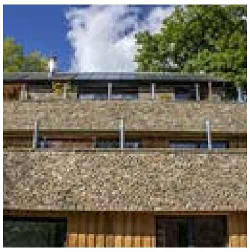
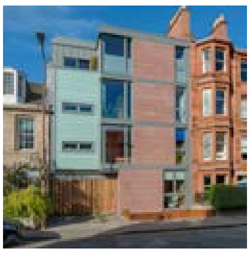
Ecology
Building Society

2017
Annual Review




Building a greener society

Welcome to your Annual Review 2017

This booklet summarises the progress we have made over the previous year.

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

What's inside your Annual Review?

Cover images: Top row, left-right: Ecology borrowers' daughter at home in West Sussex; redcurrants grown by Ecology borrowers, Nina and Phil, in Yorkshire. Second row: Ecology borrowers, Jessie and George, at home in St. Clements – London Community Land Trust's affordable homes development. Third row, left-right: Ecology borrowers, Saffron and Fred's self-build which featured on Grand Designs (image Arkhi Architects Ltd); Mortgage advisor, Mary, with produce from the Ecology garden. Bottom row, left-right: Bikes outside St. Clements community-led housing development; Bath Street Collective Custom Build – a community-led project in Edinburgh (image John Reiach & John Kinsley Architects); Ecology borrower, Daryl, during the renovation of his family home.

About Ecology in 2017

We're **powered** by our members – we have over **9,500 MEMBERS**

28 employees based in our eco-build offices in Silsden, West Yorkshire.

£178.7m total assets

We have a policy that no basic salary will exceed a maximum of **8** times the lowest full grade available.

Fair Tax

We were the first building society to receive the Fair Tax Mark accreditation.

We provided lending for 232 sustainable properties and projects.

We carefully monitor our **carbon output** and report on our carbon footprint every year.

1,297 (16.1%) eligible members voted in our 2017 AGM. More than half of voting members voted online.

1,001 MEMBERS (10.5% of members) participated in our latest Member Survey

2 Mortgage Finance Gazette awards

We won the Mortgage Product Innovation award for our pioneering mortgages for permanently affordable homes in London. Paul Ellis, CEO, received the Leadership award.

Mortgage Finance Gazette AWARDS 2018 WINNER Mortgage Product Innovation - Smaller Lenders

Chair's statement

> **Our members push us to be innovative and make real change.**

Your Society has delivered another strong financial performance in 2017, with an increase in total assets to more than £178m and maintenance of our profitability. This allows us to continue investing to support Ecology's future growth, as we work towards delivery of our vision of building a greener society.

We began the year with the ongoing regulatory uncertainty regarding future capital requirements for key elements of our sustainable lending portfolio, which had limited much of our lending activity to those projects that achieve the greatest gains in terms of carbon reductions. Whilst the position was resolved early in 2017, it was evident that the impact of our actions to reduce lending would continue into the year and this has resulted in a reduction in total mortgage lending and mortgage assets. We are planning for growth in the coming year and anticipate that our mortgage lending will increase once again.

As a mutual, Ecology is powered by its members. I was very pleased to welcome members to our AGM and Members' Meet-up in Bristol as well as our regional Members' Meet-ups in London and Manchester where we discussed how we are offering an inspiring alternative for people who believe in the positive potential of a fair and transparent financial system.

Our members have enabled us to achieve this by sharing their ideas and feedback, pushing us to be innovative and make real change and, in late 2017, we launched our Member Survey. The results will provide insight into members' experience of our services and enable them to share thoughts about our mission and values. Our last survey, in 2012, has helped to define Ecology's vision over the last five years. We had a strong response rate from members this year – I would like to thank everyone for their continued support and engagement. We are currently working through the responses and will share the outcomes of the survey later this year.

I am thrilled that the Society was recognised twice in the Mortgage Finance Gazette (MFG) awards, which celebrate innovation and achievement in our sector. Paul Ellis was the winner of MFG's Leadership award. Already the longest serving CEO in the UK building society sector, in 2017 he celebrated a quarter of a century at Ecology. I am immensely proud that Paul's outstanding contribution to sustainable finance over 25 years has been recognised. His work serves as an inspiring example of the power of values-based leadership and its role in transforming the financial system.

MFG also recognised Ecology for our pioneering work to provide mortgages for permanently affordable homes in London. Through this and our long-standing commitment to the sector I believe we are cementing our place as a leading supporter of community-led approaches, which are helping people take back control of housing. Our support for initiatives such as these, as well as our wider support for sustainable lending, demonstrates how Ecology can be a disruptive enabler of practical, visionary ideas.

The Board exists to ensure appropriate corporate governance of the Society and it's important that it has the right mix of skills and experience to scrutinise and provide critical challenge to the Executive, while upholding Ecology's ethics and environmental mission. I am, therefore, delighted to have welcomed a new non-executive director, Vince Smith, to the Board. Vince, who will be standing for election this year, brings strong corporate treasury experience to the Board as well as his passion for the environment and sustainability.

During 2017 the Board asked me to conduct a review, on a consultancy basis, to harness the power of new technologies. My review highlighted the need for the Society to further invest so that we can take advantage of modern and effective digital ways of working – not just for the immediate future but to give Ecology a long-term platform for the development of new products and services for our members. Over time, this will enable us to improve the way we support and engage with members and help us reach a wider audience while continuing to build our resilience.

It only remains for me to thank the Board and the Ecology staff team for their continued commitment and hard work in pursuit of our environmental and social objectives.

Steve Round
Chair
2 March 2018

Chief Executive's review

Delivering consistently healthy financial results is, of course, essential for the security and stability of any business. I am pleased that we can report another strong financial performance with continued profitability and an increase in assets underpinned, again, by record levels of savings balances.

During 2017 we experienced a 3% reduction in our total mortgage balances. Early in the year we received the good news that the uncertainty regarding potential changes to regulatory requirements for capital relating to key aspects of our sustainable lending programme had been resolved. This uncertainty had constrained our lending volumes for a considerable period in 2016 and it has required significant time and effort to rebuild the 'pipeline' of potential mortgage funding opportunities, while adhering to our core principles in the pursuit of sustainability. Good progress was made during 2017 and we are confident that the current pipeline along with new projects will restore strong and positive growth to our mortgage book in 2018. This rebuilding process also coincided with an increase in mortgage redemptions as many of the record number of projects we supported in 2015 reached the completion of their construction period and some borrowers were able to repay their mortgages, contributing to the reduction in overall mortgage assets.

We continue to experience high levels of liquidity and it remains important to carefully balance the needs of our savers and borrowers. Therefore, following last November's Bank of England base rate increase, we decided to leave savings and mortgage rates unchanged. The continuation of central bank support for schemes such as Funding for Lending has caused savings rates, in the wider market, to remain suppressed and supported ultra-low rates for mainstream mortgages. However, as these schemes finally close and their effects begin to unwind, we will keep all rates under constant review so that we can continue to support both savers and borrowers. Despite the high levels of liquidity we were pleased to be able to start accepting applications for our Regular Savings account in October. This enabled us to welcome new members to the Society while limiting the potential inflows due to the maximum monthly subscription.

> *Good progress was made during 2017 and we are confident that the current pipeline along with new projects will restore strong and positive growth to our mortgage book in 2018.*

We have also invested in systems, processes and capability to support future growth and enhance the member experience. During 2017 we bolstered our communications, IT and compliance functions as well as recruiting a HR manager. Strengthening these teams provides a firm foundation for the modernisation and growth of the Society while improving services for members. Our people are critical to helping us deliver our plans and I would like to thank the team for their continued support and commitment in maintaining our high ethical and service standards.

During the year I marked my 25-year anniversary at Ecology, which provided a moment to reflect on what has been achieved during that time. There have been so many successes over the years: we broke the traditional rules of mortgage pricing with our C-Change discounts, which incentivise borrowers to improve the environmental performance of their home; our eco-build office in Silsden, West Yorkshire, was recognised as one of the ten most sustainable 'bank' headquarters in Europe; as founding members of the Passivhaus Trust we helped drive the uptake of the Passivhaus low-energy concept in Europe; we were also told by a leading commentator that our lending was instrumental in kick-starting the demand for green building products in the UK.

I am especially proud that, in November, Ecology supported the first ever National Community-led Housing Conference. This was the biggest event the sector had ever seen and provided an opportunity to showcase our award-winning support for the London Community Land Trust's affordable homes. I addressed a packed audience, explaining our desire to support the growth in community-led housing. It was a real privilege to be part of such an amazing day, making history and hearing inspiring and innovative stories of people-powered housing. I believe that Ecology has an exciting and prominent role to play in helping to develop the sector.

Addressing the energy efficiency of our existing housing stock remains a priority if we are to meet the UK's carbon reduction targets. We continue to champion innovative, energy-efficient build systems including lending to projects involving off-site construction. We also supported the SuperHomes Open House events in September, enabling a record 106 SuperHome openings. The Open House events provide honest and practical advice to those considering undertaking energy efficiency improvements. In addition we are supporting the Carbon Co-op programme of home energy efficiency training in the North West of England. We recognise that we have an important role to play in assisting those organisations that promote and raise awareness of the benefits of environmental improvements.

A summary of the main key financial performance indicators (KPIs) used by the Board, along with a more detailed commentary on our progress, is given in the Business Review (pages 6-8) as well as a summary of how our operations impact on the environment and the wider community.

Future development of the Society

During 2017, the populist and anti-establishment sentiment which had emerged the previous year continued unabated and the world remains an uncertain place. The environmental gains of the global consensus to tackle climate change were undermined by the, not unexpected, withdrawal of the United States from the Paris climate change treaty and there is continued lack of clarity about the United Kingdom's future relationship with the European Union.

However, in the face of these challenges, I am glad to report there are positive signs of a growing interest in our lending model and, over the summer, we were pleased to join with other Global Alliance for Banking on Values (GABV) members to help inform the emerging work of the European Union (EU) on sustainable finance.

Closer to home, the launch of the UK's Clean Growth Plan demonstrated that the Government recognises the challenges we face in moving to a low carbon future. While the plans themselves need to move beyond statements of ambition to practical policies that deliver, we will continue to actively engage with policy makers to highlight our experience of sustainable lending. We believe that the combination of the emerging interest in sustainable finance and the apparently steadfastly resilient UK economy will present opportunities for us to grow our environmental and social lending in 2018.

We will be developing our capability to source this new lending by working with many of our partner organisations to extend our reach while adhering to our ecological commitments. We plan to further develop our support for community-led housing given the sector's potential to help tackle the housing affordability crisis.

Following the launch of our new website in 2016 we have continued to prioritise the development of our online and digital capabilities. I was particularly pleased that, in the run-up to our AGM in Bristol, a majority of votes cast, were cast online for the first time, demonstrating how new technologies can help members to become involved in our work as well as helping to reduce our costs and our paper use. There are plans for significant investment in infrastructure and digital capability that will enable the Society to thrive in a modern environment, improve engagement with our members and share our message with a wider audience.

I would like to thank all members for your support throughout the year and we look forward to delivering another year of sustainable growth in 2018.

Paul Ellis
Chief Executive
2 March 2018

Business review

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

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

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

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

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

The Chief Executive's review on pages 4 to 5 provides an overview of the Society's performance during 2017 which should be read in conjunction with this report.

The Board uses a number of Key Performance Indicators (KPIs) to measure the performance and position of the Society on a regular basis. This section provides more detail on these KPIs and the table below provides the actual position as at the end of the current and preceding two years.

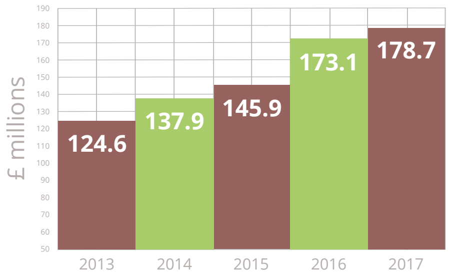
Key Performance Indicators

	2017	2016	2015
Total assets	**£178.7m**	£173.1m	£145.9m
Mortgage asset growth	**-3.03%**	3.94%	24.29%
Mortgage lending	**£28.2m**	£30.7m	£42.1m
Savings balances	**£167.8m**	£163.1m	£134.7m
Liquid assets as a % of shares and borrowings	**36.14%**	31.77%	21.83%
Management expenses as a % of mean total assets	**1.42%**	1.45%	1.46%
Net profit	**£0.915m**	£0.920m	£0.881m
Profit after taxation as a % of mean total assets	**0.52%**	0.58%	0.62%
Core Tier 1 capital	**£9.538m**	£8.594m	£7.736m
AGM – voting turnout	**16.17%**	15.92%	16.54%

Asset growth

The Society has continued to actively manage savings inflow during 2017 and as a result Total Assets increased only moderately by £5.6m to £178.7m (2016: £173.1m), in percentage terms 3.2% (2016: 18.59%). An excessive level of unutilised funding represents a cost to the Society and does not contribute to its sustainable lending programme. **The Society does not pursue growth for its own sake, rather we view growth as a sign of our success in meeting the needs of our savers and supporting our borrowers to build, renovate or buy sustainable properties.**

Total Assets (£m)



Mortgages

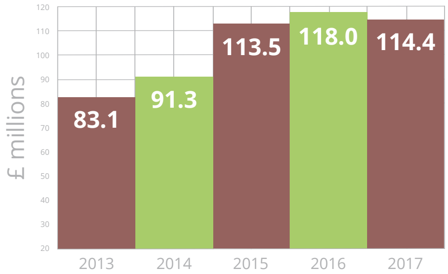
Whilst gross lending levels for the year were only slightly lower than expected, there was a requirement to rebuild the pipeline of new mortgages during a period of inflated redemption activity resulting from the high lending volumes in 2015. As projects moved from the construction phase to completed phase and the two-year early repayment charge period ended, some borrowers have repaid some, or all, of their mortgage and others have taken advantage of the exceptionally low fixed interest rates available in the wider market, over the last 12 months. This has resulted in a modest reduction in mortgage assets of -3.03% (2016: 3.94%). Gross lending for the year is recorded as £28.2m (2016: £30.7m). The movement in mortgage assets reflects gross lending less redemptions, repayments and effective interest rate adjustments. Having considered the Bank base rate increase in November, the Society decided to hold mortgage interest rates at the previous level. This action was taken to enable ongoing support for more projects delivering a positive environmental or social benefit.

By the year-end, over 42% (2016: 32%) of loans outstanding were benefiting from one of our C-Change discounts, which reward work undertaken on the property to help combat climate change – showing that the rapid growth in 2014-2015 mortgage lending was not at the expense of environmental quality. The increase on the previous year reflects our focus, in recent years, on lending for projects such as self-build, which typically attract a C-Change discount. The discount is applied following confirmation of the energy rating achieved.

At 31 December 2017, there were no cases, in possession, or 12 months or more in arrears (2016: nil). In certain circumstances the Society exercises forbearance to assist borrowers who are experiencing financial difficulty, for example, agreeing to interest only payments on a temporary basis. In each case an individual assessment is made to ensure that it is in the best interests of the borrower and the Society. At 31 December 2017, there were 14 cases (2016: 16) under forbearance with total balances of £2.945m (2016: £2.690m) and arrears totaling £5,336 (2016: £204).

Total held provisions against possible mortgage losses reduced to £624,000 (2016: £662,000). Provisions held continue to include two cases which are not in arrears but where Society management are working with our borrowers to navigate difficult operating conditions.

Mortgage Assets (£m)



Savings and liquidity

Savings balances consist of shares and amounts owed to other customers. At the end of 2017 the total savings deposited with the Society grew by 2.9% reaching £167.8m (up from £163.1m at the end of the previous year). In 2016 the Society took action to reduce the volume of savings in response to the requirement to constrain lending activity. During the year there has been an increasing demand from prospective new members who wish to save with the Society. As a result, in October we opened up the Regular Savings account to new members. This has the benefit of enabling the Society to welcome new members but savings inflow is controlled due to the relatively low monthly deposit limit. At the year-end liquidity levels were at a significantly higher level of 36.14% (2016: 31.77%). **We aim to restrict the amount of funding that is not lent out to ensure that the majority of savers' funds are creating value in the real economy. We see our role as providing a savings service for those who wish to invest in pursuit of social and environmental goals, preferring where possible to source our funds for lending direct from individuals and community groups supportive of our mission, rather than taking in wholesale money from other financial institutions.**

We maintained our rates during the sustained period of unprecedented low interest rates and reductions in the market for similar accounts. Our savings rates continue to remain competitive in the ethical savings market and therefore following the Bank of England's decision to increase the base rate in November 2017 we made no adjustment to our savings rates. Interest rates will remain under review during 2018.

Management expenses

The cost base of the Society grew by 8.37% (2016: 11.03%) and the higher level of overall asset growth meant that the management expenses ratio at 1.42% was slightly lower than the previous year (2016: 1.45%). **Wherever possible, we use the most sustainable and ethical option when purchasing goods and services. In some cases we accept that we will pay more than for the less sustainable option. In 2017, this added 3.53% to our costs – without this the management expenses ratio would have been 1.37%.**

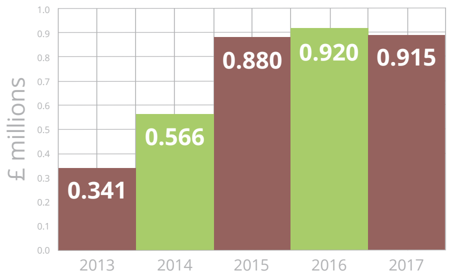
Profit and capital

Net profit for the year amounting to £0.915m (2016: £0.920m) was added to the general reserves, which now total £9.595m (2016: £8.680m). This profit acts as a buffer against adverse market movements or changes in the economic conditions.

At 31 December 2017, the ratio of gross capital as a percentage of total share and deposit liabilities was 5.85% (2016: 5.53%) and free capital was 5.16% (2016: 4.76%).The increase in the ratios is as a result of the low increase in savings levels.

In addition to measuring the size of capital resources relative to assets it is important to measure asset size relative to the risk

Net Profit (£m)



of assets on the balance sheet. The Core Tier 1 solvency ratio measures the ratio of Society reserves against risk weighted assets calculated under Capital Requirements Directive IV (CRD IV). In the case of the Society this is under the standardised approach to credit risk which uses standard risk weights and places no reliance on internally developed capital models. At the end of the year Core Tier 1 ratio stood at 18.05% (2016: 16.98%). The ratio has increased in the year by 1.07% on a like-for-like comparative basis in line with the increase in the capital requirement relative to capital resources in comparison to 2016.

The leverage ratio increased by 0.24% to 5.14% (2016: 4.90%) as a result of low total asset growth in the year. The leverage ratio expresses Tier 1 Capital as a percentage of total assets plus mortgage impairments plus a proportion of mortgage pipeline commitments.

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 based on existing capital requirements.

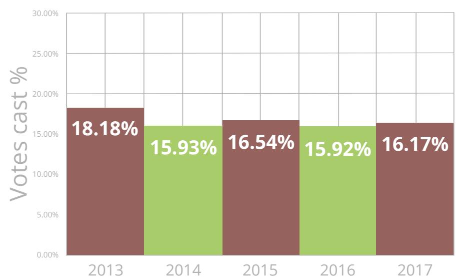
The Board complies with the Capital Requirements Regulation (CRR) which requires the Society to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process (ICAAP). Scenario analysis and stress testing is performed on key business risks to assist the Board in assessing whether the Society could survive a severe economic downturn and other severe business shocks.

Through the application of the ICAAP, the Board is satisfied that the Society holds sufficient capital to satisfy both the CRD's Pillar 1 requirements and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures, including the Pillar 2A percentage and figure, required by the CRD are available on the Society's website: **ecology.co.uk**.

Member relations

In 2017, our AGM and Members' Meet-up was held at The Station, a community venue in Bristol where members heard from sustainable lending is supporting community-led housing and also heard from Ecology borrower and CEO of the Association for Environment Conscious Building (AECB), Andy Simmonds, who shared experience of the retrofit of his family home to Passivhaus EnerPhit standard. Members also heard from Bristol Pound co-founder, Chris Sunderland, about plans for a community food centre. Voting turnout increased slightly on the previous year and we continued to explore ways to increase member engagement including completing our pilot programme of regional Members' Meet-ups, held in London and Manchester. These provided a forum for members to input into our support for community-led housing and energy-efficient whole home retrofit respectively.

Voting Turnout



Summary financial statement

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available at **ecology.co.uk** or free of charge to members and depositors on request from the head office after 31 March 2018.

Summary Directors' Report

The business review for 2017 is discussed in the Business Review on pages 6 to 8.

Summary Financial Statement for the year ended 31 December 2017

Results for the year	**2017**	**2016**
	£000	**£000**
Net interest income	3,597	3,742
Other income and charges	34	10
Administration expenses	(2,499)	(2,306)
Impairment losses on loans and advances	20	(260)
Provisions for liabilities	(40)	(68)
Profit before taxation	1,112	1,118
Tax expense	(197)	(198)
Total comprehensive income for the year	**915**	**920**
Financial positions at end of year	**2017**	**2016**
Assets		
Liquid assets	60,626	51,803
Mortgages	114,412	117,989
Fixed and other assets	3,624	3,264
Total assets	**178,662**	**173,056**
Liabilities		
Shares	157,603	153,701
Borrowings	10,171	9,375
Other liabilities	544	551
Subordinated liabilities	749	749
Reserves	9,595	8,680
Total liabilities	**178,662**	**173,056**
Summary of key financial ratios	**2017**	**2016**
	%	%
Gross capital as a percentage of shares and borrowings	5.85	5.53
Liquid assets as a percentage of shares and borrowings	36.14	31.77
Profit for the year as a percentage of mean total assets	0.52	0.58
Management expenses as a percentage of mean total assets	1.42	1.45

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

Liquid assets are taken from the items so named in the statement of financial position.

The **profit after taxation** is the profit for the year as shown in the statement of comprehensive income.

Management expenses are the administrative expenses plus depreciation and amortisation for the year as shown in the statement of comprehensive income.

Mean total assets are the average of the 2017 and 2016 total assets.

Approved by the Board of Directors on 2 March 2018 and signed on its behalf by S. Round, Chair; P.C. Ellis, Director and Chief Executive; P. Waring, Director and Secretary.

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

Opinion

We have examined the summary financial statement of Ecology Building Society ('the Society') for the year ended 31 December 2017 on page 9.

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

Respective responsibilities of directors and auditor

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

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review with the full Annual Report & 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 for 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 Report & Accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017, 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 Report & 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 Report & Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017.

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

Our report on the Society's full Annual Report & Accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Opinion on summary financial statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full Annual Report & Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

David Allen (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

2 March 2018

Directors' remuneration report

Introduction

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

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

Role and composition of the Remuneration Committee

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

The Committee is comprised of three Non-Executive Directors. The Chief Executive and Finance Director attend by invitation. The Chief Executive and Finance Director take no part in the discussion concerning their individual remuneration. The Committee held one meeting during 2017 at which all members of the Committee were in attendance. The Committee reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages.

> ***The Society has a long-established fair pay policy which limits the ratio between the highest and the lowest basic salary.***

Remuneration policy

Non-Executive Directors

Non-Executive Directors receive a fee for their services that reflects the time commitment for their duties. There are no performance related pay schemes for Non-Executive Directors and they do not qualify for pension or other benefits.

Non-Executive Directors do not have service contracts but serve under letters of appointment. The contribution of each Non-Executive Director is appraised by the Chair annually.

Executive Directors

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

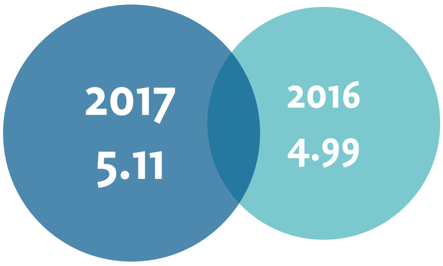
All fees earned by Executive Directors serving on external boards are paid to the Society.

Basic salary

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

The Society has a long-established fair pay policy which limits the ratio between the highest and the lowest basic salary. Following consultation with the Society's Ethics Panel this was increased to a multiple of eight times the lowest full grade with effect from January 2017. The Society continues to monitor good practice in remuneration disclosures and, as such, is awaiting the outcome of the Government's deliberations on potential legislation to support the revised UK Corporate Governance Code recommendation of disclosing the ratio of the CEO's pay to the average pay of all employees.

Ratio of highest basic salary to 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 three 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.

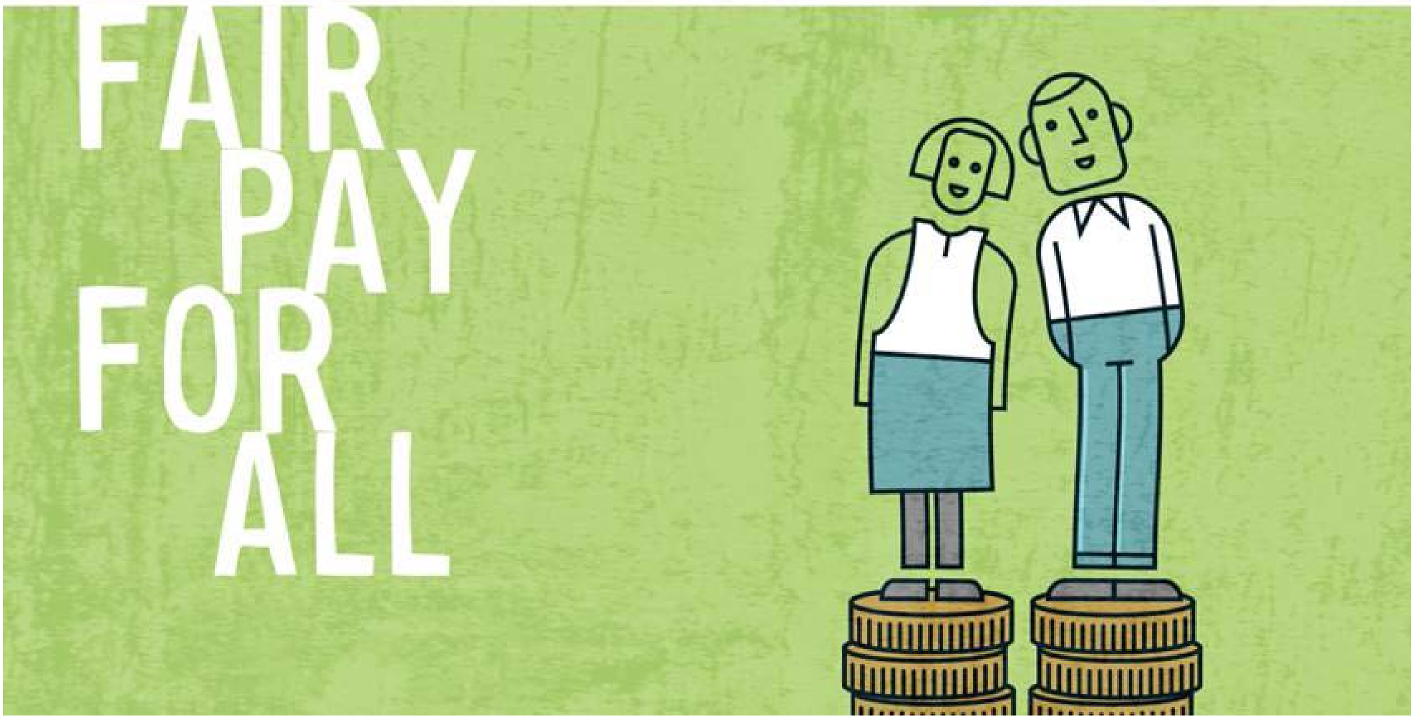
Benefits

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.

The Society is committed to paying the Living Wage and has received accreditation for this from the Living Wage Foundation.



Non-Executive Directors' remuneration

	2017 £000	2016 £000
Andrew Gold[1]	**22**	19
Tim Morgan	**14**	11
Chris Newman	**14**	11
Steve Round	**17**	16
Vincent Smith (appointed 3 November 2017)	**2**	–
Alison Vipond	**12**	12
Totals	**81**	69

[1] *Includes additional remuneration of £10,461 (2016: £9,117) in relation to assigned senior management regime responsibilities for oversight of the risk function.*

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

	2017 £000	2016 £000
Louise Power	**12**	8
Totals	**12**	8

Executive Directors' remuneration

	Salary £000	Performance related pay £000	Taxable benefits* £000	Contributions to pension scheme £000	Total £000
2017					
Paul Ellis (Chief Executive)	**84**	**4**	**2**	**7**	**97**
Pam Waring (Finance Director)	**73**	**4**	**–**	**6**	**83**
Totals	**157**	**8**	**2**	**13**	**180**
2016					
Paul Ellis (Chief Executive)	81	7	2	6	96
Pam Waring (Finance Director)	70	5	–	6	81
Totals	**151**	**12**	**2**	**12**	**177**

On behalf of the Board
Steve Round
Chair
2 March 2018

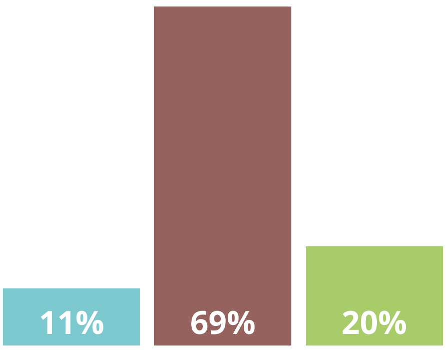
Measuring what matters ▸ Our positive impact

Ecology exists to support projects and people that are delivering benefit for society and the environment. In short, we want to build a greener society through enabling the positive power of finance. But how well did we do in delivering upon this in 2017? Here, we give a snapshot of Ecology's recent impacts, from the carbon footprint of our business operations, to ways that we're supporting sustainable development in the UK and further afield, looking at where we're getting it right and where we can improve.

Supporting energy efficiency

We want to help as many people as possible to improve the energy performance of their properties. Energy-efficient buildings mean reduced demand for natural resources and lower bills. The majority of Ecology-backed projects are achieving their target energy rating and – with almost 77% achieving EPC B or above – are well ahead of the England average, which the 2016-17 *English Housing Survey* states as EPC D. Looking ahead, we want to help an even greater proportion of our borrowers to achieve their energy-efficiency goals.

Completed Ecology mortgages: energy rating achievements



- **11%** of properties exceeded their expected energy rating
- **69%** of properties achieved their expected energy rating
- **20%** of properties are yet to achieve or did not achieve their expected energy rating

In 2017 we helped support the SuperHomes Open House events. SuperHomes is a national network of over 200 homes, which have all reduced their carbon footprint by a minimum of 60%. Our support helped enable a record 106 SuperHome openings, with 422 people registered to attend the visits.

We also supported the Carbon Co-op's 'Warmer Homes, Take Control' programme in North West England. The sessions, which will be continuing in 2018, give expert advice on transforming draughty old properties into efficient low-carbon homes of the future.

Backing renewable energy

Sustainable investing isn't just something we encourage others to do – we ensure our own investments are contributing to the world in a positive way. In 2017, Ecology invested £490,000 in two renewable energy projects via sustainable investment platform, Abundance:

Atlantis Ocean Energy is developing a tidal stream energy system in the UK. It is estimated that tidal stream energy has the potential to generate 11GW of electricity in the UK alone, equivalent to two-and-a-half-times the production of Hinckley Point C. Ecology investment: £250,000

United Downs Geothermal aims to develop the first UK geothermal power plant. Based in Cornwall, the plant will deliver commercial-scale electricity generation using the heat naturally generated by the region's granite bedrock. Ecology investment: £240,000

Pre-2017, we invested in a variety of other sustainable energy projects via Abundance, including a scheme to install solar PV systems on social houses in Berwickshire and the construction of a single Enercon E48 wind turbine in Aberdeenshire.

Shrinking our carbon footprint

We want to shrink the amount of carbon associated with our operations. We aim to do this through improving resource efficiency, increasing recycling, encouraging employees to use sustainable means of transport, and producing our own renewable energy. Ecology's office has an electric car charging point, photovoltaic (PV) panels, a sedum roof and a mechanical ventilation with heat recovery system.

Data for 2016 – the most recently available – shows our overall carbon emissions have increased to 392 tonnes (2015: 359 tonnes) with the largest contributors being computer services, accountancy and legal services. The growing emissions have been mirrored by increased numbers of staff, who contribute to emissions through commuting and use of facilities. 2018 will see a significant investment in our IT systems with servers being moved from our head office to datacentres designed to be energy efficient.

We are continuing to explore ways that we can reduce the carbon output of our activity, both by minimising emissions in the first instance and, as a secondary measure, supporting viable offset schemes.

Total CO2e (tonnes)

2016	2015	2014
392	359	260

CO2e excluding staff commuting (tonnes)

2016	2015	2014
332	309	214

Grams of CO2 per £ of new lending (excluding staff commuting)

2016	2015	2014
11.2	10.6	15.5

Reducing our paper use

We are continuing to look at ways of reducing our paper use. This includes reducing both the amount of paper used at our head office as well as the paper we send to members in mailings. For example, in 2017 we reduced the amount of paper that we used for the AGM mailing by 9.1% as more members chose to receive their AGM packs by email. In addition the easiest way to take part in our Member Survey was online, with the option to complete a paper survey.

Our offsetting schemes

While we are working hard to reduce our emissions, we recognise that we cannot entirely eliminate them. For this reason, we offset our emissions through a programme of carefully selected schemes. These schemes support a range of activities, from education to sustainable forestry.

Cochabamba, Bolivia – Managed by ArBolivia, this project provides education to local communities through sustainable, biodiverse tree-planting programmes. The scheme plants sufficient trees to absorb the equivalent of half of our annual carbon emissions.

Wester Dean Woodland, Scottish Borders – This is a new woodland area to be planted in the Scottish Borders. The project places emphasis on the importance of woodland in natural flood management. Wester Dean will offset the remaining 50% of our carbon emissions.

Image courtesy of JOHN FLEETWOOD

Paying responsibly

We make sure that we reward our people fairly. As an accredited Living Wage employer, all Ecology staff members are paid a fair wage – a policy that extends to contractors working on our premises. We also stipulate that no basic salary will exceed eight times the lowest full grade salary.

Fair Tax

Our responsible approach to pay doesn't end with our employees – it extends to how we pay our taxes. In 2016 we announced that Ecology had become the first UK building society to be awarded the Fair Tax Mark; our re-accreditation in 2017 demonstrates our genuine commitment to doing the right thing when it comes to taxes.

Leading the field

In recognition of his bold and committed leadership, Ecology CEO, Paul Ellis, was awarded the Leadership award at the 2018 Mortgage Finance Gazette Awards. The longest-standing CEO of any UK building society, Paul recently celebrated 25 years with Ecology and 22 years as CEO. His work demonstrates the transformative power of values-driven leadership when it comes to re-imagining the financial sector.

Giving time (and money)

Charitable giving

In 2017, Ecology staff gifted hours from their working days to a range of local organisations, which included a local foodbank, a youth sports group, a family support organisation and a global aid charity.

Commercial sponsorship

Ecology also attended and sponsored a variety of industry events, helping to mobilise activity around a range of issues – from ethical consumption to energy efficiency and community-led housing.

Encouraging innovation

Ecology's partnership with the London Community Land Trust (CLT) has enabled a unique mortgage solution for residents of the CLT's affordable housing scheme at St. Clements, Tower Hamlets. The development includes 23 affordable homes, the sale price of which are coupled to local earnings rather than open market value, ensuring the homes remain permanently affordable. In recognition of this pioneering work, Ecology was presented with the Mortgage Product Innovation award at the 2018 Mortgage Finance Gazette Awards.

> *Thanks to Ecology, families have now been able to move into a genuinely affordable home that will remain affordable to benefit local people for generations to come.*
>
> - Catherine Harrington, Director, National CLT Network

Enabling people-powered housing

Ecology continues to champion community-led housing projects that promote social well-being, economic resilience and environmental sustainability. Recent Ecology-backed projects include Bath Street Collective Custom Build in Edinburgh (pictured). See page 18 for more about the project.

© John Reiach and John Kinsley Architects

In 2017 we sponsored the first ever National Community Led Housing conference. With more than 500 delegates, this was the biggest event the sector has seen. As part of our efforts to help community-led housing to scale-up, we are also working with the Housing Associations' Charitable Trust to develop a toolkit that will help local authorities and housing associations to implement community-led housing solutions.

Building networks

Ecology doesn't stand alone. We're part of a global community of organisations striving for a greener society. We carefully consider our relationship with these networks so that we can understand how we are helping to strengthen them as well as how they are adding value to our own operations.

Global Alliance for Banking on Values (GABV)

We're a member of GABV – an independent network of banks using finance to deliver sustainable development. GABV assesses members on a set of key metrics designed to guide the development of a values-based approach to finance. These include a **triple bottom line approach** and support of the **real economy**:

Triple Bottom Line

GABV states that a triple bottom line approach of people, planet and prosperity should be at the heart of the business.

In 2017 we reported that 63.4% of our lending has brought about benefits to the environment or supported social developments. The remaining 36.6% represents mortgage cases that have taken over two years to achieve their objective and so the benefits are yet to be realised.

Real Economy

GABV emphasises that business should be grounded in communities, serving the real economy.

In 2017 69.2% of our lending and investment supported the real economy. The remaining 30.8% is invested in the financial economy to ensure we meet certain regulatory requirements; these investments include liquidity deposits held with other banks and building societies, and mortgage-backed securities for low income housing.

Upholding the Sustainable Development Goals (SDGs)

In September 2015, the world came together and agreed to adopt a set of goals that would end poverty, protect the planet and ensure prosperity for all.

The mission of Ecology is aligned with many of the SDGs and we continue to consider how our work can support them. Being a partner of organisations like UK Stakeholders for Sustainable Development (UKSSD), which is working to facilitate delivery of the SDGs in the UK, helps us to consolidate our efforts toward supporting the goals and to ensure we're part of the global conversation around their success. Here are just some of the goals that have been supported through our 2017 activity.

We minimise our use of treated water by harvesting rainwater for use in and around the Ecology office.

Our energy needs are met through a combination of onsite renewables and our utility supplier, Ecotricity. 100% of our electricity is sourced from renewables and our gas supplier is working to develop its own frack-free gas mills.

We support a variety of renewable and community-owned energy projects, through both our lending and our investments.

We continue our pioneering work in affordable housing, offering mortgages on affordable homes and community-led housing. We hope our support will lead to mainstream lenders supporting such schemes in the future.

Our mission is to build a greener society. We achieve this through lending on developments that will deliver a benefit for the environment, as well as constantly monitoring our carbon emissions and sourcing sustainably produced energy.

We're contributing to sustainable land stewardship through responsible offsetting schemes, like the Cochabamba project in Bolivia (see page 15). Closer to home, our own office grounds are managed in accordance with permaculture principles and we support many projects with a focus on sustainable land management.

We're a member of several organisations which aim to work together to achieve shared goals which link directly or indirectly to the SDGs. These organisations include GABV and the International Association of Investors in the Social Economy (INAISE).

We are proud to have memberships and connections with the following organisations:

2017 member stories

Bath Street Collective's story: community-led custom build

Bath Street Collective Custom Build is home to four separate families that came together to purchase the site and build a tenement block containing an affordable flat for each owner. Working without a conventional developer or house-builder, the families were each able to design a home that would meet their individual needs, while ensuring that the overall property was as low-energy as possible. They have shared the successes and difficulties of the project, and got to know each other as future neighbours before even moving in.

The contemporary design has been carefully integrated into the street and the build follows the traditional Scottish tenement model, with a central shared stair providing access to the flats as well as a communal roof garden. The project adopted a 'shell and core' approach, meaning that much of the interior finishing was left for the individual owners to complete, giving more control over cost and greater scope for personalisation. Importantly, the build was more economical than if it had been achieved through a conventional model. With the house-builder's profit removed from the equation, each family was able to purchase their home at the price that it cost to build.

Rear elevation
© John Reiach and John Kinsley Architects

The building is designed to Passivhaus-equivalent levels of energy efficiency and uses a cross-laminated timber structural frame which delivers exemplary levels of embodied energy; the growth of timber for the frame absorbed 114 tonnes of carbon.

Isabel and Andrew's story: energy-efficient renovation

Isabel and Andrew

Ecology borrowers Isabel and Andrew are modest about what they've achieved: *"We've just done a house up. Compared to most green builds, it's a bit boring!"* says Isabel.

Fortunately, their renovation didn't have to be ground-breaking for Ecology to see its positive potential – they just needed to invest in insulating the property to a high standard. In doing so, they have dramatically improved the building's Energy Performance Certificate (EPC) rating, taking it from G to C, while breathing new life into a long-neglected property.

Pre-renovation

The renovation project took three years, two of which were spent living offsite. With the roof removed, the house was reduced to four outside walls before it was re-built and an extension was added for the new kitchen.

The dramatic transformation from tumbledown farmworkers' cottages into warm and welcoming home has garnered

Glossary

> *One in ten new homes built in Berlin are procured this way. Our pioneering project in Bath Street, Portobello, has shown that it can work just as well here in Scotland... It is extremely exciting to be part of the growing momentum driving community-led projects across the UK.*
>
> – Architect John Kinsley

The high levels of insulation mean that the families have not needed to install a central heating system and all electricity is generated via on-site PV panels or procured from 100% renewable energy.

© *John Reiach and John Kinsley Architects*

Post-renovation

plenty of local interest. The building is continuing to perform well on EPC measures, providing a comfortable and efficient space for the family, while helping to drive down their carbon emissions.

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 banks, building societies and money market funds 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 value of mortgage loans less provisions.

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.

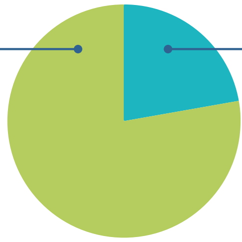
Shares
For Ecology (like other building societies) shares refer to money deposited by members, who have a 'share' in the business should it be wound down.

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.

2017 Our lending in focus

£28.2 million lent across **232** sustainable properties and projects



The new loans we made included:

140 NEW BUILDS (including self- and custom-build, and community-led housing)

17 CONVERSIONS

26 RENOVATIONS

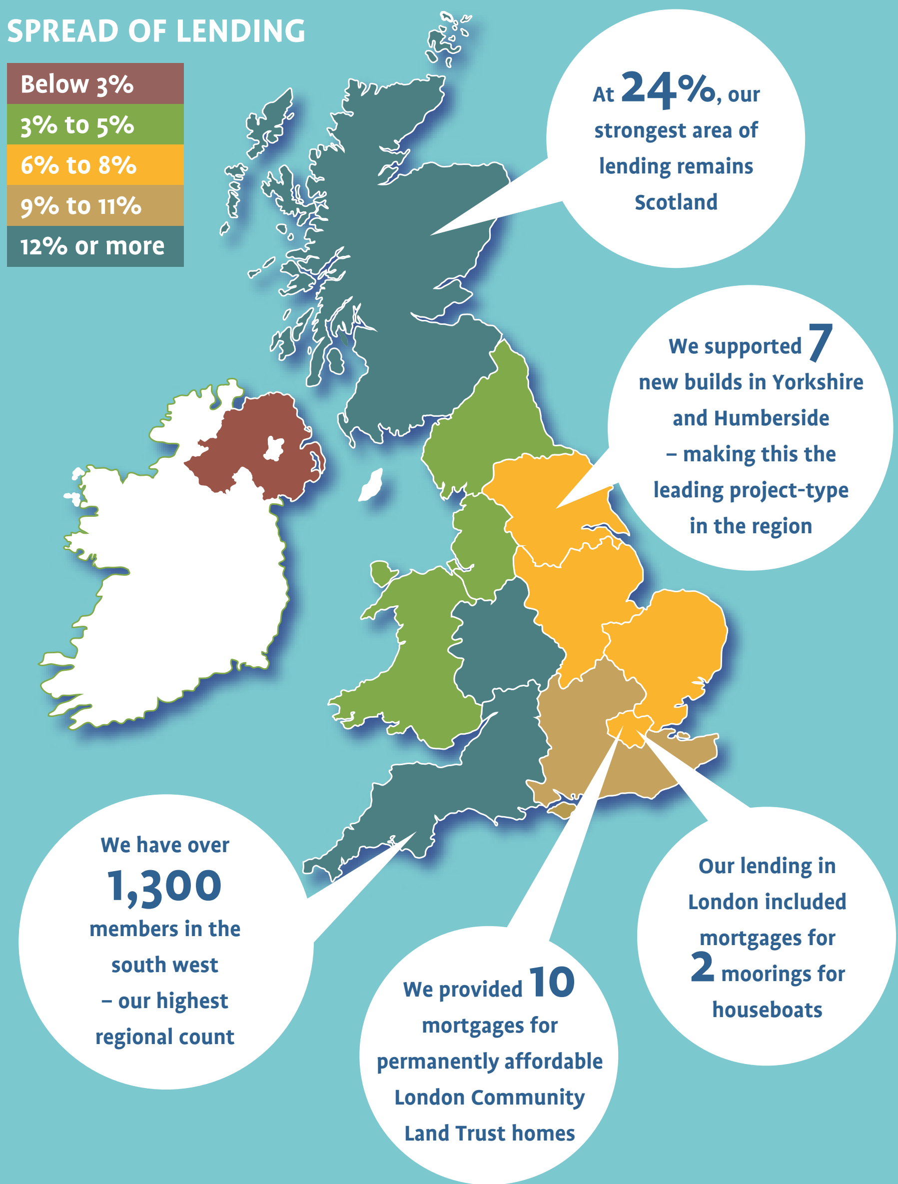
26 SHARED OWNERSHIP

5 WOODLANDS

2 MOORINGS

AT THE END OF 2017, OVER 42% OF OUTSTANDING LOANS WERE BENEFITING FROM A C-CHANGE MORTGAGE DISCOUNT

SPREAD OF LENDING



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