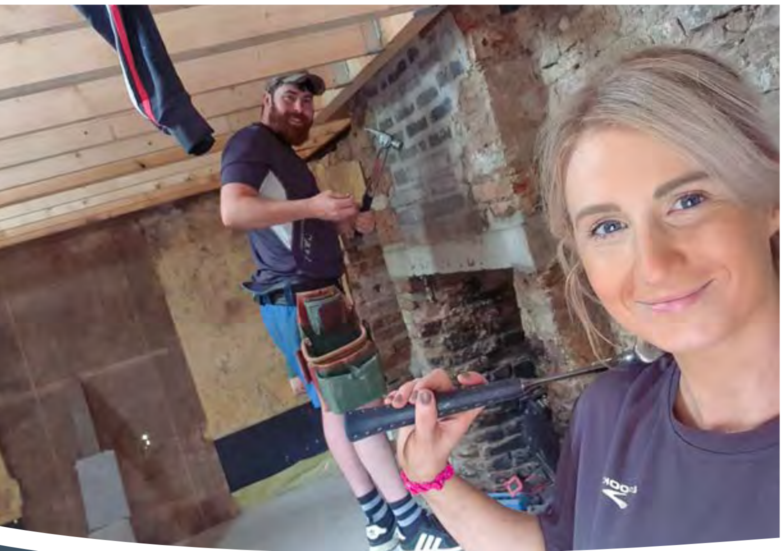
Ecology
Building Society




Annual Report & Accounts

31 December 2022



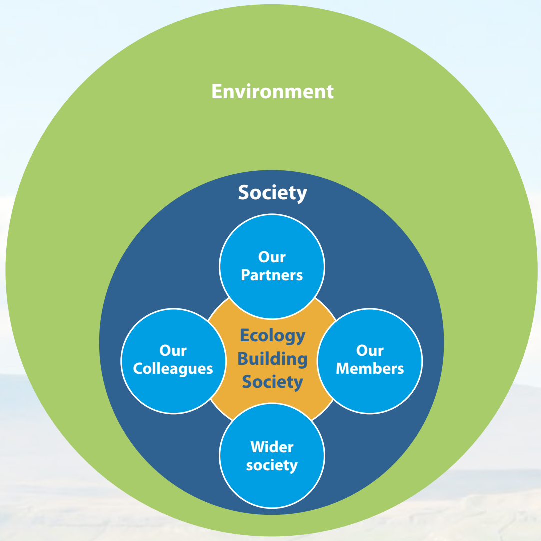

Building a greener society

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

As a mutual, Ecology exists to serve its Members. This means delivering products and services that meet the needs of both our savers and borrowers as well as ensuring that our work is contributing to a flourishing planet. The last year has seen us deliver strongly on both counts, innovating and expanding in order to secure record profits in support of our ecological mission. I am thrilled to take over as Chair at a moment of such exciting potential for the Society.

Against the backdrop of a challenging economic environment in which we continue to carefully balance the interests of all our Members, 2022 was another hugely successful year for the Society in terms of our impact as well as our financial position. Our strong performance reflects the growing demand for Ecology's savings accounts, as more people come to recognise the truly transformative potential of finance in achieving a future that is healthy and equitable. During the year, we welcomed an exceptional number of new Members, whose deposits will be used to directly fund community housing initiatives, affordable housing, low-impact renovations and other sustainable projects. This growth, combined with the dedication of our Members and colleagues, has enabled us to achieve a record-breaking profit of £1.6m; money that will enable more sustainable projects to become a reality.

As the environmental and social challenges that we face continue to evolve, so must we. Our new Chief Executive, Gareth Griffiths, joined us in June, marking the beginning of an exciting new chapter for the Society. Gareth's work builds on the remarkable legacy of Paul Ellis's 26-year tenure as Chief Executive, during which time Ecology grew to become an influential and trusted voice in the global sustainable finance movement. There have also been changes to our Board

that have seen us welcoming Giovanni D'Alessio and Jaedon Green as well as bidding farewell to my predecessor, Steve Round, after his seven-year tenure as Chair. We are grateful for the hard work of those who have come before us and look with determination to the Society's future.

During the year a governance review was undertaken to ensure the Society is fit for the future, as a result the Committee structure will be changing from 2023.

While many new faces have joined the Ecology team this year, we remain steadfast in our longstanding commitment to our Members. It was with great pleasure that I met Members in the autumn as part of our series of regional Member Meet-ups. Hosted at mission-led venues in Bristol, London, Leeds and Edinburgh, the meet ups were a chance for Members to meet with Gareth, the other Directors and myself to share their views about the Society's work. It was heartening to be able to meet so many Members face-to-face and to hear from some of our borrowers about their inspiring projects. We also had a virtual meet-up to ensure that as many people were able to take part as possible, resulting in more than 200 Members participating across all the events.

The next big event in the Ecology calendar is our 2023 AGM and Members' Meet-up which will take place in Manchester. Following on from our well-attended AGM in London last year, we will once again be inviting Members to join us for expert-led discussions and lively debate. I do hope that you can join us to have your say in the future of your Society.

Embracing Ecology's position as a thought leader and expert when it comes to harnessing the positive power of finance, we have continued to amplify our voice and agitate for change over the last 12 months. Positioning Ecology at the heart of these conversations means that we can continue to raise the profile of our work. For example, I was pleased to be able to speak at the Ecology-sponsored Parliamentary reception hosted in May by the National Custom and Self Build Association (NaCSBA), which marked the launch of their inaugural annual market report and brought together key figures from across the housing sector. Our leadership position is enhanced by the innovations we are making to our products, such as the recent enhancements to our C-Change mortgage discounts, the introduction of cashback for heat pumps and our pioneering new mortgages for off-site construction, which will all help to accelerate the construction of the most energy-efficient homes – an essential part of the UK's journey to net zero.

I am proud to be Chair of an organisation that is changing the world for the better. With the support of its Members, colleagues and partners, Ecology has come a long way since we began over 42 years ago. As we grow, it is vital that we do not become complacent. From the social and financial impacts of the cost-of-living crisis to the global destruction wrought by fossil-fuel intensive economies, the collective challenges that we face demand that we are focussed and prepared if we are to continue delivering against our ambitions. We are therefore investing in the Society's capabilities to ensure that we are set firmly on track to fulfil our 2030 Strategy, which centres upon our unwavering commitment to building sustainable communities and a fair, resilient economy that is grounded in the true value of our planet's resources.

Louise Pryor
Chair
7 March 2023

Chief Executive's review

It gives me great pleasure to be writing my first annual review of the Society's performance. Having joined the Society in June as your new Chief Executive Officer, it has been a privilege to meet so many passionate and enthusiastic Members, particularly at the series of Member Meet-ups in the autumn.

It has also been a pleasure to pick up where my predecessor, Paul Ellis, left off. The strong foundations of the Society we have in place today are a direct result of Paul and many others' hard work and dedication. As a Society, we have weathered the storm of what was a difficult operating environment in 2022, a year defined by the Collins Dictionary with its word of the year, permacrisis: "an extended period of insecurity and instability". Since joining, 'permacrisis' hasn't been something which I have thus far experienced at Ecology, whereby the team continue to be dedicated to 'doing' better for our Members as we grow.

The last 12 months have shown that we operate in turbulent market conditions, which show no signs of abating in the year ahead. The exceptionally low interest rate environment in which we have been operating has changed rapidly in order to balance the ravages of the inflationary environment driven by increased costs of wholesale gas, largely borne out of events in Ukraine. The interconnected nature of the financial ecosystem in which we operate should act as a good metaphor and reminder for us all of the delicate nature of the environmental cause and effect that we are wreaking on our planet, and why to that point Ecology's mission and purpose have never been so relevant.

As the cost of living crisis grabbed the headlines, it also started to have an impact on our Members, and we saw higher levels of savings withdrawals and Members re-mortgaging away from Ecology to secure the last of what were low fixed rates in the autumn.

Speaking with Members, and listening to feedback as to why people may have left us, it was clear that, in these difficult times, conscious compromises were needing to be made. Ecology is here to support its Members in both the good times and the bad, and to that end we have set about investing in our colleague and in Member infrastructure to ensure that we have the foundations to grow as an organisation.

As the price of wholesale gas starts to resume some normality and conversations about 'energy security' stop being used as buzz words on Sunday morning chat shows, I am encouraged by Chris Skidmore MP's report highlighting the changes which are required to ensure that the UK is more ambitiously seizing the opportunity that exists around the net zero transition. However, when all said and done, the UK's independent Climate Change Committee was explicit in 2022 that "progress was lagging behind policy ambition", and that the UK Government was behind the legally-mandated curve required to meet net zero commitments.

It is clear that more needs to be done to stop extractive fossil fuel practices and really drive the benefits of a net zero approach. From that perspective, I wait with hope to see what can come from the Net Zero Performance Certificate; a potential successor to the Energy Performance Certificate.

What has emerged from the economic volatility is Ecology's commitment to ensure we create a fair society in a sustainable world. And so we spent a good deal of time in H2 ensuring that we delivered on our systemic commitments and responsibilities to our regulators and that the overall governance of the organisation was updated to better manage risks and opportunities.

Our pricing principles ensure that we treat all new and existing Members in an egalitarian way, ensuring the balance of offering competitive returns for savers, who trust us to deploy their savings responsibly, whilst offering attractive rates to our borrowers where we have the mainstay of our impact.

It was pleasing to see that, in a market where housing sales have begun to slow, and property prices retrench to pre-COVID levels, RICS have highlighted that well-built, fabric-first, energy-efficient homes have intrinsically more value. This is not just from a financial perspective, reflecting the reality that Ecology's Members subscribe to the idea that we have to do something with our inefficient and ageing housing stock.

During the volatility of the last quarter of the year, we saw a number of new savings Members join the Society. This was predominately due to a mention from a high-profile national media source. My sincere welcome to our new Members who joined us in 2022. Be reassured that your savings are helping Ecology achieve the impact that I hope you'll enjoy reading about in this report.

My last point to close out 2022 on is that you will see from the Annual Report and Accounts, that the Society experienced a record year of profitability and the Society's total assets surpassed £300m, which was down to the significant work and effort from the team in the preceding years.

This is important as it means two significant things. Firstly, it directly translates into impact: this year we helped 340 borrowers to achieve their goals and ambitions of living in a more sustainable way.

Secondly, as a triple bottom line organisation, profit is a healthy part of the ecosystem, where we balance the dynamics of people, planet, and profit. 2022's profit allows the Society to invest further in its colleagues, ensure that we challenge the market to provide strong rates for Members and, most importantly, keep driving our capital growth to deliver impact over even more projects in the future.

Future Impact

As we look forward to that future impact, I am excited about bringing Ecology's 2030 Strategy to life through the day-to-day operations of the Society. In 2022, we introduced a new Head of Product & Marketing; someone who is tasked with challenging the norm and driving the innovation of new, exemplar products.

We will also be taking a much more proactive stance in our PR; trying to help shift the consumer mindset to a more sustainable future.

At the core of what we do is an absolute commitment to enabling our savers to use their money as a force for good, so that the people we lend to can live in homes which are good for the environment and their communities.

As we grow as an organisation, there are other questions we need to ask, such as:

- How can we continue to be relevant for a generation of people who are struggling to get onto the property ladder?

- How can we use our knowledge and experience to try and help overcome social issues which exist in the housing system, such as discrimination and biases in credit facilities and help families on low income for the cohesion and health of their family unit?

We have to recognise that as a small, mutual organisation we only inevitably have so much reach. But we have endless ambition, which has stood the test of time for 40 years, and which will continue to stand us in good stead for many more years to come.

As I enter my first full year as your CEO, I am as always keen to hear from Members new and less new on things we can do better, or, (as have been a pleasure to read), your exciting stories of projects bounding into life. You can reach me by emailing **ceo@ecology.co.uk**.

Lastly, my thanks must go to the team at Ecology who have not only openly welcomed me to the Society, but have also embraced the Society's dedication to serving Members.

As we embark on the next stages of operationalising the strategy, it brings me great hope that we will continue to diversify our Member base and who we serve. I very much look forward to offering more Member Meet-up dates later on in the year where I will be delighted to tell you about the Society's net zero progress, products innovation and the continued impact we are having. These sessions will be interactive, bringing our community together with our mutual values and vision, allowing Members to play a bigger role in influencing the Society's future.

Gareth Griffiths
Chief Executive Officer
7 March 2023

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 2022 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

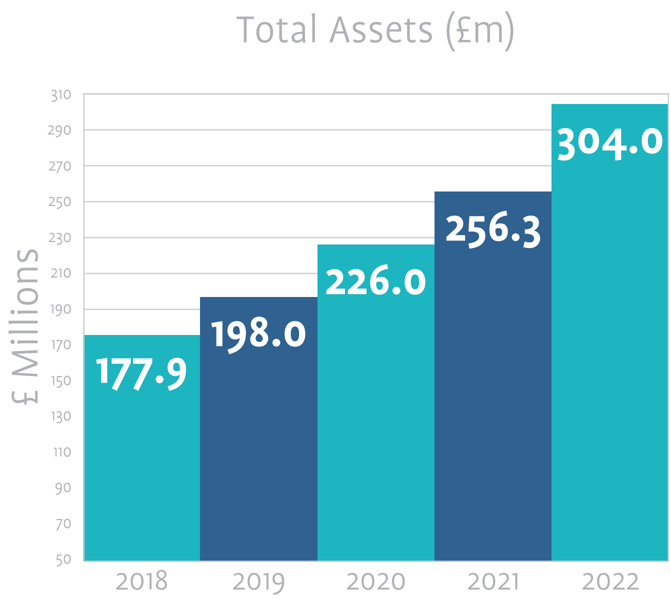
	2022	2021
Total assets	**£304.0m**	£256.3m
Mortgage asset growth	**12.19%**	22.30%
Mortgage lending	**£69.6m**	£69.4m
Savings balances	**£285.5m**	£239.5m
Liquid assets as a % of shares and borrowings	**29.44%**	24.96%
Management expenses as a % of mean total assets	**1.80%**	1.59%
Net profit	**£1.585m**	£1.019m
Profit after taxation as a % of mean total assets	**0.57%**	0.42%
Core Tier 1 capital	**£17.094m**	£15.698m
AGM – voting turnout	**14.84%**	16.94%

As outlined above, the Society has achieved a strong performance against a backdrop of economic and societal uncertainty during the year resulting from the cost of living crises and macroeconomic uncertainty environment.

Asset growth

Against the backdrop of a challenging economic environment in which we continue to carefully balance the needs of our savers and borrowers, the Society's total assets increased by £47.7m (18.65%) (2021: £30.2m) to £304.0m in 2022 (2021: £256.3m), reflecting a solid lending performance, supported by a strong increase in savings balances.

The Society views asset growth as a sign of success in meeting the needs of our savers and supporting our borrowers to build, renovate or buy sustainable properties.

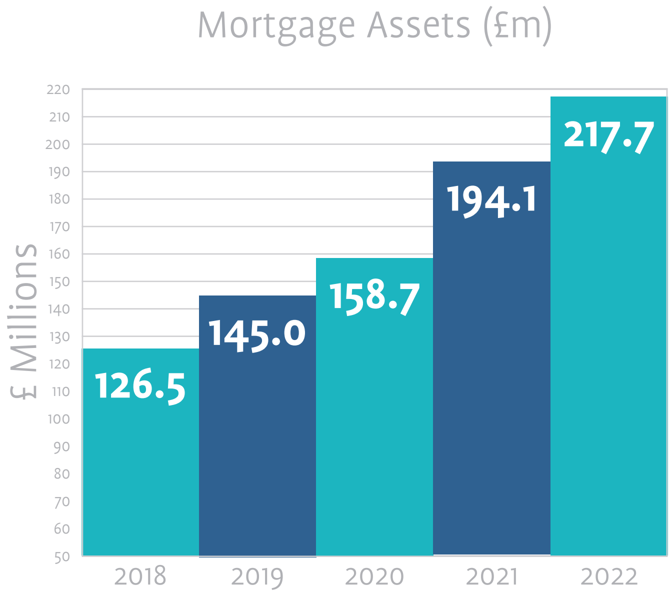


Mortgages

The opening pipeline and consistent flow of lending application volumes drove another record level of gross lending at £69.6m (2021: £69.4m). This new lending contributed to overall growth in mortgage assets of 12.19% (2021: 22.30%).

The Society continues to harness the positive power of finance by supporting the construction of the most energy-efficient homes. During the year we launched an enhancement to our C-Change mortgage discounts and introduced cashback for heat pumps. New loans approved in 2022 were 75% self-build, 8% renovation and 5% affordable or community housing.

The interest rates offered by the Society enable us 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 proportion of loans benefiting from one of our C-Change mortgage discounts, 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 36% (2021: 37%).

The Society's personalised approach to underwriting enables each case to be individually assessed to ensure that 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 cost of living crisis. As at 31 December 2022, there were no cases in possession and no cases 12 months or more in arrears (2021: nil).

As at 31 December 2022, there were 16 cases (2021: 10) under forbearance with total balances of £2.983m (2021: £2.504m) and arrears totalling £2.9k (2021: £6.6k).

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 Credit Risk Committee will analyse the Society's Credit Risk performance, ensuring that Credit Risk is within the appetite set by the Board.

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 two (2021: 3) 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 £91k (2021: £305k).

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 combined impact of the COVID-19 pandemic, the cost of living crisis (largely precipitated by the war in Ukraine) and the exceptionally low interest rate environment in which we have been operating, which has changed rapidly in order to balance the ravages of the inflationary environment. The total collective provision has increased to £478k (2021: £222k), reflecting the publicised anticipation of house price decline.

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 continued to restrict the inflow of new funds to our historic guaranteed accounts and took the necessary action, considering the turbulent market conditions to ensure we treated our Members fairly. As the cost of living crisis started to have an impact on our Members, leading to a higher level of savings withdrawals, we increased interest rates, particularly on the popular 90-Day Notice account and ISA. This resulted in an exceptional number of new Members, whose deposits will be used to directly fund community housing initiatives, affordable housing, low-impact renovations, and other sustainable projects over the coming years.

Total savings balances held at the end of the year are £285.5m (2021: £239.5m), with liquidity ending the year at 29.44% (2021: 24.96%) 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 that are supportive of our mission, rather than wholesale money from other financial institutions.

Management expenses

Ecology is here to support its Members in both the good times and the bad, and we have invested in our colleagues to ensure that we have the foundations to grow. The Society's ongoing investment in operational capability drove an increase in cost base to £5.05m (2021: £3.84m) resulting in Management expenses of 1.80% as a % of mean total assets (2021: 1.59%).

In order to achieve the Society's 2030 Strategy, further investment in digitalisation is needed in 2023 to be able to serve our Members and remain relevant, alongside additional marketing and communications activity and increasing regulatory and compliance requirements.

Wherever possible, we use the most sustainable and ethical option when purchasing goods and services. In some cases, this means that we pay more than we might have done for equivalent, but less sustainable options.

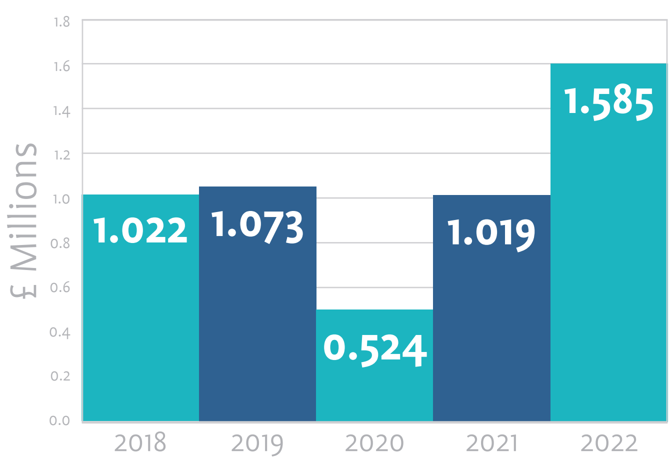
Profit and capital

Net profit for the year of £1.585m (2021: 1.019m) was added to reserves, a record year of profitability for the Society reflecting the current and preceding years' lending performance.

The Society assessed whether there was evidence that external investments not carried at fair value through profit and loss were impaired and recognised an impairment provision of £47k (2021: £35k). In addition, the Mortgage assets were assessed for probability of default, the collective and individual provision increased by a combined £42k (2021: decrease £102k).

Against a backdrop of turbulent market conditions for the majority of 2022, combined with the continued economic and social uncertainty surrounding the cost of living crisis, 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 and for the wider society and environment.

Net Profit (£m)



The Society's capital strength has been maintained, with total reserves as at 31 December 2022 of £17.1m (2021: £15.8m).

As at 31 December 2022, the ratio of gross capital as a percentage of total share and deposit liabilities was 5.99% (2021: 6.60%) and free capital was 5.72% (2021: 6.14%).

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).

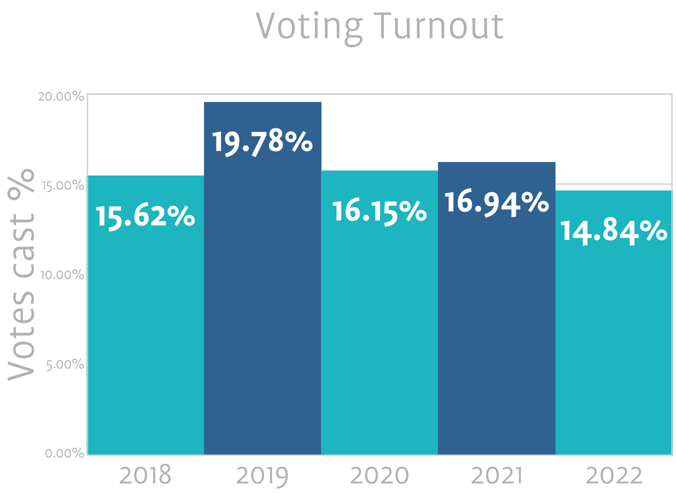
Further details of the Society's approach to risk management, including the Pillar 2A percentage and value, required by the Capital Requirements Directive, can be found in the Pillar 3 disclosures available on the Society's website: **ecology.co.uk/about/corporate**.

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 2022, the risk-weighted Core Tier 1 ratio was 14.7% (2021: 15.4%); 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 0.39% reduction in the leverage ratio to 5.27% (2021: 5.66%). Capital amounts and ratios remained comfortably above regulatory requirements throughout the year.

Member relations

Voting turnout at our 2022 AGM was 14.84%. Our AGM took place at the Mildmay Club in Stoke Newington, London. Despite a slight reduction, voting turnout was significantly higher than the sector average of 9.1%. The AGM was an opportunity for Members to hear from a line-up of experts about the challenge of meeting the UK's net zero targets and the importance of creating sustainable housing whilst giving them the chance to meet other Members and the Ecology team.



In autumn, we invited Members to our Member Meet-ups, which were held at unique venues across the UK and online. These events were an opportunity for our Members to hear Gareth Griffiths, our new Chief Executive, share his vision for Ecology's future and ask the Directors questions. There were also talks from some of our Members who have been involved in inspirational projects to build greener homes and communities.

Luisa and Chris' barn conversion, Cornwall

Climate-related disclosures

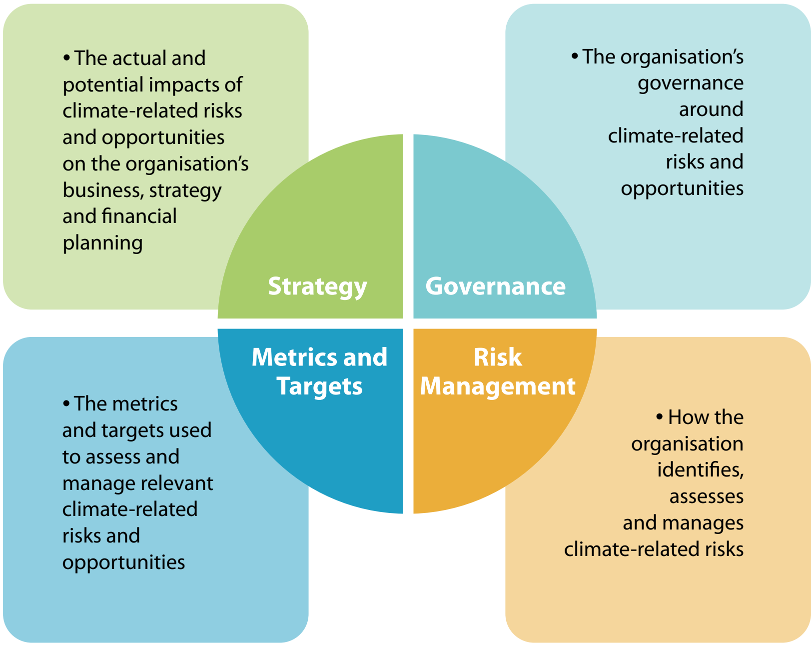
Introduction

Climate change is 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 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.

We have continued to increase our activity and capability to respond to the climate crisis. For example, we have:

- Set out our 2030 intermediate targets for our lending, on the journey to net zero by 2050 or sooner, as part of our report 'Financing the Net Zero Transition'
- Published our transition plan to achieve net zero in our business operations by 2030
- Launched our first cashback incentive to reduce the cost of installing either a ground or air source heat pump. The cashback is available across our entire residential product range and is designed to shift the heating of UK homes away from fossil fuels to low carbon, renewable heating technologies
- Expanded our range of C-Change discounts to enhance our support for borrowers who build to the highest energy standards. The C-Change Passivhaus discount increased from 1.25% to 1.50%. We also introduced new levels for SAP A+ (rating 100 – 109) and SAP A++ (rating 110+), delivering discounts of either 1.00% or 1.25% across the expanded C-Change bands
- Developed a new off-site construction mortgage range and teamed up with leading modular manufacturers to create a new range of mortgages to support the growth of off-site, modular housing. Our innovative approach enables lending to be secured on the modular panels before they arrive on site, ensuring that finance is available for different types of self-builders at key stages throughout the build process. We are the first UK lender to bring together modular construction manufacturers with a dedicated mortgage solution (including an advanced payment option) making it easier to access mortgage finance for this type of self-build
- Co-led activities within the Partnership for Carbon Accounting Financials UK (PCAF UK) to improve the measurement of emissions from lending on residential property
- Actively participated in international alliances demonstrating climate leadership: UNEP FI Principles for Responsible Banking, Net Zero Banking Alliance and Global Alliance for Banking on Values.

Overview of 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 which 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 on page 12 summarises our activity on climate-related risks and opportunities during 2022 and our planned activities from 2023.

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

Achieved in 2022	Planned activity – from 2023 onwards
Strategy	
Published *Financing the Net Zero Transition – our 2030 intermediate targets* setting out our targets and plans for our lending on the journey to net zero 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 Funded the Building Performance Network to develop and share new resources to improve building performance Actively participated in alliances to help the financial sector respond to climate change Shared our approach to putting climate action at the heart of our financial decision-making in the finance community, through peer-sharing sessions with the UNEP Principles for Responsible Banking, International Association for Investors in the Social Economy, The Japanese Practitioners for Banking on Values and The Building Societies Association 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, including establishing the Environmental and Societal Impact Board Committee 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) Sustainability induction training for new starters and training for all colleagues provided by The Green Register on sustainable building and retrofit	Further develop the Board's 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 Established a clear risk appetite for Climate and assigned senior management accountability aligned to the Society's related risk management framework Enhanced our capabilities to assess potential future physical impacts on our mortgage portfolio under a range of climate change scenarios New Climate Risk Framework used for physical climate risk assessment of properties at mortgage application stage Incorporated climate risk into operational resilience processes	Build on current annual climate risk assessment, implement dynamic management information on climate-related 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 monitor their path to net zero
Metrics and Targets	
Measured the carbon footprint of our business operations, commuting, working from home and supply chains Assessed physical risks (flooding, subsidence and coastal erosion) under future climate change scenarios. Using intermediate climate change scenarios, models show that in 2050, 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 ($kgCO_2$/£ of lending) of our mortgage portfolio using the Global GHG Accounting and Reporting Standard for the Financial Industry Published 2030 targets for our mortgage portfolio, aligned with achieving net zero lending in 2050	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 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.

Climate-related risks

A range of physical and economic risks could 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. The Financial Services industry is exposed to climate-related risks and opportunities through lending and other financial intermediary activities, as well as through its own operational activities.

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

Physical risks

The physical risks of climate change can arise from the increasing severity and frequency of extreme weather events, such as flooding, coastal erosion, subsidence, extreme weather events, 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 because 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 cut and measures are implemented to remove excess carbon from the atmosphere. The responses from governments, industries and consumers to climate change are likely to result in societal and economic changes. Many of these changes are unpredictable, giving rise to many 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 specific 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. In November 2022, the independent Climate Action Tracker predicted heating of 2.7°C above pre-industrial levels, based on the existing policies, commitments and pledges around the world.

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

Ecology Building Society's role is to be part of the solution to tackling the climate crisis. 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. 40 years on, climate change, ecological collapse, deepening social inequalities, war returning to Europe 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. In 2022, we published our intermediate targets for our lending and continued implementation of our plans to achieve net zero in our business operations.

Unlike traditional businesses which 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.

System Value – Creating 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 sharing to help our Members and their communities make their homes more energy-efficient, live sustainably and 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 savings (deposit taking) and lending (mortgages for sustainable buildings, community developments and finance for sustainable developments). 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 2022, our new mortgage lending increased by 0.22% and the number of savings accounts increased by 22.6%.

Our lending

Ecology's mortgages are 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, reduce emissions and therefore 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 (EPC) and verified standards such as Passivhaus and AECB Standards to award a greater C-Change discount to mortgages of homes with a higher energy performance. In 2022, we enhanced our range of C-Change discounts by increasing the segmentation of properties with the highest energy performance (above 100 SAP points on the EPC) to incentivise borrowers to maximise their SAP score.

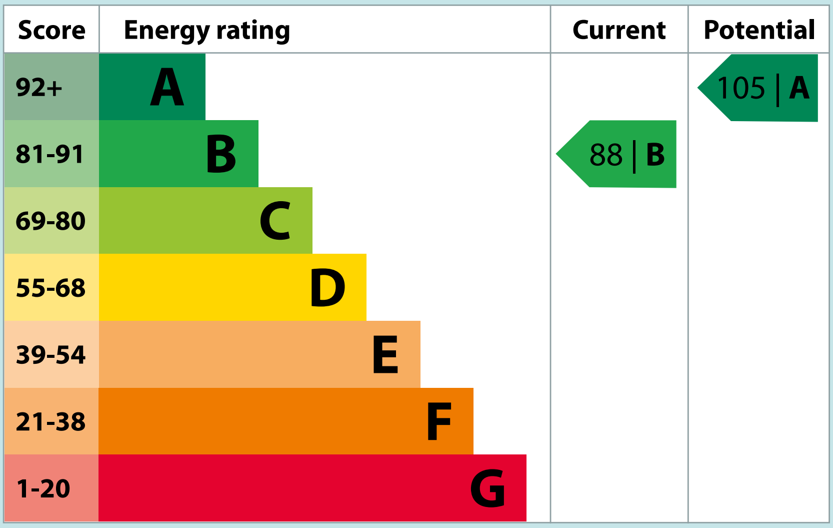
- We launched our first cashback incentive to contribute to the cost of installing either a ground or air source heat pump. This is a drive to influence and change the behaviour of heating UK homes away from fossil fuels to low carbon, renewable heating technologies.

- We introduced a new off-site construction mortgage range and teamed up with leading modular manufacturers to launch our new range of mortgages to support the growth of off-site constructed, modular housing.

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 2022. We welcome non-standard construction types and materials. Through our bespoke approach

Energy Performance Certificates (EPCs)



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 which is 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 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.

to lending, we proactively support new building techniques, provided they meet our sustainability criteria, including the off-site 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 20% of the UK's total carbon emissions comes directly from homes, mostly from boilers burning natural gas for hot water and space heating. Around 80% of the houses that will exist in 2050 are houses that people are currently living in. A high proportion 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 that their high demand for heating exposes occupants to fuel prices rising and emits more carbon dioxide, on the basis that our mortgage lending funds improvements to the property and its energy efficiency, while reducing 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. Generally, 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.

Net zero

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

Our 2030 intermediate targets

We have committed to achieve net zero in our lending by 2050 or sooner, taking a fabric-first approach to improve the energy efficiency of properties and supporting low-carbon heating. We have set two intermediate targets to be achieved by 2030 for the main property types in our lending portfolio. Our targets are expressed in terms of operational carbon dioxide emissions arising from fossil fuels used to provide regulated energy (for space and water heating, lighting and ventilation) when the home is in use.

Ecology Building Society commits to:

- reduce new build residential mortgage portfolio operational GHG emissions from regulated energy use (Scope 3, category 15) by 50% per m^2, by 2030 from a 2020 base year
- reduce retrofitted residential mortgage portfolio operational GHG emissions from regulated energy use (Scope 3, category 15) by 50% per m^2, by 2030 from a 2020 base year
- The 50% reduction is consistent with science-based scenarios aligned with keeping global temperature rise within 1.5°C

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 continuing to embed an assessment of future physical risks of climate change, obtained through a new consultancy arrangement, into our credit assessment process.

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 AGM and Member Meet-ups during 2022, 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. We will continue to actively engage with our Members throughout 2023 and beyond to help us guide our strategies both now and in the future.

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, we have been an active participant in 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, and incubating new ideas into impactful solutions that others may adopt, helping to scale up system change.

Our agitation for change in 2022:

- Co-sponsored the launch of the National Custom and Self-Build Association's (NaCSBA) inaugural market report, which highlights the importance of energy efficiency in self-build, and shared a platform with the Secretary of State for Housing at the event in Parliament
- Paul Ellis, then Chief Executive, gave evidence to the House of Lords Environment and Climate Change Select Committee's inquiry into mobilising action on climate change and the environment. Paul discussed our C-Change mortgages highlighted the importance of a National Retrofit Programme and fiscal measures, such as cutting VAT on products and services for retrofit
- Co-chaired the Partnership for Carbon Accounting Financials UK (PCAF UK), to develop and promote best-practice in carbon accounting by UK financial institutions, including working with the PCAF UK Residential Property group to engage with the Department for Business, Energy & Industrial Strategy (BEIS) on improving data on carbon emissions from residential property
- Actively participated in workshops held by BEIS on the benefits achieved through the use of smart meters
- Supported the work of Bankers for Net Zero developing policy recommendations for retrofit and engaging Parliamentarians
- Attended peer knowledge-sharing with members of the UNEP FI Principles for Responsible Banking, Net-Zero Banking Alliance and the Principles for Responsible Investment on our mission-led approach to lending
- Advocated for a carbon-conscious approach to construction materials in the Futurebuild Big Issues series
- Took part in the UK Government's Community-Led Housing Revenue Grants panel, working with Locality, the National Community Land Trust Network and other professional advisors, including influencing the panel to put low-carbon design into their scoring mechanism as a priority
- Supported the campaign activity of a range of key sector and NGO partners on issues including supporting the transition to net zero, fossil fuel divestments, energy efficiency and retrofit

Our role in creating system change

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 residual 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 2022, we achieved the prestigious green award. During 2022, we continued to partner with social enterprise, Giki, to provide colleagues with a personalised programme to understand how to reduce their carbon footprints and protect the environment together. Giki co-founder, Jo Hand, also helped to inspire our Members at our AGM and Members Meet-up in April.

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 cross-cutting and impacts on all of 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 on page 22.

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 (on page 22) 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. 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: we commissioned a nationwide consumer research programme in partnership with Censuswide which shows that nearly three quarters (74%) of savers would like their money to have a positive impact on the environment and society.

We recently appointed Forster PR to support us with raising awareness of our brand, amplifying the work of the Society and helping to position us as an agitator for change.

We believe that all financial institutions have a critical role to play in setting the expectation on net zero, by setting interim targets that define the path to net zero for 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.

During 2022, we've worked to establish the science-based targets that our mortgage lending should achieve by 2030 (intermediate 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 have set two intermediate targets to be achieved by 2030 for the main property types in our lending portfolio:

New build residential property (where our mortgage lending has funded the construction of the building)

Retrofitted residential property (where our mortgage lending has funded the retrofit or conversion of the existing building)

The separate targets recognise the inherent difference in these two property types and therefore the emission intensities that they are able to achieve. Our targets are expressed in terms of operational carbon dioxide emissions arising from fossil fuels used to provide regulated energy (for space and water heating, lighting and ventilation) when the home is in use. For each property type, we seek to reduce the emission intensity by 50% between 2020 and 2030. More information, including the basis for our intermediate targets, can be found in *'Financing the Net Zero Transition – our intermediate targets for 2030'*.

Achieving net zero emissions from residential properties is an urgent issue requiring a determined, collaborative effort. There are a number of dependencies, such as availability of materials, suppliers, policy frameworks, technology and infrastructure. We are collaborating to facilitate removing barriers as much as possible.

The wider financial sector is beginning to recognise that achieving net zero is an enormous (but achievable) challenge, requiring concerted effort across society. Minimising energy demand is an essential component of reaching net zero. It contributes to energy security and more affordable heating bills and requires less energy to be generated in the first place, therefore reducing the investment in infrastructure for energy generation and distribution. Improving energy efficiency is urgently required to address the cost of living crisis, social inequalities and climate breakdown.

We are urging policymakers to set out clear policy frameworks, including appropriate regulations and incentives to improve building standards for new and existing properties, so that all stakeholders can confidently invest to deliver net zero homes. We advocate for embodied carbon to be measured in the property's Energy Performance Certificate and included in building regulations. One critical 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. We will collaborate to facilitate, inspire and inform our current and future borrowers as much as possible.

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 lenders developing 'green' mortgage products, together with new disclosure requirements encouraging firms 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 whole balance sheet is mobilised to provide lending for environmental and social gain, with funding from savers who seek impact and are 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 others 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, workspaces 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 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 22 illustrates examples of how climate change may affect Ecology's five risk categories, their expected time horizons and the potential impact on 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*			**Impact-led products and services** **Collaboration and knowledge share** **Agitation for change** [Note 4]
	Increased competition from other green finance providers on savings and lending products may affect our financial performance 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	
	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, including impacts of war in Europe and the ongoing cost of living crisis, may affect confidence of new borrowers Increased cost of raw materials, as the 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 over-heating, and damage to local and national infrastructure, leading to 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	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

Conduct 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: – 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 – Changes to regulations which may affect the accounting treatment of innovative 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

The stress testing we carry out to inform our regulatory requirements (ILAAP and ICAAP) provides reassurance of Ecology's resilience to macroeconomic pressures (cost of living / war in Europe), employment changes and property values, which map onto potential transition risks. This is an area for further work in 2023. We will continue to evolve our scenario testing, informed by the Bank of England's regulatory guidance.

Physical risk

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 throughout 2022*
- 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

* Transferred to Chief Risk Officer at the end of 2022

Board and Board Committees
The Board oversees the Society's response to climate risk through defined governance and oversight which is embedded in the articles of association.

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. During 2022, the Sustainability Lead facilitated workshops on net zero scenarios, targets and transition plans with the Board, Senior Leadership Team and management team, leading to the publication of our 2030 intermediate targets for our lending. 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.

Senior Leadership Team
The Chief Executive Officer (CEO) is responsible for ensuring that climate risk is embedded across the Society. The CEO is supported by the Senior Leadership Team, who have combined 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, and Chief Risk Officer (CRO), 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 CEO, in combination with the CRO and Finance Director, is the executive sponsor overseeing climate-related disclosures.

Climate is 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, Senior Leadership Team, Managers, the Mortgage Team and Community and Business Lending Team. Risk roles and responsibilities are summarised in Table 3.

Risk Management

Climate Risk is one of the Principal risks of the Society and forms a part of the Risk Management Framework.

The Society's definition of climate risk is: The risk that our strategy, financial planning and business activities fail to mitigate the impact of climate change.

The Society's Risk Appetite definition is: The Society will actively address the impact of Ecology's activities on climate change and the impact of climate change on Ecology by managing and mitigating current and future physical and transition risks and agitating for positive change.

And the Society, to support the appetite has developed what 'we will' and 'we will not' statements for Climate Risk:

We will

- Achieve net zero in our business operations by 2030
- Incentivise and reward borrowers for improving the energy efficiencies of their properties and reducing their carbon footprint
- Ensure key suppliers and counterparties are developing climate change resilience plans and their path to net zero
- Accelerate the use of our collective voice to agitate for positive change to address the climate emergency
- Enhance our impact-led mortgage products to increase innovation in sustainable design, retrofit, construction and materials

We will not

- Engage in activities that have a negative impact environmentally on our business operations and increase our carbon footprint
- Engage with key suppliers and counterparties who are not committed to responsible management of resources and materials and achieving net zero
- Provide mortgage funding which increases carbon emissions
- Enter into partnerships with those who do not share our commitment to our ecological mission
- Create products that do not have an ecological benefit in terms of saving energy or resources, or supporting sustainable communities

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 the 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 2022)
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 and associated metrics Third parties – including for quantitative modelling for future physical risks under a range of climate change scenarios
2nd line	Risk and Compliance function has oversight and challenge Chief Risk Officer oversight Horizon scanning for regulatory and reporting developments Risk Committee and RACE
3rd line	Internal Audit 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.
- **Transition risk** in terms of the energy efficiency of the property.

During 2022, 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 2022 were 425.9 tonnes CO_2. This is a 47% increase in our emissions in 2021 (289.7 tonnes, updated to reflect best available data), which had increased considerably from the previous year due to the pandemic (241 tonnes in 2020). In 2022, our business activity has increased with another year of record new lending and the number of savings accounts increasing by 22.6%.

Whilst our absolute carbon footprint for 2022 has increased substantially, our emissions per full time employee (FTE) have decreased to 7.5 tonnes of CO_2 from the updated 7.8 tonnes/FTE. Emissions per £ of mortgage lending for 2022 is 6.12g CO_{2e}. This is an increase from 2021 which has been updated to 4.17 grams CO_{2e} per £ of mortgage lending.

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 generated 17% 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

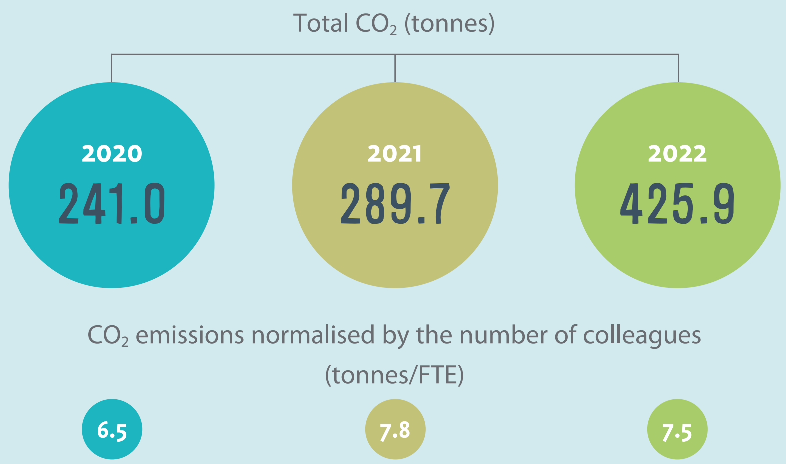


Table 4 Emissions arising from Ecology's business operations, commuting and supply chains in 2022

Scope 1	**Emissions (tCO_2e)**
Gas use at Ecology offices [Note 1]	5.1
Scope 2 (gross)	
Electricity use at Ecology offices	5.7
Scope 2 (net)	
Electricity use at Ecology offices [Note 2]	–
Scope 3 [Note 3]	
Business services (e.g. information technology)	252.4
Depreciation, maintenance and other utilities	47.4
Office consumables	12.3
Gas and electricity (scope 3)	2.7
Food and catering	23.7
Business travel and accommodation	23.3
Commuting	38.3
Homeworking emissions	15.0
Total	**425.9**

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 technology on our Silsden office generates around 17% of our annual electricity use. This is a significant reduction from 2021 (30%) due to our Solar PVs being removed for building maintenance during the summer months. 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 when it formed in October 2020 and, during 2021, co-chaired their 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 Scope 3 – Mortgages: Financed emissions					
Emissions from properties with an EPC (52% 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)	56,801	318	427	4.6	6.2
Renovations and conversion (where the works are complete) [Note 7]	18,214	297	330	13.5	15.0
Renovations and conversion (where the works are ongoing) [Note 7]	10,135	296	314	59.9	63.4
Other	16,236	181	207	14.9	17.1
Sub total	101,386	1,092	1,278	10.8 (weighted)	12.6 (weighted)
Emissions from properties that are completed but do not have an EPC (23% of Ecology mortgages) Emission data quality score 5, based on PCAF Global Standard [Note 8]					
Sub total, all types	47,353	322	402		
Emissions from all new, renovation and conversion properties where works are complete, ongoing renovation and conversions with an EPC and Other properties EPC (75% of Ecology mortgages). Weighted emission data quality score 3.6, based on PCAF Global Standard					
Total	148,739	1,414	1,680		

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.*

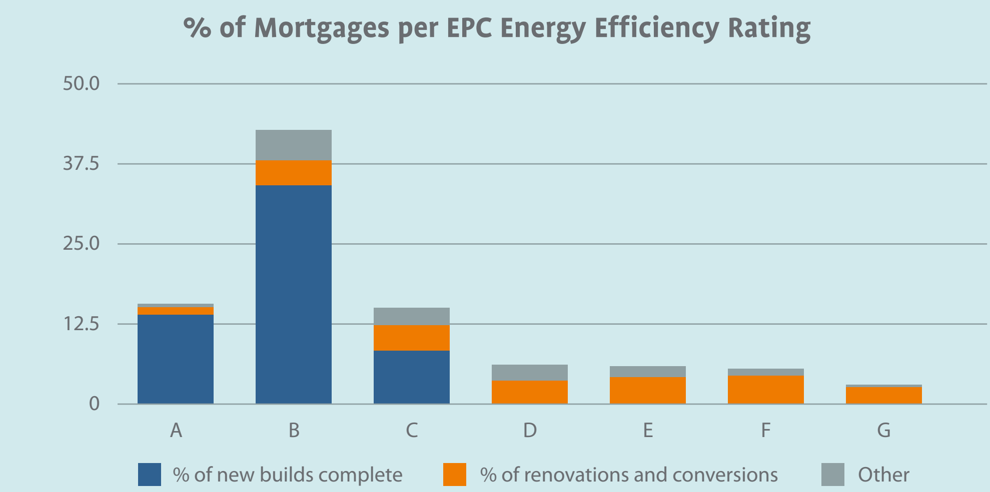
Note 4: *Financed emissions are calculated by multiplying the property emissions by the ratio of loan to value. The PCAF Global Standard recommends using the valuation at origination. However, the majority of Ecology mortgages involve the release of funds as the property is built or renovated and its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

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.

Mildmay Club, Stoke Newington, London - backed by an Ecology loan to renovate the iconic Grade II listed building's slate roof and fund a partial refurbishment of the interior

Based on all the EPCs currently available for properties in our mortgage portfolio, the average SAP score was 74, 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 2022 using our latest refined methodology and updated information on the unregulated emissions in 2022. In 2022, financed total emissions were 1,680 tonnes and financed regulated emissions were 1,414 tonnes. Between 2021 and 2022, our financed regulated emissions decreased by 9.5% (2022: 1,414 tonnes; 2021: 1,563 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 2022, the financed regulated emission intensity was 12.4 $kgCO_2$/£000 and in 2022 this decreased to 10.8 $kgCO_2$/£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 2021
12.4 kg CO_2 / £000

Financed regulated emission intensity in 2022
10.8 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 22.9 $kgCO_2/m^2$ compared with 23.6 $kgCO_2/m^2$ in 2021.

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 2022 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, 10.0% 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 2022, 11% of Ecology's mortgaged properties were in Northern Ireland.

Subsidence

Under the worst case, high emissions scenario (RCP8.5), in the 2050s, 10.1% of Ecology mortgaged properties in Great Britain could experience an increase of 10% or more in their subsidence risk. This is an increase on the updated value for 2021 of 9.8%. 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 low.

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 and we will continue to work with our third-party consultants to extend the assessment of subsidence and coastal erosion risks to include Northern Ireland. Climate Risk Appetite, moving from a more qualitative to quantitative approach, will be further embedded through the risk management framework through 2023.

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 support PCAF UK, helping to improve the quality and availability of data to measure the emissions from residential property. Our intermediate targets for our lending are expressed in terms of emission intensity, calculated using the carbon emissions (from regulated energy use for space and water heating, lighting and ventilation) and floor area from the Energy Performance Certificate (EPC) for each property, which is the best property-level information currently available. The limitations of EPCs to provide accurate operational carbon emissions are well-recognised and we expect improvements in data accuracy in the near term. We therefore expect to adjust the baseline and targets as the data improve, ensuring that we continue to align with science-based net zero pathways, and will continue to be transparent in our approach to this.

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 2022.

Our climate-related disclosures

Our report contains a dedicated section, 'Climate-related disclosures' on page 11 to 34. which 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 2022, we welcomed more than 200 Members to a series of five events, held across the UK and online, at which they had opportunity to hear the Chief Executive and other Board Directors share their vision for the Society's future. At each event Members also heard from Ecology borrowers who are putting our sustainable lending into practice. We particularly wish to thank Members for sharing their valuable and diverse insights and ideas to shape how we continue to work hard to implement Our Strategy for 2030, and for pushing us to be ambitious and innovative.

As a Member-led organisation, engaging and hearing from our Members is essential 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 net zero 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 July, we expanded our range of C-Change discounts to increase the interest rate reward for borrowers building to the highest energy standards. Our C-Change Passivhaus discount increased from 1.25% to 1.50% to incentive more homes to be built to the highest Passivhaus standard. We also increased our SAP range and introduced new discounts for SAP A+ (rating 100 – 109) and SAP A++ (rating 110+) to offer increased discounts of either 1.00% or 1.25% under our C-Change discount range.
- In October, we launched our first cashback incentive to contribute to the cost of installing either a ground or air source heat pump to a home. The cashback is available across our entire residential product range and is a drive to influence and change the behaviour of heating UK homes away from fossil fuels to low carbon, renewable heating technologies.
- In January 2023, we launched a new off-site build mortgage range and teamed up with leading modular manufacturers to launch our new range of mortgages to support the growth of off-site, modular housing. Our innovative approach enables lending to be secured on the modular panels before they arrive on site, ensuring that finance is available for different types of self-builders. We are the first UK lender to bring together modular construction manufacturers with a dedicated mortgage solution (including an advanced payment option), making it easier to access mortgage finance for this type of self-build.

As a member of Bankers for Net Zero, an initiative to investigate how banks can best support key sectors of the UK economy in transition to net zero, we contributed to their *Retrofit Revolution* report published in March. This sets out what is needed for policy and regulation to enable retrofitting to happen rapidly at scale.

Enabling people-powered housing

In 2022, Ecology supported 19 community-led housing projects across the UK. Once completed, these projects will deliver 147 energy efficient homes for local people within a range of intentional housing communities. These include cohousing, housing co-operatives, community land trusts and mutual home ownership societies. Most of the homes we have supported offer a range of benefits to the occupiers, including affordable rent, shared ownership options, or are priced at a discount in perpetuity compared to open market prices.

As well as delivering affordable, energy efficient homes, some of our lending to community groups is delivering added benefits to their local communities. These include a new health centre at Staffin on the Isle of Skye and new business units for local small enterprises at Ettrick and Yarrow in the Scottish Borders.

Often these projects are in fragile, rural communities and help sustain other services, such as schools and shops. Others are in more urban settings impacted by high property prices, second home ownership, private landlords and holiday lets, which further restricts the ability of local people, including key workers, to afford their own home. As well as supporting community groups, the Society remains committed not to lend to second homeowners or to holiday lets in areas of high tourism.

Amongst the projects supported in 2022 is a loan to East Cambridgeshire Community Land Trust to help them to buy 15 retrofitted former Ministry of Defence homes at Ely in Cambridgeshire to offer to local people under a Shared Ownership scheme in partnership with the local council.

Another innovative project is on the Island of Ulva, where the North West Mull Community Woodland Company are bringing 6 abandoned properties back to full occupancy and repopulating the community-owned Island. Each property requires significant retrofit work, but the project will house 6 families and a restaurant / café when completed and this project in turn will help sustain the local school at Ulva Ferry, across the bay on Mull.

Our lending to community groups extends beyond housing. In 2022, we supported The Leeds Library, one of the city's oldest institutions, to expand by buying a neighbouring city centre property. This will create new spaces for events, house a growing and historically important collection of works, and provide a lift to enable greater accessibility for all into what is an iconic listed building.

Overall, our lending to community-led housing organisations is one of the Society's fastest growing areas of activity, and we remain on track to deliver a 100% increase in lending to community-led housing groups between 2020 and 2025.

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 70 member financial institutions around the world, committed to making the banking system more transparent and supporting positive economic, social and environmental change.

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 second progress report on how we are implementing the principles in 2022. We have participated in peer knowledge sharing sessions with the Principles for Responsible Banking members. A focus of our work this year has been target setting – for our 2030 intermediate climate targets for our lending, and our social impact targets in terms of our support for community-led housing.

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 2022, we co-chaired the Partnership for Carbon Accounting Financials, a group of leading financial institutions working to improve the measurement of carbon emissions from mortgage property. 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.

Responsible business

Ecology is a responsible business, committed to addressing the climate and ecological emergency through everything we do. We are guided by our climate and ecological emergency plan, published last year. The infographic on page 38 provides an overview of our activity this year.

Since 2021, we've been partnering 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 they can take to reduce their carbon footprint.

Investors in the Environment (iiE) helps 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.

The Green Register provided training for all colleagues on sustainable building and retrofit, refreshing knowledge for our existing colleagues and providing an introduction for new colleagues. We also continued our Green Induction for all new starters.

As part of our commitment to being an inclusive employer that takes the wellbeing of our colleagues seriously and provides an environment where all colleagues can thrive, we signed up to becoming an accredited menopause-friendly workplace.

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 2022 standing at 5.68:1.

We were re-accredited with the Fair Tax Mark in 2022, demonstrating our commitment to doing the right thing when it comes to taxes.

Sponsorship and charitable giving

We were pleased to sponsor the Passivhaus Trust's conference in Exeter, continuing our long history of support for the exemplary standard.

Over the year, the Society supported a range of activities helping to advance the shift to net zero, including:

- Sponsoring Ethical Consumer's second Climate Gap report, which tracks the gap between our current combined consumption emissions and where they need to be by 2030. The report highlighted the need to cut emissions from heating by 23%, showing the urgent need for action on retrofit
- Co-supporting an independent report commissioned by Ed Miliband MP, former Secretary of State for Energy and Climate Change, to create a proposal for a ten-year programme to 'future-fit' the UK's homes to tackle the long-term causes of the cost of living crisis, bring economic prosperity, improve quality of life, and address climate change
- Supporting open homes events in Cambridge, organised by Cambridge Carbon Footprint to inspire a new generation of people wishing to improve the energy efficiency of their homes.

As part of our support for the local community in Yorkshire, where Ecology is based, we also sponsored a charity run to raise funds for the local hospice. We worked with the organisers to remove single-use plastic bottles from the event and this will now be an ongoing feature of future events. In partnership with other local businesses, the Society also helped to fund the installation of a defibrillator located near to our offices in Silsden.

Colleagues continued to volunteer their own time to a range of community organisations, including local foodbanks, various sports groups, girl guiding UK and the refill shop in Silsden.

In addition, we made £675 of donations to our charity partner, Trees for Cities, as a result of Members' AGM voting.

Members of the Ecology team helping to plant nearly 1,400 trees in Wilsden

Community public access defibrillator in Silsden co-funded by Ecology

Our progress in 2022

Our Members

Powered by nearly **16,000** Members (increase of 22.6%)

1,531 (14.8%) eligible Members voted in our 2022 AGM with more than two thirds voting online

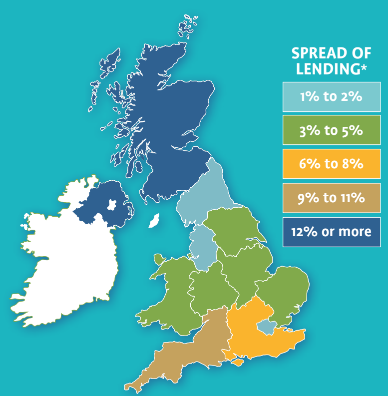
Over **200** Members participated in our series of Member Meet-ups

Our lending

12.9% increase in total mortgage lending to **£218 million**

New loans include:

- **19** conversions
- **28** renovations
- **258** new builds, including self- and custom-builds
- **12** shared ownership properties
- **8** housing co-operatives
- **3** community land trusts
- **7** woodlands
- **2** community gain projects



Our financial performance

Record:
- Lending
- Total assets
- Profit

Second successive year of new lending of nearly **£70 million** across **340** sustainable properties and projects

Total assets increase by **18.6%** to more than **£300 million** for the first time

Net profit increased by **55.5%** to **£1.585 million**

Our colleagues

Initiated transformation programme to invest in our people and the culture that will support the growth of the Society, including:

✓ Our flagship leadership academy

✓ Our colleague-wide development programme

✓ The rhythm and routine of colleague communications

✓ Signed up to becoming an accredited menopause-friendly workplace and supporting a men's mental wellbeing group

✓ Continued 'Giki Zero' colleague sustainability programme

Our local community

Planted nearly **1,400** trees with Forest of Bradford

Co-sponsored the installation of a community public access defibrillator near to our offices

Ecology team took part in and sponsored a local charity run, raising funds for Sue Ryder Manorlands Hospice

✓ Our sponsorship enabled the removal of single-use plastic bottles from the event

£675 raised for Trees for Cities as a result of Members' AGM voting

Our premises

Installation of new solar panel array to increase our onsite energy generation capacity

Office powered by **100%** renewable electricity

Redesigned office space to accommodate our expanding/growing team

Office re-design focused on creation of a collaborative environment, supporting Member services, future developments and colleague wellbeing

Maintained Investors in Environment Green Award (highest category)

Our carbon emissions

425.9 tonnes: total carbon footprint of our business, of which:

19% comes from office heating, business travel, commuting and working from home

1,414 tonnes: financed emissions** from our mortgage lending

10.8 $kgCO_2$/£000 average financed emission** intensity and

22.9 $kgCO_2/m^2$ average physical emission intensity of our lending

We have published our net zero plans and targets for business operations and lending and continue to report on these.

* 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

Louise Pryor
Non-Executive Director and Chair

Louise is a climate change actuary and risk specialist with 30 years of experience in actuarial consulting, software development and academia, having worked with a variety of clients in the public and private sectors.

Louise has just completed her term as President of the Institute and Faculty of Actuaries, and is Chair of the London Climate Change Partnership and an Honorary Professor in the Bartlett School of Sustainable Construction.

Andrew Gold
Non-Executive Director and Deputy Chair

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.

Gareth Griffiths
Chief Executive

Gareth joined Ecology in June 2022 and was co-opted onto the Ecology Board. Gareth is standing for election at the AGM. He was previously Head of Retail Banking at Triodos Bank and also held leadership roles at RAC and HSBC.

His aim is that the Society plays an even greater part in addressing the climate crisis, and responding to deepening financial inequalities and inefficient UK housing stock to create a sustainable future, while supporting the Ecology team to continue to deliver award-winning service for Members.

Giovanni D'Alessio
Non-Executive Director

Giovanni was co-opted to the Board in September 2022 and is standing for election at the AGM. He is an IT professional with over 25 years' industry experience.

Giovanni spent his early career as a management consultant – initially in the USA, before relocating to the UK. He has worked in a variety of industries, including retail, manufacturing, telecoms and energy. Giovanni has been the CEO of Doosan Digital Innovation Europe since 2014, a company delivering digital and cybersecurity services.

Jaedon Green
Non-Executive Director

Jaedon was co-opted to the Board in March 2023 and is standing for election at the AGM.

He has spent much of his career working in financial services, most recently as Chief Customer Officer at Leeds Building Society.

Supporting the national housing agenda, Jaedon brings extensive experience in consumer regulated industries, housing, and financial services. He is routinely consulted as an independent adviser to the Bank of England, the Government, developers, and trade bodies. He is also Non-Executive Director at Leeds Federated Housing Association and Deputy Chair of his local allotment community interest company.

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 was a member of its Transforming Construction advisory group.

Kerry is a Non-Executive Director of the Active Building Centre Ltd and chairs Trust Electric Heating Ltd and the Energy Strategy Group of Worcestershire LEP. She was awarded an OBE in 2017, and is currently planning her next self-build home.

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 Cafédirect, and was previously a director in the NHS.

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.

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.

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 2022.

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 50
- Free Capital and Gross Capital percentages are included within the Annual Business Statement on page 94
- Information regarding mortgage arrears is included within the Strategic report on pages 7 to 8

Risk management objectives and policies

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

- 1st line – Senior Management, 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 Chief Risk Officer (CRO) 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 which commissions and receives the reports from that activity. In addition, the Society is 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.

Macroeconomic Environment

The Society's risk management framework operates in the context of the macroeconomic environment. Issues noted last year arising from the transition from the EU and the effect on working practices of the Covid-19 pandemic, continue to be felt in the economy. The unforeseen Russian invasion of Ukraine in February 2022 led to cost rises across the globe, and its impact on the cost of living continues into 2023.

The UK's COVID-19 restrictions formally came to an end in March 2022; however, the pandemic continued to have a significant impact on the economy. Continued Economic and Political uncertainty in the UK, coupled with wider global instability have continued to put downward pressure on the economy. The Society has continued to monitor for potential impacts throughout the reporting period.

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. This 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, the ICAAP and the Society's Recovery Plan.

Risk appetite is translated into specific measures, which are tracked, monitored and reported to the 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 Senior Leadership Team and extends to all colleagues who are provided with 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:
The risk that The Ecology does not have a fit-for-purpose strategic plan or has a plan that this is not supported by appropriate business plans, resulting in a risk to earnings, reputation and financial viability.

Key themes:
The macroeconomic environment – the combined impact of the COVID-19 pandemic, the cost of living crisis and the UK's transition from the EU has been given much consideration throughout 2022. The Society has noted the recent increase in inflation (Retail Price Index – RPI) with expectations for this to peak at 12% during early 2023. 2022 has seen a return to a rising interest rate environment. The Bank of England has increased interest rates steadily through 2022 – from historic lows to 3.50% at the end of the year. Active management of the Society's product portfolio has been ongoing, with increases to product interest rates throughout 2022. The Society has also noted ongoing pressures on the UK's standard of living, with sharp rises in both fuel and food prices which could impact on Members' ability to repay mortgages in a timely manner and may mean that Members face financial vulnerability and decreased disposable savings income. The Society will continue to assess Members' needs throughout this period and ensure any vulnerabilities are appropriately managed.

Mitigating actions:
Through business capital and liquidity planning, including stress testing of adverse economic and interest rate scenarios, 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 COP27 and the evolving requirements from the PRA in relation to climate risk, more 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 2023 and beyond. The Board and the Senior Leadership team will need to ensure appropriate controls and reporting are in place 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. The Society has noted the Financial Conduct Authority's published Consumer Duty of Care rules issued in July 2022 and has developed a robust implementation plan to ensure delivery of key activity by the deadline of July 2023.

Mitigating actions:
The Society mitigates ethics risk through a robust and effective internal control framework, that includes 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 the Board on performance.

Emerging risks:
Continued emphasis on ensuring member vulnerability and potential member harm is appropriately managed within the Society, whilst delivering the requirements of Consumer Duty of Care by focusing on good member outcomes. This remains key for 2023.

Climate risk

Definition:
The risk that our strategy, financial planning and business activities fail to mitigate the impact of climate change.

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 formally disclosed in pages 11 to 34.

There are two recognised categories of financial climate-related risks: physical risks and transition risks:

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 they fall 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. The risk of loss arising from mortgage and commercial lending has heightened during the year, due to the cost of living crisis and rising interest rate environment. However, the Society manages this risk through a comprehensive analysis of both the creditworthiness of the borrower and the proposed security. 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 is 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. 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 the cost of living. Inflation is expected to peak in the first quarter of 2023. 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 2023 to ensure customers are treated fairly and potential credit risk exposure is appropriately managed.

Financial risk

Definition:
The risk arising from financial mismanagement, defaulting on loans and losses arising from the mismanagement of treasury activities, including maintaining adequate access to liquidity and working capital.

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 2022 in the face of prevailing macro-economic pressures. 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 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. Following a period of historic low Bank of England interest rates, 2022 has seen the UK enter a rising interest rate environment which has seen the base rate increase to 3.50% by the end of the year. The outlook for interest rates continues to remain unclear, with the potential for further increases through H1 2023. The risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society at 31 December 2022 is detailed in note 25.

Capital risk is the risk that the Society fails to assess and maintain the adequacy of its capital. 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 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 regulator, can be found in the Pillar 3 disclosures available on the Society's website: **ecology.co.uk/about/corporate**.

Mitigating actions:
The Society's approach to liquidity risk is documented in ILAAP, and the approach to capital risk is documented in the ICAAP. The Board complies with the CRD. The ILAAP and ICAAP are updated annually and are subject to the three lines of defence review process. Monitoring of liquidity and capital adequacy is embedded in the Society's regular management information and in the planning process.

Emerging risks:
Reforms to Basel standards are expected to be implemented in Europe from 1 January 2025. In the UK, the PRA issued a Consultation Paper (CP 16/22) in November 2022 setting out its approach to the implementation of Basel 3.1 standards. The consultation period for this document runs until 31 March 2023. At the same time, the PRA is proposing a "Strong and Simple" regime for smaller firms, the details of which will be released in 2023 and 2024. Both of these processes will affect the assessment of the Society's capital and liquidity, and the emerging terms of the two regimes are being kept under close review.

Operational risk

Definition:
The risk of operational loss and / or Member harm resulting from inadequate or failed processes, people and systems or from external events.

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 cost of living crisis and 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, including the ongoing war in Ukraine and the potential for heightened state-level attacks. Exposures will always persist from threat actors – from less sophisticated Distributed Denial of Service (DDOS) threats to organised threats from ransomware attacks as seen in the UK during 2022. 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, including running scenario and stress test events, and to ensure that cyber controls evolve in line with the ever-changing risks. The Society maintains strong links with information

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

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 (Fifth Money Laundering Directive) through the continued adoption of Smart Search. Transaction monitoring has been enhanced through 2022 with the successful adoption of a new partner, Jade 3rd Eye, which was implemented in Q2 2022 as a replacement for Mitre. Both systems are integrated into Know Your Customer (KYC) and Customer Due Diligence (CDD) processes which have been enhanced through the year.

Operational resilience – significant work has been undertaken through 2022, including delivery of a programme of self-assessment, which ensures appropriate Board oversight and challenge, and will continue until March 2025. Further development and evolution of the Society's Operational Resilience framework will continue through 2023, with focus on enhancing business continuity and outsourcing / 3rd party frameworks.

COVID-19 impact on our people – staff absence and resourcing levels across the Society continued to impact as a result of 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. With the end of lockdown and COVID measures in the UK in March 2022, management of absence and resourcing levels returned to BAU activity.

People Risk – historically low unemployment and high levels of vacancies within key sectors (e.g. IT) continued to be factors that have impacted the ability to recruit at pace when required. The Society also experienced a period of significant change at senior level, with both a new Chair of the Society and a new CEO appointed during Q2 2022, coupled with the departure of the Society's Financial Director in August 2022. The period of change has been carefully managed and will continue through early 2023 as the Society appoints a Chief Finance Officer, two new members to the Senior Leadership Team and two new Non-Executive Directors. However, due to the size and scale of the Society, key-person dependency risk exists, and, if a senior leader or Board Director left the organisation, this could adversely affect our operational leadership and the ability for our business to operate and compete effectively.

3rd party supplier management – the Society continues to be dependent on suppliers to support or provide key services, for example Mutual Vision. The Society has taken steps to ensure that its suppliers can continue to operate in challenging conditions, including during the pandemic.

Mitigating actions:
The Society mitigates operational risk through a robust and effective internal control framework, that includes 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. The Society began a programme of Risk & Control Self-Assessment during 2022, which will be completed during Q1 2023. This will further enhance both the internal control framework and reinforce the three lines of defence model.

Emerging risks:
Regulatory change – further implementation of the FCA's Consumer Duty of Care (rules published July 2022) will need to be progressed through 2023. Other key regulation includes:

- Embedding of Climate Change regulation (prudential risk)
- Implementation of Operational Resilience (prudential and conduct risk)
- Environmental, Social and Governance (prudential and conduct risk)
- Basel 3.1 consultation (prudential risk)
- The PRA's "Strong and simple" regime, details of which are to be made available during 2023 and 2024 (prudential risk)

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 23.

Charitable donations

During the year, the Society made charitable donations amounting to £11,899 (2021: £12,260), 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 provide the Society with a copy of their environmental policy, and the quality of the policies received forms 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 2022 was 91 days (2021: 81 days). This comprises of accruals totalling £624k, of which £200k relates to internal and external audit services and £200k is professional service fees which have yet to be invoiced. As of January 2023, 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 the Tax Compliance policy statement.

Management and staff

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

A comprehensive programme of staff training and development has been delivered during the year enabling staff to continue to develop relevant skills and knowledge and 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 all colleagues. 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 a period of at least 12 months from the date of signing the financial statements, and for the foreseeable future.

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 2023 AGM.

On behalf of the Board

Louise Pryor
Chair
7 March 2023

Pennyghael Schoolhouse being renovated, Isle of 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 Senior Leadership 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 to 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 Senior Leadership Team.

There are specific matters reserved for Board decision-making, complemented by specialist Board sub-committees with delegated powers. The Board met ten times during 2022.

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 controls 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.

In line with the Society's policy, a review of auditor appointment is undertaken cyclically and we do not change auditors every year. BDO remains our external auditors following appointment for the 2020 year-end. A competitive audit tender was conducted in 2022 for our internal auditors, and as a result, RSM has been appointed from 2023.

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 nine times during 2022.

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 Finance Director, Chief Risk Officer, 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 ten times during 2022. From 2023, this Committee is to be replaced by an Audit and Compliance Committee and a Risk and Conduct Committee.

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 Senior Leadership Team attend the meetings. The Committee met three times during 2022.

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 five occasions during 2022.

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 Louise Pryor. During 2022, the Committee met on seven 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. During 2022, the Committee was chaired by Louise Pryor, who was succeeded by Andrew Gold, in line with good governance practice that the Society Chair does not Chair the Remuneration Committee. During 2022, the Committee met on five occasions. The Directors' remuneration report is on pages 52 to 53.

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. Steve Round held the position of Chair until 30 April 2022 at which point Louise Pryor became the Society Chair.

Deputy Chair and Senior Independent Director

During the year, Andrew Gold was appointed Deputy Chair and Senior Independent Director. The Deputy Chair acts as a sounding board for the Chair and will stand in for the Chair if they are unable to attend a meeting or perform their duties. The Senior Independent Director is available to the Members if they have concerns regarding the Society membership, where contact through the normal channels of either the Chair or Executive Directors has failed to resolve the matter or for which it is considered inappropriate.

Chief Executive Officer (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.

Non Executive Directors (NED)

The Non-Executive Director role is to provide leadership of the Society within a framework of prudent and effective controls. The NEDs constructively challenge and help develop proposals on strategy, ensuring the necessary financial and human resources are in place for the Society to meet its objectives.

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 provide oversight of 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 are considered by the Board to be independent. All Directors must meet the test of fitness and propriety, as laid down by the regulators, to fulfil their role as Directors.

Appointments to the Board

The Nominations Committee leads the process for Director appointments, and there is a formal, rigorous and transparent process for the appointment of new Directors to the Board. 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 Finance Officer position.

Within prudential constraints, the Board aims at diversity in its membership, particularly gender diversity and diversity of age. At 31 December 2022, two of eight (25%) 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, to retain skills for an additional short period should we, as a small Society require do allow annual election for a Director beyond the nine-year period to ensure we are able to appoint a replacement 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 Chief People Officer 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 Senior Leadership Team ensures that information is delivered in accordance with Board requests. Board members have access to the advice of the Society 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.

The Society commissioned the services of RSM to undertake an external Board effectiveness review in December 2022, which will conclude in March 2023.

Directors' interests

Biographies of the Directors are included on page 39. None of the Directors hold any shares in, or debentures of any associated body of the Society.

New Governance Structure

The Board in 2022 agreed and approved a new governance structure to ensure the Society was fit for the future. Previously, the Society's governance and operations were overseen by five committees:

- **Assets and Liabilities Committee**
- **Development and Strategy Planning Committee**
- **Nominations Committee**
- **Remuneration Committee**
- **Risk, Audit and Compliance and Ethics Committee**

From 2023, the structure consists of the Board and five sub-committees, as detailed to the right.

The intention is that the Society will be managed at an executive level, and on a day-to-day basis, by the CEO working with the Core Management Committee, and that the Board will closely monitor, oversee and supervise the activities and outputs for the CMC.

- **Risk & Conduct Committee**
- **Audit & Compliance Committee**
- **Nominations & Governance Committee**
- **People, Remuneration & Culture Committee**
- **Environment & Social Impact Committee**

Board and committee membership and attendance record

Director	Board	RACE	DSPC	BLC	Remuneration	Nominations	ALCO
Steve Round	4/4	■	1/1	2/2	■	2/2	■
Paul Ellis*	4/4	3/4	0/1	0/2	■	■	2/3
Amanda Chambers*	7/7	5/5	2/2	■	■	■	6/6
Andrew Gold*	10/10	5/5	3/3	5/5	5/5	3/3	10/10
Kerry Mashford	10/10	9/9	3/3	5/5	■	4/5**	■
Tim Morgan	10/10	9/9	3/3	■	5/5	■	■
Chris Newman	10/10	9/9	3/3	5/5	■	■	■
Louise Pryor	10/10	■	3/3	■	5/5	7/7	■
Vincent Smith	9/10	1/1	3/3	■	■	7/7	10/10
Giovanni D'Alessio	3/3	■	1/1	■	1/1	■	■
Gareth Griffiths*	4/4	4/4	2/2	3/3	■	1/1	6/6

*Directors are invited attendees of RACE.

**Non attendance due to technical difficulties.

■ *denotes not a member of this committee*

Steve Round retired by rotation on 30 April 2022
Paul Ellis left the Society with effect from 30 April 2022
Amanda Chambers left the Society with effect from 31 August 2022
Giovanni D'Alessio was co-opted to the Board as a Non-Executive Director with effect from 30 September 2022

All Non-Executive Directors may get invited 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 2022:

- Nominations – Kerry Mashford added as a member
- Remuneration Committee – Giovanni D'Alessio added as a member
- RACE – Vincent Smith replaced by Kerry Mashford

In June 2022, Louise Pryor handed over the Chair of the Remuneration Committee to Andrew Gold.

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, along with any 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 and the Executive Directors. 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 Chief People Officer attend meetings as required. The Chief Executive and Finance Director take no part in the discussion concerning their individual remuneration. The Committee held five meetings during 2022, 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/about/corporate**

"We supported colleagues with the cost of living by providing an additional monthly supplement to help with their bills."

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.

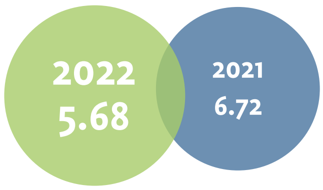
Basic salary

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 marketplace. The Society is committed to paying the Living Wage and has received accreditation for this from the Living Wage Foundation. We give an extra flat sum payment to all colleagues for cost of living crisis support.

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, excluding benefits and other contractual payments. Following consultation with the Society's Ethics Panel, this was set at a multiple of eight times the lowest full grade, with effect from January 2017. The reduction in the ratio is as a result of the decision to increase entry level salaries to reflect the challenges our lower paid colleagues face into with the cost of living crisis and our external benchmarking of the market.

Ratio of highest basic salary to lowest full grade available

as at 31 December 2022



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. Executive Directors do not 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. The Society operates a salary exchange option enabling colleagues 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

The Chief Executive is provided with an Electric Vehicle as a Company Car. The Society introduced an Electric vehicle salary exchange scheme open to all colleagues in 2022.

Contractual terms

None of the Society's Non-Executive Directors have service contracts. The Chief Executive Officer has a service contract entered into on 30 March 2022 for service commencing on 1 June 2022 and the contract is terminable by either party giving six months' notice.

Payments for loss of office

Amanda Chambers left her position as the Society's Finance Director on 31 August 2022. In line with her contractual arrangements, she received pay in lieu of her contractual notice period of six months amounting to £52,000 and compensation for loss of office of £20,750.

Non-Executive Directors' remuneration

	2022 £000	2021 £000
Louise Pryor	**20.8**	14.6
Andrew Gold[1]	**18.3**	27.3
Kerry Mashford	**14.8**	14.4
Tim Morgan	**18.9**	18.4
Chris Newman	**16.5**	15.9
Vincent Smith	**16.0**	15.6
Giovanni D'Alessio (from 30.09.2022)	**3.7**	–
Steve Round (to 30.04.2022)	**7.7**	22.7
Totals	**116.7**	128.9

[1] *Includes additional remuneration of £3,054 (2021: £12,790) in relation to assigned senior management regime responsibilities for oversight of the risk function.*

Executive Directors' remuneration

2022	**Salary £000**	**Other related pay £000**	**Taxable benefits £000**	**Contributions to pension scheme £000**	**Total £000**
Paul Ellis (Chief Executive to 30.4.22)	**37**	**–**	**–**	**3**	**40**
Gareth Griffiths (Chief Executive from 1.6.22)	**67**	**–**	**3**	**5**	**75**
Amanda Chambers (Finance Director to 31.8.22)	**79**	**73**	**–**	**6**	**158**
Totals	**183**	**73**	**3**	**14**	**273**

2021					
Paul Ellis (Chief Executive)	116	–	4	9	129
Amanda Chambers (Finance Director)	100	–	–	8	108
Totals	**216**	**–**	**4**	**17**	**237**

The Executive Directors' renumeration above represents their gross contractual salary and does not take into consideration any salary.

On behalf of the Board

Andrew Gold
Chair of the Remuneration Committee
7 March 2023

Statement of Directors’ responsibilities

Directors’ responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors’ report and Annual Accounts

Directors’ responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors’ report and Annual Account

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.

Louise Pryor
Chair
7 March 2023

Richard and Max's timber-framed self-build, Isle of Skye

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 2022 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 2022 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 Accounts, 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 Risk, Audit, Compliance and Ethics (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 3 years, covering the years ended 31 December 2020 to 31 December 2022. 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 Directors' forecasts;
- Review of key ratios, such as liquidity coverage ratio and Common equity tier 1 capital ratio for significant deterioration; and
- Assessing how management have factored in key external factors expected to affect the Society such as the ongoing cost of living crisis, checking these had been appropriately considered as part of the Directors' 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

		2022	2021
Key audit matters	Revenue recognition	✓	✓
	Impairment losses on loans and advances	✓	✓
Materiality		£127,000	£117,000
		Materiality in 2022 and 2021 was based on 0.75% of Net Assets.	

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 on a sample basis 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, as well as agreeing sample of mortgages from mortgage portfolio back to the model. 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 performed sensitivity analysis over 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
Impairment losses on loans and advances *As disclosed in Note 12 and explained in Note 1.11 (Assumptions and estimation uncertainties), the Society holds £569K of impairment provisions at year-end (2021: £527K).*	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 the current inflation levels. 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:

	2022	**2021**
Materiality	£127,000	117,000
Basis for determining materiality	0.75% of Net assets	0.75% of Net assets
Rationale for the benchmark applied	We determined that Net assets was the most appropriate benchmark considering the different stakeholders 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 Net assets was the most appropriate benchmark considering the different stakeholders 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.
Performance materiality	£95,250 based on 75% of materiality	£88,000 based on 75% 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.	

Reporting threshold
We agreed with the RACE Committee that we would report to them all individual audit differences in excess of £6,350 (2021: £5,000) We also agreed to report differences below this threshold 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 & 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 below.

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 XX for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

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

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

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

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

We 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 a sample 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
7 March 2023

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 2022

	Notes	**2022 £000**	2021 £000
Interest receivable and similar income	2	**10,493**	7,034
Interest payable and similar charges	3	**(3,280)**	(1,863)
Net interest		**7,213**	5,171
Income from investments		**33**	34
Fees and commissions receivable		**3**	4
Fees and commissions payable		**(116)**	(145)
Other operating income		**40**	16
Net gain from other financial instruments at fair value through profit and loss	14	**18**	10
Total net income		**7,191**	5,090
Administrative expenses	4	**(4,970)**	(3,746)
Depreciation and amortisation	13,15	**(80)**	(89)
Operating profit before impairment losses and provisions		**2,141**	1,255
Provisions for impairment (charge)/release on loans and advances	12	**(42)**	102
Provisions for impairment (charge)/release on investments	14	**(12)**	190
Loss on conversion of investment	14	**–**	(265)
Provisions for impairments of Intangible assets	15	**(134)**	–
Provisions for liabilities	22	**5**	(1)
Profit before tax		**1,958**	1,281
Tax expense	7	**(373)**	(262)
Profit for the financial year		**1,585**	1,019
Other comprehensive income		**–**	–
Total comprehensive income for the year		**1,585**	1,019

Statement of financial position

at 31 December 2022

Assets	Notes	2022 £000	2021 £000
Liquid assets			
Cash in hand and with the Bank of England	8	**68,827**	43,230
Treasury bills and similar securities	10	**7,921**	6,000
Loans and advances to credit institutions	9	**6,300**	9,550
Debt securities	10	**1,011**	1,001
Loans and advances to customers	11	**217,716**	194,069
Tangible fixed assets	13	**1,253**	1,179
Investments	14	**695**	830
Intangible assets	15	**–**	134
Other debtors	16	**317**	261
Total assets		**304,040**	256,254
Liabilities			
Shares	17	**275,379**	228,960
Amounts owed to other customers	18	**10,128**	10,510
Corporation tax payable	19	**377**	250
Other liabilities	20	**732**	440
Accruals		**268**	225
Deferred tax liability	21	**62**	66
Other provisions	22	**–**	5
Total liabilities		**286,946**	240,456
Reserves			
General reserves		**14,203**	12,907
Core Capital Deferred Shares	25	**2,891**	2,891
Total reserves attributable to members of the Society		**17,094**	15,798
Total reserves and liabilities		**304,040**	256,254

These accounts were approved by the Board of Directors on 7 March 2023 and were signed on its behalf by:

Louise Pryor
Chair

Gareth Griffiths
Chief Executive

Andrew Gold
Non-Executive Director and Deputy Chair

Statement of changes in Members' interests

as of 31 December 2022

	General reserve 2022 £000	**Core Capital Deferred Shares 2022 £000**	**Total 2022 £000**	General reserve 2021 £000	Core Capital Deferred Shares 2021 £000	Total 2021 £000
Balance at 1 January	**12,907**	**2,891**	**15,798**	12,214	2,891	15,105
Total comprehensive income for the period						
Profit for the year	**1,585**	**–**	**1,585**	1,019	–	1,019
Other comprehensive income	**–**	**–**	**–**	–	–	–
Total comprehensive income for the period	**1,585**	**–**	**1,585**	1,019	–	1,019
Core Capital Deferred Shares	**–**	**–**	**–**	–	2,891	2,891
Distribution to the holders of Core Capital Deferred Shares	**(289)**	**–**	**(289)**	(326)	–	(326)
Balance at 31 December	**14,203**	**2,891**	**17,094**	12,907	2,891	15,798

Cash flow statement

for the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Cash flows from operating activities			
Profit before tax		**1,958**	1,281
Adjustments for			
Depreciation, impairment and amortisation	13,15	**214**	89
Movement in investment fair value, conversion loss and impairment	14	**(6)**	65
Profit/loss on disposal of tangible assets value		**7**	–
Interest on subscribed capital	3	**–**	–
Provision for liabilities		**(5)**	–
Loans and advances written off in the year	12	**–**	–
Increase/(decrease) in impairment of loans and advances	12	**42**	(102)
Total		**2,210**	1,333
Changes in operating assets and liabilities			
Increase in prepayments, accrued income and other assets		**(57)**	(54)
(Increase)/decrease in accrued interest treasury bills and debt securities		**(50)**	1
Increase in accruals, deferred income and other liabilities		**42**	79
Increase in loans and advances to customers		**(23,689)**	(35,278)
Decrease in loans and advances to credit institutions		**3,503**	503
Increase in shares		**46,419**	28,625
(Decrease)/increase in amounts owed to other customers	18	**(382)**	497
Increase in other creditors		**294**	178
FSCS interest cost paid		**–**	(1)
Taxation refund prior years		**–**	1
Taxation paid		**(250)**	(110)
Net cash generated/(utilised) by operating activities		**28,040**	(4,227)
Cash flow from investing activities			
Purchase of debt securities	10	**(1,000)**	(1,000)
Disposal of debt securities	10	**1,000**	1,500
Purchase of treasury bills	10	**(15,847)**	(15,500)
Disposal of treasury bills	10	**13,966**	15,001
Purchase of investments	14	**–**	–
Repayment of investments	14	**141**	27
Purchase of tangible fixed assets	13	**(161)**	(20)
Purchase of intangible fixed assets	15	**–**	–
Disposal of tangible fixed assets	13	**–**	–
Net cash (utilised)/generated by investing activities		**(1,901)**	8
Cash flows from financing activities			
Interest paid on subscribed capital	3	**–**	–
Issue of Core Capital Deferred Share	25	**–**	–
Cost of Core Capital Deferred Share	25	**–**	–
Distribution to holders of Core Capital Deferred Share		**(289)**	(326)
Net cash (utilised) by financing activities		**(289)**	(326)
Net increase/(decrease) in cash and cash equivalents		**25,850**	(4,545)
Cash and cash equivalents at 01 January		**48,775**	53,320
Cash and cash equivalents at 31 December	8	**74,625**	48,775

The reconciliation of Net Debt is contained within Note 26.

In line with FRS 102, interest received was £10.193m (2021: £6.981m) and interest paid was £2.341m (2021: £1.315m).

Notes to the Accounts

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 45 to 46.

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 40 to 46 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 statement of 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 investments 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 2022, 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. The impact of a deterioration in economic conditions during the current financial period in relation to the ongoing combined effects of the COVID-19 pandemic, the cost of living crisis (largely precipitated by the war in Ukraine) and the exceptionally low interest rate environment in which we have been operating, which has changed rapidly in order to balance the ravages of the inflationary environment, have been considered in sensitivity analysis.

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.

At the end of 2022, the remaining intangible asset was fully impaired as the Board concluded that the Society would not implement, in the foreseeable future, certain software it had developed. Historically 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, while Shares held by Individuals are classified as liabilities due to the obligation.

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.

This year the Society has increased the adjustments made for house price defection from 3.5% to reflect the more realistic latest house price deflation estimate of 8%. Although these adjustments are based upon credible data statistics, they are nevertheless subjective. If house price deflation increased to 10%, then the impairment provision would be increased by approximately £50,000 (2021: £63,000).

Effective interest rate (EIR) applied to loans and advances to customers
The impact of mortgage fees on the EIR included in the statement of comprehensive income is £101k (2021: £88k) with an EIR asset included in the Statement of financial position of £298k (2021: £216k). 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 statement of comprehensive income.

Should the actual average life of a mortgage increase/decrease 10% in months than that assumed, interest income for 2022 would increase/(decrease) by approximately £30,000/(£35,000).

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 2022 are described in accounting policy 1.5.

2. Interest receivable and similar income

	2022	2021
	£000	£000
On loans fully secured on residential property	**9,185**	6,510
On other loans	**502**	451
On debt securities	**10**	6
On treasury bills at fixed rate interest	**74**	1
On other liquid assets	**722**	66
	10,493	7,034

3. Interest payable and similar charges

	2022	2021
	£000	£000
On shares held by individuals	**3,158**	1,777
On deposits and other borrowings	**122**	85
Negative interest paid on treasury deposits	**–**	1
	3,280	1,863

4. Administrative expenses

	2022	2021
	£000	£000
Wages and salaries	**1,897**	1,566
Social security costs	**216**	175
Other pension costs	**207**	181
Sub Total	**2,320**	1,922
Other administrative expenses	**2,650**	1,824
	4,970	3,746

Other includes, but is not limited to: Mutual Vision annual charges £321k, Professional Services fees £316k, Audit fees (internal and external) £286k, Operational Software and Support £118k and Recruitment Costs £103k

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

	2022	2021
	£000	£000
Audit of these annual accounts	**113**	88
	113	88

5. Employee numbers

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

	2022	2021
Full-time	40	36
Part-time	5	3
	45	39

6. Directors' remuneration

Total remuneration amounted to £389.7k (2021: £365.9k). Full details are given in the table within the Remuneration report on page 53.

7. Taxation

	2022 £000	2021 £000
Current tax		
Current tax on income for the period	377	250
Adjustments in respect of prior periods	–	–
Total current tax	377	250
Deferred tax see note 21		
Origination and reversal of timing differences	(3)	(4)
Adjustment in respect of previous periods	–	–
Change in tax rate	(1)	16
Total deferred tax	(4)	12
Tax expenses (income) relating to changes in accounting policies	–	–
	373	262

Analysis of current tax recognised in profit and loss

	2022 £000	2021 £000
Profit for the year	1,585	1,019
Total tax expense	373	262
Profit excluding taxation	1,958	1,281
Tax using UK corporation tax rate of 19.00% (2020: 19.00%)	372	243
Community investment relief	–	–
Income not taxable	(6)	(3)
Change in tax rate on deferred tax balance	(1)	16
Non-deductible expenses	8	6
Total tax expense included in profit or loss	373	262

The effective tax rate for the 12-month period ended 31 December 2022 is 19% (2021: 19%). The closing deferred tax, recognised on both fixed and intangible assets is now recognised at 25% (2021: 25%). On the basis that the new rate is enacted and these assets will continue to unwind beyond 01 April 2024.

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

	2022	2021
	£000	£000
Cash in hand and balances with the Bank of England	**68,827**	43,230
Loans and advances to credit institutions (see note 9)	**5,798**	5,545
Cash and cash equivalents per cash flow statements	**74,625**	48,775

9. Loans and advances to credit institutions

	2022	2021
	£000	£000
Accrued interest	**2**	5
Repayable on demand	**4,798**	4,545
In not more than three months	**1,000**	1,000
In not more than one year	**500**	4,000
Total loans and advances to credit institutions	**6,300**	9,550
Total included within cash and cash equivalents	**5,798**	5,545

10. Treasury bills and similar securities

	2022	2021
	£000	£000
Treasury bills	**7,921**	6,000
Certificates of deposit	**1,011**	1,001
	8,932	7,001
Debt securities have remaining maturity as follows:		
In not more than one year	**8,932**	7,001
Transferable debt securities comprise:		
Unlisted	**8,932**	7,001

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

	2022	2021
	£000	£000
At 1 January	**6,999**	7,000
Additions	**16,848**	16,500
Disposals and maturities	**(14,966)**	(16,501)
At 31 December	**8,881**	6,999

11. Loans and advances to customers

	2022	2021
	£000	£000
Loans fully secured on residential properties	**208,082**	185,110
Loans fully secured on land	**9,634**	8,959
	217,716	194,069
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	**3,740**	2,824
In more than three months but not more than one year	**13,709**	6,810
In more than one year but not more than five years	**31,046**	34,349
In more than five years	**169,791**	150,613
	218,285	194,596
Less: allowance for impairment (note 12)	**(569)**	(527)
	217,716	194,069

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 2022	Loans fully secured on residential property £000	Other loans £000	Total £000
Individual impairment	2	303	305
Collective impairment	219	3	222
Total impairment	221	306	527
Amounts written off during the year, net of recoveries			
Individual impairment	–	–	–
Collective impairment	–	–	–
	–	–	–
Statement of comprehensive income			
Impairment losses on loans and advances			
Individual impairment	15	(230)	(215)
Collective impairment	214	42	256
Adjustments to impairment losses resulting from recoveries	–	–	–
Charge/(credit) for the year	229	(188)	41
At 31 December 2022			
Individual impairment	**17**	**74**	**91**
Collective impairment	**433**	**45**	**478**
Total impairment	**450**	**119**	**569**

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	15	(230)	(215)
Collective impairment	214	42	256
Total impairment	229	(188)	41
Amounts written off during the year, net of recoveries			
Individual impairment	17	73	90
Collective impairment	433	45	478
	450	118	568
Statement of comprehensive income			
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**
	221	**306**	**527**

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 2022	1,467	183	423	54	2,127
Additions	–	24	137	–	161
Disposals	–	(30)	(41)	(27)	(98)
Balance at 31 December 2022	1,467	177	519	27	2,190
Depreciation					
Balance at beginning of the year	419	166	328	35	948
Depreciation charge for the year	26	6	39	9	80
Disposals	–	(30)	(41)	(20)	(91)
Balance at 31 December 2022	445	142	326	24	937
Net book value At 1 January 2022	1,048	17	95	19	1,179
At 31 December 2022	**1,022**	**35**	**193**	**3**	**1,253**

	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**

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 £1.022m at 31 December 2022 (2021: £1.048m). A valuation of the Head Office carried out by Wilman & Wilman in 2021 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	2022 opening carrying value £000	Additions £000	Disposal/ Conversion £000	Repayment of capital £000	Movement in fair value £000	Movement in impairment £000	**2022 closing carrying value £000**
Basic	226	–	–	(114)	18	(12)	**118**
Debt Investments							
Basic	416	–	–	(12)	–	–	**404**
Non-Basic	188	–	–	(15)	–	–	**173**

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**

The Society continues to invest directly in renewable energy, and to support other co-operative ventures, with all loans interest bearing. In accordance with accounting policy 1.5, at each reporting date the Society assesses whether there is evidence that financial assets not carried at fair value through profit or loss are impaired.

The Society assessed the available performance data and, as a result of the operational difficulties being encountered by Monnow Valley in respect of delays in accreditation and payments from agencies, the Society fully impaired the investment. During 2022, the value of the shares had increased, therefore, the asset has been revalued, with the provision subsequently being increased.

The Society held 2,669,59 Class B shares in the GABV originated Sustainability-Finance-Real Economies Fund (SFRE). Following receipt of a valuation statement, the fair value was adjusted in March 2022. Subsequently, interest in SFRE was redeemed on 12 September 2022.

Debt investments: Atlantis Ocean – £250k, 6 years' investment, maturity date 30 June 2023, interest is paid every 6 months, with full capital repayment at maturity. Oakapple – £155k, 20 years' investment, maturity date 1 April 2035, interest and capital paid every 6 months. Upper Pitforthie – £173k, 17 years' investment, maturity date 30 Mar 2034, investment returns paid every 6 months. Monnow CHP – company voluntary arrangement, 5 years' arrangement.

15. Intangible assets

	Purchased software/ Software in development 2022 £000	Purchased software/ Software in development 2021 £000
Cost		
Balance at 01 January	**355**	368
Additions	**–**	–
Disposals	**(38)**	(13)
Balance at 31 December	**317**	355
Amortisation		
Balance at 01 January	**221**	234
Amortisation for the year	**–**	–
Impairments	**134**	–
Disposals	**(38)**	(13)
Balance at 31 December	**317**	221
Net book value At 01 January	**134**	134
At 31 December	**–**	**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. In 2022, the Board concluded that the Society would not implement, in the foreseeable future, certain software it had developed. It was therefore deemed appropriate to fully impair the remaining intangible asset.

16. Other debtors

	2022 £000	2021 £000
Prepayments	**307**	250
Accrued income	**10**	11
	317	261

Debtors include prepayments and accrued income of £64,843 (2021: £9,233) for the Society that are due after more than one year.

17. Shares

	2022 £000	2021 £000
Held by individuals	**275,379**	228,960
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Accrued interest	**939**	548
On demand	**208,646**	185,053
In not more than three months	**65,794**	43,359
	275,379	228,960

18. Amounts owed to other customers

	2022 £000	2021 £000
Repayable on demand	**10,128**	10,510

19. Corporation tax payable

	2022 £000	2021 £000
Corporation tax falling due within one year	**377**	250

20.Other liabilities

	2022 £000	2021 £000
Other creditors	**564**	440

This includes, but not limited to:
Suspense cashbook £230k, Sundry Creditors £357k, Creditors PAYE/NI £59k, Creditors client and control account £85k.

21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2022 £000	2021 £000	**Liabilities 2022 £000**	2021 £000	**Net 2022 £000**	2021 £000
Accelerated capital allowances	**–**	–	**74**	84	**74**	84
FRS 102 transitional adjustments	**(6)**	(10)	**–**	–	**(6)**	(10)
Other timing differences	**(6)**	(8)	**–**	–	**(6)**	(8)
Tax (assets)/liabilities	**(12)**	(18)	**74**	84	**62**	66

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 judgements required.

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

22. Provisions

	Other provisions £000	FSCS levy £000	Total £000
Balance at 01 January 2022	2	3	5
Paid in year	–	–	–
Charge for the year	(2)	(3)	(5)
Balance at 31 December 2022	**–**	**–**	**–**

23. Financial instruments

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

The Society does not run a trading book.

Categories of financial assets and liabilities

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

Carrying values by category 31 December 2022	Held at amortised cost £000	Held at fair value £000	Total £000
Financial assets			
Cash in hand and balances with the Bank of England	68,827	–	68,827
Treasury Bills and similar securities	7,921	–	7,921
Loans and advances to credit institutions	6,300	–	6,300
Debt securities	1,011	–	1,011
Loans and advances to customers	217,716	–	217,716
Fixed asset investments	404	291	695
Other debtors	10	–	10
Total financial assets	**302,189**	**291**	**302,480**
Non-financial assets	1,560	–	1,560
Total assets	**303,749**	**291**	**304,040**
Financial liabilities			
Shares	275,379	–	275,379
Amounts owed to credit institutions	–	–	–
Amounts owed to other customers	10,128	–	10,128
Subordinated liabilities	–	–	–
Other liabilities	672	–	672
Accruals	268	–	268
Other provisions	–	–	–
Total financial liabilities	**286,447**	**–**	**286,447**
Non-financial liabilities	499	–	499
Total liabilities	**286,946**	**–**	**286,946**
General reserves and other reserves	17,094	–	17,094
Total reserves and liabilities	**304,040**	**–**	**304,040**

23. Financial instruments (continued)

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	**240,097**	**–**	**240,097**
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**

At 31 December 2022, the Society has off balance sheet exposure – mortgage commitments of £50.6m (2021: £53.5m).

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.

23. Financial instruments (continued)

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2022				
Financial assets				
Equity – Basic				
Fair value through profit and loss	5	–	–	5
Amortised cost	–	–	113	113
Debt Investment – Non Basic				
Amortised cost	–	–	173	173
	5	**–**	**286**	**291**
31 December 2021				
Financial assets				
Equity – Basic				
Fair value through profit and loss	6	108	–	114
Amortised cost	–	–	112	112
Debt Investment – Non Basic				
Amortised cost	–	–	188	188
	6	**108**	**300**	**414**

Note: Three investments should have been fair valued, however, due to no alternative reliable measurement available are carried at cost less impairment.

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 Product Governance Committee and the Core Management Committee provide oversight to the effectiveness of the Society's credit management and the controls in place ensure lending is within the Board approved credit risk appetite.

23. Financial instruments (continued)

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

	2022 £000	2021 £000
Cash with Bank of England	**68,827**	43,230
Loans and advances to credit institutions	**6,300**	9,550
Debt securities	**1,011**	1,001
Treasury Bills	**7,921**	6,000
Debt investments	**602**	629
Loans and advances to customers	**218,285**	194,596
Total statement of financial position exposure	**302,946**	255,006
Off balance sheet exposure – mortgage commitments	**50,626**	53,490
	353,572	308,496

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

23. Financial instruments (continued)

Credit quality analysis of loans and advances to customers

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

	2022 Loans fully secured on residential property £000	**Loans fully secured on land £000**	**Other loans £000**	2021 Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000
Neither past due nor impaired	**206,328**	**9,332**	**–**	182,845	7,734	–
Past due but not impaired						
1-2 months	**1,665**	**–**	**–**	1,915	47	–
2-3 months	**299**	**–**	**–**	160	–	–
Greater than 3 months	**84**	**–**	**–**	195	–	–
	2,048	**–**	**–**	2,270	47	–
Individually impaired						
Not past due	**–**	**419**	**–**	216	1,484	–
1-2 months	**158**	**–**	**–**	–	–	–
2-3 months	**–**	**–**	**–**	–	–	–
Greater than 3 months	**–**	**–**	**–**	–	–	–
	158	**419**	**–**	216	1,484	–
Total balances gross of provision	**208,534**	**9,751**	**–**	185,331	9,265	–
Allowance for impairment						
Individual	**(17)**	**(74)**	**–**	(2)	(303)	–
Collective	**(433)**	**(45)**	**–**	(219)	(3)	–
Total allowance for impairment	**(450)**	**(119)**	**–**	(221)	(306)	–
Total balances net of provisions	**208,084**	**9,632**	**–**	185,110	8,959	–

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

23. Financial instruments (continued)

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The 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	**2022 £000**	2021 £000
Less than or equal to 50%	**71,123**	70,647
Greater than 50% but less than or equal to 70%	**78,556**	74,937
Greater than 70% but less than or equal to 90%	**61,520**	46,386
Greater than 90% but less than or equal to 100%	**3,175**	2,842
Greater than 100%	**4,210**	–
	218,584	194,812

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:

	2022 £000	2021 £000
Payment holiday	**1,586**	679
Interest only	**1,017**	127
Underpayment	**269**	1,183
Arrears overpayment	**111**	515
Arrears underpayment	**–**	–
	2,983	2,504

There was a total of 16 accounts in forbearance at 31 December 2022 (2021: 10).

23. Financial instruments (continued)

Liquidity risk

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

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

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

Monitoring of liquidity is performed daily. Compliance with policy is reported to every ALCO and, 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 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 2022	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	209,585	66,270	–	–	–	275,855
Amounts owed to other customers	10,128	–	–	–	–	10,128
Subordinated liabilities	–	–	–	–	–	–
Other liabilities	–	672	–	–	–	672
Accruals	–	267	–	–	–	267
Other provisions	–	–	–	–	–	–
Total financial liabilities	**219,713**	**67,209**	**–**	**–**	**–**	**286,922**

23. Financial instruments (continued)

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
Amounts owed to credit institutions	–	–	–	–	–	–
Subordinated liabilities	–	–	–	–	–	–
Other liabilities	–	396	–	–	–	396
Accruals	–	225	–	–	–	225
Other provisions	–	5	–	–	–	5
Total financial liabilities	**196,111**	**44,043**	**–**	**–**	**–**	**240,154**

Market risk

Market risk is the risk that the value of, or income arising from, the Society's assets and liabilities changes as a result of changes in market prices, the principal elements being interest rate risk, foreign currency risk and equity 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 £118k (2021: £226k). 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
2022		
At 31 December		
Average for the period	**128**	**132**
Maximum for the period	**186**	**193**
Minimum for the period	**57**	**61**
2021		
At 31 December		
Average for the period	157	164
Maximum for the period	202	208
Minimum for the period	108	114

23. Financial instruments (continued)

Capital

The Society's policy is to maintain a strong capital base to maintain Member, creditor and market confidence and to sustain future development of the business. The formal ICAAP process 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 2022, 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	**2022 £000**	2021 £000
Tier 1 capital			
General reserves		**14,203**	12,907
Less intangibles		**–**	(100)
Core Capital Deferred Shares	27	**2,891**	2,891
Total Tier 1 capital		**17,094**	15,698
Tier 2 capital			
Subordinated liabilities	24	**–**	–
Collective provision	12	**478**	222
Total Tier 2 capital		**478**	222
Total Regulatory Capital		**17,572**	15,920

24. Related parties

Transactions with key management personnel

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

	Number of key management personnel and their close family members 2022	**Amounts in respect of key management personnel and their close family members 2022 £000**	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
Loans and advances to customers	**–**	**–**	1	183
Deposits and share accounts	**11**	**227**	12	227

Directors' loans and transactions

At 31 December 2022, there was no mortgage loan (2021: 1) made in the ordinary course of the Society's business to Directors and connected persons.

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 (2021: £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 52 and 53.

25. Core capital deferred shares

	Number of shares	Core Capital Deferred Shares £000	Core Capital Deferred Shares–issue costs £000	Share premium £000	Total £000
Balance at 1 January 2022	3,000,000	3,000	(109)	–	2,891
Balance as at 31 December 2022	**3,000,000**	**3,000**	**(109)**	**–**	**2,891**
Balance at 1 January 2021	–	–	–	–	–
Balance as at 31 December 2021	**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.

26. Analysis of changes in net debt

	2020 £000	Cash flows £000	2021 £000	**2021 £000**	**Cash flows £000**	**2022 £000**
Cash and cash equivalents						
Cash and cash equivalents	53,320	(4.545)	48,775	**48,775**	**25,850**	**74,625**
Borrowings						
Debt due within 1 year	–	–	–	**–**	**–**	**–**
Total change in net debt	53,320	53,320	48,775	**48,775**	**25,850**	**74,625**

27. Country-by-country reporting

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

UK Activity for the year ended 31 December 2022:

- The Society's principal activities are mortgage lender and provider of savings accounts
- The Society's turnover (defined as net interest receivable) was £7.213m (2021: £5.171m). Profit before tax £1.958m (2021: £1.281m), all of which arose from UK-based activity
- Number of employees was 45 (2021: 39)
- Corporation tax of £0.250m (2021: £0.110m) 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 2022

1 Statutory percentages

	Statutory limit %	**At 31 December 2022 %**	At 31 December 2021 %
Lending limit	25.00	**4.91**	5.29
Funding limit	50.00	**2.17**	2.51

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

	2022 %	2021 %
Gross capital as a percentage of shares and borrowings	**5.99**	6.60
Free capital as a percentage of shares and borrowings	**5.72**	6.14
Liquid assets as a percentage of shares and borrowings	**29.44**	24.96
Profit after taxation as a percentage of mean total assets	**0.57**	0.42
Management expenses as a percentage of mean total assets	**1.80**	1.59

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 2022 and 2021 total assets.

3 **Information relating to Directors at 31 December 2022**

Name and date of birth	Occupation and date of appointment to the Board	Other directorships
Louise Margaret Pryor 20.04.1960	Actuary 28.02.2020	Callund Consulting Limited
Gareth Griffiths 25.11.1982	Building Society Chief Executive 01.06.2022	None
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 Trust Electric Heating 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
Vincent Smith 26.09.1959	Director 03.11.2017	None
Giovanni D'Alessio 09.07.1973	Chief Executive Officer and Chief Information Officer 30.09.2022	Doosan Digital Innovation Europe Limited

Gareth Griffiths has a service contract, details of which can be found in the Directors' remuneration report on pages 52 to 53. There are no extended notice terms included in these contracts.

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Cover images, rows from top to bottom, left to right: Ecology-backed Chapeltown Cohousing (Chaco) homes built to the AECB Building Standard; Ecology colleagues at an offsite 'Town Hall' meeting held at Nell Bank outdoor learning centre, Ilkley; Richard and Max's timber-framed self-build, Isle of Skye; The Bevington family, who moved into Pennyghael Schoolhouse, renovated with the support of an Ecology loan by Mull and Iona Community Trust (MICT) to provide an affordable home to rent in 2022; Avril and Damien renovating their nineteenth century cottage, Enniskillen, Northern Ireland; The Chapeltown Cohousing team on-site during the build.