



Welcome to our Summary Financial Statement

For the year ended 31st December 2018





Contents

Society Information	4
Chair's Statement	6
Your Board of Directors	8
Summary Financial Statement	12
Summary Directors' Report	12
Summary Statement	13
Independent Auditor's Report	15
Directors' Remuneration Report	16

Society Information

Established and incorporated 1953
 Firm Reference Number: 157260
 Eligible for investments by trustees
 Member of the Building Societies Association
 Member of UK Finance

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

Board of Directors

Stephen Richardson	Chair
Judith Mortimer Sykes	Vice Chair and Senior Independent Director
Peter Baynham	
Nigel Boothroyd (appointed 14 March 2019)	
Sarah Howe (appointed 14 March 2019)	
George McGrady	
Jill Robinson	
Paul Smith	

Senior Management

Roy Badcock	Society Secretary
Philip Bannister	Head of Operations
Kenneth Hale	Head of Lending
Sarah Howe	Chief Executive
Martin Langlands	Interim Head of Risk & Compliance
George McGrady	Finance Director
William Purdy	Head of IT

Solicitors

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

Bankers

HSBC Bank plc
 1 High Street
 Harpenden
 Hertfordshire
 AL5 2RS

Auditor

KPMG LLP
 One Snowhill
 Snow Hill Queensway
 Birmingham
 B4 6GH

Harpenden Branch

Aberdeen House,
14 Station Road, Harpenden,
Hertfordshire AL5 4SE

Telephone: 01582 344204

Manager: Amanda Andrews

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

Chair's Statement

"We will be investing to modernise, improve and grow the Society for the long term benefit of our members and customers."



I am very pleased to have this opportunity to provide you with an update on the progress your Society has made during 2018.

Market and Economic Background

As you will be aware, we are operating in an uncertain economic environment. A lack of clarity regarding Brexit is one of a range of factors that are expected to continue to add pressure to the main economic indicators including GDP growth and potential reductions in housing transactions and prices for some time to come. The latest data published across a broad spectrum of sources, all reference a slowing global economy that is further exacerbated by actions in some parts of the world that seem to promote protectionist policies over free trade. This creates an environment where both businesses and customers are nervous about making important investment decisions such as buying or moving to a new home or spending money refurbishing their existing home.

We recognise the impact that the uncertainty surrounding Brexit can have on our business and have assessed the potential risks specific to the Society.

Despite the overall uncertainty these events create, house prices (with some regional variations) have remained broadly stable and unemployment has fallen to 4%, which is the lowest level since February 1975. Figures from the Building Societies Association show net mortgage lending for Building Societies and other specialist lenders increased by 2.7% in 2018 and I am pleased to report that growth of our mortgage book is significantly above this level.

In August 2018, the Bank of England raised the Bank Base rate to 0.75%, but this still means that interest rates have now been at historically low levels for over ten years. Whilst borrowers have benefited from low interest rates, they remain challenging for savers particularly if interest on cash deposits is an important part of their income. Inflation is currently falling but the growing demand for labour is putting upward pressure on wage levels. As a result, the Bank of England Monetary Policy Committee are forecasting modest, gradual increases to Bank Base Rate over the next two years.

Building a Robust, Sustainable Society

Despite this backdrop, I am pleased to report that profit before tax remains strong at £1.9m for the year, which compares to £2.0m for 2017.

The Society has a long history of generating good profitability, which has allowed us to strengthen our capital base and to grow the business to ensure it remains sustainable in an increasingly competitive market. The Society's costs are rising as a result and also as a direct result of being a highly regulated business. We have recently undertaken a strategic review of the business and, as a result, we will be investing more of our future profits to modernise, improve and grow the Society for the long term benefit of our members and customers.

Chair's Statement

The Society will remain focused on delivering the products customers need, combined with a personal service using the latest digital technology to enable customers to transact with us in the most convenient way for them.

Your Board is committed to ensuring the Society has a long term future as an independent regional building society, so long as we continue to remain relevant and offer good value to our members.

Mortgages and Savings

We continue to manually assess and underwrite each mortgage and this granular understanding and technical expertise remains at the core of our business. It ensures that we can meet the specific needs of our customers and take advantage of our specialist knowledge to assess and manage credit risk within our mortgage book. This focus has resulted in gross lending of £66.4m over the year and 7.3% growth in our mortgage book which is well above the sector average. This is ahead of our budgeted expectation and has helped to reduce the high levels of liquidity that we have historically held. We envisage that, as we continue to lend during 2019, this will reduce our excess liquidity sufficiently for us to undertake a review and refresh of our current range of savings products, which we recognise has been limited over recent years.

From a credit risk perspective, we continue to see low levels of arrears and we have had no property repossessions during 2018. Furthermore, the impairment provision has reduced significantly over the year.

I am also pleased to report that we have won the 2018 What Mortgage "Best Local Building Society" Award for an unprecedented fourth year running. These awards are voted for by customers and industry professionals and I would like to thank everyone who took the time to express their views as part of the voting process.

Board Changes

Since my last report, we have made a number of changes to the Board, including appointing a new Chief Executive.

Carl Astley, your previous Chief Executive, took the decision to leave the business in early 2018 and David Jervis, an experienced industry professional, provided support to the business, as the interim Chief Executive, whilst a permanent successor was recruited.

Your new Chief Executive, Sarah Howe, has significant experience gained from market leading companies. Sarah joined from Saffron Building Society where she was the Chief Customer Officer for the last four years, having joined in 2013 as Chief Marketing Officer. Prior to joining Saffron, Sarah was Marketing Director at RIAS Plc (a general insurance provider) and Chief Marketing Officer at BUPA.

Ali Crossley-Mintern left the Board at the end of October after nearly four years' service and I would like to take this opportunity to thank Ali for all the effort that she put into her role and wish her the very best for the future.

Ali has been replaced by Nigel Boothroyd, who has had an extensive career with HSBC Bank in a wide range of roles prior to his retirement in April 2017.

Employees and Management

We recognise the need to attract and retain talented staff. We have therefore recruited a number of additional employees during 2018 and are looking to attract further employees within specialist areas of the business during 2019.

Looking Forward

The Society has a long history of providing personal service to our mortgage and savings customers, generating good levels of profitability and has built up a strong capital base. However, the Board recognises that in a fast changing, very competitive world, the Society needs to invest and develop the business to enable it to grow and prosper for the benefit of our existing customers, members as well as future generations and the communities that we operate in and support.

Finally, I would like to take this opportunity to thank all our members, customers and professional partners for their support over the past year.

I would also like to thank all our employees across the Society whose dedication and hard work has enabled the Society to provide the highest levels of service.

Stephen Richardson

Chair
14 March 2019

Your Board of Directors



Stephen Richardson

Chair

Stephen joined the Society as a non-executive director in January 2014 and was appointed Chair in June 2016. He is a member of the Society's Remuneration & Nominations Committee.

Stephen brings a wealth of strategic leadership to the organisation and has over 35 years of management and leadership experience in financial services at Barclays, Flemings and the Bank of New York, where he was Chief Operating Officer for Europe.

He was Global Head of Wealth Management at the World Gold Council (trade body for global gold mining companies) covering China, India, Europe and the USA until mid-2013.

Stephen now has a range of non-executive and advisory/consulting roles.



Judith Mortimer Sykes

Vice Chair

Judith joined the Society in October 2011, and was appointed Vice Chair in March 2014 and became Senior Independent Director in January 2016. She is the Chair of the Society's Remuneration & Nominations Committee and a member of the Risk Committee.

She is an experienced non-executive director with substantial and varied board experience of corporate governance, strategy and risk.

Judith has significant financial services experience which has encompassed corporate banking at Bank of America. She also has extensive experience of retail banking in the mutual sector including six years as Head of Lending Control at the Nationwide Building Society where she spent 18 years of her career.

Your Board of Directors



Peter Baynham

Non-Executive Director

Peter joined the Society as a non-executive director in November 2014 and chairs the Society's Audit & Compliance Committee. He is also a member of the Risk Committee.

He is a Chartered Accountant and has previously held a number of senior positions in both financial services companies and other organisations. Until his retirement in 2011 he was, for over 10 years, a Partner in Mercer, the international consulting firm.

Peter holds a number of other non-executive positions including three other positions as Chairman of Audit and Risk Committees. He is a trustee of ABF The Soldiers' Charity.



Nigel Boothroyd

Non-Executive Director

Nigel joined the Society as a non-executive director in March 2019 and is a member of the Risk Committee and Audit & Compliance Committee.

He has significant executive-level experience within financial services, having spent some 38 years at HSBC Group. He has carried out a number of senior roles, with experience of Corporate and Commercial Banking; Credit Risk; Operational Risk; Retail Banking and Wealth Management. Nigel has served on a number of Executive and Risk Committees within the UK, Europe and North America. He was also the National Head of Corporate Banking with HSBC Canada between 2012 and 2015.

Nigel is currently the Chair of the Risk Committee at Redwood Bank and also chairs the Credit Committee at Reliance Bank.

Your Board of Directors



Sarah Howe

Chief Executive Officer

Sarah joined the Society in January 2019 from Saffron Building Society where she was an executive director.

With over 30 years' experience, Sarah has worked for market leading organisations in financial services and the retail home shopping sector. Sarah was the Chief Customer Officer at Saffron Building Society having joined them in 2013. Prior to that she was the Marketing Director for RIAS PLC (general insurance) and Chief Marketing Officer for Bupa where she worked for 10 years.

Sarah is currently the Independent Chair of the Openwork Client Panel, a post she has held since January 2017. The panel is advisory with focus on customer outcomes and providing recommendations to the board of Openwork Holdings Limited.



George McGrady

Finance Director

George joined the Society as Finance Director in May 2016 and joined the Board in January 2017.

George provides the Society with financial oversight and has been an active leader for the Society's strategic financial direction based on financial strength, sustainability and member value. His strong background means that he is also a key member of the leadership of the organisation.

He is a Chartered Accountant with a wealth of financial experience gained through extensive periods at a number of organisations including KPMG and, most recently, as Chief Financial Officer of Hornbuckle, the UK's largest independent pension administration provider. George has a strong background in the mutual sector having collectively spent 12 years with Nationwide and Lambeth building societies.

Your Board of Directors



Jill Robinson

Non-Executive Director

Jill joined the Society as a non-executive director in September 2016 and is a member of the Risk Committee and the Audit & Compliance Committee.

She has gained considerable experience as Operations and Finance Director within large multi-national financial services companies and has a proven track record of transforming operations for the benefit of customers to align with corporate strategy.

Jill has held several senior roles including Transformation Director for Prudential plc, Head of Customer Service Delivery for Mercer and, more recently, Finance and Outsourcing Director dealing with the sale of Marine and General Mutual.



Paul Smith

Non-Executive Director

Paul joined the Society as a non-executive director in May 2011 and is the Chair of the Risk Committee. He is also a member of the Audit & Compliance Committee.

Paul has considerable non-executive experience within both the public sector and social housing sector including roles within the Department for Transport, HMRC, Ministry of Defence and the NHS.

Paul has significant experience from a finance career at Ford Motor Company including three years as Finance Director.

Business Review

2018

Summary Directors' Report

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 request at every office of Harpenden Building Society from 1 April 2019.

Business Review

The Society has performed well against a backdrop of uncertainty in the UK marketplace. The continued lack of clarity on Brexit, or more specifically the ongoing relationship of the UK with the EU after 29 March 2019, combined with a global slowdown and the increase in protectionist rhetoric and actions on trade tariffs, all create an environment that is expected to be challenging for the mortgage and savings market.

The Society has assessed the impact of Brexit together with the associated risks in order to ensure that it is well placed to operate effectively based on a range of scenarios; this includes the UK leaving the EU with no deal in place, commonly referred to as a "Hard Brexit". The Society continues to take a cautious approach to lending that provides protection in the event of a severe impact on the economy, whether through a reduction in activity, a sharp and sustained fall in house prices or an increase in interest rates placing pressure on affordability. In summary, the Board consider that the Society is well placed to withstand this impact.

The Society continues to focus on its core objective, namely, to provide a competitive mortgage

range funded by retail savings, predominately through members local to our branch network. Despite the adverse conditions referenced above, this straightforward strategy has helped us to grow the mortgage book by c.7.3% over the year.

Whilst the mortgage book has increased, the overall balance sheet has contracted by c.2.6% over the year, largely due to existing liquidity utilised to fund the book growth. We have previously noted that the Society has high levels of liquidity and we have continued to actively manage our liquidity levels downwards. Although liquidity remains high, the overall funding base has significantly reshaped and we envisage that during 2019 we will have substantially completed this essential rebalancing requirement that underpins the Society's long term financial strength.

The Bank of England's Bank Base Rate (BBR) increased to 0.75% in August 2018, however, the Society did not increase any mortgage or savings rates as a result. The Society assesses various factors when considering rate changes, one of which is the BBR, but other factors include competitive pressure, funding requirements,

liquidity position, growth expectations and also balancing the competing needs of both mortgage and savings customers.

The Society strives to provide fair interest rates for both mortgage and savings customers in the context of the reshaping of the funding base. From a savings perspective, the Society's average interest rate continues to be in excess of BBR and we consider the rates to be competitive in the marketplace. However, the market is fluid and the Society monitors the market closely for change.

In addition to the impact of external economic and competitive market pressures, the departure of the Chief Executive and other senior managers during the year has resulted in a period of significant change. David Jervis joined the business as the Society's interim Chief Executive and a number of other interim roles covering risk, compliance and project management were appointed. The robust set of financial results and mortgage book growth highlight that the business has responded well to the challenges this presented and a new Chief Executive, Sarah Howe, has now been appointed to lead the business forward.

Summary Statement

for the year ended 31 December 2018

	2018	2017
	£000	£000
Results for the year		
Net interest receivable	7,146	7,079
Other income and charges	193	208
Total Net Income	7,339	7,287
Administrative expenses	(5,645)	(5,127)
Provisions for mortgage losses	184	(148)
Provisions for FSCS levies	37	14
Profit for the year before taxation	1,915	2,026
Taxation	(341)	(402)
Profit for the year	1,574	1,624
Revaluation of property, plant and equipment	589	-
Movement in related deferred tax	(266)	-
Total comprehensive income for the year	1,897	1,624

	2018	2017
	£000	£000
Financial position at end of year		
Assets		
Liquid assets	89,196	112,316
Mortgages	212,553	197,953
Fixed and other assets	4,920	4,430
Total assets	306,699	314,699
Liabilities		
Shares	273,233	282,446
Borrowings	4,792	5,771
Other liabilities	1,043	721
Provisions for liabilities	16	73
General reserve	25,865	24,291
Revaluation reserve	1,720	1,397
Total liabilities	306,699	314,699

Approved by the Board of Directors on 14 March 2019 and signed on its behalf by:

Stephen Richardson
Chair

Sarah Howe
Chief Executive

George McGrady
Finance Director

Summary Statement

for the year ended 31 December 2018

	2018	2017
Gross capital as a percentage of shares and borrowings	9.99%	8.89%
Liquid assets as a percentage of shares and borrowings	32.08%	38.97%
Profit for the financial year as a percentage of mean total assets	0.51%	0.52%
Management expenses as a percentage of mean total assets	1.82%	1.62%

Notes to the Key Financial Ratios

Gross capital comprises general reserve 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 2018 and 2017 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 prudent 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.

Independent Auditor's Report

Independent Auditor's Statement to the Members and Depositors of Harpenden Building Society

Opinion

We have examined the summary financial statement of Harpenden Building Society ('the Society') for the year ended 31 December 2018 set out on pages 12 to 14

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 financial statements, 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 for opinion

Our examination of the summary financial statement consisted primarily of:

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 financial statements, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018, 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 financial statements, 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 financial statements, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018.

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

Opinion on summary financial statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full financial statements, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018 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
14 March 2019

Directors' Remuneration Report

The purpose of this report is to explain how the Society complies with the principles relating to remuneration in the UK Corporate Governance Code 2016. 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: 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.

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 Director Emoluments

The remuneration for Executive Directors is detailed on page 17. 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 – the annual performance-related pay scheme is linked to the achievement of the Society's corporate objectives including member satisfaction, profitability, residential mortgage book growth and staff engagement. This is reviewed by the committee annually to ensure the measures are appropriate. The 2019 scheme will be enhanced to include an element of personal as well as corporate performance. The bonus payment is not pensionable and the scheme is designed to deliver a maximum award of 15% of basic salary. Payments may be reduced or withdrawn if the Board considers there is an item or event of material importance or relevance to have a significant influence on the regulatory status, financial performance or financial statements of the Society. 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 - S. Howe is employed on a Service Contract dated 13 December 2018, terminable by the Society or by the individual on six months' notice. 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 Director Emoluments

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 Executive Directors attend by invitation but take no part in the discussion of their own salary. The Committee reviews Directors' remuneration annually using data from comparable organisations, and takes advice from external consultants, when appropriate.

Judith Mortimer Sykes

Chair of Remuneration and Nominations Committee

14 March 2019

Directors' remuneration Report

The total emoluments for both Executive and Non-Executive Directors for the year amounted to £488,527 (2017: £521,067).

2018

	Salaries	Bonus	Benefits	Pension Contributions	Total
	£000	£000	£000	£000	£000
C.D. Astley (Chief Executive)	56	-	4	6	66
G. McGrady (Finance Director)	133	15	13	13	174
	189	15	17	19	240

Mr C.D. Astley resigned from the Board on 14 May 2018, with additional contractual payments paid to him during the year of £94k until leaving the business on 13 November 2018. Mr D.G. Jervis was appointed to the Board on 25 October 2018 and received fees of £56k for the period until 31 December 2018. Mr D.G. Jervis also received fees prior to his appointment to the Board as interim Chief Executive, amounting to £88k.

2017

	Salaries	Bonus	Benefits	Pension Contributions	Total
	£000	£000	£000	£000	£000
C.D. Astley (Chief Executive)	150	15	7	15	187
G. McGrady (Finance Director)	120	12	6	12	150

Non-Executive Director Emoluments (comprising fees only):

	2018 £000	2017 £000
S.J. Richardson	45	39
J. Mortimer Sykes	32	32
P.F. Baynham	34	26
A.V. Crossley-Mintern (Resigned 31 October 2018)	22	26
J. Robinson	26	26
P.V. Smith	32	32
	191	181



**We hope you have enjoyed the journey,
please share your feedback.**

feedback@harpendenbs.co.uk • www.harpendenbs.co.uk/feedback



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Supporting our local communities to create a better future