

SUMMARY FINANCIAL STATEMENT

For the year ended 31st December 2016

Harpenden Building Society

Firm Reference Number: 157260

Incorporated 1953

HEAD OFFICE

Mardall House
9-11 Vaughan Road
Harpenden
Hertfordshire
AL5 4HU
Telephone: 01582 765411
Email: enquiries@harpendenbs.co.uk
Web: www.harpendenbs.co.uk

SOLICITOR

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

AUDITOR

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

DIRECTORS

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

Chairman
Vice Chairman and Senior Independent Director

(appointed 1 January 2017)
(appointed 1 September 2016)

(resigned 31 July 2016)

EXECUTIVE

Carl D. Astley, BSc (Hons), FCA
Philip L. Bannister
Kenneth Hale
Lynn P. Hey, BA (Hons), ACIB
Nathaniel P. A. Lewis, BSc (Hons)
George McGrady, BSc (Hons), ACA

Chief Executive
Head of Operations
Head of Lending
Society Secretary
Head of Treasury and Risk
Finance Director

HARPENDEN BRANCH

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

RADLETT BRANCH

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

LEIGHTON BUZZARD BRANCH

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

WENDOVER BRANCH

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

TRING BRANCH

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

BUCKINGHAM BRANCH

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

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

CHAIRMAN'S STATEMENT

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 during 2016. 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 Summary Directors' Report 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

SUMMARY FINANCIAL STATEMENT for the year ended 31 December 2016

This financial statement is a summary of information in the audited annual accounts, the Annual Business Statement and Directors' Report, all of which will be available to members and depositors free of charge on demand at every office of Harpenden Building Society from 1 April 2017.

SUMMARY DIRECTORS' REPORT

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 historically 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 ratios. We remain focused on ensuring we develop our infrastructure to support growth whilst maintaining control over costs.

The Society's balance sheet grew £9.6m (2015: £5.7m) to £316.9m (2015: £307.3m) at 31 December 2016, an increase of 3.1% (2015: 1.9%).

Mortgage balances net of provisions increased by £2.9m (2015: £8.7m) to £201.0m (2015: £198.1m), an increase of 1.5% (2015: 4.6%). We continue to offer an individual approach to underwriting and take the time to understand borrowers' circumstances and assess the affordability of the mortgage in a prudent and sensible manner.

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

SUMMARY FINANCIAL STATEMENT for the year ended 31 December 2016

Results for the year

	2016	2015
	£000	£000
Net interest receivable	6,696	5,808
Other income and charges	179	200
Administrative expenses	(4,595)	(4,493)
Provisions for mortgage losses	179	(100)
Provisions for FSCS levies	(106)	(165)
Profit for the year before taxation	2,353	1,250
Taxation	(488)	(275)
Profit for the year	1,865	975
Revaluation of tangible fixed assets	-	71
Total comprehensive income for the year	1,865	1,046

Financial position at end of year

	2016	2015
	£000	£000
Assets:		
Liquid assets	111,332	104,765
Mortgages	201,028	198,059
Fixed and other assets	4,520	4,509
Total assets	316,880	307,333
Liabilities:		
Shares	285,624	275,296
Borrowings	6,389	9,016
Other liabilities	664	700
Provisions for liabilities	139	122
General reserve	22,667	20,802
Revaluation reserve	1,397	1,397
Total liabilities	316,880	307,333

Approved by the Board of Directors on 16 March 2017 and signed on its behalf by:

S. J. RICHARDSON Chairman
C. D. ASTLEY Chief Executive
G. MCGRADY Finance Director

SUMMARY FINANCIAL STATEMENT for the year ended 31 December 2016

Summary of Key Financial Ratios

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

Notes to the Key Financial Ratios

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

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

Mean total assets are calculated as the average of 2016 and 2015 total assets as shown in the balance sheet.

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

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

AUDITOR'S REPORT

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

We have examined the summary financial statement of Harpenden Building Society ('the Society') for the year ended 31 December 2016 set out on pages 3 to 5.

This auditor's statement is made solely to the society's members, as a body, and to the society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body and the society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

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

Basis of opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016.

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

AUDITOR'S REPORT (continued)

Opinion on summary financial statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2016 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Simon Clark

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

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. The Society has adopted a Remuneration Policy, which describes how the Society complies with the FCA's Remuneration Code.

The Level and Components of Remuneration

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

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

Executive Directors Remuneration

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

- a) Basic Salary - takes into account duties, responsibilities, performance and levels for comparable positions in other organisations.
- b) Pension - the Chief Executive 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.

DIRECTORS' REMUNERATION REPORT (continued)

The Procedure for Determining Remuneration

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

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

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

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

Executive Directors Emoluments:

2016	Salaries	Benefits	Pension Contrib's	Total
	£000	£000	£000	£000
C.D. Astley (Chief Executive)	152	1	15	168

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

Non-Executive Directors 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

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 administrative expenses on page 4.



Head Office Mardall House, 9–11 Vaughan Road, Harpenden, Hertfordshire AL5 4HU
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