HARPENDEN
BUILDING SOCIETY

Directors' Report, Accounts and Annual Business Statement

For the year ended 31st December 2020

Contents

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

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Harpenden
Hertfordshire
AL5 4HU

Board of Directors

Stephen Richardson	Chair
Nigel Boothroyd	Vice Chair and Senior Independent Director

Peter Baynham (resigned 26 October 2020)
Judith Mortimer Sykes
Richard Doe (appointed 23 April 2020)
David Green (appointed 26 October 2020)
Sarah Howe
George McGrady
Jill Robinson (resigned 31 March 2020)
Mark Willis

Leadership Team

Raj Bains	Director of Customer Operations
Sarah Howe	Chief Executive Officer
Martin Langlands	Chief Risk Officer
Katherine Logan	Head of People
George McGrady	Finance Director
Stephen Mulley	Interim Head of IT & Transformation

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

Mazars LLP
Tower Bridge House
St. Katharine's Way
London
E1W 1DD

Chair's Statement

I am pleased to have this opportunity to provide you with an update on the progress your Society has made during 2020.

2020 has of course been dominated by the Covid-19 pandemic which has had an impact on everyone and every business, large or small, across the world. The spread of the coronavirus over the last 12 months has upended lives and communities, both through its direct impact on the health of individuals and families and through the lockdown measures taken by the government to reduce and slow down its spread.

The Society was classified as an essential business by the government and we continued to operate well during 2020 – this is in no small part because of the extraordinary efforts of all employees during the year, adapting exceptionally well to a different working environment with many having to work remotely from home. Our members supported us in this endeavour with understanding and patience and by limiting contact to essential transactions, members have also helped us protect stretched resources. I would like to thank everyone for their contribution to this effort in 2020 and with lockdown 3, at least for the next few months the challenges continue.

Your Society has supported 144, or 17% of mortgage borrowers, with payment deferrals during 2020 as a direct consequence of Covid-19. At the time of writing this has substantially reduced, however, we continue to offer support and assistance to all our borrowers during these unprecedented times.

Society's performance in 2020

We began the year with the view that we could continue to build on the good growth in our mortgage business that we had seen in 2019 (8.3% growth vs 2018).

However the impact of Covid-19 and several lockdowns in the year have had a profound impact on the performance of the Society.

With the announcement that the housing market would close with estate agents, valuers, removals and construction unable to operate under the strict lockdown measures, we undertook a complete reforecast of our plans which assumed that the combination of Brexit uncertainty and the pandemic would result in the housing market slowing down significantly in 2020. However in practice we saw the housing market respond very positively as restrictions were lifted in the summer, and to the additional boost of the stamp duty holiday. As a result we only saw a small fall in our mortgage book of 1.9% (£231m to £226m). Profits however were hit hard with interest income impacted by the delay to mortgage completions and also the reduction in the bank base rate impacting the Society's return on funds deposited with the Bank of England. The reduction in net income has resulted in pre-tax profit falling to £211k compared with £891k in 2019. The pretax profit for 2019 includes a gain of £162k from the revaluation of investment property following their reclassification in the year. Further details are included in the Business Review on page 14.

The underlying credit quality of the Society's lending is highlighted by the minimal increase in loan loss provisions set aside to cover the increase in impairment losses associated with the impact of the coronavirus on the economy generally and our mortgage customers specifically.

With the significant drop in the Bank of England base rate, interest rates across the market have fallen. We have needed to take the painful decision

Chair's Statement

to adjust downwards the rate of interest we are able to pay to our savings members in order to protect the Society's net interest margin.

We also decided to close two branches during the year. The Society conducts periodic strategic reviews of the branch network to ensure that they continue to offer services and value to all members. The two branches affected were Wendover and Buckingham. The branches had low utilisation however in addition the restrictive size of each of the premises meant there was insufficient physical space to enable us to keep colleagues and members safe in line with the Government's social distancing requirements. We recognise that for the branch users it was disappointing news however the Society has endeavoured to support members in the local area through alternate branches and methods of transacting with the Society.

Outlook for 2021

Economically the outlook for this year and beyond looks very uncertain, despite the recent budget announcements extending both the furlough scheme and stamp duty tax relief as well as the continued increases in house prices. In addition, there remains the drag that the trade deal with the EU will have on many businesses particularly those that export to and import from the EU. Unemployment is rising and is likely to rise significantly.

It's difficult to predict how this will play out in the housing market – the balance of probability is likely to be a combination of a slowdown in house purchases and a potential for some fall in house prices albeit in 2020 there was an increase in values.

As a result, the Board has adjusted its priorities for the Society over the next year. We will continue to focus on keeping our finances strong with significant levels of excess capital above both our regulatory and internally assessed requirements. The operational resilience of the Society will be enhanced to cater for changes in members' needs and expectations of services resulting from the pandemic.

Building a Sustainable Society

Notwithstanding the difficulties and challenges created by the pandemic we remain committed to ensuring your Society has a long-term future as an independent local building society which continues to be relevant to its members and customers and offers good service and value.

Our mutual ethos and values remain at the heart of our Society. We will continue to commit to our social purpose in a responsible and sustainable way.

Board Changes

Since my last report, we have made further changes to the Board. David Green joined in October as a Non-Executive Director of the Society and was appointed as the Chair of the Audit Committee. David, is a qualified accountant and brings significant experience having spent his career in financial services, most recently as CEO at Hoare & Company, the private bank and as a non-executive director at Cynergy Bank Ltd (previously Bank of Cyprus UK).

I would like to take this opportunity to thank Peter Baynham, our previous Chair of the Audit Committee, who resigned from the Board in October. Peter has served as a Non-Executive Director since 2014, during which time he has been an active member of the Board. We all send Peter our best wishes for the future.

Jill Robinson also stepped down from the Board at the end of March 2020. We would like to thank Jill for her contribution to the Board since she joined in 2016

We also welcome Richard Doe who joined the Board in April as a Non-Executive Director. Richard has extensive experience in financial services and joined the Society from Paragon Bank where he was Managing Director.

Governance

The Board is responsible for the long-term sustainability of the Society, for protecting our culture and values, and for governance. We have always considered the impact of our decisions on our members, colleagues, and wider communities we serve because we believe this is good business practice.

Being member-owned, and having built significant capital strength over the long term, we have been able to choose to forgo higher levels of profit to deliver more services to members and invest for the future.

The Board continues to maintain its strong governance and oversight of the Society.

Colleagues

We recognise the need to attract and retain talented people and have therefore recruited new employees during 2020. The whole team has been exceptional in their dedication and commitment to the Society and our members in 2020 and I would like to thank them all.

I would also like to take this opportunity to thank all our members, customers and professional partners for their support in an extraordinary and difficult year.

Stephen Richardson
Chair
18 March 2021

Chief Executive's Review

The start of 2020 began with optimism, the intention was to focus on growing revenues, launching new member initiatives and invest in building the skills and talent at the Society.

However the unthinkable news that a global pandemic was taking hold in the UK forced the Board and leadership team to re-think and re-plan the year ahead. Our priorities swiftly changed to ensuring the continued safe operation of services for members whilst supporting our colleagues to adapt to changing workplace practices.

The majority of the Society was quickly mobilised to working from home ahead of the full lockdown. Adapting to the changing government guidelines at short notice and responding to information requests from the Bank of England has, as you might expect, been an extra workload to accommodate. It was also vitally important to listen to feedback from our people, ensuring they felt fully supported both in the workplace and with their workloads whilst dealing with the uncertainty, anxieties and confusion as more was being discovered about the virus and its spread.

This year has undoubtedly been a significant learning curve for us all, in a situation where there is no prior experience, a perfect script or clear answers. It was evident to me early on that actions would need to be swift and decisive based on the best information available at the time. We had to plan for the unthinkable and accept that whilst we could not get everything absolutely right first time we would take great care to monitor, listen and take the necessary steps as each situation unfolded.

Market Conditions

The macro economy and government interventions have been a critical factor impacting the 2020 results. Government announcements affecting our services often came with short notice and no clear or incomplete guidance. The tension between economic stimulus and health protection measures has created challenge for every business and all UK citizens. However for our Society a number of interventions should be noted as being beneficial, from the furlough scheme through to mortgage payment deferrals and the temporary suspension of Stamp Duty, with the recent budget announcement extending the Government's support in these areas.

The second half of 2020 saw extraordinary levels of mortgage enquiries, we completed 2020 with our largest ever pipeline of mortgage business and we continue to attract new funds into the Society. We have learned a great deal as an organisation and invested in strengthening our core systems and processes further underpinning the soundness of our business operation, with a strong platform to bounce back to growth in 2021.

The Chair has in his statement commented on the changes to bank base rate and housing market impacts. The market has been very competitive and volatile as providers of mortgage and savings products have taken action to keep their plans on track. The underlying cost base has been well managed however inevitably loss of income in the first quarter of 2020 has impacted the cost to income ratios. This will adjust back to the right levels as we grow.

Chief Executive's Review

Our people

All at the Society have been required to adapt to the changing circumstances. It is an understatement to say it has not been easy, however I am incredibly proud to be leading an organisation that exemplifies a deep commitment to do what is right for our members, embracing new situations and overcoming difficulties which have been most complex at times and certainly many in number. This has inevitably resulted in people working long days with absolute focus, dedication and resilience.

We have continued to add new skills and capabilities to the Society throughout the year as we seek to build the business for future growth. As you may imagine, the experience of joining a company in lockdown is much harder and the People team have been excellent in helping the Society adapt to virtual interviews, inductions and on-boarding in a Covid-secure way.

We are also committed to growing our organic talent too. Whilst many of the learning and development plans have been delayed, we accelerated cross-skilling of teams, promoted 3 individuals and 2 people were seconded into new roles. We are also incredibly proud of Caroline Williams who achieved her MSc from Loughborough University in Leadership and Management, having been sponsored by the Society. Caroline was also the winner of the Student Award voted for by her fellow graduands.

It is also important to acknowledge that we have also taken some difficult decisions. We closed two of our branches however whilst we sought to minimise the impacts for affected colleagues, there were redundancies. We also recognised by May that the Society would not be in a position to offer a discretionary bonus scheme in 2020 due to the difficult trading conditions, despite everyone's extraordinary efforts. However doing the right thing at times requires us to make these most difficult of decisions and at all times we have aimed to be open and transparent with our teams. During this period we also received government subsidy of c.£57k for furlough costs relating to some of our employees.

Despite the trading challenges it has remained important to demonstrate our appreciation and recognition of colleagues. The 'Harpenden Heroes award' was a peer group recognition scheme identifying those going above and beyond to make a difference to others whether that was to support team members or customers. In addition a number of 'surprise treats' were sent to all colleagues from a chocolate 'pick me up' to shopping vouchers and a Christmas hamper. Small gestures designed to simply say thank you.

In October we also joined the Banking Standards Board Culture survey to have a more in-depth understanding of the Society culture and actions we can take to further the Society on its journey to be an outstanding place to work. The results will shape our people plan in 2021.

Members

A key priority in 2020 was that of keeping our services open for members and more specifically those experiencing financial or accessibility difficulties due to the pandemic.

We continued to enhance services introducing two factor authentication for members using online services, extending the time length to prevent accounts going into dormancy due to lockdown restrictions and changing processes to support those prevented by Covid -19 from venturing out to transact as normal on their accounts. In responding to lockdown rules, opening hours were affected over the course of the year to protect the branch teams and members. Our savings member base as expected was down against 2019, in part due to limited access to open accounts, branch closures and rate changes, however overall membership was up against the forecast and in the latter part of 2020 we experienced an influx of new savers.

We have also worked hard on the experience for mortgage brokers to make it easier for them to submit mortgage applications online. With the housing market closed for a quarter of the year coupled with a natural lag in completions, borrowing members have naturally reduced in number, despite this we ended the year with 2% more borrowers than we had reforecast mid-year.

We were delighted to win for the 6th consecutive year 'Best Local Building Society' in the What Mortgage Awards and we again won the accolade for 'Best Children's Savings Account provider' in the Personal Finance awards. In addition we were nominated for the What Mortgage Award for 'Best Building Society for customer service'. This recognition has always been a welcome boost for our hardworking teams and something we are very proud of.

The Society continues to be an active participant in a Green Finance Taskforce set up by the Building

Chief Executive's Review

Societies Association with the objective to find ways to help home owners reduce the 15% of harmful Carbon Emissions generated by the UK housing stock. As I mentioned last year, there is a growing need for solutions in this space and we are committed as a Society to deliver environmentally better solutions as a business in our own right and to support our members seeking to do the same.

The Society has engaged with third party specialists to increase its underlying dataset and build a greater understanding of the potential impact of climate-risk. Further details of the Society's assessment of the risk is considered on page 21.

In 2021 we will be broadening our mortgage product range with 5 new products in development for first time buyers through to Green mortgages and expanding our savings product offering with new bonds and a regular saver option as well as enhancing our products for young savers.

Performance

2020 hampered the mortgage growth plans with an overall book contraction of 1.9%. However we are confident that we will return to a good level of growth in 2021 with the book increasing by 2% during the second half of the year and having made a strong start this year. The mortgage team have supported brokers when the market was in difficulty and lenders struggled to support service levels. We increased our marketing presence, and have continued to offer brokers a flexible offering with consistent specialist products.

We have experienced growth in savings deposits despite a number of rate reductions primarily due to the drop in bank base rate. We have chosen not to pass on the full base rate reduction in order to protect members' rates and have maintained a positive net interest margin overall albeit below our plan.

In 2021 we will invest for growth which will be in people and marketing costs as well as infrastructure. Whilst investment costs will increase we aim to return profits back to more normal levels.

Community

Supporting the local communities in which we operate remains an incredibly important part of the Society's purpose. We have a strong legacy of charitable giving with an endowment fund operated through the Hertfordshire Community Foundation (HCF). In 2020 there was a significant need for financial support to enable locally run charities to continue to operate, with their usual fundraising activities stopped due to Covid-19. The Society donated £39k to support well-deserving local charity projects. We continued with our commitment to support Youth Talk, a charity that supports young people, predominantly teenagers, battling with mental health and anxiety issues. In addition 3 of our branches were active in supporting the HCF 'winter appeal' helping Hertfordshire's most vulnerable residents to stay warm, safe and well.

Looking forward

Firstly I should say that I believe 2021 will be a good year for the Society – we have a good strategy, great people and a strong foundation to build from with a financially resilient member base.

It is difficult to predict how quickly the economy will start to recover. Whilst the bank base rate is at an all-time low speculation continues with regard to the key macro-economic indicators. The Government will likely seek to deploy options to reduce its borrowing which may have wider reaching impacts for individuals and businesses. I anticipate other providers will seek to restore profits to either improve or in some cases repair their capital reserves due to the impact of Covid-19. We are however a strongly capitalised business which enables us to confidently invest in growing safely without the need to deliver exceptional profits, instead we can plan our growth based on a long term sustainable outcome.

At this point I wish to thank all our members for their continued support of the Society through these very difficult times and particularly all of the team at Harpenden for their exceptional contribution to keeping our show on the road despite the challenges.

Sarah Howe

Chief Executive

18 March 2021

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 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.

Nigel Boothroyd

Vice Chair

Nigel joined the Society as a non-executive director in March 2019 and was appointed Vice Chair in May 2020. He has been the Senior Independent Director since January 2021 and is a member of the Board Risk & Compliance Committee, the Remuneration Committee and the 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 an experienced non-executive director and, in addition to his role at the Society, is currently the Chair of the Risk Committee at Redwood Bank Limited and a non-executive director at British Arab Commercial Bank plc.

Richard Doe

Non-Executive Director

Richard joined the Society as a non-executive director in April 2020 and is a member of the Remuneration Committee and the Nominations Committee.

Richard has over 35 years' experience in retail banking, covering mortgages, SME lending and retail savings. He has a marketing and business strategy background and was previously CEO of ING Direct in the UK and Managing Director of Paragon Bank plc.

He is a Chartered Banker and Fellow of the Chartered Institute of Marketing where he is also a member of the Appointments and Remuneration Committee.

David Green

Non-Executive Director

David joined the Society as a non-executive director in October 2020 and chairs the Society's Audit Committee. He is also a member of the Board Risk & Compliance Committee.

He is a chartered accountant with around 40 years' experience in retail financial services. He joins us having recently retired as CEO of a leading private bank. He also served as an independent non-executive director for 7 years at a challenger 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 from January 2017 until December 2019. The panel was advisory with a focus on customer outcomes and providing recommendations to the board of Openwork Holdings Limited.

Sarah is a member of the Building Societies Association (BSA) Council, the trade body for the Building Society sector and also a member of the BSA Remuneration and Nomination committees.

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 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.

George represented the Society as a non-executive director of Mutual Vision from March 2019 until the planned restructure of the Board in September 2020. Mutual Vision is an IT software service provider and, along with a number of other Societies, Harpenden Building Society is a long term shareholder in the business.

Your Board of Directors

Judith Mortimer Sykes

Non-Executive Director

Judith joined the Society in October 2011, and was formerly the Vice Chair and Senior Independent Director. She is the Chair of both the Society's Remuneration Committee and Nominations Committee and a member of the Audit 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.

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 & Compliance Committee and member of the Audit 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 Philosophy Politics and Economics from Keble College, Oxford and is qualified as a Chartered Accountant and Corporate Treasurer. He also holds the PMI Award in Pension Trusteeship.

Directors' Report

The Directors have pleasure in presenting their 68th Annual Report and Accounts for the year ended 31 December 2020.

Business Review

The Chair's Statement and Chief Executive's Review both set out the impact the global pandemic has had on the Society and how it has responded to the many challenges it has presented. Of particular note is the compounding impact on net income from the c.1.9% contraction in the mortgage book and the reduction in liquid asset yield following the 0.65% reduction in Bank Base Rate (BBR). The overall impact has been a c.£683k reduction in net interest income on 2019.

Whilst administration expenses have reduced by £213k on 2019, overall profit for the year was down, at £167k (2019: £783k).

The reduction in profit for the year is partially related to a revaluation gain of £162k on investment property in 2019. This relates to a reclassification of an element of the Society's freehold property to investment property to reflect the proportion on which the Society receives rental income. The increase was based on an independent valuers report commissioned to assess the value of both freehold and investment property with a further £206k increase in the revaluation reserve due to an additional increase in value attributable to the freehold property. Further details are set out in note 31 on page 73.

The reduction in administrative expenses can be further analysed as a consistent staff cost charge to 2019 but with management expenses reducing by 12% from £2,739k to £2,420k. Staff costs include the withdrawal of the discretionary bonus scheme offset by the full year impact of new employees that joined the Society during 2019. It also includes the net impact of new employees in 2020 and is therefore a direct result of continuing to strengthen the people capability to meet the Society's future needs.

The Directors have assessed the risks facing the Society and these are summarised in this report on pages 20 to 21. In addition to the increased credit risk impact caused by the pandemic, other evolving risks of particular note is the impact of post-Brexit December 2020 'trade agreement' and the increasing focus on environmental and climate risk.

Whilst the Directors have assessed the direct impacts of Brexit as low, there may be indirect impacts that present themselves as the new relationship with the EU evolves. However, the Society has a strong capital base to manage any future macroeconomic consequences of the UK leaving the EU.

The Chief Executive has highlighted that the Society has a part to play in meeting our responsibilities for climate risk both in terms of how we operate and also how we assist our members in the changes they will be making. We are taking an active role in the Building Society Association's (BSA) Green Task Force and exploring products and services that support this agenda.

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.

As noted above, the mortgage book contracted by 1.9% in 2020, however, the overall balance sheet increased to £302m with the net c£5m increase due to additional savings balances. We have previously noted that the Society has had high levels of liquidity and we have continued to actively manage our liquidity levels downwards. This had been a gradual planned realignment that has taken place over a number of years. The impact of book contraction and the additional savings balances attracted to the Society have, to some extent, reversed this transformation. However, this is seen as a temporary shift driven by the impact of the pandemic and the short term plan remains to complete this essential rebalancing requirement that underpins the Society's long term financial strength.

As noted in the Chair's Statement and the Chief Executive's Report, the impact of Base rate reductions during the year have been carefully considered. An Executive Product Pricing Committee convenes monthly to discuss pricing and ensure sufficient attention is focused on both new product development and the pricing decisions taken. This includes the assessment of 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 we consider the rates to be competitive in the marketplace. However, the market is fluid and, as noted, the Society monitors the market closely for change through its Product and Pricing Committee.

Directors' Report (continued)

Key Performance Indicators

The Board and Executive monitor all aspects of the Society's financial performance on an ongoing basis. The key performance indicators (KPIs) used as measures are set out below and disclosed in more detail in the following pages:

Mortgage Asset Balances (£m)

2020	**£225.9**
2019	£230.3
2018	£212.6
2017	£198.0
2016	£201.0

Total Assets (£m)

2020	**£302.0**
2019	£296.8
2018	£306.6
2017	£314.7
2016	£316.9

Share Balances (£m)

2020	**£268.1**
2019	£263.1
2018	£273.2
2017	£282.4
2016	£285.6

Liquid Assets as a Percentage of Shares and Borrowings

2020	**26.0%**
2019	22.9%
2018	32.1%
2017	39.0%
2016	38.1%

Profit After Tax as a Percentage of Mean Total Assets

2020	**0.06%**
2019	0.26%
2018	0.51%
2017	0.52%
2016	0.60%

Management Expenses as a Percentage of Mean Total Assets

2020	**2.07%**
2019	2.12%
2018	1.82%
2017	1.62%
2016	1.47%

Cost: Income Ratio

2020	**96.4%**
2019	88.5%
2018	76.9%
2017	70.4%
2016	66.8%

Capital (£m)

2020	**£28.7m**
2019	£28.6m
2018	£27.8m
2017	£25.7m
2016	£24.1m

Gross Capital as a percentage of Shares and Borrowings

2020	**10.5%**
2019	10.7%
2018	10.0%
2017	8.9%
2016	8.3%

Free Capital as a percentage of Shares and Borrowings

2020	**8.9%**
2019	9.0%
2018	8.6%
2017	7.7%
2016	7.0%

Customer Satisfaction Score

2020	**89%**
2019	97%
2018	96%
2017	95%
2016	92%

Staff Satisfaction Score (out of 5)

2020*	
2019	3.6
2018	3.6
2017	3.9
2016	3.8

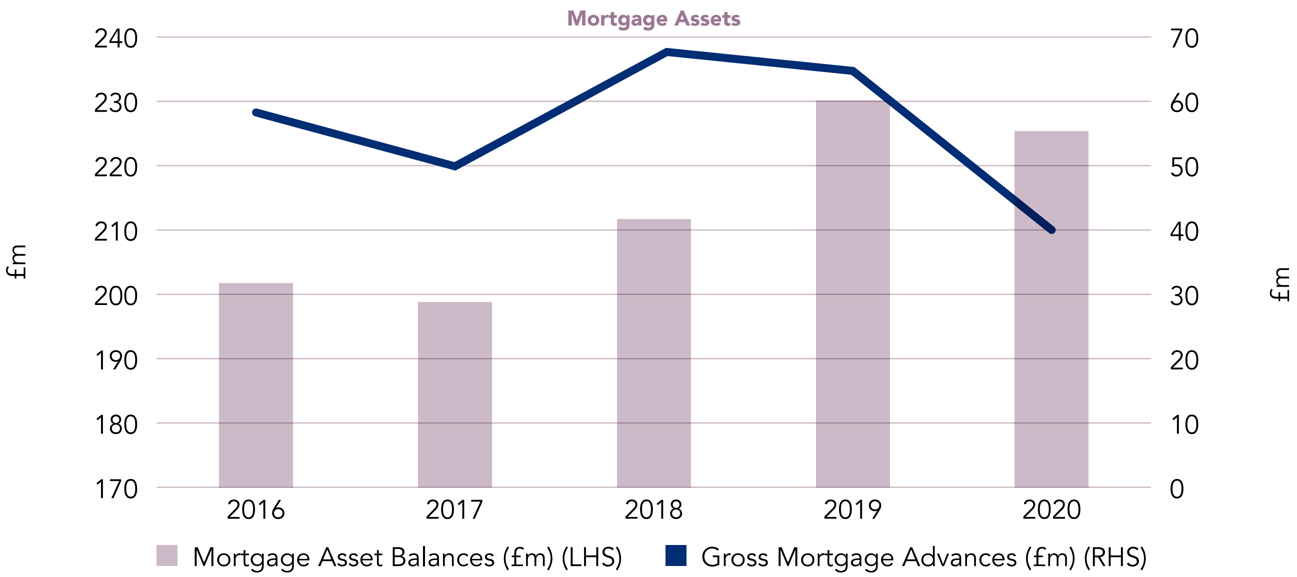
*A new metric is being introduced, starting 2021

Directors' Report (continued)

Mortgage Asset Balances

The provision of mortgage finance for the purchase of owner-occupied residential property is the key objective of the Society. The Society continues to offer pragmatic solutions to meet the lending needs of the affluent consumer and has built a reputation for expertise and service excellence in this specialist part of the market. We continue to offer an individual approach to underwriting and take the time to understand borrower's circumstances and assess the affordability of each mortgage in a prudent and sensible manner.

During the year, the impact of the pandemic can be seen from the reduction in new advances of £41.1m against £65.3m in 2019. Overall redemption levels were relatively consistent with 2019 however, whilst strong retention levels largely offset the reduction in new advances, the net impact is an overall reduction in the mortgage book of c.£4.4m, or 1.9%, to £225.9m (2019: £230.3m).



As at 31 December 2020, there was one mortgage account that was 12 months or more in arrears (2019:none) with an outstanding loan balance of £181k and an arrears balance of £27k. The Society had mortgage arrears balances greater than 3 months old at 31 December 2020 of 0.28% (2019: 0.33%), compared to a UK Finance industry average of 0.86% (2019: 0.78%). In addition, at 31 December 2020 the Society had no properties in possession (2019: none).

The Society may consider offering forbearance to mortgage borrowers who experience temporary payment difficulties as a result of serious illness, a change in employment circumstances or a significant life event. Arrangements considered include payment holidays, change in payment basis from repayment to interest only or amendment of the mortgage term. All arrangements are temporary and are regularly reviewed. At 31 December 2020, the Society offered such forbearance to seven borrowers (2019: eight), representing a total mortgage balance of £0.9m (2019: £1.3m). Two of these cases were in arrears (2019: four), the value of arrears was £13k (2019: £1k) and the capital balance was £382k (2019: £610k). These loans are considered within the Society's individual and collective mortgage provisioning modelling as described below.

COVID-19 Related Payment Deferrals

In addition to the standard forbearance loans highlighted above, this year the Society has also seen a substantial increase in temporary forbearance as a part of the Government's initiatives to respond to the pandemic. The total number of payment deferrals that have been granted since initially being offered is 144, which equates to c.17% of all borrowers. However, almost 90% of the cases have either returned to regularised payment or redeemed with a proportion of the remainder still operating under the deferral scheme.

Directors' Report (continued)

In summary, whilst the full impact of the pandemic on credit risk has yet to take effect, the Society has responded well in terms of offering support to our members where needed whilst maintaining the underlying financial strength of the Society. These loans are also considered within the Society's individual and collective mortgage provisioning modelling as described below.

Impairment Provisions

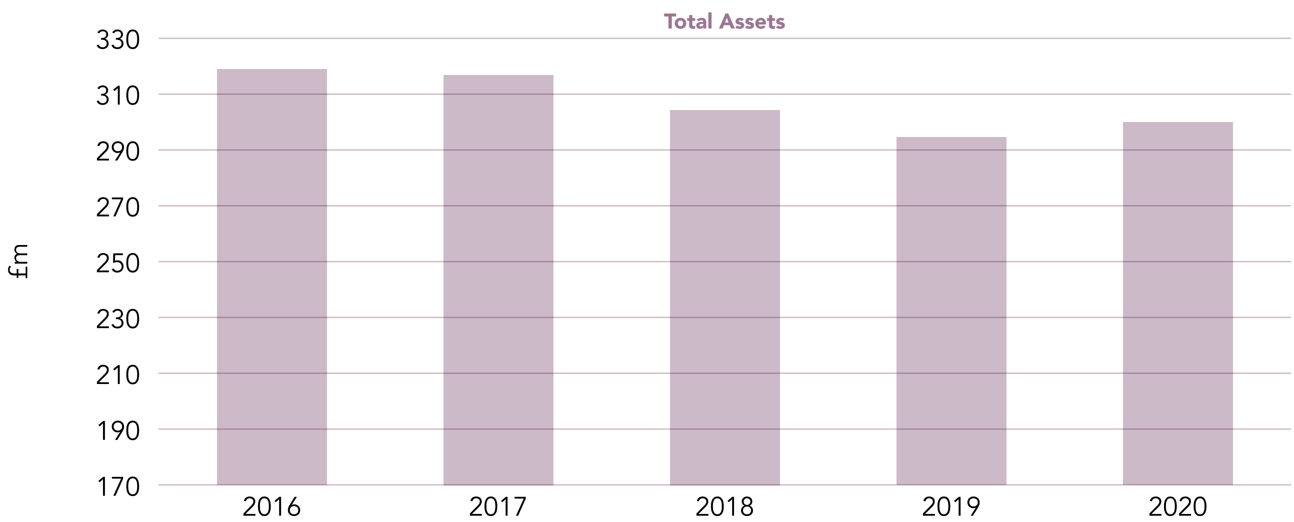
Individual provisions are made for loans and advances on a case-by-case basis to cover anticipated losses in respect of all accounts that have been identified as impaired. Anticipated losses on such accounts are calculated as the difference between the estimated current achievable market value of the security and the outstanding loan balance, after making appropriate allowance for costs.

A collective mortgage provision is made against mortgage advances which have not been specifically identified as impaired but where general experience and market conditions may indicate that losses may ultimately be incurred.

In aggregate, the impairment provisions have increased by £16k to £244k. At a more granular level, there was no individual impairment provision at year end with the net increase due to a movement in the collective provision. This increase is based on a review of the underlying assumptions and reflects the low levels of arrears and defaults within the Society's book. It also includes prudent credit default assumptions for COVID-19 payment deferrals and, given it results in only a small increase, highlights the Society's underlying credit strength where LTV's are generally low and provide significant debt cover across the book.

Total Assets

The Board considers that long term growth, underpinned by increasing capital reserves improves the Society's financial strength and long term stability. As a result of increases in share balances, the balance sheet has increased by £5.3m (2019: £9.8m decrease) to £302.0m (2019: £296.8m), as at 31 December 2020, representing an increase of 1.8% (2019: 3.2% decrease).

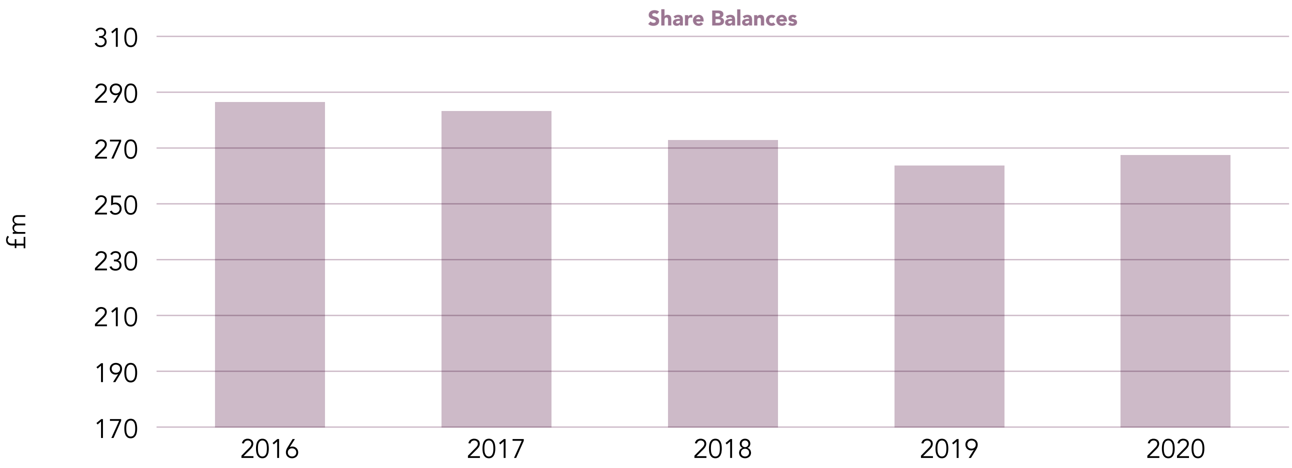


Directors’ Report (continued)

Share Balances

The Society strives to provide competitive interest rates in a sustained low interest rate environment. The Society continues to maintain retail savings rate that is in excess of the current Bank of England’s Base Rate.

The Society aims to maintain a stable and sustainable funding base that meets the Society’s lending requirements through the provision of straight forward products that are consistently priced for all members. As noted earlier, the Society has historically held high levels of liquidity and, over time, this has been managed down. However, during the pandemic, share balances have increased by 1.9% (2019: 3.7% decrease) to £268.1m at 31 December 2020 (2019: £263.1m).



Liquid Assets as a Percentage of Shares and Borrowings

Liquidity ratios are monitored to ensure that they remain within Board approved limits and that adequate cash is held to meet liabilities as they fall due. In 2020, liquid assets increased by £9.7m to £70.8m (2019: £61.1m) with the liquid asset ratio increasing to 26.0% (2019: 22.9%).

The increase in liquidity and the liquidity ratio is driven by the combination of the contraction in the mortgage book and the additional cash generated from the increased share balances.

Profit After Tax as a Percentage of Mean Total Assets

Accumulated profit after tax is the key source of additional capital for the Society and sufficient profit must be made to ensure its ongoing financial strength. The Society’s overall margin and profitability ensures that future growth in lending can be supported.

Profit for the year has reduced to £167k (2019: £783k). The Society has been adversely impacted by the reduction in net interest income offset by a reduction in costs. As noted on page 14, profit for the year in 2019 included a £162k gain following the revaluation on the Society’s investment properties.

Management Expenses as a Percentage of Mean Total Assets

This ratio measures how productively the assets of the Society are used. The ratio has decreased during the year to 2.07% (2019: 2.12%) and is due to a combination of total assets increasing and, as note earlier in the Directors’ Report, administrative expenses reducing.

Cost: Income Ratio

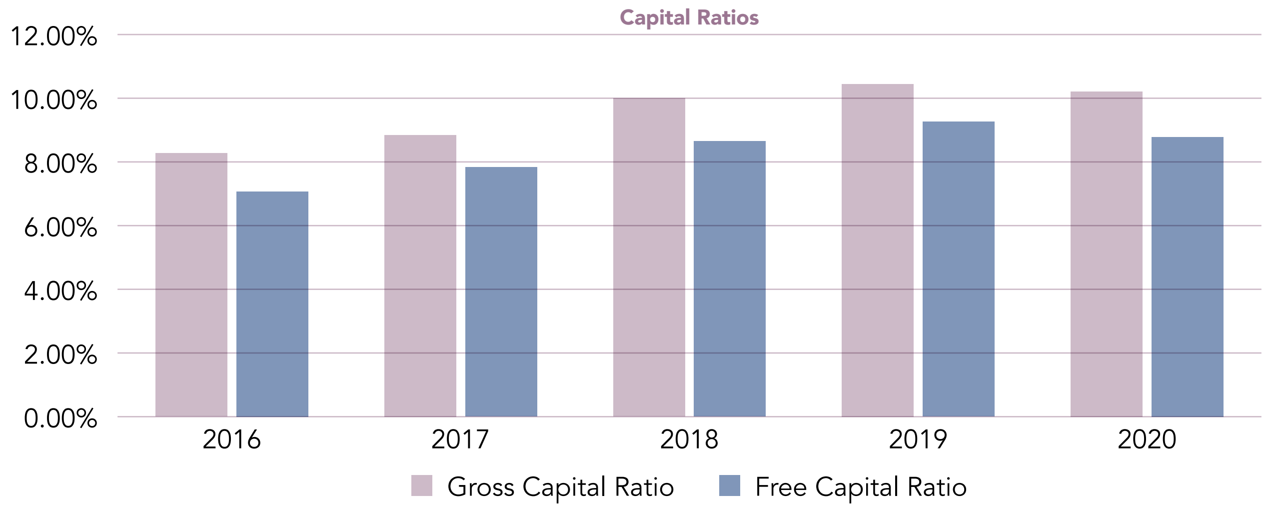
The cost income ratio compares the operating costs within the business with the income that it generates and therefore it is a measure of how efficiently the Society utilises its resources. However, unlike the reduction in the management expenses ratio, this metric has increased to 96.4% (2019: 88.5%) and is driven by the significant reduction in net interest income in the year.

Directors' Report (continued)

Capital

The Society generates capital to protect against risk and provide long-term security for members and the Gross and Free Capital ratios are monitored accordingly. These ratios are defined in the Annual Business Statement on page 75.

Both gross and free capital metrics have reduced in 2020. Actual gross and free capital has increased over the year with the reduction in the metrics driven by increase savings balances in the year. As the chart below highlights, the changes are minimal with the Society's capital remaining strong.



Customer Satisfaction

We actively seek direct feedback from both our borrowers and savers and undertake regular monitoring of both our overall performance as well as a review of specific comments to continue to improve our service. The customer satisfaction score is a weighted average of our performance based on the percentage of all feedback from both borrowers and savers that rate our overall service as "good" or better. The customer satisfaction score has reduced to 89% for 2020 with the reduction mainly due to the closure of two of the Society's branches during the year.

Employee Satisfaction

Each year we conduct a Society wide survey for all employees to feedback their views on a wide range of areas with the overall employee satisfaction score representing a weighted average of the scores.

However, in 2020 we took part in the Banking Standards Board Culture survey instead. This will provide invaluable external benchmark data and takes a broader view of overall culture. However, the impact of the pandemic delayed the survey. The results will be considered by the Board and senior management before identifying areas of focus for further development.

Financial Risk Management Objectives and Policies

The Society has a formal structure for managing risk including establishing risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Board. Full details of the Society's approach to financial risk management and the key risks faced are given in note 26 to the accounts.

Directors' Report (continued)

Principal Risks and Uncertainties

The Society has a formal risk management structure underpinned by an Enterprise Risk Management Framework (ERMF) and supported by a Risk Appetite Statement. The risk management structure also includes its Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), risk policies, exposure limits, mandates and reporting structures together with an active and regular risk review process to mitigate risks.

Disclosure of the adequacy of the Society's capital, including Total Capital Requirement, is made in a document called Pillar 3 Disclosures. This document is available on our website; www.harpendenbs.co.uk. The principal risks and uncertainties arising from the Society's activities, and the Board approved policies and procedures put in place to manage them, are described below.

COVID-19

The COVID-19 pandemic has resulted in significant uncertainties both in the short and long term, caused by its impact on the economy and, by extension, credit risk and lending activity. The Society was able to rapidly respond to the disruption to operational practices with remote working successfully deployed and has been able to continue to offer branch services to members. The Society has also supported members through the payment deferral scheme and offering further support where required.

The pandemic has also resulted in additional monitoring with regular reviews and internal assessments of credit risk and loan loss provisions through its internal committee structure, notably, Board Risk & Compliance, Audit and Executive Credit Risk Committees. Furthermore, the Board has considered both the short and longer term implications of the pandemic as well as continuing to assess the impact of stressed events, including the pandemic, on its strategic plans.

Brexit Uncertainty

The Society is subject to the uncertainties resulting from the impact of the Brexit deal. The potential impacts from the Brexit deal have been assessed and, in summary, the Society considers that the credit risk impact of deteriorating economic conditions is assessed as relatively low with the key area of focus being the impact on mortgage book growth in the short to medium term.

Credit Risk

The Society is exposed to credit risk in respect of either mortgage customers or treasury counterparties being unable to meet their obligations as they fall due. All loan applications are assessed with reference to the Society's lending policy and lending mandates are strictly controlled. The Lending Policy is reviewed by Credit Committee and approved by the Board Risk & Compliance Committee. The Society does not take a 'tick-box' approach to lending, rather, the Society ensures that the unique position and inherent risks of each application received are fully understood and assessed.

In addition, the Financial Risk Management Policy includes limits on credit exposures to wholesale counterparties and groups of counterparties driven by credit ratings and an internal due diligence process. Whilst credit ratings can provide an indication of the creditworthiness of a counterparty, the Society supplements this information with market knowledge to generate a more complete view of its counterparties.

Liquidity Risk

Liquidity risk is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties. The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can cover all fluctuations in funding, retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations. 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 tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows. The Liquidity & Funding Policy is regularly reviewed and approved by the Board Risk & Compliance Committee.

Interest Rate Risk and Basis 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. This also assesses the basis on which interest is payable and receivable, impacting on profitability and the value of the Society's assets and liabilities.

Directors' Report (continued)

The Society manages this exposure continually by matching the maturity dates of assets and liabilities in line with its Financial Risk Management Policy, which is regularly reviewed and approved by the Board Risk & Compliance Committee. A detailed analysis of the Society's interest rate sensitivity at both 31 December 2020 and 2019 can be found in note 26 on page 71.

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 Board Risk & Compliance Committee is responsible for assessing the effectiveness of the risk management processes and the system of inspection and control.

Cyber Risk

This is the risk that a cyber-attack results in financial loss, loss of data, business disruption or damage to the reputation of the Society due to the failure of its information technology systems.

Cyber risk is a key component of operational resilience and the Society has a Business Resilience Committee, which is as a sub-committee of the Executive Operations, Risk & Compliance Committee, to manage the threat of these risks. The Society has employed specialist resources to monitor, test, maintain and continuously improve the effectiveness of the Society's cyber defences and operational resilience.

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. The Society continues to develop its approach to ensure that products and services provide fair customer outcomes and operate as customers and members would expect.

Environmental and Climate Change Risk

Environmental risks arise in the form of external influences such as economics, law, tax policies and natural events (e.g. fire and flood). The Society and regulators are focusing on the risks from natural events from the view of Climate Change. It is accepted that reducing emissions is of paramount importance in order that mankind can continue to inhabit the planet and control the risks from Climate Change. The risks from Climate Change can be expressed as either a physical or transition risk.

Physical Risk: can arise from climate and weather-related events, such as floods, heatwave, storms and sea level rise. It can manifest itself in two forms:

Credit Risk: if modelling indicates that properties within the mortgage book are subject to, for example, flood risk. This could impair asset value and ultimately the security of the asset from the Society's perspective.

Operational Risk: could be increased as severe weather changes affect the Society's ability to operate requiring in extreme circumstances in the business continuity plan being invoked.

Transition Risk: can arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology could lead to a reassessment of the value of a large range of assets and affect credit exposures as costs and opportunities become apparent. Climate related risks will lead to some increases in credit and operational risks.

The Society has performed an initial assessment of its risks and exposures to the various aspects of environmental and climate risks and is currently undertaking modelling analysis based on independent data provided that focuses on these risks. The initial review has indicated that the Society's exposure is low to physical risk, however, additional analysis and modelling will be conducted during 2021 to fully assess the potential impact.

However, the Society also recognises the opportunities that the move towards a 'zero carbon footprint' brings and the products and services that can be provided to support this agenda.

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.

Directors' Report (continued)

Directors

The following persons were Directors of the Society during 2020:

S. Richardson (Chair)
P. Baynham (resigned 26 October 2020)
N. Boothroyd (Vice Chair and Senior Independent Director)
R. Doe (appointed 23 April 2020)
D. Green (appointed 26 October 2020)
S. Howe
G. McGrady
J. Mortimer Sykes
J. Robinson (resigned 31 March 2020)
M. Willis

Other Matters

Creditor Payment Policy

The Society's policy concerning the payment of its trade creditors for the next financial year is to pay in accordance with agreed terms where invoices are submitted for products or services which have conformed to requirements specified by the Society. Amounts due to the relevant creditors of the Society are paid on average within 21 days of receipt of invoice (2019: 21 days).

Charitable and Political Donations

Charitable donations during the year amounted to £39k (2019: £31k). The Society continues to hold an endowment fund with the Hertfordshire Community Foundation (HCF) with annual grants awarded to local charities. The balance in this fund at 31 December 2020 was £461k (2019: £442k). All funds previously held in the Charitable trust managed by the Charities Aid Foundation (CAF) were moved to the HCF in April 2020. The balance with the CAF was £51k, which was transferred into the endowment fund.

The incentive of charitable contribution of £1 for each member vote at the Annual General Meeting in April 2020 produced £1,401, (2019: £1,704) which was donated to Alzheimer's Research.

The Directors confirm that no activities have been carried on during the year, which are outside the powers of the Society. No political donations have been made during 2020 (2019: £nil) which require disclosure under the Act.

Events Since The Year End

There have been no post Balance Sheet events that would have a material effect on the financial position of the Society.

Land and Buildings

The Directors consider that the overall recoverable amount of the land and buildings held by the Society is in excess of the book value recognised within the Society's balance sheet.

Going Concern

The Directors have prepared forecasts of the Society's capital, financial and liquidity position for the period ending 12 months from the date of approval of these financial statements. The Directors have also prepared forecasts to consider the effect on the Society's business and financial position (reflecting the impact of COVID-19). This includes the impact on capital, liquidity and credit risk of operating under stressed, but plausible, operating conditions. The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the annual accounts.

Auditor

Mazars LLP has expressed its willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution for its reappointment will be proposed at the Annual General Meeting.

Country-by-country reporting

The country-by-country CRDIV reporting requirements can be found in note 30 on page 72. The purpose of this reporting is to provide clarity on the source of the Society's income and the location of its operations.

Acknowledgements

The Directors wish to record their appreciation to all our colleagues, as well as all our members, customers and professional partners for their continued support, particularly through what has been a challenging and difficult year for everyone.

On behalf of the Board of Directors

Sarah Howe

Director and Chief Executive
18 March 2021

Corporate Governance Report

The UK Corporate Governance Code 2018 (the "Code") contains a set of principles (the "Principles") that emphasise the value of good corporate governance to long-term sustainable success. The Code is addressed to companies with a premium listing. However, the PRA expects building societies to "have regard to" the Code in considering their own corporate governance arrangements. The Directors are committed to best practice in corporate governance and have therefore considered the Principles in their own arrangements. This report explains to customers our approach to corporate governance and how we have had regard to the Principles in so far as they are relevant to us.

Board Leadership and Company Purpose

The Board

Code Principle: A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term success of the company, generating value for shareholders and contributing to wider society.

Board comment:
The Board is responsible for its governance and setting a clear strategy and direction. Its role is one of stewardship, running the Society not only for the benefit of current members but also for future generations of members, thereby promoting the long-term success of the Society. In addition the Board has the following general responsibilities:

- providing overall leadership of the Society, including setting and monitoring its culture and values
- managing the business of the Society, ensuring that the business model remains appropriate with a performance dashboard in place to review trends and take a longer term view of the business
- ensuring that necessary resources are in place to meet the Society's objectives and that performance is subsequently monitored and measured
- determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives
- monitoring the key risks in the business model through appropriate management information
- overseeing governance and delegating responsibility to Board Committees, as it sees fit
- maintaining proper accounting records which are established, documented and audited.

The Board meets regularly to review performance against its strategic and operational objectives.

The Board has put in place a corporate plan that sets out the strategy, direction, intentions and ambitions of the Society for the next five years. The plan is reviewed formally by the Board on an annual basis to ensure that it remains relevant to the prevailing external market conditions and the Society's own performance, risks and opportunities as they materialise.

Code Principle: The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The Board establishes and monitors the high level principles and strategic aims of the Society and takes decisions on specific matters such as setting the culture, risk appetite operating parameters, major investment decisions and capital purchases.

The Society has both a Vision and Mission Statement. The Vision Statement is central to the Society's business plan and strategy. It is future focused and describes the organisation in several years' time. It has been created to shape decision making, reflecting the purpose of the organisation. Underpinning the Vision Statement are the values of the Society that guide behaviours. It is important for the Vision Statement to set high standards for employees, to be inspiring and also differentiating. The Mission Statement is by nature more near term in focus and specific. It describes the Society's function, markets and competitive advantage, the goals and philosophies and why the Society exists. In addition, the Board is in the process of redefining its purpose in consultation with all employees. The Purpose Statement will help guide the Society's strategy and ensure clarity of purpose. It will be finalised in Q1 2021 and be communicated to all employees. It will ultimately help guide the development of the Society and the services that it offers to customers and members.

The Board is responsible for the overall leadership, culture and conduct of the Society and seeks to measure culture through a combination of an employee engagement survey, meetings with employees and feedback from board effectiveness reviews. The Society also participated in a culture survey facilitated by the Banking Standards Board at the end of last year. The results of the survey are currently being analysed to develop further a workplace environment for our people to thrive and succeed aligned with the strategy. The Board recognises that employee engagement is key to the success of the Society.

Corporate Governance Report (continued)

The Society's approach to compensation reinforces its strategy and values by rewarding the right behaviours and outcomes for members and the Society, focussing on long-term sustainable growth and discouraging unnecessary risk taking in line with the FCA's Remuneration Code. The Society's remuneration principles are designed to guide decision making when considering the total reward for all employees across the Society. These principles include the need to attract and retain employees of the required calibre by offering a fair and competitive total reward benchmarked within the market. The Society focuses on total reward; keeping rewards simple and fair; and rewarding employees based on Society performance.

Where the Board identifies any practices or behaviour within the Society that are not aligned with the Society's purpose, values and strategy, it seeks assurance from management that corrective action has been taken.

The Non-Executive Directors have the opportunity to meet without Executive Directors present. All Directors have an opportunity to meet without the Chair present at least once a year. All Non-Executive Directors have the opportunity to meet employees, both formally and informally, throughout the year although the pandemic has made this somewhat challenging. The Board is committed to implementing a virtual engagement programme for employees in 2021 to ensure that it is able to take account of their interests.

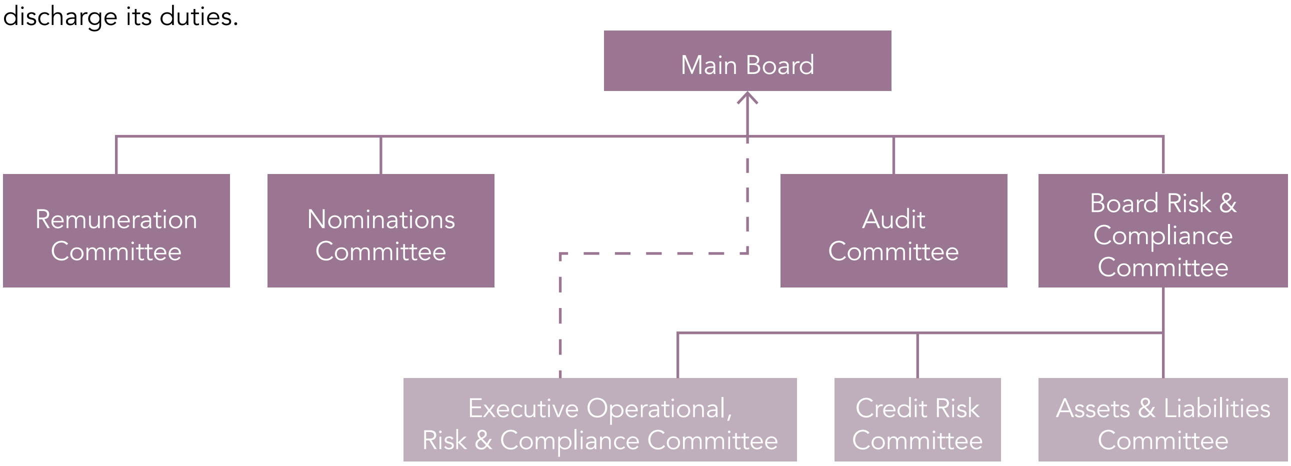
The Board is effective because of its focus on strategy and risk management in an environment where constructive challenge is encouraged. All Board members have the benefit of appropriate liability insurance at the Society's expense and have access to independent legal and other appropriate professional advice, if required.

Board Committees

Code Principle: The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Board comment:
The Board and its Committees are provided with information sufficient to enable them to monitor the execution of the Society's strategy, oversee the performance of the business and ensure the maintenance of a sound system of internal control and risk management. The Board is ultimately responsible for determining strategies for risk management and control of the Society although the Board Risk & Compliance Committee assesses the adequacy of the risk management process on behalf of the Board while the Audit Committee reviews and monitors the integrity of the Society's internal controls system. Both Committees escalate significant matters to the Board with the Chair of each Committee providing an assurance report to the Board at each Board meeting. Further details of the responsibilities of the Board Risk & Compliance Committee and Audit Committee are set out below.

The Board now has four Committees (Risk & Compliance, Audit, Remuneration and Nominations[1]) to help it discharge its duties.



[1]A decision was taken by the Board in December 2020 to split the former Remuneration & Nominations Committee to create two separate committees.

[2]In April 2020 responsibility for oversight of regulatory compliance was transferred from the Audit Committee to the Board Risk & Compliance Committee.

Corporate Governance Report (continued)

The Executive, Operations, Board Risk & Compliance Committee, Credit Risk, and Assets & Liabilities Committees are management committees and report to the Board Risk & Compliance Committee with specific reports provided to the Board as necessary.

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 Board as appropriate.

The terms of reference for each Committee are available on the Society's website.

Board Risk & Compliance Committee

This committee is responsible for reviewing and monitoring the Society's risk management framework, risk appetite and internal control systems and carrying out a review of their effectiveness. The Committee also has oversight of regulatory compliance matters. It ensures that appropriate risk policies are in place and reviews the adequacy of the Society's risk reporting, including the Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

The committee comprises three Non-Executive Directors and meets at least quarterly. The Chief Executive Officer, Finance Director, Chief Risk Officer and Director of Customer Operations are invited to attend all, or part, of the meetings, but they are not members of the committee.

Remuneration Committee

This committee is responsible for making recommendations to the Board on the Remuneration Policy of the Society. The committee recommends to the Board the level and structure of remuneration, including pensions and any compensation payments for the Chairman, all Executive Directors and other Society employees in line with the Remuneration Code.

Directors' remuneration is benchmarked annually against peers both within and outside the building society sector and the local area, taking Society performance into account. No member is involved in setting their own remuneration and the remuneration of all Directors is agreed by the Board.

The Committee currently comprises three Non-Executive Directors and meets as required but at least twice a year. The Chief Executive Officer, the Finance Director and the Head of People are invited to attend, but they are not members of the committee. The Directors' Remuneration Report is included on pages 32 to 33.

Nominations Committee

This committee is responsible for leading the process for Board and Board Committee appointments, re-appointments, removals, succession planning of the Board and Board effectiveness reviews. This ensures that the Board and its Committees has the right balance of skills, knowledge, experience, independence and diversity to enable them to discharge their duties and responsibilities effectively.

The committee currently comprises four Non-Executive Directors and meets as required but at least four times a year. The Chief Executive Officer and the Head of People are normally invited to attend, but they are not members of the committee.

Audit Committee

This committee is responsible for reviewing and monitoring the integrity of the Society's financial statements, internal and external audit functions, and internal controls system.

The committee comprises three Non-Executive Directors and meets at least quarterly. The Chief Executive, the Finance Director and the Chief Risk Officer are invited to attend, but they are not members of the committee. The Society's Internal and External Auditors are also invited to attend.

Corporate Governance Report (continued)

Attendance of Board and Board Committees

All Directors make the necessary time commitment required to prepare for and attend the scheduled Board and Board Committee meetings. The table below shows the number of meetings each Director attended and the total number of meetings the Director was eligible to attend.

Board and Committee Attendance				
Name	Board[1]	Risk & Compliance	Remuneration & Nominations	Audit
S. Richardson	11 of 11*	-	4 of 4	-
P. Baynham	7 of 8	3 of 3	-	3 of 3
N. Boothroyd	11 of 11	4 of 4	3 of 4	-
R. Doe	8 of 9	-	1 of 1	-
D. Green	3 of 3	1 of 1	-	1 of 1*
S. Howe	10 of 11	-	-	-
G. McGrady	11 of 11	-	-	-
J. Mortimer Sykes	11 of 11	-	4 of 4*	3 of 4
J. Robinson	1 of 2	1 of 1	1 of 1	0 of 1
M. Willis	11 of 11	4 of 4*	-	4 of 4

* Indicates Chair of Board / Committee as at reporting date
[1] Includes three Board Strategy and Development days

Relations with members and stakeholders

Code Principle: In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Board comment:
As a mutual organisation, the Society's membership consists of individuals who are also the Society's customers. The Society is committed to open communication with customers and welcomes views at the branches and online. The Society conducts customer and market research to ensure it continues to consider the requirements of members both now and in the future. A number of initiatives are underway to improve the Society's engagement with our membership during 2021.

Each year the Society sends details of the AGM to all members who are eligible to vote. Members are sent voting forms and are encouraged to vote online, by post, by proxy or in person at the AGM (if possible). This year, however, owing to the current UK Government restrictions on public gatherings and to protect the health and safety of our members, we do not expect to be able to allow members to attend in person so members are encouraged to vote online, by post or appoint the Chair as their proxy.

All proxy votes are counted under independent scrutiny. A poll is called in relation to each resolution at the AGM and all valid proxy votes cast (excluding abstentions) are included in the published results of voting.

All members of the Board are present at the AGM each year (unless their absence is unavoidable) and the Chairs of the Audit, Risk & Compliance, Remuneration and Nominations Committees are therefore available to answer questions. (Given the restrictions on attendance at this year's AGM, any questions will need to be submitted in advance of the meeting.)

The Board recognises the role that all employees play in making the Society a success. The Board is open to employee engagement and, when circumstances permit, spend time in the business listening to all employees and taking on board their feedback. This is conducted through departmental meetings and attending business briefings with the teams from the Society. A virtual engagement programme will be put in place in 2021.

The Society works with the Hertfordshire Community Foundation to support local charities and in 2020 it allocated funds to a number of charities experiencing difficulties due to the pandemic. The Society

Corporate Governance Report (continued)

also actively engages with the Building Societies Association and UK Finance in support of the broader building society sector and its customers.

Workplace Policies and Practices

Code Principle: The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Board comment:
Workplace policies, procedures and practices are regularly reviewed to ensure that they remain consistent with the Society's values. They set out detailed expectations and behaviours around how to make the right decisions for the Society's customers and other employees.

Employee safety and wellbeing is important to the Society and a number of resources are available to employees to support their needs. These include access to a confidential employee assistance programme. The Society also provides resources and links for employees to explore and understand their own mental health better.

A whistleblowing policy with associated procedures and contacts are in place to allow employees the opportunity to raise any concerns they may have. The Senior Independent Director is the nominated whistleblowing champion for the Society. The whistleblowing champion has responsibility for overseeing the integrity, independence and effectiveness of the Society's whistleblowing policies and procedures including those policies and procedures intended to protect whistleblowers from being victimised. In addition, all employees undertake annual training on the Society's whistleblowing arrangements and how to raise concerns confidentially both to an external whistleblowing service provider and to the regulator.

Division of Responsibilities

Chair

Code Principle: The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

Board comment:
The Chair and Vice Chair are elected by the Board annually. The Chair sets the direction of the Board and promotes a culture of openness and debate by facilitating effective contribution from all Directors. The Chair ensures that constructive relations are maintained between Executive and Non-Executive Directors and that Directors receive accurate, timely and clear advice and information.

Board Composition

Code Principle: The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Board comment:
The Board is comprised of two Executives and six Non-Executive Directors, providing a balance of skills and experience appropriate for the requirements of the business. All Non-Executive Directors are considered to be independent in character and judgement and free of any relationship or circumstance which are likely to affect, or could appear to affect, their judgement.

The Board culture is collaborative in nature and the Non-Executive Directors bring sound judgement and good challenge to Board discussions. The Chair ensures that no one individual or small group of individuals dominates the Board's decision making.

The offices of Chair and the Chief Executive Officer are distinct and held by different people. The role of each is set out in their letter of appointment or service agreement and job description. The Chair is responsible for leading the Board, setting its agenda and ensuring its effectiveness. The Chief Executive Officer is responsible for managing the Society's business within the parameters set by the Board.

Nigel Boothroyd (who is also the Vice Chair) has recently been appointed as the Senior Independent Director. As Senior Independent Director, he acts as a confidential sounding board for the Society's Non-Executive Directors and senior management. Nigel also leads the annual review of the Chair's performance.

Corporate Governance Report (continued)

Non-Executive Directors

Code Principle: Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Board comment:
The Nominations Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment. The formal appraisal process carried out by the Chair each year also assesses whether Directors have demonstrated this ability during the year. The attendance record of Directors at Board and Committee meetings during 2020 is set out on page 26.

The Non-Executive role at the Society requires an understanding of the risks in the business; commercial leadership within a framework of prudent and effective risk management controls; providing an independent perspective, monitoring performance and resources; and developing, scrutinising, and constructively challenging strategic proposals and holding management to account for the Society's performance against its plans, whilst supporting senior management.

Information and Support

Code Principle: The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Board comment:
The Chair ensures that the Board receives accurate, clear and timely information sufficient to enable it to discharge its responsibilities. The Board can access Board and Committee packs, minutes, policies and other relevant information through the online Board portal.

All new Directors undergo a formal and tailored induction prior to joining the Board. The training and development needs of each Director are reviewed annually as part of the performance review process.

The Secretary provides support on corporate governance matters and the Board has access to independent advice if required.

Composition, Succession and Evaluation

Appointments to the Board

Code Principle: Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Board comment:
The Nominations Committee ensures that the Board and its Board Committees have the right balance of skills, knowledge, experience, independence and diversity to enable them to discharge their duties and responsibilities effectively. The Board firmly believes in the importance of a diverse Board, in its broadest sense and promotes an inclusive culture across the Society. The Board believes the diversity of skills, knowledge, experience, backgrounds, opinions and other distinctions, including gender, age and race strengthens the capability of the Board and, therefore, the effectiveness of its independence, judgement and decision making. Its diversity policy recognises an effective and diverse board has the foundations to be able to support stakeholders' views, challenge management and achieve the Society's overall strategic aims by having a wider range of perspectives represented at Board level. The Board has set itself a target of ensuring that one third of its Directors are women and currently comprises 25% while the Leadership Team comprises 33% women and their direct reports 31%.

Following an evaluation of the role and capabilities required for a particular appointment, new appointees to the Board are made on merit and against objective criteria. Candidates for Non-Executive Director roles are identified in a variety of ways, including inviting applications from members, through professional search, press and online advertisements. During the year an Executive Search and Selection firm, Warren Partners, was engaged to assist the Society in its recruitment of Non-Executive Directors.

The Society is a small firm with succession planning considered from both an internal and external appointment perspective. The Nominations Committee is responsible for succession planning at

Corporate Governance Report (continued)

both the Board and senior management level, and assesses its options to deal with both short term temporary requirements and longer term permanent appointments. This includes an assessment of the key skills and requirements of each role to ensure the Board and senior management continues to meet the needs of the business. Any external recruitment is predicated on encouraging a diversity of potential applicants.

Eligible members of the Society have the right under the Society's Rules to apply for election to the Board. All Directors must meet the regulatory fitness and propriety standards. The Nominations Committee leads the recruitment process, and recommends a candidate to the Board to determine whether to appoint the candidate.

Each Director responsible for a senior manager function must be approved by the PRA, with consent from the FCA, in order to be appointed to their role.

Board and Committee Membership

Code Principle: The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Board comment:
The Board currently comprises eight Directors (two Executive and six Non-Executive), who together provide a balance of skills and experience appropriate for the requirements of the business. Details of each Director is contained on pages 10 to 13 and highlights the range of skills on the Board. Committee membership is limited to the Non-Executive Directors with appropriate expertise allocated to each Committee. Membership is reviewed on an annual basis to ensure that there is a balance of skills on each Committee to discharge their responsibilities in accordance with their terms of reference.

The Rules of the Society require that all Directors are submitted for election at the Annual General Meeting (AGM) following their first appointment to the Board and all Directors are required to seek re-election at least every three years after first being elected. The Board does not consider it appropriate for a building society to subject all Directors to annual re-election (unless they are Non-Executive Directors that have served three terms) in the interests of ensuring that there is ongoing continuity on the Board.

Evaluation

Code Principle: Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Board comment:
The performance and effectiveness of the Board and its Committees is evaluated annually and overseen by the Nominations Committee. The assessment usually takes the form of an online questionnaire with the results being discussed at the Board or relevant Committee and an action plan formulated to address any findings. An independent board evaluation review was undertaken during 2019 conducted by Enterprise Learning, a specialist governance consultancy firm. The review covered all aspects of governance with the involvement of all Board members. The evaluation concluded that the Board and its Committees were broadly effective. An action plan for continued improvement and development was put in place to address the points raised, and good progress has been made during 2020 to close out the actions.

In addition, there is a formal process in place to assess the performance and effectiveness of the Board members. Each Director is evaluated by the Chair, taking into account the views of the other directors and key stakeholders. The Chair's review is separately evaluated by the full Board and facilitated by the Senior Independent Director.

The re-election of Non-Executive Directors is reviewed by the Nominations Committee based on their performance and ongoing contribution to the Society's strategy. All Board elections are approved by the Society's Board before being put to the membership.

Audit, Risk and Internal Control

Audit Committee and Auditors

Code Principle: The board should establish formal and transparent policies and procedures to ensure the independence of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Board comment:
The Audit Committee comprises three Non-Executive Directors and is chaired by David Green. Other Non-Executive Directors and members of senior management, as well as representatives from the Internal and External Auditors may attend meetings

Corporate Governance Report (continued)

by invitation. The Board is satisfied that all members of the committee have recent and relevant financial experience, specifically David Green and Mark Willis.

The Audit Committee meets four times a year and reviews the financial statements, the effectiveness of internal controls and the performance of both the Internal and External Auditors. At least annually, it meets separately with the External and Internal Auditors without the presence of the Executive Directors. Minutes of the Committee meetings are available to all Board members and the Chair of the Committee provides a report to the Board at each subsequent meeting.

As part of its duties, the Audit Committee assures itself that the External Auditor remains independent. The External Auditor does not provide any non-audit services. The Audit Committee also considers the tenure of the existing audit and manages the process for a change in External Auditor for recommendation to the Board. The last tender was undertaken in 2019, which resulted in a change being proposed and carried at the 2020 Annual General Meeting for Mazars LLP to be appointed as the Society's External Auditor.

The Audit Committee considers a wide range of issues in relation to the financial statements. During the year, the Audit Committee considered significant areas where management judgement and estimates were required during the preparation of these financial statements. These areas are considered below.

COVID-19
The additional impact of COVID-19 has been considered by the Committee in the context of its review of Going Concern. The Committee reviewed the extent to which COVID has impacted business activity, operational resilience and credit risk (loan loss provisioning). It also considered the impact of the pandemic on liquidity and capital by assessing the Society's financial strength. The Committee also considered the impact of COVID on the Society's stress testing. This was to ensure there were no potential stressed impacts that could undermine the going concern assertion.

Loan loss provisioning
The Society estimates the level of mortgage loss provision required based on historic default and loss experience. During 2020 there has naturally been an increased level of monitoring and reassessment of credit risk and its impact on loan loss provisions as the pandemic has intensified. The underlying assumptions have been challenged and considered in the light of macro conditions as well as translating this to the specific impacts the Society has experienced. The Audit Committee examined and challenged the assumptions included within the Society's provisioning model and is satisfied with the approach and level of provisions made for the year.

Property valuation
The Society has determined that it does not have the required in-house expertise to value its commercial property assets. Consequently, the Committee agreed to engage the services of a specialist valuer to carry out this activity on behalf of the Society. The values were considered by the Committee with reference to the previous valuations from 2018, improvements completed on the properties, their locale and current economic conditions.

Effective Interest Rate
Interest income and expense are recognised in the profit and loss statement using the effective interest method. This requires the Society to estimate the average lives of mortgage products and future cash flows. The Audit Committee has examined the approach taken and is satisfied with the estimates modelled.

Financial and Business Reporting

Code Principle: The Board should present a fair, balanced and understandable assessment of the company's position and prospects.

Board comment:
The responsibilities of the Directors in relation to the preparation of the Society's accounts and a statement that the Society's business is a going concern are included within the Directors' Report on page 22.

Risk Management and Internal Control

Code Principle: The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long term strategic objectives.

Board comment:
The Board is responsible for determining strategies for risk management and control of the Society. The Leadership Team is responsible for designing, operating and monitoring risk management systems and controls. The principal risks faced by the Society are set out in the Directors' Report. The Board, its Committees and the management committees are responsible for the risks and controls within their remit.

Corporate Governance Report (continued)

The Board Risk & Compliance Committee assesses the adequacy of this process on behalf of the Board. The Internal Auditor provides independent assurance to the Board on the effectiveness of the system of internal control through the Audit Committee. The Board has reviewed the effectiveness of the Enterprise Risk Management Framework (ERMF) and concluded that the Society has a strong risk management and compliance culture and that the current framework is effective and appropriate for the size and complexity of the business.

Three Lines of Defence Model

The Society operates a three lines of defence model to manage risk and controls across the business.

1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Department	**Internal Risk and Compliance/ External Compliance Support**	**Internal Audit**
Day to Day Risk management		
Departmental managers perform daily checks and monitoring on activities and functions for which they have direct responsibility.	The Risk & Compliance function develop, embed and maintain a robust risk framework. They provide the first line of defence with support, oversight and challenge of the Society's risks and monitor and report the related management information.	The Internal Audit function performs an independent objective and critical assessment of the design and effectiveness of the overall system of internal control, providing independent assurance for the Audit Committee as to the effectiveness of both first and second lines of defence.

1) **First Line of Defence**

   The first line is operated by the Society's management team which, through the implementation of the Risk Management Framework, identifies, assesses, mitigates and monitors those risks to which the Society is exposed. The Society's Senior Management Team has day-to-day responsibility for the management and control of risk.

2) **Second Line of Defence**

   The second line of defence is achieved through the Society's risk and compliance activities. These activities are undertaken by the Risk and Compliance Team. The second line provides the policies, frameworks and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are undertaking it, and helps ensure consistency of the measurement of risk.

3) **Third Line of Defence**

   The third line of defence is provided by Internal Audit. The Society's Internal Audit function is outsourced under specific terms of reference and provides independent objective assurance that these control processes and systems are appropriate and applied effectively.

Sitting outside the risk management processes of the first two lines of defence, its main roles are to ensure that the first two lines are operating effectively and to advise on how they could be improved.

Internal Audit is directed by, and reports to, the Audit Committee. It provides an evaluation, through a risk-based approach, on the effectiveness of governance, risk management, and internal control across the Society. It can also give assurance to the Society's regulators and external auditors that appropriate controls and processes are in place and are operating effectively.

Remuneration

The Directors' Remuneration Report on pages 32 to 33 explains how the Society complies with the Code's Principles relating to remuneration.

On behalf of the Board of Directors

Stephen Richardson

Chairman

18 March 2021

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 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 note 7 on page 52.

The Level and Components of Remuneration

Code Principle: Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. 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 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 Committee has delegated responsibility to determine the Remuneration Policy for the Executive Directors and the Senior Management Team.

The Remuneration Policy outlines the overall approach and principles the Society adopts towards managing remuneration for all employees and non-executive directors. We have a simple approach to compensation which reinforces our strategy and values by rewarding the right behaviours and outcomes for members and the Society, focussing on long-term sustainable growth and discouraging unnecessary risk taking in line with the Remuneration Code.

Executive Director Emoluments

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

a) Fixed Remuneration – Base Pay. This takes into account role and experience, comparison to the local external market and benchmark data.

b) Variable Remuneration – Annual Bonus. The discretionary performance-related bonus scheme is linked to both individual performance and the achievement of Society corporate targets. Targets include member satisfaction, profitability, mortgage book growth and employee 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. The 2020 discretionary performance-related bonus scheme did not pay out as the profit hurdle was not reached.

c) Retirement Benefits – 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) Employee Benefits. The Executive Directors are entitled to a car allowance, private medical insurance ('self' and partner), Group Income Protection and Life Assurance.

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.

Directors' Remuneration Report

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 Life Assurance 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 Committee.

The Procedure for Determining Remuneration

Code Principle: A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Board comment:
The Remuneration Committee reviews the Society's Remuneration Policy, including Director Remuneration Frameworks annually. The Committee consists of three Non-Executive Directors, one of whom chairs the Committee. Members of the Committee are unable to determine their own remuneration. This is stipulated in the Committee Terms of Reference.

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 Board has delegated authority to the Remuneration Committee, to review annually and effect appropriate remuneration packages for the Board of Directors, Chief Executive, Finance Director and other members of the Senior Management Team, ensuring that these are fair and appropriate to the duties and responsibilities of each and reflect their contribution to the Society's overall performance.

Judith Mortimer Sykes

Chair of Remuneration Committee
18 March 2021

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the annual accounts in accordance with applicable law and regulations.

The Building Societies Act 1986 ("the Act") requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The annual accounts are required by law to give a true and fair view of the state of affairs of the society as at the end of the financial year and of the income and expenditure of the society for the financial year.

In preparing these annual accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

In addition to the annual accounts the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the society.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Harpenden Building Society

Opinion

We have audited the annual accounts of Harpenden Building Society (the 'Society') for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Members' Interests, Statement of Cash Flow, and related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the annual accounts:

- give a true and fair view of the state of the Society's affairs as at 31 December 2020 and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual accounts section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, including the FRC's Ethical Standard, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

Our audit procedures to evaluate the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Performing a stand back assessment of going concern implications for the Society having consideration to the wider economic and sector situation.
- Reviewing the directors' going concern assessment including COVID-19 implications based on a range of scenarios and including stressed scenarios as approved by the board of directors;
- Making enquiries of directors to understand the period of assessment considered by the directors, and the potential impact of COVID-19 on the Society's financial performance, business operations, and liquidity and regulatory position;
- Reviewing and challenging the ICAAP and ILAAP reports and the process by which forecasts and sensitivities are modelled;
- Evaluating the key assumptions used in the scenarios indicated above and considered whether these appear reasonable;
- Assessing the potential impact of COVID-19 on the Society's capital utilisation and considering whether the directors' conclusion that adequate capital headroom remains is reasonable; and
- Evaluating the appropriateness of the directors' disclosure in respect of COVID-19 implications.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
Credit risk: Impairment on loans and advances to customers £244,000 (2019: £228,000) (Refer to pages 47 to 48, accounting policy and page 56 annual accounts disclosures). Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at the collective provisions. FRS 102 requires a collective provision for losses incurred but not yet identified by the Society. The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In particular, the impairment assessment is most sensitive to movements in the house price index (HPI) and forced sale discounts against collateral. The impairment model is also sensitive to other factors applied to take into account the impact COVID-19 may have on impairment losses, in particular the overlay on the Probability of Default (PD's).	We performed the following procedures: • Tested the design and operating effectiveness, of the key controls operating at the Society in relation to credit processes (monitoring of loans, collections and provisioning). • Challenged the reasonableness of external data used and considered whether this is consistent with our understanding of the Society's portfolio. • Compared the Society's key assumptions to similar lenders and consider whether they are consistent with industry practice including latest assessment of impact of COVID-19 on borrowers' ability to repay. • Performed sensitivity analysis over the key assumptions on forced sale discounts and HPI. • Challenged and evaluated the reasonableness of the overlay applied on the PD's. • Assessed the impact of the payment holidays due to COVID 19 on provisioning. **Our observations** Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be acceptable.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

Key Audit Matter	How our scope addressed this matter
Investment Property Reclassification-Prior year Adjustment (Refer to page 49, accounting policy and page 73 annual accounts disclosures). The Society owns various properties and earns rental income on a portion of the properties. Therefore, the leased property qualifies as an Investment property for accounting purposes. Historically, both the owner occupied and investment portion have been accounted for as Freehold property. We have assessed the position with management and considered it appropriate to bifurcate and account for the investment property separately. There is risk of material misstatement in relation to the incorrect allocation of the fair value of the properties between the two components. Given the size and nature of the adjustment, there is a risk that the presentation and disclosure of adjustment is misstated in the current and prior year financial statements.	We performed the following procedures: • Obtained an understanding of the process to identify the portion and therefore the associated value to be reclassified from Freehold property to Investment property as a prior year adjustment. • Challenged and evaluated the accounting classification split between Freehold property and Investment property considering the multiple use of the properties. • Tested the completeness and accuracy of accounting for the prior year adjustment and the restatement of the comparative figures. • Considered and challenged the adequacy and appropriateness of the disclosure in the financial statements. **Our observations** Based on the audit procedures performed, we found the Investment Property reclassification and associated presentation and disclosure of the prior year adjustment to be acceptable.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual annual account line items and disclosures and in evaluating the effect of misstatements, both individually and on the annual accounts as a whole. Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	£282,000
How we determined it	1% of net assets
Rationale for benchmark applied	We consider that net assets is the most appropriate benchmark to use for the Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Regulatory capital is a key benchmark for management and regulators although it not a statutory measure in the annual accounts. Therefore, we base our materiality calculation on net assets, which is a reasonable approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole. Performance materiality of £183,000 was applied in the audit based on 65% overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £8,500 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

As part of designing our audit, we assessed the risk of material misstatement in the annual accounts, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the annual accounts as a whole. We used the outputs of a risk assessment, our understanding of the Society, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the annual accounts and our auditor's report thereon. Our opinion on the annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

In our opinion, based on the work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the Building Societies Act 1986 and regulations made under it;
- the information in the Directors' Report for the financial year is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information on which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the society; or
- the Society's annual accounts are not in agreement with the accounting records; or
- we have not obtained all the information and explanations which we consider necessary for the purpose of our audit.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 34, the directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the annual accounts.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the Society, the industry in which it operates and considered the risk of acts by the Society which were contrary to the applicable laws and regulations;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the Society's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the PRA and the FCA. We also considered those other laws and regulations that have a direct impact on the preparation of annual accounts, such as the Building Societies Act 1986 and UK tax legislation.

Independent Auditor's Report to the Members of Harpenden Building Society (continued)

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of annual accounts, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions, and significant one-off or unusual transactions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any key audit matters relating to irregularities.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 23 April 2020 to audit the annual accounts for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is one year, covering the year ended 31 December 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society and we remain independent of the society in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

This report is made solely to the Society's members as a body in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report 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 for our audit work, for this report, or for the opinions we have formed.

Greg Simpson (Senior Statutory Auditor)
for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor
Mazars LLP
Tower Bridge House
St. Katharine's Way
London
E1W 1DD

18 March 2021

Statement of Comprehensive Income

for the year ended 31 December 2020

	Notes	2020 £000	Restated 2019 £000
Interest receivable and similar income	2	**8,315**	9,404
Interest payable and similar charges	3	**(2,113)**	(2,519)
Net interest income		**6,202**	6,885
Fee and commissions receivable		**167**	240
Fees and commissions payable		**(143)**	(204)
Other operating income	4	**195**	146
Fair value gains on investment property	16	**-**	162
Total net income		**6,421**	7,229
Administrative expenses	5	**(6,040)**	(6,253)
Depreciation and amortisation	16, 17	**(152)**	(141)
Operating profit before impairments and provisions		**229**	835
Impairment of loans and advances	13	**(16)**	56
Provisions for liabilities	24	**(2)**	-
Profit before taxation		**211**	891
Taxation expense	8	**(44)**	(108)
Profit for the financial year		**167**	783
Other comprehensive income			
Revaluation of property, plant and equipment	16	**-**	248
Movement in related deferred tax	23	**(24)**	(42)
Total comprehensive income for the year		**143**	989

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive income for the period are attributable to the members of the Society.

The notes to these Accounts can be found on pages 45 to 73.

Statement of Financial Position

at 31 December 2020

	Notes	2020 £000	Restated 2019 £000
Assets			
Liquid assets			
Cash in hand and balances at the Bank of England	9	**61,342**	46,823
Loans and advances to credit institutions	10	**9,426**	12,321
Debt securities	11	**-**	2,013
Loans and advances to customers			
Loans fully secured on residential property	12	**221,871**	225,913
Other loans	12	**4,061**	4,424
Investments			
Participating interests	14	**163**	163
Intangible assets	15	**7**	26
Tangible fixed assets	16	**2,878**	2,865
Investment property	17	**1,730**	1,730
Other debtors	18	**551**	492
Total assets		**302,029**	296,770
Liabilities			
Shares	19	**268,084**	263,118
Amounts owed to credit institutions	20	**986**	11
Amounts owed to other customers	21	**3,585**	4,088
Other liabilities	22	**364**	720
Deferred tax	23	**280**	248
Provisions for liabilities - FSCS Levy and Endowment	24	**13**	11
Total liabilities		**273,312**	268,196
General reserve	25	**27,500**	27,333
Revaluation reserve	25	**1,217**	1,241
Total reserves attributable to members of the Society		**28,717**	28,574
Total reserves and liabilities		**302,029**	296,770

The accounting policies and notes to these Accounts can be found on pages 45 to 73.

These accounts were approved by the Board of Directors on 18 March 2021 and signed on its behalf:

Stephen Richardson
Chair

Sarah Howe
Chief Executive

George McGrady
Finance Director

Statement of Changes in Members' Interests

	General reserve 2020 £000	Revaluation reserve 2020 £000	Total 2020 £000
Balance at 1 January 2020	**27,333**	**1,241**	**28,574**
Total comprehensive income for the year			
Profit for the financial year	**167**	**-**	**167**
Revaluation of tangible fixed assets (net of tax)	**-**	**(24)**	**(24)**
Total comprehensive income for the year	**167**	**(24)**	**143**
Balance at 31 December 2020	**27,500**	**1,217**	**28,717**

	General reserve 2019 £000	Revaluation reserve 2019 £000	Total 2019 £000
Balance at 1 January 2019	25,865	1,720	27,585
Prior period adjustment	685	(685)	-
Restated balance at 1 January 2019	26,550	1,035	27,585
Profit for the financial year	783	-	783
Revaluation of tangible fixed assets (net of tax)	-	206	206
Total comprehensive income for the year	783	206	989
Balance at 31 December 2019	27,333	1,241	28,574

Statement of Cash Flow

	Notes	2020 £000	Restated 2019 £000
Cash flows from operating activities			
Profit before tax		**211**	891
Adjustments for			
Impairment on loans and advances		**16**	(56)
Depreciation and amortisation	16, 17	**152**	141
Revaluation (gains)/losses through profit and loss		**-**	(162)
Total		**379**	814
Changes in operating assets and liabilities			
(Increase)/decrease in prepayments, accrued income and other assets		**(57)**	56
(Decrease)/increase in accruals, deferred income and other liabilities		**(348)**	109
Decrease/(increase) in loans and advances to customers		**4,405**	(17,784)
Increase/(decrease) in member shares		**4,966**	(10,115)
Increase/(decrease) in amounts owed to other credit institutions and other customers		**472**	(693)
Decrease in loans and advances to credit institutions		**3,000**	6,000
Taxation paid		**(59)**	(282)
Net cash generated/(used in) operating activities		**12,379**	(22,709)
Cash flows from investing activities			
Purchase of financial securities		**-**	(2,000)
Proceeds from sale of financial securities		**2,000**	17,000
Purchase of tangible fixed assets		**(146)**	(64)
Purchase of intangible fixed assets		**-**	(12)
Net cash generated by investing activities		**1,854**	14,924
Net increase/(decrease) in cash and cash equivalents		**14,612**	(6,971)
Cash and cash equivalents at 1 January		**53,127**	60,098
Cash and cash equivalents at 31 December		**67,739**	53,127

Reconciliation of cash balances:	2019 £000	Movement £000	2020 £000
Loans and advances to credit institutions repayable on demand	6,304	93	**6,397**
Cash and balances at the Bank of England	46,823	14,519	**61,342**
Total cash	53,127	14,612	**67,739**

The notes to these Accounts can be found on pages 45 to 73.

Notes to the Accounts

(forming part of the annual accounts)

1. Accounting policies

Harpenden Building Society (the "Society") has prepared these annual accounts under the historical cost convention as modified by the revaluation of freehold and investment property. The accounts are prepared on a going concern basis. This reflects the Directors' consideration and assessment of the Society's state of affairs, as summarised on page 22. The annual accounts are prepared in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 1.14.

1.1 Liquid Assets

Loans and advances to credit institutions are stated at cost to the Society adjusted for interest accrued at the date of purchase. Treasury bills and debt securities are intended for use on a continuing basis and are classified as financial fixed assets and are stated at cost, adjusted for accrued interest at the date of purchase, where applicable. Any premium or discount on purchase is amortised on an effective interest rate basis over the period to maturity. Where there is a permanent diminution in value of a financial fixed asset a provision is made to write down the cost of the security to its recoverable amount.

1.2 Interest

Interest income and expense are recognised in profit and loss using the effective interest method. The 'effective interest rate' is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs, fee income and commission expense that are paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the issue of a financial asset.

Interest income and expense presented in the income statement and other comprehensive income include interest on financial assets measured at amortised cost calculated on an effective interest basis.

Fees and commissions associated with a mortgage that are directly incremental are recognised using the effective interest rate. All other fees are recognised as incurred.

1.3 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred.

Notes to the Accounts (continued)

1.4 Taxation

Tax on the profit and loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

1.5 Financial instruments

Financial assets

The Society initially recognises loans and advances, deposits and debt securities on the date on which they originated. All other financial instruments are recognised on the trade date, being the date on which the Society becomes a party to the contractual provision of the instrument.

Loan commitments

The Society's loans and advances to customers are classified as loan commitments. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Society measures its loans and advances at amortised cost less impairment provisions. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The initial value may, if applicable, include certain fees such as arrangement and booking fees, which are recognised over the average life of mortgage assets, as noted above.

Throughout the year and at each year end, the mortgage life assumptions for each scheme are reviewed for appropriateness. Any changes to the expected life assumptions of the mortgage assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets.

Debt instruments

Debt instruments are non-derivative assets with fixed or determinable payments and fixed maturity that the Society has the positive intent and ability to hold to maturity, and which are not designated at fair value through the income statement.

Debt investments are carried at amortised cost using the effective interest rate method (see above), less any impairment losses.

The Society derecognises a financial asset when its contractual rights to a cash flow are discharged or cancelled, or expire or substantially all the risk and rewards of ownership have been transferred.

Notes to the Accounts (continued)

Financial liabilities

The Society classifies its financial liabilities as measured at amortised cost.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Identification and measurement of impairment

At each reporting date, the Society assesses whether there is objective evidence that financial assets measured at amortised cost are impaired. Impairment losses are recognised in profit and loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit and loss.

A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Society on terms that the Society would not otherwise consider;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Society considers evidence of impairment for assets carried at amortised cost at both an individual asset and a collective level. All individually significant assets are assessed for individual impairment. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment, the Society uses statistical modelling of external information to assess the probability of default, and the amount of loss likely to be incurred and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater than the model suggests. Default and loss rates are reviewed against actual experience and internal sensitivity assessments to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, the Board may elect to apply an overlay to the impairment provision.

The amount of impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of provisions.

Notes to the Accounts (continued)

Forbearance strategies and renegotiated loans

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- Temporary switch from a repayment loan to an interest only loan, and
- Reduced monthly payments.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements, payslips, etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Loans that have been restructured and would otherwise have been past due or impaired are classified as renegotiated.

1.6 Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash comprises cash in hand and unrestricted loans and advances to credit institutions and the Bank of England repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

The Statement of Cash Flows has been prepared using the indirect method.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Freehold property assets are stated at fair value less subsequent accumulated depreciation.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Depreciation is charged to the profit and loss account on either a straight-line or reducing balance basis over the assets estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold premises - over fifty years on a straight line basis
- Leasehold premises - over the life of the lease on a straight line basis
- Computer equipment - over three years on a straight line basis; and
- Office equipment - 15% a year on a reducing balance basis

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

Revaluation gains/losses

Freehold property assets are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains or losses on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Notes to the Accounts (continued)

1.8 Investment property

Investment property relates to the element of the Society's freehold under a commercial lease arrangement with a third party. These are subject to an annual revaluation with any gain or loss changed against operating profit.

Rental income from investment properties is accounted for on an accruals basis.

1.9 Investment in Mutual Vision

The investment in Mutual Vision is accounted for on the basis of cost less impairment. The fair value of the company is not readily available on an ongoing basis and therefore, the Directors consider that accounting for its investment on a cost basis is reasonable.

1.10 Intangible assets

Intangible assets that are acquired by the Society are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the profit and loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software - 3 years

The Society reviews the amortisation period and method of amortisation when events and circumstances indicate that the useful life may have changed since the last reporting date.

1.11 Employee benefits

Defined contribution plans and other long term employee benefits

The Society offers its employees a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. These payments into the plan are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

1.12 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.13 Government Grants

The Society has received a government grant from the furlough scheme. The grant has been accounted for as other income received in the year.

Notes to the Accounts (continued)

1.14 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 are set out below in relation to the impairment of financial instruments.

Impairment losses on loans and advances

The Society holds provisions for impairment losses against loans on an individual and collective basis. The level of impairment requires a significant degree of judgement and estimation. Provisions are calculated using the historic loss experience of the Society as well as external indicators, however a number of assumptions are required such as realisable values and customer behaviour.

Of particular note, the Directors have assessed the impact of COVID-19 on the probability of loans defaulting and subsequent impairment losses. They have also considered the impact that the pandemic has had on macro conditions, more specifically, house prices.

The most critical estimation is of the level of house prices where a reduction of 10% impacts the provision by £280k. Other sensitivities include a forced sale discount increase of 10% which equates to £95k, and the emergence period (ie. the average time from the point at which a 'loss event' occurs to the point at which it is confirmed), where an increase of six months equates to £16k.

The carrying value of loans and advances to customers at 31 December 2020 is £226.4m.

Effective interest rate

The calculation of an effective interest rate requires the Society to make assumptions about the expected average lives of mortgages. The expected average life has been determined based on a review of the behavioural life of the various portfolios with the Society's loan book. Interest income is amortised over the expected average life, so if the average life of the mortgage book increased by 6 months then the carrying value of mortgages would change by £36k with a corresponding change to income.

2. Interest receivable and similar income

	2020	2019
	£000	£000
On loans fully secured on residential property	**7,889**	8,539
On other loans	**235**	252
On debt securities	**8**	100
On other liquid assets	**183**	513
	8,315	9,404

3. Interest payable and similar charges

	2020	2019
	£000	£000
On shares held by individuals	**2,112**	2,519
On deposits and other borrowings	**1**	-
	2,113	2,519

Notes to the Accounts (continued)

4. Other operating income

	2020 £000	2019 £000
Rents receivable	**133**	143
Other operating income / (expense)	**62**	3
	195	146

5. Administrative expenses

	2020 £000	2019 £000
Wages and salaries	**2,907**	2,888
Social security costs	**317**	280
Contributions to defined contribution plans	**396**	346
	3,620	3,514
Other administrative expenses	**2,420**	2,739
	6,040	6,253

The remuneration of the External Auditor, which is included with other adminstrative expenses above, is set out below (excluding VAT):

Other administrative expenses Auditor's remuneration	2020 £000	2019 £000
Audit of these annual accounts	**85**	89
Other services related to taxation	**-**	-
All other services	**-**	-
	85	89

6. Employee numbers

The average number of persons employed by the Society during the year was as follows:

	2020 Full-time	2020 Part-time	2019 Full-time	2019 Part-time
Head Office	**48**	**6**	41	5
Branch Offices	**5**	**18**	8	19
	53	**24**	49	24

The aggregate costs of these persons are shown in note 5.

Notes to the Accounts (continued)

7. Directors' remuneration

Total Directors' emoluments for the year amounted to £614,518 (2019: £707,804).

2020	Salaries £000	Bonus £000	Benefits £000	Pension Contributions £000	Total £000
S. Howe (Chief Executive)	**199**	**-**	**12**	**20**	**231**
G. McGrady (Finance Director)	**141**	**-**	**12**	**14**	**167**
	340	**-**	**24**	**34**	**398**

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

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 during 2019.

Non-Executive Director Emoluments (comprising fees only):

	2020 £000	2019 £000
S.J. Richardson	**45**	45
J. Mortimer Sykes	**32**	32
P.F. Baynham	**27**	32
J. Robinson	**7**	26
P.V. Smith	**-**	19
N. Boothroyd	**26**	26
M. Willis	**32**	30
Richard Doe	**22**	-
David Green*	**23**	-
	214	210

*includes fees for service received prior to becoming a Director.

As at 31 December 2020, there were no outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons (2019: Nil) representing loans to nil (2019: Nil) persons.

A register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to, and including the date of the Annual General Meeting.

Notes to the Accounts (continued)

8. Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity.

	2020 £000	Restated 2019 £000
Current tax		
Current tax on income for the period	**39**	139
Adjustments in respect of prior periods	**(3)**	-
Total current tax	**36**	139
Deferred tax (see note 23)		
Origination and reversal of timing differences	**3**	(31)
Effect of tax rate change on opening balance	**5**	-
Total deferred tax	**8**	(31)
Total tax	**44**	108

Reconciliation of effective tax rate	2020 £000	2019 £000
Profit for the year	**167**	783
Total tax expense	**44**	108
Profit excluding taxation	**211**	891
Tax using the UK corporation tax rate of 19.00%	**40**	169
Fixed asset differences	**1**	1
Adjustments to previous period and opening deferred tax to average rate of 19%	**(3)**	4
Non-deductible expenses	**1**	1
Remeasurement of deferred tax changes in tax rates	**5**	-
Indexation allowance in deferred tax	**-**	(67)
Total tax expense included in profit or loss	**44**	108

The deferred tax asset at 31 December 2020 has been calculated based on a 19% rate. The March 2021 Budget announced a proposed increase to 25% in April 2023.

Notes to the Accounts (continued)

9. Cash and cash equivalents

	2020 £000	2019 £000
Cash in hand and balances at the Bank of England	**61,342**	46,823
As at 31 December	**61,342**	46,823

10. Loans and advances to credit institutions

	2020 £000	2019 £000
Accrued interest	**29**	17
Repayable on demand	**6,397**	6,304
Other loans and advances by residual maturity repayable:		
In not more than three months	**3,000**	4,000
In more than three months but not more than one year	**-**	2,000
Total loans and advances to credit institutions	**9,426**	12,321

11. Debt securities

	2020 £000	2019 £000
Issued by public bodies	**-**	-
Issued by other borrowers	**-**	2,013
	-	2,013

Debt securities have remaining maturities as follows:

	2020 £000	2019 £000
Accrued interest	**-**	13
In not more than three months	**-**	-
In not more than one year	**-**	2,000
In more than one year	**-**	-
Total loans and advances to credit institutions	**-**	2,013

All the above are unlisted transferable debt securities.

The Directors of the Society consider that the primary purpose of holding such securities is prudential. The securities are held as liquid assets with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets rather than current assets.

Notes to the Accounts (continued)

11. Debt securities (continued)

Movement during the year of debt securities held as financial fixed assets are analysed as follows (excluding accrued interest):

	2020 £000	2019 £000
As at 1 January	**2,000**	17,000
Additions	**-**	2,000
Maturities	**(2,000)**	(17,000)
As at 31 December	**-**	2,000

12. Loans and advances to customers

	2020 £000	2019 £000
Loans fully secured on residential property	**222,329**	226,512
Unamortised fee - FSRP	**(221)**	(384)
Impairment allowance - FSRP	**(237)**	(215)
Loans fully secured on residential property	**221,871**	225,913
Loans fully secured on land	**4,068**	4,437
Unamortised fee - FSOL	**-**	-
Impairment allowance - FSOL	**(7)**	(13)
Loans fully secured on land	**4,061**	4,424
	225,932	230,337

The remaining maturity of loans and advances to customers from the reporting date is as follows:

On call and at short notice	**4,132**	4,113
In not more than three months	**4,625**	3,542
In more than three months but not more than one year	**16,864**	11,824
In more than one year but not more than five years	**54,104**	59,941
In more than five years	**146,672**	151,529
	226,397	230,949
Less: allowance for impairment (note 13)	**(244)**	(228)
Less: Unamortised fee	**(221)**	(384)
	225,932	230,337

The maturity analysis above is based on contractual maturity not expected redemption levels.

Notes to the Accounts (continued)

13. Allowance for impairment

	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	£000	£000
At 1 January 2020			
Individual impairment	-	-	**-**
Collective impairment	215	13	**228**
	215	13	**228**
Income statement			
Charge/(release) for the year			
Individual impairment	-	-	**-**
Collective impairment	22	(6)	**16**
	22	(6)	**16**
At 31 December 2020			
Individual impairment	**-**	**-**	**-**
Collective impairment	**237**	**7**	**244**
	237	**7**	**244**

	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	£000	£000
At 1 January 2019			
Individual impairment	-	-	**-**
Collective impairment	266	18	**284**
	266	18	**284**
Income statement			
Release for the year			
Individual impairment	-	-	**-**
Collective impairment	(51)	(5)	**(56)**
	(51)	(5)	**(56)**
At 31 December 2019			
Individual impairment	**-**	**-**	**-**
Collective impairment	**215**	**13**	**228**
	215	**13**	**228**

Notes to the Accounts (continued)

14. Investments

The Society holds the following interest in Mutual Vision Technologies Limited a company registered in England and operating in the United Kingdom, originally formed by a consortium of Building Societies to acquire the trade of their existing computer software supplier. This company has a 31 December year end. On 31 December, the Society's investment, which is a participating interest, was represented by:

	2020	2019
	£000	£000
Shares in participating interest	**163**	8
Loans to participating interest	**-**	155
At end of year	**163**	163

On 1 January 2020, the existing Ordinary Shares of Mutual Vision Technologies Limited were cancelled and replaced with new fully paid Ordinary 'A' Shares, based on the proportion of the total loan attributable to each shareholder. As a result of this conversion, the Society's interest increased to 15.16% (2019: 14.92%) of the fully paid Ordinary Shares of the Company.

15. Intangible assets

	Software	**Total**
	£000	**£000**
Cost		
Balance at 1 January 2020	312	312
Additions	-	-
Balance at 31 December 2020	**312**	**312**
Amortisation and impairment		
Balance at 1 January 2020	286	286
Amortisation charge for the year	19	19
Balance at 31 December 2020	**305**	**305**
Net book value		
At 1 January 2020	26	26
At 31 December 2020	**7**	**7**

Notes to the Accounts (continued)

	Software £000	Total £000
Cost		
Balance at 1 January 2019	300	300
Additions	12	12
Balance at 31 December 2019	**312**	**312**
Amortisation and impairment		
Balance at 1 January 2019	264	264
Amortisation charge for the year	22	22
Balance at 31 December 2019	**286**	**286**
Net book value		
At 1 January 2019	36	36
At 31 December 2019	**26**	**26**

16. Tangible fixed assets

	Freehold land and buildings £000	Short leasehold buildings £000	Office & computer equipment £000	Total £000
Cost or valuation				
Balance at 1 January 2020	2,635	120	948	**3,703**
Additions	-	-	146	**146**
Disposals	-	-	-	**-**
Revaluation	-	-	-	**-**
Balance at 31 December 2020	**2,635**	**120**	**1,094**	**3,849**
Depreciation and impairment				
Balance at 1 January 2020	57	79	702	**838**
Depreciation charge for the year	57	4	72	**133**
Balance at 31 December 2020	**114**	**83**	**774**	**971**
Net book value				
At 1 January 2020	2,578	41	246	2,865
At 31 December 2020	**2,521**	**37**	**320**	**2,878**

Annual valuations as at 31 December 2019 and 2020 were performed by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of investment property being valued. The impact of the revaluation has been included for tangible fixed assets and investment property.

Notes to the Accounts (continued)

	Freehold land and buildings	Short leasehold buildings	Office & computer equipment	Total
	£000	£000	£000	£000
Cost or valuation				
Balance at 1 January 2019	2,387	120	884	**3,391**
Additions	-	-	64	**64**
Disposals	-	-	-	**-**
Revaluation	248	-	-	**248**
Balance at 31 December 2019	**2,635**	**120**	**948**	**3,703**
Depreciation and impairment				
Balance at 1 January 2019	-	75	644	**719**
Restated depreciation charge for the year	57	4	58	**119**
Balance at 31 December 2019	**57**	**79**	**702**	**838**
Net book value				
At 1 January 2019	2,387	45	240	2,672
At 31 December 2019	**2,578**	**41**	**246**	**2,865**

17. Investment property

	2020	2019
	£000	£000
Mardall House, First Floor	**980**	980
Aberdeen House	**750**	750
	1,730	1,730

Investment property consists of the proportion of the Society's freehold property that has been sub-let as office or residential units.

The fair value of the property has been determined on the basis of either floor area and/or rental income from each unit.

Notes to the Accounts (continued)

18. Other debtors

	2020 £000	2019 £000
Trade debtors	**2**	2
Prepayments and accrued income	**549**	490
	551	**492**

There are no prepayments and accrued income that are due after more than one year (2019: £nil).

19. Shares

	2020 £000	2019 £000
Held by individuals	**268,084**	263,118

Shares are repayable with remaining maturities from the balance sheet date as follows:

	2020 £000	2019 £000
Accrued interest	**364**	526
On demand	**242,662**	237,533
In not more than three months	**1,033**	1,299
In more than three months but not more than one year	**3,866**	3,200
In more than one year but not more than five years	**12,073**	12,371
In more than five years	**8,086**	8,189
	268,084	263,118

20. Amounts owed to credit institutions

	2020 £000	2019 £000
Repayable on demand	**986**	11

21. Amounts owed to other customers

	2020 £000	2019 £000
Repayable on demand	**3,585**	4,088

Notes to the Accounts (continued)

22. Other liabilities

	2020 £000	2019 £000
Corporation tax	**26**	57
Other creditors	**265**	300
Accruals and deferred income	**73**	363
	364	720

23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:	2020 £000	2019 £000
Origination and reversal of timing differences	**24**	42
Tax included in statement of total recognised gains and losses	**24**	42
Fixed asset timing differences	**339**	314
Short term timing differences	**(59)**	(66)
Total deferred tax liability	**280**	248
Provision at start of period	**248**	237
Deferred tax charged to the profit and loss account for the period	**8**	(31)
Deferred tax charged to the statement of total recognised gains and losses	**24**	42
Provision at end of period	**280**	248

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of the deferred tax asset is dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences.

The deferred liability asset has arisen due to temporary factors rather than a permanent decline in earnings.

Notes to the Accounts (continued)

24. Provisions for specific liabilities

	FSCS £000	Customer Claims £000	Total £000
Balance at 1 January 2020	-	11	11
Paid in year	-	-	-
Income and Expenditure account:			
Increase/(decrease) in provision	3	(1)	2
Balance at 31 December 2020	**3**	**10**	**13**

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. The FSCS meets these claims by way of loans received from HM Treasury.

Customer Claims

This relates to a provision for potential regulatory claims.

25. Reserves

	General reserve 2020 £000	Revaluation reserve 2020 £000	Total 2020 £000
At 1 January	27,333	1,241	28,574
Profit/(loss) for the financial year	167	(24)	143
At 31 December	**27,500**	**1,217**	**28,717**

The general reserve reflects the combination of the accumulation of profits after tax generated each year and the unrealised gain from the revaluation of investment property.

The revaluation reserve represents the increase in the value of freehold land and buildings against the original holding cost of the assets.

Notes to the Accounts (continued)

26. Financial instruments

Carrying values by category 31 December 2020	Loans and receivables	Financial assets and liabilities at amortised cost	Other non-financial assets	Total
	£000	£000	£000	£000
Financial assets				
Cash and balances at the Bank of England	61,342	-	-	61,342
Loans and advances to credit institutions	9,426	-	-	9,426
Treasury bills and similar securities	-	-	-	-
Debt securities	-	-	-	-
Loans and advances to customers	225,932	-	-	225,932
Investment loans	-	-	-	-
Total financial assets	**296,700**	**-**	**-**	**296,700**
Non-financial assets	-	-	5,329	5,329
Total assets	**296,700**	**-**	**5,329**	**302,029**
Financial liabilities				
Shares	-	268,084	-	268,084
Amounts owed to credit institutions	-	986	-	986
Amounts owed to other customers	-	3,585	-	3,585
Total financial assets	**-**	**272,655**	**-**	**272,655**
Non-financial assets	-	-	657	657
Total liabilities	**-**	**272,655**	**657**	**273,312**

Carrying values by category 31 December 2019	Loans and receivables	Financial assets and liabilities at amortised cost	Other non-financial assets	Total
	£000	£000	£000	£000
Financial assets				
Cash and balances at the Bank of England	46,823	-	-	46,823
Loans and advances to credit institutions	12,321	-	-	12,321
Treasury bills and similar securities	-	-	-	-
Debt securities	-	2,013	-	2,013
Loans and advances to customers	230,337	-	-	230,337
Investment loans	163	-	-	163
Total financial assets	**289,644**	**2,013**	**-**	**291,657**
Non-financial assets	-	-	5,113	5,113
Total assets	**289,644**	**2,013**	**5,113**	**296,770**
Financial liabilities				
Shares	-	263,118	-	263,118
Amounts owed to credit institutions	-	11	-	11
Amounts owed to other customers	-	4,088	-	4,088
Total financial assets	**-**	**267,217**	**-**	**267,217**
Non-financial assets	-	-	979	979
Total liabilities	**-**	**267,217**	**979**	**268,196**

At the year end, the Society has loan commitments of £18,257k (2019: £18,732k) measured at cost.

Notes to the Accounts (continued)

26. Financial instruments (continued)

Financial assets pledged as collateral

As at 31 December 2020 no assets had been pledged as collateral (2019: £nil).

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.

The Society's maximum credit risk exposure is detailed in the table below:

Credit risk

	2020 £000	2019 £000
Cash and balances at the Bank of England	**61,342**	46,823
Loans and advances to credit institutions	**9,426**	12,321
Treasury bills and similar securities	**-**	-
Debt securities	**-**	2,013
Loans and advances to customers	**226,397**	230,949
Investment loans	**-**	163
Total statement of financial position exposure	**297,165**	292,269
Off-balance sheet exposure - mortgage commitments	**18,257**	18,734
	315,422	311,003

Details on collateral held as security that mitigate the Society's exposure to credit risk are provided on page 66. The Society does not use credit derivatives, or similar instruments, to manage its credit risk.

The Society offers a range of mortgage products tailored to the needs and demands of our customers. The concentration of loans and advances to customers is detailed in the table below:

	2020 £000	2019 £000
Prime owner-occupied	**172,685**	172,491
Buy to let	**27,593**	30,998
Land	**4,068**	4,437
Other loans and advances to customers	**22,051**	23,023
Total loans and advances to customers	**226,397**	230,949

Notes to the Accounts (continued)

26. Financial instruments (continued)

Credit risk (continued)

Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets.

	2020 Loans fully secured on residential property £000	2020 Loans fully secured on land £000	2020 Total £000	2019 Loans fully secured on residential property £000	2019 Loans fully secured on land £000	2019 Total £000
Neither past due nor impaired	217,759	3,787	221,546	223,300	3,931	227,231
Past due but not impaired						
30 - 60 days	2,273	281	2554	1850	127	1,977
60 - 90 days	720	-	720	225	379	604
90 - 180 days	466	-	466	286	-	286
180 days+	890	-	890	467	-	467
	4,349	281	4,630	2,828	506	3,334
Individually impaired						
60 - 90 days	-	-	-	-	-	-
	-	-	-	-	-	-
Allowance for impairment						
Individual	-	-	-	-	-	-
Collective	237	7	244	215	13	228
Total allowance for impairment	237	7	244	215	13	228
Total loans & advances to customers including impairment	221,871	4,061	225,932	225,913	4,424	230,337

Notes to the Accounts (continued)

26. Financial instruments (continued)

Credit quality analysis of loans and advances to customers (continued)

Collateral held and other credit enhancements

The Society holds collateral to reduce credit exposures. The table below sets out the principal types of collateral held.

Percentage of exposure that is subject to collateral requirements	2020 %	2019 %	Principal type of collateral held
Loans and advances to customers	**100**	100	Property

Individual assessments are made on all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession. Further consideration is given in note 1.5 to the accounts.

The Society's policy is to pursue timely realisation of the collateral in an orderly manner. The Society does not use the non-cash collateral for its own operations.

Loan-to-value ratios of mortgage book loans and advances to customers

The table below details credit exposures from mortgage loans and advances to customers by loan-to-value (LTV) ratios. LTV is calculated as the ratio of the gross amount of the loan to the value of the asset (collateral).

The valuation of the collateral excludes any adjustments for obtaining and selling the asset and also excludes any impairment allowance and EIR adjustments. The collateral value is based on the original value of the asset when the loan was issued and is subsequently indexed using the Nationwide House Price Index.

	2020 £000	2019 £000
LTV ratio		
Less than 50%	**130,997**	133,705
50% < 70%	**82,407**	70,874
70% < 90%	**12,885**	26,262
90% <= 100%	**108**	-
More than 100%	**-**	108
	226,397	230,949

Notes to the Accounts (continued)

26. Financial instruments (continued)

Credit risk (continued)

Forbearance

A range of forbearance options are available to support customers who are in financial difficulty. For further information on forbearance please refer to note 1.5. The table below analyses the number of mortgage borrowers with renegotiated terms at the year-end date:

	2020	2019
Forbearance		
Short-term conversion from repayment loan to interest only loan	**-**	-
Short-term reduced monthly repayment plan	**7**	8
	7	8

There are no individual impairment provisions held in respect of these mortgages at 31 December 2020 (2019: £nil).

Concentration risk

The tables below show the relative concentrations of the Society's treasury portfolio.

Concentration by credit grading	**2020 £000**	2019 £000
AAA	**-**	-
AA+ to AA-	**64,581**	52,480
A+ to A-	**3,089**	2,557
Building societies	**3,000**	6,006
Other	**98**	114
	70,768	61,157

Concentration by sector	**2020 £000**	2019 £000
Financial institutions	**9,524**	14,450
Supranational institutions	**-**	-
Sovereign	**61,244**	46,707
	70,768	61,157

Concentration by region	**2020 £000**	2019 £000
UK	**70,768**	61,157
Europe (excluding UK)	**-**	-
North America	**-**	-
Supranational	**-**	-
	70,768	61,157

Notes to the Accounts (continued)

26. Financial instruments (continued)

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.

Liquidity risk

Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Society's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

As at 31 December 2020	**On demand**	**Not more than three months**	**More than three months but not more than one year**	**More than one year but not more than five years**	**More than five years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial assets						
Cash and balances at the Bank of England	61,342	-	-	-	-	61,342
Loans and advances to credit institutions	6,397	3,000	-	-	-	9,397
Debt securities	-	-	-	-	-	-
Treasury bills and similar securities	-	-	-	-	-	-
Loans and advances to customers	4,132	4,625	16,864	54,104	146,672	226,397
Investment loans	-	-	-	-	-	-
Total financial assets	**71,871**	**7,625**	**16,864**	**54,104**	**146,672**	**297,136**
Financial liabilities						
Shares	242,662	1,033	3,866	12,073	8,086	267,720
Amounts owed to credit institutions	986	-	-	-	-	986
Amounts owed to other customers	3,585	-	-	-	-	3,585
Total financial liabilities	**247,233**	**1,033**	**3,866**	**12,073**	**8,086**	**272,291**

Notes to the Accounts (continued)

26. Financial instruments (continued)

Liquidity risk (continued)

As at 31 December 2019

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash and balances at the Bank of England	46,823	-	-	-	-	46,823
Loans and advances to credit institutions	6,304	4,000	2,000	-	-	12,304
Debt securities	-	-	2,000	-	-	2,000
Treasury bills and similar securities	-	-	-	-	-	-
Loans and advances to customers	4,113	3,542	11,824	59,941	151,529	230,949
Investment loans	-	-	-	-	163	163
Total financial assets	57,240	7,542	15,824	59,941	151,692	292,239
Financial liabilities						
Shares	237,533	1,299	3,200	12,371	8,189	262,592
Amounts owed to credit institutions	11	-	-	-	-	11
Amounts owed to other customers	4,088	-	-	-	-	4,088
Total financial liabilities	241,632	1,299	3,200	12,371	8,189	266,691

The tables below sets out maturity analysis for financial liabilities that shows the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

As at 31 December 2020

	On demand	**Not more than three months**	**More than three months but not more than one year**	**More than one year but not more than five years**	**More than five years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial liabilities						
Shares	242,662	1,033	3,868	12,232	9,791	269,586
Amounts owed to credit institutions	986	-	-	-	-	986
Amounts owed to other customers	3,585	-	-	-	-	3,585
Total financial liabilities	**247,233**	**1,033**	**3,868**	**12,232**	**9,791**	**274,157**

Notes to the Accounts (continued)

26. Financial instruments (continued)

Liquidity risk (continued)

As at 31 December 2019

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Shares	237,533	1,299	3,202	12,576	10,410	265,020
Amounts owed to credit institutions	11	-	-	-	-	11
Amounts owed to other customers	4,088	-	-	-	-	4,088
Total financial liabilities	**241,632**	**1,299**	**3,202**	**12,576**	**10,410**	**269,119**

Market risk

'Market risk' is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk; currency risk, interest rate risk and other price risk.

The Society is not directly subject to currency risk as all products are sterling denominated. The Society's products are also only interest orientated products so are not exposed to other pricing risks. Interest rate risk is managed through policies and procedures the Society has in place. The Assets & Liabilities Committee is responsible for overseeing and setting the counterparty credit, market, liquidity and interest rate risk.

The Society's treasury function manages interest rate risk on a daily basis and ensures the Society has appropriate liquid assets and spread of maturities over time buckets to effectively manage risk. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to interest rate scenarios. The following is an analysis of the sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

Notes to the Accounts (continued)

26. Financial instruments (continued)

Market risk (continued)

	2020 100bp increase £000	**2020 25bp decrease £000**	2019 100bp parallel increase £000	2019 100bp parallel decrease £000
Sensitivity of projected net interest income				
At 31 December	**(168)**	**35**	(67)	**70**
Average for the period	**(107)**	**22**	(109)	**113**
Maximum for the period	**(168)**	**35**	(154)	**160**
Minimum for the period	**(75)**	**15**	(67)	**70**

The Society only deals with products in sterling so is not directly affected by currency risk. The Society's products are also only interest orientated products so are not exposed to other pricing risks.

Capital management

The purpose of the Society's capital is to protect members from any losses that may arise from lending activities of the Society. The Board sets the internal level of capital with the aim of ensuring Society capital always exceeds the minimum regulatory requirements.

As part of the Society's formal risk management framework, capital management is covered by the Internal Capital Adequacy Assessment Process (ICAAP). This is used to assess the Society's capital adequacy and to determine the levels of capital required to support current and future risks.

The below table sets out the Society's capital.

	2020 £000	2019 £000
Common Equity Tier 1 capital		
General reserve	**27,500**	27,333
Revaluation reserve	**1,217**	1,241
Intangible assets	**(7)**	(26)
Common Equity Tier 1 capital	**28,710**	28,548
Tier 2 capital		
Collective provision	244	228
Total capital	**28,954**	28,776

Notes to the Accounts (continued)

27. Operating leases

As at 31 December, the Society had total commitments in respect of operating leases for land and buildings as follows:

	2020	2019
	£000	£000
Not later than one year	49	29
Later than one year and not later than five years	-	21
	49	50

28. Related party transactions

Mutual Vision Technologies Limited ('MV')

The Society is a shareholder of MV, the Society's computer software provider, as detailed in note 14 on page 59. G. McGrady was the Society's representative as a non-executive director of MVT from March 2019 - September 2020. At this time, the Board of MV was restructured with the appointment of independent non-executive directors replacing the shareholder Board members.

During the year, a total of £270,427 (2019: £249,606) was paid to MVT in respect of software maintenance services.

At 31 December 2020 there are no related party liabilities (2019: £nil).

As detailed in note 14, the loan due from MVT was converted into equity shares on 1 January 2020. Interest on the loan in 2019 was based at Bank of England base rate plus 1 %, subject to a minimum rate of 1.5%, and was credited to the Society annually. In 2019 this interest totalled £2,710. There was no fixed maturity date for this loan and the Society holds no security on any assets of MV in respect of this loan.

Transactions with key management personnel

The Society considers its key management personnel to be its directors.

Mortgage loans made to key management personnel were granted in the ordinary course of business and are subject to repayment under normal lending terms. The maximum outstanding balance during the year was £Nil (2019: £Nil).

Key management personnel hold £10,782 in share accounts with the Society (2019: £4,100). Amounts deposited by key management personnel earn interest at the same rates offered to the public.

29. Post Balance Sheet events

There are no subsequent events to the balance sheet date.

30. Country-by-country reporting

Article 89 of CRD IV requires the Society to disclose the following information for the year ended 31 December 2020.

Name: Harpenden Building Society
Type of entity: Building Society
Nature of activity: Secured lending and deposit taking
Location: United Kingdom
Total Net Income: £6.4m
Profit before tax: £211k
Tax paid: £59k
Public subsidies received: £57k
Number of employees: 75

Notes to the Accounts (continued)

31. Prior year reclassification

The Statement of Comprehensive Income for 2019 is increased to reflect the write back of depreciation and the impact of property revaluations relating to 2019:

	2019 as reported £000	Reclassification of valuation adjustments £000	Restated 2019 £000
Profit for the financial year	**555**	**-**	**555**
Revaluation of investment property	-	162	162
Revaluation of property, plant and equipment	-	206	206
Movement in depreciation	-	28	28
Tax impact	-	38	38
Total comprehensive income for the year	**555**	**434**	**989**

The Balance Sheet for 2019 is increased to reflect the revaluation of the property with the freehold and investment property classified separately:

	2019 as reported £000	Reclassification £000	Depreciation write back £000	Property revaluation £000	Restated 2019 £000
Freehold Property	3,870	(1,568)	28	248	2,578
Investment Property	-	1,568	-	162	1,730
	3,870	**-**	**28**	**410**	**4,308**

	2019 as reported £000	Reclassification £000	Profit for the financial year £000	Property revaluation £000	Restated 2019 £000
General Reserve	25,865	685	783	-	27,333
Revaluation reserve (net of tax)	1,720	(685)	-	206	1,241
	27,585	**-**	**783**	**206**	**28,574**

Annual Business Statement

for the year ended 31 December 2020

1. Statutory percentages

	31 December 2020	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property ("The Lending Limit")	**2.22%**	25%
Proportion of shares and borrowings not in the form of shares held by individuals ("The Funding Limit")	**1.68%**	50%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986, as amended by the Building Societies Act 1997.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X - Y) / X where:

X = business assets, being the total assets of the Society plus provisions for bad and doubtful debts less lliquid assets, intangible, tangible fixed assets and investment property, as shown in the Society's Accounts.

Y = the principal of, and interest accrued on, loans owed to the Society which are fully secured on residential property as at 31 December 2020.

The Funding Limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X - Y) / X where:

X = shares and borrowings, being the aggregate of

i) the principal value of, and interest accrued on, shares in the Society;

ii) the principal value of, and interest accrued on, sums deposited with the Society; and

iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted , made, issued or entered into by the Society less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate as at 31 December 2020.

The statutory limits are as laid down under the Building Societies Act 1986, as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

Annual Business Statement (continued)

2. Other percentages

	2020	2019
As percentage of shares and borrowings:		
Gross capital	**10.53%**	10.69%
Free capital	**8.93%**	9.05%
Liquid assets	**25.96%**	22.89%

	2020	2019
As percentage of mean total assets:		
Profit for the financial year	**0.06%**	0.26%
Management expenses	**2.07%**	2.12%

The above percentages have been prepared from the Society's accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- 'Gross capital' represents the aggregate of general reserves and revaluation reserve.
- 'Free capital' represents the aggregate of gross capital and collective loss provisions for bad and doubtful debts less intangible and tangible fixed assets and investment property.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash and balances at The Bank of England, loans and advances to credit institutions, treasury bills and debt securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

Annual Business Statement (continued)

3. Information relating to the Directors at 31 December 2020

Name	Date of Appointment and Committee Membership	Business Occupation	Other Directorships
P. Baynham (resigned 26 October 2020)	27 November 2014 Audit and Board Risk & Compliance Committees	Non Executive Director	Baynham Consulting Associates Limited North Norfolk Housing Company Limited The Association of Independent Professionals and the Self Employed Limited Victory Housing Trust (resigned: July 2019) Berwick Court Management Limited Coroscoba Limited Cygne Limited Flagship Group
N. Boothroyd	14 March 2019 Remuneration, Nominations and Board Risk & Compliance Committees	Non Executive Director	British Arab Commercial Bank Plc Reliance Bank Limited (resigned 31 December 2020) Redwood Bank Limited
R Doe	23 April 2020 Remuneration and Nominations Committees	Non Executive Director	–
D. Green	26 October 2020 Audit and Board Risk & Compliance Committees	Non Executive Director	–
S. Howe	14 March 2019	Executive Director	–
G McGrady	1 January 2017	Executive Director	Mutual Vision Technologies Ltd (resigned September 2020)
J. Mortimer Sykes	27 October 2011 Audit, Remuneration and Nominations Committees	Non Executive Director	–

Annual Business Statement (continued)

Name	Date of Appointment and Committee Membership	Business Occupation	Other Directorships
S. Richardson	30 January 2014 Nominations Committee	Non Executive Director	Bethrob Limited I-Financial Services Group Limited LCP Solutions Limited Goodholm Finance Limited Gemini Consultants Limited GHF Servicing Limited 26 Aberdeen Road Ltd
J. Robinson (resigned 31 March 2020)	1 September 2016 Audit, Board Risk & Compliance and Remuneration and Nominations Committees	Non Executive Director	Age UK Enterprises Limited HR Contract Solutions Limited
M. Willis	25 April 2019 Board Risk & Compliance and Audit Committees	Non Executive Director	–

Documents may be served on the above named Directors: Ref. "Harpenden Building Society", c/o, Neves Solicitors at Tollgate House, 69-71 High Street, Harpenden, Hertfordshire, AL5 2SL.

Mrs. J. Mortimer Sykes entered a service contract dated 1 October 2011 upon her appointment.

Mr. S. Richardson entered a service contract dated 15 January 2014 upon his appointment.

Mr. N Boothroyd entered a service contract dated 1 September 2019 upon his appointment.

Mr. M. Willis entered a service contract dated 1 September 2019 upon his appointment.

Mr. R. Doe entered a service contract dated 28 February 2020 upon his appointment.

Mr. D. Green entered a service contract dated 28 February 2020 upon his appointment.

The contracts are terminable by the Society or by the individual on three months' notice, pursuant to the Society's rules.

Mrs. S. Howe is employed on a Service Contract dated 13 December 2018, 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.

HARPENDEN
BUILDING SOCIETY

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

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

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