Leek United
BUILDING SOCIETY

The *friendlier* face of finance

REPORT AND ACCOUNTS 2007

CONTENTS

Member of the Building Societies Association
Authorised and regulated by the Financial Services Authority
Member of the Council of Mortgage Lenders

Established 1863

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Leek United BUILDING SOCIETY

DIRECTORS & OFFICERS


Eric Hodkinson


Derek Lyons


Paul Marriott


Barbara Rimmer


David Stevens


Jim Washington


Kevin Wilson

DIRECTORS	E W Hodkinson D J Lyons MSI P Marriott FCA B Rimmer BSc ACA D A W Stevens J Washington ACIB K Wilson
CHAIRMAN	E W Hodkinson
CHIEF EXECUTIVE	K Wilson
FINANCE DIRECTOR	B Rimmer BSc ACA
INTERNAL AUDITOR	I Boston
BANKERS	HSBC plc; Girobank plc
AUDITORS	PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors

"Our savings products were a real success story attracting over 3500 new accounts with record net savings inflow of £42m"

Leek United BUILDING SOCIETY

CHAIRMAN'S STATEMENT

"I am delighted to present the Annual Report and Accounts for 2007 and reflect on another successful year for Leek United Building Society."

In a changing market place, dominated in the second half of the year by liquidity turmoil in the wholesale markets, we proved to our members the robustness of their society. We delivered excellent results whilst providing our members with uncompromising service, fairness and value for money products.

Our success derives from a balanced portfolio of business activities but primarily from our core residential mortgage products and savings accounts. In a lending market dominated by remortgage activity, our net lending was £74m and this provided the platform for our strong group asset growth. We maintained a varied suite of mortgage products throughout the year encompassing fixed, flexi, tracker, buy-to-let and offset thus allowing us to meet the needs of our growing membership. Our growth has been achieved organically and we have an enviable arrears and possession record built up in recent years by a prudent and risk averse lending strategy. We witnessed four changes to the bank interest rate in 2007, peaking at 5.75% before eventually settling in December at 5.50%. We can now see clear signs that the rate of growth in housing prices has slowed down and we will temper our own gross lending target to reflect this in 2008, but with an increased focus of maintaining strong net lending.

Our savings products were a real success story attracting over 3500 new accounts with record net savings inflow of £42m during the year. Simple, good value products without any "gimmicks" have been the bedrock of our success. The board of directors and I are keen supporters of promoting a saving culture and our members benefited from the three increases to the Bank of England base rate with Leek United passing on each increase in full to our members in 2007.

The result of our success saw total group assets increase by £58.3m to £799.7m and our pre-tax profit improve by £1.3m in the year to £4.2m before tax. Maximising profitability is not a pre-requisite of a mutual business but continued financial strength is necessary to allow us to grow our business and improve services to members.

Growth and retained profits provide the scale to absorb the ever-increasing costs of running a successful business, ensuring we keep pace with appropriate advances in technology and the rising cost of regulation. These outstanding results have not seen us compromise on our pursuit of cost control and efficiencies with our group management expenses ratio reducing further to 0.87%

The current economic climate is more uncertain than it has been in recent years. Continuous volatility in financial markets has raised fears of a potential recession, and personal debt is not slowing as quickly as the government would wish. We will continue to be sensitive to changes in market and economic conditions with appropriate controls and policy in place to maintain a compliant and robust business.

In 2007 our Deputy Chief Executive, Jim Stevenson, retired and in recognising the need to maintain the strength of the board we were delighted to appoint Barbara Rimmer, a non executive director since November 2005, to an executive position as Finance Director.

I will also take this opportunity to thank all our members for choosing and supporting Leek United. A growing membership will drive the success of our business and I sincerely thank you for your trust and confidence. We remain resolute in our belief that mutuality is in the best interests of the community we serve and the members who own us.

It would be remiss of me to close before both acknowledging and thanking the contribution from our staff. Our exceptional business performance could never have been achieved without their skills, dedication and attitude.

E W Hodkinson
Chairman
27 February 2008

Group total assets up **8%** to **£799.7m**

Group pre-tax profit up **45%** to **£4.2m**

Group management expenses ratio reduced to **0.87%**

Mortgage balances up **7%** to **£641.3m**

Savings balances up **12%** to **£595.7m**

Leek United
BUILDING SOCIETY

CHIEF EXECUTIVE'S REPORT

"Our results in 2007 demonstrate considerable success in key areas, as we continue to achieve growth at sustainable levels but within a prudent risk framework, with reducing operating costs and a genuine desire to excel in customer service."

Introduction

As we embark on a new financial year I can confidently report that our journey to serve you as a modern business, steeped in traditional values, is very much on track.

Our products are now widely recognised as being competitive in an often-congested marketplace and we will continue in our pursuit to build strong, lasting relationships with our members and be recognised for the excellent service we provide. We operate in the ever-changing arena of Retail Financial Services with increasing regulatory obligations and wider consumer choice for both products and services. Given this environment, I am therefore delighted to report a year of significant success to our members.

Group Financial Performance

A programme of efficiency, in all our operations and the development of our staff, provided the foundation for your society to deliver against its key financial objectives. Total group assets increased to £799.7m representing a 29% increase in the past 3 years (2004: total group assets £620.5m), and our group profitability increased by £1.3m for the year to £4.2m before tax. This growth provides the financial strength to absorb the rising costs of regulation and ensures we have the capacity to further invest in our business. Equally important is the containment of costs and I am pleased to announce that our group management expenses ratio reduced for the fourth consecutive year to 0.87%.

Borrowers

A year of change would best describe the housing market - not least for our borrowers. In 2007 the bank rate changed on four occasions, with the Monetary Policy Committee attempting to contain and balance a buoyant housing market with rising personal indebtedness and growing inflation figures. In the autumn of 2007 the industry experienced new and wider challenges in the form of maintaining appropriate liquidity and funding availability via the wholesale markets. Leek United practices a business model that is both risk mapped and stress tested in terms of liquidity where borrowing for residential property is funded largely by our savers. This model, coupled with our appetite for responsible lending, protects us from some of the global issues facing the mortgage market. We have no exposure to the US mortgage market nor to any structured investment vehicles and we do not undertake sub-prime lending. Our lending policy is built on a solid foundation of common sense and affordability and we have diligently resisted the opportunity to seek both growth and margin in pursuing higher risk lending. The turbulent marketplace and the liquidity issues I alluded to earlier have and will continue to test the skill and resolve of many businesses. In this environment it is particularly pleasing to report gross lending results of £171.9m.

Our prudent approach has ensured we maintained an enviable record of arrears history with total arrears greater than 2.5% as at 31 December 2007 being 0.31% of our total balances. We recorded only four properties in possession against a mortgage book of approaching 11,000 members and the society's processes and controls ensured that we maintained our previous history and recorded no financial loss for the fourth successive year.

Retail Savings

Against a background of increasingly competitive products, our retail savings grew at a strong and healthy pace. We took record net savings inflow of £42m during the year and by the year end members' balances had increased, taking into account accrued interest, by £64.3m to £595.7m. The most popular offerings were our fixed rate bonds and cash ISA and we received national recognition acknowledging our products as giving good long-term value for money.

Savers were certainly the winners in 2007 with rising interest rates and Leek United was able to pass on every bank rate increase, in full, to our savers. Our savings account numbers have now grown to over 104,000, which is conducive to our objectives of both a growing membership and improving customer retention levels.

CHIEF EXECUTIVE'S REPORT (continued)

"we are fortunate to have a team who display a genuine passion for the business and its members"

Economic Outlook/Strategy

Global uncertainty currently dominating our marketplace will present many challenges to all businesses in 2008. Talk of a widespread recession together with a very volatile US economy is prominent and regular features in the world of the financial analysts and we are starting to witness warning signs of an economic slow down. Interest rates will be critical to our planning and medium term strategy in 2008, with businesses and consumers needing to prepare themselves for change as competition and margin compression continue unabated. For Leek United such challenges bring opportunities and, as a responsible independent mutual, we are committed to a robust set of values, which ensures that our customers will continue to be treated fairly.

Diversification in integral business areas provides member benefit by providing more choice of both products and services and we will therefore continue to invest in our wholly owned subsidiaries.

Leek United Financial Services Limited enjoyed a very successful 2007 with an increase in demand for medium term and tax efficient products for those members wishing to extend their savings and investment portfolios. We will also extend our mortgage advice proposition in 2008 in order to provide customers with a much wider product range from the whole of the market via our subsidiary, The Mortgage Outlet Limited.

Our branch and agency network was widened in 2007 with the opening of a new agency in Stone, Staffordshire. We have been delighted with the response from both our existing members and the many new members attracted to Leek United.

We have progressed plans to reduce our carbon footprint in the years ahead and we intend for these to be real and sustainable as opposed to just gestures. Our strategy will focus on areas where we can make a lasting contribution to the environment.

Our people and the community we serve

We are extremely proud of the professionalism, dedication and motivation of our people. Our excellent results are ultimately dependent on our staff delivering a timely, caring and efficient service and we are fortunate to have a team who display a genuine passion for the business and its members. The pace of change in our industry presents many challenges to our staff and their collective ability is the foundation for our success.

As a successful business we are pleased to be able to support our local communities and our activities and fund raising throughout 2007 encompassed schools, hospitals, sports, under privileged children and non government funded charities such as the Douglas Macmillan Charity and the County Air Ambulance Trust.

In closing, I trust our members will feel assured that they are part of a successful and growing organisation equipped to deliver exceptional value and service to a growing membership.

K Wilson
Chief Executive
27 February 2008

Leek United
BUILDING SOCIETY

DIRECTORS' REPORT

The directors have pleasure in submitting the 145th Annual Report and Accounts for the year ended 31 December 2007.

BUSINESS OBJECTIVES AND ACTIVITIES

The main objective of the society and its subsidiaries is to provide high quality mortgages, savings and other financial products and services by focusing on the needs of members.

REVIEW OF THE YEAR

The society responded well to the competitive pressures that prevailed throughout 2007 in all our markets. We maintained high gross mortgage lending building on the previous year's record lending. Savings inflow reached a new peak during the year and we made further progress in our control of relative costs and achieved a solid growth in assets.

KEY PERFORMANCE INDICATORS

The following key performance indicators track the progress we made in 2007:

Total Assets

Purpose growth in total assets is a measure of our success in our core markets of mortgages and savings. It is best viewed as a measure for the medium/long-term (three years+) as changing levels of liquidity can affect year on year asset growth.

Definition total assets is the value of all the assets held as set out in the group balance sheet. Asset growth is the percentage increase in the value of assets.

The total assets of the group at the end of 2007 were £799.7m (2006: £741.4m), an increase of £58.3m (2006: £80.9m) in the year, representing growth of 7.86% (2006: 12.25%).

Pre-tax Profit

Purpose the group must make a profit on its general trading activity if it is to grow and maintain adequate capital.

Definition pre-tax profit is the surplus achieved on general trading activity in the financial period before tax and ignoring exceptional items.

The pre-tax profit was £4.2m in 2007 (2006: £2.9m).

DIRECTORS' REPORT (continued)

Management Expenses Ratio

Purpose the management expenses ratio is a measure of the efficiency of the group in controlling costs.

Definition the ratio is the aggregate of administrative expenses and depreciation as a percentage of the average total assets in the year.

The management expenses ratio was 0.87% for 2007 (2006: 0.93%).

Gross Capital

Purpose a satisfactory level of gross capital will protect the society against unusual movements in markets and changes in economic conditions. It enables us to promise complete capital security in respect of members' funds.

Definition gross capital is the sum of the general reserve, and the revaluation reserve, as shown in the balance sheet.

Gross capital amounted to £44.2m at 31 December 2007 (2006: £38.4m).

The ratio of gross capital as a percentage of total shares and borrowings was 5.89% at 31 December 2007 (2006: 5.52%) and the ratio of free capital as a percentage of total shares and borrowings was 5.57% (2006: 5.14%).

Liquid Assets

Purpose it is important that the society keeps sufficient funds available, in relatively liquid form, to satisfy liabilities as they fall due. The liquidity levels we set recognise the potential for cash flow volatility in our balance sheet make-up.

Definition liquid assets represent the total of cash in hand, loans and advances to credit institutions and debt securities.

Liquid assets, in the form of cash and securities, amounted to £154.8m (2006: £139.7m), representing 20.63% (2006: 20.10%) of shares and borrowings.

Gross Lending

Purpose gross lending is a measure of our success in attracting customers in the highly competitive mortgage marketplace. Good gross lending performance will underpin our business growth.

Definition gross lending is the total value of all mortgage advances made in the financial year.

Gross lending was £172m (2006: £174m).

Arrears

Purpose low arrears benefits the society and its members. To achieve this we seek to ensure that all our lending is within the borrowing capacity of the applicant and every assistance is provided in the event of individual difficulties.

Definition the number of mortgage accounts on which there is an amount of arrears which exceeds 2.5% of the mortgage balance. This number is expressed as a percentage of total mortgage balances.

Arrears greater than 2.5% as at 31 December 2007 – 0.31% (2006: 0.32%).

At 31 December 2007 there were 2 (2006: 4) mortgage accounts which were twelve months or more in arrears. The total amount of these arrears was £25,718 (2006: £27,446).

Shares and Deposits

Purpose an increase in the total value of shares and deposits held will tend to indicate progress in achieving the strategic objective of a growing membership.

Definition shares and deposits represent the total amount owed by the society to shareholding members and depositors in respect of their account balances.

Investors' and depositors' balances at 31 December 2007 totalled £750.4m (2006: £694.9m), an increase during the year of £55.5m (2006: £79.1m).

Loans and Advances to Customers

The total amount outstanding on mortgages at the end of the year was £641.3m (2006: £598.0m).

Interest Rates

The residential mortgage base rate was increased from 6.99% to 7.24% on 1 February 2007, from 7.24% to 7.49% on 1 June 2007, from 7.49% to 7.74% on 1 August 2007 and decreased from 7.74% to 7.49% on 1 January 2008.

All variable interest rates on investment accounts were adjusted in line with these changes.

Creditor Payment Policy

For all trade creditors it is the society's policy to agree the terms of payment at the start of trading with that supplier and to pay in accordance with its contractual and other legal obligations. It is our policy to pay invoices within 15 days (2006: 15).

Charitable Donations

The society made charitable donations of £5,559 (2006: £7,382) during the year.

There were no donations for political purposes.

MANAGING THE RISKS OF THE BUSINESS

General

The board deploys the Audit and Risk Committee (a board sub-committee) and the Risk Management Committee (an executive management committee) to oversee a risk management process which is embedded in the society and which identifies the key risks facing the business. It reviews reports submitted by those committees on how those risks are being managed. On a day to day basis, authority is delegated to management to establish, operate and monitor the system.

The Audit and Risk Committee's role with respect to risk management is to assure the board that risks are being managed in accordance with policy and within the limits of the board's stated risk appetite. The Risk Management Committee's main responsibility is to assess the management of operational risk across the group. Operational responsibility for market, liquidity and wholesale counterparties credit risk is delegated to the Assets and Liabilities Committee (a sub-committee of the board) and responsibility for lending risk to the Lending Committee (a committee made up of executive directors).

As a building society, our principal business is the production and distribution of financial products and, in particular, mortgages and deposit-based savings accounts. Regulated investment products are supplied by the group via our subsidiary Leek United Financial Services Limited. The group uses wholesale financial instruments in the management of its balance sheet, investing funds held as liquidity and raising wholesale funding. We also make use of instruments in the wholesale market to manage our interest rate risk and this entails the use of derivative financial instruments. The derivatives are used solely for this purpose and are not used for trading activity or for speculative purposes.

Our risk management activity focuses on four principal risk areas:

Credit Risk

Credit risk is the risk that our retail customers or counterparties in the wholesale markets fail to meet their obligations as they fall due. Credit risk in relation to retail customers is governed by limits contained in our board-approved Lending Policy. Exposure to counterparty risk is controlled within limits set in policies and procedures agreed by the board with oversight delegated to the Assets and Liabilities Committee.

Market Risk

Market risk that the society is exposed to is the risk that income, arising from the group's assets and/or liabilities, varies as a result of changes in interest rates. We manage this risk on a continuing basis, operating to limits set by the board and using on and off balance sheet instruments as described above.

Liquidity Risk

Liquidity risk is the risk that we fail to maintain sufficient liquidity to deal with cash flow fluctuations which can arise as a result of our contractual obligations to saving and borrowing members and other stakeholders. We manage this risk by ensuring that an appropriate level of liquid assets is maintained using wholesale funding facilities and taking account of the planned and controlled expansion of the business.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for the identification and management of these risks rests with all managers in each business area and they have a direct reporting line to the Risk Management Committee.

Directors

The following persons served as directors of the society during the year:

Eric Hodkinson (Chairman)
Derek Lyons (Non Executive Director)
Paul Marriott (Vice-Chairman)
Barbara Rimmer (Non Executive Director to 13 May 2007, Finance Director from 14 May 2007)
David Stevens (Non Executive Director)
James Stevenson (Deputy Chief Executive to 30 April 2007)
James Washington (Non Executive Director)
Kevin Wilson (Chief Executive)

DIRECTORS' REPORT (continued)

Staff and Agents

The directors wish to acknowledge the contribution made by all staff to the society's success in 2007. Their enthusiasm and dedication to our objective of exceptional customer service will ensure continued success in the years ahead.

During the financial year the society has maintained and developed systems for the provision of information to employees. In addition, meetings, team briefings, circulars, newsletters and the society's intranet ensure employees are aware of the society's performance and objectives and the business environment in which it operates. It is the society's policy to afford access to training, career development and promotion opportunities equally to all employees regardless of their age, ethnic origin, creed, gender, marital status, disability, sexual orientation and religion or belief. Should employees become disabled, it is the society's policy to continue their employment where possible with appropriate training and redeployment.

We also wish to thank the society's agents and many other business associates for their continued support.

Provision of Information to Auditors

Each person who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the society's auditors are unaware; and

- each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the society's auditors are aware of that information.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the society will be proposed at the Annual General Meeting.

Post Balance Sheet Events

The directors consider that there have been no events since the year end that have an important effect on the position of the society.

On behalf of the board of directors

E W Hodkinson
Chairman
27 February 2008

Leek United
BUILDING SOCIETY

CORPORATE GOVERNANCE REPORT

The society's board is accountable to members for the careful direction of society affairs, safe stewardship of funds held on members' behalf and the provision of high quality products and services which meet the needs of individual members whilst offering a fair deal to all.

At the beginning of 2007, the board consisted of six non executive and two executive directors. Following the retirement of James Stevenson in April and the resignation of Barbara Rimmer as a non executive on her appointment as Finance Director in May, the board complement became five non executive and two executive directors for the remainder of the year.

In striving towards ever higher standards of service to members, the board focuses not only on members' interests as customers for the society's products and services but also their interests as shareholding members of a mutual enterprise. In regard to this latter relationship, we take account of the guidance contained in the Combined Code on Corporate Governance. Whilst this code is addressed to plc's, many of its provisions can be directly applied to the board and management arrangements in a mutual building society.

A formal system of board appraisal is in place and each director's personal contribution to board proceedings and society progress in the year has been the subject of rigorous review by the Chairman. Performance evaluation of the Chairman has been conducted by non executive directors led by the Vice-Chairman and taking account of the views of the executive directors.

The overall effectiveness of the board and its committees is monitored throughout the year and is subject to formal review on an annual basis.

All directors participate in a programme of training and professional development designed to keep their knowledge and skills up to date in a fast changing, highly regulated business environment. All directors are entitled to obtain independent professional advice at the society's expense.

The offices of Chairman and Chief Executive are separate and held by different people.

The board considers that all members are independent and carry out their duties with complete objectivity. Non executive directors with over nine years service offer themselves for re-election on an annual basis. All other directors are required to submit themselves for re-election at least once every three years.

All directors conform to the requirements of the Approved Persons regime instituted by the Financial Services Authority (FSA) and pass the "fit and proper" test specified in the FSA's Handbook.

The Combined Code recommends that a non executive director should be designated as the Senior Independent Director with responsibility for leading non executive directors in the performance appraisal of the Chairman and to act as a contact for any member who may feel that contact with the Chairman or Chief Executive would not be appropriate. The board considers that the duties of this role are encompassed within the role of the society's Vice-Chairman, Paul Marriott, who is pleased to act as an alternative contact point for members.

Register of Candidates for Board Vacancies

The society maintains a register of potential candidates for future board vacancies. Members who believe they have the skills, experience and commitment to serve effectively as a director of the society are invited to write, in confidence, to the Chairman of the Nominations Committee at the society's head office.

CORPORATE GOVERNANCE REPORT (continued)

Board Committees

Supervision and direction is facilitated by the operation of a number of board committees which meet regularly to consider issues specific to key business areas.

The **Audit and Risk Committee** receives reports from the society's Internal Auditor and its remit includes matters relating to compliance with the Building Societies Act 1986 and the Financial Services and Markets Act 2000, systems of control, risk management, Internal Capital Adequacy Assessment Process (ICAAP), external audit arrangements and all regulatory issues. At 31 December 2007 the Committee comprised the following non executive directors:

D A W Stevens (Chair)
P Marriott
J Washington

The **Remuneration Committee** considers and approves general policy on staff salaries and benefits, with particular reference to remuneration arrangements for senior management and executive and non executive directors. The Committee makes an annual report to members – this can be found on page 15. The Committee is comprised entirely of non executive directors and Committee membership at 31 December 2007 was as follows:

E W Hodkinson (Chair)
D J Lyons
P Marriott

The **Board Nominations Committee** leads the process for board appointments, ensuring a thorough search and selection process based on their evaluation of the balance of skills, knowledge and experience required on the board. All non executive board vacancies are advertised in the press/media with a regional or national scope as appropriate. The Committee also acts in the nomination of new board appointments. At 31 December 2007 the Committee comprised:

E W Hodkinson (Chair)
D J Lyons
P Marriott
K Wilson

Other Committees operated by the board, each with its own terms of reference, are as follows:-

Assets and Liabilities Committee monitors and controls balance sheet risk, funding and liquidity.

Information Technology Committee approves and monitors major IT projects.

Attendance at Board and Board sub-committee meetings - 2007

	Board	IT	Remuneration	Audit & Risk	Assets & Liabilities	Nominations
E W Hodkinson	12 (12)	-	4 (4)	-	4 (5)	3 (3)
P Marriott	10 (12)	2 (3)	4 (4)	4 (5)	3 (5)	3 (3)
K Wilson	12 (12)	3 (3)	-	-	5 (5)	3 (3)
D Lyons	11 (12)	-	4 (4)	-	4 (5)	3 (3)
D A W Stevens	11 (12)	3 (3)	-	5 (5)	-	-
B Rimmer	11 (12)	2 (2)	1 (1)	2 (2)	3 (3)	-
J Washington	11 (12)	3 (3)	-	4 (4)	4 (5)	-
J B Stevenson (Retired 30/4/07)	3 (4)	1 (1)	-	-	-	-

Figures in brackets denote number of meetings for which eligible to attend during the year.

On behalf of the board of directors

E W Hodkinson
Chairman
27 February 2008

DIRECTORS' REMUNERATION REPORT

The society's Remuneration Committee is composed solely of non executive directors. E W Hodkinson, P Marriott, D J Lyons and B Rimmer (until 13 May 2007) served on the Committee during 2007.

The Committee's principal responsibility is the determination of the terms and conditions of employment of executive directors and the level of fees payable to non executive directors. In making its determinations the Committee is guided by the recommendations of the Combined Code on Corporate Governance and so aims to set remuneration at levels that are sufficient to attract, retain and motivate directors of the quality required to run a successful building society such as Leek United.

When considering the remuneration of both the executive and non executive directors, the Remuneration Committee takes into account comparative data from a range of independent sources covering building societies and firms in the wider financial services sector where the scale and complexity of business operations are similar to those of Leek United.

Executive Directors

The main elements of each executive director's remuneration package are - basic salary, pension benefits, private medical insurance and the provision of a company car or car allowance. Executive directors participated in a society-wide bonus scheme in 2007. This non-contractual scheme enabled individuals to earn a bonus of up to £500 subject to achievement of specific corporate and personal targets and time apportioned from date of appointment.

The Chief Executive is a member of the Leek United Building Society Pension and Assurance Scheme under which he currently contributes 10% of basic salary subject to salary cap restrictions. Due to these restrictions on his defined benefit pension scheme, the Chief Executive also contributes into a personal pension scheme to maintain an overall level of his total contribution to both schemes of 10% of salary. The society made an annual gross payment of £8,400 into the Chief Executive's personal pension plan in 2007 and further similar annual contributions are proposed in the future.

The Finance Director, who was appointed in May 2007, was a member of the Remuneration Committee in her capacity as a non executive director up to 13 May 2007. However, she was not involved in the decision making for her remuneration on her appointment as Finance Director. She is a member of the defined contribution stakeholder pension scheme and currently contributes 5% of basic salary.

The Combined Code recommends that a director's service contract period should be set at 12 months or less. The contractual notice period for existing and new executive director appointments conforms to this limit.

Non Executive Directors

Non executive directors receive fees for the provision of their services. They do not have service contracts and do not receive any other benefits, bonus or pension entitlement.

Directors' Remuneration

The table in note 5 summarises directors' pay and benefits for the year ended 31 December 2007.

Member Consultation

The Directors' Remuneration Report will be the subject of an advisory vote at this year's AGM.

E W Hodkinson
Chair of the Remuneration Committee
27 February 2008

DIRECTORS' RESPONSIBILITIES

Directors' Responsibilities for Preparing the Annual Accounts

The following statement, which should be read in conjunction with the statement of the respective responsibilities of directors and auditors on page 17, 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 state of the affairs of the society and of the group as at the end of the financial year;
- of the income and expenditure of the society and of the group for the financial year;
- of the cash flows of the group for the financial year;

In preparing these 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 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 that 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 group.

Directors' Responsibilities for Accounting Records and Internal Control

The directors are responsible for ensuring that the society and its connected undertakings:

- keep accounting records in accordance with the Building Societies Act 1986, and
- take 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 and Markets Act 2000.

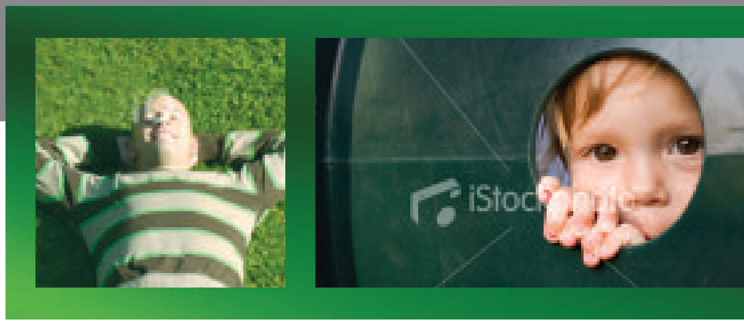
The directors have general responsibility for safeguarding the assets of the society and group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

E W Hodkinson
Chairman
27 February 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEEK UNITED BUILDING SOCIETY



We have audited the Group and Society Annual Accounts of Leek United Building Society for the year ended 31 December 2007 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Balance Sheets, the Group and Society Statements of Total Recognised Gains and Losses, the Group Cash Flow Statement, and the related notes. These Annual Accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of Directors and Officers upon which we are not required to report) and the Directors' Report.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for the preparation of the Annual Report, including the Annual Accounts, the Annual Business Statement and the Directors' Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Annual Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for, and only for, the Society's Members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Annual Accounts give a true and fair view and whether the Annual Accounts have been 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 included within the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts, and whether the Annual Business Statement and the Directors' Report have 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, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Annual Accounts. The other information comprises only the Chairman's Statement, Chief Executive's Report, Corporate Governance Report and Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Accounts, the Annual Business Statement or the Directors' Report. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts and the Annual Business Statement. 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 Group's and 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEEK UNITED BUILDING SOCIETY (continued)

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 the Group's and the Society's affairs at 31 December 2007 and of the Group's and the Society's Income and Expenditure and the Group's Cash Flows 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
27 February 2008

Income and Expenditure Accounts for the year ended 31 December 2007

	Notes	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Interest receivable and similar income	2	45,704	36,358	45,672	36,323
Interest payable and similar charges	3	(35,957)	(27,786)	(35,957)	(27,786)
Net interest receivable		9,747	8,572	9,715	8,537
Income from investments	4	-	-	300	300
Fees and commissions receivable		2,502	2,318	1,800	1,715
Fees and commissions payable		(443)	(510)	(443)	(510)
Other operating income		15	15	15	15
Total income		11,821	10,395	11,387	10,057
Administrative expenses	5	(6,423)	(6,134)	(6,232)	(5,990)
Depreciation	13	(300)	(392)	(290)	(384)
Other operating charges	6	(532)	(811)	(532)	(811)
Net finance charge on pension scheme	26	(188)	(192)	(188)	(192)
Operating profit before provisions		4,378	2,866	4,145	2,680
Provisions for bad and doubtful debts	7	(191)	29	(191)	29
Profit on ordinary activities before tax		4,187	2,895	3,954	2,709
Tax on profit on ordinary activities	8	(1,213)	(891)	(1,056)	(748)
Profit for the financial year	23	2,974	2,004	2,898	1,961

The above results are all derived from continuing operations.
The notes on pages 23 to 39 form part of these accounts.

There is no material difference in the current or previous year, between the results above and the results which would have been reported on an unmodified historical cost basis.

Statement of total recognised gains and losses for the year ended 31 December 2007

	Notes	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Profit for the financial year		2,974	2,004	2,898	1,961
Actuarial gain/(loss) recognised in pension scheme	26	3,938	(83)	3,938	(83)
Taxation relating to actuarial gain/(loss)		(1,103)	25	(1,103)	25
Total recognised gains and losses relating to the year		5,809	1,946	5,733	1,903

Balance sheets at 31 December 2007

ASSETS	Notes	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Liquid assets:					
Cash in hand and balances with the Bank of England		821	626	821	626
Loans and advances to credit institutions	9	35,858	28,119	35,720	27,904
Debt securities	10	118,128	110,956	118,128	110,956
Loans and advances to customers:					
Loans fully secured on residential property	11	639,259	595,316	638,305	594,169
Loans fully secured on land	11	2,009	2,717	2,009	2,709
Investments in subsidiary undertakings	12	-	-	824	1,064
Tangible fixed assets	13	3,012	3,128	2,983	3,100
Other assets	14	331	434	331	434
Prepayments and accrued income	15	331	143	331	143
Total assets		799,749	741,439	799,452	741,105

Balance sheets at 31 December 2007

LIABILITIES AND RESERVES	Notes	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Shares	16	595,704	531,439	595,704	531,439
Amounts owed to credit institutions	17	59,553	72,864	59,553	72,864
Amounts owed to other customers	18	95,189	90,623	95,189	90,623
Other liabilities	19	1,204	914	1,568	1,151
Accruals and deferred income	20	477	368	410	315
Provisions for liabilities and charges	21	364	400	364	400
Net pension liability	26	3,077	6,459	3,077	6,459
Revaluation reserve	22	1,113	1,113	1,113	1,113
General reserve	23	43,068	37,259	42,474	36,741
Total liabilities and reserves		799,749	741,439	799,452	741,105

The notes on pages 23 to 39 form part of these accounts.

These accounts were approved by the board of directors on 27 February 2008 and were signed on its behalf by:

E W Hodkinson Chairman

P Marriott Vice-Chairman

K Wilson Chief Executive

Group cash flow statement for the year ended 31 December 2007

	2007 £000's	2006 £000's
Net cash inflow from operating activities (see below)	19,658	566
Taxation paid	(915)	(1,119)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(216)	(139)
Sale of tangible fixed assets	44	22
Purchase of investment securities	(480,345)	(215,787)
Maturities and disposals of investment securities	472,746	219,842
Increase in cash	10,972	3,385

Reconciliation of operating profit to net cash inflow from operating activities

	2007 £000's	2006 £000's
Operating profit	4,187	2,895
(Increase)/Decrease in prepayments and accrued income	177	(358)
Increase in accruals and deferred income	109	92
Provisions for bad and doubtful debts	164	(29)
Recovery of loans and advances previously written off	-	29
Depreciation	300	392
Profit on disposal of tangible fixed assets	(12)	(10)
Pension contributions in excess of charge	(548)	(77)
Net cash inflow from trading activities	4,377	2,934
Increase in loans and advances to customers	(43,435)	(78,279)
Increase in shares	64,265	31,173
Increase/(Decrease) in amounts owed to credit institutions and other customers	(8,745)	47,976
(Increase)/Decrease in loans and advances to credit institutions	3,100	(3,100)
(Increase)/Decrease in other assets	136	(128)
Decrease in other liabilities	(40)	(10)
Net cash inflow from operating activities	19,658	566

Analysis of the balances of cash as shown in the balance sheet

	1 January 2007 £000's	Movement in year £000's	31 December 2007 £000's
Cash in hand	626	195	821
Loans and advances to credit institutions - repayable on demand (note 9)	24,972	10,777	35,749
	25,598	10,972	36,570

Leek United BUILDING SOCIETY

1 Principal accounting policies

The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom and with the Building Societies (Accounts and Related Provisions) Regulations 1998. The accounts comply with relevant British Bankers Association Statements Of Recommended Accounting Practices in all material respects. A summary of the more significant accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include land and buildings at valuation. This valuation was performed under the transitional rules of FRS15, consequently land and buildings have been included at their 31 December 1999 revalued amount.

Basis of consolidation

The group accounts include the results, cashflows and balance sheets of the society and its subsidiaries.

Taxation

The tax charge is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided using the full provision method in accordance with FRS19 "Deferred Tax".

Deferred tax is provided at the appropriate future rate on a non-discounted basis, on all timing differences between the recognition of gains and losses in the accounts and their recognition in the tax computation.

Depreciation

Freehold buildings are depreciated on a straight-line basis over 50 years. Freehold land is not depreciated. Depreciation of leasehold premises is provided on a straight-line basis over the period of the lease (to the extent that it does not exceed the estimated useful economic life). Equipment, fixtures and fittings are depreciated on a straight-line basis over their estimated useful lives of between three and fifteen years.

Liquid assets

Liquid assets are stated at cost to the society together with accrued interest to the balance sheet date. At the date of purchase the cost is adjusted where relevant to exclude accrued interest and a similar adjustment is also made on realisation. Premiums and discounts arising on the purchase of liquid assets are amortised on a straight-line basis over the period to maturity.

Incentives to borrowers

Mortgage incentives, other than interest discounts, are charged to the income and expenditure account in the year in which the costs are incurred, and are shown as other operating charges. Interest discounts reduce interest receivable over the period of the relevant discounted rate.

Brokers fees

Introductory fees paid to brokers in respect of mortgages are charged to fees and commissions payable in the year in which the costs are incurred.

Fees and commissions receivable

Fees and commissions receivable includes the following:

- sales commissions receivable in the year net of clawback of any commissions repayable.
- mortgage fees which are accounted for on a received basis.

Losses on loans and advances

Provision is made for all anticipated losses on loans and advances based upon a quarterly appraisal.

Specific provisions are made against mortgage loans on a case by case basis to cover anticipated losses in respect of all accounts that are 2.5% or more in arrears and where a probable loss has been identified. Anticipated losses on such accounts are calculated as the difference between the current achievable market value of the security, based on current valuations of the property performed by qualified surveyors, and the outstanding loan balance, after making appropriate allowance for costs of repossession and sale and any amounts recoverable under external loss insurance.

General provisions are made to reflect the probability that other loans may also be impaired at the balance sheet date, with the result that the amount outstanding may not be recoverable in full. The provision is based upon the society's experience, current economic trends and consistency with industry levels.

Interest Recognition

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable, except in respect of advances where the property has been taken into possession and where the interest is considered irrecoverable. Such interest is credited to the suspended interest account.

Pension costs

Pension benefits are provided by an externally funded final salary (defined benefit) scheme administered by Jardine Lloyd Thompson. Contributions to the scheme are determined by a qualified actuary on the basis of a triennial valuation using the projected unit method, and are charged to the income and expenditure account over the periods benefiting from the employees' services. The charge to the income and expenditure account over the financial year in relation to the defined benefit scheme is shown in note 26. The society also provides a defined contribution stakeholder pension scheme. Contributions payable to the scheme are charged to the income and expenditure account in the period to which they relate.

The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality sterling bonds of comparable term to the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged each year to reserves and shown in the Statement of Total Recognised Gains and Losses. Past service costs are recognised immediately in income.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Derivatives

The criteria required for an instrument to be classified as a hedge are that the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cash flows being hedged. This results from potential movements in interest rates and market indices. Adequate evidence of the intention to hedge and linkage with the underlying risk inherent in the assets, liabilities, other positions or cash flows being hedged must be established at the outset of the transactions.

All interest rate related contracts are accounted for on a consistent basis with the underlying assets, liabilities and positions. The group hedges its interest rate exposures on a portfolio basis. Amounts accrued on hedging contracts and instruments are included within accruals or prepayments as appropriate.

2 Interest receivable and similar income

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
On loans fully secured on residential property	36,598	30,371	36,519	30,291
Other loans	178	222	178	213
Other loans to subsidiary undertakings	-	-	53	58
On debt securities - interest and other income	6,494	4,777	6,494	4,777
On other liquid assets - interest and other income	1,375	883	1,369	879
Net income on financial instruments	1,059	105	1,059	105
	45,704	36,358	45,672	36,323

3 Interest payable and similar charges

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
On shares held by individuals	27,818	21,118	27,818	21,118
On deposits and other borrowings	8,112	6,726	8,112	6,726
Net cost/(income) on financial instruments	27	(58)	27	(58)
	35,957	27,786	35,957	27,786

4 Income from investments

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Dividends from shares in subsidiaries	-	-	300	300

5 Administrative expenses

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Staff costs:				
Wages and salaries	2,963	2,862	2,815	2,756
Social security costs	247	239	232	229
Other pension costs	620	500	603	484
	3,830	3,601	3,650	3,469
Other expenses:				
Remuneration of auditors:				
audit services – statutory audit	60	58	60	58
other services – audit of subsidiaries	9	8	-	-
other services – audit of pension scheme	7	7	7	7
other services – regulatory review	6	-	-	-
Other	2,511	2,460	2,515	2,456
	6,423	6,134	6,232	5,990

5 Administrative expenses (continued)

The average number of persons (including executive directors) employed during the year was:	Group 2007 Number	Group 2006 Number	Society 2007 Number	Society 2006 Number
(i) At principal office:				
Full-time staff	67	66	63	63
Part-time staff	17	17	17	17
(ii) At branch offices:				
Full-time staff	40	36	40	36
Part-time staff	26	30	26	30

Directors' loans and transactions.

A register of loans and transactions with directors and connected persons is maintained, and is available for inspection by members at the society's principal office up to and including 23 April 2008 and at the Annual General Meeting. The total loans outstanding at 31 December 2007, in respect of 6 (2006: 3) persons, amounted to £1,011,232 (2006: £414,851).

There is no disclosure in respect of directors' investment accounts because of the overriding duty of confidentiality with regard to customers' affairs.

Analysis of Directors' remuneration

	2007					2006				
	Salary/ Fees £000's	Benefits £000's	Increase in accrued pension £000's	Pensions £000's	Total £000's	Salary/ Fees £000's	Benefits £000's	Increase in accrued pension £000's	Pensions £000's	Total £000's
Non Executive directors										
E W Hodkinson (Chairman)	27	-	-	-	27	26	-	-	-	26
D J Lyons	18	-	-	-	18	18	-	-	-	18
P Marriott	23	-	-	-	23	22	-	-	-	22
C A L Rayner (to 25 April 2006)	-	-	-	-	-	6	-	-	-	6
B Rimmer (until 13 May 2007)	7	-	-	-	7	18	-	-	-	18
D A W Stevens	20	-	-	-	20	20	-	-	-	20
J Washington	18	-	-	-	18	18	-	-	-	18
Executive directors										
K Wilson	133	8	3	8	152	128	8	1	-	137
J B Stevenson (to 30 April 2007)	28	8	2	75*	113	80	8	3	-	91
B Rimmer (from 14 May 2007)	57	4	-	7	68	-	-	-	-	-
	331	20	5	90	446	336	16	4	-	356

* Special one-off pension contribution paid on retirement in April 2007 but accrued for in the year ended 31 December 2006.

Leek United BUILDING SOCIETY

6 Other operating charges

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Mortgage incentives	532	786	532	786
Regulated business provision	-	25	-	25
	532	811	532	811

7 Provisions for bad and doubtful debts

Group & Society

	Loans fully secured on residential property		
	Specific £000's	General £000's	Total £000's
At 1 January 2007	-	450	450
Charge for the year	-	200	200
At 31 December 2007	-	650	650

The (charge)/credit in the income and expenditure account is as follows:

	2007 £000's	2006 £000's
Amounts recovered in respect of loans previously written off	9	29
Increase in general provision for year (as above)	(200)	-
Income and expenditure account	(191)	29

The provisions as at 31 December 2007 have been deducted from loans fully secured on residential property in the balance sheet

8 Tax on profit on ordinary activities

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
(a) UK Corporation tax at 30% (2006: 30%):				
Current Tax	1,246	909	1,088	766
Adjustment in respect of prior year	-	(24)	-	(24)
Total current tax	1,246	885	1,088	742
UK Deferred tax at 28% (2006: 30%):				
Adjustment in respect of prior year	16	4	16	4
Deferred tax - current year	(49)	2	(48)	2
Total	1,213	891	1,056	748

8 Tax on profit on ordinary activities (continued)

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	4,187	2,895	3,954	2,709
Tax on profit at UK standard rate of 30% (2006: 30%)	1,256	869	1,186	813
Effects of:				
Change in rate	(6)	-	(6)	-
Difference between depreciation and capital allowances together with other timing differences	(26)	(2)	(26)	(2)
Dividend from subsidiary	-	-	(90)	(90)
Expenses not deductible for tax purposes	8	45	8	45
Adjustment in respect of previous year	16	(24)	16	(24)
Small companies relief	(2)	(3)	-	-
	1,246	885	1,088	742

9 Loans and advances to credit institutions

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Maturity analysis:				
Repayable on demand	35,749	24,972	35,611	24,757
In not more than three months	-	3,100	-	3,100
	35,749	28,072	35,611	27,857
Accrued interest	109	47	109	47
	35,858	28,119	35,720	27,904

10 Debt securities

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Issued by public bodies	4,020	4,363	4,020	4,363
Issued by other borrowers	114,108	106,593	114,108	106,593
	118,128	110,956	118,128	110,956
Maturity analysis:				
In not more than one year	96,250	82,922	96,250	82,922
In more than one year	20,576	26,305	20,576	26,305
	116,826	109,227	116,826	109,227
Accrued interest	1,302	1,729	1,302	1,729
	118,128	110,956	118,128	110,956
Analysis of debt securities:				
Listed	4,020	4,363	4,020	4,363
Unlisted	114,108	106,593	114,108	106,593
	118,128	110,956	118,128	110,956
Market value of listed debt securities	4,035	4,361	4,035	4,361

10 Debt securities (continued)

The directors of the society consider that the primary purpose of holding securities is prudential. The securities held as liquid assets are held with the intention of use on a continuing basis in the society's activities and are classified as "financial fixed assets".

Movements of financial fixed assets during the year were as follows:

Group & Society	2007 £000's
At 1 January 2007	109,227
Additions	480,345
Maturities and disposals	(472,746)
At 31 December 2007	116,826

11 Loans and advances to customers

The maturity of loans fully secured on residential property and other loans fully secured on land, from the balance sheet date, is as follows:

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Repayable on demand	839	469	829	437
In not more than three months	3,829	3,651	3,825	3,643
In more than three months but not more than one year	13,566	12,320	13,436	12,290
In more than one year but not more than five years	89,079	82,680	88,864	82,325
In more than five years	534,605	499,363	534,010	498,633
	641,918	598,483	640,964	597,328
Provisions for bad and doubtful debts	(650)	(450)	(650)	(450)
	641,268	598,033	640,314	596,878

It should be noted that the above maturity analysis may not reflect actual experience of repayments since many mortgage loans are repaid early.

In accordance with the group's accounting policy there has been no interest suspended on non-performing loans.

12 Investments in subsidiary undertakings

	2007 £000's	2006 £000's
Shares	2	2
Loans	822	1,062
	824	1,064

Leek United Home Loans Limited is a wholly owned direct subsidiary undertaking of the society. The society holds £100 of shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary is the purchase and administration of mortgage portfolios. No director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

Leek United Financial Services Limited is a wholly owned direct subsidiary undertaking of the society. The society holds £1,000 of shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary is the provision of financial services. No director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

The Mortgage Outlet Limited is a wholly owned direct subsidiary undertaking of the society. The society holds £1,000 of shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The company does not trade. No director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

13 Tangible fixed assets

Group

	Freehold land and buildings £000's	Equipment fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2007	2,583	4,652	7,235
Additions	-	216	216
Disposals	-	(170)	(170)
At 31 December 2007	2,583	4,698	7,281
Accumulated depreciation			
At 1 January 2007	268	3,839	4,107
Charge for the year	39	261	300
Disposals	-	(138)	(138)
At 31 December 2007	307	3,962	4,269
Net book value			
At 31 December 2007	2,276	736	3,012
At 31 December 2006	2,315	813	3,128

Society

	Freehold land and buildings £000's	Equipment fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2007	2,583	4,611	7,194
Additions	-	201	201
Disposals	-	(156)	(156)
At 31 December 2007	2,583	4,656	7,239
Accumulated depreciation			
At 1 January 2007	268	3,826	4,094
Charge for the year	39	251	290
Disposals	-	(128)	(128)
At 31 December 2007	307	3,949	4,256
Net book value			
At 31 December 2007	2,276	707	2,983
At 31 December 2006	2,315	785	3,100

13 Tangible fixed assets (continued)

The net book value of land and buildings occupied by the society for its own activities is £2,276,000 (2006: £2,315,000).

From 31 December 2000, the society adopted the transitional arrangements under FRS15 to maintain the book value of fixed assets at their previously revalued amounts.

If land and buildings had not been revalued they would have been included at the following amount:

	2007 £000's	2006 £000's
Cost	1,624	1,624
Aggregate depreciation based on cost	(306)	(287)
	1,318	1,337

The portfolio of land and buildings, which was last valued by Douglas Duff Chartered Surveyors during January 2007, was valued at £3,875,000 on an existing use basis.

14 Other assets

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Deferred tax asset	258	225	258	225
Other	73	209	73	209
	331	434	331	434
The elements of deferred taxation are as follows:				
Difference between accumulated depreciation and capital allowances	60	84	60	84
General bad and doubtful debt provision	182	135	182	135
Other timing differences	16	6	16	6
	258	225	258	225

15 Prepayments and accrued income

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Accrued interest on off balance sheet instruments	131	40	131	40
Other	200	103	200	103
	331	143	331	143

16 Shares

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Held by individuals	595,704	531,439	595,704	531,439
In the ordinary course of business, shares are repayable from the balance sheet date as follows:				
Repayable on demand	395,805	361,172	395,805	361,172
In not more than three months	58,966	43,005	58,966	43,005
In more than three months but not more than one year	104,577	80,403	104,577	80,403
In more than one year but not more than five years	14,182	30,451	14,182	30,451
	573,530	515,031	573,530	515,031
Accrued interest	22,174	16,408	22,174	16,408
	595,704	531,439	595,704	531,439

17 Amounts owed to credit institutions

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
In the ordinary course of business, amounts owed to credit institutions are repayable from the balance sheet date as follows:				
In not more than three months	34,350	39,300	34,350	39,300
In more than three months but not more than one year	23,950	32,250	23,950	32,250
	58,300	71,550	58,300	71,550
Accrued interest	1,253	1,314	1,253	1,314
	59,553	72,864	59,553	72,864

18 Amounts owed to other customers

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
In the ordinary course of business, amounts owed to other customers are repayable from the balance sheet date as follows:				
Repayable on demand	12,604	12,229	12,604	12,229
In not more than three months	42,561	33,729	42,561	33,729
In more than three months but not more than one year	38,017	42,903	38,017	42,903
In more than one year but not more than five years	-	-	-	-
	93,182	88,861	93,182	88,861
Accrued interest	2,007	1,762	2,007	1,762
	95,189	90,623	95,189	90,623

19 Other liabilities

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Amounts falling due within one year:				
Income tax	143	121	143	121
Corporation tax	741	411	660	333
Other taxation and social security costs	77	79	77	79
Amount due to subsidiary undertakings	-	-	445	315
Other creditors	243	303	243	303
	1,204	914	1,568	1,151

20 Accruals and deferred income

	Group 2007 £000's	Group 2006 £000's	Society 2007 £000's	Society 2006 £000's
Other	477	368	410	315

21 Provisions for liabilities and charges

Group & Society

	£000's
At 1 January 2007	400
Amount provided during the year	-
Amount paid during the year	(36)
At 31 December 2007	364

This provision is to provide for potential claims against the group in respect of past sales business.

22 Revaluation reserve

	Group £000's	Society £000's
At 1 January 2007 and 31 December 2007	1,113	1,113

The revaluation reserve arises because until 31 December 1999, the society revalued properties annually. From 31 December 2000, the society adopted the transitional arrangements under FRS15 to maintain the book value of fixed assets at their previously revalued amounts.

23 General reserve

	Group £000's	Society £000's
At 1 January 2007	37,259	36,741
Profit for the year	2,974	2,898
Actuarial gain	2,835	2,835
At 31 December 2007	43,068	42,474

24 Contingent liability

The society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme. The society has not been notified of any claims against the Scheme.

25 Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The group is a retailer of financial instruments in the form of mortgage and savings products and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage the risks arising from its operations.

The group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the board, which is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes.

Instruments 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.

Derivatives are only used by the group in accordance with the Building Societies Act 1986 (as amended by the Building Societies Acts 1997 and 2005), to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. The group does not trade in derivatives or use them for speculative purposes.

Type of derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps which are used to hedge group balance sheet exposures arising from fixed rate mortgage lending and savings products.

The accounting policy for derivatives is described in note 1 to the accounts.

The following table describes the significant activities undertaken by the group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks.

Activity	Risk	Type of hedge
Fixed rate savings products	Sensitivity to falls in interest rates	Receive fixed interest rate swaps
Fixed rate mortgage lending	Sensitivity to increases in interest rates	Pay fixed interest rate swaps

The table below shows the nominal principal amounts, credit risk weighted amounts and replacement costs of derivatives. Nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date reflecting the group's maximum exposure should the counterparties default. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, is based on the replacement costs, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty.

	Nominal principal amount 2007 £000's	Credit risk weighted amount 2007 £000's	Replacement Cost 2007 £000's	Nominal principal amount 2006 £000's	Credit risk weighted Amount 2006 £000's	Replacement cost 2006 £000's
Interest rate contracts maturing:						
In less than 1 year	32,750	-	138	8,000	-	-
Between 1 year and 5 years	50,000	50	402	75,000	75	1,295

Leek United BUILDING SOCIETY

25 Financial Instruments (continued)

Credit risk

All loan applications are assessed with reference to the group's lending policy. Changes to policy are approved by the board. The board is responsible for approving treasury counterparties.

Liquidity risk

The group's liquidity policy is to maintain sufficient liquid resources to cover cashflow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the group and to enable the group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business.

Interest rate risk

The group is exposed to movements in interest rates, and manages this exposure on a continuous basis, within limits set by the board, using a combination of on and off balance sheet instruments. The interest rate sensitivity of the group at 31 December 2007 by reference to the next interest reset date was:

	Not more than three months £000's	More than three months but not more than six months £000's	More than six months but not more than one year £000's	More than one year but not more than five years £000's	Non interest bearing £000's	Total £000's
Assets						
Liquid assets	106,497	3,800	27,541	12,970	3,999	154,807
Loans fully secured on residential property and other loans	517,690	34,049	17,628	72,551	(650)	641,268
Tangible fixed assets	-	-	-	-	3,012	3,012
Other assets	-	-	-	-	662	662
Total assets	624,187	37,849	45,169	85,521	7,023	799,749
Liabilities						
Shares	476,331	26,776	66,414	4,009	22,174	595,704
Amounts owed to credit institutions and other customers	90,032	31,500	29,950	-	3,260	154,742
Other liabilities	-	-	-	-	2,045	2,045
Reserves	-	-	-	-	47,258	47,258
Total liabilities	566,363	58,276	96,364	4,009	74,737	799,749
Off balance sheet items	77,750	(10,000)	(17,750)	(50,000)	-	-
Interest rate sensitivity gap	135,574	(30,427)	(68,945)	31,512	(67,714)	-
Cumulative gap	135,574	105,147	36,202	67,714	-	-

25 Financial Instruments (continued)

Interest rate risk (continued)

The interest rate sensitivity of the group at 31 December 2006 was:

	Not more Than three months £000's	More than three months but not more than six months £000's	More than six months but not more than one year £000's	More than one year but not more than five years £000's	Non interest bearing £000's	Total £000's
Assets						
Liquid assets	69,375	21,450	41,303	3,716	3,857	139,701
Loans fully secured on residential property and other loans	474,927	13,702	4,172	104,782	450	598,033
Tangible fixed assets	-	-	-	-	3,128	3,128
Other assets	-	-	-	-	577	577
Total assets	544,302	35,152	45,475	108,498	8,012	741,439
Liabilities						
Shares	424,348	20,222	51,396	19,065	16,408	531,439
Amounts owed to credit institutions and other customers	85,261	39,900	35,250	-	3,076	163,487
Other liabilities	-	-	-	-	1,682	1,682
Reserves	-	-	-	-	44,831	44,831
Total liabilities	509,609	60,122	86,646	19,065	65,997	741,439
Off balance sheet items	75,000	-	-	(75,000)	-	-
Interest rate sensitivity gap	109,693	(24,970)	(41,171)	14,433	(57,985)	-
Cumulative gap	109,693	84,723	43,552	57,985	-	-

Fair values of financial instruments

Set out below is a comparison of book and fair values of some of the group's financial instruments by category as at 31 December 2007. The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages, retail savings accounts and bank deposits.

Assets/(liabilities)	2007 Book value £000's	2006 Book value £000's	2007 Fair value £000's	2006 Fair value £000's
On balance sheet instruments:				
Debt securities	118,128	110,956	118,144	110,784
Off balance sheet instruments:				
Interest rate contracts	131	40	408	1,293

25 Financial Instruments (continued)

Hedges

	Gains £000's	Losses £000's	Net gain/(loss) £000's
Unrecognised gains/(losses) on hedges at 1 January 2007	1,295	(2)	1,293
Of which recognised in the year to 31 December 2007	(218)	2	(216)
Gains before 31 December 2006 that were not recognised in the year to 31 December 2007	1,077	-	1,077
(Losses) arising in the year to 31 December 2007 that were not recognised in that year	(537)	(132)	(669)
Unrecognised gains/(losses) on hedges at 31 December 2007	540	(132)	408
Of which expected to be recognised in the year to 31 December 2008	138	(14)	124

Gains/(losses) recognised within the year to 31 December 2007 consist of maturing contracts.

Gains/(losses) arising during the year consist of new deals and any increase/(decrease) in the gain/(loss) for the year from that reported as at 31 December 2006.

The amount to be recognised in the year to 31 December 2008 relates to maturing contracts.

26 Pension scheme

The society sponsors the Leek United Building Society Pension & Assurance Scheme which is a defined benefit arrangement. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 25 April 2006 and updated on an approximate basis to 31 December 2007.

The contributions made by the employer over the financial year have been £565,000, equivalent to 37.6% of pensionable pay together with a special one-off pension contribution of £75,000 paid to an executive director on retirement in April 2007 but accrued for in 2006 and additional annual deficit contributions of £666,000. Following consideration of the 25 April 2006 valuation the employer has now agreed to maintain this contribution rate and also pay additional annual deficit contributions in the future. This will be further reviewed following the triennial valuation due as at 25 April 2009. As the scheme is closed to new entrants, the current service cost as a percentage of pensionable payroll is likely to increase as the membership ages, although it will be applied to a decreasing pensionable payroll.

The society provides a defined contribution stakeholder pension scheme for new employees and contributes 6% of earnings (and 12% of earnings in relation to one of the executive directors) to the stakeholder pension scheme. The pension charge in respect of this scheme for the year is £33,000 (2006: £25,000).

Assumptions

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	2007 % per annum	2006 % per annum	2005 % per annum
Inflation	3.25	3.00	2.75
Salary increases	4.50	4.25	4.00
Rate of discount	5.80	5.10	4.75
Pension in payment increases (pre 25 April 2001 benefits)	5.00	5.00	5.00
Pension in payment increases (post 25 April 2001 to 25 April 2005 benefits)	3.25	3.00	2.75
Pension in payment increases (post 25 April 2005)	2.40	2.40	2.40
Revaluation rate for deferred pensioners	3.25	3.00	2.75
Allowance for commutation of pension for cash at retirement	Nil	Nil	Nil

26 Pension scheme (continued)

The mortality assumptions adopted at 31 December 2007 imply the following life expectancies at age 60:

Male currently age 40	27.8 years
Female currently age 40	30.7 years
Male currently age 60	26.6 years
Female currently age 60	29.5 years

Balance sheet figures

	2007 £000's	Expected % rate of return	2006 £000's	Expected % rate of return	2005 £000's	Expected % rate of return
Assets:						
Equities	11,198	7.50	10,228	7.50	8,778	7.50
Bonds	4,876	5.25	4,257	4.80	3,689	4.50
Other	230	5.50	-	-	-	-
	16,304		14,485		12,467	
Liabilities	(21,045)		(23,712)		(21,688)	
Deficit in scheme	(4,741)		(9,227)		(9,221)	
Deferred tax:						
Closing deferred tax	1,327		2,768		2,766	
Movement in the year:						
Prior year adjustment	184		-		-	
Current year	153		-		-	
	1,664		2,768		2,766	
Net pension liability	(3,077)		(6,459)		(6,455)	

Charge to the income and expenditure account over the financial year

	2007 £'000s	2006 £'000s
Operating charge		
Current service cost	495	475
Past service cost	75	-
Total operating charge	570	475
Other finance charges		
Interest on pension scheme liabilities	1,183	1,041
Expected return on pension scheme assets	(995)	(849)
Net finance charge	188	192
Total charge to income and expenditure account	758	667

26 Pension scheme (continued)

Movement in deficit during the year

	2007 £000's	2006 £000's
Deficit in scheme at beginning of year	(9,227)	(9,221)
Movement in year:		
Current service cost	(495)	(475)
Net finance charge	(188)	(192)
Contributions	1,306	744
Past service costs	(75)	-
Actuarial gain/(loss)	3,938	(83)
Deficit in scheme at end of year	(4,741)	(9,227)

History of experience gains and losses

A history of the amounts recognised in the statement of total recognised gains and losses for the current and previous four accounting years are as follows:

	2007	2006	2005	2004	2003
Difference between expected and actual return on scheme assets:					
Amount (£000's)	(166)	428	1,302	345	701
Percentage of scheme assets	1.0%	3.0%	10.4%	3.5%	8.5%
Experience gains and losses on scheme liabilities:					
Amount (£000's)	(6)	202	(103)	(205)	70
Percentage of the present value of the scheme liabilities	-	0.9%	(0.5%)	(1.2%)	0.4%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:					
Amount (£000's)	4,110	(713)	(2,599)	-	(2,214)
Percentage of the present value of the scheme liabilities	19.5%	(3.0%)	(12.0%)	-	(13.8%)
Total actuarial gain or loss:					
Amount (£000's)	3,938	(83)	(1,400)	140	(1,443)
Percentage of the present value of the scheme liabilities	18.7%	(0.4%)	(6.5%)	0.8%	(9.0%)

Annual Business Statement for the year ended 31 December 2007

	Ratio at 31.12.07 %	Statutory Limit %
Statutory Percentages		
Calculated in accordance with the Building Societies Act 1986 as amended by the Building Societies Acts 1997 and 2005.		
Lending limit	0.42	25.00
Funding limit	20.62	50.00

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

Business assets are the total assets of the group plus provisions for bad and doubtful debts, less fixed assets and liquid assets.

Loans fully secured on residential property is the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the group balance sheet plus provisions for bad and doubtful debts.

Shares and borrowings represent the total of shares, amounts owed to credit institutions and amounts owed to other customers as shown in the group balance sheet.

The amount of shares held by individuals is shown in note 16 of the notes to the accounts.

	Ratio at 31.12.07 %	Ratio at 31.12.06 %
Other Percentages		
Gross capital as a percentage of shares and borrowings	5.89	5.52
Free capital as a percentage of shares and borrowings	5.57	5.14
Liquid assets as a percentage of shares and borrowings	20.63	20.10
Profit on ordinary activities after taxation as a percentage of mean total assets	0.39	0.29
Management expenses as a percentage of mean total assets	0.87	0.93

Gross capital represents the sum of the general reserve and the revaluation reserve as shown in the group balance sheet.

Free capital represents the sum of the general reserve, the revaluation reserve and general loss provisions less fixed assets.

Shares and borrowings represent the total of shares, amounts owed to credit institutions and amounts owed to other customers as shown in the group balance sheet.

Liquid assets represent the total of cash in hand, loans and advances to credit institutions and debt securities.

Mean total assets is the average of the 2006 and 2007 total assets.

Management expenses represent the aggregate of administrative expenses and depreciation.

Annual Business Statement for the year ended 31 December 2007 (continued)

Information relating to directors as at 31 December 2007

Name Date of Birth	Occupation	Date of Appointment	Other Directorships
E W Hodkinson 22/6/44	Solicitor	1/12/93	Bowcock & Pursaill Trustees Ltd Bowcock & Pursaill Ltd Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd The North Staffordshire Law Society
D J Lyons MSI 5/12/43	Financial Consultant	14/6/02	Help Investments Ltd. Paragon Community Housing Group Ltd
P Marriott, FCA 28/9/52	Chartered Accountant	14/4/94	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
B Rimmer BSc, ACA 6/1/62	Building Society Finance Director	See below	Trafford Primary Care Trust
D A W Stevens 30/4/43	Retired Assistant Commissioner - Building Societies Commission	1/9/98	-
J Washington ACIB 26/5/50	Management Consultant	23/11/05	Aspire Housing Ltd First Portfolio Ltd
K Wilson 20/12/58	Building Society Chief Executive	1/10/98	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd

Documents may be served on the above named directors c/o Bowcock and Pursaill, P.O. Box No. 1, 54 St. Edward Street, Leek, Staffordshire ST13 5DJ.

B Rimmer was appointed a non executive director on 23 November 2005 and resigned as a non executive director on taking up the appointment of Finance Director on 14 May 2007. K Wilson and B Rimmer have 12 months or less rolling service contracts. The non executive directors do not have service contracts.

Information relating to other officers

Name	Occupation
R Bebington	Head of Risk and Compliance
I Boston	Internal Auditor
S Boulton PGDip Mgmt, ACMI	Head of Information Technology
K Brightmore FCII	Head of Savings and Insurance
J Foxall	Head of Retail Development
M Williams	Head of Lending
D Wilson	Head of Human Resources

Leek United
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The *friendlier* face of finance

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