Pillar 3 Disclosure Document
31 December 2022

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1. Introduction

1.1. Legislative Framework

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

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

CRR 2 includes proposed amendments to CRR that will result in a more risk sensitive approach. This has been implemented in the UK through the PRA Rulebook (CRR) Instrument 2021. This consolidated the previous regulation changes into a single set of capital requirements and is applicable in the UK from 1 January 2022. Changes made in the PRA Rulebook (CRR) are not significant to the Society from a capital perspective.

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

The CRD is based on three 'Pillars' which represent the key principles of the Basel III regime:

- **Pillar 1** - Minimum capital requirements for credit, market and operational risks.

- **Pillar 2** – Assessment of capital adequacy. The Internal Capital Adequacy and Assessment Process (ICAAP) and the Supervisory Review & Evaluation Process (SREP), undertaken by the PRA in the UK, assesses additional capital requirements not captured by Pillar 1.

- **Pillar 3** - Market discipline – the requirement for public disclosure of prescribed information, including key information on capital, exposures and risk management, in order to demonstrate that the Society holds an appropriate level of capital.

The PRA has issued the following consultations which are likely to impact on the Society's Pillar 1 and 2 exposures and metrics and Pillar 3 disclosures:

- CP 16/22 'Implementation of the Basel 3.1 standards' (issued November 2022 with proposed implementation of 1 January 2025)
- CP 4/23 'The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms (issued February 2023 with proposed implementation of early H2 2024.
- CP 5/23 'Remuneration: Enhancing proportionality for small firms' (issued February 2023 with proposed implementation of 1 January 2024.

The Society is evaluating these proposals.

1.2. Harpenden Building Society Approach

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

- **Pillar 1** - the Society has adopted the 'Standardised Approach' (SA) to complete a risk-based capital calculation, focusing on credit and operational risks to determine its Capital Resources Requirement.

- **Pillar 2** - consideration of all other risks not fully assessed within Pillar 1, with the determination of any additional capital needed to be held accordingly. The Society's Board has undertaken an assessment of all of the key risks facing the Society. The ICAAP is completed annually, or more frequently as appropriate, and this is reviewed by the PRA as part of their SREP. Additionally, the Society performs stress testing to establish whether additional capital should be held under Pillar 2.

- **Pillar 3** - consideration of all necessary disclosures. This annual disclosure document covers the requirements under Pillar 3 for the Society to disclose specific information in accordance with the requirements, including the requirement to disclose the Total Capital Requirement (TCR), comprising Pillar 1 and Pillar 2A.

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

These disclosures are subject to internal verification and are reviewed and approved by the Assets and Liabilities Committee (ALCO), and the Board Audit Committee, to ensure appropriate oversight and governance. All figures quoted in this document are aligned with the Society's audited Annual Report and Accounts, as at 31 December 2022.

2. CRD IV Disclosures

Article 89 of the CRD requires the Society to disclose the following information for the year ended 31 December 2021:

Name:	Harpenden Building Society
Type of entity:	Building Society
Nature of activity:	Secured lending and deposit taking
Location:	United Kingdom
Turnover:	£9.7m (interest receivable and similar income), £7.4m (total net income) (2021: £7.8m and £6.6.8m respectively)
(Loss)/Profit before tax:	£(287)k (2021: £86k)
Tax (Received)/Paid:	£(1)k (2021: £34k)
Accrual for public subsidies (returned):	£0k (2021: -£57k)
Number of employees:	82 FTE (2021:78 FTE)

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

3. Risk Management Objectives and Policies

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

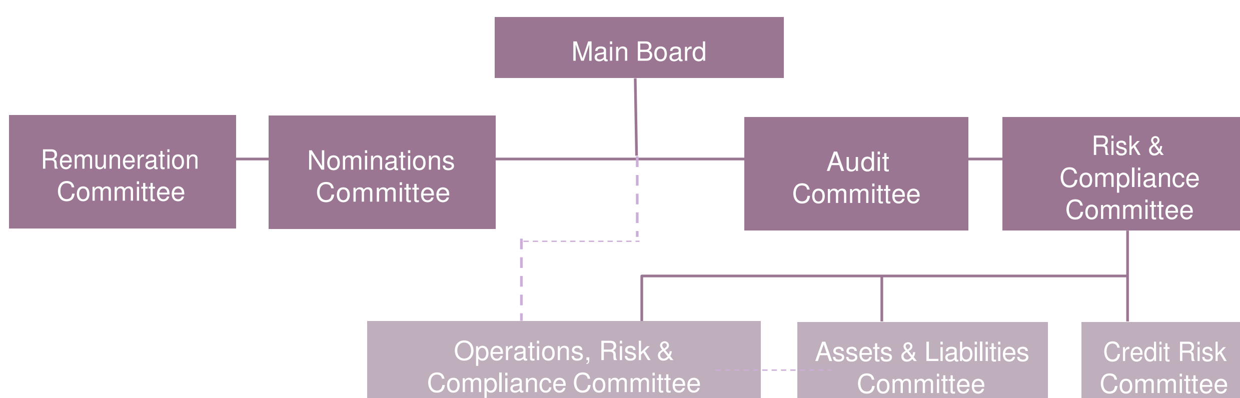
The Board of Directors is committed to best practice in corporate governance and applies the principles within the UK Corporate Governance Code, insofar as the guidance applies to building societies. As at 31 December 2022, the Board comprised two executive and five non-executive directors, including a non-executive Chair. It meets formally at least four times a year. All directors, both on appointment and thereafter, must meet the tests of fitness and propriety prescribed by the FCA.

3.1. Risk Governance

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

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

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



3.2. Risk & Compliance Committee

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

As at 31 December 2022, the membership of the Risk & Compliance Committee comprised three Non-Executive Directors and meets at least four times a year. The Chief Executive, Finance Director and Chief Risk Officer are normally invited to attend all, or part, of the meetings, but they are not members of the Committee.

3.3. Audit Committee

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

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

3.4. Remuneration Committee

This committee is responsible for making recommendations to the Board on the Remuneration Policy of the Society. The committee recommends to the Board the level and structure of remuneration for the Chairman, all Executive Directors and the Leadership Team in line with the Remuneration Code.

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

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.

3.5. Nominations Committee

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

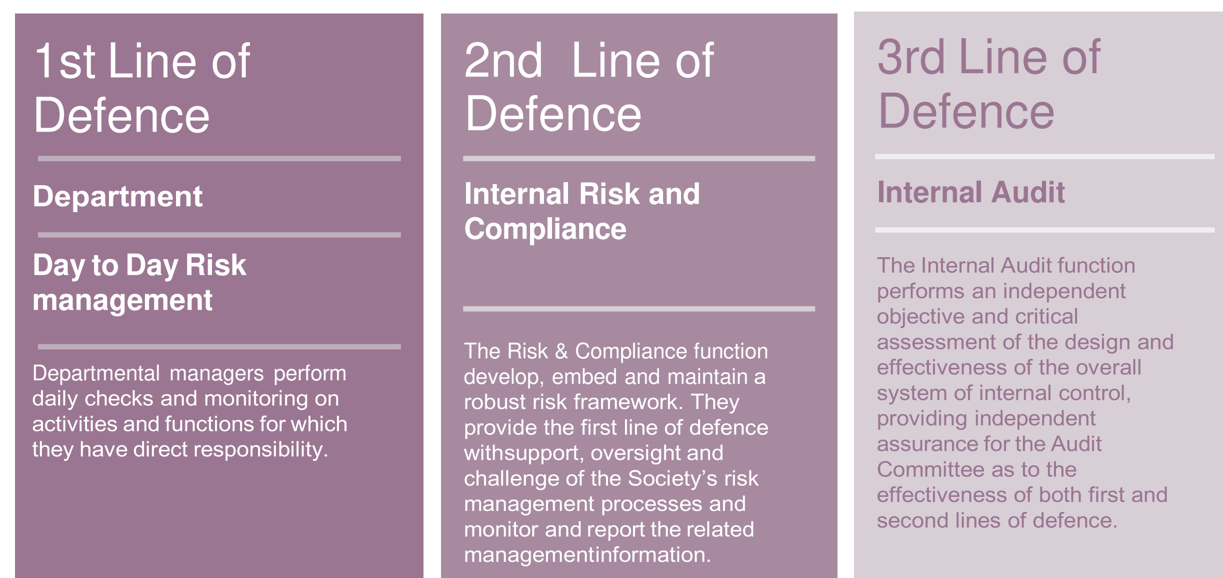
The committee currently comprises three Non-Executive Directors and meets as required but at least four times a year. The Chief Executive Officer and the Head of People are normally invited to attend, but they are not members of the committee.

4. Risk Management

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

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 maintains 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.

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



4.1. First Line of Defence

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

4.2. Second Line of Defence

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

4.3. Third Line of Defence

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

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

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

4.4. Approach to Capital Risk Management

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

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

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

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

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

5. Risk Management Policy

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

The principal risks and uncertainties arising from the Society's activities, and the Board approved policies and procedures put in place to manage them, are summarised below:

5.1. **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.

5.2. **Economic Risk**

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 the Ukraine war, and this has prompted Central Bank's 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.

5.3. **Credit Risk**

The Society is exposed to credit risk in respect of either mortgage customers or treasury counterparties being unable to meet their obligations as they fall due. All loan applications are assessed with reference to the Society's lending policy and lending mandates are strictly controlled. The Lending Policy is reviewed by Credit 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.

5.4. **Liquidity and Funding Risk**

Liquidity risk is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties. The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can cover 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.

A key liquidity metric is the compliance with the Society's own assessment of its liquidity requirement. This is based on ensuring that the overall liquidity adequacy requirement (OLAR) will be met over the period of the 90-day risk appetite. The OLAR position is forecast on a daily basis to ensure that the Society will remain compliant in the future.

The key regulatory metric to monitor short term liquidity risk is the liquidity coverage ratio (LCR), which measures the high-quality liquid assets (HQLA) that are held as a Liquidity Buffer as a percentage of the potential net cash outflow under a prescribed set of assumptions. The regulatory requirement is that the LCR will exceed 100%.

The table below sets out the Society's average quarterly Liquidity Coverage Ratio for the 12-month period ending 31 December 2022.

Quarter ended:	**Mar 2022**	**Jun 2022**	**Sep 2022**	**Dec 2022**
HQLA, £m	64.01	51.61	31.78	43.24
Total net cash outflow, £m	11.42	17.78	17.02	23.33
Liquidity Coverage Ratio	**567%**	**301%**	**190%**	**185%**

Quarter ended:	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Dec 2021**
HQLA, £m	59.7	56.1	65.3	66.5
Total net cash outflow, £m	10.7	10.1	10.1	10.2
Liquidity Coverage Ratio	**564%**	**558%**	**653%**	**656%**

The month end data points are used in the calculation of the averages for each period of reporting. The (non-averaged) LCR at 31 December 2022 was 201% (31 December 2021: 678%).

Note 24 of the 2022 Directors' Report & Accounts sets out the maturity analysis for both financial assets and liabilities.

5.5. **Interest Rate Risk in the Banking Book (IRRBB) and Basis Risk**

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

The Society manages this exposure by matching the repricing dates of assets and liabilities in line with its Financial Risk Management Policy, which is regularly reviewed and approved by the Risk & Compliance Committee.

Interest rate risk is specifically the risk that future changes in interest rates will impact the amount and value of future net interest cash flows of the Society due to mismatches in the interest rate repricing characteristics of interest-bearing assets and liabilities within the balance sheet. The Society manages

this risk by setting overall limits for interest rate risk as a proportion of capital, both in terms of changes in Net Interest Income (NII) and changes in the Economic Value of Equity (EVE).

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

5.6. **Operational Risk**

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. 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 pandemic resulted in an operational shock requiring significant organisational changes to reflect reduced face-to-face customer contact and remote working for staff. Existing contingency plans were enacted, and the Society's operations have continued to remain effective and adaptive to the new environment.

The Operational Resilience Framework identifies all critical business functions and has determined associated impact tolerances and recovery times. This forms the implementation of key controls to be set by the Society prior to the new regulatory requirements that come into force from March 2022.

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

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

Within Pillar 1, the Basic Indicator Approach (BIA) is used to assess the minimum capital requirement for operational risk. This is calculated as being 15% of the average net income over the previous three years. The Table below sets out the Pillar 1 Operational Risk Capital Requirement: -

	£000s
Year 1	6,421
Year 2	6,855
Year 3	6,948
Basic Indicator (3 year average)	6,742
Operational Risk Requirement	**1,011**

Operational risk is assessed in more detail under Pillar 2 through operational stress test scenarios within the Society's risk management framework.

5.7. **Cyber Risk**

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

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

5.8. **Conduct Risk**

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

5.9. **Environmental and Climate Change 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.

5.10. **Regulatory Risk**

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

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

5.11. **Concentration Risk**

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

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

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

6. Capital Resources

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

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

With the exception of c.£0.2m, the Society's total own funds are comprised of its general reserves, which are classified as CET1 capital. The Society's audited capital resources under CRD IV, as at 31 December 2022 and 2021, are presented in the table below:

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

7. Capital Risk and Adequacy Assessment

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

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

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

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

8. Pillar 1 Requirement

The following table provides details on the calculation of the minimum capital resource requirements (Pillar 1) for the Society under the Standardised Approach as at 31 December 2022:

	Exposure	**Risk Weight**		**Min Capital**
	£000	**£000**	**%**	**£000**
Liquid Assets				
- Balances at the Bank of England	46,728	-		-
- Loans & advances to Credit Instutions	17,759	7,353	41%	588
- Debt Securities	-	-		-
	64,487	**7,353**		**588**
Loans and Advances to Customers				
- Fully secured on residential property	233,779	82,597	35%	6,608
- Fully secured on land	3,276	3,276	100%	262
	237,055	**85,873**		**6,870**
Other Exposures				
- Cash and coins	92	-		
- Tangible & Intangible fixed assets	441	441	100%	35
- Freehold Property	1,920	1,920	100%	154
- Investment Property	1,689	1,689	100%	135
- Other assets	455	2,325	511%	186
	4,597	**6,375**		**510**
Off-balance sheet (mortgage commitments)	**42,576**	**4,455**		356
Total Credit Risk	**348,715**	**104,056**		**8,324**
Operational Risk		12,640		1,011
Total RWA / Pillar 1 Requirement		**116,696**		**9,335**
Pillar 2A Requirement				-
Total Capital Requirement (TCR)				**9,335**

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

Reconciliation of statutory assets and regulatory exposures	2022 £000	2021 £000
Total Assets reported in statutory accounts	**305,763**	**295,767**
Impairment provision	242	66
Unamortised fee income	(16)	209
Bank reconciliation (cash 'in transit')	215	61
Mortgage commitments	42,576	12,574
Deduction for intangible assets	(65)	(8)
Total Regulatory Exposures	**348,715**	**308,669**

9. Total Capital Requirement

A comparison of TCR of £9,335k (8.00% of the RWA of £116,696k) with the total capital resources figure of £28,695k provides the Board with assurance that the Society has adequate capital resources in terms of amount and quality. In addition, the results of the Pillar 2B scenario testing set out within the Society's ICAAP provides further assurance across the planning horizon.

The Society's CET1 ratio provides a risk-based measure of capital adequacy. It is calculated as audited CET1 capital as a proportion of RWA. As at 31 December 2022, using audited CET1 capital, this was 24.38% (Dec 2021 audited CET1 ratio: 26.64%), compared with the current minimum CRD IV requirement of 4.5% under Basel III.

9.1. Capital Buffers

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

- **Countercyclical Capital Buffer (CCyB)** – this is a capital buffer and is a tool that enables the Bank of England's Financial Policy Committee to adjust the resilience of the UK banking system. As at 31 December 2022 remained at 0% of RWA.

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

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

9.2. Leverage Ratio

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

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

The Society's leverage ratio, as at 31 December 2022 using audited capital, was 8.16% (December 2021: 9.43%), remaining well above the current 3.0% regulatory minimum requirement. The calculation of leverage ratio is shown below.

Leverage Ratio	**2022**	**2021**
	£000	**£000**
Total Tier 1 Capital	28,453	29,095
Total Regulatory Exposures	348,715	308,669
Leverage Ratio	**8.16%**	**9.43%**

10. Credit Risk

10.1. Credit Risk – Loans and Advances to Customers

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

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

As at 31 December 2022, the Society's performing and non-performing loans and advances to customers analysed by exposure, RWA and capital requirement, is shown in the following table:

	Exposure	**Risk Weight**		**Min Capital**
	£000	**£000**	**%**	**£000**
Loans and Advances to Customers (Total)				
- Fully secured on residential property	233,779	82,597	35%	6,608
- Fully secured on land	3,276	3,276	100%	262
	237,055	**85,873**		**6,870**
Loans and Advances to Customers (Performing)				
- Fully secured on residential property	232,916	81,734	35%	6,539
- Fully secured on land	3,169	3,169	100%	254
	236,085	**84,903**		**6,792**
Loans and Advances to Customers (Non-Performing)				
- Fully secured on residential property	863	863	100%	69
- Fully secured on land	107	107	100%	9
	970	**970**		**78**

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

Region	FSRP Exposure £000	FSRP Exposure %	FSOL Exposure £000	FSOL Exposure %
Outer Metropolitan	50,701	21.7%	1,711	52.2%
Greater London	57,864	24.8%	830	25.3%
Outer South East	37,542	16.1%	372	11.4%
South West	31,353	13.4%	-	0.0%
East Anglia	21,733	9.3%	134	4.1%
West Midlands	7,724	3.3%	-	0.0%
Yorkshire & Humberside	5,938	2.5%	124	3.8%
East Midlands	5,228	2.2%	106	3.2%
North West	7,248	3.1%	-	0.0%
Wales	5,103	2.2%	-	0.0%
North	3,344	1.4%	-	0.0%
	233,779	**100.0%**	**3,276**	**100.0%**

10.2. **Asset Encumbrance**

As at 31 December 2022, the Society had £60.4m of assets pledged and encumbered with the Bank of England (BoE). The encumbered assets relate to a pre-positioned pool of mortgage collateral that are fully encumbered once drawdown is made. The society drew down £10m from the BoE thereby encumbering the entire mortgage collateral pool.

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

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

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

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

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

Loan Loss Impairment summary	FSRP	FSOL	Total
	£000	£000	£000
At 1 January 2022			
Individual impairment	-	-	-
Collective impairment	64	2	66
Total	**64**	**2**	**66**
Charge for the year			
Individual impairment	-	-	-
Collective impairment	175	1	176
Total	**175**	**1**	**176**
At 31 December 2022			
Individual impairment	-	-	-
Collective impairment	239	3	242
Total	**239**	**3**	**242**

10.4. **Credit Risk – Liquid Assets**

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

The Society can place deposits with lower-rated and unrated counterparties, following a thorough due diligence review of financial indicators. This includes building societies that are unrated. The Society continues to use Fitch ratings. The details of the Society's liquid assets portfolio by residual maturity and credit rating, as at 31 December 2022, are shown in the table below:

Credit Quality Step	Credit Rating	< 3 months £000	3 months to 1 year £000	> 1 year £000	Total £000	Risk Weight £000
1	HQLA [1]	46,728	-	-	46,728	-
1	AAA+ to AA-	2,034	-	-	2,034	407
2	A+ to A-	3,054	12,670	-	15,724	6,946
3	BBB+ and below	-	-	-	-	-
-	Unrated	-	-	-	-	-
		51,816	**12,670**	**-**	**64,486**	**7,353**

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

No provisions for losses relating to liquidity credit risk are held by the Society as at 31 December 2022.

10.5. **Wholesale funding risk**

Per SS20/15 wholesale funding on the Administered approach is restricted to non-financial service entities, and historically these entities have been from Local Authorities. The Society had £1m of wholesale funding exposures as at 31 December 2022 (31 Dec 2021: £250k).

At 31 December 2022 The Society had drawn £10m from the Bank of England under the secured Indexed Long Term Repo facility, (2021 Nil).

10.6. Interest Rate Risk in the Banking Book (IRRBB)

IRRBB arises from timing differences in the repricing of fixed and variable rate assets and liabilities. However, as the Society operates under the "Administered" approach to interest rate risk, the vast majority of interest-bearing assets and liabilities are held at variable interest rates that can be adjusted at the Society's discretion.

The Society's balance sheet is stress tested to assess the impact of a severe 200 basis point parallel shift in market interest rates (both upwards and downwards). The results of this testing do not indicate that there would be a material impact on the business in the event of such a severe stress. As at 31 December 2022, the interest rate stress testing using this 2% parallel shift indicated a maximum negative impact on an EVE basis of £35k in net present value (31 Dec 2021: £270k).

10.7. Basis Risk

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

The Society does not currently have any liabilities with interest rates linked to the Bank Base Rate, SONIA or LIBOR. Over 90% of the Society's mortgages are lent at rates based upon its Standard Variable Rate. The Society is on the 'Administered' Treasury approach and the 'Limited' Mortgage approach.

11. Remuneration

The purpose of this section is to explain how the Society complies with the principles relating to remuneration in the UK Corporate Governance Code, July 2018. The Society has adopted a Remuneration Policy, which describes how the Society complies with the FCA's Remuneration Code.

11.1. The Level and Components of Remuneration

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

Board comment:
The Remuneration Committee has responsibility for the Remuneration Policy. 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.

11.2. Executive Directors' 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[1]. 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 2022.

11.3. Non-Executive Directors Emoluments

Fees are based on comparable data from similar financial service organisations and are reviewed annually. Non-Executive Directors do not qualify for a pension or a bonus. Some historical service agreements have a provision for Life Assurance at the rate of three times annual fees. Performance 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.

11.4. The Procedure for Determining Remuneration

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

11.5. **Code Staff Remuneration**

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

Aggregate remuneration for the years ended 31 December 2022 and 2021 are provided below. Additional information on Executive and Non-Executive Directors is disclosed within the Statutory Accounts.

Year Ended 31 December 2022 £000	Number of Staff	Fixed Remuneration	Pension	Variable Remuneration	Total
Executive Directors	2	316	15	22	353
Non-Executive Directors	5	173	-	-	173
Other Material Risk Takers	7	669	67	35	771
	14	**1,158**	**82**	**57**	**1,297**

Year Ended 31 December 2021 £000	Number of Staff	Fixed Remuneration	Pension	Variable Remuneration	Total
Executive Directors	3	450	37	26	513
Non-Executive Directors	7	184	-	-	184
Other Material Risk Takers	7	484	40	5	529
	17	**1,118**	**77**	**31**	**1,226**

12. Conclusion

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

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

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

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