



Annual Review 2016

Building a greener society

Welcome to your Annual Review 2016

This booklet summarises the progress we have made over the previous year. It also contains statements from the Directors who are seeking re-election (page 18). You will find the Notice of Annual General Meeting at ecology.co.uk/corporate-information and this is also included with your proxy voting form.

You can find a glossary of some of the financial terms used in this booklet on page 19.

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Your Society needs you!

Last year **1,235** members voted on our Resolutions. We need you to join them!

As a mutual Society, we are only as strong as the collective voice of our members. Voting is your chance to have your say on our finances, our auditors, our Directors and our remuneration report.

Voting is easy

Visit ecology.castavote.co.uk, return the voting form in your AGM pack or join us on 29 April at The Station in Bristol (register online or use the enclosed form).

Cover images: Clockwise from top left: Andy and Lorna's Passivhaus EnerPHit renovation, St Clements – the site for London Community Land Trust's affordable homes, Ecology Directors and staff celebrate UNSDGs, London CLT homes under construction, Passivhaus EnerPHit conversion, River Ouse from an Ecology borrower's mooring.

Chair's Statement



I am delighted to welcome you to my second Annual Report as the Chair of your Society.

We began 2016 with cautious optimism that the world was moving towards a low carbon future following the

successful outcome of the COP21 Paris Climate Change conference. However, the year brought a rapid shift in the global consensus with the growth of populism and anti-establishment sentiment following the UK referendum and the subsequent US election. In this changing and uncertain world I believe that the role of values driven financial services organisations, such as Ecology, has never been more important to provide a continuing progressive force for positive environmental and social change.

Against this uncertain geopolitical backdrop we have experienced an excellent year in pursuit of our environmental and social objectives while achieving another strong financial performance with more than £170m in total assets and further improved profitability. As a mutual, any surpluses we make can and should be used for the benefit of our members, those who save with us and borrow from us. Profitability enables us to continue investing to support the future growth of the Society, as we work towards our mission to build a greener society.

During the year the growth in our lending was constrained somewhat by uncertainty regarding future capital requirements which affected key aspects of our sustainable lending programme. I am delighted that this matter has now been resolved and we continue to plan for growth. In 2017 we will continue to develop a capital instrument to support more innovative lending, while maintaining our ecological commitments.

We continued to act as a disruptive innovator in the financial system, supporting a number of community-led housing projects that aim to increase the supply of affordable housing as well as lending on projects that have a positive environmental impact. I am especially proud that

we have worked with the London Community Land Trust to provide pioneering mortgages for a scheme that ensures the homes are permanently affordable by linking the value of the property to average local incomes. As well as continuing to invest in energy efficiency through our sustainable lending we also made investments in renewable energy so that, as well as contributing to the long term reduction in energy demand, we are supporting the take up of clean energy sources.

As well as being your Chair, as part of my wider commitment to an inclusive financial system I helped found the Change Account, a simplified transactional account which aims to help people manage their money better. The success of the Change Account is underpinned by leading digital technologies and I am passionate about the role of digital in helping to transform access to finance. I am pleased therefore that the Board have asked me to conduct a review on a consultancy basis to identify achievable and affordable options for the Society to harness the power of new technologies. This will help build our capabilities and support our capacity to continue innovating and grow, while continuing to serve our members.

As we enter 2017 with renewed vigour and a continued commitment to demonstrating that long-term, socially useful finance can be sustainable in every sense of the word, on behalf of your Board and all our staff I would like to thank all our members for your continued support and engagement.

A handwritten signature in black ink, which appears to read 'Steve Round'. The signature is written in a cursive style and is positioned above a horizontal line.

Steve Round
Chair
3 March 2017

Chief Executive's Review



During 2016, we continued to develop our capacity to support our mission of building a greener society, one aspect of which is ensuring financial sustainability. I am therefore pleased that we can once again report excellent

financial results. We have maintained and improved our profitability with strong overall asset growth underpinned by record levels of savings balances. During the year, having grown strongly in 2014 and 2015, our lending was at more modest levels. However, within our lending mix, the proportion of renovation cases we financed rose which was particularly pleasing as we recognise that addressing the energy efficiency of our existing housing stock needs to be a priority alongside continuing to fund new homes with the highest energy ratings.

In the earlier part of 2016, we experienced very high levels of demand for our savings accounts and attracted record savings inflows. As the volume of savings was higher than needed to fund our lending activity, we took measures to limit the increase in funds by restricting applications for new accounts. The reduction in the Bank of England Base Rate to 0.25% added to the pressure on savings rates, which means that it remained difficult to balance the needs of savers with the need to ensure our mortgage rates are affordable.

In April, I was particularly pleased to welcome members to our AGM and Members' Meet-up at our offices in Silsden. We had so much interest from members wanting to attend the event that we had to bring in a marquee to accommodate everybody. It was wonderful to see our members enjoying visiting our eco-built offices and our organic permaculture gardens as well as participating in lively and informative discussions about Ecology and our future. Later in the year it was also great to meet more members at our first ever regional Members' Meet-up which we held in Gateshead.

I would like to thank our staff for their continued support and commitment to maintaining the highest ethical standards for the operation of the Society. We hope you agree that we continue to deal with our customers and members in an open and transparent way while meeting the requirements of our environmental policy and our social commitments.

As an example of this, during the course of the year we identified an issue with the way we had applied historic home insurance premiums to some members' mortgage accounts which we felt on reflection conflicted with the information that we had provided to borrowers. Consequently, we will be returning the resultant interest so we will shortly be writing to both existing and former members who are affected with details of how we intend to remedy this and, if applicable, to compensate for any interest effectively overpaid. I would like to reassure all our members that we are confident that this was an isolated incident and we have reviewed our systems to ensure that this will not occur again.

In many ways, our lending, as highlighted in our newsletter and our website, speaks for itself and I know is what attracts most of our members to the Society. Nevertheless, we hope that our members keep a watchful eye on our financial performance and for that reason a summary of the main key performance indicators (KPIs) used by the Board along with more detailed commentary is given in the Strategic Report, along with commentary on the service we provide to our members, and our impact on the environment and community.

Sections containing commentary in **green** highlight our commitment to environmental responsibility and good corporate governance.

Future development of the Society

Following last year's referendum, it isn't yet clear how the UK's decision to leave the European Union will impact on many of our environmental regulations and protections, as well as whether the UK can maintain its recent leadership role in tackling climate change. So with our policy makers seemingly distracted by other matters and according a lower priority to environmental protections, it reinforces my belief that this void will need to be filled by individuals, community organisations and enlightened enterprises such as Ecology. Reducing our carbon emissions and addressing other environmental challenges remains a necessity for us all and we stand ready to play our part.

Historically, Ecology has made financial progress despite the general state of the economy and the wider political consensus. The global economy is appearing to remain resilient despite the ongoing political uncertainty caused by Brexit and the general drift to populist policies. Therefore, in 2017, we expect to be able to consolidate on the recent successive years of growth and will aim for modest increases in lending levels as we continue to focus our lending on projects which offer the greatest gains in terms of carbon reductions while supporting the real economy. Given our desire to make an impact on the energy efficiency of the existing housing stock, we will also have an increased emphasis on lending for renovation and retrofit.

As our Chair Steve Round notes, the recent positive outcome regarding the capital requirement for homes under construction allows us to be confident in making progress with our sustainable lending mission, and to continue investing time in planning to issue a new capital instrument which will help give us a firm foundation upon which to grow.

As a member owned organisation it is critical we take our members' views into account as the Society develops. In 2017 we will be taking Ecology on the road again, with our AGM and Members' Meet-up taking place in Bristol as well as trialing more regional Members' Meet-ups later in the year.

We recently launched our new improved Ecology website, with a refreshed 'look and feel' and improved accessibility for mobiles and tablets. This will help us reach a wider audience and support our growth. In order to ensure that we are making the most of the benefits that technology brings to both our members and the efficient operation of the Society, we will be reviewing our strategic approach to online and digital development during the course of the year. While many members have requested that they receive our communications by email, we remain committed to offering our members the choice to receive paper based communications.

Finally I would like to thank all our members for all your support throughout 2016 and we look forward to delivering another year of sustainable growth in 2017.



Paul Ellis
Chief Executive
3 March 2017

Strategic Report

As stated in the Memorandum adopted in 1998, the Society's principal purpose is making loans which are secured on residential property and are funded substantially by its members.

The advances shall be made in those cases which, in the opinion of the Board, are most likely to promote, encourage or support:

- *the saving of non-renewable energy or other scarce resources*
- *the growth of a sustainable housing stock*
- *the development of building practices, ways of living or uses of land which have a low ecological impact*

The Memorandum also states that, in carrying out its business, the Society will promote ecological policies designed to protect or enhance the environment in accordance with the principles of sustainable development.

In relation to its lending activities, therefore, the Society requires any borrower applying for a loan to demonstrate that the purposes for which it is required are consistent with the ecological policies approved by the Board of Directors. This approach to lending is fully in keeping with the original objectives laid down by the Society when it was established in 1981.

The Chief Executive's Review on pages 4 to 5 provides an overview of the Society's performance during 2016 which should be read in conjunction with this report. This section focuses on the key performance indicators which the Board reviews on a regular basis.

Key Performance Indicators

	2016	2015	2014
Total assets	£173.1m	£145.9m	£137.9m
Mortgage asset growth	3.94%	24.29%	9.92%
Mortgage lending	£30.7m	£42.1m	£23.1m
Savings balances	£163.1m	£134.7m	£129.1m
Liquid assets as a % of shares and borrowings	31.77%	21.83%	34.77%
Management expenses as a % of mean total assets	1.45%	1.46%	1.38%
Net profit	£0.920m	£0.881m	£0.566m
Profit after taxation as a % of mean total assets	0.58%	0.62%	0.43%
Core Tier 1 capital	£8.594m	£7.736m	£6.851m
AGM – voting turnout	15.92%	16.54%	15.93%

Asset growth

Following significant savings inflows Total Assets reached a new record level at the year-end of £173.1m, an increase of 18.59% (2015: 5.85%). An excessive level of unutilised funding represents a cost to the Society and does not contribute to its sustainable lending programme, so the Society again took actions to ensure that the level of growth would be sustainable. **The Society does not pursue growth for its own sake, rather we view growth as a sign of our success in meeting the needs of our savers and supporting our borrowers to build, renovate or buy sustainable properties.**



Mortgages

Whilst we continued to wait for the result of the regulatory deliberations on adequate capital levels to support homes under construction, we focused our lending on those projects with the highest positive environmental impact. This resulted in modest mortgage asset growth of 3.94% (2015: 24.29%) with a reduction in levels of net lending to £12.9m (2015: £29.2m) and £30.7m Gross lending (2015: £42.1m). The greater part of our lending continued to be for new-build, aiming for higher energy efficiency ratings, and especially Passivhaus. We were also pleased to see an increase in the proportion of renovation cases, given our desire to make an impact regarding the energy efficiency of the existing housing stock. Following the Bank of England's decision to decrease the Base Rate in August 2016, we reduced our mortgage rates.

By the year-end, over 32% (2015: 26%) of loans outstanding were benefiting from one of our C-Change discounts, which reward work undertaken on the property to help combat climate change – showing that the rapid growth

in 2014 – 2015 mortgage lending was not at the expense of environmental quality. As these are awarded once the works are completed, when the mortgage book is growing quickly as was the case in 2015, there tends to be a time lag before the impact of the discounts is reflected in the figures. The increase on the previous year reflects our focus, in recent years, on lending for projects such as self-build, which typically attract a C-Change discount.

Mortgage Assets (£m)



At 31 December 2016, there were no cases, in possession, or 12 months or more in arrears (2015: nil). In certain circumstances the Society exercises forbearance to assist borrowers who are experiencing financial difficulty, for example, agreeing to interest only payments on a temporary basis. In each case an individual assessment is made to ensure that it is in the best interests of the borrower and the Society. At 31 December 2016, there were 16 cases (2015: 11) under forbearance with total balances of £2.690m (2015: £2.268m) and arrears totaling £204 (2015: £0).

Total provisions against possible mortgage losses increased to £662,000 (2015: £402,000), which includes two cases which are not in arrears but where Society management are working with our borrowers to navigate difficult operating conditions.

Savings and liquidity

Savings balances grew by 21.0% by the end of 2016, reaching £163.1m (up from £134.7m at the end of the previous year). In the earlier part of 2016 we attracted unprecedented levels of savings from new and existing members.

However the volume of savings became higher than was sustainable to support our lending so we took the decision to stop accepting applications for new savings accounts in order to limit the increase in funds as far as possible to ensure that liquidity did not rise further. At the year-end liquidity levels were at a significantly higher level of 31.77% (2015: 21.83%). **We aim to restrict the amount of funding that is not lent out to ensure that the majority of savers' funds are creating value in the real economy. We see our role as providing a savings service for those who wish to invest in pursuit of social and environmental goals, preferring where possible to source our funds for lending direct from individuals and community groups supportive of our mission, rather than taking in wholesale money from other financial institutions.**

We have maintained our rates for as long as possible during a sustained period of unprecedented low interest rates and reductions in the market for similar accounts. Following the Bank of England's decision to cut the Base Rate in August 2016, which had the effect of reducing the interest we earned on our liquidity, we reduced the interest rates we pay on some of our savings accounts.

Management expenses

The cost base of the Society grew by 11.03% (2015: 14.98%) and the higher level of overall asset growth meant that the Management Expenses Ratio at 1.45% was slightly lower than the previous year (2015: 1.46%). **Wherever possible, we use the most sustainable and ethical option when purchasing goods and services. In some cases we accept that we will pay more than for the less sustainable option. In 2016, this added 3.77% to our costs – without this the Management Expenses Ratio would have been 1.40%.**

Profit and Capital

Net profit for the year amounting to £0.920m (2015: £0.881m) was added to the general reserves, which now total £8.680m (2015: £7.760m). This profit acts as a buffer against adverse market movements or changes in the economic conditions.

Net Profit (£m)

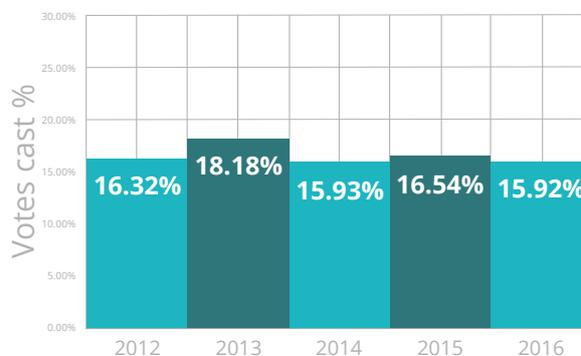


At 31 December 2016, the ratio of gross capital as a percentage of total share and deposit liabilities was 5.53% (2015:6.10%) and free capital was 4.76% (2015:5.21%). The decrease in the ratios is due to the increase in savings levels.

Member relations

Our 2016 AGM was held at the Ecology's office in Silsden. As well as providing an opportunity for members to visit our eco-built offices and tour our gardens, those attending heard how responsible tax is helping to create a fairer society from Richard Livings of the Fair Tax Mark. Members also heard how our sustainable lending has supported the Lancaster Cohousing project. We were disappointed with the voting turnout and so we are exploring other ways to increase member engagement, and in this vein we held our first Members' Meet-up in Gateshead, where members had an opportunity to hear about our progress and share their views on our work. We are planning to hold similar events during 2017.

Voting Turnout



Our place in the community

Our commitment to change extends beyond the immediate impact of our mortgage lending. As a mutual, we see a wider role for mutual governance in the economy and society, an expanded democratic space and the growth of sustainable, cohesive communities with the potential to exercise control over their own wealth and wellbeing. This is the basis of our giving of both time and money. The Society is a member of a number of organisations which share our wider values. Some are listed below:

AECEB – the Association for Environment Conscious Building	A network of individuals and companies with a common aim of promoting sustainable building
Co-operatives UK	The national trade association working to promote, develop and unite co-operative enterprises
Good Homes Alliance	A network of developers, builders and other supporters whose aim is to transform the UK housing sector to ensure it creates and maintains Good Homes for all
Locality	The nationwide network for development trusts and community enterprises
National CLT (Community Land Trust) Network	The nationwide network for Community Land Trusts
National Custom and Self Build Association (NaCSBA)	The nationwide network working to promote custom and self build
Passivhaus Trust	An independent, non-profit organisation that promotes the adoption of the Passivhaus standard
Plunkett Foundation	A network set-up to promote and support co-operatives and social enterprises in rural communities in the UK and worldwide
Scottish Ecological Design Association (SEDA)	An association aiming to promote design which enhances the quality of life and does not harm planetary ecology
UK Cohousing Network	The nationwide network for cohousing
UK Permaculture Association	The national network to promote permaculture
UK Sustainable Investment and Finance Association (UKSIF)	A membership network for sustainable and responsible financial services

In international terms, we continued to support the global development of the social economy and sustainable banking sectors as active participants in the Global Alliance for Banking on Values (GABV), the Institute of Social Banking and the International Association of Investors in the Social Economy (INAISE).

Over the course of the year, we provided financial support to a wide variety of organisations and initiatives that contribute to sustainability at a local, national or international level, either directly through the Society or via our associated Charitable Foundation. These included:

Finance Innovation Lab	Sponsorship of the launch of the Finance Innovation Lab fellowship programme
Five Talents	Charitable donation to support microfinance in rural Kenya, Tanzania and Uganda
Leeds Community Homes	Sponsorship of the launch of the Leeds Community Homes community share offer
National CLT (Community Land Trust) Network	Sponsorship of National CLT Network conference
Passivhaus Trust	Sponsorship of the development of a Passivhaus 'wiki'
Practical Action	Charitable donation to Practical Action
Scientists for Global Responsibility	Sponsorship of a schools Eco-home explainer competition for Science4Society week
SCATA Ltd (Stocksfield Community Association)	Sponsorship of a meeting of the North East Community Led Housing Network

We also gifted time to a number of organisations including the International Association of Investors in the Social Economy (INAISE), and Home-Start Craven (which supports families with children under 5).

We maintain shareholdings in social ventures such as the Ethical Property Company and the Phone Co-op and, where appropriate, we place funds with other social economy financial institutions such as Co-operative and Community Finance.

The main developments regarding our Environmental Policy in 2016 were that:

- We maintained our 'Green' accreditation again, under the Investors in the Environment scheme – the highest level it is possible to obtain
- We converted our office lighting to LED technology and introduced motion sensing light switches in key areas of our offices. This contributed to an 8% reduction in electricity consumption during the year
- Through improved management of the building's heating system we reduced gas consumption by 15%

- We took a proactive approach to enhancing our recycling by increasing the range of recyclable items collected by our new waste contractor. This has led to a reduction in collections of non-recycled waste from weekly to fortnightly

The Society has an ongoing commitment to reduce our energy consumption by 2% year on year. As we have already implemented the most cost-effective energy efficiency measures this target becomes increasingly more challenging to achieve.

Our main commitments for 2017 include:

- As part of a wider review of our Information Technology (I.T.) infrastructure, we will explore options to reduce the amount of energy it consumes
- We will be changing to a greener gas supplier. While our gas usage is relatively low for the size of our organisation and offices, we want to ensure that we use renewable energy wherever possible. Our new supplier already provides some bio gas (gas derived from the breakdown of organic matter such as agricultural, food and sewage) and has recently made a significant investment in new bio gas generation technology

Summary financial statement

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available at ecology.co.uk or free of charge to members and depositors on request from the head office after 31 March 2017.

Summary Directors' Report

The business review for 2016 is discussed in the Strategic Report review on page 6.

Summary Financial Statement for the year ended 31 December 2016

Results for the year	2016 £000	2015 £000
Net interest income	3,742	3,363
Other income and charges	10	1
Administration expenses	(2,306)	(2,077)
Impairment losses on loans and advances	(260)	(178)
Provisions for liabilities	(68)	(35)
Profit before taxation	1,118	1,074
Tax expense	(198)	(193)
Total comprehensive income for the year	920	881
Financial positions at end of year	2016	2015
Assets		
Liquid assets	51,803	29,742
Mortgages	117,989	113,512
Fixed and other assets	3,264	2,675
Total assets	173,056	145,929
Liabilities		
Shares	153,701	127,433
Borrowings	9,375	8,812
Other liabilities	551	676
Subordinated liabilities	749	1,248
Reserves	8,680	7,760
Total liabilities	173,056	145,929
Summary of key financial ratios	2016	2015
	%	%
Gross capital as a percentage of shares and borrowings	5.53	6.10
Liquid assets as a percentage of shares and borrowings	31.77	21.83
Profit for the year as a percentage of mean total assets	0.58	0.62
Management expenses as a percentage of mean total assets	1.45	1.46

Gross capital represents the general reserves and subordinated liabilities as shown in the statement of financial position.

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 2016 and 2015 total assets.

Approved by the Board of Directors on 3 March 2017 and signed on its behalf by S. Round, Chair; P.C. Ellis, Director and Chief Executive; P. Waring, Director and Secretary.

Independent auditor's statement to the members and depositors of Ecology Building Society

We have examined the summary financial statement of Ecology Building Society ('the Society') for the year ended 31 December 2016, set out on page 11.

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement 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 and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

The Directors are responsible for preparing the summary financial statement within the Annual Review, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review with the full financial statements, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis of opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full financial statements, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full financial statements, the Annual Business Statement and Directors' Report of the Society for that year;

- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and

- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full financial statements, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016.

We also read the other information contained in the Annual Review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Our report on the Society's full financial statements describes the basis of our opinions on those financial statements, the Annual Business Statement and Directors' Report.

Opinion on summary financial statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full financial statements, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

We have not considered the effects of any events between the date on which we signed our report on the full financial statements of the Society, 3 March 2017, and the date of this statement.



John Ellacott (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Leeds
LS1 4DA

3 March 2017

Directors' remuneration report

Introduction

The purpose of this report is to inform members of the Society about the policy for the remuneration of Executive and Non-Executive Directors. It provides details of the elements of Directors' remuneration and explains the process for setting them.

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

Role and composition of the Remuneration Committee

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

The Committee is comprised of three Non-Executive Directors. The Chief Executive and Finance Director attend by invitation. The Chief Executive and Finance Director take no part in the discussion concerning their individual remuneration. The Committee held four meetings during 2016 at which all members of the Committee were in attendance. The Committee reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages. In 2016, a major focus for the Committee was oversight of the review of the Remuneration Policy. This included a review of remuneration best practice, supported by the input of an external consultancy, and was also informed by the new Senior Managers Regime.

Remuneration policy

Non-Executive Directors

Non-Executive Directors receive a fee for their services. There are no performance related pay schemes for Non-Executive Directors and they do not qualify for pension or other benefits. Additional fees are paid to the Chair, Deputy Chair and those Non-Executive Directors who are members of Board committees in recognition of the additional duties and responsibilities associated with these positions. 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 a number of elements: basic salary, performance related pay and contributions to the Society's Personal Pension Scheme and other benefits. The Chair appraises Executive Directors annually.

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

Basic salary

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

In our last report we informed members that we intended to review how we set Executive remuneration including our long standing commitment to a fair pay policy which states that no basic salary will exceed a maximum of five times the lowest full grade available. This reflected concerns that the level set for this limit could impact on the Society's ability to recruit staff with the appropriate skills and experience.

We committed to seek member’s views on the updated policy through the Society’s Ethics Panel. In September 2016 members of the Panel were asked to provide feedback on our commitment to fair pay policies, and to consider a proposal to increase the maximum pay limit.

The majority of respondents supported an increase to eight times or more. The Board consequently revised the maximum pay limit to a multiple of eight times the lowest full grade with effect from 1 January 2017. There was also strong support from most of the respondents for Ecology to publish details of the actual ratio between the highest and the lowest basic salary. For the first time therefore, we set this out in the table below.

	2016	2015
Ratio of highest basic salary to lowest full grade available	4.99	4.62

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.

Pensions

The Society makes contributions equivalent to 8% of basic salary for each member of staff, including Executive Directors, to the Society’s Group Personal Pension Plan after an initial service period of 3 months. 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.

Benefits

Executive Directors can participate in the Society’s staff mortgage scheme subject to a maximum of £33,000. The Chief Executive is also provided with a company car.

Contractual terms

None of the Society’s Non-Executive Directors have service contracts. Paul Ellis, Chief Executive, has a service contract entered into on 1 December 1999 and Pam Waring, Finance Director, has a service contract entered into on 28 December 2001. Both contracts are terminable by either party giving six months’ notice.

Non-Executive Directors' remuneration

	2016 £000	2015 £000
Andrew Gold¹	19	16
Malcolm Lynch (retired 25 April 2015)	–	5
Tim Morgan	11	11
Chris Newman	11	10
Steve Round	16	14
Helen Ashley Taylor (retired 27 June 2015)	–	5
Alison Vipond	12	10
Totals	69	71

¹ Includes additional remuneration of £9,117 (2015: £6,171) in relation to assigned Senior Management Regime responsibilities for oversight of the risk function.

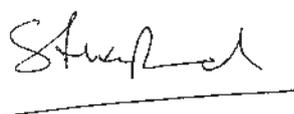
Under the terms of her employment Louise Power, a partner at Walker Morris LLP, is unable to be remunerated directly by the Society. Walker Morris is paid for her service as a Non-Executive as noted below:

	2016 £000	2015 £000
Louise Power (appointed 17 June 2015)	8	5
Totals	8	5

Executive Directors' remuneration

	Salary £000	Performance Related Pay £000	Taxable Benefits* £000	Contributions to pension scheme £000	Total £000
2016					
Paul Ellis (Chief Executive)	81	7	2	6	96
Pam Waring (Finance Director)	70	5	–	6	81
Totals	151	12	2	12	177
2015					
Paul Ellis (Chief Executive)	80	3	2	6	91
Pam Waring (Finance Director)	70	3	–	5	78
Totals	150	6	2	11	169

On behalf of the board



Steve Round
Chair
3 March 2017

Measuring what matters

Our financial success is only a means to an end - building a more sustainable future. The most important results for Ecology are the projects and properties we lend on, and the social and environmental impact they make.

We remain committed to increasing the information we gather about our borrowers' projects and using this to help improve our work, as well as sharing our findings with the wider green building movement. We invite our members to tell us about the difference our support has made and conduct an ongoing programme of case study visits – if you'd like to share your story please get in touch!

Supporting permanently affordable homes in London

As part of our commitment to support affordable and community-led housing, Ecology is pioneering an innovative solution to provide mortgages for homes in London that will be permanently affordable.



Citizens UK campaign outside the St Clements' hospital site in Mile End, calling for it to be London's first community land trust, in 2009. (Credit: Citizens UK)

St. Clements, near Mile End in Tower Hamlets, London, is a Grade 2 listed ex-mental health institution and former Victorian workhouse site, which is being developed by Linden Homes to provide 252 new homes including 23 affordable homes for the London Community Land Trust (CLT).

The construction of the CLT homes follows a long grassroots campaign led by charity Citizens UK which resulted in the Greater London Authority (GLA), which owned the site, asking the developer to work with the CLT.

The CLT homes are being sold at a price linked to local wages. This means that a one bedroom property will be £130,000, a two bedroom will be £182,000 and a three bedroom will be £235,000. By comparison, a one bedroom apartment being sold at open market value will cost from £450,000.

The homes are brand new, built to high specifications and are the same size as the other homes being sold privately. As well as meeting certain minimum and maximum household income criteria, applicants for the homes have to have a long standing strong connection to Tower Hamlets and be involved in their local community. The homes mean 23 families will no longer have to leave the area they love and are able to own their home and stay in the community for as long as they want.

The only 'catch' is that if CLT homeowners ever choose to move, they have to reapply the same formula when they sell. This means prices will rise with average incomes across the borough, rather than with the open market. This ensures the homes stay affordable.

However, the scheme challenges the traditional reliance of the mortgage market on open market value when making lending decisions. The buyers needed a mortgage provider willing to lend on homes which, when they choose to move on, they can only be sold at a price linked to local earnings so that they stay permanently affordable.

Ecology developed an innovative bespoke solution, which takes account of the homes' permanent affordability and ensures that they can provide mortgages for this type of scheme.

Ecology is supporting the Community Land Trust movement which offers a mutual and inclusive approach to tackling local housing need. We're currently working with a number of CLTs across the UK.



One of the blocks under construction which include the CLT homes at St Clements (Credit: London CLT)

Tackling climate change through retrofit and renovation

The UK's housing stock is amongst the least energy efficient in Europe, and contributes to around a quarter of our annual carbon emissions. Refurbishing and retrofitting our existing housing stock will be the key to reducing the UK's carbon emissions so that we achieve our ambitious carbon reduction targets.

Ecology's sustainable lending contributes to the critical global effort to protect the environment and adapt to environmental change. We're committed to making an impact on the energy efficiency of the existing housing stock so we're increasing our focus on lending for renovation and retrofit.

Andy and Lorna's story: a retrofit success



Andy, an architectural designer, and Lorna, a charity development manager, wanted to improve the energy efficiency of their home, an old railway cottage in Hereford, as well as creating more space to accommodate their growing family.

The original cottage was built by a railway carriage inspector in 1869, with solid brick walls and a slate roof. Before the project, the cottage was cold and draughty, suffered from mould growth, and had high energy bills and CO₂ emissions.



Andy is Chief Executive of the AECB, The Association for Environment Conscious Building, which is a network of individuals and companies with a common aim of promoting sustainable building. The design of

Andy and Lorna's project was heavily influenced by AECB's CarbonLite principles, which aim to create low-energy, low-carbon buildings.

With a mortgage from Ecology for their renovation, Andy and Lorna added a south facing extension, with large windows to capture solar energy and a new super-insulated hot water cylinder. They insulated the existing, solid wall house with external insulation and added triple glazed windows and doors, a ventilation system with heat recovery and a very small, efficient

natural gas boiler. The new upstairs windows overlook the extension's green roofs, planted with a wild flower and meadow mix, and a salvaged railway carriage in the garden which Andy uses as his home office. Since the work was originally completed, Andy and Lorna have also installed photovoltaic solar panels on the roof.

Andy and Lorna achieved their target of reaching the Passivhaus EnerPHit standard, an energy efficiency standard based on high levels of insulation and airtightness. As a result, they have reduced the building's CO₂ emissions by more than 50%.

Lorna loves that their home is now draught free and all of their rooms remain a comfortable temperature all year round. As their family has grown up, it's become increasingly important that they all have their own space. Having the same temperature throughout enables them to occupy the whole house without having to worry about closing doors.

Andy loves the glow that he feels from knowing they have done the right thing to reduce their carbon emissions, that they're saving money on their energy bills and that their home will have a positive benefit on their family's health and wellbeing.

Andy and Lorna's experience shows that retrofitting their home can deliver a comfortable energy efficient home that, from the front, looks like all the other houses on their street. It's something that everybody can achieve.



Directors' statements



Timothy David Morgan

I am very pleased and proud to have been a Director of Ecology Building Society since 2013

Outside of Ecology I work as Finance Director and Secretary of fair trade lender Shared Interest, a financial mutual with a social purpose based in Newcastle upon Tyne. Professionally I am a Chartered Accountant and Secretary and I have worked in the social impact sector for more than 20 years including Board roles with leading fair trade organisations such as Traidcraft and Cafedirect and in the NHS.

On the Board I chair the *Risk, Audit, Compliance and Ethics Committee* ('RACE'). Our work is very important to the safe, professional and ethical running of your

Society and we always try to do this in a way which shows that we are not 'any old' financial institution.

Ecology provides a particular resonance for me as a member-controlled organisation, guided by a strong social purpose whilst remaining financially viable and complying with the necessary rules. I would definitely call myself an amateur environmental champion and strongly support the aims and purpose of the Society.

I have now met many Ecology members at a number of AGMs, look forward to meeting many more at this year's AGM and hope that you will permit me to continue serving as a Director on your Board by voting for my re-election.



Christopher Jon Newman

I joined the Board in September 2013, and the experience has been the most enjoyable of my working life. I really love the mix of issues and challenges we discuss as a Board, which range from financial and accounting matters, how we're building a greener society, the operational aspects of the Society, individual commercial and residential cases, and our members' and stakeholders' interests – including those of our regulators! Every month there are new challenges to grapple with, which keep us on our toes and not allow us to become complacent. When I was asked to join the Board I committed to seven years (subject to members' ongoing approval). That seemed a long time but after three and a half years, I'd be willing to sign up for far longer – although

Board rotation will sensibly limit that! I'm more enthusiastic about the Society, our members and our ongoing success than I was when I started.

Alongside my duties as a Director, I also chair the *Board Lending Committee* and sit on the *Risk, Audit, Compliance and Ethics Committee* and the *Nominations Committee*.

In my day job I advise housing providers and home owners on retrofit strategies across the country. In my personal life, together with my young family I live in a fully eco-renovated Victorian property – most of the work being undertaken by my Dad and I. We've cut the CO₂ emissions from the house by 80%.



Alison Vipond

It would be a great privilege to be re-elected to Ecology's Board for a second term.

As well as having the full range of Board responsibilities, I make sure that Ecology's mission to 'Build a greener society' underpins everything we do. I also make sure our actions contribute to the UN Sustainable Development Goals, especially on Sustainable Communities, Clean Energy and Climate Action. I am also your Member Advocate, representing your views, and keeping members' interests at the heart of our decisions and plans.

I have a lifelong passion for the environment. In my day job, I work in the Institute for

Sustainability at Newcastle University, developing research to tackle social and environmental challenges, particularly to reduce and adapt to climate change, with a focus on developing countries.

I live in Northumberland with my husband and two young sons (eco-warriors!). We have eco-renovated our traditional stone-built home, going from 'cold and draughty' to 'super cosy'. Visitors can learn what we did and be reassured that retrofitting old properties is achievable and worth it.

I would very much welcome your vote. I pledge to help Ecology to continue to evolve and grow, remaining true to its mission. Thank you.

Glossary

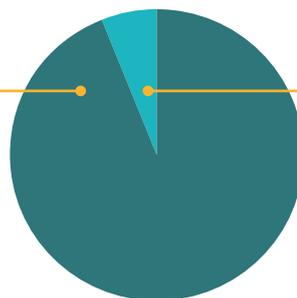
Some of the financial terms we use in this Annual Review are explained below:

Advance	Money loaned ('advanced') to a borrower.
Amortisation	The process of gradually writing off the value of something to reflect a reduction in its value over time. It is the same as depreciation, but is usually used for intangible assets such as goodwill. For Ecology it relates to purchased capital (subordinated debt). The amount purchased remains the same, but the amount that can be classed as capital is reduced over a period of time.
Assets	Something belonging to the business that has value – for Ecology, this means liquid assets, mortgage assets and fixed assets.
Capital	Profit retained by Ecology to act as a buffer against losses.
Counterparties	The organisations that hold Ecology's liquid assets.
Depreciation	Depreciation is both the gradual writing down of the value of an asset and the allocation of the cost of the asset over the period of time that it is used.
Fixed assets	Assets such as the head office, furniture, machinery and IT equipment that the Society owns and uses, and does not buy and sell as part of its regular trade.
Forbearance	A special agreement between a lender and a borrower which aims to prevent repossession.
Gross capital	Reserves and subordinated liabilities.
Gross Capital Ratio	Gross capital as a percentage of shares and borrowing.
Gross lending	New advances made in the year.
Inflow	The flow of money into the Society from savers' deposits and mortgage repayments.
Liabilities	Something the business is legally responsible to repay to others – for Ecology this means our members' savings, our reserves, and debt we owe to other organisations.
Liquid assets	Cash or assets that can be converted into cash (such as bonds).
Liquidity	The availability of liquid assets to Ecology.
Management expenses	Administrative expenses plus depreciation.
Management Expenses Ratio	The proportion of management expenses to the average of total assets during the year.
Mortgage assets	The availability of liquid assets to Ecology.
Net lending	New advances made in the year less redemptions.
Net profit	Profit less tax.
Provisions	Money set aside to cover potential losses on loans.
Redemptions	When borrowers pay back their mortgage loan.
Reserves	For Ecology, this is the same as capital.
Shares	For Ecology (like other building societies) shares refer to money deposited by members, who have a 'share' in the business should it be wound down.
Subordinated debt	Debt that has a lower ranking than other forms of debt – if Ecology were to be wound down, subordinated debt would only be repaid after other claims on the business had been repaid.
Write-back	When the value of a provision is subsequently restored ("written back") to the balance sheet.

2016: Our year in numbers

£30.7 million
lent across 120
sustainable properties
and projects

94%
to residential
properties (including
owner-occupied,
buy-to-let and shared
ownership properties)



6%
to developments
for community gain
(including charities,
housing cooperatives and
community businesses)

SPREAD OF LENDING

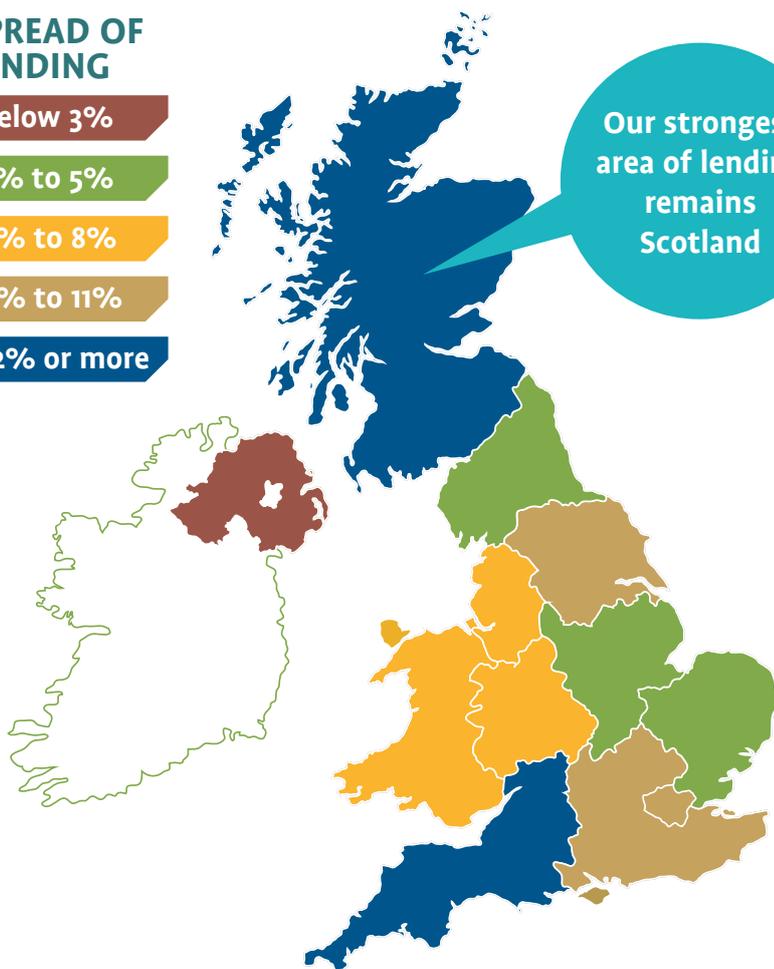
Below 3%

3% to 5%

6% to 8%

9% to 11%

12% or more



The new loans we made included:

NEW BUILDS 64

CONVERSIONS 9

RENOVATIONS 23

WOODLANDS 2

PROJECTS USED SOLAR ENERGY TECHNOLOGY 43

INVOLVED EARTH SHELTER CONSTRUCTION 1

INCLUDED RAINWATER HARVESTING 26

USED STRAW BALE CONSTRUCTION 2

“I love your ethics and your customer service is excellent.”

“Arranging finance for a self-build is stressful enough but Ecology were a breath of fresh air in their approach.”

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