mission.

The Society will also need to ensure transformational risk (which could impact strategy) is appropriately managed through 2022 and beyond which could be exacerbated by the transition to a new Chair and CEO within the first half of 2022, coupled with the employment of a new full time Chief Risk Officer (commenced role 4th January 2022). The Board and the Executive will need to ensure appropriate controls and reporting are in place to ensure a smooth transition during this period and focus is maintained on the Society's vision and mission.

Ethics risk

Definition:
The risk of delivering poor outcomes for customers/members giving rise to financial loss and reputational damage.

Ethics risk incorporates the Society's oversight and management of conduct risk, including the FCA's Consumer Duty of Care.

Key themes:
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.

Mitigating actions:
The Society mitigates ethics risk through having a robust and effective internal control framework, including the Society's Risk and compliance function and internal audit, which are overseen by RACE. Across the three lines of defence there has been ongoing management, oversight and reporting of key ethics risks with regular reporting upwards to Board on performance.

Emerging risks:
Continued emphasis of ensuring customer vulnerability and potential customer harm is appropriately managed within the Society. This remains key for 2022.

Climate risk

Definition:
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.

Climate risk is inherent within the Society's risk management framework and is formally disclosed in pages 11 to 32.

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

Physical risk represents the physical consequences of climate change on natural and human systems. 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 risks 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.

Credit risk

Definition:
Risk of loss from default on obligations to pay monies owed (capital or interest) to the Society as and when it falls due.

Key themes:
Managing the profile of the lending to new and existing customers, both residential and commercial, is key to the ongoing management of the Society's exposure to credit risk. This involves the continual optimisation of our strategies across all products, using both internal and external performance data, as well as ensuring the appropriate oversight of their performance. 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. 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 a customer or counterparty may not be able to meet its obligations to the Society as they fall due. 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.

Arrears management processes, including where forbearance needs to be applied, are fully documented and utilised if needed.

Mitigating actions:
Following completion, the performance of all mortgages and commercial loans are monitored closely and action is taken to manage the collection and recovery process. The Board Lending Committee (BLC) considers credit policy issues and credit risk in general whilst the Assets and Liabilities Committee (ALCO) is responsible for monitoring treasury counterparty risk. The Board monitors the arrears profile and approves changes to counterparties, treasury and lending policies. The Society takes particular note of concentration risks 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.

Emerging risks:
There is a risk that customers become increasingly vulnerable due to the current economic conditions that are driving up of the cost of living. Inflation is expected to peak in the first half of 2022. The Society keeps a close watch for customer vulnerability and the ability to repay in a timely manner. The number of members in forbearance remains very low and recent trends do not report any material levels of arrears within the lending portfolio. This will be closely watched through 2022 to ensure customers are treated fairly and potential ethics risk exposure is appropriately managed.

Financial risk

Definition:
The risk on cash resources, earnings and capital arising from raising retail funding, lending to mortgage borrowers or counterparties, the latter as part of liquidity management, and meeting all prudential regulatory requirements as a deposit taker.

Key themes:
Liquidity and funding risk is the risk the Society is unable to meet its obligations as they fall due or can only do so at excessive cost. The Society maintained a strong level of liquidity through 2021, against regulatory expectations but also recognising the potential for changes in customer profiles and market conditions given the uncertainties of COVID-19. 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 our financial obligations as they become due. This is managed by investing according to a Board-approved policy and risk appetite.

Interest rate risk is the risk the Society is exposed to in relation 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 a 15bps rise in December 2021, followed by 25bps in February 2022, and the potential for further increases through 2022. Therefore, in preparing the Society's corporate plan, the Directors have allowed for rates increasing through the planning period. The risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society as at 31 December 2021 is detailed in note 25.

Capital risk is the risk the society fails to assess and maintain the adequacy of its capital. Capital adequacy is assessed through an 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 the Society holds sufficient capital to meet Capital Requirements Directive (CRD) 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 CRD can be found in the Pillar 3 disclosures available on the Society's website: **ecology.co.uk**.

Mitigating actions:
The Society's approach to liquidity risk is documented in ILAAP and the approach to capital is documented in the ICAAP. The Board complies with the CRD. The Society must also 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.

There are 10 sub-risks to operational risk which are outlined below, subject to annual review. Each risk is managed in line with the RMF and recorded on the risk management system.

Emerging risks:
Potential implications of any changes to capital requirements post UK-EU transition, for example the Counter Cyclical Buffer (CCYB), will need to be carefully managed, alongside interest rate rises and reported via appropriate governance channels.

Operational risk

Definition:
The risk of loss resulting from inadequate or failed internal processes; people or systems or from external events, including legal and financial crime risk.

Operational risk has 10 sub-risks as part of the Society's RMF. These sub-risks are focused on individually in the commentary below and all are subject to annual review and managed in accordance with the RMF

Key themes:
Operational risk levels have remained elevated through the year as a result of the ongoing impacts, from both an internal (colleague) and external (key 3rd party supplier) point of view, of the COVID-19 pandemic. The significant operational risk themes are outlined below.

Financial crime (including information security) – there are persistent risks to the Society from cyber attacks due to an ever-evolving threat landscape. Exposures will always persist from threat actors from less sophisticated Distributed Denial of Service (DDOS) threats to organised threats from ransomware attacks as seen within the UK during 2021. 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.

The Society has also ensured ongoing compliance with anti-money laundering requirements (5th money laundering directive) through the continued adoption of Smart Search and transaction monitoring through Mitre. Both systems are integrated into Know Your Customer (KYC) and Customer Due Diligence (CDD) processes. Further development of transition monitoring tools and techniques have been explored with an expected replacement planned for 2022.

Operational resilience – significant work has been undertaken through 2021 in relation to operational resilience and this will continue to ensure regulatory obligations are achieved by 31st March 2022. Development of Business Continuity Management, Cyber Resilience and Outsourcing frameworks have been ongoing and will continue to be enhanced in 2022. A programme of self-assessment is under development to ensure appropriate oversight from the Board is maintained through to final implementation in March 2025.

COVID-19 impact on our people – staff absence and resourcing levels across the Society have been impacted by the COVID-19 pandemic, though to a minimal level. Close monitoring of early warning indicators, such as daily absence reporting, is in place to monitor operational impacts. In addition, actions have been taken to increase the number of colleagues who are able to work from home.

3rd party supplier management – the Society continues to be dependent on suppliers to support or provide key society services, for example Mutual Vision. This presents a heightened risk exposure due to the impact of the COVID-19 pandemic. The Society has taken steps to ensure that its suppliers can continue to operate in the resultant challenging economic conditions.

Mitigating actions:
The Society mitigates operational risk through having a robust and effective internal control framework, including the Society's Risk and Compliance function and internal audit, which are overseen by RACE to identify, monitor and implement controls for new and existing legislation. Across the three lines of defence, there has been ongoing management, oversight and reporting of key risks and controls.

Emerging risks:
Regulatory change – further implementation of the FCA's Consumer Duty of Care (published December 2021) will need to be progressed through 2022. Other key regulation includes:

- Embedding of Climate Change regulation (prudential risk)
- Implementation of Operational Resilience (conduct and prudential risk)
- Environmental, Social and Governance (climate risk)
- Diversity in Financial Services (conduct risk)
- A Strong and Simple prudential framework for non-systemic banks and building societies (prudential)

Key person dependencies – this 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 our small size, the loss of Directors or members of the Senior Management Team could adversely affect our operational leadership and the ability for our business to operate and compete effectively.

Ongoing digitalisation - with the ongoing implementation of the Society's digital strategy, focus will need to be maintained on key factors of delivery in relation to time, cost and quality.

Financial risk management objectives and policies

The Society has a formal structure for managing financial risk within the RMF. This risk is closely monitored and controlled by the Board, supported by the Risk Committee and RACE. ALCO 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 £12,260 (2020: £21,600), including a donation to the Ecology Building Society Charitable Foundation. No contributions were made to political parties.

Land and buildings

The head office building was developed to reflect the ecological business practices of the Society. Where possible, recycled and reclaimed materials have been used and energy reduction techniques and practices utilised. Further details on the current valuation is provided in note 13.

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 2021 was 81 days (2020: 47 days). Out of the £440k of Other Creditors, £380k is included within creditor days. This comprises of accruals totaling £225k, of which £165k relates to internal and external audit services, and six invoices, with a collective value of £95k, which remained outstanding at the year-end, primarily due to pandemic related illness having a short term impact on the approval process.Excluding the six invoices, the Creditor days would have been 59 days. As of January 2022, creditor days have returned to a normal level.

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 our operations. The Society has adopted a Tax Compliance Policy Statement which is reviewed regularly by RACE and the 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, we actively welcome paying our fair share of tax.

The disclosure made in this 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 our 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 the outlook for interest rates, inflationary and other macroeconomic pressures.

Furthermore, the Society is required to review annually our ICAAP and ILAAP, which include the requirement to stress test our 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.

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
- 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.

On behalf of the Board

Steve Round
Chair
04 March 2022

Directors

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

Steve Round
Chair

Paul Ellis
Chief Executive

Amanda Chambers
Finance Director

Andrew Gold

Kerry Mashford

Tim Morgan

Chris Newman

Louise Pryor

Vince Smith

Tenants move into affordable Ulva Ferry homes on Mull.

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 Board Committees

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 environmental impact. The Board is supported by a strong system of governance which 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, 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 eight times during 2021.

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 2021.

The Board is satisfied that the Committee has appropriate recent and relevant financial experience to carry out its duties effectively. The Committee comprises 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 and 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 and 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 two Non-Executive Directors, 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, additional members of the Finance Team attend the meeting. The Committee met seven times during 2021.

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 2021.

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 at least three Non-Executive Directors, one Executive Director and the Chief Operating Officer. The Committee, chaired by Chris Newman, met on four occasions during 2021.

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 at least three independent Non-Executive Directors, one of whom should be the Chair of the Board. The Committee is chaired by Steve Round. During 2021, the Committee met on six occasions.

Remuneration Committee

The primary responsibility of this Committee is to ensure the Society's remuneration policy complies with the respective regulatory requirements of the FCA and PRA. The Committee proposes the remuneration of the Executive Directors. The Committee was chaired by Andrew Gold until May 2021 and Louise Pryor thereafter. During 2021, the Committee met on three occasions. The Directors' remuneration report is on pages 50 and 51.

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.

Chair designate

During the year a thorough assessment process was undertaken for the position of Chair designate, which resulted in Louise Pryor taking on that responsibility to effect a smooth handover with the outgoing Chair and to lead on the CEO recruitment process.

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

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

During the year, the Nominations Committee obtained professional support from Saxton Bampfylde in conducting a formal and rigorous recruitment and selection process for the Chief Executive Officer position. In addition, professional support was obtained from Merje in conducting a formal and rigorous recruitment and selection process for the role of Chief Risk Officer designate with Greig Moran being appointed to this position commencing in January 2022.

Within prudential constraints, the Board aims at diversity in its membership, particularly gender diversity and diversity of age. At 31 December 2021, 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.

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 Chair is appraised by an Executive Director. All other Non-Executive 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.

Directors' interest

Biographies of the Directors are included on page 37. None of the Directors hold any shares in, or debentures of any associated body of the Society.

Board and committee membership and attendance record

Director	Board	RACE	DSPC	BLC	Remuneration	Nominations	ALCO
Steve Round	8/8	■	3/3	2/2	■	6/6	4/4
Paul Ellis*	7/8	5/5	3/3	2/4	■	2/2	5/7
Amanda Chambers*	7/8	5/5	3/3	■	■	■	7/7
Andrew Gold*	8/8	5/5	3/3	4/4	3/3	■	7/7
Kerry Mashford	8/8	3/3	3/3	4/4	■	■	■
Tim Morgan	8/8	5/5	3/3	■	3/3	2/2	■
Chris Newman	8/8	5/5	3/3	4/4	■	■	■
Louise Pryor	8/8	■	3/3	■	3/3	6/6	■
Vincent Smith	8/8	2/2	3/3	2/2	■	4/4	3/3

*Directors are invited attendees of RACE.

■ *denotes not a member of this committee*

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

Changes in committee membership took place in June 2021

- ALCO – Steve Round replaced by Vincent Smith
- BLC – Vincent Smith replaced by Steve Round
- Nominations – Paul Ellis and Tim Morgan replaced by Vincent Smith
- RACE – Vincent Smith replaced by Kerry Mashford

In addition, in June 2021, Andrew Gold handed over the Chair of the Remuneration Committee to Louise Pryor.

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

Role and composition of the Remuneration Committee

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

The Committee comprises three Non-Executive Directors. At the invitation of the Chair of the Committee, the Chair, Chief Executive, Finance Director and HR Manager attend meetings as required. The Chief Executive and Finance Director take no part in the discussion concerning their individual remuneration. The Committee held three meetings during 2021, 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 has a long-established fair pay policy which limits the ratio between the highest and the lowest basic salary."*

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.

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 2021

2021	2020
6.72	6.58

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. Paul Ellis' contractual notice period expired in January 2022, following his resignation in July 2021, and he has agreed a leaving date of 30 April 2022 with the Board.

Non-Executive Directors' remuneration

	2021 £000	2020 £000
Steve Round	**22.7**	22.5
Andrew Gold[1]	**27.3**	27.3
Kerry Mashford	**14.4**	14.2
Tim Morgan	**18.4**	18.2
Chris Newman	**15.9**	15.8
Louise Pryor	**14.6**	14.2
Vincent Smith	**15.6**	15.4
Alison Vipond	**–**	3.6
Totals	**128.9**	131.1

[1] *Includes additional remuneration of £12,790 (2020: £12,662) in relation to assigned senior management regime responsibilities for oversight of the risk function. There are no pension or other benefits paid to the non-executive directors.*

Executive Directors' remuneration

2021	**Salary £000**	**Performance related pay £000**	**Taxable benefits £000**	**Contributions to pension scheme £000**	**Total £000**
Paul Ellis (Chief Executive)	**116**	**–**	**4**	**9**	**129**
Amanda Chambers (Finance Director)	**100**	**–**	**–**	**8**	**108**
Totals	**216**	**–**	**4**	**17**	**237**
2020					
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**

The Executive Directors' renumeration above represents their gross contractual salary and does not take into consideration any salary sacrifice that has been made.

On behalf of the Board

Louise Pryor
Chair of the Remuneration Committee
4 March 2022

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 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) comprising FRS 102 "*The Financial Reporting Standard applicable in the UK and Republic of Ireland*".

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

In preparing these Annual Accounts, the Directors are required to:

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

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

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

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

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of Annual Accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

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

Steve Round
Chair
4 March 2022

Willow planter in Ecology's permaculture gardens

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 2021 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 2021 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 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 2 years, covering the year ended 31 December 2021. 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:

- Reviewing the Internal Capital Adequacy Assessment Process (ICAAP), Internal liquidity adequacy assessment process (ILAAP) and regulatory capital and liquidity requirements
- Challenging the appropriateness of the Directors' assumptions and judgements made in their base forecast and stress-tested forecast, including reverse stress test scenarios. In doing so we agreed key assumptions such as forecast growth to historic actuals and relevant market data and considered the historical accuracy of the management forecasts;
- Review of key ratios for significant deterioration; and
- Assessing how management have factored in key external factors expected to affect the Society such as the Covid-19 pandemic, checking these had been appropriately considered as part of the management' 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

		2021	2020
Key audit matters	Revenue recognition ("EIR")	✓	✓
	Impairment losses on loans and advances	✓	✓
Materiality		£117,000	£113,000
		Materiality in 2021 was based on 0.75% of Net Assets as a proxy for Tier 1 Capital while for 2020 it was based on 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.

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 the scope of our audit addressed the key audit matter
Revenue recognition *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 in accordance with the requirements of the applicable accounting standards. 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 the Society's loans and advances within these models. The key assumptions in the EIR models are the directly attributable fees and costs and the expected behavioural life and redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. Errors within the EIR models themselves or bias in key assumptions applied could result in the material misstatement of revenue. Revenue recognition is therefore considered to be a Key Audit Matter.	We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of the applicable 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. Through inspection of contractual terms we challenged the fees and costs included or excluded from the effective interest rate estimates, including early redemption charges. 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 challenged the reasonableness of the loan behavioural life assumptions used by management considering historical experience of loan behavioural lives based on customer behaviour, product type, market factors, recent performance and external data where applicable. We assessed the models for their sensitivities to changes in the key assumptions by considering different profiles of behavioural life. We utilised data analytics to perform a full recalculation of the contractual interest recognised during the financial year on loans advanced. We reviewed the relevant interest income and effective interest rate disclosures made by management for 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
Allowance for impairment on loans and advances *As disclosed in Note 12 and explained in Note 1.11 (Assumptions and estimation uncertainties), the Society holds £527K of impairment provisions at year-end (2020: £629K).*	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. 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 allowance for impairment on 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:

	2021	2020
Materiality	£117,000	£113,000
Basis for determining materiality	0.75% of Net assets	0.75% of Tier 1 Capital
Rationale for the benchmark applied	We determined that Net assets was the most appropriate benchmark considering the different stakeholders. The benchmark was changed to net assets as this is considered to be the measure which closely corresponds to regulatory capital. 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.	We determined that Tier 1 capital was the most appropriate benchmark considering the different stakeholders. 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	£88,000 based on 75% of 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 judgement was that overall performance materiality for the Society should be 75% of materiality. A lower level of performance materiality was applied last year in particular considering this was 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 (2020: £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 below 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 on page 91 for the financial year ended 31 December 2021 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 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 considered compliance with this framework through discussions with the RACE Committee and performed audit procedures on these areas as considered necessary. Our procedures involved enquiry with the management, RACE Committee, review of the reporting to the Directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and in relation to accounting estimates such as the EIR and loan loss provisioning.

Our procedures included:

- obtaining an understanding of the control environment that the Society has in place for monitoring compliance with laws and regulations;
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- enquiring of management and those charged with governance about their own identification and assessment of the risks of irregularities, including fraud;
- 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 by agreeing them to supporting documentation, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- in addressing the risk of fraud in accounting estimates, the procedures performed in the key audit matters section of our report assessing whether the judgements made in making accounting estimates are indicative of a potential bias;
- 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.

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.

Dan Taylor (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
4 March 2022

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 2021

	Notes	**2021 £000**	2020 £000
Interest receivable and similar income	2	**7,034**	6,376
Interest payable and similar charges	3	**(1,863)**	(2,053)
Net interest		**5,171**	4,323
Income from investments		**34**	56
Fees and commissions receivable		**4**	4
Fees and commissions payable		**(145)**	(139)
Other operating income		**16**	11
Net gain/(loss) from other financial instruments at fair value through profit and loss	14	**10**	(6)
Total net income		**5,090**	4,249
Administrative expenses	4	**(3,746)**	(3,229)
Depreciation and amortisation	13,15	**(89)**	(91)
Operating profit before impairment losses and provisions		**1,255**	929
Provisions for impairment release/(charge) on loans and advances	12	**102**	(98)
Provisions for impairment release/(charge) on investments	14	**190**	(180)
Loss on conversion of investment	14	**(265)**	–
Provisions for liabilities	23	**(1)**	(3)
Profit before tax		**1,281**	648
Tax expense	7	**(262)**	(124)
Profit for the financial year		**1,019**	524
Other comprehensive income		**–**	–
Total comprehensive income for the year		**1,019**	524

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 2021

Assets	Notes	2021 £000	2020 £000
Liquid assets			
Cash in hand and with the Bank of England	8	**43,230**	45,280
Treasury bills and similar securities	10	**6,000**	5,500
Loans and advances to credit institutions	9	**9,550**	12,548
Debt securities	10	**1,001**	1,502
Loans and advances to customers	11	**194,069**	158,689
Tangible fixed assets	13	**1,179**	1,248
Investments	14	**830**	922
Intangible assets	15	**134**	134
Other debtors	16	**261**	206
Total assets		**256,254**	226,029
Liabilities			
Shares	17	**228,960**	200,335
Amounts owed to credit institutions	18	**–**	–
Amounts owed to other customers	19	**10,510**	10,013
Corporation tax payable	20	**250**	110
Other liabilities	21	**440**	261
Accruals		**225**	146
Deferred tax liability	22	**66**	54
Other provisions	23	**5**	5
Total liabilities		**240,456**	210,924
Reserves			
General reserves		**12,907**	12,214
Core Capital Deferred Shares	26	**2,891**	2,891
Total reserves attributable to members of the Society		**15,798**	15,105
Total reserves and liabilities		**256,254**	226,029

These accounts were approved by the Board of Directors on 4 March 2022 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 2021 £000	Core Capital Deferred Shares 2021 £000	Total 2021 £000	General reserve 2020 £000	Core Capital Deferred Shares 2020 £000	Total 2020 £000
Balance at 1 January	**12,214**	**2,891**	**15,105**	11,690	–	11,690
Total comprehensive income for the period						
Profit for the year	**1,019**	**–**	**1,019**	524	–	524
Other comprehensive income	**–**	**–**	**–**	–	–	–
Total comprehensive income for the period	**1,019**	**–**	**1,019**	524	–	524
Core Capital Deferred Shares	**–**	**–**	**–**	–	2,891	2,891
Distribution to the holders of Core Capital Deferred Shares	**(326)**	**–**	**(326)**	–	–	–
Balance at 31 December	**12,907**	**2,891**	**15,798**	12,214	2,891	15,105

Cash flow statement

Cash flows from operating activities	Notes	2021 £000	2020 £000
Profit before tax		**1,281**	648
Adjustments for			
Depreciation and amortisation	13,15	**89**	91
Movement in investment fair value, conversion loss and impairment	14	**65**	186
Profit/loss on disposal of tangible assets value		**–**	1
Interest on subscribed capital	3	**–**	–
Provision for liabilities		**–**	3
Loans and advances written off in the year	12	**–**	–
Increase/(decrease) in impairment of loans and advances	12	**(102)**	98
Total		**1,333**	1,027
Changes in operating assets and liabilities			
(Increase)/decrease in prepayments, accrued income and other assets		**(54)**	178
Decrease in accrued interest treasury bills and debt securities		**1**	13
Increase/(decrease) in accruals, deferred income and other liabilities		**79**	(5)
Increase in loans and advances to customers		**(35,278)**	(13,773)
Decrease/(increase) in loans and advances to credit institutions		**503**	(4,008)
Increase in shares		**28,625**	25,014
Increase/(decrease) in amounts owed to other customers		**497**	(421)
Increase in other creditors		**178**	87
FSCS interest cost paid		**(1)**	–
Taxation refund prior years		**–**	1
Taxation paid		**(110)**	(227)
Net cash (utilised)/generated by operating activities		**(4,227)**	7,886
Cash flow from investing activities			
Purchase of debt securities	10	**(1,000)**	(1,500)
Disposal of debt securities	10	**1,500**	–
Purchase of treasury bills	10	**(15,500)**	(11,987)
Disposal of treasury bills	10	**15,001**	11,967
Purchase of investments	14	**–**	(357)
Repayment of investments	14	**27**	1,034
Purchase of tangible fixed assets	13	**(20)**	(34)
Purchase of intangible fixed assets	15	**–**	(120)
Disposal of tangible fixed assets	13	**–**	–
Net cash generated/(utilised) by investing activities		**8**	(997)
Cash flows from financing activities			
Interest paid on subscribed capital	3	**–**	–
Issue of Core Capital Deferred Share	26	**–**	3,000
Cost of Core Capital Deferred Share	26	**–**	(109)
Distribution to holders of Core Capital Deferred Share		**(326)**	–
Net cash (utilised)/generated by financing activities		**(326)**	2,891
Net (decrease)/increase in cash and cash equivalents		**(4,545)**	9,780
Cash and cash equivalents at 01 January		**53,320**	43,540
Cash and cash equivalents at 31 December	8	**48,775**	53,320

The reconciliation of Net Debt is contained within Note 27.

In line with FRS 102, interest received was £6.981m (2020: £6.236m) and interest paid was £1.315m (2020: £1.526m).

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 38-44. 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 the ongoing impact of the pandemic, the outlook for interest rates, inflationary and other macroeconomic pressures.

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 38-44 contains details of the assessment undertaken by the Directors. 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 and deposits 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 transaction price 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).

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.

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.

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) and (ii) any cumulative gain or loss that had been recognized in Other comprehensive income (OCI) is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Society is recognised as a separate asset or liability.

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

A restructuring of one of the Society's investment in renewable energy during the year has resulted in the conversion of an original Debt investment into equity shares and amounts owed to the Society under a Company Voluntary Agreement (CVA), which has been reflected through the Profit and Loss account.

During the year ending 31 December 2021 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 the UK's transition from the EU.

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 (2020: £88k) with an EIR asset included in the Statement of financial position of £216k (2020: £128k). 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
Information about other assumptions, judgements and estimation uncertainties that have a significant risk of resulting in a material adjustment in relation to the determination of fair value of Financial instruments for the year ending 31 December 2021 are described in accounting policy 1.5.

2. Interest receivable and similar income

	2021	2020
	£000	£000
On loans fully secured on residential property	**6,510**	5,727
On other loans	**451**	508
On debt securities	**6**	2
On treasury bills at fixed rate interest	**1**	33
On other liquid assets	**66**	106
Other interest receivable	**–**	–
	7,034	6,376

3. Interest payable and similar charges

	2021	2020
	£000	£000
On shares held by individuals	**1,777**	1,964
On deposits and other borrowings	**85**	89
Negative interest paid on treasury deposits	**1**	–
On subordinated liabilities	**–**	–
	1,863	2,053

4. Administrative expenses

	2021	2020
	£000	£000
Wages and salaries	**1,566**	1,459
Social security costs	**175**	170
Other pension costs	**181**	153
Sub Total	**1,922**	1,782
Other administrative expenses	**1,824**	1,447
	3,746	3,229

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

	2021	2020
	£000	£000
Audit of these annual accounts	**88**	84
	88	84

5. Employee numbers

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

	2021	2020
Full time	**36**	33
Part time	**3**	4
	39	37

6. Directors' remuneration

Total remuneration amounted to £365.9k (2020: £410.1k). Full details are given in the table within the Remuneration report on pages 50 to 51.

7. Taxation

	2021	2020
	£000	£000
Current tax		
Current tax on income for the period	**250**	110
Adjustments in respect of prior periods	**–**	(10)
Total current tax	**250**	100
Deferred tax see note 21		
Origination and reversal of timing differences	**(4)**	20
Adjustment in respect of previous periods	**–**	–
Change in tax rate	**16**	4
Total deferred tax	**12**	24
Tax expenses (income) relating to changes in accounting policies		–
	262	124

Analysis of current tax recognised in profit and loss

	2021	2020
	£000	£000
Profit for the year	**1,019**	524
Total tax expense	**262**	124
Profit excluding taxation	**1,281**	648
Tax using UK corporation tax rate of 19.00% (2020: 19.00%)	**243**	123
Community investment relief	**–**	–
Income not taxable	**(3)**	–
Change in tax rate on deferred tax balance	**16**	4
Non-deductible expenses	**6**	7
Under / (over) provided in prior years	**–**	(10)
Total tax expense included in profit or loss	**262**	124

The effective tax rate for the 12-month period ended 31 December 2021 is 19% (2020: 19%). The closing deferred tax, recognised on both fixed and intangible assets is now recognised at 25% (2020: 19%). On the basis that the new rate is enacted and these assets will continue to unwind beyond 01 April 2023.

Adjustments to tax charges 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

	2021	2020
	£000	£000
Cash in hand and balances with the Bank of England	**43,230**	45,280
Loans and advances to credit institutions (see note 9)	**5,545**	8,040
Cash and cash equivalents per cash flow statements	**48,775**	53,320

9. Loans and advances to credit institutions

	2021	2020
	£000	£000
Accrued interest	**5**	8
Repayable on demand	**4,545**	7,040
In not more than three months	**1,000**	1,000
In not more than one year	**4,000**	4,500
Total loans and advances to credit institutions	**9,550**	12,548
Total included within cash and cash equivalents	**5,545**	8,040

10. Debt securities

	2021	2020
	£000	£000
Treasury bills	**6,000**	5,500
Certificates of deposit	**1,001**	1,502
	7,001	7,002
Debt securities have remaining maturity as follows:		
In not more than one year	**7,001**	7,002
	7,001	7,002
Transferable debt securities comprise:		
Unlisted	**7,001**	7,002
	7,001	7,002

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

	2021	2020
	£000	£000
At 1 January	**7,000**	5,480
Additions	**16,500**	13,487
Disposals and maturities	**(16,501)**	(11,967)
At 31 December	**6,999**	7,000

11. Loans and advances to customers

	2021	2020
	£000	£000
Loans fully secured on residential properties	**185,110**	148,464
Loans fully secured on land	**8,959**	10,225
	194,069	158,689
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	**2,824**	1,971
In more than three months but not more than one year	**6,810**	6,194
In more than one year but not more than five years	**34,349**	28,415
In more than five years	**150,613**	122,738
	194,596	159,318
Less: allowance for impairment (note 12)	**(527)**	(629)
	194,069	158,689

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

12. Allowance for impairment

Provision for impairment on loans and advances At 1 January 2021	Loans fully secured on residential property £000	Other loans £000	Total £000
Individual impairment	18	343	361
Collective impairment	247	21	268
Total impairment	265	364	629
Amounts written off during the year, net of recoveries			
Individual impairment	–	–	–
Collective impairment	–	–	–
	–	–	–
Income statement			
Impairment losses on loans and advances			
Individual impairment	(16)	(40)	(56)
Collective impairment	(28)	(18)	(46)
Adjustments to impairment losses resulting from recoveries	–	–	–
Charge/(credit) for the year	(44)	(58)	(102)
At 31 December 2021			
Individual impairment	**2**	**303**	**305**
Collective impairment	**219**	**3**	**222**
Total impairment	**221**	**306**	**527**

Provision for impairment on loans and advances At 1 January 2020	Loans fully secured on residential property £000	Other loans £000	Total £000
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 resulting from recoveries	–	–	–
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**

13. Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings & computer equipment £000	Motor vehicles £000	Total £000
Cost					
Balance at 1 January 2021	1,467	181	441	55	2,144
Additions	–	2	18	–	20
Disposals	–	–	(36)	(1)	(37)
Balance at 31 December 2021	1,467	183	423	54	2,127
Depreciation					
Balance at beginning of the year	393	161	320	22	896
Depreciation charge for the year	26	5	44	14	89
Disposals	–	–	(36)	(1)	(37)
Balance at 31 December 2021	419	166	328	35	948
Net book value At 1 January 2021	1,074	20	121	33	1,248
At 31 December 2021	**1,048**	**17**	**95**	**19**	**1,179**

Cost					
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 decommissioned assets.

Freehold land and buildings, which are included in the balance sheet at cost less depreciation, amounted to £1.048m at 31 December 2021 (2020: £1.074m). 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	2021 opening carrying value £000	Additions £000	Disposal/ Conversion £000	Repayment of capital £000	Movement in fair value £000	Movement in impairment £000	**2021 closing carrying value £000**
Basic	216	–	10	–	10	(10)	**226**
Debt Investments							
Basic	504	–	(275)	(13)	N/A	200	**416**
Non-Basic	202	–	–	(14)	N/A	–	**188**

Equity	2020 opening carrying value £000	Additions £000	Disposal/ Conversion £000	Repayment of capital £000	Movement in fair value £000	Movement in impairment £000	**2020 closing carrying value £000**
Basic	115	107	–	–	(6)	–	**216**
Debt Investments							
Basic	1,453	250	–	(1,019)	N/A	(180)	**504**
Non-Basic	217	–	–	(15)	N/A	–	**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, a restructuring of one of the Society's investment in renewable energy during the year has resulted in the conversion of the original Debt Investment, into equity shares and amounts owed to the Society under a Company Voluntary Agreement and the release of its associated impairment provision of £225k through the Profit and Loss account with no impact on profit.

The Society values its investment in accordance with accounting policy 1.5 and exercises judgment in relation to fair value where a reliable measure is no longer available.

The Society continues to assess 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 £35k (2020: £180k).

15. Intangible assets

	Purchased software/ Software in development 2021 £000	Purchased software/ Software in development 2020 £000
Cost		
Balance at 01 January	**368**	248
Additions	**–**	120
Disposals	**(13)**	–
Balance at 31 December	**355**	368
Amortisation		
Balance at 01 January	**234**	233
Amortisation for the year	**–**	1
Disposals	**(13)**	–
Balance at 31 December	**221**	234
Net book value At 01 January	**134**	15
At 31 December	**134**	**134**

The disposal during the year represents software licensing no longer in use, which had been fully amortised over its useful life in accordance with the policy outlined in Note 1.8. The remaining £134k relates to software in development and still in progress, consequently no amortisation change in the year.

16. Other debtors

	2021 £000	2020 £000
Prepayments	**250**	196
Accrued income	**11**	10
	261	206

Debtors include prepayments and accrued income of £9,233 (2020: £9,071) for the Society that are due after more than one year.

17. Shares

	2021 £000	2020 £000
Held by individuals	**228,960**	200,335
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Accrued interest	**548**	526
On demand	**185,053**	159,334
In not more than three months	**43,359**	40,475
	228,960	200,335

18. Amounts owed to credit institutions

	2021 £000	2020 £000
Accrued interest	**–**	–
With agreed maturity dates or periods of notice		
In not more than three months	**–**	–
	–	–

19. Amounts owed to other customers

	2021 £000	2020 £000
Repayable on demand	**10,510**	10,013

20. Corporation tax payable

	2021 £000	2020 £000
Corporation tax falling due within one year	**250**	110

21. Other liabilities

	2021 £000	2020 £000
Other creditors	**440**	261

22. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2021 £000	2020 £000	Liabilities 2021 £000	2020 £000	Net 2021 £000	2020 £000
Accelerated capital allowances	**–**	–	**84**	71	**84**	71
FRS 102 transitional adjustments	**(10)**	(10)	**–**	–	**(10)**	(10)
Other timing differences	**(8)**	(7)	**–**	–	**(8)**	(7)
Tax (assets) / liabilities	**(18)**	(17)	**84**	71	**66**	54

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. There are no key estimate judgments required.

The Society has assumed the availability of future taxable profits against which any carried forward losses can be used.

23. Provisions

	Other provisions £000	FSCS levy £000	Total £000
Balance at 01 January 2021	2	3	5
Paid in year	–	(1)	(1)
Charge for the year	–	1	1
Balance at 31 December 2021	**2**	**3**	**5**

24. Financial instruments

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

The Society does not run a trading book.

Categories of financial assets and liabilities

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

Carrying values by category 31 December 2021	Held at amortised cost £000	Held at fair value £000	Total £000
Financial assets			
Cash in hand and balances with the Bank of England	43,230	–	43,230
Treasury Bills and similar securities	6,000	–	6,000
Loans and advances to credit institutions	9,550	–	9,550
Debt securities	1,001	–	1,001
Loans and advances to customers	194,069	–	194,069
Fixed asset investments	416	414	830
Other debtors	11	–	11
Total financial assets	**254,277**	**414**	**254,691**
Non-financial assets	1,563	–	1,563
Total assets	**255,840**	**414**	**256,254**
Financial liabilities			
Shares	228,960	–	228,960
Amounts owed to credit institutions	–	–	–
Amounts owed to other customers	10,510	–	10,510
Subordinated liabilities	–	–	–
Other liabilities	397	–	397
Accruals	225	–	225
Other provisions	5	–	5
Total financial liabilities	**240,096**	**–**	**240,096**
Non-financial liabilities	359	–	359
Total liabilities	**240,456**	**–**	**240,456**
General reserves and other reserves	15,798	–	15,798
Total reserves and liabilities	**256,254**	**–**	**256,254**

24. Financial instruments (continued)

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**

At 31 December 2021, the Society has off balance sheet exposure – mortgage commitments of £53.5m (2020: £38.1m).

Valuation of financial instruments carried at fair value

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

Valuation techniques

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

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

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

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

24.Financial instruments (continued)

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

31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Fair value through profit and loss	6	108	300	414
	6	**108**	**300**	**414**
31 December 2020				
Financial assets				
Fair value through profit and loss	8	96	314	418
	8	96	314	418

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.

24.Financial instruments (continued)

The Society's maximum credit risk exposure, gross of any provisions for impairment, is detailed in the table below:

	2021 £000	2020 £000
Cash with Bank of England	**43,230**	45,280
Loans and advances to credit institutions	**9,550**	12,548
Debt securities	**1,001**	1,502
Treasury Bills	**6,000**	5,500
Debt investments	**629**	931
Loans and advances to customers	**194,596**	159,318
Total statement of financial position exposure	**255,006**	225,079
Off balance sheet exposure – mortgage commitments	**53,490**	38,124
	308,496	263,203

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

In the 2020 published accounts the amount of £931k in relation to Debt Investments was omitted from the table above but is now included.

24. Financial instruments (continued)

Credit quality analysis of loans and advances to customers

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

	2021 Loans fully secured on residential property £000	**Loans fully secured on land £000**	**Other loans £000**	2020 Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000
Neither past due nor impaired	**182,845**	**7,734**	**–**	146,953	8,962	–
Past due but not impaired						
1-2 months	**1,915**	**47**	**–**	1,273	–	–
2-3 months	**160**	**–**	**–**	–	104	–
Greater than 3 months	**195**	**–**	**–**	–	–	–
	2,270	**47**	**–**	1,273	104	–
Individually impaired						
Not past due	**216**	**1,484**	**–**	255	1,523	–
1-2 months	**–**	**–**	**–**	248	–	–
2-3 months	**–**	**–**	**–**	–	–	–
Greater than 3 months	**–**	**–**	**–**	–	–	–
	216	**1,484**	**–**	503	1,523	–
Total balances gross of provision	**185,331**	**9,265**	**–**	148,729	10,589	–
Allowance for impairment						
Individual	**(2)**	**(303)**	**–**	(18)	(343)	–
Collective	**(219)**	**(3)**	**–**	(247)	(21)	–
Total allowance for impairment	**(221)**	**(306)**	**–**	(265)	(364)	–
Total balances net of provisions	**185,110**	**8,959**	**–**	148,464	10,225	–

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

24.Financial instruments (continued)

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The 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	**2021 £000**	2020 £000
Less than or equal to 50%	**70,647**	59,604
Greater than 50% but less than or equal to 70%	**74,937**	54,423
Greater than 70% but less than or equal to 90%	**46,386**	45,241
Greater than 90% but less than or equal to 100%	**2,842**	178
Greater than 100%	**–**	–
	194,812	159,446

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:

	2021 £000	2020 £000
Payment holiday	**679**	3,174
Interest only	**127**	1,900
Underpayment	**1,183**	849
Arrears overpayment	**515**	65
Arrears underpayment	**–**	–
	2,504	5,988

There were a total of 10 accounts in forbearance at 31 December 2021 (2020: 33).

24.Financial instruments (continued)

Liquidity risk

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

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

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

Monitoring of liquidity is performed daily. Compliance with policy is reported to every ALCO and subsequently 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 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 2021	**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	185,601	43,417	–	–	–	229,018
Amounts owed to other customers	10,510	–	–	–	–	10,510
Subordinated liabilities	–	–	–	–	–	–
Other liabilities	–	396	–	–	–	396
Accruals	–	225	–	–	–	225
Other provisions	–	5	–	–	–	5
Total financial liabilities	**196,111**	**44,043**	**–**	**–**	**–**	**240,154**

24. Financial instruments (continued)

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
Amounts owed to credit institutions	–	–	–	–	–	–
Subordinated liabilities	–	–	–	–	–	–
Other liabilities	–	215	–	–	–	215
Accruals	–	146	–	–	–	146
Other provisions	–	5	–	–	–	5
Total financial liabilities	**169,873**	**40,920**	**–**	**–**	**–**	**210,793**

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 price 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 £226k (2020: £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
2021		
At 31 December		
Average for the period	**157**	**164**
Maximum for the period	**202**	**208**
Minimum for the period	**108**	**114**
2020		
At 31 December		
Average for the period	127	133
Maximum for the period	185	190
Minimum for the period	70	74

24. Financial instruments (continued)

Capital

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The formal ICAAP process 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	**2021 £000**	2020 £000
Tier 1 capital			
General reserve		**12,907**	12,214
Less intangibles		**(100)**	(108)
Core Capital Deferred Shares	27	**2,891**	2,891
Total Tier 1 capital		**15,698**	14,997
Tier 2 capital			
Subordinated liabilities	24	**–**	–
Collective provision	12	**222**	268
Total Tier 2 capital		**222**	268
Total Regulatory Capital		**15,920**	15,265

25. Related parties

Transactions with key management personnel

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

	Number of key management personnel and their close family members 2021	**Amounts in respect of key management personnel and their close family members 2021 £000**	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
Loans and advances to customers	**1**	**183**	2	342
Deposits and share accounts	**12**	**227**	12	183

Directors' loans and transactions

At 31 December 2021 there was 1 outstanding mortgage loan (2020: 2), made in the ordinary course of the Society's business to Directors and connected persons, amounting to £182,701 (2020: £342,007). Transactions that took place during the year included the redemption of a £49k loan and a capital repayment of £100k on the existing loan.

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 (2020: £10,000) to the Ecology Building Society Charitable Foundation.

Directors Remuneration

Full details of the Directors' remuneration can be found in the Directors' remuneration report on pages 50 and 51.

26. 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 2021	3,000,000	3,000	(109)	–	2,891
Balance as at 31 December 2021	**3,000,000**	**3,000**	**(109)**	**–**	**2,891**
Balance at 1 January 2020	–	–	–	–	–
Balance as at 31 December 2020	**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.

27. Analysis of changes in net debt

	2019 £000	Cash flows £000	2020 £000	**2020 £000**	**Cash flows £000**	**2021 £000**
Cash and cash equivalents						
Cash and cash equivalents	43,540	9,780	53,320	**53,320**	**(4,545)**	**48,775**
Borrowings						
Debt due within 1 year	(503)	503	–	**–**	**–**	**–**
Total change in net debt	43,037	10,283	53,320	**53,320**	**(4,545)**	**48,775**

28. 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 2021:

- The Society's principal activities are mortgage lender and provider of savings accounts
- The Society's turnover (defined as net interest receivable) was £5.171m (2020: £4.323m). Profit before tax £1.281m (2020: £0.648m) all of which arose from UK-based activity
- Number of employees was 39 (2020: 37)
- Corporation tax of £0.110m (2020: £0.227m) 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 2021

1 Statutory percentages

	Statutory limit %	**At 31 December 2021 %**	At 31 December 2020 %
Lending limit	25.00	**5.29**	7.30
Funding limit	50.00	**2.51**	2.70

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

	2021 %	2020 %
Gross capital as a percentage of shares and borrowings	**6.60**	7.18
Free capital as a percentage of shares and borrowings	**6.14**	6.65
Liquid assets as a percentage of shares and borrowings	**24.96**	30.82
Profit after taxation as a percentage of mean total assets	**0.42**	0.25
Management expenses as a percentage of mean total assets	**1.59**	1.57

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 2021 and 2020 total assets.

3 Information relating to Directors at 31 December 2021

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	Picnic Technology Ltd Strategic Intent Ltd Saescada Limited Centenary Bank
Paul Charles Ellis 10.09.1957	Building Society Chief Executive 05.05.1984	None
Amanda Louise Chambers 18.12.1963	Finance Director 28.02.2020	Aurora Accountancy Ltd
Andrew John Gold 30.12.1969	Director and Risk, Audit and Compliance Professional 30.05.2014	Airedale NHS Foundation Trust
Kerry Jean Mashford 02.11.1959	Director / Consultant 28.02.2020	Active Building Centre Ltd 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
Vincent Smith 26.09.1959	Director 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 50 to 51. There are no extended notice terms included in these contracts.

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Cover images, rows from top to bottom, left to right: EPC Two Ecology supported energy-efficient homes built by Pure Haus in Oakenshaw, West Yorkshire. Jeremy and Katy Kidwell and family move into their newly renovated home. Self-build home in the Shetland Islands Credit: Lowrie Simpson, L A Simpson Chartered Surveyors. Ecology colleagues in front of our energy-efficient offices in Silsden, West Yorkshire. Ecology supported development of three energy-efficient homes in Cirencester, Gloucestershire built by CBuild. Affordable homes near Millbrook, Cornwall renovated by the Peninsula Trust with funding from Ecology.