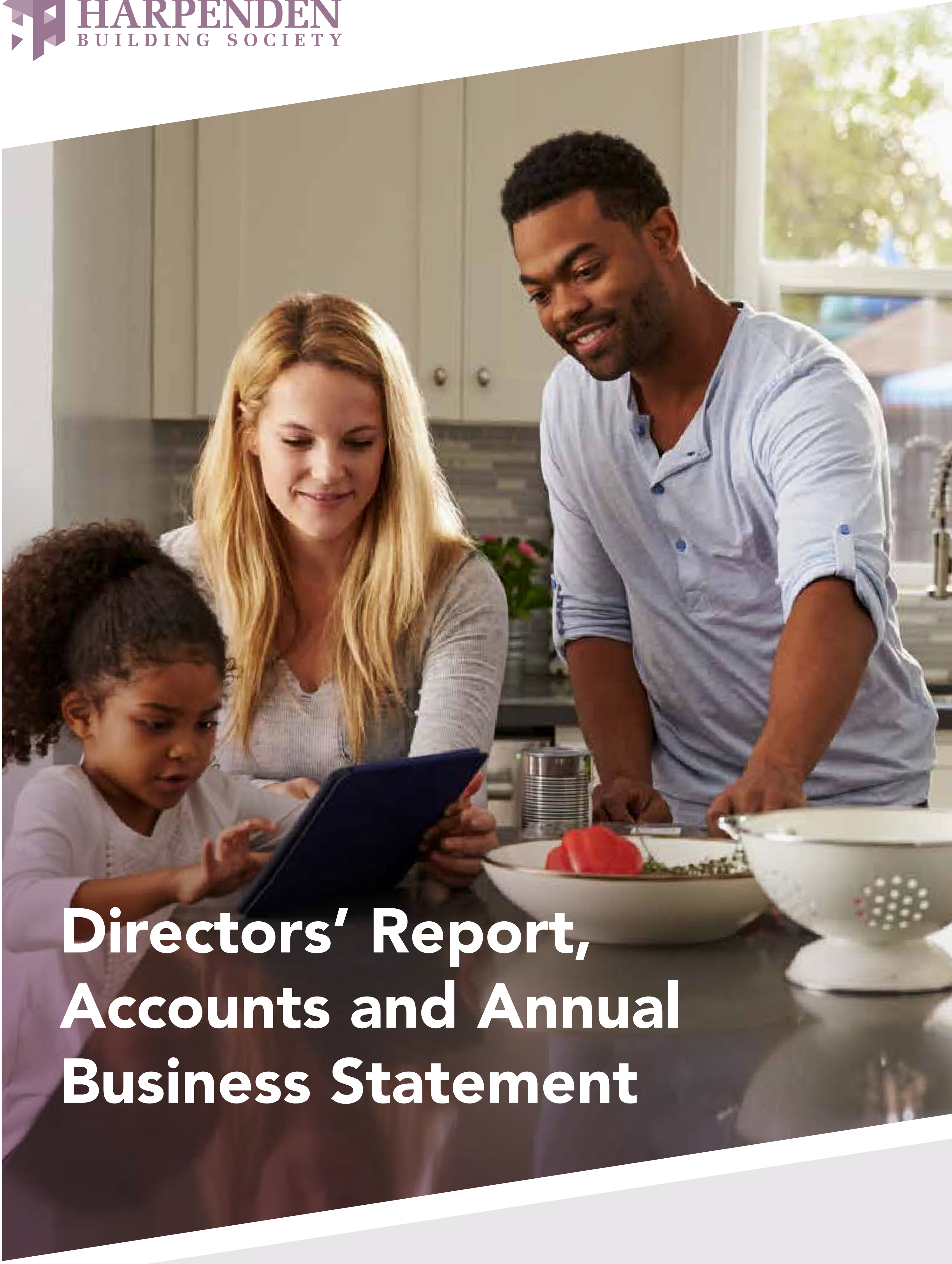
HARPENDEN
BUILDING SOCIETY



Directors' Report, Accounts and Annual Business Statement

For the year ended 31st December 2019

Contents

Society Information

Established and incorporated 1953
Firm Reference Number: 157260
Eligible for investments by trustees
Member of the Building Societies Association
Member of UK Finance

Head Office
Mardall House
9-11 Vaughan Road
Harpenden
Hertfordshire
AL5 4HU

Board of Directors

Stephen Richardson	Chair
Judith Mortimer Sykes	Vice Chair and Senior Independent Director
Peter Baynham	
Nigel Boothroyd (appointed 14 March 2019)	
Sarah Howe (appointed 14 March 2019)	
George McGrady	
Jill Robinson	
Mark Willis (appointed 25 April 2019)	

Senior Management

Roy Badcock	Society Secretary
Sarah Howe	Chief Executive
Martin Langlands	Chief Risk Officer
Katherine Logan	Head of People
Vikas Mawkin	Head of Finance & Treasury
George McGrady	Finance Director
William Purdy	Head of IT

Solicitors

Neves Solicitors LLP
Tollgate House
69-71 High Street
Harpenden
Hertfordshire
AL5 2SL

Bankers

HSBC Bank plc
1 High Street
Harpenden
Hertfordshire
AL5 2RS

Auditor

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
L1 4DA

Chair's Statement

"Our focus remains on delivering the products and services our members need, both now and into the future"

I am very pleased to have this opportunity to provide you with an update on the progress your Society has made during 2019.

Market and Economic Background

On a similar theme to my last review, we continue to operate in an uncertain economic and political environment. Whilst the results of the General Election, and subsequent signing of the Withdrawal Bill from the EU, has reduced some of this uncertainty, the negotiations now will focus on the future trade relationship with a challenging deadline set for the end of 2020. It therefore remains difficult to predict the economic impacts of Brexit in both the short and long term. We recognise the impact that the uncertainty surrounding Brexit can have on our business and have assessed the potential risks specific to the Society. Further details of these risks are considered within the Business Review on page 12 and as part of the commentary on our Principle Risks and Uncertainties on page 17.

The UK's economic position is exacerbated when viewed in the context of a slowing global economy. In addition, there is the short and medium term impact of the Covid-19 (coronavirus), which is becoming more significant. Until recently a more optimistic view had been forming with various economic and industry specific indices showing improvement. However, as I write my report, the financial markets have reacted to the impact of Covid-19, reversing this trend and the announcement by the Bank of England to reduce Base Rate by 0.50%. Our top priority is the health and safety of our staff, customers who visit our branches and visitors to our Head Office. We are closely monitoring the situation with regular meetings to discuss developments to ensure we can continue to meet our customer needs in the event of widespread impact from the virus.

During 2019, house prices (with some regional variations) have increased by a marginal 1%-2%, with unemployment continuing to be at a 'forty year low'. Figures from the Building Societies Association show net mortgage lending for Building Societies increased by 4.2% during 2019 and I am pleased to report that, at 8.3%, our mortgage book growth is significantly above this level.

The Bank of England Bank Base has remained at 0.75% throughout the year. Whilst there has been some media commentary of a potential for a reduction in the Bank Base Rate, the market's longer term central forecast remains for modest, gradual increases over the next two years.

Building a Robust, Sustainable Society

Against this backdrop, I can report that profit before tax was £0.7m for the year, which compares to £1.9m for 2018. I noted in my report to you last year that we had undertaken a strategic review of the business and, as a result, that we would be investing more of our future profits to modernise, improve and grow the Society for the long term benefit of our members and customers. 2019 was the first year of this programme of change and increased costs. As part of the strategic review, we have identified the following primary objectives:-

- To develop and strengthen the people skills in the Society to meet our future needs, as defined by our customer feedback, regulatory standards and the competitive landscape.

Chair's Statement

- To ensure that we continue to offer products and services that deliver to the highest quality standards with strong governance, risk controls and culture throughout the business.
- To invest in developing relevant new products and services to continue the growth of our mortgage lending, supported by new savings products.
- To improve costs and efficiency through the increased application of technology, for both our internal processes and the ways that customers can access our services.

We remain committed to ensuring your Society has a long term future as an independent regional building society which continues to be relevant to its members and customers and offers them good value.

Mortgages and Savings

During the year, gross lending was £65m, with net lending of £18m, which translates to an 8.3% growth in our mortgage book. This has resulted in a reduction in the historic high levels of liquidity and a rebalancing of our funding to support lending activity. We are now positioned to reassess the range of savings products we offer and, towards the end of last year, we launched a new 90 day notice account and 2 year fixed rate bond at competitive rates. We will continue to review and refresh our range of savings products, which we recognise have been very limited over recent years.

We continue to manually assess and underwrite each mortgage with a technical expertise that remains key to the long term success of our business. It ensures that we can meet the specific needs of our customers and take advantage of our specialist knowledge to manage credit risk. We continue to see low levels of arrears and we have had no property repossessions during 2019.

Board Changes

Since my last report, we have made a further change to the Board with Mark Willis joining as a Non-Executive Director and becoming Chair of Risk Committee. Mark brings significant experience having spent his career in financial services, most recently as Chief Risk Officer at National Counties Building Society.

I would like to take this opportunity to thank Paul Smith, our previous Chair of Risk Committee, who resigned from the Board in July 2019. Paul has served as a Non-Executive Director since 2011, during which time he has Chaired Audit, Risk and ALCO Committees and been an active member of the Board. We all send Paul our best wishes for the future.

Employees and Management

We recognise the need to attract and retain talented people and have therefore recruited a number of new employees during 2019, with a small number of additional specialist roles required during 2020.

Looking Forward

Providing a personal service to our mortgage and savings customers remains at the core of who we are and this has allowed the Society to build its strong capital base. In a world that increasingly uses technology, the Society needs to invest in and develop the business to enable it to grow and prosper. However, we see digital enablement as a means to support the business and improve the customer experience. Our focus remains on delivering the products and services our members need, both now and into the future.

We also believe that, as your local building society, we have a part to play in supporting the local communities where we operate and we have taken this opportunity to give you a summary of some of our involvement in local community projects over the past year later within this Report.

Finally, I would like to take this opportunity to thank all our members, customers and professional partners for their support over the past year.

I would also like to thank all our employees across the Society whose dedication and hard work has enabled the Society to provide the highest levels of service to our members.

Stephen Richardson
Chair
13 March 2020

Chief Executive's Review

"A year of change and new beginnings"

I am delighted to write my first Chief Executive's report reviewing 2019. We have had a very busy and productive year, delivering for our customers, continuing our growth and investing in necessary change to ensure we have a long and sustainable future for the benefit of current and future members.

Market Conditions

The Chair has already touched upon the challenging market conditions in his statement. As CEO my overriding view of 2019 was one of a great deal of uncertainty for individuals and businesses alike. With so many potential scenarios that could play out and the consequential effects for the financial services industry, it was no surprise to see regulatory requirements further tighten for banks and building societies to ensure that the UK financial system continues to operate safely and soundly in the event of a severe economic shock occurring. For a small Society such as Harpenden this translates into a need to invest in further strengthening the skills and capabilities of our team so that we continue to meet the heightening regulatory expectations. The impact of this in the short term is on the cost base. However such investment not only provides further protection for our customers from potential shocks to the financial system, it also means that we benefit from an exciting array of new talent to further contribute to the continued growth and success of the Society.

Building our society for the future

The whole Society comes together twice a year to share openly how we are performing; the successes and challenges, as well as looking forward to the exciting opportunities ahead of us.

In May, we shared research insights about our membership to understand how we can continue to shape our proposition for both existing and future members. We also discussed our people and organisational culture and our longer term aspirations. In November we took time to look back at all we had achieved as a collective team over the course of the year. Despite it being an incredibly busy and at times challenging year, we do have much to celebrate which I will touch upon briefly, focussing on our People, Members and Customers, Performance and Community.

Our people

People are the lifeblood of the Society and as a new CEO it was important for me to have a good understanding of how we can improve as an employer by simply asking our people. Through focus groups it became clear that the Society will be most effective if we have good channels of communication, that we actively listen and take action where needed, we have focus on our customers and are consistent in our approach to people practices. The people strategy that underpins the overall Society goals has a core objective to earn a reputation for being a great place to work. In 2019 a new salary and benefits benchmarking review has been completed, we implemented an enhanced performance review process , introduced a consistent induction experience for new joiners, delivered an intranet system, held wellbeing events and introduced a new 'dress for your day' policy. We have more enhancements to come in 2020 providing opportunities for career development from upskilling to new secondment roles as well as upgrades to staff welfare facilities.

Members and Customers

A key priority for the leadership team in recent years has been to restructure the balance sheet to a position where we are able to launch new products for our saving and borrowing members. We achieved the balance by mid-year enabling the launch of new mortgage and savings products in the second half of the year.

Chief Executive's Review

We will continue to develop and launch new products throughout 2020 to include innovative product options based on customer preferences. We have also invested in upgrading and updating our website which offers users new features, a better navigation experience whilst also offering enhanced security. It is vital for our members that we continue enhancing security safeguards to combat the risk of cyber-crime, which continues to evolve and become more sophisticated. We have also been seeking ways to make the customer journey easier and more customer friendly, an example being an improvement to the dormancy process based on customer feedback.

I am delighted that in 2019 we were voted Best Local Building Society in the What Mortgage Awards for the 5th year running and also awarded best Children's Savings Account provider in the Personal Finance awards. Recognition from external bodies is always a welcome boost for our hardworking teams and something we are very proud of. We are also extremely proud of our customer satisfaction score, which is 97% for the year.

In 2020 we will be investing further in market research using focus groups to gain even deeper customer insight so that we can better understand what member's value and the choices open to us to further improve the Society's appeal to new and existing members.

Performance

2019 was our year to get the balance sheet 're-balanced', with future increases in lending and savings now expected to be more closely aligned. We also planned to continue to grow the total mortgage assets, having achieved a growth in 2018 of over 7%. With Brexit very much an unknown, we experienced a slow first quarter followed by an exceptionally strong rest of the year. We achieved growth of 8.3% which surpassed our stretch ambition and the prior year performance. The team were relentless in getting our mortgage message out to brokers, bringing on new distribution networks, launching new products and delivering more marketing. Mortgage rates did come under pressure with fierce competition coupled with a better than planned retention of existing borrowers at lower rates however we maintained a healthy net interest margin overall, albeit slightly below our plan.

The challenge for 2019 was shouldering an increase in our costs as we took decisive action during the year to invest now for future benefit. We engaged with technical experts to ensure that we have a robust approach to tightening regulatory requirements, we invested in new roles to support the business strategy and also we had changes to the Board and senior team whilst also investing in premises and infrastructure.

A number of these costs were one off by nature and will not repeat in future years, however it has been essential to invest so that the Society remains in a good position to meet the ever increasing demands placed on a financial services business.

Community

As a mutual, the impact of our Building Society is much wider than its member base. Our people and our members value the wider contribution we make to the local community. The Society has a strong legacy of charitable giving through employee donations, Society donations and fundraising events. The Society has an endowment fund operated through the Hertfordshire Community Fund, and since inception has helped more than 10,000 local people. The endowment fund now stands at over £400k which means that the Society can continue to contribute for many years towards making a substantial difference to people's lives in and around our region.

In 2019 the charities we supported included Youth Talk, a charity that supports young people, predominantly teenagers, battling with mental health and anxiety issues. We have also supported local schools through a bank and money manager scheme, attended local Carnivals and contributed towards the upgrade of the Harpenden Cricket Club so that the local community and competing teams can enjoy decent changing and refreshment facilities.

Looking forward

There is no doubt that the mortgage and savings market will continue to be somewhat unpredictable. The current impact on financial markets from Covid-19 adds to the level of uncertainty we currently face with a cut in Base Rate to 0.25% recently announced by the Bank of England. What we do know however is that competition will remain fierce with an increasing number of challenger banks competing for their share of the market. Competition for funds and lending growth is already squeezing the net interest margin particularly for larger banks and building societies. Thankfully we do not have all of the challenges at our Society that others are wrestling with however there is no room for complacency. We will remain focussed, continue to invest for the future and maintain our low risk appetite.

I would like to thank the Board and the Society for their warm welcome to me and I do hope that in 2020 I will be able to meet with more of our members to hear directly what you want from your Society.

Sarah Howe

Chief Executive

13 March 2020

Your Board of Directors

Stephen Richardson

Chair

Stephen joined the Society as a non-executive director in January 2014 and was appointed Chair in June 2016. He is a member of the Society's Remuneration & Nominations Committee.

Stephen brings a wealth of strategic leadership to the organisation and has over 35 years of management and leadership experience in financial services at Barclays, Flemings and the Bank of New York, where he was Chief Operating Officer for Europe.

He was Global Head of Wealth Management at the World Gold Council (trade body for global gold mining companies) covering China, India, Europe and the USA until mid-2013. Stephen now has a range of non-executive and advisory/consulting roles.

Judith Mortimer Sykes

Vice Chair

Judith joined the Society in October 2011, and was appointed Vice Chair in March 2014 and became Senior Independent Director in January 2016. She is the Chair of the Society's Remuneration & Nominations Committee and a member of the Audit & Compliance Committee.

She is an experienced non-executive director with substantial and varied board experience of corporate governance, strategy and risk.

Judith has significant financial services experience which has encompassed corporate banking at Bank of America. She also has extensive experience of retail banking in the mutual sector including six years as Head of Lending Control at the Nationwide Building Society where she spent 18 years of her career.

Peter Baynham

Non-Executive Director

Peter joined the Society as a non-executive director in November 2014 and chairs the Society's Audit & Compliance Committee. He is also a member of the Risk Committee.

He is a Chartered Accountant and has previously held a number of senior positions in both financial services companies and other organisations. Until his retirement in 2011 he was, for over 10 years, a Partner in Mercer, the international consulting firm.

Peter holds a number of other non-executive positions including three other positions as Chairman of Audit and Risk Committees. He is a trustee of ABF The Soldiers' Charity.

Nigel Boothroyd

Non-Executive Director

Nigel joined the Society as a non-executive director in March 2019 and is a member of the Risk Committee and Remuneration & Nominations Committee.

He has significant executive-level experience within financial services, having spent some 38 years at HSBC Group. He has carried out a number of senior roles, with experience of Corporate and Commercial Banking; Credit Risk; Operational Risk; Retail Banking and Wealth Management. Nigel has served on a number of Executive and Risk Committees within the UK, Europe and North America. He was also the National Head of Corporate Banking with HSBC Canada between 2012 and 2015.

Nigel is currently the Chair of the Risk Committee at Redwood Bank and the Senior Independent Director at Reliance Bank.

Your Board of Directors

Sarah Howe

Chief Executive Officer

Sarah joined the Society in January 2019 from Saffron Building Society where she was an executive director.

With over 30 years' experience, Sarah has worked for market leading organisations in financial services and the retail home shopping sector. Sarah was the Chief Customer Officer at Saffron Building Society having joined them in 2013. Prior to that she was the Marketing Director for RIAS PLC (general insurance) and Chief Marketing Officer for Bupa where she worked for 10 years.

Sarah held the position of Independent Chair of the Openwork Client Panel, until recently. Sarah held this post from January 2017 until December 2019, which marked the end of her three year appointment. The panel is advisory with focus on customer outcomes and providing recommendations to the board of Openwork Holdings Limited.

George McGrady

Finance Director

George joined the Society as Finance Director in May 2016 and joined the Board in January 2017.

George provides the Society with financial oversight and has been an active leader for the Society's strategic financial direction based on financial strength, sustainability and member value. His strong background means that he is also a key member of the leadership of the organisation.

He is a Chartered Accountant with a wealth of financial experience gained through extensive periods at a number of organisations including KPMG and, most recently, as Chief Financial Officer of Hornbuckle, the UK's largest independent pension administration provider. George has a strong background in the mutual sector having collectively spent 12 years with Nationwide and Lambeth building societies.

Your Board of Directors

Jill Robinson

Non-Executive Director

Jill joined the Society as a non-executive director in September 2016 and is a member of the Risk Committee, Audit & Compliance Committee and the Remuneration & Nominations Committee.

She has gained considerable experience as Operations and Finance Director within large multi-national financial services companies and has a proven track record of transforming operations for the benefit of customers to align with corporate strategy.

Jill has held several senior roles including Transformation Director for Prudential plc, Head of Customer Service Delivery for Mercer and, more recently, Finance and Outsourcing Director dealing with the sale of Marine and General Mutual.

Mark Willis

Non-Executive Director

Mark joined the Society as a non-executive director in April 2019 and is currently chair of the Board Risk Committee and member of the Audit & Compliance Committee.

Mark has spent his career in financial services, most recently as Chief Risk Officer at National Counties Building Society which he joined in 2013. Previously, he served in a number of both operational and oversight roles in financial risk management at Nationwide Building Society (including Head of Market Risk) and with Nationwide Pension Fund as trustee.

Mark is currently a Reader in the Church of England and trustee of the National Counties Pension Fund.

He graduated in PPE from Keble College, Oxford and is qualified as a Chartered Accountant and Corporate Treasurer. He also holds the PMI Award in Pension Trusteeship.

Directors' Report

The Directors have pleasure in presenting their 67th Annual Report and Accounts for the year ended 31 December 2019.

Business Review

Sarah Howe joined the Society in January 2019 and, following a strategic review, the Society has commenced a period of change. The Society has also employed a number of new Senior Managers, to lead their respective departments.

Against the backdrop of uncertain lending and economic conditions, the Society continues to experience strong mortgage book growth and highlights that the Society has responded well to the challenges.

Profit after tax was down, at £555k (2018: £1,574k), driven by a decrease in net income to £7.1m (2018: £7.3m) and a c.15% increase in administrative expenses, due to an increase in staff costs and management expense. The additional staff costs are as a direct result of strengthening the people capability to meet the Society's future needs with additional management expenses including investment in technical and regulatory specialists and strategic consultancy support.

The Directors assesses the risks facing the Society and has reviewed the impact of Brexit on our business. Following the United Kingdom's decision to leave the European Union on the 31 January 2020 and the relationship with the EU now being re-established through ongoing political discussions and trade negotiations. The political landscape has an impact on the economic conditions and the demand for lending. The Society has a strong capital base to manage any future macroeconomic obstacles as a result of consequences of the UK leaving the EU.

The Society continues to focus on its core objective, namely, to provide a competitive mortgage range funded by retail savings, predominately through members local to our branch network. Despite the adverse conditions referenced above, this strategy has helped to grow the mortgage book by c.8.3% over the year (2018 7.3%) The average mortgage rate decreased over 2019 whilst savings rates marginally increased, resulting in a reduction in net interest margin to 2.64% (2018 3.03%).

Whilst the mortgage book has increased, the overall balance sheet has contracted by c.3.3% over the year, largely due to existing liquidity being utilised to fund mortgage book growth. We have previously noted that the Society has high levels of liquidity and we have continued to actively manage our liquidity levels downwards. The overall funding base has significantly reshaped and during 2019 we completed this essential rebalancing requirement that underpins the Society's long term financial strength.

The Bank of England's Bank Base Rate (BBR) remained at 0.75% throughout 2019. The Society assesses various factors when considering rate changes, one of which is the BBR, but other factors include competitive pressure, funding requirements, liquidity position, growth expectations and also balancing the competing needs of both mortgage and savings customers.

The Society strives to provide fair interest rates for both mortgage and savings customers, in the context of the reshaping of the funding base. From a savings perspective, the Society's average interest rate continues to be in excess of BBR and we consider the rates to be competitive in the marketplace. However, the market is fluid and is therefore monitored closely for change.

Directors' Report (continued)

Key Performance Indicators

The Board and Executive monitor all aspects of the Society's financial performance on an ongoing basis. The key performance indicators (KPIs) used as measures are set out below and disclosed in more detail in the following pages:

Mortgage Asset Balances

2019	**£230.3m**
2018	£212.6m
2017	£198.0m
2016	£201.0m
2015	£198.1m

Total Assets

2019	**£296.3m**
2018	£306.6m
2017	£314.7m
2016	£316.9m
2015	£307.3m

Share Balances

2019	**£263.1m**
2018	£273.2m
2017	£282.4m
2016	£285.6m
2015	£275.3m

Liquid Assets as a Percentage of Shares and Borrowings

2019	**22.9%**
2018	32.1%
2017	39.0%
2016	38.1%
2015	36.9%

Profit After Tax as a Percentage of Mean Total Assets

2019	**0.19%**
2018	0.51%
2017	0.52%
2016	0.60%
2015	0.33%

Management Expenses as a Percentage of Mean Total Assets

2019	**2.11%**
2018	1.82%
2017	1.62%
2016	1.47%
2015	1.48%

Cost: Income Ratio

2019	**90.1%**
2018	76.9%
2017	70.4%
2016	66.8%
2015	74.8%

Capital

2019	**£28.1m**
2018	£27.8m
2017	£25.7m
2016	£24.1m
2015	£22.2m

Gross Capital as a percentage of Shares and Borrowings

2019	**10.5%**
2018	10.0%
2017	8.9%
2016	8.3%
2015	7.8%

Free Capital as a percentage of Shares and Borrowings

2019	**9.1%**
2018	8.6%
2017	7.7%
2016	7.0%
2015	6.6%

Customer Satisfaction Score

2019	**97%**
2018	96%
2017	95%
2016	92%

Staff Satisfaction Score (out of 5)

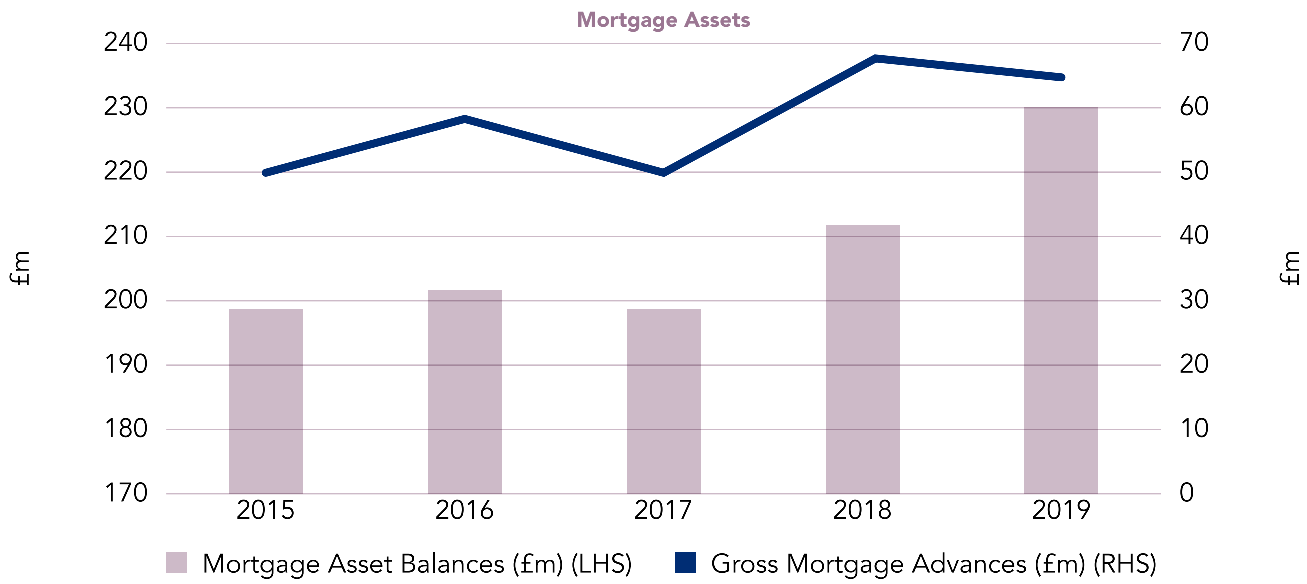
2019	**3.6**
2018	3.6
2017	3.9
2016	3.8
2015	3.6

Directors' Report (continued)

Mortgage Asset Balances

The provision of mortgage finance for the purchase of owner-occupied residential property is the key objective of the Society. The Society continues to lead the way in finding pragmatic solutions to complex mortgage lending situations and has built a reputation for expertise and service excellence in this specialist part of the market. We continue to offer an individual approach to underwriting and take the time to understand borrower's circumstances and assess the affordability of each mortgage in a prudent and sensible manner.

During the year, £65.3m was advanced to new and existing borrowers (2018: £66.4m). With redemptions being £4.5m lower than 2018, net lending increased to £17.7m (2018: £14.3m increase). This translates into the total mortgage book size increasing by c.8.3% (2018: 7.3% increase).



As at 31 December 2019, there were no mortgage accounts that were 12 months or more in arrears (2018: none). The Society had mortgage arrears balances greater than 3 months old at 31 December 2019 of 0.33% (2018: 0.40%), compared to a UK Finance industry average of 0.78% (2018: 0.79%). In addition, at 31 December 2019 the Society had no properties in possession (2018: none).

The Society may consider offering forbearance to mortgage borrowers who experience temporary payment difficulties as a result of serious illness, a change in employment circumstances or a significant life event. Arrangements considered include payment holidays, change in payment basis from repayment to interest only or amendment of the mortgage term. All arrangements are temporary and are regularly reviewed. At 31 December 2019, the Society offered such forbearance to eight borrowers (2018: four), representing a total mortgage balance of £1.3m (2018: £0.3m). Four of these cases were in arrears (2018: two), the value of arrears was £1k (2018: £1k) and the capital balance was £610k (2018: £89k). These loans are considered within the Society's individual and collective mortgage provisioning modelling as described below.

Impairment Provisions

Individual provisions are made for loans and advances on a case-by-case basis to cover anticipated losses in respect of all accounts that have been identified as impaired. Anticipated losses on such accounts are calculated as the difference between the estimated current achievable market value of the security and the outstanding loan balance, after making appropriate allowance for costs.

A collective mortgage provision is made against mortgage advances which have not been specifically identified as impaired but where general experience and market conditions may indicate that losses may ultimately be incurred.

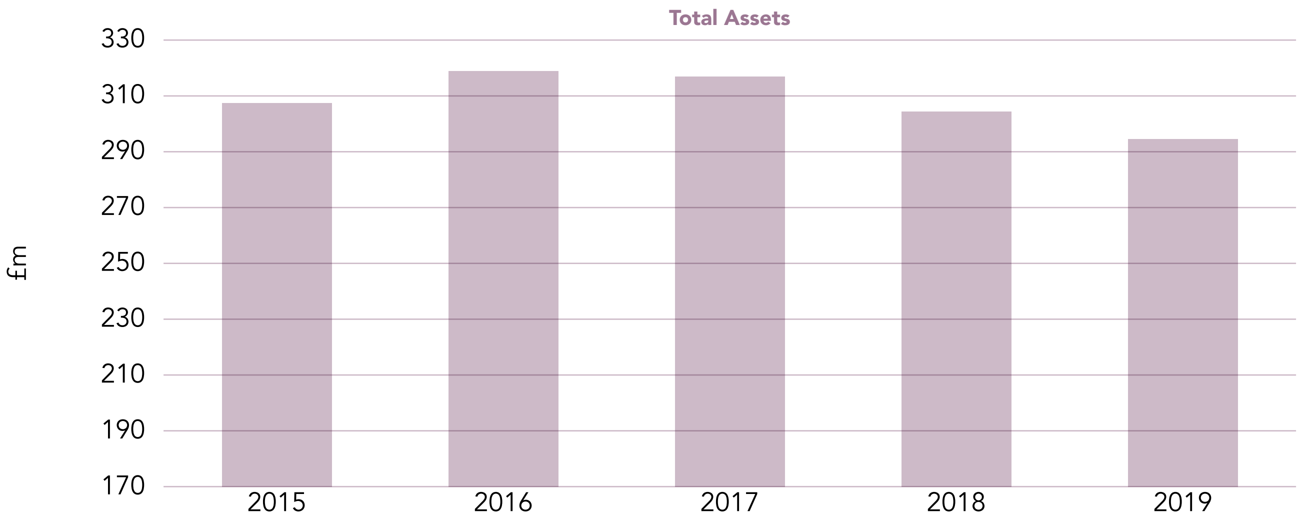
In aggregate, the impairment provisions have decreased by £56k to £228k. At a more granular level, there were no individual impairment provisions at year end with the net reduction due to a movement in the

Directors' Report (continued)

collective provision. This reduction is based on a review of the underlying default assumptions and reflects the low level of arrears and defaults within the Society's lending book.

Total Assets

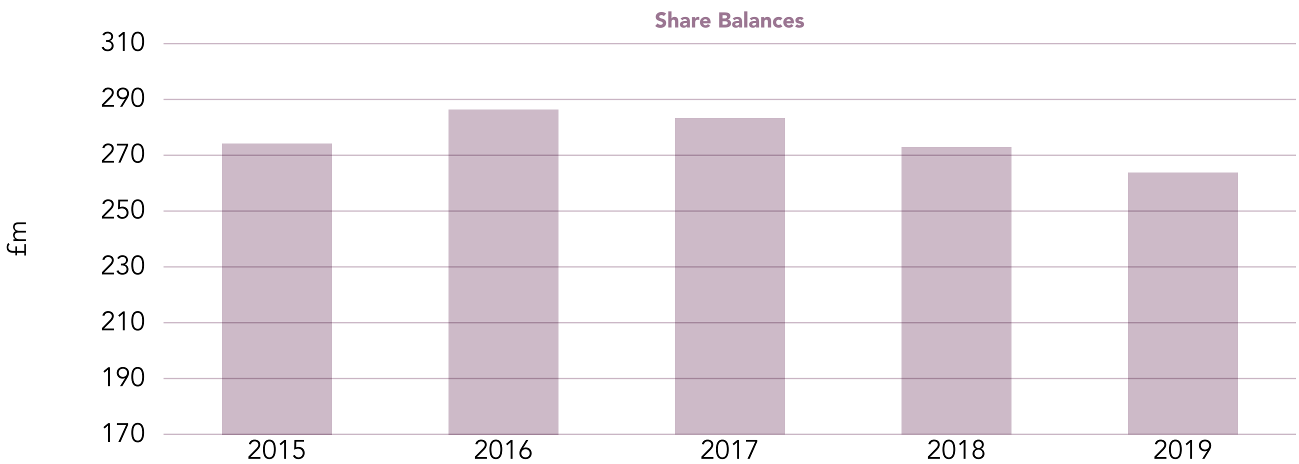
The Board considers that long term balance sheet growth, underpinned by increasing capital reserves improves the Society's strength and long term stability. However, in the short term, the Society has been utilising the historic high levels of liquidity to support lending. Additional funding has therefore not been required, with overall savings levels marginally reducing, as part of the 'rebalancing' of the balance sheet. As a result, total assets decreased by £10.3m (2018: £8.1m decrease) to £296.3m (2018: £306.6m), as at 31 December 2019, a decrease of 3.4% (2018: 2.6% decrease).



Share Balances

The Society strives to provide competitive interest rates in a sustained low interest rate environment. The Society continues to maintain an average savings rate that is in excess of the current Bank of England's Base Rate.

The Society aims to maintain a stable and sustainable funding base that meets the Society's lending requirements through the provision of straight forward products that are consistently priced for all members. As noted above, the Society has historically held high levels of liquidity and this has been further managed down over the year through a combination of increased mortgage lending and a 3.7% reduction in share balances (2018: 3.3% decrease) to £263.1m at 31 December 2019 (2018: £273.2m). It is considered that the rebalancing has largely been completed and new products were launched towards the end of 2019 with further product launches planned for 2020.



Directors' Report (continued)

Liquid Assets as a Percentage of Shares and Borrowings

Liquidity ratios are monitored to ensure that they remain within Board approved limits and that adequate cash is held to meet liabilities as they fall due. In 2019, liquid assets reduced by £28.1m to £61.1m (2018: £89.2m) with the liquid asset ratio decreasing to 22.9% (2018: 32.1%).

The Society considers it has had an elevated liquidity position over recent years. As such, action has been taken to address share inflows and reduce liquidity. As noted above, these actions are now largely complete with liquidity now at a level that supports the needs of the business.

Profit After Tax as a Percentage of Mean Total Assets

Accumulated profit after tax is the key source of additional capital for the Society and sufficient profit must be made to ensure its ongoing financial strength. The Society's overall margin and profitability are strong and ensures that future growth in lending can be supported.

The Society has been adversely impacted by the reduction in margin and increase in costs in 2019, with profit after tax reducing by 65% to £555k (2018: £1,574k).

Management Expenses as a Percentage of Mean Total Assets

This ratio measures how productively the assets of the Society are used. The ratio has increased during the year to 2.11% (2018: 1.82%). The increase is due to a combination of total assets reducing and, as referenced above, the upward pressure on costs. The increase in costs reflects a combination of inflationary pressures, particularly with a significant element of management expenses relating to staff costs, as well as the increasing infrastructure, compliance and regulatory costs required by all regulated financial institutions.

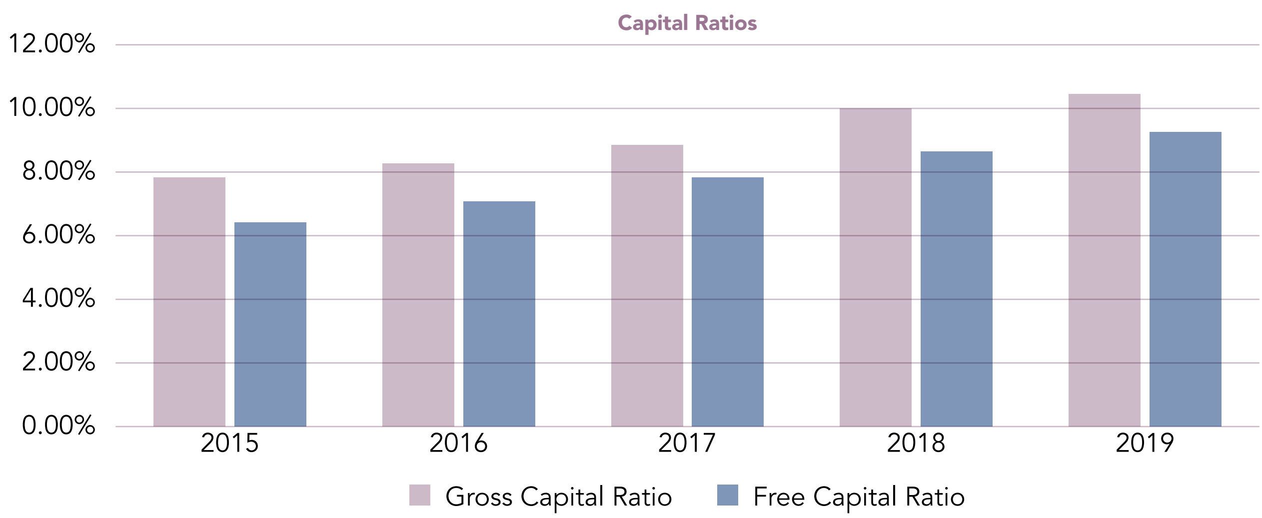
Cost: Income Ratio

The cost income ratio compares the operating costs within the business with the income that it generates and therefore it is a measure of how efficiently the Society utilises its resources. Similar to the previous measure the increase in the ratio to 90.1% (2018: 76.9%) is driven by the increase in the Society's staff cost base and professional fee management expenses, compounded by decrease in net income driven by the decrease in the interest margin.

Capital

The Society generates capital to protect against risk and provide long-term security for members and the Gross and Free Capital ratios are monitored accordingly. These ratios are defined in the Annual Business Statement on page 73.

As a result of the profit after tax, the Society's capital ratios have continued to increase in 2019, thereby improving the core financial stability of the Society.



Directors' Report (continued)

Customer Satisfaction

We actively seek direct feedback from both our borrowers and savers and undertake regular monitoring of both our overall performance as well as a review of specific comments to continue to improve our service. The customer satisfaction score is a weighted average of our performance based on the percentage of all feedback from both borrowers and savers that rate our overall service as "good" or better. This measure has been in place since 2016 with a year-on-year improvement and a 2019 Customer Satisfaction score of 97%.

Staff Satisfaction

Each year we conduct a Society wide survey for all staff to feedback their views on a wide range of areas with the overall staff satisfaction score representing a weighted average of the scores. We receive very high engagement as part of this process and the comments raised allow Senior Management to address any areas of concern or recommendations for improvement. In 2019 the Staff Satisfaction survey remained consistent with 2018 at 3.6. Action plans to address feedback from the survey are being developed.

Financial Risk Management Objectives and Policies

The Society has a formal structure for managing risk including establishing risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Board. Full details of the Society's approach to financial risk management and the key risks faced are given in note 26 to the accounts.

Principal Risks and Uncertainties

The Society has a formal risk management structure underpinned by an Enterprise Risk Management Framework (ERMF) and supported by a Risk Appetite Statement. The risk management structure also includes its Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), policy statements, exposure limits, mandates and reporting lines together with an active and regular risk review process to mitigate risks.

Disclosure of the adequacy of the Society's capital, including Total Capital Requirement, is made in a document called Pillar 3 Disclosures. The latest document is available on our website; www.harpendenbs.co.uk. The principal risks and uncertainties arising from the Society's activities, and the Board approved policies and procedures put in place to manage them, are described below.

Brexit Uncertainty

The Society is subject to the uncertainties resulting from the impact of the Brexit negotiations. This is covered in some detail within the Business Review on page 12. In summary, the Society considers that the credit risk impact of deteriorating economic conditions is assessed as relatively low with the key area of focus being the impact on mortgage book growth in the short to medium term.

Credit Risk

The Society is exposed to credit risk in respect of either mortgage customers or treasury counterparties being unable to meet their obligations as they fall due. All loan applications are assessed with reference to the Society's lending policy and lending mandates are strictly controlled. The Lending Policy is reviewed by Credit Committee and approved by the Risk Committee. The Society does not take a 'tick-box' approach to lending, rather, the Society ensures that the unique position and inherent risks of each application received are fully understood and assessed.

In addition, the Liquidity and Funding Policy includes limits on credit exposures to individual and groups of counterparties driven by credit ratings and an internal due diligence process. Whilst credit ratings can provide an indication of the creditworthiness of a counterparty, the Society supplements this information with market knowledge to generate a more complete view of its counterparties.

Directors’ Report (continued)

Liquidity Risk

Liquidity risk is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties. The Society’s policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can cover all fluctuations in funding, retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations. This is achieved through maintaining a prudent level and sensible mix of liquid assets and through control of the growth of the business to provide flexibility in the management of liquidity. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows. The Liquidity & Funding Policy is regularly reviewed and approved by the Risk Committee.

Interest Rate Risk and Basis Risk

This is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates. This also assesses the basis on which interest is payable and receivable, impacting on profitability and the value of the Society’s assets and liabilities.

The Society manages this exposure continually by matching the maturity dates of assets and liabilities in line with its Financial Risk Management Policy, which is regularly reviewed and approved by the Risk Committee. A detailed analysis of the Society’s interest rate sensitivity at both 31 December 2019 and 2018 can be found in note 26 on page 69.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Society has controls in place which are designed to mitigate these risks. The Risk Committee is responsible for assessing the effectiveness of the risk management processes and the system of inspection and control.

Cyber Risk

This is the risk that a cyber-attack results in financial loss, loss of data, business disruption or damage to the reputation of the Society due to the failure of its information technology systems.

Cyber risk is a key component of operational resilience and the Society has a Business Resilience Committee, which is as a sub-committee of the Executive Operations, Risk & Compliance Committee, to manage the threat of these risks. During the year, the Business Resilience Committee reports its findings to the Risk Committee and the Board. The Society has employed specialist resources to monitor, test, maintain and continuously improve the effectiveness of the Society’s cyber defences and operational resilience.

Conduct Risk

This is the risk arising from the Society’s conduct in its direct relationship with retail customers such that the customer may be treated unfairly or that the Society may deliver an inappropriate outcome. Customer service and outcomes have always been at the heart of decision making and product design at the Society. The Society continues to develop its approach to ensure that products and services provide fair customer outcomes and operate as customers and members would expect.

Directors' Report (continued)

Environmental and Climate Change Risk

During 2019 the Society undertook a detailed assessment of the risks and threats posed by climate change. Risks were captured for both physical risk (such as fire and floods) and transitional risk (moving to a 'carbon neutral' society) with work in progress to assess existing controls in place to manage those risks within existing Board risk appetite.

Regulatory Risk

This is the risk that the volume and complexity of regulatory issues may impact the Society's ability to compete or the Society breaches a regulatory requirement. The Society has policies and procedures in place to ensure compliance with the regulations and the Board monitors regulatory changes to ensure the Society continues to meet all of its regulatory requirements.

Directors

The following persons were Directors of the Society during 2019:

S. Richardson (Chair)
P. Baynham
N. Boothroyd (appointed 14 March 2019)
S. Howe (appointed 14 March 2019)
D. Jervis (resigned 15 February 2019)
G. McGrady
J. Mortimer Sykes (Vice Chair and Senior Independent Director)
J. Robinson
P. Smith (resigned 31 July 2019)
M. Willis (appointed 25 April 2019)

Other Matters

Creditor Payment Policy

The Society's policy concerning the payment of its trade creditors for the next financial year is to pay in accordance with agreed terms where invoices are submitted for products or services which have conformed to requirements specified by the Society. Amounts due to the relevant creditors of the Society are paid on average within 21 days of receipt of invoice (2018: 21 days).

Charitable and Political Donations

The Society continues to operate the HBS Hertfordshire Community Foundation Trust. The balance in this fund at 31 December 2019 was £442k (2018: £442k). Additionally, funds in the HBS Charitable Trust, held at the Charities Aid Foundation to be used for the benefit of the community and local charities nominated by the Society totalled £34k as at 31 December 2019 (2018: £63k). During the year, £29k was donated through this foundation.

Charitable donations during the year amounted to £2k (2018: £2k). In addition, the incentive of charitable contribution of £1 for each member vote at the Annual General Meeting in April 2019 produced £1,704, (2018: £1,746) which was donated to MIND.

The Directors confirm that no activities have been carried on during the year, which are outside the powers of the Society. No political donations have been made during 2019 (2018: £nil) which require disclosure under the Act.

Directors' Report (continued)

Events Since The Year End

There have been no post Balance Sheet events that would have a material effect on the financial position of the Society.

Going Concern

The Directors have prepared forecasts of the Society's capital, financial and liquidity position for the period ending 12 months from the date of approval of these financial statements. The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions. The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the annual accounts.

Auditor

During the year, the Society's Audit & Compliance Committee instigated a re-tendering of the external audit service. After a robust process that was led by the Audit & Compliance Committee, Mazars LLP was successful in their proposal to replace KPMG LLP as the Society's Auditor. In accordance with Section 77 of the Building Societies Act 1986, a resolution for their appointment will be proposed at the Annual General Meeting.

Country-by-country reporting

The country-by-country CRDIV reporting requirements can be found in note 30 on page 71. The purpose of this reporting is to provide clarity on the source of the Society's income and the location of its operations.

Acknowledgements

The Directors wish to record their appreciation to the management and staff, as well as all our members, customers and professional partners for their continued support.

On behalf of the Board of Directors

Sarah Howe

Director and Chief Executive
13 March 2020

Corporate Governance Report

In July 2018 the Financial Reporting Council updated the UK Corporate Governance Code, which applies to companies listed on the London Stock Exchange. The Directors are committed to having regard to best practice in corporate governance and whilst we are not required to follow the code, the Directors have considered the code's recommendations and this report explains to customers our approach to corporate governance.

Strategic Leadership

The Board

Code Principle: Every company should be headed by an effective Board, which is collectively responsible for the long-term success of the Company and contributing to wider society. It should establish the company's purpose, values and strategy and satisfy itself that these are aligned with its culture.

Board comment:
Your Board is committed to the principles of mutuality and good corporate governance. The Board meets regularly to review performance against strategic and operational objectives. In addition the Board has the following general responsibilities:

- providing overall leadership of the Society, including setting and monitoring its culture and values
- managing the business of the Society, ensuring that the business model remains appropriate with a sustainability dashboard in place to review trends and take a longer term view of the business
- ensure that necessary resources are in place to meet the Society's objectives and that performance is subsequently monitored and measured
- determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives
- monitoring the key risks in the business model through appropriate Management Information
- oversight of governance, delegating responsibility to Board Committees, as it sees fit
- maintain proper accounting records which are established, documented and audited.

Code Principle: All directors must act with integrity, lead by example and promote the desired culture. The workforce should be able to raise any matters of concern.

The Board establishes and monitors the high level principles and strategic aims of the Society and takes decisions on specific matters such as setting the culture, risk appetite operating parameters, major investment decisions and capital purchases.

The Board measures culture through a combination of an employee engagement survey, Directors meeting staff and feedback from Board Effectiveness Reviews. Where the Board identifies any practices or behaviour within the society that are not aligned with the Society's purpose, values and strategy, it seeks assurance from management that corrective action has been taken. In addition, a whistleblowing policy with associated procedures and contacts are in place to allow staff the opportunity to raise any concerns they may have. The Senior Independent Director is the nominated Whistleblowing champion for the Society.

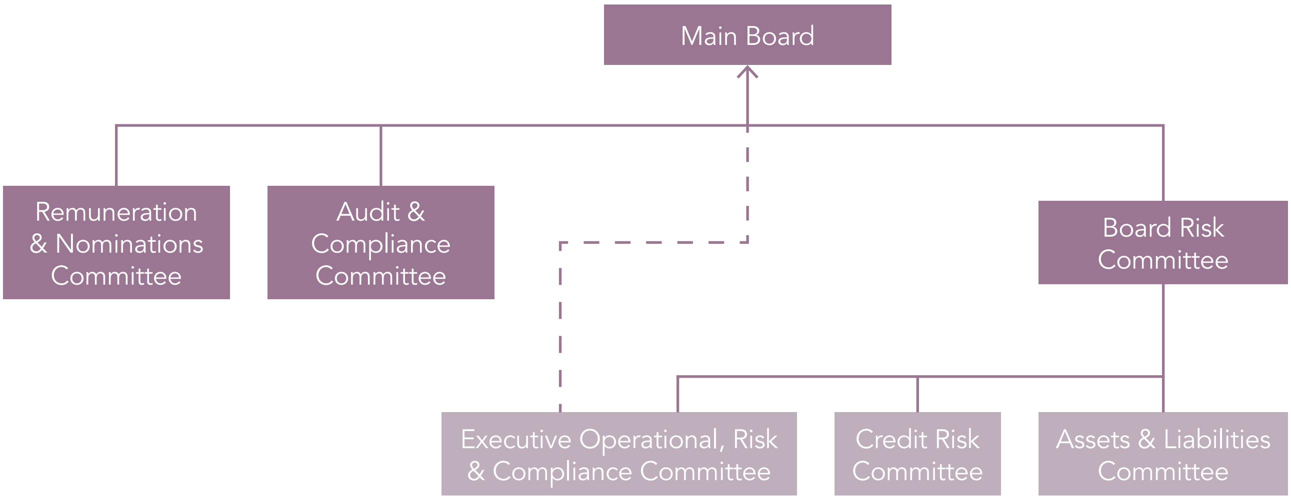
The Non-Executive Directors have the opportunity to meet without Executive Directors present. All Directors have an opportunity to meet without the Chair present at least once a year. All Non-Executive Directors have the opportunity to meet with staff, both formally and informally, throughout the year and at the semi-annual staff briefing sessions.

The Board is effective because of its focus on strategy and risk management in an environment where constructive challenge is encouraged. All Board members have the benefit of appropriate liability insurance at the Society's expense and have access to independent legal and other appropriate professional advice, if required.

Corporate Governance Report (continued)

Board Committees

The Board of Directors now have three Committees (Risk, Audit & Compliance and Remunerations & Nominations) to help it discharge its duties at the reporting date:



The Executive, Credit Risk, Operational & Conduct Risk and Assets & Liabilities Committees are management committees and report to either the Board or Risk Committee.

The Board of Directors determines the responsibilities and composition of the Board Committees, which are authorised to make decisions within agreed parameters and/or make recommendations to the full Board of Directors as appropriate. The terms of reference for the following committees can be obtained by writing to the Secretary at the Society's Head Office.

Risk Committee

The committee is responsible for recommending to the Board the Society's risk appetite. It ensures that an appropriate risk management framework and underlying policies are in place and reviews the adequacy of the Society's risk reporting, including the Society's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

It has oversight of the Society's Credit Risk, Executive Operations, Risk & Compliance and Assets & Liabilities Management Committees. Reports from the management committees are provided on a regular basis for review and action.

The Committee comprises four Non-Executive Directors and meets quarterly. The Chief Executive, Finance Director and Chief Risk Officer are normally invited to attend all, or part, of the meetings, but they are not members of the Committee.

Corporate Governance Report (continued)

Remuneration and Nominations Committee

Code Principle: The Board should ensure that workforce policies and practices are consistent with the company's values and support its long term sustainable success.

This committee is responsible for recommending the appointment and remuneration of Non-Executive Directors as well as the appointment, terms of employment and remuneration of Executive Directors.

Directors' remuneration is benchmarked annually against peers both within and outside the building society sector and the local area, taking Society performance into account.

The Committee comprises four Non-Executive Directors and meets as required but at least twice a year. The Chief Executive and Finance Director are normally invited to attend, but they are not members of the Committee.

No member is involved in setting their own remuneration and the remuneration of all Directors is agreed by the full Board. The Directors' Remuneration Report is included in note 7 on page 50.

Audit and Compliance Committee

The committee is responsible for reviewing the integrity of financial statements, providing appropriate oversight of financial reporting, the effectiveness of internal controls and compliance. It considers and recommends the appointment of the internal and external auditors and monitors their effectiveness and independence.

The Committee comprises four non-executive Directors. The Chief Executive and Finance Director are normally invited to attend, but they are not members of the Committee. It meets quarterly with both the Society's Internal and External Auditors in attendance.

Attendance of Board and Board Committees

All Directors make the necessary time commitment required to prepare for and attend the scheduled Board and Board Committee meetings. The table below shows the number of meetings each Director attended and the total number of meetings the Director was eligible to attend.

Board and Committee Attendance				
Name	Board[1]	Risk	Remuneration & Nominations	Audit & Compliance
S. Richardson	15 of 15*	-	6 of 6	-
P. Baynham	14 of 15	6 of 8	-	4 of 4*
N. Boothroyd	13 of 13	4 of 6	2 of 2	2 of 2
D. Jervis	2 of 2	-	-	-
S. Howe	11 of 13	-	-	-
G. McGrady	15 of 15	-	-	-
J. Mortimer Sykes	13 of 15	7 of 7	6 of 6*	1 of 1
J. Robinson	12 of 15	7 of 8	5 of 6	4 of 4
P. Smith	7 of 11	5 of 6	-	2 of 2
M. Willis	12 of 13	5 of 6*	-	3 of 3

* Indicates Chair of Board / Committee as at reporting date
[1] Includes three Board Strategy and Development days

Corporate Governance Report (continued)

Division of Responsibilities

Code Principle: There should be a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision.

Board comment:
The offices of Chair and Chief Executive are distinct and held by different people. The role of each is set out in their letter of appointment or service agreement and job description.

The Chair is responsible for leading the Board, setting its agenda and ensuring its effectiveness. The Chief Executive is responsible for managing the Society's business within the parameters set by the Board.

Chair

Code Principle: The Chair is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. They should demonstrate objective judgement and promote a culture of openness and debate. In addition, the Chair facilitates constructive Board relations and the effective contribution of all Non-Executive Directors.

Board comment:
The Chair and Vice Chair are elected by the Board annually. The Chair sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information.

Non-Executive Directors

Code Principle: As part of their role as members of a unitary board, Non-Executive Directors should constructively challenge and help develop proposals on strategy, offer specialist advice and hold management to account.

Board comment:
The Non-Executive role at the Society requires understanding of the risks in the business; commercial leadership within a framework of prudent and effective risk management controls; providing an independent perspective, monitoring performance and resources; and developing, scrutinising, and constructively challenging strategic proposals and holding management to account for the Society's performance against its plans, whilst supporting the executive management.

Judith Mortimer Sykes has been appointed as the Board's Senior Independent Director (Judith is also the Vice Chair). As Senior Independent Director Judith leads the annual review of the Chair's performance.

Effectiveness

The Composition of the Board

Code Principle: The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

Board comment:
The Board is comprised of two Executives and six Non-Executive Directors, providing a balance of skills and experience appropriate for the requirements of the business.

All Non-Executive Directors are considered to be independent in character and judgement and free of any relationship or circumstance which are likely to affect, or could appear to affect, their judgement.

The Chair and Chief Executive are satisfied that the sound judgement and challenging approach of its independent Non-Executive Directors make a significant contribution to the Society.

As part of its periodic assessment of governance and the effectiveness of the Board, an independent board evaluation review was undertaken during 2019. This was conducted by Enterprise Learning, a specialist governance consultancy firm, and covered all aspects of governance with the involvement of all Board members. This evaluation concluded that the Board and its Committees were overall effective. An action plan for continued improvement and development has been put in place to address the points raised and progress is regularly monitored by the Board.

Appointments to the Board

Code Principle: There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. Both appointments and succession plans should be based on merit and objective criteria and promote diversity of gender, social and ethnic backgrounds.

Board comment:
On an annual basis the Remuneration and Nominations Committee reviews the balance of skill, aptitude and experience on the Board against the requirements of the Society.

Corporate Governance Report (continued)

Following an evaluation of the role and capabilities required for a particular appointment, new appointees to the Board are made on merit and against objective criteria. Candidates for Non-Executive Directorship are identified in a variety of ways, including inviting applications from members, through professional search, press and online advertisements. During the year an Executive Search and Selection firm, Warren Partners, were engaged to assist the Society in its recruitment of Non-Executive Directors.

The Society is a small firm with succession planning considered from both an internal and external appointment perspective. The Board assesses its options to deal with both short term temporary requirements and longer term permanent appointments. This includes an assessment of the key skills and requirements of each role to ensure the Board continues to meet the needs of the business. Any external recruitment is predicated on encouraging a diversity of potential applicants.

Eligible members of the Society have the right under the Society's Rules to apply for election to the Board. All Directors must meet the regulatory fitness and propriety standards. The Remuneration & Nominations Committee leads the process, and recommends a candidate. The Board decides whether to appoint the candidate.

Each Director responsible for a control function must be approved by the PRA, with consent from the FCA, in order to be appointed to their role.

Commitment

Code Principle: All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

Board comment:
The Remuneration and Nominations Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment. The formal appraisal process carried out by the Chair each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 23.

Development

Code Principle: All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

Board comment:
All new Directors undergo a formal and tailored induction prior to joining the Board. All training and development needs are reviewed annually.

Information and Support

Code Principle: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Board comment:
The Chair ensures that the Board receives accurate, clear and timely information sufficient to enable it to discharge its responsibilities. Directors are provided with a performance pack of information by senior management. The Secretary provides support on corporate governance matters and the Board has access to independent advice if required.

Evaluation

Code Principle: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.

Board comment:
The performance and effectiveness of the Board and its committees is evaluated annually. Directors are evaluated by the Chair, taking into account the views of other directors. The Chair's review is led by the Senior Independent Director and is evaluated by the full Board.

Corporate Governance Report (continued)

Re-election

Code Principle: All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Board comment:
The Rules of the Society require that all Directors are submitted for election at the Annual General Meeting (AGM) following their first appointment to the Board and all Directors are required to seek re-election at least every three years after first being elected. Any term lasting beyond nine years after election will be approved by the Board following due consideration and then only on the basis of annual re-election.

The performance of the Board is monitored on an ongoing basis and the re-election of Non-Executive Directors is reviewed by the Nominations Committee based on performance and ongoing contribution to the Society's strategy. All Board elections are approved by the Society's Board before being put to the membership.

Accountability

Financial and Business Reporting

Code Principle: The Board should present a fair, balanced and understandable assessment of the Company's position and prospects.

Board comment:
The responsibilities of the Directors in relation to the preparation of the Society's accounts and a statement that the Society's business is a going concern are included within the Directors' Report on pages 31 and 20 respectively.

The Audit and Compliance Committee considers a wider range of issues in relation to the financial statements. During the year, the Committee considered significant areas where management judgement and estimates were required during the preparation of these financial statements. These areas are considered on page 28.

Risk Management and Internal Control

Code Principle: The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should establish a framework of prudent and effective internal controls that enable risk to be assessed and managed and that determine the nature and extent of the principal risks the company is willing to take to achieve its long term strategic objectives.

Board comment:
The Board is responsible for determining strategies for risk management and control of the Society. The Executive Team is responsible for designing, operating and monitoring risk management systems and controls. The principal risks faced by the Society are set out in the Directors' Report. Each Board and management committee is responsible for the risks and controls within its remit.

The Board Risk Committee assess the adequacy of this process on behalf of the Board. The Internal Auditor provides independent assurance to the Board on the effectiveness of the system of internal control through the Audit Committee. The Board has reviewed the effectiveness of the Enterprise Risk Management Framework (ERMF) and concluded that the Society has a strong risk management and compliance culture and that the current framework is effective and appropriate for the size and complexity of the business.

Code Principle: The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions.

Corporate Governance Report (continued)

Three Lines of Defence Model

The Society operates a three lines of defence model to manage risk and controls across the business.

1st Line of Defence	2nd Line of Defence	3rd Line of Defence	External Audit	Regulator
Department	**Internal Risk/ Compliance Support**	**Internal Audit**		
Day to Day Risk management				
Departmental managers perform daily checks and monitoring on activities and functions for which they have direct responsibility.	The Risk & Compliance function develop, embed and maintain a robust risk framework. They provide the first line of defence with support, oversight and challenge of the Society's risks and monitor and report the related management information.	The Internal Audit function performs an independent objective and critical assessment of the design and effectiveness of the overall system of internal control, providing independent assurance for the Audit & Compliance Committee as to the effectiveness of both first and second lines of defence.		

1) **First Line of Defence**

   The first line is operated by the Society's management team which, through the implementation of the Risk Management Framework, identifies, assesses, mitigates and monitors those risks to which the Society is exposed. The Society's Senior Management Team has day-to-day responsibility for the management and control of risk.

2) **Second Line of Defence**

   The second line of defence is achieved through the Society's risk and compliance activities. These activities are undertaken by the Risk Team and Compliance Function. The second line provides the policies, frameworks and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are undertaking it, and helps ensure consistency of the measurement of risk.

3) **Third Line of Defence**

   The third line defence is provided by Internal Audit. The Society's Internal Audit function is outsourced under specific terms of reference and provides independent objective assurance that these control processes and systems are appropriate and applied effectively.

Sitting outside the risk management processes of the first two lines of defence, its main roles are to ensure that the first two lines are operating effectively and to advise on how they could be improved.

Internal audit is directed by, and reports to, the Audit & Compliance Committee. It provides an evaluation, through a risk-based approach, on the effectiveness of governance, risk management, and internal control across the Society. It can also give assurance to the Society's regulators and external auditors that appropriate controls and processes are in place and are operating effectively.

Audit and Compliance Committee and Auditors

Code Principle: The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

Board comment:

The Board has an Audit and Compliance Committee which comprises three Non-Executive Directors. Other Non-Executive Directors and members of management may attend meetings of the Committee at their discretion.

The Board is satisfied that the majority of members of the Committee have recent and relevant financial experience, specifically P. Baynham, J. Robinson and M. Willis. This Committee reviews financial statements, the effectiveness of internal controls and the performance of both internal and external auditors and it meets at least four times a year.

Corporate Governance Report (continued)

The Committee excludes all executives from part of its meetings and the Committee meets periodically with only the External Auditor and only the Internal Auditors. Minutes of the Committee's meetings are distributed to all Board members and the Chair of the Committee reports to the Board at each subsequent meeting. The Committee considers the objectivity and independence of the External Auditor and decides the policy for non-audit fees.

As part of its duties, the Audit and Compliance Committee assures itself that the External Auditor remains independent. The External Auditor does not conduct any non-audit services.

The Committee also considers tenure of the existing audit and manages the process for a change in Auditor for recommendation to the Board. The existing Auditor has served for nine years and a re-tender process has been conducted for the 2020 audit. As a result, Mazars LLP, has been approved by the Board following a formal tender process. This change will be proposed to the members for approval at the Annual General Meeting.

Estimates and Judgements

During the year, the Committee considered significant areas where management judgement and estimates were required during the preparation of these financial statements. These areas are considered below.

Loan loss provisioning

The Society estimates the level of mortgage loss provision required based on historic default and loss experience. The Committee examined and challenged the assumptions included within the Society's provisioning model and is satisfied with the approach and level of provisions made for the year.

Effective Interest Rate

Interest income and expense are recognised in the profit and loss statement using the effective interest method. This requires the Society to estimate the average lives of mortgage products and future cash flows. The Committee has examined the approach taken and is satisfied with the estimates modelled.

Remuneration

The Directors' Remuneration Report on page 29 explains how the Society complies with the Codes Principles relating to remuneration.

Relations with staff

The Board recognises the role that staff play in making the Society a success. The Board are open to employee engagement and spend time in the business listening to staff and taking on board their feedback. This is conducted through departmental meetings and attending business briefings with the teams from the Society.

Relations with members

Dialogue with Shareholders

Code Principle: There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Board comment:

As a mutual organisation, the Society's membership consists of individuals who are also the Society's customers. The Society is committed to open communication with customers and welcomes views at the Branches and online.

The Society conducts customer research to ensure it continues to consider the requirements of members both now and in the future. A number of additional initiatives are already underway to improve the Society's engagement with our membership during 2020.

Constructive Use of the AGM

Code Principle: The Board should use the AGM to communicate with investors and to encourage their participation.

Board comment:

Each year the Society sends details of the AGM to all members who are eligible to vote. Members are sent voting forms and are encouraged to vote online, by post, by proxy or in person at the AGM.

All proxy votes are counted under independent scrutiny.

A poll is called in relation to each resolution at the AGM and all valid proxy votes cast (excluding abstentions) are included in the published results of voting.

All members of the Board are present at the AGM each year (unless their absence is unavoidable) and the Chairs of the Audit & Compliance, Risk and Remuneration & Nominations Committees are therefore available to answer questions.

On behalf of the Board of Directors

Stephen Richardson

Chairman
13 March 2020

Directors' Remuneration Report

The purpose of this report is to explain how the Society has regard to the principles relating to remuneration in the UK Corporate Governance Code July 2018. The Society has adopted a Remuneration Policy, which describes how the Society complies with the FCA's Remuneration Code. The remuneration of the individual Directors is detailed in note 7 on page 50.

The Level and Components of Remuneration

Code Principle: Executive Directors' remuneration should be designed to promote the long-term success of the company. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long term strategy.

Board comment:
The Remuneration and Nominations Committee has responsibility for the Remuneration Policy and to review all workforce remuneration and the alignment of incentives and rewards with the Society's culture and strategy. The Remuneration and Nominations Committee has delegated responsibility to determine the Remuneration Policy for the Executive Directors and the senior management team.

The Remuneration Policy is designed to attract, retain and encourage high calibre executives to manage and develop business for the Society. Basic salaries are reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations and in the light of market conditions generally.

Executive Director Emoluments

Total remuneration includes basic salary, performance related pay bonus, benefits and pension. Executive Director remuneration is reviewed annually.

a) Basic Salary - takes into account duties, responsibilities, performance and levels for comparable positions in other organisations.

b) Bonus – the annual performance-related pay scheme is linked to a combination of the achievement of individual performance and Society corporate objectives, covering member satisfaction, profitability, mortgage book growth and staff engagement. This is reviewed by the committee annually to ensure the measures are appropriate. The bonus payment is not pensionable and the scheme is designed to deliver a maximum award of 20% of basic salary. Payments may be reduced or withdrawn if the Board considers there is an item or event of material importance or relevance to have a significant influence on the regulatory status, financial performance or financial statements of the Society. In addition, a 'profit hurdle' has been set that should be exceeded before any element of the bonus is payable. The Society does not operate a long-term incentive scheme.

c) Pension - the Executive Directors have defined contribution pension plans, to which the Society and employee both contribute. The Society makes a contribution of 10% of salary.

d) Benefits – the Executive Directors are entitled to a car allowance, private medical insurance ('self' and spouse) and Death-in-Service at the rate of three times annual salary.

e) Contractual Terms - S. Howe is employed on a Service Contract dated 13 December 2018, terminable by the Society or by the individual on six months' notice. G. McGrady is employed on a Service Contract dated 3 January 2017, terminable by the Society or by the individual on six months' notice.

Non-Executive Director Emoluments

Fees are based on comparable data from similar financial service organisations and are reviewed annually. Non-Executive Directors do not qualify for a pension or a bonus but do qualify for Death-in-Service benefit at the rate of three times annual fees. Performance of individual Directors is assessed by the Chair and their fellow Board members. The remuneration of the Chair is reviewed by the Committee and set by the Board with their performance assessed by all members of the Board. All other Non-executive Directors' remuneration is also set by the Board, following review by the Remuneration and Nominations Committee.

Directors' Remuneration Report

The Procedure for Determining Remuneration

Code Principle: There should be a formal and transparent procedure for developing policy on Executive and Senior Management remuneration. No Director should be involved in deciding his or her own remuneration.

Board comment:
The Remuneration and Nominations Committee reviews the Society's Remuneration Policy annually. The Committee consists of three Non-Executive Directors, one of whom chairs the Committee. The Executive Directors attend by invitation but take no part in the discussion of their own salary. The Committee reviews Directors' remuneration annually using data from comparable organisations, and takes advice from external consultants, when appropriate.

An independent external consultant was appointed during the year to provide assist in further development of the bonus structure and facilitation of a benchmark analysis of remuneration across the Society.

Code Principle: Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance and wider circumstances.

Board comment:
The discretionary bonus scheme has been structured to be applicable to all Society staff across a range of maximum awards and with regular updates provided on performance against the year. The bonus payment for the year reflects the Society's overall performance with no payment for profit, partially offset by an increased payment to reflect mortgage book growth. Despite no bonus accrual for profit performance, the Committee approved a reduction to the profit hurdle to take into account the impact of a number of 'one off' costs that were incurred after the original bonus parameters had been set.

Judith Mortimer Sykes

Chair of Remuneration and Nominations Committee
13 March 2020

Directors’ responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors’ Report and the Annual Accounts

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors’ Report and the annual accounts in accordance with applicable law and regulations.

The Building Societies Act 1986 (“the Act”) requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the *Financial Reporting Standard applicable in the UK and Republic of Ireland.*

The annual accounts are required by law to give a true and fair view of the state of affairs of the society as at the end of the financial year and of the income and expenditure of the society for the financial year.

In preparing these annual accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- assess the Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

In addition to the annual accounts the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors’ Report, each containing prescribed information relating to the business of the society.

Directors’ responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the society’s website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Harpenden Building Society

1. Our opinion is unmodified

We have audited the annual accounts of Harpenden Building Society for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Members' Interests, Cash Flow Statement, and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the Society as at 31 December 2019 and of the income and expenditure of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland; and*
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit & Compliance Committee.

We were first appointed as auditor by the members in April 2011. The period of total uninterrupted engagement is for the nine financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: annual accounts as a whole		£205,000 (2018:£68,000) 0.7% of net assets (2018: 4.0% of profit before tax)
Key audit matters		**vs 2018**
Recurring risks	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
	Collective allowance for Impairment of loans and advances to customers	◀▶

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

Key Audit Matter	The Risk	Our Response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 17 (principle risks)	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in collective allowance for impairment of loans and advances to customers below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Society's future prospects and performance. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge** – We considered the directors' assessment of Brexit-related sources of risk for the Society's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis** – When addressing collective allowance for impairment of loans and advances to customers and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency** – As well as assessing individual disclosures as part of our procedures on collective allowance for impairment of loans and advances to customers, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results:** As reported under collective allowance for impairment of loans and advances to customers, we found the resulting estimates and related disclosures of collective allowance for impairment of loans and advances to customers and disclosures in relation to going concern to be acceptable (2018: acceptable). However, no audit should be expected to predict the unknowable factors or all possible future implications for an entity and this is particularly the case in relation to Brexit.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

Key Audit Matter	The Risk	Our Response
Collective allowance for impairment of loans and advances to customers £228,000 (2018: £284,000) Refer to page 17 (principal risks), page 47 (accounting policy) and page 54 (financial disclosures).	**Subjective estimate:** The impairment provision relating to the Society's loan portfolio requires the directors to make significant judgements and estimates in order to determine incurred losses on loans and advances to customers. In making these judgements and estimates the directors have considered both the Society specific historical data as well as their experience and knowledge of their current mortgage book. Impairment provisions are assessed on an individual and collective basis. During 2019 the Society had no loans or advances that were individually impaired (2018: none). The key audit matter relates to the estimate of the collective allowance for impairment. *Collective impairment* For the purposes of the collective impairment assessment, due to the Society's limited loss experience, the Society makes use of external data to support its calculation. This includes the calculation of the probability of default ('PD') and loss given default ('LGD'). The external data is adjusted for current conditions specific to the Society. In particular judgement is required in relation to the key assumption of forced sale discount which is the assumption most sensitive to movement. The effect of these matters is that, as part of our risk assessment, we determined that the collective allowance for impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Society.	Our procedures included: • **External data:** We critically assessed the reasonableness of the external data used by the Society, along with any adjustments made by management to reflect current conditions specific to the Society; • **Sensitivity analysis:** We performed sensitivity analysis over the Society's assumptions on PDs; forced sale discounts, selling costs and time to sell to help us assess which assumptions are most critical and therefore have the ability to cause a material misstatement; • **Benchmarking assumptions:** We compared the Society's key assumption of forced sale discounts against those of comparable lenders; and • **Assessing transparency:** We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the provision. **Our results:** • We found the resulting estimate of collective allowance for impairment of loans and advances to customers to be acceptable (2018: acceptable).

We continue to perform procedures over effective interest rate accounting. However, following an evaluation of the significance of the estimate relating to the behavioural lives in comparison to materiality, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

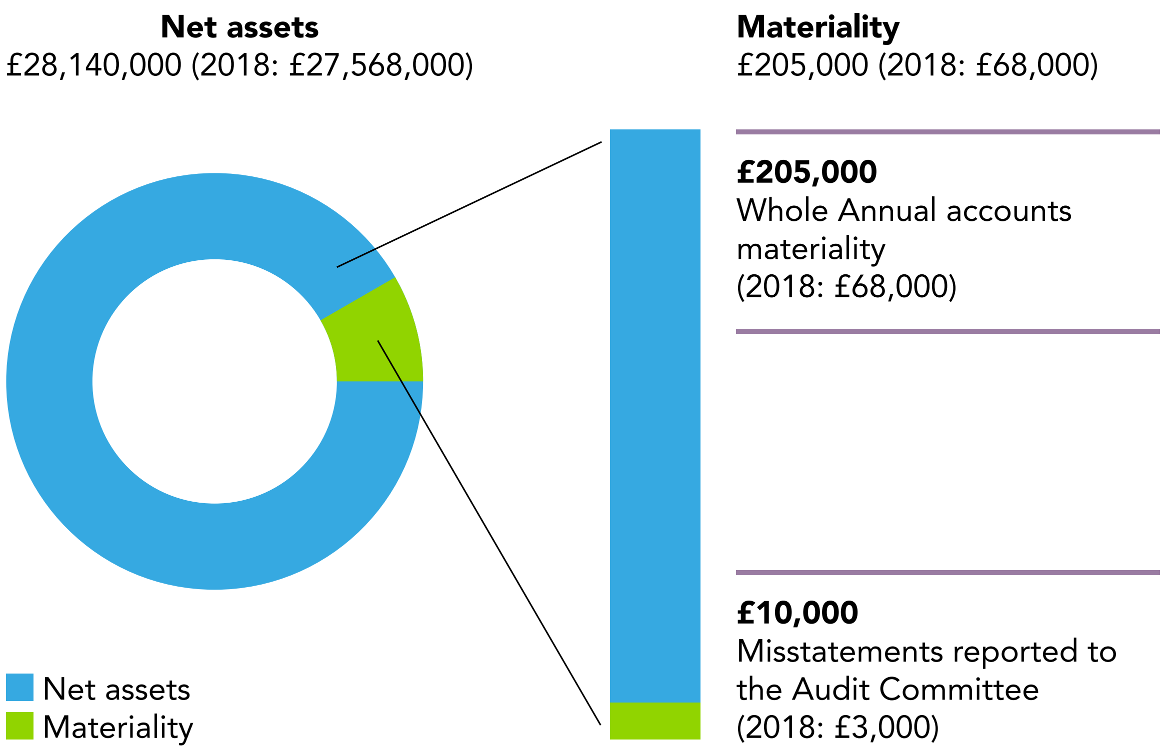
3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £205,000, determined with reference to a benchmark net assets of the Society of £28,140,000 of which it represents 0.7%. In the prior year materiality for the financial statements as a whole was set at £68,000, which was determined with reference to a benchmark of profit before tax of the Society of £1.7m of which it represented 4.0%.

We have changed the selected benchmark for calculating materiality to net assets from profit before tax as this reflects the fact that the Society does not seek to maximise profits as its primary objective, and that net assets more closely reflects regulatory capital which is a key area of focus for regulators.

We agreed to report to the Audit & Compliance Committee any corrected or uncorrected identified misstatements exceeding £10,000 (2018: £3,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Society was undertaken to the materiality level specified above and was performed at the Society's head office in Harpenden.



Independent Auditor's Report to the Members of Harpenden Building Society (continued)

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Society or to cease its operations, and as they have concluded that the Society's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Society will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Society's business model, including the impact of a disorderly Brexit, and analysed how those risks might affect the Society's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in these respects.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 31, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the society's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Society is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related building Society legislation), and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Society is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Society's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of building Society legislation recognising the financial and regulated nature of the Society's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non- compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

Irregularities – ability to detect

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alain de Braekeleer
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

13 March 2020

Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	**2019 £000**	2018 £000
Interest receivable and similar income	2	**9,404**	9,748
Interest payable and similar charges	3	**(2,519)**	(2,602)
Net interest income		**6,885**	7,146
Fee and commissions receivable		**240**	265
Fees and commissions payable		**(204)**	(231)
Other operating income	4	**146**	159
Total net income		**7,067**	7,339
Administrative expenses	5	**(6,253)**	(5,460)
Depreciation and amortisation	16, 17	**(169)**	(185)
Losses on disposal of tangible fixed assets	16	**-**	
Operating profit before impairments and provisions		**645**	1,694
Impairment of loans and advances	14	**56**	184
Provisions for liabilities	24	**-**	37
Profit before taxation		**701**	1,915
Taxation expense	8	**(146)**	(341)
Profit for the financial year		**555**	1,574
Other comprehensive income			
Revaluation of property, plant and equipment	16	**-**	589
Movement in related deferred tax	23	**-**	(266)
Total comprehensive income for the year		**555**	1,897

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive income for the period are attributable to the members of the Society.

The notes to these Accounts can be found on pages 43 to 71.

Statement of Financial Position

at 31 December 2019

	Notes	2019 £000	2018 £000
Assets			
Liquid assets			
Cash in hand and balances at the Bank of England	9	**46,823**	55,046
Treasury bills and similar securities	10	**-**	-
Loans and advances to credit institutions	11	**12,321**	17,081
Debt securities	12	**2,013**	17,069
Loans and advances to customers			
Loans fully secured on residential property	13	**225,913**	207,784
Other loans	13	**4,424**	4,769
Investments			
Participating interests	15	**163**	163
Tangible fixed assets	16	**4,157**	4,240
Intangible assets	17	**26**	36
Other debtors	18	**493**	481
Total assets		**296,333**	306,669
Liabilities			
Shares	19	**263,118**	273,233
Amounts owed to credit institutions	20	**11**	11
Amounts owed to other customers	21	**4,088**	4,781
Other liabilities	22	**717**	806
Deferred tax	23	**248**	237
Provisions for liabilities - FSCS Levy and Endowment	24	**11**	16
Total liabilities		**268,193**	279,084
General reserve	25	**26,420**	25,865
Revaluation reserve	25	**1,720**	1,720
Total reserves attributable to members of the Society		**28,140**	27,585
Total reserves and liabilities		**296,333**	306,669

The accounting policies and notes to these Accounts can be found on pages 43 to 71.

These accounts were approved by the Board of Directors on 13 March 2020 and signed on its behalf:

Stephen Richardson
Chair

Sarah Howe
Chief Executive

George McGrady
Finance Director

Statement of Changes in Members' Interests

	General reserve 2019 £000	Revaluation reserve 2019 £000	Total 2019 £000
Balance at 1 January 2019	**25,865**	**1,720**	**27,585**
Total comprehensive income for the year			
Profit for the financial year	**555**	**-**	**555**
Other comprehensive income (see note 25)	**-**	**-**	**-**
Total comprehensive income for the year	**555**	**-**	**555**
Balance at 31 December 2019	**26,420**	**1,720**	**28,140**

	General reserve 2018 £000	Revaluation reserve 2018 £000	Total 2018 £000
Balance at 1 January 2018	24,291	1,397	25,688
Total comprehensive income for the year			
Profit for the financial year	1,574	-	1,574
Other comprehensive income (see note 25)	-	323	323
Total comprehensive income for the year	1,574	323	1,897
Balance at 31 December 2018	25,865	1,720	27,585

Statement of Cash Flow

	Notes	**2019 £000**	2018 £000
Cash flows from operating activities			
Profit before tax		**701**	1,915
Adjustments for			
Release of Impairment provision on loans and advances		**(56)**	(185)
Depreciation and amortisation	16, 17	**169**	185
Revaluation gains through profit and loss		**-**	-
Total		**814**	1,915
Changes in operating assets and liabilities			
Increase/(decrease) in prepayments, accrued income and other assets		**56**	(58)
Increase in accruals, deferred income and other liabilities		**109**	11
Increase in loans and advances to customers		**(17,784)**	(14,530)
Decrease in shares		**(10,115)**	(9,213)
Decrease in amounts owed to other credit institutions and other customers		**(693)**	(979)
Increase in loans and advances to credit institutions		**6,000**	5,000
Increase in Depreciation balance in relation to revaluation		**-**	143
Taxation paid		**(282)**	(346)
Net cash used in operating activities		**(22,709)**	(19,972)
Cash flows from investing activities			
Purchase of financial securities		**(2,000)**	(22,490)
Proceeds from sale of financial securities		**17,000**	34,990
Purchase of tangible fixed assets		**(64)**	(38)
Purchase of intangible fixed assets		**(12)**	(28)
Net cash generated by investing activities		**14,924**	12,434
Net decrease in cash and cash equivalents		**(6,971)**	(5,623)
Cash and cash equivalents at 1 January		**60,098**	65,721
Cash and cash equivalents at 31 December		**53,127**	60,098

Reconciliation of cash balances:	2018 £000	Movement £000	**2019 £000**
Loans and advances to credit institutions repayable on demand	5,052	1,252	**6,304**
Cash and balances at the Bank of England	55,046	(8,223)	**46,823**
Total cash	60,098	(6,971)	**53,127**

Notes to the Accounts

(forming part of the annual accounts)

1. Accounting policies

Harpenden Building Society (the "Society") has prepared these annual accounts under the historical cost convention as modified by the revaluation of freehold property. The annual accounts are prepared in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 1.11.

In 2018, the society reviewed the format of the cash flow statement and identified that a prior year reclassification was required in the year. The reclassification resulted in the movement in impairment on loans and advances being disclosed separately as an adjustment to profit before tax in operating activities, as opposed to being disclosed as a change in operating assets and liabilities.

1.1 Liquid Assets

Loans and advances to credit institutions are stated at cost to the Society adjusted for interest accrued at the date of purchase. A similar adjustment is made on realisation. Treasury bills and debt securities are intended for use on a continuing basis and are classified as financial fixed assets and are stated at cost, adjusted for accrued interest at the date of purchase, where applicable. A similar adjustment is made on realisation. Any premium or discount on purchase is amortised on an effective interest rate basis over the period to maturity. Where there is a permanent diminution in value of a financial fixed asset a provision is made to write down the cost of the security to its recoverable amount.

1.2 Interest

Interest income and expense are recognised in profit and loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs, fee income and commission expense that are paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the issue of a financial asset.

Interest income and expense presented in the income statement and other comprehensive income include interest on financial assets measured at amortised cost calculated on an effective interest basis.

Fees and commissions associated with a mortgage that are directly incremental are recognised using the effective interest rate. All other fees are recognised as incurred.

1.3 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred.

Notes to the Accounts (continued)

1.4 Taxation

Tax on the profit and loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

1.5 Financial instruments

The Society has chosen to apply the provisions of FRS 102 sections 11 and 12 in full.

Financial assets

The Society initially recognises loans and advances, deposits and debt securities on the date on which they originated. All other financial instruments are recognised on the trade date, being the date on which the Society becomes a party to the contractual provision of the instrument.

Loan commitments

The Society's loans and advances to customers are classified as loan commitments. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Society measures its loans and advances at amortised cost less impairment provisions. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The initial value may, if applicable, include certain fees such as arrangement and booking fees, which are recognised over the average life of mortgage assets, as noted above.

Throughout the year and at each year end, the mortgage life assumptions for each scheme are reviewed for appropriateness. Any changes to the expected life assumptions of the mortgage assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets.

Debt instruments

Debt instruments are non-derivative assets with fixed or determinable payments and fixed maturity that the Society has the positive intent and ability to hold to maturity, and which are not designated at fair value through the income statement.

Debt investments are carried at amortised cost using the effective interest rate method (see above), less any impairment losses.

The Society derecognises a financial asset when its contractual rights to a cash flow are discharged or cancelled, or expire or substantially all the risk and rewards of ownership have been transferred.

Notes to the Accounts (continued)

Financial liabilities

The Society classifies its financial liabilities, other than loan commitments, as measured at amortised cost.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Identification and measurement of impairment

At each reporting date, the Society assess whether there is objective evidence that financial assets measured at amortised cost are impaired. Impairment losses are recognised in profit and loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit and loss.

A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Society on terms that the Society would not otherwise consider;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Society considers evidence of impairment for assets carried at amortised cost at both an individual asset and a collective level. All individually significant assets are assessed for individual impairment. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment, the Society uses statistical modelling of external information to assess the probability of default, and the amount of loss likely to be incurred and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater than the model suggests. Default and loss rates are reviewed against actual experience and internal sensitivity assessments to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, the Board may elect to apply an overlay to the impairment provision.

The amount of impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of provisions.

Notes to the Accounts (continued)

Forbearance strategies and renegotiated loans

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- Temporary switch from a repayment loan to an interest only loan, and
- Reduced monthly payments.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements, payslips, etc. in order that the request can be properly assessed . If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Loans that have been restructured and would otherwise have been past due or impaired are classified as renegotiated.

1.6 Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash comprises cash in hand and unrestricted loans and advances to credit institutions and the Bank of England repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

The Statement of Cash Flows has been prepared using the indirect method.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Freehold property assets are stated at fair value less subsequent accumulated depreciation.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Depreciation is charged to the profit and loss account on either a straight-line or reducing balance basis over the assets estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold premises - over fifty years on a straight line basis
- Lease hold premises - over the life of the lease on a straight line basis
- Computer equipment - over three years on a straight line basis; and
- Office equipment - 15% a year on a reducing balance basis

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

Revaluation gains/losses

Freehold property assets are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains or losses on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Notes to the Accounts (continued)

1.8 Intangible assets

Intangible assets that are acquired by the Society are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the profit and loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software - 3 years

The Society reviews the amortisation period and method of amortisation when events and circumstances indicate that the useful life may have changed since the last reporting date.

1.9 Employee benefits

Defined contribution plans and other long term employee benefits

The Society offers its employees a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. These payments into the plan are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

1.10 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.11 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 are set out below in relation to the impairment of financial instruments.

Impairment losses on loans and advances

The Society holds provisions for impairment losses against loans on an individual and collective basis. The level of impairment requires a significant degree of judgement and estimation. Provisions are calculated using the historic loss experience of the Society as well as external indicators, however a number of assumptions are required such as realisable values and customer behaviour.

The most critical estimation is of the level of house prices where a reduction of 10% impacts the provision by £330k. Other sensitivities include a forced sale discount increase of 10% which equates to £99k, and the emergence period, where an increase of six months equates to £17k.

Effective interest rate

The calculation of an effective interest rate requires the Society to make assumptions about the expected average lives of mortgages. Interest income is a mortised over the expected average life, so if the average life of the mortgage book increased by 6 months then the carrying value of mortgages would change by £6k with a corresponding change to income.

Notes to the Accounts (continued)

2. Interest receivable and similar income

	2019 £000	2018 £000
On loans fully secured on residential property	**8,539**	8,794
On other loans	**252**	275
On debt securities	**100**	203
On other liquid assets	**513**	476
	9,404	9,748

3. Interest payable and similar charges

	2019 £000	2018 £000
On shares held by individuals	**2,519**	2,602
On deposits and other borrowings	**-**	-
	2,519	2,602

4. Other operating income

	2019 £000	2018 £000
Rents receivable	**143**	156
Other operating income / (expense)	**3**	3
	146	159

Notes to the Accounts (continued)

5. Administrative expenses

	2019 £000	2018 £000
Wages and salaries	**2,888**	2,486
Social security costs	**280**	246
Contributions to defined contribution plans	**346**	333
	3,514	3,065
Other administrative expenses	**2,739**	2,395
	6,253	5,460

The remuneration of the External Auditor, which is included within other administrative expenses above, is set out below (excluding VAT):

Other administrative expenses Auditor's remuneration	**2019 £000**	2018 £000
Audit of these annual accounts	**89**	65
Other services related to taxation	**-**	-
All other services	**-**	-
	89	65

6. Employee numbers

The average number of persons employed by the Society during the year was as follows:

	2019 Full-time	**2019 Part-time**	2018 Full-time	2018 Part-time
Head Office	**38**	**5**	37	4
Branch Offices	**8**	**19**	9	19
	46	**24**	46	23

The aggregate costs of these persons are shown in note 5.

Notes to the Accounts (continued)

7. Directors' remuneration

Total Directors' emoluments for the year amounted to £707,804 (2018: £488,527).

2019	**Salaries**	**Bonus**	**Benefits**	**Pension Contributions**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
S. Howe (Chief Executive)	**195**	**29**	**12**	**20**	**256**
G. McGrady (Finance Director)	**138**	**21**	**12**	**14**	**185**
	333	**50**	**24**	**34**	**441**

2018	Salaries	Bonus	Benefits	Pension Contributions	Total
	£000	£000	£000	£000	£000
C.D. Astley (Chief Executive)	56	-	4	6	66
G. McGrady (Finance Director)	133	15	13	13	174
	189	15	17	19	240

Mr D. Jervis was appointed to the Board on 25 October 2018 and resigned on 15 February 2019. Following his appointment, Mr D. Jervis received fees of £49k (2018: £56k) during the year. Prior to his appointment, he received fees as the Society's Interim Chief Executive amounting to £88k.

Mr C. Astley resigned from the Board on 14 May 2018, with additional contractual payments paid to him during the year of £94k, until leaving the business on 13 November 2018.

Non-Executive Director Emoluments (comprising fees only):

	2019	2018
	£000	£000
S.J. Richardson	**45**	45
J. Mortimer Sykes	**32**	32
P.F. Baynham	**32**	34
N. Boothroyd	**26**	-
A.V. Crossley-Mintern	**-**	22
J. Robinson	**26**	26
P.V. Smith	**19**	32
M. Willis	**30**	-
	210	191

As at 31 December 2019, there were no outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons (2018: Nil) representing loans to nil (2018: Nil) persons. A register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to, and including the date of the Annual General Meeting.

Notes to the Accounts (continued)

8. Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity.

	2019	2018
	£000	£000
Current tax		
Current tax on income for the period	**132**	369
Adjustments in respect of prior periods	**-**	(3)
Total current tax	**132**	366
Deferred tax (see note 23)		
Origination and reversal of timing differences	**14**	(4)
Effect of tax rate change on opening balance	**-**	(21)
Total deferred tax	**14**	(25)
Total tax	**146**	341

	2019	2018
Reconciliation of effective tax rate	**£000**	£000
Profit for the year	**555**	1,574
Total tax expense	**146**	341
Profit excluding taxation	**701**	1,915
Tax using the UK corporation tax rate of 19.00%	**133**	364
Fixed asset differences	**-**	-
Adjustments to previous period and opening deferred tax to average rate of 19%		
Non-deductible expenses	**13**	(23)
Total tax expense included in profit or loss	**146**	341

The deferred tax asset at 31 December 2019 has been calculated based on a 19% rate.

Notes to the Accounts (continued)

9. Cash and cash equivalents

	2019 £000	2018 £000
Cash in hand and balances at the Bank of England	**46,823**	55,046
As at 31 December	**46,823**	55,046

10. Treasury bills

	2019 £000	2018 £000
Treasury bills have remaining maturities as follows:		
Accrued interest	**-**	-
In not more than three months	**-**	-
	-	-

The Directors of the Society consider that the primary purpose of holding such securities is prudential. The securities are held as liquid assets with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets rather than current assets.

Movement during the year of treasury bills held as financial fixed assets are analysed as follows (excluding accrued interest):

	2019 £000	2018 £000
As at 1 January	**-**	-
Additions	**-**	3,490
Maturities	**-**	(3,490)
As at 31 December	**-**	-

Notes to the Accounts (continued)

11. Loans and advances to credit institutions

	2019 £000	2018 £000
Accrued interest	**17**	29
Repayable on demand	**6,304**	5,052
Other loans and advances by residual maturity repayable:		
In not more than three months	**4,000**	1,000
In more than three months but not more than one year	**2,000**	11,000
Total loans and advances to credit institutions	**12,321**	17,081

12. Debt securities

	2019 £000	2018 £000
Issued by public bodies	**-**	-
Issued by other borrowers	**2,013**	17,069
	2,013	17,069

Debt securities have remaining maturities as follows:

	2019 £000	2018 £000
Accrued interest	**13**	69
In not more than three months	**-**	4,000
In not more than one year	**2,000**	13,000
In more than one year	**-**	-
Total loans and advances to credit institutions	**2,013**	17,069

All the above are unlisted transferable debt securities.

The Directors of the Society consider that the primary purpose of holding such securities is prudential. The securities are held as liquid assets with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets rather than current assets.

Movement during the year of debt securities held as financial assets are analysed as follows (excluding accrued interest):

	2019 £000	2018 £000
As at 1 January	**17,000**	29,500
Additions	**2,000**	19,000
Maturities	**(17,000)**	(31,500)
As at 31 December	**2,000**	17,000

Notes to the Accounts (continued)

13. Loans and advances to customers

	2019 £000	2018 £000
Loans fully secured on residential property	**225,913**	207,784
Loans fully secured on land	**4,424**	4,769
	230,337	212,553

The remaining maturity of loans and advances to customers from the reporting date is as follows:

	2019 £000	2018 £000
On call and at short notice	**4,113**	61
In not more than three months	**3,542**	5,565
In more than three months but not more than one year	**11,824**	16,853
In more than one year but not more than five years	**59,941**	54,890
In more than five years	**151,529**	135,902
	230,949	213,271
Less: allowance for impairment (note 14)	**(228)**	(284)
Less: effective interest rate adjustment	**(384)**	(434)
	230,337	212,553

The maturity analysis above is based on contractual maturity not expected redemption levels.

14. Allowance for impairment

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
At 1 January 2019			
Individual impairment	**-**	**-**	**-**
Collective impairment	**266**	**18**	**284**
	266	**18**	**284**
Income statement			
Release for the year			
Individual impairment	-	-	**-**
Collective impairment	(51)	(5)	(56)
	(51)	**(5)**	**(56)**
At 31 December 2019			
Individual impairment	**-**	**-**	**-**
Collective impairment	**215**	**13**	**228**
	215	**13**	**228**

Notes to the Accounts (continued)

14. Allowance for impairment

	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	£000	£000
At 1 January 2018			
Individual impairment	**155**	**-**	**155**
Collective impairment	**169**	**144**	**313**
	324	**144**	**468**
Income statement			
Release for the year			
Individual impairment	(155)	-	(155)
Collective impairment	97	(126)	(29)
	(58)	**(126)**	**(184)**
At 31 December 2018			
Individual impairment	**-**	**-**	**-**
Collective impairment	**266**	**18**	**284**
	266	**18**	**284**

15. Investments

The Society holds directly the following interest in Mutual Vision Technologies Limited a company registered in England and operating in the United Kingdom, originally formed by a consortium of Building Societies to acquire the trade of their existing computer software supplier. This company has a 31 December year end. On 31 December, the Society's investment, which is a participating interest, was represented by:

	2019	2018
	£000	£000
Shares in participating interest	**8**	8
Loans to participating interest	**155**	155
At end of year	**163**	163

The shares are fully paid Ordinary Shares and represent a 14.9% interest (2018: 14.9%).

On 1 January 2020, the existing Ordinary Shares of Mutual Vision Technologies Limited were cancelled and replaced with new fully paid Ordinary 'A' Shares. In addition, the outstanding loan was converted into 'A' Shares, based on the proportion of the total loan attributable to each shareholder. As a result of this conversion, the Society's interest has increased, as at 1 January 2020, to 15.16% of the fully paid Ordinary 'A' Shares of the Company.

Notes to the Accounts (continued)

16. Tangible fixed assets

	Freehold land and buildings	Short leasehold buildings	Office & computer equipment	Total
	£000	£000	£000	£000
Cost or valuation				
Balance at 1 January 2019	3,955	120	884	**4,959**
Additions	-	-	64	**64**
Disposals	-	-	-	**-**
Revaluation	-	-	-	**-**
Balance at 31 December 2019	**3,955**	**120**	**948**	**5,023**
Depreciation and impairment				
Balance at 1 January 2019	-	75	644	**719**
Depreciation charge for the year	85	4	58	**147**
Balance at 31 December 2019	**85**	**79**	**702**	**866**
Net book value				
At 1 January 2019	3,955	45	240	4,240
At 31 December 2019	**3,870**	**41**	**246**	**4,157**

	Freehold land and buildings	Short leasehold buildings	Office & computer equipment	Total
	£000	£000	£000	£000
Cost or valuation				
Balance at 1 January 2018	3,580	120	846	**4,546**
Additions	-	-	38	**38**
Disposals	-	-	-	**-**
Revaluation	375	-	-	**375**
Balance at 31 December 2018	**3,955**	**120**	**884**	**4,959**
Depreciation and impairment				
Balance at 1 January 2018	143	70	569	**782**
Depreciation charge for the year	71	5	75	**151**
Revaluation adjustment	(214)	-	-	**(214)**
Balance at 31 December 2018	**-**	**75**	**644**	**719**
Net book value				
At 1 January 2018	3,437	50	277	3,764
At 31 December 2018	**3,955**	**45**	**240**	**4,240**

Freehold land and buildings were independently and professionally valued by McNeill Lowe & Palmer, Chartered Surveyor, on an existing use basis as at December 2018. This Valuation was £3,955,000 compared to a previous net book value of £3,437,000. The surveyor has valued the properties using the comparative method, taking account other commercial sales and lettings in their respective areas. As part of this assessment, the surveyor has assumed that, in the present market, a yield of 7% is appropriate. The carrying value of the freehold land and buildings on a historical cost method is £2,120,000 as at December 2018.

Notes to the Accounts (continued)

17. Intangible assets

	Software £000	Total £000
Cost		
Balance at 1 January 2019	300	300
Additions	12	12
Balance at 31 December 2019	**312**	**312**
Amortisation and impairment		
Balance at 1 January 2019	264	264
Amortisation charge for the year	22	22
Balance at 31 December 2019	**286**	**286**
Net book value		
At 1 January 2019	36	36
At 31 December 2019	**26**	**26**

	Software £000	Total £000
Cost		
Balance at 1 January 2018	272	272
Additions	28	28
Balance at 31 December 2018	**300**	**300**
Amortisation and impairment		
Balance at 1 January 2018	230	230
Amortisation charge for the year	34	34
Balance at 31 December 2018	**264**	**264**
Net book value		
At 1 January 2018	42	42
At 31 December 2018	**36**	**36**

Notes to the Accounts (continued)

18. Other debtors

	2019 £000	2018 £000
Trade debtors	**2**	2
Prepayments and accrued income	**491**	479
	493	**481**

There are no prepayments and accrued income that are due after more than one year (2018: £nil).

19. Shares

	2019 £000	2018 £000
Held by individuals	**263,118**	273,233
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Accrued interest	**526**	576
On demand	**237,533**	247,587
In not more than three months	**1,299**	1,051
In more than three months but not more than one year	**3,200**	3,224
In more than one year but not more than five years	**12,371**	14,424
In more than five years	**8,189**	6,371
	263,118	273,233

20. Amounts owed to credit institutions

	2019 £000	2018 £000
Repayable on demand	**11**	11

21. Amounts owed to other customers

	2019 £000	2018 £000
Accrued interest	**-**	-
Repayable on demand	**4,088**	4,781
With agreed maturity dates or periods of notice		
In not more than three months	**-**	-
In more than three months but not more than one year	**-**	-
	4,088	4,781

Notes to the Accounts (continued)

22. Other liabilities

	2019 £000	2018 £000
Corporation tax	**57**	204
Other creditors	**297**	258
Accruals and deferred income	**363**	344
	717	806

23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2019 £000	2018 £000
Accelerated capital allowances	**48**	50
Short term timing differences	**(66)**	(79)
Other	**266**	266
Net tax liability	**248**	237

A deferred tax liability is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of the deferred tax liability is dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences.

The deferred tax asset has arisen due to temporary factors rather than a permanent decline in earnings.

During 2018, the Society identified that deferred tax had not previously been provided on revaluation gains on Land and Buildings. Included in the prior year above is an amount of £166k, which is in respect of deferred tax on the revaluation during 2015. The directors do not consider this to be a material item in the context of the general reserve and have therefore made the adjustment in other comprehensive income in the prior year in line with the latest revaluation.

24. Provisions for specific liabilities

	FSCS £000	Customer Claims £000	Total £000
Balance at 1 January 2019	4	12	16
Paid in year	(5)	-	(5)
Income and Expenditure account:			
Decrease in provision	1	(1)	-
Balance at 31 December 2019	**-**	**11**	**11**

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. The FSCS meets these claims by way of loans received from HM Treasury.

Customer Claims

This relates to a provision for potential regulatory claims.

25. Reserves

	General reserve 2019 £000	Revaluation reserve 2019 £000	Total 2019 £000
At 1 January	25,865	1,720	27,585
Profit for the financial year	555	-	555
At 31 December	**26,420**	**1,720**	**28,140**

Notes to the Accounts (continued)

26. Financial instruments

Carrying values by category 31 December 2019	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Other non-financial assets £000	Total £000
Financial assets				
Cash and balances at the Bank of England	46,823	-	-	46,823
Loans and advances to credit institutions	12,321	-	-	12,321
Treasury bills and similar securities	-	-	-	-
Debt securities	-	2,013	-	2,013
Loans and advances to customers	230,337	-	-	230,337
Investment loans	163	-	-	163
Total financial assets	**289,644**	**2,013**	**-**	**291,657**
Non-financial assets	-	-	4,676	4,676
Total assets	**289,644**	**2,013**	**4,676**	**296,333**
Financial liabilities				
Shares	-	263,118	-	263,118
Amounts owed to credit institutions	-	11	-	11
Amounts owed to other customers	-	4,088	-	4,088
Total financial assets	**-**	**267,217**	**-**	**267,217**
Non-financial assets	-	-	976	976
Total liabilities	**-**	**267,217**	**976**	**268,193**

Carrying values by category 31 December 2018	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Other non-financial assets £000	Total £000
Financial assets				
Cash and balances at the Bank of England	55,046	-	-	55,046
Loans and advances to credit institutions	17,081	-	-	17,081
Treasury bills and similar securities	-	-	-	-
Debt securities	-	17,069	-	17,069
Loans and advances to customers	212,553	-	-	212,553
Investment loans	163	-	-	163
Total financial assets	**284,843**	**17,069**	**-**	**301,912**
Non-financial assets	-	-	4,757	4,757
Total assets	**284,843**	**17,069**	**4,757**	**306,669**
Financial liabilities				
Shares	-	273,233	-	273,233
Amounts owed to credit institutions	-	11	-	11
Amounts owed to other customers	-	4,781	-	4,781
Total financial assets	**-**	**278,025**	**-**	**278,025**
Non-financial assets	-	-	1,059	1,059
Total liabilities	**-**	**278,025**	**1,059**	**279,084**

At the year end, the Society has loan commitments of £18,734k (2018: £21,570k) measured at cost.

Notes to the Accounts (continued)

26. Financial instruments (continued)

Financial assets pledged as collateral

As at 31 December 2019 no assets had been pledged as collateral (2018: £nil).

Credit risk

'Credit risk' is the risk that a financial loss will arise from a borrower or counterparty failing to meet their obligations. This risk arises from the Society's lending and treasury management activities.

The Society has a formal structure for managing risk, including formal risk policies, risk limits, reporting structures, mandates and other control procedures. This structure is reviewed regularly by the Board of Directors.

The Society's maximum credit risk exposure is detailed in the table below:

Credit risk

	2019 £000	2018 £000
Cash and balances at the Bank of England	**46,823**	55,046
Loans and advances to credit institutions	**12,321**	17,081
Treasury bills and similar securities	**-**	-
Debt securities	**2,013**	17,069
Loans and advances to customers	**230,949**	213,271
Investment loans	**163**	163
Total statement of financial position exposure	**292,269**	302,630
Off-balance sheet exposure - mortgage commitments	**18,734**	21,570
	311,003	324,200

Details on collateral held as security that mitigate the Society's exposure to credit risk are provided on page 64. The Society does not use credit derivatives, or similar instruments, to manage its credit risk.

The Society offers a range of mortgage products tailored to the needs and demands of our customers. The concentration of loans and advances to customers is detailed in the table below:

	2019 £000	2018 £000
Prime owner-occupied	**172,491**	146,414
Buy to let	**30,998**	21,186
Land	**4,437**	4,788
Other loans and advances to customers	**23,023**	40,883
Total loans and advances to customers	**230,949**	213,271

Notes to the Accounts (continued)

26. Financial instruments (continued)

Credit risk (continued)

Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets.

	2019	**2019**	**2019**	2018	2018	2018
	Loans fully secured on residential property	**Loans fully secured on land**	**Total**	Loans fully secured on residential property	Loans fully secured on land	Total
	£000	**£000**	**£000**	£000	£000	£000
Neither past due nor impaired	**223,300**	**3,931**	**227,231**	206,230	4,552	210,782
Past due but not impaired						
30 - 60 days	**1,850**	**127**	**1,977**	661	235	896
60 - 90 days	**225**	**379**	**604**	306	-	306
90 - 180 days	**286**	**-**	**286**	799	-	799
180 days+	**467**	**-**	**467**	54	-	54
	2,828	**506**	**3,334**	1,820	235	2,055
Individually impaired						
60 - 90 days	**-**	**-**	**-**	-	-	-
	-	**-**	**-**	-	-	-
Allowance for impairment						
Individual	**-**	**-**	**-**	-	-	-
Collective	**215**	**13**	**228**	266	18	284
Total allowance for impairment	**215**	**13**	**228**	266	18	284
Total loans & advances to customers including impairment	**225,913**	**4,424**	**230,337**	207,784	4,769	212,553

Notes to the Accounts (continued)

26. Financial instruments (continued)

Credit quality analysis of loans and advances to customers (continued)

Collateral held and other credit enhancements

The Society holds collateral to reduce credit exposures. The table below sets out the principal types of collateral held.

Percentage of exposure that is subject to collateral requirements	2019 %	2018 %	Principal type of collateral held
Loans and advances to customers	**100**	100	Property

Individual assessments are made on all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession. Further consideration is given in note 1.5 to the accounts.

The Society's policy is to pursue timely realisation of the collateral in an orderly manner. The Society does not use the non-cash collateral for its own operations.

Loan-to-value ratios of mortgage book loans and advances to customers

The table below details credit exposures from mortgage loans and advances to customers by loan-to-value (LTV) ratios. LTV is calculated as the ratio of the gross amount of the loan to the value of the asset (collateral).

The valuation of the collateral excludes any adjustments for obtaining and selling the asset and also excludes any impairment allowance and EIR adjustments. The collateral value is based on the original value of the asset when the loan was issued and is subsequently indexed using the Nationwide House Price Index.

	2019 £000	2018 £000
LTV ratio		
Less than 50%	**133,705**	147,019
50% < 70%	**70,874**	50,156
70% < 90%	**26,262**	15,987
90% < 100%	**-**	-
More than or equal to 100%	**108**	109
Total loans and advances to customers (gross of impairments and EIR adjustments)	**230,949**	213,271

Notes to the Accounts (continued)

26. Financial instruments (continued)

Credit risk (continued)

Forbearance

A range of forbearance options are available to support customers who are in financial difficulty. For further information on forbearance please refer to note 1.7. The table below analyses the number of mortgage borrowers with renegotiated terms at the year-end date:

	2019	2018
Forbearance		
Short-term conversion from repayment loan to interest only loan	-	1
Short-term reduced monthly repayment plan	8	3
	8	4

There are no individual impairment provisions held in respect of these mortgages at 31 December 2019 (2018: £nil).

Concentration risk

The tables below show the relative concentrations of the Society's treasury portfolio.

Concentration by credit grading	2019 £000	2018 £000
AAA	-	-
AA+ to AA-	52,480	63,454
A+ to A-	2,557	12,609
Building societies	6,006	13,022
Other	114	111
	61,157	89,196

Concentration by sector	2019 £000	2018 £000
Financial institutions	14,450	34,252
Supranational institutions	-	-
Sovereign	46,707	54,944
	61,157	89,196

Concentration by region	2019 £000	2018 £000
UK	61,157	85,172
Europe (excluding UK)	-	2,014
North America	-	2,010
Supranational	-	-
	61,157	89,196

Notes to the Accounts (continued)

26. Financial instruments (continued)

Liquidity risk

Interest rate risk

This is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates. The Society manages this exposure continually by matching the maturity dates of assets and liabilities in line with its Financial Risk Management Policy.

Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Society's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

As at 31 December 2019	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash and balances at the Bank of England	46,823	-	-	-	-	46,823
Loans and advances to credit institutions	6,304	4,000	2,000	-	-	12,304
Debt securities	-	-	2,000	-	-	2,000
Treasury bills and similar securities	-	-	-	-	-	-
Loans and advances to customers	4,113	3,542	11,824	59,941	151,529	230,949
Investment loans	-	-	-	-	163	163
Total financial assets	**57,240**	**7,542**	**15,824**	**59,941**	**151,692**	**292,239**
Financial liabilities						
Shares	237,533	1,299	3,200	12,371	8,189	262,592
Amounts owed to credit institutions	11	-	-	-	-	11
Amounts owed to other customers	4,088	-	-	-	-	4,088
Total financial liabilities	**241,632**	**1,299**	**3,200**	**12,371**	**8,189**	**266,691**

Notes to the Accounts (continued)

26. Financial instruments (continued)

Liquidity risk (continued)

As at 31 December 2018

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash and balances at the Bank of England	55,046	-	-	-	-	55,046
Loans and advances to credit institutions	5,052	1,000	11,000	-	-	17,052
Debt securities	-	4,000	13,000	-	-	17,000
Treasury bills and similar securities	-	-	-	-	-	-
Loans and advances to customers	61	5,565	16,853	54,890	135,902	213,271
Investment loans	-	-	-	-	163	163
Total financial assets	60,159	10,565	40,853	54,890	136,065	302,532
Financial liabilities						
Shares	247,587	1,051	3,224	14,424	6,371	272,657
Amounts owed to credit institutions	11	-	-	-	-	11
Amounts owed to other customers	4,781	-	-	-	-	4,781
Total financial liabilities	252,379	1,051	3,224	14,424	6,371	277,449

The tables below sets out maturity analysis for financial liabilities that shows the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

As at 31 December 2019

	On demand	**Not more than three months**	**More than three months but not more than one year**	**More than one year but not more than five years**	**More than five years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial liabilities						
Shares	237,533	1,299	3,202	12,576	10,410	265,021
Amounts owed to credit institutions	11	-	-	-	-	11
Amounts owed to other customers	4,088	-	-	-	-	4,088
Total financial liabilities	**241,632**	**1,299**	**3,202**	**12,576**	**10,410**	**269,120**

Notes to the Accounts (continued)

26. Financial instruments (continued)

Liquidity risk (continued)

As at 31 December 2018

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Shares	247,587	1,051	3,226	14,663	8,099	274,626
Amounts owed to credit institutions	11	-	-	-	-	11
Amounts owed to other customers	4,781	-	-	-	-	4,781
Total financial liabilities	**252,379**	**1,051**	**3,226**	**14,663**	**8,099**	**279,418**

Market risk

'Market risk' is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk; currency risk, interest rate risk and other price risk.

The Society is not directly subject to currency risk as all products are sterling denominated. The Society's products are also only interest orientated products so are not exposed to other pricing risks.

Financial Regulators have signalled that firms should transition from London Interbank Offered Rate (LIBOR) to an alternative interest rate benchmark, Sterling Overnight Index Average (SONIA) by 2021. The Society is planning for this transition and well placed to manage this change. The Society is not active in LIBOR linked investments and, as at 31 December 2019, the Society held a limited number of Libor linked time deposits that will mature in 2020.

Interest rate risk is managed through policies and procedures the Society has in place. The Assets & Liabilities Committee is responsible for overseeing and setting the counterparty credit, market, liquidity and interest rate risk.

The Society's treasury function manages interest rate risk on a daily basis and ensures the Society has appropriate liquid assets and spread of maturities over time buckets to effectively manage risk.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to interest rate scenarios. The following is an analysis of the sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

Notes to the Accounts (continued)

26. Financial instruments (continued)

Market risk (continued)

	2019 100bp parallel increase £000	2019 100bp parallel decrease £000	2018 100bp parallel increase £000	2018 100bp parallel decrease £000
Sensitivity of projected net interest income				
At 31 December	**(67)**	**70**	(87)	88
Average for the period	**(109)**	**113**	(124)	126
Maximum for the period	**(154)**	**160**	(177)	181
Minimum for the period	**(67)**	**70**	(87)	88

The Society only deals with products in sterling so is not directly affected by currency risk. The Society's products are also only interest orientated products so are not exposed to other pricing risks.

Capital management

The purpose of the Society's capital is to protect members from any losses that may arise from lending activities of the Society. The Board sets the internal level of capital with the aim of ensuring Society capital always exceeds the minimum regulatory requirements.

As part of the Society's formal risk management framework, capital management is covered by the Internal Capital Adequacy Assessment Process (ICAAP). This is used to assess the Society's capital adequacy and to determine the levels of capital required to support current and future risks.

The below table sets out the Society's capital.

	2019 £000	2018 £000
Common Equity Tier 1 capital		
General reserve	**26,420**	25,865
Revaluation reserve	**1,720**	1,720
Intangible assets	**(26)**	(36)
Common Equity Tier 1 capital	**28,114**	27,549
Tier 2 capital		
Collective provision	228	284
Total capital	**28,342**	27,833

Notes to the Accounts (continued)

27. Operating leases

As at 31 December, the Society had annual commitments in respect of operating leases for land and buildings as follows:

	2019	2018
	£000	£000
Not later than one year	**29**	24
Later than one year and not later than five years	**21**	29
Later than five years	-	-
	50	53

28. Related party transactions

Mutual Vision Technologies Limited ('MVT')

The Society is a shareholder of MVT, the Society's computer software provider, as detailed in note 15 on page 59. Under the terms of the shareholder agreement the Society is permitted to appoint an individual to represent the Society on the Board of MVT and, consequently, George McGrady was the Society's representative as a non-executive director of MVT from March 2019.

During the year, a total of £249,606 (2018: £222,809) was paid to MVT in respect of software maintenance services.

At 31 December 2019 there are no related party liabilities (2018: £nil).

The loan due from MVT, as detailed in note 15, bears interest at Bank of England base rate plus 1%, subject to a minimum rate of 1.5%, and is credited to the Society annually. In 2019 this interest totalled £3,229 (2018: £2,600). There is no fixed maturity date for this loan. The Society holds no security on any assets of MVT in respect of this loan.

Transactions with key management personnel

The Society considers its key management personnel to be its directors.

Mortgage loans made to key management personnel are granted in the ordinary course of business and are subject to repayment under normal lending terms. The maximum outstanding balance during the year was (£Nil) 2018: (£Nil).

Key management personnel hold £4,100 in share accounts with the Society (2018: £3,629). Amounts deposited by key management personnel earn interest at the same rates offered to the public.

Notes to the Accounts (continued)

29. Post Balance Sheet events

There are no subsequent events to the balance sheet date.

30. Country-by-country reporting

Article 89 of CRD IV requires the Society to disclose the following information for the year ended 31 December 2019.

Name: Harpenden Building Society

Type of entity: Building Society

Nature of activity: Secured lending and deposit taking

Location: United Kingdom

Total Net Income: £7.1m

Profit before tax: £701k

Tax paid: £282k

Public subsidies received: £nil

Number of employees: 63 FTE

Annual Business Statement

for the year ended 31 December 2019

1. Statutory percentages

	31.12.2019	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property ("The Lending Limit")	**2.31%**	25%
Proportion of shares and borrowings not in the form of shares held by individuals ("The Funding Limit")	**1.54%**	50%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986, as amended by the Building Societies Act 1997.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X - Y) / X where:

X = business assets, being the total assets of the Society plus provisions for bad and doubtful debts less liquid assets and tangible fixed assets as shown in the Society's Accounts.

Y = the principal of, and interest accrued on, loans owed to the Society which are fully secured on residential property as at 31 December 2016.

The Funding Limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X - Y) / X where:

X = shares and borrowings, being the aggregate of

i) the principal value of, and interest accrued on, shares in the Society;

ii) the principal value of, and interest accrued on, sums deposited with the Society; and

iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted , made, issued or entered into by the Society less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate as at 31 December 2019.

The statutory limits are as laid down under the Building Societies Act 1986, as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

Annual Business Statement (continued)

2. Other percentages

	2019	2018
As percentage of shares and borrowings:		
Gross capital	**10.53%**	9.99%
Free capital	**9.06%**	8.55%
Liquid assets	**22.89%**	32.08%

	2019	2018
As percentage of mean total assets:		
Profit for the financial year	**0.19%**	0.51%
Management expenses	**2.11%**	1.82%

The above percentages have been prepared from the Society's accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- 'Gross capital' represents the aggregate of general reserves and revaluation reserve.
- 'Free capital' represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less tangible fixed assets.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash and balances at The Bank of England, loans and advances to credit institutions, treasury bills and debt securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

3. Information relating to the Directors at 31 December 2019

Name	Date of Appointment and Committee Membership	Business Occupation	Other Directorships
P.F. Baynham	27 November 2014 Audit & Compliance and Risk Committees	Non Executive Director	Baynham Consulting Associates Limited North Norfolk Housing Company Limited Swan Housing Association The Association of Independent Professionals and the Self Employed Limited Victory Housing Trust (resigned: July 2019) Berwick Court Management Limited Coroscoba Limited Cygne Limited Flagship Group
N. Boothroyd	14 March 2019 Remuneration & Nominations and Board Risk Committees	Non Executive Director	Reliance Bank Limited Redwood Bank Limited
S. Howe	14 March 2019	Building Society Executive	
D. Jervis (resigned: February 2019)	25 October 2018	Consultant	Acclaim Business Solutions Ltd
G McGrady	1 January 2017	Building Society Executive	Mutual Vision Technologies Limited
J. Mortimer Sykes	27 October 2011 Audit & Compliance and Remuneration & Nominations Committees	Non Executive Director	The ExtraCare Charitable Trust (stepped down November 2019)

Annual Business Statement (continued)

Name	Date of Appointment and Committee Membership	Business Occupation	Other Directorships
S. Richardson	30 January 2014 Remuneration & Nominations Committee	Non Executive Director	Bethrob Limited i-Financial Services Group plc LCP Solutions Limited Lend and Borrow Trust Company Limited (resigned: July 2019) Goodholm Finance Limited Gemini Consultants Limited GHF Servicing Limited 26 Aberdeen Road Ltd
J. Robinson	1 September 2016 Audit & Compliance and Risk Committees	Non Executive Director	Age UK Enterprises
P. Smith (resigned: July 2019)	26 May 2011 Audit & Compliance and Risk Committees	Non Executive Director	Herts Valley Clinical Commissioning Group Defence Equipment & Support, Ministry of Defence
M. Willis	25 April 2019 Board Risk and Audit & Compliance Committees	Non Executive Director	Mawsley Management Limited (dissolved: July 2019)

Documents may be served on the above named Directors: Ref. "Harpenden Building Society", c/o, Neves Solicitors at Tollgate House, 69-71 High Street, Harpenden, Hertfordshire, AL5 2SL.

Mrs. J. Mortimer Sykes entered a service contract upon her appointment date 1 October 2011.

Mr. S. Richardson entered a service contract upon his appointment dated 15 January 2014.

Mr. P. Baynham entered a service contract upon his appointment dated 27 November 2014.

Ms. J. Robinson entered a service contract upon her appointment dated 1 September 2016.

Mr. N Boothroyd entered a service contract upon his appointment dated 13 December 2018.

Mr. M. Willis entered a service contract upon his appointment dated 13 December 2018.

The contracts are terminable by the Society or by the individual on three months' notice, pursuant to the Society's rules.

Mrs. S. Howe is employed on a Service Contract dated 13 December 2018, terminable by the Society or by the individual on six months' notice.

Mr. G. McGrady is employed on a Service Contract dated 3 January 2017, terminable by the Society or by the individual on six months' notice.

HARPENDEN
BUILDING SOCIETY

We hope you have enjoyed the journey, please share your feedback.

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