

**Welcome to our  
Member Review  
and Summary  
Financial Statement**

For the year ended 31st December 2019

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## Our Branches

### Harpenden Branch

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

### Leighton Buzzard Branch

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

### Tring Branch

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

### Radlett Branch

341 Watling Street,  
Radlett,  
Hertfordshire, WD7 7LB  
Telephone: 01923 854457  
Manager: Amanda Andrews

### Wendover Branch

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

### Buckingham Branch

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

## 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  
 Mark Willis (appointed 25 April 2019)

## Senior Management

Roy Badcock	Society Secretary
Sarah Howe	Chief Executive
Martin Langlands	Chief Risk Officer
Katherine Logan	Head of People
Vikas Mawkin	Head of Finance & Treasury
George McGrady	Finance Director
William Purdy	Head of IT

## Solicitors

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

## Bankers

HSBC Bank plc  
 1 High Street  
 Harpenden  
 Hertfordshire  
 AL5 2RS

## Auditor

KPMG LLP  
 1 Sovereign Square  
 Sovereign Street  
 Leeds  
 L1 4DA

## Chair's Statement

*“Our focus remains on delivering the products and services our members need, both now and into the future”*

I am very pleased to have this opportunity to provide you with an update on the progress your Society has made during 2019.



### Market and Economic Background

On a similar theme to my last review, we continue to operate in an uncertain economic and political environment. Whilst the results of the General Election, and subsequent signing of the Withdrawal Bill from the EU, has reduced some of this uncertainty, the negotiations now will focus on the future trade relationship with a challenging deadline set for the end of 2020. It therefore remains difficult to predict the economic impacts of Brexit in both the short and long term. We recognise the impact that the uncertainty surrounding Brexit can have on our business and have assessed the potential risks specific to the Society. Further details of these risks are considered within the Business Review on page 12 and as part of the commentary on our Principle Risks and Uncertainties on page 17 of the financial statements.

The UK's economic position is exacerbated when viewed in the context of a slowing global economy. In addition, there is the short and medium term impact of the Covid-19 (coronavirus), which is becoming more significant. Until recently a more optimistic view had been forming with various economic and industry specific indices showing improvement. However, as I write my report, the financial markets have reacted to the impact of Covid-19, reversing this trend and the announcement by the Bank of England to reduce Base Rate by 0.50%. Our top priority is the health and safety of our staff, customers who visit our branches and visitors to our Head Office. We are closely monitoring the situation with regular meetings to discuss developments to ensure we can

continue to meet our customer needs in the event of widespread impact from the virus.

During 2019, house prices (with some regional variations) have increased by a marginal 1%-2%, with unemployment continuing to be at a 'forty year low'. Figures from the Building Societies Association show net mortgage lending for Building Societies increased by 4.2% during 2019 and I am pleased to report that our mortgage book growth, at 8.3%, is significantly above this level.

The Bank of England Bank Base has remained at 0.75% throughout the year. Whilst there has been some media commentary of a potential for a reduction in the Bank Base Rate, the market's longer term central forecast remains for modest, gradual increases over the next two years.

### Building a Robust, Sustainable Society

Against this backdrop, I can report that profit before tax was £0.7m for the year, which compares to £1.9m for 2018. I noted in my report to you last year that we had undertaken a strategic review of the business and, as a result, that we would be investing more of our future profits to modernise, improve and grow the Society for the long term benefit of our members and customers. 2019 was the first year of this programme of change and increased costs. As part of the strategic review, we have identified the following primary objectives:-

- To develop and strengthen the people skills in the Society to meet our future needs, as defined by our customer feedback, regulatory standards and the competitive landscape.

## Chair's Statement

- To ensure that we continue to offer products and services that deliver to the highest standards with strong governance, risk controls and culture throughout the business.
- To invest in developing relevant new products and services to continue the growth of our mortgage lending, supported by new savings products.
- To improve costs and efficiency through the increased application of technology, for both our internal processes and the ways that customers can access our services.

We remain committed to ensuring your Society has a long term future as an independent regional building society which continues to be relevant to its members and customers and offers them good value.

### Mortgages and Savings

During the year, gross lending was £65m, with net lending of £18m, which translates to an 8.3% growth in our mortgage book. This has resulted in a reduction in the historic high levels of liquidity and a rebalancing of our funding to support lending activity. We are now positioned to reassess the range of savings products we offer and, towards the end of last year, we launched a new 90 day notice account and 2 year fixed rate bond at competitive rates. We will continue to review and refresh our range of savings products, which we recognise have been very limited over recent years.

We continue to manually assess and underwrite each mortgage with a technical expertise that remains key to the long term success of our business. It ensures that we can meet the specific needs of our customers and take advantage of our specialist knowledge to manage credit risk. We continue to see low levels of arrears and we have had no property repossessions during 2019.

### Board Changes

Since my last report, we have made a further change to the Board with Mark Willis joining as a Non-Executive Director and becoming Chair of Risk Committee. Mark brings significant experience having spent his career in financial services, most recently as Chief Risk Officer at National Counties Building Society.

I would like to take this opportunity to thank Paul Smith, our previous Chair of Risk Committee, who resigned from the Board in July 2019. Paul has served

as a Non-Executive Director since 2011, during which time he has Chaired Audit, Risk and ALCO Committees and been an active member of the Board. We all send Paul our best wishes for the future.

### Employees and Management

We recognise the need to attract and retain talented people and have therefore recruited a number of new employees during 2019, with a small number of additional specialist roles required during 2020.

### Looking Forward

Providing a personal service to our mortgage and savings customers remains at the core of who we are and this has allowed the Society to build its strong capital base. In a world that increasingly uses technology, the Society needs to invest in and develop the business to enable it to grow and prosper. However, we see digital enablement as a means to support the business and improve the customer experience. Our focus remains on delivering the products and services our members need, both now and into the future.

We also believe that, as your local building society, we have a part to play in supporting the local communities where we operate and we have taken this opportunity to give you a summary of some of our involvement in local community projects over the past year later within this Report.

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 to our members.

### Stephen Richardson

Chair  
13 March 2020

## Chief Executive's Review

### *"A year of change and new beginnings"*

I am delighted to write my first Chief Executive's report reviewing 2019. We have had a very busy and productive year, delivering for our customers, continuing our growth and investing in necessary change to ensure we have a long and sustainable future for the benefit of current and future members.



#### **Market Conditions**

The Chair has already touched upon the challenging market conditions in his statement. As CEO my overriding view of 2019 was one of a great deal of uncertainty for individuals and businesses alike. With so many potential scenarios that could play out and the consequential effects for the financial services industry, it was no surprise to see regulatory requirements further tighten for banks and building societies to ensure that the UK financial system continues to operate safely and soundly in the event of a severe economic shock occurring. For a small Society such as Harpenden this translates into a need to invest in further strengthening the skills and capabilities of our team so that we continue to meet the heightening regulatory expectations. The impact of this in the short term is on the cost base. However such investment not only provides further protection for our customers from potential shocks to the financial system, it also means that we benefit from an exciting array of new talent to further contribute to the continued growth and success of the Society.

#### **Building our society for the future**

The whole Society comes together twice a year to share openly how we are performing; the successes and challenges, as well as looking forward to the exciting opportunities ahead of us.

In May, we shared research insights about our membership to understand how we can continue to shape our proposition for both existing and future members. We also discussed our people and organisational culture and our longer term aspirations. In November we took time to look back at all we had achieved as a collective team over the course of the year. Despite it being an incredibly

busy and at times challenging year, we do have much to celebrate which I will touch upon briefly, focussing on our People, Members and Customers, Performance and Community.

#### **Our people**

People are the lifeblood of the Society and as a new CEO it was important for me to have a good understanding of how we can improve as an employer by simply asking our people. Through focus groups it became clear that the Society will be most effective if we have good channels of communication, that we actively listen and take action where needed, we have focus on our customers and are consistent in our approach to people practices. The people strategy that underpins the overall Society goals has a core objective to earn a reputation for being a great place to work. In 2019 a new salary and benefits benchmarking review has been completed, we implemented an enhanced performance review process, introduced a consistent induction experience for new joiners, delivered an intranet system, held wellbeing events and introduced a new 'dress for your day' policy. We have more enhancements to come in 2020 providing opportunities for career development from upskilling to new secondment roles as well as upgrades to staff welfare facilities.

#### **Members and Customers**

A key priority for the leadership team in recent years has been to restructure the balance sheet to a position where we are able to launch new products for our saving and borrowing members. We achieved the balance by mid-year enabling the launch of new mortgage and savings products in the second half of the year.

## Chief Executive's Review

We will continue to develop and launch new products throughout 2020 to include innovative product options based on customer preferences. We have also invested in upgrading and updating our website which offers users new features, a better navigation experience whilst also offering enhanced security. It is vital for our members that we continue enhancing security safeguards to combat the risk of cyber-crime, which continues to evolve and become more sophisticated. We have also been seeking ways to make the customer journey easier and more customer friendly, an example being an improvement to the dormancy process based on customer feedback.

I am delighted that in 2019 we were voted Best Local Building Society in the What Mortgage Awards for the 5th year running and also awarded best Children's Savings Account provider in the Personal Finance awards. Recognition from external bodies is always a welcome boost for our hardworking teams and something we are very proud of. We are also extremely proud of our customer satisfaction score, which is 97% for the year.

In 2020 we will be investing further in market research using focus groups to gain even deeper customer insight so that we can better understand what member's value and the choices open to us to further improve the Society's appeal to new and existing members.

### Performance

2019 was our year to get the balance sheet 'rebalanced', with future increases in lending and savings now expected to be more closely aligned. We also planned to continue to grow the total mortgage assets, having achieved a growth in 2018 of over 7%. With Brexit very much an unknown, we experienced a slow first quarter followed by an exceptionally strong rest of the year. We achieved growth of 8.3% which surpassed our stretch ambition and the prior year performance. The team were relentless in getting our mortgage message out to brokers, bringing on new distribution networks, launching new products and delivering more marketing. Mortgage rates did come under pressure with fierce competition coupled with a better than planned retention of existing borrowers at lower rates however we maintained a healthy net interest margin overall, albeit slightly below our plan.

The challenge for 2019 was shouldering an increase in our costs as we took decisive action during the year to invest now for future benefit. We engaged with technical experts to ensure that we have a robust approach to tightening regulatory requirements, we invested in new roles to support the business strategy and also we had changes to the Board and senior team whilst also investing in premises and infrastructure.

A number of these costs were one off by nature and will not repeat in future years, however it has been essential to invest so that the Society remains in a good position to meet the ever increasing demands placed on a financial services business.

### Community

As a mutual, the impact of our Building Society is much wider than its member base. Our people and our members value the wider contribution we make to the local community. The Society has a strong legacy of charitable giving through employee donations, Society donations and fundraising events. The Society has an endowment fund operated through the Hertfordshire Community Fund, and since inception has helped more than 10,000 local people. The endowment fund now stands at over £400k which means that the Society can continue to contribute for many years towards making a substantial difference to people's lives in and around our region.

In 2019 the charities we supported included Youth Talk, a charity that supports young people, predominantly teenagers, battling with mental health and anxiety issues. We have also supported local schools through a bank and money manager scheme, attended local Carnivals and contributed towards the upgrade of the Harpenden Cricket Club so that the local community and competing teams can enjoy decent changing and refreshment facilities.

### Looking forward

There is no doubt that the mortgage and savings market will continue to be somewhat unpredictable. The current impact on financial markets from Covid-19 adds to the level of uncertainty we currently face with a cut in Base Rate to 0.25% recently announced by the Bank of England. What we do know however is that competition will be fierce with an increasing number of challenger banks competing for their share of the market. Competition for funds and lending growth is already squeezing the net interest margin particularly for larger banks and building societies. Thankfully we do not have all of the challenges at our Society that others are wrestling with however there is no room for complacency. We will remain focussed, continue to invest for the future and maintain our low risk appetite.

I would like to thank the Board and the Society for their warm welcome to me and I do hope that in 2020 I will be able to meet with more of our members to hear directly what you want from your Society.

### Sarah Howe

Chief Executive  
13 March 2020

## Our Corporate and Social Responsibility

### Social and community

Our strong local heritage has instilled in us a genuine consideration for the local communities we serve. This is at the very core of our commitment to Corporate Social Responsibility (CSR). We believe in giving back to these communities wherever we can.

Our CSR programme ensures we respond to communities in ways that matter to them the most. Our programme has two primary purposes:

Firstly, demonstrating our core best practice behaviours:

- Ensuring our commitment to providing responsible Financial Services
- Serving our customers with honesty and integrity
- Considering the contributions of our employees at all times and ensuring recognition of their part in our success
- Striving to optimise benefits for our Members

Secondly, to ensure we have an ongoing commitment to the local communities in and around where we operate. These are enshrined in our roots as a Society, having been established in 1953 to help local people buy their own homes.



### Helping deliver financial education

In 2019, over 1,170 children between 4 and 11 years of age have benefited from the Money Manager scheme

We also recognise that our responsibility to support financial wellbeing extends further than simply providing products and services. As part of our commitment to supporting the local communities, we deliver a financial education scheme for schools. This scheme provides funding and delivers over 50 ready-made, easy to use lesson plans and materials. These are written by teachers, for teachers. It also offers a range of support to schools.

We're linked with the Building Societies Association (BSA), who work closely with the schemes creators - the charity, Young Money. We work with them and we simply call the scheme 'Money Manager', and we're proud of it. We approach and encourage local schools to enrol onto the scheme. It helps teach children between the ages of 4 and 11 (Key Stage 1 & 2) a wide range of financial skills and understanding.

When a school joins the scheme, we provide the funding for the £95 subscription fee to be paid to Young Money. They can then access the lesson plans and learning materials. We also fund £155 towards each school to cover their printing costs of the plans and material. These funds come from our charitable trust.



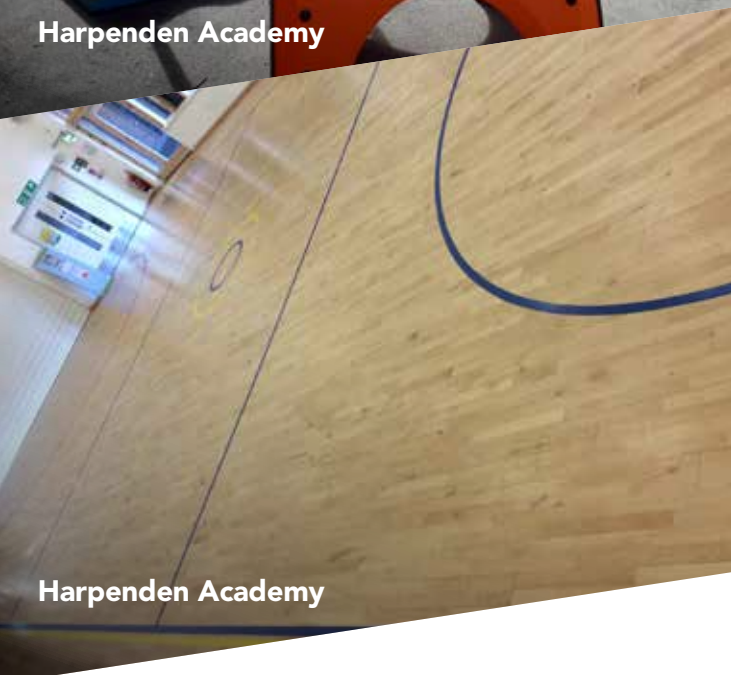
## Our Corporate and Social Responsibility



Harpenden Academy



Money Manager Scheme



Harpenden Academy



Harpenden Cricket Club

### Our Charitable Trust

Our purpose is to make a tangible difference to the lives and well-being of the communities around us. In 2019, our employees committed to supporting and fundraising for The Pepper Foundation. This is a small charity raising money to help fund children's hospice at home nursing care in Buckinghamshire and Hertfordshire. With a wide range of activities and events, we raised a total of £1,660. We're extremely proud to contribute to the foundation's core principle of supporting nurses providing specialist paediatric care for children with life limiting or life-threatening conditions.

Our Charitable Trust was set up specifically to help people living in the local communities where we are based. We received a multitude of project

applications for funding. Our Trust supports a diverse range of applications and objectives. Each application is assessed against criteria looking at the positive and direct impact the project will have for local people. During 2019 the Society provided funding to;

- March - £20,000 donated to Harpenden Cricket Club for a viewing gallery within the cricket pavilion
- June - £8,250 to Harpenden Academy for outdoor playground equipment and improvement to sporting facilities inside the school hall
- October - £250 to Wendover CE Junior School for the Money Manager Scheme
- October - £250 to John Hampden School, Wendover for the Money Manager Scheme

## Our Corporate and Social Responsibility



### A strong partnership with HCF

We also partner with the Hertfordshire Community Foundation (HCF), an independent charity which encourages local philanthropy. They provide advice and applications for funding and support from small charities, voluntary groups and individuals in Hertfordshire. Our objective in partnering with HCF is to support children, families, the elderly, education, health, mental health and local community projects. These are primarily within Hertfordshire but also covering Bedfordshire and Buckinghamshire.

Working with the HCF strengthens our roots with the local communities and helps improve the lives of vulnerable people. In 2019 we continued our funding support of Youth Talk, a charity that provide a safe place where young people aged 13-25, can come for counselling and support. This service is available to those who live, work or attend school/college in the District of St Albans. Youth Talk have an array of counsellors who are qualified therapists and highly experienced in working with young people. They also have a National award for innovation and an award for services to the community.

The Society is midway through a three year grant to fund 100 counselling sessions per year for young people. We believe this will have a positive and meaningful impact to those young people.

 A decorative graphic consisting of three overlapping hearts in a light green color, positioned above a dark blue rectangular box.
 

In 2019, Youth Talk were able to offer 2,652 counselling sessions to distressed young people. It's a huge achievement and we're immensely proud to support them.

Statistic courtesy of Youth Talk

## Our Corporate and Social Responsibility



### Our employees

As a local building society, we are proud to continue to provide employment opportunities in the communities around us. In 2019, the strategy to improve our focus on the well-being and support of our employees was enhanced greatly by the development of our People team. We invested in this area and doubled the size of the department. This has ensured that the voice of our employees has begun to become entrenched in many aspects of the organisation. This includes the People team becoming members and attending executive committees and groups.

We are proud to maintain a turnover rate of employees that is below the national average. The dedication of our employees has also been fundamental to our recent growth. We offered flexible and part-time working opportunities to help our employees manage their professional and family lives.

### Our training opportunities

The Society is committed to providing training and learning opportunities for our employees. Our online learning platform provides a range of learning material and modules designed to increase knowledge and improve skills. In 2019, in total 1,870 modules were successfully completed by our employees.

### Our sustainability promise

We have significant plans to continue to grow the business in a responsible and sustainable way. This is key and at the forefront of our future, ensuring we are a responsible and forward-thinking organisation.

As part of our CSR planning, we are committed to:

- Encouraging a paperless environment in our head office and our branches. We ask employees to consider the environment before printing and encourage the use of digital capabilities
- Buying goods and services that minimise environmental impacts
- Creating an environment where we have increased the amount we recycle and reduce the waste materials we dispose of
- Helping support and fund charities and schemes that contain social and environmental benefits for their communities.

The Society is also an active participant in a Green Finance Taskforce set up by the BSA. The objective is to find ways to help homeowners reduce the 15% of harmful Carbon Emissions generated by the UK housing stock. There will be a growing importance to focus on this objective and we are fully committed as a Society to deliver environmentally friendly solutions and to support our members seeking to do the same.

## 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 Audit & Compliance 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 Remuneration & Nominations 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 the Senior Independent Director 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 held the position of Independent Chair of the Openwork Client Panel, until recently. Sarah held this post from January 2017 until December 2019, which marked the end of her three year appointment. 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, Audit & Compliance Committee and the Remuneration & Nominations 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.



### Mark Willis

#### Non-Executive Director

Mark joined the Society as a non-executive director in April 2019 and is currently chair of the Board Risk Committee and member of the Audit & Compliance Committee.

Mark has spent his career in financial services, most recently as Chief Risk Officer at National Counties Building Society which he joined in 2013. Previously, he served in a number of both operational and oversight roles in financial risk management at Nationwide Building Society (including Head of Market Risk) and with Nationwide Pension Fund as trustee.

Mark is currently a Reader in the Church of England and trustee of the National Counties Pension Fund.

He graduated in PPE from Keble College, Oxford and is qualified as a Chartered Accountant and Corporate Treasurer. He also holds the PMI Award in Pension Trusteeship.

## 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 2020.

### Business Review

Sarah Howe joined the Society in January 2019 and, following a strategic review, the Society has commenced a period of change. The Society has also employed a number of new Senior Managers, to lead their respective departments.

Against the backdrop of uncertain lending and economic conditions, the Society continues to experience strong mortgage book growth and highlights that the Society has responded well to the challenges.

Profit after tax was down, at £555k (2018: £1,574k), driven by a decrease in net income to £7.1m (2018: £7.3m) and a c.15% increase in administrative expenses, due to an increase in staff costs and management expense. The additional staff costs are as a direct result of strengthening the people capability to meet the Society's future needs with additional management expenses including investment in technical and regulatory specialists and strategic consultancy support.

The Directors assess the risks facing the Society and have reviewed the impact of Brexit on our business. Following the United Kingdom's decision to leave the European Union on the 31 January 2020 and the relationship with the EU now being re-established through ongoing political discussions and negotiations. The political landscape has an impact on the economic conditions and the demand for lending. The Society has a strong capital base to manage any future macroeconomic obstacles as a result of consequences of the UK leaving the EU.

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 strategy has helped to grow the mortgage book by c.8.3% over the year (2018 7.2%) The average mortgage rate decreased over 2019 whilst savings rates marginally increased, resulting in a reduction in net interest margin to 2.64% (2018 3.03%).

Whilst the mortgage book has increased, the overall balance sheet has contracted by c.3.3% over the year, largely due to existing liquidity being utilised to fund mortgage 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. The overall funding base has significantly reshaped and during 2019 we completed this essential rebalancing requirement that underpins the Society's long term financial strength.

The Bank of England's Bank Base Rate (BBR) remained at 0.75% throughout 2019. 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 is therefore monitored closely for change.



# Summary Statement

for the year ended 31 December 2019

<b>Results for the year</b>	<b>2019</b>	2018
	<b>£000</b>	£000
Net interest receivable	<b>6,885</b>	7,146
Other income and charges	<b>182</b>	193
<b>Total Net Income</b>	<b>7,067</b>	7,339
Administrative expenses	<b>(6,422)</b>	(5,645)
Impairment of loans and advances	<b>56</b>	184
Provisions for liabilities	-	37
<b>Profit for the year before taxation</b>	<b>701</b>	1,915
Taxation	<b>(146)</b>	(341)
<b>Profit for the year</b>	<b>555</b>	1,574
Revaluation of property, plant and equipment	-	589
Movement in related deferred tax	-	(266)
<b>Total comprehensive income for the year</b>	<b>555</b>	1,897

<b>Financial position at end of year</b>	<b>2019</b>	2018
	<b>£000</b>	£000
<b>Assets</b>		
Liquid assets	<b>61,157</b>	89,196
Mortgages	<b>230,337</b>	212,553
Fixed and other assets	<b>4,839</b>	4,920
<b>Total assets</b>	<b>296,333</b>	306,699
<b>Liabilities</b>		
Shares	<b>263,118</b>	273,233
Borrowings	<b>4,099</b>	4,792
Other liabilities	<b>965</b>	1,043
Provisions for liabilities	<b>11</b>	16
General reserve	<b>26,420</b>	25,865
Revaluation reserve	<b>1,720</b>	1,720
<b>Total liabilities</b>	<b>296,333</b>	306,699

Approved by the Board of Directors on 13 March 2020 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 2019

	<b>2019</b>	2018
Gross capital as a percentage of shares and borrowings	<b>10.53%</b>	9.99%
Liquid assets as a percentage of shares and borrowings	<b>22.89%</b>	32.08%
Profit for the financial year as a percentage of mean total assets	<b>0.19%</b>	0.51%
Management expenses as a percentage of mean total assets	<b>2.11%</b>	1.82%

### 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 2019 and 2018 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 2019 on pages 17 to 18.

On the basis of the work performed, as described below, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2019 and conforms with the applicable 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:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2019, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2019.

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

### Directors' responsibilities

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

### Auditor's responsibilities

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

### The purpose of our work and to whom we owe our responsibilities

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.

### Alain de Braekeleer

for and on behalf of KPMG LLP,  
Statutory Auditor

*Chartered Accountants*

One Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA  
13 March 2020

## Directors' Remuneration Report

The purpose of this report is to explain how the Society has regard to the principles relating to remuneration in the UK Corporate Governance Code July 2018. The Society has adopted a Remuneration Policy, which describes how the Society complies with the FCA's Remuneration Code. The remuneration of the individual Directors is detailed in the note on page 22.

### The Level and Components of Remuneration

*Code Principle: Executive Directors' remuneration should be designed to promote the long-term success of the company. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long term strategy.*

#### **Board comment:**

The Remuneration and Nominations Committee has responsibility for the Remuneration Policy and to review all workforce remuneration and the alignment of incentives and rewards with the Society's culture and strategy. The Remuneration and Nominations Committee has delegated responsibility to determine the Remuneration Policy for the Executive Directors and the senior management team.

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

Total remuneration includes basic salary, performance related pay bonus, benefits and pension. Executive Director remuneration is reviewed annually.

- 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 a combination of the achievement of individual performance and Society corporate objectives, covering member satisfaction, profitability, mortgage book growth and staff engagement. This is reviewed by the committee annually to ensure the measures are appropriate. The bonus payment is not pensionable and the scheme is designed to deliver a maximum award of 20% 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. In addition, a 'profit hurdle' has been set that should be exceeded before any element of the bonus is payable. 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, private medical insurance ('self' and spouse) 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 remuneration of the Chair is reviewed by the Committee and set by the Board with their performance assessed by all members of the Board. All other Non-executive Directors' remuneration is also set by the Board, following review by the Remuneration and Nominations Committee.

# Directors' Remuneration Report

## The Procedure for Determining Remuneration

*Code Principle: There should be a formal and transparent procedure for developing policy on Executive and Senior Management remuneration. 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.

An independent external consultant was appointed during the year to provide assist in further development of the bonus structure and facilitation of a benchmark analysis of remuneration across the Society.

*Code Principle: Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance and wider circumstances.*

**Board comment:**

The discretionary bonus scheme has been structured to be applicable to all Society staff across a range of maximum awards and with regular updates provided on performance against the year. The bonus payment for the year reflects the Society's overall performance with no payment for profit, partially offset by an increased payment to reflect mortgage book growth. Despite no bonus accrual for profit performance, the Committee approved a reduction to the profit hurdle to take into account the impact of a number of 'one off' costs that were incurred after the original bonus parameters had been set.

## Judith Mortimer Sykes

Chair of Remuneration and Nominations Committee  
13 March 2020

## Directors' Remuneration Report

The total emoluments for both Executive and Non-Executive Directors for the year amounted to £707,804 (2018: £488,527).

2019	<b>Salaries</b>	<b>Bonus</b>	<b>Benefits</b>	<b>Pension Contributions</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
S. Howe (Chief Executive)	<b>195</b>	<b>29</b>	<b>12</b>	<b>20</b>	<b>256</b>
G. McGrady (Finance Director)	<b>138</b>	<b>21</b>	<b>12</b>	<b>14</b>	<b>185</b>
	<b>333</b>	<b>50</b>	<b>24</b>	<b>34</b>	<b>441</b>

2018	Salaries	Bonus	Benefits	Pension Contributions	Total
	£000	£000	£000	£000	£000
C. Astley (Chief Executive)	56	-	4	6	66
G. McGrady (Finance Director)	133	15	13	13	174
	189	15	17	19	240

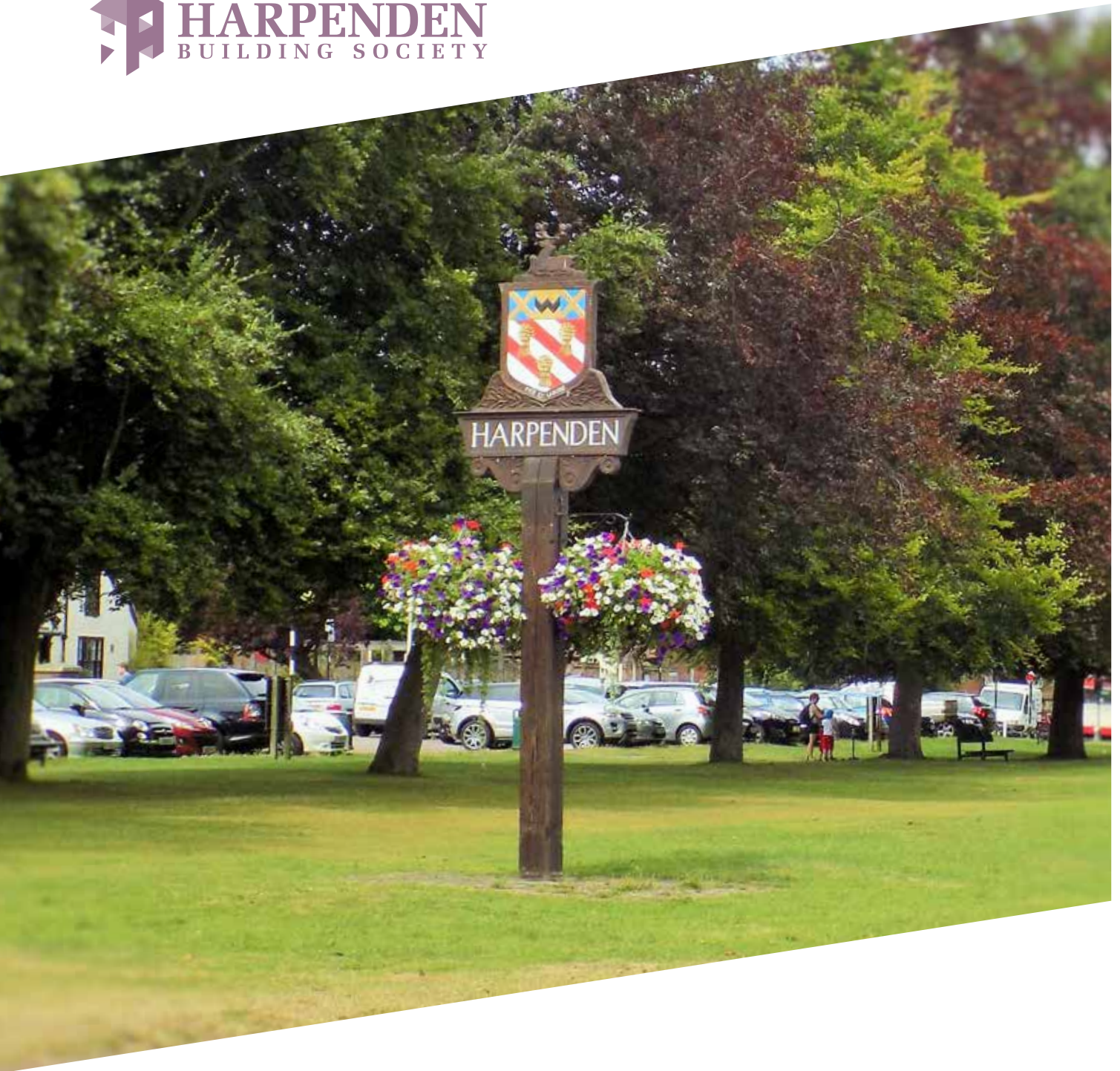
Mr D. Jervis was appointed to the Board on 25 October 2018 and resigned on 15 February 2019. Following his appointment, Mr D. Jervis received fees of £49k (2018: £56k) during the year. Prior to his appointment, he received fees as the Society's Interim Chief Executive amounting to £88k.

Mr C. 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.

Non-Executive Director Emoluments (comprising fees only):

	<b>2019</b>	2018
	<b>£000</b>	£000
S. Richardson	<b>45</b>	45
J. Mortimer Sykes	<b>32</b>	32
P. Baynham	<b>32</b>	34
N. Boothroyd	<b>26</b>	2
A. Crossley-Mintern (Resigned 31 October 2018)	-	22
J. Robinson	<b>26</b>	26
P. Smith	<b>19</b>	32
M. Willis	<b>30</b>	-
	<b>210</b>	191





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please share your feedback.**

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