

SUMMARY FINANCIAL STATEMENT

For the year ended 31st December 2015

Harpenden Building Society

Firm Reference Number: 157260

Incorporated 1953

HEAD OFFICE

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Harpenden
Hertfordshire
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SOLICITOR

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

AUDITOR

KPMG LLP, One Snowhill,
Snow Hill Queensway, Birmingham B4 6GH

DIRECTORS

Hugh H. Titcomb, BA (Hons), FCIB
Judith Mortimer Sykes, BA (Hons), MBA (Manchester)
Carl D. Astley, BSc (Hons), FCA
Peter F. Baynham, BA (Hons), FCA, AMCT, Cert IoD
Alison V. Crossley-Mintern, BSc (Hons)
Stephen J. Richardson
Paul V. Smith, BA (Hons), MBA

Chairman
Vice Chairman and Senior Independent Director

EXECUTIVE

Carl D. Astley, BSc (Hons), FCA
Phillip L. Bannister
Kenneth Hale
Lynn P. Hey, BA (Hons), ACIB
Nathaniel P. A. Lewis, BSc (Hons)
Louisa M. Lingwood, BA (Hons), MCP

Chief Executive & Secretary
Head of Operations
Head of Lending
Society Assistant Secretary
Head of Treasury and Risk
Head of IT

HARPENDEN BRANCH

Aberdeen House,
14 Station Road, Harpenden,
Hertfordshire AL5 4SE
Telephone: 01582 344204
Manager: Trish Shadbolt

RADLETT BRANCH

341 Watling Street, Radlett,
Hertfordshire WD7 7LB
Telephone: 01923 854457
Manager: Julia Mc Nerney

LEIGHTON BUZZARD BRANCH

22 Market Square,
Leighton Buzzard,
Bedfordshire LU7 1HE
Telephone: 01525 852525
Manager: Isabel Hare

WENDOVER BRANCH

3 Icknield Court,
Back Street, Wendover,
Buckinghamshire HP22 6EB
Telephone: 01296 623595
Manager: Jo Richardson

TRING BRANCH

38 High Street, Tring,
Hertfordshire HP23 5AA
Telephone: 01442 824722
Manager: Gill Pearce

BUCKINGHAM BRANCH

23 Market Hill, Buckingham,
Buckinghamshire MK18 1JX
Telephone: 01280 823666
Manager: Sue Callingham

Authorised for investments by Trustees
A member of the Building Societies Association
Authorised by the Prudential Regulation Authority and regulated by the
Financial Conduct Authority and the Prudential Regulation Authority

CHAIRMAN'S STATEMENT

In last year's Chairman's Statement I commented on encouraging green shoots of economic recovery and forward looking indices painting a generally positive picture. Whilst this remains true to an extent, there are a number of uncertainties in the global and UK economies that could impact the Society at some point in the future: reduced GDP growth forecasts, uncertainties around global commodity prices and the UK's membership of the EU to name but a few.

In the UK, Bank base rate has remained at 0.5% throughout 2015, indeed it has been at this level since March 2009. With upwards pressure on wage inflation appearing to ease and forward looking economic growth forecasts lower than they were 12 months ago there would appear to be an increased likelihood that the Bank of England will keep interest rates at record lows for longer. At the Harpenden we are very aware of the impact of this environment on both our depositing and borrowing members and we have kept our interest rates on savings and mortgage accounts under review throughout the year to ensure that we offer consistent and fair rates whilst maintaining a sustainable business model.

During 2015 we have seen increased levels of competition from other lending institutions for mortgage business. Notwithstanding this, we continue to make progress in this area and we have reinvigorated many of our mortgage broker relationships and have seen a significant uplift in lending business as a consequence. Our success in this area has been acknowledged by winning the "What Mortgage Best Local Building Society" award during the year – an award which reflects the positive views of the Society expressed by mortgage professionals.

We have seen some increased costs in 2015 as we have strengthened our operational management team, recruiting new people into Business Development, Risk, Human Resources, Mortgage Underwriting and operational areas. Recruiting suitably qualified people is a challenge as we compete with both local firms and the City of London to attract the best talent. As the Society grows we will continue to strengthen our team at all levels to enable us to compete and thrive in ever more demanding market conditions. Also during the course of 2015 an independent external review was undertaken to assess Board effectiveness.

I am delighted that Carl Astley has been appointed as the next Chief Executive of our Society, effective from 1 February 2016. Carl, who previously served as the Society's Finance Director and Deputy Chief Executive, was appointed as Acting Chief Executive last Autumn following Paul Marsden stepping down from the position. Carl's permanent appointment follows an extensive search process covering both external and internal candidates undertaken by the Board with the help of specialist consultants.

I would like to take this opportunity to thank all our members, customers and professional partners for their support to the Society over the past year, it is greatly appreciated. Finally, my thanks also to all our staff across the Society who have worked tremendously hard to provide the highest possible levels of service and continue the ongoing development of the Society.

H. H. Titcomb
Chairman
17 March 2016

SUMMARY FINANCIAL STATEMENT for the year ended 31 December 2015

This financial statement is a summary of information in the audited annual accounts, the Annual Business Statement and Directors' Report, all of which will be available to members and depositors free of charge on demand at every office of Harpenden Building Society from 1 April 2016.

SUMMARY DIRECTORS' REPORT

2015 has been a year of progress and change at the Society as we have renewed our focus on mortgage intermediaries. The immediate impact of this is clear to see with a real turnaround in the performance of our mortgage lending in 2015 when compared to 2014. We have commenced the process of reducing our liquidity from its elevated position; a position that has provided protection to the business and its customers during the economic downturn but which now, as we enter a period of gradual economic recovery, can be reduced to a more normal level.

In any year of change there will be an impact on costs, and we have recruited an additional eight full time and one part time employees during the year. Clearly, our responsibility is to ensure the ongoing sustainability of the Society and this is supported by ensuring that we are adequately resourced in all commercial and support functions.

The introduction of a Business Development team to lead the renewed focus on mortgage intermediaries as noted above has had an immediate and positive impact on our lending volumes. However, some of the less visible but equally important roles, such as Risk Analysts, Human Resources and Mortgage Underwriting and Operations will ensure that the internal control environment remains robust and that the Society remains compliant with regulatory requirements.

The Society's balance sheet grew £5.7m (2014: £16.8m) to £307.3m (2014 (restated): £301.6m) at 31 December 2015, an increase of 1.9% (2014: 5.9%).

Mortgage balances net of provisions increased by £8.7m (2014: £4.4m decrease) to £198.1m (2014: £189.4m), an increase of 4.6% (2014: 2.2% decrease). We continue to offer an individual approach to underwriting and take the time to understand borrowers' circumstances and assess the affordability of the mortgage in a prudent and sensible manner.

In common with all regulated UK deposit takers, the Society continues to contribute to the Financial Services Compensation Scheme (FSCS) levy. This funds the scheme that offers depositors protection in the event of the failure of a financial institution. We continued to manage the Society as safely, conservatively and prudently as possible whilst ensuring that we maintained a commercial edge to our business that enables us to compete and thrive in these conditions.

Also, it must be noted that the Society has transitioned its financial reporting to FRS102 for the first time in 2015 from the previous "UK GAAP" methodology. This is a requirement for all entities, building societies and companies alike, which prepare accounts on a UK GAAP basis. Due to this, the Society was required to restate the 2014 financials to reflect changes in accounting treatment under the new methodology.

SUMMARY FINANCIAL STATEMENT for the year ended 31 December 2015

Results for the year

	2015	Restated
	£000	2014
		£000
Net interest receivable	5,808	5,427
Other income and charges	200	327
Administrative expenses	(4,493)	(3,676)
Provisions for mortgage losses	(100)	65
Provisions for FSCS levies	(165)	(182)
Profit for the year before taxation	1,250	1,961
Taxation	(275)	(413)
Profit for the year	975	1,548
Revaluation of tangible fixed assets	71	215
Total comprehensive income for the year	1,046	1,763

Financial position at end of year

	2015	Restated
	£000	2014
		£000
Assets:		
Liquid assets	104,765	107,782
Mortgages	198,059	189,358
Fixed and other assets	4,509	4,470
Total assets	307,333	301,610
Liabilities:		
Shares	275,296	267,496
Borrowings	9,016	12,423
Other liabilities	700	412
Provisions for liabilities	122	126
General reserve	20,802	19,827
Revaluation reserve	1,397	1,326
Total liabilities	307,333	301,610

Approved by the Board of Directors on 17 March 2016 and signed on its behalf by:

H. H. TITCOMB Chairman
J. MORTIMER SYKES Vice Chairman
C. D. ASTLEY Director, Chief Executive & Secretary

SUMMARY FINANCIAL STATEMENT for the year ended 31 December 2015

Summary of Key Financial Ratios

	2015	Restated 2014
	%	%
Gross capital as a percentage of shares and borrowings	7.81	7.55
Liquid assets as a percentage of shares and borrowings	36.85	38.50
Profit for the financial year as a percentage of mean total assets	0.33	0.52
Management expenses as a percentage of mean total assets	1.48	1.25

Notes to the Key Financial Ratios

Gross capital comprises general reserves and revaluation reserve. The gross capital ratio gives an indication of the extent to which the Society is funded by retained profits and other reserves compared with money invested by shareholders and depositors. Such capital provides a financial cushion against any losses that might arise in the Society's business and therefore protects investors.

The liquid assets ratio measures the proportion that the Society's assets held in the form of cash, or short-term deposits readily convertible into cash, bears to the Society's liability due to investors. Such liquidity enables the Society to meet requests by investors for withdrawals, to make new mortgage loans and to fund its general business activities.

Mean total assets are calculated as the average of 2015 and 2014 total assets as shown in the balance sheet.

Profit for the year as a percentage of mean total assets measures the proportion that the Society's profit after taxation bears to the average of total assets during the year. The Society has to make a reasonable level of profit each year in order to maintain a strong gross capital ratio thereby providing protection for investors' funds. The Directors believe that the profit for the year is both prudential and consistent with the concept of mutuality.

The management expenses ratio measures the proportion that the Society's administrative expenses bear to the average of the Society's total assets during the year.

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS AND DEPOSITORS OF HARPENDEN BUILDING SOCIETY

We have examined the summary financial statement of Harpenden Building Society ('the Society') for the year ended 31 December 2015 set out on pages 3 to 5.

This auditor's statement is made solely to the society's members, as a body, and to the society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the society's members and depositors those matters we are required to state to them in such a statement 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 and the society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summary financial statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis of opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2015, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2015.

Our report on the Society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

AUDITOR'S REPORT (continued)

Opinion on Summary Financial Statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2015 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Simon Clark

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

17 March 2016

DIRECTORS' REMUNERATION REPORT

The purpose of this report is to explain how the Society complies with the principles in the UK Corporate Governance Code 2014 relating to remuneration. The Society has adopted a Remuneration Policy, which describes how the Society complies with the FCA's Remuneration Code.

The Level and Components of Remuneration

Code Principle: Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors remuneration should be structured so as to link rewards to corporate and individual performance.

Board comment: The Society's remuneration policy is to reward Directors according to their expertise, experience and overall contribution to the successful performance of the business. The Executive Directors benefit package is designed to motivate decision making in the interest of members as a whole.

Executive Directors Remuneration

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

- a) Basic Salary - takes into account duties, responsibilities, performance and levels for comparable positions in other organisations.
- b) Pension - the Chief Executive has a defined contribution personal pension arrangement to which the Society and employee both contribute. The Society makes a contribution of 10% of salary.
- c) Benefits - the Chief Executive is entitled to private medical insurance for self and spouse and Death-in-Service benefit at the rate of three times annual salary.
- d) Contractual Terms - Mr C.D. Astley is employed on a Service Contract dated 21 January 2010, terminable by the Society or by the individual on six months' notice.

Non-Executive Directors

Fees are based on comparable data from similar financial service organisations and are reviewed annually. Non-executive directors do not qualify for a pension or a bonus but do qualify for Death-in-Service benefit at the rate of three times annual fees. Performance of individual Directors is assessed by the Chairman and their fellow Board members. The Chairman is assessed by all members of the Board.

DIRECTORS' REMUNERATION REPORT (continued)

The Procedure for Determining Remuneration

Code Principle: There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

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

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

The total emoluments for both Executive and Non-Executive Directors totalled £435,452 for the year (2014: £456,375).

Executive Directors Emoluments:

2015	Salaries	Benefits	Pension Contrib's	Total
	£000	£000	£000	£000
P.G. Marsden (Chief Executive) (to 12 October 2015)	114	1	15	130
C.D. Astley (Acting Chief Executive)	121	1	8	130
	235	2	23	260

2014	Salaries	Benefits	Pension Contrib's	Total
	£000	£000	£000	£000
P.G. Marsden (Chief Executive)	145	1	14	160
C.D. Astley (Deputy Chief Executive)	108	1	11	120
	253	2	25	280

Non-Executive Directors Emoluments (comprising fees only):

	2015 £000	2014 £000
H.H. Titcomb	38	37
J. Mortimer Sykes (Vice Chairman from 1 March 2014)	31	31
N.S. Terry (Vice Chairman to 28 February 2014)	-	26
P. F. Baynham (from 1 November 2014)	25	4
A.V. Crossley-Mintern (from 1 January 2015)	25	-
S.J. Richardson	25	24
P.V. Smith	31	31
K.M. Wilson (to 31 December 2014)	-	24
	175	177

On 12 October 2015, Mr P.G. Marsden stepped down as Chief Executive and on this date his Service Contract with the Society ended. Under terms of the contract, an amount equal to the notice period is payable by the Society to Mr P.G. Marsden. This was £183k and is included in administrative expenses on page 4.



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