
31 DECEMBER 2009

SOCIETY INFORMATION

Established and incorporated 1953
Financial Services Authority Registered No. 157260
Eligible for investments by trustees
Member of the Building Societies Association
Member of the Council of Mortgage Lenders

Head Office

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

Directors

Michael W. Willis, FCA
Nigel S. Terry
Carl D. Astley, BSc (Hons), ACA
David J. Holland
Paul G. Marsden, BSc (Hons), DipOccPsych
Hugh H. Titcomb, BA (Hons), FCIB
Kate M. Wilson, BA (Hons), MBA (Harvard)

Chairman
Vice-Chairman
(Co-opted 1 January 2010)

Executive

Paul G. Marsden, BSc (Hons), DipOccPsych
Carl D. Astley, BSc (Hons), ACA
Richard S. Mason, BA (Hons), FCIB
Philip L. Bannister

Director, Chief Executive & Secretary
Finance Director
Head of Lending
Head of Operations and Investments

Solicitors

Neves
2 Sun Lane
Harpenden
Hertfordshire
AL5 4ET

Bankers

HSBC Bank plc
1 High Street
Harpenden
Hertfordshire
AL5 2RS

Auditors

Mazars LLP
Chartered Accountants
The Atrium
Park Street West
Luton
Bedfordshire
LU1 3BE

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their fifty-seventh Annual Report and Accounts for the year ended 31 December 2009.

CORPORATE GOVERNANCE AND BOARD COMMITTEES

The Board of Directors is committed to best practice in corporate governance and applies the principles in the Combined Code insofar as that guidance applies to building societies.

The current Board comprising two executives, four non-executives and the Chairman meets formally on a monthly basis. All Board members have the benefit of appropriate liability insurance at the Society's expense and all have access to independent professional advice if required.

All directors, both on appointment and thereafter, must meet the tests of fitness and propriety prescribed by the Financial Services Authority (FSA) and are required to be registered with the FSA.

As well as attending Board meetings all directors are required to serve on one or more of the following committees:

The Remuneration and Nominations Committee is responsible for reviewing and effecting appropriate remuneration levels for executive directors, non-executive directors and all staff members annually and recommending to the Board of Directors a succession plan for directors. It comprises two non-executive directors.

The Mortgage Committee, comprising one executive and two non-executive directors, meets monthly to review all new mortgage lending and arrears and also makes policy recommendations to the Board.

The Management Committee comprising a non-executive director and all senior management meets monthly to consider operational matters, review business performance and monitor costs.

The Audit and Compliance Committee comprising three non-executive directors and the Internal Auditors meets quarterly. It oversees external audit and internal control and its duties include the setting and review of procedures, systems, control and inspection. The executive directors are normally invited to attend all, or part, of the meetings but are not members of the Committee.

The Marketing and TCF Committee is responsible for reviewing the marketing strategy and plan for recommendation to the Board of Directors. It also monitors the compliance of the Society with its Treating Customers Fairly (TCF) policy. It comprises one executive and 2 non-executive directors and meets bi-monthly.

The Charitable Trust Committee comprises one executive and 2 non executive directors and meets a minimum of twice a year, on an ad-hoc basis, to review and recommend to the Board of Directors the beneficiaries of the Society's annual charitable donations.

Further details of the membership of Board Committees are given in the Annual Business Statement on page 31.

DIRECTORS' ATTENDANCE RECORD 2009

	<i>Board</i>	<i>AGM</i>	<i>Audit & Compliance</i>	<i>Mortgage</i>	<i>Management</i>	<i>Remuneration & Nominations</i>	<i>Marketing & TCF</i>
M.W. Willis	10 (11)	1 (1)	0 (0)	3 (3)	3 (1)	0 (0)	0 (0)
N.S. Terry	10 (11)	1 (1)	4 (4)	6 (7)	1 (1)	0 (0)	0 (0)
D.J. Holland	10 (11)	0 (1)	4 (4)	8 (7)	1 (1)	1 (1)	0 (0)
P.G. Marsden	11 (11)	1 (1)	4 (4)	10 (12)	11 (12)	0 (0)	5 (5)
H.H. Titcomb	9 (11)	1 (1)	4 (4)	5 (8)	1 (1)	0 (0)	5 (5)
K.M. Wilson	10 (11)	1 (1)	0 (0)	3 (3)	6 (8)	1 (1)	5 (5)

() = Number of meetings expected to attend

DIRECTORS' REMUNERATION REPORT

This report explains the Society's policy on the remuneration of executive and non-executive directors. Where possible this follows the Combined Code, which sets out best practice on Corporate Governance relating to remuneration.

Remuneration Committee

The Committee, comprising two non-executive directors, is responsible for recommending the level of executive and non-executive directors' pay and benefits to the Board.

Non-Executive Directors

Fees are based on comparable data from similar financial service organisations and are reviewed annually. Non-executive directors do not qualify for a pension or a bonus but do qualify for Death-in-Service benefit at the rate of three times annual fees. Performance of individual directors is assessed by the chairman, and he in turn is assessed by the other members of the Board.

Executive Directors' Remuneration

Policy is designed to attract, retain and encourage high calibre executives to manage and develop business for the Society.

- Basic Salary - takes into account duties, responsibilities, performance and levels for comparable positions in other organisations.
- Pensions - the chief executive and finance director have defined contribution personal pension arrangements to which the Society and employee both contribute.
- Benefits - each executive director is entitled to a company car (or car allowance), private medical insurance for self and spouse and Death-in-Service benefit at the rate of three times annual salary.

Details of Directors' emoluments are given in Note 7 to the accounts

DIRECTORS' RESPONSIBILITIES FOR PREPARING THE ANNUAL ACCOUNTS

The following statement, which should be read in conjunction with the statement of Auditors' Responsibilities on page 8, is made by the directors to explain their responsibilities in relation to the preparation of the annual accounts, annual business statement and directors' report.

The directors are required by the Building Societies Act 1986 (the Act) to prepare for each financial year, annual accounts which give a true and fair view;

- of the affairs of the Society as at the end of the financial year;
- of the income and expenditure of the Society for the financial year.

In preparing these accounts, the directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable U.K. accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume the Society will continue in business.

In addition to the 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 CONTROL

The directors are responsible for ensuring that the Society:

- keeps accounting records in accordance with the Building Societies Act 1986 (as amended), and
- 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 Services Authority under the Financial Services & Markets Act 2000.

The directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

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 accounts.

BUSINESS OBJECTIVES AND ACTIVITIES

The Society's business objectives and principal activities are to provide a secure home for personal, commercial and semi-commercial savings and to encourage owner-occupation by the provision of mortgage finance. The Society intends to remain an independent local society with a strong capital position offering a high standard of personalised service to members together with competitive rates of interest.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Your Board is pleased to announce an extremely successful year of business within a challenging trading background.

Profit before tax of £2.437m shows a significant increase from last year's figure of £1.240m and is the result of the Board's desire to further strengthen the capital of the Society during this period of economic uncertainty.

In overall terms, our net assets at 31st December 2009 rose by 12.66% to £198.4m. Mortgage balances increased by 19.1% to £154.3m and we have advanced £52m to new and existing borrowers.

These achievements have been realised against continuing turbulence in the lending market and are a direct reflection of the skill and consistency of our staff.

Whilst the figures, all of which are records, are important, it must be clearly understood that they have been achieved without any change to our overall approach to lending, which has remained consistent in both policy and application for many years. Equally, on the depositor's side of the book, they have been achieved by our policy of continuing to offer competitive and attractive savings products.

The bulk of our lending, and indeed our growth, has been funded by members' deposits and in total terms, our liquidity at 31st December 2009 stood at £43.1m.

As an Industry Sector, the traditional Building Society movement is facing considerable challenges from an increasingly onerous regulatory environment. Whilst regulation *per se* is a vital facet of the overall picture, there is an increasing danger of some of the smaller Societies being overwhelmed by reporting demands which in reality are only of relevance to their much larger cousins. Here at the Harpenden we are well placed to meet these challenges.

The year saw your Society settle into its new Head Office and the removal and refurbishment of the Harpenden Branch to adjoining premises. Both of these moves have been particularly welcomed by our customers.

I am particularly pleased to announce the appointment of Carl Astley as Finance Director, who was co-opted to your Board in January and seeks election at this year's AGM. Carl has been Finance Manager at the Society since 2006 and has proven his skill and commitment through some very testing times; I hope that you will join with me in wishing him well and look forward to his valuable contribution in the years to come.

Finally, your board are especially thankful for the continuing support of members, customers, business partners and in particular, the staff.

TOTAL ASSETS

The Society's total assets at the end of 2009 were £198.4m, an increase of £22.3m or 12.7% for the year (2008: 11.3%).

LIQUID ASSETS

Cash deposits with banks, building societies and local authorities as at 31 December 2009 were £43.1m representing 21.7% of total assets (2008: 25.9%).

COMMERCIAL ASSETS

During the year, over £52m was advanced to new and existing borrowers. Total mortgage balances increased by £24.7m, or 19.1%, to £154.3m.

The proportion of mortgage assets fully secured on non-residential property as at 31 December 2009 was 9.25% (2008: 8.76%). The statutory limit is 25%.

SHARES, DEPOSITS AND LOANS

Share and deposit balances at 31 December 2009 were £183.5m, an increase of £20.3m or 12.4%.

The proportion of share and deposit liabilities held in the form of deposits as at 31 December 2009 was 11.29% (2008: 9.62%). The statutory limit is 50%. Depositors are not members of the Society and have no voting rights.

FIXED ASSETS

The Society's freehold premises were professionally revalued in December 2004 at £394,290 more than the net book value. However the December 1998 revaluation has to be retained as the basis for accounting policy purposes.

CAPITAL

The Society's total reserves increased by over £1.7m, being the post-tax operating profit for the year. Gross capital now stands at £13.5m, or 7.34% of share and deposit liabilities (2008: 7.18%).

The Society's free capital (gross capital less fixed assets) now represents 7.00% of share and deposit liabilities (2008: 6.81%).

OPERATING COSTS

Costs, as a percentage of mean total assets, increased on 2008 and the management expenses ratio changed from 1.20% to 1.27%. This ratio includes fees paid to mortgage introducers, although the related income is shown within other income, and, as a result of the increased level of mortgage business completed in the year, this ratio has increased.

DIRECTORS

The following persons were directors of the Society throughout 2009:

M.W. Willis (Chairman)
N.S. Terry (Vice-Chairman)
D.J. Holland
P.G. Marsden
H.H. Titcomb
K.M. Wilson

Messrs. M.W. Willis, D.J. Holland, and N.S. Terry have served as non-executive directors for more than nine years and now offer themselves for re-election annually.

AUDITORS

Mazars LLP have signified their willingness to continue in office and a resolution to approve their re-appointment as auditors will be proposed at the Annual General Meeting on 22 April 2010.

ACTIVITIES

The directors confirm that no activities have been carried on during the year, which are outside the powers of the Society. No political donations have been made during 2009, which require disclosure under the Act.

Charitable donations during the year amounted to £60,000. The Society has taken advantage of a pound-for-pound Government matching scheme and has transferred funds into the HBS Hertfordshire Community Foundation Trust. The balance in this fund, after Government matching, was £209,000 as at 31 December 2009.

Additionally, funds in the HBS Charitable Trust, held at the Charities Aid Foundation to be used for the benefit of the community and local charities nominated by the Society, total £10,000 as at 31 December 2009.

The incentive offered to members to vote at the Annual General Meeting in April 2009 also produced £2,483 which was donated to Diabetes UK.

PRINCIPAL RISKS AND UNCERTAINTIES

The Society has put in place a formal risk management structure that includes its Internal Capital Adequacy Assessment Process (ICAAP), policy statements, exposure limits, mandates and reporting lines together with an active risk review process to mitigate risks.

CREDITOR PAYMENT POLICY

The Society's policy concerning the payment of its trade creditors for the next financial year is to pay in accordance with agreed terms where invoices are submitted for products or services which have conformed to requirements specified by the Society. Amounts due to the relevant creditors of the Society are paid on average within 60 days of receipt of invoice. This figure is skewed upwards by one large invoice relating to the upgrade work at the Harpenden Branch remaining outstanding at 31 December 2009.

EVENTS SINCE THE YEAR END

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

ACKNOWLEDGEMENTS

The directors wish to record their appreciation to the management and staff for the commitment and enthusiasm that they contribute to the Society. Thanks are also due to all our members, agents and professional contacts for their continued support.

On behalf of the Board of Directors

M.W. Willis
Chairman

25 March 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HARPENDEN BUILDING SOCIETY

We have audited the annual accounts of Harpenden Building Society for the year ended 31 December 2009 which comprise the income and expenditure account, balance sheet, cash flow statement and the related notes. These accounts have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the policies set out therein. We have examined the annual business statement (other than the details of officers and directors upon which we are not required to report) and the directors' report.

This report is made solely to the Society's members, as a body, in accordance with the Building Societies Act 1986 and regulations made under it. 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 auditors' 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.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND OF THE AUDITORS

The directors are responsible for preparing the directors' report, the annual business statement and, as described on page 4, the annual accounts in accordance with United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. We also report to you our opinion as to whether certain information in the annual business statement gives a true representation of the matters in which it is given, whether the information in the directors' report is consistent with the accounting records and the annual accounts and whether the annual accounts, the annual business statement and the directors' report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records and if we have not received all the information and explanations that we require for our audit.

BASIS OF OPINION

We conducted our audit of the Annual Accounts in accordance with International Standards on Auditing (UK and Ireland). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Annual Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Annual Accounts.

OPINION

In our opinion:

- (a) the Annual Accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Society as at 31 December 2009, the income and expenditure and cash flows of the Society for the year then ended;
- (b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- (c) the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- (d) the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

Lee Brook (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Registered Auditors
The Atrium
Park Street West
Luton
LU1 3BE

25 March 2010

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009	2008
		£000	£000
Interest receivable and similar income	2	7,735	10,863
Interest payable and similar charges	3	3,609	7,655
Net interest receivable		4,126	3,208
Fees and commissions receivable		223	127
Fees and commissions payable		(146)	(74)
Other operating income	4	782	252
Total income		4,985	3,513
Administrative expenses	5	2,308	1,952
Depreciation and other amounts written off tangible fixed assets	14	64	51
Other operating charges		-	-
Operating profit before provisions		2,613	1,510
Provisions for losses	13	128	95
Provisions for FSCS Levies	13	48	175
Profit on ordinary activities before tax		2,437	1,240
Tax on profit on ordinary activities	8	681	336
Profit for the financial year	21	1,756	904

There have been no recognised gains or losses other than the profit for the years disclosed above, all of which are in respect of continuing activities.

BALANCE SHEET AT 31 DECEMBER 2009

	Notes	2009 £000	2008 £000
Assets			
Cash in hand and balances with the Bank of England		39	42
Loans and advances to credit institutions	9/10	43,107	45,625
Loans fully secured on residential property	11	140,323	118,420
Other loans	11	13,952	11,129
Tangible fixed assets	14	619	602
Other assets	15	348	241
Total Assets		198,388	176,059
Liabilities			
Shares	16	162,751	147,473
Amounts owed to credit institutions	17	3,007	-
Amounts owed to other customers	18	17,714	15,689
Other liabilities	19	1,286	1,008
Provisions for liabilities	20	-	-
Provisions for FSCS Levies	24	160	175
		184,918	164,345
Reserves			
General reserves	21	13,105	11,349
Revaluation reserve	22	365	365
		13,470	11,714
Total Liabilities		198,388	176,059

Memorandum Items

At 31 December 2009, there were no contingent liabilities or capital commitments other than that stated in Note 24.

These Accounts were approved by the Board of Directors on 25 March 2010.

M.W. Willis

Chairman

N.S. Terry

Vice-Chairman

P.G. Marsden

Director, Chief Executive & Secretary

(The notes on pages 13 to 28 form part of these Accounts)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009	2008
		£000	£000
Net cash inflow from operating activities		775	10,234
Taxation paid		(336)	(470)
Capital expenditure and financial investment	23	(81)	(155)
Increase in cash	23	358	9,609

Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2009	2008
	£000	£000
Profit on ordinary activities before tax	2,437	1,240
Movement in prepayments and accrued income including accrued interest	49	(27)
Movement in accruals and deferred income	120	237
Movement in provisions for bad and doubtful debts	128	95
Movement in provisions for FSCS levies	(16)	175
Loans and advances written off net of recoveries	(128)	(95)
Depreciation and amortisation	64	51
(Profit)/loss on sale of tangible fixed assets	-	-
Net cash inflow from trading activities	2,654	1,676
(Increase) in loans and advances to customers	(24,726)	(10,870)
Increase in shares	15,277	14,678
Increase in amounts owed to credit institutions and other customers	5,032	1,983
Decrease in loans and advances to credit institutions	2,723	2,787
(Increase) in other liquid assets	-	-
(Decrease) in other liabilities	(185)	(20)
Net cash inflow from operating activities	775	10,234

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

Accounting Convention

The Accounts are drawn up under the historical cost convention as modified by the revaluation of certain freehold land and buildings.

Basis of Preparation

The Accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 ('the new Regulations') and applicable accounting standards.

Liquid Assets

Liquid assets are stated at cost to the Society together with interest accrued to the balance sheet date. Interest accrued at the date of purchase and sale of liquid assets is treated as capital.

Fixed Assets and Depreciation

The Society has taken advantage of Financial Reporting Standard 15 ("Tangible Fixed Assets") to retain the carrying value of assets revalued in prior accounting periods. The cost of additions and major alterations to office premises and equipment is capitalised. The cost or revaluation amount of fixed assets is written off over their estimated useful economic lives as follows:

- Freehold buildings - 50 years on a straight line basis
- Leasehold premises - over the life of the lease on a straight line basis
- Computer equipment - over three years on a straight line basis
- Office equipment - 15% on a reducing balance basis
- Motor vehicles - 25% on a reducing balance basis

Deferred Taxation

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

Deferred tax is not provided on the revaluation of fixed assets. 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.

Pension Costs

The Society maintains a defined contribution Pension Scheme, which is funded by contributions from the Society and its employees. The Scheme is administered externally by an assurance company and contributions are apportioned to management expenses in the year in which they are made and are included in staff costs.

NOTES TO THE ACCOUNTS (continued)

Provisions for Loans and Advances

The Society makes full provision for losses on all “non-performing” loans and advances using the “shortfall of security” method.

Operating Leases

Rentals under operating leases are charged to administrative expenses on a straight line basis over the lease term.

Incentives to Borrowers

Cashbacks and other incentives to borrowers are charged in the period in which they arise.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2009	2008
	£000	£000
On loans fully secured on residential property	5,917	7,092
On other loans	1,103	1,578
On debt securities		
Interest and other income	-	-
On other liquid assets		
Interest and other income	715	2,193
	<u>7,735</u>	<u>10,863</u>

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2009	2008
	£000	£000
On shares held by individuals	3,348	6,707
On deposits and other borrowings	261	948
	<u>3,609</u>	<u>7,655</u>

4. OTHER OPERATING INCOME

	2009	2008
	£000	£000
Rents receivable	11	8
Other	771	244
	<u>782</u>	<u>252</u>

NOTES TO THE ACCOUNTS (continued)

5. ADMINISTRATIVE EXPENSES

	2009	2008
	£000	£000
Staff costs (note 6)	990	897
Other expenses	1,300	1,030
Remuneration of auditors for audit work	17	24
Remuneration of auditors for non-audit work	1	1
	<u>2,308</u>	<u>1,952</u>

6. STAFF NUMBERS AND COSTS

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

	2009		2008	
	Full-time	Part-time	Full-time	Part-time
Head Office	15	3	13	3
Branch Offices	6	10	6	9
	<u>21</u>	<u>13</u>	<u>19</u>	<u>12</u>

The aggregate costs of these persons were as follows:

	2009	2008
	£000	£000
Wages and salaries	793	735
Social Security costs	80	74
Other pension costs	117	88
	<u>990</u>	<u>897</u>

NOTES TO THE ACCOUNTS (continued)

7. DIRECTORS

a) Emoluments of the Society's directors from the Society are detailed below:

	Fees	Salaries	Benefits	Pension	2009
	£000	£000	£000	Contrib's	Total
				£000	£000
M.W. Willis	32	-	-	-	32
N.S. Terry	27	-	-	-	27
D.J. Holland	21	-	-	-	21
P.G. Marsden (Chief Executive)	-	111	1	10	122
H.H. Titcomb	21	-	-	-	21
K.M. Wilson	21	-	-	-	21
Total Emoluments 2009	122	111	1	10	244
Total Emoluments 2008	158	98	1	9	266

b) Directors' loans and transactions:

At 31 December 2009, there were £nil outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons (2008 : £280,111).

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. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2009	2008
	£000	£000
The tax charge for the year comprises -		
UK corporation tax at 28.0% (2008: 28.5%)	681	336
Deferred taxation (Note 20)	-	-
	<u>681</u>	<u>336</u>

The standard rate of tax for the year, based on the U.K. standard rate of corporation tax is 28.0%. The actual tax charge for the current and the previous year varies from the standard rate for the reasons set out in the following reconciliation.

Reconciliation of current year tax charge:

	2009	2008
	£000	£000
Corporation Tax Rate applied	28.0%	28.5%
Profit on ordinary activities before taxation	2,437	1,240
Tax on profit on ordinary activities at standard rate	682	354
Factors affecting the tax charge for the year		
Expenses not deductible for taxation purposes	9	7
Capital allowances less than/(in excess of) depreciation	(10)	(19)
Other timing differences	-	-
Other adjustments - marginal relief	-	(6)
Total actual amount of current year tax	<u>681</u>	<u>336</u>

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions have remaining maturities as follows:

	2009	2008
	£000	£000
Accrued interest	57	213
Repayable on demand	15,750	15,389
Other loans and advances by residual maturity repayable:		
In not more than three months	27,300	30,023
In more than three months but not more than one year	-	-
	<u>43,107</u>	<u>45,625</u>

NOTES TO THE ACCOUNTS (continued)

10. OTHER LIQUID ASSETS

Other liquid assets have remaining maturities as follows:

	2009	2008
	£000	£000
Accrued interest	-	-
Repayable on demand		
Repayable in not more than three months	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

11. LOANS AND ADVANCES TO CUSTOMERS

	2009	2008
	£000	£000
Loans fully secured on residential property	140,323	118,420
Other loans:		
Loans fully secured on land	13,952	11,129
	<u>154,275</u>	<u>129,549</u>
	<u>154,275</u>	<u>129,549</u>

Maturity Analysis

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

	2009	2008
	£000	£000
Repayable on demand	25	31
Other loans and advances by residual maturity repayable:		
In not more than three months	3,735	3,214
In more than three months but not more than one year	5,916	8,251
In more than one year but not more than five years	24,606	19,644
In more than five years	119,993	98,409
	<u>154,275</u>	<u>129,549</u>
	<u>154,275</u>	<u>129,549</u>

NOTES TO THE ACCOUNTS (continued)**12. PROVISIONS FOR LOSSES**

	Loans fully secured on residential property £000	Other loans fully secured on land £000	Other assets £000	Total £000
At 1 January 2009	-	-	-	-
Amounts written back during the year	(128)	-	-	(128)
Charge for the year	128	-	-	128
At 31 December 2009	-	-	-	-

These provisions have been deducted from the appropriate asset values shown in the balance sheet.

13. IMPAIRMENT LOSSES AND PROVISION FOR LEVIES

	2009 £000	2008 £000
Impairment losses on loans and advances to customers (note 12)	128	95
Provision for Financial Services Compensation Scheme levies (note 24)	48	175
	176	270

NOTES TO THE ACCOUNTS (continued)

14. TANGIBLE FIXED ASSETS

	Freehold Land and buildings £000	Short leasehold buildings £000	Office and computer equipment £000	Motor vehicles £000	Total £000
Cost or Valuation					
At 1 January 2009	611	158	841	17	1,627
Additions	5	19	57	-	81
Disposals	-	-	-	-	-
At 31 December 2009	<u>616</u>	<u>177</u>	<u>898</u>	<u>17</u>	<u>1,708</u>
Accumulated depreciation					
At 1 January 2009	219	33	763	10	1,025
Charged in year	13	15	34	2	64
Disposals	-	-	-	-	-
At 31 December 2009	<u>232</u>	<u>48</u>	<u>797</u>	<u>12</u>	<u>1,089</u>
Net book value					
At 31 December 2009	<u>384</u>	<u>129</u>	<u>101</u>	<u>5</u>	<u>619</u>
At 31 December 2008	<u>392</u>	<u>125</u>	<u>78</u>	<u>7</u>	<u>602</u>

Freehold land and buildings are analysed as follows:

	2009 £000	2008 £000
Open market valuations as at 31 December 1998	<u>514</u>	<u>514</u>
Historical cost of revalued assets	<u>237</u>	<u>237</u>

All leasehold property is shown at cost.

Freehold land and buildings were revalued during 1998 on the basis of open market value for existing use with vacant possession. The valuations were carried out by a member of the Royal Institution of Chartered Surveyors instructed by the Society.

NOTES TO THE ACCOUNTS (continued)

15. OTHER ASSETS

	2009 £000	2008 £000
Due within one year	261	154
Due after one year	87	87
	<u>348</u>	<u>241</u>

16. SHARES

	2009 £000	2008 £000
Held by individuals	162,751	147,473

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	948	1,778
Repayable on demand	137,750	122,426
Other shares by residual maturity repayable:		
In not more than three months	276	288
In more than three months but not more than one year	440	401
In more than one year but not more than five years	2,241	2,370
In more than five years	21,096	20,210
	<u>162,751</u>	<u>147,473</u>

17. AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:

	2009 £000	2008 £000
Accrued interest	-	-
On demand	3,007	-
Other amounts owed to credit institutions by residual maturity repayable:		
In not more than three months	-	-
In more than three months, but not more than one year	-	-
	<u>3,007</u>	<u>-</u>

NOTES TO THE ACCOUNTS (continued)

18. AMOUNTS OWED TO OTHER CUSTOMERS

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	2009	2008
	£000	£000
Accrued interest	39	163
On demand	10,472	775
Other amounts owed to other customers by residual maturity repayable:		
In not more than three months	4,616	10,728
In more than three months but not more than one year	2,587	4,023
	<u>17,714</u>	<u>15,689</u>

19. OTHER LIABILITIES

Other liabilities are all due within one year and comprise:

	2009	2008
	£000	£000
Corporation Tax	681	336
Income Tax	129	314
Other creditors	476	358
	<u>1,286</u>	<u>1,008</u>

Other creditors includes £47,922 (2008: £48,837) in respect of provisions for potential endowment mis-selling claims.

20. PROVISIONS FOR LIABILITIES AND CHARGES

No provision for deferred taxation has been made in relation to the surplus on the revaluation of freehold land and buildings included in the revaluation reserve. If the freehold land and buildings were disposed of at the balance sheet amounts, it is estimated that the tax liability would amount to approximately £Nil (2008 - £Nil).

21. GENERAL RESERVE

	2009	2008
	£000	£000
At 1 January	11,349	10,445
Profit for financial year	1,756	904
At 31 December	<u>13,105</u>	<u>11,349</u>

22. REVALUATION RESERVE

	2009	2008
	£000	£000
At 1 January and 31 December	<u>365</u>	<u>365</u>

NOTES TO THE ACCOUNTS (continued)

23. NOTES TO THE CASH FLOW STATEMENT

	2009	2008
	£000	£000
a. Capital expenditure and financial investment		
Purchase of tangible fixed assets	(81)	(156)
Sale of tangible fixed assets	-	1
	<u>(81)</u>	<u>(155)</u>

b. Analysis of the balances of cash as shown in the Balance Sheet

	2008	Movement	2009
	£000	£000	£000
Cash in hand and balances with the Bank of England	42	(3)	39
Loans and advances to credit institutions repayable on demand	15,389	361	15,750
	<u>15,431</u>	<u>358</u>	<u>15,789</u>

	2007	Movement	2008
	£000	£000	£000
Cash in hand and balances with the Bank of England	31	11	42
Loans and advances to credit institutions repayable on demand	5,791	9,598	15,389
	<u>5,822</u>	<u>9,609</u>	<u>15,431</u>

NOTES TO THE ACCOUNTS (continued)

24. FINANCIAL COMMITMENTS

Financial Services Compensation Scheme

Based on its share of protected deposits, the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. In September 2008 a claim was triggered against the FSCS by the transfer of Bradford and Bingley's retail deposit business to Abbey. In October 2008 further claims were triggered against the FSCS by the transfer of the deposit business of Heritable Bank (a subsidiary of Landsbanki hf) and the internet deposit business of Kaupthing Singer and Friedlander (Kaupthing Edge) to ING Direct. The FSCS is also paying compensation directly to the UK depositors of the internet banking subsidiary of Landsbanki hf (Icesave) and to depositors of London Scottish Bank plc. As yet, costs associated with the failure of Dunfermline Building Society are not included as the amount and timing of these costs is currently unclear.

The FSCS has met, or will meet, the claims by way of loans received from the Bank of England which have been or will be replaced by loans from H M Treasury. The FSCS has, in turn, acquired rights in the realisation of the assets of the banks. The FSCS is liable to pay interest on these loans and may have a further liability if there are insufficient funds from the realisation of the assets of the banks to fully repay these loans.

The FSCS has announced that for three years it expects to make levies on deposit takers to cover the interest on the loans referred to above. The levy for the first of these three years, to 31 March 2009, was based on deposit balances at 31 December 2007. The levy for the second of these three years, to 31 March 2010, will be based on deposit balances at 31 December 2008, and so on.

The Harpenden Building Society made a payment of £63,000 in September 2009 to cover the first of these levies for the year to 31 March 2009. The remaining provision of £109,000 for the 2009/10 year has been increased by £51,000 for the 2010/11 instalment. These estimates are lower than those estimated at the end of 2008 as the interest rate charged by H M Treasury on the loans it has made to the FSCS has fallen, and the levies the FSCS makes on deposit takers has reduced accordingly.

The £63,000 payment made in September 2009 was lower than the £66,000 provision for that payment included in the brought forward balance at 1 January 2009 as the interest rate had fallen as noted above. This £3,000 overprovision was released during 2009 and the additional £51,000 provision and charge to the Income and Expenditure Account was made for 2010/11. The net impact of this is a charge to the Income and Expenditure Account for the year of £48,000.

NOTES TO THE ACCOUNTS (continued)

25. LEASES

As at 31 December 2009, the Society had annual commitments in respect of operating leases for land and buildings as follows:

	2009 £000	2008 £000
Operating leases that expire:		
- within the next year	-	-
- within the second to fifth years inclusive	-	-
- after five years	92	92
	<hr/>	<hr/>
	92	92
	<hr/> <hr/>	<hr/> <hr/>

26. FINANCIAL INSTRUMENTS

The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest in liquid assets and to raise funds from wholesale money markets in support of its retail savings operations. These instruments also allow it to manage the risks arising from these business markets.

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.

Instruments commonly used for risk management purposes include derivative financial instruments ("derivatives"), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

The Society does not use any derivative financial instruments, since the Society does not currently offer any capped or fixed rate mortgage or savings products that would give rise to a balance sheet exposure. The Society does not undertake any financial instruments for trading or speculative purposes.

Risk Management

The main financial risks arising from the Society's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, and these are summarised below.

Credit Risk

Credit risk is the risk of loss due to uncertainty about a counterparty's ability to meet its obligations when they fall due. All loan applications are assessed with reference to the Society's lending policy. Our approach to lending is not to adopt a tick-box attitude. Rather, we ensure that we understand the unique position of each application we receive and the risks that are inherent in each case. Changes to our lending policy and approach to lending are approved by the Board.

NOTES TO THE ACCOUNTS (continued)

Liquidity Risk

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 of liquid assets, primarily through management control of the growth of the business and also through a combination of wholesale funding facilities and undrawn committed borrowing facilities to provide flexibility in the management of liquidity.

Interest Rate Risk

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Society manages this exposure continually by matching the maturity dates of assets and liabilities.

NOTES TO THE ACCOUNTS (continued)

26. FINANCIAL INSTRUMENTS (continued)

The tables below summarise these repricing mismatches as at 31 December 2009 and 31 December 2008. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
As at 31 December 2009	£000	£000	£000	£000	£000	£000	£000
Assets							
Liquid assets	43,107	-	-	-	-	39	43,146
Loans and advances to customers	154,275	-	-	-	-	-	154,275
Tangible fixed assets	-	-	-	-	-	619	619
Other assets	-	-	-	-	-	348	348
Total assets	197,382	-	-	-	-	1,006	198,388
Liabilities							
Shares	162,751	-	-	-	-	-	162,751
Amounts owed to Credit institutions and other customers	19,104	1,261	356	-	-	-	20,721
Other liabilities	-	-	-	-	-	1,497	1,497
Reserves	-	-	-	-	-	13,419	13,419
Total liabilities	181,855	1,261	356	-	-	14,916	198,388
Interest rate sensitivity gap	15,527	(1,261)	(356)	-	-	(13,910)	-

NOTES TO THE ACCOUNTS (continued)

26. FINANCIAL INSTRUMENTS (continued)

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
As at 31 December 2008	£000	£000	£000	£000	£000	£000	£000
Assets							
Liquid assets	45,625	-	-	-	-	42	45,667
Loans and advances to customers	129,549	-	-	-	-	-	129,549
Tangible fixed assets	-	-	-	-	-	602	602
Other assets	-	-	-	-	-	241	241
Total assets	175,174	-	-	-	-	885	176,059
Liabilities							
Shares	147,473	-	-	-	-	-	147,473
Amounts owed to Credit institutions and other customers	11,666	2,637	1,386	-	-	-	15,689
Other liabilities	-	-	-	-	-	1,183	1,183
Reserves	-	-	-	-	-	11,714	11,714
Total liabilities	159,139	2,637	1,386	-	-	12,897	176,059
Interest rate sensitivity gap	16,035	(2,637)	(1,386)	-	-	(12,012)	-

Fair values of financial assets and financial liabilities

All of the Society's financial assets and financial liabilities are in the form of mortgages, shares and deposits with banks or other credit institutions and, as such, are not in a publicly traded form. These items are therefore stated at their book value as adjusted for any accrued interest.

1. Statutory Percentages

	31.12.2009	Statutory
	%	Limit
Proportion of business assets not in the form of loans fully secured on residential property ("The Lending Limit")	9.25%	25%
Proportion of shares, deposits and debt securities not in the form of shares held by individuals ("The Funding Limit")	11.29%	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, 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 2008.

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 2008.

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.

2. Other Percentages

	2009	2008
As percentage of shares and borrowings:		
Gross capital	7.34%	7.18%
Free capital	7.00%	6.81%
Liquid Assets	23.52%	27.99%
Profit for the financial year as a percentage of mean total assets	0.94%	0.54%
Management expenses as a percentage of mean total assets	1.27%	1.20%

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, amounts owed to other customers and debt securities in issue.
- 'Gross capital' represents the aggregate of general reserve 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 in hand and balances with the Bank of England, loans and advances to credit institutions and other liquid assets.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

3. Information relating to the Directors, Chief Executive and other officers at 31 December 2009

	Director's Name	Date of Appointment	Occupation	Other Directorships
1	M.W. Willis (Chairman) (10.05.1947)	20.05.1993 Member of Mortgage Committee	Chartered Accountant	Page 32
1	N.S. Terry (Vice Chairman) (10.02.1951)	29.05.1996 Member of Audit & Compliance, Mortgage and Charitable Trust Committees	Chairman Food Company	Page 32
1	D.J. Holland (04.04.1941)	18.12.1997 Member of Audit & Compliance, Remuneration & Nominations and Mortgage Committees	Chairman House Building Group	Page 32
2	P.G. Marsden (17.09.1960)	23.05.2002 Member of Management, Mortgage and Marketing & TCF Committees	Building Society Executive	Page 32
1	H.H. Titcomb (21.12.1959)	29.05.2008 Member of Audit & Compliance, Mortgage and Marketing & TCF Committees	Chief Executive Investment Company	Page 32
1	K.M. Wilson (23.05.1964)	29.05.2008 Member of Remuneration & Nominations, Charitable Trust and Marketing & TCF Committees	Non-Executive Director	Page 32
1	Non-Executive Director			
2	Director, Chief Executive & Secretary			

- Directors' dates of birth are shown in brackets
- All Non-Executive Directors are members of the Management Committee

Documents may be served on the above named Directors: Ref. "Harpenden Building Society", c/o, Neves Solicitors at 2 Sun Lane, Harpenden, Hertfordshire AL5 4ET

Mr. M. Willis, Mr. D. Holland and Mr. N. Terry entered into Service Contracts dated 8 April, 2008. Mr. H. Titcomb and Mrs. K. Wilson entered service contracts upon their appointment dated 29 May, 2008. The contracts are terminable by the Society or by the individual on three months' notice, pursuant to the Society's rules.

Mr. P. Marsden is employed on a Service Contract dated 8 April, 2008, terminable by the Society on twelve months' notice or by the individual on six months' notice.

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

D.J. HOLLAND	Orchid Developments Group Limited Telford Homes PLC
P.G. MARSDEN	Mutual Vision Technologies Limited Top Deck Business Services Limited
N.S. TERRY	Penguin Foods U.K. Limited Redbrook Associates The Princess Helena College
H.H. TITCOMB	Principal Investment Management Limited Principal Holdings Limited Principal Investment Holdings Limited Principal Nominees Limited Principal Absolute Alpha Portfolio IC
M.W. WILLIS	Adept Scientific Inc Adept Scientific A/S Adept Scientific GmbH Adept Scientific plc Demand Limited Greyfriars Properties Limited Livecyte Limited Software for Science Limited Business Marketing Online Limited
K.M. WILSON	None



Mixed Sources

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