HARPENDEN BUILDING SOCIETY

Directors' Report, Accounts and Annual Business Statement

For the year ended 31st December 2021

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

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

Board of Directors

Stephen Richardson	Chair
Nigel Boothroyd	Vice Chair and Senior Independent Director
Lesley Beecher	(appointed 9 July 2021)
Richard Doe	
David Green	
Sarah Howe	(resigned 17 September 2021)
George McGrady	
Judith Mortimer Sykes	(retired 23 April 2021)
Mark Willis	

Leadership Team

Raj Bains	Director of Customer Operations
Tracy Campbell	Head of People
Mike Cutler	Commercial Director
Richard Doe	Chief Executive Officer
Martin Langlands	Chief Risk Officer
George McGrady	Finance Director
Gavin Mullen	Society Secretary
Gary Richardson	Director 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 how your Society performed during 2021.

2021 will be remembered by many as year 2 of Covid-19. Your Society has supported 149 mortgage borrowers (c.18% of all borrowers) with payment holidays during the pandemic. At the time of writing, we continue to support members through this challenging and uncertain period.

The Society was classified as an essential business and, as such, we continued to operate during 2021 – this is in no small part because of the outstanding efforts of our staff during the year who worked hard to maintain services for our members. Our members supported us in this endeavour with understanding and patience. I would like to thank everyone for their contribution to this effort in 2021. Hopefully this year we may see a return to something approaching normality for us all.

Society's performance in 2021

2020 saw a reduction in mortgage business and a consequent reduction in profits and we were looking for the management team to reverse that trend and start growing the business in 2021.

As we progressed through the first half of the year it became clear that there were some fundamental challenges with our mortgage business as evidenced by a continuing decline in business and a shrinkage in our mortgage book.

The Society appointed a new CEO, Richard Doe, following the resignation of Sarah Howe in September. Richard, previously a NED at the Society, brings considerable executive experience and a strong track record in the mortgage industry having previously been CEO of ING Direct in the UK and Managing Director of Paragon Bank plc. He was appointed to the role on 30 September 2021.

Whilst Richard has taken immediate steps to address the shortcomings in business performance this will take time to filter through in the Society's financial performance during 2022 and beyond. Richard will explain more about the steps he has taken in his commentary.

The financial impact on the Society's results for 2021 has been marked with pre-tax profits reduced to £86k and a contraction in the mortgage book of 4.1% to £217m.

The Board fully acknowledges that the performance of the Society in 2021 was disappointing. As you can see, we have taken decisive action in order to take advantage of the opportunities that are available to us.

The Society holds significant surplus capital and liquidity which provides the capacity and time to build a stronger and more sustainable business.

Chair's Statement (continued)

Outlook for 2022 and Building a Sustainable Society

Given we have started 2022 with a smaller balance sheet, profitability will be impacted this year. However, with our focus on mortgage growth we aim to improve profitability levels from 2023 onwards.

We are confident that our detailed plans demonstrate sustainable profitability, and we will continue to monitor the execution and results very closely. Richard Doe and the management team supported by the Board are very focussed on delivering positive growth in the mortgage business in 2022.

Board Changes

Since my last report, we have made further changes to the Board with, as noted above, Richard Doe moving to CEO and relinquishing his NED position, and Lesley Beecher joining the Board as a NED. Lesley is an experienced senior level IT practitioner with 25 years' retail banking experience at a number of well-known financial institutions including HSBC and First Direct.

I would like to take this opportunity to thank Judith Mortimer-Sykes, our previous Chair of the Remuneration Committee and Nominations Committee, who retired from the Board in April. Judith served as a NED since 2011, during which time she was an active member of the Board. We all send Judith our best wishes for the future.

Governance

The Board is responsible for the long-term sustainability of the Society, for protecting our culture and values, and for governance. The Board continues to maintain its strong governance and oversight of the Society as evidenced in the management changes that have been made.

Colleagues

We recognise the need to attract and retain talented people and have recruited for 9 new roles during 2021.

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

Stephen Richardson
Chair
15 March 2022

Chief Executive's Review

We began 2021, like everybody, living and working in a strict lockdown environment following the resurgence of Covid-19 but with some optimism about the rollout of vaccines that would prove to be so important in getting back to some sort of normality.

The Society continued to maintain all its key services to members with branches remaining open throughout the year and Head Office staff working on a hybrid basis. Omicron emerged at the end of the year and once again we reduced numbers of staff on site at our Head Office whilst maintaining our branch services. The Society was not materially impacted by staff absence in this period.

I would like to thank all my colleagues for their commitment in these challenging times and their continued focus on serving our members.

During 2020/21 we have helped 149 mortgage members with the Government initiated payment deferral scheme. This undoubtedly assisted members through a challenging period and I am pleased to report that more than 90% have now normalised their repayments. We continue to support a small number of members.

The low risk profile of our mortgage portfolio allowed us to reduce provision levels during the year and credit performance remains strong.

Despite a strong mortgage market in 2021, driven by the Government's stamp duty holiday, the Society failed to maintain a promising start to the year and falling volumes of new business combined with higher than expected redemptions resulted in a 4.1% mortgage book contraction.

The position stabilised in the fourth quarter and the mortgage pipeline began to rebuild.

The reduced size of the mortgage portfolio over the last two years is the primary driver of the reduction in profit for 2021. This position combined with continued investment in our people and technology will also impact profitability in 2022.

Management's number one priority is to deliver mortgage growth and several changes have been implemented to improve our product proposition, service delivery and efficiency. At the core of these changes is strengthening the skills and capability of the Sales & Marketing and Mortgage Operations teams. Whilst I am optimistic that the changes we are making will deliver the required improvement it will take time to filter through to our financial results. However, we aim to improve profit levels in 2023.

Our savings portfolio remained broadly stable over the year, and we were also delighted to win the Personal Finance Awards 2021/22 - Best Junior/ Children's Savings Provider and the What Mortgage Awards 2021 - Best Local Building Society.

Despite a challenging couple of years in terms of mortgage growth, the Society continues to have strong foundations and holds significant surplus capital and liquidity which provide capacity and time to address the issues described above and allows for growth over the coming years.

Chief Executive's Review (continued)

This year is an important one for the society as we aim to start steadily growing the mortgage portfolio once again and increase revenue to build a long-term sustainable future. This will allow us to continually improve services to our members, invest in our people and systems and continue to support our local communities.

During 2021 we continued to work with the Hertfordshire Community Foundation to support organisations in our region. Commitments of £40,000 were made during the year in addition to other direct donations.

Pre-covid our branches had been active in supporting local events and activities in their communities. This, understandably reduced during the last two years due to the pandemic. We hope that 2022 will see an increase in activity.

There are headwinds to navigate; whilst the impacts of the pandemic may be easing, no one can be completely certain of the future. Equally, the cost of living challenges, skills shortages, political unrest both here and abroad and the legacy of Covid-related debt can all impact the economy and environment we operate in. However, at present, the UK housing market remains robust and our members financially resilient.

Given our strong surplus capital position, our need to transform our operations and invest further in people and technology, we expect moderated profit levels in the coming years as we modernise our business and build a platform for sustainable growth.

In my first three months as CEO, I have spent a lot of time with colleagues to understand the challenges and barriers to growth within the Society. This, combined with feedback from members and business partners has led to a revised business plan which is now being implemented. I am confident that Harpenden Building Society will continue to have an important role to play in the region for its members now and in the future as well as supporting our local communities.

Richard Doe

Chief Executive
15 March 2022

Your Board of Directors

Stephen Richardson

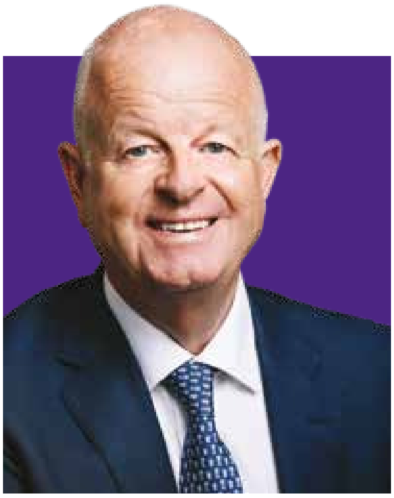
Chair

Stephen joined the Society as a non-executive director in January 2014 and was appointed Chair in June 2016. He is Chair of the Nominations Committee and a member of the Remuneration 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 and the Senior Independent Director in January 2021. He is Chair of the Remuneration Committee and a member of the Risk & Compliance 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 a non-executive director at British Arab Commercial Bank plc where he is also the Chair of the Remuneration and Nominations Committees.

Your Board of Directors (continued)

Lesley Beecher

Non-Executive Director

Lesley joined the Society as a non-executive director in July 2021 and is a member of the Audit, Nominations and Remuneration Committees.

Lesley has worked in financial services for the last 25 years. She is a technology specialist and was a retail banking CIO in her previous role. In parallel, for the last 7 years Lesley was a non-executive director for a company offering services to the credit union sector.

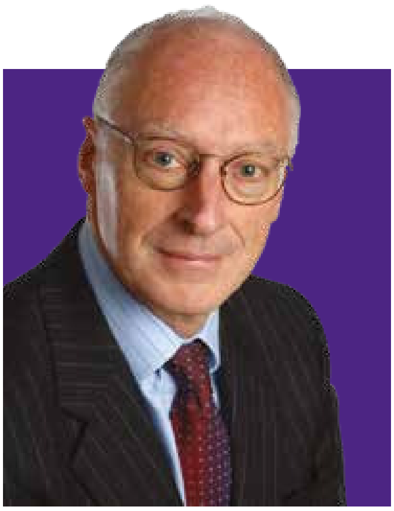
Richard Doe

Chief Executive Officer

Richard joined the Society in April 2020 initially as a non-executive director. He was appointed Chief Executive Officer in September 2021 following Sarah Howe's resignation.

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 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 (continued)

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. 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.

Mark Willis

Non-Executive Director

Mark joined the Society as a non-executive director in April 2019 and is currently chair of the Risk & Compliance Committee and a 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 operational and oversight roles in financial risk management at Nationwide Building Society (including Head of Market Risk) and with Nationwide Pension Fund as trustee.

He is a Chartered Accountant and Corporate Treasurer and also holds the PMI Award in Pension Trusteeship.

Directors' Report

The Directors have pleasure in presenting their 69th Annual Report and Accounts for the year ended 31 December 2021

Strategic Business Review

The Chair and Chief Executive have commented on the Society's performance since the start of the pandemic and the steps taken to grow the mortgage book. During 2021, there has been a net contraction in the mortgage book of 4.1% and this has resulted in a £0.4m reduction in interest receivable for the year. There has also been a further £0.1m reduction in liquid asset yield, representing the full year impact of the reduction in Bank Base Rate (BBR), that took effect following the outbreak of the pandemic. However, a reduction in interest payable has resulted in the overall impact being a c.£0.4m increase in net interest income on 2020.

However, this net improvement has been offset by a £0.8m increase in administrative expenses, with staff costs and management expenses increasing by £0.35m and £0.45m respectively.

The increase in staff costs is mainly due to a combination of the 'full year' impact of new starters from 2020 as well as additional staff recruited during 2021. This increase was expected and commented upon in last year's Business Review and is a consequence of strengthening the people capability to meet the Society's operational and governance needs.

The increase in management expenses is mainly due to increased IT costs, staff training and professional services.

The Society's credit risk profile continues to remain strong and has proved to be resilient to the impact of the pandemic. Overall LTVs for the mortgage book remains very low and this results in minimal exposure to losses resulting from any future material reduction in house prices and/or increases in loan defaults. Whilst a cautious view was taken as part of the Society's assessment of credit risk at the onset of the pandemic, actual events have now resulted in a material reduction in the loan loss provision of c.£0.2m.

The improvement in net income and the release in loan loss provisions, have broadly offset the increase in administrative costs, resulting in a profit-before-tax of £86k (2020: £211k), with total comprehensive income of £386k (2020: £143k), after reflecting property revaluation gains.

The Directors set out their assessment of the principal risks and uncertainties facing the Society on pages 17 to 20. It is recognised that there are risks and uncertainties associated with the potential adverse effects of the pandemic and of Brexit, and that any consequent economic downturn, disruption to financial markets or political instability could have an impact on the business model. The impact of both the pandemic and of Brexit have been stress tested against the Business Plan during the year to ensure that it has appropriate management control processes and sufficient capital and liquidity to withstand such impacts.

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 4.1% in 2021 to £217.2m, with the overall balance sheet decreasing by £6.3m to £295.8m. We have previously noted that the Society has high levels of liquidity and this has remained relatively consistent with 2020. This is due to mortgage book contraction broadly matching the reduction in funding.

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 Bank Base Rate, 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. A recent example of this was a limited fixed rate bond offered during January and we will respond to the market and the Society's requirements.

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. The driver of the adverse changes in the key performance indicators is the mortgage book contraction during 2020 and 2021. Increasing the book is a primary focus for the business.

Mortgage Asset Balances (£m)

2021	**£216.9**
2020	£225.9
2019	£230.3
2018	£212.6
2017	£201.0

Total Assets (£m)

2021	**£295.8**
2020	£302.0
2019	£296.8
2018	£306.6
2017	£314.7

Share Balances (£m)

2021	**£260.7**
2020	£268.1
2019	£263.1
2018	£273.2
2017	£282.4

Liquid Assets as a Percentage of Shares and Borrowings

2021	**27.5%**
2020	26.0%
2019	22.9%
2018	32.1%
2017	39.0%

Profit After Tax as a Percentage of Mean Total Assets

2021	**0.01%**
2020	0.06%
2019	0.26%
2018	0.51%
2017	0.52%

Management Expenses as a Percentage of Mean Total Assets

2021	**2.33%**
2020	2.07%
2019	2.12%
2018	1.82%
2017	1.62%

Cost: Income Ratio

2021	**101.4%**
2020	96.4%
2019	88.5%
2018	76.9%
2017	70.4%

Capital (£m)

2021	**£29.1m**
2020	£28.7m
2019	£28.6m
2018	£27.8m
2017	£25.7m

Gross Capital as a percentage of Shares and Borrowings

2021	**11.0%**
2020	10.5%
2019	10.7%
2018	10.0%
2017	8.9%

Free Capital as a percentage of Shares and Borrowings

2021	**9.1%**
2020	8.9%
2019	9.0%
2018	8.6%
2017	7.7%

Customer Satisfaction Score

2021	**91%**
2020	89%
2019	97%
2018	96%
2017	95%

Employee Satisfaction Score (out of 5)

2021	**3.1**
2020*	3.1
2019	3.6
2018	3.6
2017	3.9

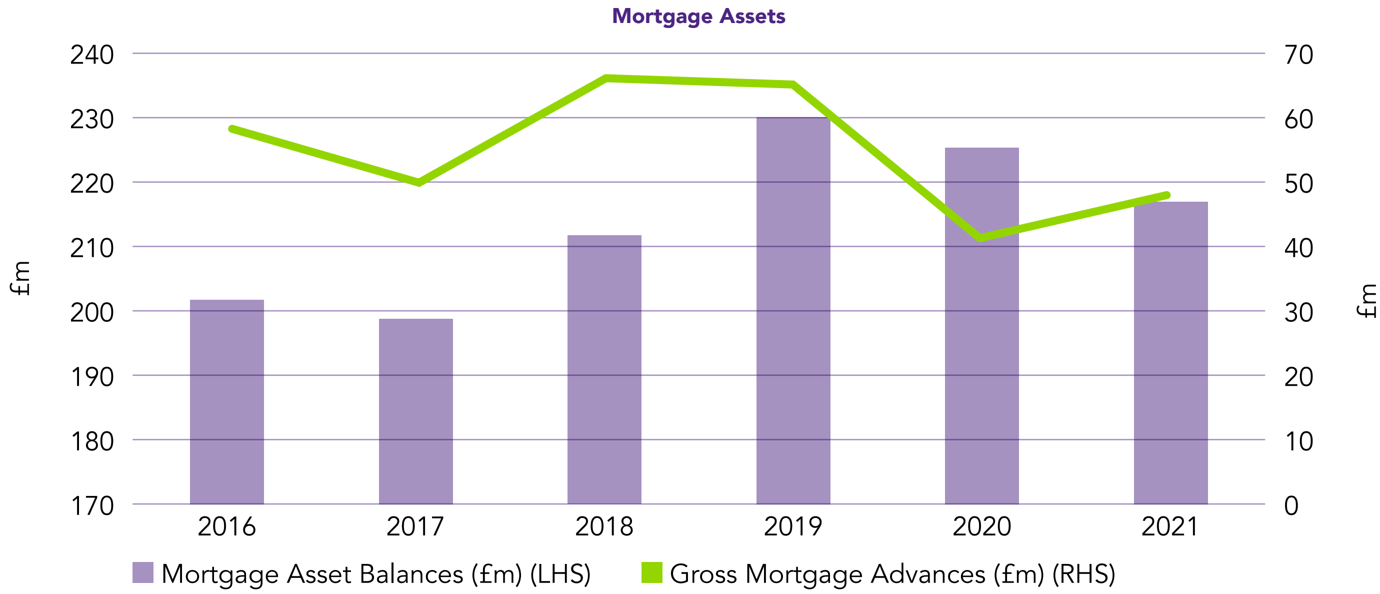
**Employee metric changed in 2020 with results recalibrated for comparison to prior years.*

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 its consumers and to build a reputation for expertise and service 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, there was an increase in new advances of £48.0m against £41.1m in 2020. However, redemption levels were higher than in 2020 and resulted in a net reduction in the mortgage book of c.£9.2m, or 4.1%, to £217.2m (2020: £226.4m).



As at 31 December 2021, there was one mortgage account that was 12 months or more in arrears (2020: one) with an outstanding loan balance of £189k (2020: £181k) and an arrears balance of £10k (2020: £27k). The Society had mortgage arrears balances greater than 3 months old at 31 December 2021 of 0.75% (2020: 0.79%), compared to a UK Finance industry average of 0.83% (2020: 0.91%).

As at 31 December 2021 the Society had no properties in possession (2020: 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 mortgage term. All arrangements are temporary and are regularly reviewed.
At 31 December 2021, the Society offered such forbearance to eleven borrowers (2020: seven), representing a total mortgage balance of £1.4m (2020: £0.9m). Three of these cases were in arrears (2020: two), the value of arrears was £17k (2020: £13k) and the capital balance was £837k (2020: £382k). 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, the Society commenced the year with 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 were granted was 149, which equates to c.18% of all borrowers. However, more than 90% of the cases have either returned to regularised payment or redeemed.

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.

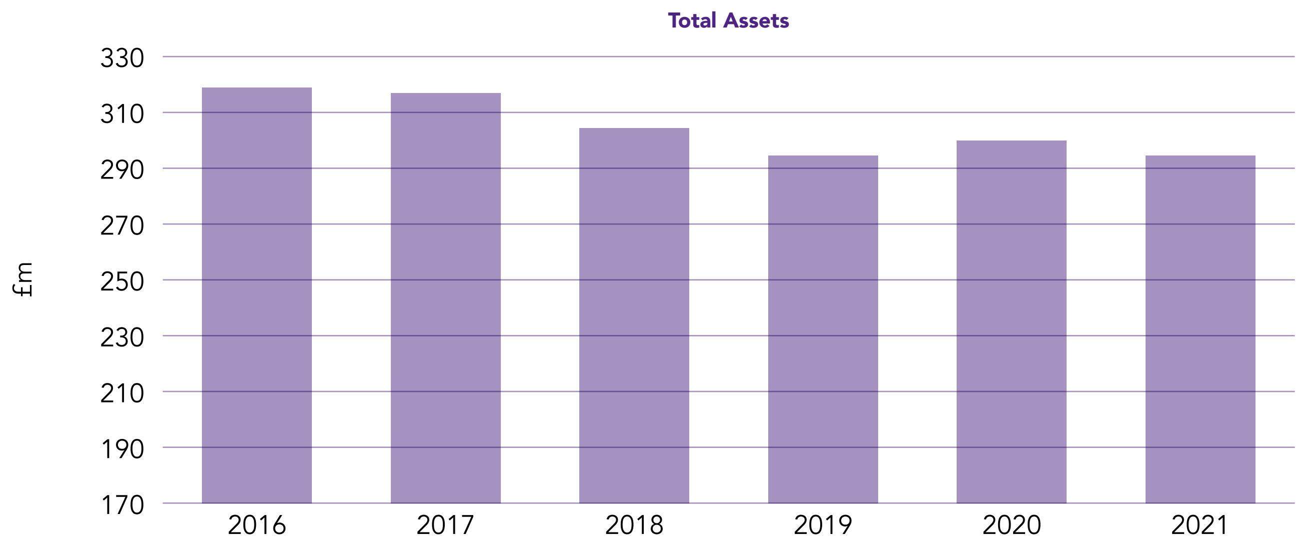
A collective mortgage provision is made against mortgage advances which have not been specifically identified as impaired but where general experience and market conditions may indicate that losses may ultimately be incurred.

In aggregate, the impairment provisions have decreased by £178k to £66k, reflecting the low level of credit risk assessed within the book and the additional coverage recognised in 2020 for the uncertainty from COVID related payment holidays, which have proved unnecessary and consequently released. At a more granular level, there was no individual impairment provision at year end with the net decrease due to a movement in the collective provision. This decrease is based on a review of the underlying assumptions and reflects the low LTV's of the mortgage book. This provides significant debt cover across the book and the relatively low levels of arrears, defaults and possessions. The Society has not suffered any credit losses on its residential mortgage book for more than 10 years.

Total Assets

The Board considers that long term balance sheet growth, underpinned by increasing capital reserves improves the Society's financial strength and long term stability. However, in the short term, the Society has been managing down its funding levels which has suppressed balance sheet growth in recent years. Effectively, the Society has surplus funding to support growth in the short term.

As a result of the decreases in share balances, the balance sheet has also decreased by £6.2m (2020: £4.9m increase) to £295.8m (2020: £302.0m), as at 31 December 2021, representing a decrease of 2.1% (2020: 1.6% increase).

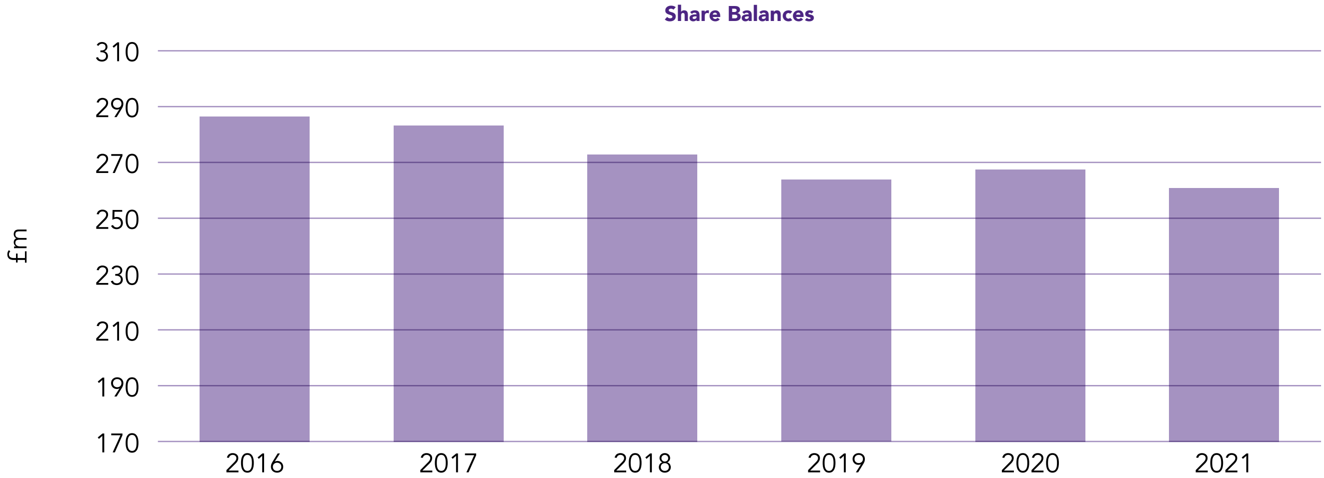


Directors' Report (continued)

Share Balances

The Society strives to provide competitive interest rates in a sustained low interest rate environment. 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. Share balances have decreased by £7.4m, or 2.8%, to £260.7m at 31 December 2021 (2020: £268.1m).



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 2021, liquid assets reduced by £2.2m to £73.0m (2020: £70.8m) with the liquid asset ratio increasing to 27.5% (2020: 26.0%).

The increase in liquidity and the liquidity ratio is driven by the contraction in the mortgage book.

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 solvency remains strong and ensures that future growth in lending can be supported.

As noted earlier in the Director's Report, the Society has been adversely impacted by the increase in costs and profit-after-tax has reduced to £36k (2020: £167k). However, revaluation gains have increased total comprehensive income, and therefore capital, to £386k.

Management Expenses as a Percentage of Mean Total Assets

This ratio measures how productively the assets of the Society are used. The ratio has deteriorated during the year to 2.33% (2020: 2.07%) and is due to administrative expenses increasing.

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. This metric has increased to 101.4% (2020: 96.4%) and is driven by the increase in investment in people and infrastructure, whilst the mortgage book has not grown to generate the income required to support this cost.

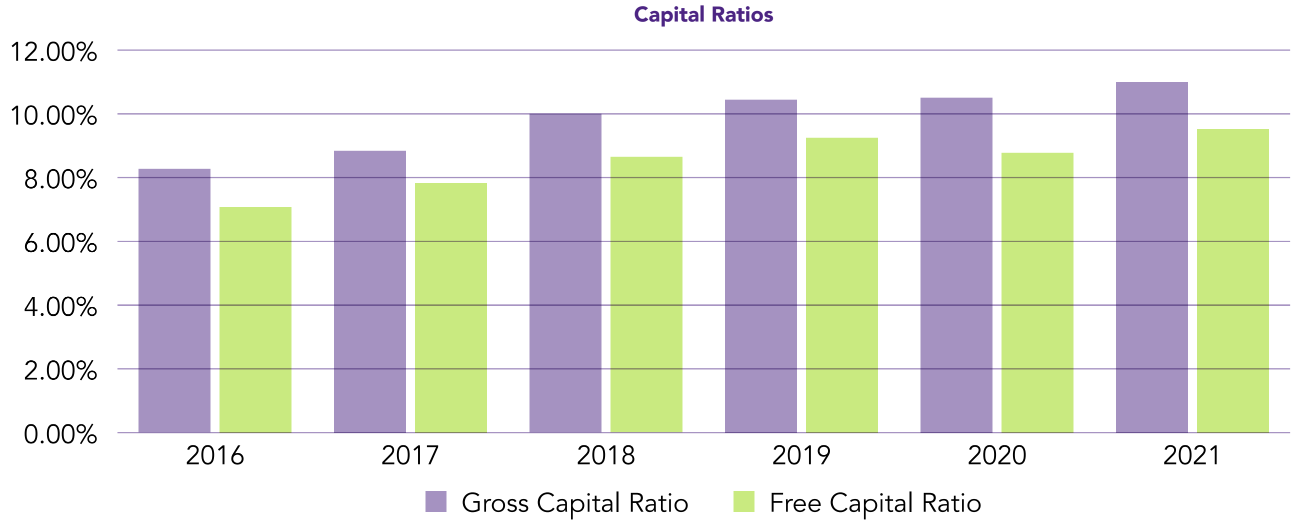
Directors' Report (continued)

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 73.

Gross capital ratio has marginally increased in 2021. As noted above, whilst profitability has been marginal, the valuation gain has generated additional capital. Free capital (after adjustment for provisions) has also increased with both the valuation gain and reduction in provisions generating positive benefits to the metric.

As the chart below highlights, the Society's capital remaining strong.



Customer Satisfaction

We actively seek direct feedback from both our borrowers and savers and undertake monitoring of our 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. In 2021, the satisfaction score marginally improved on last year.

Employee Satisfaction

We conduct an annual Society wide survey for all colleagues to feedback their views on a wide range of areas. Since 2020 we have taken part in the Financial Services Conduct Board (previously known as Banking Standards Board) culture survey. The results of the 2021 survey show there is further work to do and therefore colleague engagement remains a priority for us in 2022. The survey will be repeated in the summer and appropriate actions identified following consideration of the results by the Board, Leadership Team, and Senior Management Group.

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. Details of the Society's approach to financial risk management and the key risks faced are given in note 26.

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), policy statements, exposure limits, mandates and reporting lines 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.

Business Risk

The Society has been investing in infrastructure and people in recent years and during this time mortgage book growth has not been achieved to offset the increase in costs. Whilst the Society has significant levels of capital to support this investment, it is a key strategic requirement for the mortgage book to grow to provide the additional income required. This is against a backdrop of significant economic uncertainties and a competitive market. However, the Society has set clear plans in place to achieve this and to ensure that its capital strength is maintained.

Covid-19

The pandemic has significantly impacted the economy since March 2020. However, during 2021 we have seen both GDP and unemployment recover with economic activity running ahead of forecast.

Despite this recovery, there continues to be uncertainty over the impact, for example due to the removal of the Government support schemes, inflationary pressure due to the actions taken during the pandemic as well as other economic drivers, such as trade consequences following Brexit and rising fuel prices.

However, the Society considers that it is well placed to manage any potential downturn. The results of its stress testing regime support the Board's view that the Society has sufficient capital to withstand a range of severe stress scenarios.

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 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 understood and assessed.

The majority of borrowers who took advantage of the mortgage payment deferral scheme offered during the pandemic have now reverted to full payment. With the Society's lending generally at low LTV's, this provides significant capacity to absorb credit risk losses that could arise from a severe economic downturn.

In addition, the Financial Risk Management Policy includes limits on credit exposures to wholesale 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 severe cash outflows. The Liquidity & Funding Policy is regularly reviewed and approved by the 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.

The Society manages this exposure by matching the repricing dates of assets and liabilities in line with its Financial Risk Management Policy, which is regularly reviewed by ALCO and approved by the Risk & Compliance Committee. A detailed analysis of the Society's interest rate sensitivity at both 31 December 2021 and 2020 can be found in note 26.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Society has controls in place which are designed to mitigate these risks. The Risk & Compliance Committee is responsible for assessing the effectiveness of the risk management processes and the system of inspection and control.

The pandemic resulted in an operational shock requiring significant organisational changes to reflect reduced face-to-face customer contact and remote working for staff. Existing contingency plans were enacted, and the Society's operations have remained not only effective but adaptive to the new environment.

The Operational Resilience Framework identifies all critical business functions and has determined associated impact tolerances and recovery times. This forms the implementation of key controls to be set by the Society prior to the new regulatory requirements that come into force from March 2022.

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 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

The risks from Climate Change manifest themselves via Physical Risk and 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. This may also lead to a changing regulatory expectation in relation to the way the Society is expected to run its own business, including who it uses as suppliers.

The Society utilises risk management techniques to help mitigate the impacts of climate change on the Society's business model.

The Society has performed an initial assessment of its risks and exposures to the various aspects of environmental and climate risks and has undertaking modelling analysis based on independent data provided that focuses on these risks. This modelling has indicated that the Society's exposure is low to physical risk.

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.

The Chief Executive has responsibility for monitoring climate change risk, with oversight provided by the Risk & Compliance Committee.

Directors' Report (continued)

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

The following persons were Directors of the Society during 2021:

S. Richardson (Chair)

N. Boothroyd (Vice Chair and Senior Independent Director)

L. Beecher (appointed 9 July 2021)

R. Doe

D. Green

S. Howe (resigned 17 September 2021)

G. McGrady

J. Mortimer Sykes (retired 23 April 2021)

M. Willis

Other Matters

Creditor Payment Policy

The Society's policy concerning the payment of its trade creditors 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 16 days of receipt of invoice (2020: 21 days).

Charitable and Political Donations

Charitable donations during the year amounted to £21k (2020: £39k). 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 2021 was £504k (2020: £461k).

The incentive of charitable contribution of £1 for each member vote at the Annual General Meeting in April 2021 produced £1,238 (2020: £1,401) which was donated to NHS Charities Together.

The Directors confirm that no activities have been carried out during the year, which are outside the powers of the Society. No political donations have been made during 2021 (2020: nil) which require disclosure under the Act.

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.

Land and Buildings and Investment Property

Land and buildings and investment property are measured at fair value with a valuation exercise carried out annually by an independent external valuer in accordance with the RICS Global Standards 2017 Edition (the "Red Book"). The Society considers the methodology and assumptions used by the independent external valuer to be supportable, reasonable and robust, the final valuation may be different to one that would have been used had there been a ready market for an identical property.

Events since Year End

The events that are unfolding in Ukraine are both upsetting and concerning. This also creates a set of conditions that are uncertain at the current time. Given the Society's geographic activity and the fact that all operations are carried out regionally, the direct impact is not likely to be material. However, it is recognised that the economic consequences, particularly from a protracted conflict, could significantly impact both the Global and, by extension, UK economies. Of particular note, this will no doubt add further pressure on household finances and, whilst there could be an increase in payment difficulties for some borrowers, the Society's credit risk is well managed. The sensitivity to impairment losses in note 1.13 highlights the Society's ability to absorb adverse changes to house prices and loan defaults.

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

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 annual accounts. The Directors have also prepared forecasts to consider their effect on the Society's business and financial position. This includes the impact on capital, liquidity and credit risk of operating under stressed, but plausible, operating conditions covering the Plan period from 2022 to 2025.

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.

Directors' Report (continued)

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.

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,

Richard Doe

Director and Chief Executive
15 March 2022

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 sustainability 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 few 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.

Board comment:
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 a Vision, Mission and Purpose Statement. All three statements are central to the Society's business plan and strategy. The Purpose Statement describes the Society's service proposition, its commitment to its local communities and members, and its competitive advantage. The vision for the Society is to be the best small building society while its mission is to make the complex easy for its members. It aims to be experts in complex cases, offering a bespoke, quick and reactive service while putting brokers and customers at the heart of the process.

The Board is responsible for the overall leadership, culture and conduct of the Society and seeks to measure engagement of its colleagues through a combination of a culture survey (facilitated by the Financial Services Culture Board), meetings with colleagues, a review of people MI such as attrition and exit interviews, and feedback from board effectiveness reviews. The results of the survey, people MI, feedback and board effectiveness reviews are analysed to develop further a workplace environment for our people to thrive and succeed aligned with the strategy. The Board recognises that the higher the employee engagement the greater the impact on success.

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 meet without the Chair present at least once a year. All Non-Executive Directors endeavour to meet employees, both formally and informally, throughout the year although the pandemic has made this somewhat challenging. The Board is committed to engaging with employees further in 2022 to ensure that it is able to take account of their interests.

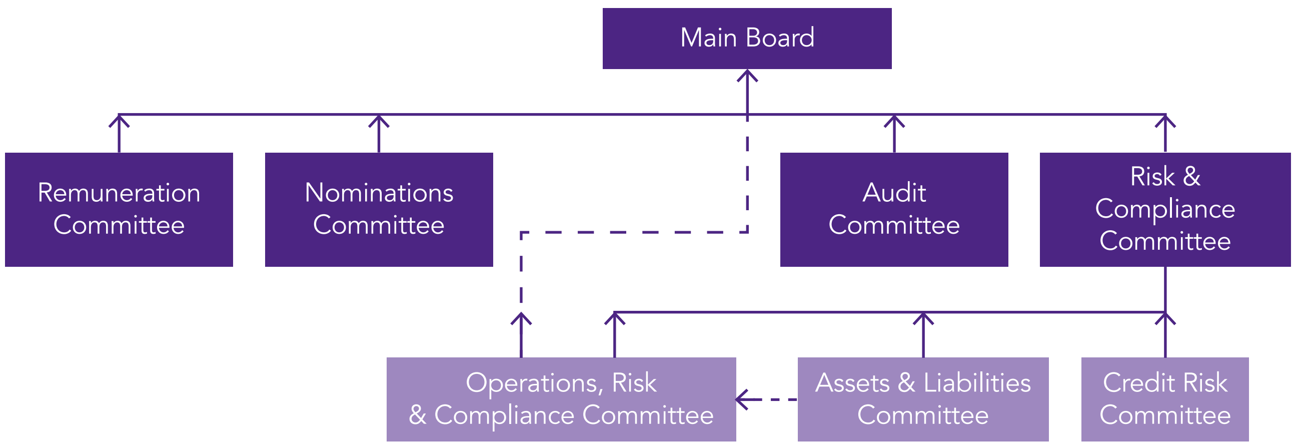
The Board is effective because of its focus on strategy and risk management in an environment where constructive challenge is encouraged. All Board members have the benefit of appropriate liability insurance at the Society's expense and have access to independent legal and other appropriate professional 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 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 Risk & Compliance Committee and Audit Committee are set out below.

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



Corporate Governance Report (continued)

The Operations, Risk & Compliance, Credit Risk, and Assets & Liabilities Committees are management committees and report to the 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.

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. 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 and Chief Risk Officer 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 determines the policy for Executive Director remuneration and for setting the remuneration for the Chairman, all Executive Directors and the Leadership Team in line with the Remuneration Code and the 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 and the Head of People are invited to attend, but they are not members of the committee.

The Directors' Remuneration Report is included on page 32.

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 have the right balance of skills, knowledge, experience, independence and diversity to enable them to discharge their duties and responsibilities effectively.

The committee currently comprises three 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 annual accounts, internal and external audit functions, and internal controls system.

The committee comprises three Non-Executive Directors and meets as required but at least four times a year. 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.

Attendance at Board and Board Committee Meetings

All Directors make the necessary time 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	Risk & Compliance	Remuneration	Nominations	Audit
S. Richardson	9 of 9*	-	2 of 2	5 of 5*	-
N. Boothroyd	8 of 9	5 of 5	3 of 3*	5 of 5	-
L. Beecher	4 of 4		1 of 1	1 of 1	0 of 1
R. Doe	9 of 9	-	1 of 1	3 of 3	2 of 2
D. Green	9 of 9	5 of 5	-		4 of 4*
S. Howe	7 of 7	-	-		-
G. McGrady	9 of 9	-	-		-
J. Mortimer Sykes	4 of 4	-	1 of 1	2 of 2	1 of 1
M. Willis	8 of 9	5 of 5*	-		4 of 4

* Indicates Chair of Board/Committee as at the reporting date

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 by email. The Society conducts customer and market research to ensure it continues to consider the requirements of members both now and in the future. The Society will continue to consider how best to improve its engagement with its membership during 2022.

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.

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.

The Board recognises the role that 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 employees and taking on board their feedback.
This is conducted through departmental meetings and attending business briefings or training sessions with teams from the Society. It is hoped that further engagement will take place in 2022 as employees return to the office.

The Society works with the Hertfordshire Community Foundation to support local charities and in 2021 it allocated funds to several charities. The Society 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, health advice and education, and mental health first aid provision. 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 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 internally and externally via a whistleblowing service provider and to the regulator.

Divisions 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 five 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.

Corporate Governance Report (continued)

The offices of the 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 been appointed as the Senior Independent Director and as such 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.

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 2021 is set out on page 25.

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 Sharepoint site.

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 and inclusion 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 14% while the Leadership Team comprises 12.5% women and their direct reports 46%. The Board is conscious that it has taken a step back in terms of its gender target following Sarah Howe's resignation, however, it hopes to initiate a search in 2022 or early in 2023 to fill the current Non-Executive Director vacancy with a female candidate.

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 Lesley Beecher as its new Non-Executive Director.

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 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 seven Directors (two Executive and five 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 9 to 11 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 all Directors to be submitted for election at the Annual General Meeting (AGM) following their first appointment to the Board and thereafter for re-election at least every three years after first being elected. Notwithstanding this and in line with the Code, the Board has agreed that all directors should submit themselves for re-election on an annual basis. Accordingly, all of the Society's Directors will be retiring at this year's AGM and submitting themselves for re-election. This includes Richard Doe who moved from his position as Non-Executive Director to become Chief Executive Officer in September 2021. Lesley Beecher will stand for election having been appointed to the Board in July 2021.

Non-Executive Directors can serve up to a maximum of nine years from the date of their first appointment.

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. Following this year's online assessment, an action plan for continued improvement and development was put in place to address the points raised, and good progress has been made during 2021 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 has an annual performance appraisal carried out by the Chair (or in the case of the Finance Director, the Chief Executive Officer) who takes into account the views of the other directors and key stakeholders. The Chair's performance is separately evaluated by the full Board and facilitated by the Senior Independent Director. All Directors are also subject to a mid-year review.

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 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 annual accounts, 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.

This year the Audit Committee initiated a tender process in respect of its Internal Auditors that led to four firms being invited to tender to provide internal audit services to the Society. Following a review of each tender and two firms being called to interview, the Audit Committee concluded that Deloitte continued to provide the best service and recommended their reappointment to the Board. The Board duly approved Deloitte's reappointment.

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

COVID-19

The additional impact of COVID-19, together with other adverse impacts on economic recovery, 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 its internal scenario and stress testing. This was to ensure there were no potential stressed impacts that could undermine the business model or the going concern assertion.

Loan loss provisioning

The Society estimates the level of mortgage loss provision required based on historic default and loss experience. There remains uncertainty in the economic recovery that we have so far seen during 2021/2 and we continue to monitor and reassess credit risk and its impact on loan loss provisions. 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. This has included an assessment against external loss data, sensitivity analysis to changing house price and default assumptions and comparison to alternative stress scenarios conducted by the Society as part of its capital assessment (ICAAP).

The Audit Committee has examined and challenged the assumptions included within the Society's provisioning model during the year and is satisfied with the approach and level of provisions made. It is recognised that there has been a release in loan loss provisions in 2021, however, this is against a backdrop of no loss experience and low LTVs for both the existing book and, importantly new lending. This protection to adverse movements in economic factors results in a resilient loan book from a credit risk perspective.

Property valuations

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 2020 valuations, together with their locale, selling prices of alternative properties, sensitivity to change and the current economic conditions.

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 20.

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 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

Department

Day to Day Risk management

Departmental managers perform daily checks and monitoring on activities and functions for which they have direct responsibility.

2nd Line of Defence

Internal Risk and Compliance

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.

3rd Line of Defence

Internal Audit

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.

External Audit

Regulator

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 Leadership 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 Principles relating to remuneration.

On behalf of the Board of Directors,

Stephen Richardson

Chair
15 March 2022

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.

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. In determining Executive Director and Leadership Team remuneration, it first reviews 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 Leadership 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. The policy is made available to all employees.

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[1].** 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 annual accounts 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 2021 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 pension contribution to Executive Directors aligns with that of the workforce and is set at 10% of basic 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** - R. Doe is employed on a Service Contract dated 24 September 2021, 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.

[1]Richard Doe's basic salary has intentionally been set below that of the previous incumbent, with the potential for a higher discretionary bonus, to encourage the achievement of predetermined targets and metrics. Any increased percentage will only be paid if the Society achieves significant stretch targets in the performance year it relates to. There was no bonus paid to Executive Directors in 2021.

Directors’ Remuneration Report (continued)

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 Leadership 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.

Nigel Boothroyd

Chair of Remuneration Committee
15 March 2022

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 2021 which comprise 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 2021 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:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the society's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions made and the implication of those when assessing the society's future financial performance;
- Assessing the reasonableness of the society's 4-year Corporate Plan, ICAAP and ILAAP documentation which form the basis of their Going concern assessment and considering whether the stresses applied are appropriate for assessing going concern;
- Assessing and challenging key assumptions and mitigating actions put in place in response to Covid-19;
- Considering the consistency of the directors' forecasts with other areas of the annual accounts and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the annual accounts on going concern.

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 matter 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.

This matter, 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 *The accounting policy is set out in Note 1.5 of the annual accounts.* Note 1.13 set out the assumptions applied in determining the impairment provisions in respect of its loans and advances to customers. The allowance of impairment is set out in note 13 of the annual accounts and the net outstanding on loans and advances to customers in note 12. The society holds £217.2m (2020: £226.4m) of loans and advances to customers against which the impairment provisions of £66,000 (2020: £244,000) has been provided for at the year end. Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year end provisions. FRS 102 requires a collective provision for losses incurred but not yet identified by the Society. The Society has limited actual loss experience on which to base its impairment assessment on the loan portfolio, resulting in management judgement being required in deriving assumptions to be applied in the assessment. 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), probability of default (PD's) and forced sale discounts against collateral	Our audit procedures included, but were not limited to: • Tested the design, implementation and operating effectiveness of the key controls in relation to credit processes (loans origination and approval, loans redemptions, system calculation of arrears); • Critically assessed how management has calculated the accounting estimate, including 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 with comparable lenders and considered whether they are consistent with industry practice. Additionally, we assessed whether the provision held is commensurate with the loan book size and inherent risk using coverage ratios obtained from peer group benchmarking; • We have developed an auditor's estimate of the collective provision using reasonable alternative assumptions relevant to the society's portfolio; and • Assessed the impact of 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 reasonable and in compliance with FRS102.

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

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	£288,000 (2020: £282,000)
How we determined it	1% of net assets
Rationale for benchmark applied	We consider that net assets are 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 an 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 £201,000 was applied in the audit based on 70% overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £8,600 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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 annual accounts 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 course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the annual accounts themselves. 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.

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

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 received all the information and explanations and access to documents we require for our audit.

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 anti-money laundering regulations.

To help us identify instances of non-compliance with these laws and regulations, and 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

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

- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts based on our general commercial and sector experience and through discussions with the directors (as required by auditing standards), inspection of the society's regulatory and legal correspondence and review of minutes of directors' meetings in the year.

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.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the annual accounts, including the risk of management override of controls, and determined that the principal risks 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.

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; 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.

The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

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 to audit the annual accounts for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2020 to 31 December 2021.

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
15 March 2022

Statement of Comprehensive Income

for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Interest receivable and similar income	2	7,770	8,315
Interest payable and similar charges	3	(1,156)	(2,113)
Net interest income		**6,614**	6,202
Fees and commissions receivable		191	167
Fees and commissions payable		(149)	(143)
Other operating income	4	90	195
Fair value gains on investment property	17	109	-
Total net income		**6,855**	6,421
Administrative expenses	5	(6,817)	(6,040)
Depreciation and amortisation	15, 16	(135)	(152)
Operating profit before impairments and provisions		**(97)**	229
Release/(charge) on loan loss impairment	13	178	(16)
Operating profit before taxation		**81**	213
Provisions for liabilities	24	5	(2)
Profit before taxation		**86**	211
Tax expense	8	(50)	(44)
Profit for the financial year		**36**	167
Other comprehensive income			
Revaluation of property, plant and equipment	16	346	-
Movement in related deferred tax liability	23	4	(24)
Total comprehensive income for the financial year		**386**	143

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 44 to 71.

Statement of Financial Position

at 31 December 2021

	Notes	2021 £000	Restated 2020 £000
Assets			
Liquid assets			
Cash in hand and balances at the Bank of England	9	62,793	61,342
Loans and advances to credit institutions	10	10,208	9,426
Loans and advances to customers			
Loans fully secured on residential property	12	213,298	221,871
Loans fully secured on land	12	3,650	4,061
Investments			
Participating interests	14	163	163
Intangible assets	15	8	7
Tangible fixed assets	16	2,901	2,528
Investment property	17	2,189	2,080
Other debtors	18	557	551
Total assets		**295,767**	302,029
Liabilities			
Shares	19	260,715	268,084
Amounts owed to credit institutions	20	1,236	986
Amounts owed to other customers	21	3,296	3,585
Other liabilities	22	1,070	364
Deferred tax	23	347	280
Provisions for liabilities	24	-	13
Total liabilities		**266,664**	273,312
General reserve	25	27,711	27,675
Revaluation reserve	25	1,392	1,042
Total reserves attributable to the members of the Society		**29,103**	28,717
Total of liabilities and equity		**295,767**	302,029

The accounting policies and notes to these Accounts can be found on pages 44 to 71.

These accounts were approved by the Board of Directors on 15 March 2022 and signed on its behalf:

Stephen Richardson
Chair

Richard Doe
Chief Executive

George McGrady
Finance Director

Statement of Changes in Members' Interests

for the year ended 31 December 2021

	General reserve 2021 £000	Revaluation reserve 2021 £000	Total 2021 £000
Balance at 1 January 2021	**27,675**	**1,042**	**28,717**
Total comprehensive income for the year			
Profit for the financial year	**36**	**-**	**36**
Revaluation of tangible fixed assets (net of tax)	**-**	**350**	**350**
Total comprehensive income for the year	**36**	**350**	**386**
Balance at 31 December 2021	**27,711**	**1,392**	**29,103**

	General reserve 2020 £000	Revaluation reserve 2020 £000	Total 2020 £000
Balance at 1 January 2020	27,333	1,241	28,574
Prior period adjustment	175	(175)	-
Restated balance at 1 January 2020	27,508	1,066	28,574
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	27,675	1,042	28,717

The prior period adjustment in relation to the 31 December 2020 financial year is due to a reallocation of a component of property from a fixed asset to investment property. Further details are included in note 16.

Statement of Cash Flow

for the year ended 31 December 2021

Cash flows from operating activities	Notes	2021 £000	2020 £000
Profit before tax		**86**	211
Adjustments for			
Impairment on loans and advances	13	**(178)**	16
Other provisions	24	**(5)**	-
Depreciation and amortisation	15, 16	**135**	152
Revaluation gains through profit and loss	17	**(109)**	-
Total		**(71)**	379
Changes in operating assets and liabilities			
Decrease/(increase) in prepayments, accrued income and other assets		**15**	(57)
Increase/(decrease) in accruals, deferred income, other liabilities and provisions		**681**	(348)
Decrease in loans and advances to customers		**8,984**	4,405
(Decrease)/increase in member shares		**(7,369)**	4,966
(Decrease)/increase in amounts owed to other credit institutions and other customers		**(39)**	472
Decrease in loans and advances to credit institutions		**-**	3,000
Taxation paid		**(34)**	(59)
Net cash generated/ (used in) by operating activities		**2,238**	12,379
Cash flows from investing activities			
Purchase of financial securities		**(3,000)**	-
Proceeds from financial securities		**3,000**	2,000
Proceeds from wholesale funding		**250**	-
Purchase of tangible fixed assets		**(156)**	(146)
Purchase of intangible fixed assets		**(7)**	-
Net cash generated by investing activities		**87**	1,854
Net increase in cash and cash equivalents		**2,254**	14,612
Cash and cash equivalents at 1 January		**67,739**	53,127
Cash and cash equivalents at 31 December		**69,993**	67,739

Reconciliation of cash balances:	2020 £000	Movement £000	2021 £000
Loans and advances to credit institutions repayable on demand	6,397	803	**7,200**
Cash in hand and balances at the Bank of England	61,342	1,451	**62,793**
Total cash	67,739	2,254	**69,993**

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 44 to 71.

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 20. 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 1.13.

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 law. The corporation tax rate will increase from the current 19% to 25% with effect from 1 April 2023 and therefore deferred tax has been based on the higher rate. 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 annual accounts.

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.

Loans and advances

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.

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 offered payment deferrals to borrowers as part of the response to COVID-19. The majority of borrowers who utilised this option have now improved their position with the overall impact now being stable. Any outstanding payments are now treated in line with the Society's standard procedures.

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.

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
- Lease hold 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.

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 charged 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. 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 behaviours.

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 in value of 10% impacts the provision by £162k. Other sensitivities include a forced sale discount increase of 10% which equates to £48k, probability of default, where a +/- 1% change would impact the charge by £18k, 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 £7k.

The carrying value of loans and advances to customers at 31 December 2021 is £217.2m.

Land and buildings and investment property

Land and buildings and investment property are measured at fair value with a valuation exercise carried out annually by an independent external valuer in accordance with the RICS Global Standards 2017 Edition (the "Red Book"). The Society considers the methodology and assumptions used by the independent external valuer to be supportable, reasonable and robust, the final valuation may be different to one that would have been used had there been a ready market for an identical property.

2. Interest receivable and similar income

	2021	2020
	£000	£000
On loans fully secured on residential property	**7,493**	7,889
On other loans	**212**	235
On debt securities	**-**	8
On other liquid assets	**65**	183
	7,770	8,315

Notes to the Accounts (continued)

3. Interest payable and similar charges

	2021 £000	2020 £000
On shares held by individuals	**1,156**	2,112
On deposits and other borrowings	**-**	1
	1,156	2,113

4. Net operating income

	2021 £000	2020 £000
Rents receivable	**147**	133
Other operating (expense)/ income	**(57)**	62
	90	195

The operating expense in 2021 relates to the repayment of the Government furlough subsidy received in 2020 and repaid in 2022.

5. Administrative expenses

	2021 £000	2020 £000
Wages and salaries	**3,202**	2,907
Social security costs	**340**	317
Contributions to defined contribution plans	**393**	396
	3,935	3,620
Other administrative expenses	**2,882**	2,420
	6,817	6,040

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

	2021 £000	2020 £000
Audit of these annual accounts	**95**	85

Notes to the Accounts (continued)

6. Employee numbers

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

	2021 Full-time	**2021 Part-time**	2020 Full-time	2020 Part-time
Head Office	**53**	**7**	48	6
Branch Offices	**7**	**11**	5	18
	60	**18**	53	24

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

7. Directors' remuneration

Total Directors' emoluments for the year amounted to £697,429 (2020: £614,518).

2021	**Salaries £000**	**Bonus £000**	**Benefits £000**	**Pension Contributions £000**	**Total £000**
R. Doe (Chief Executive)	**45**	**-**	**-**	**-**	**45**
S. Howe (former Chief Executive)	**262**	**-**	**14**	**23**	**299**
G. McGrady (Finance Director)	**143**	**-**	**12**	**14**	**169**
	450	**-**	**26**	**37**	**513**

Mrs S. Howe resigned from the Board on 17 September 2021 with Mr R. Doe appointed to the Board as Chief Executive on 24 September 2021. Mrs S. Howe received additional contractual payments of £53k in 2021, included in Directors' emoluments. There are further contractual payments and compensation of £66k payable during 2022, this has also been accrued in 2021 and included in Executive Directors' emoluments.

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

Notes to the Accounts (continued)

Non-Executive Director Emoluments (comprising fees only):

	2021	2020
	£000	£000
S. Richardson	45	45
J. Mortimer Sykes (Retired 23 April 2021)	10	32
P. Baynham	-	27
J. Robinson	-	7
N. Boothroyd	32	26
M. Willis	32	32
R. Doe (Resigned as a Non-Executive Director 24 September 2021)	20	22
D. Green	32	23
L. Beecher	13	-
	184	214

As at 31 December 2021, there were no outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons (2020: Nil) representing loans to nil (2020: 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

	2021 £000	2020 £000
Current tax		
Current tax on income for the period	-	39
Adjustments in respect of prior periods	(21)	(3)
Total current tax	(21)	36
Deferred tax (see note [23])		
Origination and reversal of timing differences	29	3
Effect of tax rate change on opening balance	42	5
Total deferred tax	71	8
Total tax	50	44

Reconciliation of effective tax rate	2021 £000	2020 £000
Profit for the year	36	167
Total tax expense	50	44
Profit excluding taxation	86	211

	2021 £000	2020 £000
Tax using the UK corporation tax rate of 19.00%	16	40
Fixed asset differences	5	1
Adjustments to tax charge in respect of previous periods	(21)	(3)
Expenses not deductible for tax purposes	-	1
Remeasurement of deferred tax for changes in tax rates	29	5
Losses carried back	21	-
Total tax expense included in profit or loss	50	44

The standard rate of Corporation tax in the UK was 19% and accordingly the Society's profits have been taxed at this effective rate (2020: 19%). Deferred tax has been measured on the substantively enacted rate of 25%. Further details on the deferred tax are included in note 23.

Notes to the Accounts (continued)

9. Cash and cash equivalents

	2021 £000	2020 £000
Cash in hand and balances at the Bank of England	**62,793**	61,342
As at 31 December	**62,793**	61,342

10. Loans and advances to credit institutions

	2021 £000	2020 £000
Accrued interest	**8**	29
Repayable on demand	**7,200**	6,397
Other loans and advances by residual maturity repayable:		
In not more than three months	**3,000**	3,000
In more than three months but not more than one year	**-**	-
Total loans and advances to credit institutions	**10,208**	9,426

11. Debt securities

	2021 £000	2020 £000
As at 1 January	-	2,000
Additions	-	-
Maturities	-	(2,000)
As at 31 December	**-**	**-**

Notes to the Accounts (continued)

12. Loans and advances to customers

	2021 £000	2020 £000
Loans fully secured on residential property	**213,298**	221,871
Loans fully secured on land	**3,650**	4,061
	216,948	225,932

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

On call and at short notice	**7,419**	4,132
In not more than 3 months	**4,305**	4,625
In more than 3 months but not more than 1 year	**9,477**	16,864
In more than 1 year but not more than 5 years	**53,537**	54,104
In more than 5 years	**142,485**	146,672
	217,223	226,397
Less: allowance for impairment (note 13)	**(66)**	(244)
Less: unamortised fee	**(209)**	(221)
	216,948	225,932

The maturity analysis above is based on contractual maturity and 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 2021			
Individual impairment	-	-	**-**
Collective impairment	237	7	**244**
	237	**7**	**244**
Income statement			
Release for the year			
Individual impairment	-	-	**-**
Collective impairment	(173)	(5)	**(178)**
	(173)	**(5)**	**(178)**
At 31 December 2021			
Individual impairment	**-**	**-**	-
Collective impairment	**64**	**2**	**66**
	64	**2**	**66**

	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

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. The company has a 31 December year end. On 31 December, the Society's investment, which is a participating interest, was represented by:

	2021 £000	2020 £000
Shares in participating interest	**163**	163
At end of year	**163**	163

The Society has performed an impairment assessment of its investment and considers that the recoverable amount exceeds it carrying amount. On 1 January 2020, the existing Ordinary Shares of Mutual Vision Technologies Limited were cancelled and replaced with new fully paid Ordinary 'A' Shares. In addition, the loan of £155k was converted into 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 is 15.16% (2020: 15.16%) of the fully paid Ordinary Shares of the Company.

15. Intangible assets

	Software 2021 £000	Software 2020 £000
Cost		
Balance at 1 January	**312**	312
Additions	**7**	-
Balance at 31 December	**319**	312
Amortisation and impairment		
Balance at 1 January	**305**	286
Amortisation charge for the year	**6**	19
Balance at 31 December	**311**	305
Net book value		
At 1 January	**7**	26
At 31 December	**8**	7

16. Tangible fixed assets

	Freehold land and buildings	Short leasehold buildings	Office & computer equipment	Total
	£000	£000	£000	£000
Cost or valuation				
Balance at 1 January 2021	**2,285**	**120**	**1,094**	**3,499**
Additions	**-**	**-**	**156**	**156**
Disposals	**-**	**-**	**-**	**-**
Revaluation	**190**	**-**	**-**	**190**
Balance at 31 December 2021	**2,475**	**120**	**1,250**	**3,845**
Depreciation and impairment				
Balance at 1 January 2021	**114**	**83**	**774**	**971**
Depreciation charge for the year	**42**	**3**	**84**	**129**
Revaluation adjustment	**(156)**	**-**	**-**	**(156)**
Balance at 31 December 2021	**-**	**86**	**858**	**944**
Net book value				
At 1 January 2021	**2,171**	**37**	**320**	**2,528**
At 31 December 2021	**2,475**	**34**	**392**	**2,901**

Annual valuations as at 31 December 2020 and 2021 were performed by an independent valuer, London's Surveyors & Valuers Ltd, holding 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.

The valuation of a component of a property has been transferred from freehold land and building to investment property as at 1 January 2020. The value of the property (Aberdeen House) has not changed, however, the transfer of £350k between freehold and investment property has been made following a change in valuation from a square foot to component unit basis. This has resulted in an equivalent £350k increase to the 2020 value in the investment property for Aberdeen House from £750k to £1,100k (note 17).

Notes to the Accounts (continued)

16. Tangible fixed assets (continued)

	Freehold land and buildings	Short leasehold buildings	Office & computer equipment	Total
	£000	£000	£000	£000
Cost or valuation				
Balance at 1 January 2020	2,635	120	948	3,703
Prior period adjustment	(350)	-	-	(350)
Restated balance at 1 January	2,285	120	948	3,353
Additions	-	-	146	146
Disposals	-	-	-	-
Revaluation	-	-	-	-
Balance at 31 December 2020	2,285	120	1,094	3,499
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	2,228	41	246	2,515
Balance at 31 December 2020	2,171	37	320	2,528

17. Investment property

	Mardall House	**Aberdeen House**	**Total**
	£000	**£000**	**£000**
Valuation			
Balance at 1 January 2021	**980**	**1,100**	**2,080**
Revaluation	**109**	**-**	**109**
Balance at 31 December 2021	**1,089**	**1,100**	**2,189**

	Mardall House	Aberdeen House	Total
Valuation	£000	£000	£000
Balance at 1 January 2020	980	750	1,730
Prior period adjustment	-	350	350
Restated balance at 1 January 2020	980	1,100	2,080
Revaluation	-	-	-
Balance at 31 December 2020	980	1,100	2,080

Investment property consists of the proportion of the Society's freehold property that has been sub-let as office or residential units. The leases on the investment property are contractually for a minimum of £141k within one year, £117k in more than one year but not more than five years.

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

	2021 £000	2020 £000
Trade debtors	-	2
Prepayments and accrued income	557	549
	557	551

There are no prepayments and accrued income that are due after more than one year (2020: £nil).

19. Shares

	2021 £000	2020 £000
Held by individuals	260,715	268,084

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

Accured interest	168	364
On demand	238,471	242,662
In not more than three months	1,418	1,033
In more than three months but not more than one year	3,581	3,866
In more than one year but not more than five years	10,311	12,073
In more than five years	6,766	8,086
	260,715	268,084

20. Amounts owed to credit institutions

	2021 £000	2020 £000
Accrued interest	-	-
Repayable on demand	986	986
With agreed maturity dates or periods of notice		
In not more than three months	250	-
In more than three months but not more than one year	-	-
	1,236	986

Notes to the Accounts (continued)

21. Amounts owned to other customers

	2021 £000	2020 £000
Accrued interest	-	-
Repayable on demand	**3,296**	3,585
With agreed maturity dates or periods of notice		
In not more than three months	-	-
In more than three months but not more than one year	-	-
	3,296	3,585

22. Other liabilities

	2021 £000	2020 £000
Income tax	-	-
Corporation tax	(21)	26
Other creditors	136	265
Accruals and deferred income	955	73
	1,070	364

23. Deferred tax

	2021 £000	2020 £000
Deferred tax assets and liabilities are attributable to the following:		
Origination and reversal of timing differences	**(4)**	24
Tax included in statement of total recognised gains and losses	**(4)**	24
Fixed asset timing differences	**405**	339
Short term timing differences	**(58)**	(59)
Total deferred tax liability	**347**	280
Provision at start of period	**280**	248
Deferred tax charged in Profit and loss account for the period	**71**	8
Deferred tax charged in the statement of total recognised gains and losses	**(4)**	24
Provision at end of period	**347**	280

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

The deferred tax liability at 31 December 2021 has been calculated based on a 25% (2020: 19%) rate.

The tax on items reported through the statement of comprehensive income for the revaluation of the property, plant and equipment is a credit of £4k (2020: £24k charge).

Notes to the Accounts (continued)

24. Provisions for specific liabilities

	FSCS £000	Customer Claims £000	Total £000
Balance at 1 January 2021	3	10	**13**
Paid in year	-	(8)	**(8)**
Income and Expenditure account:			
Increase/(decrease) in provision	(3)	(2)	**(5)**
Balance at 31 December 2021	**-**	**-**	**-**

25. Reserves

	General reserve £000	Revaluation reserve £000	Total £000
At 1 January 2021	27,675	1,042	**28,717**
Total comprehensive income for the financial year	36	350	**386**
At 31 December 2021	**27,711**	**1,392**	**29,103**

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 2021	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**	**Other non-financial assets £000**	**Total £000**
Financial assets				
Cash and balances at the Bank of England	62,793	-	-	**62,793**
Loans and advances to credit institutions	10,208	-	-	**10,208**
Loans and advances to customers	216,948	-	-	**216,948**
Total financial assets	**289,949**	**-**	**-**	**289,949**
Non-financial assets	-	-	5,818	**5,818**
Total assets	**289,949**	**-**	**5,818**	**295,767**
Financial liabilities				
Shares	-	260,715	-	**260,715**
Amounts owed to credit institutions	-	1,236	-	**1,236**
Amounts owed to other customers	-	3,296	-	**3,296**
Total financial liabilities	-	**265,247**	-	**265,247**
Non-financial liabilities	-	-	1,417	**1,417**
Total liabilities	-	**265,247**	**1,417**	**266,664**

Carrying values by category 31 December 2020	Loans and receivables £000	Financial liabilities at amortised cost £000	Other non-financial assets £000	Total £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
Loans and advances to customers	225,932	-	-	225,932
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

At the year end, the Society has loan commitments of £12,574k (2020: £18,257k) measured at cost.

26. Financial instruments (continued)

Financial assets pledged as collateral

As at 31 December 2021 no assets had been pledged as collateral (2020: £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

	2021	2020
	£000	£000
Cash and balances at the Bank of England	**62,793**	61,342
Loans and advances to credit institutions	**10,208**	9,426
Loans and advances to customers	**217,223**	226,397
Total statement of financial position exposure	**290,224**	297,165
Off-balance sheet exposure - mortgage commitments	**12,574**	18,257
	302,798	315,422

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:

	2021	2020
	£000	£000
Prime owner-occupied	**161,531**	172,685
Buy to let	**31,106**	27,593
Land	**3,652**	4,068
Other loans and advances to customers	**20,934**	22,051
Total loans and advances to customers	**217,223**	226,397

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.

	2021	2021	2021	2020	2020	2020
	Loans fully secured on residential property	Loans fully secured on land	Total	Loans fully secured on residential property	Loans fully secured on land	Total
	£000	£000	£000	£000	£000	£000
Neither past due nor impaired	210,342	3,394	213,736	217,759	3,787	221,546
Past due but not impaired						
30 - 60 days	1,342	154	1,496	2,273	281	2,554
60 - 90 days	634	-	634	720	-	720
90 - 180 days	408	-	408	466	-	466
180 days+	636	104	740	890	-	890
	3,020	258	3,278	4,349	281	4,630
Individually impaired						
60 - 90 days	-	-	-	-	-	-
	-	-	-	-	-	-
Allowance for impairment						
Individual	-	-	-	-	-	-
Collective	64	2	66	237	7	244
Total allowance for impairment	64	2	66	237	7	244
Total loans & advances to customers including impairment	213,298	3,650	216,948	221,871	4,061	225,932

Notes to the Accounts (continued)

26. Financial instruments (continued)

Credit risk (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.

	2021	2020	Principal type of collateral held
Percentage of exposure that is subject to collateral requirements	%	%	
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.

	2021 £000	2020 £000
LTV ratio		
Less than 50%	132,098	130,997
51 - 70%	79,352	82,407
71 - 90%	5,773	12,885
91 - 100%	-	108
More than 100%	-	-
	217,223	226,397

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:

	2021 Number of cases	2020 Number of cases
Forbearance		
Short-term reduced monthly repayment plan	11	7

There are no individual impairment provisions held in respect of these mortgages as at 31 December 2021 (2020: £nil).

Notes to the Accounts (continued)

26. Financial instruments (continued)

Concentration by credit grading

	2021 £000	2020 £000
AAA	-	-
AA+ to AA-	66,043	64,581
A+ to A-	3,870	3,089
Building societies	3,000	3,000
Other	88	98
	73,001	70,768

Concentration by sector

	2021 £000	2020 £000
Financial institutions	10,296	9,524
Supranational institutions	-	-
Sovereign	62,705	61,244
	73,001	70,768

Concentration by region

	2021 £000	2020 £000
UK	73,001	70,768
Europe (excluding UK)	-	-
North America	-	-
Supranational	-	-
	73,001	70,768

Liquidity risk

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 repricing dates of assets and liabilities in line with its Financial Risk Management Policy.

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.

Notes to the Accounts (continued)

26. Financial instruments (continued)

As at 31 December 2021

	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	62,793	-	-	-	-	62,793
Loans and advances to credit institutions	7,200	3,000	-	-	-	10,200
Loans and advances to customers	7,419	4,305	9,477	53,537	142,485	217,223
Total financial assets	**77,412**	**7,305**	**9,477**	**53,537**	**142,485**	**290,216**
Financial liabilities						
Shares	238,471	1,418	3,581	10,311	6,766	260,547
Amounts owed to credit institutions	1,236	-	-	-	-	1,236
Amounts owed to other customers	3,296	-	-	-	-	3,296
Total financial liabilities	**243,003**	**1,418**	**3,581**	**10,311**	**6,766**	**265,079**

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
Loans and advances to customers	4,132	4,625	16,864	54,104	146,672	226,397
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

26. Financial instruments (continued)

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 2021

	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	238,471	1,418	3,583	10,447	8,192	262,111
Amounts owed to credit institutions	1,236	-	-	-	-	1,236
Amounts owed to other customers	3,296	-	-	-	-	3,296
Total financial liabilities	**243,003**	**1,418**	**3,583**	**10,447**	**8,192**	**266,643**

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

Market risk

'Market risk' is the risk that the fair 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.

26. Financial instruments (continued)

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.

As at	**2021** **100bp increase**	**2021** **25bp decrease**	2020 100bp increase	2020 25bp decrease
Sensitivity of projected net interest income				
At 31 December	**(131)**	**33**	(168)	35
Average for the period	**(133)**	**34**	(107)	22
Maximum for the period	**(138)**	**35**	(168)	35
Minimum for the period	**(128)**	**33**	(75)	15

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.

Common Equity Tier 1 capital

	2021 **£000**	2020 £000
General reserve	**27,711**	27,675
Revaluation reserve	**1,392**	1,042
Intangible assets	**(8)**	(7)
Common Equity Tier 1 capital	**29,095**	28,710
Tier 2 capital		
Collective provision	**66**	244
Total capital	**29,161**	28,954

27. Operating leases

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

	2021	2020
	£000	£000
Not later than one year	**36**	49
Later than one year and not later than five years	**144**	-
Later than five years	**63**	-
	243	49

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.

During the year, a total of £295,762 (2020: £270,427) was paid to MV in respect of software maintenance services.

As at 31 December 2021 there were no related party liabilities (2020: nil).

Transactions with key management personnel

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

Mortgage loans made to key management personnel are 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 (2020: £Nil).

Key management personnel hold £11,068 in share accounts with the Society (2020: £10,782). 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 2021.

Name: Harpenden Building Society

Type of entity: Building Society

Nature of activity: Secured lending and deposit taking

Location: United Kingdom

Total Net Income: £6.9m

Profit before tax: £86k

Tax paid: £34k

Accrual for public subsidies returned: £57k

Number of employees: 78 FTE

Annual Business Statement

for the year ended 31 December 2021

1. Statutory percentages

	31 December 2021	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property ("The Lending Limit")	**2.01%**	25%
Proportion of shares and borrowings not in the form of shares held by individuals ("The Funding Limit")	**1.71%**	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 liquid assets and tangible fixed assets 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 2021.

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 2021.

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

As percentage of shares and borrowings:	2021	2020
Gross capital	**10.97%**	10.53%
Free capital	**9.07%**	8.93%
Liquid assets	**27.52%**	25.96%

As percentage of mean total assets:	2021	2020
Profit for the financial year	**0.01%**	0.06%
Management expenses	**2.33%**	2.07%

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 general loss provisions for bad and doubtful debts less tangible fixed assets.
- '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)

for the year ended 31 December 2021

3. Information relating to the Directors at 31 December 2021

Name	Date of Appointment and Committee Membership	Business Occupation	Other Directorships
N. Boothroyd	14 March 2019 Remuneration, Nominations and Risk & Compliance Committees	Non-Executive Director	British Arab Commercial Bank Plc Redwood Bank Limited (resigned 26 November 2021)
R Doe	23 April 2020 (Non-Executive Director) 30 September 2021 (Executive Director)	Executive Director	_
D. Green	26 October 2020 Audit and Risk & Compliance Committees	Non-Executive Director	_
S. Howe (resigned 17 September 2021)	14 March 2019	Executive Director	_
G McGrady	1 January 2017	Executive Director	_
J. Mortimer Sykes (retired 23 April 2021)	27 October 2011 Audit, Remuneration and Nominations Committees	Non-Executive Director	_
S. Richardson	30 January 2014 Remuneration and Nominations Committees	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
L. Beecher	9 July 2021 Audit, Remuneration and Nominations Committees	Non-Executive Director	Cornerstone Mutual Services Limited (in liquidation)
M. Willis	25 April 2019 Risk & Compliance and Audit Committees	Non-Executive Director	_

Annual Business Statement (continued)

for the year ended 31 December 2021

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.

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

Mrs. L. Beecher entered a service contract on or about 28 April 2021 upon her appointment.

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

Mr. R. Doe is employed under an employment contract dated 24 September 2021, terminable by the Society or by the individual on six months' notice.

Mr. G. McGrady is employed under an employment 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.

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