Ecology
Building Society

Annual Review 2018

Building a greener society

Welcome to your Annual Review 2018

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?

About Ecology in 2018

We continued monitoring our **carbon footprint** See page 15 for the latest figures

36% increase in lending – supporting even more sustainable building

We're **powered** by over **9500** members

We received Fair Tax Mark accreditation for the third year running

£177.851m total assets

Record profit after tax **£1.02m**

1215 (15.62%) eligible members voted in our 2018 AGM. More than half of voting members voted online

Helped support **364** people to visit eco homes in Cambridge and Manchester

We provided lending for 255 sustainable properties and projects

More than **600** members and supporters took part in our AGM charity poll. The winner was Trees for Cities

31 **employees** based in our eco-build offices in Silsden, West Yorkshire

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

Cover images, clockwise from top left: Ecology member, Ian, during the conversion of his new energy-efficient home; timber shingles on a new home supported by Ecology; presenter Peg Alexander at the launch of a community-housing film in Leeds; Ecology staff at the Centrepoint Sleep Out event in Bradford; Jo and Gail, Ecology members, inside 'The Hen House', their eco-build home; Ecology member, Dorothy, in her garden.

Chair's statement

Ecology is different. As a mutual we're powered by our members and since we began in 1981, we have sought to offer an inspiring alternative for people who believe in the positive potential of a transparent financial system which benefits people and planet.

In 2018, your Society delivered another strong financial performance with record levels of profit and an increase of over 36% in our sustainable lending. This growth in lending shows that we have been able to support even more building projects that both respect the environment, and support sustainable communities. I am immensely proud of our record over the last year.

I was particularly pleased to welcome members to our AGM and Members' Meet-up in Birmingham where we discussed our plans to invest in our digital capability and how different building approaches and materials can help us address the housing crisis while tackling climate change.

At the AGM we also shared the results of our latest Member Survey and I'd like to say a big thank you to all members who completed the survey. This gives us a valuable insight into what members think about the work that Ecology is doing. It was positive and reassuring that 96% of members told us that their top two reasons for choosing Ecology are our ethical approach and knowing that their money is being used for positive environmental and social impact.

Perhaps unsurprisingly, members consider climate change to be one of the three most pressing sustainability issues facing the world today as well as low-impact living and social inequality. In October 2018 the UN Intergovernmental Panel on Climate Change (IPCC)

published their 'Special Report on 1.5C Global Warming', which issued a stark warning about the ecological and human consequences if we fail to limit global warming to a maximum of 1.5C above pre-industrial levels. The publication of the report shows how we all need to take actions to help reduce our carbon emissions and Ecology's activist role and sustainable lending has never been more important. The Society is well placed to support members to take actions to reduce their own carbon footprint and is exploring ways to help them offset their emissions.

Buildings contribute over 27% of the UK's carbon emissions and Ecology has been helping people to make their homes more energy-efficient for nearly 40 years, thereby reducing the impact of climate change. We are now participating in the Europe-wide Energy Efficient Mortgages (EEM) Pilot Scheme, reflecting Ecology's role as an agitator and campaigner for positive change. The Society is also sharing its experience with policy makers in the UK and continuing to lobby for incentives to spur people to make their homes energy-efficient. We would like to see other lenders engage in initiatives like EEM and become agents for positive change.

Ecology has also been recognised as a long-standing pioneer and supporter of community-led housing helping to create genuinely affordable, quality homes for local people. During 2018 our support for scaling-up community housing continued to grow. As part of this commitment the Society has entered into a three-year partnership with the National CLT (Community Land Trust) Network. In September, we brought together community housing experts to discuss how the sector can offer a sustainable fix to the housing affordability crisis at the launch screening of a new documentary film. Ecology also helped fund the launch of a new tool-kit to help local authorities and housing associations develop people-powered housing solutions.

It is imperative that, as we grow, we can meet an even bigger range of members' needs and the increased lending levels during the year enabled Ecology to start welcoming more members to the Society through making new savings account applications available once more. The positive response to this move shows that there is a significant latent demand for our ethical savings service.

During the year we launched an improved online account service and the Society continues to invest in digital ways of working. This is enabling Ecology to adapt to the opportunities and challenges of the digital era, supporting our mission while continuing to offer members the best possible service.

This is an exciting time for the Society and throughout the Board will continue to scrutinise and provide critical challenge to the Executive while upholding Ecology's ethics and ecological mission and a focus on members' needs.

Finally I would like to thank the Board and all of the Ecology staff team for their continued commitment, hard work and attention to serving members' needs during a year of significant growth.

Steve Round
Chair
4 March 2019

Chief Executive's review

Ecology's sole reason for being is its mission to build a greener society. That shapes everything we do.

As with any business, however, there are a number of factors that the Board and management of the Ecology have to consider in seeking to prudently manage the growth and evolution of the Society. In financial terms, these include mortgage and savings rates, lending volumes, savings inflow, profitability, capital, liquidity and the overall level of assets. Further, in building an operation to support sustainable lending and engage in the real economy via triple bottom line assets, another dimension is added when balancing these competing variables.

Financial developments

In the past 12 months, we have prioritised lending, reduction in liquidity, and protecting the capital base by maintaining profitability. As a result, we are first and foremost pleased to report a 36.0% increase in new lending and a 10.5% increase in total mortgage assets. At the same time, we have effected a significant reduction in liquidity to 28.8%, and record net profit of £1.022m.

The reduction in our liquidity has resulted in a small reduction in total assets to £178.851m. This reflects one of the strengths of the building society model – that overall assets can be contracted, usually resulting in improved capital ratios.

The positive growth to our mortgage book is a result of the healthy 'pipeline' of potential lending opportunities which was built up during the previous year, a reduction in the impact of the redemptions experienced during 2017, and a consistently strong level of enquiries regarding new projects across the year. So we finish the year with a very strong lending pipeline, creating

a platform for further growth in 2019. This significant increase in lending was achieved with no reduction in quality and no compromise in our commitment to focus on lending for environmental and social impact.

> *"Ecology has pioneered sustainable finance in the UK via our mortgage lending and we have long recognised that the financial sector must enable the transition to a low-carbon economy and thereby contribute to tackling the challenge of climate change."*

During the year, along with a careful reduction in savings balances, the increased lending contributed to lowering our liquidity levels. As a result, from October we were able to make our Easy Access account available again. This enabled new accounts to be opened, so serving the demand from new members who share our aims and objectives and wish to support our sustainable lending. The Society is well placed for future growth in savings balances as the demand for our lending increases.

The removal of central bank support provided by schemes such as Funding for Lending earlier in the year increases competition for savings deposits. However, so far, we have remained in a low interest rate environment. We keep all rates under constant review so that we can balance the needs of both savers and borrowers. Following the Bank of England base rate change in August, we increased the interest rate on some of our savings accounts to recognise the ongoing loyalty of our saving members, while we left mortgage rates unchanged in order to support lending on more projects which have a positive environmental and social impact.

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.

Developing sustainable finance

I am proud that, since we were established, Ecology has pioneered sustainable finance in the UK via our mortgage lending and we have long recognised that the financial sector must enable the transition to a low-carbon economy and thereby contribute to tackling the challenge of climate change. In 2018, we saw some potentially exciting developments as policy makers looked anew at green finance products such as green mortgages. Having proved that incentivising energy-efficiency through mortgage pricing works, we were asked by Government to feed into policy deliberations by sharing details of our unique C-Change mortgages, the rates of which are based on a property's climate impact. We have seen such interest on previous occasions, so we wait to see if present initiatives bear fruit.

I am also delighted that Ecology is participating in the European Energy Efficient Mortgages Initiative which commenced in 2018. This project seeks to develop a recognised model for mortgage financing which encourages borrowers to incorporate energy efficiency measures into renovating their existing property or to buy a more energy efficient home, thus enabling more lenders to get involved. Our mortgages already align with the criteria for an 'energy-efficient mortgage' and so we are strongly involved with pilot initiatives to test the criteria. We are pleased to be a contributor and to be sharing our learning, because the need to step up action on combatting climate change is ever more pressing, and a task bigger than any one institution.

We continue to have an exciting and prominent role in helping to support the development of community-led housing, which can help create genuinely affordable, quality homes for local people. We remain one of the leading lenders for community housing solutions and expect our role to grow further. Our decision last year to increase the maximum mortgage term for housing co-operatives to 40 years has resulted in increased lending to this form of mutual housing provision. In addition the launch of the Government's Community Housing Fund is helping to kick-start more projects so that they are ready to benefit from Ecology's lending. In September, I was especially proud to join a panel of housing experts at the launch of a documentary film on community-led housing, which was supported by Ecology. The panel discussion highlighted how the sector can boost the availability of affordable and sustainable housing solutions.

Developing your society

While the profit we make belongs to our members and adds to our capital to support our future growth, it is also important to continue to invest in systems, processes and overall capabilities to ensure we can respond to the changing needs of our current and future members while meeting the ongoing challenges of the regulatory environment.

During 2018, our focus on building modern digital solutions became central to our development programme. This programme aims to make our operations more efficient, reduce our impact on the environment and improve our services to members. Among the highlights was the launch of an improved online service offering savers and borrowers a more convenient way to manage their accounts online. In April, the Society commenced working in partnership with ClearBank which will enable us to transform our back office processes, helping to deliver benefits to members such as speeding up transaction processing.

Ensuring we always do the right thing includes investing in making the Society a good place to work and, in 2018, we welcomed our new HR Manager. We also bolstered our compliance function in time to respond to the increased data protection requirements resulting from the implementation of GDPR, and welcomed new recruits to our Savings and Governance teams.

I would like to thank the whole Ecology staff team for their continued support and commitment to our members while upholding our high ethical standards. I am continually impressed by the dedication displayed by colleagues, the enthusiasm for our mission, and the mutual support provided to each other. I would also like to thank members who have provided feedback on the way we interact with you – it is gratefully received and shared amongst colleagues!

Outlook for 2019

We are well placed for further growth in 2019 with a strong pipeline of potential lending opportunities underpinned by continued investment in our capabilities and capacity. We expect to be able to make more of our range of savings accounts available to new and existing members.

We constantly monitor political developments and the economic environment. Inevitably, we keep a watchful eye on the potential for disruption arising from the UK's planned exit from the EU in March 2019, and are prepared for the changes in business conditions this might entail.

Following this year's launch of our new online service, we will be continuing to prioritise the development of our online and digital capabilities. This investment will be critical to ensure that the Society can take advantage of modern and effective digital ways of working. It will provide the Society with a long-term platform for the development of new products and services for members as well as continue to build our resilience. At the same time, this will mean that we will need to recruit to ensure we have the relevant skills in 2019 to help effect this transformation.

We will continue to develop our partnerships to support the growth of the community-led housing sector, which we anticipate will form a greater proportion of our lending in 2019. We also anticipate that the positive signs of interest in our sustainable lending model by policy makers and other lenders will provide opportunities for us to grow our environmental and social lending further.

Finally, I would like to thank members for your continued support and we look forward to delivering another year of sustainable growth in 2019.

Paul Ellis
Chief Executive
4 March 2019

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 2018 which should be read in conjunction with this report.

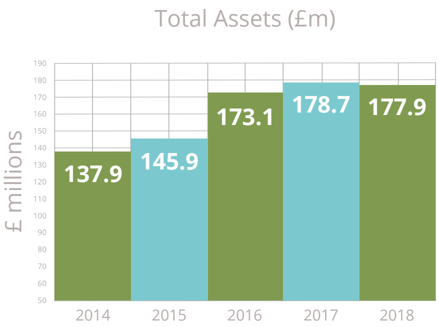
The Board uses a number of Key Performance Indicators (KPIs) to measure the performance and position of the Society on a regular basis. This section provides more detail on these KPIs and the table below provides the actual position as at the end of the current and preceding two years.

Key Performance Indicators

	2018	2017	2016
Total assets	**£177.9m**	£178.7m	£173.1m
Mortgage asset growth	**10.59%**	-3.03%	3.94%
Mortgage lending	**£38.4m**	£28.2m	£30.7m
Savings balances	**£166.0m**	£167.8m	£163.1m
Liquid assets as a % of shares and borrowings	**28.82%**	36.14%	31.77%
Management expenses as a % of mean total assets	**1.54%**	1.42%	1.45%
Net profit	**£1.022m**	£0.915m	£0.920m
Profit after taxation as a % of mean total assets	**0.57%**	0.52%	0.58%
Core Tier 1 capital	**£10.578m**	£9.539m	£8.594m
AGM – voting turnout	**15.62%**	16.17%	15.92%

Asset growth

During 2018 the Society has continued to actively manage savings inflow and as a result total assets reduced marginally by £0.8m to £177.9m (2017: £178.7m), in percentage terms -0.45% (2017: 3.2%). 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.



The actions taken to rebuild the pipeline of new mortgages during the previous two years have had a positive impact on gross lending, which at the end of 2018 is recorded as £38.4m (2017: £28.2m). Interest rates available in the wider market continue to be attractive to borrowers who have completed their build or renovated their property. However, the differential between the interest rate offered by Ecology and the market has narrowed and, as a result, redemption activity has fallen. The movement in mortgage assets reflects gross lending less redemptions, repayments and effective interest rate adjustments. The overall effect is an increase in mortgage assets of 10.59% (2017: -3.03%). Having considered the Bank Base Rate increase in August, the Society continued 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.

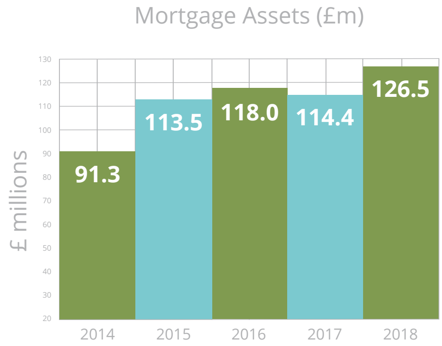
By the year-end, 40% (2017: 42%) of loans outstanding were benefiting from one of our C-Change mortgages, which reward work undertaken on the property to help combat climate change. The slight dip in the percentage reflects the high level of new advances that have not yet completed their project. A reduction to the interest rate is applied following confirmation of the energy rating achieved.

At 31 December 2018, there were no cases in possession, or 12 months or more in arrears (2017: 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 2018, there were 15 cases (2017: 14) under forbearance with total balances of £3.958m (2017: £2.945m) and arrears totaling £516 (2017: £5,336).

Provisions against possible mortgage losses reduced to £613,000 (2017: £624,000). Provisions held continue to include two cases which are not in arrears but where the Society is working with our borrowers to navigate difficult operating conditions.

Savings and liquidity

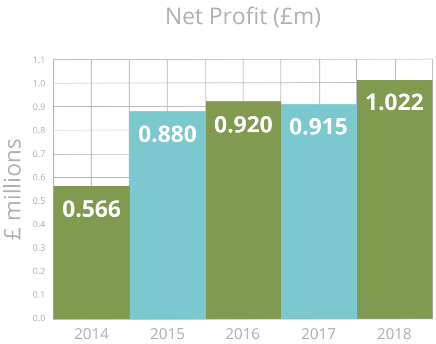
Savings balances consist of shares and amounts owed to other customers. At the end of 2018 the continuing management of inflow resulted in a moderate reduction of -1.08% in the total savings deposited with the Society. Total savings balances held at the end of the year are £166.0m (2017: £167.8m). The gradual reduction of liquidity levels during the year provided capacity to re-open the Easy Access account in October. To meet growing demand for our mortgage products it is anticipated that further savings accounts will be made available during 2019. At the year-end the results of active management of inflow was a moderate reduction in liquidity levels to 28.82% (2017: 36.14%).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.



In August the Bank of England raised the Bank Base Rate to 0.75% and following this decision the Society was pleased to be able to increase the interest rate on a number of our savings products. Interest rates will remain under review during 2019.

Management expenses

The cost base of the Society grew by 9.56% (2017: 8.37%). There was an adverse effect on the management expenses ratio which increased to 1.54% from 1.42% in 2017 due to the slightly elevated increase in the cost base against a moderate reduction in total assets. 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 2018, this added 3.14% to our costs – without this the management expenses ratio would have been 1.49%.**



Profit and capital

Net profit for the year amounting to £1.022m (2017: £0.915m) was added to general reserves, which now total £10.617m (2017: £9.595m). Reserves act as a buffer against adverse market movements or deteriorating economic conditions.

At 31 December 2018, the ratio of gross capital as a percentage of total share and deposit liabilities was 6.44% (2017: 5.85%) and free capital was 5.74% (2017: 5.16%). The slight reduction in savings levels, together with strong profit has had a positive effect on the capital ratios.

The Board complies with the Capital Requirements Regulation (CRR) which requires the Society to assess the adequacy of itscapital 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.

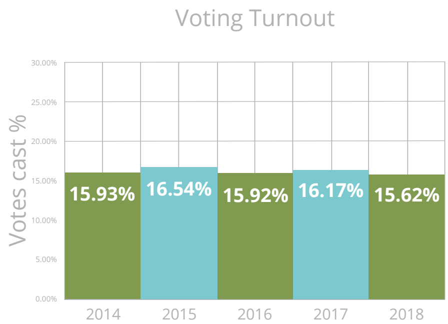
Having undertaken the ICAAP, the Board is satisfied that the Society holds sufficient capital to satisfy both the CRR's Pillar 1 requirements and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures, including the Pillar 2A percentage and figure, required by the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

The Society must maintain sufficient capital to cover its risk weighted assets, which is measured by the Core Tier 1 solvency ratio. This is determined by the standardised approach to credit risk set out in the CRR. At the end of the year Core Tier 1 ratio stood at 17.46% (2017: 18.05%).

The leverage ratio increased by 0.46% to 5.65% (2017: 5.14%) as a result of there being no increase in total asset growth in the year. The leverage ratio expresses Tier 1 Capital as a percentage of total assets plus mortgage impairments and a proportion of mortgage pipeline commitments.

Member relations

In 2018, our AGM and Members' Meet-up was held at The Priory Rooms in Birmingham. Members heard about our plans to invest in our digital capability and how different materials and building approaches can help us address the housing crisis while tackling climate change. We also shared the key findings from our latest Members' Survey, which showed that members strongly agree with what Ecology stands for – our policies, values and memorandum. Voting turnout reduced slightly on the previous year. Going forward, we will be looking at further ways we can encourage members to exercise their vote.



Inside 'The Hen House', which was supported by Ecology (Credit: Dug Wilders Photography)

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 2019.

Summary Directors' Report

The Business review for 2018 is discussed on pages 6 to 8.

Summary Financial Statement for the year ended 31 December 2018

Results for the year	**2018**	**2017**
	£000	**£000**
Net interest income	3,900	3,597
Other income and charges	56	34
Administration expenses	(2,738)	(2,499)
Impairment losses on loans and advances	11	20
Provisions for liabilities	4	(40)
Profit before taxation	1,233	1,112
Tax expense	(211)	(197)
Total comprehensive income for the year	**1,022**	**915**
Financial positions at end of year	**2018**	**2017**
Assets		
Liquid assets	47,822	60,626
Mortgages	126,525	114,412
Fixed and other assets	3,504	3,624
Total assets	**177,851**	**178,662**
Liabilities		
Shares	156,629	157,603
Borrowings	9,327	10,171
Other liabilities	528	544
Subordinated liabilities	750	749
Reserves	10,617	9,595
Total liabilities	**177,851**	**178,662**
Summary of key financial ratios	**2018**	**2017**
	%	%
Gross capital as a percentage of shares and borrowings	6.44	5.85
Liquid assets as a percentage of shares and borrowings	28.82	36.14
Profit for the year as a percentage of mean total assets	0.57	0.52
Management expenses as a percentage of mean total assets	1.54	1.42

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 2018 and 2017 total assets.
Approved by the Board of Directors on 4 March 2019 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 2018 set out on page 9.

On the basis of the work performed, as described below, 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 2018 and conforms with the applicable 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 accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018, 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 2018.

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.

Directors' responsibilities

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

Auditor's responsibilities

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.

The purpose of our work and to whom we owe our responsibilities

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.

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

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

4 March 2019

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 in to 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, on information provided by the Executive Directors. In addition, it reviews general salary levels.

The Committee is comprised of three Non-Executive Directors. At the invitation of the Chair of the Committee the Chief Executive, the Deputy Chief Executive and Finance Director and the HR Manager attend meetings. The Chief Executive as well as the Deputy Chief Executive and Finance Director take no part in the discussion concerning their individual remuneration. The Committee held two meetings during 2018 at which all members of the Committee were in attendance. The Committee reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages.

In line with good governance expectations no Director is involved in setting their own salary.

The terms of reference for the Remuneration committee are available on the Society's website at **ecology.co.uk**

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.

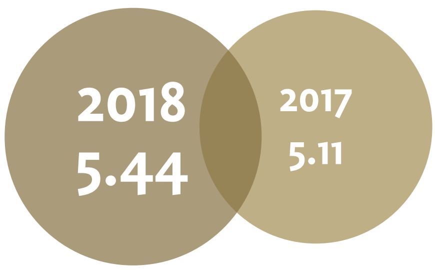
> ***The Society has a long-established fair pay policy which limits the ratio between the highest and the lowest basic salary.***

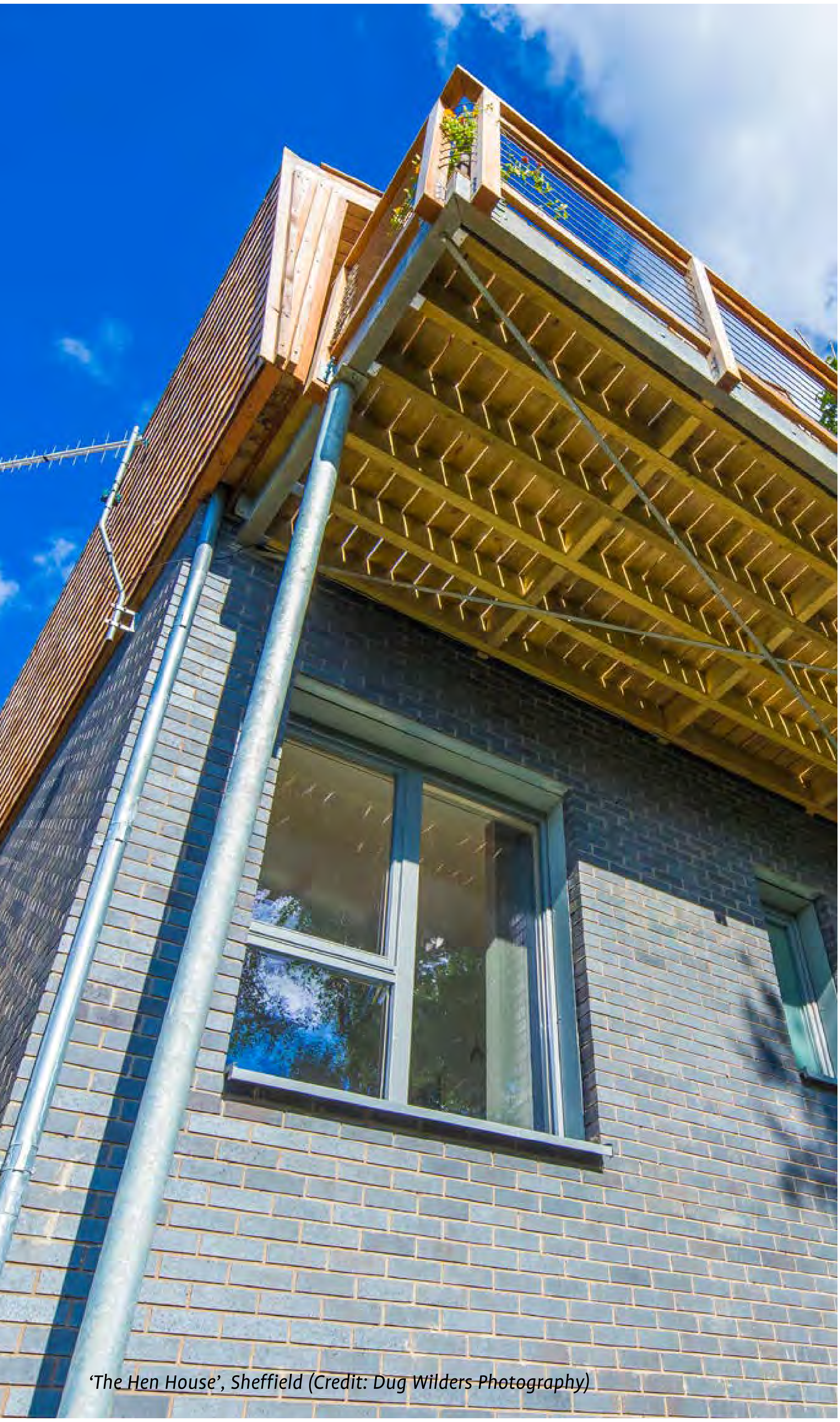
Basic salary

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 set at 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




'The Hen House', Sheffield (Credit: Dug Wilders Photography)

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. In 2018 the Society introduced a salary sacrifice option permitting staff to increase personal pension contributions by taking a reduction of up to 12% of basic salary. 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, Deputy Chief Executive and Finance Director, has a service contract entered into on 28 December 2001. Both contracts are terminable by either party giving six months' notice.

Non-Executive Directors' remuneration

	2018 £000	2017 £000
Andrew Gold[1]	**25**	22
Tim Morgan	**17**	14
Chris Newman	**15**	14
Steve Round	**20**	17
Vincent Smith (appointed 3 November 2017)	**13**	2
Alison Vipond	**13**	12
Totals	**103**	81

[1] *Includes additional remuneration of £11,488 (2017: £10,461) 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:

	2018 £000	2017 £000
Louise Power	**13**	12
Totals	**13**	12

Executive Directors' remuneration

	Salary £000	**Performance related pay £000**	**Taxable benefits £000**	**Contributions to pension scheme £000**	**Total £000**
2018					
Paul Ellis (Chief Executive)	**92**	**–****	**3**	**7**	**102**
Pam Waring (Deputy Chief Executive and Finance Director)	**86***	**3**	**–**	**7**	**96**
Totals	**178**	**3**	**3**	**14**	**198**
2017					
Paul Ellis (Chief Executive)	84	4	2	7	97
Pam Waring (Finance Director)	73	4	–	6	83
Totals	**157**	**8**	**2**	**13**	**180**

* reflects increased responsibilities of new role

** waived due to remunerated leave of absence

On behalf of the Board

Steve Round
Chair
4 March 2019

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 2018? 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, looking at where we're getting it right and where we can improve.

Supporting energy efficiency

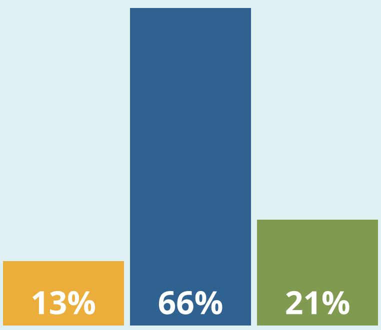
We want to help as many people as possible to improve the energy performance of their properties. We do this through our loans and by supporting initiatives to make advice and expertise available to householders.

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 78% (2017: 77%) achieving EPC B or above – are well ahead of the England average, which the 2017-18 *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.

In 2018 we helped support open homes events in Cambridge and Manchester organised by Cambridge Carbon Footprint and Carbon Co-op respectively.

We also supported the Carbon Co-op's 'Warmer Homes, Take Control' programme in North West England. The sessions, which commenced in 2017 and continued throughout 2018, give expert advice on transforming draughty old properties into efficient low-carbon homes of the future. In 2018 our support helped Carbon Co-op deliver 16 sessions with 81 attendees benefiting from the training.

Completed Ecology mortgages: energy rating achievements



13% of properties exceeded their expected energy rating

66% of properties achieved their expected energy rating

21% of properties are yet to achieve or did not achieve their expected energy rating

Percentages rounded to nearest whole number and calculated from the total number of projects that received an energy rating

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.

We have invested in a variety of sustainable energy projects via the Abundance platform, including:

- a scheme to install solar PV systems on social houses in Berwickshire
- the construction of a single Enercon E48 wind turbine in Aberdeenshire
- the development of a tidal stream energy system off the north-east coast of Scotland
- the first UK geothermal power plant in Cornwall, which will deliver commercial-scale electricity generation using the heat naturally generated by the region's granite bedrock.

Location	Attendees	Number of open homes visited
Open Eco Homes (Cambridge)	218	10
Green Open Homes (Manchester)	146	8
Total	364	18

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 vehicle charging point, photovoltaic (PV) panels, a sedum roof and a mechanical ventilation with heat recovery system.

Data for 2017 – the most recently available – shows our overall carbon emissions have increased to 436 tonnes (2016: 392 tonnes) with the largest contributors being IT equipment, 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, and business travel. We have recently invested in upgrading our more exposed windows to triple glazing which will assist in controlling our future carbon emissions.

Total CO2e (tonnes)

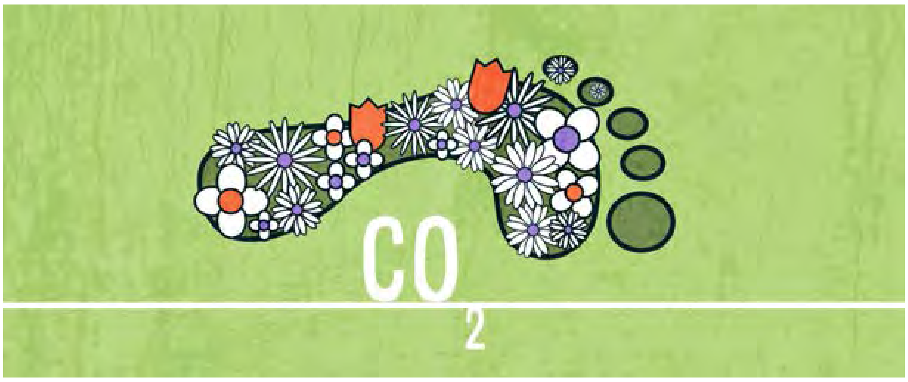
2017	2016	2015
436	392	359

CO2e excluding staff commuting (tonnes)

2017	2016	2015
377	332	309

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

2017	2016	2015
13.3	11.2	10.6



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 carefully selected offset schemes.

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 2018 we continued to reduce the amount of paper that we used for the AGM mailing by a further 6.6% (2017: 9.1%) as more members chose to receive their AGM packs by email.

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.

Green finance

Ecology has been providing sustainable mortgages since we were established in 1981. Policy makers are now looking at the role of green finance to support the transition to a low-carbon economy in order to meet our Paris climate change targets. In 2018 we responded to Government consultations on home energy-efficiency and the role of Energy Performance Certificates as well as the Green Finance Task Force's work on green mortgages.

Energy Efficient Mortgages Initiative

Ecology also joined the European Energy Efficient Mortgage Pilot scheme which is developing new criteria for green mortgages. Our participation provides an opportunity to share our long-standing approach to providing sustainable mortgages with the 38 other lenders taking part.

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.

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 2018 demonstrates our genuine commitment to doing the right thing when it comes to taxes.

Giving time (and money)

Charitable giving

In 2018, Ecology staff gifted hours from their working days and from their own time, to a range of community organisations, which included local foodbanks, youth sports groups, Girlguiding UK, a local school and a family support organisation.

Commercial sponsorship

Ecology also attended and sponsored a variety of industry events including the NaCSBA Right to Build Expos, which provide support for self-build and custom-build, in Fareham and Leeds, and the Passivhaus Trust awards and their zero carbon campaign. During 2018, we gave a total of nearly £14,000 in sponsorship to events and programmes supporting our mission to build a greener society.

Enabling people-powered housing

Ecology continues to champion community-led housing projects that promote social well-being, economic resilience and environmental sustainability.

During 2018, recognising that the current state of the market makes it difficult for housing co-ops to start-up, Ecology started offering mortgages with an increased term of up to 40 years (previously 30 years) for community-led housing providers, including co-ops. This lowers the monthly mortgage payments and helps them keep their rents manageable for their members. Partly as a result of this change, Ecology is now backing housing co-ops in Brighton, Bristol, Glasgow and Machynlleth.

We've also supported a scheme in Headingley, Leeds which is renovating empty and dilapidated homes as well as continued our partnership with the London Community Land Trust to provide a unique mortgage solution for the CLT's affordable housing scheme at St. Clements in Tower Hamlets. Ecology has also partnered with the Turner Prize winning Granby 4 Streets Community Land Trust in Toxteth, Liverpool to provide mortgages for residents of low cost affordable homes which have been renovated and brought back into use.

In 2018 Ecology entered into a three-year partnership with the National CLT (Community Land Trust) Network and, in September, brought together community housing experts to discuss how the sector can offer a sustainable fix to the housing affordability crisis at the launch screening of a new documentary film. Ecology also supported the development of the Housing Associations' Charitable Trust's (HACT) new toolkit, which was launched in March and is helping local authorities and housing associations to implement community-led housing solutions.

> ***"We are extremely pleased that a 40-year mortgage can now be considered by Ecology. This helps make housing co-op cash-flows more viable at affordable rent levels and spreads the cost more fairly between members who joined the co-op early and those who join later."***
>
> Gauthier Guerin, member of Radical Routes, a national network supporting housing co-ops in the UK.

Funding community enterprise

Since 2015 Ecology has been working with Co-operative and Community Finance – the longest running community development finance institution in the UK – to stimulate sustainable enterprise.

Under the Government's Community Investment Tax Relief (CITR) scheme, Ecology's loan of £500,000, has enabled Co-operative and Community Finance to provide support to projects across the country, including:

- **Manchester Veg Box People** – the scheme is increasing the number of collection points and customers, helping to improve the viability of small scale organic production in the area
- **RetrofitWorks,** London – this multi stakeholder co-operative has expanded its support for retrofitting projects for homes in London and the South East
- **Sustainable Enterprise Strategies (SES)**, Sunderland – one of the longest established co-operative enterprise centres in the UK, SES provides business support and training for co-operatives in North East England
- **The Spotted Cow**, Derbyshire – the renovated village pub supports local producers and provides an important social hub for both local residents and visitors.

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 2018 we reported that **62.7%** (2017: 63.4%) of our lending has brought about benefits to the environment or supported social developments. The remaining 37.3% (2017: 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 2018 **64.5%** (2017: 69.2%) of our lending and investment supported the real economy. The remaining 35.5% 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.

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.

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.

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

2018 member stories

Ian's story: Embracing low-impact living

Ecology borrower, Ian, was immediately inspired by the "cracking location" of the two derelict barns that are now his family home. The high cost of local housing drove his decision to carry out his own conversion project: "If you look at the 'ready built' house you could get in Devon with our budget, it doesn't compare. It's fantastic to be able to do what we're doing."

Ian (and Argo the dog) near the site of his new home

> *Developing a house for ourselves to live in, which hopefully will be our last home, means the environmental aspects are important; running costs, energy efficiency – it all makes life moving forward more predictable.*

Throughout the build, Ian has given close consideration to energy efficiency and environmental performance. He's taken a 'fabric first' approach, ensuring that the large south-facing windows are highly efficient, while permitting natural light – and heat – into the building, as well as giving far-reaching views over the surrounding Devonshire countryside. Thorough insulation of the walls and roof has also been a priority, with Ian emphasising this as a relatively straightforward yet highly effective means of conserving energy.

Claydon Court: A model of sustainable working

Claydon Court is a small office complex near Ipswich, Suffolk with big environmental ambitions. With the support of an Ecology loan, it offers tenants an opportunity to run their businesses in a more sustainable way.

The owner, Richard Parker, had previously taken the converted agricultural buildings from an EPC rating of G to B.

But for Richard it hasn't just been about improving the energy efficiency of the buildings themselves. Creating a healthy, sustainable environment in which to work has also been a central part of the project.

A key element in this is Richard's relationship with the World Land Trust. The tenants of Claydon Court are charged a 'Carbon Balance' tax that is then used by the World Land Trust to buy biodiverse rainforest in countries such as Ecuador and Vietnam. This offsets any carbon emissions produced by the businesses at Claydon Court, and means that the tenants reap the benefits of reduced energy bills and a low carbon business model that they can promote to their own customers and clients.

Richard Parker, owner of Claydon Court

Glossary

Claydon Court's pool bikes

There is a real sense of community at Claydon Court, and other initiatives such as pool bikes, communal hanging baskets and shared responsibility for managing the grounds only serve to strengthen this. Richard has big plans for the future, including electric vehicle charge points, and we'll be excited to see how the project develops.

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.

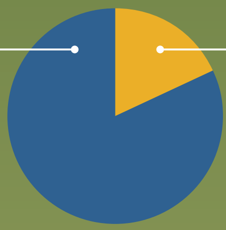
Subordinated debt
Debt that has a lower ranking than other forms of debt – if Ecology were to be wound down, subordinated debt would only be repaid after other claims on the business had been repaid.

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

2018 Our lending in focus

£38.4 million lent across **255** sustainable properties and projects

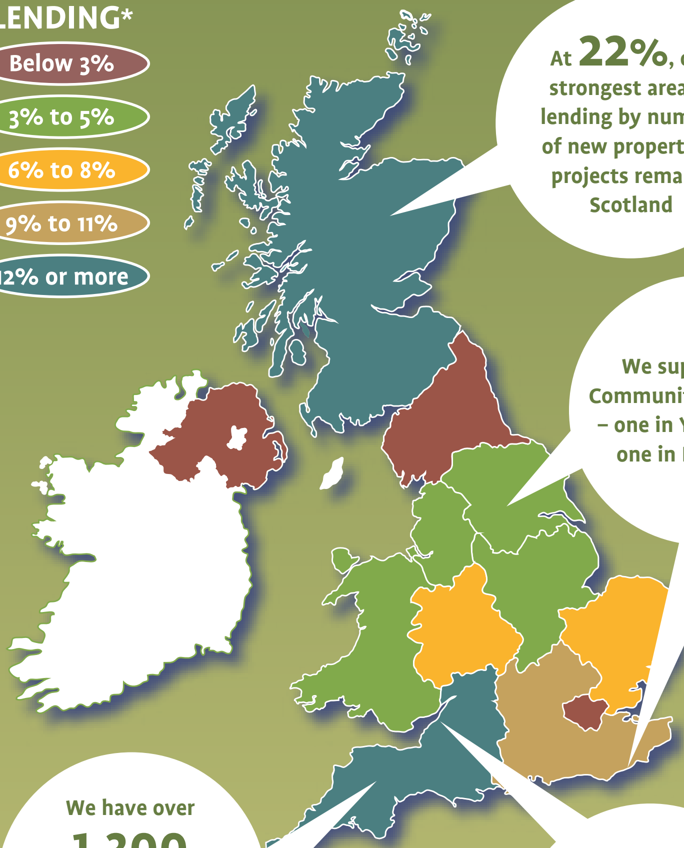
82% to residential properties (including new build, renovation and conversion)



18% to commercial, community gain and non-residential properties (including woodland, housing co-operatives, buy-to-let and shared ownership)

SPREAD OF LENDING*

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



At **22%**, our strongest area of lending by number of new properties/projects remains Scotland

We supported **2** Community Land Trusts – one in Yorkshire and one in East Sussex

We have over **1,300** members in the southwest (highest member-count region)

Our lending in Bristol included **1** women's housing co-operative

*% of total number of new properties/projects in 2018, as rounded to nearest whole percentage.

Our new loans included:

- **156** NEW BUILDS (including self- and custom-build, and community-led housing)
- **30** CONVERSIONS
- **19** SHARED OWNERSHIP
- **14** RENOVATIONS
- **4** HOUSING CO-OPERATIVES
- **2** COMMUNITY LAND TRUSTS
- **2** WOODLANDS
- **1** HOUSEBOAT MOORING

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