Annual General Meeting 2020

Ask the Directors

- Does the Chief Exec monitor the working hours of its employees, and the Chair monitor those of the Directors and Non-Executive Directors?

We do, of course, operate within the working time regulations and have measures in place to ensure that colleagues, Directors and non-executive Directors do not exceed the limits set out in the Directive. We insist on an annual two-week break without access to communications.

- What risks does the Coronavirus outbreak pose [to] the survival of the Society and what actions is the Society taking to mitigate those risks?

It is too early to know what the full impact of the outbreak will be both on the UK economy and specifically on Ecology. Like other lenders we are providing mortgage payment holidays to a number of our borrowing members. Given the likely scale of the economic impact we do anticipate an increase in the number of borrowers who may have difficulties making their mortgage payments.

As a Government designated essential service, we have continued to offer services to our members, while ensuring we are protecting our people and members.

At this present time our lending pipeline remains strong and your society is well capitalised with strong levels of liquidity. We will continue to closely monitor the impact of the outbreak and are reviewing our plans for the remainder of the year to ensure that our costs are being proactively managed in line with the changes we have to make.

- In what way will the experience of Covid-19 help shape future investment policies?

It's not yet clear how Covid-19 will impact on both the appetite for future investment and where investments will be focused both in the UK and globally. However, we believe that the global efforts to tackle coronavirus will spur on endeavours to address the climate crisis and we remain steadfast in our commitment to our ecological mission and harnessing our collective power to build a sustainable future. As Greta Thunberg warned on Earth Day 2020, the climate crisis isn't slowing down and there remains a clear need for our ecological lending which supports the circular economy, the transition to a low carbon economy and sustainable communities.

Your Society will also continue to invest internally in the infrastructure and capability that will support future growth and services which has been so important in enabling us to respond to the operational challenges presented by Covid-19 whilst safely continuing to provide essential services to members.

- ## Can the board explain the basis for the 8% or so rise in the remuneration of non-executive Directors and the larger increase in the remuneration of the executive Directors?

As a principle, our commitment to fair pay applies to our approach to non-executive director fees as well as our employees so that we may attract and retain Directors with the experience and qualification required by our members and regulators.

The non-executive Director fees were benchmarked in 2019 and the extraordinary increment applied was as a result of a realignment uplift to recognise that the fee levels were not reflective of the time commitment or level of accountability that being a non-executive director of a building society requires.

The salaries of the Executive Directors were also benchmarked during the year. The increase in the remuneration of the Executive Directors in 2019 was again an extraordinary uplift, taking into account market rates and the removal of Executive Directors' variable remuneration in line with good governance practices.

The NED fees and Executive Director remuneration remain in the lower quartile of remuneration levels within the sector.

As the Society continues to grow, we seek to strike a balance between offering salaries which attract skilled individuals and fairness as evidenced by our overall pay ratio policy and commitment to the real living wage.

- ## The management expenses ratio was 1.69 in the latest year. In the past it has been lower, for example, 1.21 in 2010 and 1.19 in 2009. Could the board comment on this increase and what they are doing to control the Society's costs?

The Society is continuing to grow and has ambitions to grow further in order to promote its mission to lend on properties that have a positive environmental and social impact, and to develop and enhance its services to members. The increase in administration costs is a reflection of the investment we have made, and continue to make, particularly in underlying systems, IT infrastructure, and cyber risk controls, to support this growth.

This also includes recruiting staff with the requisite skills and experience, making sure that they have the tools to do their job, that sufficient resource is in place to meet the ever increasing and demanding regulatory agenda and most importantly that the infrastructure is in place to ensure members' data continues to be safe and secure.

In some years the level of investment in systems and people must be at an elevated level which is evident against a small cost base. This investment creates a platform for future growth and gains in operational efficiency and does not mean that this metric will remain at this elevated level over time.

- Given the very special nature of the Society's business, in comparison with other mainstream high street lending institutions, I fail to see why the Society's business should be affected by Bank of England base rate changes. Can the Board provide members with a fuller explanation of the interest rate reductions applied to savings accounts?

You are right to presume that there is a weaker linkage between central bank rates and the rates set by the Ecology, nevertheless it exists and is a difference of degree, and increases over time. There are three pressure points – prevailing mortgage rates in the market, prevailing savings rates and the returns generated by funds held with other banks to meet commitments to members (cash or liquidity), which all must be managed to ensure stable and optimum operating conditions.

The Society must manage its income to generate reserves (capital). The level of capital the Society possesses dictates how much lending it is allowed to undertake by the prudential regulators, so if we have less capital, we can support fewer of the projects we value. It generates this income by managing the margin between the money it earns (primarily from mortgage interest and the returns generated by surplus funds), and its cost of funds (primarily interest paid to savers) and administrative costs.

The Bank of England sets a Base Rate which is the rate at which it will lend money to commercial banks. It uses this rate to influence all other market rates, including those set by building societies. If the Base Rate is reduced the cost of credit generally should fall so this will influence (but not dictate) the cost of mortgage finance. Mortgage providers would generally expect to cut their rates in order to remain competitive. That will in turn influence the cost of funds raised to provide those mortgages, so savings rates are more likely to reduce.

In this case, in response to the COVID-19 outbreak, the Bank of England reduced the Base Rate twice, to its lowest level in history, in an attempt to reduce the cost of debt and keep the economy moving. Since the 2008 financial crisis, the Society has been expected to keep the majority of its surplus funds with the Bank of England to reduce exposure to commercial money markets. The cuts in Base Rate therefore meant an immediate and automatic reduction in the Society's income.

When making changes to interest rates we need to carefully balance the needs of our saving and borrowing members. In practice this means that our mortgages need to be priced at a level which doesn't result in a greater incidence of borrowers refinancing elsewhere, as projects were completed and represented less risk to conventional lenders. This again reduces our income and we need to change the interest rates for savers to a similar degree to offset this reduction.

Conversely, if we held savings rates at higher levels in comparison to other institutions, we would attract more money than we need to hold to fund lending activity, and probably from savers who have less interest in our mission, so our interest bill would be higher, again reducing our income, while our funding would become more volatile.

Nevertheless, despite these cuts to savings rates, which are never welcome, we are confident that our rates remain fair compared to other institutions which have similar social and environmental objectives.

- ## Why aren't you offering the facility for members to join the AGM by video link?

We have explored options for streaming AGMs online previously. And while we acknowledge that there may be many more options available to us now, a suitable legally compliant-solution to enable members to participate in the AGM and vote via video link during the AGM itself was not an option for us.

In addition, with many of the Ecology team working remotely during the current situation, we have been focusing on supporting our members who are in the most urgent and vulnerable situations and our phone lines and online requests remain very busy. This means that we simply didn't have the capacity to identify and set-up a suitable online streaming solution for the AGM as well as tell members about such a service given many of our members still receive all their communications by post, at short notice. This meant that unfortunately we were not able to offer the facility to join this year's AGM by video link.

We recognise that members appreciate the lively discussion and debate characteristic of our AGMs and we welcome your feedback at all times. If possible, we are looking to hold a Members' Meet-up later this year. We will consider options to hold this online as well as in person.

Ecology Building Society
1 May 2020