HARPENDEN
BUILDING SOCIETY

Pillar 3 Disclosure Document
31 December 2020

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1. Introduction

1.1. Legislative Framework

The Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) (collectively known as CRD IV, came into force on 1 January 2014 with the aim of improving the banking sector's ability to absorb shocks arising from financial or economic stress.

This framework establishes European standards for capital and liquidity requirements for banks, building societies and related institutions. It establishes the minimum amount of capital that Harpenden Building Society ('the Society') must hold in order to protect its members and depositors. The Society aims to continue to maintain sufficient capital resources at all times to protect its members. CRD IV introduced an increase in capital requirements, new capital buffers with higher thresholds and the introduction of a minimum leverage ratio requirement.

The Society is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority. The PRA is responsible for monitoring capital adequacy and implementing Capital Requirements in the UK through the PRA Rulebook.

The CRDis based on three 'Pillars':

- **Pillar 1** - Minimum capital requirements for credit, market and operational risks.
- **Pillar 2** – Assessment of capital adequacy. The Internal Capital Adequacy and Assessment Process (ICAAP) and the Supervisory Review & Evaluation Process (SREP), undertaken by the PRA in the UK, assesses additional capital requirements not captured by Pillar 1.
- **Pillar 3** - Market discipline – the requirement for public disclosure of prescribed information, including key information on capital, exposures and risk management, in order to demonstrate that the Society holds an appropriate level of capital.

1.2. Harpenden Building Society Approach

The approach adopted by the Society is suitable for the nature and complexity of its business activities:

- **Pillar 1** - the Society has adopted the 'Standardised Approach' (SA) to complete a risk-based capital calculation, focusing on credit and operational risks to determine its Capital Resources Requirement.
- **Pillar 2** - consideration of all other risks not fully assessed within Pillar 1, with the determination of any additional capital needed to be held accordingly. The Society's Board has undertaken an assessment of all of the key risks facing the Society. The ICAAP is completed annually, or more frequently as appropriate, and this is reviewed by the PRA as part of their SREP. Additionally, the Society performs stress testing to establish whether additional capital should be held under Pillar 2.
- **Pillar 3** - consideration of all necessary disclosures. This annual disclosure document covers the requirements under Pillar 3 for the Society to disclose specific information in accordance with the requirements, including the requirement to disclose the Total Capital Requirement (TCR), comprising Pillar 1 and Pillar 2A.

This approach is a process that brings together the risk management framework (i.e. the policies, procedures, strategies and systems that the Society has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

These disclosures are subject to internal verification, and are reviewed and approved by the Assets and Liabilities Committee (ALCO), and the Board Risk & Compliance Committee, to ensure appropriate oversight and governance. All figures quoted in this document are aligned with the Society's audited Annual Report and Accounts, as at 31 December 2020.

2. CRD IV Disclosures

Article 89 of the CRD requires the Society to disclose the following information for the year ended 31 December 2020:

Name:	Harpenden Building Society
Type of entity:	Building Society
Nature of activity:	Secured lending and deposit taking
Location:	United Kingdom
Turnover:	£8.3m (interest receivable and similar income), £6.4m (total net income) (2019: £9.4m and £7.2m respectively)
Profit before tax:	£211k (2019: £891k)
Tax Paid:	£59k (2019: £282k)
Public subsidies received:	£57k (2019: £nil)
Number of employees:	75 (2019:78)

The Society has no subsidiaries and is not part of a group. Consequently, the disclosure requirements contained in Article 436 of the CRR are considered as not applicable to the scope of the Society's Pillar 3 Disclosures.

3. Risk Management Objectives and Policies

The Board is responsible for determining a framework for risk management and control. It approves relevant policies and Committee terms of reference. The Leadership Team, with the assistance of the Risk Team, is responsible for designing, operating and monitoring risk management and internal control processes.

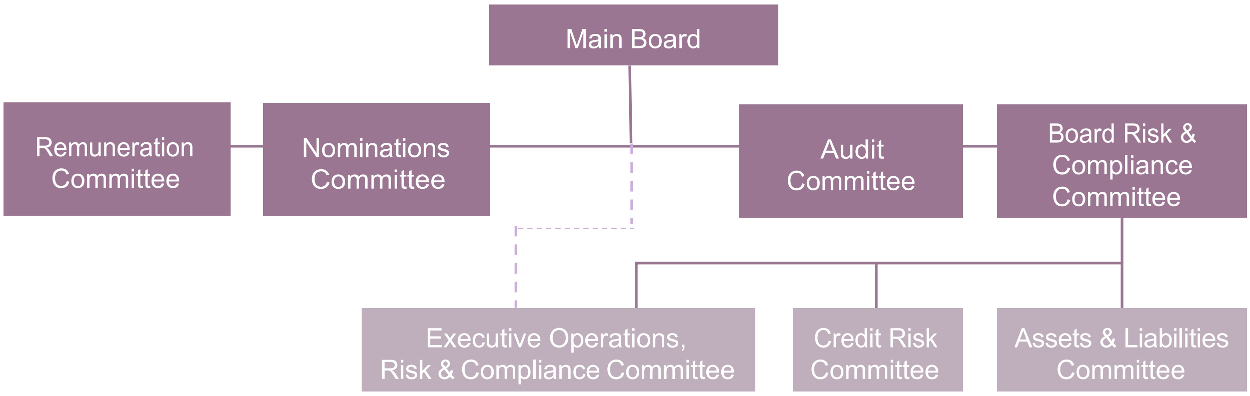
The Board of Directors is committed to best practice in corporate governance and applies the principles within the UK Corporate Governance Code, insofar as the guidance applies to building societies. As at 31 December 2020, the Board comprised two executive, five non-executive directors and a non-executive Chair. It meets formally eight times a year. All directors, both on appointment and thereafter, must meet the tests of fitness and propriety prescribed by the FCA.

3.1. Risk Governance

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.

The Executive Operations, Risk & Compliance Committee, Assets & Liabilities Committee (ALCO) and Credit Risk Committee are management committees that report to either the Board or the Board Risk & Compliance Committee.

The Society's Board committee structure is set out in the following chart:



3.2. **Board Risk & Compliance Committee**

This committee is responsible for reviewing and monitoring the Society's risk management framework, risk appetite and internal control systems and carrying out a review of their effectiveness. The Committee also has oversight of regulatory compliance matters. It ensures that appropriate risk policies are in place and reviews the adequacy of the Society's risk reporting, including the Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

As at 31 December 2020, the membership of the Board Risk & Compliance Committee comprised three 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.

3.3. **Audit Committee**

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

The Committee comprises three Non-Executive Directors. The Chief Executive, Finance Director and Chief Risk Officer 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 invited to attend.

3.4. **Remuneration Committee**

This committee is responsible for making recommendations to the Board on the Remuneration Policy of the Society. The committee recommends to the Board the level and structure of remuneration, including pensions and any compensation payments for the Chairman, all Executive Directors and other Society employees in line with the Remuneration Code.

Directors' remuneration is benchmarked annually against peers both within and outside the building society sector and the local area, taking Society performance into account. No member is involved in setting their own remuneration and the remuneration of all Directors is agreed by the Board.

The Committee currently comprises three Non-Executive Directors and meets as required but at least twice a year. The Chief Executive Officer, the Finance Director and the Head of People are invited to attend, but they are not members of the committee.

3.5. **Nominations Committee**

This committee is responsible for leading the process for Board and Board Committee appointments, re-appointments, removals, succession planning of the Board and Board effectiveness reviews. This ensures that the Board and its Committees has the right balance of skills, knowledge, experience, independence and diversity to enable them to discharge their duties and responsibilities effectively.

The committee currently comprises three Non-Executive Directors and meets as required but at least four times a year. The Chief Executive Officer and the Head of People are normally invited to attend, but they are not members of the committee.

4. Risk Management

The Society has a formal risk management structure in place with established Risk Policy Statements, including risk limits, reporting lines through committees, mandates, risk management software, management information and review processes and other controls procedures. This structure is reviewed periodically by the Board.

The Board Risk & Compliance Committee assesses 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.

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

1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Department	**Internal Risk and Compliance**	**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 withsupport, oversight and challenge of the Society's risks and monitor and report the related management information.	The Internal Audit function performsan independent objective and critical assessment of the design and effectiveness of the overall system of internal control, providing independent assurance for the Audit Committee as to the effectiveness of both first and second lines of defence.

4.1. 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 Leadership Team has day-to-day responsibility for the management and control of risk.

4.2. 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 and Compliance Team. 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.

4.3. **Third Line of Defence**

The third line of 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 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.

4.4. **Approach to Capital Risk Management**

Key risks to which the Society is exposed are monitored through the Society's risk register. The risk register is maintained through active monitoring by the Leadership Team. At each meeting, the Board sub-committees each consider the risk over which they have responsibility. The Board has overall responsibility for reviewing risks and their interdependencies across the Society. The Board Risk & Compliance Committee has responsibility for the risk management framework. The Society's internal audit programme is tailored to ensure that the key risks are incorporated into, and challenged as part of, that programme.

The Board has articulated the Society's risk approach and strategy regarding capital management as:

"The Society holds capital to ensure that it can meet regulatory needs and business objectives. The Society approaches business decisions in a prudent manner, with due consideration of its fundamental responsibilities to its members. To manage the Society prudently, the Society will hold adequate capital to ensure that it is able to meet its Pillar 1 minimum requirements and hold additional capital to cover any additional risks that the Board considers may impact the Society. The Board will continue to satisfy itself that these risks are appropriately managed and assessed on an ongoing basis as economic and financial market conditions change."

This risk approach is reviewed annually by the Board, in line with the Society's Internal Capital Adequacy Assessment Process (ICAAP) and Corporate Plan. The Board considers whether the Society's actual performance is consistent with this risk appetite, if necessary adjusting the relevant risk appetite, business plan, budget, or policy statements.

The system of internal control is designed to enable the Society to achieve its corporate objectives within a managed risk profile. The internal audit function provides independent and objective assurance that these processes are appropriate and effectively applied.

5. Risk Management Policy

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), risk policies, exposure limits, mandates and reporting structures together with an active and regular risk review process to mitigate risks.

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 summarised below:

5.1. **COVID-19**

The COVID-19 pandemic has resulted in significant uncertainties both in the short and long term, caused by its impact on the economy and, by extension, credit risk and lending activity. The Society was able to rapidly respond to the disruption to operational practices with remote working successfully deployed and has been able to continue to offer branch services to members. The Society has also supported members through the payment deferral scheme and offering further support where required.

The pandemic has also resulted in additional monitoring with regular reviews and internal assessments of credit risk and loan loss provisions through its internal committee structure, notably, Board Risk & Compliance, Audit and Executive Credit Risk Committees. Furthermore, the Board has considered both the short and longer term implications of the pandemic as well as continuing to assess the impact of stressed events, including the pandemic, on its strategic plans.

5.2. **Brexit Uncertainty**

The Society is subject to the uncertainties resulting from the impact of the Brexit deal. The potential impacts from the Brexit deal have been assessed and, 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.

5.3. **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 Risk Committee and approved by the Board Risk & Compliance 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 Financial Risk Management Policy includes limits on credit exposures to wholesale counterparties 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.

5.4. **Liquidity and Funding 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 fluctuations in funding, retain 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 to confirm that the Society can withstand normal and abnormal cash outflows. The Liquidity & Funding Policy is regularly reviewed and approved by the Board Risk & Compliance Committee.

5.5. **Interest Rate Risk in the Banking Book (IRRBB) 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 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 Board Risk & Compliance Committee.

Interest rate risk is specifically the risk that future changes in interest rates will impact the amount and value of future net interest cash flows of the Society due to mismatches in the interest rate repricing characteristics of interest bearing assets and liabilities within the balance sheet. The Society manages this risk by setting overall limits for interest rate risk as a proportion of capital, both in terms of changes in Net Interest Income (NII) and changes in the Economic Value of Equity (EVE).

Interest rate risk is overseen by the ALCO with interest rate risk limits approved annually by the Board Risk & Compliance Committee, or more frequently if deemed appropriate. IRRBB risk is also approved by Board upon approval of the Risk Appetite Statement.

5.6. **Operational Risk**

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events that the firm needs to manage in running its business. The Society has controls in place that are designed to mitigate these risks.

The Board Risk & Compliance Committee is responsible for assessing the effectiveness of the risk management processes and the system of inspection and control.

The Society manages operational risks through implementing a strong internal control environment. There is a dedicated risk function, whose responsibilities include supporting and overseeing the business in managing operational risks and ensuring that key control effectiveness is measured and that managerial actions are in place to mitigate risk. The Society uses the risk system in order to assess all operational risks by business area, including all mitigating actions, which are periodically reviewed.

The Board recognises that there are residual operational risks inherent in any business, which may not be specifically identified. The Society undertakes an internal assessment of operational risks and any add-on thereby identified is added to the Pillar 1 Standardised Approach calculation.

Within Pillar 1, the Basic Indicator Approach (BIA) is used to assess the minimum capital requirement for operational risk. This is calculated as being 15% of the average net income over the previous three years. Operational risk is assessed in more detail under Pillar 2 through operational stress test scenarios within the Society’s risk management framework.

5.7. **Cyber Risk**

This is a subset of operational risk and is defined as 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 Forum, which is as a sub-committee of the Executive Operations, Risk & Compliance Committee, to manage the threat of these risks. The Society has employed specialist resources to monitor, test, maintain and continuously improve the effectiveness of the Society’s cyber defences and operational resilience.

5.8. **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.

The Society takes its conduct responsibilities to customers very seriously and ensures that they are firmly embedded within the culture and practices of the business. Good customer outcomes remain at the heart of the Society's values. The Society aligns conduct with the overall risk management framework and this is overseen by the Risk Committee.

5.9. **Environmental and Climate Change Risk**

Environmental risks arise in the form of external influences such as economics, law, tax policies and natural events (e.g. fire and flood). The Society and regulators are focusing on the risks from natural events from the view of Climate Change. It is accepted that reducing emissions is of paramount importance in order that mankind can continue to inhabit the planet and control the risks from Climate Change. The risks from Climate Change can be expressed as either a physical or transition risk.

Physical Risk: can arise from climate and weather-related events, such as floods, heatwave, storms and sea level rise. It can manifest itself in two forms:

Credit Risk: if modelling indicates that properties within the mortgage book are subject to, for example, flood risk. This could impair asset value and ultimately the security of the asset from the Society's perspective.

Operational Risk: could be increased as severe weather changes affect the Society's ability to operate requiring in extreme circumstances in the business continuity plan being invoked.

Transition Risk: can arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology could lead to a reassessment of the value of a large range of assets and affect credit exposures as costs and opportunities become apparent. Climate related risks will lead to some increases in credit and operational risks.

The Society has performed an assessment of its risks and exposures to the various aspects of environmental and climate risks and is currently undertaking modelling analysis based on independent data provided that focuses on these risks. The initial review has indicated that the Society's exposure is low to physical risk, however, additional analysis and modelling will be conducted during 2021 to fully assess the potential impact.

The Society also recognises the opportunities that the move towards a 'zero carbon footprint' brings and the products and services that can be provided to support this agenda. The Society continues to be an active participant in a Green Finance Taskforce set up by the Building Societies Association with the objective to find ways to help home owners reduce harmful Carbon Emissions generated by the UK housing stock.

5.10. **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 that the Society continues to meet all of its regulatory requirements.

The Society manages this risk by ensuring that staff are adequately trained and that appropriate advice is sought from external sources, as appropriate. This enables the Society to review and to plan ahead for regulatory changes, by assessing the impact on the Society's processes, reporting requirements and strategic planning.

5.11. **Concentration Risk**

Credit concentration risk is the risk of losses arising as a result of concentrations of exposures due to imperfect diversification. This imperfect diversification can arise due to the small size of a portfolio or a large number of exposures to specific obligors (single name concentration), sectors or geographical regions. As a local building society, saving and borrowing membership is traditionally concentrated in London and the home counties, Hertfordshire, Bedfordshire and Buckinghamshire. The Society is therefore exposed to geographical concentration risk, both in terms of its retail funding and its mortgage lending.

These risks are managed through adherence to Board-approved lending and liquidity policies, which provide for a range of limits that are regularly monitored and reviewed in the light of changing economic conditions and the Society's objectives and risk appetite.

Through the ICAAP, the Board has assessed the requirement for additional capital to be made available to cover a downturn in house prices, or increased levels of mortgage arrears and losses due to macro-economic changes.

6. Capital Resources

To evaluate the overall quality of capital resources, commonly referred to as 'own funds' under CRD IV, capital is split into tiers - based on their availability and ability to absorb losses. The highest quality items are Common Equity Tier 1 (CET1), followed by Tier 1 and finally Tier 2.

The capital buffers, as set out in Section 9.1, are required to be covered entirely by CET1 capital. The Society has remained within these limits at all times.

With the exception of c.£0.2m, the Society's total own funds are comprised of its general reserves, which are classified as CET1 capital. The Society's audited capital resources under CRD IV, as at 31 December 2020 and 2019, are presented in the table below:

Capital Composition	**2020 £000**	**2019 £000**
Common Equity Tier 1 (CET1)		
General reserves	27,500	27,333
Revaluation reserve	1,217	1,241
Intangible assets	(7)	(26)
	28,710	**28,548**
Tier 2 Capital		
Collective provision	**244**	**228**
Total Capital	**28,954**	**28,776**

7. Capital Risk and Adequacy Assessment

The Society completes its corporate plan annually, incorporating projected strategic business growth, forecasting and capital requirements. This planning cycle is driven by current market and economic conditions and is underpinned by the Society's risk appetite. Risk strategy is an additional support for the Corporate Plan.

The ICAAP is core to this process, specifically the assessment of the adequacy of the Society's capital to underpin projected growth and potential stresses over the planning horizon. In order to produce a detailed capital plan, the ICAAP contains calculations of the capital resources requirement using the Standardised approach for credit risk and the Basic Indicator Approach (BIA) for operational risk.

Under the Standardised approach for credit risk, the Society applies a risk weighting to each of its assets according to their risk attributes in order to derive its Pillar 1 minimum requirement. For the Society's assets, these risk weightings range from 0% to 150%, depending on the type and characteristics of the asset. The Society then allocates capital to its assets based on 8% of the risk weighted assets (RWA), thus arriving at the minimum capital requirement for credit risk.

As required under Pillar 2, the Society's management performs a further assessment of the risks not included, or adequately considered, within Pillar 1 and calculates the additional amount of capital that it considers may be necessary to cover these risks. Based on the ICAAP assessment and results, the Board closely monitors the Society's capital metrics and limits to ensure that all requirements continue to be met and to understand the capital position to support the Society's ongoing activities.

8. Pillar 1 Requirement

The following table provides details on the calculation of the minimum capital resource requirements (Pillar 1) for the Society under the Standardised Approach as at 31 December 2020:

	Exposure £000	Risk Weight £000	Min Capital £000
Liquid Assets			
- Balances at the Bank of England	61,246	-	-
- Loans & advances to Credit Institutions	9,218	2,750	220
- Debt Securities	-	-	-
	70,464	**2,750**	**220**
Loans and Advances to Customers			
- Fully secured on residential property	222,330	85,258	6,821
- Fully secured on land	4,068	4,068	325
	226,398	**89,326**	**7,146**
Other Exposures			
- Cash and coins	100	-	-
- Tangible & Intangible fixed assets	357	357	29
- Freehold property assets	2,521	2,521	202
- Investment Property	1,730	1,730	138
- Other assets	714	2,583	207
	5,422	**7,191**	**576**
Off-balance sheet (mortgage commitments)	**18,257**	**3,613**	**289**
Total Credit Risk	**320,541**	**102,880**	**8,231**
Operational Risk		13,118	1,049
Total RWA / Pillar 1 Requirement		**115,998**	**9,280**
Pillar 2A Requirement			916
Total Capital Requirement (TCR)			**10,196**

The following table provides a reconciliation of statutory and regulatory asset exposures:

Reconciliation of statutory assets and regulatory exposures	2,020 £000	2,019 £000
Total Assets reported in statutory accounts	**302,029**	**296,770**
Impairment provision	244	228
Effective interest rate adjustment	221	384
Bank reconciliation (cash 'in transit')	(204)	-
Mortgage commitments	18,257	18,733
Deduction for intangible assets	(7)	(26)
Total Regulatory Exposures	**320,541**	**316,089**

9. Total Capital Requirement

A comparison of the above TCR of **£10,196k** – **8.79% of the RWA of £115,998k** - with the total capital resources figure of £28,954k provides the Board with assurance that the Society has adequate capital resources in terms of amount and quality. In addition, the results of the Pillar 2B scenario testing set out within the Society's ICAAP provides further assurance across the planning horizon.

The Society's CET1 ratio provides a risk-based measure of capital adequacy. It is calculated as audited CET1 capital as a proportion of RWA. As at 31 December 2020, using audited CET1 capital, this was **24.75%** (Dec 2019 audited CET1 ratio: 24.01%), compared with the current minimum CRD IV requirement of 4.5% under Basel III.

9.1. Capital Buffers

The Society is subject to capital buffers set by the PRA, in accordance with the Bank of England's Financial Policy Committee (FPC). These buffers are assessed and applied, as required, as part of the regular review of capital adequacy. The relevant buffers comprise:

- **Countercyclical Capital Buffer (CCyB)** – this is a capital buffer and is a tool that enables the Bank of England's Financial Policy Committee to adjust the resilience of the UK banking system. As at 31 December 2020 remained at 0% of RWA.

- **Capital Conservation Buffer (CCoB)** – this is a capital buffer that is designed to ensure that banks build up capital buffers outside periods of stress that can then be drawn down as losses are incurred. Having been fully phased in, it is currently set at 2.5% of RWA.

- **PRA Buffer** – this is a firm-specific buffer, which is set at a percentage of RWA. This buffer is a further regulatory-set amount of capital that the Society must hold, in addition to its total Pillar 1 requirements, in order to cover any losses that may arise under a severe stress scenario, but avoiding duplication with the CRD IV buffers.

9.2. Leverage Ratio

Basel III requires the calculation and disclosure of the Society's leverage ratio, which provides a non-risk-based measure to supplement the risk-based capital adequacy assessment. The leverage ratio is a measure of Tier 1 capital as a proportion of total on- and off-balance sheet assets.

The leverage ratio does not distinguish between the credit quality of loans and acts as a primary constraint to excessive leverage of the Society's capital due to growth.

The Society's leverage ratio, as at 31 December 2020 using audited capital, was 8.96% (December 2019: 9.03%), remaining well above the current 3.0% regulatory minimum requirement. The calculation of leverage ratio is shown below.

Leverage Ratio	**2020 £000**	**2019 £000**
Total Tier 1 Capital	28,710	28,548
Total Regulatory Exposures	320,541	316,089
Leverage Ratio	**8.96%**	**9.03%**

10. Credit Risk

10.1. Credit Risk – Loans and Advances to Customers

The Society has exposures to mortgages loans that are fully secured on residential property (FSRP) and a small legacy portfolio of mortgages that are fully secured on land (FSOL).

The Society defines any mortgage account where more than three monthly payments have not been made as at the accounting date as being past due and therefore non-performing.

As at 31 December 2020, the Society's performing and non-performing loans and advances to customers analysed by exposure, RWA and capital requirement, is shown in the following table:

	Exposure £000	**Risk Weight £000**	**Min Capital £000**
Loans and Advances to Customers (Total)			
Fully secured on residential property	222,330	85,258	6,821
Fully secured on land	4,068	4,068	325
	226,398	**89,326**	**7,146**
Loans and Advances to Customers (Performing)			
Fully secured on residential property	221,356	84,284	6,743
Fully secured on land	4,068	4,068	325
	225,424	**88,352**	**7,068**
Loans and Advances to Customers (Non-Performing)			
Fully secured on residential property	974	974	78
Fully secured on land	-	-	-
	974	**974**	**78**

A geographic analysis of the Society's loans and advances to customers by FSRP and FSOL portfolios is set out below.

Region	FSRP Exposure £000	FSRP Exposure %	FSOL Exposure £000	FSOL Exposure %
Outer Metropolitan	68,908	31.0%	2,104	51.7%
Greater London	66,365	29.9%	1,124	27.6%
Outer South East	31,035	14.0%	459	11.3%
South West	24,743	11.1%	-	0.0%
East Anglia	9,222	4.1%	148	3.6%
West Midlands	7,815	3.5%	-	0.0%
Yorkshire & Humberside	4,449	2.0%	125	3.1%
East Midlands	3,829	1.7%	108	2.7%
North West	2,226	1.0%	-	0.0%
Wales	2,352	1.1%	-	0.0%
North	1,386	0.6%	-	0.0%
	222,330	**100.0%**	**4,068**	**100.0%**

10.2. **Asset Encumbrance**

As at 31 December 2020, all of the Society's assets remained free from encumbrance, with no assets pledged, or subject to any form of arrangement to secure, collateralise or credit-enhance any on- or off-balance-sheet transaction from which it cannot be freely withdrawn.

10.3. **Credit risk adjustments - Impairment Provisions**

Provisions (under CRR, referred to as credit risk adjustments) on commercial and residential mortgages are made to reduce the value of loans and advances to the amount that is considered likely to be recoverable in the event of the property held as security being sold in possession by the Society.

Provisions for mortgages in arrears and properties in possession are assessed on an individual basis. The Society takes into account the current indexed valuation of the property, the value of the outstanding mortgage plus outstanding repayments, any discount likely to be required to sell the property and any costs associated with the sales process. The Society recognises that not all accounts in arrears will result in possession and that not all sales of properties in possession will result in credit losses and judgement is therefore used to determine where losses are likely to crystallise.

The Society's accounting policy in relation to impairment provisioning for loans and advances is set out in the "Financial Accounts: Note 1, Accounting Policies", in the Society's Statutory Accounts.

Collective provisions are treated as Tier 2 capital. The movements in impairment is summarised below:

Loan Loss Impairment summary	FSRP £000	FSOL £000	Total £000
As at 1 January 2020			
Individual Impairment	-	-	-
Collective Impairment	215	13	228
Total	**215**	**13**	**228**
Charge/(release) for the year			
Individual impairment	-	-	-
Collective impairment	22	(6)	16
Total	**22**	**(6)**	**16**
As at 31 December 2020			
Individual Impairment	-	-	-
Collective impairment	237	7	244
Total	**237**	**7**	**244**

10.4. **Credit Risk – Liquid Assets**

The Society's policy on the assessment of the creditworthiness of approved counterparties states that a counterparty should be listed by Fitch Ratings, with a long-term rating of at least 'A-' and a short-term rating of at least 'F1'.

The Society can place deposits with lower-rated and unrated counterparties, following a thorough due diligence review of financial indicators. This includes building societies that are unrated. The Society continues to use Fitch ratings. The details of the Society's liquid assets portfolio by residual maturity and credit rating, as at 31 December 2020, are shown in the table below:

Credit Quality Step	Credit Rating	< 3 months £000	3 months to 1 year £000	>1 year £000	Total £000
1	HQLA[1]	*61,246*	-	-	***61,246***
1	*AAA+ to AA-*	*3,344*	-	-	***3,344***
2	*A+ to A-*	*2,855*	-	-	***2,855***
3	*BBB+ and below*	*1,008*	-	-	***1,008***
-	*Unrated*	*2,011*	-	-	***2,011***
		70,464	**-**	**-**	**70,464**

[1] High Quality Liquid Assets – per the Delegated Act, liquid assets of the highest credit quality, in line with the Society's Overall Liquidity Adequacy Rule (OLAR) and Liquidity Coverage Ratio (LCR) requirements.

10.5. **Wholesale (Non – Financial Service) funding risk**

Per SS20/15 wholesale funding on the Administered approach is restricted to non-financial service entities, and historically these entities have been from Local Authorities. The Society had no wholesale funding exposures as at 31 December 2020 (31 Dec 2019: nil).

10.6. **Interest Rate Risk**

As the vast majority of interest-bearing assets and liabilities are held at variable interest rates, the Society is able to react quickly in the event of a change in market interest rates.

The Society's balance sheet is stress tested to assess the impact of a severe 200 basis point parallel shift in market interest rates (both upwards and downwards). The results of this testing does not indicate that there would be a material impact on the business in the event of such a severe stress. As at 31 December 2020, the interest rate stress testing using this 2% parallel shift indicated a maximum negative impact on an EVE basis of £180k in net present value (31 Dec 2019: £70k).

10.7. **Basis Risk**

Basis Risk is considered to be an internal risk to the Society, as it can largely be controlled by the decisions that the Society makes in respect of its product range and pricing. The Society manages this exposure by matching the maturity dates and interest rate bases of assets and liabilities in line with its Financial Risk Management Policy, which is reviewed and approved by the Board Risk & Compliance Committee.

The Society does not currently have any liabilities with interest rates linked to the Bank Base Rate, SONIA or LIBOR. All of the Society's mortgages are lent at rates based upon its Standard Variable Rate, except one which is linked to the Bank of England Base Rate or fixed for a term. The Society is on the 'Administered' Treasury approach and the 'Limited' Mortgage approach. At 31 December 2020, £5.25m of '2 year' fixed rate mortgages that have been partially matched by £1.74m of '2 year' fixed rate bonds.

11. Remuneration

The purpose of this section is to explain how the Society complies with 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.

11.1. The Level and Components of Remuneration

Code Principle: Remuneration Policies and practices should be designed to support strategy and promote long-term sustainable success. 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 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 Committee has delegated responsibility to determine the Remuneration Policy for the Executive Directors and the Senior Management Team.

The Remuneration Policy outlines the overall approach and principles the Society adopts towards managing remuneration for all employees and non-executive directors. We have a simple approach to compensation which reinforces our strategy and values by rewarding the right behaviours and outcomes for members and the Society, focussing on long-term sustainable growth and discouraging unnecessary risk taking in line with the Remuneration Code.

11.2. Executive Directors' Emoluments

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

a) Fixed Remuneration - Base Pay. This takes into account role and experience, comparison to the local external market and benchmark data.

b) Variable Remuneration – Annual Bonus. The discretionary performance-related bonus scheme is linked to both individual performance and the achievement of Society corporate targets. Targets include member satisfaction, profitability, mortgage book growth and employee 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. The 2020 discretionary performance-related bonus scheme did not pay out as the profit hurdle was not reached.

c) Retirement Benefits – 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) Employee Benefits. The Executive Directors are entitled to a car allowance, private medical insurance ('self' and partner), Group Income Protection and Life Assurance.

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.

11.3. Non-Executive Directors 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 Life Assurance 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 Committee.

11.4. **The Procedure for Determining Remuneration**

Code Principle: A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No Director should be involved in deciding their own remuneration.

Board comment: The Remuneration Committee reviews the Society's Remuneration Policy, including Director Remuneration Framework, annually. The Committee consists of three Non-Executive Directors, one of whom chairs the Committee. Members of the Committee are unable to determine their own remuneration. This is stipulated in the Committee Terms of Reference.

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 Board has delegated authority to the Remuneration Committee, to review annually and effect appropriate remuneration packages for the Board of Directors, Chief Executive, Finance Director and other members of the Leadership Team, ensuring that these are fair and appropriate to the duties and responsibilities of each and reflect their contribution to the Society's overall performance.

11.5. **Code Staff Remuneration**

In accordance with regulation the Society has considered staff that fall under the scope of "material risk takers" (ie. "Code Staff"). These activities may have a material impact on the risk profile of the firm with the Society classifying its material risk takers to be Executive Directors, Non-Executive Directors and the Leadership Team.

Aggregate remuneration for the years ended 31 December 2020 and 2019 are provided below. Additional information on Executive and Non-Executive Directors is disclosed within the Statutory Accounts.

Year Ended 31 December 2020	**Number of Staff**	**Fixed Remuneration**	**Pension**	**Variable Remuneration**	**Total**
Executive Directors	2	340	34	24	398
Non-Executive Directors	8	214	-	-	214
Other Material Risk Takers	6	484	48	6	538
Total	**16**	**1,038**	**82**	**30**	**1,150**

Year Ended 31 December 2019	**Number of Staff**	**Fixed Remuneration**	**Pension**	**Variable Remuneration**	**Total**
Executive Directors	2	333	34	74	441
Non-Executive Directors	7	210	-	-	210
Other Material Risk Takers	7	487	41	126	654
Total	**16**	**1,030**	**75**	**200**	**1,305**

12. Conclusion

This Pillar 3 disclosure document is prepared in accordance with CRD IV, as interpreted by the Society, based on its size and complexity, and is updated and presented annually alongside the publication of the Society's Directors' Report, Accounts and Annual Business Statement. The Pillar 3 disclosures have been prepared under CRDIV rules; the Accounts and Annual Business Statement are prepared in line with FRS102 accounting standards.

An assessment of the need to publish more frequently is reviewed in light of any changes in the relevant characteristics of the Society. The Society has no plan to alter the nature of its business activities during the year. The frequency and content of Pillar 3 reporting will continue to be reviewed on an ongoing basis to ensure that they are appropriate and informative.

This document is published on Harpenden Building Society's website – www.harpendenbs.co.uk.

For further explanation of these disclosures, an application can be made in writing to: The Society Secretary, Harpenden Building Society, Mardall House, 9-11 Vaughan Road, Harpenden, Hertfordshire, AL5 4HU.