Ecology
Building Society

Annual Report & Accounts

31 December 2023

Building a greener society

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Cover images, from left to right:
Nadine Dereza, host of the 2023 Yorkshire Financial Awards presents Ecology colleagues Kazie and Mary with the award for Mortgage Provider of the Year.
A view of the garden at Ecology's head office in Silsden.
Ecology Members and the Board at the 2023 AGM in Manchester.

Our progress in 2023

Our Members

Powered by nearly

15,000 Members

including over 1,400 mortgage customers

1,722 (11.52%) eligible Members voted in our AGM with more than two thirds voting online

The Society is planning Member meet ups in 2024 to engage further with our Members

Our financial performance

Second successive year of new lending in 2023 of nearly **£65 million** across **310** properties and projects

Total assets increase by **1.86%** to **£310 million**

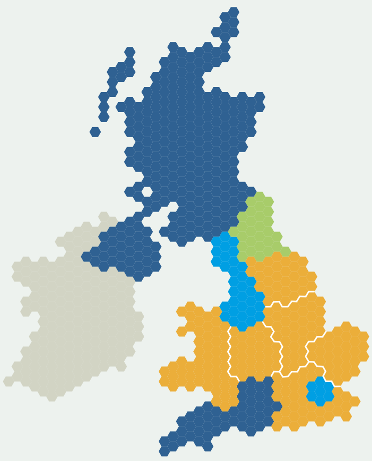
Profit after tax decreased in the year to **£1.02 million** **(2022: £1.59m)** as the Society invested in key projects and delivering against our long term strategy

Our lending

11% **increase in total 2023 mortgage lending to £242 million**

New loans include:

- **21 conversions**
- **41 renovations**
- **222 new builds, including self- and custom-builds**
- **7 shared ownership properties**
- **4 housing co-operatives**
- **5 community land trusts**
- **2 commercial**
- **2 woodlands**
- **6 community gain projects**



Spread of lending

1% to 2% | 3% to 5% | 6% to 8% | 9% or more

Our premises

Our Office is 100% powered by renewable electricity in partnership with **Ecotricity**

25% energy generated on-site by our solar panel array

Our local community

56 hours volunteered

£2,830 Community sponsorship and in-kind donations

£1,149 raised and match-funded for Yorkshire Wildlife Trust and Dementia Forward

£1,000 raised for **Trees for Cities** as a result of Members' AGM voting

Recognition

Mortgage Provider of the Year
Yorkshire Finance Awards

The Times **'Top 10 Green Brands'** for Earth Day

Business Green
'Net Zero Pioneer'

Our colleagues

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

- ✓ Leadership development
- ✓ Strong rhythm and routine of colleague communications and shared information
- ✓ We are training our people leaders about the importance of mental health, with the majority already accredited as mental health first aid champions
- ✓ Continued 'Giki Zero' colleague sustainability programme

Our carbon emissions

CO_2

542.4 Total greenhouse gas emissions from our business operations ($tCO_{2}e$)

17% from office heating, businesss travel, commuting and working from home

1,403 tCO_{2e} Financed emissions from our mortgage lending

9.8 $kgCO_2$/£000 average financed emission intensity and

18.7 $kgCO_2/m^2$ average physical emission intensity of our lending

Chair's statement

Taking a long term view is both a fundamental part of the ethos of building societies and essential when facing into the climate crisis.

The inherent stability and security of mutuals enables us to remain clearly focused on our objectives even as everything around seems precarious and uncertain.

And looking back at 2023, it's easy to see the bad side. The year had the highest greenhouse gas emissions ever, the COP 28 outcomes were distinctly disappointing, and more locally there are significant doubts about the current UK Government's commitment to the climate change agenda.

Global social and political instability throughout the year continued to fuel economic volatility around the world and in the UK, prolonging the ongoing cost of living crisis.

While inflation has dropped from its peak, prices of daily essentials continue to rise, adding to the pressures on the budgets of a significant number of homeowners.

Across the housing market, payment shocks have been a growing concern as thousands more borrowers come off mortgage deals set at historically low interest rates, with sharp rises in their monthly repayments. Affordability for many mortgage applicants is proving challenging and although consumer confidence is recovering it remains fragile.

But there's always room for hope – and Ecology's role as an example of how a financial services firm can help to change the world for the better is as important as ever.

We remain driven by our commitment to create a greener society, and in the face of the climate emergency the need for action has never been more urgent, despite the cost of living crisis which adds to the immediate pressure facing our Members and wider society.

As we face up to the growing challenge, Ecology is going through a period of significant change as we adapt to meet the needs of our current and future Members and to changes in the rules governing how our industry operates.

Running a secure, financially sustainable business means we can give our Members confidence that their savings are secure and being used to finance the positive impacts on the environment and communities that we know that you want.

Your Board is determined that this change we're undergoing is evolution, not revolution, and that our Society should maintain its focus on its vision of a fair society in a sustainable world. We remain mindful of our heritage and legacy so we remain true to our foundations and why we were created, providing outstanding service to our Members and behaving ethically in everything we do.

> "We hope that you share our vision and will join us as we work to enable people and the environment to benefit from ecological homes, sustainable communities and a fair and resilient economy.
>
> **Louise Pryor, Chair, Ecology Building Society**"

However, we cannot stand still. We must consider how we can extend our impact more broadly both now and further into the future as the need for wide-reaching change becomes ever more urgent.

Over the course of 2024 we are therefore working to evolve our purpose through discussions with you, our Members, so we can ensure that all our activities are aligned to successfully achieving our goals.

We certainly want to continue to drive positive change in our sector. Over the past year we have remained active across our industry and networks, as well as engaging with politicians, to promote and influence on priority issues for Ecology and our Members.

We sponsored two Parliamentary events - the “State of the CLT Sector” report by the Community Land Trust (CLT) Network, which highlighted the market opportunity for many thousands more community-led homes, and the National Custom and Self Build Association’s reception, to call for greater Government support for self-builders.

Ecology signed the Government’s Mortgage Charter, which set out standards for lenders to support borrowers worried about their financial circumstances, and we sponsored the Building Performance Network’s Resource Hub, a free tool to measure Building Performance Evaluation (BPE) to make homes more efficient.

Our campaigning activity continues, including signing two open letters alongside our finance, business and charity peers opposing the Government’s dilution and suspension of key UK efforts towards net zero.

We also are looking closely at our impacts within Ecology as well as externally. Over the past few months we have progressed with our detailed net zero planning and you can find more information on page 17 in this annual report.

The changes we are making to secure the future of Ecology extend to the Board too. We are saying goodbye to Kerry Mashford and Vince Smith, who have been huge sources of strength and support over the past few years and I thank them for the contribution they have made. As part of our succession planning we have undertaken a rigorous process to identify new Non-Executive Directors to join our Board in 2024. Our recruitment process identified some excellent candidates with skills and experience to further strengthen the Board as we look to Ecology’s future. Details and biographies of the new Non-Executive Directors proposed for election at the 2024 AGM are included in the Society’s Notice of AGM.

I’m looking forward to continuing to work with Gareth Griffiths as he leads the Society and our colleagues through these interesting times, and also to meeting as many Members as possible at the AGM and in our coming programme of Member Meet-ups.

Louise M Pryor

Louise Pryor
Chair
15th March 2024

Saving Members Graham and Elaine at work on their plot in West Yorkshire.

Chief Executive's review

Having completed my first full year as Chief Executive, I'm pleased to report good annual results for 2023 despite the challenging times at home and abroad.

The team continues to move forward as a business to ensure Ecology can continue to deliver on its mission to build a greener society and influence more positive change within our industry.

As I report our results for 2023, we find ourselves at an interesting point in time for Ecology. We're undergoing significant changes which are taxing and ambitious but also exciting and necessary.

Our performance

I'll start by acknowledging that last year was an exceptionally challenging 12 months for everyone. Against this tough economic backdrop, I'm pleased to report that Ecology delivered a profitable 2023 and maintained stable levels of lending throughout the year. Whilst our profits were lower than in 2022 this is the result of deliberate and planned investment in the business.

We delivered full year profits of £1.02m (2022: £1.59m) and net lending of £65m (2022: £70m), and our mortgage asset balance grew to over £241m (2022: £218m).

We've carefully plotted our way through the challenging mortgage and savings markets, always focused on our operating environment through the lens of our Members.

We never lose sight that we would not exist without our Members and as a building society we always take a long term view, balancing the needs of our membership as a whole. Putting this in perspective, as rates have risen following a long time at historic lows, we're proud to have passed on more rate increases to our savers than we have to our borrowers.

The world in which we operate and the demands of our Members continue to evolve. Building on Ecology's heritage and strong foundations, in turn we must evolve too, to ensure we stay relevant and impactful into the future. In 2023, work began on a major review of all our products to refresh the range and new products will be added during 2024.

> "As a mission-led organisation, Ecology exists to create positive benefits for people and the environment, supporting ecological homes and sustainable communities through the flow of ethical finance between savers and borrowers.
>
> **Gareth Griffiths, CEO, Ecology Building Society**"

We need to keep attracting savings inflows to fund our impactful lending and we know more savers are joining us because of our principles of sustainability and transparency. Whilst we only saw small increases in our savings book in 2023 (growing from £275m to £280m) we have exciting plans to offer new savings products and grow our membership in 2024. The smaller level of growth in our savings book in 2023 enabled us to maintain service standards for Members and balance our liquidity to our lending, ending the year with a liquidity ratio of 22.7% (2022: 29.4%). We were also able to grow our impact though lending to sustainable housing and increased our mortgage book by 10.7% to over £241m (2022: £218m).

Through carefully managing our Net Interest Margin, which averaged 2.35% over 2023 (2022: 2.47%), we were able to retain more borrowers at the end of their build periods, reducing mortgage redemptions to £25m (2022: £35m).

Further analysis of our performance in 2023 is outlined in the Strategic Report on page 09.

> **"We're proud to have passed on more rate increases to our savers than we have to our borrowers."**

Setting us up for future success

I'm delighted to report that we're making good progress against our 2030 Strategy and our plans to make Ecology fit for the future. This will enable us to serve generations more Members to come and continue to make a difference.

To that end, we're working hard to evolve our stated purpose and I look forward to sharing more details with you at our forthcoming AGM and Member Meet-ups, so we can hear your feedback. Members have already contributed into this review and I really enjoyed meeting some of our founding Members, including Jim Walker and Gus Smith to explore our origins.

The way I summarise why we want to define our 'North Star' in this way – is that after 42 years as a start-up, the time has arrived for us to decide how we can be an **upstart** for the next 42. Our renewed clarity of purpose should drive all of our decision making, and provide the team with a clear decision making tool.

Journey to net zero

Like our Members, as a business we too are on our own journey towards net zero and we'll continue to share what we have learned to support our Members, colleagues and peers as they strive to cut their own carbon emissions.

I'm confident that our founding principles of how we seek to change society for the better have never been more relevant. Care for the environment and ethical business practices are gaining in importance in the public consciousness.

Those fundamentals of who we are and why we do what we do remain unchanged, even as we make progress through the biggest period of transformation in Ecology's history.

I am very excited about having a new detailed net zero transition plan to share with our Members in the spring. This will take our high-level ambitions that we shared in the 2030 Strategy and really make it clear how we are going to get there.

Investment and ambition

While profits in 2023 were healthy, they were down slightly compared with 2022. This was due to the investment we made in Member value by raising rates for our savers and moderating increases for our borrowers but also higher costs due to some significant in-year investments in the skills, systems and technology we need to set us up for the future and deliver on our ambitions to have greater impact over the next three years. This investment, which has been carefully planned and costed, means our costs went up in 2023.

Completing the work we have underway to upgrade our infrastructure will give us the foundations for a successful and sustainable future for the Society as a triple bottom line business for generations to come. I am pleased to say that this work is proceeding on time and on budget, but it does mean our costs are likely to remain higher in the short term as we deliver the improvements we need to sustain Ecology.

We have to recognise that, first and foremost, we have to be a well-run, systemically safe building society, so part of our modernisation includes ensuring we attract and retain the right expertise and experience within the business, which remains a priority as we move into 2024. We have managed to grow our staff base in 2023, attracting talent and people who are drawn to our mission and purpose. This has been an important process to prepare the Society for future growth and improve our resilience.

It was fantastic to welcome Christopher White to the Board in 2023 as the Society's new Chief Financial Officer. Christopher brings with him a wealth of expertise and experience in financial management and planning as well as broader board-level experience in the building society sector.

I'm grateful for the talent and commitment of our growing workforce towards meeting the challenges we face as we continue to offer great service to our Members.

Like all financial services providers, we must continue to respond effectively and efficiently to the demands placed on us by growing industry regulation, as well as maintain and upgrade our systems to keep our Members' money and data safe and secure.

As customer expectations evolve, we also are working to offer better digital functionality to our Members as part of efforts to improve our service overall.

In addition, in line with the rest of our industry we had to make extensive preparations for the introduction of Consumer Duty. These new regulations came into effect in summer 2023 and are intended to ensure building societies and banks put their customers at the heart of their businesses. As such, they formalised many of the ways we were already supporting our Members but have created new responsibilities for how we record and report on our processes to the regulator. As Jim Walker reminded me, we always have to remember it is your money we are responsible for, and I take that very seriously.

Looking ahead

We anticipate the savings market will remain competitive during the year ahead. If Bank Base Rate falls, as forecast in H2, this may have further impacts on the savings market later in the year and in 2025, which we will monitor closely. As in 2023, mortgage affordability and access to finance are likely to remain challenging for many borrowers, and we continue to try and support as many people as possible through this period. Despite this, we expect to continue to grow our mortgage asset balances over 2024 which continues to further the positive impact we can achieve.

Our Members will always play an essential role in how we shape the future of Ecology. I look forward to seeing and speaking to more of you in the coming months as we move forwards together.

You can reach me at any time by emailing **ceo@ecology.co.uk**.

Gareth Griffiths
Chief Executive Officer
15th March 2024

Stables Yard in Beckenham, homes built to minimise their carbon footprint in construction and lifespan.

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 6 to 8 provides an overview of the Society's performance during 2023 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 year.

Key Performance (and Other) Indicators

	2023	2022
Total assets	**£309.7m**	£304.0m
Mortgage asset growth	**10.73%**	12.19%
Mortgage lending	**£64.6m**	£69.6m
Savings balances	**£289.9m**	£285.5m
Liquid assets as a % of shares and borrowings	**22.66%**	29.44%
Management expenses as a % of mean total assets	**2.20%**	1.80%
Cost to Income	**82.93%**	70.41%
Net profit	**£1.02m**	£1.59m
Profit after taxation as a % of mean total assets	**0.33%**	0.57%
Core Tier 1 capital	**£17.7m**	£17.1m
AGM – voting turnout	**11.52%**	14.84%

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 crisis and macroeconomic environment.

Our Purpose

Our Vision

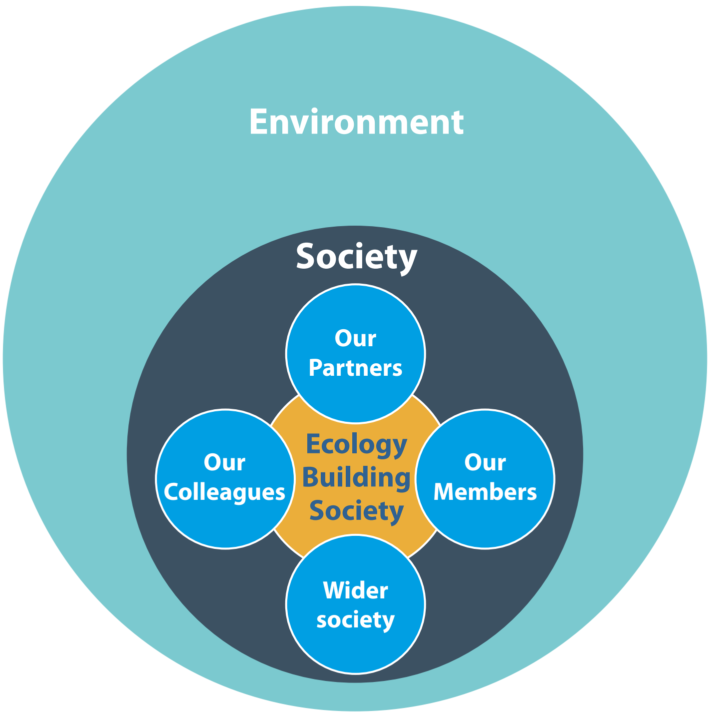
"A fair society in a sustainable world"

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



Financial Review

Having joined the Society in 2023, I have the pleasure of presenting my first Financial Review which covers the performance of the Society for the year ended 31 December 2023. I join the Society at an exciting time as the Society takes key steps in delivering against its long term strategy and drives improvements in our capability to serve our current and future Members. There are also significant challenges for the Society and its Members as we weather a very difficult economic climate. I summarise the key aspects of this challenging economic backdrop below before then highlighting key achievements for the Society in the 2023.

The Economy

The Society has operated in a volatile and challenging market in 2023. The instability in the UK economy was clearly illustrated by GDP with the economy 'yo-yoing' throughout 2023 between modest monthly growth and small shrinkages, overall GDP was 0.01% for 2023. This would be an outperformance against most expectations of recession at the beginning of the year.

The UK entered 2023 with inflation at an unsustainably high level of around 9% (Consumer Price Index, CPI). Whilst factors such as the war in Ukraine have made it very challenging to bring inflation under control, the UK finished the year at 4.2%. Whilst this remains significantly above the Bank of England's target of 2.0% it is, at least, in line with other major global economies.

Following eight increases in the UK bank base rate in 2022 a further five increases were seen in 2023 increasing the rate to a 14 year high of 5.25%. Together with high inflation this 'cost of living crisis' has put significant pressure on both businesses and individuals across the UK.

Whilst House Price inflation (HPI) has continued to slow through 2023 the most recent measure of the overall impact was still relatively flat at just -0.1% (ONS, 12 months to September 2023).

Key Points

Against the difficult economic and market backdrop the Society has achieved some significant milestones in the year. These, alongside other key points from the financial performance in the year, are highlighted below:

- The Society successfully invested in key developments and projects to enable future growth of the Society and deliver against our strategy. Though this has increased the Society's costs year on year, it has been achieved whilst maintaining a healthy profit before tax for the year of £1.34m (2022: £1.96m).
- In extremely challenging market conditions, the Society was able to record strong growth in its mortgage book at 10.7% (2022: 12.2%) taking mortgage assets to over £241m (2022: £218m).
- The Society has continued to balance the needs of our mortgage and savings Members. We have limited increases in our Standard Variable Rate (SVR) to protect mortgage customers and have passed on more rate increases to our savers than we have to our borrowers.
- The Society increased its Tier 1 capital (general reserves) to £14.9m (2022: £14.2m). We balanced our asset and capital growth to ensure our regulatory total capital ratio was stable, ending 2023 at 15.3% (2022: 15.1%).

We enter 2024 with a mid recession, uncertainty and a likely period of low growth. Inflation should continue to trend downwards though risks in food supply chains and unrest in Israel and Gaza and more recently the Red Sea put this at risk. It is expected that bank base rate will fall in 2024 and that this could be as early as May – it may be much later however, if inflation doesn't continue to fall.

Society Performance

Interest on Mortgages and Savings

Increases to bank base rate through 2022 and 2023 have led to volatility and increases in the market rates for both mortgages and savings products for consumers. As a result, the Society has seen growth in its income from mortgages and the interest it pays to its savers. The income the Society earns on liquidity deposits has also increased as a result of the changes to bank base rate.

Through the changes to bank base rate and market conditions in the year, the Society has looked to balance the needs of our savings and borrowing Members. Since the first increase in December 2021, the Society has only increased its residential standard variable rate (SVR) by 2.14% whilst the bank base rate has increased by 5.4%. This approach, minimising the increase to the Society's SVR, has protected Ecology Building Society borrowers from further increases to the cost of their mortgages, which we felt was in line with our values.

Through 2023, the Society's net interest increased by £0.9m to £8.1m (2022: £7.2m). Whilst the interest receivable from mortgage customers increased by £3.9m this was fully offset by increases in the interest payable to savings Members of £5.6m. The net increase in margin was therefore primarily driven through increases to income from interest on liquidity balances (which has increased by £2.9m in the year).

Management expenses

The Society's management expenses have increased significantly in 2023 to £6.6m (2022: £5.0m). The increase in costs is the result of a number of factors:

- The Society has invested in a number of significant one-off projects and workstreams in the year to ensure the Society can increase its impact, has capability to grow and ensure it can deliver against its long term strategy. This work has focused on key areas such as the Society's data and IT infrastructure.
- Maintaining compliance with increasing regulatory and compliance requirements.
- Investing in our colleagues to ensure that we have the right expertise and capacity to serve our Members.
- High inflation through 2022 and 2023 driving up the Society's cost of business.

The increases seen in costs and ongoing investment resulted in the Society's management expenses ratio (as a % of mean total assets) increasing to 2.20% from 1.80% at the end of 2022.

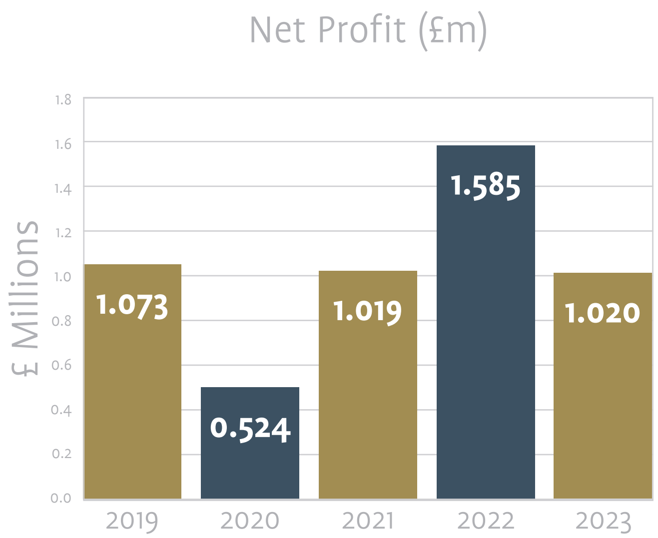
In order to achieve the Society's 2030 Strategy, further investment in digitalisation and IT infrastructure is needed in 2024 and beyond to be able to serve our Members and remain relevant. The Society recognises that this continued investment is likely to suppress the Society's profitability and therefore capital growth in the short term.

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.

Profitability and Capital

Following a year of record profitability in 2022, the Society's profit after tax has reduced in 2023 to £1.02m (2022: £1.59m). Whilst, as outlined above, the Society has seen a small increase in its net interest this has been offset by increases in the cost base as the Society invests in its future.

The Society's capital strength has grown in the year, with total capital as at 31 December 2023 of £17.8m (2022: £17.1m).

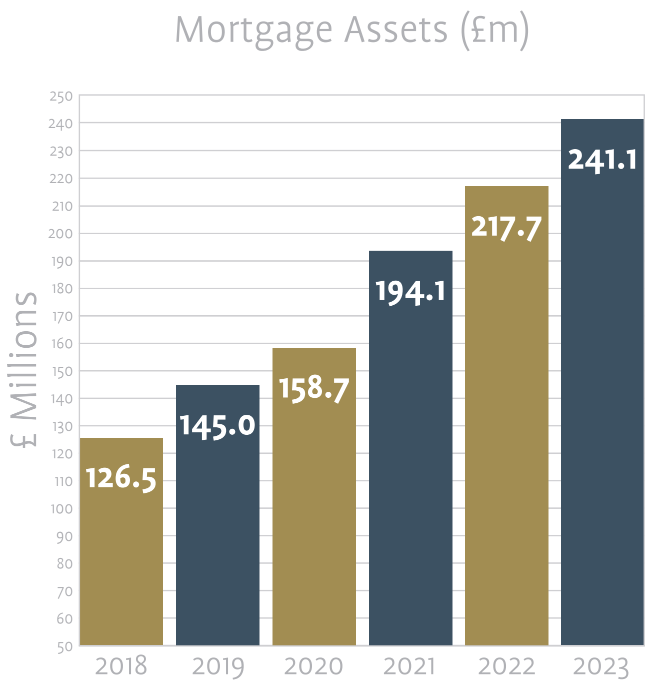


As at 31 December 2023, the ratio of gross capital as a percentage of total share and deposit liabilities was 6.16% (2022: 5.99%) and free capital was 5.80% (2022: 5.72%). The Society's regulatory leverage ratio remained stable at 6.43% (2022: 6.68%) and the Society's regulatory total capital ratio increased marginally from 15.12% in December 2022 to 15.28% at the 2023 year end (against a regulatory limit of 8%). Capital levels and ratios remained comfortably above regulatory requirements throughout the year.

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**.

Against a backdrop of continued economic and market challenges and the ongoing investment in the business, the Board is pleased to report a robust profit for the year, a positive impact on capital and steady capital adequacy. 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.



Balance Sheet

Mortgages

One of the Society's most significant achievements in 2023 was to increase its mortgage assets by 10.7% to over £241m (2022: £218m). In the challenging economic and mortgage market, this was a big achievement. This shows the Society's purpose-led mortgage proposition and products serve a customer need independent of market conditions. 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.

Arrears, Forbearance and Impairment

Overall arrears levels remain low despite the difficulties some Members have experienced as a result of the cost of living crisis. As at 31 December 2023, there were nil cases in possession (2022: nil) and nil cases 12 months or more in arrears (2022: nil). There were 27 cases (2022: 16) under forbearance with total balances of £5.8m (2022: £2.98m) and arrears totalling £7.0k (2022: £2.9k).

The Society continues to exercise forbearance measures to assist borrowers who are experiencing financial difficulty in a number of ways. Whilst, in each individual case, we try and work sympathetically with a borrower, we must ensure that we balance this with our broader responsibility to all of our Members.

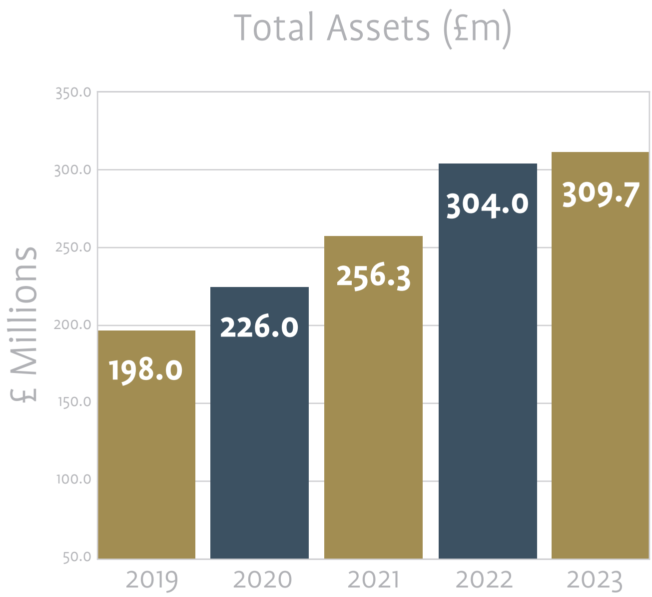
The Society continually assesses whether there is any evidence that individual mortgage assets are impaired and would therefore require a provision set against them. A total of 11 (2022: 2) individual impairment provisions were required in those cases where the Society's model indicated a potential shortfall compared to the outstanding balance; despite an increase in cases the different mix of borrowers resulted in a decrease in the individual provision to £68k (2022: £91k).

The Society also, in line with its accounting framework, maintains a provision for collective impairment, which models the impact of potential impairment events that may have occurred within the book but may still be unknown to the Society. To determine the level of collective impairment provision, the Society has considered statistical modelling of historical trends as well as external data (i.e. market house price inflation forecasts). The total collective provision has increased to £528k (2022: £478k).

At the 2023 year end, the Society held a total of £0.60m of impairments against its mortgage book (2022: £0.57m).

The small increase in the year was primarily driven by the Society including a post model adjustment of £0.08m to reflect an increase in the livelihood for impairment events, that have not yet been identified by the Society, to exist within the mortgage book as a consequence of the challenging economic environment and cost of living crisis. Whilst the Society believes no impairment is currently required for the impact of climate change on the homes against which mortgage loans are secured, this continues to be an area the Society is actively monitoring and assessing.

The Society holds a number of investments in green energy and sustainable projects. Further detail on these investments is given in note 14. The Society has completed a full review of the fair value of these assets at year end and has decided to make a small impairment of £25k to reflect the potential impact of the challenging macro-economic environment.



Savings and Liquidity

In relation to saving Members, the Society saw some outflows from its savings book in the second half of the year as volatility in the UK retail savings market led to increased customer activity. Nonetheless, the Society saw a small increase in the overall balance of its savings book in the year to £280.2m at year end (2022: £275.4m).

Given the smaller growth in retail savings, mortgage lending was funded primarily through liquidity and the overall growth in total assets was modest. The Society's total assets increased to £309.7m (2022: £304.0m) which represented an increase of £5.7m or 1.9% (2022: £47.7m, 13.4%).

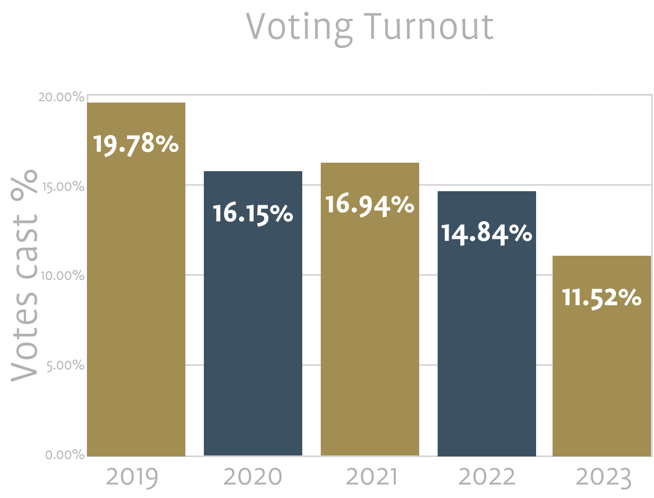
The smaller growth in retail balances also allowed the Society to manage its liquidity position to a more efficient position reducing the overall proportion of liquid assets to 22.7% (from 29.4% at the end of 2022). The Society's liquidity position remains strong, sufficient to meet customer and business needs and significantly in excess of regulatory requirements. The Society's Liquidity Coverage ratio stood at 299% at year end (2022: 381%) against a regulatory limit of 100%.

The products and interest rates offered by the Society enable us to provide support for more homes and projects which deliver a positive environmental and social benefit and provide good value for borrowers seeking to build or renovate sustainable and energy efficient properties. The Society aims to further innovate and develop its product range in 2024 to further support this aim.

Member relations

Voting turnout at our 2023 AGM was 11.52% (2022: 14.84%). Our AGM took place at Bridge 5 Mill in Manchester. 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.

The 2024 AGM will be held at 6pm on Thursday 25th April at Cloth Hall Court in Leeds (LS1 2HA). The Society would love to welcome as many Members as possible to this event where you will be able to hear an update on our performance in 2023 and ask any questions you have for the Society.



Over the last two years, we have invited Members to Member Meet-ups as well as our annual AGM events, which were held at unique venues across the UK and online. These events were an opportunity for our Members to hear Gareth Griffiths, our Chief Executive, share his vision for Ecology's future. They also allowed Members to meet 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. The Society is currently planning similar events for 2024 and will advise Members of when and where these will be held in due course.

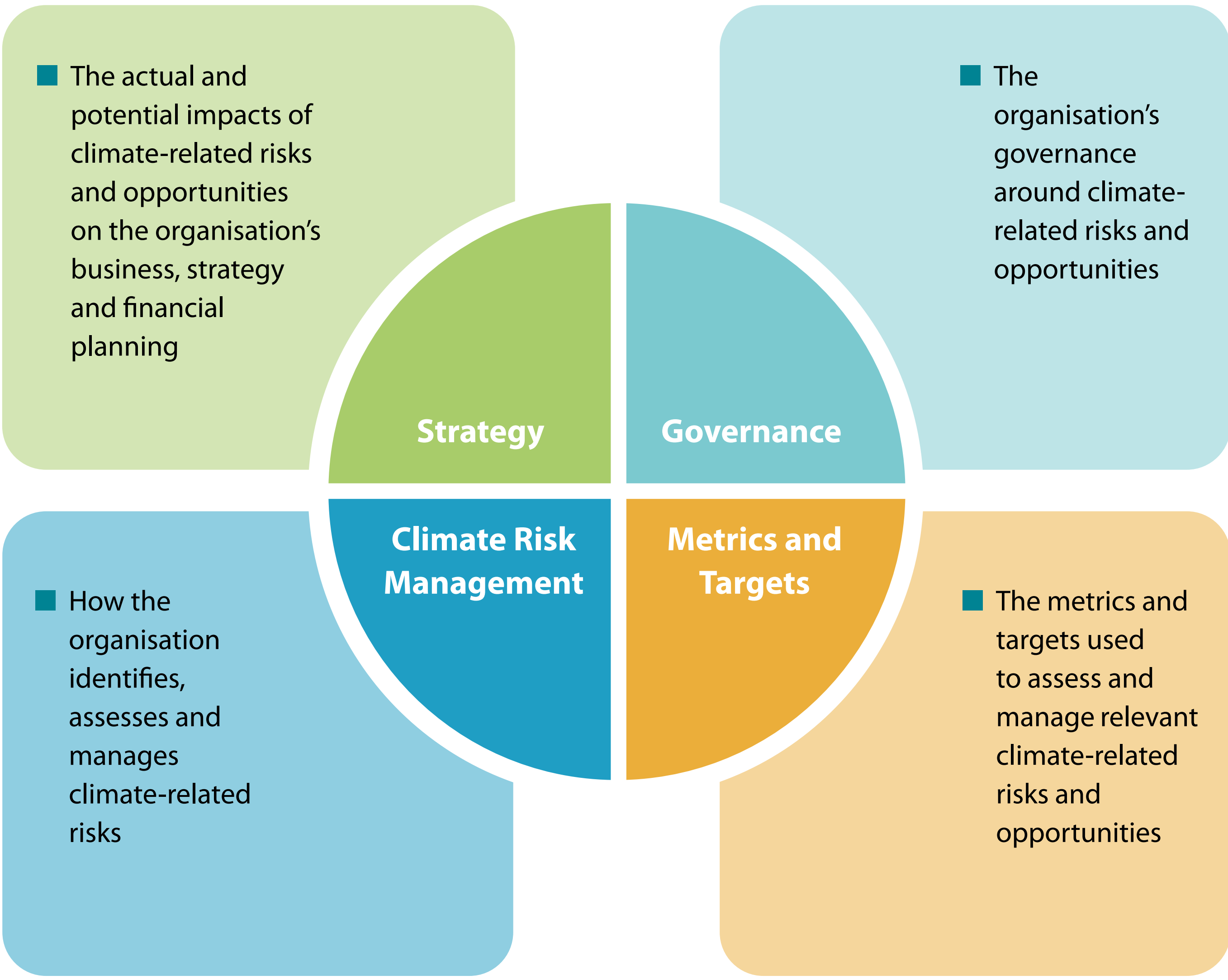
Ruby, Sam and Otis at their new flat at Crofts Court, Oxford.

Climate-related disclosures

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.

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 approach to climate-related financial disclosures will continue to evolve, in line with best practice, regulation covering the financial sector and advancing global standards. The table below summarises our activity during 2023 and our planned activities for 2024 and beyond.

Our climate-related disclosures cover:



Summary of our activity on climate-related risks and our planned activity

In 2023 we have:	From 2024 onwards we plan to:
Strategy	
■ Enhanced our impact-led mortgage products with the launch of the industry's first off-site construction mortgage range in partnership with nine leading modular manufacturers, making it easier to access mortgage finance for this type of self-build. ■ Funded the Building Performance Network to develop and publish a detailed Resource Hub to understand and improve building performance. ■ Used our voice and example to advocate for the phasing out of fossil fuel financing, no slowing down in climate ambition and a commitment to removing gas grid connections through the Future Homes Standard. ■ Actively participated in alliances to help the financial sector respond to climate change and accelerate UK housing retrofit, specifically the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking, Net Zero Banking Alliance, Global Alliance for Banking on Values, and National Retrofit Hub.	■ Publish our initial net zero transition plan, building on our 2021 'Climate and Ecological Emergency Plan' and '2022 Financing the Net Zero Transition – our 2030 intermediate targets'. ■ Enhance annual stress tests taking account of future climate change scenarios. ■ Continue to evolve and enhance our impact-led mortgage and savings products. ■ Increase activity to equip our Members with knowledge and expert advice to support their transition to net zero, and adaptation and increased resilience to climate change. ■ Accelerate the use of our collective voice to agitate for policy and regulatory change to address the climate emergency and transition to a low-carbon economy in a socially just and equitable way. ■ Continue working collaboratively with national and international alliances to develop targets, standards and frameworks to embed sustainable development and net zero into the finance system.
Governance	
■ Established Climate risk governance, with senior management and Board-level engagement, including establishing the Environment and Society Impact Board Committee. ■ Developed sustainability focussed induction training for all our new starters. ■ Delivered knowledge sharing sessions with all colleagues to enhance understanding of sustainability.	■ Further develop the Board's and Board Committees' schedule for oversight on climate-related risks and opportunities. ■ Ongoing training and knowledge share for the Board, Executive and Senior Management, and first line of defence (Mortgage Team and Community and Business Lending Team). ■ Continue to embed our approach to climate risk, in line with the Society's overall risk governance, particularly using the detailed assessments of physical climate risks under a range of scenarios to inform our lending policy and underwriting processes.

In 2023 we have:	From 2024 onwards we plan to:
Climate Risk Management	
- Established a clear risk appetite for Climate and assigned senior management accountability aligned to the Society's related risk management framework. - Continued to assess potential future physical impacts on our mortgage portfolio under a range of climate change scenarios. - Ongoing work to incorporate climate risk into operational resilience processes.	- Continue to work with our third-party consultants to extend the assessment of subsidence and coastal erosion risks. - Move Climate Risk Appetite to a quantitative approach, from the current qualitative measures. - Implement Climate Risk Framework for physical climate risk assessment of properties at mortgage application stage. - Build on our current annual climate risk assessment, implement dynamic management information on climate-related risks. - Continue to review and evolve credit risk appetites in the 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 or assessed, and reported, the greenhouse gas footprint of our business operations, commuting, working from home and supply chains. We have also completed this assessment for our mortgage lending. - 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 ($kgCO_2e/m^2$) and financed emission intensity ($kgCO_2e$/£'000 of lending) of our mortgage portfolio using the Global GHG Accounting and Reporting Standard for the Financial Industry. - Continued work towards publication of our net zero transition plan to achieve our 2030 targets for our business operations and financed emissions.	- Implement dynamic management information on our greenhouse gas footprint. - Continue to develop metrics to assess physical climate risks, including engaging with research and innovation in data and modelling tools. - Continue to support the Partnership for Carbon Accounting Financial (UK chapter), PCAF UK, helping to improve the quality and availability of data to measure the emissions from residential property. - Collaborate with our industry for improvements to Energy Performance Certificates (EPCs), currently the best property-level information available but with well-recognised limitations. - Continuously and transparently re-evaluate our targets' baselines and goals as the data they are based on improves, ensuring that we remain aligned with a science-based net zero pathway. - Continue to develop how we assess physical climate risks by engaging with research and innovation in data and modelling tools. - Assess new research to inform models and metrics to understand overheating as a climate risk for properties in the UK, as it becomes available to lenders.

Strategy

Tackling the climate and ecological emergency

Ecology Building Society's overarching strategy is to be part of the solution to tackling the climate crisis. We have committed to becoming net zero carbon 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. 42 years on, climate change, ecological collapse, deepening social inequalities and the war returning to Europe are the defining issues. In 2021, our Members, colleagues, Board and key partners co-developed our 2030 Strategy, setting out our vision for the future 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. During 2023 we began work on our transition plan for achieving these targets, which we'll publish in the coming year.

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. How the Society looks to achieve these outcomes is outlined in the following diagram:

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	Collaboration and knowledge share	Agitation for change
Providing impact-led products and services designed to reduce carbon emissions, increase resilience and support the transition to a low-carbon economy.	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.	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 mediate 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 2023, our mortgage book increased by 10.7% and there was a small increase in the overall balance of savings accounts of 1.6%.

Responding to strategic risks and opportunities

Climate change creates opportunities as well as risks. Ecology has been an advocate for sustainable lending throughout our 42-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.

The green and sustainable mortgage market

We welcome the fact that, at long last, there is a growing awareness of the need to tackle greenhouse gas 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.

Ecology Members listen to presentations by the Society's Board at the 2023 AGM.

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 which 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.

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.
- We offer a cashback incentive to contribute to the cost of installing either a ground or air source heat pump, to reward borrowers for moving away from heating their homes with fossil fuels to low carbon, renewable heating technologies.
- We have introduced a new off-site construction mortgage range and teamed up with leading modular manufacturers 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 of 88 SAP points for new homes. We welcome non-standard construction types and materials. Through our bespoke approach to lending, we proactively support new building techniques, provided they meet our sustainability criteria, including the 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 greenhouse gas emissions (e.g. through upgrading heating systems). Currently, about 20% of the UK's total greenhouse gas emissions come 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.

We take care to make our retrofit 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 greenhouse [gas]es. 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 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.

The absolute greenhouse gas 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 also expect the greenhouse gas 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 emissions resulting 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 targets are detailed in the Metrics and Targets section starting on page 32.

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, consistently shows that addressing the climate emergency is a top priority and a major motivation for their membership of the Society. In 2023 we commissioned a broader, 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 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 2024 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.

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. In 2023 we co-sponsored the Community Land Trust and National Custom and Self-Build Association (NaCSBA) Parliamentary receptions, co-signed letters to the Prime Minister calling for no reduction in net zero ambition and to BEIS calling for no gas grid connections to be permitted in the Future Homes Standard and supported the campaign activity of a range of key sector and NGO partners on issues including the transition to net zero, fossil fuel divestments, energy efficiency and retrofit.

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 greenhouse gas footprint since 2012 and we offset residual emissions through Gold Standard Verified Emissions Reductions (VER) paired with support for 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 2023, we continued to partner with social enterprise, Giki, to provide colleagues with a personalised programme to understand how to reduce their greenhouse gas footprints and protect the environment together.

Governance

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.

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. Two of the Non-Executive Directors have specific skills on climate risk and the built environment. 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), Chief Financial Officer (CFO) and Head of Risk, all have specific objectives relating to climate risk and resilience. The COO and CFO 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 Head of Credit and CFO, 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 definitions and appetite

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.

To support the agreed risk appetite, the Society 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 greenhouse gas 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 greenhouse gas 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 greenhouse gas 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.

Risk Management

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.

Identifying climate-related financial risks

Our lending is fully focused on reducing the greenhouse gas 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.

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 greenhouse gas 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.

Climate risk is cross-cutting and impacts on all of the Society's five risk categories: strategy, financial, credit, conduct and operational. 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. Information on how climate change could impact our risks, expected time horizons and the potential impact on the business and our Members is set out in the table on pages 28 to 31. The table also highlights the aspects of our 2030 Strategy which are designed to respond to, and mitigate, these risks.

As an embedded risk, climate risk is managed as part of the Society's broader risk management controls and procedures.

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]
Strategy risk				
Transition	**Mission and business model - growth in green finance market** Increased competition from other green finance providers on savings and lending products may affect our financial performance. New market entrants provide range of attractive alternative green financing options. Introduction of minimum energy standards for private-owner-occupied property drives lenders to accelerate innovation in green mortgage products. Enhanced building regulations for energy efficiency drives other lenders to accelerate innovation in green mortgage products.	Short-medium	High	Impact-led products and services Collaboration and knowledge share Agitation for change [Note 4]
	Reputation Commitments to achieve net zero in lending or business operations may be hindered by inadequate government policies and regulation failing to improve building regulations and renewable energy provision or by fragmented supply chains that cannot meet demand for net zero homes.	Short-medium	High	
	Policy and regulation Failure of government to invest in national energy infrastructure to transition fully from fossil fuels to clean, renewable energy means properties will be unable to achieve net zero emissions. Failure of government to incentivise renovation and construction of net zero-ready properties (through improved building regulations and appropriate incentives) affects demand for energy-efficient homes. Political attention being diverted or derailed resulting in a loss of momentum on net zero policy and investment.	Short-medium	High	
	Economy Changes in macroeconomic environment, 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. 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.	Medium	High	

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]
Strategy risk (continued)				
Physical	Changes in precipitation patterns and extreme variability in weather patterns affects food production, freshwater 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
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: 1. Economic distress of existing and future Members. 2. Loss in confidence in Ecology as a result of reputational damage on approach to addressing climate change. Widespread market repricing in response to 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: 1. Increase in business costs to demonstrate compliance. 2. Increase in costs from suppliers in order to achieve our net zero commitments. 3. Increase in competition from other lenders providing green finance products. 4. 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

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]
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: 1. Diminished value of mortgaged property. 2. Increased insurance costs. 3. 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

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]
Conduct risk (continued)				
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	High	Impact-led products and services Collaboration and knowledge share Agitation for change
Operational risk				
Transition and physical	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 Agitation for change
Physical	Physical impacts such as flooding or storm damage may result in: 1. Damage to office or loss of systems or key data. 2. Colleagues unable to access key systems and data. 3. Failure of third parties to deliver goods and services. 4. 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.*

Key Areas of controls

In addition to the risks identified above, specific controls merit particular mention given their centrality to our mission and purpose.

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. Strategic risk was a key consideration to inform the development of *Our 2030 Strategy*. 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 2023, 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 physical climate risk (flooding, coastal erosion and subsidence) was relatively low, supporting that our lending policy to date has been robust in only lending on properties not at risk from future physical impacts of climate change.

Ecology proactively lends on properties in order to improve their energy performance, as well as cutting greenhouse gas emissions. All Ecology mortgages for retrofit properties are targeted at improving their energy efficiency rating and so cutting energy bills. In terms of transition risk, although other lenders may be concerned about the number of F and G-rated properties on their loan books, we know our products are designed to support borrowers to address these. 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

Our climate targets

We have committed to achieve net zero in our operations by 2030, and in our lending by 2050 or sooner, taking a fabric-first approach to improve the energy efficiency of properties and supporting low-carbon heating. Our targets are 'science-based' meaning they are aligned with achieving net zero by 2050 and the Paris Climate Agreement of limiting global temperature rise to 1.5°C.

Our lending (financed emissions) targets are expressed in terms of operational greenhouse gas emissions arising from fossil fuels used to provide regulated energy (for space and water heating, lighting and ventilation) when the home is in use. 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)

- 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.

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

- 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 separate targets recognise the inherent difference between these two property types and therefore the emission intensities that they are able to achieve. 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.

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

Greenhouse gas emissions from our business operations

We have reported the greenhouse gas footprint of our business operations since 2012. Emissions in 2023 were 542.4 tonnes CO_2e and the breakdown is shown on page 34, this is a 29.1% increase in our emissions in 2022 (420.2 tCO_2e). In 2023, our business activity has increased with a growing team and as well as an increase in investment in technology infrastructure and an office refurbishment to support our larger team. Emissions from our suppliers are currently estimated based on our spend and their industrial sector, so rises in spending are reflected in our greenhouse gas reporting. To better understand and reduce these emissions, from 2024 we'll be working to incorporate supplier-specific emissions intensity figures, where available and independently verified.

We continue to operate a hybrid working policy and report home-working as well as commuting emissions. 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 use accredited greenhouse gas abatement schemes, to purchase carbon credits equivalent to our unavoidable emissions each year. We also support accredited tree-planting schemes, which support the availability of future carbon absorption. 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 greenhouse gas emissions. For example, technology for heating buildings is now developing at a rapid rate, and we continue to explore zero-carbon heating options for our offices. We generated 25% of our electricity through onsite solar energy generation and purchased the rest through a 100% renewable 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.

Emissions arising from Ecology's business operations, commuting and supply chains [Note 1]

	Emissions (tCO_2e)		
	2023	**2022**	**% change**
Scope 1			
Gas use at Ecology offices [Note 2]	4.6	5.1	-9.8%
Scope 2 (gross)			
Purchased electricity at Ecology offices	7.8	5.7	36.8%
Scope 2 (net)			
Purchased electricity at Ecology offices [Note 3]	–	–	n/a
Upstream Scope 3 [Note 4]			
Business services (e.g. information technology)	350.3	252.4	38.8%
Depreciation, maintenance and other utilities	74.8	47.4	57.8%
Office consumables	17.6	12.3	43.1%
Gas and electricity (scope 3)	3.6	2.7	33.3%
Food and catering	8.3	23.7	-65.0%
Business travel and accommodation	12.7	23.3	-45.5%
Commuting	55.9	38.3	46.0%
Homeworking emissions	14.6	15.0	-2.7%
Total (net)	**542.4**	**420.2**	**29.1%**
Emissions per full time employee (tCO_2e/FTE)	**10.0**	**9.3**	**7.5%**

Note 1: We calculate our emissions in line with the WRI/WBCSD[1] Greenhouse Gas Protocol.

Note 2: We are continuing to explore zero-carbon heating options for our offices.

Note 3: Photovoltaic panels on our Silsden office generated around 25% of our annual electricity use. We purchased the rest on a 100% renewable tariff from Ecotricity.

Note 4: Upstream Scope 3 (lending is categorised as 'downstream') covers business travel, commuting, working from home and purchased goods and services as well as the upstream emissions to produce them.

[1] World Resources Institute / World Business Council for Sustainable Development

Greenhouse gas emissions from our mortgage lending

In 2021, we were the first building society to report 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 Global Greenhouse Gas Accounting and Reporting Standard for the Finance Industry (the PCAF Global Standard) developed by the Partnership for Carbon Accounting Financials (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 greenhouse gas 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 greenhouse gas 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 of the property, i.e. the fabric, heating technology and lighting. We therefore also report financed regulated emissions only, for consistency with our peers.

Between 2022 and 2023, our financed regulated emissions decreased by 0.8% (2023: 1,403 tCO_2e; 2022: 1,414 tCO_2e). This was despite an increase in the number of mortgaged properties in our portfolio. Measuring the financed emissions intensity in $kgCO_2e$ per £1000 of lending permits a comparison by normalising for the amount of lending in a given year. In 2023, the financed regulated emission intensity was 9.8 $kgCO_2e$/£000, a decrease of 9% compared to 10.8 $kgCO_2e$/£000 in 2022. This reflects the outcome of raising our minimum energy efficiency requirement of new build properties to 88 SAP points in 2022.

Crofts Court, affordable homes in Oxford.

Financed emissions for our mortgage portfolio at the end of 2023

Downstream Scope 3 – Financed emissions: Mortgages					
Emissions from properties with an EPC (49% of Ecology mortgages) Emission data quality score 3, based on PCAF Global Standard [Note 1]					
	Outstanding Balance (£000)	**Financed regulated emissions (tCO_2e)** [Notes 2,4]	**Financed total emissions (tCO_2e)** [Notes 3,4]	**Financed emission intensity based on regulated emissions only (kg CO_2e/£000)** [Note 5]	**Financed emission intensity based on total emissions (kg CO_2e/£000)** [Note 6]
Self-, custom- and new build (where construction is complete)	64,266	348	459	5.4	7.1
Renovations and conversion (where the works are complete) [Note 7]	22,664	275	308	12.1	13.6
Renovations and conversion (where the works are ongoing) [Note 7]	9,226	272	284	29.5	30.8
Other	11,895	158	177	13.3	14.9
Sub total	108,051	1,053	1,228	9.8 (weighted average)	11.4 (weighted average)
Emissions from properties that are completed but do not have an EPC (22% of Ecology mortgages) Emission data quality score 5, based on PCAF Global Standard [Note 8]					
Sub total, all types	54,164	350	428		
Emissions from all new, renovation and conversion properties where works are complete, ongoing renovation and conversions with an EPC and Other properties EPC (71% of Ecology mortgages) [Note 9]. Weighted emission data quality score 3.7, based on PCAF Global Standard					
Total	**162,215**	**1,403**	**1,656**		

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 greenhouse gas 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 greenhouse gas 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.*

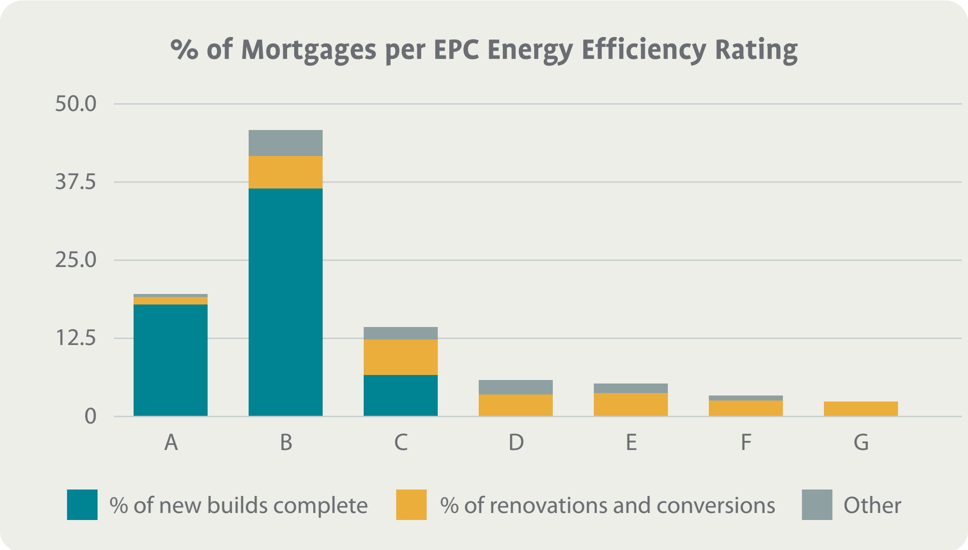
Note 5: Financed emission intensity based on regulated energy is a measure of greenhouse gas emissions from annual regulated energy use at all properties with an EPC, per thousand pounds of lending.

Note 6: Financed emission intensity based on total (regulated and unregulated) energy is a measure of greenhouse gas 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 greenhouse gas 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.

Note 9: Our 2030 intermediate targets cover 100% of our lending portfolio. However, as we finance properties under construction, in any given year there will be a proportion of incomplete properties yet to produce operational emissions. These are excluded from reporting until completed.



The graph shows information on EPC ratings for the properties with an EPC available (49% of Ecology mortgages)

Based on all the EPCs currently available for properties in our mortgage portfolio, the average SAP score was 78, 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.

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.

Physical greenhouse gas intensity

We have calculated the physical greenhouse gas intensity of the properties in our mortgage portfolio, in terms of greenhouse gas emissions per square metre of floor area, where the floor area is taken from the EPC. The average physical greenhouse gas intensity based on regulated emissions across all mortgaged properties with an EPC was 18.7 $kgCO_2e/m^2$ compared with 22.9 $kgCO_2e/m^2$ in 2022.

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 and the Middle East), employment changes and property values, which map onto potential transition risks. This is an area for further work in 2024. 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.

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 2023 to the physical risks of flooding, subsidence and coastal erosion. Our assessment will evolve over time to take account of property-specific and local adaptation mitigation.

Ecology colleagues Pauline and Laura welcome Members to the 2023 AGM.

Flooding

Under the medium emission scenario (RCP6.0), in the 2050s, taking account of current and planned flood defences, 9.6% 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. **Two** properties in the analysis were at risk from coastal erosion in the 2050s. Under this scenario, a marginal increase in risk based on improvements to data quality and changes to our mortgage book. This is the first time we've observed a movement in this direction so doesn't yet indicate a trend. We will continue to monitor these risks as a Society and improve and adapt our ability to identify and manage them as they emerge. The climate model for coastal erosion does not yet include Northern Ireland. In 2023, 14% of Ecology's mortgaged properties were in Northern Ireland.

Subsidence

Under the worst case, high emissions scenario (RCP8.5), in the 2050s, 9% of Ecology mortgaged properties in Great Britain could experience an increase of 10% or more in their subsidence risk. This is a small decrease on the 2022 value of 10.1%, reflecting changes in our mortgage book rather than a forecast decrease in risk within the climate model used. 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**.

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.

Our climate-related disclosures

Our report contains a dedicated section, 'Climate-related disclosures' on pages 17 to 39, which brings all climate-related information together in one place, presenting the greenhouse gas 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. As a Member-led organisation, engaging and hearing from our Members is essential to guide us and keep us accountable. In 2023, we held our AGM at The Centre of Sustainable Living Bridge 5 Mill in Manchester. Colleagues, Members and long term partners of Ecology shared their knowledge and experience on the latest innovations in sustainable building and retrofit, from their own projects and on influencing policy and behaviour across the UK.

Sustainable homes

In January 2023, we teamed up with leading modular manufacturers to launch our new range of mortgages to support the growth of off-site, manufactured homes. Over 2023 we have now grown these partnerships to cover nine manufacturers. Our innovative approach enables lending to be secured on the modular panels before they arrive on site, ensuring that finance is available for the more than 50% of self-builders who use off-site construction. 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.

Ecology is a proud sponsor and advisory panel member for The National Retrofit Hub, a nonprofit collaborative organisation working across sectors and with industry to enable the delivery of housing retrofit across the UK. The Hub was established at the start of 2023 and officially launched on 1st March 2023 at the Building Centre in London. Through the Hub's Finance and Driving Uptake working groups, we contribute to developing objectives and actions to drive faster delivery of retrofit across the UK.

Savings Members Daniel Powell and Lindy Williams with their new heat pump and solar panels.

Enabling people-powered housing

In 2023, Ecology supported 16 community-led housing projects across the UK. Once completed, these projects will deliver 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.

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 we supported was a loan to Oxfordshire Community Land Trust (OCLT) to help them develop eight affordable homes for rent in a high value area with an acute shortage of affordable housing. Completed in June 2023, Crofts Court is OCLT's first affordable housing development, marking a significant milestone in its mission to provide affordable housing for the local community. The development is now home to 13 adults and three children who were previously on the local housing waiting list.

Our lending to community groups extends beyond housing. In 2023, we lent to a further six community gain projects. This lending enabled the provision of a community-owned health and wellbeing centre bringing much-needed services back to the community and an empty building back into use, the acquisition and refurbishment of community organisation headquarters, a community buy out of a well-established fully residential moorings site and the refurbishment of heritage properties as self-catering lets to generate charitable income.

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

The financial sector has a critical role to play in steering financial flows towards activities that decarbonise our economy. Collaboration between businesses is essential to make real progress towards net zero and help the UK and global society meet its binding international commitments.

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 in its 10th year as 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. GABV collect a detailed scorecard from their members every three years and use it to benchmark performance against others in the network, highlighting best practice lessons from all over the world. We submitted our latest scorecard to GABV in 2023, and their feedback will push us to continually improve how we understand and deliver our social and environmental impact for, and with, our Members.

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 330 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 third progress report on how we are implementing the principles in 2023. A focus of our work this year has been developing a transition plan for achieving our climate targets, which we'll publish in the coming year, before reviewing our social impact and developing further targets.

As a member of the global Net Zero Banking Alliance, and its UK chapter, Bankers for Net Zero, we continue to explore how finance can best support key sectors of the UK economy in transition to net zero, and encourage the financial sector to phase out financing of fossil fuels. Participating in these alliances gives us an equal voice with other members to contribute to and influence the debate, in spite of our different scale.

Furthermore we continue to be a signatory to the Partnership for Carbon Accounting Financials, a group of leading financial institutions working to improve the measurement and understanding of greenhouse gas emissions from mortgaged property.

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 in 2021. The infographic on page 3 provides an overview of our activity this year.

In 2023, we completed a refurbishment of our low-energy HQ to expand the space available for new colleagues. Renewable or recycled materials were built into the design and old fittings and fixtures were reused or donated wherever possible. As the proportion of the team using electric cars grows, we've introduced a booking system for our on-site chargers, a facility we continue to provide for free to colleagues. With so many new colleagues, we refreshed and deepened our Green Induction for all new starters.

As a mutual organisation ourselves, this year we also upgraded our Social Enterprise UK membership from being a supporter organisation to a full member of the world's largest network of businesses with a social purpose.

Since 2021, we've been partnering with another 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 greenhouse gas footprint, build their knowledge on sustainable living and identify steps they can take to reduce their greenhouse gas footprint. This year we joined the Giki 'Employee Race to Zero', three weeks of accelerated and competitive climate action between business teams.

Ecology colleagues completed 204 steps over three weeks, equivalent to over nine tonnes of greenhouse gas savings, or 24 short-haul flights!

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.

Our colleagues

We continued our transformation programme to invest in our people and the culture that will support the growth of the Society this year. This is delivered through our internal Leadership development programme, investing in career development and progression within the organisation, a strong rhythm and routine of colleague communications and shared information, and deeply and actively listening to colleague feedback and input as we evolve and grow. The majority of our people leaders are accredited Mental Health Champions, and we were able to extend access to this training to local participants from People First Keighley & Craven, Nell Bank and Yorkshire Housing as well. We continue our journey to becoming an accredited menopause-friendly workplace.

A team from Ecology tackled the Yorkshire Three Peaks in September 2023 in aid of Yorkshire Wildlife Trust and Dementia Forward.

Sponsorship and charitable giving

We were pleased to sponsor the Passivhaus Trust's Awards and their annual conference in Edinburgh, continuing our long history of support for the exemplary standard. We also supported the UK Co-housing Summit, Locality and Ethical Consumer annual conferences, Cambridge Carbon Footprint's Open Eco Homes 2023 hub and events, and ASPB and SEDA-Solar awards.

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

- **The development of the Building Performance Network's comprehensive, free Resource Hub**. This will grow to five training modules, offering an introduction to Building Performance Evaluation (BPE) for self-builders, small developers, landlords, anyone with an interest in learning more about BPE and then commissioning a BPE programme for new or existing homes.
- **Phase 2 of the Good Homes Alliance's Build Net Zero Now campaign**, including the development and publication of The Green Shift report, on existing financial incentives for higher environmental performance of new homes, and a mini manifesto of 10 steps to accelerate net zero housing development.
- **The Parliamentary launch of the 'State of the CLT Sector' report commissioned by the Community Land Trust (CLT) Network**, which revealed there is market opportunity to develop 278,000 new community-led homes. The event was attended by the Rt. Hon. Michael Gove, Secretary of State for the Department for Levelling Up, Housing and Communities.
- **The National Custom- and Self-Build Association's (NaCSBA) Parliamentary Reception** at which Gareth shared a platform with the Housing and Planning Minister Rachel Maclean and Richard Bacon MP discussing solutions to scaling up custom and self-build housing in the UK.
- **Ethical Consumer's third 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 world is not on track to meet international emissions reductions targets and highlights the gap between where we are and where we need to be.

We made a £1,000 donation to Trees for Cities as a result of Members' online AGM voting. 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 Sue Ryder hospice, which continues to be a single-use plastic bottle-free event, thanks to Ecology's involvement. Every Ecology colleague benefits from two paid volunteering days each year.

Altogether through community sponsorship, time given, fundraising and in-kind donations of training and furniture from our office re-fit, colleagues have gifted almost £7,400 in value to our local community in 2023 (including £2,927.22 in direct donations by Ecology).

Colleagues joined the Sue Ryder Solstice Saunter at Bolton Abbey in June 2023.

Corporate Governance Report

Your Board of Directors

Louise Pryor

Appointed: February 2020 | **Non-Executive Director and Chair**

Committee membership
Chair of the Board and the Nominations and Governance Committee, and member of the Environment and Societal Impact Committee.

Background
Louise is an 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. Her recent experience is in climate risk and sustainability, with a focus on the role of the financial services sector. Louise is a past President of the Institute and Faculty of Actuaries and an Honorary Professor in the Bartlett School of Sustainable Construction.

Giovanni D'Alessio

Appointed: September 2022 | **Non-Executive Director**

Committee membership
Member of the Risk and Conduct Committee, the People Remuneration and Culture Committee, and the Environment and Societal Impact Committee.

Background
Giovanni was elected to the Board in April 2023. 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 promoting the digital transformation of the EMEA Doosan Group and selling cyber and digital services to other external companies in the manufacturing sector.

Andrew Gold

Appointed: May 2014 | **Non-Executive Director, Deputy Chair and Senior Independent Director**

Committee membership
Chair of the Audit and Compliance Committee, Chair of the People, Remuneration and Culture Committee, and member of the Nominations and Governance Committee and of the Risk and Conduct Committee.

Background
Andrew is a qualified chartered accountant and also holds a treasury qualification. He has spent most of his Executive 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 as a Non-Executive Director (NED) in 2014. An experienced NED, Andrew has been since January 2018 the Chair of the Airedale NHS Foundation Trust and in March 2023 also became a NED of Ramble Worldwide, the trading name for Ramblers Walking Holidays.

Jaedon Green

Appointed: March 2023 | **Non-Executive Director**

Committee membership
Member of the Audit and Compliance Committee and the People, Remuneration and Culture Committee.

Background
Supporting the national housing agenda, Jaedon brings extensive experience in consumer regulated industries, housing and financial services. Prior to becoming a Non-Executive Director, Jaedon was Chief Customer Officer at Leeds Building Society, routinely consulted by Government, developers, trade bodies and the Bank of England as an independent subject matter expert. Jaedon's other commitments include Non-Executive Director at Leeds Federated Housing Association and Deputy Chair of his local allotment community interest company.

Gareth Griffiths	Appointed: June 2022	Chief Executive

Committee membership
Member of the Nominations and Governance Committee. Chair of the Society's Core Management Committee.

Background
Gareth joined Ecology in June 2022 and was elected to the Ecology Board in April 2023. He was previously Head of Retail Banking at Triodos Bank and also held leadership roles at RAC and HSBC.
Gareth sees the necessity for Ecology to try and change the broken financial system and that the Society has an important role to play in trying to do the things that the mainstream financial system isn't brave enough to attempt. Gareth has a resolute belief that Ecology was founded to be an up-start and he looks forward to continuing this mantra showing that there is a more sustainable way to build communities whilst ensuring that the Society is run safely and prudently for its Members.

Kerry Mashford OBE	Appointed: February 2020	Non-Executive Director

Committee membership
Chair of the Environment and Societal Impact Committee, member of the Audit and Compliance Committee, and Nominations and Governance Committee.

Background
Kerry is a Chartered Mechanical Engineer and has worked for many years in sustainable manufacturing and construction, energy transition and the circular economy. Kerry is a Non Executive Chair of Trust Electric Heating Ltd, retained consultant to social housing provider Sanctuary Group and NED of Beech Grove Homes. Her voluntary work includes leading the Energy Strategy Group of Worcestershire LEP, chairing and co-authoring the British standard on building performance, serving on the British Standards Institute's committee on Retrofit Standards and the National Retrofit Hub. She was awarded an OBE in 2017, and is currently constructing her own self build passiv home.

Kerry steps down from the Board at the AGM in 2024 following four years of service.

Vince Smith	Appointed: November 2017	Non-Executive Director

Committee membership
Chair of the Risk and Conduct Committee, and member of the People, Remuneration and Culture Committee.

Background
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.

Vince steps down from the Board at the AGM in 2024 following seven years of service.

Christopher White	Appointed: September 2023	Chief Financial Officer

Committee membership
Chair of the Society's Asset and Liabilities Committee.

Background
Christopher was co-opted to the Board of Ecology in September 2023 as Chief Financial Officer (CFO) and will stand for election at the 2024 AGM. Christopher brings with him over 15 years' experience working within financial services and building societies having previously held CFO roles at Darlington Building Society and Beverley Building Society. Prior to this he worked at PwC, providing assurance services to financial institutions. As well as being responsible for the Society's Finance function, Christopher also leads the Society's Transformation team and Product and Distribution team and chairs the Society's Asset and Liability Committee. Chris is also a Non-Executive Director at Believe Housing Limited, a housing association providing affordable housing across the North East of the UK.

Corporate Governance Overview and Committees

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 2023.

Risk and Conduct Committee

The principal function of the Committee is the oversight of the management of risk and conduct across the Society on behalf of the Board. During the year, the Committee continued to focus on the current and emerging risks to the Society's business model, including those relating to the macroeconomic, commercial and regulatory landscape. The Committee, together with management, has continued to proactively manage, monitor and mitigate the key risks facing the Society, ensuring it remains robust and resilient.

The Committee chaired by Vince Smith met on eight occasions during 2023.

Audit and Compliance Committee

The Audit and Compliance Committee considers the Society's external financial reporting and oversees the work of external audit on that. Its remit is to also receive assurance over the Society's internal controls from risk-based compliance monitoring and internal audit activity. Further detail on the purpose, membership and activities of the Committee in 2023 are set out in the 'Annual Report of the Audit and Compliance Committee' section on page 50. The Board is satisfied that the Committee has appropriate recent and relevant financial experience to carry out its duties effectively.

The Committee chaired by Andrew Gold met on eight occasions during 2023.

People, Remuneration and Culture Committee

The People, Remuneration and Culture Committee ensures a formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration. The Committee is also responsible for oversight of the development of the colleague body and culture of the Society. The Directors' remuneration report is on pages 56 to 58.

The Committee chaired by Andrew Gold met on three occasions during 2023.

Nominations and Governance Committee

The Nominations and Governance Committee lead the process for appointments, ensure plans are in place for orderly succession to both the Board and senior management positions, and oversee the development of a diverse pipeline for succession. The Committee is also responsible for reviewing the Board's governance arrangements and making recommendations to the Board to ensure that the governance arrangements are effective and consistent with best practice.

The Committee chaired by Louise Pryor met on six occasions during 2023.

Environment and Society Impact Committee

The principal function of the Environmental and Society Impact Committee is to maximise the positive environmental and societal impact of the Society consistent with its mission.

The Committee chaired by Kerry Mashford met on three occasions during 2023.

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.

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 six 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 and Governance 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 and from Nurole in conducting an external UK wide search for Non-Executive Directors.

Within prudential constraints, the Board aims at diversity in its membership, particularly gender diversity and diversity of age. At 31 December 2023, two of eight (25%) Board members were female.

Re-election

The Board has considered the recommendation within the Corporate Governance Code that Non-Executive Directors stand down after serving a period of nine years. By exception, to retain skills for an additional short period we 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. During 2023 the Board adopted the recommendation of the UK Corporate Governance Code that Directors stand for election on an annual basis at the Society's AGM with effect from 1 January 2024.

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

The skills and knowledge of each Director were assessed during 2023 and the Board Skills Matrix was updated to reflect the current and future skills requirements of the Board. 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 the Senior Independent 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 concluded in March 2023. The Nominations and Governance Committee are leading on the review and implementation of appropriate recommendations.

Directors' interests

Biographies of the Directors are included on page 44. None of the Directors hold any shares in, or debentures of any associated body of the Society.

Committee Membership and Attendance Record

Director	Board	RCC	ACC	NOMS	PRCC	ESIC
Pryor, Louise	10/10	X	X	6/6	X	3/3
Gold, Andrew	10/10	8/8	8/8	6/6	3/3	X
Smith, Vincent	10/10	8/8	X	X	3/3	X
Mashford, Kerry	10/10	X	8/8	6/6	X	3/3
D'Alessio, Gio	10/10	7/8	X	X	3/3	3/3
Green, Jaedon	8/8	X	4/4	X	1/1	X
Griffiths, Gareth	10/10	X	X	3/6	X	X
White, Chris	3/3	X	X	X	X	X
Morgan, Tim	2/4	3/3	3/4	X	1/1	X
Newman, Chris	4/4	3/3	X	X	X	1/1

X Denotes not a member of this committee

Changes in committee membership took place in 2023:

Tim Morgan	Retired from the Board in April 2023
Chris Newman	Retired from the Board in April 2023
Jaedon Green	Commenced in March 2023
Christopher White	Commenced in September 2023

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

Annual Report of the Audit and Compliance Committee

The Audit and Compliance Committee (ACC) was established in 2023 with the primary purpose of providing oversight of:

- the financial reporting process and the associated external audit process and relationship with the external auditors.
- the Society's system of internal controls and the associated third line of defence activity, notably the internal audit process and relationship with the internal auditors, and
- oversight of compliance with laws and regulations, through the activity of the Compliance function in respect of their horizon scanning and ongoing monitoring of compliance, notably through the second line of defence compliance monitoring activity.

The ACC was formed in 2023 as the Society made changes to its governance structure. To enhance focus on the Society's risk management, the Society split the responsibilities of the previous committee, the Risk, Audit, Compliance and Ethics Committee (RACE), to form the ACC committee and the Risk and Conduct Committee (RCC). A report outlining the risk environment and risk framework, overseen by RCC is given on page 59.

Committee membership

The ACC comprises three Non-Executive Directors and is chaired by Andrew Gold who has been a member of the committee since it was formed and has chaired the meeting since the 2023 AGM. The ACC membership includes at least one member of the Risk and Conduct Committee, to ensure regular consultation between the two committees.

Members of the ACC are appointed by the Board on the recommendation of the Nominations and Governance Committee and in consultation with the chair of the ACC. The Board appoint the ACC chair. The composition and effectiveness of the Committee is reviewed annually by the Board.

The Board is satisfied that the Committee has appropriate recent and relevant financial experience to carry out its duties effectively.

Committee Meetings

The Committee meets at least four times a year and met eight times during 2023.

At the invitation of the Chair of the Committee the Chief Finance Officer and Head of Risk attend meetings. Where appropriate and relevant, other Society colleagues are also invited to attend and present to ACC to provide insight and enhance the Committee's awareness in key areas.

Representatives from both the Society's Internal Auditors and External Auditors are invited to all meetings of the Committee. The Committee receives regular reports from both the external and internal auditors.

A written report of each ACC meeting is provided to Board by the Chair of the Committee.

The committee meets at least once a year with the external and internal auditors, without management being present, to discuss matters such as the auditor's remit and any issues arising.

Committee Activity in 2023

The activities undertaken by ACC to fulfil its responsibilities, in relation to 2023, are outlined below:

Financial reporting

- At the beginning of 2023 the Society reviewed the integrity and appropriateness of the Annual Report and Accounts for the year ended 31 December 2022 as well as their compliance with relevant accounting standards and governance requirements.
- The committee reviewed other external disclosures such as the Annual Review (including summary financial statements) and Pillar 3 document.

- The committee's focus in reviewing the Society's Financial Statements is aligned to key areas of judgement and risk such as the Society's loan loss provisioning and the carrying value of investments. The committee also conclude on the appropriateness of presenting the accounts under a going concern basis as well as reviewing the appropriateness of the Society's accounting policies.
- The Committee also reviewed the findings of the Society's external auditors, BDO, in relation to the Society's financial disclosures.

The committee, in early 2024, has completed the same review process for the accounts relating to the year ended 31 December 2023.

Internal Audit

The Committee, supported by the Society's internal auditors (RSM), designed and implemented a robust internal audit plan to evaluate the Society's internal control framework in 2023. This allows the Society's internal audit function to provide independent assurance of the effectiveness of the system of internal controls.

The audit plan takes a risk-based approach to determine areas of focus in any given year whist ensuring all material areas are evaluated on a rolling cycle. In 2023 the internal audit plan has focused on the reviewing:

- The Society's internal liquidity adequacy assessment process.
- Implementation of the new Consumer Duty guidance.
- The credit risk management governance, processes and controls.
- The process for approving new lending and the Society approach to responsible lending and mortgage underwriting.

The committee also reviewed reports on enhancing the Society's risk management approach and framework including understanding the effectiveness and completeness of the current framework.

The Committee considers the themes and issues identified by internal audit function as well as an overview of the overall control framework findings in the year. The ACC also oversees Management's response and completion of internal audit actions.

In line with the Society's policy, ACC also completes an annual review of auditor appointment and effectiveness. A competitive audit tender was conducted in 2022 for our internal auditors RSM who were appointed from the beginning of 2023.

External Audit

BDO remains our external auditors having first been appointed for the 2020 year-end. In 2023 the committee reviewed the external auditors plan to audit the Society's Annual Report and Accounts as well as their assessment of key risks. Further detail on BDO's assessment and work completed can be found in the Independent Auditor's Report to the Members of Ecology Building Society on pages 67 to 75.

The ACC has also reviewed update reports from the external auditors as well as their final report and findings on the Society's Annual Report and Accounts.

ACC is also responsible for reviewing the independence of the external audit firm as well as their effectiveness on an annual basis. There were no non-audit services provided by BDO in 2022 or 2023.

Directors' report

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 2023. The Directors' report should be read in conjunction with the Chair's statement, the Chief Executive's review and the Strategic report.

Directors

The Directors who served during the year were:

Chair:
Louise Pryor
Deputy Chair and Senior Independent Director:
Andrew Gold
Executive Directors:
Gareth Griffiths
Christopher White (appointed September 2023)
Non-Executive Directors:
Giovanni D'Alessio
Jaedon Green (appointed March 2023)
Kerry Mashford
Tim Morgan (retired April 2023)
Chris Newman (retired April 2023)
Vincent Smith

All Directors are members of the Society and have a minimum £500 savings balance at the Society.

Statement of directors' responsibilities

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

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

The Building Societies Act 1986 (the Act) requires the Directors to prepare Annual Accounts for each financial year. Under that law, they have elected to prepare the Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

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

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

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

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

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

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

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

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 09 to 15.
- A review of the Society's financial performance is given on pages 76 to 108 and Key Performance Indicators are shown on page 11.
- Directors' interests are detailed within the Corporate Governance report on page 49.
- The Society outlines Key Risks and its Risk management framework, objectives and policies on pages 59 to 66.
- Free Capital and Gross Capital percentages are included within the Annual Business Statement on page 108.
- Information regarding mortgage arrears is included within the Strategic report on pages 09 to 15.

Charitable donations

During the year, the Society made charitable donations amounting to £2,927 (2022: £11,899). 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 are 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 2023 was 82 days (2022: 91 days). This comprises of accruals totalling £690k of which £141k relates to internal audit services and £390k is professional service fees which have yet to be invoiced.

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 Risk and Conduct Committee 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. We were again reaccredited with the Fair Tax Mark in 2023, our eighth consecutive year, demonstrating our commitment to doing the right thing when it comes to taxes

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 and Viability Statement

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 line with the UK Corporate Governance Code (2018) the Society and its Board have considered the outlook and prospects of the Society over a period longer than the 12 months required by the going concern statement.

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 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 note to the accounts on page 80 contains details of the assessment undertaken by the Directors. Accordingly, the accounts continue to be prepared on a going concern basis.

Independent Auditors

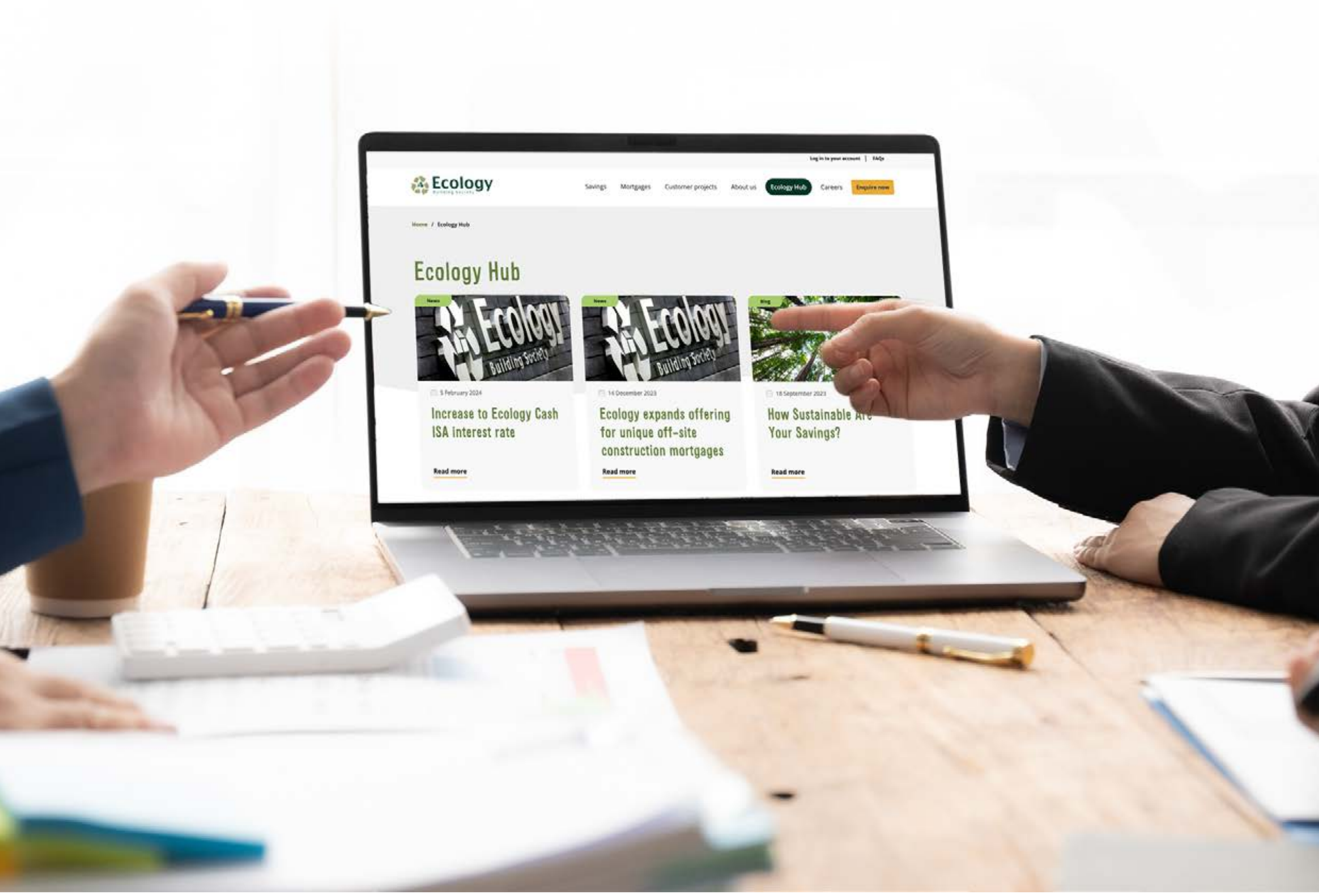
The Directors who held office at the date of approval of this Directors' report confirm that:

- 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 2024 AGM.

Louise M Pryor

Louise Pryor
Chair
15th March 2024



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 are required to meet when setting pay and bonus awards for their staff. The Code requires disclosure of the fixed and variable remuneration of senior management, material 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 People, Remuneration and Culture 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 at least three Non-Executive Directors. At the invitation of the Chair of the Committee, the Chair, Chief Executive and other members of the senior management team may attend meetings as required. The Chief Executive and Chief Finance Officer take no part in the discussion concerning their individual remuneration. The Committee held three meetings during 2023, 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. The Society obtained professional advice from Bence Associates Limited a specialist reward consultancy during 2023.

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

The terms of reference for the People, Remuneration and Culture Committee are available on the Society's website at **ecology.co.uk/about/corporate**.

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

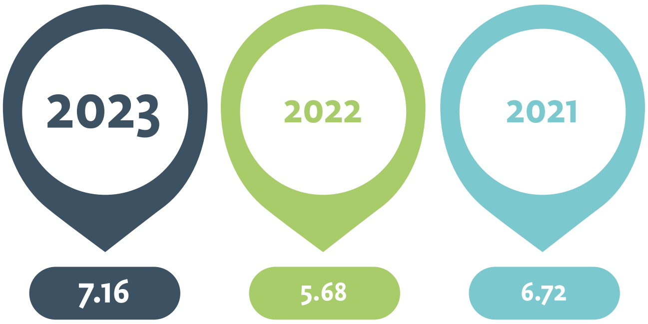
Remuneration of the Executive Directors comprises basic salary, contributions to the Society's personal pension scheme and other benefits.

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.

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.

Ratio of highest basic salary to lowest grade
as at 31 December 2023



The increase in the ratio of highest to lowest full-time salary in 2023 reflected the upward pressure on salaries in the marketplace. The recruitment of senior roles in 2023 tested the market in terms of obtainability and the remuneration required to appoint suitably skilled candidates. Competitor organisations in the region also increased remuneration considerably in specialist roles, putting further pressure on the Society's ability to attract and retain specialist talent. The People, Remuneration and Culture Committee took these factors, alongside due consideration of performance and respective responsibilities, into account when reviewing the CEOs remuneration effective from 1 April 2023, being mindful of the Society's value of fairness.

Annually the People, Remuneration and Culture Committee review the Society's remuneration policy and make recommendations to the Board for approval.

In early 2024, the Committee determined it should conduct a review of the Society's pay limit. The Society continue to support the principle of applying a pay limit and intend to review it alongside comparable organisations to ensure it remains fair and reasonable. As when the pay limit was last reviewed in 2016, the Society will engage with members on any changes.

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. Whilst the Society's Executive Directors have not historically participated in this, or any other performance related scheme, the Society is currently assessing the introduction of appropriate long term incentives for Executive Directors.

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 Society introduced an Electric vehicle salary exchange scheme open to all colleagues in 2022. The Chief Executive and Chief Financial Officer are provided with a car allowance which is included within the breakdown of their remuneration in the tables below.

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. The Chief Finance Officer has a service contract entered into on 27 March 2023 for service commencing on 4 September 2023 and the contract is terminable by either party giving six months' notice.

Non-Executive Directors' remuneration

	2023 £000	2022 £000
Louise Pryor (appointed Chair April 2022)	**25.4**	20.8
Andrew Gold	**19.1**	18.3
Jaedon Green (from March 2023)	**14.6**	–
Kerry Mashford	**16.4**	14.8
Vincent Smith	**17.7**	16.0
Giovanni D'Alessio (from September 2022)	**15.4**	3.7
Tim Morgan (to April 2023)	**6.4**	18.9
Steve Round (to April 2022)	**–**	7.7
Chris Newman (to April 2023)	**5.5**	16.5
Totals	**120.5**	116.7

Executive Directors' remuneration

	Salary £000	Other related pay £000	Taxable benefits £000	Contributions to pension scheme £000	Total £000
2023					
Gareth Griffiths (Chief Executive)	137	–	6	11	154
Christopher White (Chief Finance Officer from 04.09.23)	44	–	1	4	49
Totals	**181**	**–**	**7**	**15**	203

	Salary £000	Other related pay £000	Taxable benefits £000	Contributions to pension scheme £000	Total £000
2022					
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**

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

On behalf of the Board

Andrew Gold
Chair of the People, Remuneration and Culture Committee
15th March 2024

Risk management Report

Risk management objectives and policies

Embedding robust risk management is an essential component of delivering the Society's strategy and meeting our regulatory expectations.

During 2023, further enhancing the Risk Management Framework (RMF) has been a priority for the Society. In 2023, the Society introduced a revised risk taxonomy and identified the requirement to further develop its risk maturity. The Society will continue to build upon the foundations of our existing risk taxonomy throughout 2024.

Risk monitoring activities designed to strengthen the risk oversight of the Society are also evolving and the Society is strengthening its risk capabilities. Additional risk and control resource in the first line has been recruited to support these activities in recognition of the importance of proactive risk management.

The Society will continue to review and refine the Risk Management Framework (RMF) to ensure that it reflects any changes to the Society's strategy, external regulations, law, corporate governance and industry best practice. By undertaking this annual review, the Society ensures that it continues to meet its responsibilities to its Members, colleagues, partners and regulators.

Responsibility for risk management resides at all levels with the Society and is supported by the Board and Senior Leadership Team. Our approach to risk management aligns to the three lines of defence model which is standard practice within the Building Society sector.

First Line	Second Line	Third Line
Risk Ownership and Control Implementation **All Business Functions**	**Risk Oversight, Monitoring and Challenge** **Risk and Compliance Team**	**Independent Assurance** **Society's Internal Audit**
Day to day responsibilities for owning specific risks and responsible for understanding and managing risks. Own business plans and own risks associated with the delivery of those plans within the Board approved risk appetite. Responsible for the implementation of controls to mitigate their own risks. Responsible for evaluating control effectiveness and managing actions where controls are deemed ineffective.	Owns the Society's risk management framework. Oversees, supports and challenges First Line to ensure risk responsibilities are executed effectively. Monitors the Society's risk profile and provides risk reporting to the Senior Leadership Team and the Board.	Provides assurance over the effectiveness of the risk management framework. Provides assurance over the effectiveness of the internal controls' environment. Provides independent and timely assurance to the Board and Audit and Compliance Committee. The Society is also subject to external audit by an independent firm.

Macroeconomic environment

The Society's risk management framework operates in the context of the macroeconomic environment. Although the UK economy has performed better than expected in 2023 and energy prices fell, macroeconomic pressures remained challenging in relation to weak growth, inflation uncertainties, increasing interest rates, unemployment levels of 4.2% and ongoing geopolitical tensions. Whilst inflation did reduce during the year, it remains significantly higher than the 2% target rate set by the Bank of England and the possibility of future rises remains. The 2023 fall in inflation was driven by the Bank of England's commitment to deliver a reduction by increasing interest rates. These combined factors have resulted in continuing cost of living pressures for many UK households. Higher interest payments on loans mean some borrowers may struggle with their repayments, which increases the risk faced by mortgage providers. The Society continues to support borrowers experiencing financial difficulty where appropriate with forbearance and payment arrangements. The Society has considered the impact of this increased risk on the provisioning for credit risk within its mortgage book for the 2023 year end. As a result, a post model adjustment (PMA) has been included to reflect the Society's assessment of this risk. The Society has continued to monitor the macroeconomic environment for potential impacts throughout the reporting period.

Risk management overview

Risk governance is the mechanism through which the Board delegates risk management to Committees and individuals to manage the business activities of the Society. The Board oversees and approves the Society's Risk Management Framework (RMF) and is supported by the Risk and Conduct Committee (RCC). The purpose of the RCC is to provide oversight of risk management systems and controls in place and monitoring the Society's risk profile relative to the Board-approved Risk Appetite.There is a formal governance structure for identifying, reporting, monitoring and managing risk. During 2023, the governance framework was enhanced and now incorporates management level committees which each have a specific principal risk focus. The Risk Management Framework document details the governance of risk management and how the key risk exposures of the Society are identified, assessed and managed to ensure that the Society's risk exposure does not exceed its Board approved Risk Appetite.

Risk management strategy and oversight

The Board has primary responsibility for identifying the key business risks and approving the risk management strategy through the setting of risk appetite. The risk appetite statement defines the amount of risk the Society is prepared to take in pursuit of its strategic objectives. The risk appetite statement is reviewed and approved by the RCC and Board annually.

During 2023, the Society refreshed its qualitative risk appetite statements and classifications and developed further quantitative key risk indicators that are reported at a management committee level and to the RCC and Board. For each of the six principal risk categories, in addition to assigning an appetite classification, the Society has introduced 'We Will' and 'We Will Not' Statements which align to our Vision, Mission and Values and provide further guidance to colleagues in relation to risk management decision making. The appetite classifications assigned by the Society to the risk taxonomy are subject to review to ensure that they continue to accurately reflect both internal and external considerations such as the impact of changes in the economic cycle. The table below provides an overview of the risk appetite classifications the Society introduced in 2023.

Classification	Philosophy and Approach
We are **Open** to taking risk	■ Willing to take risks ■ Will choose option with highest return; accepting possibility of failure ■ Fully anticipate uncertainty ■ For example, creating new innovative products that reflect our Mission to improve the environment and society
We have a **Balanced** view about taking risk	■ Willing to take risks under the right conditions ■ Will choose options with risk attached but will manage the impact ■ Expect some uncertainty ■ For example, only engaging with new third-party suppliers within agreed internal frameworks
We are **Cautious** about taking risk	■ Prefer to avoid risk ■ Will choose safe / conservative options – with risk only if heavily outweighed by benefits ■ Expect limited degree of uncertainty – preference for safe options ■ For example, delivering a program of continuous improvement in a test and learn environment to achieve good Member and colleague outcomes
We are **Averse** to taking risk	■ Will not take risk ■ Will always select the lowest risk option ■ Expect very little uncertainty – avoidance of risk is primary focus ■ We will ensure our obligations to the regulators are always fully met

Risk culture

Embedding a robust risk culture is an essential component of the Society's RMF. Risk culture relates to the behaviours and attitudes of all colleagues in making risk-based decisions and is integral to effective risk management. The Board and Senior Leadership Team are committed to embedding a strong risk aware culture in which all colleagues understand the Society's approach to risk, follow risk management policies and practices, and take individual responsibility and accountability for managing risk in their business areas. During the year colleagues were provided with training and opportunities in relation to risk management.

Principal risk categories

The Society in the pursuit of its strategy is exposed to risk. Aligning to the UK Corporate Code, the Society has performed an annual assessment to determine the nature and extent of its principal risks. The Society has identified six principal risk categories: Strategy, Financial, Credit, Climate, Conduct and Operational. Each principal risk has a Board approved risk appetite rating, and its performance against appetite is monitored and reported to the relevant Management Committee, Core Management Committee, Risk and Conduct Committee and the Board. The table below provides an overview of the Society's principal risk categories and summarises the risk themes, risk mitigation activities and emerging risks.

Principal Risk & Appetite	Risk description
Strategy	The risk that the Ecology fails to plan or execute in a way which sufficiently considers each aspect of the triple bottom line (People, Planet, Profit) resulting in a risk to our ability to deliver against our Vision and Mission with subsequent damage to our reputation with the regulator and other stakeholders.
	Key themes
	The macroeconomic environment – remains extremely challenging with a continued cost of living crisis. The Bank of England increased interest rates five times throughout 2023 and ended the year with a base rate of 5.25%. According to the Halifax House Price Index, the housing market beat expectations in 2023 and grew by +1.7% on an annual basis. However, falls in the house price index are widely forecast for 2024. The Society has responded proactively in its product portfolio management with careful management of product rates during the year.
	Management mitigation actions
	The Society has clearly defined strategic objectives and a Board Approved Medium Term Plan which builds on the 2030 strategy and highlights the business activities required to deliver the business strategy. The Society stress tests adverse economic and interest rate scenarios as part of the business capital and liquid planning risk management activities. The Directors are satisfied the Society has sufficient capital and liquid resources and appropriate financial management control processes to allow it to withstand such impacts.
	Emerging risks
	Since it was founded in 1981, the Society has been agitating at the financial system for change. There is a risk that other Financial Services firms proactively take a greater stance than they currently do based on issues which are core to Ecology's business model resulting in increased market competition. The risk of increased competition from new entrants is growing as firms respond to COP28 and the evolving regulatory requirements from the PRA and FCA in relation to climate risk. In July 2023 the FCA set out a 14-point plan to ensure that financial services providers were passing on interest rate rises to savers appropriately. If the forecast reductions in interest rates occur in 2024, the regulator also intends to scrutinise how financial services firms respond to downward changes.

Principal Risk & Appetite	Risk description
Financial	The risk arising from financial mismanagement or 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. Whilst the Society saw reduction in liquidity through 2023 in the face of prevailing macroeconomic pressures the Society still maintains adequate liquidity to meet its financial obligations and regulatory requirements. 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. 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 and the impact this could have on the Society's net earnings and the value of its assets and liabilities. Capital risk is the risk that the Society fails to assess and maintain sufficient capital to absorb any potential future losses and maintain regulatory requirements. The Board is satisfied that the Society holds sufficient capital to meet the Capital Requirements Directive (CRD) Pillar 1 minimum capital requirements and to cover those risks that the Board has identified under Pillar 2.

Principal Risk & Appetite	Management mitigation actions
Financial (continued)	The Society's approach to liquidity risk is documented in its Individual Liquidity Adequacy Assessment Policy (ILAAP). The ILAAP is revised annually and the key assumptions and conclusions reviewed and challenged by management and the Society's Risk and Conduct Committee. The ILAAP is also subject to the three lines of defence review process. The ILAAP is approved by the Society's Board. The Society's Asset and Liability Committee (ALCO) monitors liquidity levels as well as performing risk assessments and stress testing of liquidity throughout the year. The Society's risk appetite to interest rate risk is documented in its Financial Risk Management Policy (FRMP). The Society's ALCO Committee monitors a range of interest rate scenarios to assess and measure potential impacts against limits. The interest rate sensitivity of the Society at 31 December 2023 is detailed in note 22. The Society's approach to capital risk is documented in its Individual Capital Adequacy Assessment Policy (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. 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**.
	Emerging risks
	The UK retail savings market is expected to be highly competitive through 2024 as government schemes designed to support financial market funding (i.e. Term Funding for SME) schemes mature in 2024. Following a period of historic low Bank of England interest rates, 2022 and 2023 has seen interest rates rise to 5.25% by the end of 2023. The outlook for interest rates continues to remain unclear, with the potential for decreases in 2024. Reforms to Basel standards are expected to be implemented in Europe from 1 July 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. At the same time, the PRA is introducing the "Small Domestic Deposit takers" regime for smaller firms, the details of which are still being defined. 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.

Principal Risk & Appetite	Risk description
Credit	The risk of financial loss due to Members or organisations failing to meet their obligations.
	Key themes
	The Society manages credit risk to minimise the risk of losses relating to mortgage lending through the lifecycle of residential and commercial loans. This risk is managed by analysing both the creditworthiness of the borrowers, the proposed security, the product type and the geographical concentration of the loans. The risk of loss arising from mortgage and commercial lending remained heightened during the year due to the cost of living crisis and the rising interest rate environment. In June, the Society signed the new mortgage charter launched by the UK government. The mortgage charter is a set of universal standards to help and reassure borrowers worried by high interest rates.

Principal Risk & Appetite	Management mitigation actions
Credit (continued)	The Credit Risk Committee (CRC) provides risk oversight of all credit risk policies issues, the residential and commercial loan performance and the collection and recovery processes. A key focus of the CRC remains the consideration of concentration risks arising from large exposures. In 2023, the Society appointed a Head of Credit Risk and Underwriting Risk who is further enhancing the Credit Risk Management Framework, for example, the monitoring of the residential and commercial portfolios and the arrears and forbearance processes. The Society continues to monitor Members' ability to repay in a timely manner and to provide support. There have not been any material increases in the levels of arrears within the lending portfolio. The Assets and Liabilities Committee (ALCO) remains responsible for monitoring treasury counterparty risk. The Society's Board are responsible for approving changes to counterparties, treasury and lending policies and setting limits or maximum exposure to both borrowers and treasury counterparties.
	Emerging risks
	The continuing cost of living pressures was highlighted by the FCA in the 2023 'Financial Lives Survey' which summarised the significant financial impact and highlighted the importance of providing appropriate support to Members who are facing financial difficulties, ideally at an early stage. The FCA report concluded that almost half of UK adults which is in the region of 28.4 million people, felt more anxious or stressed at the beginning of 2023 in comparison to six months earlier. The PRA 2024 priorities include assessing how firms have evolved their credit risk management processes. Unemployment levels are currently low and are forecast to remain low when compared to the longer-term average. Sector analysis indicates that due to the rising interest rates, house prices are forecast to drop in 2024, creating a risk of negative equity for the Society's borrowers. This risk is mitigated by the Society by proactive product portfolio management and continuous monitoring of the housing market trends.

Principal Risk & Appetite	Risk description
Climate	The risk that our strategy, financial planning and business activities fail to mitigate the impact of climate change.
	Key themes
	The Society's mission is to be dedicated to improving the environment and society by enabling sustainable building and communities. Our operations and lending seek to be part of the solution to the climate crisis, ensuring housing is built to a high ecological standard and supporting renovation and retrofit to reduce energy demand. Full disclosure of our approach to managing climate risks and opportunities can be found on page 17 to 39.
	Management mitigation actions
	During 2023 the Society incorporated Climate risk as a stand-alone principal risk within its revised Risk Management Framework. The Society remains committed to actively addressing the impact of Ecology's activities on climate change and the impact of climate change on the Ecology by managing and mitigating current and future physical and transition risks and agitating for positive change.
	Emerging risks
	The PRA expectations in respect of firms developing and embedding effective risk management processes to manage their climate risks is a key regulatory priority in 2024. The regulator considers the financial risks relating to climate change to have material implications both at a firm and sector level. The PRA's 2024 priorities include firms integrating processes and demonstrating progress in identifying, measuring, managing and mitigating climate-related financial risks and linking these considerations into their decision making. For example, completing stress scenarios that assess the impact of climate change on a firms business and resilience arrangements. At a sector level there is a growing requirement to look beyond climate risk and to also consider biodiversity loss and nature.

Principal Risk & Appetite	Risk description
Conduct	The risk of conducting business in a way that leads to member harm or poor outcomes and/or a failure to act fairly and reasonably.
	Key themes
	A regulatory development in 2023 was the launch of the FCA 'Consumer Duty' which forms part of the regulator's transformation to become a more assertive and data-led regulator, with firms required to assess how they are meeting their customers' needs. The objective of the Consumer Duty is to set higher and clearer standards of protection for customer's and for firms to put their customers' needs first. The Consumer Duty rules which went live on 31st July 2023, relate to customers receiving the support they need, when they need it, being provided with communications they understand and receiving products and services that meet their needs and offer fair value.
	Management mitigation actions
	Conduct risk is a new principal risk category within the Society's revised Risk Management Framework to reflect the importance of delivering good outcomes. Culturally, the Society has continued to emphasize the importance of placing Members at the heart of everything we do and taking their needs into consideration. A Consumer Duty Champion role is held by a NED. During the earlier part of 2023 the Society focused resource on preparing for the duty and initiated a project programme to comply with the new rules. Colleagues across the Society received Consumer Duty training to embed awareness of the new standards. In 2023, the Society launched six new Member Satisfaction Surveyors to understand directly from Members how the Society is doing and how it can improve.
	Emerging risks
	Consumer Duty is an important change for financial service providers. Firms are now required to actively seek good outcomes for consumers. During 2024 a key priority for the Society will be to further embed Consumer Duty and enhance the Society's data capabilities to meet the FCA's evolving data expectations. This will include the Society's Board attesting that the Society is delivering good outcomes for Members. In addition to the regulatory focus in this arena, it is evident that the political and media focus is also increasing.

Principal Risk & Appetite	Risk description
Operational	The risk of operational loss/and/or Member harm resulting from inadequate or failed processes, people and systems or from external events.
	Key themes
	Operational risk levels continued to remain elevated during 2023 as result of ongoing internal and external impacts. The significant operational risk themes are outlined below: Financial Crime The Society's Board, its senior management and all colleagues are committed to minimising the risk of the Society being exploited to facilitate financial crime in all its guises, including, but not limited to, money laundering, terrorist financing and both internal and external fraud. Operational and Cyber Resilience The Society regularly tests and monitors its ability to withstand operational incidents and events. The tools, technology, processes and resources to implement controls that help protect and mitigate cyberattacks to the Society's most important assets and resource also continue to evolve.

Principal Risk & Appetite	Management mitigation actions
Operational (continued)	During 2023 the Society has continued to evolve our Operational Resilience Framework to meet our regulatory requirements in advance of the March 2025 deadline. Mitigating our exposure to financial crime risk has been a key priority for the Society in 2023. The Society has actively reviewed its controls, processes and technology to ensure a pro-active approach to ensuring strong and adequate controls operate to minimise risk in this area. The Board approved the Financial Crime Policy in April 2023. The Society has further refined existing arrangements for business continuity, disaster recovery and incident management, and augmented these considerations with our defined important business services that are necessary to meet our Members' needs. In 2023, governance was enhanced by the introduction of the Operational Risk and Resilience Committee (ORRC) which is Chaired by the Chief Operating Officer. The purpose of the ORRC is to oversee the operational risk profile of the Society within the agreed Board risk appetite. The program of risk and control self-assessment continued to evolve during 2023 with additional resource recruited into the first line to support the program.
	Emerging risks
	The Financial Services and Market Bill 2023 will result in major changes to the regulation of the financial services sector, including revisions to the powers of the FCA and the PRA under a new regulatory framework to promote growth and competitiveness. The new bill also includes provisions to promote intelligence sharing to reduce financial crime. Concerns in the sector in relation to external fraud have increased. From an operational and cyber risk perspective, key regulatory concerns include third-party risks and contracts, governance frameworks and benchmarking. A firm's ability to test tolerance levels and the requirement to focus on scenario development, ownership and testing schedules are also essential components.

Regulatory change: a key development in respect of conduct risk was the new FCA Principle 12 which went live on 31st July. Principle 12 requires that "a firm must act to deliver good outcomes for retail customers". The new Consumer Duty sets the standard of care that firms are required to provide. Other key regulations which the Society will be impacted by are summarised below:

- In 2022 the PRA started actively supervising against its climate risk expectations and expects to see progress from firms (prudential) in 2024.
- Implementation of the Confirmation of Payee which is a name checking service for UK based payments by October 2024.
- Strengthening protections for borrowers in financial difficulty is under review by the FCA with revised rules scheduled for 2024.
- Operational Resilience including digital transformation and outsourcing and third-party risk management remains a key regulatory priority to meet the PRA requirements no later than March 2025. (prudential and operational risk).
- Environmental, Social and Governance is a growing area of regulatory focus (climate and prudential) with FCA feedback for its future policy approach scheduled for 2024.
- Basel 3.1 (prudential risk) continues with an anticipated implementation date of July 2025 of the new standards.
- The PRA's "Small Domestic Deposit Taker" regime, consultation paper on the capital regime is due to be issued in April 2024.

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

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 2023 and of the Society's 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 2023 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in Members' interests, the Cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

Independence

Following the recommendation of the Risk and Conduct 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 including retenders and reappointments is 4 years, covering the years ended 31 December 2020 to 31 December 2023. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

Conclusions relating to going concern

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

- Assessing the Directors' assessment of going concern including supporting financial forecasts through review of key ratios such as net assets, capital and liquidity for significant deterioration, indicating issues related to going concern;
- With the assistance of our regulatory experts, reviewing the Society's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) to assess whether it is consistent with the Directors' going concern assessment;

- Holding discussions with the Directors and Those Charged with Governance on whether events or conditions exist that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern. We corroborated those discussions by agreeing information acquired to supporting documents such evidence of cash flow forecasts and minutes of meetings of the Board of Directors;
- 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;
- Assessing how the Directors' have factored in key external factors expected to affect the Society such as decline in interest rates, falling house prices, climate change and cyber-attacks and their corresponding economic impact, 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

		2023	2022
Key audit matters	Revenue Recognition	✓	✓
	Impairment losses on loans and advances	✓	✓
Materiality	Society financial statements as a whole £179k (2022: £128k) based on 1% (2022: 0.75%) of Net assets (2022: 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.

Climate change
The disclosure of the Directors' consideration of the impact of climate change on the operations of the Society is included in the Strategic Report and forms part of the Statutory "Other information". Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities as set out in the "Other information" section of our audit report below.

In note 1, the Directors have explained how they have reflected the impact of climate change in their financial statements, and the significant judgements and estimates relating to climate change. These disclosures also explain the uncertainty regarding effects arising from climate change including the limited impact on accounting judgments and estimates for the current period under the requirements of accounting standards.

We have performed our own quantitative and qualitative risk assessment of the impact of climate change on the Society, taking into consideration the sector in which the Society operates and how climate change affects this particular sector. We reviewed of the minutes of Audit Committee meeting and other papers related to climate change and performed a risk assessment as to how the impact of the Society's commitment ancial statements and our audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matter.

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 model used to achieve this is 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.	Our testing included but was not limited to: ■ We obtained an understanding of the design and operating effectiveness of the Society's controls over revenue recognition, including key reconciliations and processes to ensure complete and accurate capture of fees, interest charges, customer payments and balances; ■ 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; ■ We identified the key data elements of the model and on a sample basis, we tested the completeness and accuracy of key data inputs being loan terms, repayment terms and upfront fees, by agreeing them back to underlying source data such as loan contracts; ■ We tested the functionality of the model, including assessing the consistency of the calculations with the accounting policy. We verified the arithmetic accuracy of the EIR model by performing a detailed review of the logic, consistency and integrity of the formulae throughout the EIR model and recalculated the model output;

Key audit matter (continued)		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".*	Errors within the EIR models themselves or bias in key assumptions applied could result in the material misstatement of revenue. We therefore considered the behavioural life assumptions within revenue recognition to be a significant risk area, as well as the area susceptible to fraud.	■ We assessed the reasonableness of the loan behavioural life assumptions used by management by considering recent historical experience of loan behavioural lives based on customer behaviour, product type and market factors (such as current inflationary and interest rate pressures present in the economy) where applicable; and ■ We critically evaluated and challenged management's expected repayment profile assumptions, against recent historical experience of loan profile, including peer comparison and whether any adjustments to recent historical redemption profiles used in the EIR model were necessary to reflect expected changes in future redemption profiles including the impact of rise in interest rate in the current economic and inflationary environment. **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 the scope of our audit addressed the key audit matter
Impairment losses on loans and advances *The Society's accounting policies are detailed on note 1.5 "Financial instruments" with detail about judgements in applying accounting policies and critical accounting estimates on note 1.11 "Assumptions and estimation uncertainties".* *As disclosed in Note 12, the impairment provision at year-end is £597k (2022: £569k).*	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.	We obtained an understanding of the design and operating effectiveness of the Society's controls across the process relevant for impairment loss on loans and advances. Our testing included but was not limited to: ■ With the involvement of IT specialists, we tested the operating effectiveness of the loan management system control that identifies and reports loans in arrears; ■ We assessed the collective provision methodology applied against the requirements of applicable financial reporting standard; ■ We challenged the appropriateness of the key assumptions within the model such as impairment triggers, house pricing index, equity haircut and probability of default through a combination of benchmarking against comparable market information, sensitivity analysis and agreeing significant inputs to external data sources where applicable; ■ We checked the completeness and accuracy of data and key assumption inputs feeding into the collective provision calculations through reconciliation to underlying source data;

Key audit matter (continued)		How the scope of our audit addressed the key audit matter
Impairment losses on loans and advances *The Society's accounting policies are detailed on note 1.5 "Financial instruments" with detail about judgements in applying accounting policies and critical accounting estimates on note 1.11 "Assumptions and estimation uncertainties".* *As disclosed in Note 12, the impairment provision at year-end is £596k (2022: £569k).*	Estimating both the specific and collective loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows. Due to the sensitivity to key inputs judgements such as HPI haircut and estimates and high degree of estimation uncertainty the Society's collective impairment provision has a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. Error within the loan loss provisioning models itself or bias in key assumptions applied could result in the material misstatement of impairment provisions. We considered the HPI haircut judgement made in determining the collective provision as part of the Impairment losses on loans and advances together with the related disclosures to be a significant risk and key audit matter.	■ We have checked that management's stated loan provisioning assumption inputs have been consistently applied to the collective provision model calculations; ■ We tested the appropriateness of the model and its logical application and then independently recalculated the results for the entire portfolio to test the mathematical accuracy of the model calculations; ■ We tested a sample of loans by reviewing different risk characteristics, including climate change related ones, of the loan portfolio to identify non-performing loans not captured by management. ■ We assessed the collective impairment provision for sensitivity to changes in key inputs to identify areas requiring additional focus. ■ We challenged management's key assumptions including forced sales discount, discount applied on the House Price Index (HPI), other sales costs, probability of default and management's overlay for macroeconomic factors not identified in the model. These were checked with reference to historic Society experience, the reasonableness of external data points used, and the level of the overall collective impairment provision to comparable peer organisations. ■ We tested the adequacy of the provision by challenging the completeness of the adjustments applied by management and whether the adjustment applied was addressing the model limitation identified by management in light of the current inflationary and interest rate pressures present in the economy. We performed a stand-back assessment of the overall provision and coverage to determine if provision levels were reasonable and internally consistent; and ■ We reviewed the impairment and sensitivity analysis disclosures made by management to ensure compliance with the requirements of the applicable accounting standards and agreed the disclosures to supporting evidence. **Key observations:** We have not identified any indicators to suggest that the provision for loans and advances to customers is unreasonably estimated in consideration of the key assumptions and judgements made or that the related disclosures are not appropriate.

Our application of materiality

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

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

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

	2023 £	2022 £
Materiality	179,000	127,000
Basis for determining materiality	1% 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. Net assets 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 used 1% of Net Assets for 2023, constituting an increase of 0.25% as a result of our increased understanding of the Society and our underlying risk assessment factors.	
Performance materiality	134,000	95,000
Basis for determining performance materiality	On the basis of our risk assessment together with our assessment of the Society's overall control environment and expected total value of known and likely misstatements, based on past experience, our judgment was that overall performance materiality for the Society should be 75% of materiality.	

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £9,000 (2022: £6,000). 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 by the Society; or ■ the Society financial statements are not in agreement with the accounting records; or ■ we have not received all the information and explanations we require for our audit.

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

In our opinion the information given in Note 26 for the financial year ended 31 December 2023 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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Society and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining and understanding of the Society's policies and procedures regarding compliance with laws and regulations;

we considered the significant laws and regulations to be the Building Societies Act 1986, pension legislation, tax legislation.

The Society is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory authorities for any instances of non-compliance with laws and regulations; and

Review of financial statement disclosures and agreeing to supporting documentation;

Irregularities including fraud
We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Society's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.

- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Conducting a review of correspondence with and reports from the regulators, including the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA);
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

The Society operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls and in relation to accounting estimates such as the EIR and loan loss provisioning.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation; and
- Assessing significant estimates made by management for bias (refer to the key audit matters section for procedures performed).

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were deemed to have the appropriate competence and capabilities, 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.

David Gonnelli (Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor
London, UK

15th March 2024

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 2023

	Notes	2023 £000	2022 £000
Interest receivable and similar income	2	**17,202**	10,493
Interest payable and similar charges	3	**(9,055)**	(3,280)
Net interest		**8,147**	7,213
Income from investments		**61**	33
Fees and commissions receivable		**4**	3
Fees and commissions payable		**(101)**	(116)
Other operating income		**42**	40
Net (loss)/gain from other financial instruments	14	**(3)**	18
Total net income		**8,150**	7,191
Administrative expenses	4	**(6,625)**	(4,970)
Depreciation and amortisation	13 & 15	**(135)**	(80)
Operating profit before impairment losses and provisions		**1,390**	2,141
Provisions for impairment (charge) on loans and advances	12	**(27)**	(42)
Provisions for impairment (charge) on investments	14	**(25)**	(12)
Provisions for impairments of Intangible assets	15	**–**	(134)
Provisions for liabilities		**–**	5
Profit before tax		**1,338**	1,958
Tax expense	7	**(318)**	(373)
Profit for the financial year		**1,020**	1,585
Other comprehensive income		**-**	–
Total comprehensive income for the year		**1,020**	1,585

Statement of financial position

at 31 December 2023

	Notes	**2023 £000**	2022 £000
Assets			
Liquid assets			
Cash in hand and with the Bank of England	8	**54,474**	68,827
Treasury bills and similar securities	10	**5,425**	7,921
Loans and advances to credit institutions	9	**5,811**	6,300
Debt securities	10	**–**	1,011
Loans and advances to customers	11	**241,081**	217,716
Tangible fixed assets	13	**1,350**	1,253
Investments	14	**640**	695
Intangible assets	15	**224**	–
Other debtors	16	**700**	317
Total assets		**309,705**	304,040
Liabilities			
Shares	17	**280,154**	275,379
Amounts owed to other customers	18	**9,813**	10,128
Corporation tax payable	19	**292**	377
Other liabilities	20	**1,329**	732
Accruals		**199**	268
Deferred tax liability	21	**93**	62
Total liabilities		**291,880**	286,946
Reserves			
General reserves		**14,934**	14,203
Core Capital Deferred Shares	24	**2,891**	2,891
Total reserves attributable to Members of the Society		**17,825**	17,094
Total reserves and liabilities		**309,705**	304,040

These accounts were approved by the Board of Directors on 15th March 2024 and were signed on its behalf by:

Louise M Pryor

Louise Pryor
Chair

Gareth Griffiths
Chief Executive

Christopher White
Chief Financial Officer

Statement of changes in Members' interests

as of 31 December 2023

	General reserve 2023 £000	**Core Capital Deferred Shares 2023 £000**	**Total 2023 £000**	General reserve 2022 £000	Core Capital Deferred Shares 2022 £000	Total 2022 £000
Balance at 1 January	**14,203**	**2,891**	**17,094**	12,907	2,891	15,798
Total comprehensive income for the period						
Profit for the year	**1,020**	**–**	**1,020**	1,585	–	1,585
Sub total	**1,020**	**–**	**1,020**	1,585	–	1,585
Distribution to the holders of Core Capital Deferred Shares	**(289)**	**–**	**(289)**	(289)	–	(289)
Balance at 31 December	**14,934**	**2,891**	**17,825**	14,203	2,891	17,094

Cash flow statement

for the year ended 31 December 2023	Notes	**2023 £000**	2022 £000
Cash flows from operating activities			
Profit before tax		**1,338**	1,958
Adjustments for			
Depreciation, impairment and amortisation	13 & 15	**135**	214
Movement in investment fair value, conversion loss and impairment	14	**28**	(6)
Loss on disposal of tangible assets value		**2**	7
Provision for liabilities		**–**	(5)
Loans and advances written off in the year	12	**–**	–
Increase in impairment of loans and advances	12	**27**	42
Sub total		**1,530**	2,210
Changes in operating assets and liabilities			
Increase in prepayments, accrued income and other assets		**(383)**	(57)
(Increase) in accrued interest treasury bills and debt securities		**(21)**	(50)
(Decrease)/Increase in accruals, deferred income and other liabilities		**(69)**	42
Increase in loans and advances to customers		**(23,392)**	(23,689)
Decrease in loans and advances to credit institutions		**498**	3,503
Increase in shares		**4,775**	46,419
(Decrease) in amounts owed to other customers	18	**(315)**	(382)
Increase in other creditors		**597**	294
Taxation paid		**(372)**	(250)
Net cash (utilised)/generated by operating activities		**(17,152)**	28,040
Cash flow from investing activities			
Purchase of debt securities	10	**–**	(1,000)
Disposal of debt securities	10	**1,000**	1,000
Purchase of treasury bills	10	**(16,415)**	(15,847)
Disposal of treasury bills	10	**18,942**	13,966
Repayment of investments	14	**27**	141
Purchase of tangible fixed assets	13	**(201)**	(161)
Purchase of intangible fixed assets	15	**(256)**	–
Net cash generated/(utilised) by investing activities		**3,097**	(1,901)
Cash flows from financing activities			
Distribution to holders of Core Capital Deferred Share		**(289)**	(289)
Net cash (utilised) by financing activities		**(289)**	(289)
Net (decrease)/increase in cash and cash equivalents		**(14,344)**	25,850
Cash and cash equivalents at 01 January		**74,625**	48,775
Cash and cash equivalents at 31 December	8	**60,281**	74,625

In line with FRS 102, interest received was £16.859m (2022: £10.193m) and interest paid was £6.598m (2022: £2.341m).

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 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. 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 line with the UK Corporate Governance Code (2018) the Society and its Board have considered the outlook and prospects of the Society over a period longer than the 12 months required by the going concern statement.

In making the assessment of going concern and viability, 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 Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (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.

The going concern assessment has also considered the current and predicted impacts of climate-change on the Society. This includes considerations of the markets in which the Society conducts business, the Society's operations and any potential impact on the Society's assets. The accounting judgments and estimates made consider physical and transition risks on credit risk and asset values whist recognising many of the effects arising from climate change will be longer term in nature.

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 should therefore present the Annual Report and Accounts on a going concern basis.

Furthermore, based on the reviews completed, the Board remains confident that the Society is viable over the medium-term. The Group determines its viability over a three year horizon to 31 December 2026. This period is considered to be the reasonable and appropriate given the current market, economic and regulatory environment. It is also aligned to the Society's financial planning horizon within its annual financial forecasting process.

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 not 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: (i) 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.

During the year ending 31 December 2023, 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 or other signs a wholesale investment market or counterparty may be distressed.
- 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. A range of factors will be considered to determine whether a specific provision is required to be held against a loan including if the loan is in arrears or possession. Further qualitative factors may also be taken into accounts. 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 cost of living crisis, house price predictions and high interest rate and inflation environment in which we have been operating have been considered in sensitivity analysis.

Default rates, loss rates and the expected timing of recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. However, due to the continued high interest and inflation environment a post model adjustment (PMA) has been added to the overall mortgage provisioning to reflect the difficult economic environment (specifically the cost of living crisis). The PMA reflects the heightened risk of borrower distress within the Society's current mortgage book (i.e. borrowers showing triggers for impairment that, as yet, have not been observed by the Society).

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 Society has reviewed the forbearance options it offers members in light of 'The Mortgage Charter', which was signed by the Ecology Building Society when launched by the UK Government in 2023. The Society is satisfied it meets the expectations of the Charter including:

- Communication with members on options available when experiencing payment difficulties,
- Ensuring customers' homes would not be repossessed within 12 months of defaulted payments and
- The availability to customers of options such as interest-only payment periods, mortgage term extensions and temporary payment deferrals to support them in difficult periods.

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
- Mortgage term extensions

Borrowers requesting a forbearance option may 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 (i.e. a full contractual payment) 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 six 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. Assets will only be written off where the Society believes there is no reasonable expectation the value of the assets is recoverable.

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.

During the year a new intangible asset was registered and in line with historical treatment of intangible assets the useful life was set to four years.

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 Critical accounting judgments and estimates

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 of 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 incurred 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 the current challenging macroeconomics.

This year the Society has reduced the adjustments made for house price defection from 8% in 2022 to reflect the more realistic latest house price deflation estimate of 5%. Although these adjustments are based upon credible data statistics, they are nevertheless subjective. If house price deflation was in fact 8%, then the impairment provision would be increased by approximately £100k (2022: £50,000).

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 £97k (2022: £101K) with an EIR asset included in the Statement of financial position of £349k (2022: £298K). 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 behavioral 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. A period of 5 years is considered a reasonable period over which to assess mortgage redemption experience to ensure cyclicality in market conditions is incorporated within the Society's estimate in this area. 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 by 10% in month from that assumed, interest income for 2023 would increase/(decrease) by approximately £11k/(£9k) (2022: increase/(decrease) by approximately £30k/(£35k).

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 2023 are described in accounting policy 1.5.

2. Interest receivable and similar income

	2023 £000	2022 £000
On loans fully secured on residential property	**12,829**	9,185
On other loans	**741**	502
On debt securities	**47**	10
On treasury bills at fixed rate interest	**432**	74
On other liquid assets	**3,153**	722
	17,202	10,493

3. Interest payable and similar charges

	2023 £000	2022 £000
On shares held by individuals	**8,801**	3,158
On deposits and other borrowings	**254**	122
	9,055	3,280

4. Administrative expenses

	2023 £000	2022 £000
Wages and salaries	**2,632**	1,897
Social security costs	**295**	216
Other pension costs	**257**	207
Sub Total	**3,184**	2,320
Other administrative expenses	**3,441**	2,650
	6,625	4,970

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

	2023 £000	2022 £000
Audit of these annual accounts	**188**	113

5. Employee numbers

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

	2023	2022
Full-time	**49**	40
Part-time	**5**	5
	54	45

6. Directors' remuneration

Total remuneration amounted to £323.5k (2022: £389.7k). Full details are given in the table within the Remuneration report on page 58.

7. Taxation

	2023 £000	2022 £000
Current tax		
Current tax on income for the period	**292**	377
Adjustments in respect of prior periods	**(5)**	–
Total current tax	**287**	377
Deferred tax see note 21		
Origination and reversal of timing differences	**28**	(3)
Adjustment in respect of previous periods	**1**	–
Change in tax rate	**2**	(1)
Total deferred tax	**31**	(4)
Total current and deferred tax	**318**	373

Analysis of current tax recognised in profit and loss

	2023 £000	2022 £000
Profit for the year	**1,020**	1,585
Total tax expense	**318**	373
Profit excluding taxation	**1,338**	1,958
Tax using UK corporation tax rate of 23.52% (2022: 19.00%)	**314**	372
Community investment relief	**(6)**	–
Income not taxable	**–**	(6)
Change in tax rate on deferred tax balance	**2**	(1)
Non-deductible expenses	**8**	8
Total tax expense included in profit or loss	**318**	373

The effective tax rate for the 12-month period ended 31 December 2023 is 23.52% (2022: 19%). The closing deferred tax, recognised on both fixed and intangible assets is now recognised at 25% (2022: 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

	2023 £000	2022 £000
Cash in hand and balances with the Bank of England	**54,474**	68,827
Loans and advances to credit institutions	**5,807**	5,798
Cash and cash equivalents per cash flow statements	**60,281**	74,625

9. Loans and advances to credit institutions

	2023 £000	2022 £000
Accrued interest	**4**	2
Repayable on demand	**4,307**	4,798
In not more than three months	**1,500**	1,000
In not more than one year	**–**	500
Total loans and advances to credit institutions	**5,811**	6,300

10. Treasury bills and similar securities

	2023 £000	2022 £000
Treasury bills	**5,425**	7,921
Certificates of deposit	**–**	1,011
	5,425	8,932

Debt securities have remaining maturity as follows:		
In not more than one year	**5,425**	8,932

Transferable debt securities comprise:		
Unlisted	**5,425**	8,932

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

	2023 £000	2022 £000
At 1 January	**8,881**	6,999
Additions	**16,415**	16,848
Disposals and maturities	**(19,942)**	(14,966)
At 31 December	**5,354**	8,881

11. Loans and advances to customers

	2023 £000	2022 £000
Loans fully secured on residential properties	**230,896**	208,082
Loans fully secured on land	**10,185**	9,634
	241,081	217,716

The remaining maturity of loans and advances to customers from the reporting date is as follows:

	2023 £000	2022 £000
In not more than three months	**3,609**	3,740
In more than three months but not more than one year	**6,935**	13,709
In more than one year but not more than five years	**36,106**	31,046
In more than five years	**195,027**	169,791
	241,677	218,285
Less: allowance for impairment (note 12)	**(596)**	(569)
	241,081	217,716

The maturity analysis above is based on contractual maturity.

12. Allowance for impairment

	Loans fully secured on residential property £000	Other loans £000	Total £000
Provision for impairment on loans and advances			
At 1 January 2023			
Individual impairment	17	74	91
Collective impairment	433	45	478
Total impairment	**450**	**119**	**569**
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	37	(60)	(23)
Collective impairment	57	(7)	50
Charge/(credit) for the year	**94**	**(67)**	**27**
At 31 December 2023			
Individual impairment	**54**	**14**	**68**
Collective impairment	**490**	**38**	**528**
Total impairment	**544**	**52**	**596**

	Loans fully secured on residential property £000	Other loans £000	Total £000
Provision for impairment on loans and advances			
At 1 January 2022			
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**
	450	**119**	**569**

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 2023	1,467	177	519	27	2,190
Additions	27	–	174	–	201
Disposals	–	(30)	(114)	(27)	(171)
Balance at 31 December 2023	1,494	147	579	–	2,220
Depreciation					
Balance at beginning of the year	445	142	326	24	937
Depreciation charge for the year	27	7	66	3	103
Disposals	–	(30)	(113)	(27)	(170)
Balance at 31 December 2023	472	119	279	–	870
Net book value					
At 1 January 2023	1,022	35	193	3	1,253
At 31 December 2023	**1,022**	**28**	**300**	**–**	**1,350**
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**

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 2023 (2022: £1.022m). A valuation of the Head Office carried out by WBW Surveyors Ltd in 2023 valued the freehold land and buildings on an investment method basis at an open market value of £1.700m.

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

14. Investments

	2023 opening carrying value £000	Additions £000	Disposal/ Conversion £000	Repayment of capital £000	Movement in fair value £000	Movement in impairment £000	2023 closing carrying value £000
Equity							
Basic	118	–	–	–	(3)	–	**115**
Debt Investments							
Basic	404	–	–	(13)	–	(25)	**366**
Non-Basic	173	–	–	(14)	–	–	**159**
Total	**695**	**–**	**–**	**(27)**	**(3)**	**(25)**	**640**

	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
Equity							
Basic	226	–	–	(114)	18	(12)	**118**
Debt Investments							
Basic	416	–	–	(12)	–	–	**404**
Non-Basic	188	–	–	(15)	–	–	**173**
Total	**830**	**–**	**–**	**(141)**	**18**	**(12)**	**695**

The Society has invested 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.

15. Intangible assets

	Purchased software/ Software in development 2023 £000	Purchased software/ Software in development 2022 £000
Cost		
Balance at January	**317**	355
Additions	**256**	–
Disposals	**(134)**	(38)
Balance at 31 December	**439**	317
Amortisation		
Balance at January	**317**	221
Amortisation for the year	**32**	–
Impairments/(release of impairment on disposed assets)	**(134)**	134
Disposals	**–**	(38)
Balance at 31 December	**215**	317
Net book value		
At January	**–**	134
At 31 December	**224**	–

The disposal during the year represents software that was fully impaired in 2022 after the Board concluded that the Society would not implement the software in the foreseeable future. A decision has been made to dispose of the intangible asset as it is unlikely to be implemented.

16. Other debtors

	2023 £000	2022 £000
Prepayments	**687**	307
Accrued income	**13**	10
Total	**700**	317

Debtors include prepayments and accrued income of £6,780 (2022: £64,843) for the Society that are due after more than one year.

17. Shares

	2023 £000	2022 £000
Held by individuals	**280,154**	275,379

Shares are repayable with remaining maturities from the balance sheet date as follows:

	2023 £000	2022 £000
Accrued interest	**2,457**	939
On demand	**201,122**	208,646
In not more than three months	**76,575**	65,794
Total	**280,154**	275,379

18. Amounts owed to other customers

	2023 £000	2022 £000
Repayable on demand	**9,813**	10,128

19. Corporation tax payable

	2023 £000	2022 £000
Corporation tax falling due within one year	**292**	377

20. Other liabilities

	2023 £000	2022 £000
Other creditors	**1,329**	732

21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2023 £000	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Accelerated capital allowances	**–**	–	**98**	74	**98**	74
FRS 102 transitional adjustments	**(3)**	(6)	**–**	–	**(3)**	(6)
Other timing differences	**(2)**	(6)	**–**	–	**(2)**	(6)
Tax (assets)/liabilities	**(5)**	(12)	**98**	74	**93**	62

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. 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 2023**	Held at amortised cost £000	Held at fair value £000	Total £000
Financial assets			
Cash in hand and balances with the Bank of England	54,474	–	54,474
Treasury Bills and similar securities	5,425	–	5,425
Loans and advances to credit institutions	5,811	–	5,811
Loans and advances to customers	241,081	–	241,081
Fixed asset investments	366	274	640
Other debtors	13	–	13
Total financial assets	**307,170**	**274**	**307,444**
Non-financial assets	2,261	–	2,261
Total assets	**309,431**	**274**	**309,705**
Financial liabilities			
Shares	280,154	–	280,154
Amounts owed to other customers	9,813	–	9,813
Other liabilities	1,241	–	1,241
Accruals	199	–	199
Total financial liabilities	**291,407**	**–**	**291,407**
Non-financial liabilities	473	–	473
Total liabilities	**291,880**	**–**	**291,880**
General reserves and other reserves	17,825	–	17,825
Total reserves and liabilities	**309,705**	**–**	**309,705**

22. Financial instruments (continued)

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 other customers	10,128	–	10,128
Other liabilities	672	–	672
Accruals	268	–	268
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**

At 31 December 2023, the Society has off balance sheet exposure – mortgage commitments of £48.0m (2022: £50.6m).

a) 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.

22. 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 2023				
Financial assets				
Equity – Basic				
Fair value through profit and loss	3	–	–	3
	3	**–**	**–**	**3**
31 December 2022				
Financial assets				
Equity – Basic				
Fair value through profit and loss	5	–	–	5
	5	**–**	**–**	**5**

Note: The Society's accounting framework FRS102 outlines that these investments should be measured at fair value, where a reliable measurement is available. Where a reliable measure is not available they are carried at cost less impairment.

b) 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.

22. Financial instruments (continued)

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

	2023 £000	2022 £000
Cash with Bank of England	**54,474**	68,827
Loans and advances to credit institutions	**5,811**	6,300
Debt Securities	**–**	1,011
Treasury Bills and similar securities	**5,425**	7,921
Debt investments	**551**	602
Loans and advances to customers	**241,677**	218,285
Total Statement of financial position exposure	**307,938**	302,946
Off balance sheet exposure – mortgage commitments	**47,992**	50,626
	355,930	353,572

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

22. 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.

	2023 Loans fully secured on residential property £000	**Loans fully secured on land £000**	**Total loans £000**	2022 Loans fully secured on residential property £000	Loans fully secured on land £000	Total loans £000
Neither past due nor impaired	**228,368**	**10,018**	**238,386**	206,328	9,332	215,660
Past due but not impaired						
1-2 months	**1,340**	**–**	**1,340**	1,665	–	1,665
2-3 months	**176**	**73**	**249**	299	–	299
Greater than 3 months	**1,026**	**146**	**1,172**	84	–	84
	2,542	**219**	**2,761**	2,048	–	2,048
Individually impaired						
Not past due	**–**	**–**	**–**	–	419	419
1-2 months	**239**	**–**	**239**	158	–	158
2-3 months	**–**	**–**	**–**	–	–	–
Greater than 3 months	**291**	**–**	**291**	–	–	–
	530	**–**	**530**	158	419	577
Total balances gross of provision	**231,440**	**10,237**	**241,677**	208,534	9,751	218,285
Allowance for impairment						
Individual	**(54)**	**(14)**	**(68)**	(17)	(74)	(91)
Collective	**(490)**	**(38)**	**(528)**	(433)	(45)	(478)
Total allowance for impairment	**(544)**	**(52)**	**(596)**	(450)	(119)	(569)
Total balances net of provisions	**230,896**	**10,185**	**241,081**	208,084	9,632	217,716

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.

No geographical analysis is presented because all of the Society's activities are conducted within the UK.

22. 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.

	2023 £000	2022 £000
LTV ratio		
Less than or equal to 50%	**81,679**	71,123
Greater than 50% but less than or equal to 70%	**80,659**	78,556
Greater than 70% but less than or equal to 90%	**74,116**	61,520
Greater than 90% but less than or equal to 100%	**3,614**	3,175
Greater than 100%	**1,959**	4,210
Sub Total	**242,027**	218,584
Accounting Adjustments for Effective Interest Rate	**(946)**	(868)
Loans and Advances (note 11)	**241,081**	217,716

c) 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:

	2023 £000	2022 £000
Payment holiday	**489**	1,586
Interest only	**4,661**	1,017
Underpayment	**–**	269
Arrears overpayment	**604**	111
	5,754	2,983

There was a total of 27 accounts in forbearance at 31 December 2023 (2022: 16).

22. Financial instruments (continued)

d) 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 2023	**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	203,579	77,355	–	–	–	280,934
Amounts owed to other customers	9,813	–	–	–	–	9,813
Other liabilities	–	1,241	–	–	–	1,241
Accruals	–	199	–	–	–	199
Total	**213,392**	**78,795**	**–**	**–**	**–**	**292,187**

22. Financial instruments (continued)

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
Other liabilities	–	672	–	–	–	672
Accruals	–	267	–	–	–	267
Total financial liabilities	**219,713**	**67,209**	**–**	**–**	**–**	**286,922**

e) 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 £115k (2022: £118k). 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.

	200bp parallel increase £000	200bp parallel decrease £000
Sensitivity of reported equity to interest rate movements		
2023		
At 31 December		
Average for the period	**139**	**143**
Maximum for the period	**183**	**192**
Minimum for the period	**73**	**75**
2022		
At 31 December		
Average for the period	128	132
Maximum for the period	186	193
Minimum for the period	57	61

22. Financial instruments (continued)

f) 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 2023, 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 Risk Management Report.

Regulatory capital is analysed into two tiers:

- **Tier 1 capital** – which is comprised of retained earnings and the Core Capital Deferred Shares.

- **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	**2023 £000**	2022 £000
Tier 1 capital			
General reserves		**14,934**	14,203
Less intangibles		**(169)**	–
Core Capital Deferred Shares	24	**2,891**	2,891
Total Tier 1 capital		**17,656**	17,094
Tier 2 capital			
Collective provision	12	**528**	478
Total Tier 2 capital		**528**	478
Total Regulatory Capital		**18,184**	17,572

23. 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 2023	**Amounts in respect of key management personnel and their close family members 2023 £000**	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
Loans and advances to customers	**1**	**30**	–	–
Deposits and share accounts	**10**	**192**	11	227

Directors' loans and transactions

At 31 December 2023, there was one mortgage loan (2022: 0) made in the ordinary course of the Society's business to Directors and connected persons amounting to £30,002.

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.

Directors' remuneration

Full details of the Directors' remuneration can be found in the Directors' remuneration report on pages 56 to 58.

24. 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 2023	3,000,000	3,000	(109)	–	2,891
Balance as at 31 December 2023	**3,000,000**	**3,000**	**(109)**	**–**	**2,891**
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**

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.

25. 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 2023:

- The Society's principal activities are mortgage lender and provider of savings accounts
- The Society's turnover (defined as net interest receivable) was £8.147m (2022: £7.213m). Profit before tax £1.338m (2022: £1.958m), all of which arose from UK-based activity
- Number of employees was 54 (2022: 45)
- Corporation tax of £0.372m (2022: £0.250m) 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 2023

1 Statutory percentages

	Statutory limit %	**At 31 December 2023 %**	At 31 December 2022 %
Lending limit	25.00	**4.77**	4.91
Funding limit	50.00	**2.01**	2.17

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

	2023 %	2022 %
Gross capital as a percentage of shares and borrowings	**6.16**	5.99
Free capital as a percentage of shares and borrowings	**5.80**	5.72
Liquid assets as a percentage of shares and borrowings	**22.66**	29.44
Profit after taxation as a percentage of mean total assets	**0.33**	0.57
Management expenses as a percentage of mean total assets	**2.20**	1.80

Gross capital represents the General reserves plus Core Capital Deferred Shares as shown 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 2023 and 2022 total assets.

3 Information relating to Directors at 31 December 2023

Name / Date of birth	Occupation / 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 Officer (01.06.2022)	None
Andrew John GOLD (30.12.1969)	Director / Risk, Audit and Compliance Professional (30.05.2014)	Airedale NHS Foundation Trust RWH Travel Limited Ramblers Holiday Group Limited Ramblers Travel Agency Limited
Kerry Jean MASHFORD (02.11.1959)	Director / Consultant (28.02.2020)	Trust Electric Heating Limited Interfacing Limited Beech Grove Homes Limited Ecology Building Society Foundation
Vincent SMITH (26.09.1959)	Director (03.11.2017)	None
Giovanni D'ALESSIO (09.07.1973)	Chief Executive Officer / Chief Information Officer (30.09.2022)	Doosan Digital Innovation Europe Limited
(Karl) Jaedon GREEN (08.08.1970)	Portfolio Non-Executive Director (03.03.2023)	Leeds Federation Housing Association
Christopher WHITE (21.12.1978)	Building Society Chief Finance Officer (co-opted 29.09.2023)	Believe Housing Limited

Gareth Griffiths and Christopher White have service contracts, details of which can be found in the Directors' remuneration report on pages 56 to 58. There are no extended notice terms included in these contracts.

Christopher White was co-opted to the Board of Directors on 29 September 2023 and will stand for election at the 2024 AGM.

The garden outside Ellis House, Ecology's headquarters in Silsden.

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