

31 DECEMBER 2006

SOCIETY INFORMATION

Established and incorporated 1953
Financial Services Authority Registered No. 157260
Eligible for investments by trustees
Member of the Building Societies Association
Member of the Council of Mortgage Lenders

HEAD OFFICE:
Aberdeen House
14-16 Station Road
Harpenden
Hertfordshire
AL5 4SE

DIRECTORS:

Chairman
Vice Chairman

Roger J. Smith
Michael W. Willis, FCA
David J. Holland
Paul G. Marsden, BSc (Hons)
John W. Pigott
Michael P. Read, FCIB, FRSA
Nigel S. Terry

EXECUTIVES:

Director & Chief Executive (Resigned 01/01/07)
Executive Director with effect 01/01/07

Michael P. Read, FCIB, FRSA

Finance Director (Resigned 01/01/07)
Chief Executive & Secretary with effect 01/01/07

Paul G. Marsden, BSc (Hons)

Head of Lending & Secretary
(Resigned as Secretary 01/01/07)

Richard S. Mason, BA (Hons), FCIB

Finance Manager

Carl Astley, BSc (Hons), ACA

Head of Operations

Phil Bannister

Head of Marketing

Sue Hartwright

SOLICITORS:

Neves
2 Sun Lane
Harpenden
Hertfordshire
AL5 4ET

BANKERS:

HSBC Bank plc
1 High Street
Harpenden
Hertfordshire
AL5 2RS

AUDITORS:

Mazars LLP
Chartered Accountants
The Atrium
Park Street West, Luton
Bedfordshire
LU1 3BE

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their fifty-fourth Annual Report and Accounts for the year ended 31 December 2006.

CORPORATE GOVERNANCE AND BOARD COMMITTEES

The Board of Directors is committed to best practice in corporate governance and applies the principles in the Combined Code insofar as that guidance applies to building societies.

The current Board comprising two executives, four non-executives and the Chairman meet formally on a monthly basis. All Board members have the benefit of appropriate liability insurance at the Society's expense and all have access to independent professional advice if required.

All directors, both on appointment and thereafter, must meet the tests of fitness and propriety prescribed by the Financial Services Authority (FSA) and are required to be registered with the FSA.

As well as attending Board meetings all directors are required to serve on one or more of the following committees:

The Remuneration Committee is responsible for recommending the appointment and remuneration of non-executive directors, the appointment, terms of employment and remuneration of executive and senior management. The Committee meets as required but at least twice a year. It comprises two non-executive directors.

The Mortgage Committee comprising one executive and two non-executive directors meet monthly to review all new mortgage lending and arrears and also makes policy recommendations to the Board.

The Management Committee comprising a non-executive director and all senior management meets monthly to consider operational matters, review business performance and monitor costs.

The Audit Committee comprising three non-executive directors and the Internal Auditors meets quarterly. It oversees external audit and internal control and its duties include the setting and review of procedures, systems, control and inspection. The executive directors are normally invited to attend all, or part, of the meetings but are not members of the Committee.

Further details of the membership of Board Committees are given in the Annual Business Statement on page 26.

DIRECTORS' ATTENDANCE RECORD 2006

	<i>Board</i>	<i>AGM</i>	<i>Audit</i>	<i>Mortgage</i>	<i>Management</i>	<i>Remuneration</i>
R.J. Smith	11 (11)	1 (1)		5 (5)	3 (3)	
M.W. Willis	8 (11)	1 (1)	4 (4)	6 (6)	1 (1)	
D.J. Holland	7 (11)	- (1)	3 (4)	4 (4)	- (1)	1 (1)
P.G. Marsden	10 (11)	1 (1)		7 (7)	12 (12)	
J.W. Pigott	9 (11)	1 (1)		1 (1)	5 (6)	1 (1)
M.P. Read	11 (11)	1 (1)		10 (10)	12 (12)	
N.S. Terry	9 (11)	1 (1)	4 (4)	8 (8)	1 (1)	

() = Number of meetings expected to attend

DIRECTORS' REMUNERATION REPORT

This report explains the Society's policy on the remuneration of executive and non-executive directors. Where possible this follows the Combined Code, which sets out best practice on Corporate Governance relating to remuneration.

Remuneration Committee

The Committee, comprising two non-executive directors, is responsible for recommending the level of executive and non-executive directors' pay and benefits to the Board.

Non-Executive Directors

Fees are based on comparable data from similar financial service organisations and are normally reviewed every two years. Non-executive directors do not qualify for pension, bonus or other benefits. Performance of individual directors is assessed by the chairman, and he in turn is assessed by the other members of the Board.

Executive Directors' Remuneration

Policy is designed to attract, retain and encourage high calibre executives to manage and develop business for the Society.

- a) Basic Salary - takes into account duties, responsibilities, performance and levels for comparable positions in other organisations.
- b) Pensions - the executive directors have defined contribution personal pension arrangements to which the Society and employee both contribute.
- c) Benefits - each executive director is entitled to a company car (or car allowance) and private medical insurance for self and spouse.

Details of Directors' emoluments are given in Note 7 to the accounts

DIRECTORS' RESPONSIBILITIES FOR PREPARING THE ANNUAL ACCOUNTS

The following statement, which should be read in conjunction with the statement of Auditors' Responsibilities on page 8, is made by the directors to explain their responsibilities in relation to the preparation of the annual accounts, annual business statement and directors' report.

The directors are required by the Building Societies Act, 1986 (the Act) to prepare for each financial year, annual accounts which give a true and fair view.

- of the affairs of the Society as at the end of the financial year;
- of the income and expenditure of the Society for the financial year;

In preparing these accounts, the directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable U.K. accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume the Society will continue in business.

In addition to the 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 CONTROL

The directors are responsible for ensuring that the Society:

- keeps accounting records in accordance with the Building Societies Act 1986, and
- 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 Services Authority under the Financial Services & Markets Act 2000.

The directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

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 accounts.

BUSINESS OBJECTIVES AND ACTIVITIES

The Society's business objectives and principal activities are to provide a secure home for personal savings and to encourage owner-occupation by the provision of mortgage finance. The Society intends to remain an independent local society with a strong capital position offering a high standard of personalised service to members together with competitive rates of interest.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Your Board is pleased to announce an exceptional year of growth during 2006, total assets increased by over 16% to £146.2 million. Both sides of the book performed strongly with gross lending increasing to £37.3 million, an increase of over £10 million on that achieved last year.

Investment products continued to be featured in published best-buy tables, and, as last year, our 18 Club and TESSA ISA accounts performed exceptionally well contributing to an increase in shares and deposits of £19.8 million to £135.7 million.

For the fourth year in succession the Society received a major lending award from a national mortgage magazine, highlighting our commitment to providing excellent value to our members along with unrivalled customer service.

This year marks the end of a significant era for the Society, the retirement of Michael Read who has been executive head of the organisation for 37 years. On his appointment in 1970 total assets were less than £1 million, the spectacular success that has been achieved since then is largely due to Mike's commitment, loyalty and astute stewardship through all economic climates over the intervening years. Your Board would like to take this opportunity on your behalf to thank Mike for his outstanding contribution and unstinting service, and wish him well in a long and happy retirement.

Paul Marsden was appointed as Chief Executive from 1 January, 2007 after serving as Finance Director for the last five years. Paul is committed to the same fundamental philosophies that have served the business so well over the years, and he hopes to build on those successes and continue to provide products and services that will ensure the sustained strength of the Society.

2007 has started very brightly and all the indications are that the coming year looks promising with business levels continuing to flourish.

Your Board are especially thankful for the continuing support of members, customers, business partners and particularly our hard working staff at the Society, without whom the levels of success could not be achieved.

TOTAL ASSETS

The Society's total assets at the end of 2006 were £146,286,899, an increase of £20,667,083 or 16.5% for the year (2005 : 7.49%).

LIQUID ASSETS

Cash deposits with banks, building societies and local authorities as at 31 December 2006 were £38,116,379 representing 26.06% of total assets (2005 : 21.09%).

COMMERCIAL ASSETS

During the year, a total of £37,293,626 was advanced to new and existing borrowers. Total mortgage balances increased by £9,052,961 to £107,490,686.

The proportion of mortgage assets fully secured on non-residential property as at 31 December 2006 was 6.98% (2005 : 6.77%). The statutory limit is 25%.

At 31 December 2006, there was one mortgage where repayments were more than twelve months in arrear and the total arrears in this case were £21,961.

SHARES, DEPOSITS AND LOANS

Share and deposit balances at 31 December 2006 were £135,793,177, an increase of £19,802,829 or 17.07%.

The proportion of share and deposit liabilities held in the form of deposits as at 31 December 2006 was 10.20% (2005 : 11.14%). The statutory limit is 50%. Depositors are not members of the Society and have no voting rights.

FIXED ASSETS

The Society's freehold premises were professionally revalued in December 2004 at £394,290 more than the net book value. However the December 1998 revaluation has to be retained as the basis for accounting policy purposes.

CAPITAL

The Society's total reserves increased by £788,034, being the post-tax operating profit for the year. Gross capital now stands at £9,727,650 or 7.16% of share and deposit liabilities (2005 : 7.71%).

The growth in pre-tax profit for 2006 was 0.21%.

The Society's free capital (gross capital less fixed assets) now represents 6.80% of share and deposit liabilities (2005 : 7.26%).

OPERATING COSTS

Once again a cost reduction was achieved during 2006 (as a percentage of mean total assets) and management expenses fell from 1.16% to 1.12%.

DIRECTORS

The following persons were directors of the Society throughout 2006:

R.J. Smith (Chairman)
M.W. Willis (Vice Chairman)
D.J. Holland
P.G. Marsden
J.W. Pigott
M.P. Read
N.S. Terry

Messrs. M.W. Willis, R.J. Smith, N.S. Terry and J.W. Pigott have served as non-executive directors for more than nine years and now offer themselves for re-election annually.

Mr. D.J. Holland retires by rotation and also offers himself for re-election.

AUDITORS

Mazars LLP have signified their willingness to continue in office and a resolution to approve their re-appointment as auditors will be proposed at the Annual General Meeting on 25 April 2007.

ACTIVITIES

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 2006, which require disclosure under the Act.

Charitable donations during the year amounted to £22,847 charged under deed of trust to the Charities Aid Foundation to be used for the benefit of the community and local charities nominated by the Society. As at 31 December 2006, the value of the HBS Charitable Trust was £110,077.

The incentive offered to members to vote at the Annual General Meeting in April 2006 also produced £2,153 which was donated to Cancer Research UK.

CREDITOR PAYMENT POLICY

The Society's policy concerning the payment of its trade creditors for the next financial year is to pay in accordance with agreed terms where invoices are submitted for products or services which have conformed to requirements specified by the Society. Amounts due to the relevant creditors of the Society are paid on average within 3 days of receipt of invoice.

EVENTS SINCE THE YEAR END

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

ACKNOWLEDGEMENTS

The directors wish to record their appreciation to the management and staff for the commitment and enthusiasm that they contribute to the Society. Thanks are also due to all our members, agents and professional contacts for their continued support.

On behalf of the Board of Directors

R.J. Smith
Chairman

22 March 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HARPENDEN BUILDING SOCIETY

We have audited the annual accounts of Harpenden Building Society for the year ended 31 December 2006 which comprise the income and expenditure account, balance sheet, cash flow statement and the related notes. These accounts have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the policies set out therein. We have examined the annual business statement (other than the details of officers and directors upon which we are not required to report) and the directors' report.

This report is made solely to the Society's members, as a body, in accordance with the Building Societies Act 1986 and regulations made under it. 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 auditors' 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.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND OF THE AUDITORS

The directors are responsible for preparing the directors' report, the annual business statement and, as described on page 4, the annual accounts in accordance with United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. We also report to you our opinion as to whether certain information in the annual business statement gives a true representation of the matters in which it is given, whether the information in the directors' report is consistent with the accounting records and the annual accounts and whether the annual accounts, the annual business statement and the directors' report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records and if we have not received all the information and explanations that we require for our audit.

BASIS OF OPINION

We conducted our audit of the Annual Accounts in accordance with International Standards on Auditing (UK and Ireland). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Annual Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Annual Accounts.

OPINION

In our opinion:

- (a) the Annual Accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Society as at 31 December 2006, the income and expenditure and cash flows of the Society for the year then ended;
- (b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- (c) the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- (d) the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

MAZARS LLP

Chartered Accountants and Registered Auditors
The Atrium
Park Street West
Luton
LU1 3BE

22 March 2007

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £	2005 £
Interest receivable and similar income	2	7,910,462	7,029,556
Interest payable and similar charges	3	5,493,080	4,658,473
Net interest receivable		<u>2,417,382</u>	<u>2,371,083</u>
Fees and commissions receivable		172,272	159,773
Fees and commissions payable		(66,646)	(59,531)
Other operating income	4	138,191	87,003
Total income		<u>2,661,199</u>	<u>2,558,328</u>
Administrative expenses	5	1,470,495	1,362,735
Depreciation and other amounts written off tangible fixed assets	13	46,659	49,116
Other operating charges		-	2,629
Operating profit before provisions		<u>1,144,045</u>	<u>1,143,848</u>
Provisions for losses	12	22,226	24,395
Profit on ordinary activities before tax		<u>1,121,819</u>	<u>1,119,453</u>
Tax on profit on ordinary activities	8	333,785	332,621
Profit for the financial year	20	<u><u>£788,034</u></u>	<u><u>£786,832</u></u>

There have been no recognised gains or losses other than the profit for the years disclosed above, all of which are in respect of continuing activities.

BALANCE SHEET AT 31 DECEMBER 2006

	Notes	2006 £	2005 £
Assets			
Cash in hand and balances with the Bank of England		34,479	33,132
Loans and advances to credit institutions	9/10	38,081,900	26,469,142
Loans fully secured on residential property	11	100,161,758	91,924,267
Other loans	11	7,328,928	6,513,458
Tangible fixed assets	13	496,560	518,335
Other assets	14	183,274	161,482
Total Assets		£146,286,899	£125,619,816
Liabilities			
Shares	15	121,939,013	103,074,216
Amounts owed to credit institutions	16	-	3,741,693
Amounts owed to other customers	17	13,854,164	9,174,439
Other liabilities	18	766,072	689,852
Provisions for liabilities	19	-	-
		136,559,249	116,680,200
Reserves			
General reserves	20	9,362,485	8,574,451
Revaluation reserve	21	365,165	365,165
		9,727,650	8,939,616
Total Liabilities		£146,286,899	£125,619,816

Memorandum Items

Other loans include £188,587 (2005 : £338,899) of loans which are fully secured on residential property but are classified as 'Other loans' in accordance with the requirements of the Building Societies Act 1997 (See Note 11).

At 31 December 2006, there were no contingent liabilities or capital commitments other than that stated in Note 23.

These Accounts were approved by the Board of Directors on 22 March 2007.

R.J. Smith

Chairman

M.P. Read

Executive Director

P.G. Marsden

Director and Chief Executive

(The notes on pages 13 to 25 form part of these Accounts)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £	2005 £
Net cash inflow from operating activities		1,862,274	137,402
Taxation paid		(332,620)	(277,699)
Capital expenditure and financial investment	22	(24,041)	(12,724)
Increase/(decrease) in cash	22	<u>£1,505,613</u>	<u>£(153,021)</u>

Reconciliation of operating profit to net cash inflow from operating activities

	2006 £	2005 £
Profit on ordinary activities before tax	1,121,819	1,119,453
(Movement) in prepayments and accrued income including accrued interest	(140,162)	(1,384)
Movement in accruals and deferred income	45,858	23,104
Provisions for bad and doubtful debts	22,226	24,395
Loans and advances written off net of recoveries	(22,226)	(24,395)
Depreciation and amortisation	46,659	49,116
(Profit)/loss on sale of tangible fixed assets	(843)	(2,628)
Net cash inflow from trading activities	<u>1,073,331</u>	<u>1,187,661</u>
(Increase) in loans and advances to customers	(9,052,961)	(5,114,302)
Increase in shares	18,864,797	8,146,755
Movement in amounts owed to credit institutions and other customers	938,032	(267,804)
(Increase) in loans and advances to credit institutions	(9,990,122)	(4,571,492)
(Increase) in other liquid assets	-	750,000
Increase in other liabilities	29,197	6,584
Net cash inflow from operating activities	<u>£1,862,274</u>	<u>£137,402</u>

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

Accounting Convention

The Accounts are drawn up under the historical cost convention as modified by the revaluation of certain freehold land and buildings.

Basis of Preparation

The Accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 ('the new Regulations') and applicable accounting standards.

Liquid Assets

Liquid assets are stated at cost to the Society together with interest accrued to the balance sheet date. Interest accrued at the date of purchase and sale of liquid assets is treated as capital.

Fixed Assets and Depreciation

The Society has taken advantage of Financial Reporting Standard 15, ("Tangible Fixed Assets") to retain the carrying value of assets revalued in prior accounting periods. The cost of additions and major alterations to office premises and equipment is capitalised. The cost or revaluation amount of fixed assets is written off over their estimated useful lives as follows:

Freehold buildings over 50 years.

Leasehold premises over the remainder of the lease.

Computer equipment over three years.

Motor vehicles are depreciated on a reducing balance basis at 25% and 15% on office equipment.

Deferred Taxation

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 in which they are included in financial statements.

Deferred tax is not provided on the revaluation of fixed assets. 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.

Pension Costs

The Society maintains a defined contribution Pension Scheme, which is funded by contributions from the Society and its employees. The Scheme is administered externally by an assurance company and contributions are apportioned to management expenses in the year in which they are made and are included in staff costs.

NOTES TO THE ACCOUNTS (continued)

Provisions for Loans and Advances

The Society makes full provision for losses on all “non-performing” loans and advances using the “shortfall of security” method.

Incentives to Borrowers

Cashbacks and other incentives to borrowers are charged in the period in which they arise.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 £	2005 £
On loans fully secured on residential property	5,570,710	5,294,486
On other loans	919,931	683,757
On debt securities		
Interest and other income	-	-
On other liquid assets		
Interest and other income	1,419,821	1,051,313
	<u>£7,910,462</u>	<u>£7,029,556</u>

Interest receivable on 'other loans' includes £9,976 (2005 : £19,710) in respect of loans advanced prior to 20 July 1998 to corporate bodies such as Housing Associations, which are fully secured on residential property. The classification adopted for such amounts is consistent with the balance sheet classification of the related loan in accordance with the Building Societies Act 1997 (see Note 11).

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £	2005 £
On shares held by individuals	4,955,223	4,109,229
On deposits and other borrowings	537,857	549,244
	<u>£5,493,080</u>	<u>£4,658,473</u>

4. OTHER OPERATING INCOME

	2006 £	2005 £
Rents receivable	7,468	7,195
Other	130,723	79,808
	<u>£138,191</u>	<u>£87,003</u>

NOTES TO THE ACCOUNTS (continued)

5. ADMINISTRATIVE EXPENSES

	2006 £	2005 £
Staff costs (note 6)	735,555	713,685
Other expenses	717,153	632,806
Remuneration of auditors for audit work	16,406	14,863
Remuneration of auditors for non-audit work	1,381	1,381
	<u>£1,470,495</u>	<u>£1,362,735</u>

6. STAFF NUMBERS AND COSTS

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

	2006		2005	
	Full-time	Part-time	Full-time	Part-time
Head Office	10	4	9	5
Branch Offices	8	7	8	6
	<u>18</u>	<u>11</u>	<u>17</u>	<u>11</u>

The aggregate costs of these persons were as follows:

	2006 £	2005 £
Wages and salaries	564,300	557,207
Social Security costs	59,928	46,374
Other pension costs	111,327	110,104
	<u>£735,555</u>	<u>£713,685</u>

NOTES TO THE ACCOUNTS (continued)

7. DIRECTORS

a) **Emoluments of the Society's directors from the Society are detailed below:**

	Fees	Salaries	Benefits	Pension	2006
	£	£	£	Contrib's	Total
				£	£
R.J. Smith (Chairman)	27,500	-	-	-	27,500
M.W. Willis (Vice Chairman)	22,000	-	-	-	22,000
D.J. Holland	16,500	-	-	-	16,500
P.G. Marsden (Finance Director)	-	67,475	698	6,083	74,256
J.W. Pigott	16,500	-	-	-	16,500
M.P. Read (Chief Executive)	-	72,440	9,402	25,261	107,103
N.S. Terry	16,500	-	-	-	16,500
Total Emoluments 2006	<u>£99,000</u>	<u>£139,915</u>	<u>£10,100</u>	<u>£31,344</u>	<u>£280,359</u>
Total Emoluments 2005	<u>£99,000</u>	<u>£131,780</u>	<u>£9,635</u>	<u>£31,924</u>	<u>£272,339</u>

b) **Directors' loans and transactions:**

At 31 December 2006, there were three outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons totalling £388,755.

A register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to, and including the date of the Annual General Meeting.

NOTES TO THE ACCOUNTS (continued)

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006 £	2005 £
The tax charge for the year comprises -		
UK corporation tax at 30% (2005 : 30%)	333,785	332,621
Deferred taxation (Note 19)		
	<u>£333,785</u>	<u>£332,621</u>

The standard rate of tax for the year, based on the U.K. standard rate of corporation tax is 30%. The actual tax charge for the current and the previous year varies from the standard rate for the reasons set out in the following reconciliation.

Reconciliation of current year tax charge:

	2006	2005
Corporation Tax Rate applied	30%	30%
	£	£
Profit on ordinary activities before taxation	1,121,819	1,119,453
Tax on profit on ordinary activities at standard rate	336,546	335,836
Factors affecting the tax charge for the year		
Expenses not deductible for taxation purposes	3,716	3,725
Capital allowances less than depreciation	2,786	2,681
Other timing differences	495	235
Other adjustments - marginal relief	(9,758)	(9,856)
Total actual amount of current year tax	<u>£333,785</u>	<u>£332,621</u>

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions have remaining maturities as follows:

	2006 £	2005 £
Accrued interest	206,454	88,084
Repayable on demand	7,425,446	5,921,180
Other loans and advances by residual maturity repayable:		
In not more than three months	28,450,000	20,459,878
In more than three months but not more than one year	2,000,000	-
	<u>£38,081,900</u>	<u>£26,469,142</u>

NOTES TO THE ACCOUNTS (continued)

10. OTHER LIQUID ASSETS

Other liquid assets have remaining maturities as follows:

	2006	2005
	£	£
Accrued interest	-	-
Repayable on demand	-	-
Repayable in not more than three months	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

11. LOANS AND ADVANCES TO CUSTOMERS

	2006	2005
	£	£
Loans fully secured on residential property	100,161,758	91,924,267
Other loans:		
Loans fully secured on land	7,328,928	6,513,458
	<u>£107,490,686</u>	<u>£98,437,725</u>
	<u>£107,490,686</u>	<u>£98,437,725</u>

Other loans fully secured on land include £188,587 (2005 : £338,899) of loans which are fully secured on residential property and which were made to corporate bodies such as Housing Associations, prior to 20 July 1998, the date the Society adopted the powers of the Building Societies Act 1997. The classification of these assets is not consistent with the treatment of similar loans made after 20 July 1998, which are included in 'Loans fully secured on residential property' but is necessary to comply with the requirements of the Building Societies Act 1997.

Maturity Analysis

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

	2006	2005
	£	£
Repayable on demand	986,597	27,850
Other loans and advances by residual maturity repayable:		
In not more than three months	620,807	626,724
In more than three months but not more than one year	1,731,118	3,548,935
In more than one year but not more than five years	14,256,808	9,888,197
In more than five years	89,895,356	84,346,019
	<u>£107,490,686</u>	<u>£98,437,725</u>
	<u>£107,490,686</u>	<u>£98,437,725</u>

NOTES TO THE ACCOUNTS (continued)

12. PROVISIONS FOR LOSSES

	Loans fully secured on residential property £	Other loans fully secured on land £	Other assets £	Total £
At 1 January 2006	-	-	-	-
Amounts written back during the year	(22,226)	-	-	(22,226)
Charge for the year	22,226	-	-	22,226
At 31 December 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

These provisions have been deducted from the appropriate asset values shown in the balance sheet.

13. TANGIBLE FIXED ASSETS

	Freehold Land and buildings £	Short leasehold buildings £	Office and computer equipment £	Motor vehicles £	Total £
Cost or Valuation					
At 1 January 2006	610,767	35,197	747,012	34,383	1,427,359
Additions	-	-	11,591	17,200	28,791
Disposals	-	-	-	(14,383)	(14,383)
At 31 December 2006	<u>£610,767</u>	<u>£35,197</u>	<u>£758,603</u>	<u>£37,200</u>	<u>£1,441,767</u>
Accumulated depreciation					
At 1 January 2006	182,275	34,063	673,304	19,382	909,024
Charged in year	12,215	170	27,786	6,488	46,659
Disposals	-	-	-	(10,476)	(10,476)
At 31 December 2006	<u>£194,490</u>	<u>£34,233</u>	<u>£701,090</u>	<u>£15,394</u>	<u>£945,207</u>
Net book value					
At 31 December 2006	<u>£416,277</u>	<u>£964</u>	<u>£57,513</u>	<u>£21,806</u>	<u>£496,560</u>
At 31 December 2005	<u>£428,492</u>	<u>£1,134</u>	<u>£73,708</u>	<u>£15,001</u>	<u>£518,335</u>

NOTES TO THE ACCOUNTS (continued)

Freehold land and buildings are analysed as follows:

	2006	2005
Open market valuations as at 31 December 1998	<u>£514,000</u>	<u>£514,000</u>
Historical cost of revalued assets	<u>£237,193</u>	<u>£237,193</u>

All leasehold property is shown at cost.

Freehold land and buildings were revalued during 1998 on the basis of open market value for existing use with vacant possession. The valuations were carried out by a member of the Royal Institution of Chartered Surveyors instructed by the Society.

14. OTHER ASSETS

	2006 £	2005 £
Due within one year	111,859	90,067
Due after one year	71,415	71,415
	<u>£183,274</u>	<u>£161,482</u>

15. SHARES

	2006	2005
Held by individuals	<u>£121,939,013</u>	<u>£103,074,216</u>

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	1,443,535	1,121,272
Repayable on demand	101,855,239	88,111,706
Other shares by residual maturity repayable:		
In not more than three months	98,478	123,198
In more than three months but not more than one year	255,600	268,935
In more than one year but not more than five years	1,488,372	1,116,904
In more than five years	16,797,789	12,332,201
	<u>£121,939,013</u>	<u>£103,074,216</u>

NOTES TO THE ACCOUNTS (continued)

16. AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:

	2006	2005
	£	£
Accrued interest	-	41,693
On demand	-	-
Other amounts owed to credit institutions by residual maturity repayable:		
In not more than three months	-	3,000,000
In more than three months, but not more than one year	-	700,000
	<u>-</u>	<u>£3,741,693</u>

17. AMOUNTS OWED TO OTHER CUSTOMERS

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	2006	2005
	£	£
Accrued interest	46,589	45,652
On demand	276,495	242,078
Other amounts owed to other customers by residual maturity repayable:		
In not more than three months	11,760,225	7,304,483
In more than three months but not more than one year	1,770,855	1,582,226
	<u>£13,854,164</u>	<u>£9,174,439</u>

18. OTHER LIABILITIES

Other liabilities are all due within one year and comprise:

	2006	2005
	£	£
Corporation Tax	333,786	332,621
Income Tax	252,235	223,038
Other creditors	180,051	134,193
	<u>£766,072</u>	<u>£689,852</u>

19. PROVISIONS FOR LIABILITIES AND CHARGES

No provision for deferred taxation has been made in relation to the surplus on the revaluation of freehold land and buildings included in the revaluation reserve. If the freehold land and buildings were disposed of at the balance sheet amounts, it is estimated that the tax liability would amount to approximately nil (2005 : Nil).

NOTES TO THE ACCOUNTS (continued)

20. GENERAL RESERVE

	2006 £	2005 £
At 1 January	8,574,451	7,787,619
Profit for financial year	788,034	786,832
At 31 December	<u>£9,362,485</u>	<u>£8,574,451</u>

21. REVALUATION RESERVE

	2006	2005
At 1 January and 31 December	<u>£365,165</u>	<u>£365,165</u>

22. NOTES TO THE CASH FLOW STATEMENT

	2006 £	2005 £
a. Capital expenditure and financial investment		
Purchase of tangible fixed assets	(28,791)	(18,124)
Sale of tangible fixed assets	4,750	5,400
	<u>£(24,041)</u>	<u>£(12,724)</u>

b. Analysis of the balances of cash as shown in the Balance Sheet

	2005 £	Movement £	2006 £
Cash in hand and balances with the Bank of England	33,132	1,347	34,479
Loans and advances to credit institutions repayable on demand	5,921,180	1,504,266	7,425,446
	<u>£5,954,312</u>	<u>£1,505,613</u>	<u>£7,459,925</u>

	2004 £	Movement £	2005 £
Cash in hand and balances with the Bank of England	31,777	1,355	33,132
Loans and advances to credit institutions repayable on demand	6,075,556	(154,376)	5,921,180
	<u>£6,107,333</u>	<u>£(153,021)</u>	<u>£5,954,312</u>

NOTES TO THE ACCOUNTS (continued)

23. FINANCIAL COMMITMENTS

Financial Services Compensation Scheme

The Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme provided for by the Financial Services and Markets Act 2000.

24. FINANCIAL INSTRUMENTS

The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest in liquid assets and to raise funds from wholesale money markets in support of its retail savings operations. These instruments also allow it to manage the risks arising from these business markets.

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.

Instruments commonly used for risk management purposes include derivative financial instruments (“derivatives”), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

The Society does not use any derivative financial instruments, since the Society does not currently offer any capped or fixed rate mortgage or savings products that would give rise to a balance sheet exposure. The Society does not undertake any financial instruments for trading or speculative purposes.

Risk Management

The main financial risks arising from the Society’s activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, and these are summarised below.

Credit Risk

Credit risk is the risk of default by counterparties to transactions. Appropriate credit limits have been established by the Board for individual counterparties, sectors and countries.

Liquidity Risk

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 of liquid assets, through a combination of wholesale funding and undrawn, committed borrowing facilities to provide flexibility in the management of liquidity.

Interest Rate Risk

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Society manages this exposure continually by matching the maturity dates of assets and liabilities.

NOTES TO THE ACCOUNTS (continued)

24. FINANCIAL INSTRUMENTS (continued)

The tables below summarise these repricing mismatches as at 31 December 2006 and 31 December 2005. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
As at 31 December 2006	£	£	£	£	£	£	£
Assets							
Liquid assets	36,076,615	2,005,285	-	-	-	34,479	38,116,379
Loans and advances to customers	107,490,686	-	-	-	-	-	107,490,686
Tangible fixed assets	-	-	-	-	-	496,560	496,560
Other assets	-	-	-	-	-	183,274	183,274
Total assets	143,567,301	2,005,285	-	-	-	714,313	146,286,899
Liabilities							
Shares	121,939,013	-	-	-	-	-	121,939,013
Amounts owed to Credit institutions and other customers	12,083,309	1,310,855	460,000	-	-	-	13,854,164
Other liabilities	-	-	-	-	-	768,832	768,832
Reserves	-	-	-	-	-	9,724,890	9,724,890
Total liabilities	134,022,322	1,310,855	460,000	-	-	10,493,722	146,286,899
Interest rate sensitivity gap	9,544,979	694,430	(460,000)	-	-	(9,779,409)	-

NOTES TO THE ACCOUNTS (continued)

24. FINANCIAL INSTRUMENTS (continued)

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
As at 31 December 2005	£	£	£	£	£	£	£
Assets							
Liquid assets	26,469,142	-	-	-	-	33,132	26,502,274
Loans and advances to customers	98,437,725	-	-	-	-	-	98,437,725
Tangible fixed assets	-	-	-	-	-	518,335	518,335
Other assets	-	-	-	-	-	161,482	161,482
Total assets	124,906,867	-	-	-	-	712,949	125,619,816
Liabilities							
Shares	103,074,216	-	-	-	-	-	103,074,216
Amounts owed to credit institutions and other customers	11,333,905	1,582,227	-	-	-	-	12,916,132
Other liabilities	-	-	-	-	-	689,852	689,852
Reserves	-	-	-	-	-	8,939,616	8,939,616
Total liabilities	114,408,121	1,582,227	-	-	-	9,629,468	125,619,816
Interest rate sensitivity gap	10,498,746	(1,582,227)	-	-	-	(8,916,519)	-

Fair values of financial assets and financial liabilities

All of the Society's financial assets and financial liabilities are in the form of mortgages, shares and deposits with banks or other credit institutions and, as such, are not in a publicly traded form. These items are therefore stated at their book value as adjusted for any accrued interest.

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

1. Statutory Percentages

	31.12.2006 %	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property ("The Lending Limit")	6.98%	25%
Proportion of shares, deposits and debt securities not in the form of shares held by individuals ("The Funding Limit")	10.20%	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, 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 2006.

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 2006.

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.

2. Other Percentages

	2006	2005
As percentage of shares and borrowings:		
Gross capital	7.16%	7.71%
Free capital	6.80%	7.26%
Liquid Assets	28.07%	22.85%
Profit for the financial year as a percentage of mean total assets	0.58%	0.65%
Management expenses as a percentage of mean total assets	1.12%	1.16%

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, amounts owed to other customers and debt securities in issue.
- 'Gross capital' represents the aggregate of general reserve 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 in hand and balances with the Bank of England, loans and advances to credit institutions and other liquid assets.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

3. Information relating to the Directors, Chief Executive and other officers at 31 December 2006

	Director's Name	Date of Appointment	Occupation	Other Directorships
1	R.J. Smith (Chairman) (20.04.1939)	05.03.1981 Member of Mortgage Committee	Chairman Industrial Holding Co.	Page 29
1	M.W. Willis (Vice Chairman) (10.05.1947)	20.05.1993 Chairman of Audit Committee Member of Mortgage Committee	Chartered Accountant	Page 29
1	D.J. Holland (04.04.1941)	18.12.1997 Member of Audit, Remuneration & Mortgage Committees	Chairman House Building Group	Page 29
3	P.G. Marsden (17.09.1960)	23.05.2002 Member of Management Committee	Building Society Executive	Page 29
1	J.W. Pigott (16.03.1939)	23.09.1977 Member of Management & Remuneration Committees	Farmer	Page 29
2	M.P. Read (03.02.1944)	22.09.1994 Member of Management & Mortgage Committees	Building Society Executive	None
1	N.S. Terry (10.02.1951)	29.05.1996 Member of the Audit & Mortgage Committees	Chairman Food Company	Page 29

1 Non-Executive Director

2 Director & Chief Executive

3 Finance Director

* Directors' dates of birth are shown in brackets.

Documents may be served on the above named Directors: Ref. "Harpenden Building Society", c/o, Neves, Solicitors at 2, Sun Lane, Harpenden, Hertfordshire. AL5 4ET

The Chief Executive is employed on a Service Contract entered into on 1 May, 2002 terminable by the Society on either six months' or two years' notice (depending on the circumstances) and by the individual on six months' notice.

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

D.J. HOLLAND	Telford Homes PLC Orchid Developments Group Limited
P.G. MARSDEN	Top Deck Business Services Limited Shocklogic Global Limited
J.W. PIGOTT	Swingcroft Limited
R.J. SMITH	BioPark Hertfordshire Limited Close Brothers AIM/AIM VCT PLC Cotton Spring Farm Limited Epworth Investment Management Limited European Motor Holdings PLC Herts County Showground Limited Medi-notes Limited Methodist International Centre Limited
N.S. TERRY	Lennox Holdings Plc Penguin Foods U.K. Limited The Princess Helena College Universal Salvage Plc
M.W. WILLIS	Adept Scientific plc Demand Limited Greyfriars Properties Limited Software for Science Limited M.J. Taylor-King Limited Tyringham Foundation Limited