Ecology
Building Society

Annual Review 2013

Building a greener society

Welcome to your Annual Review for 2013. 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. You can find a glossary of some of the financial terms used in this booklet on page 15.

Our vision for a greener society

Our vision is of a sustainable future in which our needs are balanced with those of future generations and the wider ecosystem. A future in which the environment supports life for all species, within a habitable climate, and where renewable energy and resource conservation are the norm. A future in which local communities are the building blocks of society, with high levels of participation and wellbeing, and fair allocation of resources.

We're helping to bring about this future by supporting properties and projects that use environmental building practices, improve the energy efficiency of our building stock, or help people live and work in a more sustainable way. In doing so, we're showing that finance can be about long-term impact, not short-term greed. And we're building a community of people like you who want to use their money to do something good in the world.

Rita's story: a fairer way of doing finance

Rita (pictured on our cover) has saved with Ecology for over 15 years and runs Sonia's Smile, a Fairtrade shop in Haworth, the first Fairtrade village in the world. Rita is also one of the main organisers of the popular local Fair Intents eco festival, at which Ecology has sponsored the solar-powered sound and lighting. In 2005, Rita joined other members to help us build our straw bale meeting room at Ecology's head office.

"You don't have control over a lot of things in this world, but you do have choices. Where there's a green or ethical option, I always try to choose it.

I love the fact that Ecology is willing to loan to individuals with the vision and courage to take on and rescue unusual and derelict properties, often saving our heritage and always putting the environment first. Above all, the core principle is about how to use funds wisely and ethically rather than just profit."

Notice of Annual General Meeting

Notice is given that the thirty-third Annual General Meeting of the members of Ecology Building Society will be held on Saturday 26 April 2014 at The Abbey Centre, 34 Great Smith Street, Westminster, London SW1P 3BU 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 2013.
3. To pass an Ordinary Resolution to appoint KPMG LLP as auditors until the conclusion of the next Annual General Meeting [see explanatory note 1].
4. To pass an Ordinary Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2013.
5. To consider and, if thought fit, to pass the following resolution as a Special Resolution [see explanatory note 2]:

   That the Rules of the Society be amended in the manner specified in the document produced to the meeting and initialled by the Chair for the purposes of identification.
6. To elect/re-elect the following as Directors of the Society:

   i. MALCOLM JOHN LYNCH [see explanatory note 3]

   ii. TIMOTHY DAVID MORGAN [see explanatory note 4]

   iii. CHRISTOPHER JON NEWMAN [see explanatory note 5]

   iv. ALISON VIPOND [see explanatory note 6]
7. To transact any other business permitted by the Rules of the Society.

By Order of the Board
Pam Waring
Secretary
3 March 2014

See Notes on voting, page 5

From the Chair

As I write this report, I am travelling by train from Leeds to the South West of England. Either side of the tracks are slipped embankments and newly created lakes, with water lapping at the boundaries of some of the properties. The work of Ecology Building Society has never seemed more relevant.

I am pleased to introduce the Society's report for the year to 31 December 2013. Ecology has made good progress on several fronts during this year and ended the year in a good position to advance the Society's ecological mission further. As our Chief Executive's report details, 2013 was a solid year in financial terms. This is a noteworthy achievement given the difficulty of the low interest rate environment in which the Society operates.

Over the course of the year, the Society has tried to maintain its rates for existing savers, while recognising that the difficulties at the Co-operative Bank have led new ethical savers to Ecology. The Society has deliberately operated with a very low margin between our saving and borrowing rates, in order to deliver value to both borrowers and savers.

The growth of new mortgages during the year has been heavily directed towards new buildings. I do not think that Ecology will overcome the dearth of new house building by itself, but we play an important role in supporting projects that exemplify the building standards of the future. Improving the energy efficiency of existing stock is also core to the Society's mission and our work with organisations such as the Empty Homes Agency aims to deliver warmer, affordable homes and revitalised communities.

In all of our work we remain very aware that our mandate to act comes only from our community of members. This is the bedrock of our corporate culture, set by the Board of Directors and realised in every interaction we have with our members. Culture has recently become a focus for one of our regulators, the Financial Conduct Authority – a welcome and overdue development. We believe Ecology stands apart from mainstream financial organisations because of our ethical approach, but we also recognise the need to ensure that as Ecology grows, our culture must not become diluted or distorted. So the Society has added Ethics to the responsibility of its Risk, Audit and Compliance Committee, and has embarked on developing a framework for monitoring and managing our standards of conduct.

At this year's Annual General Meeting, we will be introducing our members to three new Non-Executive Directors seeking election. Tim Morgan is an accountant by training, with experience in fair trade; Chris Newman is an energy efficiency expert with a previous career in financial services; and Alison Vipond has a background in environmental policy. I believe that these appointments strengthen the Board significantly and put the Society in a very good position to address the challenges of the future.

At the same time, our AGM marks the retirement of Tony Taylor, who has been Vice Chair since 2012. Tony has been an exceptionally valuable member of the Board for many years, latterly serving as the Chair of our Risk, Audit, Compliance and Ethics Committee, bringing insights from his background in larger building societies.

I would like to thank the Board and all of our staff for their hard work and attention to our members' needs, which has enabled Ecology to grow throughout these difficult financial times. I would particularly like to draw your attention to the fact that our Chief Executive, Paul Ellis, is now the longest serving Chief Executive in the building society sector. His commitment to our ecological mission and deep sense of service to our members has guided the Society to the strong position we stand in today.

Malcolm Lynch

Malcolm Lynch - Chair
3 March 2014

Directors' statements

Alison Vipond

I was extremely pleased to be appointed to Ecology's Board in September 2013. I represent the members' interests and the environment throughout Ecology's work.

I have a lifelong passion for the environment. I have a career background as an atmospheric scientist and policy advisor, addressing air pollution and climate change. I have worked with the European Union and United Nations to develop international strategies to tackle emissions.

I live in Northumberland with my husband and two young boys. I am active in the Transition Network, volunteering on community green energy projects and I coordinate a local energy efficiency project, helping residents in my village to reduce their fuel bills and their carbon footprint. I understand the challenges and joys of 'green building', thanks to extending and eco-renovating my family home. I am experiencing first hand the transformation from a cold, draughty house to a cosy, efficient home, and I want to help more people achieve that.

The financial crisis impelled me to join the ethical banking movement. I care passionately that savers and borrowers have access to financial services that are mutually beneficial, sustainable and transparent. I save with Ecology because it ticks all those boxes, with the added value of promoting sustainable homes and communities for a low carbon future.

Since joining the Board, I have embraced the challenges and responsibilities of directing the Society. I have contributed to the full breadth of Ecology's work, from offsetting our carbon footprint, to developing our strategy for the years ahead. I have drawn upon my experience in policy formulation and my analytical skills as a scientist, to understand our financial models and to manage risk. I have quickly become immersed in the world of rigorous financial regulation.

It is a privilege to work as a member of Ecology's Board and I sincerely hope that you will want me to carry on. If elected, I will ensure that Ecology continues to provide a trusted service, fulfilling its regulatory obligations and bringing mutual benefits to an increasing number of savers and borrowers. At the same time, I will ensure that Ecology's ethics and environmental mission remain at the heart of our work.

I would very much welcome your support to continue as a Non-Executive Director. Thank you.

Malcolm Lynch

I have had the privilege of serving as your Chair since 2010, and of serving as a Non-Executive Director since 1998. During this period, the Society has experienced unprecedented growth against a backdrop of the financial crisis and a widespread loss of faith in the banking industry. I am proud that Ecology has steered a safe course through these turbulent times and has remained focussed on its mission to improve the environment.

I am seeking re-election to the Board of Directors for a final one year term. The Financial Conduct Authority requires your Board to have a mixture of Non-Executive Directors not only as to background, but also as to tenure, and I believe it is important that we gradually renew the Board to bring in new skills and new ideas. In my final year I will assist the Board to make a decision on a replacement with a legal background.

I work as a solicitor advising charities and social economy organisations and have been an ethical saver for almost as long as I have had a bank account. I am also committed to improving the energy efficiency of my own property and hope to benefit from the expertise of my fellow Directors in this area.

I hope that you feel I have served your Society well and will support me to lead the Society for a final year.

Tim Morgan

I am very pleased and proud to have been co-opted to the Board of Ecology Building Society and hope very much that fellow members will support me by election at the 2014 AGM.

As you may have seen from the website or winter newsletter, 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 the last 20 years, including Board roles with leading fair trade organisations such as Traidcraft and Cafédirect. I am also currently a non-executive director in the NHS.

With a background in finance and governance, I have been asked by the Board to fill the very large shoes of Tony Taylor as Audit Committee Chair when he leaves the Board at the AGM. I bring considerable experience of both chairing and serving a range of audit committees and Tony has been most helpful in starting to induct me into the building-society-specific issues in this important role. If elected, I pledge to try to continue the very high level of service and expertise which Tony has brought to the role.

Whilst I cannot claim any professional expertise in environmental issues, I would definitely call myself an amateur environmental champion and strongly support the aims and purpose of Ecology Building Society. As you can see from my background, there is also a particular resonance for me with member-controlled organisations, guided by a strong social purpose whilst remaining financially viable and complying with the necessary rules.

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

Chris Newman

I joined the Board in September 2013. I was primarily asked because of my knowledge of low energy retrofit and associated technologies, but also because of my relevant internal audit and compliance experience from my previous career in an investment bank.

I have long admired the work Ecology Building Society does across the sustainable building sector and am really looking forward to helping it continue to meet the expectations of both its members and other stakeholders and regulators.

I have really enjoyed my short time on the Board to date and have been very impressed with the breadth of knowledge and experience the Society has attracted in its Non-Executives.

So far my duties alongside Board meeting attendance have included serving on the Board Lending Committee and taking part in a Board strategy day.

The combination of the regulatory environment, the technicalities of sustainable building and the pressures of climate change make the Non-Executive role demanding, extremely important and hugely rewarding. I'm hoping that my varied relevant background will help my fresh pair of eyes bring real value to the Board, of which, with the support of the members, I would like to be part of for many years.

Together with my young family, I live in a recently eco-renovated Victorian property that we regularly open up to tours. We've cut the CO_2 emissions from the house by 80%.

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 **www.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 23 April 2014. 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. KPMG Audit Plc have notified the Society that they are not seeking reappointment. It is proposed that KPMG LLP be and are hereby appointed auditors of the Society and will hold office from the conclusion of this Meeting until the conclusion of the next General Meeting at which accounts are laid before the Society, and that their remuneration be fixed by the Directors.

2. The Board is proposing a number of changes to the Society's Rules at this year's AGM to permit the issue of new forms of capital instrument and to update the Rules regarding Deferred Shares in line with an update to the Building Societies Association Model Rules issued in October 2013. A summary of the principal proposed changes is set out below. A copy of the document setting out the proposed amendments and a copy of the existing Rules showing the proposed changes are available on the Society's website at **www.ecology.co.uk/about/corporate** or may be obtained by a member on request to the Secretary, Ecology Building Society, 7 Belton Road, Silsden, Keighley BD20 0EE.

The Board believes that these Rule changes will benefit the Society and its members and give the Society the updated powers it needs to issue capital instruments and recommends that members vote for the Rule changes.

3. Malcolm John Lynch retires by rotation under Rule 26(2) and, being eligible, offers himself for re-election.

4. Timothy David Morgan was appointed a Director on 28 August 2013 under Rule 25(4) and, being eligible, offers himself for election.

5. Christopher Jon Newman was appointed a Director on 27 September 2013 under Rule 25(4) and, being eligible, offers himself for election.

6. Alison Vipond was appointed a Director on 27 September 2013 under Rule 25(4) and, being eligible, offers herself for election.

Further information on Resolutions

Resolution 3: KPMG Audit PLC and KPMG LLP

KPMG is a global network of professional firms providing audit, tax and advisory services. Prior to the mid-1990s, KPMG was a set of regional partnerships with unlimited liability. In 1996, KPMG UK transferred its audit business of UK-listed and regulated companies to a separately incorporated company, KPMG Audit Plc, in order to ring-fence potential exposure to litigation arising out of audit work.

KPMG Audit Plc is registered as a public limited company and is wholly owned by KPMG LLP (Limited Liability Partnership), which was established in 2002 in accordance with the LLP Act 2000 and Regulations 2001. Following the formation of KPMG LLP the original rationale for the existence of KPMG Audit Plc no longer applies and it contributes additional complexity to KPMG's business while providing no operational benefit. As such, KPMG LLP is seeking to wind down KPMG Audit Plc and recommends that KPMG LLP becomes Ecology's auditor. There is no change to the team which works with Ecology, or KPMG's policies and procedures.

Resolution 5: Proposed Rule Changes

The Board is proposing Rule changes to permit the issue of new forms of capital instrument and to update the Rules regarding Deferred Shares in line with an update to the Building Societies Association Model Rules issued in October 2013.

Changes regarding Capital Instruments

The Society (like other building societies and banks) has to maintain capital as protection against losses. The Society's capital has to date consisted mainly of retained profits supplemented by subordinated debt. Regulatory changes in the UK and Europe mean that financial institutions are required to hold more Core Tier 1 Capital (or 'Common Equity Tier 1 Capital' as it is referred to).

New forms of qualifying capital instrument are available to building societies under the new European regulations, including 'Core Capital Deferred Shares' (CCDS), which will count as Common Equity Tier 1 Capital, and other forms of capital. The Rule alterations are designed to enable the Society to issue capital instruments of this nature, should the Board believe it is in the interests of members to do so. The Society's existing Rules which cover Deferred Shares are also being updated as part of these changes.

Proposed alterations to the Rules include the following:

- Extending definitions to include 'Deferred Share' (which includes CCDS and, potentially, other forms of capital under the new European regulations); there is also a specific definition of CCDS, and definitions relating to 'Periodic Distributions' i.e. any distributions paid to CCDS holders. In particular there is a definition of 'Periodic Distributions Cap' which, in order to protect the Society's reserves, limits the maximum amount of distributions which the Society may pay on any CCDS initially to £0.15 per share per year (calculated on an assumed first issue price of £1 per share).

- The Society will have the power to issue different types of Deferred Share to satisfy the requirements under the new European regulations for different types of capital instrument.

- The Board will have the authority to decide and publish the Society's policy on Periodic Distributions, and (subject to the Periodic Distributions Cap) to decide the amount of Periodic Distributions (if any) to be paid on the CCDS each year. Periodic Distributions would generally be paid from profits earned in the relevant year.

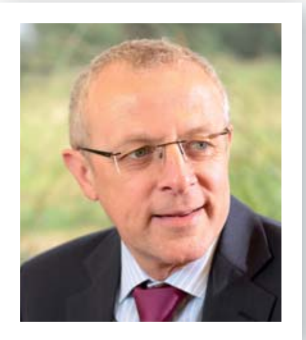
- Clarification of the order in which any losses of the Society would be met: generally, the reserves continue to take the first loss, and if they are fully depleted then investors in the Society will take losses according to the ranking of their investment in the Society. CCDS (which will absorb losses at the same time as reserves) will be the lowest ranking capital (ranking below creditors and all other members). Under the new European regulations, the Society may also issue different types of instrument which, by their terms of issue or by applicable law, may, in certain circumstances, take losses even before the reserves are fully depleted.

- Clarification that, on a winding-up, a CCDS holder would not receive any payment until all creditors and other members had been repaid. Also to provide that CCDS holders may share in any surplus assets on a winding-up: the terms of issue of CCDS will set out how this share is to be calculated.

If you would like more information, a copy of the document setting out all the proposed changes, a copy of the existing Rules showing the proposed changes, and a copy of the Rules including the changes proposed are available on the Society's website at **www.ecology.co.uk/about/corporate** or may be obtained by a member on request to the Secretary, Ecology Building Society, 7 Belton Road, Silsden, Keighley BD20 0EE.

Chief Executive's review

Overview



I am pleased to report that in 2013 Ecology experienced an exceptional year in pursuit of our environmental and social objectives. This was a year of hard work and notable progress in advancing our aims to support sustainable communities, affordable housing and transparent mutual governance.

Over the course of the year, the Society achieved outstanding results in terms of lending, attracting savers' funds, and growing our assets. After a slow start to 2013, we broke records for new lending and net lending. This was supported by a record inflow of members' funds, which translated to one of the highest annual growth rates recorded by the Society.

We achieved these results while strengthening the mutual governance, staff resources and global influence of the Society. As well as hosting our most successful and participative AGM for some years, we expanded our existing Members Panel and re-launched it as our **Ethics Panel**, which gives us a forum for gathering members' views on our policies, practice and products.

We continued to expand our staff complement during the year, to enable the Society to plan for continued growth. We welcomed **Tori Halliday** as Communications Assistant to allow us to promote ourselves more widely, **Joe Bell** as a Systems Developer to help us ensure our technology evolves in line with our changing work, and **Karen Knowles** as our new Governance Officer to keep the Directors on their toes! We also recruited **Charlotte Richardson** as an experienced mortgage underwriter to ensure we can keep up with the flow of applications.

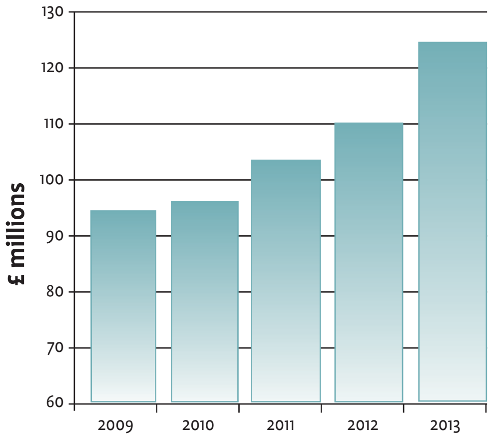
In April, the Society was accepted as a full member of the **Global Alliance for Banking on Values** (**www.gabv.org**), which brings together the leading financial institutions from across the globe who are pursuing a common agenda of banking for sustainability. With assets of over $70bn, GABV members can show that collectively they have outperformed mainstream banks comprehensively since the financial crisis commenced.

We continued to act as an innovator in the financial system, supporting a number of projects that aim to find ways to address the issue of empty homes, including a scheme in Leeds to create community-owned affordable housing. We have also contributed to initiatives to promote reform in the financial sector, such as the **Transforming Finance** project (**www.transformingfinance.org.uk**), and we continued to lobby with partner organisations for the wider sector of social investment.

Against a backdrop of ongoing scandals in the financial sector, our biggest challenge was ensuring that our popularity with savers did not create excessive liquidity. This led to the introduction of temporary restrictions on some of our savings accounts, a development which we will seek to reverse when market and business conditions allow. The challenge for the year to come will be to build on the lending success experienced in 2013, thereby enabling the Society to continue to expand its membership by accepting the high levels of deposits we are able to attract.

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.

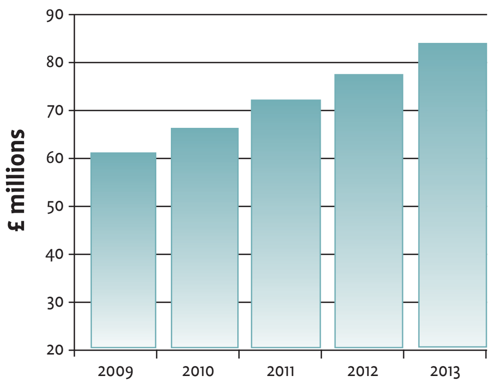
Asset growth



Total Assets

Total assets reached a record level at year end of £124.8m, a rise of 13.73% (2012: 6.10%). The growth level would have been higher were it not for measures that we took to restrict inflow of funds, necessary to ensure that the overall financial sustainability of the Society did not suffer. It is necessary to restrict liquidity to ensure that profits can be maintained, these profits being the main source of capital available to the Society. Despite the increase in overall lending, we ended the year with higher levels of liquid funds than our preferred level – another reason why we will continue to extend our reach to potential borrowers in 2014.

Mortgage lending



Mortgage Assets

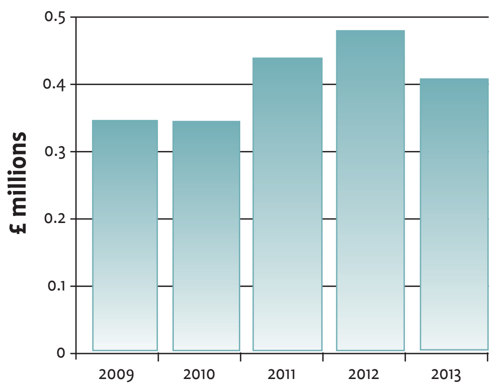
The Society's Standard Variable Rate remained unchanged at 4.90%. In addition at the year end, over 26% of the mortgage book was benefitting from one of our C-Change discounts which reward energy efficiency. Gross lending totalled £18.4m, a new record, while net lending also reached a new high at

£10.3m – topping the £10m mark for the first time. As a result, mortgage asset growth increased by 7.64% against 6.0% in 2012. ***These record figures further demonstrate that the Society's mortgage lending is both effective in contributing to building a sustainable economy and creating a sustainable housing stock, while meeting the needs of individual borrowers in enabling their projects to come to fruition.***

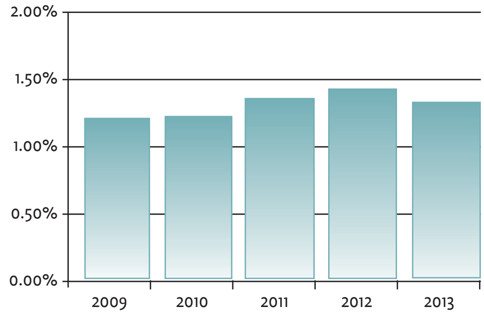
Total provisions against possible mortgage losses increased to £248,000 (2012: £196,000). This increase relates to one case where the counterparty continues to perform, but where difficult trading conditions have been encountered, and so the setting of a provision is seen as a prudent measure. Otherwise, the arrears experience remains positive and no new cases have emerged with the potential of a loss. In accordance with our wish to be a supportive lender, ***we advise borrowers who are experiencing difficulties to seek free advice about problem debt from specialist counselling services. Wherever possible we aim to exercise forbearance, in the form of payment holidays, changes to payment schedules, interest-only arrangements and amendments to the term of the mortgage. This approach aims to give the borrower breathing space to sort out their financial affairs, as long as the risk to the borrower is not unduly increased by doing so.***

Profit and capital

Net profit (surplus) for the year at £402,000 was 12.42% lower (2012: £459,000). Profit levels were impacted by the higher levels of liquidity. However, after discounting the effect of provisions and write-backs, profit before tax rose by 15.78% to £587,000 from £507,000 in 2012, so the underlying profitability of the Society remains solid. Our pre-tax profits continue to be depressed by the ongoing need to contribute to the resolution arrangements for a number of failed financial institutions. The provision made in this respect for 2013 amounted to 17.60% of the overall gross profit of the Society, and the total sums paid in interest by the Society now amount to over £197,000, a sum that we regard as out of all proportion to the risk posed by the Society to the financial system. We aim to generate sufficient profit to ensure that we have enough capital to underpin our future lending programme and other business assets, so our capacity to expand is impacted by the size of this levy and the subsequent losses in future income. Yet while failed nationalised banks subject to substantial fines for unethical selling practices can make plans to sell shares to the general public, the FCA is minded to disallow this option for building societies – a view which we feel shows a need by the Regulators to better understand the social investment sector in particular, and the motivations of social investors.

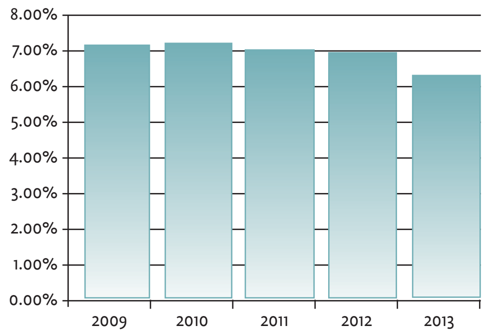


Profit



Management Expenses Ratio

The trend of recent years of an increasing Management Expenses Ratio was reversed, with a reduction to 1.36% (2012: 1.45%). This was achieved by containing the increase in administration costs, with a 2.65% rise against increases of 11.34% in 2012 and 21.85% in 2011 (resulting from compliance costs and investment in development of our proposed capital instrument). This outcome also reflects our very healthy level of growth and demonstrates that rising costs can be offset against a larger pool of assets. ***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 for the less sustainable option. Without this extra cost, in 2013 our Management Expenses ratio would have been 1.31% against 1.36%, so our ethical purchasing policy added 3.55% to our costs (2012: 4.63%)***

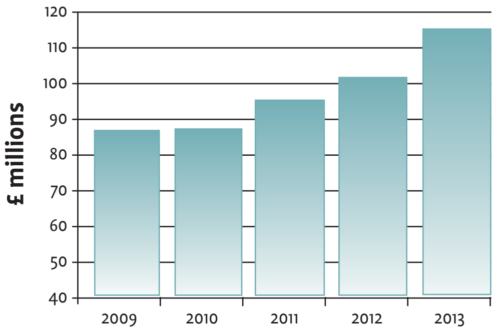


Gross Capital Ratio

The Gross Capital Ratio reduced to 6.37% in 2013 (2012: 6.98%). This reduction is due to the substantial increase in deposits with the Society and amortisation of the remaining supplementary capital (subordinated debt) held by the Society. Now that the new international capital rules (Basel 3) have come in to force, this debt must be amortised at an accelerated rate. The Society still intends to seek fresh capital, to enable it to fulfil its potential for growth, react to further expected regulatory changes, and continue to contribute to the repayment of the borrowings made by the Financial Services Compensation Scheme. Current expectations are that this will occur in 2016 and be raised from institutional investors. To enable this to happen, we are seeking member approval at this AGM for further rule changes in relation to capital-raising.

Savings and liquidity

During the year the Society experienced a surge in savings balances, which increased by £14.6m reaching £116.6m, representing an increase of 14.36% (2012: 5.99%). The growth in savings balances was partly driven by the favourable publicity we continued to receive from campaigning organisations, but also as a result of the well-publicised events at the Co-operative Bank, which led to many



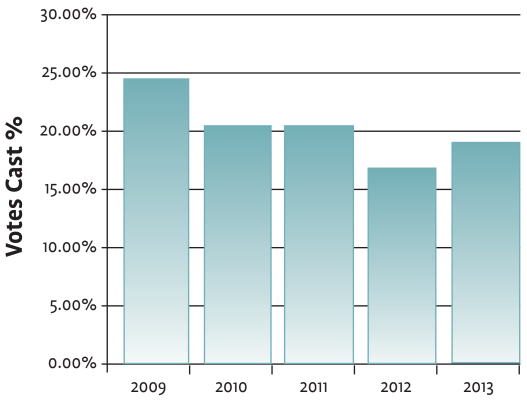
Savings Balances

ethical savers exploring new homes for their funds. In addition, ***the Society's longstanding commitment to never pay less than 1.00% gross interest to savers*** continued to attract deposits.

We continued with our policy of monitoring and recording the environmental and ethical practices of our counterparties (banks and other building societies), with the caveat that in the current economic circumstances, our desire to use the most ethical counterparties must be balanced with financial prudence. Further, holding excess liquidity is a cost to the Society, especially when market rates are at record lows. It therefore became necessary to further restrict the availability of certain account types for new members, in order to enable the Society to maintain rates for existing savings members. However, despite these restrictions, liquidity jumped during the year to 34.27% (2012: 30.16%). ***We strive to hold no more funds in liquid form than is necessary to meet our obligations, as we want to ensure that the majority of funds held with the Society are used to support social and environmental projects.***

Member relations

The venue for our AGM in 2013 was Leeds, where we were hosted by borrowers Headingley Development Trust in their excellent HEART centre, which provides facilities to a diverse range of local community groups. The theme of the AGM was "Democratising Finance" and we explored what needed to be done to build a financial system that worked for people, planet and the real economy, and what Ecology could do to ensure that the Society deepened its commitment to mutual interaction. A well-attended event was mirrored by an increase in the number of members voting which increased from 16.32% to 18.18%. Also, the proportion of members voting electronically again rose from 32.38% in 2012 to 38.77%, a trend which we are keen to encourage.



Voting Turnout

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 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:

AECB – 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.

Locality
The nationwide network for development trusts and community enterprises.

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

Schumacher Society
Non-profit organisation promoting human-scale development.

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

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

Woodland Trust
The UK's leading woodland conservation charity.

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), and also became full members of the Global Alliance for Banking on Values (GABV). GABV brings together the leading sustainable banks, credit unions and other mutual finance providers from across the globe, and provides a strong voice for banking for the real economy.

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, Mexico
Supporting delegates from less wealthy nations attending the *Promoting more inclusive and economic justice conference.*

Billinge and Orrell Transition Group, Wigan
A community supported market garden, box scheme and outdoor recreational area. Grant to be used for construction of hand-crafted bee hives.

The Nature of It, Chippenham
Working with schools, charities and in the community to encourage engagement with the outdoors. Ecology's grant will be used for installation of solar panels to power lighting, computer equipment and heating to take the eco hut off-grid.

Horton Community Farm, Bradford
A start up aiming to provide food growing workshops and fresh local food via a community agriculture scheme. The grant will be used for a growing area comprising 20 micro-growing plots.

Re-considered, Bradford
Recycles waste materials to be used in community based projects. The grant will fund the construction of a modular and portable reclaimed structure for use as a mobile, "pop up" community space.

Church Lane, Leeds
Self-managed allotment site of around 5 acres. The grant is to be used for construction of a composting toilet with disabled access.

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, the HALE Project (a health charity operating in West Yorkshire) and Home Start (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 possible we place funds with other social economy financial institutions such as Charity Bank.

The three main internal developments regarding our Environment Policy in 2013 were that:

- *We revisited our offsetting obligations and policy to ensure that we maintain absolute carbon neutrality*
- *We re-configured and upgraded our heating and ventilation systems in order to further improve energy efficiency within the HQ building*
- *We extended the photovoltaic array to increase the proportion of energy generated at our HQ.*

Our main commitments for 2014 are to:

- *Undertake the next phase of development of our Permaculture garden*
- *Install a charging point for members' electric vehicles*
- *Seek accreditation under the Investors in the Environment scheme.*

Future development of the Society

In 2014, the Society will continue to invest in new staff and the necessary resources to support our expected growth. We will continue to keep members informed of our plans and progress through our AGM, newsletters, e-newsletters, and our website. We believe we have a duty to demonstrate that the concept of a financial mutual dedicated to the development of a sustainable economy is a viable and necessary concept, despite the unfortunate events that have beset the Co-operative Bank.

Much of our focus in the first part of the year will be on regulatory changes such as the developing agenda of our regulators, the FCA, and in particular the changes required by the Mortgage Market Review (MMR). It is not clear what effect MMR will have on prospective borrowers but our team is working to make the transition as smooth as possible for our members and customers.

In the second part of the year, our attention will turn to reviewing our savings and lending services. We hope to carry out a major survey of the Society membership to refresh our understanding of what you expect of us and how we can support you, in terms of your financial services needs and in articulating your values in the sustainable banking space. Some preparatory work will also be undertaken for an anticipated expansion of the head office space according to Passivhaus principles, and the take-on of supplementary capital.

In recent months we have seen some pick-up in the economy. While this is to be welcomed to the extent that it relieves pressure on individuals and families, it is not at all clear that it is sustainable and certainly has not been engineered with sustainability in mind.

The progress of Ecology often runs counter to the general state of the economy and the housing market, because of our different objectives, and we are working towards achieving another solid year of growth in mortgage lending and deposits. This may be augmented by politicians edging away from strategic engagement with environmental improvements, thus leaving individuals, community groups and enlightened enterprises to fill the void.

While the Society is concerned with a wide range of ecological factors, not solely energy efficiency and climate change, we will make no apology for concluding that it makes more sense to accept the scientific consensus on the likelihood of a strong human influence on recent changes in global climate conditions. We do so in full knowledge that all science is based on a level of uncertainty at any time, and in the belief that the adaptation and mitigation necessitated by climate change will lead us towards a more sustainable economy in general. We believe this is an end worthy of pursuit in itself.

Which leads me to thank all of you, the members and owners of the Society, who give us the opportunity to explore our values via this wonderful organisation. We are grateful for all of your support in 2013 and we look forward to delivering another year of sustainable growth in 2014.

Paul Ellis

Paul Ellis - Chief Executive
3 March 2014

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 14 March 2013.

Summary Directors' report

The business review for 2013 is discussed in the Chief Executive's review on pages 6 to 9.

Summary Financial Statement for the year ended 31 December 2013

Results for the year	**2013**	**2012**
	£000	£000
Net interest receivable	2,203	2,069
Other income and charges	46	41
Administration expenses	(1,571)	(1,550)
Provisions	(50)	88
Provisions for FSCS Levy	(91)	(53)
Amounts written off fixed asset investments	(20)	–
Profit for the year before taxation	517	595
Taxation on profit on ordinary activities	(115)	(136)
Profit for the year	402	459

Financial position at end of year	**2013**	**2012**
Assets		
Liquid assets	39,942	30,744
Mortgages	83,250	77,339
Fixed and other assets	1,609	1,648
Total assets	124,801	109,731
Liabilities		
Shares	109,532	96,466
Borrowings	7,026	5,458
Other liabilities	621	588
Subordinated liabilities	1,247	1,246
Reserves	6,375	5,973
Total liabilities	124,801	109,731

Summary of key financial ratios

	2013	**2012**
	%	%
Gross capital as a percentage of shares and borrowings	6.37	6.98
Liquid assets as a percentage of shares and borrowings	34.27	30.16
Profit for the year as a percentage of mean total assets	0.34	0.43
Management expenses as a percentage of mean total assets	1.36	1.45

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 2013 and 2012 total assets.

Approved by the Board of Directors on 3 March 2014 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 2013 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 2013, 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 2013 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 2013 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 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 2013 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 (3 March 2014) 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
5 March 2014

Summary Directors' remuneration report

	2013 Fees £000's	2012 Fees £000's
Malcolm Lynch	14	13
Tony Taylor[1]	13	14
Janet Slade (Jan – Apr 2012)	-	3
David Black (Jan - April 2013)	4	11
Mark Jones (Jan - April 2013)	3	9
Steven Round	9	9
Adam Clark (Jan – Nov 2012)	-	9
Helen Ashley Taylor (May 2012 onwards)	9	5
Tim Morgan (Aug - Dec 2013)	5	-
Chris Newman (Sep - Dec 2013)	4	-
Alison Vipond (Sep - Dec 2013)	4	-
Totals	65	73

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

2013	Salary £000's	Performance Related Pay £000's	Taxable Benefits £000's	Contributions to Pension Scheme £000's	Total £000's
Paul Ellis (Chief Executive)	73	3	2	6	84
Pam Waring (Finance Director)	64	3	1	5	73
Totals	**137**	**6**	**3**	**11**	**157**

2012	Salary £000's	Performance Related Pay £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**

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 performance-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 2013

	AER/Gross pa % 1.1.13	AER/Gross pa % 1.5.13
Ordinary Share	1.00	1.00
Ordinary Deposit	1.00	1.00
Eco-Instant and Corporate Deposit		
£1 - £499	1.00	1.00
£500 - £4,999	1.00	1.00
£5,000 - £9,999	1.00	1.00
£10,000 and over	1.00	1.00
Charity Deposit	1.00	1.00
Earthsaver Bond Issue 2, Issue 3 and Issue 4		
£500 - £4,999	2.00	2.00
£5,000 - £9,999	2.00	2.00
£10,000 and over	2.25	2.25

	AER/Gross pa % 1.1.13	AER/Gross pa % 1.5.13
Eco-60 Share		
£500 - £2,499	1.00	1.00
£2,500 - £4,999	1.00	1.00
£5,000 - £9,999	1.00	1.00
£10,000 - £24,999	1.50	1.25
£25,000 and over	1.80	1.55
Earthwise Cash ISA	2.00	2.00
Foundation Supporters	2.00	2.00
Foundations Share	1.00	1.00
Foundations Cash ISA	2.00	2.00
Foundations Deposit	1.00	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 2013

Basic Variable Mortgage Rate as of 1.1.13 = 4.90%

Bank of England Base rate during 2013

1.1.13 = 0.50%

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

Measuring what matters

Our financial success is a sign that we're working efficiently, but it's only a means to an end: building a more sustainable future. The most important results for Ecology are the properties and projects we lend on, and the social and environmental impact they make.

We're committed to increasing the information we gather about our projects and using this information 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!

Catherine and Steve's story: building with nature

Built near the village of Llanfoist, just south of Abergavenny, Un Y Berllan (One the Orchard) was designed by Catherine and Steve as a low-impact home for their family (also pictured on page 11). They gave careful consideration to the house's relationship with its natural surroundings, the angle of its roof mirroring the ridge line of the iconic Skirrid Mountain to the north east.

Natural, locally sourced materials have been used throughout the build, including red sandstone, reclaimed slate and Welsh oak. Salvaged materials have also been put to use, with reclaimed wooden boards for flooring and restored chapel pews as dining room seating. Large windows allow natural light and warmth into the house, giving wide views of the surrounding mountains. The open plan design with curved internal walls helps to minimise the need for electric lighting and most of the house's heating is supplied via an oversized solar thermal array. When the Welsh winter really starts to bite, a log boiler stove, fuelled with leftover wood from a local tree surgeon, helps to keep the house warm.

Catherine and Steve's ultimate goal is for Un Y Berllan to meet all its energy needs without any reliance on fossil fuels. The combination of super insulation, exposed thermal mass and a large south-facing sun space have enabled Un Y Berllan to achieve an EPC A rating. But Catherine and Steve aren't ready to put their feet up yet: a herb garden and green sedum roof are already in the pipeline for 2014.

Wrabness Community Shop: good with people

When the owners of the Wrabness general store retired, it looked as though the village would be added to the long list of rural communities to lose their local shop. Determined to protect a valued resource, a group of villagers joined forces to create a new shop, managed and staffed by the local community.

The community shop initially ran from a leased building, but attention soon turned to the possibility of relocating to a community-owned premises. The first challenge was to raise the finances needed to relocate. In January 2013, a share scheme was opened and the local community rallied to support the scheme, with £135,455 being raised in nine months. The shares – along with an Ecology mortgage – meant the new shop was ready for its official launch in October 2013.

From the outset, the project received valuable advice and support from the Plunkett Foundation, the only national organisation supporting the development of community shops in the UK. In 2013 Ecology joined forces with Plunkett to offer a special mortgage package for community shops, reflecting our commitment to sustaining local economies.

Trading has begun strongly and the shop helps to combat social isolation by providing a meeting place for locals, with a small café area offering hot drinks and homemade cakes. Wrabness joins a growing movement of community-owned shops in the UK, which have increased from just 23 in 1993 to over 300 in 2013.

In 2013 we gave C-Change sustainable homes discounts to 44 properties – meaning they achieved a recognised sustainability standard.

We gave 8 C-Change energy efficiency discounts for loans used for installing energy efficiency or renewable energy measures.

70% of rated properties on our database had an EPC of A or B compared to a UK average of D

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 have worked with Small World Consulting, an associate company of Lancaster University, to develop a revised methodology which takes into account the indirect impact of the goods and services we purchase from suppliers.

We will share our carbon footprint for 2010 to 2012 on our website by October 2014, along with information on how we plan to reduce our energy use.

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 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.

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.

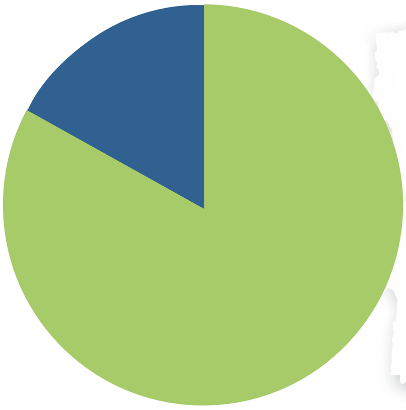
Subordinated debt
Debt that has a lower ranking than other forms of debt – if Ecology were to be wound down, subordinated debt would only be repaid after other claims on the business had been repaid.

Write-back
When the value of a provision is subsequently restored ('written back') to the balance sheet.

2013: Our year in numbers

£18.4 million lent across 122 sustainable properties and projects

"Ecology is second to none in promoting green building initiatives and for its all-round ethical stance."



83% to residential properties (including owner-occupied, buy-to-let and shared ownership properties)

17% to developments for community gain (including charities, housing cooperatives and community businesses)

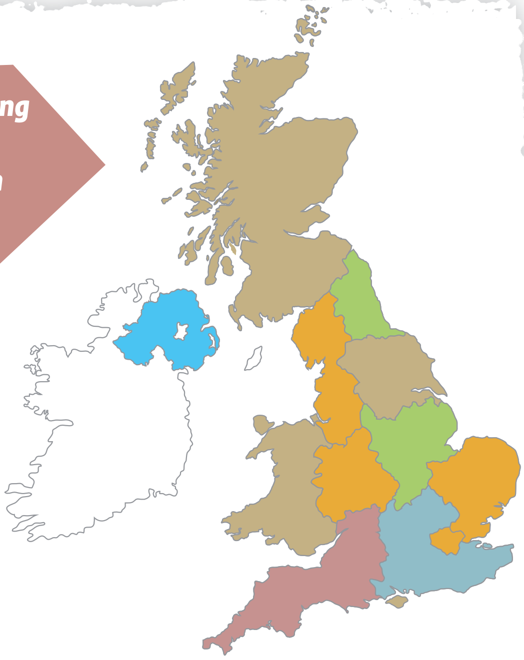
"Few lenders would consider a timber property, but Ecology supported us throughout the project."

The new loans we made included:

- **73** new builds
- **13** conversions
- **11** renovations
- **8** woodlands
- **5** housing co-ops
- **3** cohousing projects

"I don't know what we would have done without a mortgage from Ecology."

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% to 14%
- 15% or more

47 projects were timber framed

41 included rainwater harvesting

4 used structural insulated panels

"Thanks to all the staff... You have been a joy to work with."

Ecology Building Society, 7 Belton Road, Silsden, Keighley, West Yorkshire BD20 0EE.

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