

First Progress Report

Principles for Responsible Banking



PRINCIPLES FOR
RESPONSIBLE
BANKING

Building a greener society

March 2021

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Introduction

Ecology Building Society became a Founding Signatory of the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking in September 2019. This is our first progress report, in which we fulfil our responsibilities as a signatory. We report on our purpose, impact, targets and progress.

The Principles provide a framework for a sustainable banking system and help the industry to demonstrate how it makes a positive contribution to society. The Principles embed sustainability at the strategic, portfolio and transactional levels, and across all business areas.

Principles for Responsible Banking:

1. Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

2. Impact & Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

3. Clients & Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

4. Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

5. Governance & Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

6. Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

About Ecology

Since Ecology Building Society was established in 1981, the Society has been dedicated to sustainable development. Ecology's activities are guided by its mission and values.

Our vision: A fair society in a sustainable world

Our mission: A building society dedicated to improving the environment by supporting and promoting ecological building practices and sustainable communities

As a building society, Ecology is owned by, accountable to, and run for the benefit of our members, the people who borrow and save with Ecology. We reinvest profit into the business to help secure our future, to increase our environmentally and socially responsible lending, and to continually improve our service for the benefit of current and future members. We are accountable to our members, who shape how we are run through voting at our Annual General Meeting.

A building society can only be or remain established under the UK Building Societies Act 1986 if its purpose, or principal purpose, is making loans which are secured on residential property and funded substantially by the society's members. The Act also provides that at least 50% of the funds of a building society must be raised in the form of shares held by individual members of the society, and that at least 75% of the 'business assets' of a building society must be loans fully secured on residential property. At the end of 2020, 92.7% of Ecology's funds were in the form of shares held by individual members and 97.3% of the business assets were loans fully secured on residential property. Ecology also had 0.7% of business assets as investments, mainly in renewable energy infrastructure and cooperative initiatives. Ecology has total assets of more than £220m at the end of 2020.

Ecology's purpose is enshrined in its Memorandum, which can only be changed by agreement of the membership. The principal purpose is making loans which are secured on residential property and are funded substantially by its members, *promoting ecological policies designed to protect or enhance the environment in accordance with the principles of sustainable development*. Preservation of the environment for future generations is also central to our business. We believe that being socially responsible is inextricably linked to being environmentally responsible, an approach that we promote as a core principle in all that we do and the way that we do it.

Ecology's activities are guided by the 'Triple Bottom Line' approach, one in which rather than focusing on the financial bottom line, the three factors of People, Planet and Prosperity are considered. Ecology's lending programme is fully in accord with the triple-bottom line, reflected in our detailed Lending Policy, which is designed to combine the requirements of prudent lending with ecological and environmental concern.

The way in which Ecology works towards its mission and the core beliefs that underpin this mission are expressed in the corporate values which have been elaborated in extensive consultation with Ecology colleagues.

Our values

Fairness

We believe in treating everyone individually and with equal respect. We care about our members as people, not as profit centres; we respect our wider ecosystem and we believe in fairness for future generations.

Openness

We believe in openness about our work. This goes beyond passive transparency to ongoing, active efforts to make people aware of how our business works. Openness is two-way: we seek and listen to our members' opinions and wider ideas and challenges.

Responsibility

Our members trust us to use their money in line with our mission and we take that responsibility very seriously: we do what we say we will. We manage the business sustainably to ensure we can make a long-term impact. We are pragmatic in our work but will not compromise on our core values.

Co-operation

We believe that a sustainable future can only be achieved by working together. We represent our members as a community of shared interest, we are committed to participatory decision-making and balancing the needs of different people, and we are receptive to the knowledge and opinions of others.

Activism

We believe in informing and empowering people to become advocates for change in the financial system. We believe that everyone has a part to play in creating a democratic financial system, and we have a responsibility to spread understanding and dialogue about how that system works, between and beyond our members.

The values of the Ecology Building Society are amplified by our public commitments. As well as being a signatory of the UNEP FI Principles for Responsible Banking, as a values-based financial institution Ecology is a member of the Global Alliance for Banking on Values (GABV), and is committed to the Principles of Values-based Banking.

GABV Principles of Values-based Banking

1. Social and environmental impact and sustainability are at the heart of the business model
 2. Grounded in communities, serving the real economy, and enabling new business models to meet the needs of people
 3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved
 4. Long-term, self-sustaining, and resilient to outside disruptions
 5. Transparent and inclusive governance
- All of these principles embedded in the leadership and the culture of the member financial institution.

Ecology has been dedicated to sustainable development throughout its forty-year history and remains more committed than ever to its mission to build a greener society.

The challenge of the next decade should not be underestimated, as we witness increasing environmental degradation and social inequalities in the world, and face the existential threat of climate and ecological breakdown.

We believe that 2015 marked a turning point, with the international agreement of the Paris Climate Accord and the UN Sustainable Development Goals. We are encouraged by the growing recognition of the pivotal role of finance in enabling the transition to an economy that is low-carbon and protects the natural environment. We encourage all banking providers to hold themselves publicly to account through the Principles for Responsible Banking.

Ecology and The Principles

Principle 1: Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Accord and relevant national and regional frameworks.

■ Mission-aligned business strategy

When Ecology Building Society was created in 1981, its founders were motivated by concerns over environmental degradation and consumerism. Forty years on, Ecology remains committed to protecting the environment, while the external landscape has changed dramatically. Climate change, ecological collapse and a global pandemic are now the defining, interconnected issues of our time. A survey of Ecology's members showed that members expect Ecology to address climate change as its top priority.

■ Climate and ecological emergency

On 12 December 2015, 195 countries signed the momentous Paris Climate Accord, committing to avoiding dangerous climate change by limiting global warming to well below 2 degrees Celsius and pursuing efforts to limit it to 1.5 degrees, compared to pre-industrial temperatures. Five years on from that agreement, our economies continue to be dependent on fossil fuels. Power, transport, buildings, food, clean water and materials all rely on fossil fuels, releasing carbon dioxide into the atmosphere. To avert the catastrophic consequences of climate change, according to the Intergovernmental Panel on Climate Change, net human-induced global emissions must be reduced by 45% by 2030. Current commitments are nowhere near enough. At the current rate, global heating is on course to rise by 1.5 degrees between 2030 and 2052. We are in a global climate emergency.

The recent decade, 2011-2020, was the warmest on record. 2020 was the hottest year on record, with the global average temperature 1.2 degrees above the pre-industrial period. Climate change is already happening, with increased frequency and magnitude of extreme weather events ranging from heatwaves, droughts, flooding, winter storms, hurricanes and wildfires. The next decade will be critical if we are to avert climate breakdown.

At the same time, human-driven climate change and dramatic changes in land use are exacerbating the ecological emergency. Nature is declining globally at an alarming and accelerating rate. Three-quarters of the land-based environment has been significantly altered, with more than a third of land now devoted to crop or livestock production. 66% of the marine environment has been significantly altered. One million animal and plant species are now threatened with extinction, many within decades. The ecological world is facing collapse. The consequences will be grave for nature and for people – healthy ecosystems are the foundation of our societies, our economies, our food production and our health.

The recent workshop on Biodiversity and Pandemics led by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPES) highlighted the consequences of people and their domestic livestock coming into close proximity with wildlife, enabling the emergence of novel infectious diseases. In our globally connected world, these diseases can quickly spread and become pandemics, as we are experiencing with the Covid-19 crisis.

The world is in a state of emergency. It is the responsibility of all to urgently focus our resources and actions on averting climate catastrophe and put land and sea back into recovery, to restore, protect and create space for biodiversity.

It is clear there must be a rapid transition to an economy which is both low-carbon and ecologically responsible. It is also important that the transition is just and fair, ensuring that no one is left behind.

In 2019, Ecology took part in the global climate strikes and committed to take action.

■ Our Emergency 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.

Our climate and ecological emergency plan includes the actions we are taking to accelerate efforts to ensure that the planet does not exceed 1.5 degrees Celsius of heating and preserves and restores natural habitat. The actions are summarised here:

Our current and future members



- Ensure our savings and lending activities are fully focused on addressing the climate and ecological emergency.
- Deliver members' events, engaging experts and practitioners to share new knowledge.
- Support members to participate in our campaigning activities.
- Provide vegetarian or vegan catering at our members' events.

Our lending



- Ensure our mortgages continue to incentivise greater energy efficiency.
- Increase support for innovative sustainable construction techniques and low-impact materials.
- Connect borrowers with resources to increase knowledge of innovation in sustainable building and low-carbon heating.
- Invest in zero-carbon, renewable energy generation projects.
- Support adaptation to the physical impacts of climate change.

- Measure and report the 'financed emissions' from our loans and investments so they can be fully aligned with the Paris Climate Agreement.

Our activism



- Campaign for rapid, meaningful action to avert a climate and ecological catastrophe.
- Use our voice and influence to share and rapidly scale up impactful solutions.
- Continue to advocate for rapid and far-reaching positive change in the financial sector.

Our colleagues



- Coordinate, Green Team, activities for colleagues to engage and be inspired to reduce carbon emissions and protect nature.
- Promote sustainable modes of transport, including cycling and electric vehicles.
- Provide free electric vehicle charging at our office for colleagues and visitors.
- Support home working.

Our local community



- Participate in community tree-planting activities and other nature conservation activities.
- Support educational and cultural initiatives that build understanding and action to address the emergency.

Our premises



- Maintain the high environmental performance standards of our offices.
- Evaluate potential zero-carbon heating systems for our premises.
- Continue to offset all carbon emissions from business operations and travel.
- Expand our carbon offsetting schemes to include peatland restoration.
- Maintain our gardens and green roof using organic, permaculture principles.

Our supply chains



- Use suppliers (local where possible) with good environmental performance.
- Work proactively with our suppliers to reduce the carbon and ecological footprint of the supplies and services we use.

■ Homes and communities

Access to adequate housing is a human right that underpins our Society. There is a growing recognition that heating our homes with fossil fuels contributes to climate change. The environmental footprint of homes in the UK is very high compared to most other European countries. The vast majority of the 27 million homes have poor levels of insulation, and are heated by fossil fuels. Our homes use 35% of all the energy in the UK and emit 20% of the total carbon dioxide emissions. Existing housing must be 'decarbonised', through retrofitting good levels of insulation and low-carbon heating. Current standards for new build properties still fall short in specifying the necessary levels of insulation and low-carbon heating to make them fit for the future, and they will at some point require upgrading. Ecology is enabling renovation of existing properties to improve energy efficiency, and is enabling borrowers to build new self-build properties to high energy performance and ecological standards.

High energy usage in poorly insulated homes also adds to domestic costs, affecting affordability. Homes in the UK are also becoming increasingly less affordable, as house prices rise much faster than wages and many people are unable to buy or rent in their locality. In response to this, community groups are coming together to create community-led housing, where they join together to build or renovate properties, often involving creatively overcoming obstacles or challenges that makes the sites unattractive to typical property developers. Many community-led projects are set up to remain genuinely affordable based on what people actually earn in their area, which will continue to bring benefits to future occupiers.

Ecology's mission and strategy continues to focus on housing as an area of significant need, both through providing healthy, affordable homes, in places that people want to live, and in minimising energy demand and burning of fossil fuels, through high levels of insulation and low-carbon heating.

■ Theory of Change

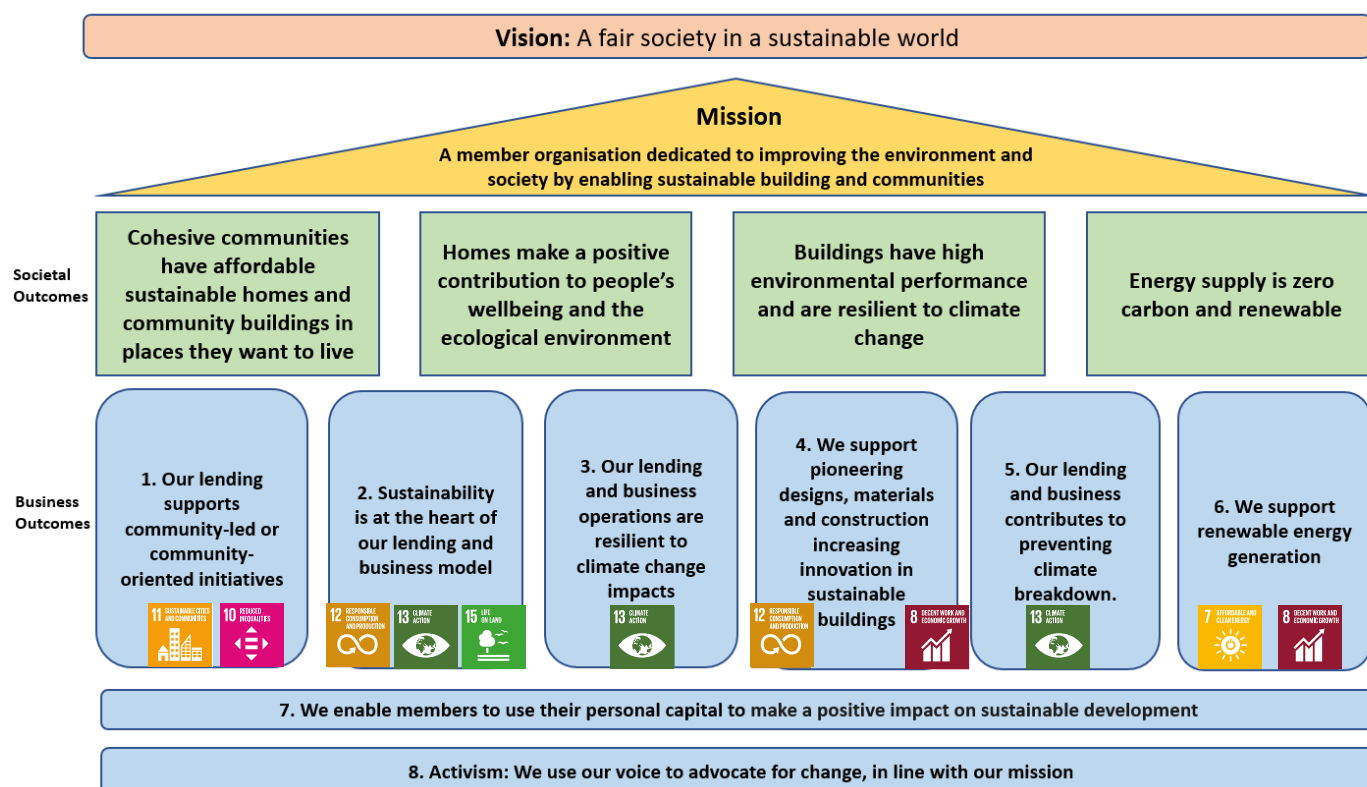
Ecology uses the Theory of Change approach to develop and evaluate its strategy. The approach begins with the vision and mission, in the context of the world around us, and articulates the mission into specific societal outcomes where Ecology can make a positive difference.

Four societal outcomes:

- Cohesive communities have affordable sustainable homes and community buildings in places they want to live
- Homes make a positive contribution to people's wellbeing and the ecological environment
- Buildings have high environmental performance and are resilient to climate change
- Energy supply is zero carbon and renewable

In turn, these four societal outcomes steer more specific business outcomes, where Ecology must target its activity, to yield positive societal impacts. The business outcomes relate to seven of the United Nations Sustainable Development Goals, with the largest impacts relating to Goals 11, 13 and 7.

Our Theory of Change



Ecology is currently co-developing its long-term strategy to 2030, recognising that this will be a defining decade of action, to avert climate and ecological breakdown, and move to an economy which supports people, planet and prosperity, and is by design regenerative and distributive. The development of the 2030 Strategy will engage Board directors, colleagues, members and key partners.

■ Mission-aligned policies and products

Ecology operates across the UK including Northern Ireland. It provides a range of straightforward savings products to individuals and charities, and mortgages and development finance to individuals, charities, environmental businesses and community-led housing organisations to realise sustainable buildings. Ecology champions ethical finance, a form of finance which does not focus only on financial returns, but takes account of environmental and social impacts.

Ecology takes a bespoke approach to lending, providing it meets our sustainability criteria. New buildings must achieve a high energy performance. Existing properties that start off in a poor condition are renovated using the mortgage finance to improve their environmental performance. Ecology's sustainable lending includes:

- **Self-build** projects with high energy efficiency and low environmental impact
- **Development finance** for high-end energy efficient dwellings
- **Conversion** for re-use and re-purposing of non-residential buildings
- **Renovation** of dilapidated housing for energy efficient retrofit
- Support for **vernacular building** methods using locally available building materials such as clay lump, chalk and flint, cob, thatch, wattle and daub
- **Community housing projects**, enabling people to build/renovate affordable housing in places they want to live
- Housing Co-operatives and Co-housing
- Community shops
- Organic horticulture
- Woodlands
- Moorings for houseboats
- Business or charitable buildings, in which to provide education in sustainability or green building skills

Ecology particularly welcomes unique or unusual projects that have a positive environmental or social impact, providing a bespoke service to potential borrowers. Personal lending constitutes the large majority of Ecology's loan book (87% at end of 2020), with the remainder mainly to small scale developers, community-housing groups and social or charitable enterprise constitutes.

■ Innovation in lending

Ecology seeks to incentivise people to build, buy or renovate sustainably. We reward borrowers whose properties are more energy efficient with our range of award winning 'C-Change' discounts. These discounts on the interest rate payable reduce their mortgage repayments for the duration of their mortgage term following completion. The level of discount is based on the home's energy performance. Ecology has been recognised in the ICAEW Finance for the Future awards (2019) for its innovation in lending. In 2020, we launched a new renovation mortgage product in order to incentivise more people to renovate their home and improve its energy efficiency.

■ Where we will not lend

The exclusive adherence to mission means Ecology purposefully foregoes lending opportunities where environmental gain cannot be readily ascertained. In one view, this potentially reduces the opportunity for business growth, but on the other, it ensures the environmental aspects of Ecology's lending are not compromised by lending which is in contradiction with our ecological imperative. For example, we will not provide mortgages for second homes or for properties to be sold or leased as holiday homes.

■ Investments

In response to our members encouraging Ecology to support renewable energy generation, Ecology has a small portfolio of investments (limited by the lending limits of the Building Societies Act) in small scale renewable energy projects, notably wind, solar, biomass and tidal. The combined value was £922,000 at the end of 2020.

■ Climate-related financial risks and opportunities

Climate change poses a range of risks: physical risks such as floods and heatwaves, and transition-risks arising from far-reaching and rapid changes as the world moves to a low-carbon economy. A pressing transition risk in the residential property sector is that those homes that have poor energy efficiency could face prohibitively high energy bills in future. Ecology seeks to be part of the solution by **that** 'deep retrofits' of properties, improving their energy efficiency.

Ecology's strategy to fulfil its mission is fully aligned with the need to manage and mitigate the physical risks to its assets, and to develop new opportunities to create positive impact. Ecology is currently preparing its climate-related financial risk disclosures, guided by the recommendations set out by the Task Force on Climate-related Financial Disclosures.

■ Activism

An important part of Ecology's strategy is its activism. Activism enables Ecology to create societal change relevant to our mission, that is bigger than the immediate impact from its savings, lending and investments. Ecology's activism has three forms:

1. **Demonstration** of what is sustainable and possible, so that others may follow
2. **Thought Leadership** – Disseminating ideas and alternatives, through thought leadership
3. **Voice amplification** – Adding our weight to collective initiatives and campaigns

Ecology's activism supports the four societal outcomes in our Theory of Change. Often the link between activism and reform can be subtle and take time to occur, but activism has an important role in changing the world for the better. We take our advocacy role very seriously, speaking on behalf of our members and the environment, to raise consciousness about a range of issues closely aligned with our mission, and to provide thought leadership, including:

- The critical role of the financial sector to play its part in enabling sustainable development
- Increasing the energy efficiency of housing
- Improving building regulations so that all new housing is fit for the future
- Increasing the supply of high quality, affordable housing in places people want to live
- Decarbonisation of energy supply and the creation of green jobs
- Restoring and protecting the natural environment
- Building climate resilience
- Developing transparent and meaningful methods to measure carbon emissions and impact

■ External commitments

Increasingly, financial institutions are making international commitments and setting targets to demonstrate their responsibility in delivering solutions. In addition to the Principles for Responsible Banking, Ecology has signed up to two other international commitments:

UNEP Finance Initiative: Collective Commitment to Climate Action (CCCA) – In accordance with the Paris Agreement, we commit to align our portfolios to reflect and finance the low-carbon, climate-resilient economy required to limit global warming to well-below 2, striving for 1.5 degrees Celsius

GABV's Climate Change Commitment (3Cs) – We commit to assess and disclose the climate impact of our portfolio of loans and investments within a period of three years, and ultimately to ensure the climate impact of our loans and investments are in the line with the Paris Agreement.

Principle 2: Impact and Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

Since Ecology was established in 1981, social and environmental positive impact and sustainability have continued to be at the heart of the business model. Our definition of impact is:

"A change in human wellbeing or environmental sustainability due to a positive or negative outcome for people or the planet driven by the activity of a business"

We strive to create positive impact and minimise negative impact within the scope of our mission. Our most significant impacts arise through the activities Ecology enables by providing finance, primarily through mortgages for energy efficient homes and community buildings, and through investments in renewable energy and cooperative community projects. We also have impact through our own business operations on our premises and in supply chains.

Our website, newsletters and annual reporting include case studies on our lending. Not only do they bring to life the outcomes of our lending, highlighting the social and environmental benefits, they also seek to inspire current and potential members who may be considering or embarking on a self-build, renovation, conversion or community housing project.

■ Main impacts

Ecology's activities are guided by the Triple Bottom Line approach, considering environmental, social and economic impacts.

The Triple Bottom Line

Environmental impacts: The quality of the environment and efficient use of natural resources

Social impacts: Availability, accessibility, affordability and quality of services, infrastructure, jobs, as well as peace, justice and human rights

Economic impacts: Economic value creation for people and society, through inclusive, healthy economies and economic convergence

Ecology carries out a Triple Bottom Line check on all its activities, to ensure they will create positive social and/or environmental benefit.

An initial holistic assessment has been carried out of Ecology's lending and business activities against the UN Sustainable Development Goals, using the UNEP Impact Radar. The two main impacts relate to climate and housing.

Although Ecology mortgages are targeted at constructing or renovating properties to a high standard of energy efficiency, most do generate carbon emissions from fuel use for heat and power. Ecology is committed to reducing the carbon emission intensity of residential properties to reduce the impact on climate change.



A second area of significant impact is the support for sustainable communities by increasing the availability of quality housing. Compared to typical mortgage lenders, our largest social impact is through enabling community-led housing. There are a number of forms of community-led housing, but they share some common features: often small scale, usually set up and run by local people in their own communities, provide genuinely affordable homes, meet long term local housing needs, involve considerable voluntary effort. 13% of Ecology's lending is in community-led housing, the category which is second to standard residential mortgages in terms of value of lending.

The two most significant impacts have therefore been identified as:

- **Social and environmental impact:** People have access to quality affordable homes in places they want to live
- **Environmental impact:** Climate change is mitigated through reduction in carbon emissions from residential properties

Measuring impact, in the technical sense of the word, is challenging to do, not least because impact-level change in human wellbeing or environmental sustainability can take time to materialise. It is therefore more common to use indicators, where it is possible to collect data to demonstrate outcomes are aligned with the intended impact. The table describes the two main areas of impact, how Ecology is achieving the impact, the indicator and progress on setting targets.

Ecology's most significant social and environmental impacts

Impact	How to achieve Impact	Indicator	Target
Social and environmental impact: quality affordable homes are available for people in places they want to live 	<p>Promote the community-led housing movement.</p> <p>Support community-led housing projects that renovate, convert or build energy-efficient homes that are affordable to communities in places they want to live.</p> <p>Work with partners to support knowledge exchange to expand community-led housing activities.</p>	<p>Lending on community-led projects in the financial year.</p> <p>Reported annually - 13% of financial value of lending in 2020.</p>	<p>£s of lending on community-led projects in 2030</p> <p>The target is in development.</p>
Environmental impact: reduce carbon emissions to mitigate climate change 	<p>Reduce the carbon emission intensity of mortgaged properties by supporting construction of new energy-efficient homes and supporting the renovation or conversion of dilapidated properties to bring them back into use with a good standard of energy efficiency.</p> <p>Provide mortgage products which encourage greater levels of energy efficiency.</p> <p>Work with partners to enable thought leadership and knowledge exchange on sustainable housing.</p> <p>Work with partners to call for policies, regulation and programmes to ensure housing is fit for the future.</p>	<p>Average carbon intensity of properties* in mortgage portfolio at end of financial year.</p> <p>2020: 0.015 kgCO₂/£ lending</p> <p>Reported annually</p> <p>*Includes properties undergoing renovation which are not yet completed. When works are finished, their carbon intensity will decrease.</p>	<p>Net zero financed emissions by 2050 or earlier.</p> <p>Ecology is using the science-based targets method to calculate emission intensity targets for mortgaged properties in 2030.</p> <p>Targets will be confirmed before March 2022.</p>

■ Carbon accounts

We calculate our carbon footprint based on emissions from our business operations, including our supply chains, and from our staff commuting. Since 2012, we have reported our emissions using the methodology developed and enhanced by Small World Consultancy team. As the method improves, we re-calculate previous annual emissions. In 2020, due to the Covid pandemic, many colleagues worked from home. As well as adjusting the 2020 commuting emissions, we have included 4.9 tonnes of CO₂ arising from home heating and electricity use during homeworking. We purchase carbon 'offsets' from Forest Carbon, which plants trees through accredited schemes to absorb the same amount of carbon dioxide as our reported footprint.

In 2020, for the first time, we have calculated annual carbon emissions from our mortgage lending, and disclosed them in our Annual Report and Accounts. Annual emissions from the mortgage portfolio at the end of 2020 were calculated to be 1785 tonnes of CO₂, with an average emission intensity of 0.015 kgCO₂/£ lending. We have used the new Global Greenhouse Gas Accounting and Reporting Standard launched in November 2020 by the Partnership for Carbon Accounting Financials (PCAF). The Standard provides a harmonised method for financial institutions to calculate and report emissions arising from their loans and investments. We have focussed on emissions from our mortgaged residential properties, as our largest source. In future years, we will include our other investments. The Standard uses the ratio of loan to value for each property to attribute the proportion of a property's total emissions to the mortgage provider.

The Standard currently covers operational emissions from the energy to heat and power a property when it is occupied as a residence. We have used data for carbon emissions from the Energy Performance Certificates as the best current source of information. The Standard does not include emissions from construction and renovation works, as they are relatively small compared to the emissions over the property's lifetime. The Standard also needs to be developed to include embodied carbon from the building materials, which can be significant. We will continue to improve our carbon accounts, improving data quality and methods, as well as extending to include our other loans and investments. Ecology became one of the first members of the regional UK PCAF group when it formed in October 2020. Within PCAF UK, we will be collaborating to improve carbon accounting methods, to report on at the Conference of Parties in November 2021.

■ Net zero and science-based targets

The Paris Climate Accord contains a commitment to agree global and national net zero targets by 2050 to keep global warming below 2 degrees and ideally close to 1.5 degrees. A growing number of countries have set a target of being net zero by 2050. In simple terms, net zero is achieved when there is a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere, by either technological or natural solutions. Net zero does not mean emissions are eliminated completely, but rather that they are limited to be in balance with measures that remove greenhouse gases from the atmosphere.

There is a growing international effort on 'science-based targets', using scientific assessments of the remaining carbon budgets and future climate change scenarios, to show how each sector, such as residential mortgages, needs to reduce its greenhouse gas emissions. Businesses, including financial institutions, are beginning to use science-based methods to work out their path to net zero. The common metric for science-based targets for financial institutions is carbon emission intensity, the amount of carbon per unit of output.

Ecology is committed to achieving net zero across all its operations, lending and investments no later than 2050, and where possible, much sooner. A major step forward in March 2021 is the preparation of our first carbon accounts for the financed emissions arising from the properties in our mortgage portfolio. These financed emissions provide a baseline to calculate current carbon intensity, and to calculate science-based targets to reduce carbon intensities. By March 2022, we will set targets for 2030 aligned with the Paris Climate Accord, to ensure we reach net zero by 2050 or earlier.

We are also assessing potential scenarios to achieve these targets, to map out a potential pathway to net zero, which will in turn inform how we orient our products, services, and partnerships to support that pathway. We anticipate that targets will be achieved through a combination of high levels of energy efficiency, low-carbon heating and domestic renewables. Ecology will encourage and support uptake of these measures through our lending products, particularly through our award-winning C-Change discounts which reduce the interest rate in line with energy efficiency improvements. However, we also recognise that the journey to net zero is a team effort, between the financial sector, the construction and energy sectors, government and the public.

The UK has committed to achieving net zero by 2050, and the UK Government's recent Ten Point Plan for a Green Industrial Revolution has 'Greener Buildings' as a priority. We will continue to engage with partners such as the Green Finance Institute and other lenders to develop and scale innovative ways to encourage and support increasing energy efficiency, and also with partners such as UK Green Building Council to call for tighter energy performance standards in building regulations. We will also continue to support the decarbonisation of the grid and of heating for residential properties.

■ Monitoring against targets

We will continue to calculate and disclose our financed emissions and emission intensity on an annual basis.

We monitor the proportion of our lending to community-led housing, as standard, as it is an impactful and substantial part of our lending portfolio, and we must also ensure we remain within the funding limits that apply to building societies.

Principle 3: Clients and Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

As a building society, Ecology is owned by our members, who are our customers. Ecology has over 10,000 members, from across the UK. According to members' surveys, our members join and stay with Ecology in order to benefit from its financial services (in the form of ethical savings or sustainable mortgages) and because they support Ecology's mission.

Ecology's mission and values differentiate it from other building societies and banks. While the building society model facilitates savers and borrowers to experience mutual benefit, the difference with Ecology is that the mutual benefit is based on achieving positive impacts on sustainable development. Saving members seek to use their personal capital to make a positive environmental and social impact, while receiving a fair financial return. Borrowing members seek finance to build or renovate homes and community buildings to be energy efficient, therefore reducing carbon emissions that cause climate change, and create affordable, high quality housing in places people want to live.

The mandate of Ecology is derived from the membership, with the primary purpose of Ecology expressed in the Memorandum and Articles. In line with the Building Societies Act, Ecology operates on a one-member one-vote basis. All members with more than £100 of cash savings in their name and all borrowing members with loans of £100 or more have the right to vote at annual and special general meetings on matters such as the composition of the board and on any resolutions put forward for debate. They also have the right to propose resolutions at general meetings, and to nominate prospective directors for election.

We communicate our ecological activities and progress with all members via newsletters and our Annual Reporting. All members are invited to our Members' Meet-ups and our Annual General Meeting. These meetings connect our members with a range of experts and practitioners, to share knowledge and experiences on many aspects of climate change, community housing and ethical finance. They also include a substantial 'Ask the Directors' session for members to ask wide-ranging questions.

We proactively use social media and publish blogs, guest articles, case studies and news items on our website. Sharing case studies is an important part of our sustainability strategy, to inform, inspire and share knowledge with our members on sustainable and community-oriented construction and renovation projects. Our members regularly contact us by social media, email, letter or telephone about matters relating to our mission.

We work with partners to support events and resources that will be of benefit to our members and wider society. For example, we have sponsored Open Homes events for people to visit properties that have been renovated, to gain insight and inspiration from them. We have also co-funded the preparation of a Community Led Housing Toolkit and the hosting of the Rural Housing Summit 2021. We regularly speak at events hosted by our partners UK Cohousing and National Community Land Trust Network, to provide insights to community groups and individuals on how to finance community housing projects.

We seek and welcome feedback from our members, including through members' surveys and via our member Ethics Panel. Currently 30 members participate in the Ethics Panel, ensuring our members' voice is at the heart of our business activities. For example, in 2017 we consulted the Ethics panel on making changes to approach on fair pay including increasing the maximum pay ratio limit, the ratio between the highest to lowest full time equivalent salary, before asking all members to vote on the proposal at the AGM.

In all its activities, Ecology is committed to ethical behaviour towards all of its stakeholders, including members, potential members, staff, directors, partners and suppliers. Ecology has an Ethics Policy and framework to ensure that good outcomes are considered and monitored in all our activities.

Ecology does not operate a branch network. Day-to-day interaction with members is by telephone, post and electronic means. Our Vulnerable Customers Policy ensures good outcomes for all customers, providing a tailored approach where appropriate, such as providing documents in large print. Members regularly take the time to give positive feedback on customer-facing colleagues, thanking them for the friendly, helpful service.

Principle 4: Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

It is through working with stakeholders and partners that Ecology can create positive impacts that are beyond the remit of its lending activities.

Ecology seeks to work in partnership with other organisations and groups who share our beliefs and with whom there is a synergy of interests or activities. We are rigorous when considering which partnerships to enter into in order to avoid compromising the values and mission of Ecology.

We achieve more by working together, increasing our reach, pooling our resources and expertise and amplifying our voice. Our collective activities include innovation in sustainable housing, knowledge exchange to empower community-led initiatives, thought leadership in ethical finance, identifying climate-related policy solutions, developing best practice and sharing insights, e.g. in carbon accounting.

Ecology engages with a range of partners, to advance its mission, across three main themes:

1. Ethical finance

Ecology is increasing awareness and expansion of values-based banking and sustainable finance

Global Alliance for Banking on Values

The Global Alliance for Banking on Values is an independent network banks using finance to deliver sustainable economic, social and environmental development.

INAISE

(International Association of Investors in the Social Economy)

A global network of socially and environmentally oriented financial institutions.

Institute for Social Banking

An education and research institute for socially responsible banking and finance. Provides summer schools and other knowledge sharing training.

2. Sustainable homes and communities

Ecology is helping to create more sustainable, healthy, resilient homes, and is helping to expand community-led housing

National Community Land Trust Network

The official charity supporting Community Land Trusts (CLTs) in England and Wales. It works on behalf of CLTs and, in turn, its members shape and govern our work. It provides funding, resources, training and advice for CLTs and work with the Government, local authorities, lenders and funders to establish the best conditions for CLTs to grow and flourish.

UK Cohousing Network

is a resource for members interested in Cohousing, enabling them to share information, advertise related services and connect up to discuss shared issues and learning.

Rural Housing Scotland

A national charity which supports community action on rural housing issues by providing practical support for community-led housing initiatives and campaigning to secure more affordable housing in rural Scotland.

UK Green Building Council

An organisation dedicated to radically improving the sustainability of the built environment, by transforming the way it is planned, designed, constructed, maintained and operated.

Passivhaus Trust

An independent, non-profit organisation that provides leadership in the UK for the adoption of the Passivhaus standard and methodology. (Ecology is a founding patron).

Good Homes Alliance

A organisation dedicated to promoting higher quality sustainable housing and standards, via collaborations with industry and government creating active knowledge exchange networks, sharing best practice, running events, leading campaigns, lobbying for change, partnering on research and commissioning publications.

Association for Environment Conscious Building

The largest and longest-running network working together to help develop, share, train and promote sustainable building best practice.

NaCSBA (National Custom and Self Build Association)

A non profit association. Set up by a network of companies and individuals with the aim of promoting self-build and custom build as a form of housing delivery that can make a significant contribution to home building in the UK.

Carbon Co-op

An energy services and advocacy co-operative that helps people and communities to make the radical reductions in home carbon emissions necessary to avoid runaway climate change.

3. Addressing climate change

Ecology is helping to increase action to understand and reduce carbon emissions from new and existing homes

Partnership for Carbon Accounting Financials, UK (PCAF, UK)

PCAF UK is a regional group as part of the PCAF global partnership.

PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas emissions associated with their loans and investments..

Green Finance Institute

The Green Finance Institute was established in 2019 as a direct response to a key policy recommendation made by the industry-led Green Finance Taskforce to the UK Government in March 2018.

Ecology joined the GFI's Coalition for the Energy Efficiency of Buildings in Dec 2019.

Bankers for Net Zero

The initiative is engaging with stakeholders across government, the Bank of England, the Financial Conduct Authority and the Competition & Markets Authority, to enable banks to successfully support their clients, accelerate the transition to net zero and deliver on the UK government's ambitions for addressing climate change.

Ecology also works to influence public policy, by responding to consultations on housing standards or working with Bankers for Net Zero and the Green Finance Institute on potential policy and solutions to increase financial institutions' support for retrofit.

Our current priorities are to:

- Reinforce the critical role of financial institutions to deliver net zero, at the Conference of Parties in Glasgow in November
- Work with partners in PCAF UK to continue to implement and further develop methods for carbon accounting of financed emissions for residential properties
- Continue to work with Bankers for Net Zero and the Green Finance Institute, to develop potential policy solutions to improve the energy efficiency of UK housing stock as a matter of urgency
- Work with partners in the Global Alliance for Banking on Values to develop impact reporting metrics, particularly for social impact
- Expand Ecology's links within the sustainable construction and renovation supply chains, to support innovation in materials, modern methods of construction, low-carbon heating and new digital technologies, to ensure housing is fit for the low-carbon future

Ecology's 2030 Strategy, which is currently being developed, includes a comprehensive stakeholder engagement strategy. Key stakeholders will be consulted, drawing upon their expertise and knowledge, and creating an opportunity to further align our activities.

Principle 5: Governance and Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

Ecology Building Society is a member-owned mutual. Ecology's purpose is enshrined in its Memorandum, and its mandate comes from the membership. The Board of Directors is responsible for the governance of Ecology, on behalf of the members. The Board works with the executive team to set Ecology's strategic and policy direction, acting in the best interests of its members in both their financial and ethical impact, and ensuring alignment with Ecology's mission and values. The Board, colleagues, members and key partners are currently co-developing the 2030 Strategy, guided by the Theory of Change, to accelerate Ecology's impact, as we respond to the climate and ecological crisis.

The Risk, Audit, Compliance and Ethics Committee has formal responsibility to ensure that systems of controls and governance reflects the values and ethics of Ecology. The Development and Strategy Planning Committee, consisting of all Board members, is responsible for formulating the future strategy of Ecology, ensuring alignment with the mission. The Board Lending Committee is responsible for lending policy, guided by Ecology's ecological approach, including the impacts of climate risk. To ensure the Board and its Committees have the appropriate balance of skills, experience and knowledge, Ecology uses a Board Skills Matrix. The Matrix includes industry or sector experience in sustainable development, charities and co-operatives:

- Sustainable building principles and practices
- Environment and climate change issues
- Working with co-operatives or social housing
- Working with a charity, a mutual or an ethical organisation

The Management Forum, consisting of the Executive colleagues and senior managers, has a regular agenda item on sustainability matters, underpinning the visibility and importance of Ecology's mission.

The actions of businesses have significant impacts on the environment and people, not just in terms of the products and services they offer, but in the jobs and opportunities they create, and in working conditions, human rights, health, innovation, education and training. Ecology is committed to being a responsible business, making a positive contribution to economic, environmental and social progress for all our stakeholders, including our members, our colleagues, our suppliers and counterparties, our partners, our local community, and society at large.

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. Ecology has a long-established policy of setting a limit for the ratio between the highest and lowest full time basic salary. The limit is 8:1.

Ecology combines its ecological lending policy with a comprehensive concern for the environment throughout all aspects of its operation. Accordingly, it seeks to minimise its own carbon footprint and makes a concerted attempt to ensure that its treasury operations do not conflict with the lending policy. Ecology's head office is an exemplar sustainable building, with solar thermal and PV, rainwater harvesting, permaculture gardens and electric vehicle charging points, where visitors and colleagues can charge their cars for free. Ecology also has a 'Cycle to Work' scheme and is exploring an electric vehicle leasing scheme for colleagues.

Ecology has a dedicated and extremely competent body of colleagues, many of whom have provided many years of service. Ecology invests in training and support of colleagues to ensure job progression and satisfaction, but also to increase understanding of Ecology's ethical and environmental nature, including the Certificate in Green and Sustainable Finance of the Chartered Banker Institute, and taking part in training and Summer Schools of the Institute for Social Banking. In 2020, Ecology created the new senior role of Sustainability Policy and Innovation Lead, to continue to embed sustainability across all activities and to drive forward innovative approaches to deliver its mission. Ecology also recruited a student intern in sustainability and communications, creating valuable work experience and sustainable development insights for the next generation.

Ecology has a proactive Social and Charity Committee, and colleagues are able to take up to three paid days per year to carry out voluntary charitable activities. The colleague Green Team organises activities and implements new ideas, empowering all Ecology colleagues to take sustainable action, including a programme of guest speakers on a range of subjects such as permaculture and energy efficiency, and community activities such as tree planting and litter picking. There is also a Gardening Club, where colleagues can enjoy looking after the permaculture gardens and growing fruit and vegetables. These colleague-led activities are an important part of the culture of openness and co-operation, collectively contributing to the ecological mission.

Principle 6: Transparency and Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

Openness is one of Ecology's values. As a member-owned organisation, Ecology strives to be open and transparent in meeting our corporate responsibilities. As well as meeting the legal and financial regulatory obligations, Ecology commits to delivering good customer outcomes and positive social and environmental benefits. Ecology has a relatively simple business model, of saving and lending, with a small portfolio of investments in renewable energy and cooperative initiatives. Ecology is subject to regulatory independent audit.

Ecology undergoes an annual independent audit and assessment of its environmental activities through the Investors in the Environment scheme. Ecology takes pride in continuing to achieve the highest level of 'Green' accreditation.

Ecology's annual carbon footprint from its operations is calculated by a specialist third party, drawing upon data on our energy and resource use, business travel and commuting. The carbon footprint has been reported each year in the Annual Report and Accounts since 2012. Ecology offsets the carbon emissions from its operations and colleague commuting through purchasing accredited carbon credits through Forest Carbon. Ecology has offset all its operational emissions since its inception in 1981.

In October 2019, Ecology joined the Partnership for Carbon Accounting Financials UK and has developed a plan of collaborative activity to apply and develop carbon accounting, to report on at the UN COP in November 2021. We have used the new Global Greenhouse Gas Accounting and Reporting Standard launched in November 2020. The Standard provides a harmonised method for financial institutions to calculate and report emissions arising from their loans and investments. We have focussed on emissions from our mortgaged residential properties, as our largest source, and disclose these emissions in our Annual Report and Accounts published in March 2021.

Ecology's Annual Review provides an overview of the lending each year, including the number of new loans in each category: new builds, renovations, conversions, shared ownership, housing co-operatives, woodlands, co-housing projects, community land trusts and houseboat moorings. It also reports the proportion of standard residential mortgage lending, compared to commercial, community gain, housing co-operatives, shared ownership, non-residential properties and woodland. In March 2021, our annual reporting discloses Ecology's financed emissions, arising from the mortgaged properties, for the first time. Ecology is the first building society to disclose its financed emissions.

The Positive Impact section of our annual reporting also summarises Ecology's wider impact-related activities and outcomes. One example of our positive impact reporting is our work to support innovation in sustainable housing and changing finance through our work with stakeholders such as the Green Finance Institute. The report transparently discloses the pay ratio, in line with our commitment to pay responsibly, with the ratio in 2020 being 6.58:1. Our annual reporting also includes member stories relating to our lending, and the positive social and environmental impact it has created. The Customer projects section of our website shows a selection of case studies of Ecology's lending, aiming to demonstrate the positive impact and also inspire and educate readers on sustainable building.

Ecology is committed to paying all the taxes that it owes in accordance with the spirit of all tax laws that apply to its operations. Ecology has adopted a Tax Compliance Policy Statement which is reviewed regularly by the Board. Since 2015 Ecology has received the Fair Tax Mark, a recognised accreditation which confirms that, as a good corporate citizen, Ecology actively welcomes paying its fair share of tax.

Ecology has a long-standing reputation as an ethical financial institution dedicated to creating sustainable homes and communities. This reputation has been retained thanks to our adherence to our mission, and our openness and accountability. As a building society, Ecology is accountable to our members to whom we ensure we communicate with fully on all aspects of our business performance, including how we are creating a positive impact and helping to deliver our mission. We also use members' surveys and have open channels of communication for members to welcome their views.

Our first progress report has summarised how Ecology is aligned with the Principles for Responsible Banking. We will continue to report annually on our progress, as we accelerate our mission to address the climate and ecological emergency.

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