

# Annual Review 2019



Building a greener society

# Welcome to your Annual Review 2019

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?

- |                                    |                                   |
|------------------------------------|-----------------------------------|
| 03 Chair's statement               | 11 Directors' remuneration report |
| 04 Chief Executive's review        | 14 Measuring what matters         |
| 06 Business review                 | 18 Member stories                 |
| 09 Summary financial statement     | 19 Glossary                       |
| 10 Independent auditor's statement |                                   |

## About Ecology in 2019

13%

increase in lending – supporting even more sustainable properties and projects

We continued monitoring our carbon footprint

See page 15 for the latest figures

We're powered by over 10,000 members



We received the Fair Tax Mark for the fourth year running

£198m total assets

£1.073m profit after tax

1,583 (19.78%)

eligible members voted in our 2019 AGM. More than half of voting members voted online

We helped support

429

people to visit eco homes in Cambridge and Manchester

We provided lending for 308 sustainable properties and projects

308

£2,287

raised for Trees for Cities as a result of AGM voting and members opting to receive AGM packs by email

37

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, rows from top to bottom, left to right: Ecology-backed 'Volcano House' – an energy efficient new-build on a London brownfield site; planet Earth "viewed from space" (Credit: NASA Archive, Alamy); an Ecology-backed community-led housing project; communal growing space at a community-led housing project; climate youth campaigner, Greta Thunberg, addressing the Houses of Parliament (Credit: Jasper Chamber, Alamy Stock Photo); members at our 2019 AGM; Ecology colleagues at the Climate Strike march in Bradford; Ecology colleagues volunteering with Trees for Cities on a planting scheme in West Yorkshire; tending lettuce in the Ecology garden; the Ecology strawbale meeting room and vegetable beds; wildlife presenter and campaigner, Sir David Attenborough, on stage at Glastonbury (Credit: Jason Richardson, Alamy Live News); a celebratory meal at an Ecology-backed community-led housing project near Sheffield.

# Chair's statement

**While it's too late to stop climate change having any impact – the effects are already being felt across the globe and here in the UK – I believe it has never been more relevant and important for Ecology to provide a continuing progressive force for positive environmental and social change.**

We begin a new decade with renewed hope that the recent increase in public awareness of climate change, especially among young people, is putting pressure on the world's governments, public institutions and businesses to take the urgent and meaningful collective action required if we are to avoid the catastrophic ecological and human impacts of the climate crisis.

Against this backdrop I am pleased to report that we have been able to support even more sustainable building projects in 2019 which has helped to deliver another strong financial performance with a second successive year of record profit and increases in our environmental lending. Our success demonstrates the demand for inspiring alternatives and increased recognition that finance can be used to support the transition to a low carbon economy.

Our contribution to building a greener society goes beyond our sustainable lending and we've long campaigned to change finance so it serves people and planet. During the year we saw millions of people across the globe unite to call for climate justice and I was pleased that Ecology took part and following this we declared a climate emergency.



Your Society continues to take a leading role in the provision of environmental finance. I am especially thrilled that our longstanding commitment to sustainability and ecological lending was recognised twice in the prestigious Finance for the Future awards and, in September, we were the first building society to become a founding signatory of the United Nations Principles for Responsible Banking, demonstrating our support for concerted efforts to build a sustainable future.

Innovative financial solutions to retrofitting the UK's 28 million homes will be critical if we are to deliver on the 2050 net zero target. I'm therefore delighted we're playing our part in the development of new mechanisms to fund retrofit, sharing our experience with a wide range of partners and initiatives including the European Energy Efficiency Mortgage scheme, the UK's Green Finance Institute and the UK Green Building Council as well as continuing discussions with the Department for Business, Energy and Industrial Strategy. The Society is also playing a leading role in the Building Societies Association's Green Finance Taskforce, challenging the sector to deliver solutions and tackle climate change. The outcome of these discussions will be important in the run-up to the UK hosting COP26 later this year.

During the year we said goodbye to Louise Power from the Board. Alison Vipond has announced that she will be stepping down in early 2020. Pam Waring, Deputy Chief Executive and Finance Director has announced that she will be retiring after 34 years' service. I would like to thank them all for their contribution to the Society.

I am also very pleased to welcome two new non-executive directors, Kerry Mashford and Louise Pryor, who bring new skills and experience to the Board, as well as the appointment of our new Finance Director, Amanda Chambers. These appointments will help ensure that the Board can continue to scrutinise and provide critical challenge to the management team while upholding Ecology's ethics and ecological mission.

It only remains for me to thank the Board and the Ecology team for their continued commitment and hard work in pursuit of our environmental mission. There can be no doubt that this is an exciting time for Ecology as we continue to grow our sustainable lending and provide the challenge to ensure that finance serves people and planet.

**Steve Round**

*Chair*

28 February 2020



# Chief Executive's review

**Ecology has been pursuing its environment-conscious lending programme since 1981. This has been informed by an awareness of a gathering ecological crisis fuelled by an economic system that has placed growth and profit before people and planet, fostering over-consumption while disregarding the destruction of natural capital. Our response has been to promote lending that reduces the environmental footprint of our housing by design, and otherwise avoids waste and maintains ecosystems.**

Our efforts and those of our members, along with other values-based financial pioneers, have assiduously chipped away at this task, creating exemplar projects and examples of best practice, while engaging with government to encourage the policy base that would make larger scale efforts feasible. Despite some gains, that policy base has failed to emerge and with it, the fundamental re-orientation of financial and economic systems that would drive the necessary levels of action.

However, in 2019, there seems to have been a fundamental shift in consciousness, as the majority come to recognise that we can no longer postpone action. There is a growing realisation that the climate crisis is but one manifestation of our consumer-driven economy as we simultaneously witness an accelerating loss of biodiversity, rapidly diminishing soil fertility and poisoning of eco-systems.

We are now hearing noises about new policy approaches, without much substance emerging, along with announcements that contradict the warm words. The reality is that while their tactics might be dismissed as naïve, it is the school strikes led by young



campaigners such as Greta Thunberg, that has forced politicians to begin to take these issues seriously. Governments sometimes need dragging along to enact change. Whereas advocates for women's suffrage were initially derided, by 2003 the suffragettes were commemorated by a 50p coin. I am confident that in time the current non-violent protests will be recognised for changing the narrative.

As protestors filled the streets, the UK Government made a legally binding commitment to reach net-zero emissions. While a significant step, we believe that the current target of 2050 will be too late, and the timetable must be accelerated if we are to keep global heating below 1.5 degrees. If we are to get to net zero by 2050, let alone 2030, we will very soon have to mobilise for the renovation and retrofit of our existing housing stock at a rate of nearly 100 homes every hour.

Ecology is ready to play its part and will continue to expand its own lending potential regardless of the prevailing policy environment. If we are to contribute to the solution, we need to continue as a sound and resilient financial institution. So, I am pleased to report that 2019 evidenced another set of pleasing financial results with strong growth and profitability. New lending increased by 13.18% with mortgage assets increasing by 14.61%.

The strength of our lending has enabled us to further reduce liquidity to 26.67%, while allowing for the re-introduction of our 90-day notice and ISA accounts so opening the door to new investing members. Consequently, we reversed the slight reduction in overall assets experienced in

2019 recording 11.35% growth with our assets reaching £198.04m. The inflow of funds towards the end of the year was particularly strong and while our savings rates have gradually become more competitive as rates have declined across the market, our new members are telling us that it is our values that are particularly attractive.

We are also able to report a second successive year of record profits at £1.073m, which adds to our capital base, thereby underpinning our ability to grow the loan book. In June 2019 the Society repaid £750k of subordinated debt as it no longer contributed to capital resources. The repayment was made in accordance with the Terms and Conditions of the note on its maturity.

A sound and resilient financial institution also needs a solid operational base. Much work has been done by colleagues during the year to review and update procedures as well as renew systems in order to improve our services to members and reduce our environmental impact.

A summary of the main key financial performance indicators (KPIs) used by the Board, along with more detailed commentary, 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.

## Lending highlights

In 2019 we continued to be a leading lender for community-led housing solutions, helping to create genuinely affordable and sustainable quality homes for local people. Our new loans included our first self-build housing co-operative and Scotland's first community-led Passivhaus project (see page 16).

During the year we supported a record 308 sustainable properties and projects. In addition to the strong lending performance, we also ended the year with a healthy pipeline of new projects, which bodes well for lending activity in 2020.

## Society matters

In April I was pleased to welcome members to our AGM and Members' Meet-up at our eco-offices in Silsden. The event's lively discussions showed how members expect us to be agitating and campaigning for climate action.

This resulted in our climate emergency declaration and we will be providing an annual progress update to members on our climate emergency plan. I was also pleased that we joined the four million people who participated in the Global Strike for Climate that month to help raise awareness and demonstrate the scale of public desire for urgent action.

We've been pioneering sustainable finance in the UK for nearly 40 years, helping to reduce emissions from buildings and homes and have long recognised that the financial services sector must enable the transition to a low-carbon economy. Given this I was especially proud that we were recognised twice in the Finance for the Future awards, founded by the Institute for the Chartered Accountants for England and Wales (ICAEW) and the Prince's Accounting for Sustainability Project. These prestigious global awards aim to highlight the role of finance in helping to embed sustainability in business decision making. Our success shows that the time is now for a financial system that benefits people and planet.

Ecology is immensely fortunate to have a strong body of colleagues who support our environmental and social goals and contribute to the wider life of the Society. 2019 saw the creation of a colleague-led Social and Charity Committee which has been assiduously raising funds for the chosen charities of Mind and the Canal and River Trust. A variety of events have taken place including a bake-off where some recipes included produce from the Society's own raised beds. The beds

themselves are managed and tended by our Gardening Committee.

Huge thanks go to all colleagues who have participated and contributed. These efforts complement the donations we make to our charity partner, Trees for Cities, as a result of members' AGM voting.

## Our influence

An example of our extended influence is our commitment to the UN Principles for Responsible Banking, which we have joined as a founding signatory. We were the first building society to sign-up to this framework which will drive the financial sector to make tangible progress in supporting the transition to a low-carbon economy.

In 2019 we also continued to engage in potentially exciting green finance policy initiatives, with the aim of developing innovative financial solutions to tackle, for example, retrofitting the UK's existing housing stock. It seems there is a plethora of such initiatives demonstrating the enthusiasm and desire by policy makers for positive change, although progress to date appears elusive.

## Personnel matters

During the year Pam Waring, Deputy Chief Executive and Finance Director announced that she will be retiring in early 2020. Pam initially joined us as a temporary savings administrator, which turned into a 34-year career. Pam's achievements are too numerous to list but add up to an outstanding contribution to Ecology's development. I know Pam has always taken great satisfaction in our progress and our thanks go to Pam for her unstinting service, along with our warm wishes for success with whatever she does next. On a personal note I would like to thank Pam for her unwavering support to me over many years.

Following Pam's decision to step down we have appointed Amanda Chambers as Finance Director. Amanda brings a wealth of financial services experience which will be a major asset to the Society. Denise Davies, who joined in 2018 as the Society's HR Manager is taking on Pam's board secretary responsibilities and joins the Society's Executive team, bolstering our governance function, helping us to respond to the ongoing challenges of the regulatory environment.

## Outlook for 2020

We are expecting that growth in the wider economy will be subdued due to continuing uncertainty regarding future relations with the European Union and with international tensions over trade. The Society is prepared for any spillover to our trading conditions, which we would anticipate will be limited.

We will be continuing with our programme of investment to strengthen our digital and operational capabilities and this is expected to contribute to lower profits than in 2019. However, this will help create the conditions for a solid future for the Society and we look forward to 2020 with a great deal of confidence.

As noted, we start the year with a strong pipeline of sustainable lending prospects which we anticipate will allow us to continue accepting the strong inflows of funds generated by the heightened awareness of climate issues, driving the growth of our membership.

The Society is nothing without its members and we particularly appreciate the positive feedback colleagues have received from you. We look forward to your continued commitment to building a greener society in the year ahead.

**Paul Ellis**

*Chief Executive*  
28 February 2020

# 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, 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 2019 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



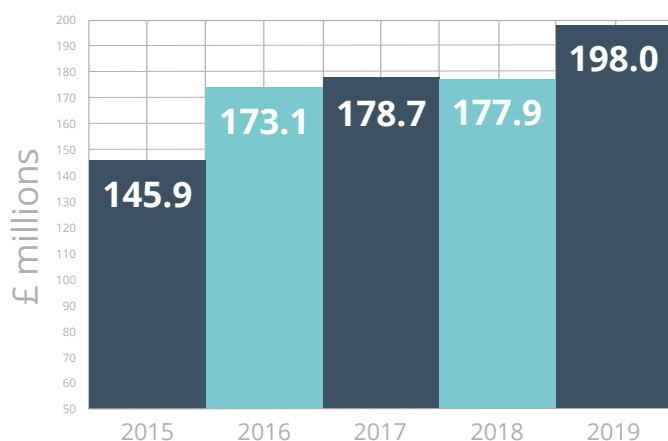
	2019	2018	2017
<b>Total assets</b>	<b>£198.0m</b>	£177.9m	£178.7m
<b>Mortgage asset growth</b>	<b>14.61%</b>	10.59%	-3.03%
<b>Mortgage lending</b>	<b>£43.5m</b>	£38.4m	£28.2m
<b>Savings balances</b>	<b>£185.3m</b>	£166.0m	£167.8m
<b>Liquid assets as a % of shares and borrowings</b>	<b>26.67%</b>	28.82%	36.14%
<b>Management expenses as a % of mean total assets</b>	<b>1.69%</b>	1.54%	1.42%
<b>Net profit</b>	<b>£1.073m</b>	£1.022m	£0.915m
<b>Profit after taxation as a % of mean total assets</b>	<b>0.57%</b>	0.57%	0.52%
<b>Core Tier 1 capital</b>	<b>£11.677m</b>	£10.578m	£9.539m
<b>AGM – voting turnout</b>	<b>19.78%</b>	15.62%	16.17%

## Asset growth

During 2019 the Society's total assets increased by £20.2m to £198.0m (2018: £177.9m), in percentage terms 11.35% (2018: -0.45%) primarily driven by the increase in savings balances that are required to support future lending.

**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)

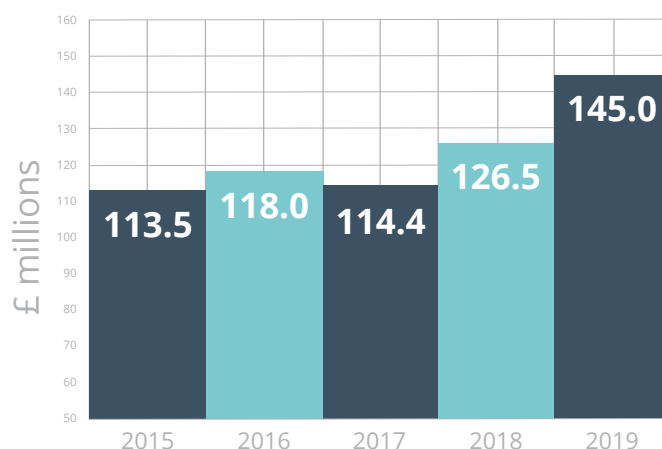


## Mortgages

The actions taken in previous years to rebuild the pipeline of new mortgages continue to have a positive impact on gross lending, which at the end of 2019 is recorded as £43.5m (2018: £38.4m). The interest rates offered by the Society enable it to provide support for more projects which deliver a positive environmental and social benefit and provide good value for borrowers seeking to build or renovate sustainable and energy efficient properties. Redemption activity has remained subdued. The overall effect is an increase in mortgage assets of 14.61% (2018: 10.59%) which reflects gross lending less redemptions, repayments and effective interest rate adjustments.

**By the year-end, 39% (2018: 38%) of loans outstanding were benefiting from one of our C-Change mortgages, which reward work undertaken on the property to help combat climate change. A reduction to the interest rate is applied following confirmation of the energy rating achieved.**

Mortgage Assets (£m)



At 31 December 2019, there were no cases in possession, or 12 months or more in arrears (2018: 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 2019, there were 15 cases (2018: 15) under forbearance with total balances of £2.451m (2018: £3.958m) and arrears totaling £0 (2018: £516).

Provisions against possible mortgage losses reduced to £531,000 (2018: £613,000). Provisions continue to be held for two cases which are not in arrears but where the Society is working with our borrowers to navigate difficult operating conditions.

## Savings and liquidity

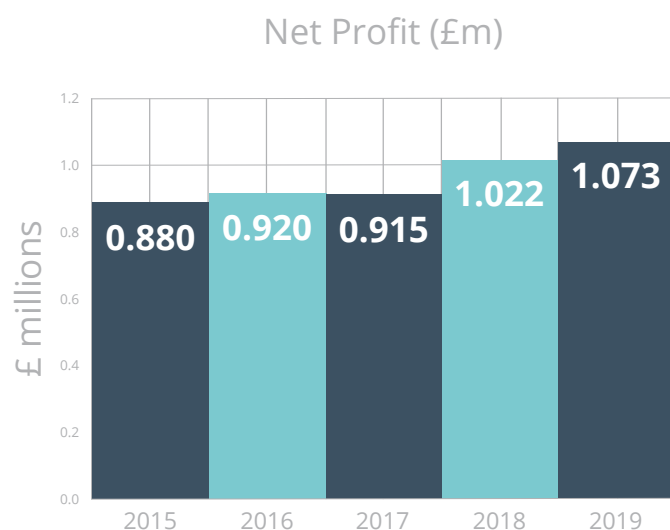
Savings balances consist of shares and amounts owed to other customers. To meet the growing demand for our mortgage products the Society re-introduced the 90-day and Cash ISA accounts to new members in April and June respectively. The strong mortgage lending activity balanced by managed positive savings inflows reduced liquidity levels to 26.67% (2018: 28.82%). Total savings balances held at the end of the year are £185.3m (2018: £166.0m) an increase of 11.63%.

**We aim to continue to manage 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.**

## Management expenses

The Society's cost base increased by 16.03% to £3.18m (2018: £2.74m) as we continue to invest in our digital strategy, cyber security, operational efficiency and increased resource levels which will enable us to deliver on our objectives from a solid operational base. This investment has resulted in an adverse impact of the Costs to Mean Assets Ratio which increased to 1.69% from 1.54% in 2018. This also drove the adverse effect on the management expenses ratio.

**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 2019, this added 3.44% to our costs – without this the management expenses ratio would have been 1.64%.**



## Profit and capital

Net profit for the year amounting to £1.07m (2018: £1.02m) was added to general reserves, which now total £11.69m (2018: £10.62m). Reserves act as a buffer against adverse market movements or deteriorating economic conditions.

At 31 December 2019, the ratio of gross capital as a percentage of total share and deposit liabilities was 6.29% (2018: 6.44%) and free capital was 5.68% (2018: 5.77%). The decrease in the ratio is due to the increase in savings balances.

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.

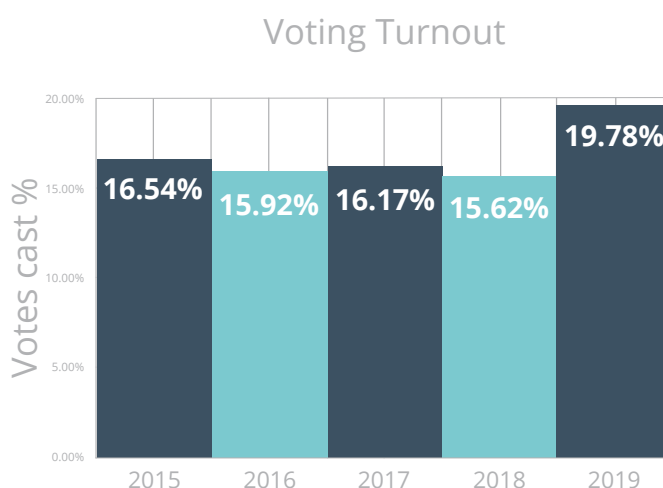
Having undertaken the ICAAP, the Board is satisfied that the Society holds sufficient capital to satisfy both the CRR's Pillar 1 requirements and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures, including the Pillar 2A percentage and figure, required by the CRR are available on the Society's website: [ecology.co.uk](https://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 17.26% (2018: 17.46%).

The leverage ratio decreased by 0.10% to 5.55% (2018: 5.65%) as a result of the 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

Voting turnout increased substantially at our 2019 AGM and Members' Meet-up, which was held at our offices in Silsden giving members the chance of visiting our eco-built offices and our organic permaculture gardens. Members took part in discussions about the climate crisis and their expectation of the Society as an agitator and campaigner for climate action.





# 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](http://ecology.co.uk) or free of charge to members and depositors on request from the head office after 31 March 2020.

## Summary Directors' Report

The Business review for 2019 is discussed on pages 6 to 8.

## Summary Financial Statement for the year ended 31 December 2019

Results for the year	2019 £000	2018 £000
Net interest income	4,466	3,900
Other income and charges	(15)	56
Administration expenses	(3,177)	(2,738)
Impairment losses on loans and advances	82	11
Impairment losses on investments	(45)	–
Provisions for liabilities	–	4
Profit before taxation	1,311	1,233
Tax expense	(238)	(211)
<b>Total comprehensive income for the year</b>	<b>1,073</b>	<b>1,022</b>
<b>Financial positions at end of year</b>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Liquid assets	49,535	47,822
Mortgages	145,014	126,525
Fixed and other assets	3,489	3,504
<b>Total assets</b>	<b>198,038</b>	<b>177,851</b>
<b>Liabilities</b>		
Shares	175,321	156,629
Amounts to other credit institutions	503	–
Borrowings	9,931	9,327
Other liabilities	593	528
Subordinated liabilities	–	750
Reserves	11,690	10,617
<b>Total liabilities</b>	<b>198,038</b>	<b>177,851</b>
<b>Summary of key financial ratios</b>	<b>2019</b>	<b>2018</b>
	%	%
Gross capital as a percentage of shares and borrowings	6.29	6.44
Liquid assets as a percentage of shares and borrowings	26.67	28.82
Profit for the year as a percentage of mean total assets	0.57	0.57
Management expenses as a percentage of mean total assets	1.69	1.54

**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 2019 and 2018 total assets.

**Approved by the Board of Directors on 28 February 2020 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 2019 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 accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2019 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 2019, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;

- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the

Building Societies Act 1986 and regulations made under it; and

- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2019.

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 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 Business Review and Summary Financial Statement, 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

Annual Review with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

## 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.

**Alain de Braekeleer**  
**for and on behalf of KPMG LLP,**  
**Statutory Auditor**  
*Chartered Accountants*

1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA

28 February 2020

# 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 Chair, Chief Executive, the Deputy Chief Executive and Finance Director, and the HR Manager attend meetings as required. 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 five meetings during 2019 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](https://www.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.

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

## Executive Directors

Remuneration of the Executive Directors comprises: basic salary, 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.

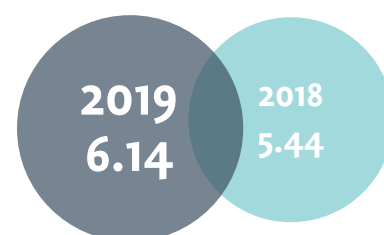
### Basic salary

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 falls outside of the mandatory requirements to disclose the ratio of the CEO's pay to the average pay of all employees. However, 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.

## Ratio of highest basic salary to lowest full grade available

The increase in the ratio is a direct result of the Executive Directors buy out from the performance related pay scheme.



## 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. Effective from 1 April 2019 Executive Directors no longer participate in this scheme.

## 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.

The Society meets the requirement of the July 2018 Corporate Governance Code in that the pension contribution rates for the Executive Directors are aligned to those available to all colleagues.

## Benefits

Prior to 2012 Executive Directors could participate in the Society's staff mortgage scheme subject to a maximum of £33,000. The scheme was closed to new applications in February 2012. The Chief Executive is also provided with a hybrid company car.



*Ecology-backed 'Volcano House' built on a brownfield site in Shoreditch, London*

## Contractual terms

None of the Society's Non-Executive Directors have service contracts. Paul Ellis, Chief Executive, and Pam Waring, Deputy Chief Executive and Finance Director, have a service contract entered into on 30 July 2018. The service contract

with Amanda Chambers was entered into in November 2019. All contracts are terminable by either party giving six months' notice. Pam Waring gave notice to terminate her contract with effect from 31 May 2020.



## Non-Executive Directors' remuneration

	2019 £000	2018 £000
<b>Andrew Gold<sup>1</sup></b>	<b>27</b>	25
<b>Tim Morgan</b>	<b>18</b>	17
<b>Chris Newman</b>	<b>16</b>	15
<b>Steve Round</b>	<b>22</b>	20
<b>Vincent Smith</b>	<b>14</b>	13
<b>Alison Vipond</b>	<b>14</b>	13
<b>Totals</b>	<b>111</b>	103

<sup>1</sup> Includes additional remuneration of £12,384 (2018: £11,488) 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 was paid for her service as a Non-Executive as noted below. On Louise's request Walker Morris LLP kindly gifted the final remuneration to the Ecology Building Society Charitable Foundation.

	2019 £000	2018 £000
<b>Louise Power</b>	<b>5</b>	13
<b>Totals</b>	<b>5</b>	13

## Executive Directors' remuneration

	Salary £000	Performance related pay £000	Taxable benefits £000	Contributions to pension scheme £000	Total £000
<b>2019</b>					
<b>Paul Ellis (Chief Executive)</b>	<b>105</b>	<b>5</b>	<b>4</b>	<b>9</b>	<b>123</b>
<b>Pam Waring (Deputy Chief Executive and Finance Director)</b>	<b>97</b>	<b>5</b>	<b>–</b>	<b>7</b>	<b>109</b>
<b>Totals</b>	<b>202</b>	<b>10</b>	<b>4</b>	<b>16</b>	<b>232</b>
<b>2018</b>					
Paul Ellis (Chief Executive)	92	**	3	7	102
Pam Waring (Finance Director)	86*	3	–	7	96
<b>Totals</b>	<b>178</b>	<b>3</b>	<b>3</b>	<b>14</b>	<b>198</b>

\* reflects increased responsibilities of new role

\*\* waived due to remunerated leave of absence

On behalf of the Board

**Steve Round**

Chair

28 February 2020

# 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 2019? Here, we give a snapshot of Ecology's recent impacts, from the projects that we've supported to our own carbon footprint, 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 78.7% (2018:



77.5%) achieving EPC B or above – are well ahead of the England average, which the 2017-18 English Housing Survey states as EPC D. In line with our commitment to a net-zero emissions future, we want to help an even greater proportion of our borrowers to achieve their energy-efficiency goals.

In 2019 we helped support open homes events in Cambridge and Manchester

organised by Cambridge Carbon Footprint and Carbon Co-op respectively.

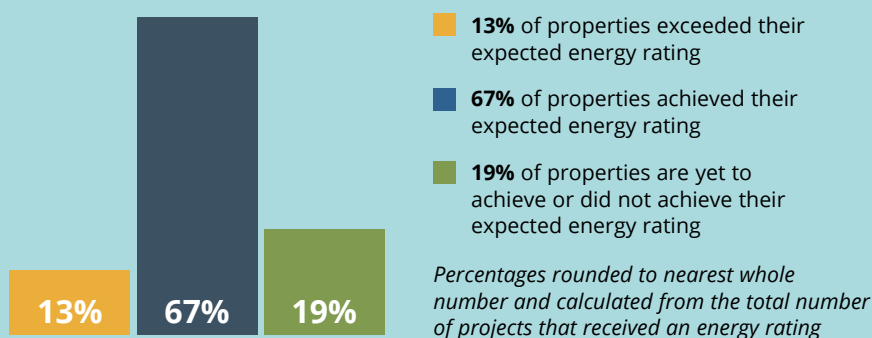
## Changing retrofit policy

We think that retrofitting the UK's existing housing stock needs to be a national infrastructure priority to achieve energy efficiency improvements at scale. As well as providing sustainable lending for individual renovation projects we're participating in a number of policy initiatives which aim to develop new mechanisms to deliver mass retrofit at the scale required. Ecology is participating in:

- A Europe-wide programme to deliver a 'Renovation Framework' to enable local authorities and national governments to better measure the outcomes and co-benefits of home retrofit
- A project to co-create a proposal for a long-term city-led home retrofit programme with UKGBC (Green Building Council)
- Three regional Department for Business Energy Innovation and Skills (BEIS) supply chain pilots exploring different retrofit delivery models
- A coalition for energy efficiency being led by the Green Finance Institute, which was jointly set-up by HM Treasury and the City of London Corporation.

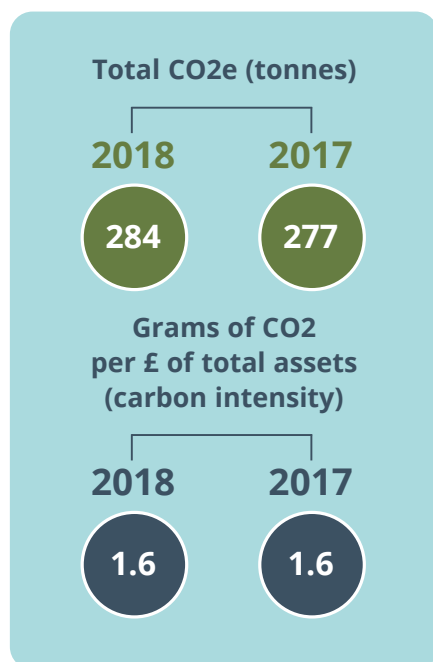
Location	Attendees	Number of open homes visited
Open Eco Homes (Cambridge)	319	11
Green Open Homes (Manchester)	110*	9
<b>Total</b>	<b>429</b>	<b>20</b>
*Estimated number of attendees provided by Carbon Co-op		

## Completed Ecology mortgages: energy rating achievements



## Managing our carbon footprint and resource use

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.



Our latest carbon footprint analysis has been based on recalculated figures to reflect that our electricity supplier, Ecotricity, uses only renewable sources. Data for 2018 – the most recently available – shows our overall carbon emissions have increased to 284 tonnes (2017 [recalculated]: 277 tonnes) with the largest contributors being services and staff commuting. However, the grams of CO<sub>2</sub> generated per £ of total assets, a measure of the carbon intensity of our activities, has remained the same between 2017 to 2018.

***We have recently invested in a new meeting room constructed from a re-purposed shipping container and completed to high energy-efficiency standards.***

As in previous years, the increasing total 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 a new meeting room constructed from a re-purposed shipping container and completed to high energy-efficiency standards. The unit has been designed by a Yorkshire-based community interest company dedicated to the provision of affordable, sustainable spaces for living and working.

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 offsetting schemes. In 2019, we completed a three-year funding project to support a UK-based treeplanting programme focussed on carbon capture and flood mitigation.

We continued to reduce the amount of paper that we used for the AGM mailing, this year by 5.7% (2018: 19.86%), with a total of 1,191 members opting to receive their packs by email in 2019 (2018: 541). By selecting this option, members have helped us to reduce the weight of paper that we send for the AGM by more than 30% over the last three years.

## Leading the field

In recognition of Ecology's innovative approach and sustainable values, the Society received the Building Sustainable Financial Products award at the 2019 Finance for the Future awards, founded by the Institute of Chartered Accountants in England and Wales (ICAEW) and the Prince's Accounting for Sustainability Project (A4S). Additionally, Ecology received special recognition for outstanding climate leadership. We were also winners of the Best Self Build Lender category at the Mortgage Finance Gazette awards. These 2019 awards, along with endorsements including Good With Money's 'Good Egg' mark, stand as testament to Ecology's ongoing commitment to building a financial system that benefits people and planet.

## Changing finance

Ecology became the first building society to sign the United Nations Principles for Responsible Banking – a coalition of 130 banking providers worldwide, representing over USD 47 trillion in assets – in committing to taking on a crucial role in helping to achieve a sustainable future. We believe this framework has the potential to drive systemic change to ensure that the purpose of banking extends beyond profit to creating positive environmental and social benefits.

The Society continues to participate in the European Energy Efficient Mortgage Pilot scheme, which is developing new criteria for green mortgages, and is also contributing towards a Green Finance Taskforce initiative by the Building Societies Association to support others working in the sector. Towards the end of the year we signed up to join the Green Finance Institute's Coalition on the Energy Efficiency of Buildings (CEEb), which aims to develop the market for financing net-zero carbon and climate-resilient buildings in the UK.

## 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, with our actual ratio for 2019 standing at 6.14.

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 2019 demonstrates our genuine commitment to doing the right thing when it comes to taxes.

## Charitable giving

Ecology colleagues contributed an average of nearly one day each from their working days and their own time to a range of community organisations. These included local foodbanks, Girlguiding UK, a local health and wellbeing charity, a family support organisation and various sports groups.

In addition we made £2.28K of donations to our charity partner, Trees for Cities, as a result of members' AGM voting and opting to receive AGM packs by email.

## Sponsorship

Ecology backed a variety of industry events during the year, including a parliamentary reception for NaCSBA (National Custom and Self-build Association) and the Right to Build Taskforce, the Rural Housing Scotland Conference, and Passivhaus Trust's zero-carbon campaign. As part of our partnership with the National Community Land Trust Network, we also supported the National CLT Awards for the second year running.

## We're proud to have connections with:



The Society gave a total of nearly £20k 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.

Ecology supported five housing co-operatives with new facilities, located in Leeds, Oxford, Brighton, Manchester and mid-Wales. These include Bunker Housing Co-operative in Brighton, our first self-build housing co-operative project, which is providing affordable and secure homes to low-income families.

We have undertaken mortgages to two new mutually owned community housing projects in North Wales and London.

Ecology is also supporting a cohousing group in Sheffield to convert a listed farm and outbuildings as part of a new housing community, as well as a community-led venture in Hastings focussed on developing a local 'ecosystem' of affordable spaces where local residents can live, work and thrive (see White Rock Neighbourhood Ventures on page 18).

We were also pleased to begin supporting community land trust projects in Lancashire and Scotland to create affordable new homes, including Scotland's first community-led Passivhaus project in Dumfries and Galloway (see page 18).



## Declaring a Climate Emergency

In September Ecology took part in the launch of Business Declares, a network of businesses joining the hundreds of local authorities publicly declaring a Climate Emergency. In October, we published our own declaration.

### Our Declaration:

*Since 1981 Ecology Building Society has had a total focus on combatting climate change via our lending and activism. However, despite our efforts and those of other sustainable businesses, nowhere near enough progress has been made. In consequence, and with the UK having lost 40 years in which to take effective measures, we formally acknowledge that we now all face a Climate and Ecological*

*Emergency, and declare our commitment to work even harder in accelerating a just and fair transition to a net-zero emissions future.*

We are developing a Climate Emergency Plan and will be reporting on our progress against this on an annual basis.

## SUSTAINABLE DEVELOPMENT GOALS



## 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'** perspective 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 2019 we reported that 67.5% (2018: 62.7%) of our lending brought about benefits to the environment

or supported social developments. The remaining 32.5% (2018: 37.3%) represents mortgage cases that have taken over two years to achieve their objective and so the benefits are yet to be realised. Through GABV, we have also committed to measuring the carbon impact of our lending, which will form part of our 2020 impact reporting.

### Real Economy

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

In 2019 74.5% (2018: 64.5%) of our lending and investment supported the real economy. The remaining 25.5% 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.

## 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. Ecology's declaration of a climate emergency in October 2019 further confirms our commitment to the goals.

# 2019 member stories

## White Rock Neighbourhood Ventures

White Rock Neighbourhood Ventures (WRNV) is a community-rooted developer owned by three socially driven organisations. They're working to establish an 'ecosystem of capped rents' in the White Rock area of Hastings to ensure that local residents have access to affordable space for living and working. WRNV's approach centres on capped rents, community ownership and a culture of shared values.



Members of the WRNV team

**“ Current tenants include a community kitchen offering training schemes for marginalised groups and a young persons' mental health charity. ”**

Ecology, which has long supported community-led schemes dedicated to provision of affordable properties, is supporting WRNV by providing a mortgage on Rock House. An ambitious mixed-use project that breathes new life into a previously underused building, its nine floors are home to domestic living spaces, workspace

and a community hub. Those who live and work here must meet certain criteria of need, enthusiasm and contribution to the building and the wider community. Current tenants include a community kitchen offering training schemes for marginalised groups, a young persons' mental health and wellbeing charity, and a pay-as-you-go work area.

By mortgaging the property with Ecology, WRNV has been able to take on its most



WRNV welcome Sajid Javid and Amber Rudd

## Nith Valley Leaf Trust



The Nith Valley Leaf team

An Ecology loan has supported Nith Valley LEAF Trust (NVLT) to develop the first community-owned Passivhaus certified homes in Scotland. The three homes in Closeburn, Dumfries and

Galloway are due to be completed in 2020 and will provide affordable rental accommodation for local families.

NVLT have worked with the support of Dumfries and Galloway Small Communities Housing Trust, with funding being provided by Ecology, The Scottish Government's Rural Housing Fund and the Scottish Land Fund. The homes are being built in response to the area's shortfall in affordable housing and will enable local families, who might otherwise have struggled to find suitable accommodation, to remain living in their community. The project has involved close collaboration with local residents and organisations,

including the village primary school, to ensure that the homes will meet the needs of their new occupants.

NVLT took the ambitious decision to deliver homes with Passivhaus certification in order to reduce long-term impact on



The new community-owned Passivhaus homes

# Glossary



Pedal-powered transport at Rock House

recent project, The Observer Building, a former newspaper office that has been derelict for 34 years and which the group plans to revive and protect as a community asset. The proposed layout includes work pods, creative open spaces, living areas and a roof garden. Ecology has also provided a mortgage for one of WRNV's partner organisations, Heart of Hastings CLT, to enable the refurbishment of a town-centre property for provision of homes that will be permanently affordable.

***The homes are being built in response to the area's shortfall in affordable housing.***

the environment while tackling fuel poverty. The project team hopes to encourage other community trusts to follow principles of Passivhaus design because of the clear benefits for tenants, including lower heating bills, improved air quality and a healthier living environment.

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.

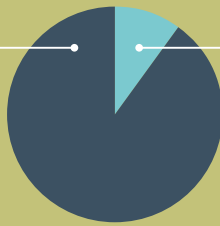
# 2019 Our lending in focus

**£43.5 million**

lent across **308** sustainable properties and projects

**90%**

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

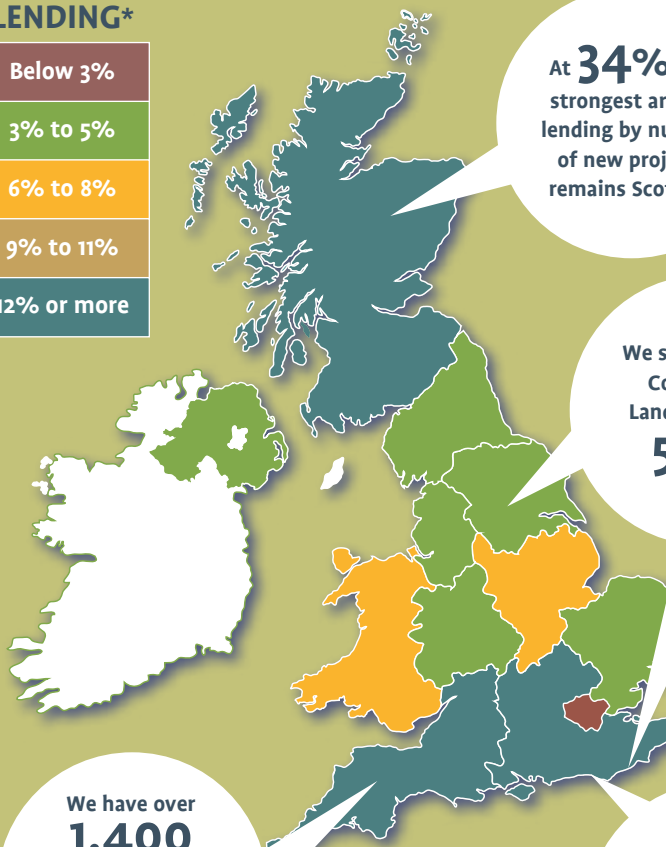


**10%**

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 **34%**, our strongest area of lending by number of new projects remains Scotland

We supported **2** Community Land Trusts and **5** housing co-ops

We have over **1,400** members in the southwest (highest regional member-count)

Our lending in the southeast included our **1st** self-build new-build housing co-op

## Our new loans included:

**203**

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

**33**

**RENOVATIONS**

**31**

**CONVERSIONS**

**14**

**SHARED OWNERSHIP**

**5**

**HOUSING CO-OPERATIVES**

**5**

**WOODLANDS**

**2**

**CO-HOUSING PROJECTS**

**2**

**COMMUNITY LAND TRUSTS**

**1**

**HOUSEBOAT MOORING**

\*% of new properties/projects by count, as rounded to nearest whole percentage.

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

T 01535 650 770 E [info@ecology.co.uk](mailto:info@ecology.co.uk) W [ecology.co.uk](http://ecology.co.uk)



EcologyBS



@EcologyBS

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Community and commercial mortgages offered by Ecology Building Society are not regulated by the Financial Conduct Authority. Registration number 162090.

Printed on 100% post-consumer waste recycled paper.