HARPENDEN
BUILDING SOCIETY

Pillar 3 Disclosure Document
31 December 2016

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Introduction

Legislative Framework

The Capital Requirements Directive (CRD 2013/36/EU) and Capital Requirements Regulation (CRR 575/2013), known collectively as CRD IV, came into force on 1 January 2014 with the aim to improve the banking sector's ability absorb shocks arising from financial or economic stress. This framework establishes European standards for capital and liquidity requirements for banks, building societies and related institutions. It establishes the minimum amount of capital Harpenden Building Society must hold to protect its members and depositors. The Society aims to continue to maintain sufficient capital resources at all times to protect its members. CRD IV introduced an increase in capital requirements, new capital buffers with higher thresholds, and the introduction of a minimal leverage ratio requirement.

On a national level, prudential supervision with regards to capital and liquidity adequacy is overseen by the Prudential Regulation Authority (PRA). The Society is regulated by the Financial Conduct Authority (FCA) and Prudential Regulation Authority. The PRA is responsible for monitoring capital adequacy and to implement the CRD in the UK, and CRD IV is implemented within the PRA Rulebook.

The CRD IV is based on three "Pillars":

- Pillar 1 - Minimum capital requirements for credit and operational risks;

- Pillar 2 – Internal Capital Adequacy and Assessment Process (ICAAP) and Supervisory Review & Evaluation Process (SREP);

- Pillar 3 - Market discipline – requirement for public disclosure of prescribed information, to demonstrate that the Society holds an appropriate level of capital.

Harpenden Building Society Approach

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

- Pillar 1 - the Society has adopted the "Standardised approach" (SA) to complete a risk-based capital calculation focusing particularly on credit and operational risks to determine its Capital Resources Requirement;

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

- Pillar 3 - consideration of all necessary disclosures. This annual disclosure document covers the requirements under Pillar 3 for the Society to disclose specific information in accordance with the requirements set out in CRD IV.

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

All figures quoted in this document are aligned with the Society's audited Annual Report and Accounts as at 31 December 2016.

CRD IV Disclosures
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)

Risk Management Objectives and Policies
The Board is responsible for determining a framework for risk management and control. It approves all policies and Committee terms of reference. The senior management team, with the assistance of the Risk Team, is responsible for designing, operating and monitoring risk management and internal control processes.

The Board of Directors is committed to best practice in corporate governance and applies the principles within the UK Corporate Governance Code insofar as that guidance applies to building societies. The current Board comprises one executive, five non-executives, and the Chairman. It meets formally six times a year. All directors, both on appointment and thereafter, must meet the tests of fitness and propriety prescribed by the FCA and are required to be approved by the FCA and PRA.

As well as attending Board meetings all directors are required to serve on one or more of the Society's sub-committees.

Risk Governance
As at 31 December 2016 the Society's board committee structure was as follows:

The *Assets & Liabilities Committee (ALCO),* comprising four non-executive directors, the Chief Executive and Deputy Chief Executive, 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 assesses treasury counterparty credit risk, and the structure of the Society's lending and funding books.

The *Audit & Compliance Committee (ACC),* comprising three non-executive directors, meets quarterly with the Society's Internal Auditors 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. It oversees the Society's Risk Management Framework. The Chief Executive 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 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 *Lending Policy Committee* (LPC), comprising three non-executive directors, the Chief Executive and the Finance Director 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, distribution, sales, post-sales and closure processes) focus on delivering fair customer outcomes.

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, distribution, sales, post-sales and closure processes) focus on delivering fair customer outcomes.

The *Remuneration & 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.

Risk Management

The Society has a formal risk management structure in place with established Risk Policy Statements, including risk limits, reporting lines, mandates, a risk management software and review process, and other control procedures. This structure is reviewed regularly by the Board.

The key risks to which the Society is exposed are monitored through the Society's Risk Register. This is a comprehensive record of the Society's key risks held within its risk software, and incorporates consideration of the likelihood and impact for each risk, both before and after control factors are taken into account, should it manifest within the business.

The Risk Register is maintained through active monitoring by senior management. Each risk is owned by a member of the senior management team who each delegates review and monitoring of risk controls to risk leaders across the Society. At each meeting the Board sub-committees each considers the risk over which they have responsibility. The Board has overall responsibility for reviewing risks and their interdependencies across the Society. ARCC has responsibility for the risk management framework. The Society's internal audit programme is tailored to ensure that the key risks are incorporated into, and challenged as part of, that programme.

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

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

This risk approach is reviewed by the Board on an annual basis in line with the Society's ICAAP and Business Plan. The Board will consider whether the Society's actual performance is consistent with this risk appetite and will adjust, as necessary, the relevant statement of risk appetite, business plan, budget, or policy statements.
The system of internal control is designed to enable the Society to achieve its corporate objectives within a managed risk profile. The internal audit function provides independent and objective assurance that these processes are appropriate and effectively applied.

Risk Management Policy

The principal business and financial risks to which the Society is exposed are detailed below:

Credit Risk

Credit risk is the risk of loss due to uncertainty about a borrower's ability to meet their obligations as they fall due. The Society's borrowers include mortgage customers and treasury counterparties.

All loan applications are assessed with reference to the Society's Lending Policy Statement and lending mandates are strictly controlled. The Lending Policy Statement is regularly reviewed by the Lending Policy Committee (LPC) and reviewed and approved by the Board. The Society's approach to lending is to avoid a tick-box approach. Rather, the Society ensures that the individual position and specific risks and affordability of each application are fully understood and assessed.

The Society's Liquidity Policy Statement includes counterparty limits derived using credit ratings from an external credit assessment institution for credit exposures to rated individual and group counterparties. Whilst credit ratings can provide an indication of the creditworthiness of a counterparty, the Society supplements this information with market knowledge, and observation of the actions of monetary authorities, to generate a more complete view of its counterparties. In addition, the Society undertakes a defined due diligence assessment of unrated treasury counterparties. The Liquidity Policy is reviewed by the ALCO and reviewed and approved by the Board at least annually. The Society operates and adheres to internal limits that are more stringent than the respective regulatory limits.

Liquidity Risk

Liquidity risk is the risk that the Society, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The Society's policy is to maintain adequate liquidity resources, both in amount and quality to ensure that there is no significant risk that its liabilities cannot be met as they fall due. 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 testing is undertaken within the ILAAP to assist the Society in setting appropriate limits for its liquidity portfolio in terms of quality and maturity profile.

Interest Rate Risk

Interest rate risk is the risk that future changes in interest rates impact on future net interest cash flows of the Society due to mismatches in the interest rate repricing characteristics of interest bearing assets and liabilities within the balance sheet. The Society manages this risk by limiting fixed rate exposures to one year and by setting an overall limit for interest rate risk as a proportion of capital. Interest rate risk is overseen by the ALCO, and interest rate risk limits are approved annually by the Board, or more frequently if deemed appropriate.

Regulatory Risk

Regulatory risk is the risk that the volume and complexity of regulatory issues may impact on the Society's ability to compete over time. The Society manages this risk by ensuring that staff are adequately trained and that appropriate advice is sought from external sources as appropriate. This enables review of regulatory changes affecting the Society to plan ahead and assess any impacts on the Society's processes, reporting requirements and strategic planning.

Business Risk

Business risk is that which the Society faces as a result of macroeconomic changes and market uncertainties. The Board considers that the impact of changes in the housing market, particularly a severe housing market recession, significant changes in interest rates, and an increase in unemployment are the main business risks to which the Society is exposed. The Society takes a range of potential business risks into account within its strategic planning process and ICAAP document.

Concentration Risk

Concentration risks are risks arising from a lack of diversification of the Society's asset groups. As a local building society, saving and borrowing membership is traditionally concentrated in London and the Northern home counties, specifically Hertfordshire, Bedfordshire and Buckinghamshire. The Society is therefore exposed to geographical concentration risk both in terms of its retail funding and mortgage lending.

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

The Board has ensured that the Society's ICAAP makes provision for an additional amount of capital to be available to cover a downturn in house prices or increased levels of mortgage arrears and losses.

Conduct Risk

Conduct risk is that which the Society faces if it fails to treat its customers fairly or delivers appropriate customer outcomes. The Society takes its conduct responsibilities to customers very seriously and ensures they are firmly embedded within the culture and practices of the business. Good customer outcomes have always been at the heart of the Society's values. We align conduct to the overall risk management framework and this is overseen by the Conduct Committee.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external operational events. The Society manages operational risks through implementing a strong internal control environment. There is a dedicated risk function whose responsibilities include supporting and overseeing the business in managing operational risks and ensuring key control effectiveness is measured and managerial actions are in place to mitigate risk. The Society uses the risk system in order to log all operational risks by business area, including all mitigating actions which are periodically reviewed.

The Board recognises that there are residual operational risks inherent in any business, which may not be specifically identified. Adequate provision has been made for general residual risks within the ICAAP by ensuring that the operational risk capital add-on more than covers those operational risks identified across the Society, and applying a buffer to the individual capital guidance (ICG) requirement issued by the PRA.

The Society has maintained capital ratios which are in line with peer group Society levels, and ensures it maintains overall capital at a level well in excess of its individual capital guidance.

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

CRR defines eligibility limits for each own funds tier. At least 56% of the minimum capital requirement must be covered by CET 1 capital, and at most 25% may be covered by Tier 2 items. The additional capital buffers are required to be covered entirely by CET 1 capital.

For the Society, the largest component (93% of total capital resources) of its own funds is its general reserves, which is classified as CET 1 capital. The Society's audited capital resources under CRD IV as at 31 December 2016 are represented in the table below.

Capital Composition	**£000**
Common Equity Tier 1 (CET1)	
General reserves	*22,667*
Revaluation reserve	*1,397*
Intangible assets	*(71)*
	23,993
Tier 2 Capital	
Collective provision	*320*
	320
Total Capital	**24,313**

Capital Risk and Adequacy Assessment
The Society completes its corporate plan annually, incorporating projected strategic business growth and capital requirements. This planning cycle is driven by current market and economic conditions and is underpinned by the Society's risk appetite.

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

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

Operational Risk
Within Pillar 1, and using the Basic Indicator Approach (BIA), the minimum capital requirement for operational risk is calculated as 15% of the average net income over the previous three years. Operational risk is also assessed under Pillar 2 within the Society's risk management framework.

Securitisation Risk

Securitisation risk is the risk retained by the Society as part of the securitisation of assets. The Society does not securitise its assets and has no plans to securitise them over its current planning horizon.

Group Risk

The Society is not part of a group. It is therefore not appropriate to apply a Pillar 2a capital add-on for any risks emanating from operating on a group basis.

The table below provides details on the calculations of the minimum capital resource requirements (Pillar) as at 31 December 2016:

	Exposure £000	Risk Weighted Amount £000	Minimum Capital Requirement £000
Liquid Assets			
- *Cash and balances at the Bank of England*	*38,273*	-	-
- *Treasury Bills and similar securities*	*5,999*	-	-
- *Loans & advances to Credit Institutions*	*23,899*	*4,778*	*382*
- *Debt Securities*	*43,161*	*16,360*	*1,309*
	111,332	**21,138**	**1,691**
Loans and Advances to Customers			
- *Fully secured on residential property*[1]	*195,176*	*83,425*	*6,674*
- *Fully secured on land*	*6,758*	*6,758*	*541*
	201,934	**90,183**	**7,215**
Other Exposures			
- *Investments*	*194*	*194*	*15*
- *Tangible fixed assets*	*3,764*	*3,764*	*301*
- *Intangible assets*	*71*	*71*	*6*
- *Deferred tax assets*	*20*	*20*	*2*
- *Other debtors*	*471*	*471*	*38*
	4,520	**4,520**	**362**
Total Credit Risk	**317,786**	**115,841**	**9,268**
Off-balance sheet[2]	*13,881*	*1,356*	*108*
Operational Risk		*11,284*	*903*
Capital Resources Requirement		**128,481**	**10,279**

Comparison of the capital requirement above of £10,279k to our capital resources figure of £24,313k provides the Board with confidence that the Society has adequate capital resources in terms of amount and quality. In addition, the scenario testing within the ICAAP across a 5-year horizon provides further confidence.

The Society's CET1 ratio provides a risk-based measure of capital adequacy. It is calculated as audited CET1 capital as a proportion of risk weighted assets. As at 31 December 2016 was 18.68% (Dec 2015: 20.72%), against the current minimum CRD IV requirement of 4.5% under Basel III.

Leverage Ratio

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

The ratio does not distinguish between the credit quality of loans and acts as a primary constraint to excessive lending in proportion to the Society's capital. The Society's leverage ratio as at 31 December 2016 was 7.24% (Dec 2015: 6.92%).

Credit Risk

Credit Risk – Loans and Advances to Customers

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

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1 The 'residential' category includes the Society's core residential lending, lending on buy-to-let properties and lifetime/equity release lending.

2 Off-balance sheet exposures relates to commitments the Society has in respect of mortgage offers and retentions.

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

The performance and non-performance of the Society's loans and advances to customers, detailing exposures and capital requirements - is shown in the table below:

	Exposure £000	Risk Weighted Amount £000	Minimum Capital Requirement £000
Loans and Advances to Customers (Total)			
- *Fully secured on residential property*	*195,176*	*83,425*	*6,674*
- *Fully secured on land*	*6,758*	*6,758*	*541*
	201,934	**90,183**	**7,215**
Loans and Advances to Customers (Performing)			
- *Fully secured on residential property*	*193,816*	*82,065*	*6,565*
- *Fully secured on land*	*6,758*	*6,758*	*541*
	200,574	**88,823**	**7,106**
Loans and Advances to Customers (Non-Performing)			
- *Fully secured on residential property*	*1,360*	*1,360*	*109*
- *Fully secured on land*	-	-	-
	1,360	**1,360**	**109**

A geographic analysis of the Society's loans and advances to customers is set out below using Nationwide house price index regions. The Society is based within the Outer Metropolitan (OME) region:

Region	**Exposure £000**	**Exposure %**
Outer Metropolitan	*71,039*	*35.2%*
Greater London	*61,323*	*30.4%*
Outer South East	*28,990*	*14.3%*
South West	*15,405*	*7.6%*
East Anglia	*12,628*	*6.3%*
West Midlands	*3,584*	*1.8%*
East Midlands	*2,900*	*1.4%*
Yorkshire & Humberside	*2,136*	*1.1%*
Wales	*1,549*	*0.8%*
North West	*1,499*	*0.7%*
North	*881*	*0.4%*
Total	**201,934**	**100%**

Asset Encumbrance
As at 31 December 2016, all of the Society's assets remain free from encumbrance. It is confirmed that no assets are pledged or subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn.

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

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

The Society's accounting policy in relation to impairment provisioning for loans and advances is set out in the Financial Accounts: Note 1, Accounting Policies, in the Society's "Directors' Report, Accounts and Annual Business Statement 2016". Similarly, full details of the movements in these provisions can be found in Note 14 "Allowance for Impairment". A summary of the movements in mortgage provisions is shown below. General provisions are treated as Tier 2 capital for capital adequacy purposes.

Impairment summary	**Loans fully secured on residential property**	**Other loans fully secured on land**	**Total**
	£000	**£000**	**£000**
As at 1 January 2016	139	360	499
Movement during year	159	(238)	(179)
As at 31 December 2016	**198**	**122**	**320**

Credit Risk – Liquid Assets

The Society adopts a risk-averse approach to the management of liquid assets including appropriate operational controls for the scale of activity undertaken. The Society ensures it has the necessary expertise and competence within the Society to deal in a limited range of liquid assets, together with adequate controls and segregation of duties within the settlements process and accounting function.

Adequate liquidity is maintained at all times to meet known and anticipated retail withdrawals, wholesale funding maturities, mortgage advances and tax liabilities, together with capital and general operational expenses. Additional provision is made to cope with unexpected adverse cash flows, smoothing out the effect of maturity mis-matches and the maintenance of public confidence generally.

The Society's policy on the assessment of the creditworthiness of approved counterparties states that a counterparty should be listed in the Fitch Rating list with a long-term rating of at least A- or a short-term rating of at least F1. The Society can place deposits with lower-rated and unrated counterparties, following a thorough due diligence review of financial indicators. This includes the majority of building societies which are unrated. The Society continues to use Fitch ECAI ratings, as previous year. The details of the Society's liquid assets portfolio by residual maturity as at 31 December 2016 are shown in the table below.

Credit Quality Step	**Credit Rating**	**< 3 months £000**	**3 months to 1 year £000**	**>1 year £000**	**Total £000**
1	*HQLA[3]*	*38,273*	*8,008*	*-*	*46,281*
1	*AAA+ to AA-*	*8,650*	*5,508*	*-*	*14,158*
2	*A+ to A-*	*7,779*	*27,097*	*-*	*34,876*
3	*BBB+ to BBB-*	*-*	*-*	*-*	*-*
-	*Unrated*	*4,001*	*12,016*	*-*	*16,017*
		58,703	**52,629**	**-**	**111,332**

The Society maintains no wholesale funding exposures as at 31 December 2016 (December 2015: nil), and thus no assessment of wholesale funding is included within this disclosure.

3 High Quality Liquidity Assets - liquid assets that are held in the highest quality asset classes in line with the Society's Overall Liquidity Adequacy Rule (OLAR) and Liquidity Coverage Ratio (LCR) requirements. These include BoE Reserves account, T-bills and Gilts.

Market Risk

Interest Rate Risk

Interest rate risk is the risk that future changes in market interest rates impact on future cash flows. It arises from differences in the timing of interest rate re-pricing of the Society's assets and liabilities. More specifically, differences between re-pricing of interest rates that the Society pays on its liabilities and that which it earns on its assets. The Society does not have any long-term fixed rate products on either side of its balance sheet. The Society does have short-term fixed rate products in the form of liquid asset deposits and time deposit liabilities, but interest rates on these positions are fixed for a maximum of twelve months. As the vast majority of interest-bearing assets and liabilities are held at variable interest rates, the Society is able to react quickly in the event of a change in market interest rates.

The Society balance sheet is stress tested on a daily basis to assess the impact of a severe 2% parallel shift in market interest rates. The results of this testing does not indicate that there would be a material impact on the business in the event of such a severe stress. As at 31 December 2016, interest rate stress testing at a 2% parallel shifts indicates a maximum negative impact of £346k reduction on capital (net present value sensitivity to a positive shift in interest rates).

Basis Risk

Basis risk is the risk that changes in variable interest rates will re-price interest-bearing assets and liabilities differently causing an interest rate mismatch. In other words, where the interest rates attached to the Society's asset and liabilities reprice against different interest rates types, the Society's net interest income can be materially affected when they change in relation to one another. Interest rate types are typically base rate, LIBOR and administered rates. It is considered an internal risk to the Society as it can largely be controlled by the decisions the Society makes in respect of its product range and pricing.

The Society does not currently have any liabilities with interest rates linked to Bank base rate or LIBOR rates. All of the Society's mortgages are lent at administered rates, except one which is linked to Bank of England Base Rate. The Society is on the Administered Treasury approach and Limited Mortgage approach, and does not currently have any fixed rate mortgage or savings products that would need hedging. Therefore, there is currently no basis risk resulting from LIBOR-linked hedging instruments supporting the Society's balance sheet. The Society has a small portfolio of 3mth LIBOR-linked exposures in the form of floating term deposits. The Society's basis risk position continues to be managed within Board approved limits.

Remuneration

The Society has adopted a Remuneration Policy which describes how the Society complies with the principles of the UK Corporate Governance Code 2010 relating to remuneration.

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

Basic salary takes into account duties, responsibilities, performance and levels for comparable positions in other organisations.

b) Pensions
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 executive director are 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
As at 31 December 2016 Mr C Astley was 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' and senior management remuneration annually using data from comparable organisations, and takes advice from external consultants when appropriate.

Directors' Emoluments:

2016	**Salaries £000**	**Benefits £000**	**Pension £000**	**Total £000**
C.D. Astley (Chief Executive)	*152*	*1*	*15*	*168*
Total	**152**	**1**	**25**	**280**

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

Non-Executive Directors Emoluments (comprising fees only):

	2016 £000	**2015 £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**

Conclusion

This Pillar 3 disclosure document is prepared in accordance with CRD IV, as interpreted by the Society based on its size and complexity, and is updated and presented annually alongside the publication of the Society's Directors' Report, Accounts and Annual Business Statement. An assessment of the need to publish more frequently is reviewed in light of any changes in the relevant characteristics of the Society. The Society does not plan to alter the nature of its business during the year.

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