

Ecology AGM 2021

Ask the Directors

- Interest rate management is at the heart of saving and lending. Can the management make any useful comment on the prospect of the Society imposing negative interest rates in the year which lies ahead?

What, if any, modelling has the Society carried out on the future of the Society in a low or even negative interest rate economy?

The Society constantly monitors the output from the Bank of England and is in regular dialogue with regulators and industry bodies. We understand that negative interest rates remain firmly in the Bank's 'toolkit' however it is clearly not a desirable outcome and recent economic indicators potentially reduce the likelihood that the situation will arise.

The Society is considering what it would do in this situation and will prepare plans for actions that may become necessary. We will do whatever we can to protect members and avoid the need to impose negative interest rates and we currently believe that it is unlikely although BoE does retain it as an option.

We are always aware of balancing the needs of savers and the impact of our lending as we pursue our mission.

This does mean that, at times, we will have to make difficult decisions on interest rates to support the long term aims of the Society.

Alongside our regular performance reporting we run various stress tests and what-if scenarios including modelling the potential impact of negative interest rates. The output of which is discussed at the Society's Assets and Liabilities Committee, who meet a minimum of 6 times a year with additional ad-hoc meetings scheduled if circumstances require and who propose any action required to the full Board.

- What are you doing about net zero?

We recognise the urgency of the climate, ecological and health crises. We are fully committed to supporting and rapidly accelerating the world's transition to a sustainable future. We will achieve net zero across all our operations, lending and investments no later than 2050, and where possible, much sooner. We have demonstrated our public commitment to averting climate breakdown and are founding signatories of three international commitments, including the GABV Climate Change Commitment and the Net Zero Banking Alliance, which was recently launched.

We are the first building society to publish our carbon accounts, and are co-chairing the Partnership for Carbon Accounting Financials, building momentum for all financial institutions to measure their carbon emissions, which provides the starting point for net zero. You cannot manage what you do not measure, so accurate carbon accounts are the first step. We will be sharing best practice on carbon accounts at COP26, creating pressure for other banks to transparently measure and disclose their emissions.

We are currently working on our net zero strategy. It will be team effort, working with our borrowers on their own journey, working with partners who can help them along the way. Net zero also largely relies on Government policy to rapidly decarbonise the energy supply, to boost renovation of existing properties and to set high standards for energy performance on new homes.

- What will you actually be doing at COP26 Glasgow?

The two main routes for us to engage in both the run-up to and COP26 process itself are 'finance for net zero' and 'decarbonising the built environment' including looking at the whole life carbon impact of buildings.

Firstly, the role of private finance in driving forward the low carbon transition is a key topic for COP, creating pressure for financial institutions to urgently mobilise trillions of dollars of private finance towards the low carbon transition.

There will be pressure for financial institutions to make bold commitments to achieve net zero at or before COP, something which is being driven by Mark Carney's initiative, the Glasgow Financial Alliance for Net Zero.

Ecology has declared net zero. We are creating pressure for other financial institutions to do this, before COP.

At the international level, we are one of 43 founding signatories to the new Net Zero Banking Alliance. Seeing the momentum building around banks declaring net zero, will create pressure for others to do the same.

At the UK level, we are working with Bankers for Net Zero in partnership with the All Party Parliamentary Group on Fair Banking and Finance, creating momentum for UK financial institutions to join the race to zero, declaring a net zero target by COP.

We are also co-chairing the working group on residential mortgages within the UK group of the Partnership on Carbon Accounting Financials, a global initiative to harmonise methods to calculate greenhouse gas emissions arising from banks' loans and investments. For COP, we will co-chair the group to collaborate on best practice for banks to calculate accurate emissions, with the emphasis on helping as many banks as possible get off the blocks and start to calculate and disclose their emissions. We are encouraging banks to share their experiences, this builds collaboration within the sector as we all share responsibility to reduce our emissions, but it also creates a sense of urgency and momentum. Banks do not want to be left behind, so we are trying to keep up the pace.

Decarbonisation of the built environment will also be an important topic for COP. We are supporting work led by the UK Green Building Council to develop a whole life carbon roadmap to net zero – that is, how the built environment can achieve net zero emissions, taking into account emissions from the construction, materials, operation and end of life of a building. This is a major challenge for construction. The emphasis to date has been to reduce operational emissions from buildings in use, but around half the lifetime emissions from a house can come from mining, manufacturing and transporting the materials it is made from. We will contribute to this work, developing our insights on how lenders can incentivise buildings to be constructed and renovated using low impact materials.

- Does the Board of the Society see the Society as an ecology-based organisation that has chosen to use the mutual structure of a building society or as a building society that has an ecological focus?

While the regulators obviously regard us as a building society for risk assessment purposes, overlaid with an ecological focus, the Board very much see us an ecological organisation that has adopted the form of a building society to effect change in its chosen area. A favourite tongue-in-cheek description is that we are 'a pressure group masquerading as a building society'. I think this is a very important distinction that ensures that our activity remains focussed on our mission. It does mean that we have to aim to be a first-class building society to give us the freedom to pursue our ecological focus. The Memorandum of the Society and its references to sustainable development and ecological policies should be read in this way.

- Does the Board of the Society see the Society as an alternative form of capitalism or an alternate to capitalism?

By definition, we exist within a capitalist framework. When we rent an individual's savings, we pay interest which supplements an individual's personal capital. If by alternate, we mean representing a replacement for capitalism, then we have to accept that we provide an alternative form, that is we represent a mode of being that ameliorates the profit principle by acting on the basis of values in pursuit of social and environmental benefit – the pursuit of a good society.

- Why couldn't we vote for each rule change rather than one vote for all rules changes?

The proposed changes to the Society's rules, set out in the additional voting information, are being proposed primarily as a result of the effects of the pandemic and offer greater flexibility for how we might engage members in our AGM in the future. The changes proposed are all inter-connected in this respect, with the exception of the changes as a result of the Mental Health Discrimination Act. In line with guidance from the Building Societies Association and according with the approach being taken by other Societies, these inter-connected changes have been combined into one resolution.

- I was shocked to see your director receiving a 9% increase; I remember how demoralising such a large pay increase to the director was to staff in a 'not for profit' organisation. I realise the amount paid is not so egregious as most of the finance world; nonetheless gross economic disparity is destabilising to a community and society as a whole.

The Society remains committed to a transparent and fair approach to pay. In our Annual Review for 2019, the Remuneration Report disclosed that effective from 1 April 2019 Executive Directors would no longer participate in the Society's Performance Related Pay scheme.

This recognised that variable remuneration based on the Society's annual profit performance in any given year was no longer felt to be appropriate for the longer term. At the 2020 AGM, the members vote approved the Director's Remuneration Report.

Although the comparison of the Chief Executive's year ended 2020 salary of £114k is a 9% uplift of the 2019 salary of £105k, a comparison of salary plus performance related pay is 2020 £114k to 2019 £110k which is equivalent to a 3.6% increase.

The changes, effective from April 2019 to the basic salary for Executive Directors was driven by the Society's value of fairness and rewarding performance in line with expertise; experience and contribution to the Society, while being mindful of general market conditions.

- I hope to see more women standing for the Board next time. Unfortunately, I do not have relevant banking experience or otherwise might have stood myself!

Our directors stand for re-election every three years, by rotation. This year three of the male directors are standing for re-election. There are currently 3 female Directors on the Board (33%), and the Board is committed to ensuring diversity within the Board.

- Given that you have committed to a 'fair' society, why are there no female directors? Management should be at least 50% female in an organisation committed to sexual equality. Perhaps you should do a gender audit of EBS and make some positive changes?

The Board consists of 2 Executive directors (1 of which is female) and 7 Non-Executive Directors, of which 2 are female. The Board is committed to ensuring diversity within the Board and the Society's Board Diversity Policy states that the Board endeavours to maintain a female representation of at least 33% of its composition and this is currently the case with three female directors out of nine.

The Society's Executive Leadership Team of 5 is made up of 3 females and 2 males, being a diversity ratio of 60:40.

- The Society has a policy on diversity which appears to be more honoured in the breach. I may have missed it, but I could find no reference to, or metrics for, any steps the Society has taken to improve Board diversity over the past year.

The Society's Board Diversity Policy requires that all Board appointments follow a robust and thorough recruitment process and are made on merit and based on objective criteria reflecting the skills, knowledge, experience, regulatory and business environment experience needed to ensure a rounded and effective Board.

Subject to the considerations above the Board endeavours to maintain a female representation of at least 33% of its composition and this is currently the case with three female directors out of nine.

We continue to seek to improve the diversity of both our Board and our employees, and in line with our commitment to openness and transparency, are currently developing a range of more meaningful metrics with appropriate supporting narratives to reflect our approach to diversity and will update further in due course.

- I am disappointed that the Society does not make greater efforts to find independent or non-executive directors from within the membership. I believe that this would be more consistent with the principles of mutuality than recruiting from outside. I appreciate, from my own experience of working in the financial services sector, the extensive requirements for approved individuals (or whatever term is now used) but believe that this can be quite easily addressed. I would like to see the Society introduce a process by which a small number of members were chosen at random and, from within that number, one or two are effectively provided with the appropriate level of support over a given period, probably 1-2 years. Has the Board given consideration to this in the past?

We always welcome applications from our membership when recruiting for non-executive directors to join our board. A number of Ecology directors were members of the Society prior to their appointment and subsequent election.

Vacancies for non-executive directors are promoted widely using a range of channels including on our website and on social media, which will be visible to members. We are continuing to look at new ways to promote non-executive director opportunities to members including spotlighting some of the types of skills we would usually be looking for.

- Candidate election statements. I was disappointed that there did not appear to be any form of address from those seeking (re) election to the Board accessible through the voting platform. I believe that all candidates should not only provide the biographical details, qualifications and employment experience that qualifies them for such a role, but also provide members with a clear statement of their principles and values, preferably neither anodyne nor generic, and an outline of what they see as the opportunities and challenges facing the Society and how these might be taken or addressed.

We appreciate feedback from members on the candidate election statements. We always need to balance the desire to provide members with a good overview of our directors' experience and suitability to be elected or re-elected with the space limitations of our print and digital AGM communications. Notwithstanding this, we will look at how the election statements could be potentially changed to include the extra information suggested.

- I have a question about annual statements. I have three Ecology accounts, and currently I receive three separate annual statements, each with inserts on FSCS etc, all on paper.

Assuming regulations allow, would Ecology BS please send these to me my email instead, in order to save paper?

If not, then would Ecology BS please at least send all three statements in one envelope, with just one set of inserts, or optionally no inserts at all (as I am already familiar with FSCS)?

We want to make sure our business practices reflect our mission, and we are continually exploring new ways of reducing the amount of paper we send to members. When we send things out by paper, it is usually because we do not currently have an alternative means to do so. We have previously looked into the potential to combine statements in one package, and we continue to work with our mailing house to develop options that will support a more efficient solution and in the longer term we look to electronic delivery where possible.

In the case of statements, because of the nature of the content, we would not send them out by email. Our direction of travel is that we would want to get to the point where our members could access a portal and download those statements, but this facility is not currently available.

It is the case that many members prefer digital delivery, which we fully recognise that and are working to make that possible as often as possible. However, some members also prefer to receive paper. We remain committed as a Society to provide paper communications wherever that is required. It is also important to recognise that digital delivery in itself has an environmental footprint – there are carbon emissions associated with digital delivery. Anybody who has looked at the development of the bitcoin has realised that.

The key thing is to make sure we send the right communications in the right way and be mindful at all times of our environmental footprint.

- **Nationwide has a mortgage for retrofit up to £25k. Is this something a very large financial institution can afford to do which is very difficult for smaller financial institutions?**

The question may be predicated on the very fact of it being a small loan. We also do additional borrowing as a standard feature of our renovation lending. We are aware that Nationwide offer a 'Green Additional Borrowing Mortgage' which is a facility for Nationwide's current mortgage holders to borrow additional funds of up to £25K and a minimum of 50% of the additional borrowing needs to be for energy efficient home improvements.

Nationwide and other lenders previously had similar products and we are now seeing a small number of large and smaller lenders starting to offer additional borrowing products for their current mortgage customers which are focused on green improvements, which is positive and shows this is not related to the size of the institution. You may be interested to know that we recently revamped our range of Renovation mortgages which are available to support renovations and, particularly whole house retrofit, where the house is being extensively renovated and our borrowers can access our C-Change mortgages which incentivise energy efficiency through mortgage pricing.

- **Are there any bad debts resulting from the pandemic?**

As a result of the pandemic the number of payment deferral requests increased significantly during the year. However, the substantial majority have subsequently returned to full contractual payments. There were no cases in possession or in arrears 12 months or more as of 31 December 2020. In the light of the uncertain economic environment the Society has taken a prudent approach to assessing the potential impact on the loan portfolio and increased provisions accordingly.

- **What are deferred shares?**

Under international banking regulations, firms providing banking services must hold an amount of capital, calculated in proportion to their loan assets, to enable them to absorb unexpected losses. A certain percentage of this capital must be the bank's core capital, which includes common shares and retained

earnings. Since building societies are not able to issue common shares, we had been dependent on retained earnings to grow our capital base and increase the amount of loans we are permitted to make.

Core capital deferred shares are a type of financial instrument that can be issued by building societies and qualify as tier 1 capital. As shares they have no maturity date and no guarantee of payments, however, we expect to operate a stable distribution policy.

- What is the reason for preventing any further deposits into some of your ISAs for this financial year? How can having more money coming in be regarded as a bad thing?

What level of liquidity do we currently require?

We always need to balance the inflow of savings funds with the value of the lending we provide to support sustainable living.

One of the issues created by the pandemic has been that members who have not been negatively impacted by the financial burdens of the lockdowns, have in fact found that they have additional funds to save. If we end up with too much in liquid funds this can create an imbalance between deposits and lending.

We are always aware of the need to carefully manage that balance and the actions taken on some of the ISAs is one part of the approach we have taken to deal with the high levels of savings inflow that we have experienced over the last 12 months.

We will need to continue to be vigilant to ensure that savings and lending remain in an acceptable balance.

- I have always had a profound dislike of the "quick vote" option as I believe that this is undemocratic and discourages full engagement by members in the governance of the Society. I note that the "turn out" figures are provided; does the system used allow for these figures to be broken down between those members who use the "quick vote" and those who don't? Also, once you have cast your vote you can no longer access the information contained on the site and there did not appear to be the option to receive an email confirmation of the votes you have cast, although I may have missed that. Are the papers for the AGM available on the Society's own website? I could not easily locate them there. Does the Board have a target figure for "turn out"?

Our priority is to ensure that we make it as easy as possible for members to vote in our AGM and we are proud that nearly 17% of members voted this year, which we expect will be higher than many other building societies. As part of this, like other societies, we offer the choice for members to use Quick Vote functionality as well voting for each individual resolution. This year around two thirds of members chose this option when voting across both the online voting service and when voting by post. We do not currently have a target figure for turnout but continually review our approach to encourage as many members as possible to vote in our AGM and in recent years we have sent reminder emails and simplified the online voting process, which we believe has helped maintain the level of engagement.

This year 67.54% of members used the online voting service which includes a final confirmation screen so members can view a summary of their voting choices. The online voting service does not currently include the facility for members to receive a confirmation email. This is something we will raise with our AGM mailing and vote capture provider for potential consideration in the future.

In addition to being available when members voted online, links to the supporting documentation were included with the AGM email (and subsequent reminders) as well as being published on our website. Members who received their AGM pack by post received hard copies of the supporting documentation.

- I would like to see a clear statement, within the constraints of commercial confidentiality, concerning the (re) appointment of the external auditors focusing on how the values of the firm to be (re) appointed align with, or vary from, those of the Society.

In 2019 an extensive tender process was carried out. As part of the process the Society took account of members' views that it would be good to work with a firm outside the "Big Four" if possible.

At the 2020 AGM we recommended that BDO were appointed by our members as the Society's new auditors.

BDO LLP is not one of the Big Four firms but is classified as a Tier 2 firm. It provides tax, audit and assurance, advisory and business outsourcing services to companies across all sectors of the economy. At the time of the appointment BDO was an external auditor to seven building societies, including both mid- and small-sized societies.

The selection panel was impressed with BDO's enthusiasm for both the building society sector and the Ecology business model.

BDO carried out a very rigorous audit and worked very constructively with the Ecology team.

Therefore, their reappointment was recommended and approved by the members this year.

- I would like to see the Society address the power imbalance between the Board/Executive Management Team and the members by instituting an ongoing forum for dialogue. I envisage this as an appropriately moderated online forum, whereby members can talk directly to the Board/ Executive Management Team and, more importantly, to one another. I have a number of views about changes I would like to see the Society institute; however, I have no idea whether any or all of these views are shared by any other members. Nor can I discover the views of my fellow members or work with them to develop proposals for consideration by the Society. I strongly believe that such a forum is consistent with the principles of mutuality inherent in the building society concept.

Ecology is powered by our members, and we regularly seek opportunities for the Directors and management team to engage with our members including our Annual General Meeting and Members' Meet-ups as well as member surveys. We would like to develop more mechanisms, including online, for members to get involved in our work. For example, we are currently looking at developing our member ethics panel to create a new member panel as well as exploring ways for members to get involved in our campaigning activities and to create a vibrant membership community. In addition, in the coming months we will be asking members to help us co-create our strategy to 2030.

In the meantime, we would welcome suggestions from members as to how this might work, so please do contact us at agm@ecology.co.uk with your ideas.