HARPENDEN
BUILDING SOCIETY

Directors' Report Accounts and Annual Business Statement

For the year ended 31st December 2022

Contents

Society Information

Established and incorporated: 1953
Firm Reference Number: 157260
Member of the Building Society Association
Member of UK Finance

Head Office
Mardall House
Harpenden
Hertfordshire
AL5 4HU

Board of Directors[1]

Stephen Richardson	Chair
Nigel Boothroyd	Vice Chair and Senior Independent Director
Lesley Beecher	
Richard Doe	
David Green	
George McGrady	
Mark Willis	

Leadership Team[2]

Tracy Campbell	Head of People
Mike Cutler	Commercial Director
Richard Doe	Chief Executive Officer
Gemma Fient	Director of Operations
Ian Jones	Chief Risk Officer
Ashif Kassam	Interim Finance Director
Gavin Mullen	Society Secretary
Gary Richardson	Director of IT & Transformation

Bankers
HSBC Bank plc
1 High Street
Harpenden
Hertfordshire
AL5 2RS

Auditor
Mazars LLP
30 Old Bailey
London
EC4M 7AU

[1] Reflects the position as at 31 December 2022. George McGrady has since resigned (effective 31 January 2023).

[2] Reflects the position as at 20 March 2023.

Chair's Statement

I am pleased to have this opportunity to provide you with an update on how your Society performed during 2022.

Society's performance in 2022

In last year's statement I explained that we had started 2022 with a smaller balance sheet, and therefore we were forecasting that the Society may find it difficult to grow profits.

The current business environment has had a marked effect on all commercial property values, which has led us to record a loss in value in relation to the Society's own freehold and investment properties in our accounts. This has contributed to a reported loss before tax in the year of £287k, and a total comprehensive loss for the year of £585k.

However notwithstanding this it is pleasing to report that our CEO, Richard Doe, and the whole team at the Society have achieved a very successful improvement such that the mortgage book has grown by 9.1% and a profit before tax (on operations pre any valuation adjustment for the Society's owned property) of £213k has been delivered.

Everyone at the Society is to be congratulated in delivering this excellent performance improvement.

The Society holds significant surplus capital and liquidity which provides the capacity and time to continue to build a stronger and more sustainable business.

Outlook for 2023 and Building a Sustainable Society

Notwithstanding the headwinds that our existing members and future members face in terms of the cost-of-living crisis and a slowing housing and mortgage market we are confident that Richard and the Leadership Team supported by the Board are very focused on continuing to deliver positive growth in the mortgage business in 2023 as well as improving profits for the year.

Board Changes

There have been no changes to the composition of the Board during the year, however George McGrady resigned on 31 January 2023.

Governance

The Board is responsible for the long-term sustainability of the Society, for protecting our culture and values, and for governance. The Board continues to maintain its strong governance and oversight of the Society.

Colleagues

We recognise the need to attract and retain talented people and, in addition to our usual recruitment needs relating to turnover, we recruited 9 additional new roles during 2022.

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

Stephen Richardson

Chair

20 March 2023

Chief Executive's Review

In my report last year, I talked of the need for the Society to transform its operations and to start growing once again. I am pleased to report that through investment in our people and a focused business improvement programme we were able to increase mortgage lending in 2022 and delivered net growth of £20m (9.1%). This compared to a net reduction of 4.1% in 2021. Sustainable mortgage growth is important to the Society in order to drive revenue and capital growth to support future lending and investment.

As a result of these changes, mortgage service levels have materially improved both for new Members and mortgage intermediaries. The Society was delighted to win the "Best Local Building Society" award in the What Mortgage Awards for the 8th year running as well as being highly commended for the "Best Self-Build Mortgage Lender" and "Best Building Society Customer Service".

Throughout the year we have seen strong demand for our specialist mortgage products which are designed to meet the needs of borrowers underserved by the larger lenders. Equally, our saving Members appreciate our continued branch presence and personal service.

As a result of this mortgage growth and an improved return on surplus liquidity due to higher interest rates, our net income significantly improved year on year.

Despite the increase in net income however, the current economic environment has had a marked effect on all commercial property values, which has led us to record a loss in value in relation to the Society's own freehold and investment properties in our accounts. This has contributed to a reported loss before tax in the year of £287k, and a total comprehensive loss for the year of £585k

The Society used its surplus liquidity to fund mortgage growth and Members savings balances remained broadly flat over the year but are now growing to support future mortgage lending. During the year the Society established a draw down facility with the Bank of England to provide access to additional liquidity if required. The Society continues to hold significant surplus capital which will support future lending growth.

As the most severe impacts of the pandemic receded in 2022, these were replaced by other economic challenges. The war in Ukraine, high inflation and a rapidly increasing Bank Base Rate have created a new set of challenges for many across the UK.

Rising interest rates are welcomed by savers and the Society has increased its interest rates throughout 2022. However, the unusual speed and rate of increase is a challenge for mortgage borrowers. The Bank of England started to increase rates in December 2021 and by the end of 2022 these had risen by 3.4% from a historical low of 0.1%. The Society seeks to balance the needs of both savers and borrowers and we strive to offer value to our saving Members whilst helping borrowers manage their mortgage costs.

Despite the economic environment and the rapid rise in interest rates, customers in arrears or needing forbearance remain very low. However, we remain ready to provide assistance to any borrowing Member in financial difficulty.

I am also pleased to confirm that the Society has continued to provide support to our local communities and beyond, throughout 2022, including our continuing commitment through the Hertfordshire Charitable Trust as well as supporting our local foodbanks and several local and national charities. Colleagues from across the Society have given up their time to support charitable organisations either through fundraising or by hands on practical help.

In conclusion, 2022 was a positive year for your Society. The progress made so far has created a platform for sustainable growth and we aim to build on that momentum to support more savers and borrowers in the future.

None of what the Society achieved in 2022 could have been done without the commitment and adaptability of my colleagues and I am grateful for their continued support.

Richard Doe

Chief Executive
20 March 2023

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 Chair of the Nominations Committee and a member of the Remuneration 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.

Nigel Boothroyd

Vice Chair

Nigel joined the Society as a non-executive director in March 2019 and was appointed Vice Chair in May 2020 and the Senior Independent Director in January 2021. He is Chair of the Remuneration Committee and a member of the Risk & Compliance Committee and the 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 an experienced non-executive director and, in addition to his role at the Society, is currently a non-executive director at British Arab Commercial Bank plc where he is also the Chair of the Remuneration and Nominations Committees.

Your Board of Directors (continued)

Lesley Beecher

Non-Executive Director

Lesley joined the Society as a non-executive director in July 2021 and is a member of the Audit, Nominations and Remuneration Committees.

Lesley has worked in financial services for the last 25 years. She is a technology specialist and was a retail banking CIO in her previous role. In parallel, for 7 years Lesley was a non-executive director for a company offering services to the credit union sector.

Richard Doe

Chief Executive Officer

Richard joined the Society in April 2020 initially as a non-executive director and became Chief Executive Officer in September 2021.

Richard has over 35 years' experience in retail banking, covering mortgages, SME lending and retail savings. He has a marketing and business strategy background and was previously CEO of ING Direct in the UK and Managing Director of Paragon Bank plc.

He is a Chartered Banker and Fellow of the Chartered Institute of Marketing.

David Green

Non-Executive Director

David joined the Society as a non-executive director in October 2020 and chairs the Society's Audit Committee. He is also a member of the Risk & Compliance Committee.

He is a Chartered Accountant with around 40 years' experience in retail financial services. He joins us having recently retired as CEO of a leading private bank. He also served as an independent non-executive director for 7 years at a challenger bank.

Your Board of Directors (continued)

George McGrady

Finance Director

George joined the Society as Finance Director in May 2016 and joined the Board in January 2017. While he was in office for the financial year, George has since resigned as a director with effect from 31 January 2023. During the year, he was responsible for providing the Society with financial oversight and was an active leader for the Society's strategic financial direction based on financial strength, sustainability and member value. He was also a member of the Leadership Team.

He is a Chartered Accountant with a wealth of financial experience gained through a number of organisations including KPMG and, most recently, as Chief Financial Officer of Hornbuckle, which at the time was 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.

Mark Willis

Non-Executive Director

Mark joined the Society as a non-executive director in April 2019 and is currently chair of the Risk & Compliance Committee and a member of the Audit 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 operational and oversight roles in financial risk management at Nationwide Building Society (including Head of Market Risk) and with Nationwide Pension Fund as trustee.

He is a Chartered Accountant and Corporate Treasurer and also holds the PMI Award in Pension Trusteeship.

Directors' Report

The Directors have pleasure in presenting their 70th Annual Report and Accounts for the year ended 31 December 2022.

Strategic Business Review

The Chair and Chief Executive have commented on the Society's performance for 2022 and the steps taken to grow the mortgage book. During 2022, there has been net growth in the mortgage book of 9.1% and this, in conjunction with the impact of Bank Base Rate (BBR) rises on the mortgage book, has resulted in a £1.2m increase in interest receivable for the year. There was also a significant increase in liquid asset income of £0.8m as increasing yields, representing the BBR rises in the latter half of the year, were implemented. The income growth was offset by interest payable of £1.3m as rate rises were passed onto savers. This has resulted in an overall increase of c.£0.7m in net interest income on 2022.

Administrative expenses, which are made up of staff costs and management expenses were largely unchanged year on year. Staff costs were £0.3m up while administrative expenses were down £0.3m.

The increase in staff costs is mainly due to new starters in 2022 as the Society continued to strengthen people capability to meet the Society's future needs.

The Society's credit risk profile continues to remain well within our risk appetite and has proved to be resilient to the impact of the 'Cost of Living' crisis now impacting the UK. Overall Loan to Values (LTVs) for the mortgage book remains low and this results in minimal exposure to losses resulting from any future material reduction in house prices and/or increases in loan defaults. However, as a result of the growth in the mortgage loan book during the year the Society has had to increase its provisions by c£0.2m.

As a result of the above, net operating profit before tax (pre any adjustment for revaluation changes of the Society's owned property) has increased from a small loss of £0.03m in 2021 to a profit of £0.2m in 2022.

There was however a loss on revaluation of £500k during 2022 on property held for investment purposes, which when taken into account, causes a Loss before tax of £287k (2021 Profit before tax: £86k). Total comprehensive loss for the year was £585k (2021 income: £386k), after reflecting a revaluation loss on office and branch property in use by the Society of £509k in 2022 (2021 income: £346k). The 2022 revaluation loss was as a result of a reduction in commercial property values during the year.

The Directors set out their assessment of the principal risks and uncertainties facing the Society on pages 16 to 18. It is recognised that there are risks and uncertainties associated with the potential adverse effects of the Pandemic, Brexit, higher inflation and interest rates, and that any consequent economic downturn or disruption to financial markets or political instability could have an impact on the Society's business model. The impact of an Economic downturn has been stress tested against the Business Plan during the year to ensure that it has appropriate management control processes and sufficient capital and liquidity to withstand such impacts.

Throughout 2022, the Society continued to focus on its core objective, namely, to provide a competitive mortgage range funded by retail savings, predominately through members local to its branch network.

As noted above, the mortgage book grew by 9.1% in 2022 to £237.1m, with the overall balance sheet increasing by £10.0m to £305.8m. The Society continued to maintain its funding at approximately the same level as 2021, however the high levels of liquidity maintained by the Society reduced during the year to fund the mortgage loan growth of c£20m.

An Executive \ Liquidity Oversight Group convenes weekly to discuss pricing and ensure sufficient attention is focused on both new product development and the pricing decisions taken. This includes the assessment of various factors when considering rate changes, one of which is the Bank Base Rate, 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 we consider the rates to be competitive in the marketplace.

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 (£m)

2022	**£236.8**
2021	£216.9
2020	£225.9
2019	£230.3
2018	£212.6
2017	£201.0

Total Assets (£m)

2022	**£305.8**
2021	£295.8
2020	£302.0
2019	£296.8
2018	£306.6
2017	£314.7

Share Balances (£m)

2022	**£263.0**
2021	£260.7
2020	£268.1
2019	£263.1
2018	£273.2
2017	£282.4

Liquid Assets as a Percentage of Shares and Borrowings

2022	**23.3%**
2021	27.5%
2020	26.0%
2019	22.9%
2018	32.1%
2017	39.0%

Profit After Tax as a Percentage of Mean Total Assets

2022	**-0.07%**
2021	0.01%
2020	0.06%
2019	0.26%
2018	0.51%
2017	0.52%

Management Expenses as a Percentage of Mean Total Assets

2022	**2.34%**
2021	2.33%
2020	2.07%
2019	2.12%
2018	1.82%
2017	1.62%

Cost to Income Ratio

2022	**101.6%**
2021	101.4%
2020	96.4%
2019	88.5%
2018	76.9%
2017	70.4%

Capital

2022	**£28.5m**
2021	£29.1m
2020	£28.7m
2019	£28.6m
2018	£27.8m
2017	£25.7m

Gross Capital as a percentage of Shares and Borrowings

2022	**10.3%**
2021	11.0%
2020	10.5%
2019	10.7%
2018	10.0%
2017	8.9%

Free Capital as a percentage of Shares and Borrowings

2022	**8.9%**
2021	9.1%
2020	8.9%
2019	9.0%
2018	8.6%
2017	7.7%

Customer Satisfaction Score

2022	**96%**
2021	91%
2020	89%
2019	97%
2018	96%
2017	95%

Employee Satisfaction Score (out of 5)

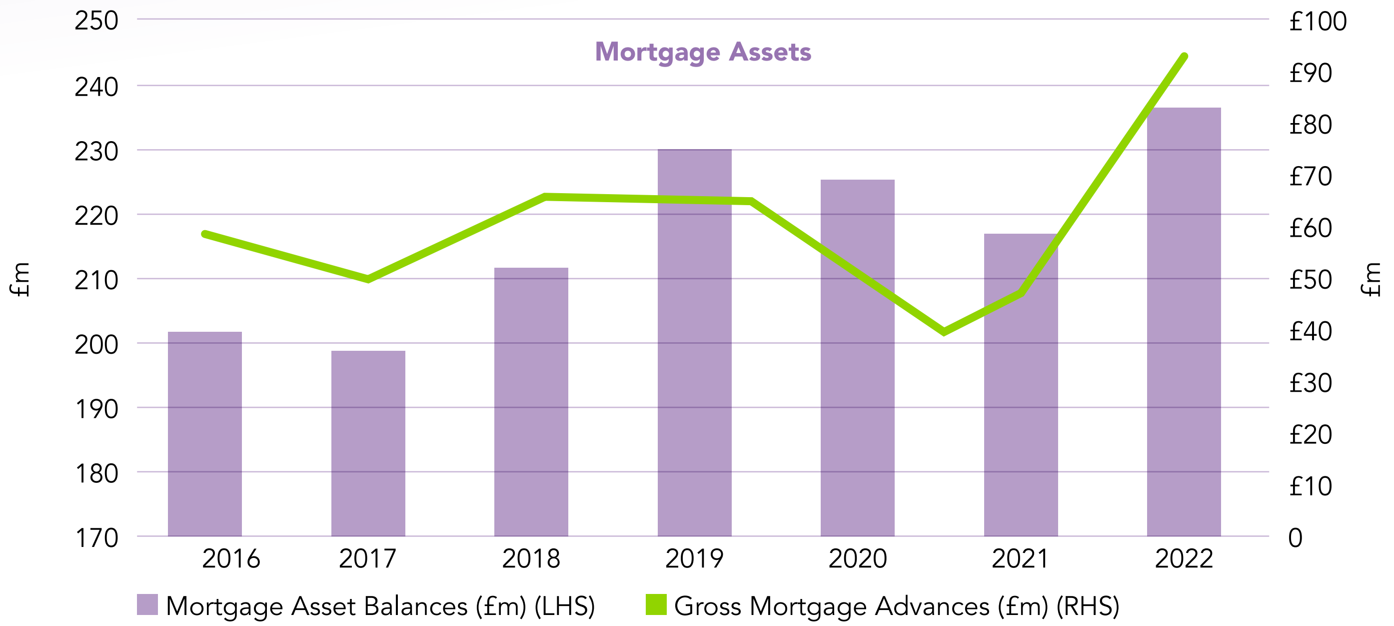
2022	**3.4**
2021	3.1
2020*	3.1
2019	3.6
2018	3.6
2017	3.9

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 offer pragmatic solutions to meet the lending needs of its customers and has built a reputation for expertise and service 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, there was an increase in new advances of £88.5m against £48.0m in 2021. Redemption levels were higher than in 2021, nevertheless the Society achieved net growth in the mortgage book of c.£20.0m, or 9.1%, to £237.1m (2021: £217.2m).



As at 31 December 2022, there was one mortgage account that was 12 months or more in arrears (2021: one) with an outstanding loan balance of £65k (2021: £189k) and an arrears balance of £13k (2021: £10k). The Society had mortgage arrears balances greater than 3 months old at 31 December 2022 of 0.30% (2021: 0.28%), compared to a UK Finance industry average of 0.83% (2021: 0.86%).

As at 31 December 2022 the Society had no properties in possession (2021: 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 mortgage term. All arrangements are temporary and are regularly reviewed.

At 31 December 2022, the Society offered such forbearance to 13 borrowers (2021: 11), representing a total mortgage balance of £2.3m (2021: £1.4m). Two of these cases were in arrears (2021: 3), the value of arrears was £28k (2021: £17k) and the capital balance was £264k (2021: £837k). These loans are considered within the Society's individual and collective mortgage provisioning modelling as described opposite.

Directors' Report (continued)

Impairment Provisions

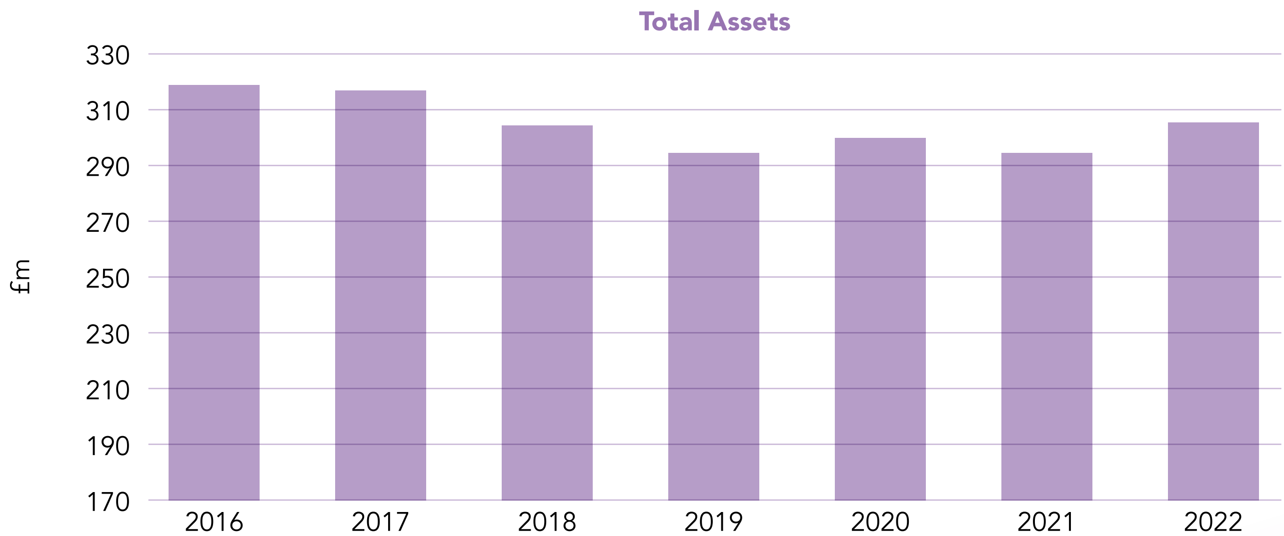
Individual provisions are made for loans and advances on a case-by-case basis to cover anticipated losses in respect of all accounts that have been identified as impaired. Anticipated losses on such accounts are calculated as the difference between the estimated current achievable market value of the 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 increased by £176k to £242k, largely reflecting an increase in general provisions taken against higher LTV owner occupied residential mortgages, and against self build mortgages, as a result of growth during 2022. At a more granular level, there was no individual impairment provision at year end with the net increase due to a movement in the collective provision. This increase is based on a review of the underlying assumptions, and we believe this provides adequate debt cover across the book given the relatively low levels of arrears, defaults and possessions. The Society has not suffered any credit losses on its residential mortgage book for more than 10 years.

Total Assets

The Board considers that long term balance sheet growth, underpinned by increasing capital reserves improves the Society's financial strength and long-term stability. In line with these long-term goals the Society has grown the balance sheet by c£10m to £305.8m (2021: £295.8m).

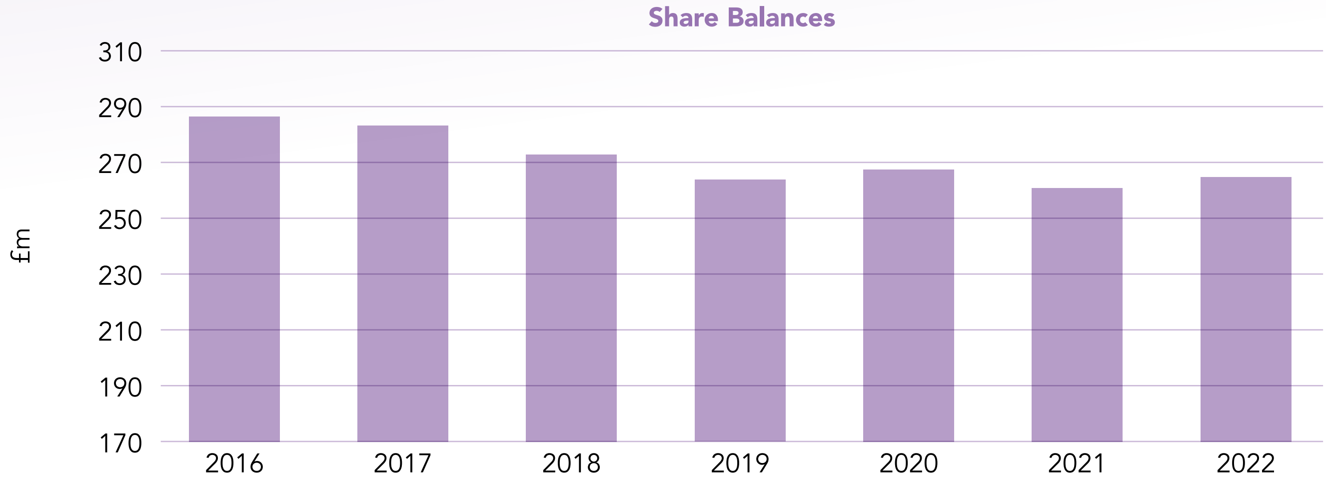


Directors' Report (continued)

Share Balances

The Society strived to provide competitive interest rates during both the sustained low interest rate environment of early 2022, and during the period of rapid rate rises in the second half of 2022. The Society maintained a stable and sustainable funding base that met its lending requirements through the provision of straight forward products that were and are consistently priced for all members.

Share balances remained largely similar at c£263m year on year (2021: £260m), with the high levels of liquidity being used to fund mortgage book growth in 2022.



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 2022, liquid assets reduced by £8.6m to £64.4m (2021: £73.0m) with the liquid asset ratio decreasing to 23.3% (2021: 27.5%).

The decrease in liquidity and the liquidity ratio is driven by the growth in the mortgage book. During the year the Society set up a liquidity draw down facility with the Bank of England (Indexed Long Term Repo - ILTR), which allows it to draw down against a pool of prepositioned mortgages held as collateral with the Bank of England. The society drew down £10m against this facility in order to maintain its high level of liquid assets.

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 operating profitability are strong and ensures that future growth in lending can be supported, however the Society is subject significant volatility in its earnings due the revaluation of its land and buildings. In 2022 the loss on revaluation led to a Post tax loss of £203k (2021: Profit £36k).

Revaluation losses have also impact total comprehensive income and as a result the net decrease in capital for the year is £585k (2021: Capital Increase £386k). This has reversed some of the revaluation gains that have been capital additive, taken in previous years.

Management Expenses as a Percentage of Mean Total Assets

This ratio measures how productively the assets of the Society are used. The ratio has remained relatively unchanged year on year 2.34% (2021: 2.33%).

Directors’ Report (continued)

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. This metric has remained relatively unchanged at 101.6% (2021: 101.3%) and is driven by the significant increase in revaluation losses taken through the Comprehensive Income Statement.

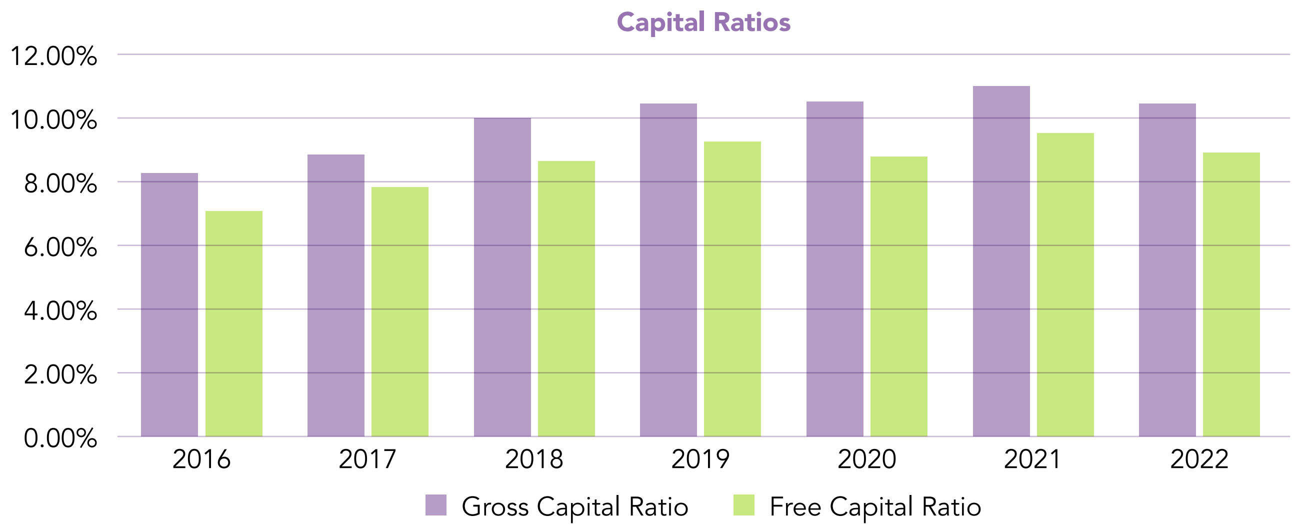
It should be noted that if we ignored the effects of the Society’s loss of £500k on the revaluation of its own property (2021: gain £109k), then the cost income ratio equals 95% in 2022 (2021: 104%).

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 71.

Gross capital ratio has marginally decreased in 2022. As noted above, whilst operating profitability has improved, the valuation loss has reduced capital. Free capital (after adjustment for provisions) has also decreased with both the valuation loss and increase in provisions generating positive benefits to the metric.

Despite this and as shown in the chart below, the Society’s capital remains strong.



Customer Satisfaction

We actively seek direct feedback from both our borrowers and savers and undertake monitoring of our 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. In 2022, the satisfaction score improved on last year.

Employee Satisfaction

We conduct an annual Society wide survey for all colleagues to feedback their views on a wide range of areas. Since 2020 we have taken part in the Financial Services Conduct Board (previously known as Banking Standards Board) culture survey. The results of the 2022 survey show improvement on 2021, but there is further work to do and therefore colleague engagement will continue to remain a priority for us in the future. The survey will be repeated in 2023 and appropriate actions identified following consideration of the results by the Board, Leadership Team, and the Senior Management Group.

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. Details of the Society's approach to financial risk management and the key risks faced are given in note 24.

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. This 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.

Strategic Risk

The Society has been investing in infrastructure and people in recent years and during 2022, mortgage book growth combined with an increase in net interest margin has been able to support the increase in costs and for the Society to make an operating profit (excluding any property revaluations) of £0.2m. Although market conditions for mortgage loan growth are considered challenging in the current economic environment, the Society has set clear plans to achieve growth & profitability and to ensure that its capital strength is maintained.

Economic Risk

The COVID-19 pandemic, Brexit and the Ukraine War have and continue to significantly impact the economy. GDP growth has stalled and output continues to remain below pre COVID levels.

During 2022 inflation has spiked, in part driven by rising energy costs due to the Ukraine war, and this has prompted Central Banks to raise interest rates to help control inflation. All of these combined has helped create a significant 'Cost Of Living' crisis in the UK.

However, despite this the Society considers that it is well placed to manage any potential downturn. The results of its stress testing regime support the Board's view that the Society has sufficient capital to withstand a range of severe stress scenarios.

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 & 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 understood and assessed.

The majority of borrowers who took advantage of the mortgage payment deferral scheme offered during the pandemic have now reverted to full payment. With the Society's lending generally at low LTV's, this provides significant capacity to absorb credit risk losses that could arise from a severe economic downturn.

In addition, the Financial Risk Management Policy includes limits on credit exposures to wholesale 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.

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 severe cash outflows. The Liquidity & Funding Policy is regularly reviewed and approved by the Risk & Compliance 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 by matching the repricing dates of assets and liabilities in line with its Financial Risk Management Policy, which is regularly reviewed by ALCO and approved by the Risk & Compliance Committee. A detailed analysis of the Society's interest rate sensitivity at both 31 December 2022 and 2021 can be found in note 24.

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

The Operational Resilience Framework identifies all critical business functions and has determined associated impact tolerances and recovery times. This forms part of the key controls followed by the Society.

Cyber Technology risk

The risk of financial and/or data loss, disruption, or damage to the reputation of the Society from a failure related to its information technology systems.

Technology risk is a key component of operational resilience and the Society has a Business Resilience Committee, which is as a sub-committee of the 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.

Conduct Risk

The risk that the Society's behaviour will result in poor outcomes for customers.

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 good customer outcomes, represent fair value, avoid foreseeable harm and operate as customers and members would expect to support their financial objectives.

Environmental and Climate Change Risk

The risks from Climate Change manifest themselves via Physical Risk and 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. This may also lead to a changing regulatory expectation in relation to the way the Society is expected to run its own business, including who it uses as suppliers.

The Society utilises risk management techniques to help mitigate the impacts of climate change on the Society's business model.

The Society has performed an initial assessment of its risks and exposures to the various aspects of environmental and climate risks and has undertaking modelling analysis based on independent data provided that focuses on these risks. This modelling has indicated that the Society's exposure is low to physical risk.

However, 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 Chief Executive has responsibility for monitoring climate change risk, with oversight provided by the Risk & Compliance Committee.

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 2022:

S. Richardson (Chair)

N. Boothroyd (Vice Chair and Senior Independent Director)

L. Beecher

R. Doe

D. Green

G. McGrady (resigned 31 January 2023)

M. Willis

The Directors did not have any interest in the shares of the Society, other than those detailed in note 26 on page 69.

Other Matters

Creditor Payment Policy

The Society's policy concerning the payment of its trade creditors 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 14 days of receipt of invoice (2021: 21 days).

Charitable and Political Donations

Charitable donations during the year amounted to £33k (2021: £21k). The Society continues to hold an endowment fund with the Hertfordshire Community Foundation (HCF) with annual grants awarded to local charities. The balance in this fund at 31 December 2022 was £413k (2021: £505k).

The incentive of charitable contribution of £1 for each member vote at the Annual General Meeting in April 2022 produced £1,193 (2021: £1,238) which was donated to Bowel Cancer UK.

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 2022 (2021: nil) which require disclosure under the Act.

Land and Buildings

The Directors consider that the overall recoverable amount of the land and buildings held by the Society is in excess of the book value recognised within the Society's balance sheet.

Events since Year End

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

Directors' Report (continued)

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 and financial position (reflecting the impact of the current state of the UK economy). This includes the impact on capital, liquidity and credit risk 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

Mazars LLP has expressed its willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution for its reappointment will be proposed at the Annual General Meeting.

Country-by-country reporting

The country-by-country CRDIV reporting requirements can be found in note 28 on page 69. 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 all our colleagues, as well as all our members, customers and professional partners for their continued support, particularly through what has been a challenging and difficult year for everyone.

On behalf of the Board of Directors.

Richard Doe
Director and Chief Executive
20 March 2023

Corporate Governance Report

The UK Corporate Governance Code 2018 (the "Code") contains a set of principles (the "Principles") that emphasise the value of good corporate governance to long-term sustainable success. The Code is addressed to companies with a premium listing. However, the PRA expects building societies to "have regard to" the Code in considering their own corporate governance arrangements. The Directors are committed to best practice in corporate governance and have therefore considered the Principles in their own arrangements. This report explains to customers our approach to corporate governance and how we have had regard to the Principles in so far as they are relevant to us.

Board Leadership and Company Purpose

The Board

Code Principle: A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term success of the company, generating value for shareholders and contributing to wider society.

Board comment:

The Board is responsible for its governance and setting a clear strategy and direction. Its role is one of stewardship, running the Society not only for the benefit of current members but also for future generations of members, thereby promoting the long-term success of the Society. 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
- ensuring 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
- overseeing governance and delegating responsibility to Board Committees, as it sees fit
- maintaining proper accounting records which are established, documented and audited.

The Board meets regularly to review performance against its strategic and operational objectives.

The Board has put in place a corporate plan that sets out the strategy, direction, intentions and ambitions of the Society for the next few years. The plan is reviewed formally by the Board on an annual basis to ensure that it remains relevant to the prevailing external market conditions and the Society's own performance, risks and opportunities as they materialise.

Code Principle: The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

Board comment:

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 Society has a Vision, Mission and Purpose Statement. All three statements are central to the Society's business plan and strategy. The Purpose Statement describes the Society's service proposition, its commitment to its local communities and members, and its competitive advantage. The vision for the Society is to be the best small building society while its mission is to make the complex easy for its members. It aims to be experts in complex cases, offering a bespoke, quick and reactive service while putting brokers and customers at the heart of the process.

Corporate Governance Report (continued)

The Board is responsible for the overall leadership, culture and conduct of the Society and seeks to measure engagement of its colleagues through a combination of a culture survey (facilitated by the Financial Services Culture Board) and internal surveys, a culture dashboard, meetings with colleagues, and feedback from board effectiveness reviews. The results of the surveys, culture dashboard and board effectiveness reviews are analysed to develop further a workplace environment for our people to thrive and succeed aligned with the strategy. The Board recognises that the higher the employee engagement the greater the impact on success.

The Society's approach to compensation reinforces its 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 FCA's Remuneration Code. The Society's remuneration principles are designed to guide decision making when considering the total reward for all employees across the Society. These principles include the need to attract and retain employees of the required calibre by offering a fair and competitive total reward benchmarked within the market. The Society focuses on total reward; keeping rewards simple and fair; and rewarding employees based on Society performance.

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.

The Non-Executive Directors have the opportunity to meet without Executive Directors present. All Directors meet without the Chair present at least once a year. All Non-Executive Directors endeavour to meet employees, both formally and informally, throughout the year and will continue to do so in 2023 to ensure that it is able to take account of their interests.

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.

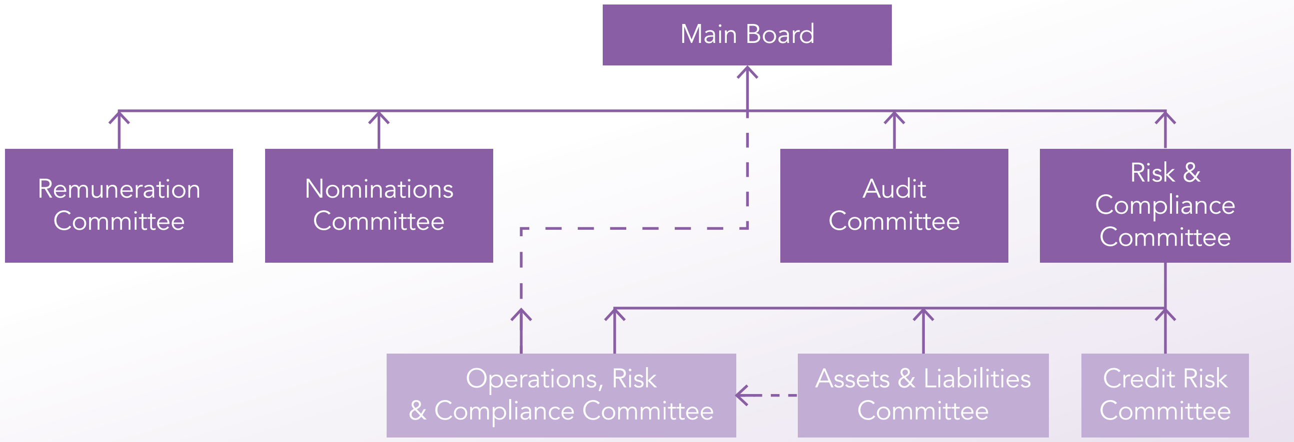
Board Committees

Code Principle: The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Board comment:

The Board and its committees are provided with information sufficient to enable them to monitor the execution of the Society's strategy, oversee the performance of the business and ensure the maintenance of a sound system of internal controls and risk management. The Board is ultimately responsible for determining strategies for risk management and control of the Society although the Risk & Compliance Committee assesses the adequacy of the risk management process on behalf of the Board while the Audit Committee reviews and monitors the integrity of the Society's internal controls system. Both committees escalate significant matters to the Board with the Chair of each committee providing an assurance report to the Board at each Board meeting. Further details of the responsibilities of the Risk & Compliance Committee and Audit Committee are set out below.

The Board has four committees (Risk & Compliance, Audit, Remuneration and Nominations) to help it discharge its duties.



Corporate Governance Report (continued)

The Operations, Risk & Compliance, Credit Risk, and Assets & Liabilities Committees are management committees and report to the Risk & Compliance Committee with specific reports provided to the Board as necessary.

The Board determines the responsibilities and composition of its committees, which are authorised to make decisions within agreed parameters and/or make recommendations to the Board as appropriate.

The terms of reference for each committee are available on the Society's website.

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. 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.

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

Remuneration Committee

This committee is responsible for making recommendations to the Board on the Remuneration Policy of the Society. The committee determines the policy for Non-Executive Director remuneration and for setting the remuneration for the Chairman, all Executive Directors and the Leadership Team in line with the Remuneration Code and the 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 and the Head of People are invited to attend, but they are not members of the committee.

The Directors' Remuneration Report is included on pages 30-31.

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 have 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.

Audit Committee

This committee is responsible for reviewing and monitoring the integrity of the Society's financial statements, internal and external audit functions, and internal controls system.

The committee comprises three Non-Executive Directors and meets as required but at least four times a year. The Chief Executive, the Finance Director and the Chief Risk Officer are invited to attend, but they are not members of the committee. The Society's Internal and External Auditors are also invited to attend.

Corporate Governance Report (continued)

Attendance at Board and Board Committee Meetings

All Directors make the necessary time 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	Risk & Compliance	Remuneration	Nominations	Audit
S. Richardson	6 of 6*	-	2 of 2	4 of 4*	-
N. Boothroyd	6 of 6	4 of 4	2 of 2*	4 of 4	-
L. Beecher	6 of 6	-	2 of 2	4 of 4	4 of 4
R. Doe	6 of 6	-	-	-	-
D. Green	6 of 6	4 of 4	-	-	4 of 4*
G. McGrady (resigned)	6 of 6	-	-	-	-
M. Willis	6 of 6	4 of 4*	-	-	4 of 4

* Indicates Chair of Board/Committee as at the reporting date

Relations with members and stakeholders

Code Principle: In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

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 by email. The Society seeks member feedback via customer satisfaction surveys to ensure it continues to improve its service to members both now and in the future. The Society will continue to consider how best to improve its engagement with its membership during 2023 including through the use of customer and market research.

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, Risk & Compliance, Remuneration and Nominations Committees are therefore available to answer questions.

The Board recognises the role that employees play in making the Society a success. The Board is open to employee engagement and, when circumstances permit, spend time in the business listening to employees and taking on board their feedback on a range of matters such as the Society's culture and opportunities for improvement. This is conducted through employee lunches, meetings and attending training sessions with teams from the Society. The size of the Society allows the Board members to meet both new and existing employees, often in an informal unplanned setting where they are able to have more of an open and honest conversation. The Board is keen to continue their dialogue with employees in 2023.

The Society works with the Hertfordshire Community Foundation to support local charities and in 2022 it allocated funds to several charities. In addition, employees support their local communities through a range of volunteering activities. The Society also actively engages with the Building Societies Association and UK Finance in support of the broader building society sector and its customers.

Corporate Governance Report (continued)

Workplace Policies and Practices

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. The workforce should be able to raise any matters of concern.

Board comment:
Workplace policies, procedures and practices are regularly reviewed to ensure that they remain consistent with the Society's values. They set out detailed expectations and behaviours around how to make the right decisions for the Society's customers and other employees.

Employee safety and wellbeing is important to the Society and a number of resources are available to employees to support their needs. These include access to a confidential employee assistance programme, health advice and education, and mental health first aid provision. The Society also provides resources and links for employees to explore and understand their own mental health better.

A whistleblowing policy with associated procedures and contacts are in place to allow employees the opportunity to raise any concerns they may have. The Senior Independent Director is the nominated whistleblowing champion for the Society. The whistleblowing champion has responsibility for overseeing the integrity, independence and effectiveness of the Society's whistleblowing policies and procedures including those intended to protect whistleblowers from being victimised. In addition, all employees undertake annual training on the Society's whistleblowing arrangements and how to raise concerns confidentially, both internally and externally via a whistleblowing service provider and to the regulator.

Divisions of Responsibilities

Chair

Code Principle: The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure 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, and ensures that directors receive accurate, timely and clear information.

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

Board Composition

Code Principle: The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Board comment:
During the year, the Board was comprised of two Executives and five 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 Board culture is collaborative in nature and the Non-Executive Directors bring sound judgement and good challenge to Board discussions. The Chair ensures that no one individual or small group of individuals dominates the Board's decision making.

Corporate Governance Report (continued)

The offices of the Chair and the Chief Executive Officer 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 Officer is responsible for managing the Society's business within the parameters set by the Board.

Nigel Boothroyd (who is also the Vice Chair) has been appointed as the Senior Independent Director and as such acts as a confidential sounding board for the Society's Non-Executive Directors and senior management. Nigel also leads the annual review of the Chair's performance.

Non-Executive Directors

Code Principle: Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Board comment:
The 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 of Directors at Board and committee meetings during 2022 is set out on page 23.

The Non-Executive role at the Society requires an 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 senior management.

Information and Support

Code Principle: The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Board comment:
The Chair ensures that the Board receives accurate, clear and timely information sufficient to enable it to discharge its responsibilities. The Board can access Board and committee packs, minutes, policies and other relevant information through the online Board Sharepoint site.

All new Directors undergo a formal and tailored induction prior to joining the Board. The training and development needs of each Director are reviewed annually as part of the performance review process.

The Secretary provides support on corporate governance matters and the Board has access to independent advice if required.

Composition, Succession and Evaluation

Appointments to the Board

Code Principle: Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Board comment:
The Nominations Committee ensures that the Board and its committees have the right balance of skills, knowledge, experience, independence and diversity to enable them to discharge their duties and responsibilities effectively. The Board firmly believes in the importance of a diverse Board, in its broadest sense and promotes an inclusive culture across the Society. The Board believes the diversity of skills, knowledge, experience, backgrounds, opinions and other distinctions, including gender, age and race strengthens the capability of the Board and, therefore, the effectiveness of its independence, judgement and decision making. Its diversity and inclusion policy recognises an effective and diverse board has the foundations to be able to support stakeholders' views, challenge management and achieve the Society's overall strategic aims by having a wider range of perspectives represented at Board level. The Board has set itself a target of ensuring

that one third of its directors are women and during the year comprised 14% while the Leadership Team comprised 25% women and their direct reports 46%. The Board is conscious that it needs to take positive action to improve its gender target and has initiated a search to fill the current Non-Executive Director vacancy with a female candidate.

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 Director roles are identified in a variety of ways, including inviting applications from members, through professional search, press and online advertisements. An executive search and selection firm, Nurole, has been engaged to assist the Society in its recruitment of a new Non-Executive Director.

The Society is a small firm with succession planning considered from both an internal and external appointment perspective. The Nominations Committee is responsible for succession planning at both the Board and senior management level and 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 and senior management 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 Nominations Committee leads the recruitment process and recommends a candidate to the Board to determine whether to appoint the candidate.

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

Board and Committee Membership

Code Principle: The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Board comment:
During the year, the Board comprised seven Directors (two Executive and five Non-Executive), who together provide a balance of skills and experience appropriate for the requirements of the business. Details of each Director is contained on pages 7 to 9 and highlights the range of skills on the Board. Committee membership is limited to the Non-Executive Directors with appropriate expertise allocated to each committee. Membership is reviewed on an annual basis to ensure that there is a balance of skills on each committee to discharge their responsibilities in accordance with their terms of reference.

The Rules of the Society require all Directors to be submitted for election at the Annual General Meeting (AGM) following their first appointment to the Board and thereafter for re-election at least every three years after first being elected. Notwithstanding this and in line with the Code, the Board has agreed that all directors should submit themselves for re-election on an annual basis. Accordingly, all of the Society's Directors (with the exception of George McGrady who has resigned since the year-end) will be retiring at this year's AGM and submitting themselves for re-election. This includes Stephen Richardson, the Chair, who will stand for re-election despite having served on the Board for more than nine years from the date of his first appointment as a Non-Executive Director in January 2014.

Ordinarily, Non-Executive Directors serve up to a maximum of nine years from the date of their first appointment. However, the Board has agreed to extend the Chair's tenure beyond nine years until the end of the 2024 AGM to facilitate an effective succession plan and the development of a diverse board. A process is already underway to identify a successor Chair and to ensure an orderly transition. The Board is satisfied that the Chair remains independent notwithstanding the extension to his tenure.

Corporate Governance Report (continued)

Evaluation

Code Principle: Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Board comment:
The performance and effectiveness of the Board and its committees are evaluated annually and overseen by the Nominations Committee. The assessment usually takes the form of either an interview-based assessment or an online questionnaire with the results being discussed at the Board or relevant committee and an action plan formulated to address any findings. Following this year's assessment, an action plan for continued improvement and development was put in place to address the points raised, and good progress has been made during 2022 to close out the actions.

In addition, there is a formal process in place to assess the performance and effectiveness of the Board members. Each Director has an annual performance appraisal carried out by the Chair (or in the case of the Finance Director, the Chief Executive Officer) who takes into account the views of the other directors and key stakeholders. The Chair's performance is separately evaluated by the full Board and facilitated by the Senior Independent Director. All Directors are also subject to a mid-year review.

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

Audit, Risk and Internal Control

Audit Committee and Auditors

Code Principle: The board should establish formal and transparent policies and procedures to ensure the independence of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Board comment:
The Audit Committee comprises three Non-Executive Directors and is chaired by David Green. Other Non-Executive Directors and members of senior management, as well as representatives from the Internal and External Auditors may attend meetings by invitation. The Board is satisfied that all members of the committee have recent and relevant financial experience, specifically David Green and Mark Willis.

The Audit Committee meets four times a year and reviews the financial statements, the effectiveness of internal controls and the performance of both the Internal and External Auditors. At least annually, it meets separately with the External and Internal Auditors without the presence of the Executive Directors. Minutes of the Committee meetings are available to all Board members and the Chair of the Committee provides an assurance report to the Board at each subsequent meeting.

As part of its duties, the Audit Committee is responsible for reviewing the independence, objectivity and effectiveness of the internal audit function and, it assures itself that the External Auditor remains independent. The External Auditor does not provide any non-audit services.

The Audit Committee also considers the tenure of the existing audit and manages the process for a change in External Auditor for recommendation to the Board. The last tender was undertaken in 2019, which resulted in a change being proposed and carried at the 2020 Annual General Meeting for Mazars LLP to be appointed as the Society's External Auditor.

In 2021, the Audit Committee initiated a tender process in respect of its Internal Auditors that led to four firms being invited to tender to provide internal audit services to the Society. Following a review of each tender and two firms being called to interview, the Audit Committee concluded that Deloitte continued to provide the best service and recommended their reappointment to the Board. The Board duly approved Deloitte's reappointment.

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

Corporate Governance Report (continued)

Stress Tests

The additional impact of the war in Ukraine, together with other adverse economic impacts on mortgage affordability , are amongst the various stress scenarios that have been considered by the Committee in the context of its review of Going Concern. The Committee reviewed the extent to which these extreme economic stresses could impact business activity, operational resilience and credit risk (loan loss provisioning). It has also considered the impact of these stresses on liquidity and capital by assessing the Society's financial strength. The Committee is comfortable that the impact of its internal scenario and stress testing indicates that there were no stressed impact scenarios that could undermine the business model or the going concern assertion.

Loan loss provisioning

The Society estimates the level of mortgage loss provision required based on historic default and loss experience. There remains uncertainty in the current economic climate and the Society therefore continues to monitor and reassess credit risk and its impact on loan loss provisions. The underlying assumptions have been challenged and considered in the light of macro conditions as well as translating this to the specific impacts the Society has experienced. This has included an assessment against external loss data, sensitivity analysis to changing house price and default assumptions and comparison to alternative stress scenarios conducted by the Society as part of its capital assessment (ICAAP).

The Audit Committee has examined and challenged the assumptions included within the Society's provisioning model during the year and is satisfied with the approach and level of provisions made. It is recognised that there has been an increase in loan loss provisions in 2022, however, this is primarily as a result of a growing mortgage book and against a backdrop of no loss experience and low average LTVs across the mortgage book. This protection to adverse movements in economic factors results in a resilient loan book from a credit risk perspective.

Property valuations

The Society has determined that it does not have the required in-house expertise to value its commercial property assets. Consequently, the Committee agreed to engage the services of a specialist valuer to carry out this activity on behalf of the Society. The Society changed valuers during the year, resulting in a more conservative approach being taken on the valuation. The values were considered by the Committee with reference to the 2021 valuations, together with their locale, selling prices of alternative properties, sensitivity to change, the current economic conditions and with due regard to the change in bases of valuation.

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 page 19.

Risk Management and Internal Control

Code Principle: The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order 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 Leadership 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. The Board, its committees and the management committees are responsible for the risks and controls within their remit.

The 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 is in the process of enhancing its Enterprise Risk Management Framework (ERMF) to ensure the Society has a strong risk management and compliance culture and that the framework is effective and appropriate for the size and complexity of the business.

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 and Compliance**	**Internal Audit**		
Day to Day Risk management	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 Committee as to the effectiveness of both first and second lines of defence.		
Departmental managers perform daily checks and monitoring on activities and functions for which they have direct responsibility.				

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.
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.
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, Internal Audit's 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 controls 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.

Remuneration

The Directors' Remuneration Report on pages 30 - 31 explains how the Society complies with the Principles relating to remuneration.

On behalf of the Board of Directors,

Stephen Richardson
Chairman
20 March 2023

Directors' Remuneration Report

The purpose of this report 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. The remuneration of the individual Directors is detailed in note 7 on page 49.

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. In determining Executive Director and Leadership Team remuneration, it first reviews 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 Leadership 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. The policy is made available to all employees.

Executive Director Emoluments

Total remuneration includes base pay, performance related bonus, benefits (such as medical insurance) and pension. Executive Director 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 an on-target bonus of 15% of basic salary with a maximum award of 30% of basic salary for leading performance which achieves stretch targets. 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 2022 discretionary performance-related bonus scheme paid 5% to Richard Doe. George McGrady did not receive a payment as he was on notice to leave. Ashif Kassam was appointed as Interim Finance Director in November 2022, paid on a contract basis, and as such does not receive any bonus or other employee benefits.

c. **Retirement Benefits – Pension.** The Executive Directors have defined contribution pension plans, to which the Society and employee both contribute. The pension contribution to Executive Directors aligns with that of the workforce and is set at 10% of basic salary. Richard Doe opted not to take the employer pension benefit in 2022.

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 -** R Doe is employed on a Service Contract dated 24 September 2021, terminable by the Society or by the individual on six months' notice. G. McGrady resigned and his employment ended on 31 January 2023.

Directors' Remuneration Report (continued)

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. All historical service agreements have a provision for Life Assurance at the rate of three times annual fees. The remuneration of Non-Executive Directors is a matter for the Board Chair and the Chief Executive. The remuneration of the Board Chair a matter for the vice-chair and the Chief Executive. Non-executive Directors' remuneration is also set by the Board, following review by the Remuneration Committee.

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 outcome.

Board comment:
The Remuneration Committee reviews the Society's Remuneration Policy, including Director Remuneration Frameworks 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 determine 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.

Nigel Boothroyd
Chair of Remuneration Committee
20 March 2023

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

Opinion

We have audited the annual accounts of Harpenden Building Society (the 'Society') for the year ended 31 December 2022 which comprise of the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Members' Interests, the Statement of Cash Flow, and notes to the accounts, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the annual accounts:

- give a true and fair view of the state of the Society's affairs as at 31 December 2022 and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual accounts" section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, including the Financial Reporting Council's ('FRC') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

Our audit procedures to evaluate the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Society's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions made and the implication of those when assessing the Society's future financial performance;
- Challenging the appropriateness of the directors' key assumptions in their cash flow forecasts by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios. This included reviewing the Society's latest ICAAP and ILAAP and its reverse stress testing;
- Testing the accuracy and functionality of the model used to prepare the directors' forecasts;
- Assessing the historical accuracy of forecasts prepared by the directors;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the current economic situation, including but not limited to, the 'cost of living crisis', inflation levels and interest rates;
- Considering the consistency of the directors' forecasts with other areas of the annual accounts and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the annual accounts on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matter in forming our audit opinion above, together with an overview of the principal audit procedures performed to address this matter and our key observations arising from those procedures.

This matter, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
Credit Risk - Allowance for impairment losses on loans and advances to customers. *Refer to Note 1.5 and 1.13 for the accounting policy and Note 11 and 12 of the annual accounts.* The society holds £237.1m (2021: £217.2m) of loans and advances to customers against which an impairment provisions of £242,000 (2021: £66,000) is held at the year end. Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year-end provisions. FRS 102 requires a collective provision for losses incurred but not yet identified by the Society. The Society has limited actual loss experience on which to base its impairment assessment on the loan portfolio, resulting in management judgement being required in deriving assumptions to be applied in the assessment. The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In particular, the impairment assessment is most sensitive to movements in the house price index (HPI) and forced sale discounts against collateral.	Our audit procedures included, but were not limited to: • Evaluating the design and implementation, and testing the operating effectiveness, of the key controls in relation to the credit process (loans origination and approval, loan redemptions and arrears monitoring); • Critically assessing the reasonableness of external data used in the provision model and checking the relevance of this data based on our understanding of the Society's portfolio; • Comparing the Society's key assumptions with similar lenders and considered whether they are consistent with industry practice. Additionally, assessing whether the collective provision held is commensurate with the loan book size and inherent risk using coverage ratios obtained from peer group benchmarking; • Developing an auditor's range estimate of the collective provision using reasonable alternative assumptions relevant to the Society's portfolio; • Performing a stand back assessment of the resulting collective impairment estimate and assessing its appropriateness; and • Assessing the adequacy of the Society's disclosures in relation to the degree of estimation uncertainty involved in arriving at provision for impairment losses on loans and advances to customers. **Our observations** Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be reasonable as at 31 December 2022 and in compliance with FRS 102.

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

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

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual annual account line items and disclosures and in evaluating the effect of misstatements, both individually and on the annual accounts as a whole. Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	£285,000 (2021: £288,000)
How we determined it	1% of net assets (2021: 1% of net assets)
Rationale for benchmark applied	We consider that net assets is the most appropriate benchmark to use for the Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Further, net assets as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where net assets is an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole. Performance materiality of £199,500 (2021: £201,000) was applied in the audit based on 70% (2021: 70%) overall materiality. We considered several factors in determining performance materiality including, the level and nature of uncorrected and corrected misstatements in the prior year and the robustness of the control environment, and concluded that an amount towards the upper end of our normal range was appropriate.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £8,550 (2021: £8,600) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the annual accounts, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the annual accounts as a whole. We used the outputs of a risk assessment, our understanding of the Society, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all annual accounts line items.

Other information

The other information comprises the information included in the 'Directors' Report, Accounts and Annual Business Statement', other than the annual accounts and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on the Annual Business Statement and the Directors' Report

In our opinion, based on the work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the Building Societies Act 1986;
- the information 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 on which we are not required to report) gives a true representation of the matters in respect of which it is given.

In light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society's 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.

Responsibilities of Directors

As explained more fully in the statement of directors' responsibilities set out on page 32, the directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for 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 the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA'), and we considered the extent to which non-compliance with these laws and regulations might have a material effect on the annual accounts.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance with laws and regulations, our procedures included but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Society, the industry in which it operates, and considering the risk of acts by the Society which were contrary to the applicable laws and regulations including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Society is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;

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

- Inspecting correspondence with relevant licensing or regulatory authorities, including the PRA and FCA;
- Reviewing minutes of directors' meetings in the year;
- Having bilateral meeting with the PRA in respect of Society's performance and short to medium term plans of the Society;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- Focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience and through discussions with the directors, from inspection of the Society's regulatory and legal correspondence and review of minutes of the Board of Directors and Audit Committee during the period.

We also considered those other laws and regulations that have a direct impact on the preparation of annual accounts, such as the Building Societies Act 1986 and UK tax legislation.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the annual accounts, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed under "Key audit matters" within this report.

A further description of our responsibilities is available on the FRCs website at **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 23 April 2020 to audit the annual accounts for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 December 2020 to 31 December 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society and we remain independent of the Society in conducting our audit.

Our audit opinion is consistent with our additional report to the audit committee.

Use of the audit report

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.

Greg Simpson (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey, London EC4M 7AU
20 March 2023

Statement of Comprehensive Income

for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Interest receivable and similar income	2	9,744	7,770
Interest payable and similar charges	3	(2,413)	(1,156)
Net interest income		**7,331**	6,614
Fees and commissions receivable		168	191
Fees and commissions payable		(197)	(149)
Other operating income	4	147	90
Total net income		**7,449**	6,746
Administrative expenses	5	(6,877)	(6,817)
Depreciation and amortisation	14, 15	(183)	(135)
Fair value (loss)/gains on investment property	16	(500)	109
Operating profit before impairments and provisions		**(111)**	(97)
(Charge)/release on loan loss impairment	12	(176)	178
Operating (loss)/profit before taxation		**(287)**	81
Provisions for liabilities		-	5
(Loss)/Profit before taxation		**(287)**	86
Tax credit/(expense)	8	84	(50)
(Loss)/Profit for the financial year		**(203)**	36
Other comprehensive income			
Revaluation of tangible fixed assets	15	(509)	346
Movement in related deferred tax	22	127	4
Total comprehensive (loss)/income for the financial year		**(585)**	386

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

The notes to these Accounts can be found on pages 42 to 69.

Statement of Financial Position

for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Assets			
Liquid assets			
Cash in hand and balances at the Bank of England	9	46,746	62,793
Loans and advances to credit institutions	10	17,614	10,208
Loans and advances to customers			
Loans fully secured on residential property	11	233,557	213,298
Other loans	11	3,273	3,650
Participating interests	13	163	163
Intangible assets	14	65	8
Tangible fixed assets	15	2,363	2,901
Investment property	16	1,689	2,189
Other debtors	17	293	557
Total assets		**305,763**	295,767
Liabilities			
Shares	18	263,005	260,715
Amounts owed to credit institutions	19	11,056	1,236
Amounts owed to other customers	20	2,540	3,296
Other liabilities	21	524	1,070
Deferred tax liability	22	120	347
Total liabilities		**277,245**	266,664
General reserve	23	27,508	27,711
Revaluation reserve	23	1,010	1,392
Total reserves attributable to members of the Society		**28,518**	29,103
Total reserves and liabilities		**305,763**	295,767

The accounting policies and notes to these Accounts can be found on pages 42 to 69.

These accounts were approved by the Board of Directors on 20 March 2023 and signed on it behalf:

Stephen Richardson
Chair

Richard Doe
Chief Executive

David Green
Non Executive Director and
Chair of Audit Committee

Statement of Changes in Members' Interests

for the year ended 31 December 2022

	General reserve 2022 £000	Revaluation reserve 2022 £000	Total 2022 £000
Balance at 1 January 2022	**27,711**	**1,392**	**29,103**
Total comprehensive income for the year			
Loss for the financial year	**(203)**	**-**	**(203)**
Revaluation of tangible fixed assets (net of tax)	**-**	**(382)**	**(382)**
Total comprehensive loss for the year	**(203)**	**(382)**	**(585)**
Balance at 31 December 2022	**27,508**	**1,010**	**28,518**

	General reserve 2021 £000	Revaluation reserve 2021 £000	Total 2021 £000
Balance at 1 January 2021	27,675	1,042	28,717
Total comprehensive income for the year			
Profit for the financial year	36	-	36
Revaluation of tangible fixed assets (net of tax)	-	350	350
Total comprehensive income for the year	36	350	386
Balance at 31 December 2021	27,711	1,392	29,103

Cash Flow Statement

for the year ended 31 December 2022

	Notes	2022 £000	Restated 2021 £000
Cash flows from operating activities			
(Loss)/Profit Profit before tax		**(287)**	86
Adjustments for			
Impairment on loans and advances	12	**176**	(178)
Provisions for specific liabilities		**-**	(5)
Depreciation and amortisation	14, 15	**183**	135
Fair value loss/(gain) on investment property	16	**500**	(109)
Total		**572**	(71)
Changes in operating assets and liabilities			
Decrease in prepayments, accrued income and other assets		**27**	15
(Decrease)/increase in accruals, deferred income, other liabilities and provisions*		**(746)**	753
(Increase)/decrease in loans and advances to customers*		**(19,825)**	9,162
Increase/(decrease) in member shares		**2,290**	(7,369)
(Decrease)/increase in amounts owed to other credit institutions and other customers*		**(986)**	(289)
Taxation received/(paid)		**1**	(34)
Net Cash (used) / generated by operating activities		**(19,239)**	2,238
Cash flows from investing activities			
Purchase of financial securities		**(16,500)**	(3,000)
Proceeds from financial securities		**7,000**	3,000
Proceeds of wholesale securities		**-**	250
Purchase of tangible fixed assets		**(146)**	(156)
Purchase of intangible fixed assets		**(65)**	(7)
Net cash generated by investing activities		**(9,711)**	87
Cash flow from financing activities			
Proceeds of Indexed Long-Term Repo (ILTR)		**10,000**	-
Net cash used by financing activities		**10,000**	-
Net (decrease)/increase in cash and cash equivalents		**(18,378)**	2,254
Cash and cash equivalents at 1 January		**69,993**	67,739
Cash and cash equivalents at 31 December		**51,615**	69,993

Reconciliation of cash balances:	2021 £000	Movement £000	2022 £000
Loans and advances to credit institutions repayable on demand	7,200	(2,331)	**4,869**
Cash in hand and balances at the Bank of England	62,793	(16,047)	**46,746**
Total cash	69,993	(18,378)	**51,615**

* 2021 figures have been restated following a review of comparatives during the year.

The notes to these Accounts can be found on pages 42 to 69.

Notes to the Accounts

(forming part of the annual accounts)

1. Accounting policies

For the year ended 31 December 2022 Harpenden Building Society (the "Society") has prepared the annual accounts under the historical cost convention as modified by the revaluation of freehold and investment property. The accounts are prepared on a going concern basis. This reflects the Directors' consideration and assessment of the Society's state of affairs, as summarised below. 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 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 and financial position (reflecting the impact of the current state of the UK economy). This includes the impact on capital, liquidity and credit risk 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.

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 1.13.

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. 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. 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 statement of comprehensive income using the effective interest method. The 'effective interest rate' is the rate that 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 statement of comprehensive income 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 loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income 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

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.

Loans and advances

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.

Financial liabilities

The Society classifies its financial liabilities as measured at amortised cost.

The 'amortised cost' of a financial liability is the amount at which the 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 assesses whether there is objective evidence that financial assets measured at amortised cost are impaired. Impairment losses are recognised in statement of comprehensive income 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 statement of comprehensive income.

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.

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 statement of comprehensive income 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 10 years 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.

Notes to the Accounts (continued)

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.

1.8 Investment property

Investment property relates to the element of the Society's freehold under a commercial lease arrangement with a third party. These are subject to an annual revaluation with any gain or loss charged against operating profit.

Rental income from investment properties is accounted for on an accruals basis.

1.9 Investment in Mutual Vision

The investment in Mutual Vision is accounted for on the basis of cost less impairment. The fair value of the company is not readily available on an ongoing basis and therefore, the Directors consider that accounting for its investment on a cost basis is reasonable.

1.10 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 statement of comprehensive income 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.

1.11 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 statement of comprehensive income 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.

1.12 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.

Notes to the Accounts (continued)

1.13 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a potential risk of resulting in a material adjustment in the year ended 31 December 2022 are set out below in relation to the impairment of financial instruments.

Owned Freehold Land & Building Valuations

The Society's owned properties are revalued annually, as required, given the bifurcation of the properties between 'owner occupied' and 'investment' property. All properties were valued by a professional valuer with suitable experience based in the local area. Valuations were based on a combination of income yield (which is considered appropriate for commercial properties) and comparable properties sold in the surrounding/nearby area. The valuation is however, subject to a degree of estimation. The sensitivity of the valuation to a 10% rise or fall in commercial values would result in a c£280k gain or loss, respectively.

Impairment losses on loans and advances

The Society holds provisions for impairment losses against loans on a 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 behaviours.

The most critical estimation is of the level of house prices where a reduction of 10% impacts the provision by £260k. Other sensitivities include a forced sale discount increase of 10% (FSD x 110%) which equates to £71k, and the emergence period (i.e. the average time from the point at which a 'loss event' occurs to the point at which it is confirmed), where an increase of six months equates to £20k.

The carrying value of loans and advances to customers at 31 December 2022 is £236.8m.

Effective interest rate

The calculation of an effective interest rate requires the Society to make assumptions about the expected average lives of mortgages. The expected average life has been determined based on a review of the behavioural life of the various portfolios with the Society's loan book. Interest income is amortised 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 increase by £15k with a corresponding fall in income.

It should be noted that during the year the Society revised its approach to estimate EIR and to include Early redemption charges (ERCs'). The change in estimating EIR across the products resulted in credit to Statement of Comprehensive Income of £109,000.

Fees and Commissions

Fees and commissions both receivable and payable are recognised as an adjustment to the effective interest rate and recorded in interest income/(payable) where the fees are an integral part of the effective interest rate of a financial instrument. Fees and commissions receivable include mortgage arrangement and Procurement fees, early repayment charges and valuation fees.

Fees and commissions payable include mortgage introducer's fees, valuation fees payable and mortgage product incentives. Other fees are recognised on an accruals basis.

2. Interest receivable and similar income

	2022	2021
	£000	£000
On loans fully secured on residential property	**8,665**	7,493
On other loans	**213**	212
On debt securities	**192**	-
On other liquid assets	**674**	65
	9,744	7,770

Notes to the Accounts (continued)

3. Interest payable and similar charges

	2022 £000	2021 £000
On shares held by individuals	**2,362**	1,156
On deposits and other borrowings	**51**	-
	2,413	1,156

4. Net operating income

	2022 £000	2021 £000
Rents receivable	**147**	147
Other operating expense	**0**	(57)
	147	90

The operating expense in 2021 relates to the repayment of the Government furlough subsidy received in 2020.

5. Administrative expenses

	2022 £000	2021 £000
Wages and salaries	**3,429**	3,202
Social security costs	**388**	340
Contributions to defined contribution plans	**442**	393
	4,259	3,935
Other administrative expenses	**2,618**	2,882
	6,877	6,817

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

Other administrative expenses Auditor's remuneration	2022 £000	2021 £000
Audit of these annual accounts	**118**	95

2022 figure includes £4k worth of fees related to 2021 paid as overruns.

Notes to the Accounts (continued)

6. Employee numbers

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

	2022 Full-time	**2022 Part-time**	2021 Full-time	2021 Part-time
Head Office	**51**	**17**	53	7
Branch Offices	**6**	**8**	7	11
	57	**25**	60	18

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

7. Directors' remuneration

Total Directors' emoluments for the year amounted to £525,869 (2021: £697,429). George McGrady resigned 31 January 2023.

2022	**Salaries £000**	**Bonus £000**	**Benefits £000**	**Pension Contributions £000**	**Total £000**
R. Doe (Chief Executive)	**170**	**9**	**1**	**-**	**180**
G. McGrady (Finance Director - resigned 31 January 2023.)	**146**	**-**	**12**	**15**	**173**
	316	**9**	**13**	**15**	**353**

2021	Salaries £000	Bonus £000	Benefits £000	Pension Contributions £000	Total
R. Doe (Chief Executive)	**45**	**-**	**-**	**-**	**45**
S. Howe (former Chief Executive)	**262**		**14**	**23**	**299**
G. McGrady (Finance Director)	**143**	**-**	**12**	**14**	**169**
	450	**-**	**26**	**37**	**513**

Notes to the Accounts (continued)

Non-Executive Director Emoluments (comprising fees only):

	2022	2021
	£000	£000
S. Richardson	**46**	45
J. Mortimer Sykes (Retired 23 April 2021)	**-**	10
N. Boothroyd	**33**	32
M. Willis	**33**	32
R. Doe (Resigned as a Non-Executive Director 24 September 2021)	**-**	20
D. Green	**33**	32
L. Beecher	**28**	13
	173	184

As at 31 December 2022, there were no outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons (2021: Nil) representing loans to nil (2021: 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.

An individual is required to hold at least £500 with the society to be eligible to be a director (under society rule 13(1)(d)). The total amount of deposits held by directors of the society as at 31 December 2022 was £10,660 (2021: £11,068). Amounts deposited by directors earn interest at the same rates offered to the public.

Notes to the Accounts (continued)

8. Taxation

	2022 £000	2021 £000
Current tax		
Current tax on income for the period	**18**	-
Adjustments in respect of prior periods	**(2)**	(21)
Total current tax	**16**	(21)
Deferred tax (see note 22)		
Origination and reversal of timing differences	**(102)**	29
Adjustments in respect of prior periods	**2**	-
Effect of tax rate change on opening balance	**-**	42
Total deferred tax	**(100)**	71
Total tax	**(84)**	50

Reconciliation of effective tax rate	2022 £000	2021 £000
(Loss)/Profit for the year	**(203)**	36
Total tax (credit)/expense	**(84)**	50
(Loss)/Profit excluding taxation	**(287)**	86
Tax using the UK corporation tax rate of 19.00%	**(54)**	16
Fixed asset differences	**(6)**	5
Adjustments to tax charge in respect of previous periods	**(2)**	(21)
Remeasurement of deferred tax for changes in tax rates	**(24)**	29
Adjustments to tax charge in respect of previous periods - deferred tax	**2**	-
Losses carried back	**-**	21
Total tax (credit)/expense included in profit or loss	**(84)**	50

The deferred tax liability at 31 December 2022 has been calculated based on a 25% (2021: 25%) rate.

Notes to the Accounts (continued)

9. Cash and cash equivalents

	2022 £000	2021 £000
Cash in hand and balances at the Bank of England	**46,746**	62,793
As at 31 December	**46,746**	62,793

10. Loans and advances to credit institutions

	2022 £000	2021 £000
Accrued interest	**245**	8
Repayable on demand	**4,869**	7,200
Other loans and advances by residual maturity repayable:		
In not more than three months	**12,500**	3,000
In more than three months but not more than one year	**-**	-
Total loans and advances to credit institutions	**17,614**	10,208

11. Loans and advances to customers

	2022 £000	2021 £000
Loans fully secured on residential property	**233,780**	213,570
Unamortised Fees	**16**	(208)
Impairment allowance	**(239)**	(64)
Loans fully secured on residential property	**233,557**	213,298
Loans fully secured on land	**3,276**	3,652
Impairment allowance	**(3)**	(2)
Loans fully secured on land	**3,273**	3,650
	236,830	216,948

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

	2022 £000	2021 £000
On call and at short notice	**6**	7,419
In not more than 3 months	**3,566**	4,305
In more than 3 months but not more than 1 year	**11,325**	9,477
In more than 1 year but not more than 5 years	**64,067**	53,537
In more than 5 years	**158,092**	142,485
	237,056	217,223
Less: allowance for impairment (note 12)	**(242)**	(66)
Unamortised fees	**16**	(209)
	236,830	216,948

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

Notes to the Accounts (continued)

12. Allowance for impairment

	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	**£000**	**£000**
At 1 January 2022			
Individual impairment	**-**	**-**	**-**
Collective impairment	**64**	**2**	**66**
	64	**2**	**66**
Income statement			
Release for the year			
Individual impairment	**-**	**-**	**-**
Collective impairment	**175**	**1**	**176**
	175	**1**	**176**
At 31 December 2022			
Individual impairment	**-**	**-**	**-**
Collective impairment	**239**	**3**	**242**
	239	**3**	**242**

Management has considered the impairment on the investment assets and assessed that recoverable value is more than carrying balance.

	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	£000	£000
At 1 January 2021			
Individual impairment	-	-	-
Collective impairment	237	7	244
	237	7	244
Income statement			
Release for the year			
Individual impairment	-	-	-
Collective impairment	(173)	(5)	(178)
	(173)	(5)	(178)
At 31 December 2021			
Individual impairment	-	-	-
Collective impairment	64	2	66
	64	2	66

Notes to the Accounts (continued)

13. Investments

The Society holds 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. The company has a 31 December year end. On 31 December, the Society's investment, which is a participating interest, was represented by:

	2022 £000	2021 £000
Shares in participating interest	**163**	163
At end of year	**163**	163

14. Intangible assets

	2022 £000	2021 £000
Cost		
Balance at 1 January	**319**	312
Additions	**65**	7
Balance at 31 December	**384**	319
Amortisation and impairment		
Balance at 1 January	**311**	305
Amortisation charge for the year	**8**	6
Balance at 31 December	**319**	311
Net book value		
At 1 January	**8**	7
At 31 December	**65**	8

Notes to the Accounts (continued)

15. 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 2022	2,475	120	1,250	3,845
Additions	11	0	135	146
Disposals	0	0	(348)	(348)
Revaluation	(509)	0	0	(509)
Balance at 31 December 2022	1,977	120	1,037	3,134
Depreciation and impairment				
Balance at 1 January 2022	0	86	858	944
Depreciation charge for the year	57	3	115	175
Disposals	0	0	(348)	(348)
Revaluation adjustment	0	0	0	0
Balance at 31 December 2022	57	89	625	771
Net book value				
At 1 January 2022	2,475	34	392	2,901
At 31 December 2022	1,920	31	412	2,363

Annual valuations as at 31 December 2021 and 2022 were performed by an independent valuers, London's Surveyors & Valuers Ltd and McNeill Lowe & Palmer, respectively, both hold a recognised and relevant professional qualification and have recent experience in the location and class of investment property being valued. The impact of the revaluation has been included for tangible fixed assets and investment property. Refer to note 1.13 on page 47 for the basis of valuation.

The disposals in the year are a result of a review of the asset register, which showed a large volume of fully depreciated assets that were no longer in use.

The original cost of Freehold land and buildings recorded in the accounts was £3.1m. Depreciation would have been £1m giving a net book value of £2.1m. The total value is split into Investment property and freehold land and buildings.

Notes to the Accounts (continued)

15. Tangible fixed assets (continued)

	Freehold land and buildings	Short leasehold buildings	Office & computer equipment	Total
	£000	£000	£000	£000
Cost or valuation				
Balance at 1 January 2021	2,285	120	1,094	3,499
Additions	-	-	156	156
Disposals	-	-	-	-
Revaluation	190	-	-	190
Balance at 31 December 2021	2,475	120	1,250	3,845
Depreciation and impairment				
Balance at 1 January 2021	114	83	774	971
Depreciation charge for the year	42	3	84	129
Revaluation adjustment	(156)			(156)
Balance at 31 December 2021	-	86	858	944
Net book value				
At 1 January 2021	2,171	37	320	2,528
Balance at 31 December 2021	2,475	34	392	2,901

16. Investment property

	Mardall House	**Aberdeen House**	**Total**
	£000	**£000**	**£000**
Valuation			
Balance at 1 January 2022	**1,089**	**1,100**	**2,189**
Revaluation	**(179)**	**(321)**	**(500)**
Balance at 31 December 2022	**910**	**779**	**1,689**

	Mardall House	Aberdeen House	Total
Valuation	£000	£000	£000
Balance at 1 January 2021	980	1,100	2,080
Revaluation	109	-	109
Balance at 31 December 2021	1,089	1,100	2,189

Investment property consists of the proportion of the Society's freehold property that has been let out as office or residential units. The leases on the investment property are contractually for a minimum of £107k within one year, £31k in more than one year but not more than five years.

The fair value of the property has been determined on the basis of either floor area and/or rental income from each unit.

17. Other debtors

	2022 £000	2021 £000
Prepayments	**293**	557
	293	557

There are no prepayments that are due after more than one year (2021: £nil).

18. Shares

	2022 £000	2021 £000
Held by individuals	**263,005**	260,715

Shares are repayable with remaining maturities from the balance sheet date as follows:

Accured interest	**536**	168
On demand	**244,080**	238,471
In not more than three months	**1,127**	1,418
In more than three months but not more than one year	**2,680**	3,581
In more than one year but not more than five years	**8,865**	10,311
In more than five years	**5,717**	6,766
	263,005	260,715

19. Amounts owed to credit institutions

	2022 £000	2021 £000
Accrued interest	**50**	-
Repayable on demand	**6**	986
With agreed maturity dates or periods of notice		
In not more than three months	**1,000**	250
In more than three months but not more than one year	**10,000**	-
	11,056	1,236

£10m included in amounts greater than 3 months but not more than a year represents funds drawn down from the Bank of England (ILTR).

Notes to the Accounts (continued)

20. Amounts owed to other customers

	2022 £000	2021 £000
Repayable on demand	**2,540**	3,296

21. Other liabilities

	2022 £000	2021 £000
Corporation tax	**(5)**	(21)
Other creditors	**195**	136
Accruals and deferred income	**334**	955
	524	1,070

22. Deferred tax liability

	2022 £000	2021 £000
Deferred tax liabilities are attributable to the following:		
Origination and reversal of timing differences	**-**	(4)
Tax included in statement of total recognised gains and losses	**-**	(4)
Origination and reversal of timing differences	**(127)**	-
Tax included directly in other comprehensive income	**(127)**	-
Fixed asset timing differences	**158**	405
Short term timing differences	**(38)**	(58)
Total deferred tax liability	**120**	347
Provision at start of period	**347**	280
Deferred tax charged in statement of comprehensive income for the period	**(100)**	71
Deferred tax charged is recognised within other comprehensive income	**(127)**	(4)
Provision at end of period	**120**	347

The deferred tax liability at 31 December 2022 has been calculated based on a 25% (2021: 25%) rate.

23. Reserves

	General reserve £000	Revaluation reserve £000	Total £000
At 1 January 2022	27,711	1,392	**29,103**
Total comprehensive loss for the financial year	(203)	(382)	**(585)**
At 31 December 2022	**27,508**	**1,010**	**28,518**

The general reserve reflects the combination of the accumulation of profits/(losses) after tax generated each year and the unrealised gain or losses from the revaluation of investment property.

The revaluation reserve represents the increase or decrease in the value of freehold land and buildings against the orginal holding cost of the assets.

24. Financial instruments

Carrying values by category 31 December 2022	**Financial assets held at amortised cost £000**	**Financial liabilities at amortised cost £000**	**Other non-financial assets/liabilities £000**	**Total £000**
Financial assets				
Cash and balances at the Bank of England	46,746	-	-	**46,746**
Loans and advances to credit institutions	17,614	-	-	**17,614**
Loans and advances to customers	236,830	-	-	**236,830**
Total financial assets	**301,190**	-	-	**301,190**
Non-financial assets	-	-	4,573	**4,573**
Total assets	**301,190**	**-**	**4,573**	**305,763**
Financial liabilities				
Shares	-	263,005	-	**263,005**
Amounts owed to credit institutions	-	11,056	-	**11,056**
Amounts owed to other customers	-	2,540	-	**2,540**
Total financial liabilities	-	**276,601**	-	**276,601**
Non-financial liabilities	-	-	644	**644**
Total liabilities	-	**276,601**	**644**	**277,245**

Carrying values by category 31 December 2021	Financial assets held at amortised cost £000	Financial liabilities at amortised cost £000	Other non-financial assets £000	Total £000
Financial assets				
Cash and balances at the Bank of England	62,793	-	-	62,793
Loans and advances to credit institutions	10,208	-	-	10,208
Loans and advances to customers	216,948	-	-	216,948
Total financial assets	289,949	-	-	289,949
Non-financial assets	-	-	5,818	5,818
Total assets	289,949	-	5,818	295,767
Financial liabilities				
Shares	-	260,715	-	260,715
Amounts owed to credit institutions	-	1,236	-	1,236
Amounts owed to other customers	-	3,296	-	3,296
Total financial assets	-	265,247	-	265,247
Non-financial assets	-	-	1,417	1,417
Total liabilities	-	265,247	1,417	266,664

24. Financial instruments (continued)

Financial assets pledged as collateral

As at 31 December 2022 £60.4m of assets had been pledged as collateral (2021: £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

	2022 **£000**	2021 £000
Cash and balances at the Bank of England	**46,746**	62,793
Loans and advances to credit institutions	**17,614**	10,208
Loans and advances to customers	**237,056**	217,223
Total statement of financial position exposure	**301,416**	290,224
Off-balance sheet exposure - mortgage commitments	**42,576**	12,574
	343,992	302,798

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:

	2022 **£000**	2021 £000
Prime owner-occupied	**182,538**	161,531
Buy to let	**35,978**	31,106
Land	**3,276**	3,652
Other loans and advances to customers	**15,264**	20,934
Total loans and advances to customers	**237,056**	217,223

Notes to the Accounts (continued)

24. 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.

	2022	2022	2022	2021	2021	2021
	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	231,831	3,169	235,000	210,342	3,394	213,736
Past due but not impaired						
30 - 60 days	822	-	822	1,342	154	1,496
60 - 90 days	559	-	559	634	-	634
90 - 180 days	320	-	320	408	-	408
180 days+	264	107	371	636	104	740
	1,965	107	2,072	3,020	258	3,278
Allowance for impairment						
Individual	-	-	-	-	-	-
Collective	239	3	242	64	2	66
Total allowance for impairment	239	3	242	64	2	66
Total loans & advances to customers including impairment	233,557	3,273	236,830	213,298	3,650	216,948

24. Financial instruments (continued)

Credit risk (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	**2022** **%**	2021 %	Principal type of collateral held.
Loans and advances to customers	**100**	100	Secured against residential and commercial properties.

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.

	2022 **£000**	2021 £000
LTV ratio		
Less than 50%	**124,977**	132,098
51 - 70%	**75,373**	79,352
71 - 90%	**36,599**	5,773
91 - 100%	**107**	-
More than 100%	**-**	-
	237,056	217,223

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 1.5. The table below analyses the number of mortgage borrowers with renegotiated terms at the year-end date:

	2022 **Number of cases**	2021 **Number of cases**
Forbearance		
Short-term reduced monthly repayment plan	**13**	**11**

There are no individual impairment provisions held in respect of these mortgages as at 31 December 2022 (2021: £nil).

Notes to the Accounts (continued)

24. Financial instruments (continued)

Concentration by credit grading

	2022 £000	2021 £000
AAA	**-**	-
AA+ to AA-	**48,688**	66,043
A+ to A-	**15,581**	3,870
Building societies	**-**	3,000
Other	**92**	88
	64,361	73,001

Concentration by sector

	2022 £000	2021 £000
Financial institutions	**17,707**	10,296
Sovereign	**46,654**	62,705
	64,361	73,001

Concentration by region

	2021 £000	2021 £000
UK	**64,361**	73,001
Europe (excluding UK)	**-**	-
North America	**-**	-
Supranational	**-**	-
	64,361	73,001

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 repricing 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.

24. Financial instruments (continued)

As at 31 December 2022

	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	46,746	-	-	-	-	46,746
Loans and advances to credit institutions	4,869	12,500	-	-	-	17,369
Loans and advances to customers	6	3,566	11,325	64,067	158,092	237,056
Total financial assets	**51,621**	**16,066**	**11,325**	**64,067**	**158,092**	**301,171**
Financial liabilities						
Shares	244,080	1,127	2,680	8,865	5,717	262,469
Amounts owed to credit institutions	11,056	-	-	-	-	11,056
Amounts owed to other customers	2,540	-	-	-	-	2,540
Total financial liabilities	**257,676**	**1,127**	**2,680**	**8,865**	**5,717**	**276,065**

As at 31 December 2021

	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	62,793	-	-	-	-	62,793
Loans and advances to credit institutions	7,200	3,000	-	-	-	10,200
Loans and advances to customers	7,419	4,305	9,477	53,537	142,485	217,223
Total financial assets	77,412	7,305	9,477	53,537	142,485	290,216
Financial liabilities						
Shares	238,471	1,418	3,581	10,311	6,766	260,547
Amounts owed to credit institutions	1,236	-	-	-	-	1,236
Amounts owed to other customers	3,296	-	-	-	-	3,296
Total financial liabilities	243,003	1,418	3,581	10,311	6,766	265,079

Notes to the Accounts (continued)

24. Financial instruments (continued)

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 2022

	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	244,080	1,127	2,682	9,046	7,669	264,604
Amounts owed to credit institutions	11,056	-	-	-	-	11,056
Amounts owed to other customers	2,540	-	-	-	-	2,540
Total financial liabilities	**257,676**	**1,127**	**2,682**	**9,046**	**7,669**	**278,200**

As at 31 December 2021

	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	238,471	1,418	3,583	10,447	8,192	262,111
Amounts owed to credit institutions	1,236	-	-	-	-	1,236
Amounts owed to other customers	3,296	-	-	-	-	3,296
Total financial liabilities	243,003	1,418	3,583	10,447	8,192	266,643

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.

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.

24. Financial instruments (continued)

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.

As at 31 December	2022 100bp increase	2022 100bp decrease	2021 100bp increase	2021 100bp decrease
Sensitivity of projected net interest income				
At 31 December	**(47)**	**48**	(131)	133
Average for the period	**(98)**	**102**	(133)	135
Maximum for the period	**(135)**	**140**	(138)	140
Minimum for the period	**(47)**	**48**	(128)	131

The minimum for the period and 31st December are at the same point.

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.

Common Equity Tier 1 capital

	2022 £000	2021 £000
General reserve	**27,508**	**27,711**
Revaluation reserve	**1,010**	**1,392**
Intangible assets	**(65)**	**(8)**
Common Equity Tier 1 capital	**28,453**	**29,095**
Tier 2 capital		
Collective provision	**242**	**66**
Total capital	**28,695**	**29,161**

Notes to the Accounts (continued)

25. Operating leases

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

	2022	2021
	£000	£000
Not later than one year	**36**	36
Later than one year and not later than five years	**144**	144
Later than five years	**27**	63
	207	243

* No formal arrangement for Tring as at 31.12.2022, renewal contract still unsigned.

26. Related party transactions

Mutual Vision Technologies Limited ('MV')

The Society is a shareholder of MV, the Society's computer software provider, as detailed in note 13.

During the year, a total of £138,483 (2021: £295,762) was paid to MVT in respect of software maintenance services.

As at 31 December 2022 there were no related party comparative liabilities (2021: nil).

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 comparative £Nil (2021: £Nil).

Key management personnel hold £10,660 in share accounts with the comparative Society (2021: £11,068). Amounts deposited by key management personnel earn interest at the same rates offered to the public.

27. Post Balance Sheet events

There are no subsequent events to the balance sheet date.

28. Country by country reporting

Article 89 of CRD IV requires the Society to disclose the following information for the year ended 31 December 2022.

Name: Harpenden Building Society

Type of entity: Building Society

Nature of activity: Secured lending and deposit taking

Location: United Kingdom

Total Net Income: £7.4m

Loss before tax: £(287)k

Tax refund: £1k

Number of employees: 84 FTE

Annual Business Statement

for the year ended 31 December 2022

1. Statutory percentages

	31 December 2022	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property ("The Lending Limit")	**1.70%**	25%
Proportion of shares and borrowings not in the form of shares held by individuals ("The Funding Limit")	**4.92%**	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 2022.

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 2022.

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

As percentage of shares and borrowings:	2022	2021
Gross capital	**10.53%**	10.97%
Free capital	**8.93%**	9.07%
Liquid assets	**23.27%**	27.52%

As percentage of mean total assets:	2022	2021
Profit/(loss) for the financial year	**(0.07)%**	0.01%
Management expenses	**2.34%**	2.32%

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.

Annual Business Statement (continued)

3. Information relating to the Directors at 31 December 2022

Name	Date of Appointment and Committee Membership	Business Occupation	Other Directorships
N. Boothroyd	14 March 2019 Remuneration, Nominations and Risk & Compliance Committees	Non-Executive Director	British Arab Commercial Bank Plc
R Doe	23 April 2020 (Non-Executive Director) 30 September 2021 (Executive Director)	Executive Director	–
D. Green	26 October 2020 Audit and Risk & Compliance Committees	Non-Executive Director	–
G McGrady (resigned 31 January 2023)	1 January 2017	Executive Director	–
S. Richardson	30 January 2014 Remuneration and Nominations Committees	Non-Executive Director	Bethrob Limited I-Financial Services Group Limited LCP Solutions Limited Goodholm Finance Limited Gemini Consultants Limited GHF Servicing Limited 26 Aberdeen Road Ltd
L. Beecher	9 July 2021 Audit, Remuneration and Nominations Committees	Non-Executive Director	Cornerstone Mutual Services Limited (in liquidation)
M. Willis	25 April 2019 Risk & Compliance and Audit Committees	Non-Executive Director	–

Annual Business Statement (continued)

Documents may be served on the above-named Directors: Ref. "Harpenden Building Society", c/o, Mazars LLP at 30 Old Bailey, London, EC4M 7AU.

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

Mr. N Boothroyd entered a service contract dated 1 September 2019 upon his appointment.

Mr. M. Willis entered a service contract dated 1 September 2019 upon his appointment.

Mr. D. Green entered a service contract dated 28 February 2020 upon his appointment.

Mrs. L. Beecher entered a service contract on or about 28 April 2021 upon her appointment.

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

Mr. R. Doe is employed under an employment contract dated 24 September 2021, terminable by the Society or by the individual on six months' notice.

Mr. G. McGrady (resigned 31 January 2023) was employed under an employment 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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