Ecology
Building Society

Annual Review 2012

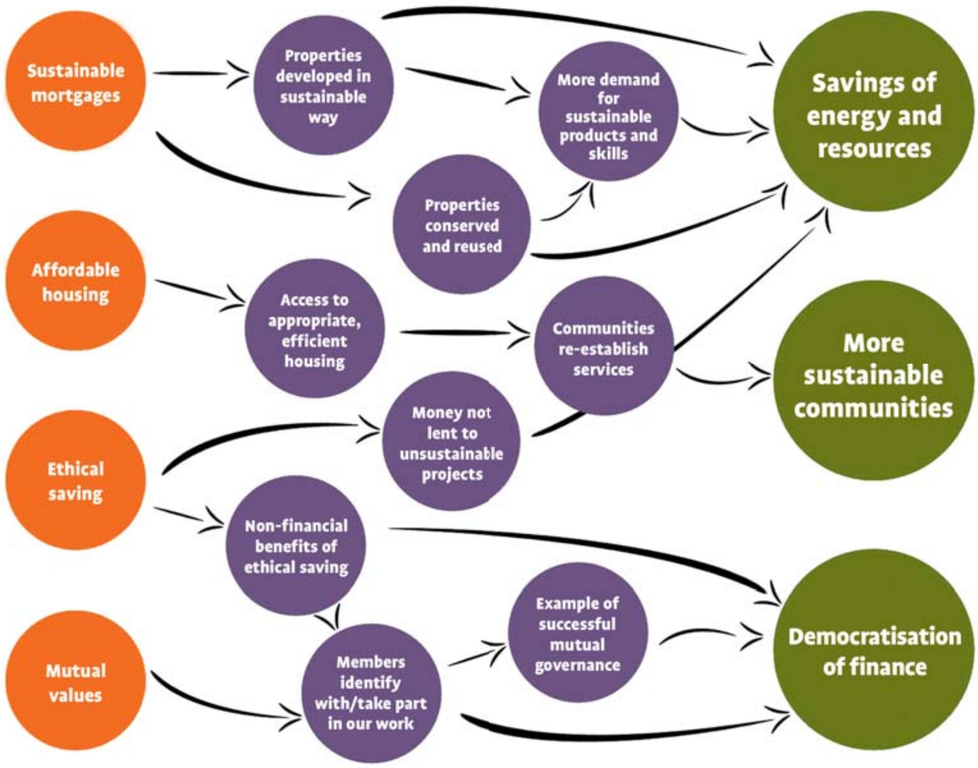
Building a greener society

Welcome to your Annual Review for 2012. This booklet summarises the progress we have made over the previous year. It also contains important information about our Annual General Meeting and statements from the Directors who are seeking election or re-election. You can find a glossary of some of the financial terms used in this booklet on page 15.

How we're building a greener society

We provide mortgages for properties and projects which support individuals and communities to adopt environmental building practices, improve the energy efficiency of our building stock, and live or work in a way that promotes a sustainable economy. These are funded through our simple, transparent, ethical savings accounts that offer long-term value.

It's a simple model, but our work makes an important contribution to a much bigger picture. Turn to page 14 to find out how we're making progress towards a democratic, sustainable financial future.



Russell and Susie's story: bringing a barn back to life

Russell and his partner Susie live in Lancashire. They wanted to convert a disused barn into a sustainable home, but found that no mainstream mortgage providers would support them, so they approached Ecology.

With the help of a residential mortgage, Russell and Susie began work on the conversion project in 2011. They installed a highly efficient condensing boiler, high levels of insulation and wet underfloor heating. Through his occupation as a joiner, Russell had lots of contacts in the building trade, so they were able to complete most of the build by themselves or through friends.

The barn had been left empty for a long time and Russell and Susie have received a lot of support from local community members, who are please to see it being brought back into use in a sympathetic way. They often stop for a chat and a look around when passing by!

"I don't know what we would have done without a mortgage from Ecology. Now our home is almost complete, it's great to receive the newsletter and find out about other projects they're supporting."

Cover image: Ecology members John and Ceilia at their eco guest house near Blaenau Ffestiniog in Snowdonia. For more information, visit **www.ecoguesthouse.co.uk.**

Notice of Annual General Meeting

Notice is given that the thirty-second Annual General Meeting of the members of Ecology Building Society will be held on Saturday 27 April 2013 at Headingley Arts and Enterprise Centre, Bennett Road, Leeds LS6 3HN at 10.00 am for the following purposes:

1. To receive the Auditor's Report
2. To receive the Directors' Report, Annual Accounts and Annual Business Statement for the year ended 31 December 2012
3. To pass an Ordinary Resolution to appoint KPMG Audit Plc as auditors until the conclusion of the next Annual General Meeting
4. To pass an Ordinary Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2012
5. To elect/re-elect the following as Directors of the Society:

i. HELEN ELIZABETH ASHLEY TAYLOR [see explanatory note 1]

ii. PAUL CHARLES ELLIS [see explanatory note 2]

iii. PETER ANTHONY TAYLOR [see explanatory note 3]

iv. PAMELA WARING [see explanatory note 4]

6. To transact any other business permitted by the Rules of the Society

By Order of the Board
Pam Waring
Secretary
1 March 2013

Notes on voting

1. These notes form part of the Notice of Meeting.

2. There are three ways you can vote.

(i) You can attend the Meeting in person.

(ii) If you cannot come to the Meeting, you can complete the Proxy Voting Form which appoints someone else (who is known as your proxy) to attend the Meeting and vote on your behalf. You may instruct your proxy how to vote at the Meeting when you complete the Proxy Voting Form.

(iii) You can vote online by using the secure facilities at **agmvoting.ecology.co.uk** where you will need to use the security code and password enclosed with this notice. Full instructions on use will be provided on screen.

3. Your proxy does not have to be a member of the Society. He or she cannot vote for you on a show of hands but can vote on a written ballot (known as a poll). Your proxy may not speak at the Meeting but he or she can demand (or join in demanding) a poll.

4. The Proxy Voting Form contains details of who is entitled to vote. You should check Voting Conditions in Section 4 on the back of the Proxy Voting Form.

5. To be valid, your completed form must be received by The Scrutineers no later than 5.00pm on 24 April 2013. Please use the envelope provided (no stamp required).

6. If you appoint a proxy other than the Chair of the Meeting, please ensure that your proxy brings with her or him some form of identification to the Meeting.

7. If you prefer to attend the Meeting and vote in person, you should still read the Voting Conditions in Section 4 on the back of the Proxy Voting Form to check your eligibility to vote.

Explanatory notes

1. Helen Elizabeth Ashley Taylor was appointed a Director on 15 May 2012 under Rule 25(4) and, being eligible, offers herself for election.

2. Paul Charles Ellis retires by rotation under Rule 26(2) and, being eligible, offers himself for re-election.

3. Peter Anthony Taylor retires by rotation under Rule 26(2) and, being eligible, offers himself for re-election.

4. Pamela Waring retires by rotation under Rule 26(2) and, being eligible, offers herself for re-election.

Travel Instructions

Headingley Arts and Enterprise Centre (HEART) is located in the centre of Headingley, to the north of Leeds city centre. The Centre is easily accessible by public transport, bicycle and car. Further details are available at **www.heartcentre.org.uk/contact/getting-here.**

By rail

There are regular train services from London, Bristol, Birmingham, Manchester, Edinburgh and other mainline stations to Leeds.

For information on train times, contact National Rail Enquiries on 08457 484950 or visit **www.nationalrail.co.uk.**

From Leeds railway station, you will need to travel to HEART by bus, bicycle or taxi (available from the front of the station).

By bus

There are frequent buses serving HEART from Leeds city centre, including directly outside the railway station. To plan your journey, call 0113 245 7676 or visit **www.metrojourneyplanner.info** (enter the destination **Heart Ltd** or **LS6 3HN**).

By bicycle

Good quality site racks and an on-site shower are available. You may find it helpful to plan your route using **www.cyclestreets.net** and the destination postcode **LS6 3HN.**

By car

For visitors using satellite navigation, the postcode for HEART is **LS6 3HN.** Access is only from the North Lane end of Bennett Road and not Otley Road. There is limited on-site and on-street parking. Two disabled parking spaces are available on site.

If you are travelling by car, we would encourage you to car share wherever possible. You can find other people travelling on your route at **www.liftshare.com.**

Directors' statements

Helen Ashley Taylor

I was delighted to be appointed to the Board as a Non-Executive Director at the end of May 2012. So far my duties have included serving on the Risk, Audit, Compliance and Ethics committee, the Nominations Committee and as a Trustee of the Ecology Building Society Charitable Foundation (from March 2013). With my experienced colleagues on the Board, I have enjoyed embracing the challenges presented to the Society, which to date have included a regulatory review with the Financial Services Authority in addition to addressing the restrictions placed on raising future capital.

I am a qualified accountant and after training with a large accountancy firm have spent the majority of my professional life working in the charity and mutual sectors. I presently work for the Co-operative College Trust, an educational charity dedicated to promoting co-operative values and principles in organisations, where I oversee the charity's governance arrangements. Immediately prior to this I worked as a senior accountant in the legal and compliance division at The Charity Commission, gaining experience of the sector from a regulatory perspective.

I have a young family and have a particular interest in the importance of financial education for children. Many schools now have green committees and green agendas, with children growing up with an increasing awareness of environmental issues. I believe there is good scope to teach children about ethical finance, particularly following the financial scandals of recent years, and I am interested in the potential for Ecology to develop savings products for our younger members.

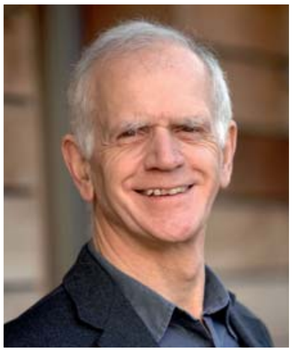
Following my induction to the Society during the second half of 2012, I would now warmly welcome the support of members to be permitted the privilege of playing an active part in the future of this Society and willingly offer myself for election.

Paul Ellis

Six years on from the beginning of the financial crisis, a number of things are evident: while the financial system still needs fundamental re-engineering, ethical financial institutions including Ecology are in good shape, and there are the beginnings of a realisation that these two facts are underpinned by a common thread. It is the right culture, rather than regulation per se, that will maximise socially useful activity by financial institutions and minimise their threat to our economic and ecological security.

Ensuring that the Society approaches its business with the right culture and values has been a major part of my role at Ecology. That extends from making sure that the lending we do is not just financially viable but adheres as closely as possible to our sustainable lending policies. It is about ensuring that customers of the Society are considered as members and participants in our work, not as consumers. It is about ensuring that our business practices reflect our ideals in every aspect, and that our mutual governance structures are strengthened and serve our long-term focus. These instincts have helped the Society grow in scale and impact, and as we grow, we will redouble our commitment to them.

Aside from my knowledge of building society operations, regulation and IT, my strength is that I identify with the values expressed by the Society. So I have undertaken a deep retrofit of my home. I act as a conservation volunteer in local woodlands and my own woodland. I repair, re-use and recycle wherever practicable. I serve as a Director of the International Association of Investors in the Social Economy, and a Director of the Passivhaus Trust. With your support, I seek to continue serving the Society as a member of the Board.



Tony Taylor

I was delighted when asked to stand as your Deputy Chair and have continued to chair the Risk, Audit, Compliance and Ethics Committee of the Board since being re-elected in 2010.

I joined the Board in 2006 and I believe it has helped your Executive Directors to have someone on the Board with relevant financial and risk experience. Although our ethos may be different from others, we are expected to follow the strict rules and guidance laid down by our regulator the Financial Services Authority.

With the help of your Chair and fellow Directors I will do my utmost this year to see that the strength of the Board continues to grow as new Non-Executives are recruited.

Pam Waring

The last 26 years have truly flown by and the changes that have happened in the world of finance in that relatively short space of time are immense.

I joined the Society in 1986 and over the years I have worn many different hats. My responsibilities have been wide and varied: I initially worked in the Savings Department and after a period of time I took responsibility for the Society's finances. I was promoted to Finance Manager in 1993, appointed Secretary in 1996 and joined the Board in June 2000. My current responsibilities as Finance Director includes overseeing the Society's Finance, Administration and Business Support Departments, managing the treasury portfolio and ensuring that the Society remains compliant with various legal requirements.

I recently told a colleague that I had no particular hobbies or passions in my life, but writing this statement made me realise that this wasn't entirely true. I have always been a very passionate supporter of this Society because of the possibilities it opens up to others. I work hard to try to make their dreams come true by being totally committed to my role and by supporting my fellow Directors and colleagues in theirs.

The Society has come a long way in 31 years and there are still plenty of new initiatives to explore and challenges to meet. I am particularity interested in developing systems to ensure that members can use new technologies such as mobile applications to access their accounts.

I believe that by being a member of your Board my experience can continue to assist in the future development of the Society. I ask you for your support in voting for me so that I can continue to be part of that future.

From the Chair

In February, Barclays' new Chief Executive announced a strategic overhaul of the bank, in response to "a period of 20 years in banking in which the sector became too aggressive, too focused on the short term and too disconnected from the needs of customers and clients and wider society."

This may be a new realisation for Barclays, but it is certainly not for Ecology Building Society. I am pleased to report that your Society has continued its original policy of thinking long-term, providing products which are focussed on the needs of our members and which contribute to wider social and environmental benefit rather than being designed purely for profit. These are policies which the Board fully supports and which our Chief Executive and management team ensure are put into practice in the daily business of Ecology.

It is these polices that allow me to report that our assets have increased to almost £110 million, with higher growth than we originally forecast for the year. Our profits were far higher than forecast, for the reasons set out in the Chief Executive's Report. This profit has added to our capital base, increasing the financial strength of the Society and our ability to undertake further lending to new borrowers in the year ahead.

The Board made steady progress during the year with defining the type of capital instrument required before making a public offer. The European Rules on capital instruments have been delayed and it has been something of a guessing game to anticipate them. We have agreed that it is best to approach our search for capital in a careful and methodical fashion and there have been no pressures on the Society which would require a different course. We will continue to update those members who have expressed an interest in investing in our capital base as our work develops.

During 2012 we continued to develop our offering to meet the urgent need to improve the energy efficiency of the nation's 27 million homes. While the government's Green Deal proposals met with a mixed reception from the industry and struggled to achieve public awareness, we launched our pilot 'Fair Green Deal' with The Energy Saving Co-operative, offering maximum benefit for communities and access to ethical sources of finance. Along with our network of partners, our innovative work is paving the way for mainstream adoption of sustainable building practices.

Our forthcoming Annual General Meeting will see the planned retirement of David Black and Mark Jones as Directors of the Society. On behalf of the Board, I thank David for his forensic accounting questions which have probed the Society's finances so effectively, and to Mark for his diligent contributions as a smallholder borrowing member, keeping the Board in touch with the Society's roots.

I have also to report that Adam Clark resigned from the Board at the end of the year. He decided that balancing his commitment to his busy architect's practice with the high standard of understanding which he wished to have of the regulatory environment presented too great a challenge. Adam has expressed his willingness to continue to assist the Society with his specialist eco-architectural knowledge, for which we are most grateful. 2012 also saw the planned retirement of Janet Slade, who brought to the Board a unique combination of accountancy expertise and environmental focus. Janet continues to act as a Trustee and Treasurer of the Ecology Building Society Charitable Foundation. The Board was strengthened in May by the appointment of Helen Ashley Taylor, who is a qualified accountant with experience of the charity and mutual sectors and has already made a significant contribution to our work.

We enter 2013 with high hopes and a continued commitment to demonstrating that long-term, socially useful finance can be sustainable in every sense of the word. I wish to thank you for your continued support and engagement with the Society and I look forward to welcoming you to our 32nd Annual General meeting in April.

Malcolm Lynch

Malcolm Lynch - Chair
25 February 2013

Chief Executive's review

Overview

In an eventful year, the Society experienced good growth, good profit, good net lending, and a good inflow of funds. Good because it was positive financial progress, but good fundamentally because all this was achieved by adherence to our core principles in the pursuit of sustainability. The Society is increasingly seen as a leader in this respect, both through its persistence and its role as an innovator.

The Society also benefitted from the attention given by external campaigns such as ***Move Your Money,*** which drew attention to the services provided by financial institutions with a social remit and the mutual sector. As the Society grows its lending portfolio, it will be able to absorb even more deposits from new members who have been alerted to our existence by these grass-roots campaigns. Because of the strong flow of funding, we do not anticipate accessing the Government's ***Funding for Lending Scheme,*** which has further reduced rates to savers. As long-standing members know, our view of mutuality in any case requires us to maximise the extent to which we attract funding via ethical savings, in preference to taking money from the markets.

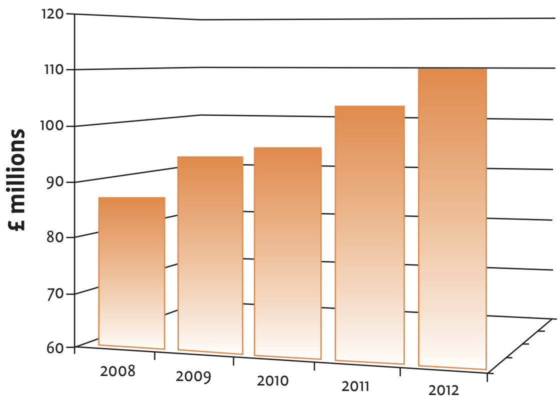
The ***C-Change*** mortgage discounts continued to pick up awards, and figure in a growing proportion of our mortgage book, which is enabling us to track the increased energy efficiency standards represented by the type of properties we lend on when compared against the general condition of the UK housing stock.

Indeed, during 2012 we undertook much work to improve the way we collect information on our social impact, the results of which will become increasingly apparent in future reports from the Society. The conceptual framework for this has been developed by Anna Laycock, who has now also taken on additional responsibilities as our first ***Ethics Manager.*** Anna's role is to ensure that we continue to embed our ethos across what we do as a business, and thereby ensure good conduct in pursuit of our mission.

After the extensive recruitment in 2011, our activity in 2012 was more restrained as the new team got to work. However, we were pleased to welcome our first Graduate Trainee in **Charlotte Leggett,** who comes to us with a background in Ecological Economics. We are constantly looking to ensure that we have the right people to take the Society to the next level, with the appropriate skills, and we will again be adding to our team in the coming year.

So, as a Society we enter 2013 with a sense that much of the preparatory work we have undertaken in 2012 will begin to bear fruit in the coming year. More detailed commentary on the year is given below, including the key performance indicators that the Board uses to measure the Society's financial progress, the service we provide to our members, and our impact on the environment and community. Each of the sections below contains comment in *green* to indicate specific responses to environmental responsibility and good corporate governance.

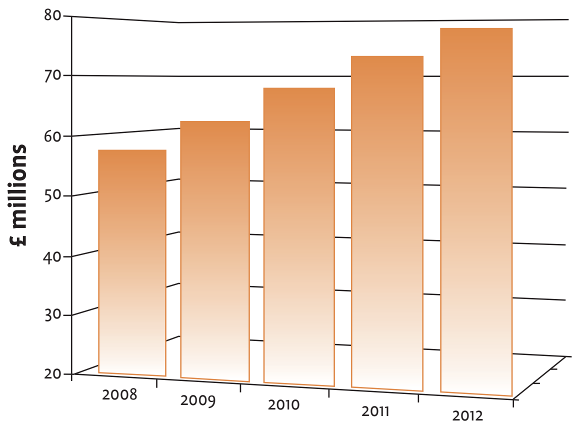
Asset growth



Total Assets

Strong growth in assets was again achieved at 6.1% (2011: 8.1%). This was fuelled by the inflow of members' deposits and we experienced a positive inflow in every month of the year – the last monthly outflow encountered was in fact back in 2010. Nevertheless, we believe in restricting the level of uncommitted funds held, even at the expense of overall growth, as we do not feel it sits well with the mission of the Society to take in excessive funds we cannot immediately use for projects that meet our lending criteria. To do so would distort the market for ethical deposits and reduce the social and environmental dividend obtained by our members. We are able to absorb these strong flows of funds from members by continuing to expand our sustainable mortgage book, which is our priority for 2013.

Mortgage lending



Mortgage Assets

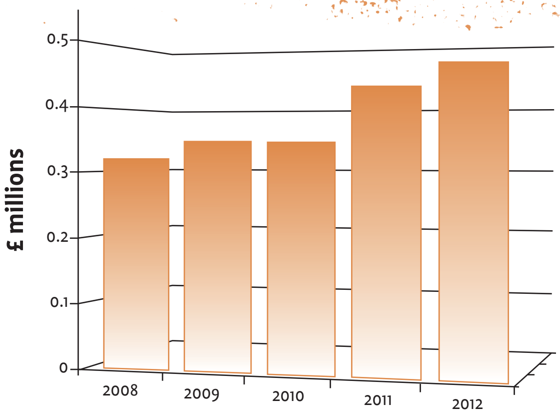
Overall mortgage asset growth dropped slightly in percentage terms from the previous year, amounting to 6.0% (2011: 7.6%), but overall mortgage balances exceeded £75m for the first time. In monetary terms, net lending remained strong at £7.9m, despite the effect of redemptions of non-performing cases. While the net lending performance is good as it supports the profitability of the Society and demonstrates our ability to retain mortgage customers, ***the focus of the Society's management remains on the gross lending figures as this represents new lending and therefore more properties undergoing ecological transformation. Consequently, it is a stronger indicator that the Society is fulfilling its primary purpose in promoting an environmentally informed lending programme. The increase in mortgage assets shows that the lending proposition of the Society continues to serve the needs of our borrowing community.***

Total provisions against possible mortgage losses have reduced significantly to £196,000 (2011: £659,000). This first of all reflects the fact that losses of £413,000 were incurred on the sale of a number of properties in possession. However, the losses were less than the sums provided and so some of the provisions have been written back to profit. Finally, as no new cases have emerged with a potential of loss, there has been no need to make new provisions. This indicates that overall the mortgage book is performing well and suggests that the worst effects of the financial crisis have now been weathered. Nevertheless, it is clear that the economy now operates at a lower level of output than before the financial crisis, so there is still potential for borrowers to encounter difficulties. ***We advise borrowers to seek free advice about problem debt from specialist counselling services. We will continue wherever possible to exercise forbearance, where the risk to the borrower is not unduly increased, to give the borrower breathing space to sort out their financial affairs, in the form of payment holidays, changes to payment schedules, interest-only arrangements and amendments to the term of the mortgage.***

Profit and capital

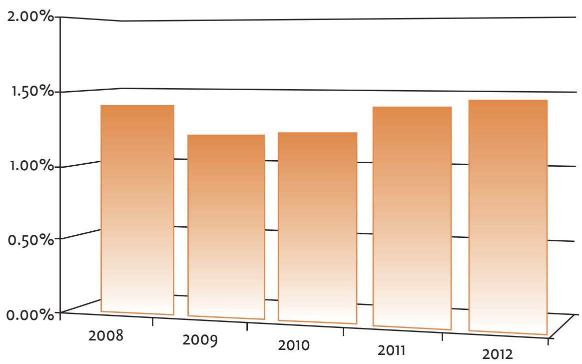
The Society aims to generate sufficient profit from its activities to ensure that it has enough capital to underpin its future lending programme and other business assets.

The Society again performed strongly in terms of profit and therefore the addition to capital resources. Net profit (surplus) for the year at £459,000 was 8% higher (2011: £425,000). Profit as a percentage of assets remained at the same level as in 2011. Members need to be aware that the profit levels are currently depressed by the ongoing need to contribute to the resolution arrangements for a number of failed financial institutions, including the Bradford and Bingley. The provision made in this respect for 2012 amounted to 11.6% of the overall gross profit of the Society. Net profit adds directly to the capital of the Society, and it is important to increase capital resources in line with increased



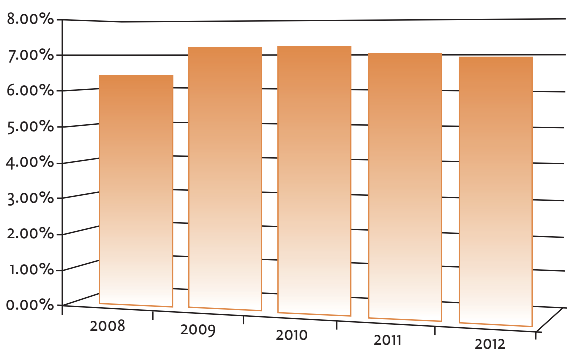
Profit

demand for the services of the Society, thereby protecting members' funds from the effect of any future potential losses. Increased capital also increases our ability to lend in absolute terms and to consider lending on larger projects.



Management Expenses Ratio

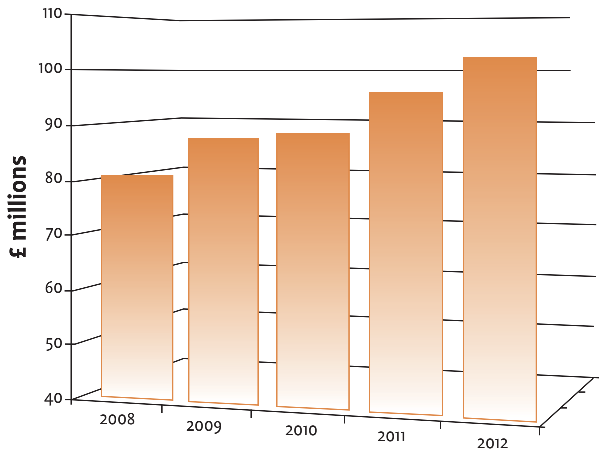
The Management Expenses Ratio increased to 1.45% (2011: 1.39%), mainly because of increase in costs associated with compliance and legal advice regarding changes to our Rules, which was not offset by overall growth in the Society's assets. Overall administration costs grew by 11.34% in comparison to 21.85% in 2011. ***Wherever possible we use the most sustainable and ethical option when purchasing goods and services. Sometimes this means that we have to pay a little more than the unsustainable option. We have tracked the additional costs that this has incurred during 2012 and found that our ethical purchasing policy increased our management expenses by 4.53%. If we had not factored environmental and ethical impacts into our procurement, our Management Expenses ratio for 2012 would be 1.39%.***



Gross Capital Ratio

The Gross Capital Ratio reduced slightly in 2012 to 6.98% (2011: 7.03%). This was due to the start of amortisation of a tranche of supplementary capital that the Society holds in the form of subordinated debt. The value of this type of debt in capital terms reduces in the last five years of the term it is held for. We intend to continue to seek supplementary capital in addition to retained profit, to enable continued growth of the Society.

Savings and Liquidity



Savings Balances

Savings balances increased by 5.99% (2011: 8.45%), from £96.14m in 2011 to £101.90m by the end of 2012. *Throughout the year, the Society continued its longstanding commitment to never pay less than 1.00% interest to savers.* The Society experienced an inflow in every month of the year, and the task was to ensure that until lending volumes can be increased further, inflow of funds did not reach such levels that liquidity increased unsustainably.

In fact, liquidity levels were once again stable, increasing slightly to 30.16%, from 30.03% in 2011. Holding excess liquidity is a cost to the Society, especially when market rates are at record lows. In addition, *we have always maintained that holding more liquidity than required for prudential reasons does not fit with the ethical savings model as it distorts interest rates in the market and means that a higher proportion of your deposit is not used to support social and environmental lending projects. It necessarily remained the case that in 2012 counterparties (banks and other building societies) were selected primarily for their financial safety rather than as a result of our established policy of examining their environmental and ethical practice record – which we continue to monitor and record.* However, the outcome of this was ameliorated somewhat by the regulatory requirement that institutions hold a significant proportion of their liquidity in the form of UK Government treasury instruments.

Member relations

In 2012, we took our AGM to the north-east of England for the first time. The north-east is not traditionally our strongest region, but we wanted to continue our tradition of taking the AGM to the members. The AGM was held at the Rivergreen Centre in Durham, a green building featuring rammed earth walls. We always hold a Green Marketplace alongside the AGM, and we have developed a number of new opportunities for the Society in the north-east from the contacts made. The proportion of members voting electronically rose to 32.38% from 31.65% in 2011, while the actual number of members voting reduced to 16.32% from 19.17%. *The theme of the day was the individual actions that we can all take to reduce our environmental impact – including renovation of our own properties of course!*

Our place in the community

Our commitment to change extends beyond the immediate impact of our mortgage lending. As a mutual, we look for the widest application of mutual governance in the economy and society, an expanded democratic space and by extension the support and 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:

The Sustainable Building Association (AECB)
A network of individuals and companies with a common aim of promoting sustainable building

Passivhaus Trust
An independent, non-profit organisation that promotes the adoption of the Passivhaus standard

Schumacher Society
Non-profit organisation promoting human-scale development

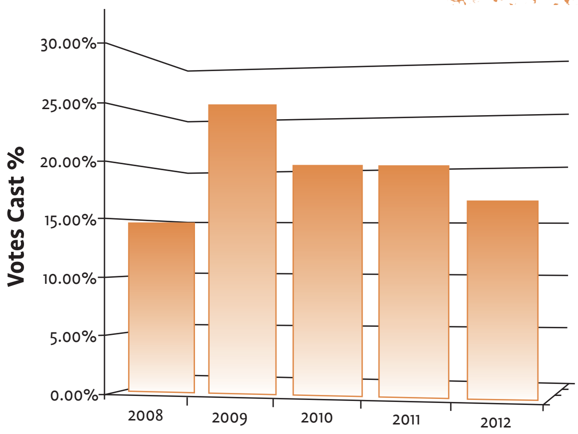
UK Sustainable Investment and Finance Association (UKSIF)
Membership network for sustainable and responsible financial services

Locality
The nationwide network for development trusts and community enterprises

Northern Ireland Environment Link
Northern Ireland's forum and networking body for organisations interested in the environment

Scottish Ecological Design Association (SEDA)
SEDA aims to promote design which enhances the quality of life of and does not harm planetary ecology

Woodland Trust
The UK's leading woodland conservation charity



Voting Turnout

During 2012 we also rejoined the Forum for the Future, a leading advocate of sustainability in business practice, having welcomed students from the Forum's Graduate programme for a number of years.

In international terms we continued to be active participants in both 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:

- *INAISE Conference, Paris – How can social finance help address the effects of climate change?*
- *Leeds Empties Week – tackling empty homes in Leeds*
- *Compton's Yard Charitable Trust, Llanidloes – a grant towards the cost of insulating a listed building used as a community hub*
- *Whirlow Hall Farm Trust, Sheffield – an educational trust working with inner city children and young people with special needs and disabilities*
- *Green Gathering, Chepstow – ethical and environmental family festival.*

We also gifted time to a number of organisations including the International Association of Investors in the Social Economy (INAISE), Passivhaus Trust, Leeds Community Foundation and the HALE Project (a health charity operating in West Yorkshire).

Our Earthsaver Bonds continued to generate donations for Practical Action, the leading international development charity. We maintain shareholdings in social ventures such as the Ethical Property Company and the Phone Co-op, and where possible we place funds with other social economy financial institutions such as Charity Bank.

The three main internal developments regarding our Environment Policy in 2012 were that:

- *Directors and staff undertook further training on environmental awareness and carbon management*
- *We improved our procurement procedures to better ensure positive social and environmental outcomes*
- *A 10kWth (kilowatt thermal) solar water heating system was installed at the HQ building.*

Our main commitments for 2013 are to:

- *Revisit our offsetting obligations and policy to ensure that we maintain absolute carbon neutrality*
- *Re-configure and upgrade heating and ventilation systems, as necessary, in order to further improve energy efficiency within the HQ building*
- *Extend the photovoltaic array to increase the proportion of energy generated at our HQ.*

Future development of the Society

The management and Board believe that the Society has weathered the effects of the financial crisis well, and with the extra resources we have taken on, and the work on systems, the Society is in strong shape to continue to grow and develop our activities over the next few years.

Our focus in the coming year will be to increase the volume of sustainable lending which enables us to continue to meet the demand for an ethical savings service. To that end we will continue to strengthen our resources in IT, Communications and our Mortgage and Savings teams.

This will depend to some extent on external factors such as the economy and state of the housing market, but we must also ensure that our capital resources keep pace with the potential for growth. Thus we will continue our preparatory work for capital raising. Delays in the implementation of new international capital rules (due mainly to problems in the Eurozone) have created extra work, and we also find that it is necessary to engage the regulatory authorities to explain the role of social impact investment.

The accumulated reserves of the Society will always be the mainstay of our capital base. Where we deem that supplementary capital can contribute to increasing the pace of growth, our preferred approach is to enable our members to contribute to our capital resources, as is commonplace with other co-operative financial institutions across Europe.

What is very clear is that there are exciting opportunities for the Society coming along in 2013, as we increase our retrofit activity and promote our Fair Green Deal to a wider audience. Thanks to all our members, new and longstanding, in making our work possible in 2012, and we hope to justify your trust in 2013.

Paul Ellis

Paul Ellis - Chief Executive
25 February 2013

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 to members and depositors free of charge on demand from the head office after 15 March 2013.

Summary Directors' report

The business review for 2012 is discussed in the Chief Executive's review on page 6.

Summary Financial Statement for the year ended 31 December 2012

Results for the year	**2012**	**2011**
	£000	£000
Net interest receivable	2,069	2,057
Other income and charges	41	38
Administration expenses	(1,550)	(1,388)
Provisions	88	(94)
Provisions for FSCS Levy	(53)	(54)
Profit for the year before taxation	595	559
Taxation on profit on ordinary activities	(136)	(134)
Profit for the year	459	425

Financial position at end of year	**2012**	**2011**
Assets		
Liquid assets	30,744	28,869
Mortgages	77,339	72,982
Fixed and other assets	1,648	1,601
Total assets	109,731	103,452
Liabilities		
Shares	96,466	90,175
Borrowings	5,458	5,968
Other liabilities	588	549
Subordinated liabilities	1,246	1,246
Reserves	5,973	5,514
Total liabilities	109,731	103,452

Summary of key financial ratios

	2012	**2011**
	%	%
Gross capital as a percentage of shares and borrowings	6.98	7.03
Liquid assets as a percentage of shares and borrowings	30.16	30.03
Profit for the year as a percentage of mean total assets	0.43	0.43
Management expenses as a percentage of mean total assets	1.45	1.39

Gross capital represents the general reserves and subordinated liabilities as shown in the balance sheet.
Liquid assets are taken from the items so named in the balance sheet.
The **profit after taxation** is the profit for the year as shown in the income and expenditure account.
Management expenses are the administrative expenses plus depreciation and amortisation for the year as shown in the income and expenditure account.
Mean total assets are the average of the 2012 and 2011 total assets.

Approved by the Board of Directors on 25 February 2013 and signed on its behalf by
M.J. Lynch 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 for the year ended 31 December 2012 set out on page 10.

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 2012, 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 2012 with the full Annual Accounts, 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.

We also read the other information contained in the Annual Review 2012 and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 *The auditor's statement on the summary financial statement in the United Kingdom* issued by the Auditing Practices Board. Our report on the society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of Ecology Building Society for the year ended 31 December 2012 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 annual accounts (25 February 2013) and the date of this statement.

Jonathan Holt
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James Square, Manchester, M2 6DS
28 February 2013

Summary Directors' remuneration report

	2012 Fees £000's	2011 Fees £000's
Malcolm Lynch	13	13
Tony Taylor[1]	14	10
Janet Slade (Jan – Apr 2012)	3	10
David Black	11	10
Pamela Parkinson (Jan-Apr 2011)	-	3
Mark Jones	9	10
Steven Round	9	8
Adam Clark (Jan – Nov 2012)	9	1
Helen Ashley Taylor (May - Dec 2012)	5	-
Totals	73	65

[1] *Includes additional remuneration in relation to oversight of the Society's Risk function*

2012	Salary £000's	Profit Related Pay[2] £000's	Taxable Benefits £000's	Contributions to Pension Scheme £000's	Total £000's
Paul Ellis (Chief Executive)	72	3	2	6	83
Pam Waring (Finance Director)	63	2	1	5	71
Totals	**135**	**5**	**3**	**11**	**154**

2011	Salary £000's	Profit Related Pay[2] £000's	Taxable Benefits £000's	Contributions to Pension Scheme £000's	Total £000's
Paul Ellis (Chief Executive)	70	2	2	6	80
Pam Waring (Finance Director)	62	1	1	5	69
Totals	**132**	**3**	**3**	**11**	**149**

[2] *Profit Related pay relates to the scheme in operation in 2011*

The pension cost represents the contributions made by the Society during the year to the directors' individual personal pension plans. A contribution of 8% of gross salary is paid in respect of PC Ellis and P Waring.

Remuneration policy

The Society has a long established policy that no basic salary will exceed a maximum of five times the lowest full grade available.

The Society makes contributions to a group personal pension for each member of staff. A death in service scheme is operated which pays a lump sum of four times basic salary. A profit related pay scheme is also in place. These arrangements apply equally to all qualifying staff, with no enhanced arrangements for senior management.

Savings interest rates during 2012

	AER/Gross pa % 1.1.12
Ordinary Share	1.00
Ordinary Deposit	1.00
Eco-Instant and Corporate Deposit	
£1 - £499	1.00
£500 - £4,999	1.00
£5,000 - £9,999	1.00
£10,000 and over	1.00
Charity Deposit	1.00
Earthsaver Bond Issue 2, Issue 3 and Issue 4	
£500 - £4,999	2.00
£5,000 - £9,999	2.00
£10,000 and over	2.25

	AER/Gross pa % 1.1.12
Eco-60 Share	
£500 - £2,499	1.00
£2,500 - £4,999	1.00
£5,000 - £9,999	1.00
£10,000 - £24,999	1.50
£25,000 and over	1.80
Earthwise Cash ISA	2.00
Foundation Supporters	2.00
Foundations Share	1.00
Foundations Cash ISA	2.00
Foundations Deposit	1.00

Interest is paid or credited after deduction of income tax at the appropriate rate. All interest rates are quoted gross. AER stands for Annual Equivalent Rate and provides a means of comparing interest rates by showing what the rate would be if interest were paid and added once a year.

Mortgage interest rates during 2012

Basic Variable Mortgage Rate as of 1.1.12 = 4.90%

Bank of England Base rate during 2012

1.1.12 = 0.50%

Please contact the office for current interest rates or visit our website **www.ecology.co.uk**

Measuring what matters

For us, money is a means to an end, not an end in itself. We exist to build a greener society, through our unique lending programme, and to support the shift to a more sustainable, democratic economy.

We're committed to improving the way we monitor and report on our environmental and social impact. In 2012 we mapped out the key outcomes we want to deliver and we started collecting information that will help us assess our progress in these areas. You can find some of these figures below. We also believe that listening to our members is a very important way to judge our impact, so we started a programme of case study visits to saving and borrowing members which will continue in 2013.

Ian's story: a local, affordable place to live

Ian lives in an affordable housing project in the village of High Bickington in Devon, which Ecology has supported by providing mortgages for a number of residents.

High Bickington Community Property Trust was formed in 2000 by community members who wanted to develop a farm site into affordable homes for local people, as well as workspace, community facilities and woodland. All the properties are constructed to Code for Sustainable Homes level 4, meaning they have high energy efficiency and predicted low running costs – a key part of affordability.

Ian has lived in High Bickington all his life and didn't want to move away, but the high cost and limited availability of housing in the village meant he was forced to consider a move to Barnstaple.

He had been saving for a deposit for two years, so when he heard about the shared ownership development he was keen to apply. Other lenders weren't interested in shared ownership or asked for a very high deposit, but Ian found Ecology's approach to be much more helpful.

Ian moved into the development in March 2012 and is very proud to have his own home in High Bickington. He feels the project is a really positive development for local young people, who can now buy an affordable property in the area rather than moving away – as well as for the rest of the villagers, who are pleased to see them stay. Ian also appreciates the sustainable features of the properties: the insulation means he rarely has to turn on the heating and when he does it's fired by the community wood chip boiler.

Ian has now joined the Community Property Trust so that he can help other people to benefit from the development and he is also helping to set up a residents' association to deal with day-to-day issues on the site.

"Ecology were easy to communicate with and made me feel like a valued customer."

In 2012 we gave C-Change sustainable homes discounts to **45** properties, meaning they achieved a recognised sustainability standard

20% of the properties we made loans to in 2012 have already received a C-Change sustainable homes discount and another **39%** are expected to receive a discount when they are completed

We gave **8** C-Change energy efficiency discounts, with a value of **£213,995** - representing monies used for installing energy efficiency or renewable energy measures

The average EPC of rated properties on our database was **B** compared to a UK average of **D**

95% of respondents at our 2012 AGM said they felt informed about our work and **68%** felt involved in our work

Since working for Ecology, **60%** of our staff have become more interested in environmental issues

In 2012 our savers' deposits totalled **£101.9m** – money which could otherwise have been placed with institutions whose lending undermines sustainability

Our carbon footprint

Our lending to support energy efficient properties helps to reduce the carbon emitted by our housing stock, but our operations as a business generate some carbon emissions themselves. We are committed to reducing our energy use wherever possible and to increasing the amount of energy we generate ourselves to power our eco-HQ.

We have offset the carbon emissions our operations have generated since 1981. In 2012, we began working with Mike Berners-Lee, Director of Small World Consulting, to develop a revised methodology which takes into account the indirect impact of the goods and services we purchase from suppliers. This will mean our carbon footprint is more transparent and more accurate, and we will share this information on our website and in the media.

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 the 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 delay or 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 amount of money lent out and secured on property or land.

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, for example, because they have come to the end of the mortgage term or because they have transferred the mortgage to another provider.

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.

2012 : Our year in numbers

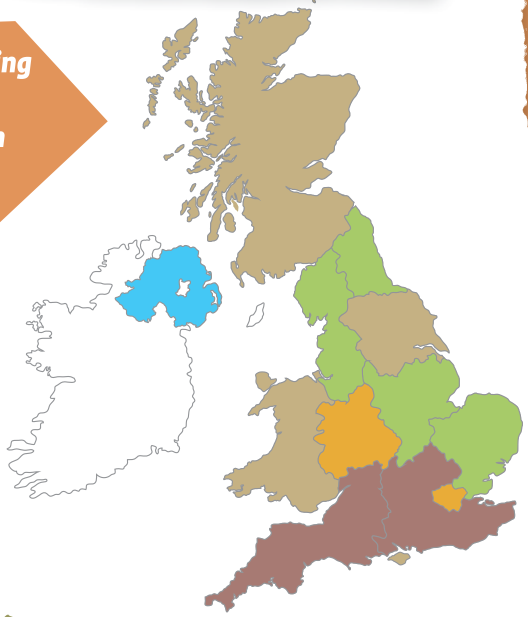
£14 million lent across 96 sustainable properties and projects

84% to residential properties (including owner-occupied, buy-to-let and shared ownership properties)

16% to developments for community gain (including charities, housing cooperatives and community businesses)

"Now I know that the money I save is helping other people – it means so much to me. I'm very happy... thank you!"

Our strongest area of lending was the South West, with our lowest lending levels in Northern Ireland



SPREAD OF LENDING

- Below 3%
- 3% to 5%
- 6% to 8%
- 9% to 11%
- 12% or more

We supported

51 new build projects

23 conversions and renovations

9 woodlands

1 housing co-operative

52 projects included solar photovoltaic panels or solar water heating

34 projects used rainwater harvesting

2 were built with straw bales

"It has only been through Ecology's help, vision and support that we have been able to build the type of house with the values we believe in."

"We will continue to sing Ecology's praises as the most helpful, understanding and above all human company we have ever dealt with."

The total amount lent out at 31 December 2012 was **£77.5 million**

"Thank you for being there and helping to contribute to a happier future!"

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