



Pillar 3 Disclosure Document
31 December 2017

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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** – Assessment of capital adequacy. Internal Capital Adequacy and Assessment Process (ICAAP) and Supervisory Review & Evaluation Process (SREP) undertaken by the PRA in the UK, to assess additional capital requirements not captured by Pillar 1.
- **Pillar 3** - Market discipline – requirement for public disclosure of prescribed information including key information on capital, exposures, risk management, and 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, including the requirement to disclose the Total Capital Requirement (TCR), comprising Pillar 1 and Pillar 2A.

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.

These disclosures are subject to internal verification and reviewed and approved by the Executive Committee.

All figures quoted in this document are aligned with the Society's audited Annual Report and Accounts as at 31 December 2017.

CRD IV Disclosures

Article 89 of CRD IV requires the Society to disclose the following information for the year ended 31 December 2017.

Name:	Harpenden Building Society
Type of entity:	Building Society
Nature of activity:	Secured lending and deposit taking
Location:	United Kingdom
Turnover:	£9.8m (interest receivable and similar income), £7.1m (total net income)
Profit before tax:	£2,026k
Tax paid:	£402k
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

During 2017 the Board approved a restructuring of Board Committees. This resulted in the following changes:

- The separation of the Audit, Risk & Compliance Committee, resulting in an Audit & Compliance Committee and a Risk Committee
- The removal of Lending Policy, Conduct and Assets & Liabilities Committees. These now form part of the Management Committee Structure
- The Board of Directors now has three committees (Risk, Audit & Compliance and Remunerations & Nominations) to help it discharge its duties at the reporting date

The Executive, Credit Risk, Operational & Conduct Risk and Assets & Liabilities Committees are management committees and report to either the Board or Risk Committee.

The Board of Directors determines the responsibilities and composition of the Board Committees, which are authorised to make decisions within agreed parameters and/or make recommendations to the full Board of Directors as appropriate. The terms of reference for the following committees can be obtained by writing to the Secretary at the Society's Head Office.

As at 31 December 2017 the Society's Board committee structure was as follows:

Risk Committee

The committee is responsible for recommending to the Board the Society's risk appetite. It ensures that an appropriate risk management framework and underlying policies are in place and reviews the adequacy of the Society's risk reporting, including the Society's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

It has oversight of the Society's Credit Risk, Operational & Conduct Risk and Assets & Liabilities Management Committees (ALCO). Reports from the management committees are provided on a regular basis for review and action.

The Committee comprises four Non-Executive Directors and meets quarterly. 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.

Remuneration & Nominations Committee

This committee 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 benchmarked annually against peers both within and outside the building Society sector and the local area, taking Society performance into account.

The Committee comprises three Non-Executive Directors and meets as required but at least twice a year.

The Chief Executive and Finance Director are normally invited to attend, but they are not members of the Committee. No member is involved in setting their own remuneration and the remuneration of all Directors is agreed by the full Board.

Audit & Compliance Committee

The committee is responsible for reviewing the integrity of financial statements, providing appropriate oversight of financial reporting, the effectiveness of internal controls and compliance. It considers and recommends the appointment of the internal and external auditors and monitors their effectiveness and independence.

The Committee comprises three non-executive directors. The Chief Executive and Finance Director are normally invited to attend, but they are not members of the Committee. It meets quarterly with both the Society's Internal and External Auditors in attendance.

Risk Management

The Society has a formal risk management structure in place with established Risk Policy Statements, including risk limits, reporting lines through committees, mandates, risk management software, MI and review process, and other controls procedures. This structure is reviewed periodically 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 a risk 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. Risk committee 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 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.

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 Credit Committee, with review and approval by the Risk Committee. 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 Risk Committee 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

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.

Interest rate risk is specifically 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 Risk Committee, or more frequently if deemed appropriate.

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.

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

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, as represented in the first of its core values. The Society continues to develop its approach to ensure that products and services provide fair customer outcomes and operate as customers would expect.

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 remain at the heart of the Society's values. The Society aligns conduct to the overall risk management framework and this is overseen by the Risk Committee.

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.

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 an add-on to the Total Capital Requirement (TCR) 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 TCR.

Within Pillar 1 the Basic Indicator Approach (BIA) is used, to assess the minimum capital requirement for operational risk. This is calculated as 15% of the average net income over the previous three years. Operational risk is assessed under more detail Pillar 2 through operational stress test scenarios 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.

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.

The 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. The Society has remained at all times comfortably within these limits.

The largest component (94% of total capital resources) of the Society's 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 2017 are represented in the table below.

Capital Composition	£000
Common Equity Tier 1 (CET1)	
<i>General reserves</i>	24,291
<i>Revaluation reserve</i>	1,397
<i>Intangible assets</i>	(42)
	25,646
Tier 2 Capital	
<i>Collective provision</i>	313
	313
Total Capital	25,959

Capital Risk and Adequacy Assessment

The Society completes its corporate plan annually, incorporating projected strategic business growth, forecasting 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 and potential stresses 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 to derive its Pillar 1 minimum requirement. For the Society's assets, these risk weightings range from 0% to 250% 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.

As required under Pillar 2, the Society's management performs a further assessment of the risks not included, or adequately considered, within Pillar 1 and calculates the additional amount of capital that it considers necessary to cover these risks (over and above Pillar 1). Based on the ICAAP assessment and results the Board closely monitors the Society's regulatory capital to ensure all requirements continue to be met. This is essential to understand capital position, and support the Society's ongoing activities.

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.

Pillar 1 Requirement

The table below provides details on the calculations of the minimum capital resource requirements (Pillar 1) as at 31 December 2017:

	Exposure £000	Risk Weighted Amount £000	Minimum Capital Requirement £000
Liquid Assets			
- Cash and balances at the Bank of England	59,654	-	-
- Treasury Bills and similar securities	-	-	-
- Loans & advances to Credit Institutions	23,009	4,602	368
- Debt Securities	29,567	10,873	870
	112,230	15,475	1,238
Loans and Advances to Customers			
- Fully secured on residential property ¹	193,630	75,370	6,030
- Fully secured on land	5,322	5,311	425
	198,952	80,681	6,455
Other Exposures			
- Investments	194	194	15
- Tangible fixed assets	3,764	3,764	301
- Deferred tax assets	20	50	4
- Other debtors	405	405	32
	4,383	4,413	352
Total Credit Risk	315,565	100,569	8,045
Off-balance sheet ²	22,833	4,029	322
Operational Risk		11,574	926
Capital Resources Requirement		116,172	9,293
Pillar 2A Requirement			2,208
Total Capital Requirement (TCR)			11,501

Total Capital Requirement

Comparison of the TCR above of £11,501k to capital resources figure of £25,959k provides the Board with assurance that the Society has adequate capital resources in terms of amount and quality. In addition, the results of the Pillar 2B scenario testing set out within the Society's ICAAP provides further assurance across the planning horizon.

The Society's CET1 ratio provides a risk-based measure of capital adequacy. It is calculated as audited CET1 capital as a proportion of RWA. As at 31 December 2017 using audited capital this was 22.1% (Dec 2016 audited CET1 ratio: 18.7%), compared with the current minimum CRD IV requirement of 4.5% under Basel III.

Capital Buffers

The Society is subject to capital buffers set by the PRA, in accordance with the Financial Policy Committee (FPC). These buffers are assessed and applied as required as part of the regular review of capital adequacy. The relevant buffers comprise:

Countercyclical Capital Buffer (CCyB) – a capital buffer being phased in, and a tool that enables the FPC to adjust the resilience of the banking system. It is currently set at 0.5% RWA, with the next increase due on 28 Nov 2018 to 1.0% RWA.

1 The 'residential' category includes the Society's core residential lending, lending on buy-to-let/2nd home properties and lifetime loans.

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

Capital Conservation Buffer (CCoB) – a capital buffer being phased in designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. It is currently set at 1.25% RWA.

PRA Buffer – a firm-specific buffer set at a percentage of RWA, this is the amount of capital the Society must hold, in addition to its total capital requirement (TCR), to cover losses that may arise under a severe stress scenario, but avoiding duplication with the CRD IV buffers.

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 leverage ratio does not distinguish between the credit quality of loans and acts as a primary constraint to excessive leverage of the Society’s capital due to growth.

The Society’s leverage ratio as at 31 December 2017 using audited capital was 7.09% (December 2016: 7.24%), remaining well above the 3.0% current regulatory minimum requirement.

Credit Risk

Credit Risk – Loans and Advances to Customers

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

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 as at 31 December 2017, 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	193,630	75,370	6,030
- Fully secured on land	5,322	5,311	425
	198,952	80,861	6,455
Loans and Advances to Customers (Performing)			
- Fully secured on residential property	192,811	74,551	5,964
- Fully secured on land	5,322	5,311	425
	198,133	79,862	6,389
Loans and Advances to Customers (Non-Performing)			
- Fully secured on residential property	819	819	66
- Fully secured on land	-	-	-
	819	819	66

A geographic analysis of the Society's loans and advances to customers by Residential and Commercial portfolios are set out in the tables below using Nationwide regions. The Society is based in the Outer Metropolitan region.

Region	Residential Exposure £000	Residential Exposure %
<i>Outer Metropolitan</i>	62,011	32.7%
<i>Greater London</i>	61,082	32.2%
<i>Outer South East</i>	27,398	14.4%
<i>South West</i>	16,128	8.5%
<i>East Anglia</i>	9,876	5.2%
<i>West Midlands</i>	4,358	2.3%
<i>East Midlands</i>	2,749	1.5%
<i>Yorkshire & Humberside</i>	2,136	1.1%
<i>North West</i>	1,956	1.0%
<i>Wales</i>	1,128	0.6%
<i>North</i>	913	0.5%
Total	189,735	100.0%

Region	Commercial Exposure £000	Commercial Exposure %
<i>Outer Metropolitan</i>	5,746	62.3%
<i>Greater London</i>	1,312	14.3%
<i>Outer South East</i>	555	6.0%
<i>South West</i>	462	5.0%
<i>East Anglia</i>	905	9.8%
<i>West Midlands</i>	-	0.0%
<i>East Midlands</i>	109	1.2%
<i>Yorkshire & Humberside</i>	128	1.4%
<i>North West</i>	-	0.0%
<i>Wales</i>	-	0.0%
<i>North</i>	-	0.0%
Total	9,217	100.0%

Asset Encumbrance

As at 31 December 2017, 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- 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 mortgages 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 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 2017". Similarly, full details of the movements in these provisions can be found in Note 14 "Allowance for Impairment".

Collective provisions are treated as Tier 2 capital. A summary of the movements in impairments is shown below.

Impairment summary	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	£000	£000
As at 1 January 2017	198	122	320
Individual Impairment	-	-	-
Collective Impairment	198	122	320
Movement during year	126	22	148
Individual impairment	155	-	155
Collective impairment	28	22	(7)
As at 31 December 2017			
Individual Impairment	155	-	155
Collective impairment	169	144	313
Total	324	144	468

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 Ratings list with a long-term rating of at least 'A-' and 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 building societies which are unrated. The Society continues to use Fitch ratings. The details of the Society's liquid assets portfolio by residual maturity and credit rating as at 31 December 2017 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	59,654	-	-	59,654
1	AAA+ to AA-	5,402	8,007	-	13,409
2	A+ to A-	4,618	16,532	-	21,150
3	BBB+ and below	-	-	-	-
-	Unrated	5,003	13,014	-	18,017
		74,677	37,553	-	112,230

³ High Quality Liquidity Assets – per the Delegated Act, liquid assets of the highest credit quality in line with the Society's Overall Liquidity Adequacy Rule (OLAR) and Liquidity Coverage Ratio (LCR) requirements. These include BoE Reserves Account, UK Treasury bills and Gilts.

Wholesale funding risk

The Society has no wholesale funding exposures as at 31 December 2017 (December 2016: nil). As such, no assessment of wholesale funding risks is included within this disclosure.

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 deposit liabilities, but interest rates on these positions are fixed for a maximum up to 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 2017, interest rate stress testing at a 2% (200 basis points) parallel shifts indicates a maximum negative impact of £339k reduction on capital (net present value sensitivity to a positive shift in interest rates) (December 2016: £358k).

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 manages this exposure continually by matching the maturity dates and interest rate bases of assets and liabilities in line with its Financial Risk Management Policy, which is regularly reviewed and approved by the Board of Directors.

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 which require 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 3-month 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 purpose of this report is to explain how the Society complies with the principles relating to remuneration in the UK Corporate Governance Code April 2016. The Society has adopted a Remuneration Policy which describes how the Society complies with the FCA's Remuneration Code.

Code Principle: Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

Board comment: 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.

Executive Directors' Remuneration

The Remuneration Policy is designed to attract, retain and encourage high calibre executives to manage and develop business for the Society. Total remuneration includes basic salary, performance related pay bonus, benefits and pension.

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

b) Bonus – an annual performance-related pay scheme was introduced in 2017. This is linked to the achievement of the Society's objectives including customer satisfaction, financial performance and staff engagement. This is reviewed by the Remuneration & Nominations Committee annually to ensure the measures are appropriate. The bonus payment is not pensionable and the scheme was designed to deliver a maximum award of 15% of basic salary. The Society does not operate a long-term incentive scheme.

c) Pension - the Executive Directors have defined contribution pension plans, to which the Society and employee both contribute. The Society makes a contribution of 10% of salary.

d) Benefits – the Executive Directors are entitled to a car allowance, family private medical insurance and Death-in-Service at the rate of three times annual salary.

e) 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 Chair and their fellow Board members. The Chair 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:

2017	Salaries £000	Bonus £000	Benefits £000	Pension £000	Total £000
<i>C.D. Astley (Chief Executive)</i>	150	15	7	15	187
<i>G. McGrady (Finance Director)</i>	120	12	6	12	150
Total	270	27	13	27	337

2016	Salaries £000	Bonus £000	Benefits £000	Pension £000	Total £000
<i>C.D. Astley (Chief Executive)</i>	149	3	1	15	168
Total	149	3	1	15	168

Non-Executive Directors Emoluments (comprising fees only):

	2017	2016
	£000	£000
S.J. Richardson (Chair from 23 June 2016)	39	32
J. Mortimer Sykes	32	32
P. F. Baynham	26	26
A.V. Crossley-Mintern	26	26
J. Robinson (Appointed 1 September 2016)	26	9
P.V. Smith	32	32
H.H. Titcomb (Chair until 23 June 2016)	-	21
	181	178

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. The Pillar 3 disclosures have been prepared under CRDIV rules; the Accounts and Annual Business Statement are prepared in line with FRS102 accounting standards.

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 has no plan to alter the nature of its business activities during the year. The frequency and content of Pillar 3 reporting will continue to be reviewed on an ongoing basis to ensure that they are appropriate and informative.

This document is reviewed by the Executive Committee, and is published on Harpenden Building Society's website – www.harpendenbs.co.uk.

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