Ecology
Building Society

Annual Review 2014

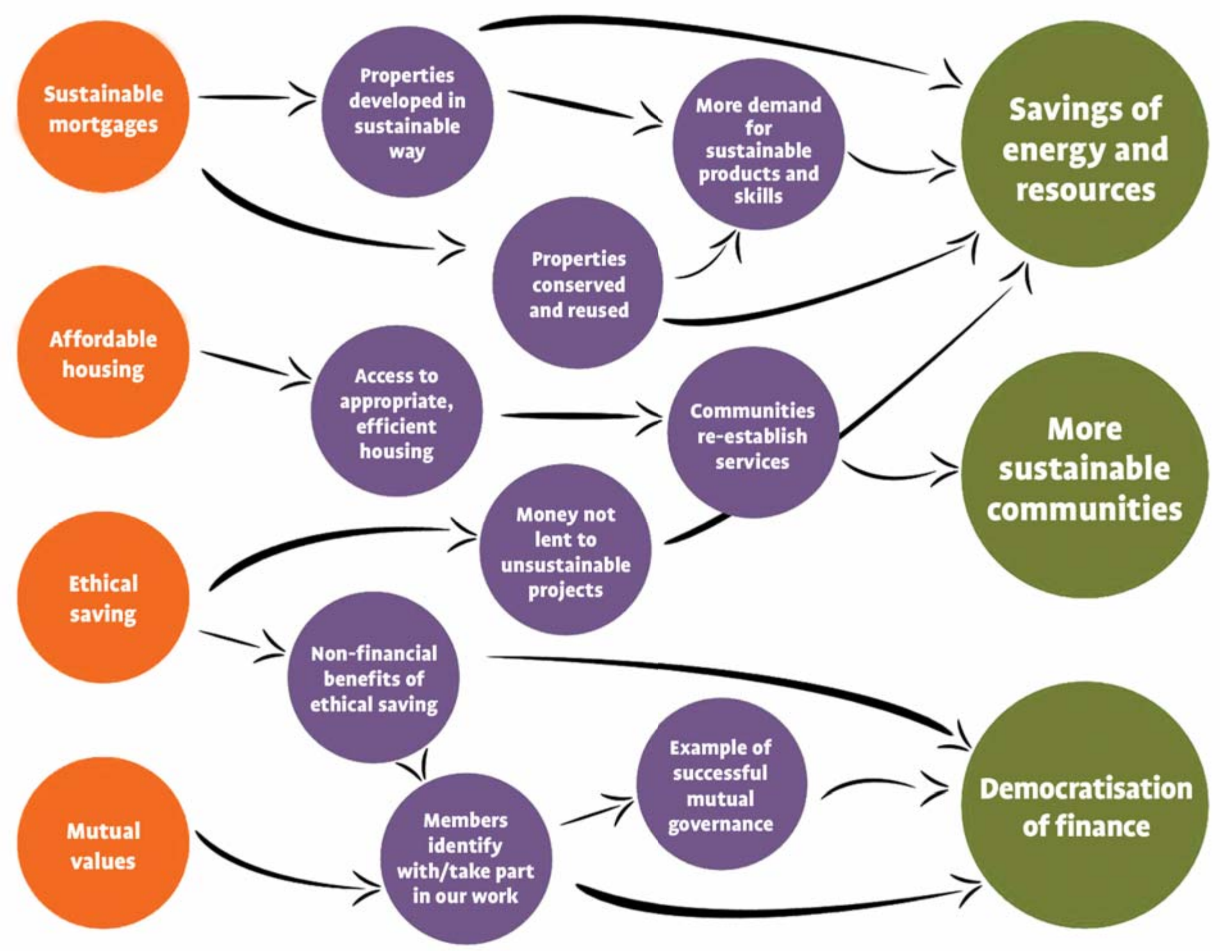
Building a greener society

Welcome to your Annual Review 2014. 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 19.

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 17 to find out how we're making progress towards a democratic, sustainable financial future.



Cover: resident of a property owned by **Leeds Action to Create Homes** (Latch). Latch refurbishes derelict and run-down houses in Leeds, providing opportunities for unemployed people to gain skills and experience. When they are fully modernised and furnished, their properties provide supported housing for people who are homeless or in housing need and are ready to make a positive change in their lives. Ecology has provided mortgages to enable Latch to buy several long-term empty homes in the city and undertake significant energy efficiency improvement works.

What's inside your Annual Review?

Notice of Annual General Meeting

Notice is given that the thirty-fourth Annual General Meeting of the members of Ecology Building Society will be held on Saturday 25 April 2015 at ACC Liverpool, Kings Dock, Liverpool Waterfront, Merseyside L3 4FP at 10.30 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 2014.
3. To pass an Ordinary Resolution to appoint KPMG LLP 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 2014.
5. To elect/re-elect the following as Directors of the Society:

i. ANDREW JOHN GOLD [see explanatory note 1]

ii. STEVEN JOHN ROUND [see explanatory note 2]

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

By Order of the Board
Pam Waring
Secretary
9 March 2015

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 login 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 **5.00 pm** on **22 April 2015.** 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. Andrew John Gold was appointed a Director on 30 May 2014 under Rule 25(4) and, being eligible, offers himself for election.
2. Steven John Round retires by rotation under Rule 26(2) and, being eligible, offers himself for re-election.

YOUR SOCIETY NEEDS YOU!

Last year **1,176** members voted on our Resolutions. We need you to join them!

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

Voting is easy

Visit **www.agmvoting.ecology.co.uk**, return the voting form in your AGM pack or join us on 25 April in Liverpool (register online or using the enclosed form).

Directors' statements

Andrew Gold

Having had my first direct involvement with the Society in 1996, I was delighted to be co-opted to the Society's Board soon after Tony Taylor retired at the last Annual General Meeting.

Like Tony, I have deep experience of financial and risk management, as well as much knowledge of the building society sector. I use this to assist the Society in determining the impact of ever-changing regulatory requirements, particularly in my role as Chief Risk Officer.

I am a qualified chartered accountant who also holds a treasury qualification and I have spent most of my career working in retail financial services, primarily building societies. At present I am a Risk, Audit and Compliance professional for a retail financial services group which is FCA-regulated.

My previous involvement with the Society was on audit and more recently the provision of risk and compliance support. This provided valuable insight into the Society's core values and ethos, which are aligned with my own beliefs.

Outside of work I live in the Yorkshire Dales and have a range of interests. Since summer 2004 I have been involved in the Audit Committee of the local further education college. As a Rotarian I support local community activity and other charitable initiatives; as a Committee member of the Craven Group of the Ramblers Association, in July 2014 I raised over £1,000 for charity by walking the Yorkshire Three Peaks.

The combined skills and experience of the Board enables the Society to develop its strategy and achieve its goals in line with member values, while continuing to meet regulatory expectations.

I commit to use all my energies and experience to ensure that the Society maintains a focus on good outcomes for all its members whilst continuing to be a thriving, sustainable organisation. To that end I would ask for your support in voting for me to be elected to the Society's Board at this time.

Steve Round

I have had the privilege of serving as a Non-Executive Director since 2010. Playing a part in the continued growth of our unique organisation has been one of the most enjoyable periods of my life.

Throughout this time, I have met many members of the Society and have ensured that at Board level we stay close to the core values of the Society, while having to comply with the strict regulatory environment that we work in.

In my day role, I have spent many years developing innovative financial solutions for individuals who have been excluded from mainstream

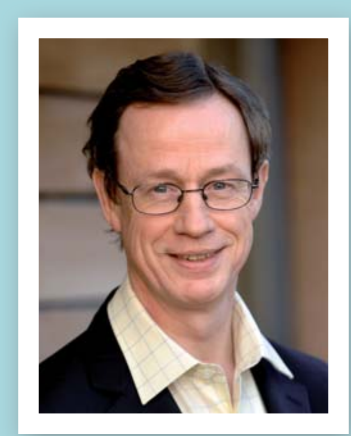
financial services. As chair of The Big Issue Foundation, I see that need more clearly now than ever.

With my background, I feel that I have contributed in a small way to our success and when I attend events, I am proud to say that I am a member and a Director of Ecology Building Society.

I have learnt many things over the past few years as a member of Ecology, from members, fellow Directors and our excellent staff. I have put them into practice at home and at work to help build a greener society.

I am passionate about how we can deliver real change to people's lives through the work we do at Ecology and I wish to continue that journey.

I hope that you feel I have served your Society well and will support me in my desire to continue as a Director.



From the Chair

Your Society has delivered a strong financial performance in 2014, notwithstanding the low interest rate environment, which creates difficult conditions for the Society to operate in and punishes savers for their prudence. Your Board and staff have navigated these waters steadily, seeking to hold interest rates for savers as high as possible whilst balancing this against the need to provide competitive rates for borrowers too.

The Society's approach to delivering value to savers has been to maximise prudent new lending and you will note in the Chief Executive's report the record lending figures we are again posting. While the annual accounts give a snapshot at the year end, the uncertainty caused by the introduction of new rules to assess affordability and a subdued first six months led to the Board challenging the divergence in the lending figures and the confidence of the Mortgage Manager and Executive in the likely outcome for the year. As has so often proved to be the case, the confidence of the Executive was not misplaced.

As I indicated last year, I shall be stepping down at the AGM in April, somewhat later than my original plan when I joined the Society in 1998. Our assets at that time were £24.6m, the Society had just taken additional space above Barclays Bank in Cross Hills and the Society had two female Non-Executive Directors. I am pleased to report that following my retirement the Board expects to have four female Directors out of a total of nine. Regrettably, such a ratio remains something of a rarity in the financial sector.

I had the good fortune, on my appointment, not only to benefit from the experience in building society practice of the then current Non-Executive Directors, but also to work with some of the founders of the Society who had the vision to promote ecological building through a building society. I think the Society has kept to this core mission demonstrating to other institutions what is possible.

The purpose of the Board is to ensure appropriate corporate governance – critical but supportive challenge to the Executive and staff of the Society. To do this it is important to understand the business of the Society and its products and consider whether they are of value to the members of the Society, or whether they only serve in making profits for the Society. Good products should do both. However, much of the financial services industry appears to have missed this completely, so it is somewhat galling to be subjected to the recent adverts from the failed banks trumpeting "fairer banking".

I can clearly recall the Board meeting at which the Chief Executive was challenged why we were no longer offering mortgage payment protection insurance at a time when it was becoming a common and profitable offering. The answer given was that there were no longer products in the market that offered our borrowers real value. So despite the loss of income the Board declined to follow the market trend, which proved to be the correct decision.

It has been important for the Society that its Directors have been prepared to swim against the tide, since it is clear that many of the problems our financial system encountered in recent years grew out of a herd mentality, partly fostered by the revolving doors between the many components of our financial services infrastructure.

One of my frustrations has always been in accepting the apparently slow pace at which the Society grew, but rapid expansion (based on products of dubious value and flawed strategy) was clearly the downfall of many other institutions. Slow change, like slow food, is definitely the way for the Society to move forward. If you are not only swimming against the current but trying to reverse it, can it be any other way?

At last year's AGM I introduced three new Non-Executive Directors, and this year we ask you to confirm Andrew Gold as a Non-Executive Director. Andrew has links to the early days of the Ecology in a previous role of undertaking internal audits for the Society. He is therefore well versed with the Society's philosophy, and adds a further set of eyes to examine the risks which the Society faces as a financial institution.

I would like to thank the Society's staff for their support to me as Chair over many years and their diligent and forward thinking work for the Society. I am sure it will continue, and as a continuing saver with the Society I look forward to supporting Ecology's work in building a greener society.

Malcolm Lynch

Malcolm Lynch - Chair
6 March 2015

Chief Executive's review

Overview

It is very pleasing to report that in 2014 Ecology once again recorded excellent financial results, with a second consecutive year of record new lending and net lending, increased profitability and strong overall asset growth. In addition, we reached new record savings balances and were able to keep our cost base under control, despite the full cost of measures we had taken to increase our ability to meet new regulatory requirements in 2013 being reflected in the 2014 figures. Once again these figures were achieved without diluting our focus on environmental lending, without the benefit of artificial stimulants such as the Funding for Lending Scheme (FLS), and without the need of recourse to teaser rates and other features that would make our mortgage and savings products less than transparent.

Growth would have been higher had we not once again taken measures to ensure that inflows of savers deposits were at manageable levels. This included restricting some account types to existing members and adjusting some of our savings interest rates to bring them into line with a market which does not currently work for savers. We are clearly not yet in what might be described as a normally operating market, with many of the distortions arising from the impacts of the financial crisis continuing to play out, while the possibility of further shocks cannot be discounted. It is quite possible that the current interest rate environment will persist for some time, and our expectation is that base rates will not rise until well into 2016.

Nevertheless, we expect that current levels of growth will be maintained without compromising our mission. To ensure that we can meet our members' expectations and the increased complexity and demands on the organisation that come with this growth, we continued to increase our staff numbers in 2014. The Savings Team was joined by both **Janine Flint** and a new manager of the team in **Gillian Lancaster** (with Gillian Ingham moving to our expanded Business Support Team). We also took the opportunity afforded by the departure of Tori Halliday to her dream job in publishing to recruit a Marketing Manager in **Kauser Dad,** who has extensive experience of marketing gained in the financial services sector.

We continued to play a full part in the promotion of social economy finance internationally, and completed our first year as a full member of the **Global Alliance for Banking on Values,** contributing to its work on impact reporting, the development of a fund to provide capital to sustainable financial institutions, and a 24-hour event to raise awareness of values-based banking around the world. We will report more fully on these initiatives during the course of 2015.

A summary of the main key performance indicators (KPIs) used by the Board is provided below.

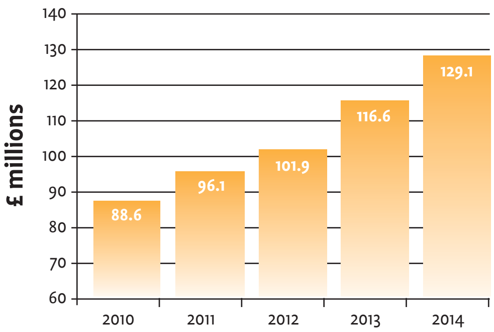
Key Performance Indicators

	2014	2013	2012
Mortgage lending	£23.1m	£18.4m	£14.3m
Mortgage asset growth	9.91%	7.64%	5.97%
Savings balances	£129.1m	£116.6m	£101.9m
Liquid assets as a % of shares and borrowings	34.77%	34.27%	30.16%
Management expenses as a % of mean total assets	1.35%	1.36%	1.45%
Net profit	£0.576m	£0.402m	£0.459m
Profit after taxation as a % of mean total assets	0.44%	0.34%	0.43%
Tier 1 capital	£6.951m	£6.375m	£5.973m
Total assets	£138.0m	£124.8m	£109.7m
AGM – voting turnout	15.93%	18.18%	16.32%

More detailed commentary on these KPIs is given in the following sections, along with commentary on 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 highlight our commitment to environmental responsibility and good corporate governance.

Savings and liquidity

Savings balances grew by 10.79% by the end of 2014, reaching £129.1m (up from £116.6m at the end of the previous year). We limited the increase in funds as far as possible to ensure that liquidity did not rise further and thereby reduce the impact on rates paid to savers. This meant further restrictions to availability of certain account types including ISAs. During 2014, we have been working on a new product range which was launched in March 2015 and is designed to allow access to our savings range for more new members. ***We see our role as providing a savings service for those who wish to invest in pursuit of social and environmental goals, preferring where possible to source our funds for lending direct from individuals and community groups supportive of our mission, rather than taking in wholesale money from other financial institutions.*** This is why we did not participate in the Funding for Lending Scheme, which would have allowed us to access a cheaper source of funds to lend on as mortgages. We always seek to restrict the amount of funding that is not lent out to ensure that the majority of savers' funds are creating value in the real economy. At the year end, liquidity levels remained higher than we would ideally desire at 34.77% (2013: 34.27%).

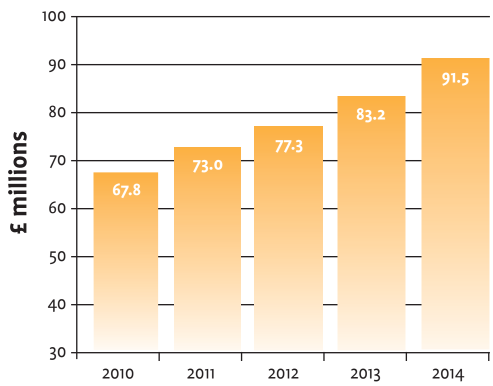


Savings Balances

Mortgage lending

Mortgage asset growth increased on the previous year reaching 9.91% (2013: 7.64%) supported by record net lending of £13.8m. We also established a new gross lending record of £23.1m. This increased level of lending first and foremost represents an increase in our environmental impact, but the ability to increase the lending volumes of the Society is also essential if we are to meet the needs of more potential savers. We were pleased to see a greater proportion of renovation cases, given our desire to make an impact regarding the energy efficiency of the existing housing stock. Historically, the major component of our lending was for renovation, but in recent years new-build in the form of design methodologies such as Passivhaus and higher energy ratings have formed the bulk of our residential lending. The increased lending was achieved despite the need to review our systems to account for the changes required by the Mortage Market Review. Our simple, transparent approach ensured that in reality there was very little disruption to our service. We were pleased that all of our underwriters obtained the relevant qualifications in good time, building on their many years of service and understanding of our lending approach, which enables them to provide an excellent service to existing and prospective borrowers.

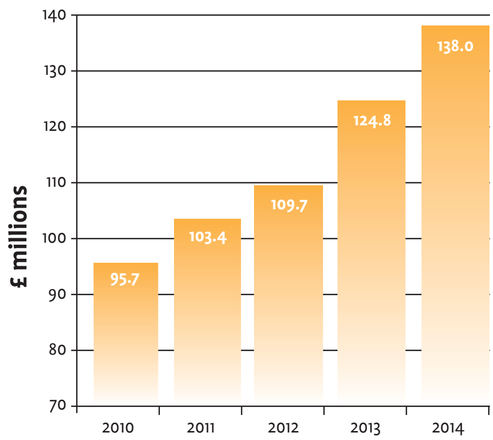
By the year-end over 27% of loans outstanding were benefitting from one of our C-Change discounts, which rewards work undertaken on the property to help combat climate change – showing that the rapid growth in mortgage lending was not at the expense of environmental quality. As these are awarded once the works are completed, when the mortgage book is growing quickly there tends to be a timelag before the impact of the discounts is reflected in the figures.



Mortgage Assets

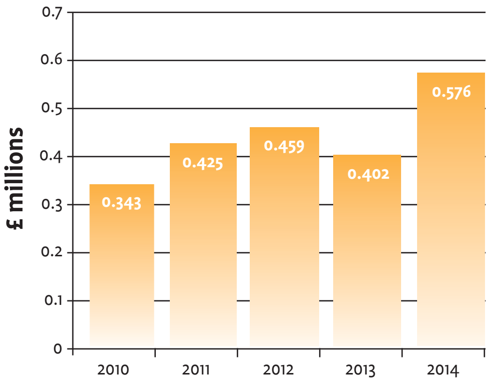
The mortgage arrears position remained positive with the number of cases reducing. At 31 December 2014 there were again no cases where repayments were 12 months or more in arrears (2013: 0). At the year-end there were no properties in possession (2013: 0). Total provisions against possible mortgage losses increased to £257,000 (2013: £248,000), which includes provisions for two cases which are not in arrears but where Society management are working with our borrowers to navigate difficult operating conditions. A provision is also held for a corporate borrower who is in voluntary liquidation. At the end of the year there were 14 cases where forbearance was being exercised (2013: 26).

Asset growth

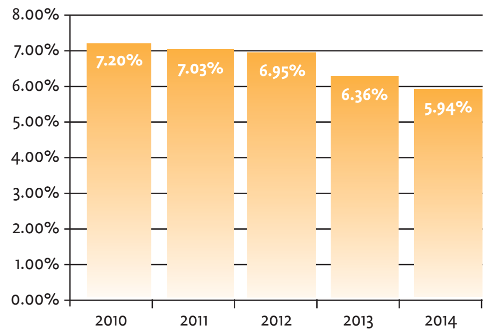


Total Assets

Total assets reached a new record level at the year-end of £138.0m, an increase of 10.61% (2013: 13.73%). The Society again took actions to contain the level of growth, including restrictions on account openings by new members so that we were not carrying excessive levels of unutilised funding, which represents a cost to the Society and does not contribute to its sustainable lending programme. While a certain level of spare unallocated funding is a strength in itself, typically building societies hold lower levels of excess liquidity than banks. ***The Society does not pursue growth for its own sake, rather we view growth as a sign of our success in meeting the needs of social investors and supporting our borrowers to build, renovate or buy sustainable properties.*** Nevertheless, growth does allow us to take on the resources needed to promote our aims, provide good service levels to our members and customers, and meet our ever-growing compliance challenges with an ever higher degree of professionalism.



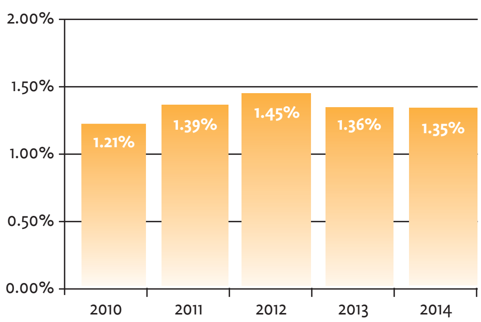
Net Profit



Gross Capital Ratio

Profit and capital

Net profit for the year amounted to £576,000 and was 43.28% higher than 2013. This was added to the General Reserve which now totals £6.951m (2013: £6.375m). This profit belongs to our members and acts as a buffer against losses. The level of profit we are currently making is sufficient to ensure that we maintain the required level of capital to underpin our current growth. Because of the strong potential to grow our work further, we do intend to take on supplementary capital in the future. I am pleased to report that our regulators, the Financial Conduct Authority, have broadly accepted our view that it is appropriate for us to invite our members to contribute directly to the capital base of the Society, subject to due consideration of risk, in common with the members of other European financial mutuals. ***As a result, we are continuing to formulate our plans for an issue with both a retail element and the participation of institutions supportive of the development of values-based banking activity, particularly the role of the mutual sector.*** At the present time, this is unlikely to occur before 2016.

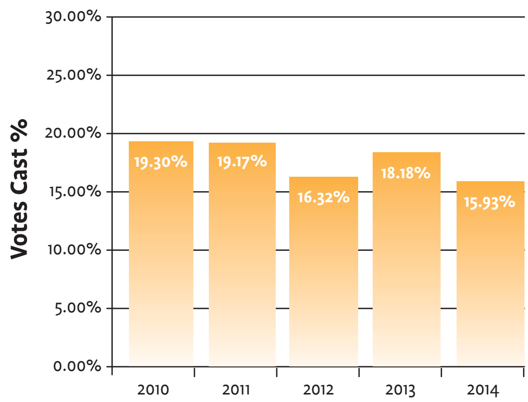


Management Expenses Ratio

Costs rose during the year reflecting the recruitment which took place the previous year, but were broadly in line with the growth in total assets, and with the increased profitability. This meant that the Management Expenses Ratio reduced slightly over the previous year to 1.35% (2013: 1.36%). ***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. In 2014, this added 3.6% to our costs – without this the Management Expenses Ratio would have been 1.27%.***

Despite the increased profitability, the continued growth in savings deposits with the Society and the reduction in value of old forms of capital such as subordinated debt means the Gross Capital Ratio has moved down to 5.94%. In common with other societies, it should be noted that we are obliged to make payments to the Financial Services Compensation Scheme (FSCS) as a result of the bank failures in 2008. The Society fully accepts the concept of collective insurance for depositors but believes that the share paid by small societies is disproportionate, and inevitably these payments have the effect of reducing profit (and therefore the contribution to reserves). In 2014 the amount of the levy was £87,744 which equated to 12.03% of the gross profit figure. To date the Society has paid £256,864 over to the FSCS.

Member relations



Voting Turnout

Our 2014 AGM was held at the Abbey Community Centre in Westminster, London. ***Once again we held a Members' Meet Up with the theme of Communities for Change. A range of speakers and workshops considered the role of financial communities and built communities in creating the shift to a more sustainable future economy and society.*** The turnout on the day was great and the whole event was lively, particularly the question and answer session with the Directors, and the Green Market running alongside the event. Voting turnout was, however, down at 15.93%, so going forward we will be looking at further ways in which we can encourage members to exercise their vote.

Our place in the community

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

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.

In international terms, we continued to support the global development of the social economy and sustainable banking sectors as active participants in the Global Alliance for Banking on Values (GABV), the Institute of Social Banking and the International Association of Investors in the Social Economy (INAISE). Regarding specific GABV work streams, we were active in the impact reporting group which seeks to develop an impact reporting framework common to the member institutions to better articulate how we fulfil our mission, and the establishment of a fund to provide capital to aid the growth of financial organisations ascribing to the GABV core principles.

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:

LATCH (Leeds Action to Create Homes)
Sponsorship of event to celebrate 25 years of refurbishing derelict homes in Leeds

Birmingham Friends of the Earth
Installation of secondary glazing in a community centre and environmental education hub

Plunkett Foundation
Sponsorship of environmental category within the 2014 Rural Community Ownership Awards

Skelton Grange Environment Centre
Contribution towards new log cabin and garden within a nature reserve in Leeds

Sheffield Open Homes
Sponsorship of Open Homes programme to encourage local residents to retrofit their properties

Warwick and Leamington Beekeepers
Construction of an accessible composting toilet at a training apiary in Kenilworth

We also gifted time to a number of organisations including the International Association of Investors in the Social Economy (INAISE), Passivhaus Trust, the HALE Project (a health charity operating in West Yorkshire) and Home Start Craven (which supports families with children under 5).

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

The three main internal developments regarding our Environment Policy in 2014 were that:

- *We were very proud to achieve a 'Green' accreditation under the Investors in the Environment scheme – the highest level it is possible to obtain*
- *We installed an electric vehicle charging point in our HQ car park, providing a facility that can be used by members, visitors and staff*
- *We continued to work with our permaculture gardener, with development including providing better access to the fruiting areas, preparation of further parts of the garden to support planting more edibles, and the provision of two new beds at the front of the building for growing herbs and edible flowers while providing a wildlife-friendly habitat.*

Our main commitments for 2015 are to:

- *Overhaul our rainwater harvesting system, adding to its capabilities in order to improve our water management and consumption*
- *Upgrade from a standard hybrid model to a plug-in version of the company car due for renewal in 2015, so that both our vehicles will be able to use our charging point*
- *Begin planning an extension to our HQ building, which will be built to incorporate Passivhaus standards.*

Finally, a special mention should go to some of our staff members who organised successful charity events:

- **Christine Wakeling** - for her contributions to our Bring and Buy Sale for the Forget Me Not Children's Hospice
- **Hilary Smith** – for organising a collection to send a container of clothing to aid the survivors of the Philippines Typhoon
- **Karen Knowles** – for organising a World's Biggest Coffee Morning event in aid of Macmillan Cancer Support.

Future development of the Society

We are expecting another good year for lending in 2015, and despite the success to date of our mortgage products, we will be reviewing our offerings to take account of changes in the green building market. Of course, there are significant uncertainties around the world economy at present, due to both political and economic factors, but the drive to sustainability makes even more sense against that backdrop. Of significant interest is the reduction in the price of oil, which on the one hand damages the case for the development of the fracking industry, but potentially changes the dynamics in relation to the uptake of renewable energy technologies. In the long-term, energy efficiency makes economic and environmental sense and our loan offerings will continue to reinforce that message.

The various changes in our Ethics and Marketing functions which took place in 2014 meant that some of the work that we had hoped to undertake on surveying the views of our members was not completed, and so we intend to pick up the pace in this respect during 2015.

Our new savings products will be making their appearance before the end of March and we will introduce further enhancements to our online offering during the course of the year. The backbone of our Society is the excellent support and loyalty we experience from our savings members, so we want to ensure that the ability to interact with the Society is maximised. For this reason, the Board fully support the desire across the organisation to work towards a comprehensive digital strategy and a first class online offering. As we develop our digital strategy to ensure we are fit for an online future, we will not neglect our members who prefer to access our services by post and telephone. We always enjoy hearing from you however you choose to contact us.

It would appear that 2015 will be even more busy on the regulatory front as regulators continue to seek ways to plug the gaps in the system that have led to the failings in the financial sector. We are more than aware of these failings, but we make a general plea here that the implementation of such changes should be proportional to the size of the organisation, and the level of risk posed by that organisation – otherwise we run the danger of damaging innovation and diversity, leading to a perpetuation of the current financial landscape, with all the problems that entails. For our part we will continue to support positive change on the global level through both GABV and INAISE, as well as working with partners such as the Building Societies Association to encourage a proportional regulatory approach in the UK.

Finally, at the AGM our current Chair Malcolm Lynch steps down as a Director of the Society. Malcolm had intended stepping down earlier, but remained on the Board to help steer the Society through the financial crisis, and latterly to build a new Board ready for the next stage of our journey. As many of you know, Malcolm has a long history of commitment to social finance, and indeed created some of it – it has been a regular note of amusement at Board meetings that rather than ask Malcolm if he has any conflicts of interest to declare, we ask him to confirm when he doesn't have any! While Malcolm's time of service to the Society is drawing to an end, his continued passion and vision for positive social change makes it impossible that we will not continue to work together for our shared values. We wish Malcolm all the best for his future endeavours and will continue to encourage him not to take on too much unpaid work!

Paul Ellis - Chief Executive
6 March 2015

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 24 March 2015.

Summary Directors' report

The business review for 2014 is discussed in the Chief Executive's review on pages 6 to 8.

Summary Financial Statement for the year ended 31 December 2014

Results for the year	**2014**	**2013**
	£000	£000
Net interest receivable	2,563	2,203
Other income and charges	53	46
Administration expenses	(1,769)	(1,571)
Provisions for bad and doubtful debts	(9)	(50)
Provisions for FSCS Levy	(90)	(91)
Amounts written off fixed asset investments	–	(20)
Profit for the year before taxation	748	517
Taxation on profit on ordinary activities	(172)	(115)
Profit for the year	576	402

Financial position at end of year	**2014**	**2013**
Assets		
Liquid assets	44,899	39,942
Mortgages	91,499	83,250
Fixed and other assets	1,650	1,609
Total assets	138,048	124,801
Liabilities		
Shares	121,526	109,532
Borrowings	7,612	7,026
Other liabilities	711	621
Subordinated liabilities	1,248	1,247
Reserves	6,951	6,375
Total liabilities	138,048	124,801

Summary of key financial ratios

	2014	**2013**
	%	%
Gross capital as a percentage of shares and borrowings	5.94	6.37
Liquid assets as a percentage of shares and borrowings	34.77	34.27
Profit for the year as a percentage of mean total assets	0.44	0.34
Management expenses as a percentage of mean total assets	1.35	1.36

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 2014 and 2013 total assets.

Approved by the Board of Directors on 6 March 2015 and signed on its behalf by
M.J. Lynch Chair, P.C. Ellis Director and Chief Executive, P. Waring Finance Director and Secretary.

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

We have examined the summary financial statement of Ecology Building Society ('the Society') for the year ended 31 December 2014 set out on page 11.

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

The Directors are responsible for preparing the summary financial statement within the Annual Review 2014, 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 2014 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.

Basis of opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2014, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2014.

We also read the other information contained in the Annual Review 2014 and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Opinion on summary financial statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2014 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Lawrence Pomeroy
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Leeds
6 March 2015

Directors' remuneration report

Introduction

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

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

Role and composition of the Remuneration committee

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

The committee meets at least once a year and reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages.

Remuneration policy

Non-Executive Directors

Non-Executive Directors receive a fee for their services. There are no bonus schemes for Non-Executive Directors and they do not quality for pension or other benefits. Additional fees are paid to the Chair, Deputy Chair and those Non-Executive Directors who are members of Board committees in recognition of the additional duties and responsibilities associated with these positions. Non-Executive Directors do not have service contracts but serve under letters of appointment. The contribution of each Director is appraised by the Chair annually.

Executive Directors

Remuneration of the Executive Directors comprises a number of elements: basic salary, performance related pay, contributions to the Society's Personal Pension Scheme and other benefits. The Chair appraises Executive Directors annually.

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

Basic salary

The Society's policy is for all employees (including Executive Directors) to be remunerated in relation to their expertise, experience, overall contribution and the general market place. The committee considers external data from salary surveys of comparable institutions. The Society has a policy that no basic salary will exceed a maximum of five times the lowest full grade available.

Performance related pay

This is an annual scheme that provides non-pensionable rewards directly linked to the achievement of key performance objectives aimed at personal and professional development. The overall objective is to improve Society performance whilst maintaining the financial strength of the Society for the long term benefit of its members.

Pensions

The Society makes contributions equivalent to 8% of basic salary for each member of staff, including Executive Directors, to the Society's Group Personal Pension Plan after an initial service period of 3 months. A death in service scheme is operated which pays a lump sum of four times basic salary. These arrangements apply equally to all qualifying staff, with no enhanced arrangements for Executive Directors or senior management.

Benefits

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

Contractual terms

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

Potential future policy developments

During 2014 the Society engaged an experienced external firm to undertake a benchmarking exercise of salary levels and benefits against comparable organisations. This insightful report demonstrated that Ecology salaries tend to be lower than other comparable ethical and green organisations and similar sized building societies. The Remuneration committee has therefore concluded that the structure of Executive remuneration should be reviewed in the near future, otherwise Ecology could face difficulties in retaining and attracting professionals with the necessary skills and experience.

When the Society instituted its 5:1 maximum salary ratio nearly 20 years ago, such practices were largely unknown in the UK. Since then it has become more common, at least among organisations which share similar values to the Society. The benchmarking report found Ecology's ratio to be low, with comparable organisations at 7:1 or more. The Remuneration committee supports the use of a ratio, but would like to review it, to ensure it is fair and reasonable and to ensure Ecology will attract and retain high calibre leadership into the future. In light of this, we feel it is appropriate to consult with our membership as to where the Society's ratio should now be set.

Non-Executive Directors' remuneration

	2014 £000	2013 £000
Malcolm Lynch	14	14
Tony Taylor[1] (Jan – Apr 2014)	4	13
David Black (Jan - April 2013)	–	4
Mark Jones (Jan - April 2013)	–	3
Steve Round	10	9
Helen Ashley Taylor	9	9
Tim Morgan (Aug 2013 onwards)	10	5
Chris Newman (Sep 2013 onwards)	9	4
Alison Vipond (Sep 2013 onwards)	8	4
Andrew Gold[1] (May 2014 onwards)	10	–
Totals	74	65

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

Executive Directors' remuneration

	Salary £000	Performance Related Pay £000	Taxable Benefits £000	Contributions to Pension Scheme £000	Total £000
2014					
Paul Ellis (Chief Executive)	74	3	2	6	85
Pam Waring (Finance Director)	66	3	1	5	75
Totals	**140**	**6**	**2**	**11**	**160**
2013					
Paul Ellis (Chief Executive)	73	3	2	6	84
Pam Waring (Finance Director)	64	3	1	5	73
Totals	**137**	**6**	**3**	**11**	**157**

On behalf of the Board
Malcolm Lynch
Chair
6 March 2015

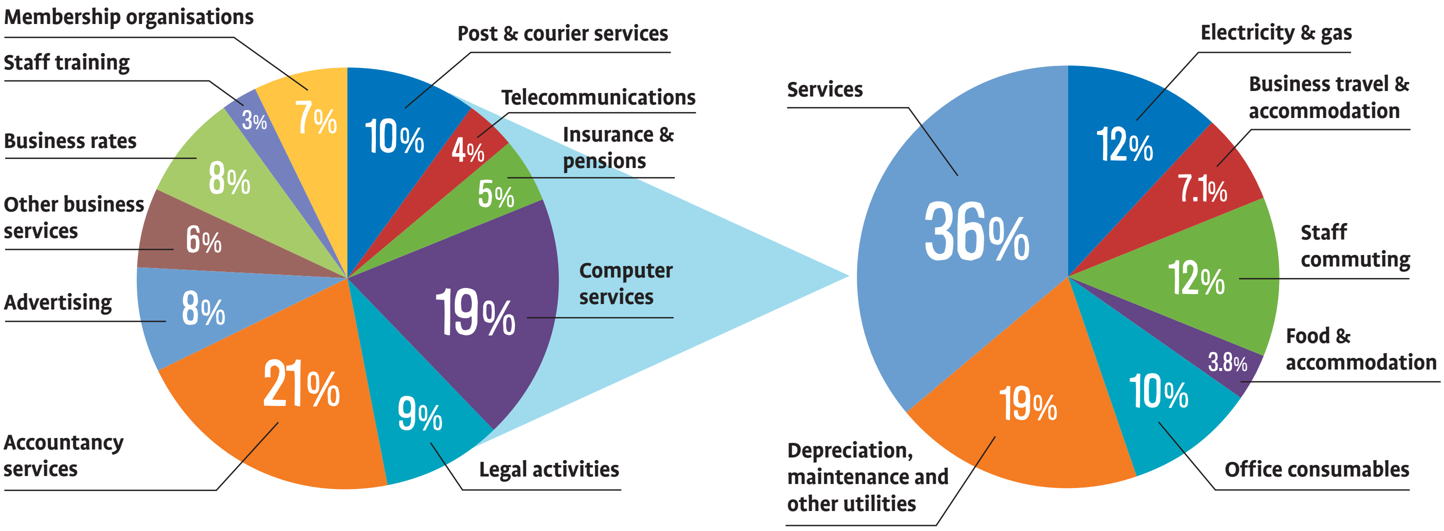
Our sustainability

By enabling our members to build, buy or renovate sustainably, our lending creates positive environmental impact in a range of ways, from reduced carbon emissions to increased local biodiversity. But we don't just support others to try to live and work more sustainability: we do it ourselves. 2014 saw two important developments in our ongoing efforts to manage the environmental impact of our operations.

Our carbon footprint

As part of our commitment to full transparency, we want to make the most accurate assessment possible of our carbon footprint. Working with Small World Consulting, a team based at Lancaster University and led by footprinting expert Mike Berners-Lee, we have developed a new approach to measuring our emissions, which now includes the emissions generated through our supply chain. In 2014 we released our figures for 2012 using this new methodology. Our greenhouse gas emissions for 2012 were 291 tonnes CO_2e (equivalent carbon dioxide), or 256 tonnes CO_2e excluding staff commuting, which equates to around 33 grams CO_2e per £ of new lending.

Services take up a huge 36% of the total footprint – showing just how important it is to consider the supply chain as part of our climate impact



We're an Investor in the Environment

In 2014 we achieved the Investors in the Environment Green Award, the highest level of accreditation possible. This Award recognised our current environmental performance and our commitment to ongoing improvement.

Green Award 2015

Setting the standard for the environment

Our key achievements include reducing our electricity use by 21% and our gas use by 54% during 2014

We have also created a new staff travel policy and plan to further develop our procurement policy in 2015.

Savings interest rates during 2014

	AER/Gross pa % 1.1.14	16.6.14
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 % 1.1.14	16.6.14
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	1.25	1.25
£25,000 and over	1.55	1.55
Earthwise Cash ISA	2.00	1.50
Foundation Supporters	2.00	2.00
Foundations Share	1.00	1.00
Foundations Cash ISA	2.00	1.50
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 2014

Basic Variable Mortgage Rate as of 1.1.14 = 4.90%

Bank of England Base rate during 2014

1.1.14 = 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!

Simon and Kari's story: a finely tuned renovation

A former Methodist chapel built in Yorkshire in 1836 might not seem an ideal choice as an eco-renovation project. But Simon and Kari, who both work as jazz musicians and lecturers, decided to restore the chapel to create a contemporary energy efficient home.

With plenty of ageing masonry, missing roof tiles and draughty openings, one of the biggest challenges lay in reducing the huge heat loss from the building. To tackle the problem, Simon and Kari have insulated the whole building as thoroughly as possible, as well as adding high efficiency double glazing. They then redesigned the interior layout as an open-plan living space that will also serve as a music rehearsal area.

The chapel is now ready for the arrival of an air source heat pump with underfloor heating system. The new unit is one of the most efficient available and will help to minimise the building's energy needs, helping Simon and Kari to save money on bills and to reduce their carbon footprint.

A welcome result of their renovation has been the reaction of local residents, who are delighted to see the derelict building being brought back to life. Kari and Simon have found that their new home is a great talking point, which has helped them to get to know their new neighbours.

Keen to reduce unnecessary waste, the couple have given much of the old wood that they have stripped out to a neighbour for use in his wood burning stove, and the old joists are being used by another local resident to create planting beds on his allotment.

"Spend as much as possible on insulation, rather than spending a fortune on heating technologies only to find that all the heat escapes. It's a win-win situation: you create a home that is kinder on the environment and costs you less to run."

In 2014 we gave C-Change 42 sustainable homes discounts to properties – meaning they achieved a recognised sustainability standard.

We gave 7 C-Change retrofit discounts for loans used to improve the energy efficiency of existing properties.

Wild Peak Housing Co-op

Having previously been based in Matlock, Derbyshire, the members of Wild Peak Housing Co-op were keen to relocate to a more rural site in the Peak District. When a cottage set in 69 acres of land came up for the sale, the co-operative was quick to realise the property's potential. The wildlife-rich area located on a former dump site would provide a challenging opportunity for the group to create a sustainable home and to safeguard the ecological health of the surrounding environment.

Work on the site started in early 2012. As well as plans for its extension, the cottage was in need of major renovation: plumbing, electrics, flooring, damp proofing and plastering all had to be tackled, with local tradespeople called in to help with the more specialised tasks.

In keeping with the group's environmental commitment, an efficient condensing biomass boiler was installed to supply heat for the internal living spaces as well as hot water. The co-operative are carrying out a programme of tree planting on the land to provide a sustainable source of fuel for the boiler.

With the site developing day-by-day, Wild Peak has opened its doors to visitors and is keen to spread the word about co-operative living and environmental conservation. The group continues to work closely with the co-operative network Radical Routes, and have also built a home for Wild Things, an ecological education collective which provides learning experiences for 5 to 18 year olds.

As well as human visitors, the group are working to encourage more local wildlife onto the site – lapwings, barn owls, badgers and newts are just some of the creatures spotted so far.

68% of rated properties on our database had an EPC of **A** or **B** and **13** properties achieved the Passivhaus standard for energy efficiency

Ruth's story: a lighter way of living

Wahroonga is a Passivhaus self-build that combines cutting edge energy-saving technology with practical design to create an inviting and sustainable home.

'Wahroonga' – an Aboriginal word meaning 'our home' and the name of the suburb of Sydney where Ruth used to live – took its team of builders eight months to complete. The exterior of the timber frame house is clad in untreated local Douglas fir and lime render. Most of the roof is constructed from reclaimed Welsh slate tiles, which were chosen for both their sustainable qualities and aesthetic appeal. The walls are insulated with a mixture of sheep's wool and Warmcel, and the entire build sits on a highly insulated reinforced concrete slab which gradually absorbs, stores and releases heat.

The conventional gas-powered central heating system is only needed at very low levels during the winter, thanks to the building's extremely high levels of airtightness. There is also a mechanical ventilation heat recovery unit located in a living-roofed extension to the rear of the house.

During the day, the interior is airy and light-filled, with windows in at least two walls of every room. This reduces the need for electric lighting and gives a sense of openness throughout the house. The windows are certified Passivhaus and have been crafted with timber frames, which are externally clad in aluminium to protect the wood from the elements.

Wahroonga has attracted considerable interest from the local community – during a local energy-saving week, Ruth welcomed over 200 visitors to her home.

"So far the property is warm, light, comfortable and beautiful!"

Glossary

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

Advance
Money loaned ('advanced') to a borrower.

Amortisation
The process of gradually writing off the value of something to reflect a reduction in its value over time. It is the same as depreciation, but is usually used for intangible assets such as goodwill. For Ecology it relates to purchased capital (subordinated debt). The amount purchased remains the same, but the amount that can be classed as capital is reduced over a period of time.

Assets
Something belonging to the business that has value – for Ecology, this means liquid assets, mortgage assets and fixed assets.

Capital
Profit retained by Ecology to act as a buffer against losses.

Counterparties
The organisations that hold Ecology's liquid assets.

Depreciation
Depreciation is both the gradual writing down of the value of an asset and the allocation of the cost of the asset over the period of time that it is used.

Fixed assets
Assets such as the head office, furniture, machinery and IT equipment that the Society owns and uses, and does not buy and sell as part of its regular trade.

Forbearance
A special agreement between a lender and a borrower which aims to prevent repossession.

Gross capital
Reserves and subordinated liabilities.

Gross Capital Ratio
Gross capital as a percentage of shares and borrowing.

Gross lending
New advances made in the year.

Inflow
The flow of money into the Society from savers' deposits and mortgage repayments.

Liabilities
Something the business is legally responsible to repay to others – for Ecology this means our members' savings, our reserves, and debt we owe to other organisations.

Liquid assets
Cash or assets that can be converted into cash (such as bonds).

Liquidity
The availability of liquid assets to Ecology.

Management expenses
Administrative expenses plus depreciation.

Management Expenses Ratio
The proportion of management expenses to the average of total assets during the year.

Mortgage assets
The 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.

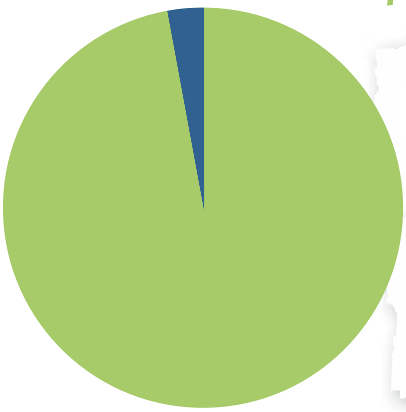
Subordinated debt
Debt that has a lower ranking than other forms of debt – if Ecology were to be wound down, subordinated debt would only be repaid after other claims on the business had been repaid.

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

2014: Our year in numbers

£23.1 million lent across 176 sustainable properties and projects

"One of the most important things Ecology does is give people the opportunity to create homes outside the mould of mass-produced housing."



97% to residential properties (including owner-occupied, buy-to-let and shared ownership properties)

3% to developments for community gain (including charities, housing cooperatives and community businesses)

"I just wanted to say thank you so much for all your speedy help with the woods. We have completed today, which is very exciting."

The new loans we made included:

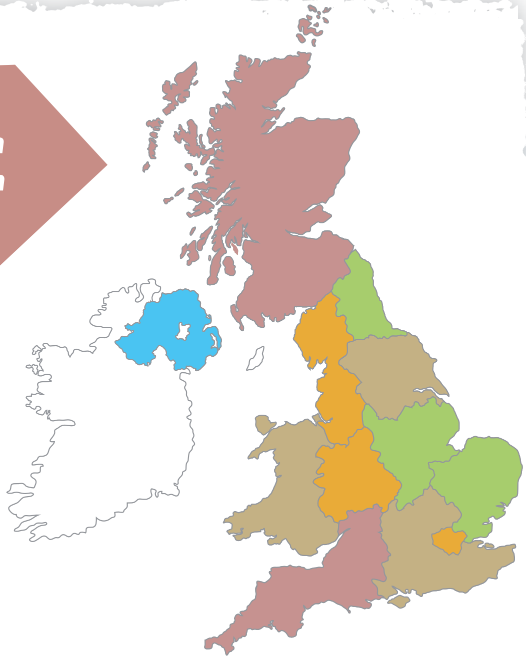
- **107** new builds
- **24** conversions
- **22** renovations
- **6** woodlands
- **3** energy efficiency improvements

"It's been lovely dealing with Ecology to arrange my mortgage. I was treated as an individual rather than a 'ticklist'."

Our strongest area of lending was Scotland, 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



75 projects used solar energy technology

1 was built from rammed earth

31 included rainwater harvesting

2 used structural insulated panels

"When you ring Ecology, you get to speak to a person who cares..."

Ecology Building Society, 7 Belton Road, Silsden, Keighley, West Yorkshire BD20 0EE.
T 01535 650 770 **F** 01535 650 780 **E** info@ecology.co.uk **W** www.ecology.co.uk
facebook.com/EcologyBS @EcologyBS