DIRECTORS' REPORT, ACCOUNTS AND ANNUAL BUSINESS STATEMENT

For the year ended 31st December 2016

HARPENDEN
BUILDING SOCIETY

local reputation, national recognition

Harpenden Building Society

Directors' Report, Accounts and
Annual Business Statement

For the year ended 31 December 2016

Contents

31 December 2016

Society information

	Head Office
Established and incorporated 1953	Mardall House
Firm Reference Number: 157260	9-11 Vaughan Road
Eligible for investments by trustees	Harpenden
Member of the Building Societies Association	Hertfordshire
Member of the Council of Mortgage Lenders	AL5 4HU

Directors

Stephen J. Richardson	Chair
Judith Mortimer Sykes, BA (Hons), MBA (Manchester)	Vice Chair and Senior Independent Director
Carl D. Astley, BSc (Hons), FCA	
Peter F. Baynham, BA (Hons), FCA, AMCT, Dip IoD	
Alison V. Crossley-Mintern, BSc (Hons)	
George McGrady, BSc (Hons), ACA	(appointed 1 January 2017)
Jill Robinson, BSc (Hons), FCCA	(appointed 1 September 2016)
Paul V. Smith, BA (Hons), MBA	

Executive

Carl D. Astley, BSc (Hons), FCA	Chief Executive
Philip L. Bannister	Head of Operations
Kenneth Hale	Head of Lending
Lynn P. Hey, BA (Hons), ACIB	Society Secretary
Nathaniel P. A. Lewis, BSc (Hons)	Head of Treasury and Risk
George McGrady, BSc (Hons), ACA	Finance Director

Solicitors	Bankers	Auditor
Neves	HSBC Bank plc	KPMG LLP
Tollgate House	1 High Street	One Snowhill
69-71 High Street	Harpenden	Snow Hill Queensway
Harpenden	Hertfordshire	Birmingham
Hertfordshire	AL5 2RS	B4 6GH
AL5 2SL		

Chairman's statement

This is my first year as your Chairman and I am delighted to have this opportunity to provide my overview on the past year for your Society.

However, I would firstly like to thank Hugh Titcomb for his service to the Board. Hugh was appointed to the Board in 2008 and the Society's Chairman from 2014. We are enormously grateful to Hugh for his significant contribution to the Society and he steps down from the Board with our heartfelt thanks and very best wishes for the future. As a result of Hugh's departure, we have secured the services of Jill Robinson as an additional non-executive director. Jill brings to us a deep understanding of financial services with experience of operational management and a particular focus on change management and project delivery. Following Carl Astley's promotion to Chief Executive during 2016, we have recruited a new Finance Director, George McGrady, who brings a wealth of experience across both the Building Society sector and a number of other financial services organisations.

Not only have we seen changes within the Society this year, we have also experienced great changes from both a political and economic perspective. The full extent of these changes will not reveal themselves for many months or even years, but financial markets have already been impacted with a devaluation of sterling and a reduction in the Bank of England Base Rate to 0.25%, the first movement since March 2009.

At the Harpenden, we are very much aware that the impact of the sustained period of a low interest rate environment has led to a general erosion in savings rates and that the decrease in the Bank of England Base Rate has only compounded this pressure. We remain committed to offering consistent and fair rates for both borrowers and savers whilst ensuring we operate a long-term sustainable business model. You will see within our Business Review below further information that focuses on this point and highlights that we have offered a return on deposits that has been above the average market rate offered each year for an extended period of time. This has remained the case during 2016, notwithstanding the reduction in savings rates during the course of the year.

From a mortgages perspective, the changes we implemented in 2015 have provided an increased focus on our mortgage broker relationships and we are starting to see improvements in business levels as a direct result. This is despite a backdrop of ever increasing levels of competition from both traditional lenders and new 'challenger banks' who have entered the market. Our success has once again been acknowledged by winning the "What Mortgage Best Local Building Society" award for the second year in a row. We are particularly proud of this award as it is voted on by mortgage professionals and reflects the positive views they hold of the Society.

During the year, we have retained tight control over costs whilst ensuring we further develop our infrastructure to support growth. A number of new specialist roles have been recruited that will make the Society stronger and we remain committed to both strengthening our team and ensuring we develop our existing staff.

The beginning of 2017 has seen signs that the mortgage market continues to be very competitive with downward pressure on mortgage interest rates. This year promises to be another challenging year for your Society. Your Board and management team are well equipped to navigate our way through these challenges.

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.

S. J. Richardson
Chairman
16 March 2017

Directors' Report

The directors have pleasure in presenting their 64th Annual Report and Accounts for the year ended 31 December 2016.

Business Review

2016 has been a year that has seen us continue to focus on steady growth in mortgage applications through mortgage intermediaries as well as improving our infrastructure (people, process and IT) to sustain and support our plans for growing the Society into the future. We remain committed to ensuring that the Society is managed prudently with a clear focus on long term sustainability and robust financial strength to offer the protection that our members rightly expect.

Last year's introduction of a Business Development team to provide focus and dedicated support on mortgage intermediaries has had a clear positive impact with lending increasing by a healthy 17% on 2015 and overall mortgage assets now above £200m.

Throughout 2016, the market has continued to see 'downward' pressure on savings rates and this was further compounded by the reduction in the Bank of England Base Rate in response to the vote to leave the EU. The Society has inevitably been subject to these same market forces and the consequential impact on meeting its objective of operating a long term sustainable funding base. Unfortunately, this has resulted in a combination of rate reductions and the temporary withdrawal of a limited number of savings products. However, the Society continues to offer competitive savings products that have consistently offered higher rates than the market. Indeed, over the past five years we have maintained a price differential of between c. 0.25%-0.35% above the average rate offered by the market. Based on the total savings balance held each year, this price differential has equated to c. £3.8m of additional interest paid to savers over the past five years. Furthermore, despite the impact of the rate reductions in 2016, the equivalent additional interest paid to savers has been £0.5m.

We have continued to build on and improve the business's operational capability and capacity with increased specialist resource in underwriting, compliance and IT. However, despite the additional cost this has been managed through a strong cost control program, resulting in an improvement in our management expenses ratio. We remain focused on ensuring we develop our infrastructure to support growth whilst maintaining control over costs.

Key Performance Indicators

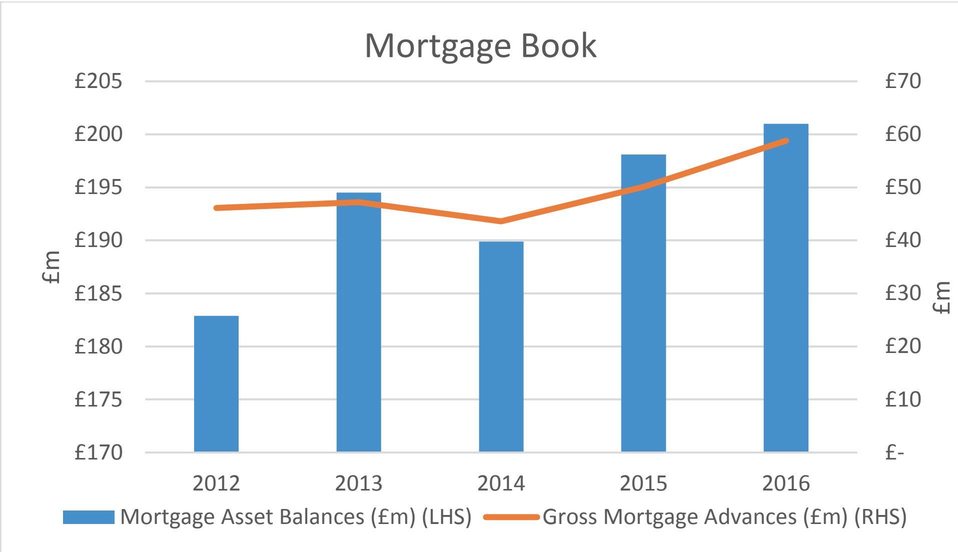
The Board and Executive monitor all aspects of the Society's financial performance on an ongoing basis. The key performance indicators (KPIs) used as measures are as follows:

KPI	2016	2015
Mortgage Asset Balances	£201.0m	£198.1m
Share Balances	£285.6m	£275.3m
Total Assets	£316.9m	£307.3m
Capital	£24.1m	£22.2m
Gross Capital as percentage of Shares and Borrowings	8.25%	7.81%
Free Capital as percentage of Shares and Borrowings	7.04%	6.56%
Profit After Tax as a Percentage of Mean Total Assets	0.60%	0.33%
Management Expenses as a Percentage of Mean Total Assets	1.47%	1.48%
Liquid Assets as a Percentage of Shares and Borrowings	38.13%	36.85%

Directors' Report *(continued)*

Mortgage Asset Balances: the provision of mortgage finance for the purchase of owner-occupied residential property is the key objective for the Society. The Society continues to lead the way in finding pragmatic solutions to complex mortgage lending situations and has built a reputation for expertise and service excellence in this specialist part of the market. We continue to offer an individual approach to underwriting and take the time to understand borrower's circumstances and assess the affordability of the mortgage in a prudent and sensible manner.

During the year, £58.8m was advanced to new and existing borrowers (2015: £50.1m), an increase of over 17% and whilst redemptions were higher than 2015, mortgage balances, net of provisions, increased by £2.9m (2015: £8.7m increase) to £201.0m (2015: £198.1m), an increase of 1.5% (2015: 4.6% increase). However, the overall position is distorted by the impact of our non-residential lending book reducing by £2.0m during the year. This is in line with the managed reduction in this book. Excluding this impact, our core mortgage book has increased by 2.5%.



At 31 December 2016, there was one mortgage account that was 12 months or more in arrears (2015: one), the value of arrears was £17k (2015: £6k) and the capital balance was £325k (2015: £117k). It is worth noting that this account was redeemed with full payment of arrears balance in January 2017. The balance of the Society's arrears that is greater than 3 months old at 31 December 2016 was 0.68% (2015: 1.10%) of total balances, compared to a Council of Mortgage Lenders industry average of 1.00% (2015: 1.12%). In addition, at 31 December 2016 the Society had no properties in possession (2015: none).

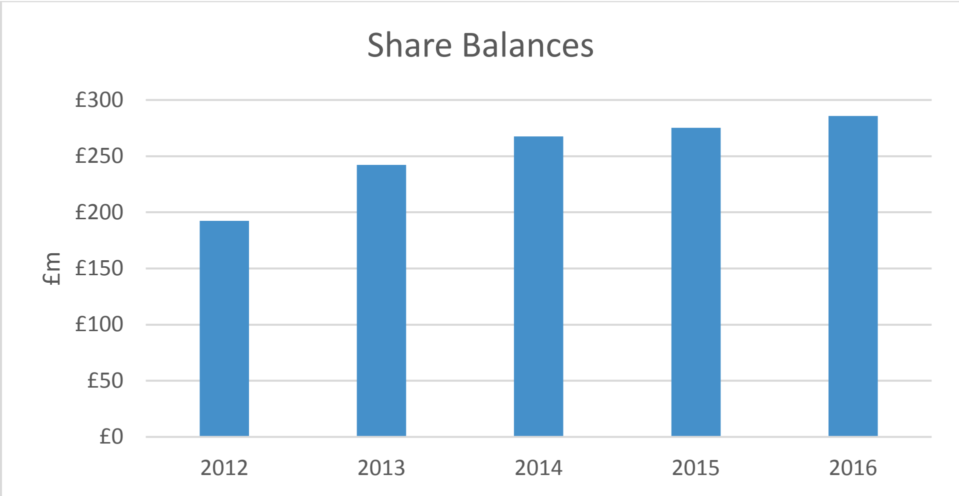
The Society may consider offering forbearance to mortgage borrowers who experience temporary payment difficulties as a result of serious illness, a change in employment circumstances or a significant life event. Arrangements considered include payment holidays, change in payment basis from repayment to interest only or amendment of the mortgage term. All arrangements are temporary and are regularly reviewed. At 31 December 2016, the Society offered such forbearance to four borrowers (2015: eight), representing a total mortgage balance of £0.7m (2015: £1.2m). One of these cases was in arrears (2015: one), the value of arrears was £1k (2015: £1k) and the capital balance was £77k (2015: £81k). These loans are considered within the Society's individual and collective mortgage provisioning modelling as described below.

Directors' Report *(continued)*

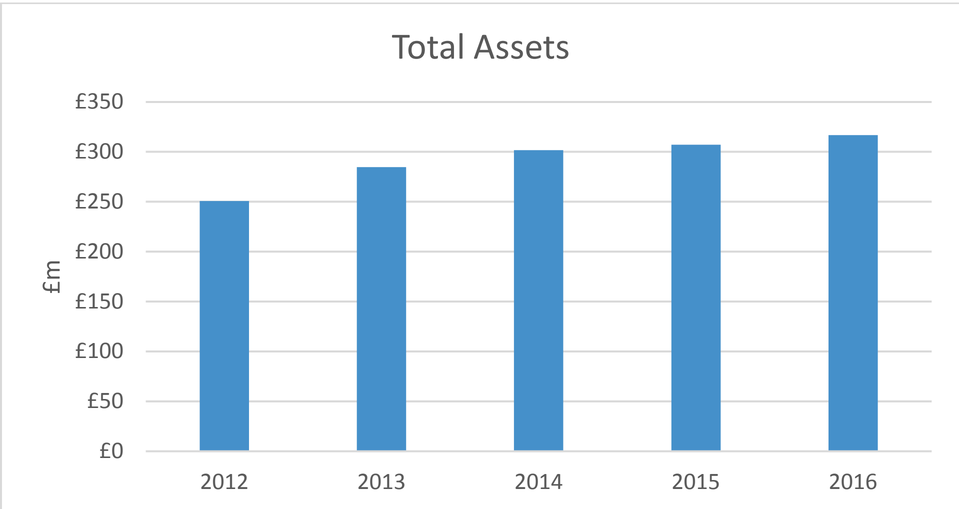
Individual provisions are made for loans and advances on a case-by-case basis to cover anticipated losses in respect of all accounts that have been identified as impaired. Anticipated losses on such accounts are calculated as the difference between the estimated current achievable market value of the security and the outstanding loan balance, after making appropriate allowance for costs.

A collective mortgage provision is made against mortgage advances which have not been specifically identified as impaired but where general experience and market conditions may indicate that losses may ultimately be incurred.

Share Balances - the Society aims to maintain a stable and sustainable funding base that meets the Society's lending requirements through the provision of simple products that are consistently priced for all members. These balances grew by 3.7% in the year (2015: 2.9%) to £285.6m at 31 December 2016.



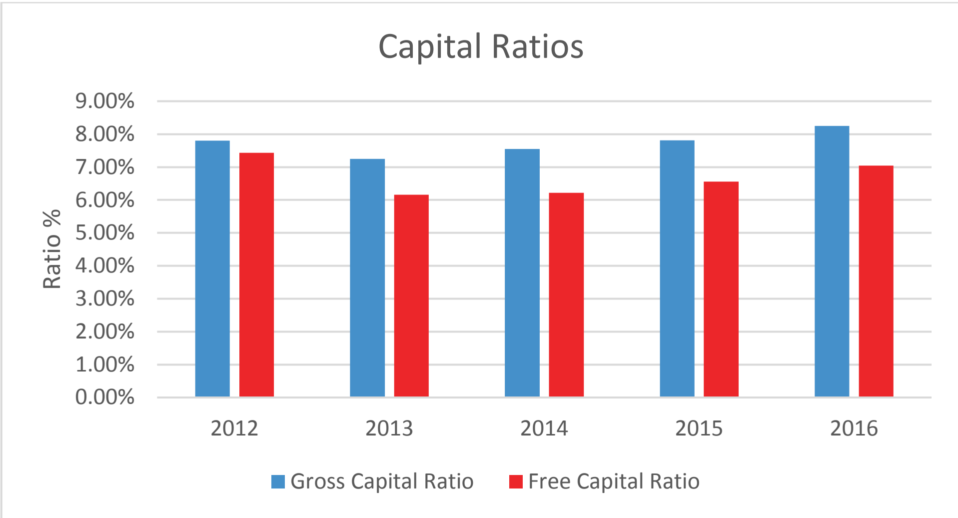
Total Assets - the Board considers that balance sheet growth underpinned by increasing capital reserves improves the Society's strength and stability. Total assets increased by £9.6m (2015: £5.7m) to £316.9m (2015: £307.3m) at 31 December 2016, an increase of 3.1% (2015: 1.9%).



Directors' Report *(continued)*

Capital - the Society generates capital to protect against risk and provide long-term security for members and the Gross and Free Capital ratios are monitored accordingly. These ratios are defined in the Annual Business Statement on page 57.

The Society's capital ratios have increased in 2016, thereby improving the underlying financial stability of the Society.



Profit After Tax as a Percentage of Mean Total Assets - accumulated profit after tax is the key source of additional capital for the Society and sufficient profit must be made to ensure its ongoing financial strength. The Society's overall margin and profitability are strong and ensure that future growth in lending can be supported. This has been impacted in recent years by reduced returns on the Society's treasury investments as a result of the of the low Bank of England (BOE) base rate.

Management Expenses as a Percentage of Mean Total Assets - this ratio is monitored as it shows how efficiently the assets of the Society are used. The ratio has decreased during the year to 1.47% (2015: 1.48%). The reduction is despite the upward pressure on costs from inflationary pressures, particularly with a significant element of management expenses relating to staff costs, as well as the increasing infrastructure, compliance and regulatory costs required by all regulated financial institutions.

Liquid Assets as a Percentage of Shares and Borrowings - liquidity ratios are monitored to ensure that they remain within Board approved limits and that adequate cash is held to meet liabilities as they fall due.

In 2016, liquid assets increased by £6.5m to £111.3m (2015: £104.8m) and the liquid asset ratio increased to 38.13% (2015: 36.85%). As noted earlier in this report, the Society has continued to see a growth in liquidity from share deposits during 2016. This is in addition, to the elevated liquidity position accumulated over recent years. Actions taken to address inflows and reduce liquidity back to longer-term expectations will continue through 2017.

Financial Risk Management Objectives and Policies

The Society has a formal structure for managing risk including establishing risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Board. Full details of the Society's approach to financial risk management and the key risks faced are given in note 26 to the accounts.

Principal Risks and Uncertainties

The Society has put in place a formal risk management structure that includes its Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), policy statements, exposure limits, mandates and reporting lines together with an active and regular risk review process to mitigate risks.

Disclosure of the adequacy of the Society's capital is made in a document called Pillar 3 Disclosures. This document is available on our website; www.harpendenbs.co.uk. The principal risks arising from the Society's activities, and the Board approved policies and procedures put in place to manage them, are described below.

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 become due. All loan applications are assessed with reference to the Society's lending policy and lending mandates are strictly controlled. The Lending Policy is regularly reviewed by the Lending Policy Committee (a Board committee) and approved by the Board of Directors on an annual basis. The Society does not take a 'tick-box' approach to lending, rather, the Society ensures that the unique position and inherent risks of each application received are fully understood and assessed.

The Liquidity Policy includes limits on credit exposures to individual and groups of counterparties driven by credit ratings and an internal due diligence process. Whilst credit ratings can provide an indication of the creditworthiness of a counterparty, the Society supplements this information with market knowledge to generate a more complete view of its counterparties.

Liquidity Risk

Liquidity risk is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties. The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can cover all fluctuations in funding, retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations. This is achieved through maintaining a prudent level and sensible mix of liquid assets and through control of the growth of the business to provide flexibility in the management of liquidity. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows. The Liquidity Policy is regularly reviewed and approved by the Board of Directors.

Interest Rate Risk and Basis Risk

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

The Society manages this exposure continually by matching the maturity dates of assets and liabilities in line with its Financial Risk Management Policy, which is regularly reviewed and approved by the Board of Directors. A detailed analysis of the Society's interest rate sensitivity at 31 December 2016 and 2015 can be found in note 26 on pages 51 to 53.

Directors' Report *(continued)*

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

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

Financial Services Compensation Scheme (FSCS) Risk
In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable claims to be met. The possibility therefore exists that the Society may be required to pay a higher level of levies if claims increase. A full explanation of this risk can be found in note 24 on page 44.

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

Directors
The following persons were directors of the Society during 2016:

S. J. Richardson (Chair from 23 June 2016)
H. H. Titcomb (Chair until 23 June 2016)
C. D. Astley (Chief Executive from 1 February 2016, Acting Chief Executive until 31 January 2016)
P. F. Baynham
A. V. Crossley-Mintern
J. Mortimer Sykes (Vice Chair and Senior Independent Director)
P. V. Smith
J. Robinson (appointed 1 September 2016)

H. H. Titcomb resigned from the Board on 31 July 2016.
G. McGrady was appointed to the Board with effect from 1 January 2017.

Other Matters
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 fifteen days of receipt of invoice (2015: eight days).

Charitable and Political Donations

Charitable donations during the year amounted to £41k (2015: £nil). The incentive of a charitable contribution of £1 for each member vote at the Annual General Meeting in April 2016 produced £1,873, which was donated to Prostate Cancer UK.

The Society continues to operate the HBS Hertfordshire Community Foundation Trust. The balance in this fund at 31 December 2016 was £403k (2015: £368k). Additionally, funds in the HBS Charitable Trust, held at the Charities Aid Foundation to be used for the benefit of the community and local charities nominated by the Society, total £47k as at 31 December 2016 (2015: £81k).

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 2016 (2015: £nil) which require disclosure under the Act.

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.

Going Concern

The directors have prepared forecasts of the Society's capital, financial and liquidity position for the period ending 12 months from the date of approval of these financial statements. The directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions. The directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the annual accounts.

Auditor

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

Country-by-country reporting

The country-by-country reporting requirements can be found in note 30 on page 56. The purpose of this reporting is to provide clarity on the source of the Society's income and the location of its operations.

Acknowledgements

The directors wish to record their appreciation to the management and staff, as well as all our members, customers and professional partners for their continued support.

On behalf of the Board of Directors

C. D. Astley
Director and Chief Executive
16 March 2017

Corporate governance report

Your Directors are committed to applying best practice in corporate governance commensurate with our mutual status and our business activities. This report explains to members our approach which is based on the UK Corporate Governance Code (September 2014) issued by the Financial Reporting Council (the Code). The Code applies to companies listed on the London Stock Exchange and so does not apply to building societies. However our Regulators, the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA), encourage all building societies to have regard to the Code where this is possible. The Directors set out below the Code principles and our response to them.

Directors

The Role of the Board

Code Principle: Every company should be headed by an effective Board, which is collectively responsible for the long-term success of the Company.

Board comment: Your Board is committed to the principles of mutuality and with good corporate governance. The Board meets regularly to review performance against strategic and operational objectives. In addition the Board has the following general responsibilities:

- the overall leadership of the Society, including setting its culture and values
- managing the business of the Society
- determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives
- monitoring the key risks in the business model through appropriate Management Information
- oversight of governance, delegating responsibility to Board sub-committees, as it sees fit
- Has proper accounting records which are established, maintained, documented and audited.

The Board establishes and monitors the high level principles and strategic aims of the Society and takes decisions on specific matters such as major investments and capital purchases. The non-executive Directors have the opportunity to meet without executive Directors present. All directors have an opportunity to meet without the Chairman present at least once a year. All Board members have the benefit of appropriate liability insurance at the Society's expense. All Board members have access to independent legal and other appropriate professional advice, if required. The Board is effective because of its focus on strategy and risk management in an environment where constructive challenge is encouraged.

All Directors make the necessary time commitment required to prepare for and attend the scheduled Board and Board Committee meetings and the attendance of Directors at those meetings is set out below. Against each Director's name is shown the number of meetings at which the Director was present as a member and in brackets the number of such meetings that the Director was due to attend during the year.

Name	Board[1]	AGM	ALCO	ACC&RC[2]	Conduct	LPC	REMCO
S. J. Richardson	8 (8)*	1 (1)	-	3 (3)	3 (3)	2 (2)	2 (2)
C. D. Astley	8 (8)	1 (1)	4 (4)	-	4 (4)	3 (4)	-
P. F. Baynham	7 (8)	1 (1)	3 (4)*	3 (4)	-	4 (4)	-
A. V. Crossley-Mintern	7 (8)	1 (1)	1 (2)	-	4 (4)*	-	2 (2)
J. Mortimer Sykes	8 (8)	1 (1)	4 (4)	-	4 (4)	4 (4)*	-
J. Robinson	3 (3)	- ^	1 (1)	2 (2)	-	0 (1)	1 (1)
P. V. Smith	8 (8)	1 (1)	4 (4)	4 (4)*	-	-	2 (2)*
H. H. Titcomb	5 (5)	1 (1)	-	-	1 (2)	-	0 (1)

* Indicates Chair of Board/Committee

[1] Includes two board strategy days

^ Appointed a director after the AGM

[2] During 2016 there was a combined Audit and Risk Committee. From 2017 these are two separate committees

Corporate governance report *(continued)*

The Board of Directors has five sub-committees to deal with specific issues. The Board of Directors determines the responsibilities and composition of these committees, which are authorised to make decisions within agreed parameters and/or make recommendations to the full Board of Directors as appropriate.

Board Committees
The Assets and Liabilities Committee (ALCO), comprising four non-executive directors, the Chief Executive and the Finance Director, meets at least quarterly. It oversees financial risk within the Society and its duties include maintaining knowledge of the economic outlook, monitoring interest rate risk, basis risk, net interest margin and product pricing. It also assesses treasury counterparty credit risk, and the structure of the Society's lending and funding books.

The Audit and Compliance Committee (ACC), comprising three non-executive directors, meets quarterly with the Society's Internal Auditor and External Auditor in attendance. It oversees external audit and internal control and its duties include the setting and review of procedures, systems, control and inspection.

The Risk Committee (RC), comprising three non-executive directors, meets quarterly and oversees the Society's Risk Management Framework. The Chief Executive, Finance Director and Head of Treasury & Risk are normally invited to attend all, or part, of the meetings, but they are not members of the Committee.

The Conduct Committee, comprising three non-executive directors and the Chief Executive, meets quarterly and has responsibility for compliance with conduct regulations and ensuring that the Society's culture, strategy, business model, product life cycle management (design, terms and conditions, pricing, distribution, sales, post-sales and closure processes) focus on delivering fair customer outcomes.

The Lending Policy Committee (LPC), comprising three non-executive directors, the Chief Executive and the Finance Director, meets at least quarterly to review the composition of the mortgage book, its credit risk profile, new mortgage lending and arrears and also makes policy recommendations to the Board.

The Remuneration and Nominations Committee (REMCO), comprising four non-executive directors, is responsible for recommending appointment and remuneration of non-executive directors as well as the appointment, terms of employment and remuneration of executive directors. Directors' remuneration is annually benchmarked against peers both within and outside the building society sector and the local area, taking Society performance into account. The remuneration of all Directors is agreed by the full Board. The Committee meets as required but at least twice a year. The Directors' Remuneration Report is included on page 18.

The terms of reference for the Committees can be obtained by writing to the Secretary at the Society's Head Office.

Division of Responsibilities
Code Principle: There should be a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision.

Board comment: The offices of Chairman and Chief Executive are distinct and held by different people. The role of each is set out in their letter of appointment or service agreement and job description. The Chairman is responsible for leading the Board, setting its agenda and ensuring its effectiveness. The Chief Executive is responsible for managing the Society's business within the parameters set by the Board.

Corporate governance report *(continued)*

The Chairman

Code Principle: The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

Board comment: The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information.

Non-Executive Directors

Code Principle: As part of their role as members of a unitary Board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.

Board comment: The non-executive role at the Society requires understanding of the risks in the business; commercial leadership within a framework of prudent and effective risk management controls; providing an independent perspective, monitoring performance and resources; and developing, scrutinising, and constructively challenging strategic proposals, whilst supporting the executive management.

Judith Mortimer Sykes has been appointed as the Board's Senior Independent Director (Judith is also the Vice Chairman). As Senior Independent Director Judith leads the annual review of the Chairman's performance.

The Composition of the Board

Code Principle: The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

Board comment: The Board currently comprises two executives and six non-executive directors, providing a balance of skills and experience appropriate for the requirements of the business. All non-executive directors are considered to be independent in character and judgement and free of any relationship or circumstance which are likely to affect, or could appear to affect, their judgement. The Chairman and Chief Executive are satisfied that the sound judgement and challenging approach of its independent non-executive directors make a significant contribution to the Society.

Appointments to the Board

Code Principle: There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

Board comment: On an annual basis the Remuneration and Nominations Committee reviews the balance of skill, aptitude and experience on the Board against the requirements of the Society.

Following an evaluation of the role and capabilities required for a particular appointment new appointees to the Board are made on merit and against objective criteria. Candidates for non-executive directorship are identified in a variety of ways, including inviting applications from members, through professional search, press and online advertisements.

Eligible members of the Society have the right under the Society's Rules to apply for election to the Board. All Directors must meet the regulatory fitness and propriety standards. The Remuneration & Nominations Committee leads the process, and recommends a candidate. The Board decides whether to appoint the candidate.

Corporate governance report *(continued)*

Each Director must be approved by the PRA with consent from the FCA in order to fulfil their control function as a Director.

Commitment

Code Principle: All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

Board comment: The Remuneration and Nominations Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Board and Committee members is set out on page 12.

Development

Code Principle: All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

Board comment: All new directors undergo a formal and tailored induction prior to joining the Board. All training and development needs are reviewed annually.

Information and Support

Code Principle: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Board comment: The Chairman ensures that the Board receives accurate, clear and timely information sufficient to enable it to discharge its responsibilities. Directors are provided with a performance pack of information by senior management. The Secretary provides support on corporate governance matters and the Board has access to independent advice if required.

Evaluation

Code Principle: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.

Board comment: The performance and effectiveness of the Board and its committees is evaluated annually. Directors are evaluated by the Chairman, taking into account the views of other directors. The Chairman is evaluated by the non-executive directors.

Re-election

Code Principle: All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Board comment: The Rules of the Society require that all directors are submitted for election at the Annual General Meeting (AGM) following their first appointment to the Board and all directors are required to seek re-election at least every three years after first being elected. Any term lasting beyond nine years after election will be approved by the Board following due consideration and then only on the basis of annual re-election.

Corporate governance report *(continued)*

Financial and Business Reporting

Code Principle: The Board should present a fair, balanced and understandable assessment of the Company's position and prospects.

Board comment: The responsibilities of the directors in relation to the preparation of the Society's accounts and a statement that the Society's business is a going concern are to be found within the Directors' Report on pages 5 to 11.

Risk Management and Internal Control

Code Principle: The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

Board comment: The Board is responsible for determining strategies for risk management and control of the Society. Senior management are responsible for designing, operating and monitoring risk management and internal control processes. The Risk Committee, on behalf of the Board, is responsible for reviewing the adequacy of these processes.

The Society has a strong compliance culture which is embraced by all staff. The system of internal control includes physical controls, authorisation limits and segregation of duties. There is an ongoing process for identifying, evaluating and managing the risks faced by the Society.

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.

The Board has ultimate responsibility for ensuring the effectiveness of the Society's systems of risk management and internal control. Following review by the Audit and Risk Committees, it is satisfied that the Society's systems are effective and meet the requirements of the Code as far as it is relevant.

Audit and Compliance Committee and Auditors

Code Principle: The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

Board comment: The Board has an Audit and Compliance Committee comprising three non-executive directors. Other non-executive directors and members of management may attend the meetings at their discretion.

The Board is satisfied that members of the Committee have recent and relevant financial experience, specifically P. V. Smith, P. F. Baynham and J. Robinson. This Committee reviews financial statements, the effectiveness of internal controls and the performance of both internal and external auditors and it meets at least four times a year.

The Committee excludes all executives from part of its meetings and the Committee meets periodically with only the External Auditor and only the Internal Auditor. Minutes of the Committee's meetings are distributed to all Board members and the Chairman of the Committee reports to the Board at each regular meeting of the Board following a meeting of the Committee. The Committee considers the objectivity and independence of the External Auditor and decides the policy for non-audit fees.

Corporate governance report *(continued)*

Dialogue with Shareholders

Code Principle: There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Board comment: As a mutual organisation, the Society has a membership composed exclusively of individuals who are also the Society's customers. The Society welcomes views of members at Branches, online and via newsletter appeals. The Society conducts market research on a regular basis using a variety of techniques to obtain feedback on a wide range of issues.

Constructive Use of the AGM

Code Principle: The Board should use the AGM to communicate with investors and to encourage their participation.

Board comment: Each year the Society sends details of the AGM to all members who are eligible to vote. Members are sent voting forms and are encouraged to vote on-line, by post, by proxy or in person at the AGM. All proxy votes are counted under independent scrutiny. A poll is called in relation to each resolution at the AGM and all valid proxy votes cast (excluding abstentions) are included in the published results of voting. All members of the Board are present at the AGM each year (unless their absence is unavoidable) and the Chairs of the Audit and Compliance, Risk, and Remuneration and Nominations Committees are therefore available to answer questions.

On behalf of the Board of Directors
S. J. Richardson
Chairman
16 March 2017

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 to which the Society has regard. The Society has adopted a Remuneration Policy, which describes how the Society complies with the FCA's Remuneration Code. The remuneration of the individual Directors is detailed in note 7 on page 35.

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 director's benefit package is designed to motivate decision making in the interest of members as a whole.

Executive Director 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 and Finance Director have defined contribution personal pension arrangements to which the Society and employee both contribute. The Society makes a contribution of 10% of salary.

c) Benefits – the Chief Executive and Finance Director are 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. Astley is employed on a Service Contract dated 17 October 2016, terminable by the Society or by the individual on six months' notice. Mr G. McGrady is employed on a Service Contract dated 3 January 2017, 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.

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.

P. V. Smith
Chairman of Remuneration and Nominations Committee
16 March 2017

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts

The directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts in accordance with applicable law and regulations.

The Building Societies Act ("the Act") requires the directors to prepare Annual Accounts for each financial year. Under that law they have elected to prepare the Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Annual Accounts are required by law to give a true and fair view of the state of affairs of the society as at the end of the financial year and of the income and expenditure of the society for the financial year.

In preparing these Annual Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts;
- prepare the Annual Accounts on the going concern basis unless it is inappropriate to presume that the society will continue in business.

In addition to the Annual Accounts, the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' responsibilities for accounting records and internal controls

The directors are responsible for ensuring that the society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Harpenden Building Society

We have audited the Annual Accounts of Harpenden Building Society for the year ended 31 December 2016 set out on pages 22 to 56. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of Annual Accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Annual Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Annual Accounts

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Annual Accounts

In our opinion the Annual Accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the society as at 31 December 2016 and of the income and expenditure of the society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- 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 thereunder;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the Annual Accounts; and
- 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.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept by the Society; or
- the Annual Accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Snowhill
Snowhill Queensway
Birmingham
B4 6GH
16 March 2017

Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Interest receivable and similar income	2	10,379	10,212
Interest payable and similar charges	3	(3,683)	(4,404)
Net interest income		**6,696**	**5,808**
Fees and commissions receivable		218	229
Fees and commissions payable		(201)	(182)
Other operating income	4	162	153
Total net income		**6,875**	**6,008**
Administrative expenses	5	(4,376)	(4,305)
Depreciation and amortisation	16, 17	(217)	(188)
Losses on disposal of tangible fixed assets	16	(2)	-
Operating profit before impairments and provisions		**2,280**	**1,515**
Impairment gains/(losses) on loans and advances	14	179	(100)
Provisions for liabilities	24	(106)	(165)
Profit before tax		**2,353**	**1,250**
Tax expense	8	(488)	(275)
Profit for the financial year		**1,865**	**975**
Other comprehensive income			
Revaluation of tangible fixed assets	25	-	71
Total comprehensive income for the year		**1,865**	**1,046**

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

The notes to these Accounts can be found on pages 26 to 56

Statement of Financial Position

at 31 December 2016

	Notes	2016 £000	2015 £000
Assets			
Liquid assets			
Cash and balances at the Bank of England	9	38,273	26,147
Treasury bills and similar securities	10	5,999	1,996
Loans and advances to credit institutions	11	23,899	28,304
Debt securities	12	43,161	48,318
Loans and advances to customers			
Loans fully secured on residential property	13	194,395	189,682
Other loans	13	6,633	8,377
Investments			
Participating interests	15	194	194
Tangible fixed assets	16	3,764	3,875
Intangible assets	17	71	92
Deferred tax assets	23	20	29
Other debtors	18	471	319
Total assets		**316,880**	**307,333**
Liabilities			
Shares	19	285,624	275,296
Amounts owed to credit institutions	20	26	26
Amounts owed to other customers	21	6,363	8,990
Other liabilities	22	480	403
Accruals and deferred income		184	297
Provisions for liabilities	24	139	122
Total liabilities		**292,816**	**285,134**
Reserves			
General reserves	25	22,667	20,802
Revaluation reserve	25	1,397	1,397
Total reserves attributable to members of the Society		**24,064**	**22,199**
Total reserves and liabilities		**316,880**	**307,333**

The accounting policies and notes to these Accounts can be found on pages 26 to 56

These accounts were approved by the Board of Directors on 16 March 2017 and signed on its behalf:

Stephen J. Richardson	Carl D. Astley	George McGrady
Chairman	Chief Executive	Finance Director

Statement of Changes in Members' Interests

	General reserve 2016 £000	**Revaluation reserve 2016 £000**	**Total 2016 £000**
Balance at 1 January 2016	**20,802**	**1,397**	**22,199**
Total comprehensive income for the year			
Profit for the financial year	1,865	-	**1,865**
Other comprehensive income (see note 25)	-	-	-
Total comprehensive income for the year	**1,865**	**-**	**1,865**
Balance at 31 December 2016	**22,667**	**1,397**	**24,064**

	General reserve 2015 £000	Revaluation reserve 2015 £000	Total 2015 £000
Balance at 1 January 2015	19,827	1,326	21,153
Total comprehensive income for the year			
Profit for the financial year	975	-	975
Other comprehensive income (see note 25)	-	71	71
Total comprehensive income for the year	975	71	1,046
Balance at 31 December 2015	**20,802**	**1,397**	**22,199**

The notes to these Accounts can be found on pages 26 to 56

Cash Flow Statement

	Notes	2016 £000	2015 £000
Cash flows from operating activities			
Profit before tax		2,353	1,250
Adjustments for			
Depreciation and amortisation	16, 17	217	188
Revaluation gains through profit and loss		-	-
Total		**2,570**	**1,438**
Changes in operating assets and liabilities			
Decrease in prepayments, accrued income and other assets		(103)	(86)
(Decrease)/increase in accruals, deferred income and other liabilities		(123)	277
Increase in loans and advances to customers		(2,969)	(8,700)
Increase in shares		10,328	7,800
Decrease in amounts owed to other credit institutions and other customers		(2,627)	(3,407)
Increase in loans and advances to credit institutions		2,000	9,500
Taxation paid		(372)	(265)
Net cash generated by operating activities		**6,134**	**5,119**
Cash flows from investing activities			
Purchase of financial fixed assets		(55,980)	(69,430)
Proceeds from sale of financial fixed assets		57,088	83,812
Purchase of tangible fixed assets	16	(54)	(109)
Purchase of intangible assets	17	(33)	(45)
Net cash generated by investing activities		**1,021**	**14,228**
Net increase in cash and cash equivalents		**9,725**	**20,785**
Cash and cash equivalents at 1 January		37,430	16,645
Cash and cash equivalents at 31 December		**47,155**	**37,430**

Reconciliation of cash balances:	**2015 £000**	**Movement £000**	**2016 £000**
Cash in hand	68	8	76
Loans and advances to credit institutions repayable within 3 months	11,283	(2,401)	8,882
Cash and balances at the Bank of England	26,079	12,118	38,197
Total cash	**37,430**	**9,725**	**47,155**

The notes to these Accounts can be found on pages 26 to 56

Notes

(forming part of the annual accounts)

1. Accounting policies

Harpenden Building Society (the "Society") has prepared these Society annual accounts under the historical cost convention as modified by the revaluation of freehold property. The annual accounts are prepared in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*). The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 1.11.

Notes *(continued)*

1. Accounting policies *(continued)*

1.1 Liquid Assets

Loans and advances to credit institutions are stated at cost to the Society adjusted for interest accrued at the date of purchase. A similar adjustment is made on realisation. Treasury bills and debt securities are intended for use on a continuing basis and are classified as financial fixed assets and are stated at cost, adjusted for accrued interest at the date of purchase, where applicable. A similar adjustment is made on realisation. Any premium or discount on purchase is amortised on an effective interest rate basis over the period to maturity. Where there is a permanent diminution in value of a financial fixed asset a provision is made to write down the cost of the security to its recoverable amount.

1.2 Interest

Interest income and expense are recognised in profit and loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs, fee income and commission expense that are paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the issue of a financial asset.

Interest income and expense presented in the income statement and other comprehensive income include interest on financial assets measured at amortised cost calculated on an effective interest basis.

Fees and commissions associated with a mortgage that are directly incremental are recognised using the effective interest rate. All other fees are recognised as incurred.

1.3 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred.

Notes *(continued)*

1. Accounting policies *(continued)*

1.4 Taxation

Tax on the profit and loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those they are included in the financial statements.

Deferred tax 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.

1.5 Financial instruments

The Society have chosen to apply the provisions of FRS 102 sections 11 and 12 in full.

Financial assets

The Society initially recognises loans and advances, deposits and debt securities on the date on which they originated. All other financial instruments are recognised on the trade date, being the date on which the Society becomes a party to the contractual provision of the instrument.

Loan commitments

The Society's loans and advances to customers are classified as loan commitments. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Society measures its loans and advances at amortised cost less impairment provisions. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The initial value may, if applicable, include certain fees such as arrangement and booking fees, which are recognised over the average life of mortgage assets, as noted above.

Throughout the year and at each year end, the mortgage life assumptions for each scheme are reviewed for appropriateness. Any changes to the expected life assumptions of the mortgage assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets.

Debt instruments

Debt instruments are non-derivative assets with fixed or determinable payments and fixed maturity that the Society has the positive intent and ability to hold to maturity, and which are not designated as at fair value through the income statement.

1. Accounting policies *(continued)*

1.5 Financial instruments (continued)

Debt investments are carried at amortised cost using the effective interest rate method (see above), less any impairment losses.

The Society derecognises a financial asset when its contractual rights to a cash flow are discharged or cancelled, or expire or substantially all the risk and rewards of ownership have been transferred.

Financial liabilities

The Society classifies its financial liabilities, other than loan commitments, as measured at amortised cost.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Identification and measurement of impairment

At each reporting date, the Society assesses whether there is objective evidence that financial assets measured at amortised cost are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Society considers evidence of impairment for assets carried at amortised cost at both an individual asset and a collective level. All individually significant assets are assessed for individual impairment. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment, the Society uses statistical modelling of internal and external information to assess the probability of default, and the amount of loss likely to be incurred and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater than the model suggests. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Notes *(continued)*

1. Accounting policies *(continued)*

1.5 Financial instruments *(continued)*

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, the Board may elect to apply an overlay to the impairment provision.

The amount of impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of provisions.

Forbearance strategies and renegotiated loans

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- Temporary switch from a repayment loan to an interest only loan; and
- Reduced monthly payments.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Loans that have been restructured and would otherwise have been past due or impaired are classified as renegotiated.

Impairment losses are recognised in profit and loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit and loss.

1.6 Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash comprises cash in hand and unrestricted loans and advances to credit institutions and the Bank of England repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

The Statement of Cash Flows has been prepared using the indirect method.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Freehold property assets are stated at fair value less subsequent accumulated depreciation.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Notes *(continued)*

1. Accounting policies *(continued)*

1.7 Tangible fixed assets (continued)

Depreciation is charged to the profit and loss account on either a straight-line or reducing balance basis over the assets estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold premises – over fifty years on a straight line basis
- Leasehold premises – over the life of the lease on a straight line basis
- Computer equipment – over three years on a straight line basis
- Office equipment – 15% a year on a reducing balance basis; and
- Motor vehicles – 25% a year on a reducing balance basis

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Revaluation gains/losses

Freehold property assets are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains or losses on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve.

1.8 Intangible assets

Intangible assets that are acquired by the Society are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the profit and loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software - 3 years

The Society reviews the amortisation period and method of amortisation when events and circumstances indicate that the useful life may have changed since the last reporting date.

1.9 Employee benefits

Defined contribution plans and other long term employee benefits

The Society offers its employees a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. These payments into the plan are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Notes *(continued)*

1. Accounting policies *(continued)*

Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

1.10 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.11 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2016 are set out below in relation to the impairment of financial instruments.

Impairment losses on loans and advances

The Society holds provisions for impairment losses against loans on an individual and collective basis. The level of impairment requires a significant degree of judgement and estimation. Provisions are calculated using the historic loss experience of the Society as well as external indicators, however a number of assumptions are required such as realisable values and customer behaviour.

The most critical estimation is of the level of house prices where a variance of 10% impacts the provision by £206k. Other sensitivities include a forced sale discount variance of 10% which equates to £72k, and the emergence period, where a variance of six months equates to £23k.

Effective interest rate

The calculation of an effective interest rate requires the Society to make assumptions about the expected average lives of mortgages. Interest income is amortised over the expected average life, so if the average life of the mortgage book increased by 6 months then the carrying value of mortgages would change by £55k with a corresponding change to income.

Notes *(continued)*

2. Interest receivable and similar income

	2016	2015
	£000	£000
On loans fully secured on residential property	9,277	9,033
On other loans	415	491
On debt securities	397	349
On other liquid assets	290	339
	10,379	**10,212**

3. Interest payable and similar charges

	2016	2015
	£000	£000
On shares held by individuals	3,660	4,370
On deposits and other borrowings	23	34
	3,683	**4,404**

4. Other operating income

	2016	2015
	£000	£000
Rents receivable	163	153
Other operating expense	(1)	-
	162	**153**

Notes *(continued)*

5. Administrative expenses

	2016	2015
	£000	£000
Wages and salaries	2,045	1,905
Social security costs	210	204
Other staff costs	-	152
Contributions to defined contribution plans	265	231
	2,520	2,492
Other administrative expenses	1,856	1,813
	4,376	**4,305**

The remuneration of the external auditor, which is included within other administrative expenses costs above, is set out below (excluding VAT):

	2016	2015
	£000	£000
Amounts receivable by the Society's auditor and its associates in respect of:		
Audit of these annual accounts	57	68
Other services related to taxation	4	7
All other services	3	4
	64	**79**

6. Employee numbers

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

	2016 Full-time	**2016 Part-time**	2015 Full-time	2015 Part-time
Head Office	36	4	34	7
Branch Offices	8	18	7	16
	44	**22**	**41**	**23**

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

Notes *(continued)*

7. Directors' remuneration

The total emoluments for both Executive and Non-Executive Directors for the year amounted to £345,411 (2015: £435,452).

Executive Director Emoluments:

2016	**Salaries**	**Benefits**	**Pension Contributions**	**Total**
	£000	**£000**	**£000**	**£000**
C.D. Astley (Chief Executive)	**152**	**1**	**15**	**168**

2015	Salaries	Benefits	Pension Contributions	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**

Non-Executive Director Emoluments (comprising fees only):

	2016	2015
	£000	£000
S.J. Richardson (Chair from 23 June 2016)	32	25
J. Mortimer Sykes	32	31
P. F. Baynham	26	25
A.V. Crossley-Mintern	26	25
J. Robinson (Appointed 1 September 2016)	9	-
P.V. Smith	32	31
H.H. Titcomb (Chair until 23 June 2016)	21	38
	178	**175**

At 31 December 2016, there were £200k of outstanding mortgage loans granted in the ordinary course of business to directors and connected persons (2015: £nil) representing loans to one (2015: nil) persons. A register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to, and including the date of the Annual General Meeting.

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 the 2015 administration expenses in note 5.

Notes *(continued)*

8. Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity.

	2016	2015
	£000	£000
Current tax		
Current tax on income for the period	479	273
Adjustments in respect of prior periods	-	(1)
Total current tax	479	272
Deferred tax (see note 23)		
Origination and reversal of timing differences	7	-
Change in tax rate	2	3
Total deferred tax	9	3
Total tax	**488**	**275**

	2016			2015		
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
	£000	**£000**	**£000**	£000	£000	£000
Recognised in profit and loss	479	9	488	272	3	275
Total tax	**479**	**9**	**488**	**272**	**3**	**275**

Estimates are required in determining the provision for corporation tax. There are a number of transactions for which the final tax determination is uncertain at the year end date.

Notes *(continued)*

8. Taxation *(continued)*

Reconciliation of effective tax rate

	2016	2015
	£000	£000
Profit for the year	1,865	975
Total tax expense	488	275
Profit excluding taxation	2,353	1,250
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	471	253
Fixed asset differences	15	16
Non-deductible expenses	2	2
Adjustments to tax charge in respect of previous periods	-	(2)
Reduction in tax rate on deferred tax balances	-	3
Rate differences	-	3
Total tax expense included in profit and loss	**488**	**275**

Reductions in the UK corporation tax rate from 23% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

9. Cash and cash equivalents

	2016	2015
	£000	£000
Cash in hand	76	68
Loans and advances to credit institutions repayable on demand (see note 11)	8,882	11,283
Cash and balances at the Bank of England	38,197	26,079
Cash and cash equivalents per cash flow statements	**47,155**	**37,430**

Notes *(continued)*

10. Treasury bills

Treasury bills have remaining maturities as follows:

	2016	2015
	£000	£000
Accrued interest	9	1
In not more than three months	5,990	-
In more than three months but not more than one year	-	1,995
	5,999	**1,996**

The directors of the Society consider that the primary purpose of holding such securities is prudential. The securities are held as liquid assets with the intention of using on a continuing basis in the Society's activities and are therefore classified as financial fixed assets rather than current assets.

Movement during the year of treasury bills held as financial fixed assets are analysed as follows (excluding accrued interest):

	2016	2015
	£000	£000
As at 1 January	1,995	23,952
Additions	10,980	10,931
Maturities and disposals	(6,985)	(32,888)
As at 31 December	**5,990**	**1,995**

11. Loans and advances to credit institutions

	2016	2015
	£000	£000
Accrued interest	17	21
Repayable on demand	8,882	11,283
Other loans and advances by residual maturity repayable:		
In not more than three months	4,000	10,000
In more than three months but not more than one year	11,000	7,000
Total loans and advances to credit institutions	**23,899**	**28,304**

Notes *(continued)*

12. Debt securities

	2016	2015
	£000	£000
Issued by public bodies	2,009	2,013
Issued by other borrowers	41,152	46,305
	43,161	**48,318**
Debt securities have remaining maturities as follows:		
Accrued interest	154	208
In not more than three months	7,500	-
In not more than one year	33,500	46,100
In more than one year	2,007	2,010
Total loans and advances to credit institutions	**43,161**	**48,318**

The directors of the Society consider that the primary purpose of holding such securities is prudential. The securities are held as liquid assets with the intention of using on a continuing basis in the Society's activities and are therefore classified as financial fixed assets rather than current assets. Movement during the year of debt securities held as financial fixed assets are analysed as follows (excluding accrued interest):

	2016	2015
	£000	£000
As at 1 January	48,110	40,534
Additions	45,000	58,500
Maturities and disposals	(50,103)	(50,924)
As at 31 December	**43,007**	**48,110**

13. Loans and advances to customers

	2016	2015
	£000	£000
Loans fully secured on residential property	194,395	189,682
Loans fully secured on land	6,633	8,377
	201,028	**198,059**
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
On call and at short notice	1,286	695
In not more than three months	3,058	3,353
In more than three months but not more than one year	13,061	13,116
In more than one year but not more than five years	34,487	48,831
In more than five years	150,042	133,157
	201,934	199,152
Less: allowance for impairment (note 14)	(320)	(499)
Less: effective interest rate adjustment	(586)	(594)
	201,028	**198,059**

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

14. Allowance for impairment

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 1 January 2016			
Individual impairment	-	183	183
Collective impairment	139	177	316
	139	**360**	**499**
Income statement			
Impairment losses on loans and advances			
Individual impairment	-	(183)	(183)
Collective impairment	59	(55)	4
Utilised during the year	-	-	-
	59	(238)	(179)
At 31 December 2016			
Individual impairment	-	-	-
Collective impairment	198	122	320
	198	**122**	**320**

15. Investments

The Society holds directly the following interest in Mutual Vision Technologies Limited, a company registered in England and operating in the United Kingdom, originally formed by a consortium of Building Societies to acquire the trade of their existing computer software supplier. This company has a 31 December year end. On 31 December, the Society's investment, which is a participating interest, was represented by:

	2016 £000	2015 £000
Shares in participating interest	8	8
Loans to participating interest	186	186
	194	**194**

The shares are fully paid Ordinary Shares and represent a 14.9% interest (2015: 14.9%).

Notes *(continued)*

16. Tangible fixed assets

	Freehold land and buildings £000	Short leasehold buildings £000	Office & computer equipment £000	Motor vehicles £000	Total £000
Cost or valuation					
Balance at 1 January 2016	3,580	119	629	21	4,349
Additions	-	-	54	-	54
Disposals	-	-	-	(21)	(21)
Balance at 31 December 2016	**3,580**	**119**	**683**	**-**	**4,382**
Depreciation and impairment					
Balance at 1 January 2016	-	58	398	18	474
Depreciation charge for the year	71	6	85	1	163
Disposals	-	-	-	(19)	(19)
Balance at 31 December 2016	**71**	**64**	**483**	**-**	**618**
Net book value					
At 1 January 2016	3,580	61	231	3	3,875
At 31 December 2016	**3,509**	**55**	**200**	**-**	**3,764**

The net book value of land and buildings occupied for the Society's own use is £3,563k (2015: £3,641k).

The Society's freehold assets were valued by McNeill Lowe & Palmer, a firm of independent valuers. The valuations were carried out in accordance with the Valuation Standards issued by the Royal Institution of Chartered Surveyors in the United Kingdom. These valuations are incorporated in the financial statements, with revaluation charges reflected in the revaluation reserve. The following information relates to tangible fixed assets carried on the basis of revaluation.

The carrying value of freehold land and buildings under the cost model is £2,183k (2015: £2,183k).

17. Intangible assets

	Software £000	Total £000
Cost		
Balance at 1 January 2016	219	219
Additions	33	33
Balance at 31 December 2016	252	252
Amortisation and impairment		
Balance at 1 January 2016	127	127
Amortisation for the year	54	54
Balance at 31 December 2016	181	181
Net book value		
At 1 January 2016	92	92
At 31 December 2016	**71**	**71**

Notes *(continued)*

18. Other debtors

	2016	2015
	£000	£000
Trade debtors	2	2
Prepayments and accrued income	469	317
	471	**319**

There are no prepayments and accrued income that are due after more than one year (2015: £nil).

19. Shares

	2016	2015
	£000	£000
Held by individuals	**285,624**	**275,296**

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

Accrued interest	1,037	1,428
Repayable on demand	259,347	248,738
In not more than three months	1,167	768
In more than three months but not more than one year	3,103	3,057
In more than one year but not more than five years	11,463	10,951
In more than five years	9,507	10,354
	285,624	**275,296**

This note includes a restatement in relation to the remaining maturity periods for 2015. £11,119k was shown 'in more than five years' instead of 'in more than one year but not more than five years'.

20. Amounts owed to credit institutions

	2016	2015
	£000	£000
Repayable on demand	**26**	**26**

Notes *(continued)*

21. Amounts owed to other customers

	2016	2015
	£000	£000
Accrued interest	1	2
Repayable on demand	6,235	7,733
With agreed maturity dates or periods of notice		
In not more than three months	51	841
In more than three months but not more than one year	76	414
	6,363	**8,990**

22. Other liabilities

	2016	2015
	£000	£000
Income tax	-	167
Corporation tax	200	93
Other creditors	280	143
	480	**403**

23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2016	2015
	£000	£000
Accelerated capital allowances	85	96
Short term timing differences	(105)	(125)
Net tax assets	**(20)**	**(29)**

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of the deferred tax asset is dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences.

The deferred tax asset has arisen due to temporary factors rather than a permanent decline in earnings.

24. Provisions for liabilities

	Financial Services Compensation Scheme £000	Customer Claims £000	Total £000
Balance at 1 January 2016	87	35	122
Paid in year	(83)	(6)	(89)
Income and Expenditure account:			
Movement in provision	106	-	106
Balance at 31 December 2016	**110**	**29**	**139**

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. The FSCS meets these claims by way of loans received from HM Treasury.

Customer Claims

This relates to a provision for potential endowment and PPI claims.

25. Reserves

	General reserve 2016 £000	Revaluation reserve 2016 £000	Total reserves 2016 £000
At 1 January	20,802	1,397	22,199
Profit for the year	1,865	-	1,865
Revaluation of tangible fixed assets	-	-	-
At 31 December	**22,667**	**1,397**	**24,064**

	General reserve 2015 £000	Revaluation reserve 2015 £000	Total reserves 2015 £000
At 1 January	19,827	1,326	21,153
Profit for the year	975	-	975
Revaluation of tangible fixed assets	-	71	71
At 31 December	**20,802**	**1,397**	**22,199**

Notes *(continued)*

26. 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 currently 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 participate in any financial instruments for trading or speculative purposes. 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.

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis at amortised cost. Note 1.5 'Financial instruments' describes how the classes of financial instruments are measured, and how income and expenses are recognised. The tables below analyse the Society's assets and liabilities by financial classification:

26. Financial Instruments *(continued)*

Carrying values by category 31 December 2016	**Loans and receivables £000**	**Financial assets and liabilities at amortised cost £000**	**Other non-financial assets £000**	**Total £000**
Financial assets				
Cash and balances at the Bank of England	38,273	-	-	38,273
Loans and advances to credit institutions	23,899	-	-	23,899
Treasury bills and similar securities	-	5,999	-	5,999
Debt securities	-	43,161	-	43,161
Loans and advances to customers	201,028	-	-	201,028
Investment loans	194	-	-	194
Total financial assets	**263,394**	**49,160**	-	**312,554**
Non-financial assets	-	-	**4,326**	**4,326**
Total assets	**263,394**	**49,160**	**4,326**	**316,880**
Financial liabilities				
Shares	-	285,624	-	285,624
Amounts owed to credit institutions	-	26	-	26
Amounts owed to other customers	-	6,363	-	6,363
Total financial liabilities	-	**292,013**	-	**292,013**
Non-financial liabilities	-	-	**803**	**803**
Total liabilities	**-**	**292,013**	**803**	**292,816**

Carrying values by category 31 December 2015	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Other non-financial assets £000	Total £000
Financial assets				
Cash and balances at the Bank of England	26,147	-	-	26,147
Loans and advances to credit institutions	28,304	-	-	28,304
Treasury bills and similar securities	-	1,996	-	1,996
Debt securities	-	48,318	-	48,318
Loans and advances to customers	198,059	-	-	198,059
Investment loans	194	-	-	194
Total financial assets	**252,704**	**50,314**	-	**303,018**
Non-financial assets	-	-	**4,315**	**4,315**
Total assets	**252,704**	**50,314**	**4,315**	**307,333**
Financial liabilities				
Shares	-	275,296	-	275,296
Amounts owed to credit institutions	-	56	-	56
Amounts owed to other customers	-	8,990	-	8,990
Total financial liabilities	-	**284,312**	-	**284,312**
Non-financial liabilities	-	-	**822**	**822**
Total liabilities	**-**	**284,312**	**822**	**285,134**

At the year end, the Society has loan commitments of £13,881k (2015: £16,602k) measured at cost.

Notes *(continued)*

26. Financial instruments *(continued)*

Financial assets pledged as collateral

As at 31 December 2016 no assets had been pledged as collateral (2015: £nil).

Credit risk

'Credit risk' is the risk that a financial loss will arise from a borrower or counterparty failing to meet their obligations. This risk arises from the Society's lending and treasury management activities.

The Society has a formal structure for managing risk, including formal risk policies, risk limits, reporting structures, mandates and other control procedures. This structure is reviewed regularly by the Board of Directors.

The Society's maximum credit risk exposure is detailed in the table below:

	2016	2015
	£000	£000
Cash and balances at the Bank of England	38,273	26,147
Loans and advances to credit institutions	23,899	28,304
Treasury bills and similar securities	5,999	1,996
Debt securities	43,161	48,318
Loans and advances to customers	201,934	199,152
Investment loans	194	194
Total statement of financial position exposure	313,460	304,111
Off balance sheet exposure – mortgage commitments	13,881	16,602
	327,341	**320,713**

Details on collateral held as security that mitigate the Society's exposure to credit risk are provided on page 49. The Society does not use credit derivatives, or similar instruments, to manage its credit risk.

The Society offers a range of mortgage products tailored to the needs and demands of our customers. The concentration of loans and advances to customers is detailed in the table below:

	2016	2015
	£000	£000
Prime owner-occupied	129,051	136,503
Buy to let	30,745	26,902
Land	6,758	8,742
Other loans and advances to customers	35,380	27,005
Total loans and advances to customers	**201,934**	**199,152**

Notes *(continued)*

26. Financial instruments *(continued)*

***Credit risk** (continued)*

Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets.

	2016 Loans fully secured on residential property £000	**2016 Loans fully secured on land £000**	**2016 Total £000**	2015 Loans fully secured on residential property £000	2015 Loans fully secured on land £000	2015 Total £000
Neither past due nor impaired	**192,084**	**5,379**	**197,463**	186,186	6,521	192,707
Past due but not impaired						
30 – 60 days	**571**	**453**	**1,024**	1,537	414	1,951
60 – 90 days	**995**	**506**	**1,501**	635	316	951
90 – 180 days	**767**	**92**	**859**	1,145	730	1,875
180 days+	**176**	**325**	**501**	318	-	318
	2,509	**1,376**	**3,885**	3,635	1,460	5,095
Individually impaired						
Not past due	**-**	**-**	**-**	-	756	756
In possession	**-**	**-**	**-**	-	-	-
	-	**-**	**-**	-	756	756
Allowance for impairment						
Individual	**-**	**-**	**-**	-	183	183
Collective	**198**	**122**	**320**	139	177	316
Total allowance for impairment	**198**	**122**	**320**	139	360	499
Total loans & advances to customers including impairments	**194,395**	**6,633**	**201,028**	189,682	8,377	198,059

Notes *(continued)*

26. Financial instruments *(continued)*

Credit risk *(continued)*

Credit quality analysis of loans and advances to customers (continued)

Collateral held and other credit enhancements

The Society holds collateral to reduce credit exposures. The table below sets out the principal types of collateral held.

Percentage of exposure that is subject to collateral requirements	**2016**	2015	Principal type of collateral held
	%	%	
Loans and advances to customers	100	100	Property

Individual assessments are made on all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession. Further consideration is given in note 1.5 to the accounts.

The Society's policy is to pursue timely realisation of the collateral in an orderly manner. The Society does not use the non-cash collateral for its own operations.

Loan-to-value ratios of mortgage book loans and advances to customers

The table below details credit exposures from mortgage loans and advances to customers by loan-to-value (LTV) ratios. LTV is calculated as the ratio of the gross amount of the loan to the value of the asset (collateral).

The valuation of the collateral excludes any adjustments for obtaining and selling the asset and also excludes any impairment allowance. The collateral value is based on the original value of the asset when the loan was issued and is subsequently indexed using the Nationwide House Price Index.

	2016	2015
	£000	£000
LTV ratio		
Less than 50%	158,034	150,977
51 – 70%	42,238	46,072
71 – 90%	1,553	1,052
91 – 100%	-	-
More than 100%	109	1,051
Total loans and advances to customers (including impairments and EIR adjustments)	**201,934**	**199,152**

Notes *(continued)*

26. Financial instruments *(continued)*

Credit risk *(continued)*

Forbearance
A range of forbearance options are available to support customers who are in financial difficulty. For further information on forbearance please refer to note 1.5. The table below analyses mortgage borrowers with renegotiated terms at the year-end date:

	2016	2015
	Number	Number
Short-term conversion from repayment loan to interest only loan	2	3
Short-term reduced monthly repayment plan	2	5
	4	**8**

There are no individual impairment provisions held in respect of these mortgages at 31 December 2016 (2015: £nil).

Concentration risk
The tables below show the relative concentrations of the Society's treasury portfolio.

	2016	2015
	£000	£000
Concentration by credit grading		
AAA	2,009	2,013
AA+ to AA-	60,373	38,124
A+ to A-	32,859	47,543
Building societies	16,014	17,017
Other	77	68
	111,332	**104,765**

	2016	2015
	£000	£000
Concentration by sector		
Financial institutions	65,123	74,678
Supranational institutions	2,009	2,013
Sovereign	44,200	28,074
	111,332	**104,765**

	2016	2015
	£000	£000
Concentration by region		
UK	94,792	85,684
Europe (excluding UK)	13,522	15,065
North America	1,009	2,003
Supranational	2,009	2,013
	111,332	**104,765**

Notes *(continued)*

26. Financial instruments *(continued)*

Liquidity risk

Interest rate risk

This is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates. The Society manages this exposure continually by matching the maturity dates of assets and liabilities in line with its Financial Risk Management Policy.

Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Society's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

31 December 2016	**On demand £000**	**Not more than three months £000**	**More than three months but not more than one year £000**	**More than one year but not more than five years £000**	**More than five years £000**	**Total £000**
Financial assets						
Cash and balances at the Bank of England	38,273	-	-	-	-	38,273
Loans and advances to credit institutions	8,882	4,000	11,000	-	-	23,882
Debt securities	-	7,500	33,500	2,007	-	43,007
Treasury bills and similar securities	-	5,990	-	-	-	5,990
Loans and advances to customers	1,286	3,058	13,061	34,487	150,042	201,934
Investment loans	-	-	-	-	194	194
Total financial assets	**48,441**	**20,548**	**57,561**	**36,494**	**150,236**	**313,280**
Financial liabilities						
Shares	259,347	1,167	3,103	11,463	9,507	284,587
Amounts owed to credit institutions	26	-	-	-	-	26
Amounts owed to other customers	6,235	51	76	-	-	6,362
Total financial liabilities	**265,608**	**1,218**	**3,179**	**11,463**	**9,507**	**290,975**

Notes *(continued)*

26. Financial instruments *(continued)*

Liquidity risk *(continued)*

31 December 2015	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial assets						
Cash and balances at the Bank of England	26,139	-	-	-	-	26,139
Loans and advances to credit institutions	11,283	10,000	7,000	-	-	28,283
Debt securities	-	-	46,100	2,010	-	48,110
Treasury bills and similar securities	-	-	1,995	-	-	1,995
Loans and advances to customers	695	3,353	13,116	48,831	133,157	199,152
Investment loans	-	-	-	-	194	194
Total financial assets	**38,117**	**13,353**	**68,211**	**50,841**	**133,351**	**303,873**
Financial liabilities						
Shares	248,759	267	466	3,059	21,317	273,868
Amounts owed to credit institutions	26	-	-	-	-	26
Amounts owed to other customers	7,733	841	414	-	-	8,988
Total financial liabilities	**256,518**	**1,108**	**880**	**3,059**	**21,317**	**282,882**

The tables below sets out maturity analysis for financial liabilities that shows the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

31 December 2016	**On demand £000**	**Not more than three months £000**	**More than three months but not more than one year £000**	**More than one year but not more than five years £000**	**More than five years £000**	**Total £000**
Financial liabilities						
Shares	259,347	1,167	3,105	11,653	12,085	287,357
Amounts owed to credit institutions	26	-	-	-	-	26
Amounts owed to other customers	6,235	76	52	-	-	6,363
Total financial liabilities	**265,608**	**1,243**	**3,157**	**11,653**	**12,085**	**293,746**

Notes *(continued)*

26. Financial instruments *(continued)*

Liquidity risk *(continued)*

31 December 2015	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial liabilities						
Shares	248,759	267	466	3,116	27,838	280,446
Amounts owed to credit institutions	26	-	-	-	-	26
Amounts owed to other customers	7,733	843	417	-	-	8,993
Total financial liabilities	**256,518**	**1,110**	**883**	**3,116**	**27,838**	**289,465**

Market risk

'Market risk' is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk; currency risk, interest rate risk and other price risk.

The Society is not directly subject to currency risk as all products are sterling denominated. The Society's products are also only interest orientated products so are not exposed to other pricing risks.

Interest rate risk is managed through policies and procedures the Society has in place. The Assets & Liabilities Committee is responsible for overseeing and setting the counterparty credit, market, liquidity and interest rate risk.

The Society's treasury function manages interest rate risk on a daily basis and ensures the Society has appropriate liquid assets and spread of maturities over time buckets to effectively manage risk.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to interest rate scenarios. The following is an analysis of the sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

Notes *(continued)*

26. Financial instruments *(continued)*

Market risk *(continued)*

	100bp parallel increase £000	100bp parallel decrease £000
Sensitivity of projected net interest income		
2016		
At 31 December	(174)	177
Average for the period	(169)	172
Maximum for the period	(178)	181
Minimum for the period	(145)	148
2015		
At 31 December	(186)	190
Average for the period	(187)	190
Maximum for the period	(225)	230
Minimum for the period	(161)	163

Capital management

The purpose of the Society's capital is to protect members from any losses that may arise from lending activities of the Society. The Board sets the internal level of capital with the aim of ensuring Society capital always exceeds the minimum regulatory requirements.

As part of the Society's formal risk management framework, capital management is covered by the Internal Capital Adequacy Assessment Process (ICAAP). This is used to assess the Society's capital adequacy and to determine the levels of capital required to support current and future risks.

The below table sets out the Society's capital.

	2016 £000	2015 £000
Common Equity Tier 1 capital		
General reserve	22,667	20,802
Revaluation reserve	1,397	1,397
Intangible assets	(71)	(92)
Common Equity Tier 1 capital	**23,993**	**22,107**
Tier 2 capital		
Collective provision	320	316
Total capital	**24,313**	**22,423**

Notes *(continued)*

27. Operating leases

As at 31 December the Society had annual commitments in respect of non-cancellable operating leases for land and buildings as follows:

	2016	2015
	£000	£000
Not later than one year	61	60
Later than one year and not later than five years	116	166
Later than five years	-	8
	177	**234**

During the year £61k lease payments were recognised as an expense (2015: £60k).

28. Related party transactions

Mutual Vision Technologies Limited ('MVT')

The Society is a shareholder of MVT, the Society's computer software provider, as detailed in note 15 on page 40. Under the terms of the shareholder agreement the Society is permitted to appoint an individual to represent the Society on the Board of MVT and, consequently, Carl Astley was the Society's representative as a non-executive director of MVT during the year.

During the year, a total of £188,048 (2015: £177,648) was paid to MVT in respect of software maintenance services.

At 31 December 2016 there are no related party liabilities (2015: £nil).

The loan due from MVT, as detailed in note 15, bears interest at Bank of England base rate plus 1%, subject to a minimum rate of 1.5%, and is credited to the Society annually. In 2016 this interest totalled £2,803 (2015: £2,795). There is no fixed maturity date for this loan. The Society holds no security on any assets of MVT in respect of this loan.

Transactions with key management personnel

The Society considers its key management personnel to be its directors.

Mortgage loans made to key management personnel were granted in the ordinary course of business and are subject to repayment under normal lending terms. The maximum outstanding balance during the year was £200,504 (2015: £nil).

Key management personnel hold £8,292 in share accounts with the Society (2015: £7,884). Amounts deposited by key management personnel earn interest at the same rates offered to the public.

29. Post Balance Sheet events

There are no subsequent events to the balance sheet date.

30. Country by country reporting

Article 89 of CRD IV requires the Society to disclose the following information for the year ended 31 December 2016.

Name:	Harpenden Building Society
Type of entity:	Building Society
Nature of activity:	Secured lending and deposit taking
Location:	United Kingdom
Turnover:	£10.4m (interest receivable and similar income), £6.9m (total net income)
Profit before tax:	£2,353k
Tax paid:	£372k
Public subsidies received:	£nil
Number of employees:	55 (FTE)

Annual Business Statement for the year ended 31 December 2016

1. Statutory Percentages

	31.12.2016	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property ("The Lending Limit")	3.81%	25%
Proportion of shares and borrowings not in the form of shares held by individuals ("The Funding Limit")	2.19%	50%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X – Y) / X where:

X = business assets, being the total assets of the Society plus provisions for bad and doubtful debts less liquid assets and tangible fixed assets as shown in the Society's Accounts.

Y = the principal of, and interest accrued on, loans owed to the Society which are fully secured on residential property as at 31 December 2016.

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 other than as bare trustees (or in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate as at 31 December 2016.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

Annual Business Statement for the year ended 31 December 2016 *(continued)*

2. Other Percentages

	2016	2015
As percentage of shares and borrowings:		
Gross capital	8.25%	7.81%
Free capital	7.04%	6.56%
Liquid assets	38.13%	36.85%
As percentage of mean total assets:		
Profit for the financial year	0.60%	0.33%
Management expenses	1.47%	1.48%

The above percentages have been prepared from the Society's accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- 'Gross capital' represents the aggregate of general reserves and revaluation reserve.
- 'Free capital' represents the aggregate of gross capital and collective impairments 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, loans and advances to credit institutions, treasury bills and debt securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

Annual Business Statement for the year ended 31 December 2016 *(continued)*

3. Information relating to the Directors and Chief Executive at 31 December 2016

Name and Date of Birth	Date of Appointment and Committee Membership	Business Occupation	Other Directorships
C. D. Astley 18 January 1975	21 January 2010 Assets and Liabilities, Conduct and Lending Policy Committees	Building Society Executive	Mutual Vision Technologies Limited
P. F. Baynham 21 December 1953	27 November 2014 Assets and Liabilities, Audit, Risk & Compliance, and Lending Policy Committees	Non-Executive Director	Baynham Consulting Associates Limited Hera Management Services Limited Hertfordshire Partnership University NHS Foundation Trust Ixion Social Enterprises Limited Ixion Holdings (Contracts) Limited North Norfolk Housing Company Limited Swan Housing Association Swan Housing Capital PLC Swan New Homes Limited Swan Commercial Services Limited The Association of Independent Professionals and the Self Employed Limited Victory Housing Trust Vivo Support Limited
A. V. Crossley-Mintern 24 July 1963	29 January 2015 Conduct and Remuneration & Nominations Committees	Executive Director, Financial Services	Celerity Blue Limited
G. McGrady 16 April 1967	1 January 2017 Assets and Liabilities and Lending Policy Committees	Building Society Executive	-
J. Mortimer Sykes 1 February 1957	27 October 2011 Assets and Liabilities, Conduct and Lending Policy Committees	Non-Executive Director	The ExtraCare Charitable Trust
S. J. Richardson 18 January 1953	30 January 2014 Conduct Remuneration & Nominations Committees	Non-Executive Director	Bethrob Limited i-Financial Services Group plc LCP Solutions Limited Lend and Borrow Trust Company Limited
J. Robinson 24 August 1953	1 September 2016 Assets and Liabilities, Audit, Risk & Compliance, Lending Policy and Remuneration & Nominations Committees	Non-Executive Director	Luton & Dunstable University Hospital NHS Foundation Trust
P. V. Smith 4 June 1957	26 May 2011 Assets and Liabilities, Audit, Risk & Compliance and Remuneration & Nominations Committees	Non-Executive Director	Herts Valley Clinical Commissioning Group Defence Infrastructure Organisation, Ministry of Defence Defence Equipment & Support, Ministry of Defence

3. Information relating to the Directors and Chief Executive at 31 December 2016 *(continued)*

Documents may be served on the above named Directors: Ref. "Harpenden Building Society", c/o, Neves Solicitors at Tollgate House, 69-71 High Street, Harpenden, Hertfordshire AL5 2SL.

Mr. P. V. Smith entered a service contract upon his appointment dated 26 May 2011.

Mrs. J. Mortimer Sykes entered a service contract upon her appointment dated 1 October 2011.

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

Mr P. F. Baynham entered a service contract upon his appointment dated 27 November 2014.

Mrs A. V. Crossley-Mintern entered a service contract upon her appointment dated 23 December 2014.

Ms. J. Robinson entered a service contract upon her appointment dated 1 September 2016.

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

Mr C. Astley is employed on a Service Contract dated 17 October 2016, terminable by the Society or by the individual on six months' notice.

Mr G. McGrady is employed on a Service Contract dated 3 January 2017, terminable by the Society or by the individual on six months' notice.

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Harpenden Building Society is authorised for investments by Trustees and is a member of the Building Societies Association.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.
Firm reference number: 157260.